Vitec Co., Ltd. and Consolidated Subsidiaries

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 consolidated balance sheets of Vitec Co., Ltd. (the "Company") and consolidated subsidiaries (together, the "Group") as of March 31, 2006 and 2005, 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, 2006 and 2005, 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.

As discussed in Note 2.f to the consolidated financial statements, the Group 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. and Consolidated Subsidiaries

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	¥ 1,869	¥ 1,715	$ 15,910
Receivables:			
Trade notes	166	1,829	1,413
Trade accounts (Note 14)	17,373	14,436	147,893
Unconsolidated subsidiaries		360	
Other	775	256	6,597
Allowance for doubtful receivables	(333)	(980)	(2,835)
Inventories (Note 4)	4,403	3,410	37,482
Deferred tax assets (Note 9)	407	1,721	3,465
Prepaid expenses and other	1,447	2,212	12,319
Total current assets	26,107	24,959	222,244
PROPERTY, PLANT AND EQUIPMENT:			
Land	2,161	2,416	18,396
Buildings and structures	1,849	2,003	15,740
Machinery and equipment	1,590	1,962	13,535
Furniture and fixtures	381	606	3,243
Total	5,981	6,987	50,914
Accumulated depreciation	(1,743)	(2,039)	(14,837)
Net property, plant and equipment	4,238	4,948	36,077
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 5)	1,548	1,480	13,178
Investments in and advances to unconsolidated subsidiaries	141	347	1,200
Long-term loans (Note 14)	545	215	4,639
Goodwill	92	195	783
Guarantee deposits	949	1,133	8,079
Deferred tax assets (Note 9)	2,135	1,237	18,175
Other assets	2,057	1,076	17,511
Allowance for doubtful accounts	(1,531)	(782)	(13,033)
Total investments and other assets	5,936	4,901	50,532
TOTAL	¥ 36,281	¥ 34,808	$ 308,853

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 6)	¥ 3,248	¥ 7,309	$ 27,650
Current portion of long-term debt (Note 6)	663	1,247	5,644
Payables:			
Trade notes	154	901	1,311
Trade accounts (Note 14)	22,351	12,684	190,270
Unconsolidated subsidiaries	105	391	894
Other	33	231	281
Income taxes payable	114	112	970
Accrued bonuses	157	156	1,337
Accrued expenses and other	448	489	3,813
Total current liabilities	27,273	23,520	232,170
LONG-TERM LIABILITIES:			
Long-term debt (Note 6)	1,059	3,547	9,015
Liability for retirement benefits (Note 7)	268	220	2,281
Other	39	360	332
Total long-term liabilities	1,366	4,127	11,628
MINORITY INTERESTS	352	264	2,997
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 10 and 11)			
SHAREHOLDERS' EQUITY (Notes 8 and 15):			
Common stock—authorized, 28,200,000 shares; issued, 12,076,358 shares in 2006 and 2005	4,504	4,504	38,342
Capital surplus	1,699	1,699	14,463
Retained earnings	993	967	8,453
Unrealized gain (loss) on available-for-sale securities	46	(96)	392
Foreign currency translation adjustments	81	(144)	689
Treasury stock—at cost, 34,942 shares in 2006 and 34,922 shares in 2005	(33)	(33)	(281)
Total shareholders' equity	7,290	6,897	62,058
TOTAL	¥ 36,281	¥ 34,808	$ 308,853

See notes to consolidated financial statements.

