
Vitec Co., Ltd.

*Non-consolidated Financial Statements for
the Years Ended March 31, 2007 and 2006,
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. as of March 31, 2007 and 2006, and the related non-consolidated statements of income and changes in 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, 2007 and 2006, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in Japan.

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 22, 2007

Vitec Co., Ltd.

Non-consolidated Balance Sheets
March 31, 2007 and 2006

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)	LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007		2007	2006	2007
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents	¥ 1,012	¥ 941	\$ 8,573	Short-term bank loans (Note 5)	¥ 7,024	¥ 981	\$ 59,500
Receivables:				Current portion of long-term debt (Note 5)	663	663	5,616
Trade notes	99	75	839	Payables:			
Trade accounts	15,955	14,058	135,155	Trade notes		6	
Other	266	711	2,253	Trade accounts	15,935	20,095	134,985
Allowance for doubtful receivables	(635)	(800)	(5,379)	Other	149	86	1,262
Inventories (Note 3)	3,797	3,161	32,164	Income taxes payable	43	64	364
Short-term loans:				Accrued bonuses	68	67	576
Subsidiaries	3,381	3,835	28,640	Accrued expenses and other	123	389	1,043
Other	88	954	745				
Deferred tax assets (Note 8)	280	313	2,372	Total current liabilities	24,005	22,351	203,346
Prepaid expenses and other	28	68	237				
Total current assets	24,271	23,316	205,599	LONG-TERM LIABILITIES:			
PROPERTY, PLANT AND EQUIPMENT:				Long-term debt (Note 5)	395	1,059	3,346
Land	2,023	2,023	17,137	Liability for retirement benefits (Note 6)	165	245	1,398
Buildings and structures	1,817	1,809	15,392	Allowance for investments	1,963	2,776	16,629
Machinery and equipment	257	407	2,177	Other	3	38	25
Furniture and fixtures	123	117	1,042				
Total	4,220	4,356	35,748	Total long-term liabilities	2,526	4,118	21,398
Accumulated depreciation	(810)	(851)	(6,862)	COMMITMENTS AND CONTINGENT LIABILITIES			
Net property, plant and equipment	3,410	3,505	28,886	(Notes 9 and 10)			
INVESTMENTS AND OTHER ASSETS:				EQUITY (Notes 7 and 12):			
Investment securities (Note 4)	1,165	1,518	9,869	Common stock—authorized, 28,200,000 shares; issued, 12,076,358 shares in 2007 and 2006	4,504	4,504	38,153
Investments in and advances to subsidiaries	1,249	1,765	10,580	Capital surplus—additional paid-in capital	1,699	1,699	14,392
Long-term loans	1,209	370	10,241	Retained earnings—unappropriated	1,261	1,094	10,682
Long-term accounts receivables	122	1,042	1,033	Unrealized gain (loss) on available-for-sale securities	(41)	47	(347)
Guarantee deposits	713	852	6,040	Treasury stock—at cost, 2,142 shares in 2007 and 2006	(4)	(4)	(34)
Deferred tax assets (Note 8)	1,946	2,110	16,485				
Other assets	664	460	5,625	Total equity	7,419	7,340	62,846
Allowance for doubtful accounts	(799)	(1,129)	(6,768)				
Total investments and other assets	6,269	6,988	53,105	TOTAL	¥ 33,950	¥ 33,809	\$ 287,590
TOTAL	¥ 33,950	¥ 33,809	\$ 287,590				

See notes to non-consolidated financial statements.

Vitec Co., Ltd.

