Vitec Co., Ltd. and Consolidated Subsidiaries

Consolidated Financial Statements for the Years Ended March 31, 2007 and 2006, and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Vitec Co., Ltd. and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in 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, 2007 and 2006, 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 22, 2007

Vitec Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets
March 31, 2008 and 2007

ASSETS	Millions of Yen 2008	Millions of Yen 2007	Thousands of U.S. Dollars (Note 1) 2008
CURRENT ASSETS:			
Cash and cash equivalents	¥ 2,293	¥ 1,869	$ 19,424
Receivables:			
Trade notes	208	166	1,762
Trade accounts (Note 13)	19,407	17,373	164,396
Other	300	775	2,541
Allowance for doubtful receivables	(4)	(333)	(34)
Inventories (Note 3)	5,321	4,403	45,074
Deferred tax assets (Note 8)	243	407	2,058
Prepaid expenses and other	212	1,447	1,797
Total current assets	27,980	26,107	237,018
PROPERTY, PLANT AND EQUIPMENT:			
Land	2,160	2,161	18,298
Buildings and structures	1,851	1,849	15,680
Machinery and equipment	1,311	1,590	11,105
Furniture and fixtures	393	381	3,329
Total	5,715	5,981	48,412
Accumulated depreciation	(1,687)	(1,743)	(14,291)
Net property, plant and equipment	4,028	4,238	34,121
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 4)	1,193	1,548	10,106
Investments in and advances to unconsolidated subsidiaries	117	141	991
Long-term loans (Note 13)	1,729	545	14,646
Goodwill	158	194	1,338
Guarantee deposits	814	949	6,895
Deferred tax assets (Note 8)	2,107	2,135	17,848
Other assets	1,249	1,955	10,582
Allowance for doubtful accounts	(1,201)	(1,531)	(10,174)
Total investments and other assets	6,166	5,936	52,232
TOTAL	¥ 38,174	¥ 36,281	$ 323,371

LIABILITIES AND EQUITY	Millions of Yen 2007	Millions of Yen 2006	Thousands of U.S. Dollars (Note 1) 2007
CURRENT LIABILITIES:			
Short-term bank loans (Note 5)	¥ 9,416	¥ 3,248	$ 79,763
Current portion of long-term debt (Note 5)	663	663	5,616
Payables:			
Trade notes	105	154	889
Trade accounts (Note 13)	18,282	22,351	154,867
Unconsolidated subsidiaries		105	
Other	269	33	2,279
Income taxes payable	160	114	1,355
Accrued bonuses	173	157	1,465
Accrued expenses and other	340	448	2,881
Total current liabilities	29,408	27,273	249,115
LONG-TERM LIABILITIES:			
Long-term debt (Note 5)	395	1,059	3,346
Liability for retirement benefits (Note 6)	199	268	1,686
Other	3	39	25
Total long-term liabilities	597	1,366	5,057
MINORITY INTERESTS		352	
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 9 and 10)			
EQUITY (Notes 7 and 14):			
Common stock—authorized, 28,200,000 shares; issued, 12,076,358 shares in 2007 and 2006	4,504	4,504	38,153
Capital surplus	1,699	1,699	14,392
Retained earnings	1,467	993	12,427
Unrealized gain (loss) on available-for-sale securities	(42)	46	(356)
Foreign currency translation adjustments	87	81	738
Treasury stock—at cost, 34,942 shares in 2007 and 2006	(33)	(33)	(280)
Total	7,682	7,290	65,074
Minority interests	487		4,125
Total equity	8,169	7,290	69,199
TOTAL	¥ 38,174	¥ 36,281	$ 323,371

See notes to consolidated financial statements.

