TOWA

ANNUAL REPORT
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A MESSAGE TO OUR SHAREHOLDERS

Greetings

Since its founding in Japan's ancient capital, Kyoto, in April 1979, TOWA Corporation has consistently developed proprietary technologies and created numerous de facto standards. Our primary operations are composed of development, manufacturing and sales of resin encapsulation systems for semiconductors, singulation systems and precision molds for manufacturing semiconductors, as well as the manufacture and sales of fine plastic molded products. We maintain a leading share of the global market for our mainstay semiconductor resin encapsulation systems, which enjoy an excellent reputation with users.

Economic Overview

The Japanese economy over the first half of this consolidated fiscal year has been on a recovery trend, thanks to an increase in exports, especially to Asian nations, and steady capital expenditure backed by improved corporate profits. However, in the second half of this consolidated fiscal year, uncertainty about the future economy has rapidly increased. This has included escalating resource prices, such as crude oil, and worldwide credit contraction triggered by the subprime mortgage crisis.

The semiconductor industry has done well on the amount of semiconductor production based on an expansion of the digital home appliance market and demand for end products mainly in developing nations, such as BRICs. At the same time, however, the price of semiconductors has declined significantly, attributing to intensified intercorporate competition mainly on memory products.

Performance

Given such an economic atmosphere, for the current period, we achieved consolidated sales of ¥ 25,754million (¥ 593 million or a 2.4% increase from the same period in the previous year), due to the strong entry of molding equipment influenced by full operations in China by Taiwan assembly houses. Also, in terms of profit and loss, operating income soared to ¥ 2,381 million (¥ 1,156 million or a 94.5% increase from the same period in the previous year), and net income grew to ¥ 2,119 million (¥ 1,080 million or a 104.0% increase from the same period in the previous year). Behind such drastic increases is the improvement of earning capacity with the progress of our mid-term management plan and programs, including the improvement of production systems, such as shortening lead time and increasing production capacity, and the reduction of fixed cost by closing a mold manufacturing plant in Singapore and downsizing subsidiaries in the U.S.A. Also, over the current period, we posted a 15-month loss and profit for six overseas subsidiary companies due to the accounting shifting adopted by their parent company, TOWA, with a view to strengthening control on loss and profit on a consolidated basis. Therefore, sales and operating income additionally increased to ¥ 2,266 million and ¥ 268 million respectively. If the consolidated statement for all subsidiary companies is set for the period of 12 months from April 2007 to March 2008, the same as their parent company TOWA, net sales would be ¥ 24,102 million and, operating income, ¥ 2,348 million. (These 12-month consolidated unaudited statements are pro forma figures.)

Looking Ahead

Our group companies have developed state-of-the-art technologies for semiconductor packaging in the semiconductor field where technological innovation is significant, and our technological development has helped semiconductor manufacturing companies realize slim models and miniaturization of semiconductors. We proudly think that our technological development has contributed to slim-models/miniaturization and high functionalization of end products for everyday use. Moreover, our technologies have been adopted as the best solution in periphery fields, as in the semiconductor field. Our Mold Die related technology representing our core competence, such as Ultra-Precision-Molds, brought this success in new fields. Therefore, with increased sophistication in this Core competence, our group companies have established and implemented the following medium- to long-term strategies.

1. Concentrated allocation of management resources to Core competence

   Our origin is "Manufacturing". Since its foundation, our technologies have made it possible to save natural resources, and realize high quality and high performance in the semiconductor field. The know-how of our technologies has accumulated as Mold Die related technology. This remains our Core competence, and also is the source of the high level of trust the TOWA Group has earned from the market. By intensively allocating and investing our management resources into this Mold Die related technology, we will maintain overwhelming market share in the semiconductor packaging field. Specific approaches are as follows:

   a. Enhance the production capacity of Ultra-Precision-Molds
   b. Achieve the quick delivery (shortened lead-time) of Ultra-Precision-Molds
   c. Cultivate human resources to maintain our high technical design capability

2. Providing new solutions

In addition to our conventional transfer molding technology, the TOWA Group have developed and commercialized compression molding technology. With these two molding technologies, TOWA will meet our customers' diversified demands and also promote applications in new business fields. The main approaches are as follows:

a. Achieve state-of-the-art packaging, such as multistage stacks, with compression molding technology

b. Provide packaging solutions that address customer needs, such as cost reduction

c. Apply compression molding technologies to the LED market

3. Enhancing business scale with new products

The production site of the "singulation system", which is a main product of our group, has moved from the U.S. to Japan. We have achieved a competitive price and quality by fundamentally changing the design from U.S. specifications to Japanese specifications. With the release of this new singulation system to the market during FY2008, we are attempting to regain the top share in the singulation system field and enhance the business scale. Also, a multi press mass production machine for the LED molding system, which has been adopted as the best solution due to the application of mold technology, will be released. We will fully expand our business in the LED field where an expansion of the market scale is expected.

4. Corporate Strategy of the TOWA Group

Our group consists of 17 companies in total, including 12 consolidated subsidiaries and 4 affiliated companies. Each company operates its business through the segmentation of manufacturing and sales with bases all over the world. By choosing an appropriate manufacturing or sales system for the market environment or economical and political situations of the host country, we are reducing labor costs and other fixed costs, reducing distribution costs, shortening lead time, and optimizing QCD.

We look forward to your continuing support and assistance in the future.
We would like to express our heartfelt appreciation for your support.

