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Report of Independent Auditors

The Board of Directors
Nisshin Seifun Group Inc.

We have audited the accompanying consolidated balance sheets of Nisshin Seifun Group Inc. and consolidated subsidiaries as of March 31, 2008 and 2007 and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nisshin Seifun Group Inc. and consolidated subsidiaries at March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion; such translation has been made on the basis described in Note 3.

Ernst & Young ShinNihon

June 26, 2008

Nisshin Seifun Group Inc. and Consolidated Subsidiaries

Consolidated Balance Sheets

As of March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 3)
ASSETS	2008	2007	2008
Current Assets:			
Cash (Note 17)	¥ **43,987**	¥ 45,649	$ **439,040**
Trade notes and accounts receivable	**58,000**	60,093	**578,905**
Marketable securities (Note 17)	**13,704**	15,913	**136,789**
Inventories (Note 5)	**40,313**	44,647	**402,370**
Deferred tax assets (Note 15)	**5,524**	4,811	**55,142**
Other	**5,528**	7,748	**55,179**
Allowance for doubtful accounts	**(217)**	(214)	**(2,169)**
Total current assets	**166,841**	178,649	**1,665,255**
Property, Plant and Equipment, Net (Notes 6, 7 and 8):			
Land	**33,187**	30,851	**331,243**
Buildings and structures	**45,276**	44,224	**451,911**
Machinery, equipment and vehicles	**32,526**	33,596	**324,644**
Construction in progress	**5,574**	3,194	**55,639**
Other	**2,707**	2,833	**27,024**
Property, plant and equipment, net	**119,272**	114,701	**1,190,460**
Intangible Assets	**4,610**	6,527	**46,013**
Investments and Other Assets:			
Investment securities (Note 4)	**84,524**	103,612	**843,646**
Long-term loans receivable	**90**	99	**907**
Deferred tax assets (Note 15)	**2,799**	2,304	**27,942**
Other	**3,916**	2,830	**39,089**
Allowance for doubtful accounts	**(260)**	(287)	**(2,603)**
Total investments and other assets	**91,071**	108,559	**908,983**
Total assets	¥ **381,795**	¥ 408,437	$ **3,810,711**

LIABILITIES AND NET ASSETS	Millions of yen 2008	2007	Thousands of U.S. dollars (Note 3) 2008
Current Liabilities:			
Notes and accounts payable	¥ **23,875**	¥ 28,439	$ **238,300**
Short-term debt (Note 8)	**3,969**	7,491	**39,616**
Income taxes payable (Note 15)	**3,870**	3,527	**38,635**
Accrued expenses	**13,600**	12,910	**135,745**
Other	**13,409**	14,936	**133,840**
Total current liabilities	**58,724**	67,304	**586,135**
Long-term Liabilities:			
Long-term debt (Note 8)	**1,093**	1,330	**10,911**
Deferred tax liabilities (Note 15)	**15,847**	22,270	**158,175**
Allowance for employees' retirement benefits (Note 9)	**8,325**	9,863	**83,098**
Allowance for directors' retirement benefits	**302**	314	**3,018**
Allowance for repairs	**997**	877	**9,958**
Guarantee deposits received	**5,682**	5,481	**56,719**
Negative goodwill	**26**	144	**267**
Other	**954**	544	**9,527**
Total long-term liabilities	**33,230**	40,827	**331,674**
Commitments and Contingent Liabilities (Notes 6 and 16)			
Net Assets (Notes 10, 11 and 12):			
Shareholders' equity:			
Common stock: authorized - 932,856,000 shares issued - 251,535,448 shares in 2008 and 256,535,448 shares in 2007	**17,117**	17,117	**170,854**
Additional paid-in capital	**9,446**	9,779	**94,285**
Retained earnings	**209,221**	207,550	**2,088,244**
Less: Treasury stock, at cost - 3,170,042 shares in 2008 and 3,220,188 shares in 2007	**(3,263)**	(3,010)	**(32,575)**
Total shareholders' equity	**232,521**	231,436	**2,320,808**
Valuation and translation adjustments:			
Unrealized holding gain on securities	**26,115**	39,102	**260,660**
Deferred gains (losses) on hedging transactions	**(250)**	41	**(2,503)**
Foreign currency translation adjustments	**791**	394	**7,896**
Total valuation and translation adjustments	**26,655**	39,537	**266,053**
Stock acquisition rights	**8**	-	**85**
Minority interests	**30,653**	29,331	**305,956**
Total net assets	**289,839**	300,306	**2,892,902**
Total liabilities and net assets	¥ **381,795**	¥ 408,437	$ **3,810,711**

See notes to consolidated financial statements.

Nisshin Seifun Group Inc. and Consolidated Subsidiaries

Consolidated Statements of Income

For the Years Ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Net Sales	¥ **431,858**	¥ 418,190	$ **4,310,396**
Cost of Sales (Notes 5 and 14)	**298,498**	285,598	**2,979,329**
Gross Profit	**133,359**	132,591	**1,331,067**
Selling, General and Administrative Expenses (Notes 10, 13 and 14)	**114,168**	113,407	**1,139,515**
Operating Income	**19,191**	19,184	**191,552**
Other Income (Expenses):			
Interest income	**461**	259	**4,609**
Interest expense	**(180)**	(181)	**(1,799)**
Dividend income	**1,262**	1,150	**12,596**
Equity in earnings of affiliated companies	**1,091**	1,574	**10,893**
Rent income	**384**	377	**3,842**
Gain on sale of property, plant and equipment	**2,083**	290	**20,800**
Gain on sale of investment securities	**1,669**	2,047	**16,664**
Gain on liquidation of affiliated companies	**1,035**	1,415	**10,336**
Loss on disposal of property, plant and equipment	**(987)**	(971)	**(9,860)**
Loss on disposal of inventories	**(205)**	(160)	**(2,048)**
Coenzyme Q_{10}-related loss	**(1,107)**	(1,533)	**(11,056)**
Foreign exchange loss	**(127)**	-	**(1,271)**
Loss on improvement to the production system	**(1,923)**	-	**(19,203)**
Other, net	**(321)**	591	**(3,207)**
Total other income, net	**3,135**	4,860	**31,295**
Income before Income Taxes and Minority Interests	**22,327**	24,044	**222,848**
Income Taxes (Note 15):			
Current	**7,776**	7,875	**77,613**
Deferred	**1,500**	1,494	**14,978**
Total income taxes	**9,276**	9,369	**92,591**
Minority Interests	**1,902**	2,371	**18,989**
Net Income	¥ **11,147**	¥ 12,303	$ **111,268**

See notes to consolidated financial statements.

