Vitec Co., Ltd.

Non-consolidated Financial Statements for the Years Ended March 31, 2006 and 2005, and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Vitec Co., Ltd.:

We have audited the accompanying non-consolidated balance sheets of Vitec Co., Ltd. (the "Company") as of March 31, 2006 and 2005, and the related non-consolidated statements of income and shareholders' equity for the years then ended, all expressed in Japanese yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated 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 non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Vitec Co., Ltd. as of March 31, 2006 and 2005, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2.f to the non-consolidated financial statements, the Company adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

June 23, 2006

Vitec Co., Ltd.

Non-consolidated Balance Sheets
March 31, 2006 and 2005

ASSETS	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
CURRENT ASSETS:			
Cash and cash equivalents	¥ 941	¥ 1,053	$ 8,011
Receivables:			
Trade notes	75	1,693	638
Trade accounts	14,058	11,307	119,673
Other	711	298	6,053
Allowance for doubtful receivables	(800)	(904)	(6,810)
Inventories (Note 3)	3,161	2,144	26,909
Short-term loans:			
Subsidiaries	3,835	4,654	32,647
Other	954	888	8,121
Deferred tax assets (Note 8)	313	1,662	2,665
Prepaid expenses and other	68	763	578
Total current assets	23,316	23,558	198,485
PROPERTY, PLANT AND EQUIPMENT:			
Land	2,023	2,023	17,221
Buildings and structures	1,809	1,809	15,400
Machinery and equipment	407	525	3,465
Furniture and fixtures	117	285	996
Total	4,356	4,642	37,082
Accumulated depreciation	(851)	(935)	(7,245)
Net property, plant and equipment	3,505	3,707	29,837
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	1,518	1,453	12,922
Investments in and advances to subsidiaries	1,765	2,234	15,025
Long-term accounts receivables	1,042	696	8,870
Guarantee deposits	852	1,019	7,253
Deferred tax assets (Note 8)	2,110	1,197	17,962
Other assets	830	397	7,067
Allowance for doubtful accounts	(1,129)	(776)	(9,611)
Total investments and other assets	6,988	6,220	59,488
TOTAL	¥ 33,809	¥ 33,485	$ 287,810

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
CURRENT LIABILITIES:			
Short-term bank loans (Note 5)	¥ 981	¥ 5,205	$ 8,351
Current portion of long-term debt (Note 5)	663	1,246	5,644
Payables:			
Trade notes	6	746	51
Trade accounts	20,095	11,258	171,065
Other	86	164	732
Income taxes payable	64	37	545
Accrued bonuses	67	77	570
Accrued expenses and other	389	309	3,312
Total current liabilities	22,351	19,042	190,270
LONG-TERM LIABILITIES:			
Long-term debt (Note 5)	1,059	3,547	9,015
Liability for retirement benefits (Note 6)	245	212	2,086
Allowance for investments	2,776	3,387	23,632
Other	38	106	323
Total long-term liabilities	4,118	7,252	35,056
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 9 and 10)			
SHAREHOLDERS' EQUITY (Notes 7 and 12):			
Common stock—authorized, 28,200,000 shares; issued, 12,076,358 shares in 2006 and 2005	4,504	4,504	38,342
Capital surplus—additional paid-in capital	1,699	1,699	14,463
Retained earnings—unappropriated	1,094	1,087	9,313
Unrealized gain (loss) on available-for-sale securities	47	(95)	400
Treasury stock—at cost, 2,142 shares in 2006 and 2,122 shares in 2005	(4)	(4)	(34)
Total shareholders' equity	7,340	7,191	62,484
TOTAL	¥ 33,809	¥ 33,485	$ 287,810

See notes to non-consolidated financial statements.

Vitec Co., Ltd.

Non-consolidated Statements of Income
Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
NET SALES	¥ 85,228	¥ 96,650	$ 725,530
COST OF SALES	80,053	92,031	681,476
Gross profit	5,175	4,619	44,054
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,864	2,886	24,381
Operating income	2,311	1,733	19,673
OTHER INCOME (EXPENSES):			
Interest and dividend income	62	217	528
Interest expense	(111)	(199)	(945)
Foreign exchange (loss) gain	(68)	15	(579)
Gain (loss) on valuation of derivatives	67	(46)	570
Loss on sales of trade accounts	(60)	(56)	(511)
Loss on sales of property, plant and equipment		(505)	
Depreciation on rental machinery	(32)	(88)	(272)
Provision of allowance for doubtful receivables	(246)	(42)	(2,094)
Provision of allowance for investment	(1,050)	(941)	(8,938)
Dividend in liquidation	74		630
Loss on valuation of investment securities	(257)		(2,188)
Loss on impairment of long-lived assets	(125)		(1,064)
Other—net	74	(130)	630
Other expenses—net	(1,672)	(1,775)	(14,233)
INCOME (LOSS) BEFORE INCOME TAXES	639	(42)	5,440
INCOME TAXES (Note 8):			
Current	51	26	434
Deferred	340	(420)	2,895
Total income taxes	391	(394)	3,329
NET INCOME	¥ 248	¥ 352	$ 2,111

