

OAK CAPITAL ANNUAL REPORT 2008

(April 1, 2007 ~ March 31, 2008)



Dear Shareholder,

First and foremost, I would like to express my deep gratitude for your continuing support and patronage. I am pleased to present herewith the annual report of Oak Capital for the 147th Term (April 1, 2007 ~ March 31, 2008).

During the period under review, the Japanese economy was marked by growing concerns over a general business downturn as reverberations within the financial markets - such as those caused by rising gasoline and materials prices and the subprime mortgage loan turmoil - spilled over into the real economy.

Against that backdrop, fund raising by investment trust funds continues to stagnate and M&A activities, which have escalated during recent years on a global scale, are also on the ebb.

In this unfavorable business environment, Oak Capital posted a consolidated net loss and had to put off dividend payments in spite of capital gain realized through fairly large exit realizations (investment recovery) such as the stock transfer of Dyflex Co., Ltd. A primary factor in the negative operating performance for the period under review is the appraisal loss incurred following corporate failure of some of our portfolio companies. I wish to take this opportunity to once more offer my heartfelt apologies to all our shareholders and investors for having caused a great deal of anxiety and inconvenience.

Due to the very nature of Oak Capital's core investment business, operating performance tends to be easily swayed by fluctuations in the stock price or enterprise value of our investment recipient companies. Furthermore, the number of exit realizations and the total amount recouped on investments may substantially differ per business term. The impracticability to achieve profit equalization over the short term is a distinctive feature of our business.

It is a source of real regret that we were unable to generate sufficient profits to compensate for the consolidated net loss due to the lack of substantial exit realizations apart from the Dyflex transaction.

Henceforth, Oak Capital Group will strive to deal with the issue of widely fluctuating performance head-on, restore growth and earning power by establishing stable cash-flow generating business lines and reorganizing its managerial structure based on the new, three-year Medium-Term Management Plan which took effect from April 1, 2008.

I thank all shareholders for their continuing support and encouragement. Please be assured of maximum effort from everyone at Oak Capital to achieve the goals of our three-year Medium-Term Management Plan.

June 2008

Hiroyasu Takei
Representative Director, Chairman and CEO

Medium-term Management Plan (April 1, 2008 ~ March 31, 2011)

Medium-term Managerial Vision

As we push on with the three-year Medium-Term Management Plan starting this Fiscal Year 2009, we are striving to reinforce our managerial base and restore growth and profitability through the launch of new business operations capable of generating a stable cash flow while further deploying the existing investment banking operations.

Befitting the image of an oak tree venerated as a symbol of “strength,” “vitality” and “growth” and putting on growth rings each year, Oak Capital adheres to its prime management principle of contributing to society by providing added value and growth support to mid-size, top-ranking companies it invests in.

New Business Setup

☒ :

Investment Banking Premium Brand Business
Oak Capital
Risk Management Advisory Services

Investment banking operations

Priority given to the risk management aspects of investments (stepping up rigorous selection of investment targets) and profit maximization (picking out excellent investment targets and enhancing their value) while placing greater emphasis on increased efficiency from an investment recovery perspective.

< Oak Capital’s standards for selecting investments >

- I High brand equity
- II Dominant market share
- III Superior technology

Premium brand business

Promising premium brands singled out as investment targets with the aim of securing a stable cash flow and increasing the corporate value of the entire Oak Capital Group.

Consulting business

i) Risk management

Full-stride insurance agency operations to be attained through the promotion of integrated services which combine the provision of exclusive, tailor-made insurance solutions with risk management services derived from these operations.

ii) Advisory services

Fee business centered on the provision of M&A and financial advisory services and business consultations, making efficient use of the know-how acquired by our investment banking operations.

Introducing Chief Portfolio Companies

< Investment Banking Business >

Coburn Japan Corporation	Secondary processing and sales of holographic film and lenticular products
K Laser Technology Inc.	Global leader in the production of holographic films
K Laser China Group Co., Ltd.	Holding company of holographic film companies operating in China
G. communication Co., Ltd.	Operator of restaurant chains and private cram schools
CAD Center Corporation	Developer of computer graphics image content
Gonzo Rosso K.K.	Developer and operator of online entertainment
G networks Co., Ltd.	Operator of fast-food restaurant chains
Kyosha Co., Ltd.	Manufacturer and seller of printed circuit boards
Biosensors International Group, Ltd.	Developer, manufacturer and seller of drug-eluting stents and other related disposable medical equipment
ADIRON Corporation	Seller of foreign branded handbags

