Financial Statements

Management's Discussion and Analysis

(1) Financial Condition

Due to decrease in account receivables and tangible fixed assets, the gross consolidated assets at the current fiscal year end amounted to ¥59,924 million, ¥990 million down from the end of the previous fiscal year. Due to decrease of purchase liabilities and long- and short-term loans payable, liabilities amounted to ¥36,907 million, ¥2,925 million down from the end of the previous fiscal year (ratio to total liabilities and shareholders' equity: 61.6%). As a result, capital amounted to ¥23,017 million (equity ratio: 38.4%), ¥1,935 million up from the end of the previous fiscal year, and the equity ratio increased 3.8 points from the end of the previous fiscal year.

Cash and cash equivalents in the current consolidated fiscal year amounted to ¥3,659 million, up ¥612 million from the end of the previous fiscal year.
In cash flow by operating activities, the current net profit before tax adjustments amounted to ¥3,942 million (¥4,014 million for the previous fiscal year). Although depreciation and amortization were adjusted to ¥4,536 million (¥5,021 million for the previous fiscal year), corporation tax payments amounted to ¥2,194 million (¥2,721 million for the previous fiscal year). In operating activities, funds increased ¥6,697 million (¥7,201 million for the previous fiscal year).
In cash flow by investment activities, expenditure for acquisition of property, plant and equipment amounted to ¥4,560 million (¥4,191 million for the previous fiscal year). In investment activities, funds decreased ¥4,691 million (¥4,451 million for the previous fiscal year).

In cash flow by financing activities, decrease in short-term loans payable amounted to ¥11 million (¥1,840 million for the previous fiscal year), expenditure by repayment of long-term loans payable to ¥877 million (expenditure by repayment of ¥4,986 million and income by borrowing of ¥500 million in the previous fiscal year), and dividends paid to ¥509 million (¥469 million in the previous fiscal year). In financing activities, funds decreased by ¥1,398 million (¥3,089 million in the previous fiscal year).

Due to the effect of a drop in sales in the leading semiconductor devices division, notes receivable and accounts receivable amounted to ¥16,331 million, ¥738 million down from the end of the previous fiscal year (ratio to total assets: 27.3%).

Forward exchange contracts are used on some accounts receivable denominated in US dollars to hedge exchange risks. In addition, we have strengthen the aging management of account receivables for all customers in order to collect them by due date, and have also strictly complied with regulations regarding to credit risk management to try to reduce the bad debt expense.

Inventories were forced to undergo production adjustment in the semiconductor devices division due to the drop in sales. On the other hand, thanks to increased production with better sales of the microwave application products division, actual production (selling price) for the current consolidated fiscal year amounted to ¥63,637 million, equivalent to the previous fiscal year. However, due to decreases in work in process, inventories amounted to ¥14,885 million (ratio to total assets: 24.8%), ¥313 million down from the end of the previous fiscal year.

To shorten delivery term to meet our customers' needs, we have observed the production period through the production process, from start to finish while reducing inventories. We have also tried to keep a stable financial position due to the reduction in inventory and the write-down of assets in corporation with the production and sales divisions.

For property, plant and equipment, we have made capital expenditures in our semiconductor devices, a key electronics device to keep abreast of rapid technical innovation and market changes in the electronics business. We expect to continue to make significant capital expenditures focusing on streamlining production process and equipment to enhance production capacity and R&D based on market trends. As a result of reductions in the original estimates due to the downturn in the semiconductor devices division, capital expenditures for the current consolidated fiscal year amounted to ¥3,958 million and property, plant and equipment amounted to ¥17,130 million (ratio to total assets: 28.6%), ¥491 million down from the previous fiscal year.

We have made efforts to reduce interest-bearing debt in order to improve and strengthen the financial position. At the current consolidated fiscal year end, interest-bearing debt amounted to ¥13,823 million (ratio to total liabilities and shareholders' equity: 23.1%), ¥1,697 million down from the end of the previous fiscal year; the ratio decreased 2.4 points from the previous fiscal year.

(2) Results of Operations

For sales and operating profit and loss by division and location for the current consolidated fiscal year, sales in the microwave application products division, where component products for satellite communication are main products, underwent large growth. However, the semiconductor devices division, which is the main division of our group, remained sluggish for all product lines (excluding products on consignment). Operating income amounted to ¥3,603 million, 21.9% down from the previous fiscal year.

For ordinary profit or loss, interest costs decreased because of currency exchange profits and reduction of interest-bearing debt, so non-operating profit and loss was improved. Ordinary income amounted to ¥3,975 million, 1.1% down from the end of the previous fiscal year.

For current net profit or loss before tax adjustments, the burden of corporation taxes was relieved by tax credits on the total of experiment and research expenses, following the previous fiscal year and the current net income amounted to ¥2,569 million, about the same as the previous fiscal year.