August 2008

Yoichi Kawahara
President & COO

Consolidated Balance Sheets

TOWA CORPORATION AND CONSOLIDATED SUBSIDIARIES
March 31, 2007 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	***2008***	***2008***
ASSETS			
Current assets:	¥	**¥**	**$**
Cash on hand and at banks ……………………………………	3,542	**3,351**	**33,446**
Notes and accounts receivable :			
Trade ……………………………………………………….	8,617	**9,871**	**98,523**
Less: Allowance for doubtful accounts ……………………	(186)	**(102)**	**(1,018)**
	8,431	**9,769**	**97,505**
Inventories …………………………………………………….	5,391	**4,053**	**40,453**
Deferred tax assets (Note 9) …………………………………	29	**48**	**479**
Other current assets …………………………………………..	320	**429**	**4,282**
Total current assets ………………………………………..	17,713	**17,650**	**176,165**
Property, plant and equipment, at cost :			
Land ……………………………………………………………	4,650	**4,529**	**45,204**
Buildings and structures ………………………………………	12,451	**12,398**	**123,745**
Machinery and equipment …………………………………….	9,572	**9,653**	**96,347**
Construction in progress ………………………………………	70	**36**	**360**
Less: Accumulated depreciation ……………………………	(14,147)	**(14,684)**	**(146,562)**
Total property, plant and equipment ……………………….	12,596	**11,932**	**119,094**
Other assets:			
Investment securities (Note 3) ………………………………..	3,417	**3,046**	**30,402**
Deferred income taxes (Note 9) ……………………………..	38	**36**	**359**
Other …………………………………………………………..	1,162	**1,696**	**16,928**
Total other assets ………………………………………….	4,617	**4,778**	**47,689**
Total assets ……………………………………………………	34,926	**34,360**	**342,948**

The accompanying notes are an integral part of these financial statements.

Consolidated Balance Sheets

TOWA CORPORATION AND CONSOLIDATED SUBSIDIARIES
March 31, 2007 and 2008

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2007	***2008***	***2008***
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:	¥	¥	$
Short-term borrowings (Note 4) ……	5,244	**5,274**	**52,640**
Current portion of long-term debt (Note 4) ……	2,826	**2,524**	**25,192**
Notes and accounts payable ……	2,535	**2,931**	**29,254**
Accrued expenses(Note 2(10)) ……	429	**463**	**4,621**
Accrued income taxes ……	114	**83**	**829**
Other current liabilities(Note 2(9))……	1,689	**1,569**	**15,660**
Total current liabilities ……	12,837	**12,844**	**128,196**
Long-term liabilities:			
Long-term debt (Note 4) ……	6,007	**4,127**	**41,192**
Accrued severance indemnities for employees(Notes2(11)and	712	**739**	**7,376**
Accrued severance indemnities for directors and corporate auditors……	25	**-**	**-**
Deferred tax liabilities (Note 9) ……	402	**255**	**2,545**
Other long-term liabilities ……	2	**1**	**10**
Total long-term liabilities ……	7,148	**5,122**	**51,123**
Total liabilities ……	19,985	**17,966**	**179,319**
Contingent liabilities (Note 11)			
Shareholders' equity (Note 6)			
Common stock			
Authorized: 80,000,000 shares			
Issued :			
25,021,832 shares at 31st March, 2008……	8,933	**8,933**	**89,161**
Additional paid-in capital ……	3,115	**3,115**	**31,091**
Retained earnings ……	1,927	**3,921**	**39,136**
Unrealized gain on other securities ……	621	**333**	**3,323**
Translation adjustments ……	351	**99**	**988**
Less: Treasury stock at cost ……	(6)	**(7)**	**(70)**
Total shareholders' equity ……	14,941	**16,394**	**163,629**
Total liabilities and shareholders' equity ……	34,926	**34,360**	**342,948**

The accompanying notes are an integral part of these financial statements

Consolidated Statements of Income

TOWA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Two years ended March 31, 2008

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2007	***2008***	***2008***
	¥	¥	$
Net sales	25,160	**25,754**	**257,052**
Cost of sales	19,455	**18,221**	**181,864**
Gross profit	5,705	**7,533**	**75,188**
Selling, general and administrative expenses (Notes2(10)and 7)	4,481	**5,152**	**51,423**
Operating Income	1,224	**2,381**	**23,765**
Other income (expenses)			
Interest and dividend income	38	**43**	**429**
Interest expenses	(410)	**(337)**	**(3,364)**
Foreign exchange gains (losses)	78	**(426)**	**(4,252)**
Gain on sale of investment securities	-	**31**	**309**
Equity in earnings of affiliates	257	**332**	**3,314**
Gain(Loss) on sale of investment in stocks of affiliated company	-	**(17)**	**(170)**
Loss on subsidiaries liquidation (Note 8)	(110)	-	-
Gain on sale of assets for discontinuing operation	-	**49**	**489**
Other, net	156	**108**	**1,079**
Total other income (expenses)	9	**(217)**	**(2,166)**
Income before income taxes and minority interests	1,233	**2,164**	**21,599**
Income taxes (Note 9)			
Current	213	**60**	**599**
Deferred	(19)	**(15)**	**(150)**
Income before minority interests	1,039	**2,119**	**21,150**
Minority Interests	-	-	-
Net Income	1,039	**2,119**	**21,150**

	Yen		*U.S. dollars (Note 1)*
Amount per share of common stock (Note 2 (18)):	¥	¥	$
Net Income	41.59	84.70	0.85
Diluted net income	-	-	-
Cash dividends	5.00	10.00	0.10

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Shareholders' Equity

TOWA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Two years ended March 31, 2008