Nisshin Seifun Group Inc. and Consolidated Subsidiaries

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2008 and 2007

Millions of yen

	Shareholders' equity				Valuation and translation adjustments					
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Unrealized holding gain on securities	Deferred (losses) gains on hedging transactions	Foreign currency translation adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at March 31, 2006	¥ 17,117	¥ 9,483	¥ 200,487	¥ (3,176)	¥ 40,835	¥ -	¥ (212)	¥ -	¥ 27,498	¥ 292,033
Changes during the fiscal year:										
Cash dividends			(2,785)							(2,785)
Cash dividends (interim)			(2,279)							(2,279)
Directors' bonuses			(175)							(175)
Net income			12,303							12,303
Purchases of treasury stock				(86)						(86)
Disposition of treasury stock		296		251						547
Net changes in items other than shareholders' equity					(1,732)	41	606		1,833	748
Total changes during the fiscal year	-	296	7,062	165	(1,732)	41	606	-	1,833	8,272
Balance at March 31, 2007	17,117	9,779	207,550	(3,010)	39,102	41	394	-	29,331	300,306
Changes during the fiscal year:										
Cash dividends			**(4,561)**							**(4,561)**
Net income			**11,147**							**11,147**
Purchases of treasury stock				**(5,634)**						**(5,634)**
Disposition of treasury stock		**(2)**		**135**						**132**
Retirement of treasury stock		**(330)**	**(4,915)**	**5,246**						**-**
Net changes in items other than shareholders' equity					**(12,987)**	**(291)**	**397**	**8**	**1,322**	**(11,551)**
Total changes during the fiscal year	**-**	**(333)**	**1,671**	**(252)**	**(12,987)**	**(291)**	**397**	**8**	**1,322**	**(10,466)**
Balance at March 31, 2008	**¥ 17,117**	**¥ 9,446**	**¥ 209,221**	**¥ (3,263)**	**¥ 26,115**	**¥ (250)**	**¥ 791**	**¥ 8**	**¥ 30,653**	**¥ 289,839**

Thousands of U.S. dollars (Note 3)

	Shareholders' equity				Valuation and translation adjustments					
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Unrealized holding gain on securities	Deferred (losses) gains on hedging transactions	Foreign currency translation adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at March 31, 2007	$ 170,854	$ 97,612	$ 2,071,565	$ (30,052)	$ 390,287	$ 410	$ 3,933	$ -	$ 292,758	$ 2,997,366
Changes during the fiscal year:										
Cash dividends			**(45,526)**							**(45,526)**
Net income			**111,268**							**111,268**
Purchases of treasury stock				**(56,237)**						**(56,237)**
Disposition of treasury stock		**(24)**		**1,348**						**1,324**
Retirement of treasury stock		**(3,303)**	**(49,063)**	**52,361**						**-**
Net changes in items other than shareholders' equity					**(129,627)**	**(2,913)**	**3,963**	**85**	**13,198**	**(115,294)**
Total changes during the fiscal year	**-**	**(3,327)**	**16,679**	**(2,523)**	**(129,627)**	**(2,913)**	**3,963**	**85**	**13,198**	**(104,465)**
Balance at March 31, 2008	**$ 170,854**	**$ 94,285**	**$ 2,088,244**	**$ (32,575)**	**$ 260,660**	**$ (2,503)**	**$ 7,896**	**$ 85**	**$ 305,956**	**$ 2,892,902**

See notes to consolidated financial statements.

Nisshin Seifun Group Inc. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows

For the Years Ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2008	2007	2008
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥ **22,327**	¥ 24,044	$ **222,848**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**13,515**	12,565	**134,898**
Decrease in allowance for employees' retirement benefits	**(1,543)**	(2,756)	**(15,401)**
Increase in prepaid pension cost	**(1,361)**	-	**(13,586)**
Interest and dividend income	**(1,723)**	(1,409)	**(17,205)**
Interest expense	**180**	181	**1,799**
Equity in earnings of affiliated companies	**(1,091)**	(1,574)	**(10,893)**
Gain on sale of investment securities	**(1,649)**	(2,348)	**(16,465)**
Decrease (Increase) in trade notes and accounts receivable	**2,200**	(2,256)	**21,967**
Decrease (Increase) in inventories	**4,563**	(4,782)	**45,544**
(Decrease) Increase in notes and accounts payable	**(4,625)**	2,490	**(46,166)**
Other	**391**	456	**3,911**
Subtotal	**31,184**	24,612	**311,250**
Interest and dividends received	**2,210**	2,753	**22,062**
Interest paid	**(177)**	(173)	**(1,767)**
Income taxes paid	**(6,718)**	(9,723)	**(67,060)**
Net cash provided by operating activities	**26,498**	17,469	**264,485**
Cash Flows from Investing Activities:			
Payments for time deposits	**(16,945)**	(12,173)	**(169,130)**
Proceeds from repayment of time deposits	**11,017**	19,326	**109,967**
Payments for purchases of marketable securities	**(11,756)**	(12,141)	**(117,343)**
Proceeds from sale of marketable securities	**11,901**	13,500	**118,784**
Payments for purchases of fixed assets	**(18,327)**	(14,096)	**(182,924)**
Proceeds from sale of fixed assets	**2,275**	298	**22,709**
Payments for purchases of investment securities	**(4,127)**	(5,813)	**(41,196)**
Proceeds from sale of investment securities	**3,067**	1,990	**30,620**
Payments for long-term loans receivable	**(0)**	(2)	**(4)**
Proceeds from collection of long-term loans receivable	**9**	35	**92**
Other	**950**	2,114	**9,490**
Net cash used in investing activities	**(21,934)**	(6,961)	**(218,933)**
Cash Flows from Financing Activities:			
Proceeds from short-term debt	**9**	239	**99**
Repayment of short-term debt	**(3,804)**	(779)	**(37,971)**
Repayment of long-term debt	**-**	(5)	**-**
Proceeds from sale of treasury stock	**132**	1,259	**1,324**
Payments for purchases of treasury stock	**(5,634)**	(86)	**(56,236)**
Cash dividends paid	**(4,561)**	(5,065)	**(45,526)**
Other	**(566)**	(787)	**(5,653)**
Net cash used in financing activities	**(14,423)**	(5,225)	**(143,962)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**258**	366	**2,580**
Net (Decrease) Increase in Cash and Cash Equivalents	**(9,601)**	5,648	**(95,830)**
Cash and Cash Equivalents at Beginning of Year	**48,452**	42,803	**483,601**
Cash and Cash Equivalents	¥ **38,850**	¥ 48,452	$ **387,771**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nisshin Seifun Group Inc. and Consolidated Subsidiaries

For the Years Ended March 31, 2008 and 2007

1. Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying consolidated financial statements of Nisshin Seifun Group Inc. (the "Company") and its consolidated subsidiaries are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan and are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

As permitted by the Financial Instruments and Exchange Law of Japan, amounts of less than one million yen have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

(b) Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (together, the "Group"). The excess of cost over the fair value of net assets acquired with respect to the consolidated subsidiaries and companies accounted for by the equity method (goodwill), or the excess of fair value of net assets acquired over cost (negative goodwill) is amortized over a period of five years or fully credited or charged to income when acquired if the amount is immaterial. All significant intercompany accounts and transactions have been eliminated in consolidation.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are recorded based on the fair value at the time the Company acquired control of the respective subsidiaries.

(c) Equity Method

Investments in certain unconsolidated subsidiaries and affiliated companies are accounted for by the equity method and, accordingly, stated at cost as adjusted for equity in undistributed earnings and losses from the date of acquisition.

1. Summary of Significant Accounting Policies (continued)

(d) Translation of Foreign Currency Accounts

Current and non-current receivables and payables denominated in foreign currencies are translated at current rates of exchange prevailing at the balance sheet date and the resulting exchange gains or losses are recognized in earnings. Financial statements of overseas consolidated subsidiaries are translated into Japanese yen at the exchange rates in effect at the balance sheet date, with the exceptions that the components of net assets excluding minority interests are translated at their historical rates and that statement of income items are translated at the average rates of exchange in effect during the year.

Translation adjustments resulting from translation of foreign currency financial statements are presented as foreign currency translation adjustments and minority interests in the accompanying consolidated balance sheets.