(Continued)

Vitec Co., Ltd.

Non-consolidated Statements of Income
Years Ended March 31, 2006 and 2005

	Yen		U.S. Dollars
	2006	2005	2006
PER SHARE OF COMMON STOCK (Notes 2.n and 11):			
Basic net income	¥ 20.53	¥ 29.20	$0.17
Diluted net income		23.07	
Cash dividends applicable to the year	20.00	20.00	0.17

See notes to non-consolidated financial statements.

(Concluded)

Vitec Co., Ltd.

Non-consolidated Statements of Shareholders' Equity
Years Ended March 31, 2006 and 2005

	Thousands	Millions of Yen				
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus Additional Paid-in Capital	Retained Earnings Unappropriated	Unrealized Gain (Loss) on Available-for-sale Securities	Treasury Stock
BALANCE, APRIL 1, 2004	11,794	¥ 4,329	¥ 1,524	¥ 913	¥ (88)	¥ (3)
Net income				352		
Cash dividends, ¥15 per share				(178)		
Repurchase of treasury stock						(1)
Shares issued on conversion of convertible bonds	280	175	175			
Net increase in unrealized loss on available-for-sale securities					(7)	
BALANCE, MARCH 31, 2005	12,074	4,504	1,699	1,087	(95)	(4)
Net income				248		
Cash dividends, ¥20 per share				(241)		
Net increase in unrealized gain on available-for-sale securities					142	
BALANCE, MARCH 31, 2006	12,074	¥ 4,504	¥ 1,699	¥ 1,094	¥ 47	¥ (4)

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Capital Surplus Additional Paid-in Capital	Retained Earnings Unappropriated	Unrealized Gain (Loss) on Available-for-sale Securities	Treasury Stock
BALANCE, MARCH 31, 2005	$ 38,342	$ 14,463	$ 9,253	$ (809)	$ (34)
Net income			2,111		
Cash dividends, $0.17 per share			(2,051)		
Net increase in unrealized gain on available-for-sale securities				1,209	
BALANCE, MARCH 31, 2006	$ 38,342	$14,463	$ 9,313	$ 400	$ (34)

See notes to non-consolidated financial statements.

1. BASIS OF PRESENTING NON-CONSOLIDATED FINANCIAL STATEMENTS

The accompanying non-consolidated financial statements have been prepared from the accounts maintained by Vitec Co., Ltd. (the "Company") in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

As consolidated statements of cash flows and certain disclosures are presented in the consolidated financial statements of the Company, non-consolidated statements of cash flows and certain disclosures are not presented herein in accordance with accounting principles generally accepted in Japan.

In preparing these non-consolidated financial statements, certain reclassifications and rearrangements have been made to the Company's financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2005 financial statements to conform to the classifications used in 2006.

The non-consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥117.47 to $1, the approximate rate of exchange at March 31, 2006. Such translation should not be construed as representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Non-consolidation*****—**The non-consolidated financial statements do not include the accounts of subsidiaries. Investments in subsidiaries are stated at cost.

b. ***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 time deposits, certificate of deposits, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

c. ***Inventories*****—**Inventories are stated at the lower of cost, determined by the average method, or market.

d. ***Investment Securities***—Securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings, (2) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost, (3) investment securities in subsidiaries and associated companies are reported at cost, and (4) available-for-sale securities, which are not classified as any of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The Company has neither such trading securities nor held-to-maturity debt securities.

Non-marketable available-for-sale 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.

e. ***Property, Plant and Equipment***—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed substantially by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings acquired after April 1, 1998. The ranges of useful lives at March 31, 2006 and 2005 are principally as follows:

	2006	2005
Buildings and structures	8–50 years	8–50 years
Machinery and equipment	2–15 years	2–15 years
Furniture and fixtures	4–20 years	2–20 years

f. ***Long-lived Assets***—In August 2002, the Business Accounting Council ("BAC") issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements were effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Company adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

The Company reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The effect of adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes for the year ended March 31, 2006 by ¥125 million ($1,064 thousand).

g. ***Retirement and Pension Plan*****—**The Company has a non-contributory funded pension plan covering substantially all of its employees.