	Millions of yen							
	Number of shares of common stock	*Common stock*	*Additional paid-in capital*	*Retained earnings*	*Unrealized gain on other securities*	*Translation adjustments*	*Treasury stock*	*Total shareholders' equity*
		¥	¥	¥	¥	¥	¥	¥
Balance at March 31, 2006	24,021,832	8,533	8,446	(4,837)	761	105	(5)	13,003
Net Income	-	-	-	1,039	-	-	-	1,039
Bonus to corporate directors	-	-	-	(6)	-	-	-	(6)
Net increase of treasury stock	-	-	-	-	-	-	(1)	(1)
Net increase of unrealized gain on other securities	-	-	-	-	(140)	-	-	(140)
Allocation of new shares to a third party	1,000,000	400	400	-	-	-	-	800
Net increase of translation adjustments	-	-	-	-	-	246	-	246
Reserve from legal capital surplus	-	-	(5,731)	5,731	-	-	-	-
Balance at March 31, 2007	25,021,832	8,933	3,115	1,927	621	351	(6)	14,941
Net Income	-	-	-	2,119	-	-	-	2,119
Cash dividends	-	-	-	(125)	-	-	-	(125)
Net increase of treasury stock	-	-	-	-	-	-	(1)	(1)
Net increase of unrealized gain on other securities	-	-	-	-	(288)	-	-	(288)
Net increase of translation adjustments	-	-	-	-	-	(252)	-	(252)
Balance at March 31, 2008	25,021,832	8,933	3,115	3,921	333	99	(7)	16,394

	Thousands of U.S.dollars (Note 1)							
	Number of shares of common stock	*Common stock*	*Additional paid-in capital*	*Retained earnings*	*Unrealized gain on other securities*	*Translation adjustments*	*Treasury stock*	*Total shareholders' equity*
		$	$	$	$	$	$	$
Balance at March 31, 2007	25,021,832	89,161	31,091	19,233	6,198	3,503	(60)	149,126
Net Income	-	-	-	21,150	-	-	-	21,150
Cash dividends	-	-	-	(1,247)	-	-	-	(1,247)
Net increase of treasury stock	-	-	-	-	-	-	(10)	(10)
Net increase of unrealized gain on other securities	-	-	-	-	(2,875)	-	-	(2,875)
Net increase of translation adjustments	-	-	-	-	-	(2,515)	-	(2,515)
Balance at March 31, 2008	25,021,832	89,161	31,091	39,136	3,323	988	(70)	163,629

The accompanying notes are an integral part of these financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	*2008*	*2008*
Cash Flows from Operating Activities:	¥	¥	$
Net Income before income taxes and minority interests	1,233	**2,164**	**21,599**
Adjustments for:			
Depreciation	1,145	**1,228**	**12,257**
Equity in earnings of affiliates	(257)	**(332)**	**(3,314)**
Interest and dividends income	(38)	**(43)**	**(429)**
Interest expenses	410	**337**	**3,364**
Foreign exchange losses (gains)	(29)	**(224)**	**(2,236)**
Loss on subsidiaries liquidation	110	-	-
(Increase) decrease in trade notes and accounts receivable	296	**(1,578)**	**(15,750)**
(Increase) decrease in inventories	67	**1,097**	**10,949**
(Increase) decrease in other current assets	360	**(127)**	**(1,268)**
Increase (decrease) in notes and accounts payable	(944)	**494**	**4,931**
Increase(decrease) in accrued and other current liabilities	(246)	**(77)**	**(769)**
Other, net	337	**54**	**539**
Sub-total	2,444	**2,993**	**29,873**
Interest and dividends received	47	**45**	**449**
Interest paid	(371)	**(362)**	**(3,613)**
Income taxes paid	(225)	**(89)**	**(888)**
Net cash provided by (used in) operating activities	1,895	**2,587**	**25,821**
Cash Flows from Investing Activities:			
Purchase of investment securities	(6)	**(27)**	**(269)**
Sale of investment securities	-	**246**	**2,455**
Purchase of property, plant and equipment	(587)	**(1,369)**	**(13,664)**
Sale of property, plant and equipment	946	**163**	**1,627**
Other, net	(101)	**(97)**	**(968)**
Net cash provided by (used in) investing activities	252	**(1,084)**	**(10,819)**
Cash Flows from Financing Activities:			
Increase (decrease) in short-term borrowings	(2,150)	**283**	**2,824**
Proceeds from issuance of long-term debt	1,410	**800**	**7,985**
Repayments of long-term debt	(2,076)	**(2,332)**	**(23,276)**
Issue of bonds	352	-	-
Redemption of bonds	(536)	**(572)**	**(5,709)**
Issue of common stock	800	-	-
Purchase of treasury stock	(1)	**(1)**	**(10)**
Cash dividends	-	**(125)**	**(1,247)**
Other, net	(2)	-	-
Net cash provided by (used in) financing activities	(2,203)	**(1,947)**	**(19,433)**
Effect of exchange rate changes on Cash and Cash Equivalents	9	**253**	**2,525**
Net increase(decrease) in Cash and Cash Equivalents	(47)	**(191)**	**(1,906)**
Cash and Cash Equivalents at Beginning of Period	3,589	**3,542**	**35,353**
Cash and Cash Equivalents at End of Period (Note2(3))	3,542	**3,351**	**33,447**

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

TOWA CORPORATION AND CONSOLIDATED SUBSIDIARIES

1. Basis of presenting Consolidated Financial Statements

TOWA CORPORATION (the ”Company”) and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Corporate Law of Japan and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan (“JPGAAP”), which are different, in certain respects from the application and disclosures and disclosure requirements of International Financial Reporting Standards (“IFRS”).

The Company’s overseas subsidiaries maintain their accounts and records in conformity with generally accepted accounting principles and practices prevailing in their respective countries of domicile.