(e) Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include marketable securities, time deposits and certificates of deposit, all of which mature or become due within three months of the date of acquisition.

A reconciliation between cash in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows is presented in Note 17.

(f) Inventories

Flour and bran are stated at the lower of cost or market, cost being determined by the retail cost method; other products are stated at the lower of cost or market, cost being determined by the periodic average method.

Raw materials are principally stated at cost determined by the moving average method.

(g) Allowance for Doubtful Accounts

The Company and its domestic consolidated subsidiaries provide allowance for doubtful accounts principally at an amount computed based on the historical bad debt ratio during a certain reference period, plus an estimated uncollectible amount based on an analysis of certain individual accounts, including claims in bankruptcy.

Overseas consolidated subsidiaries provide allowance for doubtful accounts based on an estimate of uncollectible amounts for specific accounts.

1. Summary of Significant Accounting Policies (continued)

(h) Depreciation and Amortization

Property, plant and equipment are carried at cost less accumulated depreciation.

Depreciation of property, plant and equipment is computed by the declining-balance method for the Company and its domestic subsidiaries (excluding buildings acquired on or after April 1, 1998), and by the straight-line method for overseas subsidiaries over the estimated useful lives of the respective assets. Depreciation of buildings acquired on or after April 1, 1998 is computed by the straight-line method for the Company and its domestic subsidiaries.

Amortization of intangible assets is computed by the straight-line method. Software for intercompany use is carried at cost less accumulated amortization, which is calculated by the straight-line method over its estimated useful life (five years).

(i) Leases

Finance leases other than those that are deemed to transfer ownership of the leased assets to the lessee are accounted for as operating leases.

Under the Japanese accounting standard for leases, finance leases that are deemed to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

(j) Marketable and Investment Securities

Securities other than those of subsidiaries and affiliates are classified into two categories: held-to-maturity or other securities.

Held-to-maturity securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost. Marketable securities classified as other securities are reported at fair value with unrealized gains and losses, net of the applicable taxes, reported in a separate component of net assets.

Non-marketable securities classified as other securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

(k) Allowance for Employees' Retirement Benefits

The Company and domestic consolidated subsidiaries have funded defined benefit pension plans covering substantially all employees. The Company and domestic consolidated subsidiaries provide allowance for retirement benefits based on the projected benefit obligation and the fair value of plan assets at the balance sheet date.

Prior service cost is amortized on a straight-line basis over a period equal to the average remaining years of service of the participants of the plans.

1. Summary of Significant Accounting Policies (continued)

(k) Allowance for Employees' Retirement Benefits (continued)

Actuarial gain or loss is amortized primarily by the straight-line method over a period equal to the average remaining years of service of the participants of the plans from the year following the year in which the gain or loss is recognized.

(l) Allowance for Directors' Retirement Benefits

Nine of the Company's domestic consolidated subsidiaries provide an accrual for the necessary payments for directors' retirement benefits based on the projected benefits to be paid at the year end in accordance with internal policies.

(m) Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability method is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(n) Distributions of Retained Earnings

Distributions of retained earnings are reflected in the accompanying consolidated financial statements for the following fiscal year upon shareholders' approval.

(o) Derivatives

The Group uses foreign currency forward contracts and currency option contracts as a means of hedging exposure to risks arising from fluctuation in foreign currencies. Certain overseas consolidated subsidiaries use commodity futures on flour solely for the purpose of mitigating future risks arising from fluctuation in commodity prices. The Group does not enter into derivatives transactions for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: derivatives are carried at fair value with any changes in unrealized gains or losses charged or credited to income; however, for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of a high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions. However, if foreign currency forward contracts qualify for hedge accounting, the related hedged items such as foreign currency receivables and payables are translated at the corresponding contracted rates.

2. Changes in Accounting Policies

(a) Changes in Method of Accounting for Depreciation

Effective the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation of property, plant and equipment acquired on or after April 1, 2007 in accordance with the Corporation Tax Law as amended. The effect of this change was to decrease operating income and income before income taxes and minority interests by ¥203 million ($2,035 thousand) for the year ended March 31, 2008 from the corresponding amounts which would have been recorded under the previous method. The effect of this change on segment information is disclosed in Note 20.

In addition, effective the year ended March 31, 2008, after having depreciated the book value of property, plant and equipment acquired on or before March 31, 2007 to 5% of their respective acquisition cost based on the Corporation Tax Law prior to the amendment, the Company and its domestic consolidated subsidiaries depreciate the difference of the remaining acquisition cost less minimum salvage value using the straight-line method over a period of 5 years and book such depreciation as depreciation expense, in accordance with the Corporation Tax Law as amended. The effect of this change was to decrease operating income and income before income taxes and minority interests by ¥700 million ($6,993 thousand) for the year ended March 31, 2008 from the corresponding amounts which would have been recorded under the previous method. The effect of this change on segment information is disclosed in Note 20.

(b) Accounting Standard for Bonuses to Directors and Statutory Auditors

Effective the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted an accounting standard for bonuses to directors and statutory auditors which requires that such bonuses be recorded as expenses in the year in which they were incurred. The effect of the adoption of this standard was to decrease operating income and income before income taxes and minority interests by ¥172 million for the year ended March 31, 2007 from the corresponding amounts which would have been recorded under the previous method. Payments for bonuses to directors approved at an ordinary general shareholders' meeting held in June 2006 have been recorded in the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007. The effect of this change on segment information is disclosed in Note 20.

(c) Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective the year ended March 31, 2007, the Company adopted an accounting standard for presentation of net assets in the balance sheet and the related implementation guidance. Total shareholders' equity under the previous method of presentation amounted to ¥270,933 million as of March 31, 2007.

In addition, effective the year ended March 31, 2007, the Company is required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders' equity.

2. Changes in Accounting Policies (continued)

(d) Accounting Standard for Business Combinations

Effective the year ended March 31, 2007, the Company adopted an accounting standard for business combinations and the related implementation guidance.

3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made, as a matter of arithmetic computation only, at ¥100.19 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2008.

The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

4. Investment Securities

Information regarding marketable securities classified as held-to-maturity securities and other securities at March 31, 2008 and 2007 is summarized as follows:

(a) Information regarding marketable securities classified as held-to-maturity securities

	2008					
	Millions of yen			Thousands of U.S. dollars		
	Carrying Value	Market Value	Unrealized Gains (Losses)	Carrying Value	Market Value	Unrealized Gains (Losses)
Securities whose market value exceeds their carrying value:						
Government and municipal bonds	¥ -	¥ -	¥ -	$ -	$ -	$ -
Corporate bonds	-	-	-	-	-	-
Other	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-
Securities whose carrying value exceeds their market value:						
Government and municipal bonds	**1,499**	**1,499**	**(0)**	**14,970**	**14,969**	**(1)**
Corporate bonds	-	-	-	-	-	-
Other	-	-	-	-	-	-
Subtotal	**1,499**	**1,499**	**(0)**	**14,970**	**14,969**	**(1)**
Total	¥ **1,499**	¥ **1,499**	¥ **(0)**	$ **14,970**	$ **14,969**	$ **(1)**

	2007		
	Millions of yen		
	Carrying Value	Market Value	Unrealized Gains (Losses)
Securities whose market value exceeds their carrying value:			
Government and municipal bonds	¥ -	¥ -	¥ -
Corporate bonds	-	-	-
Other	-	-	-
Subtotal	-	-	-
Securities whose carrying value exceeds their market value:			
Government and municipal bonds	2,997	2,997	(0)
Corporate bonds	-	-	-
Other	-	-	-
Subtotal	2,997	2,997	(0)
Total	¥ 2,997	¥ 2,997	¥ (0)