Operating income by products

Unit: Millions of Yen

	Semiconductor Devices	Microwave Application Products	Microwave Tubes and Radar Components	Total
Net Sales	56,397	4,209	4,447	65,053
Operating Expenses	48,144	3,832	3,836	55,812
Segment operating income	8,253	377	611	9,241
Eliminations	—	—	—	5,638
Operating income	—	—	—	3,603

Note: Consolidated operating income, subtracting eliminations of ¥5,638 million, was ¥3,603 million.

Net Sales by geographic segment

Unit: Millions of Yen

	2005		2004	
Japan	**37,371**	**(57.4%)**	40,443	(60.3%)
Asia	**20,050**	**(30.8%)**	20,554	(30.7%)
North America	**3,679**	**(5.7%)**	2,579	(3.8%)
Europe	**1,535**	**(2.4%)**	1,390	(2.1%)
Others	**2,418**	**(3.7%)**	2,096	(3.1%)
Total	**65,053**	**(100.0%)**	67,062	(100.0%)

Note: Sales by geographic segment are classified by the customer location.

Consolidated Balance Sheets

New Japan Radio Co., Ltd. and Subsidiaries March 31, 2005 and 2004

ASSETS	Millions of Yen 2005	Millions of Yen 2004	Thousands of U.S. Dollars (Note 1) 2005
CURRENT ASSETS:			
Cash and cash equivalents	¥3,659	¥3,047	$34,074
Marketable securities (Note 3)	10		93
Notes and accounts receivable (Note 15):			
Trade notes	1,878	1,692	17,486
Trade accounts	14,453	15,377	134,580
Allowance for doubtful accounts	(91)	(93)	(845)
Inventories (Note 4)	14,885	15,198	138,603
Deferred tax assets (Note 7)	1,193	1,239	11,108
Other current assets (Note 15):	465	547	4,339
Total current assets	36,452	37,007	339,438
PROPERTY, PLANT AND EQUIPMENT (Note 5):			
Land	224	224	2,087
Buildings and structures	24,957	24,634	232,394
Machinery and equipment	57,429	56,238	534,765
Furniture and fixtures	10,507	10,044	97,843
Construction in progress	207	268	1,928
Total	93,324	91,408	869,017
Accumulated depreciation	(76,194)	(73,787)	(709,504)
Net property, plant and equipment	17,130	17,621	159,513
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	1,900	2,022	17,692
Long-term loans	139	202	1,291
Deferred tax assets (Note 7)	3,286	2,890	30,599
Other assets	1,052	1,208	9,800
Allowance for doubtful accounts	(35)	(36)	(326)
Total investments and other assets	6,342	6,286	59,056
TOTAL	¥59,924	¥60,914	$558,007

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2005	Millions of Yen 2004	Thousands of U.S. Dollars (Note 1) 2005
CURRENT LIABILITIES:			
Short-term bank loans (Note 5)	**¥11,404**	¥11,413	**$106,193**
Current portion of long-term debt (Note 5)	**710**	877	**6,615**
Notes and accounts payable (Note 15):			
Trade accounts	**7,304**	8,351	**68,010**
Construction and other	**2,352**	2,353	**21,899**
Income taxes payable	**661**	1,143	**6,156**
Accrued expenses (Note 15)	**4,106**	4,273	**38,239**
Other current liabilities	**355**	408	**3,305**
Total current liabilities	**26,892**	28,818	**250,417**
LONG-TERM LIABILITIES:			
Long-term debt (Note 5)	**380**	1,091	**3,540**
Long-term payables—construction and other	**205**	1,025	**1,908**
Liability for retirement benefits (Note 6)	**9,109**	8,587	**84,826**
Other long-term liabilities	**321**	311	**2,985**
Total long-term liabilities	**10,015**	11,014	**93,259**
CONTINGENT LIABILITIES (Note 12)			
SHAREHOLDERS' EQUITY (Notes 8 and 17):			
Common stock—authorized, 138,000,000 shares; issued, 39,131,000 shares in 2005 and 2004	**5,220**	5,220	**48,609**
Additional paid-in capital	**5,224**	5,224	**48,644**
Retained earnings	**13,030**	11,010	**121,334**
Net unrealized gain on available-for-sale securities	**279**	406	**2,597**
Foreign currency translation adjustments	**(734)**	(777)	**(6,836)**
Treasury stock—at cost, 2,226 shares in 2005 and 881 shares in 2004	**(2)**	(1)	**(17)**
Total shareholders' equity	**23,017**	21,082	**214,331**
TOTAL	**¥59,924**	¥60,914	**$558,007**