< Premium Branded Business >

Christofle Japan K.K.	Seller of luxury brand silverware
Yamada Heiando Co., Ltd.	Producer of high-grade lacquerware by appointment to the Imperial Household

< Risk Management Business >

BSL Insurance Corporation	Operator of insurance agency
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Business Performance

Non-consolidated Financial Results

Net sales

4,669 million yen

- Earnings from short-term investments in marketable securities

Operating loss

3,390 million yen

- A mark to market valuation loss was incurred on trading-purpose securities (stock of Biosensors International Group, Ltd.) in addition to loss from irrecoverable investments made by Oak Capital No.1 Limited Partnership for Investments adding up to gross loss on sales of 2,079 million yen.
- Selling, general and administrative expenses amounted to 1,311 million yen

Ordinary loss

3,350 million yen

Net loss

4,904 million yen

Extraordinary profit

- Profit on the sale of stock of affiliates (Dyflex) 1,265 million yen

Extraordinary loss

- Loss from revaluation of operational investment securities (Niigata Seimitsu, etc.) 1,165 million yen
- Loss from revaluation of stock of affiliates 738 million yen
- Allowance for doubtful accounts 904 million yen

Although Biosensors International Group, Ltd. (listed on the Singapore Stock Exchange, SGX Main Board) whose stock we are holding for a trading-only purpose, managed to secure CE mark approval for its in-house developed flagship product in January 2008, its stock price has since continued to dwindle. Accordingly, a 657 million yen valuation loss was incurred (597 million yen less than the evaluation loss of 1,255 a year before). Due to the stock market's toboggan ride since the beginning of this year, however, Oak Capital was compelled to engage in defensive sell-offs of its holdings in the company. As a consequence, Oak Capital incurred a gross loss of 2,079 million yen. In terms of successful exit realizations, the transfer of consolidated subsidiary Dyflex' stock produced a capital gain of 1,265 million yen recorded in the profit and loss statement as extraordinary profit.

Against the backdrop of an economic slowdown and several external factors such as the portfolio company Niigata Seimitsu's filing for bankruptcy protection from creditors under the Civil Rehabilitation Law on January 31, 2008, we have conservatively assessed the financial contribution by portfolio companies to our bottom line. As such, Oak Capital posted a loss from revaluation of operational investment securities of 1,165 million yen, a loss from revaluation of stock of affiliates of 738 million yen and an allowance for doubtful accounts of 904 million yen. Since these constitute loss from revaluation, there have been no outflows of cash.

As a result, non-consolidated financial results for the fiscal year under review showed net sales of 4,669 million yen (down 3,147 million yen from the previous year), operating loss of 3,390 million yen (up 1,146 million yen), ordinary loss of 3,350 million yen (up 1,193 million yen) and net loss of 4,904 million yen (up 978 million yen).

Consolidated Financial Results

Net sales

17,084 million yen

- Effect of the exit realized for Dyflex

Operating loss

3,267 million yen

- Negative effects produced by a number of separate factors
- Selling, general and administrative expenses amounted to 5,704 million yen

Ordinary loss

3,339 million yen

- Negative effects produced by a number of separate factors
- Interest expenses of subsidiaries

Net loss

4,331 million yen

- Negative effects produced by a number of separate factors

With the financial results of Dyflex Co., Ltd. and its subsidiary no longer contributing to consolidated financial results since the second half of the fiscal year under review following exit realization, the amounts of net sales and operating profits generated by the industrial materials divisions of those former portfolio companies were reduced.

On October 3, 2007, consolidated subsidiary ADIRON Corporation opened in the fiercely competitive Ginza fashion district a street-level flagship shop for "Francesco Biasia" of Italy, one of the foreign handbag brands handled by the company.

Nevertheless, non-consolidated loss was the primary cause of the negative consolidated financial results which showed net sales of 17,084 million yen (down 7,255 million yen from the previous year), operating loss of 3,267 million yen (up 1,188 million yen), ordinary loss of 3,339 million yen (up 1,242 million yen) and net loss of 4,331 million yen (up 706 million yen) for the fiscal year under review.