Vitec Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
NET SALES	¥ 109,068	¥ 106,771	$ 923,914
COST OF SALES	103,210	100,065	874,291
Gross profit	5,858	6,706	49,623
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	4,168	4,312	35,307
Operating income	1,690	2,394	14,316
OTHER INCOME (EXPENSES):			
Interest and dividend income (Note 13)	86	54	729
Interest expense	(178)	(180)	(1,508)
Foreign exchange gain (loss)	(76)	21	(644)
Gain on valuation of derivatives	38	68	322
Income from lease	84	75	712
Loss on sales of trade accounts	(82)	(60)	(695)
Loss on disposals of property, plant and equipment	(49)	(13)	(415)
Loss from business restructuring		(1,038)	
Depreciation on rental machinery	(86)	(79)	(729)
Provision of allowance for doubtful receivables	(5)	(99)	(42)
Loss on impairment of long-lived assets	(5)	(325)	(42)
Gain on sales of investment securities	172	45	1,457
Loss on valuation of investment securities	(22)	(257)	(186)
Loss on disposition of long-term prepaid expenses	(158)		(1,338)
Other—net	(145)	41	(1,230)
Other expenses—net	(426)	(1,747)	(3,609)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	1,264	647	10,707
INCOME TAXES (Note 8):			
Current	163	53	1,381
Deferred	251	302	2,126
Total income taxes	414	355	3,507
MINORITY INTERESTS IN NET INCOME	(134)	(25)	(1,135)
NET INCOME	¥ 716	¥ 267	$ 6,065

(Continued)

Vitec Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2007 and 2006

	Yen		U.S. Dollars
	2007	2006	2007
PER SHARE OF COMMON STOCK (Notes 2.o and 11):			
Basic net income	¥59.47	¥22.19	$0.50
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 Changes in Equity
Years Ended March 31, 2007 and 2006

	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	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2005	12,041	¥ 4,504	¥ 1,699	¥ 967	¥ (96)	¥ (144)	¥ (33)	¥ 6,897		¥ 6,897
Net income				267				267		267
Cash dividends, ¥20 per share				(241)				(241)		(241)
Net increase in unrealized gain on available-for-sale securities					142			142		142
Net change in foreign currency translation adjustments						225		225		225
BALANCE, MARCH 31, 2006	12,041	4,504	1,699	993	46	81	(33)	7,290		7,290
Reclassified balance as of March 31, 2006 (Note 2.h)									¥ 352	352
Adjustment of retained earnings for newly consolidated subsidiaries				(1)				(1)	(1)	(2)
Net income				716				716		716
Cash dividends, ¥20 per share				(241)				(241)		(241)
Net change in the year					(88)	6		(82)	136	54
BALANCE, MARCH 31, 2007	12,041	¥ 4,504	¥ 1,699	¥ 1,467	¥ (42)	¥ 87	¥ (33)	¥ 7,682	¥ 487	¥ 8,169

	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	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2006	$ 38,153	$ 14,392	$ 8,412	$ 390	$ 686	$ (280)	$ 61,753		$ 61,753
Reclassified balance as of March 31, 2006 (Note 2.h)								$ 2,982	2,982
Adjustment of retained earnings for newly consolidated subsidiaries			(8)				(8)	(8)	(16)
Net income			6,065				6,065		6,065
Cash dividends, $0.17 per share			(2,042)				(2,042)		(2,042)
Net change in the year				(746)	52		(694)	1,151	457
BALANCE, MARCH 31, 2007	$ 38,153	$ 14,392	$ 12,427	$ (356)	$ 738	$ (280)	$ 65,074	$ 4,125	$ 69,199

See notes to consolidated financial statements.

Vitec Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 1,264	¥ 647	$ 10,707
Adjustments for:			
Income taxes—paid	(96)	(51)	(813)
Depreciation and amortization	258	278	2,186
Loss on impairment of long-lived asset	5	325	42
Gain on valuation of derivatives	(38)	(68)	(322)
Loss from business restructuring		546	
Loss on disposition of long-term prepaid expenses	158		1,338
Changes in assets and liabilities, net of effects from consolidating previously unconsolidated subsidiaries:			
Increase in notes and accounts receivable	(2,202)	(1,594)	(18,653)
Increase in allowance for doubtful receivables	4	102	34
Increase in inventories	(913)	(1,008)	(7,734)
Increase (decrease) in notes and accounts payable	(4,077)	8,367	(34,536)
Other—net	463	456	3,922
Total adjustments	(6,438)	7,353	(54,536)
Net cash provided by (used in) operating activities	(5,174)	8,000	(43,829)
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(50)	(84)	(424)
Proceeds from property, plant and equipment	9	185	76
Purchases of investment securities	(142)	(93)	(1,203)
Proceeds from investment securities	423	53	3,583
Purchases of investments in and advance to consolidated subsidiaries		(72)	
Outlays for long-term loans issued		(373)	
Other—net	26	(7)	221
Net cash provided by (used in) investing activities	266	(391)	2,253
FORWARD	¥ (4,908)	¥ 7,609	$ (41,576)