4. Investment Securities (continued)

(b) Information regarding marketable securities classified as other securities

	2008					
	Millions of yen			Thousands of U.S. dollars		
	Acquisition Cost	Carrying Value	Unrealized Gains (Losses)	Acquisition Cost	Carrying Value	Unrealized Gains (Losses)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	**¥ 10,920**	**¥ 56,386**	**¥ 45,465**	**$ 108,999**	**$ 562,794**	**$ 453,795**
Bonds:						
Government and municipal bonds	**-**	**-**	**-**	**-**	**-**	**-**
Corporate bonds	**8,099**	**8,104**	**4**	**80,843**	**80,890**	**46**
Other	**-**	**-**	**-**	**-**	**-**	**-**
Other	**-**	**-**	**-**	**-**	**-**	**-**
Subtotal	**19,020**	**64,490**	**45,470**	**189,842**	**643,684**	**453,842**
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	**6,406**	**5,326**	**(1,080)**	**63,948**	**53,163**	**(10,785)**
Bonds:						
Government and municipal bonds	**-**	**-**	**-**	**-**	**-**	**-**
Corporate bonds	**3,603**	**3,600**	**(2)**	**35,963**	**35,938**	**(25)**
Other	**-**	**-**	**-**	**-**	**-**	**-**
Other	**-**	**-**	**-**	**-**	**-**	**-**
Subtotal	**10,010**	**8,927**	**(1,083)**	**99,912**	**89,102**	**(10,810)**
Total	**¥ 29,030**	**¥ 73,417**	**¥ 44,387**	**$ 289,754**	**$ 732,786**	**$ 443,032**

	2007		
	Millions of yen		
	Acquisition Cost	Carrying Value	Unrealized Gains (Losses)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥ 13,394	¥ 79,938	¥ 66,543
Bonds:			
Government and municipal bonds	3,097	3,098	1
Corporate bonds	3,512	3,513	0
Other	-	-	-
Other	-	-	-
Subtotal	20,004	86,550	66,546
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	351	260	(90)
Bonds:			
Government and municipal bonds	4,506	4,505	(1)
Corporate bonds	1,798	1,798	(0)
Other	-	-	-
Other	-	-	-
Subtotal	6,656	6,564	(92)
Total	¥ 26,660	¥ 93,114	¥ 66,454

(c) Sale of securities classified as other securities

Information regarding sale of securities classified as other securities for the years ended March 31, 2008 and 2007 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Proceeds from sales	**¥ 2,071**	¥ 1,990	**$ 20,677**
Aggregate gain on sales	**1,681**	1,899	**16,779**

4. Investment Securities (continued)

(d) Other securities without market value

	Carrying amount: Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars 2008
Held to maturity securities:			
Certificates of deposits	¥ **500**	¥ -	$ **4,991**
Other securities:			
Unlisted stock	¥ **4,640**	¥ 5,707	$ **46,313**
Total	¥ **5,140**	¥ 5,707	$ **51,304**

(e) The redemption schedule of held-to-maturity securities at March 31, 2008 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	Due in one year or less	Due after one year through	Due in one year or less	Due after one year through
Bonds:				
Government and municipal bonds	¥ **1,500**	¥ -	$ **14,972**	$ -
Corporate bonds	**11,700**	-	**116,778**	-
Other	**500**	-	**4,991**	-
Total	¥ **13,700**	¥ -	$ **136,740**	$ -

5. Inventories

Inventories at March 31, 2008 and 2007 comprised of the following:

	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars 2008
Merchandise and finished goods	¥ **22,923**	¥ 21,428	$ **228,802**
Raw materials	**12,962**	18,284	**129,383**
Other	**4,426**	4,934	**44,185**
Total	¥ **40,313**	¥ 44,647	$ **402,370**

Revaluation loss on inventories of ¥131 million ($1,315 thousand) and ¥128 million based on the lower of cost or market method was deducted from the carrying amounts of inventories at March 31, 2008 and 2007, respectively.

6. Leases

The following *pro forma* amounts represent the acquisition cost, accumulated depreciation and net book value of the leased assets at March 31, 2008 and 2007, which would have been reflected in the accompanying consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	2008					
	Millions of yen			Thousands of U.S. dollars		
	Acquisition Cost	Accumulated Depreciation	Net Book Value	Acquisition Cost	Accumulated Depreciation	Net Book Value
Machinery, equipment and vehicles	¥ **3,486**	¥ **1,913**	¥ **1,572**	$ **34,796**	$ **19,102**	$ **15,694**
Other	**2,321**	**1,331**	**989**	**23,171**	**13,289**	**9,881**
Total	¥ **5,807**	¥ **3,245**	¥ **2,562**	$ **57,966**	$ **32,392**	$ **25,575**

	2007		
	Millions of yen		
	Acquisition Cost	Accumulated Depreciation	Net Book Value
Machinery, equipment and vehicles	¥ 3,481	¥ 1,903	¥ 1,577
Other	2,473	1,510	962
Total	¥ 5,954	¥ 3,414	¥ 2,540

6. Leases (continued)

The future minimum lease commitments under finance leases subsequent to March 31, 2008 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥ **770**	$ **7,694**
Due after one year	**1,791**	**17,881**
Total	¥ **2,562**	$ **25,575**

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥977 million ($9,760 thousand) and ¥981 million for the years ended March 31, 2008 and 2007, respectively. These lease payments were equal to the depreciation of the leased assets computed by the straight-line method over the respective lease terms assuming a nil residual value.

The future minimum lease commitments under operating leases subsequent to March 31, 2008 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	¥ **13**	$ **133**
Due after one year	**38**	**380**
Total	¥ **51**	$ **513**

7. Property, Plant and Equipment

Accumulated depreciation of property, plant and equipment at March 31, 2008 and 2007 amounted to ¥208,691 million ($2,082,959 thousand) and ¥199,698 million, respectively. Accumulated advanced depreciation of property, plant and equipment purchased using funds from a government subsidy amounted to ¥264 million ($2,637 thousand) at March 31, 2008 and 2007.

Kobe factory of Nisshin Flour Milling Inc. is to be closed during the year ending March 31, 2009. Extraordinary depreciation expense resulting from a change in the estimated useful lives of property, plant and equipment in the factory and estimated disposal expense are presented as Loss on improvements to the production system in Other expenses of the accompanying consolidated statement of income for the year ended March 31, 2008.

8. Short-Term and Long-Term Debt

Short-term and long-term debt as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Short-term debt with average interest rates of 1.5316% and 1.2329% at March 31, 2008 and 2007, respectively	¥ **3,709**	¥ 7,214	$ **37,026**
Current portion of long-term debt with average interest rates of 3.2960% and 2.9959% at March 31, 2008 and 2007, respectively	**259**	276	**2,590**
Total short-term debt	**3,969**	7,491	**39,616**
Long-term debt at March 31, 2008 and 2007 with average interest rates of 3.4861% and 3.4192%, respectively, less current portion, due from 2009 to 2036 and 2008 to 2036, respectively	**1,093**	1,330	**10,911**
Total long-term debt	**1,093**	1,330	**10,911**
Total	¥ **5,062**	¥ 8,822	$ **50,527**

* Average interest rates of debt represent the weighted-average rates for the outstanding balances at March 31, 2008 and 2007.

