
***Kaga Electronics Co., Ltd. and
Subsidiaries***

*Unaudited Consolidated Semi-Annual
Financial Statements for the Six Months
Ended September 30, 2006 and 2005*

Kaga Electronics Co., Ltd. and Subsidiaries

Consolidated Balance Sheets September 30, 2006 and 2005-unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
ASSETS	2006	2005	2006
CURRENT ASSETS:			
Cash and cash equivalents	¥ 14,638	¥ 19,681	\$ 124,051
Marketable securities	274	220	2,322
Notes and accounts receivable:			
Trade	59,780	60,604	506,610
Other	3,111	3,477	26,364
Allowance for doubtful receivables	(187)	(963)	(1,585)
Inventories	19,481	16,062	165,093
Deferred tax assets	491	494	4,161
Prepaid expenses and other current assets	1,009	648	8,551
Total current assets	<u>98,597</u>	<u>100,223</u>	<u>835,567</u>
PROPERTY, PLANT AND EQUIPMENT:			
Land	1,921	2,273	16,280
Buildings and structures	3,459	3,551	29,313
Machinery, equipment and vehicles	2,752	2,214	23,322
Molding dies and furniture	1,715	1,617	14,534
Total	9,847	9,655	83,449
Accumulated depreciation	(4,634)	(4,139)	(39,271)
Net property, plant and equipment	<u>5,213</u>	<u>5,516</u>	<u>44,178</u>
INVESTMENTS AND OTHER ASSETS:			
Investment securities	6,504	5,494	55,119
Guarantee deposits	2,473	4,193	20,958
Refundable insurance premium	863	675	7,314
Deferred tax assets	68	50	576
Other assets	2,028	1,842	17,186
Total investments and other assets	<u>11,936</u>	<u>12,254</u>	<u>101,153</u>
TOTAL	<u>¥ 115,746</u>	<u>¥ 117,993</u>	<u>\$ 980,898</u>

See notes to unaudited semi-annual consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
LIABILITIES AND SHAREHOLDERS' EQUITY	2006	2005	2006
CURRENT LIABILITIES:			
Short-term bank loans	¥ 2,215	¥ 4,420	\$ 18,771
Current portion of long-term bank loans	2,500	2,500	21,186
Trade notes and accounts payable	48,218	49,052	408,627
Income taxes payable	1,490	2,294	12,627
Accrued expenses and other current liabilities	3,964	4,449	33,594
Total current liabilities	<u>58,387</u>	<u>62,715</u>	<u>494,805</u>
LONG-TERM LIABILITIES:			
Long-term bank loans	3,438	5,938	29,136
Convertible bonds		400	
Liability for employees' retirement benefits	1,030	1,333	8,729
Retirement benefits for directors and corporate auditors	1,115	1,002	9,449
Deferred tax liabilities	769	749	6,517
Other long-term liabilities	389	77	3,296
Total long-term liabilities	<u>6,741</u>	<u>9,499</u>	<u>57,127</u>
MINORITY INTERESTS		438	
CONTINGENT LIABILITIES (Note 4)			
EQUITY			
Common stock	12,134	11,933	102,831
Capital surplus	13,912	13,712	117,898
Retained earnings	23,038	19,067	195,237
Unrealized gain on available-for-sale securities	870	730	7,373
Deferred gain on derivatives under hedge accounting	2		17
Foreign currency translation adjustments	457	(34)	3,873
Treasury stock—at cost	(77)	(67)	(653)
Total	50,336	45,341	426,576
Minority interests	282		2,390
Total equity	<u>50,618</u>	<u>45,341</u>	<u>428,966</u>
TOTAL	<u>¥ 115,746</u>	<u>¥ 117,993</u>	<u>\$ 980,898</u>