Non-consolidated Statements of Income
Years Ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2007</u>	<u>2006</u>	<u>2007</u>
NET SALES	¥ 84,716	¥ 85,228	\$ 717,628
COST OF SALES	<u>80,740</u>	<u>80,053</u>	<u>683,947</u>
Gross profit	3,976	5,175	33,681
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>2,776</u>	<u>2,864</u>	<u>23,516</u>
Operating income	<u>1,200</u>	<u>2,311</u>	<u>10,165</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	57	62	483
Interest expense	(105)	(111)	(889)
Foreign exchange loss	(63)	(68)	(534)
Gain on valuation of derivatives	38	67	322
Loss on sales of trade accounts	(82)	(60)	(695)
Depreciation on rental machinery	(18)	(32)	(152)
Provision of allowance for doubtful receivables	(166)	(246)	(1,406)
Provision of allowance for investment		(1,050)	
Dividend in liquidation		74	
Loss on valuation of investment securities	(21)	(257)	(178)
Loss on impairment of long-lived assets		(125)	
Gain on sales of investment securities	171		1,449
Loss on sales of investment securities	(78)		(661)
Loss on disposition of long-term prepaid expenses	(158)		(1,338)
Other—net	<u>(35)</u>	<u>74</u>	<u>(297)</u>
Other expenses—net	<u>(460)</u>	<u>(1,672)</u>	<u>(3,896)</u>
INCOME BEFORE INCOME TAXES	<u>740</u>	<u>639</u>	<u>6,269</u>
INCOME TAXES (Note 8):			
Current	75	51	635
Deferred	<u>257</u>	<u>340</u>	<u>2,178</u>
Total income taxes	<u>332</u>	<u>391</u>	<u>2,813</u>
NET INCOME	<u>¥ 408</u>	<u>¥ 248</u>	<u>\$ 3,456</u>

Vitec Co., Ltd.

Non-consolidated Statements of Income
Years Ended March 31, 2007 and 2006

	Yen		U.S. Dollars
	<u>2007</u>	<u>2006</u>	<u>2007</u>
PER SHARE OF COMMON STOCK (Notes 2.o and 11):			
Basic net income	¥ 33.83	¥ 20.53	\$ 0.29
Cash dividends applicable to the year	20.00	20.00	0.17

See notes to non-consolidated financial statements.

Vitec Co., Ltd.

**Non-consolidated Statements of Changes in Equity
Years Ended March 31, 2007 and 2006**

	Thousands Outstanding Number of Shares of Common Stock	Millions of Yen					Total Equity
		Common Stock	Capital Surplus Additional Paid-in Capital	Retained Earnings Unappropriated	Unrealized Gain (Loss) on Available-for-sale Securities	Treasury Stock	
BALANCE, APRIL 1, 2005	12,074	¥ 4,504	¥ 1,699	¥ 1,087	¥ (95)	¥ (4)	¥ 7,191
Net income				248			248
Cash dividends, ¥20 per share				(241)			(241)
Net increase in unrealized gain on available-for-sale securities					142		142
BALANCE, MARCH 31, 2006	12,074	4,504	1,699	1,094	47	(4)	7,340
Net income				408			408
Cash dividends, ¥20 per share				(241)			(241)
Net change in the year					(88)		(88)
BALANCE, MARCH 31, 2007	<u>12,074</u>	<u>¥ 4,504</u>	<u>¥ 1,699</u>	<u>¥ 1,261</u>	<u>¥ (41)</u>	<u>¥ (4)</u>	<u>¥ 7,419</u>

	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	Total Equity
BALANCE, MARCH 31, 2006	\$ 38,153	\$ 14,392	\$ 9,268	\$ 398	\$ (34)	\$ 62,177
Net income			3,456			3,456
Cash dividends, \$0.17 per share			(2,042)			(2,042)
Net change in the year				(745)		(745)
BALANCE, MARCH 31, 2007	<u>\$ 38,153</u>	<u>\$ 14,392</u>	<u>\$ 10,682</u>	<u>\$ (347)</u>	<u>\$ (34)</u>	<u>\$ 62,846</u>

See notes to non-consolidated financial statements.

Vitec Co., Ltd.

Notes to Non-consolidated Financial Statements Years Ended March 31, 2007 and 2006

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.

On December 27, 2005, the Accounting Standards Board of Japan ("ASBJ") published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006. The non-consolidated statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under generally accepted accounting principles in Japan and has been renamed "the non-consolidated statement of changes in equity" in the current fiscal year.

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 non-consolidated 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 2006 non-consolidated financial statements to conform to the classifications used in 2007.

