

RYOSAN
ANNUAL REPORT 2004

MAKING A LEAP FORWARD



Three functions to evolve

**Three functions that evolve continually
to increase customer satisfaction
and valued existence**

INFORMATION

Information function

Ryosan believes that its information function is to provide customers with global products precisely and on time and keep them abreast of technology trends by including a wide range of suppliers in order to fully satisfy their needs.

SOLUTION

Solution function

Providing total solutions by system consulting, putting into effect and strengthening its product range, solution proposal power and fabless semiconductor business.

DISTRIBUTION

Distribution function

In order to respond to customer diversification and upgrade requirements, Ryosan is planning the organic incorporation of state-of-the-art automatic warehouse and information systems, bringing rapid, ultra-customized, low-cost distribution service to fruition.

COMMEMORATING OUR 50TH ANNIVERSARY

On November 18, 2003, Ryosan Co., Ltd. celebrated the 50th anniversary of its establishment.

From the Company's beginnings in 1953, we have always been highly conscious of the fact that the corporation is a public institution. In addition, we do not see ourselves simply as a trading company, but as an electronics system coordinator, providing a vital link between the needs of society and electronics technology.

Three functions are vital to fulfilling our role as an electronics system coordinator. The first is the information (data supply) function—gathering data on the needs and trends in technology and providing it to customers as accurate information. The second is the solution (technology supply) function—integrating expertise and knowledge with advanced technology, to offer the best possible solution to the customer. The third is the distribution (logistics supply) function—delivering required products to the required location in the best possible condition. With these three functions constantly evolving, Ryosan will create improved customer satisfaction and valued existence from a long-term perspective with the aim of securing continuous corporate growth.

ADVANCES FOR THE NEXT PHASE



PRESIDENT'S MESSAGE



TATSUO UI
PRESIDENT

Ryosan has been formulating its new management reform plans, positioning itself for its sixth medium-term management plan that runs from fiscal 2004, ending March 31, 2005, to fiscal year 2006, ending March 31, 2007. Its three constituent basic strategies as a system coordinator — growth strategy, segment strategy and the establishment of a strong business infrastructure that supports growth and reinforces operations — are being followed with added impetus.



WHAT ARE YOUR THOUGHTS ON RYOSAN'S BUSINESS ENVIRONMENT? PLEASE OUTLINE THE COMPANY'S PERFORMANCE FOR THE FISCAL YEAR ENDED MARCH 31, 2004.

During the first half of the fiscal year ended March 31, 2004, the global economy was at first shaken by the outbreak of hostilities in Iraq and the severe acute respiratory syndrome (SARS) epidemic, which cast a shadow over the Japanese economy, accompanied by fears of an economic slowdown. After the early cessation of hostilities in Iraq, however, the Japanese economy showed long-awaited signs of hope in the form of rising stock prices in both Japan and the U.S. In the second half of the fiscal year under review, Japan's economy experienced signs of a gradual recovery, as evidenced by increased exports to Asia and a pickup in investments in plant and facilities.

Meanwhile, Ryosan's main operating environment—the electronics industry—was comparatively healthy, with increased demand for digital home appliances mirroring improving macroeconomic conditions worldwide.

Under these conditions, the Ryosan Group made progress with its growth strategy, pursuing a multi-vendor approach by acquiring new marketing licenses from overseas semiconductor makers, including Philips Semiconductors. At the same time, Ryosan improved the Group's operating efficiency and consolidated resources by dissolving subsidiary Road Company, Limited and continuing the commercialization of its fabless semiconductor business. In addition, as part of measures to increase profits and with the additional aims of lowering operating costs and improving customer satisfaction through closer customer relationships, Ryosan reorganized its Japanese marketing offices and took action to improve shipment earnings from its production departments.

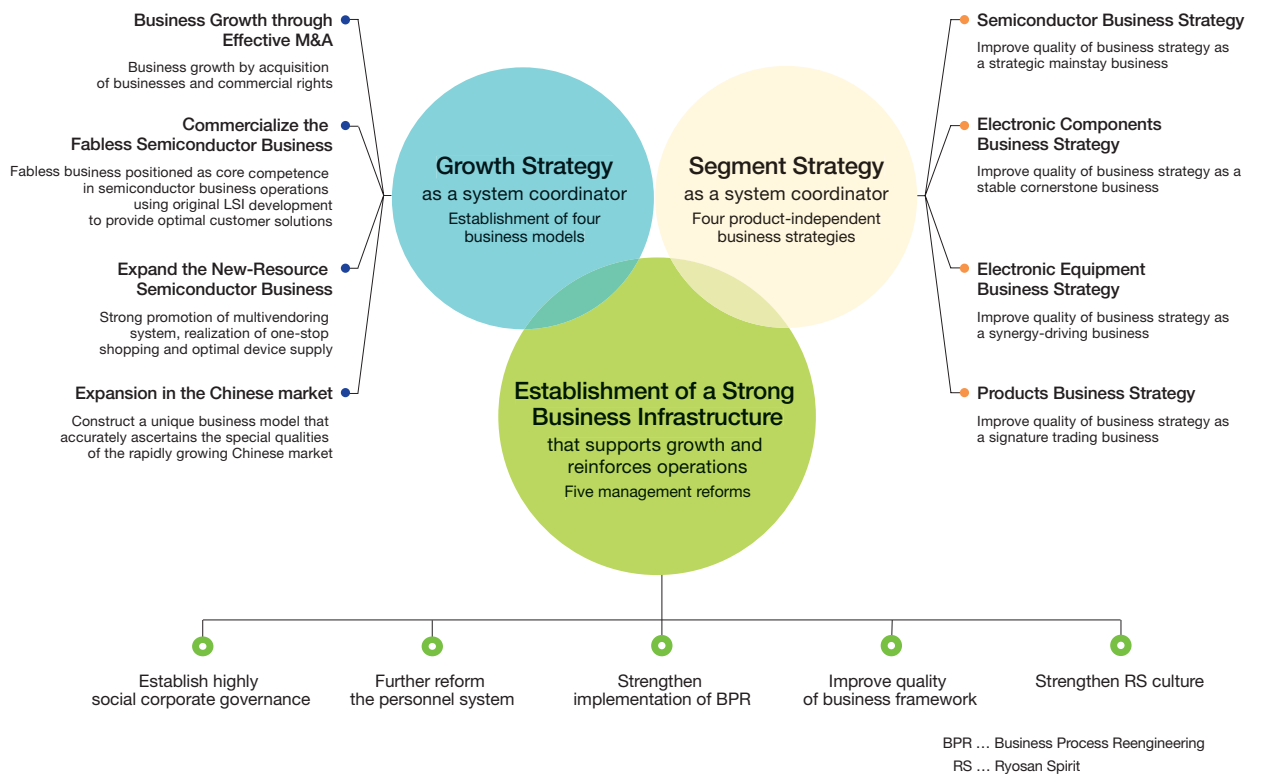
As a result, Ryosan recorded increases in both sales and earnings. Consolidated net sales totaled ¥288,241 million, up 12.8% from the previous fiscal year. Operating income totaled ¥7,965 million, rising 19.3%. Net income increased 53.2% to ¥5,706 million.



COULD YOU TELL US ABOUT RYOSAN'S SIXTH MEDIUM-TERM MANAGEMENT PLAN?

Ryosan's fifth medium-term management plan covered the three-year period from fiscal 2001, ended March 31, 2002, through fiscal 2003, ended March 31 2004. The twin pillars of this plan, "Basic Situation" and "Basic Strategy: Phase I," have been instrumental in guiding the Company's efforts to implement various corporate reforms. As a result, Ryosan has succeeded in clarifying the responsibilities of company directors, improving returns to shareholders, promoting multi-vendor business, and implementing other initiatives. Looking ahead, corporations are expected to face further advancement in globalization, growing complexity, and a faster pace of business. There remain, therefore, many more reforms we must implement.

Accordingly, Ryosan is tackling needed new reforms in line with its sixth medium-term management plan, covering the three-year period from fiscal 2004, ending March 31, 2005, though fiscal 2006, ending March 31, 2007. In line with its "Basic Situation," Ryosan continues to focus on carrying out management essentials, advancing management innovation and yielding management results, as these play a pivotal role in conducting open and transparent corporate management and business activities with an abundance of creativity. On this basis, the Company has adopted three basic strategies—a growth strategy; a segment strategy, and a strategy to establish a strong business infrastructure—as the key components of its "Basic Strategy: Phase II."



