

**RYOSAN**



Building a new future as an electronic systems coordinator

Annual Report 2005

For the fiscal year ended March 31, 2005

# Profile

Since its establishment in 1953, Ryosan Company, Limited, has grown as a technology trading house that specializes in electronics, handling memory devices, system LSIs, and other semiconductors, display devices and other electronic parts and components, and systems and other equipment. It is the largest company in its field in Japan, with 35 bases domestically and 19 overseas. The Company also has two plants in Japan and three overseas, and is the nation's largest manufacturer of heatsinks.

Three functions are vital to fulfilling our ambition of becoming an electronic systems coordinator. The first is the information function gathering data on the needs and trends in technology and providing it to customers as accurate information. The second is the solution function integrating expertise and knowledge with advanced technology, to offer the best possible solution to the customer. The third is the distribution function delivering required products to the required locations in the best possible condition. With these three functions in constant evolution, Ryosan will continue to draw on its more than 50 years of expertise as it drives toward its centennial.

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### Cautionary Note Regarding Forward-Looking Statements

This Annual Report contains plans, forecasts, strategies, and other forward-looking statements that are based on management's assessments of information to hand as of March 31, 2005. You should not unduly rely on these forward-looking statements, as actual results could differ significantly owing to various material factors.

# Financial Highlights

Ryosan Company, Limited and Consolidated Subsidiaries  
Years Ended March 31

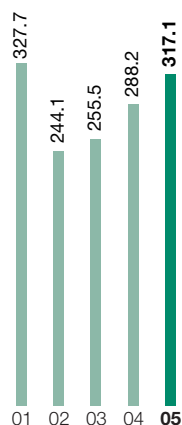
	Millions of Yen			Millions of U.S. Dollars (Note)
	2003	2004	2005	2005
Net sales	¥255,546	¥288,241	<b>¥317,095</b>	<b>\$2,952.7</b>
Gross profit	21,761	22,520	<b>25,240</b>	<b>235.0</b>
Operating income	6,679	7,965	<b>9,817</b>	<b>91.4</b>
Net income	3,724	5,706	<b>5,868</b>	<b>54.6</b>
Total assets	156,580	172,321	<b>176,943</b>	<b>1,647.7</b>
Total shareholders' equity	105,737	107,610	<b>111,714</b>	<b>1,040.3</b>

	%		
	2003	2004	2005
Shareholders' equity ratio	67.5	62.5	<b>63.1</b>
Return on equity	3.5	5.3	<b>5.4</b>

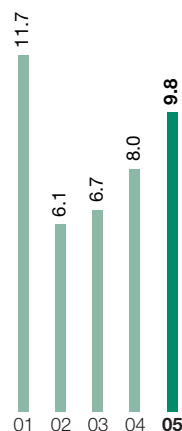
	Yen			U.S. Dollars (Note)
	2003	2004	2005	2005
Net income per share	¥ 93.21	¥ 150.27	<b>¥ 158.53</b>	<b>\$ 1.48</b>
Cash dividends per share applicable to the year	30.00	40.00	<b>60.00</b>	<b>0.56</b>

Note: The U.S. dollar amounts have been translated, for convenience only, at the rate of ¥107.39 = US\$1, the approximate rate prevailing on March 31, 2005.

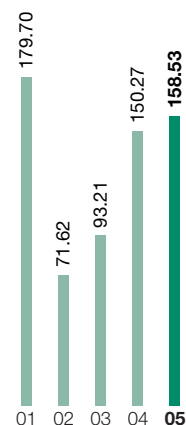
NET SALES  
(Billions of Yen)



OPERATING INCOME  
(Billions of Yen)



NET INCOME PER SHARE  
(Yen)





Tatsuo Ui, President

# Building Value

INTERVIEW WITH THE PRESIDENT

“*In the first year of our sixth medium-term management plan, we reached most of our goals and made steady progress in building new business foundations. We’re determined to build a structure that makes us less vulnerable to market fluctuations.*”

**Q** Would you briefly review Ryosan’s performance in fiscal 2004, which ended on March 31, 2005?

For a start, the domestic economy was generally strong because of favorable macroeconomic conditions worldwide. On the downside, we saw growing fears about the impact of rising oil prices—demand was brisk for this resource—on the economy and corporate earnings.

Production in the electronics industry, which is our main area of operations, was solid early in the year because demand was healthy for digital home appliance products. But the outlook became cloudy from around summer 2004, as demand for semiconductors and electronic components slowed amid production adjustments in digital consumer products, including cell phones and digital still cameras.

The Ryosan Group continued pursuing its growth strategy of expanding business in new-resource semiconductor products and increasing sales to new customers that it captured by acquiring marketing licenses. At the same time, we endeavored to improve our profit structure.

These factors translated into higher sales and earnings. Consolidated net sales advanced 10.0%, to ¥317,095 million. Operating income gained 23.3%, to ¥9,817 million. And net income rose 2.8%, to ¥5,868 million. Net income per share was up 5.5%, to ¥158.53. Our results for the year reflected favorable market conditions and strategic progress under our sixth medium-term management plan.

## Q Fiscal 2004 was the first year of Ryosan's sixth medium-term management plan. What are its basic concepts? And how successful has this initiative been?

With this three-year plan, we're continuing to pursue management essentials, innovations, and results, which are the keys to conducting open and transparent corporate management and business activities with an abundance of creativity. On this basis, we have adopted three basic strategies—a growth strategy, a segment strategy, and a strategy to establish a strong business infrastructure.

During the year, we expanded our new-resource semiconductor products business through ties with such companies as Philips Semiconductors and Elpida Memory while increasing overseas sales, particularly in China. Net sales thus exceeded ¥300 billion for the first time in several years. We halted the decline in gross profit by posting a 0.2 percentage point increase in the gross margin, to 8.0%.

We beat the management benchmarks that we set under our new management plan. The shareholders' equity ratio was 63.1%, in keeping with our target of maintaining this ratio in the 60% range. Return on equity was 5.4%, in line with our requirement of above 5%. Net income per share was ¥158.53, compared with our target of at least ¥150. And our dividend payout ratio was 37.8%, comfortably ahead of our objective of at least 30%. I'm naturally glad that we reached our objectives. But I'm keenly aware that changes in the demand and supply for semiconductor devices greatly influence the markets in which we operate. We need to keep pushing forward with our current medium-term management plan so we can build a structure that is less vulnerable to such swings. In the first year of our sixth medium-term management plan, we reached most of our goals and made steady progress in building new business foundations.

## Q Overseas markets look increasingly important. Tell us a little more about Ryosan's recent achievements.

We established our first overseas subsidiary in 1974, in Hong Kong. Since then, we've built an international network comprising subsidiaries in Singapore, Taiwan, Malaysia, Thailand, and the United States. In April 2005, we established our European representative office in Amsterdam. We've tasked the office to strengthen ties with Philips Semiconductors as part of our drive to broaden our new-resource semiconductor business and to beef up our global network.

In summer 2005, we plan to start production at a heatsink plant in Foshan, China. That will be our third overseas manufacturing base after operations in Malaysia and Thailand. We set up the new plant to accommodate shifts among Japanese and other home appliance makers of electronic equipment production to China. These moves have generated a surge in local demand for our heatsinks. Our advanced facility in Foshan will focus on expanding our local business.



## Please detail the four business models that Ryosan has formulated for its growth strategy.

The first is to expand through effective M&As. In fiscal 2004, we invested ¥2.9 billion in effective and strategic purchases of marketing licenses that generated ¥28.4 billion in sales. We'll continue using M&As to improve our total solutions provider capabilities while driving our multivendor approach. We intend to source such funding from earnings.