The aggregate annual maturities of long-term debt within 5 years subsequent to March 31, 2008, excluding the current portion, are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2010	¥ **237**	$ **2,368**
2011	**242**	**2,424**
2012	**249**	**2,491**
2013	**228**	**2,282**
Total	¥ **958**	$ **9,564**

The Group has entered into certain line-of-credit agreements with major financial institutions amounting to ¥18,830 million ($187,943 thousand) and ¥17,530 million at March 31, 2008 and 2007, respectively.

There were no loans payable outstanding at March 31, 2008 and 2007 under these line-of-credit agreements.

Administrative expenses related to these line-of-credit agreements amounted to ¥17 million ($170 thousand) for the years ended March 31, 2008 and 2007.

The carrying amounts of assets pledged as collateral at March 31, 2008 and 2007 for short-term debt of ¥497 million ($4,969 thousand) and ¥509 million, respectively, and long-term debt of ¥492 million ($4,914 thousand) and ¥630 million, respectively, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Buildings	¥ **1,475**	¥ 1,395	$ **14,725**
Machinery and equipment	**698**	772	**6,976**
Land	**92**	92	**923**
Other	**159**	144	**1,593**
Total	¥ **2,426**	¥ 2,405	$ **24,217**

9. Allowance for Employees' Retirement Benefits

The Company and domestic consolidated subsidiaries have funded defined benefit pension plans, such as tax-qualified pension plans and lump-sum retirement plans. The Company and certain domestic consolidated subsidiaries also have an employee pension trust.

Besides these retirement benefits, certain employees may be entitled to additional special retirement benefits based on the conditions under which termination occurs.

The allowance for employees' retirement benefits at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Projected benefit obligation	¥ **(48,512)**	¥ (49,540)	$ **(484,202)**
Fair value of plan assets	**40,165**	41,104	**400,891**
Unrecognized actuarial loss	**3,711**	1,139	**37,048**
Unrecognized prior service cost	**(2,329)**	(2,527)	**(23,250)**
Prepaid pension cost	**1,361**	39	**13,586**
Allowance for employees' retirement benefits	¥ **(8,325)**	¥ (9,863)	$ **(83,098)**

* Certain subsidiaries apply the simplified method to calculate benefit obligations.

* Additional special retirement benefits of ¥429 million ($4,284 thousand), to be paid in the year ending March 31, 2009, are not included in the above retirement allowance but are included in Other in current liabilities in the accompanying consolidated balance sheet at March 31, 2008.

The components of retirement benefit costs for the years ended March 31, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Service cost	¥ **1,749**	¥ 1,648	$ **17,462**
Interest cost	**1,124**	1,134	**11,226**
Expected return on plan assets	**(1,021)**	(963)	**(10,192)**
Amortization of actuarial loss	**305**	249	**3,046**
Amortization of prior service cost	**(198)**	(198)	**(1,979)**
Net retirement benefit costs	¥ **1,960**	¥ 1,871	$ **19,563**

* Retirement benefit costs incurred by consolidated subsidiaries that apply the simplified method are recorded as service cost.

* Additional special retirement benefits of ¥429 million ($4,284 thousand), to be paid in the year ending March 31, 2009, are not included in the above retirement benefit costs but are included in other expenses in the accompanying consolidated statement of income for the year ended March 31, 2008.

The assumptions used in the above computations for the years ended March 31, 2008 and 2007 are set forth as follows:

		2008		2007
Discount rate	Principally	2.5%	Principally	2.5%
Expected rate of return on plan assets	Principally	2.5%	Principally	2.5%
Amortization period of actuarial difference	Principally	15 years	Principally	15 years
Amortization period of prior service cost		15 years		15 years

10. Stock Option Plans

Total expense recognized for the stock option plans of ¥8 million ($84 thousand) is included in selling, general and administrative expenses in the accompanying consolidated statement of income for the year ended March 31, 2008.

At March 31, 2008, the Company and consolidated subsidiaries had the following stock option plans:

	2002 Plan	2003 Plan	2004 Plan	2005 Plan
Grantees	10 directors and 13 operating officers of the Company and 26 directors of consolidated subsidiaries	10 directors and 13 operating officers of the Company and 29 directors of consolidated subsidiaries	10 directors and 12 operating officers of the Company and 25 directors of consolidated subsidiaries	9 directors and 10 operating officers of the Company and 26 directors of consolidated subsidiaries
Type of stock	Common stock	Common stock	Common stock	Common stock
Number of shares granted	275,000 shares	290,400 shares	269,500 shares	258,500 shares
Grant date	July 23, 2002	July 23, 2003	July 26, 2004	August 17, 2005
Conditions for vesting	Not stated	Not stated	Not stated	Not stated
Service period	Not specified	Not specified	Not specified	Not specified
Exercisable period	July 16, 2004 - July 15, 2009	July 16, 2005 - July 15, 2010	July 17, 2006 - July 16, 2011	July 21, 2007 - July 20, 2012

	2002 Plan	2003 Plan	2004 Plan	2005 Plan
Non-vested (number of shares)				
Outstanding at beginning of the year	-	-	-	258,500
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Vested during the year	-	-	-	258,500
Outstanding at end of the year	-	-	-	-
Vested (number of shares)				
Outstanding at beginning of the year	33,000	91,300	213,400	-
Vested during the year	-	-	-	258,500
Exercised during the year	16,500	35,200	36,300	11,000
Forfeited during the year	-	-	-	-
Outstanding at end of the year	16,500	56,100	177,100	247,500
Exercise price (Yen)	¥805	¥811	¥999	¥1,085
Exercise price (U.S. dollars)	$8.03	$8.09	$9.97	$10.83
Weighted-average market price upon exercise (Yen)	¥1,191	¥1,120	¥1,139	1,091
Weighted-average market price upon exercise (U.S. dollars)	$11.89	$11.18	$11.37	$10.89

	2007 Plan
Grantees	12 directors and 11 operating officers of the Company and 23 directors of consolidated subsidiaries
Type of stock	Common stock
Number of shares granted	250,000 shares
Grant date	Aug 13, 2007
Conditions for vesting	Not stated
Service period	Not specified
Exercisable period	July 27, 2009 - July 26, 2014

	2007 Plan
Non-vested (number of shares)	
Outstanding at beginning of the year	-
Granted during the year	250,000
Forfeited during the year	-
Vested during the year	-
Outstanding at end of the year	250,000
Vested (number of shares)	
Outstanding at beginning of the year	-
Granted during the year	-
Exercised during the year	-
Forfeited during the year	-
Outstanding at end of the year	-
Exercise price (Yen)	¥1,197
Exercise price (U.S. dollars)	$11.95
Fair value as of grant date (Yen)	¥102
Fair value as of grant date (U.S. dollars)	$1.02

10. Stock Option Plans (continued)

The fair value of options granted as of the grant date was estimated using the Black-Scholes option-pricing model based on the following assumptions:

	2007 Plan
Expected volatility *1 (%)............	17.5
Expected remaining period *2 (years)............	4.5
Expected dividends per share *3 (yen)............	¥ 18
Expected dividends per share *3 (U.S. dollars)............	$ 0.18
Risk free interest rate *4 (%)	1.21

*1 Expected volatility is estimated based on the actual stock price in the period from January 2003 to August 2007.

*2 As it is difficult to estimate the expected remaining period in a reasonable manner, it is determined to be the period from the grant date to the mid-point of the exercisable period.