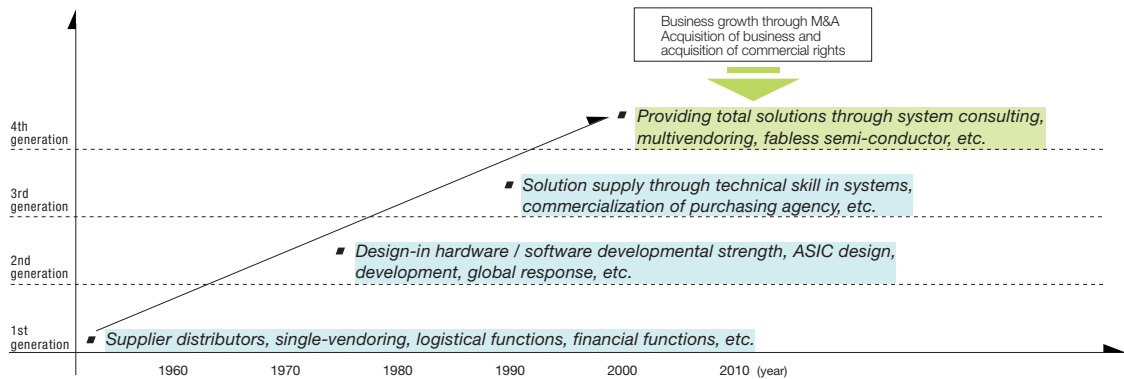


REGARDING THE GROWTH STRATEGY, WHAT IS YOUR POSITION ON BUSINESS GROWTH THROUGH THE ‘EFFECTIVE M&A’ THAT YOU HAVE BEEN INVOLVED WITH RECENTLY?

During an economic period often referred to as the “lost decade,” the basis of Ryosan’s management has been to achieve concrete results and thereby increase shareholders’ equity. Despite these efforts to fortify our financial standing, however, the Company has experienced a drop in return on equity (ROE). For this reason, raising corporate value through the effective application of capital has been positioned as a key management issue.

To this end, Ryosan has actively addressed M&A as an effective way to utilize capital and to accelerate corporate growth. We will work to reinforce our core businesses and expand our customer base through corporate acquisitions and the purchase of marketing licenses.

[Ryosan’s evolution of competence and future business growth]



COULD YOU TELL US ABOUT EFFORTS TO EXPAND THE NEW-RESOURCE SEMICONDUCTOR BUSINESS?

The semiconductor industry has recently experienced consolidation following years of volatility and a period of reorganization. Manufacturers and suppliers have implemented the optimal allocation of scarce management resources based on a policy of selection and focus on those fields in which they can maintain competitive advantage and reinforce relationships with select customers.

The principal task for Ryosan as a whole is to increase customer satisfaction by accurately responding to customers’ widely differing requirements, delivering “one-stop shopping” through a comprehensive product lineup, and supplying optimal devices. To achieve this, we are pursuing a full-scale multi-vendor approach as part of our growth strategy for business expansion in new-resource semiconductor products. We have concluded sales agent contracts with NEC Electronics, our key partner, followed by Philips Semiconductors of the Netherlands. Moreover, to rapidly implement this multi-vendor approach, we are acquiring new sales licenses by practical use of our strong financial position and investing in the development of semiconductor ventures overseas.



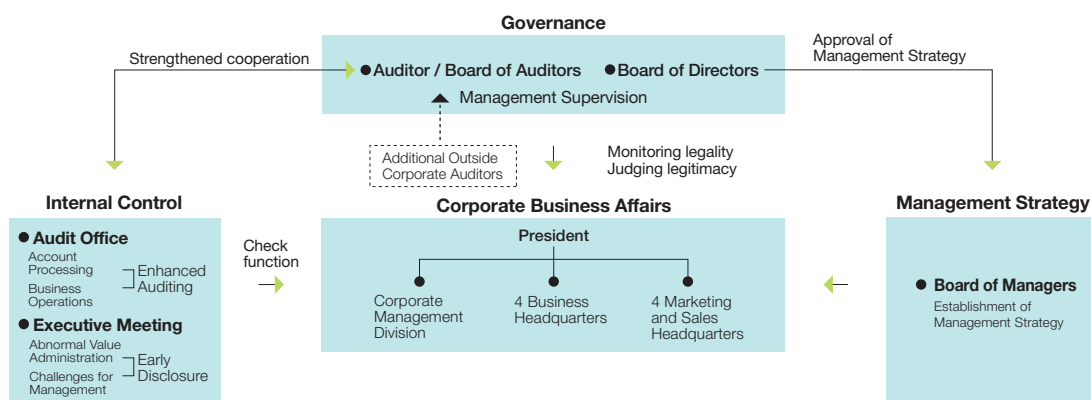
WHAT ARE YOUR CORPORATE GOVERNANCE POLICIES AND HOW WILL YOU GO ABOUT IMPLEMENTING THEM?

Ryosan continues to press forward with management innovation in an effort to enhance transparency and to promote full accountability for the benefit of shareholders and all other stakeholders. We formulated our sixth medium-term management plan, which places the establishment of a strong business infrastructure at the top of its agenda, with corporate governance as a core component in those efforts.

To establish a distinctive management style at Ryosan, Board members concurrently assume roles and responsibilities in the three functions of corporate governance, management strategy, and business execution. To ensure adequate supervision, Ryosan has adopted a corporate auditor system, and in June 2004, increased the number of auditors appointed from outside the Company to two. In the future, we will redouble efforts to ensure strict legal compliance and accurate decision-making.

Looking to bolster the internal audit process in the wake of frequent changes to accounting standards and the diversity of business operations, Ryosan took steps to improve communication and collaboration among auditors, Board of Auditors' meetings and the Audit Office.

[Structure of governance and internal control]



Note: In the fiscal year ended March 31, 2004, the Board of Directors held a total of 16 meetings. In addition, the Board of Managers held a total of 11 meetings. In principle, directors responsible for conducting business affairs and auditors attend all Board of Managers' meetings. This requirement is aimed at further strengthening corporate governance. The Audit Committee held a total of 12 meetings during the fiscal year.



PLEASE OUTLINE RYOSAN'S PERFORMANCE REGARDING SHAREHOLDER RETURNS AND ANY CHANGES TO FUTURE PROFIT ALLOCATION POLICIES.

Our fifth medium-term management plan refined our financial strategy with the objective of increasing corporate value. Specifically, we pursued greater efficiency in the application of shareholders' equity by securing a sound financial position, and worked to increase shareholder returns.

In its efforts to secure capital efficiency, Ryosan recorded increases in its shareholders' equity base in each year of its fifth medium-term management plan. The shareholders' equity ratio on the other hand fell from 71% as of fiscal 2001 year-end to 62% as of fiscal 2003 year-end. In addition, regarding shareholder returns, between the shareholders' meetings held in June 2001 and on June 25, 2004, the Company repurchased a cumulative total of 4.43 million of treasury stock for a total outlay of approximately ¥7 billion. In conjunction with the full-year dividend, the payout ratio for the fiscal year under review was 89%.

In the future, Ryosan will continue to refine its financial strategy with the aim of increasing corporate value. To this end, we will again work toward improving capital efficiency, as measured by ROE, and securing a sound financial position. At the same time, profits will be allocated to three areas, namely for strategic investment in growth areas, including M&As and the acquisition of commercial rights, for the payment of dividends, and the repurchase of treasury stock.

TO OUR SHAREHOLDERS

The global economy is expected to remain firm, buoyed by growth in the United States. In the electronics industry, forecasts are also promising for semiconductors and electronic components on the back of an increase in production of electric equipment and in particular digital home appliances.

Under these circumstances, the Ryosan Group will pursue the basic strategies set forth in its sixth mid-term management plan with the aim of improving its operating performance.

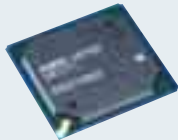
In addition, the Company will seek a high degree of management transparency through its investor relations activities, which will include the disclosure of information to shareholders and investors through meetings, presentations of financial statements, business reports, and its Web site.

It is my wish that this Annual Report will provide readers with a better understanding of the Company. I would like to thank you for your continued support.