Our second growth strategy is to commercialize the fabless semiconductor business. In 2003, we liquidated Road Co., Ltd., and transformed it into the Road R&D Division. In fiscal 2004, the division positioned us well to launch fabless business through its work on graphics LSIs and offerings for digital appliances, notably LSIs for surveillance cameras, wireless communications, and cable LANs. The fabless semiconductor business is essential to boosting our technological clout, and should generate great synergies with our core semiconductor operations. We'll augment personnel to build a top reputation for product innovation.



With our third growth strategy, we're expanding the new-resource semiconductor business. The idea is to match diversifying customer needs and dramatic changes in market trends with a comprehensive lineup of optimal devices to enable one-stop shopping. In fiscal 2004, sales of devices from the new-resource semiconductor business jumped 71.2%, to ¥39.2 billion. This included ¥19.4 billion from sales of Elpida Memory products. Philips devices contributed another ¥7.2 billion. Devices from other vendors totaled ¥12.6 billion. We'll continue to cultivate our multivendor approach by concentrating our management resources, thereby building growth and new business foundations.

Our fourth growth strategy focuses on expansion in the Chinese market, which we expect to boom in the years ahead. Fiscal 2004 sales to local businesses were ¥10.6 billion. Sales to the shift business were ¥20.4 billion. China-related sales thus gained 17.4%, to ¥31.0 billion. In the highly promising local business, we will need to provide total solutions at low costs, and we will need to take trends in the yuan's valuation into account. So, we created a business model covering Hong Kong, China, Taiwan, and Korea. We'll collaborate more with local and Japanese solutions vendors to seize new opportunities.



## Ryosan celebrated its 50th anniversary in late 2003. What are your long-term goals in light of that landmark?

Reaching the 50-year mark was the first step in our goal of becoming a strong enterprise 100 years after our foundation. A ceremony in April 2004 for directors and employees underscored our vision to improve Ryosan by healthily expanding while contributing to society.

All companies with long histories have their own corporate cultures and philosophies. But their visions must reflect changing times. In 1990, we launched a project to update our corporate culture. The resulting Ryosan Spirit has retained our rich heritage while helping us formulate values that meet 21st century challenges. Our corporate motto has always positioned us as a public institution, just as Corporate Social Responsibility principles do. The motto underpins the basic and management philosophies of the Ryosan Spirit.

We now no longer see ourselves simply as a trading house, but as an electronic systems coordinator, providing a vital link between our customers' needs and electronics technology. We aim to achieve consistent long-term growth by stressing this social consciousness and our new role as a systems coordinator. Three functions are vital to fulfilling our ambition of becoming an electronic systems coordinator. There's the information function, which entails supplying data. The solution function covers supplying technology. And the distribution function is about supplying logistics. By constantly enhancing these three functions, Ryosan will raise customer satisfaction and build value. We'll continue to harness the Ryosan Spirit in positioning the Company to reach its centennial.





## What is Ryosan's stance on shareholder returns?

Returning earnings to shareholders is one of our important business policies, and we're working to increase consolidated basic net income per share. Ryosan's fundamental policy is to maintain and try to increase dividends.

We detail our dividend policy in each medium-term management plan. The current initiative allocates consolidated net income to three areas: shareholder dividends, company stock buybacks, and growth strategy investments. The plan calls for advancing financial strategies to improve corporate value.

Based on this policy, we intended to actively buy treasury stock. But we repurchased more than 4 million shares under the previous medium-term management plan, so further buying at this stage could lower the liquidity of our shares. So, we decided to modify part of our policy and consider increasing allocations to shareholder dividends.

We therefore increased the year-end dividend to ¥40 per share, or ¥60 per share for the full year. From fiscal 2005, our dividend policy will continue to amply consider the balanced allocation of profits to the three areas while actively returning earnings to shareholders.



## What's Ryosan's outlook for fiscal 2005?

We expect increasing uncertainty over the U.S. economy, which is the principal driver of the global economy. That's because fiscal policy has changed, while the impact of tax reductions has run its course.

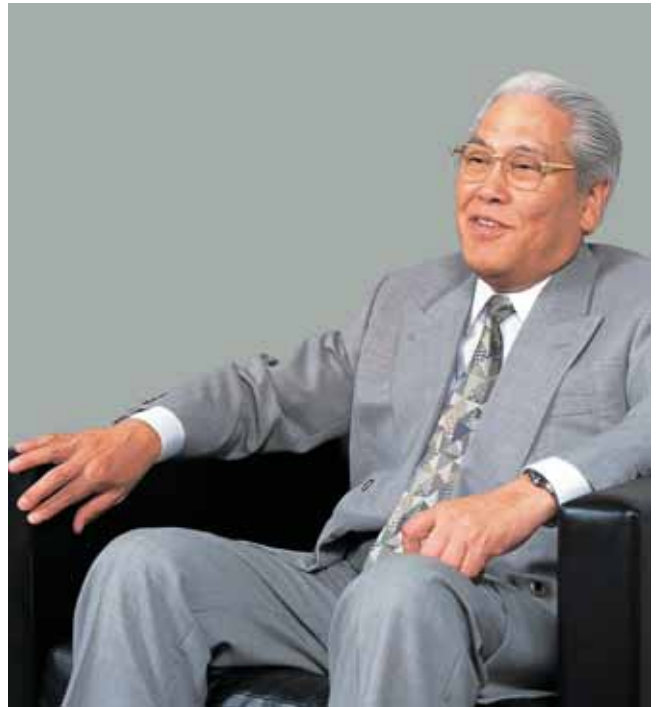
In addition, China is now growing more slowly because restrictive monetary policy has started to affect the economy. So, the consensus is that macroeconomic growth will decelerate.

In the electronics industry, fiscal 2005 will probably see modest adjustments in the production of electronic devices. Demand for semiconductor devices will probably remain flat.

It will be critical for us to accurately identify and respond quickly to trends in the semiconductor industry. A predominant trend among semiconductor makers in recent years has been to be more selective and concentrate resources on strategic businesses against a backdrop of burgeoning capital investments. Thereafter, the number of business areas that semiconductor trading houses can access will probably dwindle.

Once demand lulls in the semiconductor market, makers will inevitably question the benefits of using semiconductor trading houses as they consider whether to restructure sales routes and assess the shortcomings of policies that support vertically integrated sales routes. As the business areas that semiconductor trading houses can access

“As the business areas that semiconductor trading houses can access shrink, we’ve chosen to harness our technological and sales clout as we fulfill our ambition of becoming an electronic systems coordinator, expanding our business operations through multiple vendors and pursuing corporate reforms.”



shrink, we’ve chosen to harness our technological and sales clout as we fulfill our ambition of becoming an electronic systems coordinator, expanding our business operations through multiple vendors and pursuing corporate reforms.

I believe that the only way for us to progress and prosper in the long term is to ensure that we fulfill our duties as a public institution by drawing on open and transparent corporate activities. And disclosing as much as possible about our management processes and situation is essential to operating properly in the public eye. I’m dedicated to making our management situation as comprehensible as possible for shareholders, investors, and other stakeholders.

And I ask for their ongoing support and encouragement for Ryosan.