Kaga Electronics Co., Ltd. and Subsidiaries

Consolidated Statements of Income Six Months Ended September 30 , 2006 and 2005-unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	<u>2006</u>	<u>2005</u>	<u>2006</u>
NET SALES (Note 5)	¥ 126,184	¥ 122,386	\$ 1,069,356
COST OF SALES (Note 5)	<u>110,654</u>	<u>108,327</u>	<u>937,746</u>
Gross profit	15,530	14,059	131,610
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 5)	<u>12,704</u>	<u>9,378</u>	<u>107,661</u>
Operating income	<u>2,826</u>	<u>4,681</u>	<u>23,949</u>
OTHER INCOME:(EXPENSE)			
Interest and dividend income	115	76	975
Interest expense	(100)	(101)	(847)
Gain on sales of marketable and investment securities	66	423	559
Other—net	<u>80</u>	<u>602</u>	<u>678</u>
Other income—net	<u>161</u>	<u>1,000</u>	<u>1,365</u>
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	<u>2,987</u>	<u>5,681</u>	<u>25,314</u>
INCOME TAXES			
Current	1,448	2,327	12,271
Deferred	<u>(102)</u>	<u>13</u>	<u>(864)</u>
Total income taxes	<u>1,346</u>	<u>2,340</u>	<u>11,407</u>
MINORITY INTERESTS IN NET LOSS	<u>(5)</u>	<u>(0)</u>	<u>(42)</u>
NET INCOME	<u>¥ 1,646</u>	<u>¥ 3,341</u>	<u>\$ 13,949</u>
	<u>Yen</u>		<u>U.S. Dollars</u>
PER SHARE OF COMMON STOCK			
Basic net income	¥ 57.43	¥ 118.46	\$ 0.49
Diluted net income		116.57	0
Cash dividends applicable to the period	20.00	20.00	0.17

See notes to unaudited semi-annual consolidated financial statements.

Kaga Electronics Co., Ltd. and Subsidiaries

Consolidated Statements of Changes in Equity Six Months Ended September 30, 2006 -unaudited

	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				1,646					1,646		1,646
Cash dividends, ¥30.00 per share				(860)					(860)		(860)
Bonuses to directors and corporate auditors				(178)					(178)		(178)
Repurchase of treasury stock	(1)							(1)	(1)		(1)
Net change in the period					(150)	¥ 2	37	(1)	(111)	(47)	(158)
BALANCE, SEPTEMBER 30, 2006	28,659	¥ 12,134	¥ 13,912	¥ 23,038	¥ 870	¥ 2	¥ 457	¥ (77)	¥ 50,336	¥ 282	¥ 50,618

	Thousands of U.S. Dollars (Note 2)									
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on -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			13,949					13,949		13,949
Cash dividends, \$0.2 per share			(7,288)					(7,288)		(7,288)
Bonuses to directors and corporate auditors			(1,508)					(1,508)		(1,508)
Repurchase of treasury stock							(9)	(9)		(9)
Net change in the period				(1,271)	\$ 17	314		(940)	(398)	(1,338)
BALANCE, SEPTEMBER 30, 2006	<u>\$102,831</u>	<u>\$117,898</u>	<u>\$ 195,237</u>	<u>\$ 7,373</u>	<u>\$ 17</u>	<u>\$ 3,873</u>	<u>\$ (653)</u>	<u>\$ 426,576</u>	<u>\$ 2,390</u>	<u>\$ 428,966</u>

See notes to unaudited semi-annual consolidated financial statements.

Kaga Electronics Co., Ltd. and Subsidiaries

Consolidated Statements of Changes in Equity Six Months Ended September 30, 2005 –unaudited

	Thousands										
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available -for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity	
BALANCE, APRIL 1, 2005	27,418	¥ 11,174	¥ 12,953	¥ 16,499	¥ 504	¥ (408)	¥ (61)	¥ 40,661		¥ 40,661	
									¥ 324	324	
Reclassified balance as of April 1, 2005											
Net income				3,341				3,341		3,341	
Conversion of convertible bonds	987	759	759					1,518		1,518	
Cash dividends, ¥20.00 per share				(617)				(617)		(617)	
Bonuses to directors and corporate auditors				(156)				(156)		(156)	
Net increase in unrealized gain on available-for-sale securities					226			226		226	
Net increase in foreign currency translation adjustment						374		374		374	
Repurchase of treasury stock	(3)						(6)	(6)		(6)	
Net change in the period									114	114	
BALANCE, SEPTEMBER 30, 2005	28,402	¥11,933	¥ 13,712	¥ 19,067	¥ 730	¥ (34)	¥ (67)	¥ 45,341	¥ 438	¥ 45,779	