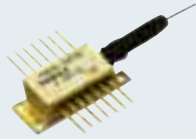
MAJOR BUSINESSES AND STRATEGIES

Semiconductors

Items handled



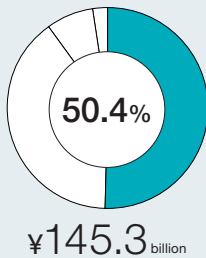
NEC Electronics
DVD Codec with Integrated Digital Set-Top Box



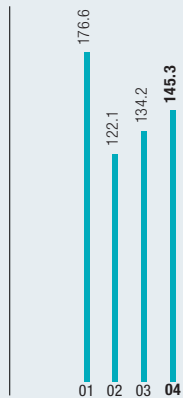
NEC Compound Semiconductor Devices
Laser Diode

- Memories
- Microcomputers
- ASICs
- Application Specific Standard System LSIs (ASSP)
- Optical and compound semiconductors
- Transistors
- Diodes etc.
- System LSI design (hardware / software)

Net Sales and Percentage of Total



Trends in net Sales (Billions of Yen)



Strategy and positioning

The Company has designated the semiconductor business its strategic mainstay business.

In this business, our market strategy is to expand activities in growth fields such as digital audiovisual products, car multimedia, broadband mobile, automotive electronics, flat-panel displays and fiber-to-the-home (FTTH) technology, by reinforcing sales of competitive products including microcomputers, system LSIs, compound and optical devices.

Our technology strategy focuses on establishing an autonomous technical support system. Our goals are to selectively allocate technical support resources to growth areas while at the same time boosting the technical support capabilities of our field application engineers, the systems technology of our systems engineers, and the development technology of our development engineers. Through these means, we will strive to enhance the quality of our device solution proposals.

Electronic Components

Handling items



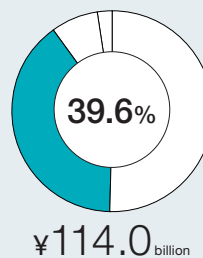
CASIO
LCD Modules



ALPS
RF Components

- Display devices
- Network devices
- Condensers
- Transformers
- Connectors
- Switches
- Relays
- Printed circuit boards
- Switching power supplies
- Tuners
- Ferrite cores
- Rechargeable batteries etc.

Net Sales and Percentage of Total



Trends in net Sales (Billions of Yen)



Strategy and positioning

The electronic components business is the Company's stable cornerstone business.

Our market strategy is to expand business by focusing on growth markets such as digital home appliances, DVDs, DSCs, mobile phones, telecommunications, car electronics, PDAs, PCs, MFPs, measuring equipment, game equipment, and other devices.

In selecting a supplier and those products for sales expansion, we consider specific characteristics including each supplier's sales policy and product capabilities. Accordingly, our product strategy focuses on boosting sales of LCDs, batteries, power-module electric sources, high-frequency devices that best match the needs of growth markets. We are committed to cultivating new resource products including organic EL, backlights, and build-up boards and adopting a scrap and build approach to product marketing that accurately reflects market trends and profitability.

Electronic Equipment

Handling items



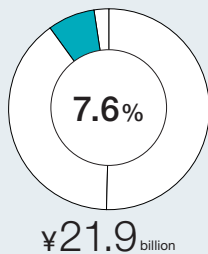
Customized Motherboard



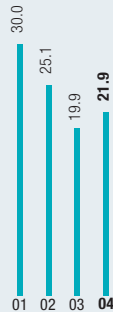
ANELVA Sputtering Equipment

- Servers
- Workstations (applications)
- Networking equipment
- Sputtering systems
- Dry-etching systems
- Plasma CVD systems
- Laser systems etc.
- Systems design

Net Sales and Percentage of Total



Trends in net Sales (Billions of Yen)



Strategy and positioning

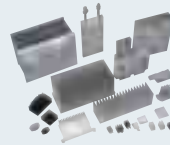
The electronic equipment business is Ryosan's synergy-driving business. It is composed of the systems equipment business and the facilities equipment business.

In the systems equipment business, we are working to expand business based on a market and product resource selection and concentration philosophy. We have identified device parks as a growth market and are looking to deliver added value through large-scale server and compact semi-customized board solutions. Technology strategy in this business is based on strengthening our ability to provide innovative systems design and using the technical expertise accumulated over a number of years to raise the quality of our solution proposals.

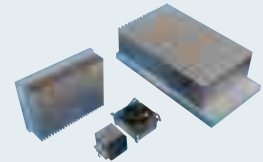
In the facilities equipment business Ryosan strives to expand business by providing proposals that enhance customers' production capabilities. Based on the Company's comprehensive strengths (information, distribution, capital), we are working to improve marketing efficiency through deeper penetration into such niche markets as communication devices, color filters and portable terminals, to enhance our product lineup and to deliver high-value-added systems solutions.

Ryosan Products

Handling items



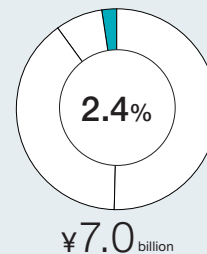
Heatsinks



Wave Coolers (New product)

- Air-cooled heatsinks
- Forced air-cooled heatsinks
- Water-cooled heatsinks
- Heat pipes
- Other heatsinks etc. (semiconductor circuit elements)

Net Sales and Percentage of Total



Trends in net Sales (Billions of Yen)



Strategy and positioning

The manufacturing of original products has been positioned as Ryosan's signature trading business.

The primary thrust of our market strategy is to establish a close-knit partnership with our customers as a provider of thermal solutions. We will expand business by emphasizing high growth and high potential fields such as digital home appliances, Internet infrastructure equipment and other devices. Ryosan will also deliver solutions at the system level, reinforce efforts to establish a small-lot, multi-product manufacturing system, and to improve its ability to respond to SCM and concentrated purchasing needs by reducing production lead times and other initiatives.

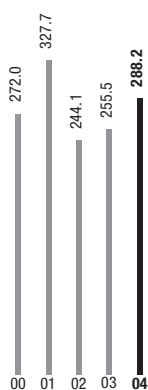
Product strategy centers on boosting new product development in response to increasingly diverse customer needs. Through the sale of products such as wave coolers, based on its proprietary technology, Ryosan is looking to expand market share and to accelerate the development process through the application of thermal simulation techniques.

In its overseas business, Ryosan established a plant in China and will build customer-based production systems.

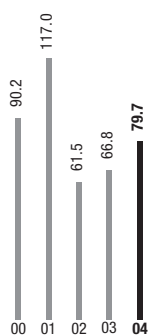
SIX - YEAR SUMMARY

Ryosan Company, Limited and Consolidated Subsidiaries
Years Ended March 31

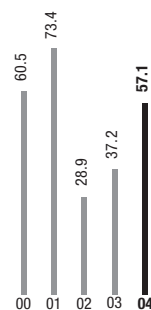
NET SALES (Billions of Yen)



OPERATING INCOME (Billions of Yen)



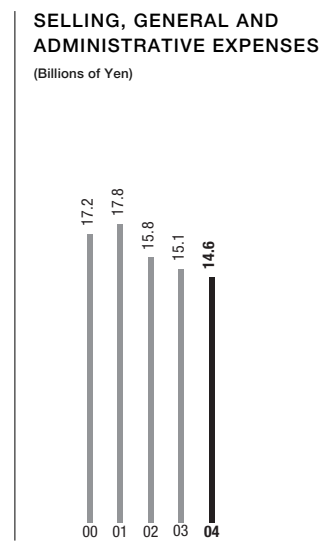
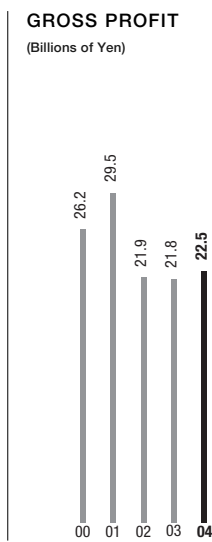
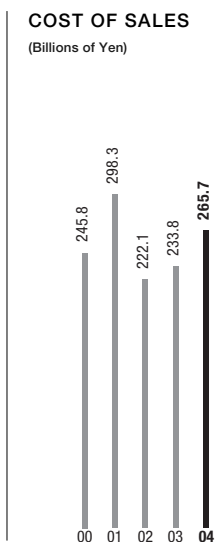
NET INCOME (Billions of Yen)