# Strategic Overview

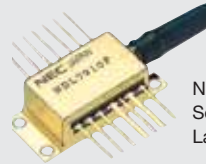
## Semiconductors

### Key Products

- Memories
- Microcomputers
- ASICs
- ASSPs
- Optical and compound semiconductors
- Transistors
- Diodes
- System LSI design (hardware/software)



NEC Electronics  
DVD Codec with Integrated  
Digital Set-Top Box



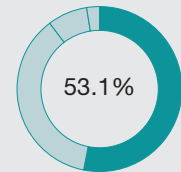
NEC Compound  
Semiconductor Devices  
Laser Diode Component

**The semiconductor business is a strategic mainstay business for Ryosan.**

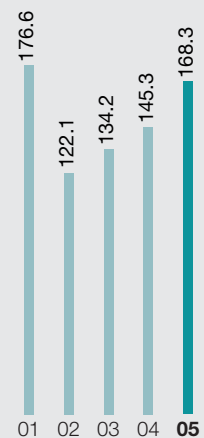
Our strategy in this segment is to expand and strengthen our presence in growth fields, such as digital audiovisual, car multimedia, broadband mobile electronics, automotive electronics, and flat-panel displays, through products that offer superior market potential and competitiveness, including microcomputers, system LSIs, memories, and chemical compound devices.

We aim to bolster marketing clout by enhancing the capabilities of our field application engineers, strengthening our solutions development corps in Japan and in Hong Kong, China, Taiwan, and Korea. We also aim to harness our ROAD technologies to strengthen our solutions presence in Hong Kong, China, Taiwan, and Korea.

Percentage of Net Sales



Segment Sales  
(Billions of Yen)



## Electronic Components

### Key Products

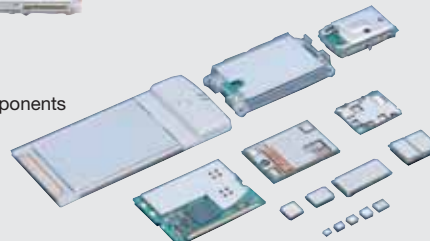
- Display devices
- Network devices
- Condensers
- Transformers
- Connectors
- Switches
- Relays
- Printed circuit boards
- Switching power supplies
- Tuners
- Ferrite cores
- Rechargeable batteries, etc.



CASIO  
LCD Modules



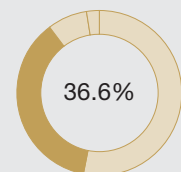
ALPS  
RF Components



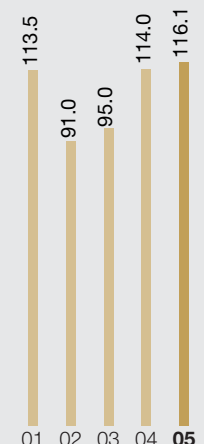
**This is a stable cornerstone business for Ryosan.**

Our market strategy is to select suppliers and products for sales expansion, considering specific characteristics, including the product capabilities and sales policies of those suppliers. We are focusing on expanding sales in LCDs, batteries, power-module electric sources, and high-frequency devices that best match the needs of growth markets. We are committed to cultivating new-resource products, including organic electroluminescent, backlights, and tuners.

Percentage of Net Sales



Segment Sales  
(Billions of Yen)



## Electronic Equipment

### Key Products

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



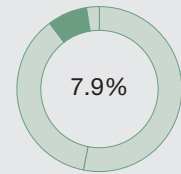
ANELVA  
Sputtering Equipment

### This segment is Ryosan's synergy-driving business.

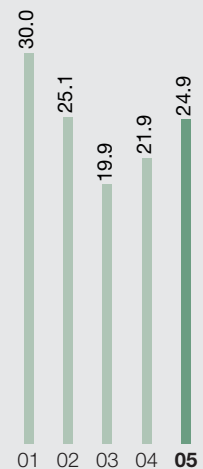
In the systems equipment business, we aim to add value by providing solutions for large servers and for semi-customized boards used in workstations. We are enhancing our ability to propose solutions by establishing system design capabilities while harnessing our accumulated technological capabilities.

In the facilities equipment business, we are penetrating such niche areas as communication devices, color filters and portable terminals while reinforcing our lineup and supplying system solutions to add value.

### Percentage of Net Sales



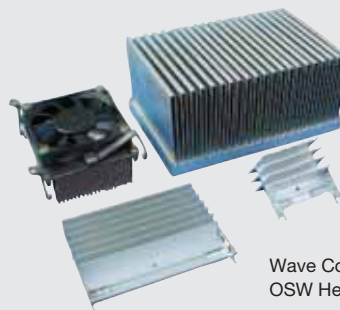
### Segment Sales (Billions of Yen)



## Ryosan Products

### Key Products

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

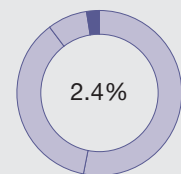


Wave Coolers and  
OSW Heatsinks

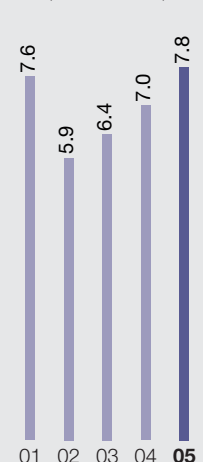
### This segment is Ryosan's signature trading business.

As a provider of thermal solutions, we concentrate on such high-growth, high-potential fields as digital home appliances, Internet infrastructure equipment, and other devices. We also aim to provide solutions at the system level, reinforce efforts to establish a small-lot, multi-product manufacturing system, and improve our ability to respond to needs for supply chain management and concentrated purchasing by reducing production lead times and through other initiatives. Through the sale of such products as wave coolers, based on proprietary technology, Ryosan is looking to expand market share and to accelerate the development of new products to meet customer needs by applying thermal simulation techniques. We opened a plant in China to help us build customer-based production systems for the Asian market.

### Percentage of Net Sales

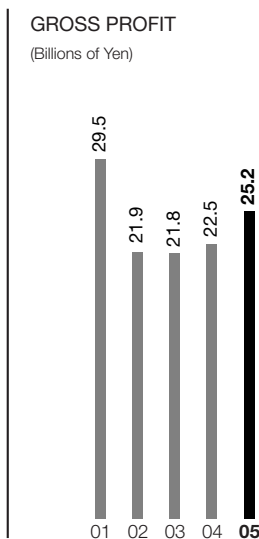
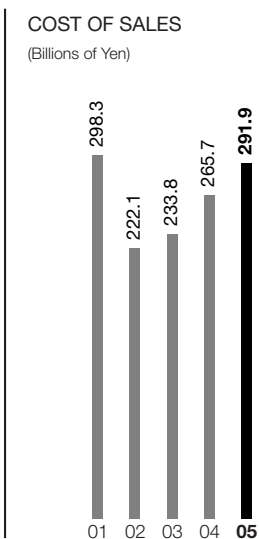
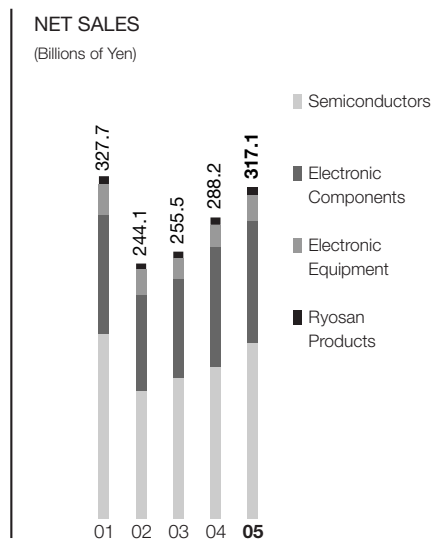


### Segment Sales (Billions of Yen)



# Six-Year Summary

Ryosan Company, Limited and Consolidated Subsidiaries  
Years Ended March 31



Millions of Yen (except per share data)