(Continued)

Vitec Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
FORWARD	¥ (4,908)	¥ 7,609	$ (41,576)
FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans—net	6,164	(4,155)	52,215
Repayments of long-term debt	(163)	(1,297)	(1,381)
Redemption of straight bonds	(500)	(1,775)	(4,236)
Proceeds from issuance of common stock to minority shareholders		60	
Dividends paid	(240)	(240)	(2,032)
Net cash provided by (used in) financing activities	5,261	(7,407)	44,566
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	52	(46)	441
NET INCREASE IN CASH AND CASH EQUIVALENTS	405	156	3,431
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	19	(2)	161
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,869	1,715	15,832
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 2,293	¥ 1,869	$ 19,424

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 ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

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

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

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 ¥118.05 to $1, the approximate rate of exchange at March 31, 2007. Such translation should not be construed as representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Consolidation*****—**The consolidated financial statements as of March 31, 2007 include the accounts of the Company and its 10 significant (10 in 2006) 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.

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 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, 2007 and 2006 are principally as follows:

	2007	2006
Buildings and structures	8–50 years	8–50 years
Machinery and equipment	2–15 years	2–15 years
Furniture and fixtures	3–20 years	4–20 years

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

The 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.

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.

h. ***Presentation of Equity—***On December 9, 2005, the ASBJ issued ASBJ Statement No. 5, "Accounting Standard for Presentation of Equity." Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006. The consolidated balance sheet as of March 31, 2007 is presented in line with this new accounting standard.

i. ***Leases—***All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

j. ***Income Taxes—***The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

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

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

m. ***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 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 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.

n. ***Derivatives and Hedging Activities***—The Company and certain consolidated subsidiaries use derivative financial instruments to manage their 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 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 consolidated statements of income and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

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

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

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

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

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

p. ***New Accounting Pronouncements***

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

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

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

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

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements**—**Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." The new task force prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;

(1) Amortization of goodwill
(2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
(3) Capitalization of intangible assets arising from development phases
(4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
(5) Retrospective application when accounting policies are changed
(6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

3. INVENTORIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Merchandise	¥ 5,320	¥ 4,390	$ 45,066
Products	1	13	8
Total	¥ 5,321	¥ 4,403	$ 45,074

4. INVESTMENT SECURITIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Non-current:			
Marketable equity securities	¥ 893	¥ 1,229	$ 7,565
Non-marketable equity securities	300	319	2,541
Total	¥ 1,193	¥ 1,548	$ 10,106

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2007 and 2006 were as follows:

	Millions of Yen 2007			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale equity securities	¥ 962	¥ 6	¥ 75	¥ 893

	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

	Thousands of U.S. Dollars 2007			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale equity securities	$ 8,150	$ 50	$ 635	$ 7,565

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2007 and 2006 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Available-for-sale—Equity securities	¥ 300	¥ 319	$ 2,541

Proceeds from sales of available-for-sale securities for the years ended March 31, 2007 and 2006 were ¥423 million ($3,583 thousand) and ¥53 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥172 million ($1,457 thousand) and ¥78 million ($661 thousand), respectively, for the year ended March 31, 2007 and ¥45 million and ¥0 million, respectively, for the year ended March 31, 2006.

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

Short-term bank loans at March 31, 2007 and 2006 consisted of overdrafts to banks. The annual interest rates applicable to the short-term bank loans ranged from 0.94% to 5.83% and 0.80% to 5.63% at March 31, 2007 and 2006, respectively.