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 ¥118.05 to \$1, the approximate rate of exchange at March 31, 2007. 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 either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of 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, 2007 and 2006 are principally as follows:

	<u>2007</u>	<u>2006</u>
Buildings and structures	8–50 years	8–50 years
Machinery and equipment	2–15 years	2–15 years
Furniture and fixtures	3–20 years	4–20 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 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.

- 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. Presentation of Equity*—On December 9, 2005, the ASBJ issued ASBJ Statement No. 5, "Accounting Standard for Presentation of Equity." Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights 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.

The non-consolidated balance sheet as of March 31, 2007 is presented in line with this new accounting standard.

- i. 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.
- j. Income Taxes*—The provision for income taxes is computed based on the pretax income included in the non-consolidated 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 basis of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.
- k. Appropriations of Retained Earnings*—Appropriations of retained earnings are reflected in the non-consolidated financial statements for the following year upon shareholders' approval.
- l. 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 non-consolidated statements of income to the extent that they are not hedged by forward exchange contracts.
- m. 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 non-consolidated statements of income 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.

- n. 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.
- o. 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 years ended March 31, 2007 and 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.

p. New Accounting Pronouncements

Measurement of Inventories—Under generally accepted accounting principles in Japan, inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories," which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

Lease Accounting—On March 30, 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the existing accounting standard for lease transactions issued on June 17, 1993.

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

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

3. INVENTORIES

Inventories at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2007</u>	<u>2006</u>	<u>2007</u>
Semiconductors	¥ 2,793	¥ 2,429	\$ 23,659
Electronic equipment	<u>1,004</u>	<u>732</u>	<u>8,505</u>
Total	<u>¥ 3,797</u>	<u>¥ 3,161</u>	<u>\$ 32,164</u>

4. INVESTMENT SECURITIES

Investment securities as of March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2007</u>	<u>2006</u>	<u>2007</u>
Non-current:			
Marketable equity securities	¥ 864	¥ 1,201	\$ 7,319
Non-marketable equity securities	<u>301</u>	<u>317</u>	<u>2,550</u>
Total	<u>¥ 1,165</u>	<u>¥ 1,518</u>	<u>\$ 9,869</u>

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

Short-term bank loans at March 31, 2007 and 2006 consisted of overdrafts to banks. The annual interest rates applicable to the short-term bank loans ranged from 0.94% to 5.83% and 0.80% to 0.84% at March 31, 2007 and 2006, respectively.

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2007</u>	<u>2006</u>	<u>2007</u>
Unsecured 0.44% yen straight bonds due 2008, guaranteed by a bank	¥ 300	¥ 600	\$ 2,541
Unsecured 0.73% yen straight bonds due 2009, guaranteed by a bank	400	600	3,388
Unsecured loans from banks, due serially to 2009 with interest rate of 2.25%	325	455	2,753
Unsecured loans from life insurance company, due serially to 2008 with interest rate of 1.1%	<u>33</u>	<u>67</u>	<u>280</u>
Total	<u>1,058</u>	<u>1,722</u>	<u>8,962</u>
Less current portion	<u>(663)</u>	<u>(663)</u>	<u>(5,616)</u>
Total	<u>¥ 395</u>	<u>¥ 1,059</u>	<u>\$ 3,346</u>

Annual maturities of long-term debt at March 31, 2007 were as follows:

<u>Year Ending March 31</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
2008	¥ 663	\$ 5,616
2009	330	2,795
2010	<u>65</u>	<u>551</u>
Total	<u>¥ 1,058</u>	<u>\$ 8,962</u>

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, 2007 and 2006 for directors and corporate auditors was ¥122 million (\$1,033 thousand) and ¥198 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

7. EQUITY

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law"), which reformed and replaced the Code with various revisions that are, for the most part, 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) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

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. The Corporate Law 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 Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. 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 specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of 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 equity or deducted directly from stock acquisition rights.