Consolidated Statements of Income

New Japan Radio Co., Ltd. and Subsidiaries Years Ended March 31, 2005, 2004 and 2003

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2005	2004	2003	2005
NET SALES (Note 15)	¥65,053	¥67,062	¥54,865	$605,766
COST OF SALES (Notes 9 and 15)	50,114	51,201	40,088	466,654
Gross profit	14,939	15,861	14,777	139,112
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 9 and 15)	11,336	11,248	11,003	105,562
Operating income	3,603	4,613	3,774	33,550
OTHER INCOME (EXPENSES):				
Interest and dividend income	31	31	35	286
Interest expenses	(132)	(183)	(243)	(1,230)
Foreign exchange gains (losses)	408	(465)	(348)	3,803
Losses on disposal of inventories	(45)	(53)	(53)	(416)
Reversal of allowance for doubtful accounts	4	62		38
Other—net (Note 10)	73	9	(164)	673
Other income (expenses)—net	339	(599)	(773)	3,154
INCOME BEFORE INCOME TAXES	3,942	4,014	3,001	36,704
INCOME TAXES (Note 7)**:**				
Current	1,635	2,007	1,973	15,229
Deferred	(262)	(572)	(687)	(2,449)
Total income taxes	1,373	1,435	1,286	12,780
NET INCOME	¥2,569	¥2,579	¥1,715	$ 23,924

	Yen			U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.p and 16)**:**				
Net income	¥64.64	¥64.92	¥42.84	$0.60
Diluted net income	64.60	64.85		0.60
Cash dividends applicable to the year	12.00	12.00	12.00	0.11

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

New Japan Radio Co., Ltd. and Subsidiaries   Years Ended March 31, 2005, 2004 and 2003

	Thousands	Millions of Yen					
	Issued Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Net Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock—At Cost
BALANCE, APRIL 1, 2002	39,100	¥5,207	¥5,211	¥7,669	¥87	¥(486)	
Net income				1,715			
Cash dividends, ¥10 per share				(391)			
Bonuses to directors				(40)			
Net increase in unrealized gain on available-for-sale securities					74		
Net decrease in foreign currency translation adjustments						(136)	
Increase in treasury stock (334 shares)							¥(1)
BALANCE, MARCH 31, 2003	39,100	5,207	5,211	8,953	161	(622)	(1)
Net income				2,579			
Cash dividends, ¥12 per share				(469)			
Bonuses to directors				(40)			
Net increase in unrealized gain on available-for-sale securities					245		
Net decrease in foreign currency translation adjustments						(155)	
Exercise of stock options	31	13	13				
Prior year adjustment of the opening retained earnings (Note 11)				(13)			
BALANCE, MARCH 31, 2004	39,131	5,220	5,224	11,010	406	(777)	(1)
Net income				2,569			
Cash dividends, ¥12 per share				(509)			
Bonuses to directors				(40)			
Net decrease in unrealized gain on available-for-sale securities					(127)		
Net increase in foreign currency translation adjustments						43	
Increase in treasury stock (1,345 shares)							(1)
BALANCE, MARCH 31, 2005	**39,131**	**¥5,220**	**¥5,224**	**¥13,030**	**¥279**	**¥(734)**	**¥(2)**

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Additional Paid-in Capital	Retained Earnings	Net Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock—At Cost
BALANCE, MARCH 31, 2004	$48,609	$48,644	$102,519	$3,779	$(7,232)	$(6)
Net income			23,924			
Cash dividends, $0.11 per share			(4,737)			
Bonuses to directors			(372)			
Net decrease in unrealized gain on available-for-sale securities				(1,182)		
Net increase in foreign currency translation adjustments					396	
Increase in treasury stock (1,345 shares)						(11)
BALANCE, MARCH 31, 2005	**$48,609**	**$48,644**	**$121,334**	**$2,597**	**$(6,836)**	**$(17)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

New Japan Radio Co., Ltd. and Subsidiaries Years Ended March 31, 2005, 2004 and 2003