The accompanying consolidated financial statements of the Company are prepared on the basis of accounting principles generally accepted in Japan, as required by the Securities and Exchange Law of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with the accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader, using the approximate exchange rate at March 31, 2008, which was ¥100.19 to US$1.00. These convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

For the purpose of enhancement of group management, the company decided to unify the financial period for all its subsidiaries. As a result of a change in the fiscal year-end from December 31 to March 31(including assumed settling day for 3 subsidiaries), the accounting term for TOWAM Sdn. Bhd., TOWA Singapore Mfg Pte.Ltd, TOWA-Intercon Technology,Inc., TOWA (Shanghai) Co.,Ltd., TOWA (Suzhou) Co.,Ltd., and TOWA TAIWAN Co., Ltd was 15 months for the year ended March 31, 2008.As a result, sales and operating income for the year ended March 31, 2008 increased by 2,266 million yen($22,617thousand) and 268 million yen($2,675thousand), respectively.

2. Summary of Significant Accounting Policies

(1) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries and affiliates. All significant inter-company transactions, account balances and unrealized profits have been eliminated in consolidation. At March 31, 2008, the year-end of the consolidated subsidiaries matches that of the consolidated financial statements(see note 1).

Shown below are the significant subsidiaries and affiliates of the Company.

Subsidiaries

(All subsidiaries have been consolidated)

Name	Ownership	Country of Incorporation
BANDICK Corporation	100%	Japan
TOWATEC Co., Ltd.	100	Japan
TOWA Service Co., Ltd.	100	Japan
TOWAM Sdn. Bhd.	100	Malaysia
TOWA (Suzhou) Co., Ltd.	100	China
TOWA-Intercon Technology, Inc.	100	The United States of America
TOWA Asia-Pacific Pte. Ltd.	100	Singapore
TOWA (Shanghai) Co., Ltd.	100	China
TOWA TAIWAN Co., Ltd	100	Taiwan
TOWA Semiconductor Equipment Philippines Corporation	100	Philippines
TOWA Europe GmbH	100	Germany
TOWA Singapore Mfg Pte. Ltd.※ 1	100	Singapore

Affiliates

(All affiliates are accounted for by the equity method)

Name	Ownership	Country of Incorporation
TONGIJIN Corporation	35 %	Korea
SECRON Co., Ltd.	23	Korea
TOWA Jipal Technologies Co., Ltd.	40	Taiwan
Scientific and Semiconductor Manufacturing Equipment Recycling Co., Ltd	20	Japan

※１． TOWA Singapore Mfg.Pte.Ltd is in process of liquidation.

※２． Ratio of capital contribution of TONGING Corporation by the Company has been decreased from 50% to 35% by selling off of its shares.

※３． The Board directors of TOWA-Intercon Technology, Inc decided to change its company name as TOWA America Corporation effecive July 1, 2008.

(2) Translation of Foreign Currency Items

In accordance with the Japanese accounting standard, every monetary assets and liabilities denominated in foreign currencies are principally translated into Japanese yen at the exchange rate in effect at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the statements of income.

With respect to financial statements of overseas subsidiaries, the balance sheet accounts are translated into Japanese yen at the exchange rates in effect at the balance sheet date except for shareholders' equity, which are translated at the historical rates. And revenue and expenses are translated at the exchange rate in effect at the balance sheet date. The differences resulting from translation in this manner are included in "Translation adjustments" which is listed in Shareholders' Equity in the accompanying consolidated balance sheets.

(3) Cash and Cash Equivalents

For the purposes of cash flow statements, cash and cash equivalents comprise cash in hand, deposits held at call with banks, net of overdrafts and all highly liquid investments with maturities of three months or less.

Components of cash and cash equivalents as of March 31, 2007 and 2008 are as follows:

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2007	2008	2008
Cash on hand and at banks	¥3,542	¥3,351	$33,446
Less: Time deposits with deposit term of over three months	-	-	-
Cash and cash equivalent at end of year	¥3,542	¥3,351	$33,446

(4) Securities

Securities are classified into four categories.

Categorization and valuation for investments in securities are as follows:-

1. Trading Securities

- Such securities held for the purpose of generating profits from short-term price movements.
- Unrealized gain/loss at the end of period resulting from the valuation by applying the fair value at such date is directly debited/credited to income;
- Such securities are treated in current assets in the balance sheet.

2. Held-to-maturity Debt Securities

- Debt securities whose maturity dates are predetermined and are to be redeemed at par, acquired with intention to hold to their maturity dates;
- The difference between the acquisition cost and the amount expected to gain at maturity is amortized or appreciated over the remaining period to maturity date. The amount amortized or appreciated is charged/credited to income for the respective period as interest expense or interest income, as the case may be.
- Unrealized loss will be required to be charged to income as impairment unless unrealized loss is expected to recover within a reasonable period.

3. Shares in equity of Subsidiaries and Affiliates

- Those securities are carried at cost unless such investment is regarded impaired.

4. Other Securities:

- Such securities other than those categorized in 1 to 3 above;
- Other Securities with market quotation are valued at such market price at the end of period, and those without market quotation are valued at cost.
- Unrealized gain/loss at the end of period resulting from such valuation is charged to shareholders' equity as "Unrealized gain/(loss) on Other Securities" after netting off the deferred income taxes thereto.
- Unrealized loss which it incurred as the fair value is less than 50% of its acquisition cost will be required to be charged to income.
- Unrealized loss which it incurred as the fair value is 30% ~50% of its acquisition cost will be required to be charged to income unless the unrealized loss is expected to recover within a reasonable period.

The moving average method is applied for calculation of the costs of securities.

(5) Inventories

Inventories are mainly stated at the lower of cost or market, the cost being determined by mainly specific identification method for finished products and work-in-process, by mainly moving-average method for raw materials and by the last purchase cost method for supplies.

(6) Allowance for Doubtful Accounts

The Company and its domestic subsidiaries have provided the allowance based on the past uncollectible receivable experience for a certain reference period. Furthermore, for receivables which are from the debtors with financial difficulty, the allowance is provided for estimated unrecoverable amounts individually. Overseas subsidiaries have provided an allowance for doubtful accounts in the estimated amounts of possible bad debts.