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

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

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

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

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, 2007 and 2006 for directors and corporate auditors was ¥140 million ($1,186 thousand) and ¥212 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, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Projected benefit obligation	¥ 401	¥ 363	$ 3,397
Fair value of plan assets	(342)	(307)	(2,897)
Liability for employees' retirement benefits	¥ 59	¥ 56	$ 500

The benefit costs for the years ended March 31, 2007 and 2006 are ¥56 million ($474 thousand) and ¥64 million, respectively.

7. EQUITY

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

a. Dividends

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

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

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

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

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

c. ***Treasury Stock and Treasury Stock Acquisition Rights***

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity. The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

8. INCOME TAXES

The Company 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, 2007 and 2006.

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

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Current:			
Deferred tax assets:			
Allowance for doubtful receivables	¥ 115	¥ 324	$ 974
Accrued bonuses	67	61	568
Inventories	125	213	1,059
Tax loss carryforwards	32	38	271
Other	17	13	143
Less valuation allowance	(113)	(242)	(957)
Deferred tax assets—current	¥ 243	¥ 407	$ 2,058
Non-current:			
Deferred tax assets:			
Allowance for doubtful receivables	¥ 324	¥ 458	$ 2,745
Liability for retirement benefits	76	108	644
Loss on valuation of investments securities	113	105	957
Loss on impairment of long-lived assets	111	122	940
Tax loss carryforwards	2,199	2,105	18,628
Other	85	87	719
Less valuation allowance	(801)	(818)	(6,785)
Total	2,107	2,167	17,848
Deferred tax liabilities—unrealized loss on available-for-sale securities		32	
Total		32	
Net deferred tax assets—non-current	¥ 2,107	¥ 2,135	$ 17,848

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, 2007 and 2006 is as follows:

	2007	2006
Normal effective statutory tax rate	41%	41%
Expenses not deductible for income tax purposes	4	8
Per capita levy of local taxes	1	2
Foreign tax deductible as expenses		6
Tax benefits not recognized on operating losses of subsidiaries	(0)	0
Differences in tax rates in comparison with foreign subsidiaries	(4)	(8)
Valuation allowance	(10)	7
Other—net	1	(1)
Actual effective tax rate	33%	55%

At March 31, 2007, the Company and certain consolidated subsidiaries have tax loss carryforwards aggregating approximately ¥5,511 million ($46,684 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
2008	¥ 1,170	$ 9,911
2009	2,310	19,568
2010	1,692	14,333
2011	339	2,872
Total	¥ 5,511	$ 46,684

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 ¥48 million ($407 thousand) and ¥46 million for the years ended March 31, 2007 and 2006, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation and obligations under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2007 and 2006 was as follows:

	Millions of Yen			
	2007			
	Machinery and Equipment	Furniture and Fixtures	Other Assets	Total
Acquisition cost	¥85	¥52	¥35	¥ 172
Accumulated depreciation	22	32	26	80
Net leased property	¥63	¥20	¥ 9	¥ 92

	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

	Thousands of U.S. Dollars			
	2007			
	Machinery and Equipment	Furniture and Fixtures	Other Assets	Total
Acquisition cost	$ 720	$ 440	$ 297	$ 1,457
Accumulated depreciation	186	271	221	678
Net leased property	$ 534	$ 169	$ 76	$ 779

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

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Due within one year	¥ 32	¥ 40	$ 271
Due after one year	60	35	508
Total	¥ 92	¥ 75	$ 779

10. 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, 2007 and 2006:

	Millions of Yen					
	2007			2006		
	Contract Amount	Fair Value	Unrealized Gain	Contract Amount	Fair Value	Unrealized Gain (Loss)
Foreign currency forward contracts:						
Selling U.S.$	¥ 45	¥ 45		¥ 71	¥ 71	
Buying U.S.$	176	176		361	362	¥ 1
Buying ¥				47	47	
Interest rate swaps:						
Fixed rate payment, floating rate receipt				5,000	(20)	(20)
Fixed rate receipt, floating rate payment				1,000	(22)	(22)
Interest caps—Buying	1,000	1	¥1	1,000	5	5

	Thousands of U.S. Dollars		
	2007		
	Contract Amount	Fair Value	Unrealized Gain
Foreign currency forward contracts:			
Selling U.S.$	$ 381	$ 381	
Buying U.S.$	1,491	1,491	
Interest caps—Buying	8,471	8	$8

The contracts which qualify for hedge accounting for the years ended March 31, 2007 and 2006 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.