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2005	2004	2003	2005
OPERATING ACTIVITIES:				
Income before income taxes	¥3,942	¥4,014	¥3,001	$36,704
Adjustments for:				
Income taxes paid	(2,194)	(2,721)	(79)	(20,426)
Depreciation and amortization	4,536	5,021	4,676	42,243
Loss on sales and disposals of property, plant and equipment	135	67	87	1,257
Bonuses to directors	(40)	(41)	(39)	(372)
Changes in assets and liabilities:				
Decrease in allowance for doubtful accounts	(5)	(117)	(52)	(46)
Increase in liability for retirement benefits	522	610	500	4,865
Decrease in interest payable	(2)	(25)	(20)	(16)
(Increase) decrease in notes and accounts receivable	769	(3,279)	(1,450)	7,161
(Increase) decrease in inventories	335	660	(1,201)	3,116
Increase (decrease) in notes and accounts payable	(1,075)	1,966	126	(10,014)
Other—net	(226)	1,046	1,130	(2,110)
Total adjustments	2,755	3,187	3,678	25,658
Net cash provided by operating activities	6,697	7,201	6,679	62,362
INVESTING ACTIVITIES:				
Purchases of property, plant and equipment	(4,560)	(4,191)	(2,872)	(42,462)
Proceeds from sales of property, plant and equipment	21	6	50	198
Purchases of investment securities	(102)	(2)	(2)	(949)
Collection of loans receivable	61	61	61	570
Other—net	(111)	(325)	(105)	(1,043)
Net cash used in investing activities	(4,691)	(4,451)	(2,868)	(43,686)
FINANCING ACTIVITIES:				
Net change in short-term bank loans	(11)	1,840	(251)	(105)
Proceeds from long-term debt		500		
Repayments of long-term debt	(877)	(4,986)	(3,853)	(8,164)
Proceeds from exercise of stock options		26		
Repurchase of treasury stock	(1)			(11)
Cash dividends	(509)	(469)	(391)	(4,738)
Net cash used in financing activities	(1,398)	(3,089)	(4,495)	(13,018)
FORWARD	¥608	¥(339)	¥(684)	$ 5,658

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2005	2004	2003	2005
FORWARD	¥608	¥(339)	¥(684)	$5,658
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	4	(25)	(23)	42
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	612	(364)	(707)	5,700
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,047	3,411	4,118	28,374
CASH AND CASH EQUIVALENTS, END OF YEAR	¥3,659	¥3,047	¥3,411	$34,074

See notes to consolidated financial statements.

1. BASIS OF PRESENTING FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2004 and 2003 consolidated financial statements to conform to the classifications used in 2005.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which New Japan Radio 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 ¥107.39 to U.S.$1, the approximate rate of exchange at March 31, 2005. 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 its subsidiaries (together, the "Companies"). 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 Company has the ability to exercise significant influence are accounted for by the equity method. There are no companies that are accounted for by the equity method.

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

b. **Cash and 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 which mature within three months of the date of acquisition.

c. **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.

d. **Foreign Currency Financial Statements—**Financial statements of foreign subsidiaries are translated into Japanese yen at the current exchange rates as of the balance sheet date for all balance sheet accounts except for shareholders' equity accounts, which are translated at the historical exchange rate.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

e. **Marketable and Investment Securities—**All marketable securities the Companies own are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method.

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.

f. **Inventories—**Merchandise and finished goods are stated at cost determined by the moving-average method. Raw materials are stated at cost determined by the average method. Work in process is stated at cost, determined by the average method, or using the specific identification method. Inventories of foreign consolidated subsidiaries are stated at the lower of cost or market determined by the average method.

g. **Property, Plant and Equipment—**Property, plant and equipment are recorded at cost.

Depreciation of property, plant and equipment of the Companies, except for one domestic subsidiary, is computed by the declining-balance method at rates based upon the usage of the assets over the estimated useful lives of the assets, while the straight-line method is applied to property, plant and equipment of the domestic subsidiary and buildings of the Company and its domestic subsidiaries acquired after April 1, 1998.

Estimated useful lives are as follows:

Buildings and structures	2 to 50 years
Machinery and equipment	2 to 15 years
Furniture and fixtures	1 to 20 years

h. **Other Assets—**Intangible assets are carried at cost less accumulated amortization, which is calculated by the straight-line method principally over 3 to 10 years for intangible assets.

i. Retirement Benefits—The Company has a non-contributory funded pension plan covering only employees who have 18 years or more of service.

The Companies accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.

The Company has provided an allowance for directors' and corporate auditors' retirement benefits calculated in accordance with the Company's rules and has included this amount in the liability for retirement benefits.

j. Allowance for Doubtful Accounts—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

k. Research and Development Costs—Research and development costs are charged to income as incurred.

l. Income Taxes—The provision for income taxes is computed based upon 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 temporary differences.

The Companies file a tax return under the consolidated corporate-tax system from the fiscal year ended March 31, 2005, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

m. Appropriations of Retained Earnings—Appropriations of retained earnings are accounted for and reflected in the accompanying consolidated financial statements when approved by the shareholders.

n. 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 consolidated financial statements.

o. Derivative Financial Instruments—The Companies use derivative financial instruments to manage their exposures to fluctuations in foreign exchange rates. Foreign exchange forward contracts are utilized by the Companies to reduce foreign currency exchange rate risk. Derivative transactions entered into by the Companies have been made in accordance with internal policies which regulate the authorization and credit limit amount. The Companies do 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 are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the income statement and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign exchange forward contracts employed to hedge foreign exchange exposures for export sales are measured at the fair value and the unrealized gains/losses are recognized in income. The foreign exchange forward contracts applied for forecasted transactions are also measured at the fair value but the unrealized gains/losses are deferred until the underlying transactions are completed.

p. **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. The average number of common shares used in the computation was 39,129,599 shares, 39,114,884 shares and 39,099,346 shares for 2005, 2004 and 2003, respectively.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised into common stock. Diluted net income per share of common stock assumes full exercise of outstanding warrants.

