Kaga Electronics Co., Ltd. and Subsidiaries

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

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Kaga Electronics Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Kaga Electronics Co., Ltd. and 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 Kaga Electronics Co., Ltd. and 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.

Deloitte Touche Tohmatsu

June 28, 2007

Kaga Electronics Co., Ltd. and Subsidiaries

Consolidated Balance Sheets
March 31, 2007 and 2006-unaudited

ASSETS	Millions of Yen 2007	Millions of Yen 2006	Thousands of U.S. Dollars (Note 2) 2007
CURRENT ASSETS:			
Cash and cash equivalents	¥ 14,558	¥ 20,132	$ 123,373
Marketable securities	264	262	2,237
Notes and accounts receivable:			
Trade	67,465	61,335	571,737
Other	5,034	2,39	42,661
Allowance for doubtful receivables	(252)	(147)	(2,136)
Inventories	19,727	14,927	167,178
Deferred tax assets	444	584	3,763
Prepaid expenses and other current assets	614	2,517	5,204
Total current assets	107,854	102,008	914,017
PROPERTY, PLANT AND EQUIPMENT:			
Land	1,872	1,921	15,864
Buildings and structures	3,130	3,519	26,525
Machinery, equipment and vehicles	3,208	2,506	27,186
Molding dies and furniture	1,637	1,631	13,873
Construction in progress	8	0	68
Total	9,855	9,577	83,516
Accumulated depreciation	(4,360)	(4,401)	(36,949)
Net property, plant and equipment	5,495	5,176	46,568
INVESTMENTS AND OTHER ASSETS:			
Investment securities	6,993	6,810	59,263
Guarantee deposits	2,331	2,502	19,754
Refundable insurance premium	830	823	7,034
Deferred tax assets	81	59	686
Other assets	2,229	2,052	18,890
Total investments and other assets	12,464	12,257	105,627
TOTAL	¥ 125,813	¥ 119,441	$ 1,066,212

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2007	Millions of Yen 2006	Thousands of U.S. Dollars (Note 2) 2007
CURRENT LIABILITIES:			
Short-term bank loans	¥ 4,545	¥ 3,113	$ 38,517
Current portion of long-term bank loans	2,500	2,500	21,186
Notes and accounts payable			
Trade	54,218	47,863	459,475
Other	1,195	903	10,127
Income taxes payable	1,831	3,145	15,517
Accrued expenses and other current liabilities	2,770	3,820	23,474
Total current liabilities	67,059	61,344	568,296
LONG-TERM LIABILITIES:			
Long-term bank loans	2,378	4,688	20,153
Convertible bonds			
Liability for employees' retirement benefits	1,076	1,012	9,119
Retirement benefits for directors and corporate auditors	1,149	1,085	9,737
Deferred tax liabilities	703	1,066	5,958
Other long-term liabilities	398	77	3,373
Total long-term liabilities	5,704	7,928	48,340
MINORITY INTERESTS			
CONTINGENT LIABILITIES (Note 4)			
EQUITY			
Common stock	12,134	12,134	102,831
Capital surplus	13,912	13,912	117,898
Retained earnings	25,162	22,430	213,237
Unrealized gain on available-for-sale securities	758	1,020	6,424
Deferred gain on derivatives under hedge accounting	(1)		(8)
Foreign currency translation adjustments	1,030	420	8,728
Treasury stock—at cost	(80)	(76)	(678)
Total	52,915	49,840	448,432
Minority interests	135	329	1,144
Total equity	53,050	50,169	449,576
TOTAL	¥ 125,813	¥ 119,441	$ 1,066,212

See notes to unaudited semi-annual consolidated financial statements.

