Vitec Co., Ltd. and Consolidated Subsidiaries

Consolidated Financial Statements for the Years Ended March 31, 2005 and 2004, and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Vitec Co., Ltd. (the "Company") and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Vitec Co., Ltd. and consolidated subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows 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 27, 2005

Vitec Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets
March 31, 2005 and 2004

ASSETS	Millions of Yen 2005	Millions of Yen 2004	Thousands of U.S. Dollars (Note 1) 2005
CURRENT ASSETS:			
Cash and cash equivalents	¥ 1,715	¥ 2,721	$ 15,970
Receivables:			
Trade notes	1,829	625	17,031
Trade accounts	14,436	19,476	134,426
Unconsolidated subsidiaries	360	3	3,352
Other	256	499	2,384
Allowance for doubtful receivables	(980)	(1,663)	(9,126)
Inventories (Note 3)	3,410	5,249	31,753
Deferred tax assets (Note 8)	1,721	1,247	16,026
Prepaid expenses and other	2,212	1,826	20,599
Total current assets	24,959	29,983	232,415
PROPERTY, PLANT AND EQUIPMENT:			
Land	2,416	2,995	22,497
Buildings and structures	2,003	2,238	18,652
Machinery and equipment	1,962	2,165	18,270
Furniture and fixtures	606	567	5,643
Total	6,987	7,965	65,062
Accumulated depreciation	(2,039)	(1,907)	(18,987)
Net property, plant and equipment	4,948	6,058	46,075
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	1,480	1,489	13,782
Investments in and advances to unconsolidated subsidiaries	347	362	3,231
Long-term loans	215	228	2,002
Goodwill	195	227	1,816
Guarantee deposits	1,133	1,111	10,550
Deferred tax assets (Note 8)	1,237	1,221	11,519
Other assets	294	392	2,737
Total investments and other assets	4,901	5,030	45,637
TOTAL	¥34,808	¥41,071	$324,127

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2005	Millions of Yen 2004	Thousands of U.S. Dollars (Note 1) 2005
CURRENT LIABILITIES:			
Short-term bank loans (Note 5)	¥ 7,309	¥ 6,271	$ 68,060
Current portion of long-term debt (Note 5)	1,247	7,126	11,612
Payables:			
Trade notes	901	2,406	8,390
Trade accounts	12,684	13,910	118,112
Unconsolidated subsidiaries	391	33	3,641
Other	231	73	2,151
Income taxes payable	112	46	1,043
Accrued bonuses	156	158	1,453
Accrued expenses and other	489	342	4,553
Total current liabilities	23,520	30,365	219,015
LONG-TERM LIABILITIES:			
Long-term debt (Note 5)	3,547	4,218	33,029
Liability for retirement benefits (Note 6)	220	175	2,049
Other	360	433	3,352
Total long-term liabilities	4,127	4,826	38,430
MINORITY INTERESTS	264	210	2,458
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 9, 10 and 11)			
SHAREHOLDERS' EQUITY (Notes 7 and 15):			
Common stock—authorized, 28,200,000 shares; issued, 12,076,358 shares in 2005 and 11,795,927 shares in 2004	4,504	4,329	41,941
Capital surplus	1,699	1,524	15,821
Retained earnings	967	2	9,005
Unrealized loss on available-for-sale securities	(96)	(90)	(895)
Foreign currency translation adjustments	(144)	(62)	(1,341)
Treasury stock—at cost, 34,922 shares in 2005 and 34,567 shares in 2004	(33)	(33)	(307)
Total shareholders' equity	6,897	5,670	64,224
TOTAL	¥34,808	¥41,071	$324,127

See notes to consolidated financial statements.