Non-consolidated Financial Statement (summary)

Non-consolidated Balance Sheet

As of March 31	2008	2007
Assets		
Current assets	6,014	7,769
Cash and deposits	1,922	2,594
Accounts receivable - trade	149	148
Trading-purpose securities	2,298	3,665
Short-term loans	2,581	1,366
Others	63	91
Allowance for doubtful accounts	(1,001)	(96)
Fixed assets	3,708	7,041
Tangible fixed assets	110	145
Intangible fixed assets	3	9
Investments and other assets	3,594	6,886
Deferred assets	-	26
Total assets	9,723	14,837

Note: amounts less than 1 million yen are omitted

(millions of yen)

As of March 31	2008	2007
Liabilities		
Current liabilities	5,072	276
Accounts payable	-	160
Equity warrant-bearing bonds to be redeemed within 1 year	5,000	-
Others	72	115
Fixed liabilities	70	5,069
Equity warrant-bearing bonds	-	5,000
Others	70	69
Total liabilities	5,143	5,345
Net assets		
Shareholders' equity	4,526	9,431
Capital stock	7,964	7,964
Capital surplus	1,445	4,099
Retained earnings	(4,868)	(2,614)
Treasury stock	(14)	(17)
Valuation and translation adjustments	53	60
Valuation difference on available-for-sale securities	53	60
Total net assets	4,579	9,492
Total liabilities and net assets	9,723	14,837

Note: amounts less than 1 million yen are omitted

Non-consolidated statements of income (millions of yen)

Year ended March 31	2008	2007
Net sales	4,669	7,817
Cost of sales	6,749	8,753
Gross profit (loss)	(2,079)	(935)
Selling, general and administrative expenses	1,311	1,308
Operating income (loss)	(3,390)	(2,244)
Non-operating income	100	117
Non-operating expenses	60	29
Ordinary profit (loss)	(3,350)	(2,156)
Extraordinary income	1,280	50
Extraordinary expenses	2,834	1,819
Income before income taxes	(4,903)	(3,924)
Provision for income taxes	1	1
Net income	(4,904)	(3,925)

Note: Amounts less than 1 million yen are omitted

Non-consolidated statements of shareholders' equity (millions of yen)

	Shareholders' equity					Valuation and translation adjustments	Total net assets
	Paid-in capital	Capital surplus	Earned surplus	Treasury stock	Total		
Balance as of March 31, 2007	7,964	4,099	(2,614)	(17)	9,431	60	9,492
Changes of items during the term							
Loss supplementation through break into capital surplus		(2,650)	2,650		-		-
Net loss			(4,904)		(4,904)		(4,904)
Acquisition of treasury stock				(2)	(2)		(2)
Disposition of treasury stock		(2)		4	1		1
Net changes during the term except in shareholders' equity						(7)	(7)
Total changes	-	(2,653)	(2,254)	2	(4,904)	(7)	(4,912)
Balance as of March 31, 2008	7,964	1,445	(4,868)	(14)	4,526	53	4,579

Consolidated Financial Statement (summary)

Consolidated Balance Sheet

As of March 31	2008	2007
Assets		
Current assets	7,757	16,290
Cash and deposits	2,273	4,440
Notes and accounts receivable - trade	770	4,110
Trading-purpose securities	2,298	3,665
Inventories	721	1,820
Short-term loans	1,725	1,302
Accounts receivable - other	36	570
Others	112	494
Allowance for doubtful accounts	(181)	(113)
Fixed assets	3,851	9,484
Tangible fixed assets	143	1,595
Intangible fixed assets	18	714
Investments and other assets	3,689	7,174
Deferred assets	-	26
Total assets	11,609	25,800

Note: amounts less than 1 million yen are omitted

Consolidated financial conditions

Total assets at the end of the fiscal year under review declined 14,191 million yen from a year earlier to 11,609 million yen. Liabilities declined 9,446 million from the previous year to 6,499 million yen. Major factors in the decline in total assets and liabilities were the exclusion of Dyflex Co., Ltd. and its subsidiary from our scope of consolidation following the sale of said company as well as the decrease of the total balance of operational investment securities as a result of our revaluation of these securities. Net assets decreased 4,745 million yen down to 5,109 million yen chiefly owing to a 4,334 million decrease in the amount of shareholders' equity due to the current term net loss.

(millions of yen)

As of March 31	2008	2007
Liabilities		
Current liabilities	6,296	8,142
Short-term borrowings	272	4,983
Trade notes and trade accounts payable	216	1,475
Current portion of long-term debt	47	572
Bonds to be redeemed within 1 year	400	-
Equity warrant-bearing bonds to be redeemed within 1 year	5,000	-
Others	359	1,110
Fixed liabilities	203	7,803
Corporate bonds	-	600
Equity warrant-bearing bonds	-	5,000
Long-term debt	60	1,137
Liabilities for retirement benefits	106	412
Others	37	653
Total liabilities	6,499	15,946
Net assets		
Shareholders' equity	4,911	9,246
Capital stock	7,964	7,964
Capital surplus	1,445	4,104
Retained earnings	(4,483)	(2,805)
Treasury stock	(14)	(17)
Valuation and translation adjustments	51	77
Minority interests	145	530
Total net assets	5,109	9,854
Total liabilities and net assets	11,609	25,800