**FOR THE YEAR:**

	2005	2004	2003	2002	2001	2000
Net sales	¥317,095	¥288,241	¥255,546	¥244,092	¥327,744	¥271,957
Cost of sales	291,855	265,721	233,785	222,144	298,287	245,758
Gross profit	25,240	22,520	21,761	21,948	29,457	26,199
Selling, general and administrative expenses	15,423	14,555	15,082	15,800	17,759	17,179
Operating income	9,817	7,965	6,679	6,148	11,698	9,020
Other income (expenses)—net	(69)	919	679	(437)	1,548	1,538
Income before income taxes and minority interests	9,748	8,884	7,358	5,711	13,246	10,558
Net income	5,868	5,706	3,724	2,885	7,336	6,048

**PER SHARE:**

Net income (Yen)	¥ 158.53	¥ 150.27	¥ 93.21	¥ 71.62	¥ 179.70	¥ 148.13
Cash dividends applicable to the year (Yen)	60.00	40.00	30.00	30.00	30.00	30.00

**AT YEAR END:**

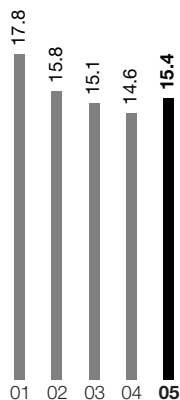
Working capital	¥ 89,409	¥ 85,065	¥ 82,371	¥ 81,017	¥ 83,712	¥ 86,938
Total assets	176,943	172,321	156,580	147,075	175,011	165,928
Long-term liabilities	2,165	1,918	1,768	1,905	1,787	15,275
Total shareholders' equity	111,714	107,610	105,737	105,252	105,683	99,675

**OTHER DATA:**

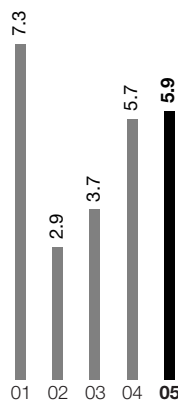
Gross profit margin (%)	8.0	7.8	8.5	9.0	9.0	9.6
Return on equity (%)	5.4	5.3	3.5	2.7	7.1	6.2
Current ratio (%)	242.0	235.9	268.6	305.4	224.5	271.5
Inventory turnover ratio (times)	18.3	22.3	23.6	17.4	20.3	20.4
Dividend payout ratio (%)	37.8	26.6	32.2	41.9	16.7	20.3

# Financial Review

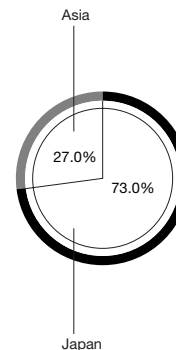
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES  
(Billions of Yen)



NET INCOME  
(Billions of Yen)



SALES BY GEOGRAPHICAL SEGMENT



## Group Profile

The Ryosan Group comprises Ryosan Co., Ltd., eight consolidated subsidiaries, nine nonconsolidated subsidiaries and one associated company. The Group focuses on selling semiconductors and electronic components and equipment that it sources to domestic and overseas manufacturers of electronic equipment and other customers. The Group also develops, manufactures, and markets proprietary products.

## Operating Results

In fiscal 2004, ended March 31, 2005, net sales climbed 10.0%, to ¥317,095 million, a third straight rise. This reflected the concentration of management resources in growth strategies aimed at securing new-resource semiconductor products and expanding the customer base by acquiring new marketing licenses.

Gross profit increased 12.1%, to ¥25,240 million, and the gross margin improved 0.2 percentage point, reversing a decline, owing to efforts to add more value to our products.

Selling, general and administrative expenses were up 6.0%, to ¥15,423 million. These costs accounted for 4.9% of net sales, down 0.1 percentage point. This result

reflected efforts to improve the earnings structures of the Ryosan Group by reinforcing detailed procedures to track performance at each sales office and manufacturing unit in Japan and overseas, with management observing how much is earned before spending. Operating income thus increased 23.3%, to ¥9,817 million, with the operating margin gaining 0.3 percentage point, to 3.1%.

With other income (expenses)—net, foreign exchange gain was down ¥448 million, to ¥46 million, while received compensation was ¥247 million. As a result, the Company posted other expenses, net, of ¥69 million.

As a result of these factors, net income rose 2.8%, to ¥5,868 million. Net income per share was up 5.5% from ¥150.27, to ¥158.53.

## Results by Business Segment

### Semiconductors

The Ryosan Group markets memories, system LSIs, and discrete semiconductors, and plans and develops system LSIs. In the year under review, sales rose for ASICs for hard disk drives and cell phones, ICs used in car audios, and memories used in personal computers and cell phones. Segment sales thus

rose 15.8%, to ¥168,278 million, and operating income gained 17.5%, to ¥6,715 million.

### Electronic Components

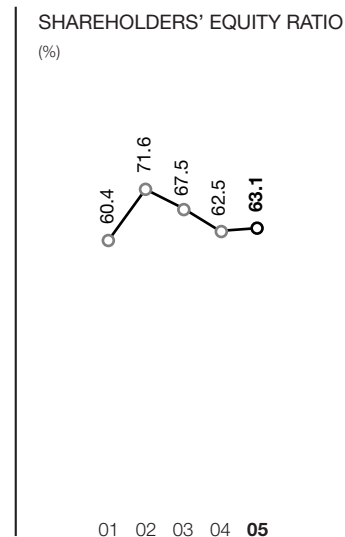
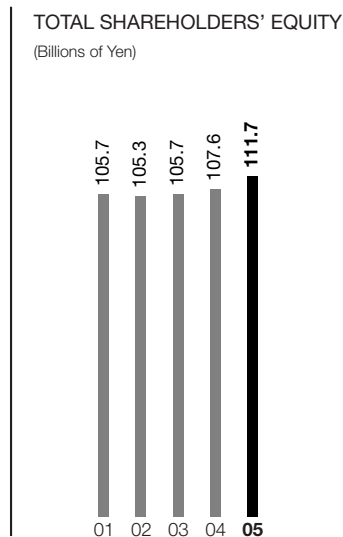
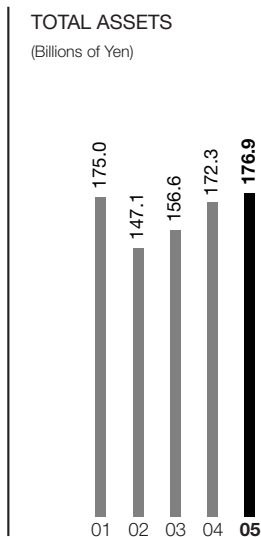
The Ryosan Group sells display devices, power supplies, and mechanical components. The year under review saw higher sales of LCDs for PDAs, LCD display units for video game machines, and key units for cell phones. Segment sales therefore increased 1.8%, to ¥116,113 million, with operating income climbing 31.6%, to ¥4,120 million.

### Electronic Equipment

The Ryosan Group sells system and facilities equipment. Sales of system equipment for office automation hardware increased during the term, boosting segment sales 13.7%, to ¥24,925 million. Operating income was up 13.3%, to ¥844 million.

### Ryosan Products

The Ryosan Group manufactures and sells heatsinks, which dissipate the heat from semiconductor devices. In the year under review, sales were higher for heatsinks used in measuring instruments, televisions, and audio equipment. Segment sales thereby



gained 11.4%, to ¥7,779 million, and operating income rose 3.8%, to ¥1,109 million.

## Results by Geographic Segment

### Japan

Sales increased for hard disk drive and cell phone ASICs and for semiconductors for personal computer and cell phone memories. Japanese sales thus improved 3.4%, to ¥231,570 million, while operating income was up 11.9%, to ¥7,195 million.