Vitec Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
NET SALES	¥120,494	¥130,285	$1,122,023
COST OF SALES	114,061	123,652	1,062,120
Gross profit	6,433	6,633	59,903
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	4,496	4,619	41,866
Operating income	1,937	2,014	18,037
OTHER INCOME (EXPENSES):			
Interest and dividend income	184	132	1,713
Interest expense	(262)	(336)	(2,440)
Foreign exchange gain	61	8	568
Gain (loss) on valuation of derivatives	(47)	142	(438)
Loss on sales of trade accounts	(59)	(38)	(549)
Loss on sales of property, plant and equipment	(505)		(4,702)
Loss on disposals of property, plant and equipment	(93)	(34)	(866)
Loss from business restructuring	(263)		(2,449)
Dilution gain (Note 2.a)		197	
Depreciation on rental machinery	(97)	(137)	(903)
Loss on doubtful receivables		(396)	
Provision of allowance for doubtful receivables	(40)	(38)	(372)
Retirement benefits for directors		(194)	
Cumulative effect of accounting change for retirement benefits to directors and corporate auditors		(123)	
Other—net	7	(119)	65
Other expenses—net	(1,114)	(936)	(10,373)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	823	1,078	7,664
INCOME TAXES (Note 8):			
Current	114	62	1,061
Deferred	(486)	(1,198)	(4,525)
Total income taxes	(372)	(1,136)	(3,464)
MINORITY INTERESTS IN NET (INCOME) LOSS	(53)	39	(494)
NET INCOME	¥ 1,142	¥ 2,253	$ 10,634

(Continued)

Vitec Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2005 and 2004

	Yen		U.S. Dollars
	2005	2004	2005
PER SHARE OF COMMON STOCK (Notes 2.m and 12):			
Basic net income	¥95.09	¥191.40	$0.89
Diluted net income	74.70	144.43	0.70
Cash dividends applicable to the year	20.00	15.00	0.19

See notes to consolidated financial statements.

(Concluded)

Vitec Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Shareholders' Equity
Years Ended March 31, 2005 and 2004

	Thousands	Millions of Yen					
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings (Deficit)	Unrealized Loss on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, APRIL 1, 2003	11,789	¥4,325	¥4,137	¥(4,857)	¥(167)	¥ (25)	¥ (3)
Adjustment of retained earnings for newly consolidated subsidiaries				(11)			
Net income				2,253			
Reversal of capital surplus in compensation for deficit			(2,617)	2,617			
Shares issued on conversion of convertible bonds	5	4	4				
Repurchase of treasury stock	(33)						(30)
Net decrease in unrealized loss on available-for-sale securities					77		
Net change in foreign currency translation adjustments						(37)	
BALANCE, MARCH 31, 2004	11,761	4,329	1,524	2	(90)	(62)	(33)
Net income				1,142			
Cash dividends, ¥15 per share				(177)			
Shares issued on conversion of convertible bonds	280	175	175				
Net increase in unrealized loss on available-for-sale securities					(6)		
Net change in foreign currency translation adjustments						(82)	
BALANCE, MARCH 31, 2005	12,041	¥4,504	¥1,699	¥ 967	¥ (96)	¥(144)	¥(33)

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Loss on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, MARCH 31, 2004	$40,311	$14,191	$ 19	$(838)	$ (577)	$(307)
Net income			10,634			
Cash dividends, $0.14 per share			(1,648)			
Shares issued on conversion of convertible bonds	1,630	1,630				
Net increase in unrealized loss on available-for-sale securities				(57)		
Net change in foreign currency translation adjustments					(764)	
BALANCE, MARCH 31, 2005	$41,941	$15,821	$ 9,005	$(895)	$(1,341)	$(307)

See notes to consolidated financial statements.

Vitec Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 823	¥1,078	$ 7,664
Adjustments for:			
Income taxes—paid	(42)	(122)	(391)
Depreciation and amortization	434	742	4,041
(Gain) loss on valuation of derivatives	47	(142)	438
Loss on sales of property, plant and equipment	505		4,702
Loss from business restructuring	263		2,449
Dilution gain		(197)	
Changes in assets and liabilities, net of effects from consolidating previously unconsolidated subsidiaries:			
Decrease in notes and accounts receivable	3,221	8,815	29,994
Increase (decrease) in allowance for doubtful receivables	44	(5,789)	410
Decrease in inventories	1,763	199	16,417
Decrease in notes and accounts payable	(3,106)	(2,529)	(28,923)
Other—net	403	427	3,752
Total adjustments	3,532	1,404	32,889
Net cash provided by operating activities	4,355	2,482	40,553
INVESTING ACTIVITIES:			
Decrease in time deposits—net		150	
Purchases of property, plant and equipment	(107)	(70)	(996)
Proceeds from property, plant and equipment	206	8	1,918
Purchases of investment securities	(2)	(6)	(19)
Increase in short-term loans—net	12	633	112
Cash collected from long-term loans	24	29	224
Other—net	(10)	(28)	(93)
Net cash provided by investing activities	123	716	1,146
FORWARD	¥4,478	¥3,198	$41,699