(7) Property, Plant and Equipment

Property, plant and equipment are stated at cost.

Depreciation for property, plant and equipment of the Company and its domestic subsidiaries is calculated by applying declining-balance method, except for buildings acquired on and after April 1, 1998 which are applied the straight-line method, over the estimated useful lives.

The principal estimated useful lives are as follows:

Buildings and structures	2	～	50	years
Machinery and equipment	2	～	10	years

Depreciation for those of overseas subsidiaries is computed by the straight-line method in accordance with the regulations of respective domicile countries.

Pursuant to revision of the Corporation Tax Law, the Company and its domestic subsidiaries have changed their method of depreciating assets acquired on or after April 1, 2007, to confirm to revised law. As a result, operating income and income before income taxes for the year ended March 31, 2008 decreased by 21 million yen($210 thousand), respectively.

The Company and its domestic consolidated subsidiaries also depreciate the difference between 5% of the acquisition cost of asset acquired on or before March 31, 2007 and the memorandum value uniformly over a five-year period, starting the year following the fiscal year in which the depreciated value of said assets reaches 5% of the acquisition cost of assets using the pre-amendment depreciation method. As a result, operating income and income before income taxes for the year ended March 31, 2008 decreased by 38 million yen($379 thousand), respectively.

(8) Derivatives

The Company has entered into foreign exchange agreements and interest rate agreements to hedge the fluctuation of foreign currency and interest rate exposures, and not for speculative purposes. The instruments include foreign currency forward contracts and interest rate swap agreements.

These instruments were accounted by the deferral hedge accounting. The Company has accounted for foreign currency forward contracts by the designation accounting, and accounted for interest rate swap agreements by the exception accounting.

(9) Product Warranties

The Company has accounted for the estimate amounts of maintenance expenses as the product warranties, which corresponded to the sales based on the prior track record for the outcome of maintenance expenses of the sold products during the period of warranty.

As of March 31, 2008, the liability for expected warranty costs was 72 million yen ($719 thousand) .

(10) Accrued Bonus for Directors

The Company and its subsidiaries provide for accrued bonuses to directors for the expected payment of directors' bonuses for the current fiscal year to those directors serving at the end of the fiscal year.

Effective from the year ended March 31, 2007, the Company applied "Accounting standard for directors' bonus" (Accounting Standard Board of Japan Statement No.4 issued on November 29, 2005 by the Accounting Standards Board of Japan).

As a result of the application of this standard, operating profit, ordinary income and income before income taxes for the year ended March 31, 2007 decreased by ¥26 million($260 thousand), respectively.

(11) Accrued Severance Indemnities

Employees who terminate their service with the Company and its domestic subsidiaries are under most circumstances, entitled to lump-sum severance indemnities determined by reference to current basis rates of pay, length of service and conditions under which the terminations occur.

Accrued severance indemnities are provided based on the amount of projected benefit obligation less pension plan assets at fair value at the end of the annual period.

(12) New bond issue expense

The Company record the expenses incurred relating to new bond issues to be charged to income.

(13) New share issue expense

The Company record the expenses incurred relating to new share issues to be charged to income.

(14) Research and Development Costs

Research and development expenditure is charged to income when incurred.

Expenditure relating to computer software developed for internal use is charged to income when incurred, except if it contributes to the generation of income or to future cost savings. Such expenditure is capitalized as an asset and is amortized using the straight-line method over its estimated useful life, which is within 5 years.

(15) Leases

Finance leases arrangements entered into by the Company and its domestic subsidiaries, other than those, which are deemed to transfer the ownership of the leased assets to lessees, are accounted for by the method similar to that applied to ordinary operating leases. For overseas subsidiaries, property leased under the capital lease arrangement is record as property, plant, equipment and other assets in the accompanying consolidated balance sheets.

(16) Income Taxes

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local taxes and enterprise taxes. Enterprise taxes are deductible when paid for the computation of other taxes.

Deferred income taxes are recognized using the asset and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements.

(17) Appropriation of Retained Earnings

Under the Japanese Corporate Law and the Articles of Incorporation of the Company, the appropriation of retained earnings or disposition of accumulated deficit could be adopted by the Board of Directors. The appropriations of retained earnings reflected in the accompanying consolidated financial statements include the results of such appropriations applicable to the immediately preceding financial year as approved by the Board of Directors, and effected, during the relevant year. Dividends are paid to shareholders on the shareholders' register as at the end of each financial year.

(18) Per Share Information

Net income per share and diluted net income per share are computed based on the weighted-average number of shares of common stock outstanding during each year and stock splits are reflected in the calculation of the weighted-average number of shares of common stock.

Cash dividend per share is the total of the per-share amounts of interim cash distribution and the year-end cash dividends for the income of the respective financial periods.

3. Securities

(1) The following is a summary of investments in affiliates and other securities at March 31, 2007:

	Millions of yen			
	2007			
Other securities:	Cost	Unrealized gains	Unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities……….	¥1,016	¥1,023	¥4	¥2,035
	¥1,016	¥1,023	¥4	¥2,035
Market value not available:				
Equity securities……….	212	-	-	212
Other securities total…..	¥1,228	¥1,023	¥4	¥2,247

Investments in affiliates:	Millions of yen
	2007
	Book Value
Market value not available:	
Equity securities……...	¥1,170
	¥1,170
Total	¥3,417

(2) The following is a summary of investments in affiliates and other securities at March 31, 2008

	Millions of yen			
	2008			
Other securities:	Cost	Unrealized gains	Unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	¥1,042	¥ 634	¥52	¥1,624
	¥1,042	¥ 634	¥52	¥1,624
Market value not available:				
Equity securities	7	-	-	7
Other securities total	¥1,049	¥ 634	¥52	¥1,631