	Millions of Yen (except per share data)					
	2004	2003	2002	2001	2000	1999
FOR THE YEAR:						
Net sales	¥288,241	¥255,546	¥244,092	¥327,744	¥271,957	¥254,032
Cost of sales	265,721	233,785	222,144	298,287	245,758	230,336
Gross profit	22,520	21,761	21,948	29,457	26,199	23,696
Selling, general and administrative expenses	14,555	15,082	15,800	17,759	17,179	15,906
Operating income	7,965	6,679	6,148	11,698	9,020	7,790
Other income (expenses)—net	919	679	(437)	1,548	1,538	650
Income before income taxes and minority interests	8,884	7,358	5,711	13,246	10,558	8,440
Net income	5,706	3,724	2,885	7,336	6,048	4,497
PER SHARE:						
Net income (Yen)	¥ 150.27	¥ 93.21	¥ 71.62	¥ 179.70	¥ 148.13	¥ 110.14
Cash dividends applicable to the year (Yen)	40.00	30.00	30.00	30.00	30.00	29.00
AT YEAR END:						
Working capital	¥ 85,065	¥ 82,371	¥ 81,017	¥ 83,712	¥ 86,938	¥ 82,597
Total assets	172,321	156,580	147,075	175,011	165,928	148,066
Long-term liabilities	1,918	1,768	1,905	1,787	15,275	10,857
Total shareholders' equity	107,610	105,737	105,252	105,683	99,675	94,227
OTHER DATA:						
Gross profit margin (%)	7.8	8.5	9.0	9.0	9.6	9.3
Return on equity (%)	5.3	3.5	2.7	7.1	6.2	4.9
Current ratio (%)	235.9	268.6	305.4	224.5	271.5	293.0
Inventory turnover ratio (times)	22.3	23.6	17.4	20.3	20.4	17.4
Dividend payout ratio (%)	36.2	28.9	40.5	18.5	19.6	26.3

FINANCIAL REVIEW

Ryosan Company, Limited and Consolidated Subsidiaries
Years Ended March 31



CORPORATE GROUP

The Ryosan Group consists of Ryosan Co., Ltd., 10 consolidated subsidiaries, seven non-consolidated subsidiaries and one associated company. The Group operates primarily as a trading firm that specializes in semiconductors, electronic components and equipment, which it sells to manufacturers of electronic equipment and other customers both domestically and overseas. The Group also develops, manufactures and sells proprietary products.

RESULTS OF OPERATIONS

In the fiscal year ended March 31, 2004, consolidated net sales totaled ¥288,241 million, up 12.8% compared with the previous fiscal year. Positive results are attributed to the growth in demand for electronic equipment, primarily for digital home appliances, strong contributions from the Company's mainstay semiconductor and electronic components businesses, and the impact of Ryosan's growth strategy and its multi-vendor approach of acquiring new marketing licenses from overseas semiconductor makers, including Philips Semiconductors.

The cost of sales ratio rose 0.7 of a percentage point to 92.2%, year on year, reflecting the impact on sales prices of prolonged deflation. Gross profit, on the other hand, edged up 3.5% to ¥22,520 million, representing a gross profit margin of 7.8%. This was due to the increase in sales and efforts to improve profitability of the Company's man-

ufacturing operations.

Selling, general and administrative expenses decreased 3.5% to ¥14,555 million owing to a drop in business costs. As a result, operating income climbed 19.3% to ¥7,965 million. The operating income margin was 2.8%, a rise of 0.2 of a percentage point.

Other income-net amounted to ¥919 million and comprised gain on foreign exchange and a drop in the loss on devaluation of investment securities.

Accounting for these factors, income before income taxes increased 20.7% to ¥8,884 million, compared with the previous fiscal year and net income surged 53.2% to ¥5,706 million. Return on sales was 2.0%, up 0.5 of a percentage point year on year.

Net income per share jumped 61.2% from ¥93.21 to ¥150.27. Ryosan Company, Limited has declared a full-year dividend of ¥40 per share for fiscal 2004, which consists of an interim dividend of ¥15, a year-end dividend of ¥15 and a commemorative dividend of ¥10 in celebration of the Company's 50th anniversary. The payout ratio on a non-consolidated basis stood at 36.2%, up from 28.9% in the previous fiscal year, reflecting the commemorative payment. Ryosan considers the consistent payment of a steadily increasing cash dividend to be one of its fundamental corporate responsibilities. In addition, the Company will continue its policy to repurchase and retire treasury stock with the aim of increasing earnings per share and enhancing returns to shareholders.

OVERVIEW OF RESULTS BY BUSINESS SEGMENT

Semiconductors

The Ryosan Group markets memories, system LSIs, and discrete semiconductors and plans and develops system LSIs. In the fiscal year under review, sales rose for ASICs for digital home appliances and ICs used in LCD displays. As a result, consolidated net sales in the segment rose 8.2% to ¥145,275 million and operating income edged up 0.2% to ¥5,716 million.

Electronic Components

In this segment, the Group markets display devices, power supplies, and mechanical components. Fiscal 2004 mainly saw higher sales of LCDs for mobile phones and digital still cameras. Net sales in the electronic components segment increased 20.0% to ¥114,070 million and operating income climbed 33.9% to ¥3,131 million.

Electronic Equipment

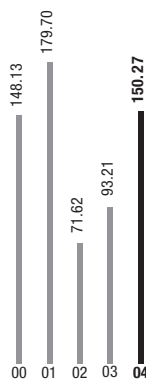
The Ryosan Group markets systems equipment and facilities equipment. Sales of systems equipment for PHS base stations and industrial-use production equipment increased in the fiscal year ended March 31, 2004. Consolidated net sales in this segment rose 10.2% to ¥21,913 million and operating income increased 52.0% to ¥745 million.

Ryosan Products

The Group produces and markets heat sinks, which are devices that dissipate the heat generated by semiconductors. Sales of heat sinks used in measuring equipment increased in the

NET INCOME PER SHARE

(Yen)



fiscal year under review. Consolidated net sales in this segment rose 9.7% to ¥6,983 million and operating income climbed 39.6% to ¥1,068 million.

OVERVIEW OF RESULTS BY GEOGRAPHICAL SEGMENT

Japan

Sales in Japan increased 15.2% to ¥223,997 million, and operating income rose 15.3% to ¥6,430 million. These increases were attributable to increased sales of ICs for LCDs, semiconductors for mobile phone memories and electronic components for digital still camera LCDs.

Asia

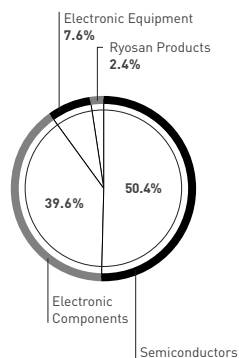
Buoyed by strong sales of ASICs for digital home electronic products, electronic components for mobile phone and digital still camera LCDs, sales in the Asia region increased 5.0% to ¥64,244 million while operating income surged 69.3% to ¥1,983 million.

FINANCIAL POSITION

Total assets at the end of fiscal 2004 stood at ¥172,321 million, up ¥15,741 million from the previous fiscal year-end. The increase was attributable to an increase in current assets, which totaled ¥147,672 million, up 12.5%, in the wake of expanded trading contributing to increased notes and accounts receivable and inventories.

Total liabilities as of March 31, 2004 stood at ¥64,525 million, an increase of 27.5%.

SALES BY BUSINESS SEGMENT



Current liabilities were ¥62,607 million, up 28.2% compared with the previous fiscal year-end and comprised mainly accounts payable and short-term bank loans reflecting the growth in business activity. Total long-term liabilities rose 8.5% to ¥1,918 million which included an increase in liability for retirement benefits.

Accounting for these factors, at the fiscal year-end working capital had increased ¥2,694 million to ¥85,065 million. Despite a decline in the current ratio from 268.6% to 235.9%, the level remains at high.

Total shareholders' equity edged up 1.8% to ¥107,610 million due to the increase in retained earnings. The shareholders' equity ratio, however, fell 5.1 percentage points to 62.4% attributable to the increase in current liabilities in line with the growth in sales and the Company's continued repurchase and retirement of treasury stock.

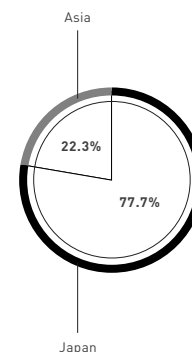
CASH FLOW ANALYSIS

Cash and cash equivalents as of March 31, 2004 totaled ¥30,663 million, ¥4,179 million, or 12.0%, less than at the previous fiscal year-end. The main reasons were an increase in treasury stock and purchase of investment securities.