Note: amounts less than 1 million yen are omitted

Year ended March 31	2008	2007
Net sales	17,084	24,340
Cost of sales	14,647	19,789
Gross profit (loss)	2,437	4,551
Selling, general and administrative expenses	5,704	6,630
Operating income (loss)	(3,267)	(2,079)
Non-operating income	113	167
Non-operating expenses	185	185
Ordinary profit (loss)	(3,339)	(2,096)
Extraordinary income	1,337	44
Extraordinary expenses	3,314	1,520
Income (loss) before income taxes	(5,317)	(3,573)
Provision for income taxes	32	50
Adjustment for income tax	(24)	2
Minority Shareholders' equity (loss)	(994)	(1)
Net income	(4,331)	(3,624)

Year ended March 31	2008	2007
Cash flow from operating activities	(2,798)	(5,445)
Cash flow from investment activities	205	(372)
Cash flow from financing activities	403	(842)
Foreign currency translation adjustments on cash and cash equivalents	(47)	(5)
Net decrease in cash and cash equivalents	(2,237)	(6,667)
Cash and cash equivalents at beginning of year	4,161	10,828
Cash and cash equivalents at end of year	1,923	4,161

Note: Amounts less than 1 million yen are omitted

<Cash flows from operating activities> Operating activities generated a cash outflows in the amount of 2,798 million yen primarily owing to a decrease in trade liabilities and the inclusion of pretax net loss for the current term.
<Cash flows from investing activities> Investing activities resulted in a cash inflow of 250 million yen. This was primarily attributable to proceeds realized through the sales of shares of related companies.
<Cash flows from financing activities> A net cash inflow of 430 million yen was provided by financing activities. This resulted mainly from additional contributions by minority shareholders to Oak Capital No.1 Limited Partnership for Investments.

Note: Amounts less than 1 million yen are omitted

Consolidated statements of shareholders' equity (millions of yen)

	Shareholders' equity					Valuation and translation adjustments	Minority interests	Total net assets
	Paid-in capital	Capital surplus	Earned surplus	Treasury stock	Total			
Balance as of March 31, 2007	7,964	4,104	(2,805)	(17)	9,246	77	530	9,854
Changes of items during the term								
Loss supplementation through break into capital surplus		(2,650)	2,650		-			-
Net loss			(4,331)		(4,331)			(4,331)
Acquisition of treasury stock				(2)	(2)			(2)
Disposition of treasury stock		(2)		4	1			1
Change in scope of consolidation		(5)			(5)			(5)
Change in scope of equity method application			2		2			2
Net changes during the term except in shareholders' equity					-	(25)	(384)	(410)
Total changes	-	(2,658)	(1,678)	2	(4,334)	(25)	(384)	(4,745)
Balance as of March 31, 2008	7,964	1,445	(4,483)	(14)	4,911	51	145	5,109

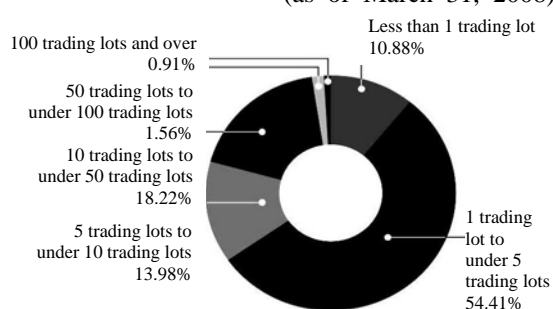
Stock Information

Total number of shares issuable	600,000,000
Total number of shares issued and outstanding	207,180,381
Number of shareholders	21,772

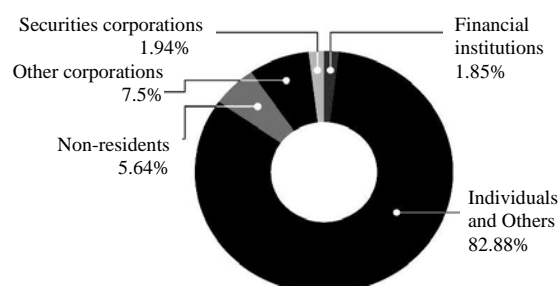
Principal Shareholders (top 10) as of March 31, 2008