Investments in affiliates:	*Millions of yen*
	2007
	Book Value
Market value not available:	
Equity securities……..	¥1,415
	¥1,415
Total	¥3,046

	Thousands of U.S. dollars (Note 1)			
	2008			
Other securities:	Cost	Unrealized gains	Unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	$10,400	$6,328	$519	$16,209
	$10,400	$6,328	$519	$16,209
Market value not available:				
Equity securities	$ 70	-	-	$ 70
Other securities total	$10,470	$6,328	$519	$16,279

Investments in affiliates:	*Thousands of U.S. dollars (Note 1)*
	2008
	Book Value
Market value not available:	
Equity securities	$14,123
	$14,123
Total	$30,402

4. Short-term Borrowings and Long-term Debt

Short-term borrowings represent loans from banks and an insurance company. The annual average interest rates applicable to short-term borrowings at March 31, 2007 and 2008 are 3.0% and 2.5%, respectively.

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

	Millions of Yen		Thousands of U.S. dollars (Note 1)
	2007	2008	2008
Borrowings from financial institutions	¥6,526	¥4,977	$49,676
1.0% Yen Bonds due 2010	700	500	4,991
1.1% Yen Bonds due 2011	400	300	2,994
1.0% Yen Bonds due 2011	800	600	5,989
1.6% Yen Bonds due 2011	324	252	2,515
Long-term installment payment for Purchase of machinery and equipment	155	83	828
Capital lease payable	2	-	-
Less: Portion due within one year	(2,900)	(2,585)	(25,801)
	¥6,007	¥4,127	$41,192

The aggregate annual maturity of long-term debt after March 31, 2008 is summarized as follows:

Years ending March 31,	Millions of Yen	Thousands of U.S. dollars (Note 1)
2009	¥1,976	$19,723
2010	1,792	17,886
2011	359	3,583
2012 and thereafter	-	-
	¥4,127	$41,192

The Company's assets pledged as collateral for short-term borrowings and long-term debt were as follows:

	Millions of Yen		Thousands of U.S. dollars (Note 1)
	2007	2008	2008
Principal of debt:			
Short-term borrowings	¥ 170	¥ 70	$ 699
Portion due within one year	606	425	4,242
Long-term borrowings	443	18	180
	¥1,219	¥ 513	$5,121
Assets pledged as collateral:			
Land	¥2,586	¥2,375	$23,705
Buildings	3,455	2,747	27,418
	¥6,041	¥5,122	$51,123

Regarding loan payables, the syndicate loan contract with limit of ¥4,000 million yen($39,924thousand) and commitment line contracts with limits of ¥ 2,500 million yen ($ 24,953 thousand), respectively include financial covenant terms. The contractor triggers acceleration and is enforced to repay the full principal and interest if the contractor breaches either of the following terms.

(Financial covenant terms included in the syndicated loan contract and commitment line contract)

(1) The amount of shareholder's equity on the consolidated and non-consolidated balance sheets at the end of each fiscal year and each semiannual period must be maintained at 60 % or more of the same respective period in the previous year, and 60 % or more of the shareholder' equity on the consolidated and non-consolidated balance sheet of the fiscal year ended March 31, 2004.

(2) The ordinary losses in both consolidated and non-consolidated statements of income for each fiscal year must not be existed in two successive periods after the fiscal year ended March 31, 2005.

5. Accrued Severance Indemnities for employees

The following tables set forth the changes in benefit obligation, plan assets and funded status of the Company and its subsidiaries at March 31, 2007 and 2008.

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2007	2008	2008
Projected benefit obligation at end of year	¥1,485	¥1,556	$15,530
Fair value of plan assets at end of year	792	748	7,466
Funded status:			
Benefit obligation in excess of plan assets	693	808	8,064
Unrecognized actuarial loss	(19)	69	688
Accrued pension liability recognized in the Consolidation balance sheets	¥712	¥739	$7,376

Note: Some subsidiaries adopted the alternative method of accounting for retirement benefit allowable for small business entity under the new accounting standards.

Severance and pension costs of the Company and its subsidiaries included the following components for the year ended March 31, 2007 and 2008.

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2007	2008	2008
Service cost	¥136	¥122	$1,218
Interest cost	26	26	259
Expected return on plan assets	(16)	(6)	(60)
Actuarial losses	(15)	(3)	(30)
Net periodic benefit cost	¥131	¥139	$1,387

Assumption used in the accounting for the defined benefit plans for the year ended March 31, 2007 and 2008 are as follows:

	2007	2008
Method of attributing benefit to periods of service	Straight –line basis	Straight –line basis
Discount rate	2.0%	2.0%
Long-term rate of return on fund assets	2.2%	0.7%
Amortization unrecognized projected Benefit obligation at the date of transition	-	-
Amortization period for actuarial losses	15years(declining-balance basis)	15years(declining-balance basis)

6. Shareholders' Equity

Under the Japanese Corporate Law the appropriation of retained earnings or disposition of accumulated deficit could be adopted by the Board of Directors.

The Japanese Company Law requires that amounts equal to 10% of interim cash dividend and 10% or more of cash dividends and other appropriations of retained earnings paid out with respect to each financial period be set aside in the legal reserve until an aggregate amount of additional paid-in capital and the legal reserve equals 25% of the amount of stated capital. The amount of total additional paid-in capital and legal reserve which exceeding 25% of stated capital can be transferred to retained earnings by a resolution of the shareholders, which may be available for dividends.

Under the Japanese Corporate Law, although the entire amount of the issue price of new shares is required to be accounted for as common stock a company may, by resolutions of its Board of Directors, account for an amount not exceeding one-half of the issue price of such new shares as additional paid-in capital.

