December 26, 2007

Findings of the Investigation into Improper transactions and their Impact on our Earnings

As per our release dated December 17, 2007 regarding "Incidence of improper transactions," upon discovery of the improper transactions by the former sales manager of our Plastics Division II, Inabata & Co., Ltd. (the "Company") has established an investigative committee in order to thoroughly investigate all of the facts. The Company hereby announces the findings of the investigation conducted by its investigative committee, which were reported to its board of directors today, as well as the extent of the impact that this case will have had on its earnings for the year ending March 31, 2008.

Please note that the Company today revised its "Interim Financial Results for Fiscal Year Ending March 2008" which was published November 14, 2007. Please consult the "Notice Concerning Partial Revision of Interim Financial Results for Fiscal Year Ending March 2008" for the details of these revisions.

1. How the incident was discovered

(1) Since April 2007, receivables due from a business partner (hereinafter "Company A") held by the Film & Polymer Products Group of the Plastics Division II and the inventories of goods from Company A have been observed to significantly increase. As a result, at an in-house credit conference held in October 2007, we concluded that an in-depth investigation of the facts of transactions with said partner was needed as a condition for recognition of the increased amount of credit.

In response, our Risk Management Office and other units launched an investigation of the financial situation of the partner. As the investigations progressed, they unearthed various other points of suspicion, and we consequently conducted interviews with and collected documents from the partner and the sales manager. In the process, the partner and the manager decided to make a confession and divulge the facts of the transactions to our executive officer on December 11, 2007, in the belief that it would be hard to continue engaging in them any longer.

(2) Course of events following the discovery up until this day
Upon discovery of the improper transactions, the Company commenced an internal investigation on December 12, 2007 in order to ascertain all of the facts regarding the transactions in question. As the investigation proceeded, suspicions were raised that the former sales manager had made falsified reports to the Company concerning Company A's credit status. Another suspicion was raised regarding the possibility of the Company's inventories being disposed of by Company A without its permission which, it was decided, would result in greater exposure to Company A. Since this could result in a significant impact on its earnings via the recording of provisions for bad loans, the Company issued a release concerning "Incidence of improper transactions" as of December 17, 2007.

On the same day as the release, the Company established a "investigative committee," which is chaired by the President and includes outside members as well, since it is believed necessary to not only ascertain whether there has been such improper transactions or not, but also conduct detailed investigations and analysis of how and why such improper transactions, if any, occurred, and encourage every member of the Company to ensure recurrence prevention.

The investigative committee comprises: President (chair); Director, Senior Managing Executive Officer; General Manager, Internal Audit; General Manager, Risk Management; General Manager, Finance; and three outside members including two outside corporate auditors and one attorney.

The investigative committee is responsible for investigation and review of the following and reporting its findings to the board of directors (The committee today reported its findings on items (i.) through (iv.)).

i. To establish the timeframe and finances involved in the improper transactions
ii. To assess the extent of impact on our financial statements and earnings
iii. To elucidate the background, causes, and motives that led to the improper transactions
iv. To identify those involved in the improper transactions
v. To elucidate factors behind the failure to prevent the improper transactions and shortcomings in our internal control and management
vi. To draw up a recurrence prevention plan

(3) Details of the improper transactions

i. Timeframe

July – October 2007

ii. Nature of the improper transactions

Between July and September 2007, the former sales manager of the Film & Polymer Products Group conducted a falsified transaction (falsified stocking without actual movements of goods) in an attempt to finance Company A. In so doing he recorded inventories excessively and, in order to reduce the inflated inventories, recorded falsified sales between July and October 2007.

2. Impact on financial statements and earnings

(1) Monetary amount involved in the improper transactions

Based on the investigations that have been conducted following the initial report of a rough estimate in the December 17 release regarding “Incidence of improper transactions,” the final amount has been determined as follows:

i. Excessive amount of inventories posted: 370 million yen as of September 30, 2007
ii. Amount of fictional sales posted: 252 million yen during the first half of the fiscal year ending March 2008
28 million yen after the beginning of the second half of the fiscal year ending March 2008 (October 2007)

Gross profits from falsified sales totaled 8 million yen. As a result of the falsified sales, accounts receivable were recorded in the Company’s books, and were subsequently received (approximately 30 million yen as of September 30, 2007). Company A used funds it raised separately for payment, and the Company’s accounts receivables have already been collected.

The amount of excess inventories recorded in i) above includes the amount attributed to falsified stocking and that attributed to inventories that effectively became "falsified" as they were disposed of without the Company's permission. Transactions related to ii) are all falsified, without any actual goods to be traded. In order to correct the amount of income reported on the basis of these falsified assets and transactions, the Company has revised its financial statements for April 1 – September 30, 2007, which was announced earlier.