CASH FLOWS FROM OPERATING ACTIVITIES

Net cash provided by operating activities amounted to ¥1,511 million. This was primarily due to an increase in income before income

SALES BY GEOGRAPHICAL SEGMENT



taxes to ¥8,884 million, which was partly offset by an increase in inventories of ¥2,918 million and income taxes paid of ¥5,438 million.

CASH FLOWS FROM INVESTING ACTIVITIES

Net cash used in investing activities totaled ¥2,422 million. This was mainly attributable to a cash outflow of ¥1,882 million for purchases of investment securities.

CASH FLOWS FROM FINANCING ACTIVITIES

Net cash used in financing activities amounted to ¥3,597 million. The main components were the repurchase of ¥3,322 million in treasury stock and cash dividends paid.

RESEARCH & DEVELOPMENT

The Ryosan Group is not simply a trading company, but serves as an electronics system coordinator promoting R&D activities and delivering innovative technology based on technical skills and know-how accumulated over years of experience.

In the semiconductor segment, Ryosan works to deliver optimal solutions, driven by hardware and software development based on cutting-edge and sophisticated technologies, with the aim of addressing the needs of customers. In addition, as a leading manufacturer of heat sinks, we leverage our unrivalled track record, built over many years, to develop new manufacturing methods and applications.

In the fiscal year under review, Ryosan

TOTAL ASSETS

(Billions of Yen)



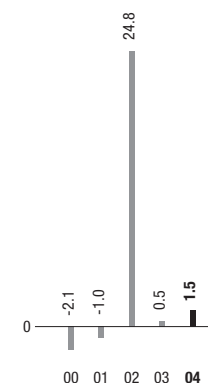
TOTAL SHAREHOLDERS' EQUITY

(Billions of Yen)



NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES

(Billions of Yen)



focused its R&D activities in the development of technologies relating to wireless LANs, SD cards, servos and inverters and the establishment of OS porting technology. Furthermore, the Company concentrated on developing wireless, camera image processing and DVR systems as well as establishing layout technologies through its former consolidated subsidiary Road Co., Ltd. In the Ryosan products business, the Company continued its efforts to develop an automated manufacturing system for the corrugated fins used in the new wave cooler product low-cost molded heat sinks, and a series of products to improve the density of printed circuit boards.

For the consolidated fiscal year under review, Ryosan undertook R&D expenditures totaling ¥1,180 million.

BUSINESS RISK

The Ryosan Group, its performance, share price, and financial position, are subject to a variety of risk factors. Forward-looking statements contained in this section are based on information available to management as of June 28, 2004.

* Sudden changes in the economic environment

The Ryosan Group's consolidated revenues are derived from the level of demand generated by customers of device manufacturers. Against this backdrop, the Group's fortunes are necessarily impacted by changes in economic conditions in those countries and

regions, in which Ryosan's principal clients operate. As a result, Ryosan's performance and its financial position can be expected to deteriorate in the event of economic downturn in its principal markets, such as Japan, Asia and other regions.

* Exchange rate fluctuation

The Ryosan Group engages in the manufacture and sale of products across a number of regions including Japan, Asia and other countries. In preparing its consolidated financial statements, sales, expenses, assets and liabilities, denominated in foreign currencies are translated into yen as of the Company's balance sheet date. In principle, appreciation of the yen against major currencies impacts negatively on Ryosan's performance, while a weak yen impacts favorably. As a result, Ryosan's performance and financial position are subject to fluctuations in foreign exchange rates.

* Overseas business risk

The Ryosan Group operates in Japan and other countries with a focus on Asia. Accordingly, our operating results and financial position are subject to a variety of country and overseas business risks.

- Unforeseen changes to statutory, regulatory and tax requirements
- Inadequate and insufficient local infrastructure in the countries in which the Company operates
- Political factors
- War or acts of terrorism

* Capital market fluctuation

As a part of its business activities the Ryosan Group holds shares in certain financial institutions, customers and suppliers. Ryosan does not, however, adopt specific methods as a hedge against movements in stock prices. Accordingly, Ryosan's performance and financial position are subject to substantial changes in stock markets. Market value information in connection the Company's investment in marketable securities is presented on pages 20-21 of this report.

* Liability for retirement benefits

Ryosan accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. In the event that actual obligation differs from the projected obligation or there is a change in the assumptions leading to the calculation of projected obligation, the difference is accrued and amortized over a generally accepted period. As a result, the discount rate and yield applicable to the Group's plan assets can impact on its performance and financial position.

Ryosan is a participant of the Tokyo Metropolitan Electric Welfare Pension Fund, which has experienced a significant deterioration in its investment activities. As a result, Ryosan has incurred a substantial shortfall in its liability for retirement benefits. Depending on the accounting treatment applied to this shortfall, Ryosan is subject to a large negative impact on its operating performance and financial position.

CONSOLIDATED BALANCE SHEETS

Ryosan Company, Limited and Consolidated Subsidiaries
March 31, 2004 and 2003

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
CURRENT ASSETS:			
Cash and cash equivalents	¥ 30,663	¥ 34,842	\$ 290,122
Time deposits	146		1,381
Marketable securities (Note 3)	3,013		28,508
Notes and accounts receivable:			
Trade notes	6,396	7,363	60,517
Trade accounts	89,937	74,579	850,951
Due from unconsolidated subsidiaries and associated companies	270	208	2,555
Other	1,817	1,809	17,192
Allowance for doubtful accounts	(152)	(106)	(1,438)
Inventories (Note 4)	14,301	11,580	135,311
Deferred tax assets (Note 8)	928	749	8,780
Prepaid expenses and other current assets	353	193	3,339
Total current assets	147,672	131,217	1,397,218
PROPERTY, PLANT AND EQUIPMENT:			
Land	8,204	8,206	77,623
Buildings and structures	11,447	11,577	108,307
Machinery and equipment	3,279	3,316	31,025
Total	22,930	23,099	216,955
Accumulated depreciation	(7,234)	(6,947)	(68,445)
Net property, plant and equipment	15,696	16,152	148,510
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 5)	5,701	5,391	53,941
Investments in and advances to unconsolidated subsidiaries and associated companies	312	454	2,952
Goodwill	564	434	5,336
Deferred tax assets (Note 8)	768	1,393	7,267
Other assets	1,608	1,539	15,214
Total investments and other assets	8,953	9,211	84,710
TOTAL	¥ 172,321	¥ 156,580	\$ 1,630,438

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
CURRENT LIABILITIES:			
Short-term bank loans (Note 6)	¥ 1,670	¥ 952	\$ 15,801
Notes and accounts payable:			
Trade notes	114	216	1,079
Trade accounts (Note 5)	57,641	42,750	545,378
Due to unconsolidated subsidiaries and associated companies	84	113	795
Accrued income taxes	1,199	3,203	11,344
Accrued expenses	1,658	1,367	15,687
Other current liabilities	241	245	2,281
Total current liabilities	62,607	48,846	592,365
LONG-TERM LIABILITIES:			
Liability for employees' retirement benefits (Note 7)	1,453	1,329	13,748
Liability for directors' and corporate auditors' retirement benefits	365	341	3,453
Other liabilities	100	98	946
Total long-term liabilities	1,918	1,768	18,147
MINORITY INTERESTS	186	229	1,760
CONTINGENT LIABILITIES (Note 14)			
SHAREHOLDERS' EQUITY (Notes 9 and 15):			
Common stock—authorized, 156,173,700 shares in 2004 and 158,166,300 shares in 2003; issued, 37,000,102 shares in 2004 and 38,992,702 shares in 2003	17,691	17,691	167,386
Capital surplus	19,114	19,114	180,850
Retained earnings	71,328	69,945	674,879
Unrealized gain (loss) on available-for-sale securities	960	(34)	9,083
Foreign currency translation adjustments	(827)	(343)	(7,825)
Treasury stock—at cost, 355,162 shares in 2004 and 344,708 shares in 2003	(656)	(636)	(6,207)
Total shareholders' equity	107,610	105,737	1,018,166
TOTAL	¥172,321	¥156,580	\$1,630,438

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Ryosan Company, Limited and Consolidated Subsidiaries
Years Ended March 31, 2004 and 2003