Kaga Electronics Co., Ltd. and Subsidiaries

Consolidated Statements of Income
Six Months Ended March 31 , 2007 and 2006-unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	2007	2006	2007
NET SALES (Note 5)	¥ 269,015	¥ 257,764	$ 2,279,788
COST OF SALES (Note 5)	236,215	228,218	2,001,822
Gross profit	32,800	29,546	277,966
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 5)	25,884	21,336	219,356
Operating income	6,916	8,210	58,610
OTHER INCOME:(EXPENSE)			
Interest and dividend income	129	78	1,093
Interest expense	(172)	(268)	(1,458)
Other—net	537	3,410	3,958
Other income—net	494	3,220	4,551
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	7,410	11,430	62,797
INCOME TAXES			
Current	3,271	4,072	27,720
Deferred	(143)	29	(1,212)
Total income taxes	3,128	4,101	26,508
MINORITY INTERESTS IN NET LOSS	(62)	57	(517)
NET INCOME	¥ 4,343	¥ 7,272	$ 36,806

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK			
Basic net income	¥ 151.55	¥ 250.18	$ 1.28
Diluted net income		247.50	0
Cash dividends applicable to the period	45.00	50.00	0.38

See notes to unaudited semi-annual consolidated financial statements.
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Kaga Electronics Co., Ltd. and Subsidiaries

Consolidated Statements of Changes in Equity
<u>Year Ended March 31, 2007</u>

	Thousands	Millions of Yen									
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available -for-sale Securities	Deferred Gain On Derivatives Under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2006	28,660	¥ 12,134	¥ 13,912	¥ 22,430	¥ 1,020		¥ 420	¥ (76)	¥ 49,840		¥ 49,840
Reclassified balance as of April 1, 2006										¥ 329	329
Net income				4,343					4,343		4,343
Cash dividends, ¥30 per share				(859)					(859)		(859)
Cash dividends, ¥25 per share				(573)							
Bonuses to directors and corporate auditors				(179)					(179)		(179)
Repurchase of treasury stock	(3)							(6)	(9)		(9)
Net change in the period					(262)	¥ (1)	610		347		(347)
BALANCE, MARCH 31, 2007	28,657	¥ 12,134	¥ 13,912	¥ 25,162	¥ 758	¥ (1)	¥ 1,030	¥ (82)	¥ 52,915	¥ 282	¥ 53,050

	Thousands of U.S. Dollars (Note 2)									
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available -for-sale Securities	Deferred Gain On Derivatives Under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2006	$102,831	$117,898	$ 190,084	$ 8,644		$ 3,559	$ (644)	$ 422,372		$ 422,372
Reclassified balance as of April 1, 2006									$ 2,788	2,788
Net income			36,805					36,805		36,805
Cash dividends, $0.2 per share			(7,288)					(7,288)		(7,288)
Cash dividends, $0.2 per share			(4,856)					(4,856)		(4,856)
Bonuses to directors and corporate auditors			(1,517)					(1,517)		(1,517)
Repurchase of treasury stock							(51)	(51)		(51)
Net change in the period				(2,220)	$ (8)	5,169		2,941	(1,644)	1,297
BALANCE, MARCH 31, 2007	$102,831	$117,898	$ 213,228	$ 6,424	$ (8)	$ 8,728	$ (695)	$ 448,406	$ 1,144	$ 449,550

See notes to unaudited semi-annual consolidated financial statements.

Kaga Electronics Co., Ltd. and 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	¥ 7,410	¥ 11,430	$ 62,797
Adjustments for:			
Income taxes paid	(4,558)	(1,989)	(38,627)
Depreciation and amortization	1,257	1,058	10,653
Equity in loss of investments		5	
Loss on disposal of property, plant and equipment	151	35	1,280
Provision for directors’ and corporate auditors’ bonuses	157		1,331
Gain on sales of marketable and investment securities	(157)	(771)	(1,331)
Valuation (gain) loss on marketable securities and investment securities	190	(29)	1,610
(Gain) loss on sales of property, plant and equipment	(74)	(721)	(627)
Provision for employees' retirement benefits	41	(267)	347
Provision for directors' and corporate auditors' retirement benefits	64	121	542
(Reversal of) provision for allowance for doubtful accounts	(578)	(1,473)	(4,898)
Payment of directors' and corporate auditors' bonuses	(179)	(157)	(1,517)
Other—net	37	814	314
Changes in assets and liabilities:			
Decrease (increase) in notes and accounts receivable	(5,255)	20,738	(44,534)
Decrease (increase) in inventories	(4,332)	260	(36,712)
Liability for introduction of the pro forma standard taxation system			
Decrease in advance to supplier	9	8	76
Decrease in interest and dividend receivable	220	107	1,864
Decrease (increase) in prepaid expenses and other current assets	(876)	2,039	(7,424)
(Decrease) increase in trade notes and accounts payable	5,316	(13,993)	45,051
Increase (decrease) in accrued expenses and other current liabilities	226	394	1,915
Decrease in interest payable	(190)	(276)	(1,610)
Total adjustments	(8,531)	5,903	(72,297)
Net cash provided by (used in) operating activities—(Forward)	¥ (1,121)	¥ 17,333	$ (9,500)