(2) Investigation procedure that established the above facts

Following the report by Company A and the former sales manager to a competent officer on December 11, 2007, the suspicion was raised as to the possibility of part of the Company's inventories being falsified. Accordingly, the Company set about clarification of the case under the lead of its Risk Management.

The following are chronological accounts of the investigation into how the false inventories were fabricated and the finances involved.

December 11: Following a report from the former sales manager, the possibility surfaced of the existence of false inventories.

December 13: The Risk Management General Manager interviewed the former sales manager and a salesperson involved so as to confirm how the falsified stocking was carried out. The interviews confirmed that on July 25, 2007 the former sales manager used a "warehouse code application" to set a falsified warehouse code which would be needed for the falsified stocking. It is assumed that he created this falsified warehouse code because having a separate code would make it easy to manage false inventories. It also became clear that, under the direction of the former sales manager, the address of Company A's headquarters was used as the registered address of the warehouse. The Accounting Group confirmed that falsified stocking was recorded on that same day.

December 14: In order to determine the appraisal value of its inventories, the Company made an inquiry to one of the warehouse companies that Company A used, who claimed that the inventories there were not recognized as the Company's assets. It was also revealed that an inventory certificate that the Company had acquired was not an original but was in fact prepared and sent by Company A (the warehouse company kept the original). Another suspicion was raised that the inventory certificate issued by Company A may have been forged.

December 15 – 16: Inventory certificates as of September 30 and November 30 were acquired again from the warehouse companies that Company A used. Two main warehouse companies were visited to compare the inventory certificate as of November 30 with their inventory data, leading to the conclusion that the data on the newly acquired inventory certificates (issued by the warehouse companies) were reliable.

December 16: The Risk Management General Manager visited Company A with the salesperson that was involved in the case. Discussions with Company A's president, officers, and others concerned confirmed that the financial statements submitted to the Company were false.

December 17 – 21: Risk Management and the Accounting Group compared the Company's books as of September 30 with the warehouse companies' inventory certificates whose reliability had been verified, thus confirming that the value of the false inventories as of September 30 could be estimated at 370 million yen.

Other measures that have been taken for the investigation of the case are as follows:

1. To individually interview all members of the Film & Polymer Products Group (other than the former sales manager and salesperson involved in the case) in order to verify consistency among their testimonies
2. To individually interview friends of the former sales manager and members of other groups within the Company that have business interactions with the Film & Polymer Products Group in order to verify all of the facts
3. To verify evidence of past transactions with Company A
4. To analyze the operational flow of the to determine when the flow of the transactions in question commenced
5. To visit Company A, acquire copies of their accounting documents, including those on sales, purchasing, and general ledgers, and check such documents against the Company's books
6. To investigate the former sales manager's email communications
7. To retroactively analyze data on the Film & Polymer Products Group's expenses (entertainment, charges and commissions) from the past several years
8. To inspect Company A's financial condition once again in order to re-examine the possibility of collecting receivables

(3) Monetary impact on our result

With the revisions to sales and inventories described in (1) above, gross profits have decreased by eight million yen on both consolidated and non-consolidated business results for Fiscal Year Ending March 2008. Since the Company is entitled to claim for compensation from Company A as a result of their disposal of its inventories without permission, the amount of accounts receivable is expected to increase. Based on the assessment of the collectibility of receivables from Company A, it has been decided that a 1,080 million yen extraordinary loss in the provision for credit losses be recorded on both consolidated and non-consolidated business results for Fiscal Year Ending March 2008. With these revisions, the Company has revised its "Interim Financial Results for Fiscal Year Ending March 2008." For more details, please consult the "Notice Concerning Partial Revision of Interim Financial Results for Fiscal Year Ending March 2008" dated today. The investigations have confirmed that there is no need to adjust financial statements of the year ended March 31, 2007 or prior.

3. Persons involved in the improper transactions

(1) The following two persons were involved in the improper transactions

- A former sales manager
- A salesperson that reported to the former sales manager

It is assumed that it was primarily the former sales manager who played a leading role, while the salesperson dealt with more practical business under the instructions of the former sales manager, even though he was fully aware of the improperness of the transactions.

(2) Whether the transactions were conducted systematically

i. Organization(s) involved in the improper transactions

The former sales manager who reported on the improper transactions was supervising the Film & Polymer Products Group. Of the eleven members, including this manager and two temporary employees, five belonging to the Sports Materials Team have just been transferred from another company following the transfer of business from that company in April 2007. Such being the case, their customer sectors, list of customers, and business practices are completely different from those of the Film & Polymer Products Group, and so they had nothing to do with the improper transactions in question.

ii. Methodology of the investigation

All of the six members (including the manager) of the Film & Polymer Products Group were interviewed individually, excluding the five who belong to the Sports Materials Team. A General Manager of the Plastics Division II to whom the former sales manager reported to, concurrently Managing Executive Officer in charge of the Division, was also interviewed.