Diluted net income per share is not disclosed because it is anti-dilutive in 2003.

Cash dividends per share shown in the consolidated statements of income are the amounts applicable to the respective years without giving retroactive adjustment for subsequent stock splits.

q. **New Accounting Pronouncements—**In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASB") issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The Companies expect to adopt these pronouncements as of April 1, 2005 and are currently in the process of assessing the effect of adoption of these pronouncements.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities at March 31, 2005 and 2004, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Current—Government and corporate bonds	**¥10**		**$93**
Total	**¥10**		**$93**
Non-current:			
Marketable equity securities	**¥1,893**	¥2,005	**$17,626**
Government and corporate bonds		10	
Trust fund investments and other	**7**	7	**66**
Total	**¥1,900**	¥2,022	**$17,692**

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

	Millions of Yen			
	2005			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥1,428	¥466	¥1	¥1,893
Debt securities	6	4		10
Total	¥1,434	¥470	¥1	¥1,903

	Millions of Yen			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥1,327	¥680	¥2	¥2,005
Debt securities	6	4		10
Total	¥1,333	¥684	¥2	¥2,015

	Thousands of U.S. Dollars			
	2005			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	$13,300	$4,339	$13	$17,626
Debt securities	59	34		93
Total	$13,359	$4,373	$13	$17,719

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

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Available-for-sale—Equity securities	¥7	¥7	$66
Total	¥7	¥7	$66

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2005, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥10	$93
Total	¥10	$93

4. INVENTORIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Merchandise	**¥85**	¥59	**$791**
Finished goods	**4,913**	4,399	**45,750**
Work in process	**7,794**	8,253	**72,573**
Raw materials	**2,093**	2,487	**19,489**
Total	**¥14,885**	¥15,198	**$138,603**

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

Short-term bank loans at March 31, 2005 and 2004, consisted of notes to banks. The annual weighted average interest rates for short-term bank loans for the years ended March 31, 2005 and 2004, were 0.74 percent and 0.75 percent, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Loans from banks and other financial institutions, due serially to 2008 with interest rates ranging from 0.64 to 2.01 percent (2005), from 0.72 to 1.87 percent (2004):			
Collateralized	**¥876**	¥1,400	**$8,157**
Unsecured	**214**	568	**1,998**
Total	**1,090**	1,968	**10,155**
Less current portion	**(710)**	(877)	**(6,615)**
Long-term debt, less current portion	**¥380**	¥1,091	**$3,540**

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

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2006	¥710	$6,615
2007	150	1,398
2008	120	1,118
2009	110	1,024
Total	¥1,090	$10,155

The carrying amounts of assets pledged as collateral for long-term debt of ¥876 million ($8,157 thousand) at March 31, 2005, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Property, plant and equipment—net of accumulated depreciation	¥5,841	$54,394

6. RETIREMENT BENEFITS

The Company and its domestic subsidiaries have pension plans. The plans provide for lump-sum payments to terminated employees who have 2 years or more of continuous service.

The Company has a non-contributory funded pension plan covering only employees with 18 years or more of service. Such employees receive a lump-sum distribution upon mandatory retirements, equal to 50 percent of their total retirement benefits, payable from the pension fund.

Certain foreign subsidiaries have a contributory funded pension plan covering only employees who have 1 year or more continuous service.

Retirement allowances for employees are determined on the basis of length of service and current basic salary at the time of termination. If the termination is involuntary, the employee is usually entitled to greater payment than in the case of voluntary termination.

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

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Projected benefit obligation	**¥13,870**	¥13,254	**$129,157**
Fair value of plan assets	**(3,337)**	(2,968)	**(31,073)**
Unrecognized actuarial loss	**(1,664)**	(1,922)	**(15,493)**
Net liability	**¥8,869**	¥8,364	**$82,591**

The components of net periodic benefit costs are as follows:

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2005	2004	2003	2005
Service cost	¥791	¥771	¥762	$7,363
Interest cost	329	307	288	3,064
Expected return on plan assets	(30)		(62)	(277)
Amortization of prior service cost	(20)			(184)
Recognized actuarial loss	153	172	137	1,423
Net periodic benefit costs	¥1,223	¥1,250	¥1,125	$11,389

Assumptions used for the years ended March 31, 2005 and 2004, are set forth as follows:

	2005	2004
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	1.0%	0.0%
Recognition period of actuarial gain/loss	15 years	15 years
Amortization period of prior service cost	1 year	

The liability for retirement benefits to directors and corporate auditors included in the accompanying consolidated balance sheets amounted to ¥240 million ($2,235 thousand) and ¥223 million at March 31, 2005 and 2004, respectively. Amounts payable to directors and corporate auditors upon retirement are subject to the approval of the shareholders.

7. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 40.4 percent for the year ended March 31, 2005 and 42.0 percent for the years ended March 31, 2004 and 2003.

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

	Millions of Yen		Thousands of U.S. Dollars
Current	**2005**	2004	**2005**
Deferred tax assets:			
Inventories	**¥159**	¥152	**$1,477**
Accrued bonuses	**897**	937	**8,359**
Accrued enterprise tax	**65**	107	**605**
Others	**187**	166	**1,739**
Valuation allowance	**(7)**		**(61)**
Total	**1,301**	1,362	**12,119**
Deferred tax liabilities:			
Inventories	**108**	122	**1,011**
Allowance for doubtful accounts		1	
Total	**108**	123	**1,011**
Net deferred tax assets	**¥1,193**	¥1,239	**$11,108**

	Millions of Yen		Thousands of U.S. Dollars
Non-current	**2005**	2004	**2005**
Deferred tax assets:			
Liability for retirement benefits	**¥3,498**	¥3,163	**$32,573**
Tax loss carryforwards	**29**	118	**271**
Others	**128**	116	**1,186**
Valuation allowance	**(32)**	(116)	**(297)**
Total	**3,623**	3,281	**33,733**
Deferred tax liabilities:			
Special reserve for tax purposes	**43**	68	**401**
Undistributed earnings of subsidiaries	**103**	46	**957**
Unrealized gain on available-for-sale securities	**190**	276	**1,763**
Others	**1**	1	**13**
Total	**337**	391	**3,134**
Net deferred tax assets	**¥3,286**	¥2,890	**$30,599**

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2005, 2004 and 2003, and the actual effective tax rates reflected in the accompanying consolidated statements of income is as follows:

	2005	2004	2003
Normal effective statutory tax rate	40.4%	42.0%	42.0%
Taxation on per capita basis	0.4	0.3	0.5
Expenses not deductible for income tax purposes	(0.2)		0.1
Lower income tax rates applicable to income in certain foreign countries	0.3	(0.4)	0.3
Valuation allowance	(1.1)	(2.0)	(2.3)
Effect of tax rate reduction			2.6
Tax deduction of research and development	(6.2)	(6.0)	
Others—net	1.2	1.8	(0.3)
Actual effective tax rate	34.8%	35.7%	42.9%

8. SHAREHOLDERS' EQUITY

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

The Code requires that all shares being recorded with no par value and at least 50 percent of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount at least equal to 10 percent of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25 percent of the balance of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25 percent of the common stock balance may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock balance by resolution of the Board of Directors.

The Code allows Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥9,779 million ($91,063 thousand) as of March 31, 2005, based upon the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

At the general shareholders meeting of the Company held on June 28, 2001, the Company's shareholders approved the following stock option plan. The plan provides for granting options to directors and key employee to purchase up to 113 thousand shares of the Company's common stock in the period from January 7, 2002 to December 20, 2005. The options will be exercisable at ¥827 per share. The exercise price will be subject to adjustment if there are stock splits or additional shares issued for less than the market price.

At the general shareholders meeting of the Company held on June 27, 2003, the Company's shareholders approved the following stock option plan. The plan provides for granting options to directors and key employee to purchase up to 140 thousand shares of the Company's common stock in the period from January 7, 2004 to December 20, 2007. The options will be exercisable at ¥995 per share. The exercise price will be subject to adjustment if there are stock splits or additional shares issued for less than the market price.

9. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥6,198 million ($57,719 thousand), ¥6,382 million and ¥5,851 million for the years ended March 31, 2005, 2004 and 2003, respectively.

10. OTHER INCOME (EXPENSES)—OTHER—NET

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

	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	**2005**
Loss on sales and disposals of property, plant and equipment	**¥(135)**	¥(67)	¥(87)	**$(1,257)**
Loss on devaluation of investment securities	**(1)**		(74)	**(6)**
Reversal of retirement benefits	**20**			**184**
Gain on exemption from consumption tax	**118**			**1,098**
Disaster loss	**(45)**			**(421)**
Other—net	**116**	76	(3)	**1,075**
Total	**¥73**	¥9	¥(164)	**$673**

11. PRIOR YEAR ADJUSTMENT

NJR (SINGAPORE) PTE LTD, a subsidiary in Singapore, adopted Interpretation to Singapore Financial Reporting Standards 19, effective April 1, 2003.