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Kaga Electronics Co., Ltd. and 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
Net cash provided by (used in) operating activities—(Forward)	¥ (1,121)	¥ 17,333	$ (9,500)
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(1,112)	(958)	(9,424)
Purchases of investment securities	(1,589)	(1,951)	(13,466)
Purchases of intangible assets	(315)	(327)	(2,669)
Proceeds from sales of property, plant and equipment	250	914	2,119
Proceeds from sales of investment securities	1,084	1,604	9,186
Proceeds from newly consolidated subsidiary, net of cash acquired	(363)	776	(3,076)
Increase in short-term loan		(5,506)	(47,060)
Increase in long-term loan	(30)		(254)
Increase in refundable insurance premium—net	82	(194)	695
(Increase) decrease in guarantee deposits—net	56	(217)	(475)
Payment for sale of subsidiaries stock related to changes in the scope of consolidation	(24)		(203)
(Increase) decrease in other assets	(181)	(117)	(1,536)
Net cash used in investing activities	(2,142)	(5,976)	(18,153)
FINANCING ACTIVITIES:			
(Decrease) increase in short-term bank loans—net	1,359	(4,060)	11,517
Proceeds from long-term debt		5,000	
Repayments of long-term debt	(2,571)	(1,875)	(21,788)
Dividends paid	(1,449)	(1,204)	(12,280)
Purchases of treasury stock—net	(6)	(14)	(51)
Other—net	(14)		(118)
Net cash (used in) provided by financing activities	(2,681)	(2,153)	(22,720)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	275	508	2,331
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,669)	9,712	(48,042)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	20,131	10,420	170,610
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 14,464	¥ 20,132	$ 122,576

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Kaga Electronics Co., Ltd. and Subsidiaries

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

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
NON-CASH FINANCING ACTIVITIES:			
Convertible bonds converted into common stock	¥	¥ 1,919	$
ADDITIONAL CASH FLOW INFORMATION:			
Purchase of a newly consolidated subsidiary:			
Fair value of assets acquired	1,480	11,708	12,502
Liabilities assumed	1,070	11,083	9,068
Cash paid for the capital	647	625	5,483

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 2006 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 Kaga Electronics Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥118 to $1, the approximate rate of exchange at March 31, 2007. Such translations should not be construed as representations 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 include the accounts of the Company and all of its subsidiaries (40 in 2007 and 35 in 2006 (together, the "Group")).

Under the control and 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.

Investments in three (one in 2005) associated companies are accounted for by the equity method.

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 five 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 and short-term investments, all of which mature or become due within three months of the date of acquisition.

c. ***Inventories***

The Company and a Domestic Subsidiary:

Specific merchandise inventories ordered by customers are stated at cost determined by the specific identification method. Other merchandise inventories are stated at cost determined principally by the moving-average method.

For a portion of other domestic subsidiaries, inventories are stated at cost determined principally by the first-in, first-out method, and the lower of cost, determined principally by the first-in, first-out method, or market for the inventories of the overseas subsidiaries.

d. ***Marketable and Investment Securities—***Marketable and investment 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 the earnings, and (2) available-for-sale securities, which are not classified as 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.

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. Significant replacements and additions are capitalized; maintenance and repairs, and minor replacements and improvements are charged to income as incurred.