Vitec Co., Ltd. and Consolidated Subsidiaries

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 (Note 14)	¥ 106,771	¥ 120,494	$ 908,921
COST OF SALES (Note 14)	100,065	114,061	851,834
Gross profit	6,706	6,433	57,087
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	4,312	4,496	36,707
Operating income	2,394	1,937	20,380
OTHER INCOME (EXPENSES):			
Interest and dividend income (Note 14)	54	184	460
Interest expense	(180)	(262)	(1,532)
Foreign exchange gain	21	61	179
Gain (loss) on valuation of derivatives	68	(47)	579
Income from lease	75	70	638
Loss on sales of trade accounts	(60)	(59)	(511)
Loss on sales of property, plant and equipment		(505)	
Loss on disposals of property, plant and equipment	(13)	(93)	(111)
Loss from business restructuring	(1,038)	(263)	(8,836)
Depreciation on rental machinery	(79)	(97)	(673)
Provision of allowance for doubtful receivables	(99)	(40)	(843)
Loss on valuation of investment securities	(257)		(2,188)
Loss on impairment of long-lived assets	(325)		(2,767)
Other—net	86	(63)	733
Other expenses—net	(1,747)	(1,114)	(14,872)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	647	823	5,508
INCOME TAXES (Note 9):			
Current	53	114	451
Deferred	302	(486)	2,571
Total income taxes	355	(372)	3,022
MINORITY INTERESTS IN NET INCOME	(25)	(53)	(213)
NET INCOME	¥ 267	¥ 1,142	$ 2,273

(Continued)

Vitec Co., Ltd. and Consolidated Subsidiaries

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 12):			
Basic net income	¥22.19	¥95.09	$0.19
Diluted net income		74.70	
Cash dividends applicable to the year	20.00	20.00	0.17

See notes to consolidated financial statements.

(Concluded)

Vitec Co., Ltd. and Consolidated Subsidiaries

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	Retained Earnings	Unrealized Gain (Loss) on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, APRIL 1, 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)
Net income				267			
Cash dividends, ¥20 per share				(241)			
Net increase in unrealized gain on available-for-sale securities					142		
Net change in foreign currency translation adjustments						225	
BALANCE, MARCH 31, 2006	12,041	¥ 4,504	¥ 1,699	¥ 993	¥ 46	¥ 81	¥ (33)

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (Loss) on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, MARCH 31, 2005	$ 38,342	$ 14,463	$ 8,232	$ (817)	$ (1,226)	$ (281)
Net income			2,273			
Cash dividends, $0.17 per share			(2,052)			
Net increase in unrealized gain on available-for-sale securities				1,209		
Net change in foreign currency translation adjustments					1,915	
BALANCE, MARCH 31, 2006	$ 38,342	$ 14,463	$ 8,453	$ 392	$ 689	$ (281)

See notes to consolidated financial statements.

Vitec Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 647	¥ 823	$ 5,508
Adjustments for:			
Income taxes—paid	(51)	(42)	(434)
Depreciation and amortization	278	434	2,367
Loss on impairment of long-lived asset	325		2,767
(Gain) loss on valuation of derivatives	(68)	47	(579)
Loss on sales of property, plant and equipment		505	
Loss from business restructuring	546	263	4,648
Changes in assets and liabilities, net of effects from consolidating previously unconsolidated subsidiaries:			
(Increase) decrease in notes and accounts receivable	(1,594)	3,221	(13,569)
Increase in allowance for doubtful receivables	102	44	868
(Increase) decrease in inventories	(1,008)	1,763	(8,581)
Increase (decrease) in notes and accounts payable	8,367	(3,106)	71,227
Other—net	456	403	3,880
Total adjustments	7,353	3,532	62,594
Net cash provided by operating activities	8,000	4,355	68,102
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(84)	(107)	(715)
Proceeds from property, plant and equipment	185	206	1,575
Purchases of investment securities	(93)	(2)	(792)
Purchases of investments in and advance to consolidated subsidiaries	(72)		(613)
Outlays for long-term loans issued	(373)	(16)	(3,175)
Other—net	46	42	392
Net cash (used in) provided by investing activities	(391)	123	(3,328)
FORWARD	¥ 7,609	¥ 4,478	$ 64,774

(Continued)