	Thousands of Shares/Millions of Yen							
	Common Stock		Capital Surplus	Retained Earnings	Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock (Note 9)	
	Shares	Amount					Shares	Amount
BALANCE, APRIL 1, 2002	40,702	¥17,691	¥19,114	¥69,585	¥ 456	¥ 198	¥ 1,151	¥(1,792)
Net income				3,724				
Cash dividends, ¥30 per share				(1,187)				
Treasury stock—at cost:								
Acquired							903	(1,021)
Retired	(1,709)			(2,177)			(1,709)	2,177
Net decrease in unrealized gain on available-for-sale securities					(490)			
Net change in foreign currency translation adjustments						(541)		
BALANCE, MARCH 31, 2003	38,993	17,691	19,114	69,945	(34)	(343)	345	(636)
Net income				5,706				
Adjustment of retained earnings for newly consolidated subsidiaries				177				
Cash dividends, ¥30 per share				(1,138)				
Bonuses to directors				(60)				
Treasury stock—at cost:								
Acquired							2,003	(3,322)
Retired	(1,993)			(3,302)			(1,993)	3,302
Net increase in unrealized gain on available-for-sale securities					994			
Net change in foreign currency translation adjustments						(484)		
BALANCE, MARCH 31, 2004	37,000	¥17,691	¥19,114	¥71,328	¥ 960	¥(827)	¥ 355	¥ (656)

	Thousands of U.S. Dollars (Note 1)						
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock (Note 9)	
	BALANCE, MARCH 31, 2003	\$167,386	\$180,850	\$661,794	\$ (322)	\$(3,245)	\$(6,018)
Net income			53,988				
Adjustment of retained earnings for newly consolidated subsidiaries			1,674				
Cash dividends, \$0.28 per share			(10,767)				
Bonuses to directors			(568)				
Treasury stock—at cost:							
Acquired						(31,431)	
Retired			(31,242)			31,242	
Net increase in unrealized gain on available-for-sale securities				9,405			
Net change in foreign currency translation adjustments					(4,580)		
BALANCE, MARCH 31, 2004	\$167,386	\$180,850	\$674,879	\$9,083	\$(7,825)	\$(6,207)	

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Ryosan Company, Limited and Consolidated Subsidiaries
Years Ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	2004
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 8,884	¥ 7,358	\$ 84,057
Adjustments for:			
Income taxes—paid	(5,438)	(1,359)	(51,452)
Income taxes—refunded		676	
Depreciation and amortization	845	833	7,995
Provision for directors', corporate auditors' and employees' retirement benefits	148	93	1,400
Loss on devaluation of investment securities	122	361	1,154
Gain on sales of investment securities	(127)	(124)	(1,202)
Changes in assets and liabilities:			
Increase in notes and accounts receivable	(14,900)	(13,747)	(140,978)
Increase in inventories	(2,918)	(1,826)	(27,609)
Increase in notes and accounts payable	15,239	8,332	144,186
Other—net	(344)	(120)	(3,255)
Total adjustments	(7,373)	(6,881)	(69,761)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,511	477	14,296
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(382)	(270)	(3,614)
Purchases of intangible assets	(310)	(392)	(2,933)
Purchases of investment securities	(1,882)	(326)	(17,807)
Investments in and advances to unconsolidated subsidiaries and associated companies	(75)	(432)	(710)
Collections of long-term loans receivable from unconsolidated subsidiaries and associated companies	60	463	568
Proceeds from sales of property, plant and equipment	6	41	57
Proceeds from sales of investment securities	247	255	2,337
Proceeds from sales of investment in subsidiary		1,595	
(Increase) decrease in other assets	(86)	124	(814)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(2,422)	1,058	(22,916)
FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans—net	868	(109)	8,213
Increase in treasury stock—net	(3,322)	(1,021)	(31,431)
Cash dividends paid	(1,143)	(1,192)	(10,815)
NET CASH USED IN FINANCING ACTIVITIES	(3,597)	(2,322)	(34,033)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	148	(205)	1,400
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,360)	(992)	(41,253)
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	181		1,713
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	34,842	35,834	329,662
CASH AND CASH EQUIVALENTS, END OF YEAR	¥30,663	¥34,842	\$290,122

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Ryosan Company, Limited and Consolidated Subsidiaries
Years Ended March 31, 2004 and 2003

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

2003 financial statements to conform to the classifications used in 2004.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Ryosan Company, Limited (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 ¥105.69 to \$1, the approximate rate of exchange at March 31, 2004. 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 as of March 31, 2004 include the accounts of the Company and its ten significant (seven in 2003) subsidiaries (together the "Group").

Under the control or influence concept, those entities in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those entities over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Consolidation of the remaining seven (ten in 2003) subsidiaries and one associated company would not have a material effect on the accompanying consolidated financial statements. Investments in unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The difference between the cost and underlying fair value of the consolidated subsidiaries at acquisition are included in other assets and are being amortized on a straight-line basis over five years.

All significant intercompany transactions and balances have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions with in the Group has been 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 commercial paper, all of which mature or become due within three months of the date of acquisition.

c. Marketable and Investment Securities—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and (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. 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.

d. Inventories—Inventories are stated at the lower of cost or market,

determined by the moving-average method.

e. Property, Plant and Equipment—Property, plant and equipment are stated at cost. Depreciation is mainly computed by the declining-balance method, while the straight-line method is applied to buildings of the Company acquired after April 1, 1998. The range of useful lives is principally from 3 to 50 years for buildings, and from 2 to 15 years for machinery and equipment.

f. Goodwill—Goodwill is carried at cost less accumulated amortization, which is calculated by the straight-line method over a period of 5 years.

g. Liability for Employees' Retirement Benefits—The Company has two types of retirement plans. The first plan, which is provided to the employees of the Company, is a Retirement Allowance Plan ("RAP"), where the Company will pay for lump-sum retirement benefits from the Company's general funds. The second plan, which is provided to the employees of the parent company, is a Tax Qualified Pension Plan ("TQPP"), where plan assets to fund future retirement benefits are managed by an independent investment manager.

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

h. Liability for Directors' and Corporate Auditors' Retirement Benefits—Directors and corporate auditors of the Company are generally entitled to receive lump-sum payments based on compensation at the time of retirement and years of service when they leave the Company, under the condition of approval by the shareholders and the Board of Directors.

The annual provision for retirement benefits is calculated to present the liability at the amount that would be required if all directors and corporate auditors of the Company were to retire at the end of the respective fiscal period.

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

j. 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.

k. 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.

l. Appropriations of Retained Earnings—Appropriations of retained earnings at each year end are reflected in the financial statements for the following year upon shareholders' approval.

m. 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.

n. Foreign Currency Financial Statements—The balance sheet, revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date 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.

o. Derivative Financial Instruments—The Group enters into foreign currency forward contracts as a means of hedging exposure to foreign currency. 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 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.

Foreign currency forward contracts are utilized to hedge foreign currency exposures when the Group receives orders from customers or place orders with suppliers. Trade payables and receivables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge

accounting.

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.

The number of shares used in computing net income per share was 37,509 thousand shares for 2004 and 39,313 thousand shares for 2003.

Diluted net income per share for the years ended March 31, 2004 and 2003 is not disclosed because the Company did not have stock options which would have resulted in a dilutive effect.

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.

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 Company expects to adopt these pronouncements as of April 1, 2005 and is currently in the process of assessing the effect of adoption of these pronouncements.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2004 and 2003, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
CURRENT:			
Bonds	¥ 200		\$ 1,892
Investment trust	2,813		26,616
TOTAL	¥3,013		\$28,508
NON-CURRENT:			
Marketable equity securities	¥3,397	¥1,980	\$32,141
Non-marketable securities	1,504	655	14,230
Bonds	800	1,000	7,570
Investment trust		1,756	
TOTAL	¥5,701	¥5,391	\$53,941

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2004 and 2003, were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value (Carrying Amount)
March 31, 2004				
Securities classified as available-for-sale:				
Equity securities	¥1,608	¥1,793	¥ 4	¥3,397
Investment trust	2,882		69	2,813
March 31, 2003				
Securities classified as available-for-sale:				
Equity securities	1,723	362	105	1,980
Investment trust	2,000		244	1,756
				Thousands of U.S. Dollars
March 31, 2004				
Securities classified as available-for-sale:				
Equity securities	\$15,214	\$16,965	\$ 38	\$32,141
Investment trust	27,268		652	26,616

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2004 and 2003, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Available-for-sale:			
Equity securities	¥1,504	¥ 655	\$14,230
Bonds	1,000	1,000	9,462
Total	¥2,504	¥1,655	\$23,692

Proceeds from sales of available-for-sale securities for the years ended March 31, 2004 and 2003, were ¥247 million (\$2,337 thousand) and ¥255 million, respectively. Gross realized gains on

these sales, computed on the moving average cost basis, were ¥127 million (\$1,202 thousand) for the year ended March 31, 2004 and ¥124 million for the year ended March 31, 2003.