Kaga Electronics Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows

Six Months Ended September 30, 2006 and 2005-unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	<u>2006</u>	<u>2005</u>	<u>2006</u>
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 2,987	¥ 5,681	\$ 25,314
Adjustments for:			
Income taxes—paid	(3,084)	(1,106)	(26,136)
Depreciation and amortization	546	464	4,627
Loss on disposals of property, plant and equipment	39	5	331
Provision for directors' and corporate auditors' bonuses	55		466
Gain on sales of marketable and investment securities	(66)	(423)	(559)
Loss on sales of marketable and investment securities	6	2	51
Unrealized gains on marketable securities		(28)	
Devaluation losses on investment securities	31	12	263
Provision for employees' retirement benefits	18	55	153
Provision for directors' and corporate auditors' retirement benefits	29	38	246
Increase (decrease) in allowance for doubtful accounts	200	(59)	1,695
Payment of directors and corporate auditors' bonuses	(179)	(157)	(1,517)
Changes in assets and liabilities:			
Decrease in notes and accounts receivable	1,388	20,750	11,763
Increase in inventories	(4,517)	(1,259)	(38,280)
Decrease in prepaid expenses and other current assets	583	810	4,941
Increase (decrease) in trade notes and accounts payable	340	(11,853)	2,881
Decrease (Increase) in accrued expenses and other current liabilities	(471)	208	(3,992)
Other—net	116	217	982
Total adjustments	<u>(4,966)</u>	<u>7,676</u>	<u>(42,085)</u>
Net cash (used in) provided by operating activities	<u>(1,979)</u>	<u>13,357</u>	<u>(16,771)</u>
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(525)	(548)	(4,449)
Proceeds from sales of property and equipment	64		542
Purchases of investment securities	(559)	(435)	(4,737)
Cash increase due to acquisition of newly consolidated subsidiaries		776	
Proceeds from sales of investment securities	613	582	5,195
Increase in short-term loans	(25)	(5,202)	(212)
Other-net	<u>(130)</u>	<u>(430)</u>	<u>(1,102)</u>
Net cash used in investing activities	<u>(562)</u>	<u>(5,257)</u>	<u>(4,763)</u>
FORWARD	<u>¥ (2,541)</u>	<u>¥ 8,100</u>	<u>\$ (21,534)</u>

Kaga Electronics Co., Ltd. and Subsidiaries

Consolidated Statements of Cash Flows

Six Months Ended September 30, 2006 and 2005-unaudited

	Millions of Yen		Thousands of U.S. Dollars (Note 2)
	<u>2006</u>	<u>2005</u>	<u>2006</u>
FORWARD	¥ (2,541)	¥ 8,100	\$(21,534)
FINANCING ACTIVITIES:			
Decrease in short-term bank loans	(907)	(2,757)	(7,686)
Proceeds from long-term bank loans		5,000	
Repayments of long-term bank loans	(1,250)	(625)	(10,594)
Dividends paid	(873)	(628)	(7,398)
Purchases of treasury stock—net	(2)	(6)	(17)
Other-net	<u>80</u>	<u>4</u>	<u>678</u>
Net cash (used in) provided by financing activities	<u>(2,952)</u>	<u>988</u>	<u>(25,017)</u>
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	<u>(1)</u>	<u>173</u>	<u>(8)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,494)	9,261	(46,559)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	<u>20,132</u>	<u>10,420</u>	<u>170,610</u>
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	<u>¥ 14,638</u>	<u>¥ 19,681</u>	<u>\$ 124,051</u>

See notes to unaudited semi-annual consolidated financial statements.

Kaga Electronics Co., Ltd. and Subsidiaries

Notes to Consolidated Semi-Annual Financial Statements **Six Months Ended September 30, 2006 and 2005 –unaudited**

1. PRINCIPLES OF CONSOLIDATION

The accompanying consolidated semi-annual financial statements include the accounts of Kaga Electronics Co., Ltd (the “Company”) and its subsidiaries.

These notes disclosed herein do not cover the all notes which are generally required to disclose in the consolidated financial statements prepared in accordance with the provisions set forth in the Japanese laws and regulations.