Vitec Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
FORWARD	¥ 7,609	¥ 4,478	$ 64,774
FINANCING ACTIVITIES:			
(Decrease) increase in short-term bank loans—net	(4,155)	903	(35,371)
Proceeds from long-term debt		100	
Repayments of long-term debt	(1,297)	(1,653)	(11,041)
Proceeds from issuance of straight bonds		474	
Redemption of straight bonds	(1,775)	(725)	(15,110)
Redemption of convertible bonds		(4,423)	
Proceeds from issuance of common stock to minority shareholders	60		511
Dividends paid	(240)	(176)	(2,043)
Net cash used in financing activities	(7,407)	(5,500)	(63,054)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(46)	16	(392)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	156	(1,006)	1,328
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	(2)		(17)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,715	2,721	14,599
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 1,869	¥ 1,715	$ 15,910

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 2005 financial statements to conform to the classifications used in 2006.

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 ¥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. Consolidation*—**The consolidated financial statements as of March 31, 2006 include the accounts of the Company and its 10 significant (13 in 2005) 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.

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

The Group 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 and minority interests for the year ended March 31, 2006 by ¥325 million ($2,767 thousand).

g. ***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 (see Note 3).

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 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.

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. ***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.

m. ***Derivatives and Hedging Activities*—**The Company and certain consolidated subsidiaries use derivative financial instruments to manage their exposure 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 subsidiaries to reduce foreign currency exchange and interest rate risks. The Company and certain consolidated 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.

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 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. ACCOUNTING CHANGE

Prior to April 1, 2005, no provisions were recorded for retirement benefits to be paid to a certain consolidated domestic subsidiary's directors and corporate auditors. Effective April 1, 2005, the subsidiary changed its method of accounting for such retirement benefits to the accrual basis. The effect of this change was to decrease income before income taxes and minority interests for the year ended March 31, 2006 by ¥14 million ($119 thousand), which included a cumulative effect of ¥9 million ($77 thousand) at March 31, 2005. This cumulative effect was included in other expenses in the 2006 consolidated statement of income.

4. INVENTORIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Merchandise	¥ 4,390	¥ 3,167	$ 37,371
Products	13	243	111
Total	¥ 4,403	¥ 3,410	$ 37,482

5. 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	¥ 1,229	¥ 924	$ 10,462
Non-marketable equity securities	319	556	2,716
Total	¥ 1,548	¥ 1,480	$ 13,178

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2006 and 2005 were as follows:

	Millions of Yen			
	2006			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale equity securities	¥ 1,152	¥ 259	¥ 182	¥ 1,229

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

	Thousands of U.S. Dollars			
	2006			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale equity securities	$ 9,807	$ 2,205	$ 1,550	$ 10,462

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2006 and 2005 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Available-for-sale—Equity securities	¥ 319	¥ 556	$ 2,716

Proceeds from sales of available-for-sale securities for the years ended March 31, 2006 and 2005 were ¥53 million ($451 thousand) and ¥0 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥44 million ($375 thousand) and ¥0 million ($0 thousand), respectively, for the year ended March 31, 2006 and ¥0 million and ¥0 million, respectively, for the year ended March 31, 2005.

6. 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 5.63% and 0.58% to 3.67% 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

7. 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, 2006 and 2005 for directors and corporate auditors was ¥212 million ($1,804 thousand) and ¥176 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, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Projected benefit obligation	¥ 363	¥ 331	$ 3,090
Fair value of plan assets	(307)	(288)	(2,613)
Net liability	56	43	477
Prepaid plan expenses		1	
Liability for employees' retirement benefits	¥ 56	¥ 44	$ 477

The benefit costs for the years ended March 31, 2006 and 2005 are ¥64 million ($547 thousand) and ¥59 million, respectively.

8. SHAREHOLDERS' EQUITY

Through May 1, 2006, Japanese companies are subject to the Commercial Code of Japan (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 ($9,279 thousand) as of March 31, 2006, 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 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.