The carrying values of bonds by contractual maturities for securities classified as available-for-sale at March 31, 2004, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Available-for-sale:		
Due in one year or less	¥ 200	\$1,893
Due after ten years	800	7,569
Total	¥1,000	\$9,462

4. INVENTORIES

Inventories at March 31, 2004 and 2003, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Merchandise	¥13,651	¥11,098	\$129,161
Finished products	260	213	2,460
Work in process	209	116	1,977
Raw materials	181	153	1,713
Total	¥14,301	¥11,580	\$135,311

5. PLEDGED ASSETS

The following assets were pledged as collateral for trade accounts payable of ALPS ELECTRIC CO., LTD., etc. at March 31, 2004 and 2003:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Investment securities	¥394	¥182	\$3,728

6. SHORT-TERM BANK LOANS

Short-term bank loans at March 31, 2004 and 2003, denominated in foreign currency, were represented by notes due within one to three months. The annual interest rates applicable to the short-

term bank loans ranged from 1.59% to 2.94% and from 1.81% to 3.30% at March 31, 2004 and 2003, respectively.

7. LIABILITY FOR EMPLOYEES' RETIREMENT BENEFITS

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum retirement benefits from the Company and annuity

payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The liability for employees' retirement benefits at March 31, 2004 and 2003, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Projected benefit obligation	¥4,009	¥3,910	\$37,932
Fair value of plan assets	(2,244)	(2,224)	(21,232)
Unrecognized actuarial loss	(312)	(357)	(2,952)
Net liability	¥1,453	¥1,329	\$13,748

The components of net periodic benefit costs for the years ended March 31, 2004 and 2003, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Service cost	¥256	¥320	\$2,422
Interest cost	78	82	738
Expected return on plan assets	(33)	(33)	(312)
Recognized actuarial loss	43	76	407
Net periodic benefit costs	¥344	¥445	\$3,255

Assumptions used for the years ended March 31, 2004 and 2003, are set forth as follows:

	2004	2003
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	1.5%	1.5%
Recognition period of actuarial gain/loss	10 years	10 years

8. INCOME TAXES

The Company and its domestic subsidiary are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42.0% for the years ended March 31, 2004 and 2003.

On March 31, 2003, a tax reform law concerning enterprise tax

was enacted in Japan which changed the normal effective statutory tax rate from 42.0% to 40.5%, effective for years beginning on or after April 1, 2004. The deferred tax assets and liabilities which will be realized on or after April 1, 2004 are measured at the effective tax rate of 40.5% as at March 31, 2004 and 2003.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2004 and 2003, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Deferred tax assets:			
Amortization of software	¥ 303	¥ 329	\$ 2,867
Loss on devaluation of investment securities	306	387	2,895
Loss on liquidation of subsidiary	224		2,119
Accrued bonuses	528	393	4,996
Accrued enterprise tax	96	282	909
Liability for employees' retirement benefits	490	378	4,636
Liability for directors' and corporate auditors' retirement benefits	148	138	1,400
Tax loss carryforwards	39	705	369
Other	327	254	3,094
Less valuation allowance	(39)	(724)	(369)
Total deferred tax assets	2,422	2,142	22,916
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	726		6,869
Total deferred tax liabilities	726		6,869
Net deferred tax assets	¥1,696	¥2,142	\$16,047

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

	2004	2003
Normal effective statutory tax rate	42.0%	42.0%
Expenses not deductible for income tax purposes	2.2	2.3
Inhabitants taxes—per capita	0.4	0.5
Deduction for foreign taxes	(0.9)	0.5
Tax benefits not recognized on operating losses of subsidiaries		2.8
Lower income tax rates applicable to income in certain foreign countries	(2.5)	(1.8)
Elimination of dividend from subsidiaries	2.7	1.7
Reduction on deferred tax assets based on the change of enterprise tax rate		0.7
Loss on liquidation of subsidiary	(8.7)	
Other—net	0.7	0.4
Actual effective tax rate	35.9%	49.1%

9. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which various amendments have become effective since October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded 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 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 revised Code also provides that an amount at least equal to 10% 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% of the balance of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the balance of common stock 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 by resolution of the Board of Directors.

The revised Code eliminated restrictions on the purchase and use of treasury stock allowing Japanese companies to purchase

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 purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of the common stock balance, 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 ¥64,001 million (\$605,554 thousand) as of March 31, 2004, based on 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.

Stock Option Plan—At the general shareholders meeting held on June 28, 2001, the Company's shareholders approved the following stock option plan for the Company's directors and key employees. The plan provides for granting options to directors and key employees to purchase up to 350 thousand shares of the Company's common stock in the period from July 1, 2003 to June 30, 2005. The options will be granted at the price of ¥1,871.

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,180 million (\$11,165 thousand) and ¥1,200 million for the years ended March 31, 2004 and 2003, respectively.

11. LEASES

The Group leases certain vehicles, computer equipment and other assets.

Total lease payments included in cost of sales and selling, general and administrative expenses under finance lease arrangements that do not transfer ownership of the leased property to the lessee were ¥816 million (\$7,721 thousand) and ¥812 million for the years ended March 31, 2004 and 2003, respectively.

Pro forma information of leased property such as acquisition costs, 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, 2004 and 2003, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Vehicles and equipment:			
Acquisition cost	¥3,656	¥3,973	\$34,592
Accumulated depreciation	2,288	2,169	21,648
Net leased property	¥1,368	¥1,804	\$12,944

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Due within one year	¥ 554	¥ 668	\$ 5,242
Due after one year	916	1,257	8,667
Total	¥1,470	¥1,925	\$13,909

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:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Depreciation expense	¥673	¥708	\$6,367
Interest expense	75	105	710
Total	¥748	¥813	\$7,077

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.

The minimum rental commitments under noncancelable operating leases at March 31, 2004 and 2003, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Due within one year	¥26	¥44	\$246
Due after one year	27	26	255
Total	¥53	¥70	\$501

12. DERIVATIVES

The Group enters into foreign currency forward contracts in the normal course of business, when the Group receives orders from customers or places orders with suppliers, to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

It is the Group's policy to use foreign currency forward contracts only for the purpose of reducing foreign exchange risk associated with certain assets and liabilities and the Group does not hold or issue derivatives for speculative purposes.

Because the counterparties to such foreign currency forward contracts are limited to major Japanese or foreign financial

institutions, the Group does not anticipate any loss arising from credit risk.

The Accounting Division executes foreign currency forward contracts with financial institutions when requested from the Overseas Sales Division based on the Group's foreign exchange transaction rules, and confirms the status of forward exchange contracts on a regular basis.

Market value information for foreign currency forward contracts which qualify for hedge accounting for the years ended March 31, 2004 and 2003, was not required to be disclosed.

13. SEGMENT INFORMATION

a. Business Segments

The Group operates in four reportable segments: Semiconductor, electronic components, electronic equipment, products.