*3 Expected dividends per share refers to the expected annual amount for the year ended March 31, 2007.

*4 Risk free interest rate represents the interest rate of government bonds whose remaining period corresponds to the expected remaining period of the above stock options.

Because it is difficult to estimate the forfeited number of stock options for future periods, estimation of the vested numbers is based on actual forfeitures in prior periods.

At March 31, 2007, the Company and consolidated subsidiaries had the following stock option plans:

	2002 Plan	**2003 Plan**	**2004 Plan**	**2005 Plan**
Grantees	10 directors and 13 operating officers of the Company and 26 directors of consolidated subsidiaries	10 directors and 13 operating officers of the Company and 29 directors of consolidated subsidiaries	10 directors, 12 operating officers of the Company and 25 directors of consolidated subsidiaries	9 directors, 10 operating officers of the Company and 26 directors of consolidated subsidiaries
Type of stock	Common stock	Common stock	Common stock	Common stock
Number of shares granted	275,000 shares	290,400 shares	269,500 shares	258,500 shares
Grant date	July 23, 2002	July 23, 2003	July 26, 2004	August 17, 2005
Conditions for vesting	Not stated	Not stated	Not stated	Not stated
Service period	Not specified	Not specified	Not specified	Not specified
Exercisable period	July 16, 2004 - July 15, 2009	July 16, 2005 - July 15, 2010	July 17, 2006 - July 16, 2011	July 21, 2007 - July 20, 2012

	2002 Plan	**2003 Plan**	**2004 Plan**	**2005 Plan**
Non-vested (number of shares)				
Outstanding at beginning of the year	-	-	269,500	258,500
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Vested during the year	-	-	269,500	-
Outstanding at end of the year	-	-	-	258,500
Vested (number of shares)				
Outstanding at beginning of the year	100,100	174,900	-	-
Vested during the year	-	-	269,500	-
Exercised during the year	67,100	83,600	56,100	-
Forfeited during the year	-	-	-	-
Outstanding at end of the year	33,000	91,300	213,400	-
Exercise price (Yen)	¥805	¥811	¥999	¥1,085
Weighted-average market price upon exercise (Yen)	¥1,232	¥1,237	¥1,266	-

11. Shareholders' Equity

The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

In the accompanying consolidated balance sheet, capital surplus has been included in additional paid-in capital.

12. Supplemental Information for Consolidated Statements of Changes in Net Assets

(a) Type and Number of Outstanding Shares

	Thousands of shares			
	Year ended March 31, 2008			
Type of shares	Balance at beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at year end
Issued stock:				
Common stock	**256,535**	-	**5,000**	**251,535**
Treasury stock:				
Common stock	**3,220**	**5,087**	**5,137**	**3,170**

1. Issued shares of common stock decreased due to the retirement of treasury stock.
2. Treasury stock increased due to (a) purchases of shares of common stock from the stock market (5,000 thousand shares), (b) a repurchase of odd-lot shares of less than one unit (86 thousand shares) and (c) purchases of shares of common stock in treasury held by an affiliated company (0 thousand shares).
3. Treasury stock decreased due to (a) a retirement of shares of common stock in treasury (5,000 thousand shares), (b) disposal of odd-lot shares of less than one unit (38 thousand shares) and (c) exercise of stock options (99 thousand shares).

	Thousands of shares			
	Year ended March 31, 2007			
Type of shares	Balance at beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at year end
Issued stock:				
Common stock	**256,535**	-	-	**256,535**
Treasury stock:				
Common stock	**3,800**	**70**	**650**	**3,220**

1. Treasury stock increased due to a repurchase of odd-lot shares of less than one unit.
2. Treasury stock decreased due to (a) sale of odd-lot shares of less than one unit (9 thousand shares), (b) exercise of stock options (206 thousand shares), and (c) sale of shares of common stock in treasury held by consolidated subsidiaries (434 thousand shares).

(b) Stock acquisition rights

		Balance at March 31, 2008	
Category	Details of options	Millions of yen	Thousands of U.S. dollars
Supplying company (Parent Company)	Stock acquisition rights as stock options	¥ **8**	$ **84**
	Total	¥ **8**	$ **84**

12. Supplemental Information for Consolidated Statements of Changes in Net Assets (continued)

(c) Dividends

(1) Dividends paid to shareholders

Year ended March 31, 2008

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)	Amount per share (Yen)	Amount per share (U.S. dollars)	Cut-off date	Effective date
June 27, 2007	Annual general meeting of shareholders	Common stock	¥2,280	$22,764	¥9	$0.09	March 31, 2007	June 28, 2007
November 9, 2007	Board of directors	Common stock	2,280	22,764	9	0.09	September 30, 2007	December 10, 2007

Year ended March 31, 2007

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount per share (Yen)	Cut-off date	Effective date
June 28, 2006	Annual general meeting of shareholders	Common stock	¥2,785	¥11	March 31, 2006	June 29, 2006
November 10, 2006	Board of directors	Common stock	2,279	9	September 30, 2006	December 8, 2006

(2) Dividends with a cut-off date during the fiscal year but an effective date subsequent to the fiscal year

Year ended March 31, 2008

Date of approval	Resolution approved by	Type of shares	Source of dividends	Amount (Millions of yen)	Amount (Thousands of U.S. dollars)	Amount per share (Yen)	Amount per share (U.S. dollars)	Cut-off date	Effective date
June 26, 2008	Annual general meeting of shareholders	Common stock	Retained earnings	¥2,235	$22,317	¥9	$0.09	March 31, 2008	June 27, 2008

Year ended March 31, 2007

Date of approval	Resolution approved by	Type of shares	Source of dividends	Amount (Millions of yen)	Amount per share (Yen)	Cut-off date	Effective date
June 27, 2007	Annual general meeting of shareholders	Common stock	Retained earnings	¥2,280	¥9	March 31, 2007	June 28, 2007

13. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Freight	¥ **25,372**	¥ 25,212	$ **253,243**
Sales incentives	**38,101**	37,083	**380,296**
Employees' salaries	**12,336**	12,192	**123,129**
Employees' bonuses and benefits	**9,006**	9,186	**89,893**
Retirement benefits	**1,151**	1,218	**11,493**
Other	**28,199**	28,515	**281,461**
Total	¥ **114,168**	¥ 113,407	$ **1,139,515**

14. Research and Development Costs

Research and development costs included in selling, general and administrative expenses and manufacturing costs were ¥5,136 million ($51,272 thousand) and ¥5,071 for the years ended March 31, 2008 and 2007, respectively.