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, 2007 and 2006.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2007 and 2006 are as follows:

	Millions of Yen		Thousands of
	<u>2007</u>	<u>2006</u>	<u>U.S. Dollars</u>
Current:			
Deferred tax assets:			
Allowance for doubtful receivables	¥ 257	¥ 324	\$ 2,177
Accrued bonuses	27	27	229
Inventories	103	194	873
Other	6	9	50
Less valuation allowance	<u>(113)</u>	<u>(241)</u>	<u>(957)</u>
Deferred tax assets—current	<u>¥ 280</u>	<u>¥ 313</u>	<u>\$ 2,372</u>

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Non-current:			
Deferred tax assets:			
Liability for retirement benefits	¥ 64	¥ 99	\$ 542
Allowance for doubtful receivables	323	457	2,736
Allowance for investment	795	1,124	6,734
Loss on valuation of investments securities	113	105	957
Tax loss carryforwards	1,263	896	10,699
Other	93	94	789
Less valuation allowance	<u>(705)</u>	<u>(633)</u>	<u>(5,972)</u>
Total	1,946	<u>2,142</u>	16,485
Deferred tax liabilities—unrealized gain on available-for-sale securities		<u>32</u>	
Total		<u>32</u>	
Net deferred tax assets—non-current	<u>¥ 1,946</u>	<u>¥ 2,110</u>	<u>\$ 16,485</u>

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, 2007 and 2006 is as follows:

	2007	2006
Normal effective statutory tax rate	41%	41%
Expenses not deductible for income tax purposes	4	6
Per capita levy of local taxes	2	2
Foreign tax deductible as expenses		6
Valuation allowance	(5)	7
Other—net	<u>3</u>	<u>(1)</u>
Actual effective tax rate	<u>45%</u>	<u>61%</u>

At March 31, 2007, the Company has tax loss carryforwards aggregating approximately ¥3,121 million (\$26,438 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	¥ 1,090	\$ 9,233
2010	1,692	14,333
2011	<u>339</u>	<u>2,872</u>
Total	<u>¥ 3,121</u>	<u>\$ 26,438</u>

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 ¥38 million (\$322 thousand) and ¥35 million for the years ended March 31, 2007 and 2006, 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, 2007 and 2006 was as follows:

	Millions of Yen			
	2007			
	<u>Machinery and Equipment</u>	<u>Furniture and Fixtures</u>	<u>Other Assets</u>	<u>Total</u>
Acquisition cost	¥ 69	¥ 44	¥ 23	¥ 136
Accumulated depreciation	<u>15</u>	<u>31</u>	<u>13</u>	<u>59</u>
Net leased property	<u>¥ 54</u>	<u>¥ 13</u>	<u>¥ 10</u>	<u>¥ 77</u>

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

	Thousands of U.S. Dollars			
	2007			
	<u>Machinery and Equipment</u>	<u>Furniture and Fixtures</u>	<u>Other Assets</u>	<u>Total</u>
Acquisition cost	\$ 584	\$ 373	\$ 195	\$ 1,152
Accumulated depreciation	<u>127</u>	<u>263</u>	<u>110</u>	<u>500</u>
Net leased property	<u>\$ 457</u>	<u>\$ 110</u>	<u>\$ 85</u>	<u>\$ 652</u>

Obligations under finance leases which included the imputed interest expense portion as of March 31, 2007 and 2006 were as follows:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2007</u>	<u>2006</u>	<u>U.S. Dollars</u>
Due within one year	¥ 26	¥ 31	\$ 220
Due after one year	<u>51</u>	<u>27</u>	<u>432</u>
Total	<u>¥ 77</u>	<u>¥ 58</u>	<u>\$ 652</u>

10. COMMITMENTS AND CONTINGENT LIABILITIES

At March 31, 2007, the Company had the following contingent liabilities:

	<u>Millions of Yen</u>	<u>Thousands of</u>
		<u>U.S. Dollars</u>
Guarantees and similar items of subsidiaries' bank loans, accounts payable and installment purchase obligations	¥ 2,965	\$ 25,116

11. NET INCOME PER SHARE

Diluted net income per share for the years ended March 31, 2007 and 2006 is not disclosed because it is anti-dilutive.

12. SUBSEQUENT EVENT

The following appropriations of retained earnings at March 31, 2007 were approved at the Company's shareholders meeting held on June 22, 2007:

	<u>Millions of Yen</u>	<u>Thousands of</u>
		<u>U.S. Dollars</u>
Year-end cash dividends, ¥20.00 (\$0.17) per share	¥ 241	\$ 2,042

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