Information about business segments of the Group for the years ended March 31, 2004 and 2003, was as follows:

(1) Sales and Operating Income

Millions of Yen						
2004	Semiconductor	Electronic Components	Electronic Equipment	Products	Eliminations or Corporate	Consolidated
Total sales	¥145,275	¥114,070	¥21,913	¥6,983		¥288,241
Operating expenses	139,559	110,939	21,168	5,915	¥2,695	280,276
Operating income	¥5,716	¥3,131	¥745	¥1,068	¥(2,695)	¥7,965
Thousands of U.S. Dollars						
2004	Semiconductor	Electronic Components	Electronic Equipment	Products	Eliminations or Corporate	Consolidated
Total sales	\$1,374,539	\$1,079,288	\$207,333	\$66,071		\$2,727,231
Operating expenses	1,320,456	1,049,664	200,284	55,966	\$25,499	2,651,869
Operating income	\$54,083	\$29,624	\$7,049	\$10,105	\$(25,499)	\$75,362
Millions of Yen						
2003	Semiconductor	Electronic Components	Electronic Equipment	Products	Eliminations or Corporate	Consolidated
Total sales	¥134,244	¥95,057	¥19,881	¥6,364		¥255,546
Operating expenses	128,538	92,719	19,391	5,599	¥2,620	248,867
Operating income	¥5,706	¥2,338	¥490	¥765	¥(2,620)	¥6,679

(2) Assets, Depreciation and Capital Expenditures

Millions of Yen						
2004	Semiconductor	Electronic Components	Electronic Equipment	Products	Corporate	Consolidated
Assets	¥69,251	¥53,184	¥10,098	¥4,584	¥35,204	¥172,321
Depreciation	397	285	47	97	18	844
Capital expenditures	473	136	25	58		692
Thousands of U.S. Dollars						
2004	Semiconductor	Electronic Components	Electronic Equipment	Products	Corporate	Consolidated
Assets	\$655,228	\$503,207	\$95,544	\$43,372	\$333,087	\$1,630,438
Depreciation	3,756	2,697	445	918	170	7,986
Capital expenditures	4,475	1,287	236	549		6,547
Millions of Yen						
2003	Semiconductor	Electronic Components	Electronic Equipment	Products	Corporate	Consolidated
Assets	¥60,490	¥41,076	¥12,880	¥4,298	¥37,836	¥156,580
Depreciation	390	246	60	116	20	832
Capital expenditures	500	87	23	51		661

b. Geographical Segments

The geographical segments of the Group for the years ended March 31, 2004 and 2003, were summarized as follows:

2004	Millions of Yen			
	Japan	Asia	Eliminations or Corporate	Consolidated
Sales to customers	¥223,997	¥64,244		¥288,241
Interarea transfer	7,095	769	¥(7,864)	
Total sales	231,092	65,013	(7,864)	288,241
Operating expenses	224,662	63,030	(7,416)	280,276
Operating income	¥ 6,430	¥ 1,983	¥ (448)	¥ 7,965
Assets	¥152,844	¥19,477		¥172,321

2004	Thousands of U.S. Dollars			
	Japan	Asia	Eliminations or Corporate	Consolidated
Sales to customers	\$2,119,378	\$607,853		\$2,727,231
Interarea transfer	67,130	7,276	\$(74,406)	
Total sales	2,186,508	615,129	(74,406)	2,727,231
Operating expenses	2,125,669	596,367	(70,167)	2,651,869
Operating income	\$ 60,839	\$ 18,762	\$ (4,239)	\$ 75,362
Assets	\$1,446,154	\$184,284		\$1,630,438

2003	Millions of Yen			
	Japan	Asia	Eliminations or Corporate	Consolidated
Sales to customers	¥194,372	¥61,174		¥255,546
Interarea transfer	5,374	295	¥(5,669)	
Total sales	199,746	61,469	(5,669)	255,546
Operating expenses	194,168	60,298	(5,599)	248,867
Operating income	¥ 5,578	¥ 1,171	¥ (70)	¥ 6,679
Assets	¥142,502	¥14,078		¥156,580

Sales are summarized by geographic area based on the countries where subsidiaries are located.

c. Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2004 and 2003, amounted to ¥88,281 million (\$835,282 thousand) and ¥70,908 million, respectively.

14. CONTINGENT LIABILITIES

At March 31, 2004, the Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Discounted export draft	¥3	\$28

15. SUBSEQUENT EVENTS

At the general shareholders meeting held on June 25, 2004, the shareholders approved the following:

a. Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2004 were approved:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥25 (\$0.24)	¥916	\$8,667
Bonuses to directors and corporate auditors	69	653

b. Acquisition of Treasury Stock

Pursuant to the revision of the Code, the Company revised its articles of incorporation as the Company could acquire its common stock as treasury stock by resolution of the Board of Directors.



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Ryosan Company, Limited:

We have audited the accompanying consolidated balance sheets of Ryosan Company, Limited and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. These 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 Ryosan Company, Limited and consolidated subsidiaries as of March 31, 2004 and 2003, 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 25, 2004

CORPORATE DATA

BOARD OF DIRECTORS AND CORPORATE AUDITORS (As of June 25, 2004)

PRESIDENT

Tatsuo Ui *

SENIOR MANAGING DIRECTOR

Masakazu Umezawa

MANAGING DIRECTORS

Eiji Hamano
Yukio Tanaka
Shizuo Eguchi
Hiroshi Yoshida

DIRECTORS

Harumitsu Seki
Kaduo Yanagisawa
Isao Hayashi
Naotsugu Kasuya
Sugao Komatsu
Yukio Sasaki

CORPORATE AUDITORS

Hiroyuki Tanaka **
Shigeo Saito **
Hajime Shibatani
Tsuneo Sato

* Representative Director

** Full-time Corporate Auditor

Note: Corporate auditors Hajime Shibatani and Tsuneo Sato are a Statutory Auditors as set out in Article 18-1 of the Law for Special Exceptions to Commercial Code concerning Audit etc. of Kabushiki-Kaisha.

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Note: On March 1, 2004, the decision was taken to wind up Road Co., Ltd. and liquidation procedures are in progress.

CORPORATE DIRECTORY

INTERNATIONAL NETWORK

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INVESTOR INFORMATION

As of March 31, 2004

Date of Incorporation:	March 1957
Paid-in Capital:	¥17,690,508,514
Authorized Shares:	156,173,700
Outstanding Shares:	37,000,102
Number of Shareholders:	4,541
Ordinary General Meeting:	The Ordinary General Meeting of Shareholders is held annually in June.
Stock Listing:	Tokyo Stock Exchange, First Section
Transfer Agent:	The Sumitomo Trust & Banking Co., Ltd. 4-5-33, Kitahama, Chuo-ku, Osaka
Share Handling Agent:	The Sumitomo Trust & Banking Co., Ltd. Stock Transfer Agency Department 1-4-4, Marunouchi, Chiyoda-ku, Tokyo

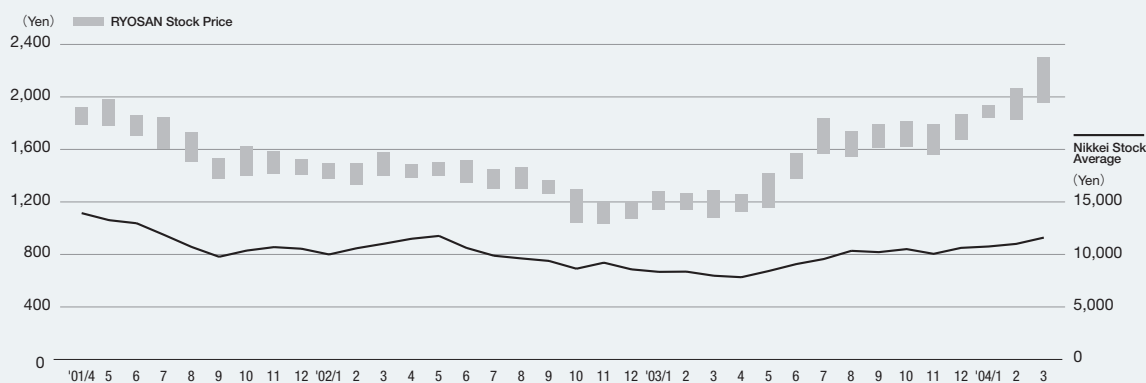
COMPOSITION OF SHAREHOLDERS

	Thousands of shares	%
Financial institutions	18,104	48.93
Securities companies	319	0.86
Other corporations	3,431	9.27
Foreign corporations and other foreign investors	6,584	17.80
Individuals and others	8,562	23.14

MAJOR SHAREHOLDERS

	Thousands of shares	Percentage of voting rights %
Japan Trustee Services Bank, Ltd. (Money Trust)	4,883	13.35
The Master Trust Bank of Japan, Ltd. (Holder in Trust)	2,745	7.50
Trust & Custody Services Bank, Ltd.	1,492	4.08
NEC Electronics Corporation	1,204	3.29
Sumitomo Mitsui Banking Corporation	1,049	2.87
The Bank of Tokyo-Mitsubishi, Ltd.	949	2.60
Nippon Life Insurance Company	869	2.38
Sumitomo Life Insurance Company	861	2.35
Akira Yamashima	726	1.99
Mellon Bank Treaty Clients Omnibus	650	1.78

COMMON STOCK PRICE RANGE



FOR FURTHER INFORMATION, PLEASE CONTACT:

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