2. TRANSLATION

The consolidated semi-annual financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts 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 September 30, 2006. 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.

3. SIGNIFICANT ACCOUNTING CHANGES

a. Accounting for the statement of changes in equity

On December 9, 2005, the Accounting Standards Board of Japan (ASBJ) published a new 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.

b. Presentation of Equity

On December 27, 2005, 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 statement of shareholders’ equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under generally accepted accounting principles in Japan and has been renamed “ the statement of changes in equity” from the current fiscal year.

4. CONTINGENT LIABILITIES

Contingent liabilities at September 30, 2006 for employees’ loans guaranteed, in the ordinary course of business, amounted to ¥ 68million (\$576 thousand).

5. 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 six months ended September 30, 2006 and 2005.

	Millions of Yen					
	2006					
	<u>Japan</u>	<u>North America</u>	<u>Europe</u>	<u>East Asia</u>	<u>Eliminations or Corporate</u>	<u>Consolidated</u>
Sales to customers	¥ 98,220	¥ 859	¥ 535	¥ 26,570		¥ 126,184
Interarea transfer	<u>9,462</u>	<u>328</u>	<u>72</u>	<u>3,992</u>	<u>¥ (13,854)</u>	<u> </u>
Total sales	107,682	1,187	607	30,562	(13,854)	126,184
Operating expenses	<u>106,280</u>	<u>1,168</u>	<u>600</u>	<u>29,150</u>	<u>(13,840)</u>	<u>123,358</u>
Operating income	<u>¥ 1,402</u>	<u>¥ 19</u>	<u>¥ 7</u>	<u>¥ 1,412</u>	<u>¥ (14)</u>	<u>¥ 2,826</u>

	Thousands of U.S. Dollars					
	2006					
	<u>Japan</u>	<u>North America</u>	<u>Europe</u>	<u>East Asia</u>	<u>Eliminations or Corporate</u>	<u>Consolidated</u>
Sales to customers	\$ 832,373	\$ 7,280	\$ 4,534	\$ 225,169		\$ 1,069,356
Interarea transfer	<u>80,186</u>	<u>2,780</u>	<u>610</u>	<u>33,831</u>	<u>\$(117,407)</u>	<u> </u>
Total sales	912,559	10,060	5,144	259,000	(117,407)	1,069,356
Operating expenses	<u>900,678</u>	<u>9,898</u>	<u>5,085</u>	<u>247,034</u>	<u>(117,288)</u>	<u>1,045,407</u>
Operating income	<u>\$ 11,881</u>	<u>\$ 162</u>	<u>\$ 59</u>	<u>\$ 11,966</u>	<u>\$ (119)</u>	<u>\$ 23,949</u>

Millions of Yen						
2005						
	<u>Japan</u>	<u>North America</u>	<u>Europe</u>	<u>East Asia</u>	<u>Eliminations or Corporate</u>	<u>Consolidated</u>
Sales to customers	¥ 96,509	¥ 653	¥ 680	¥ 24,544		¥ 122,386
Interarea transfer	<u>9,603</u>	<u>128</u>	<u>75</u>	<u>3,061</u>	<u>¥ (12,867)</u>	
Total sales	106,112	781	755	27,605	(12,867)	122,386
Operating expenses	<u>102,873</u>	<u>777</u>	<u>736</u>	<u>26,088</u>	<u>(12,769)</u>	<u>117,705</u>
Operating income (loss)	<u>¥ 3,239</u>	<u>¥ 4</u>	<u>¥ 19</u>	<u>¥ 1,517</u>	<u>¥ (98)</u>	<u>¥ 4,681</u>

c. Sales to Foreign Customers

Sales to foreign customers for the six months ended September 30, 2006 and 2005 amounted to ¥ 38,581 million (\$326,957 thousand) and ¥ 38,656 million, respectively.

	Millions of Yen		Thousands of U.S. Dollars
	<u>2006</u>	<u>2005</u>	<u>2006</u>
Sales to:			
North America	¥ 1,271	¥ 750	\$ 10,771
Europe	1,037	793	8,788
East Asia	36,273	37,113	307,398