### Asia

Here, sales were higher for semiconductors, including for car audio equipment ICs and personal computer memories, as well as for electronic components used in LCDs for PDAs and other equipment. Asian sales therefore rose 33.1%, to ¥85,525 million, with operating income increasing 10.8%, to ¥2,197 million.

## Financial Position

At year-end, total assets were up ¥4,622 million, or 2.7%, from a year earlier, at ¥176,943 million. This was due mainly to a 3.2% increase in total current assets, to ¥152,367 million, as a result of expanded trading activity that boosted notes and accounts receivable and inventories.

Total liabilities were up 0.9%, at ¥65,123 million. The principle factor was a rise in short-term bank loans, which outweighed an increase in notes and accounts payable.

Total shareholders' equity was up 3.8%, at ¥111,714 million. The shareholders' equity ratio thus improved 0.6 percentage point, to 63.1%.

## Cash Flows

At the close of the period under review, cash and cash equivalents were ¥25,737 million, down ¥4,926 million, reflecting increases in notes and accounts receivable and inventories.

## Cash Flows from Operating Activities

Net cash used in operating activities was ¥8,213 million. This was due mainly due to increases of ¥6,546 million in notes and accounts receivable and ¥6,031 million in inventories and a ¥4,619 million decrease in notes and accounts payable, which was partly offset by ¥9,748 million in income before income taxes and minority interests.

## Cash Flows from Investing Activities

Net cash provided by investing activities was ¥2,525 million. This was mainly because of ¥3,100 million in proceeds from the redemption of investment securities.

## Cash Flows from Financing Activities

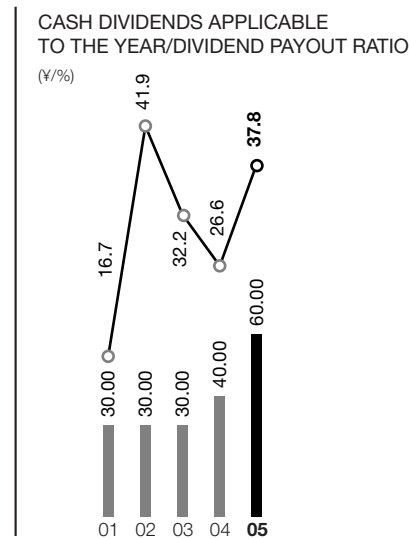
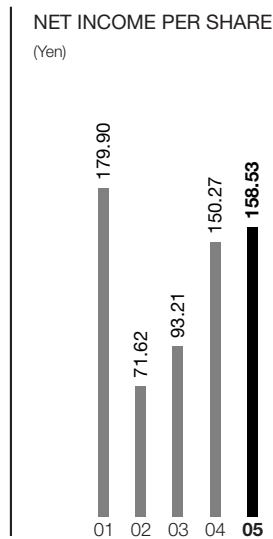
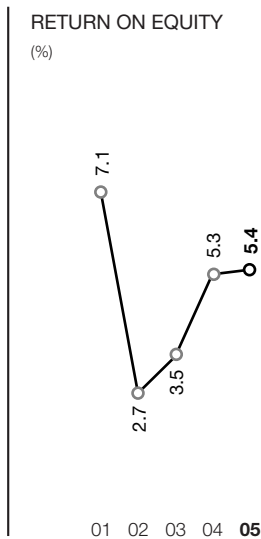
Net cash provided by financing activities was ¥835 million. The main factor was a ¥3,067 million net increase in short-term bank loans, which was partly offset by ¥1,659 million in cash dividends paid and a ¥1,145 million net increase in treasury stock.

## Management Benchmarks and Dividends

Enhancing return on equity and net income per share are top priorities for the Ryosan Group. Management thus strives to enhance capital efficiency while maintaining a healthy financial position and improving enterprise value.

The sixth medium-term management plan aims to maintain the shareholders' equity ratio in the 60% range while targeting a return on equity exceeding 5% and net income per share above ¥150. The Company comfortably beat these benchmarks in the year under review, with a shareholders' equity ratio of 63.1%, a return on equity of 5.4%, and net income per share of ¥158.53.

In fiscal 2004, year-end cash dividends were ¥40 per share, up ¥15 from a year earlier. Including the interim cash dividend of ¥20 per share, the total for the term was ¥60. The dividend payout ratio was thus 37.8%, in line



with the sixth medium-term management plan's goal of at least 30%.

### Business Risks

The Ryosan Group, its performance, share price, and financial position, are subject to various risk factors including those described below. Forward-looking statements in this section are based on information available to management as of March 31, 2005.

#### (1) Sudden changes in the economic environment

The Ryosan Group's consolidated revenues reflect demand levels among customer device manufacturers. Economic conditions in the countries and territories in which those manufacturers market their products affect demand. Ryosan's performance and financial position could therefore deteriorate owing to economic and demand downturns in its principal markets, notably Japan and elsewhere in Asia.

#### (2) Exchange rate fluctuations

The Ryosan Group sells and manufactures products in several regions, including Japan and elsewhere in Asia. In preparing its consolidated financial statements, the Company translates sales, expenses, assets, and liabili-

ties denominated in foreign currencies into yen as of its balance sheet date. Even if prices remain unchanged in local currencies, yen translations may fluctuate and thereby affect the financial statements. In general, the yen's appreciation against currencies has a negative impact on Ryosan's performance, while a weaker yen has a favorable effect. The Group's performance and financial position are thus subject to fluctuations in foreign exchange rates.

#### (3) Overseas business risk

The Ryosan Group primarily operates in Japan and elsewhere in Asia. Our operating results and financial position are therefore subject to various country and overseas business risks. They include:

- Unforeseen changes to statutory, regulatory and tax requirements
- Inadequate and insufficient local infrastructure in the countries in which the Company operates
- Adverse political factors
- Social turmoil from acts of terrorism or war

#### (4) Capital market fluctuations

The Ryosan Group holds shares in certain financial institutions, customers, and suppliers as part of its business activities. The

Company does not use specific instruments to hedge against movements in stock prices. Our performance and financial position are thus subject to substantial changes in stock markets.

#### (5) Liability for retirement benefits

Ryosan bases its liability for retirement benefits on projected benefit obligations and plan assets at the balance sheet date. If an actual obligation differs from a projection or the assumptions used to calculate the projected obligation change, the Company accrues and amortizes the difference over a generally accepted period. The discount rate and yield applicable to the Group's plan assets can therefore affect performance and financial position.

Ryosan participates in the Tokyo Metropolitan Electric Welfare Pension Fund, whose investment activities have deteriorated significantly. Ryosan has thus incurred a substantial shortfall in its liability for retirement benefits. Depending on the accounting treatment of this shortfall, Ryosan's operating performance and financial position could suffer considerably.