(Continued)

Vitec Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
FORWARD	¥4,478	¥3,198	$41,699
FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans—net	903	(6,391)	8,409
Proceeds from long-term debt	100	1,250	931
Repayments of long-term debt	(1,653)	(852)	(15,393)
Proceeds from issuance of corporate bonds	474	1,968	4,414
Repayment of bonds	(725)	(300)	(6,751)
Repayment of convertible bonds	(4,423)	(176)	(41,186)
Proceeds from issuance of common stock to minority shareholders		588	
Dividends paid	(176)	(2)	(1,639)
Net cash used in financing activities	(5,500)	(3,915)	(51,215)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	16	(38)	148
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,006)	(755)	(9,368)
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR		44	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,721	3,432	25,338
CASH AND CASH EQUIVALENTS, END OF YEAR	¥1,715	¥2,721	$15,970
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Assets increased by consolidation of subsidiary previously unconsolidated		¥7	

See notes to consolidated financial statements.

(Concluded)

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, 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.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2004 financial statements to conform to the classifications used in 2005.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Vitec Co., Ltd. (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 ¥107.39 to $1, the approximate rate of exchange at March 31, 2005. 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. ***Consolidation***—The consolidated financial statements as of March 31, 2005 include the accounts of the Company and its 13 significant (13 in 2004) subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

The remaining unconsolidated subsidiaries, whose combined assets, net sales, net income and retained earnings in the aggregate are not significant to the consolidated financial statements, have not been consolidated with the Company. Investments in the remaining unconsolidated subsidiaries are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

Prior to April 1, 1999, the differences between the cost and underlying net equity of investments in consolidated subsidiaries at acquisition are included in investments and other assets and are amortized on a straight-line basis over 5 years.

Effective April 1, 1999, the excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized over a period of 10 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

On March 31, 2004, a consolidated subsidiary issued its common shares to third parties. This transaction resulted in reduction of the Company's ownership position of the subsidiary. As a result of this transaction, the Company recognized a dilution gain in the amount of ¥197 million for the year ended March 31, 2004.

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 and (3) 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 shareholders' equity. The Group 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 of the Company and its consolidated domestic subsidiaries 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 of the Company and its consolidated domestic subsidiaries acquired after April 1, 1998, and all property, plant and equipment of consolidated foreign subsidiaries. The range of useful lives is principally as follows:

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

f. ***Retirement and Pension Plans—***The Company has a non-contributory funded pension plan covering substantially all of its employees. Certain consolidated domestic subsidiaries have non-contributory and contributory funded pension plans and the severance lump-sum payment plan covering substantially all of their 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.

g. ***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.

h. ***Income Taxes—***The provision for income taxes is computed based on the pretax income included in the 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 bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

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

j. ***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.

k. ***Foreign Currency Financial Statements—***The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

Revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date.

l. ***Derivatives and Hedging Activities—***The Company and certain consolidated domestic subsidiaries use 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 and certain consolidated domestic subsidiaries to reduce foreign currency exchange and interest rate risks. The Company and certain consolidated domestic subsidiaries do 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 are recognized and included in interest expense or income.

m. ***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.

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

n. ***New Accounting Pronouncements***—In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASB") issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are 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 new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that 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 Group expects to adopt these pronouncements as of April 1, 2005 and is currently in the process of assessing the effect of adoption of these pronouncements.