15. Income Taxes

Income taxes applicable to the Group consist of corporate tax, inhabitants' taxes and enterprise taxes which, in the aggregate, resulted in a statutory tax rate of approximately 40.6% for the years ended March 31, 2008 and 2007.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities as of March 31, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
Deferred tax assets:	2008	2007	2008
Allowance for employees' retirement benefits	¥ **5,248**	¥ 6,375	$ **52,386**
Allowance for bonuses	**1,703**	1,745	**17,004**
Investment securities	**839**	988	**8,378**
Accrued sales incentives	**1,131**	971	**11,290**
Unrealized gain on fixed assets	**1,025**	939	**10,234**
Inventories	**591**	626	**5,907**
Depreciation and amortization	**1,033**	404	**10,315**
Allowance for repairs	**403**	355	**4,032**
Accrued enterprise taxes	**351**	352	**3,508**
Accrued directors' retirement benefits	**346**	350	**3,454**
Other	**2,667**	2,272	**26,620**
Gross deferred tax assets	**15,341**	15,383	**153,128**
Valuation allowance	**(1,804)**	(834)	**(18,009)**
Amount offset by deferred tax liabilities	**(5,213)**	(7,433)	**(52,035)**
Deferred tax assets, net	¥ **8,324**	¥ 7,116	$ **83,084**

	Millions of yen		Thousands of U.S. dollars
Deferred tax liabilities:	2008	2007	2008
Unrealized gain on available-for-sale securities	¥ **(18,030)**	¥ (26,982)	$ **(179,966)**
Reserve for advanced depreciation of property, plant and equipmen	**(2,483)**	(2,224)	**(24,784)**
Other	**(547)**	(497)	**(5,460)**
Gross deferred tax liabilities	**(21,061)**	(29,703)	**(210,211)**
Amount offset by deferred tax assets	**5,213**	7,433	**52,035**
Deferred tax liabilities, net	¥ **(15,847)**	¥ (22,270)	$ **(158,175)**

Disclosure of a reconciliation between the statutory and effective tax rates for the years ended March 31, 2008 and 2007 has been omitted as such differences were immaterial.

16. Contingent Liabilities

At March 31, 2008 and 2007, the Company was contingently liable as a guarantor of loan obligations to financial institutions for one affiliated company and others as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Employee housing loans	¥ **259**	¥ 341	$ **2,594**
Hanshin Silo Co., Ltd. (affiliated company)	**522**	401	**5,214**
Nihon-Bio Co., Ltd. (client-related)	**290**	311	**2,899**
	¥ **1,072**	¥ 1,054	$ **10,707**

17. Cash and Cash Equivalents

Cash on the accompanying consolidated balance sheets and cash and cash equivalents on the accompanying consolidated statements of cash flows are reconciled as of March 31, 2008 and 2007 as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Cash	¥ **43,987**	¥ 45,649	$ **439,040**
Marketable securities	**13,704**	15,913	**136,789**
Total	**57,692**	61,562	**575,828**
Time deposits with maturities of more than three months	**(7,136)**	(1,194)	**(71,229)**
Marketable securities with maturities of more than three months	**(11,705)**	(11,916)	**(116,828)**
Cash and cash equivalents	¥ **38,850**	¥ 48,452	$ **387,771**

In accordance with amendments to Guideline for Presentation of Consolidated Financial Statements, from the year ended March 31, 2008, certificates of deposits issued by domestic institutes were included in marketable securities. In this connection, ¥500 million ($4,991 thousand) of certificates of deposits were presented as Marketable securities in the accompanying balance sheet at March 31, 2008, however, ¥900 million of certificates of deposits at March 31, 2007 were represented as Cash.

18. Derivatives

The Group uses foreign currency forward contracts and currency option contracts and certain overseas consolidated subsidiaries use commodity futures on flour as derivative financial instruments solely for the purpose of mitigating future risks arising from fluctuation in foreign currency exchange rates and commodity prices. The Group does not enter into derivatives transactions for trading or speculative purposes. Foreign currency forward contracts, option contracts and commodity futures are subject to the risk arising from foreign exchange rate changes and commodity price changes. Because the counterparties to such transactions are limited to major financial institutions, the Group does not anticipate any losses arising from credit risk. The derivatives transactions are executed by the Finance and Accounting departments based on the instructions of Operating divisions exposed to foreign exchange risks in accordance with established internal policies and within certain specified limits, thereby allowing for the diversification of the risks.

18. Derivatives (continued)

Internal policies also restrict currency option trading to purchase call options. At certain consolidated subsidiaries, the derivatives transactions are executed by the Finance department in accordance with the instructions of relevant departments. The Company's Finance and Accounting departments report information on derivatives transactions to the managers, directors or executive officers when necessary.

The estimated fair value of the open derivative positions at March 31, 2008 is summarized as follows:

	2008					
	Millions of yen			Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Foreign currency forward contracts:						
Buy:						
U.S. dollars	¥ **50**	¥ **49**	¥ **(0)**	$ **501**	$ **498**	$ **(3)**
Canadian dollars	**1,045**	**1,036**	**(8)**	**10,438**	**10,350**	**(88)**
Sell:						
Japanese Yen	¥ **107**	¥ **108**	¥ **(1)**	$ **1,070**	$ **1,081**	$ **(11)**
	¥ **-**	¥ **-**	¥ **(10)**	$ **-**	$ **-**	$ **(101)**
Commodity futures:						
Sell:						
Flour	¥ **340**	¥ **403**	¥ **(63)**	$ **3,402**	$ **4,032**	$ **(629)**
	¥ **340**	¥ **403**	¥ **(63)**	$ **3,402**	$ **4,032**	$ **(629)**

* The above derivative positions were all held by overseas consolidated subsidiaries.

* The derivative positions to which hedge accounting was applied have been omitted.

Disclosure of the estimated fair value of the open derivative positions at March 31, 2007 has been omitted because the Group applied hedge accounting to all open derivative positions at March 31, 2007.

19. Related Party Transactions

Disclosure of related party transactions has been omitted as the total amount of such transactions was immaterial for the years ended March 31, 2008 and 2007.

20. Segment Information

Business Segment Information

Operations by business segment for the years ended March 31, 2008 and 2007 are summarized as follows:

	Millions of yen 2008					
	Flour Milling	Processed Food	Other	Total	Corporate Assets and Eliminations	Consolidated
Net Sales:						
Sales to external customers	**¥ 164,449**	**¥ 224,914**	**¥ 42,494**	**¥ 431,858**	**¥ -**	**¥ 431,858**
Intersegment sales and transfers	**19,038**	**774**	**5,936**	**25,750**	**(25,750)**	**-**
Total	**183,487**	**225,689**	**48,431**	**457,608**	**(25,750)**	**431,858**
Operating expenses	**173,293**	**220,730**	**44,086**	**438,110**	**(25,443)**	**412,666**
Operating income	**¥ 10,194**	**¥ 4,958**	**¥ 4,344**	**¥ 19,498**	**¥ (306)**	**¥ 19,191**
Total Assets, Depreciation and Amortization, and Capital Expenditures:						
Total assets	**¥ 122,133**	**¥ 131,662**	**¥ 51,087**	**¥ 304,884**	**¥ 76,910**	**¥ 381,795**
Depreciation and amortization	**6,379**	**6,100**	**1,277**	**13,757**	**(242)**	**13,515**
Capital expenditures	**9,860**	**4,650**	**4,113**	**18,624**	**(576)**	**18,047**

	Thousands of U.S. dollars 2008					
	Flour Milling	Processed Food	Other	Total	Corporate Assets and Eliminations	Consolidated
Net Sales:						
Sales to external customers	**$ 1,641,374**	**$ 2,244,882**	**$ 424,140**	**$ 4,310,396**	**$ -**	**$ 4,310,396**
Intersegment sales and transfers	**190,025**	**7,734**	**59,257**	**257,015**	**(257,015)**	**-**
Total	**1,831,399**	**2,252,616**	**483,397**	**4,567,412**	**(257,015)**	**4,310,396**
Operating expenses	**1,729,649**	**2,203,120**	**440,031**	**4,372,800**	**(253,956)**	**4,118,844**
Operating income	**$ 101,751**	**$ 49,495**	**$ 43,365**	**$ 194,611**	**$ (3,059)**	**$ 191,552**
Total Assets, Depreciation and Amortization, and Capital Expenditures:						
Total assets	**$ 1,219,024**	**$ 1,314,133**	**$ 509,910**	**$ 3,043,067**	**$ 767,644**	**$ 3,810,711**
Depreciation and amortization	**63,674**	**60,887**	**12,754**	**137,315**	**(2,418)**	**134,898**
Capital expenditures	**98,416**	**46,418**	**41,054**	**185,887**	**(5,751)**	**180,136**