The effect of this adoption was to decrease opening retained earnings by ¥13 million as of April 1, 2003.

12. LEASES

The Company and domestic subsidiaries have several lease agreements relating to office space, computer equipment and circuit equipment. Total lease payments under finance lease agreements that do not transfer ownership of the leased property to the Company and domestic subsidiaries were ¥296 million ($2,760 thousand), ¥316 million and ¥372 million for the years ended March 31, 2005, 2004 and 2003, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense and interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2005 and 2004, was as follows:

	Millions of Yen				Thousands of U.S. Dollars			
	2005				**2005**			
	Machinery and Equipment	Furniture and Fixtures	Other	Total	Machinery and Equipment	Furniture and Fixtures	Other	Total
Acquisition cost	**¥16**	**¥746**	**¥472**	**¥1,234**	**$154**	**$6,943**	**$4,399**	**$11,496**
Accumulated depreciation	**9**	**466**	**295**	**770**	**83**	**4,340**	**2,751**	**7,174**
Net leased property	**¥7**	**¥280**	**¥177**	**¥464**	**$71**	**$2,603**	**$1,648**	**$4,322**

	Millions of Yen			
	2004			
	Machinery and Equipment	Furniture and Fixtures	Other	Total
Acquisition cost	¥13	¥883	¥495	¥1,391
Accumulated depreciation	6	546	307	859
Net leased property	¥7	¥337	¥188	¥532

Obligations under finance leases as of March 31, 2005 and 2004, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Due within one year	**¥198**	¥265	**$1,848**
Due after one year	**273**	278	**2,540**
Total	**¥471**	¥543	**$4,388**

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

Depreciation expense and interest expense under finance leases for the years ended March 31, 2005, 2004 and 2003, were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	2005
Depreciation expense	¥283	¥301	¥353	$2,634
Interest expense	9	12	16	88
Total	¥292	¥313	¥369	$2,722

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of income, are computed by the straight-line method and the interest method, respectively.

13. DERIVATIVES

The Company enters into foreign exchange forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies and forecasted transactions.

All derivative transactions are entered into to hedge foreign currency exposures incorporated with its financing activities. The Company does not hold or issue derivatives for trading purposes.

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

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

	Millions of Yen			Thousands of U.S. Dollars		
	2005			2005		
	Contract Amount	Fair Value	Unrealized Gain/Loss	Contract Amount	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts—Selling U.S.$	¥2,528	¥2,560	¥(32)	$23,538	$23,841	$(303)

	Millions of Yen		
	2004		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts—Selling U.S.$	¥2,194	¥2,079	¥115

The contract 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's exposure to credit or market risk.

14. SEGMENT INFORMATION

Information about industry segments, geographical segments and sales to foreign customers of the Companies for the years ended March 31, 2005, 2004 and 2003, is as follows:

(1) Industry Segments

Industry segments information is not shown since substantially all consolidated net sales, operating income and identifiable assets for 2005, 2004 and 2003 resulted from the primary business of the Companies, which is to manufacture and sell electronics devices such as electron tubes and semiconductor devices.

(2) Geographical Segments

The segment information is grouped by geographic area based on the countries and areas where the Companies are located. The segments mainly consist of the following countries:

Asia —Thailand, Singapore
North America—United States of America

The geographical segments of the Companies for the years ended March 31, 2005, 2004 and 2003, are summarized as follows:

	Millions of Yen				
	2005				
Sales:	Japan	Asia	North America	Eliminations or Corporate	Consolidated
To customers	¥57,389	¥4,640	¥3,024		¥65,053
Interarea transfers	6,942	5,347	184	¥(12,473)	
Total	64,331	9,987	3,208	(12,473)	65,053
Operating expenses	55,209	9,707	3,175	(6,641)	61,450
Operating income	¥9,122	¥280	¥33	¥(5,832)	¥3,603
Total assets	¥51,827	¥4,377	¥644	¥3,076	¥59,924

	Thousands of U.S. Dollars				
	2005				
Sales:	Japan	Asia	North America	Eliminations or Corporate	Consolidated
To customers	$534,400	$43,210	$28,156		$605,766
Interarea transfers	64,638	49,790	1,716	$(116,144)	
Total	599,038	93,000	29,872	(116,144)	605,766
Operating expenses	514,092	90,392	29,566	(61,834)	572,216
Operating income	$ 84,946	$2,608	$306	$(54,310)	$33,550
Total assets	$482,610	$40,758	$5,996	$28,643	$558,007