3. INVENTORIES

Inventories at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Merchandise	¥3,167	¥4,923	$29,493
Products	243	326	2,260
Total	¥3,410	¥5,249	$31,753

4. INVESTMENT SECURITIES

Investment securities as of March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Non-current:			
Marketable equity securities	¥ 924	¥ 933	$ 8,606
Non-marketable equity securities	556	556	5,176
Total	¥1,480	¥1,489	$13,782

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2005 and 2004 were as follows:

	Millions of Yen			
	2005			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale equity securities	¥1,087	¥127	¥290	¥924

	Millions of Yen			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale equity securities	¥1,085	¥103	¥255	¥933

	Thousands of U.S. Dollars			
	2005			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale equity securities	$10,122	$1,180	$2,696	$8,606

The majority of available-for-sale securities whose fair value is not readily determinable as of March 31, 2005 and 2004 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Available-for-sale—Equity securities	¥556	¥556	$5,176

Proceeds from sales of available-for-sale securities for the years ended March 31, 2005 and 2004 were ¥0 million ($0 thousand) and ¥31 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥0 million ($0 thousand) and ¥0 million ($0 thousand), respectively, for the year ended March 31, 2005 and ¥3 million and ¥29 million, respectively, for the year ended March 31, 2004.

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

Short-term bank loans at March 31, 2005 and 2004 consisted of overdrafts to banks. The annual interest rates applicable to the short-term bank loans ranged from 0.58% to 3.67% and 1.09% to 3.20% at March 31, 2005 and 2004, respectively.

Long-term debt at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Unsecured 0.1% yen convertible bonds due 2005, with a 130% call option		¥ 4,773	
Unsecured 0.44% yen straight bonds due 2008, guaranteed by a bank	¥ 900	1,200	$ 8,381
Unsecured 0.73% yen straight bonds due 2009, guaranteed by a bank	800	1,000	7,449
Unsecured floating rate yen straight bonds due 2009, guaranteed by a bank	800	1,000	7,449
Unsecured 0.2% yen straight bonds due 2014, guaranteed by a bank	475		4,423
Unsecured loans from banks, due serially to 2009 with interest rates ranging from 2.08% to 2.32% (2005) and from 0.82% to 2.08% (2004)	1,719	3,371	16,007
Unsecured loans from life insurance company, due serially to 2008 with interest rate of 1.1%	100		932
Total	4,794	11,344	44,641
Less current portion	(1,247)	(7,126)	(11,612)
Total	¥3,547	¥ 4,218	$33,029

Annual maturities of long-term debt at March 31, 2005 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2006	¥1,247	$11,612
2007	1,247	11,608
2008	1,247	11,611
2009	713	6,642
2010	115	1,071
2011 and thereafter	225	2,097
Total	¥4,794	$44,641

6. RETIREMENT AND PENSION PLANS

The Company and its consolidated domestic subsidiaries have severance payment plans for employees, directors and corporate auditors.

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.

Certain consolidated domestic subsidiaries have various non-contributory and contributory plans and other retirement benefit plans.

The liability for retirement benefits at March 31, 2005 and 2004 for directors and corporate auditors was ¥176 million ($1,639 thousand) and ¥138 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

The liability for employees' retirement benefits at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Projected benefit obligation	¥331	¥305	$3,082
Fair value of plan assets	(288)	(269)	(2,681)
Net liability	43	36	401
Prepaid plan expenses	1	1	9
Liability for employees' retirement benefits	¥ 44	¥ 37	$ 410

The benefit costs for the years ended March 31, 2005 and 2004 are ¥59 million ($547 thousand) and ¥43 million, respectively.

7. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code").

The Code requires that all shares of common stock are recorded 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 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 as 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 at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. 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 repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the shareholders meeting.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends. The amount of retained earnings available for dividends under the Code was ¥985 million ($9,176 thousand) as of March 31, 2005, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to 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.

Under certain stock option plans approved by the Company's shareholders, the Company has granted stock options to managers. Each option permits the holder to purchase one share of the Company's common stock at a specified exercise price, during a specified period.

Information about the outstanding stock option plans is as follows:

Date of Approval	Option Holder	Total Number of Outstanding Options	Exercise Period	Exercise Price*
June 27, 2000	Managers	54,000	From July 1, 2002 to June 30, 2005	¥1,864

* Subject to adjustment for subsequent stock splits and other circumstances.

8. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 41% and 42% for the years ended March 31, 2005 and 2004, respectively.