Depreciation of property, plant and equipment of the Company and its 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 domestic subsidiaries acquired on and after April 1, 1998, and all property, plant and equipment of foreign subsidiaries.

The range of useful lives is principally as follows:

Buildings and structures	10 to 50 years
Machinery, equipment and vehicles	8 to 12 years
Molding dies and furniture	2 to 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.

This accounting change has no impact on the financial position or result of operations in this fiscal year.

g. ***Retirement and Pension Plans—***The Company has a contributory funded pension plan covering substantially all of its employees. The Company and certain domestic subsidiaries participate in a contributory multi-employer pension plan "Tokyo Electronic Industry Employees' Pension Fund Organization." Other domestic subsidiaries have unfunded retirement benefit plans. For the contributory multi-employer plan, contributions to that plan are charged to income when paid. Plan assets contributed to this fund are not recorded in the consolidated balance sheets.

The liability for employees' retirement benefit is accounted for based on projected benefit obligations and plan assets at the balance sheet date.

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

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

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

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

k. ***Foreign Currency Financial Statements—***The balance sheet accounts of the foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date of subsidiaries 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 foreign subsidiaries are translated into yen at the average exchange rate.

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

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (a) all derivatives be recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated 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.

The foreign currency forward contracts are utilized to hedge foreign exchange exposures for export sales and in procurement of inventories from overseas suppliers. Trade receivables and payables denominated in foreign currencies are translated at the forward contract rates if the forward contracts qualify for hedge accounting. Forward contracts that hedge for forecasted transactions are measured and recorded at fair value but unrealized gains/losses are deferred until the underlying transactions are completed.

m. Per Share Information—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

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

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

n. Leases—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that do not transfer ownership of the leased property to the lessee 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 consolidated financial statements.

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. MARKETABLE AND INVESTMENT SECURITIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Current—Marketable equity securities	¥ 264	¥ 262	$ 2,237
Non-current:			
Marketable equity securities	¥ 3,625	¥ 4,809	$ 30,720
Non-marketable equity securities	1,028	1,078	8,712
Government and corporate bond	563	282	4,771
Investments in associated companies	46	9	390
Others	628	632	5,322
Total	¥ 5,890	¥ 6,810	$ 49,915

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

	Millions of Yen			
March 31, 2007	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Trading				¥ 264
Available-for-sale—equity securities	¥ 3,279	¥ 1,639	¥ (190)	4,728
Government and corporate bonds	558	¥ 8	(3)	563
March 31, 2006				
Securities classified as:				
Trading				262
Available-for-sale—equity securities	2,333	2,501	(25)	4,809
Government and corporate bonds	301		(19)	282

	Thousands of U.S. Dollars			
March 31, 2007	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Trading				$ 2,237
Available-for-sale—equity securities	$ 27,788	$ 13,890	$ (1,610)	40,068
Government and corporate bonds	4,729		(25)	4,771

Available-for-sale securities and others 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	¥ 1,028	¥ 1,078	$ 8,712
Others	628	632	5,322

Proceeds from sales of available-for-sale securities were ¥991 million ($8,398 thousand) in 2007 and ¥1,500 million in 2006, respectively. Gross realized gains and losses on these sales, computed by the moving average cost basis, were ¥150 million ($1,271 thousand) and ¥15 million ($127 thousand) in 2007, respectively, and ¥775 million and ¥4 million in 2006, respectively.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2006 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	Available for Sale	Available for Sale
Due after ten years	¥ 150	$ 1,271

4. INVENTORIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2006
Merchandise	¥ 15,623	¥ 9,049	$ 132,398
Finished products	962	547	8,153
Work in process	491	684	4,161
Raw materials	2,646	4,645	22,424
Supplies	5	2	42
Total	¥ 19,727	¥ 14,927	$ 167,178

5. SHORT-TERM BANK LOANS

Short-term bank loans generally represent 30-day notes issued by the Company to banks. The annual average interest rates applicable to the bank loans were 4.22% and 1.99% for the years ended March 31, 2007 and 2006, respectively.

As is customary in Japan, the Company maintains deposit balances with banks with which it has bank loans. Such deposit balances are not legally or contractually restricted as to withdrawal.