Three salespersons including the former sales manager in the Film & Polymer Products Group were involved in transactions with Company A. One of these salespeople is stationed in Tokyo and is constantly kept busy serving customers in the Tokyo area. Evidence gathered from the others interviewed supports the assumption that this person was not directly involved in or informed of the transactions in question. It was thus concluded that this person was not involved in the improper transactions.

One member of the Film & Polymer Products Group is responsible for delivery, as well as document processing and bookkeeping. With responsibilities being limited to supplementary ones, this person was expected to handle such routine jobs in a businesslike manner under the instructions of the former sales manager and his salespersons. It was thus concluded that this person was also not informed of the improper transactions.

An interview with the General Manager, concurrently Managing Executive Officer in charge of the Division, revealed that he was not aware of the case until he was informed by the former sales manager and the president of Company A on the evening of December 11, 2007 concerning the truth of the affairs. Although he is not immune from blame for having not fulfilled his responsibility to supervise the Division, it was concluded that he was not involved in the improper transactions.

The facts described above coincided with the statements provided by the former sales manager and the salesperson who were involved in the improper transactions.

In addition, the former sales manager and the salesperson were often witnessed to close themselves off in a conference room for unspecified discussions between November and December 2007, a time when things had become tense.

Putting these circumstances into perspective, it was concluded that the improper transactions were put into practice by the former sales manager and the salesperson under the former manager’s own judgment, and that no evidence of further systematic involvement could be found.

4. Background and motives behind the improper transactions

(1) Background and motives

Since the Company began its film business later than other trading companies, there was a shortage of people within the Company who were well versed in this business. Because of this the Film & Polymer Products Group was first placed under the Plastics Division I and then transferred to the Plastics Division II, and the business was left entirely to the discretion of a limited number of people, including the former sales manager who had been a full-time member of the Group since its inception.

Since he was assigned a position at the Plastics Division I when joining the Company, the former sales manager earned a high merit rating; however, his sales records had became sluggish since being placed in charge of the then newly-launched film business. And so he intended to improve his performance by helping one of the partners – Company A – to develop.

Company A, on the other hand, is a plastics manufacturer who has unique production engineering in this field, but has suffered a chronic shortage of funds for several years.

It is assumed that the improper transactions occurred as a result of the ulterior motives of the former sales manager and the circumstances of Company A, which have been described above.

(2) Cover-up

From the second half of 2006, Company A seems to have often had serious financial difficulties. Around May 2007, cases began to occur where the Company sold its own goods that were in the custody of Company A to customers, only to find that the goods that are on its inventory list and should have been there did not in fact exist. Being suspicious, the former sales manager and the salesperson visited Company A and questioned the president of Company A, who confessed that the goods, which the Company believed it had purchased, had in fact been diverted without the Company's permission to the black market. For the sake of self-protection, it is assumed, the former sales manager covered up this fact for fear that the incident would come to light, rather than reporting the same to his boss, and conducted diversionary maneuvering with Company A, including falsification of the inventory balance. It is also assumed that, as a part of his cover-up process, between July and September 2007 he recorded falsified stocking with no actual goods to be purchased, thus financing Company A. In order to reduce the seemingly inflated inventories, he also posted falsified sales.

The series of investigations did not find any evidence of personal embezzlement of money or the like.

5. Discipline of those involved

Based upon the facts established above, the Company plans to deal strictly with the two persons who were directly involved in the transactions following internal personnel affairs procedures. In light of the gravity of the circumstances, the Company also plans to give appropriate discipline to its officers in order to clarify their management responsibilities.

Discipline of the officers and others involved will be decided upon in the following manner: an advisory panel comprising outside members only (two outside corporate auditors and one attorney) will deliberate disciplinary proposals as requested, and present the same to the board of directors of the Company, who will decide upon their discipline with maximum respect being given to the proposals. Their discipline will be announced as soon as it has been decided.

6. Recurrence prevention

The Company believes that it is a company-wide task to further proceed with the building of an infallible internal control system, once again encourage a sense of law-abiding conscientiousness in every employee, and base management on compliance, so that such an incident will not happen again.

Based on the facts reported today, the investigative committee plans to identify any shortcomings in our internal control and business management, which were unable to prevent the improper transactions, and devote itself to examining effective measures for improvement, which will be published as soon as they have been made available.