An unfunded pension obligation (that is the accumulated benefit obligation over the fair value of pension plan assets) is stated as liability for retirement benefits.

Retirement benefits to directors and corporate auditors are provided at the amount which would be required if all directors and corporate auditors retired at the balance sheet date.

h. ***Leases*****—**All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem 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.

i. ***Income Taxes*****—**The provision for income taxes is computed based on the pretax income included in the statements of income. The asset and liability approach 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.

j. ***Appropriations of Retained Earnings*****—**Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

k. ***Foreign Currency Transactions*****—**All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement to the extent that they are not hedged by forward exchange contracts.

l. ***Derivatives and Hedging Activities*****—**The Company uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, interest rate swaps and interest caps are utilized by the Company to reduce foreign currency exchange and interest rate risks. The Company does not enter into derivatives for trading purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the income statement and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of 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.

In principle, the foreign exchange forward contracts, interest rate swaps and interest caps are measured at fair value and the unrealized gains and losses are recognized in income. Trade receivables or payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting. The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

m. ***Related Party Transactions*****—**Related party transactions other than with subsidiaries and associated companies are not presented herein, as they are disclosed in the consolidated financial statements of the Company and consolidated subsidiaries.

n. ***Per Share Information*****—**Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Diluted net income per share for the year ended March 31, 2006 is not disclosed because it is anti-dilutive.

Cash dividends per share presented in the accompanying non-consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

o. ***New Accounting Pronouncements***

Business combination and business separation

In October 2003, the BAC issued a Statement of Opinion, "Accounting for Business Combinations," and on December 27, 2005 the ASBJ issued "Accounting Standard for Business Separations" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Separations." These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

(a) the consideration for the business combination consists solely of common shares with voting rights,

(b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and

(c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Stock options

On December 27, 2005, the ASBJ issued "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

Bonuses to directors and corporate auditors

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

3. INVENTORIES

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Semiconductors	¥ 2,429	¥ 1,631	$ 20,678
Electronic equipment	732	513	6,231
Total	¥ 3,161	¥ 2,144	$ 26,909

4. INVESTMENT SECURITIES

Investment securities as of March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Non-current:			
Marketable equity securities	¥ 1,201	¥ 899	$ 10,224
Non-marketable equity securities	317	554	2,698
Total	¥ 1,518	¥ 1,453	$ 12,922

5. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2006 and 2005 consisted of overdrafts to banks. The annual interest rates applicable to the short-term bank loans ranged from 0.80% to 0.84% and 0.58% to 0.83% at March 31, 2006 and 2005, respectively.

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Unsecured 0.44% yen straight bonds due 2008, guaranteed by a bank	¥ 600	¥ 900	$ 5,108
Unsecured 0.73% yen straight bonds due 2009, guaranteed by a bank	600	800	5,108
Unsecured floating rate yen straight bonds due 2009, guaranteed by a bank		800	
Unsecured 0.2% yen straight bonds due 2014, guaranteed by a bank		475	
Unsecured loans from banks, due serially to 2009 with interest rates of 2.25% (2006) and ranging from 2.08% to 2.32% (2005)	455	1,719	3,873
Unsecured loans from life insurance company, due serially to 2008 with interest rate of 1.1%	67	100	570
Total	1,722	4,794	14,659
Less current portion	(663)	(1,247)	(5,644)
Total	¥ 1,059	¥ 3,547	$ 9,015

Annual maturities of long-term debt at March 31, 2006 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2007	¥ 663	$ 5,644
2008	664	5,653
2009	330	2,809
2010	65	553
Total	¥ 1,722	$ 14,659

6. RETIREMENT AND PENSION PLANS

The Company has a non-contributory funded pension plan, which covers substantially all employees of the Company. The plan provides for a lump-sum payment to terminated employees with less than 20 years of participation in the plan. For those employees with participation of 20 years or more, either a lump-sum payment or an annuity are available at the option of the employee under certain circumstances.

The liability for retirement benefits at March 31, 2006 and 2005 for directors and corporate auditors was ¥198 million ($1,687 thousand) and ¥176 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

7. SHAREHOLDERS' EQUITY

Through May 1, 2006, Japanese companies are subject to the Code.