# Consolidated Balance Sheets

Ryosan Company, Limited and Consolidated Subsidiaries  
March 31, 2005 and 2004

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	¥ 25,737	¥ 30,663	\$ 239,659
Time deposits	78	146	726
Marketable securities (Note 3)		3,013	
Notes and accounts receivable:			
Trade notes	6,089	6,396	56,700
Trade accounts	97,613	89,937	908,958
Due from unconsolidated subsidiaries and associated companies	201	270	1,872
Other	1,431	1,817	13,325
Allowance for doubtful accounts	(294)	(152)	(2,738)
Inventories (Note 4)	20,401	14,301	189,971
Deferred tax assets (Note 8)	767	928	7,142
Prepaid expenses and other current assets	344	353	3,203
<b>Total current assets</b>	<b>152,367</b>	<b>147,672</b>	<b>1,418,818</b>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>			
Land	8,206	8,204	76,413
Buildings and structures	11,180	11,447	104,107
Machinery and equipment	3,348	3,279	31,176
Total	22,734	22,930	211,696
Accumulated depreciation	(7,488)	(7,234)	(69,727)
<b>Net property, plant and equipment</b>	<b>15,246</b>	<b>15,696</b>	<b>141,969</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 3 and 5)	5,941	5,701	55,322
Investments in and advances to unconsolidated subsidiaries and associated companies	340	312	3,166
Goodwill	575	564	5,354
Deferred tax assets (Note 8)	928	768	8,641
Other assets	1,546	1,608	14,397
<b>Total investments and other assets</b>	<b>9,330</b>	<b>8,953</b>	<b>86,880</b>
<b>TOTAL</b>	<b>¥176,943</b>	<b>¥172,321</b>	<b>\$1,647,667</b>

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
<b>CURRENT LIABILITIES:</b>			
Short-term bank loans (Note 6)	¥ 4,812	¥ 1,670	\$ 44,809
Notes and accounts payable:			
Trade notes	91	114	847
Trade accounts (Note 5)	53,554	57,641	498,687
Due to unconsolidated subsidiaries and associated companies	49	84	456
Accrued income taxes (Note 8)	2,678	1,199	24,937
Accrued expenses	1,447	1,658	13,474
Other current liabilities	327	241	3,046
<b>Total current liabilities</b>	<b>62,958</b>	<b>62,607</b>	<b>586,256</b>
<b>LONG-TERM LIABILITIES:</b>			
Liability for employees' retirement benefits (Note 7)	1,717	1,453	15,988
Liability for directors' and corporate auditors' retirement benefits	341	365	3,175
Other liabilities	107	100	997
<b>Total long-term liabilities</b>	<b>2,165</b>	<b>1,918</b>	<b>20,160</b>
<b>MINORITY INTERESTS</b>	<b>106</b>	<b>186</b>	<b>987</b>
<b>CONTINGENT LIABILITIES</b> (Note 14)			
<b>SHAREHOLDERS' EQUITY</b> (Notes 9 and 16):			
Common stock—authorized, 155,673,598 shares in 2005 and 156,173,700 shares in 2004; issued, 36,500,000 shares in 2005 and 37,000,102 shares in 2004	17,691	17,691	164,736
Capital surplus	19,122	19,114	178,061
Retained earnings	74,299	71,328	691,861
Net unrealized gain on available-for-sale securities	1,338	960	12,459
Foreign currency translation adjustments	(668)	(827)	(6,220)
Treasury stock-at cost, 35,632 shares in 2005 and 355,162 shares in 2004	(68)	(656)	(633)
<b>Total shareholders' equity</b>	<b>111,714</b>	<b>107,610</b>	<b>1,040,264</b>
<b>TOTAL</b>	<b>¥176,943</b>	<b>¥172,321</b>	<b>\$1,647,667</b>

See notes to consolidated financial statements.

# Consolidated Statements of Income

Ryosan Company, Limited and Consolidated Subsidiaries  
Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
<b>NET SALES</b> (Note 13)	<b>¥317,095</b>	¥288,241	<b>\$2,952,742</b>
<b>COST OF SALES</b> (Note 13)	<b>291,855</b>	265,721	<b>2,717,711</b>
Gross profit	<b>25,240</b>	22,520	<b>235,031</b>
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b> (Notes 10 and 13)	<b>15,423</b>	14,555	<b>143,617</b>
<b>Operating income</b>	<b>9,817</b>	7,965	<b>91,414</b>
<b>OTHER INCOME (EXPENSES):</b>			
Interest and dividend income	<b>180</b>	231	<b>1,676</b>
Interest expense	<b>(79)</b>	(33)	<b>(736)</b>
Foreign exchange gain	<b>46</b>	494	<b>429</b>
Gain on sales of investment securities	<b>36</b>	127	<b>335</b>
Received compensation	<b>247</b>	66	<b>2,300</b>
Loss on devaluation of investment securities	<b>(644)</b>	(122)	<b>(5,997)</b>
Other—net	<b>145</b>	156	<b>1,351</b>
<b>OTHER INCOME (EXPENSES)—NET</b>	<b>(69)</b>	919	<b>(642)</b>
<b>INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS</b>	<b>9,748</b>	8,884	<b>90,772</b>
<b>INCOME TAXES</b> (Note 8):			
Current	<b>4,206</b>	3,432	<b>39,166</b>
Deferred	<b>(272)</b>	(243)	<b>(2,533)</b>
<b>TOTAL INCOME TAXES</b>	<b>3,934</b>	3,189	<b>36,633</b>
<b>MINORITY INTERESTS IN NET INCOME</b>	<b>(54)</b>	(11)	<b>(503)</b>
<b>NET INCOME</b>	<b>¥ 5,868</b>	¥ 5,706	<b>\$ 54,642</b>

	Yen		U.S. Dollars
	2005	2004	2005
<b>PER SHARE OF COMMON STOCK</b> (Notes 2.p and 15):			
Basic net income	<b>¥ 158.53</b>	¥ 150.27	<b>\$ 1.48</b>
Diluted net income	<b>158.36</b>		<b>1.48</b>
Cash dividends applicable to the year	<b>60.00</b>	40.00	<b>0.56</b>

See notes to consolidated financial statements.

# Consolidated Statements of Shareholders' Equity

Ryosan Company, Limited and Consolidated Subsidiaries  
Years Ended March 31, 2005 and 2004

	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
<b>BALANCE, APRIL 1, 2003</b>	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)		
<b>BALANCE, MARCH 31, 2004</b>	37,000	17,691	19,114	71,328	960	(827)	(355)	(656)
Net income				5,868				
Adjustment of retained earnings for eliminated consolidated subsidiaries				(11)				
Cash dividends, ¥45 per share				(1,648)				
Bonuses to directors				(69)				
Treasury stock—at cost:								
Acquired							(486)	(1,145)
Retired	(500)			(1,169)			500	1,169
Exercise of stock options			8				305	564
Net increase in unrealized gain on available-for-sale securities					378			
Net change in foreign currency translation adjustments						159		
<b>BALANCE, MARCH 31, 2005</b>	<b>36,500</b>	<b>¥17,691</b>	<b>¥19,122</b>	<b>¥74,299</b>	<b>¥1,338</b>	<b>¥(668)</b>	<b>(36)</b>	<b>¥ (68)</b>

	Thousands of U.S. Dollars (Note 1)						
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Treasury Stock (Note 9)	
	<b>BALANCE, MARCH 31, 2004</b>	\$164,736	\$177,987	\$664,196	\$ 8,939	\$(7,701)	\$ (6,109)
Net income			54,642				
Adjustment of retained earnings for eliminated consolidated subsidiaries			(102)				
Cash dividends, \$0.42 per share			(15,346)				
Bonuses to directors			(643)				
Treasury stock—at cost:							
Acquired						(10,662)	
Retired			(10,886)			10,886	
Exercise of stock options		74				5,252	
Net increase in unrealized gain on available-for-sale securities				3,520			
Net change in foreign currency translation adjustments					1,481		
<b>BALANCE, MARCH 31, 2005</b>	<b>\$164,736</b>	<b>\$178,061</b>	<b>\$691,861</b>	<b>\$12,459</b>	<b>\$(6,220)</b>	<b>\$ (633)</b>	