Effective from the year ended March 31, 2007, the Company has applied "Accounting standards for presentation of net assets in the balance sheet (Accounting Standards Board of Japan Statement No.5)", and "Implementation guidance for Accounting standards for presentation of net assets in the balance sheet (Accounting Standards of Japan Guidance No.8)" both issued by the Accounting Standard Board of Japan on December 9, 2005.

7. Research and Development Costs

Research and development costs charged to income for the years ended March 31, 2007 and 2008 were ¥357million and ¥747million ($7,456 thousand), respectively.

8. Loss on subsidiaries liquidation

The contents of loss on subsidiaries liquidation are losses on liquidation of TOWA Singapore Mfg.Pte.Ltd. TOWA Singapore Mfg.Pte.Ltd is in process of liquidation.

9. Income Taxes

The company is subject to a number of different income taxes, which in the aggregate, result in a statutory tax rate in Japan of approximately 39.8% for the years ended of March 31, 2007 and 2008.

Reconciliation between the Japanese effective statutory tax rate and the Company's tax rate is as follows:

	2008	
Statutory tax rate…………………………….	39.8	%
Non-deductible expenses..........................	0.7	
Differences in tax rate between foreign subsidiaries and the Company…………..	(2.1)	
Loss on decrease of valuation reserve…...	(37.6)	
Other,net……………………...................	1.3	
Effective income tax rate	2.1	

The deferred tax assets and deferred tax liabilities at March 31, 2007 and 2008 are as follows:

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2007	2008	2008
Deferred tax assets:			
Inventory write down	¥512	¥243	$2,425
Impairment loss of fixed assets	751	691	6,897
Retirement and severance benefits	239	249	2,485
Net operating loss carried forward	2,830	2,269	22,647
Other, net	1,045	932	9,302
Valuation Allowance	(5,310)	(4,300)	(42,918)
	67	84	838
Deferred tax liabilities:			
Special tax purpose provision	(5)	-	-
Other, net	(397)	(255)	(2,545)
	(402)	(255)	(2,545)
Net deferred tax assets/(liabilities)	¥(335)	¥(171)	$(1,707)

10. Leases

The Company and its consolidated subsidiaries and equity method affiliates have been utilizing finance lease arrangements other than those deemed to transfer the ownership of the leased property to the lessee to employ certain machinery and equipment.

Total lease payments for such lease arrangements for the year ended March 31, 2007 and 2008 are ¥21million and ¥12 million ($120 thousand), respectively.

Summarized below are the pro forma information on acquisition costs, accumulated depreciation and future minimum lease payments for the property held under such lease as mentioned above:

As of March 31, 2007

Millions of yen

	Machinery And Equipment	Software	Other	Total
Acquisition costs	¥ -	¥ 5	¥42	¥ 47
Accumulated Depreciation	-	5	24	29
Net leased property	¥ -	¥ 0	¥18	¥ 18

As of March 31, 2008

Millions of yen

	Machinery And Equipment	Software	Other	Total
Acquisition costs	¥ 7	¥ -	¥34	¥41
Accumulated Depreciation	1	-	26	27
Net leased property	¥ 6	¥ -	¥ 8	¥14

Thousands of U.S. dollars (Note 1)

	Machinery And Equipment	Software	Other	Total
Acquisition costs	$70	$ -	$339	$409
Accumulated Depreciation	10	-	260	270
Net leased property	$60	$ -	$ 79	$139

Future minimum lease payments as of March 31, 2007 and 2008:

	Millions of yen 2007	*Millions of yen* 2008	*Thousands of U.S. dollars (Note 1)* 2008
Due within one year	¥10	¥ 7	$70
Due after one year	8	7	70
Total	¥18	¥14	$140

Depreciation is calculated by the straight-line method on the assumption that the term of the lease is useful life of the relevant leased asset and residual value is zero.

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, would have been ¥21 million and ¥12 million ($120 thousand) for the year ended March 31, 2007 and 2008, respectively.

11. Contingent Liabilities

The Companies have no significant contingent liabilities.

12. Segment Information

(1) Segment by products

Year ended March 31, 2007 *Millions of Ｙen*

	Semiconductor equipment	Fine plastic mold	Elimination/ Unallocated Assets	Consolidated
Ⅰ.Sales and operating income				
Net sales to customers	¥23,628	¥1,532	¥ -	¥25,160
Inter-segment sales	-	-	-	-
	23,628	1,532	-	25,160
Cost of sales and Operating expenses	22,591	1,345	-	23,936
Operating income	¥1,037	¥187	¥ -	¥1,224
Ⅱ.Assets				
Total assets	¥33,611	¥1,315	-	¥34,926
Depreciation and amortization	¥1,030	¥115	-	¥1,145
Capital expenditure	¥578	¥126	-	¥704

Year ended March 31, 2008				*Millions of Yen*
	Semiconductor equipment	Fine plastic mold	Elimination/ Unallocated Assets	Consolidated
Ⅰ.Sales and operating income				
Net sales to customers	¥ 24,440	¥1,314	¥ -	¥25,754
Inter-segment sales	-	-	-	-
	24,440	1,314	-	25,754
Cost of sales and Operating expenses	22,255	1,118	-	23,373
Operating income	¥ 2,185	¥ 196	¥ -	¥ 2,381
Ⅱ.Assets				
Total assets	¥ 33,252	¥ 1,108	-	¥ 34,360
Depreciation and amortization	¥ 1,134	¥ 94	-	¥ 1,228
Capital expenditure	¥ 1,424	¥ 84	-	¥ 1,508