Under certain basic agreements with banks, collateral must be provided if requested by the lending banks and certain banks have the right to offset cash deposited with them against any bank loan or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the bank concerned. The Company has never received any such request.

6. LONG-TERM DEBT

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

	Millions of Yen	Thousands of U.S. Dollars
Unsecured loans from banks and insurance companies, 0.62% to 1.50%, due serially through June 2010	¥ 4,878	$ 41,339
Less current portion	(2,500)	(21,186)
Total long-term loans, less current portion	¥ 2,378	$ 20,153

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	¥ 2,500	$ 21,186
2009	1,753	14,856
2010	625	5,297
Total	¥ 4,878	$ 41,339

7. RETIREMENT AND PENSION PLANS

Under the pension plan, employees terminating their employment are, in most circumstances, entitled to pension payments based on their average pay during their employment, length of service and certain other factors.

The liability (asset) for employees' retirement benefits at March 31, 2007 and 2006 consisted of the following:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Projected benefit obligation	¥ 2,127	¥ 1,973	$ 18,025
Fair value of plan assets	(954)	(846)	(8,085)
Unrecognized actuarial loss	(98)	(115)	(831)
Net liability	¥ 1,076	¥ 1,012	$ 9,109

The plan assets contributed to the contributory multi-employer pension plan are calculated to ¥7,656 million ($64,881 thousand) and ¥6,546 million at March 31, 2007 and 2006, respectively, which are not recorded in the accompanying consolidated balance sheets.

The components of net periodic benefit costs for the years ended March 31, 2007 and 2006 are as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Service cost	¥ 498	¥ 417	$ 4,220
Interest cost	24	22	203
Expected return on plan assets	(17)	(15)	(144)
Recognized actuarial loss	18	17	153
Net periodic benefit costs	¥ 523	¥ 441	$ 4,432

The above service cost contains contributions to the multi-employer pension plan of ¥254 million ($2,153 thousand) for 2007 and ¥243 million for 2006, respectively.

Assumptions used for the years ended March 31, 2007 and 2006 are set forth as follows:

	2007	2006
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.0%	2.0%
Recognition period of actuarial gain/loss	10 years	10 years

The liability for retirement benefits at March 31, 2007 for directors and corporate auditors is ¥1,076 million ($9,119 thousand). The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

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 ¥12,836 million ($109,709 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 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. OTHER INCOME (EXPENSES)—OTHER—NET

Other income (expenses)—other—net consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Exchange loss	¥ (13)	¥ 172	$ (110)
Equity in loss of investments	(39)	(5)	(331)
Valuation gain (loss) on marketable and investment securities	(190)	29)	(1,610)
Devaluation loss on golf membership		(25)	
Gain on sales of marketable and investment securities	151	771	1,280
Gain on sales of property and equipment	78	721	661
Disposal of sales of property and equipment	(151)		(1,280)
Gain on sales of subsidiaries' shares	22		186
Reversal of allowance for doubtful accounts	432	939	3,661
Gain changes in equity interest	37		314
Other gain (loss)—net	211	808	1,789
Other income (expenses)—other—net	¥ 537	¥ 3,410	$ 4,560

10. 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, 2007and 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
Deferred tax assets:			
Devaluation loss on investment securities	¥ 24	¥ 23	$ 203
Accrued enterprise tax	137	241	1,161
Devaluation loss on unlisted stock	83	83	703
Retirement benefits	449	589	3,805
Allowance for doubtful accounts	250	209	2,119
Accrued bonuses	187	185	1,585
Tax loss carryforwards	971	964	8,229
Devaluation of golf membership	70	70	593
Unrealized loss on available-for-sale securities			
Loss on investments in subsidiaries under liquidation proceedings	229	133	1,941
Other	361	193	3,059
Sub-total	2,761	2,690	23,398
Less valuation allowance	(971)	(964)	(8,229)
Deferred tax assets—total	1,790	1,726	15,169
Deferred tax liabilities:			
Undistributed earnings of overseas subsidiaries	(801)	(749)	(6,788)
Unrealized gain on property and equipment	(409)	(399)	(3,466)
Unrealized gain on available-for-sale securities	(732)	(982)	(6,203)
Other	(27)	(19)	(229)
Deferred tax liabilities—total	(1,969)	(2,149)	(16,686)
Net deferred tax (liabilities) assets	¥ (179)	¥ (423)	$ (1,517)