On March 31, 2003, a tax reform law concerning enterprise tax was enacted in Japan which changed the normal effective statutory tax rate from 42% to 41%, effective for years beginning on or after April 1, 2004. The deferred tax assets and liabilities which will be realized on or after April 1, 2004 are measured at the effective tax rate of 41% as at March 31, 2004.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2005 and 2004 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Deferred tax assets:			
Current:			
Allowance for doubtful receivables	¥ 215	¥ 571	$ 2,000
Accrued bonuses	60	62	562
Inventories	159	130	1,482
Tax loss carryforwards	1,485	19	13,826
Allowance for investments		992	
Other	17	32	158
Less valuation allowance	(215)	(559)	(2,002)
Deferred tax assets—current	¥1,721	¥1,247	$16,026
Deferred tax assets:			
Non-current:			
Allowance for doubtful receivables	¥ 316	¥ 35	$ 2,944
Liability for retirement benefits	88	73	820
Allowance for investments		312	
Goodwill	116	231	1,077
Tax loss carryforwards	1,127	1,227	10,493
Other	169	102	1,575
Less valuation allowance	(579)	(759)	(5,390)
Deferred tax assets—non-current	¥1,237	¥1,221	$11,519

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2005 and 2004 is as follows:

	2005	2004
Normal effective statutory tax rate	41 %	42%
Expenses not deductible for income tax purposes	4	(4)
Per capita levy of local taxes	2	(2)
Valuation allowance	(85)	83
Other—net	(7)	(14)
Actual effective tax rate	(45)%	105%

At March 31, 2005, the Company and certain consolidated subsidiaries have tax loss carryforwards aggregating approximately ¥2,901 million ($27,014 thousand) which are available to be offset against taxable income of the Company and such subsidiaries 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
2006	¥ 60	$ 559
2007	669	6,230
2008	2,172	20,225
Total	¥2,901	$27,014

9. LEASES

The Group 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 ¥45 million ($420 thousand) and ¥51 million for the years ended March 31, 2005 and 2004, 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, 2005 and 2004 was as follows:

	Millions of Yen			
	2005			
	Machinery and Equipment	Furniture and Fixtures	Other Assets	Total
Acquisition cost	¥29	¥165	¥46	¥240
Accumulated depreciation	8	105	25	138
Net leased property	¥21	¥ 60	¥21	¥102

	Millions of Yen			
	2004			
	Machinery and Equipment	Furniture and Fixtures	Other Assets	Total
Acquisition cost	¥24	¥177	¥44	¥245
Accumulated depreciation	12	92	26	130
Net leased property	¥12	¥ 85	¥18	¥115

	Thousands of U.S. Dollars			
	2005			
	Machinery and Equipment	Furniture and Fixtures	Other Assets	Total
Acquisition cost	$273	$1,532	$427	$2,232
Accumulated depreciation	74	977	227	1,278
Net leased property	$199	$ 555	$200	$ 954

Obligations under finance leases which included the imputed interest expense portion as of March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Due within one year	¥ 47	¥ 46	$444
Due after one year	55	69	510
Total	¥102	¥115	$954

10. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Group also enters into interest rate swap and interest cap contracts to manage its interest rate exposures on certain liabilities.

It is the Company's policy to use derivatives for the purposes of reducing market risks associated with assets and liabilities and improving the financial position. The Company does not hold or issue derivatives for trading purposes.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

The Group had the following derivatives contracts outstanding at March 31, 2005 and 2004:

	Millions of Yen					
	2005			2004		
	Contract Amount	Fair Value	Unrealized Gain (Loss)	Contract Amount	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts—Selling U.S.$				¥ 84	¥85	¥ 1
Interest rate swaps:						
Fixed rate payment, floating rate receipt	¥5,000	¥(61)	¥(61)	5,000	(83)	(83)
Fixed rate receipt, floating rate payment	2,000	(46)	(46)	3,000	13	13
Interest caps—Buying	1,000	3	3	1,000	12	12

	Thousands of U.S. Dollars		
	2005		
	Contract Amount	Fair Value	Unrealized Gain (Loss)
Interest rate swaps:			
Fixed rate payment, floating rate receipt	$46,559	$(568)	$(568)
Fixed rate receipt, floating rate payment	18,624	(427)	(427)
Interest caps—Buying	9,312	25	25

The contracts which qualify for hedge accounting for the years ended March 31, 2005 and 2004 are excluded from the disclosure of market value information.