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Ryosan Company, Limited and Consolidated Subsidiaries  
Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes and minority interests	¥ 9,748	¥ 8,884	\$ 90,772
Adjustments for:			
Income taxes—paid	(2,886)	(5,438)	(26,874)
Depreciation and amortization	865	845	8,055
Provision for directors', corporate auditors' and employees' retirement benefits	240	148	2,235
Loss on devaluation of investment securities	644	122	5,997
Gain on sales of investment securities	(36)	(127)	(335)
Changes in assets and liabilities:			
Increase in notes and accounts receivable	(6,546)	(14,900)	(60,955)
Increase in inventories	(6,031)	(2,918)	(56,160)
(Decrease) increase in notes and accounts payable	(4,619)	15,239	(43,011)
Other—net	408	(344)	3,798
Total adjustments	(17,961)	(7,373)	(167,250)
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<b>(8,213)</b>	<b>1,511</b>	<b>(76,478)</b>
<b>INVESTING ACTIVITIES:</b>			
Proceeds from sales of property, plant and equipment	75	6	698
Purchases of property, plant and equipment	(324)	(382)	(3,017)
Proceeds from sales of investment securities	83	247	773
Proceeds from redemption of investment securities	3,100		28,867
Purchases of investment securities	(200)	(1,882)	(1,862)
Collections of long-term loans receivable from unconsolidated subsidiaries and associated companies	123	60	1,145
Investments in and advances to unconsolidated subsidiaries and associated companies	(171)	(75)	(1,592)
Purchases of intangible assets	(241)	(310)	(2,244)
Decrease (increase) in other assets	80	(86)	745
<b>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</b>	<b>2,525</b>	<b>(2,422)</b>	<b>23,513</b>
<b>FINANCING ACTIVITIES:</b>			
Increase in short-term bank loans—net	3,067	868	28,559
Proceeds from issuance of share upon exercise of stock options	572		5,326
Increase in treasury stock—net	(1,145)	(3,322)	(10,662)
Cash dividends paid	(1,659)	(1,143)	(15,448)
<b>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>835</b>	<b>(3,597)</b>	<b>7,775</b>
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(6)	148	(56)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(4,859)</b>	<b>(4,360)</b>	<b>(45,246)</b>
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR		181	
CASH AND CASH EQUIVALENTS OF ELIMINATED CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR	(67)		(624)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	30,663	34,842	285,529
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 25,737	¥ 30,663	\$ 239,659

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Ryosan Company, Limited and Consolidated Subsidiaries  
Years Ended March 31, 2005 and 2004

## 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 2004 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 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 ¥107.39 to \$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 as of March 31, 2005 include the accounts of the Company and its eight significant (ten in 2004) 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.

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 differences 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 5 years.

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

**b. Cash Equivalents**—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and 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. Available-for-sale 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 amortized 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 Company, is a Tax Qualified Pension Plan (TQPP), where plan assets to fund future retirement benefits are managed by an independent investment manager.

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

Foreign consolidated subsidiaries have local retirement plans covering their employees which would not have a material effect on the accompanying consolidated financial statements.

**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 periods.

**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 places 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.

Diluted net income per share is computed by using the weighted-average number of common shares outstanding adjusted to include the potentially dilutive effect of stock options that were outstanding during the year.

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 Group 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, 2005 and 2004, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Current:			
Bonds		¥ 200	
Investment trust		2,813	
Total		¥3,013	
Non-current:			
Marketable equity securities	¥4,818	¥3,397	\$44,865
Non-marketable securities	123	1,504	1,145
Bonds	1,000	800	9,312
Total	¥5,941	¥5,701	\$55,322

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

	Millions of Yen			Fair Value (Carrying Amount)
	Cost	Unrealized Gains	Unrealized Losses	
March 31, 2005				
Securities classified as available-for-sale—				
Equity securities	<b>¥2,561</b>	<b>¥2,262</b>	<b>¥ 5</b>	<b>¥4,818</b>
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
	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value (Carrying Amount)
March 31, 2005				
Securities classified as available-for-sale—				
Equity securities	<b>\$23,848</b>	<b>\$21,064</b>	<b>\$47</b>	<b>\$44,865</b>

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	<b>¥ 123</b>	¥1,504	<b>\$ 1,145</b>
Bonds	<b>1,000</b>	1,000	<b>9,312</b>
Total	<b>¥1,123</b>	¥2,504	<b>\$10,457</b>

Proceeds from sales of available-for-sale securities for the years ended March 31, 2005 and 2004, were ¥83 million (\$773 thousand) and ¥247 million, respectively. Gross realized gains on these sales, computed on the moving average cost basis, were ¥36 million (\$335

thousand) for the year ended March 31, 2005 and ¥127 million for the year ended March 31, 2004.

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

	Millions of Yen	Thousands of U.S. Dollars
Available-for-sale—		
Due after ten years	¥1,000	\$9,312

#### 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	<b>¥19,786</b>	¥13,651	<b>\$184,244</b>
Finished products	<b>292</b>	260	<b>2,719</b>
Work in process	<b>141</b>	209	<b>1,313</b>
Raw materials	<b>182</b>	181	<b>1,695</b>
Total	<b>¥20,401</b>	¥14,301	<b>\$189,971</b>

## 5. PLEDGED ASSETS

The following assets were pledged as collateral for trade accounts payable of ALPS ELECTRIC CO., LTD., etc., at March 31, 2005 and 2004:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Investment securities	¥299	¥394	\$2,784

## 6. SHORT-TERM BANK LOANS

Short-term bank loans at March 31, 2005 and 2004, 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 3.02% to 3.71% and from 1.59% to 2.94% at March 31, 2005 and 2004, respectively.

## 7. 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 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, 2005 and 2004, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Projected benefit obligation	¥ 4,179	¥ 4,009	\$ 38,914
Fair value of plan assets	(2,224)	(2,244)	(20,710)
Unrecognized actuarial loss	(169)	(312)	(1,573)
Unrecognized prior service cost	(69)		(643)
Net liability	¥ 1,717	¥ 1,453	\$ 15,988

The components of net periodic benefit costs for the years ended March 31, 2005 and 2004, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Service cost	¥257	¥256	\$2,393
Interest cost	79	78	736
Expected return on plan assets	(17)	(33)	(158)
Recognized actuarial loss	43	43	400
Amortization of prior service cost	8		74
Net periodic benefit costs	¥370	¥344	\$3,445

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

	2005	2004
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	0.75%	1.5%
Recognition period of actuarial gain/loss	10 years	10 years
Amortization period of prior service cost	10 years	

## 8. INCOME TAXES

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates

of approximately 40.7% and 42.0% for the years ended March 31, 2005 and 2004, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
<b>Deferred tax assets:</b>			
Amortization of software	¥ 165	¥ 303	\$ 1,536
Loss on devaluation of investment securities	569	306	5,299
Loss on liquidation of subsidiary		224	
Accrued bonuses	437	528	4,069
Accrued enterprise tax	195	96	1,816
Liability for employees' retirement benefits	646	490	6,016
Liability for directors' and corporate auditors' retirement benefits	139	148	1,294
Other	465	327	4,330
<b>Total deferred tax assets</b>	<b>2,616</b>	<b>2,422</b>	<b>24,360</b>
<b>Deferred tax liabilities:</b>			
Unrealized gain on available-for-sale securities	919	726	8,558
Other	2		19
<b>Total deferred tax liabilities</b>	<b>921</b>	<b>726</b>	<b>8,577</b>
<b>Net deferred tax assets</b>	<b>¥1,695</b>	<b>¥1,696</b>	<b>\$15,783</b>

## 9. SHAREHOLDERS' EQUITY

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

The Code requires that all shares of common stock are 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, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration 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% 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 common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the 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 Code allows Japanese companies to repurchase treasury stock 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 dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the shareholders meeting.

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. The amount of retained earnings available for dividends under the Code was ¥66,594 million (\$620,114 thousand) as of March 31, 2005, based on the amount recorded in the Company's general books of account.

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.