Sales:	Millions of Yen 2004 Japan	Asia	North America	Eliminations or Corporate	Consolidated
To customers	¥59,144	¥4,695	¥3,223		¥67,062
Interarea transfers	6,874	4,357	180	¥(11,411)	
Total	66,018	9,052	3,403	(11,411)	67,062
Operating expenses	56,034	8,882	3,384	(5,851)	62,449
Operating income	¥9,984	¥170	¥19	¥(5,560)	¥4,613
Total assets	¥53,831	¥3,761	¥699	¥2,623	¥60,914

Sales:	Millions of Yen 2003 Japan	Asia	North America	Eliminations or Corporate	Consolidated
To customers	¥46,117	¥5,091	¥3,657		¥54,865
Interarea transfers	7,756	4,569	201	¥(12,526)	
Total	53,873	9,660	3,858	(12,526)	54,865
Operating expenses	44,872	9,429	3,801	(7,011)	51,091
Operating income	¥9,001	¥231	¥57	¥(5,515)	¥3,774
Total assets	¥52,336	¥3,638	¥851	¥2,219	¥59,044

Notes: 1. The unallocated operating expenses for the years ended March 31, 2005, 2004 and 2003, amounting to ¥5,638 million ($52,503 thousand), ¥5,462 million and ¥5,329 million, respectively, were included in "Eliminations or Corporate" column, which mainly consisted of administration expenses of the Company.

2. The corporate assets at March 31, 2005, 2004 and 2003, amounting to ¥6,549 million ($60,984 thousand), ¥6,018 million and ¥5,630 million, respectively, were included in "Eliminations or Corporate" column, and consisted primarily of funds held by the Company for investing purposes (cash, time deposits, marketable securities and investment securities) and assets held for administration of the Company.

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2005, 2004 and 2003, amounted to ¥27,682 million ($257,772 thousand), ¥26,619 million and ¥25,188 million, respectively, and accounted for 42.6 percent, 39.7 percent and 45.9 percent, respectively, of the consolidated net sales.

The segment information is grouped by geographic area based on the countries where the Companies' customers are located. The segments mainly consist of the following countries:

Asia —Hong Kong, Republic of Korea, Taiwan, Malaysia, Singapore
North America—United States of America
Europe —United Kingdom, Germany, Holland
Other —Mexico, Israel

	Millions of Yen				
	2005				
	Asia	North America	Europe	Other	Total
Sales	¥20,050	¥3,679	¥1,535	¥2,418	¥27,682

	Thousands of U.S. Dollars				
	2005				
	Asia	North America	Europe	Other	Total
Sales	$186,703	$34,263	$14,291	$22,515	$257,772

	Millions of Yen				
	2004				
	Asia	North America	Europe	Other	Total
Sales	¥20,554	¥2,579	¥1,390	¥2,096	¥26,619

	Millions of Yen				
	2003				
	Asia	North America	Europe	Other	Total
Sales	¥19,788	¥2,682	¥1,489	¥1,229	¥25,188

15. RELATED PARTY TRANSACTIONS

The Company is a subsidiary of Japan Radio Co., Ltd. (the "Parent"). At March 31, 2005, the Parent held 19,756 thousand shares of common stock of the Company, 50.49 percent of the total outstanding shares.

Transactions with and balances due from and to the Parent for the years ended March 31, 2005, 2004 and 2003, were principally as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2005	2004	2003	2005
Transactions:				
Sales	¥1,130	¥937	¥564	$10,526
Purchases	63	90	23	589
Services	2	44	4	19
Rental cost and other expenses	45	42	40	420
Purchase of equipment		99		
Sales of property, plant and equipment	9			81
Balances:				
Notes and accounts receivable	408	554	117	3,799
Other current assets	2			15
Notes and accounts payable	14	66		127
Accrued expenses	3	3	3	28

16. NET INCOME PER SHARE

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

	Millions of Yen	Thousands of U.S. Dollars	Yen	U.S. Dollars
	Net Income	Weighted-average Shares	EPS	
Year Ended March 31, 2005				
Basic EPS—Net income available to common shareholders	¥2,529	39,130	¥64.64	$0.60
Effect of dilutive securities—Warrants		21		
Diluted EPS—Net income for computation	¥2,529	39,151	¥64.60	$0.60
Year Ended March 31, 2004				
Basic EPS—Net income available to common shareholders	¥2,539	39,114	¥64.92	
Effect of dilutive securities—Warrants		42		
Diluted EPS—Net income for computation	¥2,539	39,156	¥64.85	

17. SUBSEQUENT EVENT

At the general shareholders meeting of the Company held on June 29, 2005, the appropriations of retained earnings were duly approved as follows:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥6.0 ($0.06) per share	¥235	$2,186
Bonuses to directors	40	373
Total	¥275	$2,559