11. NET INCOME PER SHARE

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

12. SEGMENT INFORMATION

The Group primarily operates 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 Group for the years ended March 31, 2007 and 2006 is as follows:

(1) Geographical Segments

The geographical segments of the Group for the years ended March 31, 2007 and 2006 are summarized as follows:

	Millions of Yen				
	2007				
	Japan	Asia	Others	Eliminations or Corporate	Consolidated
Sales to customers	¥ 76,465	¥ 32,191	¥ 412		¥ 109,068
Interarea transfer	6,095	110		¥ (6,205)	
Total sales	82,560	32,301	412	(6,205)	109,068
Operating expenses	81,503	31,654	429	(6,208)	107,378
Operating income (loss)	¥ 1,057	¥ 647	¥ (17)	¥ 3	¥ 1,690
Total assets	¥ 34,258	¥ 7,958	¥ 68	¥ (4,110)	¥ 38,174

	Thousands of U.S. Dollars				
	2007				
	Japan	Asia	Others	Eliminations or Corporate	Consolidated
Sales to customers	$ 647,734	$ 272,690	$ 3,490		$ 923,914
Interarea transfer	51,631	931		$ (52,562)	
Total sales	699,365	273,621	3,490	(52,562)	923,914
Operating expenses	690,411	268,140	3,634	(52,587)	909,598
Operating income (loss)	$ 8,954	$ 5,481	$ (144)	$ 25	$ 14,316
Total assets	$ 290,199	$ 67,412	$ 576	$ (34,816)	$ 323,371

	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

(2) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2007 and 2006 amounted to ¥33,401 million ($282,939 thousand) and ¥24,688 million, respectively.

13. RELATED PARTY TRANSACTIONS

(1) Sony Corporation ("Sony") trusted 1,331 thousand shares of common stock of the Company at March 31, 2007 and 2006, 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, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Sales:			
Sony		¥ 15	
Sony Manufacturing Systems Corporation	¥ 1,576	326	$ 13,350
Sony Supply Chain Solutions, Inc.	11		93
Purchases:			
Sony	54,868	64,727	464,786
Sony Manufacturing Systems Corporation	5,044	4,987	42,728
Sony Electronics (S) PTE LTD.	5,075	1,817	42,990
Sony Corporation of Hong Kong Limited	4,447	2,901	37,670

The balances due to or from Sony and subsidiary companies of Sony at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Trade accounts receivable—			
Sony Manufacturing Systems Corporation	¥ 317	¥ 328	$ 2,685
Trade accounts payable:			
Sony	9,990	15,924	84,625
Sony Manufacturing Systems Corporation	1,806	1,397	15,299
Sony Electronics (S) PTE LTD.	707	984	5,989
Sony Corporation of Hong Kong Limited	571	613	4,837

(2) Significant transactions and balance of the Company with a director for the years ended March 31, 2007 and 2006 were as follows.

Transactions of the Company with Mr. Shunichi Shirai, Representative Director, for the years ended March 31, 2007 and 2006 were as follows:

Mr. Shunichi Shirai resigned as Representative Director at the annual general meeting of shareholders held on June 23, 2006 and is no longer considered a related party as of June 23, 2006. Transaction amount is calculated from April 1 to June 23, 2006, and the balance is the amount at June 23, 2006.

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Loan receivable		¥ 330	
Interest income	¥2	2	$ 17

The balance due to or from Mr. Shunichi Shirai, Representative Director, at March 31, 2007 and 2006 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Long-term loan	¥ 330	¥ 330	$ 2,795

14. SUBSEQUENT EVENT

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

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

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