Name of shareholder	Shares held	Percentage of shares
Hiroyasu Takei	8,753,000	4.22%
LMI Corporation	8,630,000	4.16
SIS SegaInterSettle AG	6,540,000	3.15
Japan Securities Finance Co., Ltd.	3,116,000	1.50
Mihiro Shokai K.K.	2,951,000	1.42
Individual shareholder	1,648,000	0.79
Individual shareholder	1,604,000	0.77
LGT Bank in Liechtenstein	1,241,000	0.59
Maruhiro K.K.	855,000	0.41
Individual shareholder	831,000	0.40

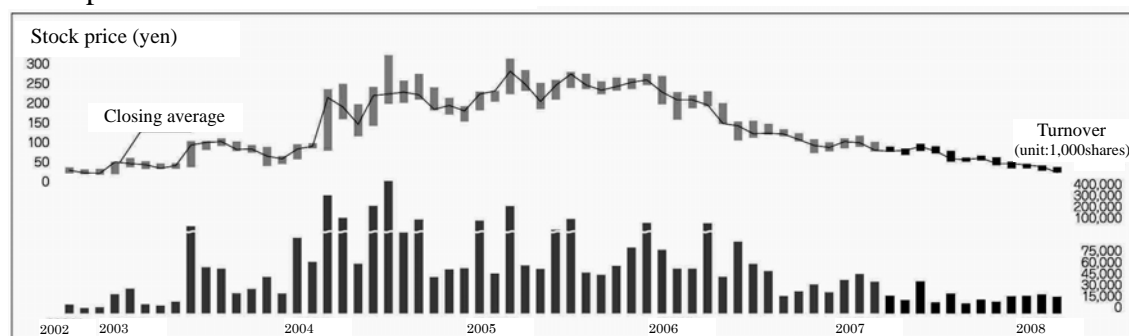
Breakdown of shareholders by volume owned (as of March 31, 2008)



Distribution of shareholders



Stock price and turnover trends



Company Profile

Company profile (as of March 31, 2008)

Company name	Oak Capital Corporation	Lead manager	Daiwa Securities SMBC
Address	10-24, Akasaka 8-chome, Minato-ku, Tokyo 107-0052	Auditors	Nihombashi Corporation (Certified Public Accountants)
Founded	1868	Banks	Sumitomo Mitsui Banking Corporation, The Bank of Tokyo-Mitsubishi UFJ, Mizuho Corporate Bank, Ltd.
Established	1918		
Capital stock	3,000,000,000 yen (as of Aug. 1, 2008)		
Public listing	2 nd Sections of the TSE, OSE and NSE (listed in 1949)		

Board of Directors/Auditors (as of June 27, 2008)

Representative Director, Chairman & CEO	Hiroyasu Takei	Corporate Auditor ^{※2} , Attorney-at-law	Makoto Sakai
Director	Katsushi Tanaka	Corporate Auditor ^{※2}	Takashi Endo
Director	Tomoyasu Ozeki	Corporate Auditor ^{※2}	Motosuke Hirose
Director ^{※1}	Ryoji Itoh	Managing Director	Koichi Shinada
Standing Corporate Auditor	Hideya Takahashi	Managing Director	Hisao Sakai
Corporate Auditor ^{※2} , Attorney-at-law	Yoshikazu Nagano	Managing Director	Tadakazu Watanabe

※ 1 Outside Director as stipulated in Article 2, Item 15 of the Company Law

※ 2 Outside Corporate Auditor as stipulated in Article 2, Item 16 of the Company Law

Investor information

Fiscal year	April 1 – March 31	Shareholders' register	Administered by The Chuo Mitsui Trust & Banking Co., Ltd. 33-1, Shiba 3-chome, Minato-ku, Tokyo
General meeting	The General Shareholders' Meeting is usually held in June of each year	Main administration office	Head office of The Chuo Mitsui Trust & Banking Co., Ltd. 33-1, Shiba 3-chome, Minato-ku, Tokyo
Reference dates	March 31 for matters related to the Annual General Shareholders' Meeting	Administration center	Transfer Agent Center (<i>Shouken Daikou Jimu Center</i>) 8-4, Izumi 2-chome, Suginami-ku, Tokyo 168-0063 Tel: 0120-78-2031 (free dial)
Dividend payouts	Decided on March 31 and on September 30 for mid-term dividend payouts	Contact stations	Head office and branch offices of The Chuo Mitsui Trust & Banking Co., Ltd. Head office and branch offices of Japan Securities Agents Ltd.
Public notice	As a rule, electronic disclosure. In some cases, public notices may be published in the Nihon Keizai Shimbun		