	Millions of yen 2007					
	Flour Milling	Processed Food	Other	Total	Corporate Assets and Eliminations	Consolidated
Net Sales:						
Sales to external customers	¥ 154,722	¥ 220,545	¥ 42,922	¥ 418,190	¥ -	¥ 418,190
Intersegment sales and transfers	17,253	795	4,278	22,327	(22,327)	-
Total	171,976	221,340	47,200	440,517	(22,327)	418,190
Operating expenses	162,236	216,062	42,485	420,784	(21,778)	399,006
Operating income	¥ 9,740	¥ 5,278	¥ 4,714	¥ 19,732	¥ (548)	¥ 19,184
Total Assets, Depreciation and Amortization, and Capital Expenditures:						
Total assets	¥ 123,075	¥ 143,089	¥ 50,313	¥ 316,478	¥ 91,959	¥ 408,437
Depreciation and amortization	5,847	5,874	1,046	12,768	(203)	12,565
Capital expenditures	6,940	5,781	1,599	14,321	(327)	13,993

20. Segment Information (continued)

Business Segment Information (continued)

1. Business segments were determined based on the similarities of the product types.

2. Primary products for each business segment are summarized as follows:

   Flour Milling............................ Flour, bran

   Processed Food .... Prepared mix, flour for consumer use, pasta, pasta source, frozen food, chilled food, cake and bread ingredients, biochemical products, life science products, healthcare foods

   Other .... Pet food, engineering, mesh cloths, transport and storage

3. Corporate assets included in the “corporate assets and eliminations” column amounted to ¥83,611 million ($834,525 thousand) and ¥99,626 million at March 31, 2008 and 2007, respectively, and consisted primarily of the Company’s surplus funds (cash and deposits, and marketable securities) and investment securities.

4. Changes in accounting policies

   (a) Changes in method of accounting for depreciation

   As described in Note 2, “Changes in Accounting Policies, (a) Changes in Method of Accounting for Depreciation,” effective the year ended March 31, 2008, the Company and its domestic consolidated subsidiaries have changed their method of accounting for depreciation of property, plant and equipment acquired on or after April 1, 2007 in accordance with the Corporation Tax Law as amended. As a result of this change, for the year ended March 31, 2008, operating income and income before income taxes and minority interests decreased from the corresponding amounts which would have been recorded under the previous method. Specifically, by segment, operating expenses increased for Flour Milling by ¥77 million ($774 thousand), for Processed Food by ¥86 million ($866 thousand), and for Other by ¥48 million ($479 thousand), and operating expenses decreased for Corporate Assets and Eliminations by ¥8 million ($85 thousand), as compared to the corresponding amounts which would have been recorded under the previous method. At the same time, operating income for Flour Milling, Processed Food and Other decreased and operating loss for Corporate Assets and Eliminations decreased by the same amounts as those of the corresponding increases (decrease) in operating expenses as a result of this change as compared to the amounts which would have been recorded under the previous method.

   In addition, as described in Note 2, “Changes in Accounting Policies, (a) Changes in Method of Accounting for Depreciation,” effective the year ended March 31, 2008, after having depreciated the book value of property, plant and equipment acquired on or before March 31, 2007 to 5% of their respective acquisition cost based on the Corporation Tax Law prior to the amendment, the Company and its domestic consolidated subsidiaries depreciate the difference of the remaining acquisition cost less minimum salvage value using the straight-line method over a period of 5 years and book such depreciation as depreciation expense, in accordance with the Corporation Tax Law as amended. As a result of this change, for the year ended March 31, 2008, operating income and income before income taxes and minority interests decreased from the corresponding amounts which would have been recorded under the previous method. Specifically, by segment, operating expenses increased for Flour Milling by ¥353 million ($3,532 thousand), for Processed Food by ¥249 million ($2,495 thousand) and for Other by ¥103 million ($1,036 thousand), and operating expenses decreased for Corporate Assets and Eliminations by ¥7 million ($70 thousand), as compared to the corresponding amounts which would have been recorded under the previous method. At the same time, operating income for Flour Milling, Processed Food and Other decreased and operating loss for Corporate Assets and Eliminations decreased by the same amounts as those of the corresponding increases (decrease) in operating expenses as a result of this change as compared to the amounts which would have been recorded under the previous method.

20. Segment Information (continued)

Business Segment Information (continued)

(b) Accounting standard for bonuses to directors and statutory auditors

As described in Note 2, "Changes in Accounting Policies, (b) Accounting Standard for Bonuses to Directors and Statutory Auditors," effective the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted an accounting standard for bonuses to directors and statutory auditors which requires that such bonuses be recorded as expenses in the year in which they were incurred. As a result of the adoption of this standard, operating income and income before income taxes and minority interests decreased for the year ended March 31, 2007 from the corresponding amounts which would have been recorded under the previous method. Specifically, by segment, operating expenses increased for Flour Milling by ¥34 million ($342 thousand), for Processed Food by ¥56 million ($568 thousand), for Other by ¥26 million ($259 thousand) and for Corporate Assets and Eliminations by ¥55 million ($549 thousand), over the corresponding amounts which would have been recorded under the previous method. At the same time, operating income (loss) for each segment decreased (increased) by the same amount as that of the corresponding increase in operating expenses as a result of this change as compared to the amount which would have been recorded under the previous method.

Geographical Segment Information

Geographical segment information for the years ended March 31, 2008 and 2007 has been omitted because both total sales and assets of the domestic segment were more than 90% of the total sales and assets of all segments.

Overseas Sales

Overseas sales for the years ended March 31, 2008 and 2007 have been omitted because total overseas sales were less than 10% of total consolidated sales.

21. Per Share Data

Basic net income per share is computed by dividing net income available for distribution to common shareholders by the weighted-average number of common shares outstanding for the year, retroactively adjusted for stock splits.
With respect to the computation of diluted net income per share, both net income and the weighted-average number of common shares outstanding are adjusted assuming the exercise of rights relevant to potentially issuable shares.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid subsequent to the end of the current fiscal year.

A reconciliation of the differences between basic and diluted net income per share and net assets per share for the years ended March 31, 2008 and 2007 is presented as follows:

	2008	2007	2008
Basic net income per share:			
Net income available for distribution to common shareholders	**¥ 11,147 million**	¥ 12,303 million	**$ 111,268 thousand**
Effect of dilutive securities:			
Basic	**251,654,692 shares**	252,865,907 shares	
Warrants	**58,966 shares**	145,454 shares	
Diluted	**251,713,658 shares**	253,011,361 shares	
Net income per share:			
Basic	**¥ 44.30**	¥ 48.66	**$ 0.44**
Diluted	**44.29**	48.63	**0.44**
Net assets per share	**¥ 1,043.53**	¥ 1,069.71	**$ 10.42**
Summary of potentially issuable shares that do not have a dilutive effect on net income per share	**89 and 161 stock acquisition rights approved by the annual general meeting of shareholders at June 27, 2007**		