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

11. COMMITMENTS AND CONTINGENT LIABILITIES

At March 31, 2005, the Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Trade notes endorsed	¥7,824	$72,855

12. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2005 and 2004 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2005	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥1,141	12,008	¥ 95.09	$0.89
Effect of dilutive securities—Convertible bonds	3	3,312		
Diluted EPS—Net income for computation	¥1,144	15,320	¥ 74.70	$0.70
Year Ended March 31, 2004				
Basic EPS—Net income available to common shareholders	¥2,253	11,771	¥191.40	
Effect of dilutive securities—Convertible bonds	6	3,873		
Diluted EPS—Net income for computation	¥2,259	15,644	¥144.43	

13. SEGMENT INFORMATION

The Company and its consolidated subsidiaries primary operate as distributors of semiconductors and electronic devices.

Industry segment information is not required to be disclosed as either sales, operating income and assets of its segment exceed 90% of total segment sales (including intersegment sales or transfers), operating income of all segments which did not record any operating loss, and total segment assets, respectively.

Information about geographical segments and sales to foreign customers of the Company and consolidated subsidiaries for the years ended March 31, 2005 and 2004 is as follows:

(1) Geographical Segments

The geographical segments of the Company and consolidated subsidiaries for the years ended March 31, 2005 and 2004 are summarized as follows:

	Millions of Yen			
	2005			
	Japan	Asia	Eliminations or Corporate	Consolidated
Sales to customers	¥ 99,043	¥21,451		¥120,494
Interarea transfer	3,894	2,174	¥(6,068)	
Total sales	102,937	23,625	(6,068)	120,494
Operating expenses	101,112	23,517	(6,072)	118,557
Operating income	¥ 1,825	¥ 108	¥ 4	¥ 1,937
Total assets	¥ 34,032	¥ 6,060	¥(5,284)	¥ 34,808

	Thousands of U.S. Dollars			
	2005			
	Japan	Asia	Eliminations or Corporate	Consolidated
Sales to customers	$922,275	$199,748		$1,122,023
Interarea transfer	36,258	20,241	$(56,499)	
Total sales	958,533	219,989	(56,499)	1,122,023
Operating expenses	941,537	218,983	(56,534)	1,103,986
Operating income	$ 16,996	$ 1,006	$ 35	$ 18,037
Total assets	$316,896	$ 56,430	$(49,199)	$ 324,127

	Millions of Yen			
	2004			
	Japan	Asia	Eliminations or Corporate	Consolidated
Sales to customers	¥110,334	¥19,951		¥130,285
Interarea transfer	3,558	1,903	¥(5,461)	
Total sales	113,892	21,854	(5,461)	130,285
Operating expenses	112,136	21,598	(5,463)	128,271
Operating income	¥ 1,756	¥ 256	¥ 2	¥ 2,014
Total assets	¥ 39,759	¥ 7,182	¥(5,870)	¥ 41,071

(2) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2005 and 2004 amounted to ¥22,003 million ($204,889 thousand) and ¥21,305 million, respectively.

14. RELATED PARTY TRANSACTIONS

Sony Corporation ("Sony") trusted 1,331 thousand shares and 1,331 thousand shares of common stock of the Company at March 31, 2005 and 2004, respectively, which accounted for 11.02% and 11.28% of the total shares of the Company issued at the respective dates. Though Sony has trusted these stocks to trustee, Sony owns the right to vote to the Company.

Transactions of the Company with Sony for the years ended March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Sales	¥ 24	¥ 47	$ 221
Purchases	73,708	84,457	686,359

The balances due to or from Sony at March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Trade notes and accounts receivable	¥ 1	¥ 5	$ 7
Trade notes and accounts payable	9,282	9,913	86,435

15. SUBSEQUENT EVENT

The following appropriations of retained earnings at March 31, 2005 were approved at the Company's shareholders meeting held on June 27, 2005:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥20.00 ($0.19) per share	¥241	$2,249

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