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	2	3
Tax benefits not recognized on operating losses of subsidiaries	(4)	(3)
Lower income tax rates applicable to income in certain foreign countries	(4)	(5)
Tax benefit recognized on prior-year operating losses of subsidiaries under liquidation proceedings	(1)	(2)
Other—net	2	4
Actual effective tax rate	36 %	38 %

At March 31, 2007, certain subsidiaries have tax loss carryforwards aggregating approximately ¥1,644 million ($14,287 thousand) which are available to be offset against future taxable income of such subsidiaries in future years. These loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2009	¥	$
2010		
2011		
2012	408	3,813
2013	262	2,220
2014	974	8,254
Total	¥ 1,644	$ 14,287

11. DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT

Depreciation of property, plant and equipment was ¥792 million ($6,600 thousand) and ¥704 million for the years ended March 31, 2007 and 2006, respectively.

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥965 million ($8,042 thousand) and ¥706 million for the years ended March 31, 2007 and 2006, respectively.

13. LEASES

The Group leases buildings, machinery, equipment and vehicles and other assets. Total lease payments under finance leases for the years ended March 31, 2007 and 2006 were ¥181 million ($1,534 thousand) and ¥128 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense, interest expense of finance lease 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			2006		
	Machinery, Equipment and Vehicles	Molding Dies and Furnitures	Total	Machinery, Equipment and Vehicles	Molding Dies and Furnitures	Total
Acquisition cost	¥ 116	¥ 844	¥ 960	¥121	¥ 806	¥ 927
Accumulated depreciation	20	387	407	12	344	356
Net leased property	¥ 96	¥ 457	¥ 553	¥109	¥ 462	¥ 571

	Thousands of U.S. Dollars		
	2007		
	Machinery, Equipment and Vehicles	Molding Dies and Furnitures	Total
Acquisition cost	$ 963	$ 7,153	$ 8,136
Accumulated depreciation	169	3,280	3,449
Net leased property	$ 814	$ 3,695	$ 4,509

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Due within one year	¥ 164	¥ 156	$ 1,390
Due after one year	397	425	3,364
Total	¥ 562	¥ 581	$ 4,754

Depreciation expense which is not reflected in the accompanying consolidated statements of income, computed by the straight-line method was ¥173 million ($1,466 thousand) and ¥120 million for the years ended March 31, 2007 and 2006, respectively.

The imputed interest expense portion which is computed using the interest method is excluded from the above obligations under finance leases.

The minimum rental commitments under noncancellable operating leases at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Due within one year	¥ 44	¥ 56	$ 373
Due after one year	74	69	627
Total	¥ 118	¥ 125	$ 1,000

14. ASSETS PLEDGED AS COLLATERAL

At March 31, 2007, investment securities of ¥62 million ($525 thousand) and time deposit of ¥10 million ($85 thousand) were deposited with vendors as collateral for trade guarantees.

15. DERIVATIVES

The Group enters into foreign exchange forward contracts to hedge market risk from the changes in foreign exchange rates associated with assets and liabilities denominated in foreign currencies. The Group may also enter into derivative financial instruments including currency swaps and interest rate swaps to reduce the exposure to fluctuation in foreign exchange rates and interest rates.

It is the Group's policy to use derivatives for the purpose of reducing market risks associated with assets and liabilities. The Group does not enter into derivative contracts for trading or speculative purposes.

Derivatives are subject to market and credit risk. The Group, however, does not anticipate any credit losses, because the counterparties to those derivatives are limited to major financial institutions.

Each business department executes foreign exchange forward contracts, which are limited to the normal course of business. Other derivatives such as swap transactions relating to financing activities are executed by the accounting department in accordance with authorization rules. The administrative department controls the position of derivative transactions. The manager of the accounting department periodically provides detailed reports of derivative transactions to management.

16. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2007 for employees' loans guaranteed, amounted to ¥72 million ($610 thousand) and for customers lease transactions of ¥1 million ($8 thousand).

17. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2007 and 2006 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2007	Net Income	Weighted-average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥ 4,343	28,658	¥ 151.55	$ 1.28
Effect of dilutive securities—Convertible bonds				
Diluted EPS—Net income for computation	¥ 4,343	28,658		$ 1.28
Year Ended March 31, 2006				
Basic EPS—Net income available to common shareholders	¥ 7,094	28,354	¥ 250.18	
Effect of dilutive securities—Convertible bonds		308		
Diluted EPS—Net income for computation	¥ 7,094	28,662	¥ 247.50	

18. SUBSEQUENT EVENT

The following appropriations of retained earnings at March 31, 2007 were approved at the Company's shareholders meeting held on June 28, 2007:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥25.00 ($0.21) per share	¥ 716	$ 6,068
Other reserve	1,200	10,169
Total	¥ 1,916	$16,237

19. SEGMENT INFORMATION

a. *Operations in Different Industries*

The Company and subsidiaries operate within one business segment, which is the electronic component trading business.

b. *Operations by Geographic Area*

The following table shows segment information by geographic area for the years ended March 31, 2007 and 2006:

	Millions of Yen					
	2007					
	Japan	North America	Europe	East Asia	Eliminations or Corporate	Consolidated
(1) Sales and operating income						
Sales:						
Outside customers	¥ 231,510	¥ 1,667	¥ 977	¥ 52,860		¥ 269,014
Interarea	17,383	597	148	7,806	¥ (25,934)	
Total sales	230,893	2,264	1,125	60,666	(25,934)	269,014
Operating expenses	226,374	2,272	1,101	58,200	(25,848)	262,099
Operating income	¥ 4,519	¥ (8)	¥ 24	¥ 2,466	¥ (86)	¥ 6,915
(2) Total assets	¥ 104,099	¥ 842	¥ 434	¥ 24,130	¥ (3,692)	¥ 125,813

	Thousands of U.S. Dollars					
	2007					
	Japan	North America	Europe	East Asia	Eliminations or Corporate	Consolidated
(1) Sales and operating income						
Sales:						
Outside customers	$ 1,809,407	$ 14,127	$ 8,280	$ 447,966		$ 2,279,780
Interarea	147,314	5,059	1,254	66,153	$ (219,780)	
Total sales	1,956,721	19,186	9,534	514,119	(219,780)	2,279,780
Operating expenses	1,918,424	19,254	9,331	493,220	(219,051)	2,221,178
Operating income	$ 38,297	$ (68)	$ 203	$ 20,889	$ (729)	$ 58,602
(2) Total assets	$ 882,195	$ 7,136	$ 3,678	$ 204,492	$ (31,288)	$ 1,066,213

	Japan	North America	Europe	East Asia	Eliminations or Corporate	Consolidated
	Millions of Yen					
	2006					
(1) Sales and operating income						
Sales:						
Outside customers	¥ 203,744	¥ 1,327	¥ 1,322	¥ 51,371		¥ 257,764
Interarea	20,360	329	151	5,924	¥ (26,764)	
Total sales	224,104	1,656	1,473	57,295	(26,764)	257,764
Operating expenses	218,661	1,642	1,453	54,443	(26,645)	249,554
Operating income (loss)	¥ 5,443	¥ 14	¥ 20	¥ 2,852	¥ (119)	¥ 8,210
(2) Total assets	¥ 100,299	¥ 612	¥ 445	¥ 23,617	¥ (5,532)	¥ 119,441

c. ***Sales to Foreign Customers***

Sales to foreign customers for the years ended March 31, 2007 and 2006 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2006	2007
Sales to:			
North America	¥ 1,598	¥ 1,598	$ 13,658
Europe	1,712	1,712	14,632
East Asia	73,234	73,234	625,932
Total	¥ 76,544	¥ 76,544	$ 654,222

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