9. INCOME TAXES

The Company and its domestic subsidiaries are 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	¥ 215	$ 2,758
Accrued bonuses	61	60	519
Inventories	213	159	1,813
Tax loss carryforwards	38	1,485	324
Other	13	17	111
Less valuation allowance	(242)	(215)	(2,060)
Deferred tax assets—current	¥ 407	¥ 1,721	$ 3,465
Non-current:			
Deferred tax assets:			
Allowance for doubtful receivables	¥ 458	¥ 316	$ 3,899
Liability for retirement benefits	108	88	919
Loss on valuation of investments securities	105		894
Loss on impairment of long-lived assets	122		1,039
Goodwill		116	
Tax loss carryforwards	2,105	1,127	17,919
Other	87	169	740
Less valuation allowance	(818)	(579)	(6,963)
Total	2,167	1,237	18,447
Deferred tax liabilities—unrealized loss on available-for-sale securities	32		272
Total	32		272
Net deferred tax assets—non-current	¥ 2,135	¥ 1,237	$ 18,175

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, 2006 and 2005 is as follows:

	2006	2005
Normal effective statutory tax rate	41%	41 %
Expenses not deductible for income tax purposes	8	4
Per capita levy of local taxes	2	2
Foreign tax deductible as expenses	6	
Tax benefits not recognized on operating losses of subsidiaries	0	1
Differences in tax rates in comparison with foreign subsidiaries	(8)	(3)
Valuation allowance	7	(85)
Other—net	(1)	(5)
Actual effective tax rate	55%	(45)%

At March 31, 2006, the Company and certain consolidated subsidiaries have tax loss carryforwards aggregating approximately ¥5,291 million ($45,041 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
2007	¥ 94	$ 800
2008	2,260	19,239
2009	2,430	20,686
2010	507	4,316
Total	¥ 5,291	$ 45,041

10. 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 ¥46 million ($392 thousand) and ¥45 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	¥ 41	¥ 137	¥ 51	¥ 229
Accumulated depreciation	15	103	36	154
Net leased property	¥ 26	¥ 34	¥ 15	¥ 75

	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

	Thousands of U.S. Dollars			
	2006			
	Machinery and Equipment	Furniture and Fixtures	Other Assets	Total
Acquisition cost	$ 349	$ 1,166	$ 434	$ 1,949
Accumulated depreciation	128	877	306	1,311
Net leased property	$ 221	$ 289	$ 128	$ 638

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	¥ 40	¥ 47	$ 340
Due after one year	35	55	298
Total	¥ 75	¥ 102	$ 638

11. DERIVATIVES

The Company and certain consolidated subsidiaries enter into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Company and certain consolidated subsidiaries also enter into interest rate swap and interest cap contracts to manage their interest rate exposures on certain liabilities.

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

Because the counterparties to these derivatives are limited to major international financial institutions, the Company and certain consolidated subsidiaries do not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Company and certain consolidated subsidiaries 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, 2006 and 2005:

	Millions of Yen					
	2006			2005		
	Contract Amount	Fair Value	Unrealized Gain (Loss)	Contract Amount	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:						
Selling U.S.$	¥ 71	¥ 71				
Buying U.S.$	361	362	¥ 1			
Buying ¥	47	47				
Interest rate swaps:						
Fixed rate payment, floating rate receipt	5,000	(20)	(20)	¥ 5,000	¥ (61)	¥ (61)
Fixed rate receipt, floating rate payment	1,000	(22)	(22)	2,000	(46)	(46)
Interest caps—Buying	1,000	5	5	1,000	3	3

	Thousands of U.S. Dollars		
	2006		
	Contract Amount	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:			
Selling U.S.$	$ 604	$ 604	
Buying U.S.$	3,073	3,082	$ 9
Buying ¥	400	400	
Interest rate swaps:			
Fixed rate payment, floating rate receipt	42,564	(170)	(170)
Fixed rate receipt, floating rate payment	8,513	(187)	(187)
Interest caps—Buying	8,513	43	43

The contracts which qualify for hedge accounting for the years ended March 31, 2006 and 2005 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 Company and certain consolidated subsidiaries exposure to credit or market risk.