Year ended March 31, 2008		*Thousands of U.S. dollars (Note 1)*		
	Semiconductor equipment	Fine plastic mold	Elimination/ Unallocated Assets	Consolidated
Ⅰ.Sales and operating income				
Net sales to customers	$243,937	$13,115	$ -	$257,052
Inter-segment sales	-	-	-	-
	243,937	13,115	-	257,052
Cost of sales and Operating expenses	222,128	11,159	-	$233,287
Operating income	$21,809	$1,956	$ -	$23,765
Ⅱ.Assets				
Total assets	$331,889	$11,059	-	$342,948
Depreciation and amortization	$ 11,318	$ 938	-	$ 12,256
Capital expenditure	$ 14,213	$ 838	-	$ 15,051

(2) Segmented by geographical location of activities

Year ended March 31, 2007 — *Millions of Yen*

	Japan	Asia	North America	Others	Elimination/ Unallocated Assets	Consolidated
Ⅰ.Sales and operating income						
Net sales to customers	¥21,273	¥ 548	¥3,306	¥33	¥ -	¥25,160
Inter-segment sales	238	6,227	855	56	(7,376)	-
	21,511	6,775	4,161	89	(7,376)	¥25,160
Cost of sales and Operating expenses	19,672	6,392	5,015	77	(7,220)	23,936
Operating income(loss)	¥ 1,839	¥ 383	¥(854)	¥12	¥ (156)	¥ 1,224
Ⅱ.Assets	¥31,290	¥ 5,761	¥2,829	¥97	¥(5,051)	¥34,926

Year ended March 31, 2008 — *Millions of Yen*

	Japan	Asia	North America	Others	Elimination/ Unallocated Assets	Consolidated
Ⅰ.Sales and operating income						
Net sales to customers	¥23,818	¥1,682	¥226	¥28	¥ -	¥25,754
Inter-segment sales	287	6,865	839	74	(8,065)	-
	24,105	8,547	1,065	102	(8,065)	¥25,754
Cost of sales and Operating expenses	22,382	7,863	1,160	91	(8,123)	23,373
Operating income (loss)	¥ 1,723	¥ 684	¥(95)	¥11	¥58	¥ 2,381
Ⅱ.Assets	¥33,265	¥6,253	¥1,432	¥90	¥(6,680)	¥34,360

Year ended March 31, 2008 — *Thousands of U.S. dollars (Note 1)*

	Japan	Asia	North America	Others	Elimination/ Unallocated Assets	Consolidated
Ⅰ.Sales and operating income						
Net sales to customers	$237,728	$16,788	$2,256	$280	$ -	$257,052
Inter-segment sales	2,865	68,520	8,374	739	(80,498)	-
	240,593	85,308	10,630	1,019	(80,498)	$257,052
Cost of sales and Operating expenses	223,396	78,481	11,578	908	(81,076)	233,287
Operating income (loss)	$ 17,197	$ 6,827	$ (948)	$ 111	$ 578	$ 23,765
Ⅱ.Assets	$332,019	$62,411	$14,293	$ 898	$(66,673)	$342,948

(3) Sales by region

Year ended March 31	Millions of Yen 2007	Millions of Yen 2008	Thousands of U.S. dollars (Note 1) 2008
Japan	¥ 7,653	¥ 6,925	$69,119
Overseas			
Asia	16,743	18,020	179,858
North America	543	654	6,528
Other	221	155	1,547
Overseas total	17,507	18,829	187,933
Consolidated sales	¥25,160	¥25,754	$257,052

13. Related party transaction

In the financial year ended March 31, 2007

(1) Directors and Individual Major Shareholders

Relationship	Name	Holding rate of Voting rights	Type of Transaction (Notes)	Amounts of transaction	
				(*Millions of Yen*)	*(Thousands of U.S. dollars)*
Chairman and CEO of the Company	Kazuhiko Bandoh	8.4%	Acceptance of new stock issue	¥800	$6,777

Notes

New stock issue is allocation of new shares to a third party which was approved at the meeting of board of directors of the Company on March 31 2006.

Corporate Information

as of June 27, 2008

Corporate Data

Corporate Name:	TOWA CORPORATION
Headquarters/Factory:	5 Kamichoshi-cho, Kamitoba, Minami-ku, Kyoto 601-8105, Japan
Eatablished:	April 17, 1979
Operations:	Develop, design, manufacture, and sell precision molds, manufacturing systems for electronic components, inspection systems for electronic components, precision-molded and assembly products, medical-use equipment, and electronic-communications equipment. Other related business.
Paid-in Capital:	¥8,932,627,777
Common Stock	
Authorized:	80,000,000
Issued Number of Shares:	25,021,832
Unit for Trading:	100
Stock Listings:	First Section of the Tokyo Stock Exchange First Section of the Osaka Securities Exchange
Transfer Agents:	Mizuho Trust & Banking Co., Ltd
Fiscal Year:	From April 1 to March 31
Number of Employees:	455
URL:	http://www.towajapan.co.jp
Subsidiaries and Affiliated Companies:	BANDICK Corporation TOWATEC Co., Ltd. TOWA Service Co., Ltd. TOWAM Sdn. Bhd. TOWA Asia-Pacific Pte. Ltd. TOWA Semiconducter Equipment Philippines Corporation TOWA America Corporation TOWA Europe GmbH TOWA (Shanghai) Co., Ltd. TOWA (Suzhou) Co., Ltd. TOWA TAIWAN Co., Ltd. TONGJIN Corporation SECRON Co., Ltd. TOWA-Jipal Technologies Co., Ltd. Scientific and Semiconductor Manufacturing Equipment Recycling Co., Ltd.

Board of Directors

Chairman & CEO
Kazuhiko Bandoh

President & COO
Yoichi Kawahara

Directors
Hisao Nishimura
Hirokazu Okada
Makoto Fukutomi
Kiyoshi Osaki

Standing Corporate Auditor
Tsutomu Shirayama

Coporate Auditors
Masanori Sugiyama
Katsuhiro Umeyama

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