The Code requires that all shares of common stock be issued with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥1,090 million ($9,280 thousand) as of March 31, 2006, based on the amount recorded in the Company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

a. Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

8. INCOME TAXES

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41% for the years ended March 31, 2006 and 2005.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2006 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Current:			
Deferred tax assets:			
Allowance for doubtful receivables	¥ 324	¥ 366	$ 2,758
Accrued bonuses	27	31	230
Inventories	194	145	1,652
Allowance for investment		1,322	
Other	9	13	77
Less valuation allowance	(241)	(215)	(2,052)
Deferred tax assets—current	¥ 313	¥ 1,662	$ 2,665
Non-current:			
Deferred tax assets:			
Liability for retirement benefits	¥ 99	¥ 86	$ 843
Allowance for doubtful receivables	457	314	3,890
Allowance for investment	1,124	49	9,568
Goodwill		116	
Loss on valuation of investments securities	105		894
Tax loss carryforwards	896	1,120	7,628
Other	94	125	800
Less valuation allowance	(633)	(613)	(5,389)
Total	2,142	1,197	18,234
Deferred tax liabilities—unrealized gain on available-for-sale securities	32		272
Total	32		272
Net deferred tax assets—non-current	¥ 2,110	¥ 1,197	$ 17,962

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying non-consolidated statements of income for the years ended March 31, 2006 and 2005 is as follows:

	2006	2005
Normal effective statutory tax rate	41%	41%
Expenses not deductible for income tax purposes	6	(74)
Per capita levy of local taxes	2	(31)
Foreign tax deductible as expenses	6	
Valuation allowance	7	988
Other—net	(1)	4
Actual effective tax rate	61%	928%

At March 31, 2006, the Company has tax loss carryforwards aggregating approximately ¥2,272 million ($19,341 thousand) which are available to be offset against taxable income of the Company in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2008	¥ 2,180	$ 18,558
2009	92	783
Total	¥ 2,272	$ 19,341

9. LEASES

The Company leases certain computer equipment, vehicles and other assets.

Total lease payments under finance lease arrangements that do not transfer ownership of the leased property to the lessee were ¥35 million ($296 thousand) and ¥31 million for the years ended March 31, 2006 and 2005, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation and obligations under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2006 and 2005 was as follows:

	Millions of Yen			
	2006			
	Machinery and Equipment	Furniture and Fixtures	Other Assets	Total
Acquisition cost	¥ 18	¥ 121	¥ 22	¥ 161
Accumulated depreciation	6	90	7	103
Net leased property	¥ 12	¥ 31	¥ 15	¥ 58

	Millions of Yen			
	2005			
	Machinery and Equipment	Furniture and Fixtures	Other Assets	Total
Acquisition cost	¥ 14	¥ 127	¥ 23	¥ 164
Accumulated depreciation	2	74	7	83
Net leased property	¥ 12	¥ 53	¥ 16	¥ 81

	Thousands of U.S. Dollars			
	2006			
	Machinery and Equipment	Furniture and Fixtures	Other Assets	Total
Acquisition cost	$ 153	$ 1,030	$ 188	$ 1,371
Accumulated depreciation	51	766	60	877
Net leased property	$ 102	$ 264	$ 128	$ 494

Obligations under finance leases which included the imputed interest expense portion as of March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥31	¥ 33	$ 264
Due after one year	27	48	230
Total	¥ 58	¥ 81	$ 494

10. COMMITMENTS AND CONTINGENT LIABILITIES

At March 31, 2006, the Company had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees and similar items of subsidiaries' bank loans, accounts payable and installment purchase obligations	¥ 2,878	$ 24,500

11. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2006 and 2005 is as follows:

Year Ended March 31, 2006

Diluted net income per share for the year ended March 31, 2006 is not disclosed because it is anti-dilutive.

Year Ended March 31, 2005

	Millions of Yen	Thousands of Shares	Yen
	Net Income	Weighted-average Shares	EPS
Basic EPS—Net income available to common shareholders	¥ 352	12,041	¥ 29.20
Effect of dilutive securities—Convertible bonds	3	3,312	
Diluted EPS—Net income for computation	¥ 355	15,353	¥ 23.07

12. SUBSEQUENT EVENT

The following appropriations of retained earnings at March 31, 2006 were approved at the Company's shareholders meeting held on June 23, 2006:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥20.00 ($0.17) per share	¥ 241	$ 2,051

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