12. NET INCOME PER SHARE

A 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 Net Income	Thousands of Shares Weighted-average Shares	Yen EPS
Basic EPS—Net income available to common shareholders	¥ 1,141	12,008	¥ 95.09
Effect of dilutive securities—Convertible bonds	3	3,312	
Diluted EPS—Net income for computation	¥ 1,144	15,320	¥ 74.70

13. SEGMENT INFORMATION

The Group primarily operates as a distributor 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 Group for the years ended March 31, 2006 and 2005 is as follows:

(1) Geographical Segments

The geographical segments of the Group for the years ended March 31, 2006 and 2005 are summarized as follows:

	Millions of Yen				
	2006				
	Japan	Asia	Others	Eliminations or Corporate	Consolidated
Sales to customers	¥ 82,996	¥ 23,480	¥ 295		¥ 106,771
Interarea transfer	4,069	881		¥ (4,950)	
Total sales	87,065	24,361	295	(4,950)	106,771
Operating expenses	85,011	24,016	298	(4,948)	104,377
Operating income (loss)	¥ 2,054	¥ 345	¥ (3)	¥ (2)	¥ 2,394
Total assets	¥ 32,432	¥ 8,052	¥ 91	¥ (4,294)	¥ 36,281

	Thousands of U.S. Dollars				
	2006				
	Japan	Asia	Others	Eliminations or Corporate	Consolidated
Sales to customers	$ 706,529	$ 199,881	$ 2,511		$ 908,921
Interarea transfer	34,639	7,499		$ (42,138)	
Total sales	741,168	207,380	2,511	(42,138)	908,921
Operating expenses	723,683	204,443	2,536	(42,121)	888,541
Operating income (loss)	$ 17,485	$ 2,937	$ (25)	$ (17)	$ 20,380
Total assets	$ 276,088	$ 68,545	$ 774	$ (36,554)	$ 308,853

	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

(2) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2006 and 2005 amounted to ¥24,688 million ($210,164 thousand) and ¥22,003 million, respectively.

14. RELATED PARTY TRANSACTIONS

(1) Sony Corporation ("Sony") trusted 1,331 thousand shares of common stock of the Company at March 31, 2006 and 2005, which accounted for 11.02% of the total shares of the Company issued at the respective dates. Although Sony has trusted these stocks to a trustee, Sony still owns the right to vote on matters of the Company.

Transactions of the Company with Sony and subsidiary companies of Sony for the years ended March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Sales:			
Sony	¥ 15	¥ 24	$ 128
Sony Manufacturing Systems Corporation	326		2,775
Purchases:			
Sony	64,727	73,708	551,009
Sony Manufacturing Systems Corporation	4,987		42,453
Sony Electronics (S) PTE LTD.	1,817		15,468
Sony Corporation of Hong Kong Limited	2,901		24,696

The balances due to or from Sony and subsidiary companies of Sony at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Trade accounts receivable:			
Sony		¥ 1	
Sony Manufacturing Systems Corporation	¥ 328		$ 2,794
Trade accounts payable:			
Sony	15,924	9,282	135,558
Sony Manufacturing Systems Corporation	1,397		11,890
Sony Electronics (S) PTE LTD.	984		8,374
Sony Corporation of Hong Kong Limited	613		5,215

(2) Significant transactions and balance of the Company with a director for the year ended March 31, 2006 were as follows.

Transactions of the Company with Mr. Shunichi Shirai, Representative Director, for the year ended March 31, 2006 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Loan receivable	¥ 330	$ 2,809
Interest income	2	17

The balance due to or from Mr. Shunichi Shirai, Representative Director, at March 31, 2006 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Long-term loan	¥ 330	$ 2,809

Mr.Shunichi Shirai resigned as Representative Director at AGM held on 23 Jun 06 is not Related Party. Transaction amount is calculated from 1 Apr to 23 Jun 06, Balance amount is one at 23 Jun 06.

15. 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	$ 2,052

* * * * * *