In 2005, the number of authorized shares of common stock decreased from 156,173,700 to 155,673,598 resulting from retirement of treasury stock.

**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.

A summary of the status of the Company's stock option as of March 31, 2005 and 2004 changes during the years is as follows:

	Thousands Number of Status
Outstanding at April 1, 2003	350
Canceled	15
Outstanding at March 31, 2004	335
Exercised	305
Outstanding at March 31, 2005	30

## 10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,019 million (\$9,489 thousand) and ¥1,180 million for the years ended March 31, 2005 and 2004, 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 ¥556 million (\$5,177 thousand) and ¥816 million for the years ended March

31, 2005 and 2004, 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, 2005 and 2004, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Vehicles and equipment:			
Acquisition cost	¥2,898	¥3,656	\$26,986
Accumulated depreciation	1,932	2,288	17,991
Net leased property	¥ 966	¥1,368	\$ 8, 995

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Due within one year	¥ 448	¥ 554	\$4,172
Due after one year	580	916	5,401
Total	¥1,028	¥1,470	\$9,573

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
	2005	2004	2005
Depreciation expense	¥507	¥673	\$4,721
Interest expense	38	75	354
Total	¥545	¥748	\$5,075

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, 2005 and 2004, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Due within one year	¥31	¥26	\$289
Due after one year	39	27	363
Total	¥70	¥53	\$652

## 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, 2005 and 2004, was not required to be disclosed.

## 13. SEGMENT INFORMATION

### a. Business Segments

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

Information about business segments of the Group for the years ended March 31, 2005 and 2004, was as follows:

#### (1) Sales and Operating Income

2005	Millions of Yen					
	Semiconductor	Electronic Components	Electronic Equipment	Products	Eliminations or Corporate	Consolidated
Total sales	¥168,278	¥116,113	¥24,925	¥7,779		¥317,095
Operating expenses	161,563	111,993	24,081	6,670	¥ 2,971	307,278
Operating income	¥ 6,715	¥ 4,120	¥ 844	¥1,109	¥(2,971)	¥ 9,817

2005	Thousands of U.S. Dollars					
	Semiconductor	Electronic Components	Electronic Equipment	Products	Eliminations or Corporate	Consolidated
Total sales	\$1,566,980	\$1,081,227	\$232,098	\$72,437		\$2,952,742
Operating expenses	1,504,451	1,042,862	224,239	62,110	\$ 27,666	2,861,328
Operating income	\$ 62,529	\$ 38,365	\$ 7,859	\$10,327	\$(27,666)	\$ 91,414

2004	Millions of Yen					
	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

(2) Assets, Depreciation and Capital Expenditures

2005	Millions of Yen					
	Semiconductor	Electronic Components	Electronic Equipment	Products	Corporate	Consolidated
Assets	¥80,847	¥52,413	¥11,477	¥5,059	¥27,147	¥176,943
Depreciation	448	251	48	99	16	862
Capital expenditures	320	78	15	152		565

2005	Thousands of U.S. Dollars					
	Semiconductor	Electronic Components	Electronic Equipment	Products	Corporate	Consolidated
Assets	\$752,835	\$488,062	\$106,872	\$47,109	\$252,789	\$1,647,667
Depreciation	4,172	2,337	447	922	149	8,027
Capital expenditures	2,980	726	140	1,415		5,261

2004	Millions of Yen					
	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

**b. Geographical Segments**

The geographical segments of the Group for the years ended March 31, 2005 and 2004, were summarized as follows:

2005	Millions of Yen			
	Japan	Asia	Eliminations or Corporate	Consolidated
Sales to customers	¥231,570	¥85,525		¥317,095
Interarea transfer	8,078	751	¥(8,829)	
Total sales	239,648	86,276	(8,829)	317,095
Operating expenses	232,453	84,079	(9,254)	307,278
Operating income	¥ 7,195	¥ 2,197	¥ 425	¥ 9,817
Assets	¥152,781	¥24,162		¥176,943

2005	Thousands of U.S. Dollars			
	Japan	Asia	Eliminations or Corporate	Consolidated
Sales to customers	\$2,156,346	\$796,396		\$2,952,742
Interarea transfer	75,221	6,993	\$(82,214)	
Total sales	2,231,567	803,389	(82,214)	2,952,742
Operating expenses	2,164,569	782,931	(86,172)	2,861,328
Operating income	\$ 66,998	\$ 20,458	\$ 3,958	\$ 91,414
Assets	\$1,422,674	\$224,993		\$1,647,667

2004	Millions of Yen			Consolidated
	Japan	Asia	Eliminations or Corporate	
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

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, 2005 and 2004, amounted to ¥107,441 million (\$1,000,475 thousand) and ¥88,281 million, respectively.

## 14. CONTINGENT LIABILITIES

At March 31, 2005, the Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Discounted export draft	¥ 2	\$ 19
Guarantees of bank loans and items of a similar nature	146	1,360

## 15. NET INCOME PER SHARE

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

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted-Average Shares	EPS	
<b>Year Ended March 31, 2005</b>				
Basic EPS—Net income available to common shareholders	¥5,784	36,482	¥158.53	\$1.48
Effect of dilutive securities—Stock options		38		
Diluted EPS—Net income for computation	¥5,784	36,520	¥158.36	\$1.48

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

The number of shares used in computing basic net income per share was 37,509 thousand shares for 2004.

## 16. SUBSEQUENT EVENT

The following appropriations of retained earnings at March 31, 2005 were approved at the Company's shareholders meeting held on June 24, 2005:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥40 (\$0.37)	¥1,459	\$13,586
Bonuses to directors	84	782

# Independent Auditors' Report

# Deloitte.

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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, 2005 and 2004, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ryosan Company, Limited and consolidated subsidiaries as of March 31, 2005 and 2004, 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 24, 2005

# Corporate Data

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## BOARD OF DIRECTORS AND CORPORATE AUDITORS

(As of June 24, 2005)

### PRESIDENT

Tatsuo Ui

### SENIOR MANAGING DIRECTORS

Masakazu Umezawa

Eiji Hamano

### MANAGING DIRECTORS

Yukio Tanaka

Shizuo Eguchi

Hiroshi Yoshida

### DIRECTORS

Harumitsu Seki

Kaduo Yanagisawa

Isao Hayashi

Naotsugu Kasuya

Yukio Sasaki

### CORPORATE AUDITORS

Hiroyuki Tanaka

Shigeo Saito

Hajime Shibatani\*

Tsuneo Sato\*

\* Corporate auditors Hajime Shibatani and Tsuneo Sato are 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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## CORPORATE DIRECTORY

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### DOMESTIC NETWORK

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FAX: 03-3862-1299

#### *Will Business Service Company, Limited*

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Note: On September 28, 2004, Ryosan completed the liquidation of consolidated subsidiary Road Co., Ltd.

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# Investor Information

As of March 31, 2005

<b>Date of Incorporation:</b>	March 1957
<b>Paid-in Capital:</b>	¥17,690,508,514
<b>Authorized Shares:</b>	155,673,598
<b>Outstanding Shares:</b>	36,500,000
<b>Number of Shareholders:</b>	3,843
<b>Meeting of Shareholders:</b>	The Ordinary General Meeting of Shareholders is held annually in June.
<b>Stock Listing:</b>	Tokyo Stock Exchange, First Section
<b>Transfer Agent:</b>	The Sumitomo Trust & Banking Co., Ltd. 4-5-33, Kitahama, Chuo-ku, Osaka
<b>Share Handling Agent:</b>	The Sumitomo Trust & Banking Co., Ltd. Stock Transfer Agency Department 1-4-4, Marunouchi, Chiyoda-ku, Tokyo

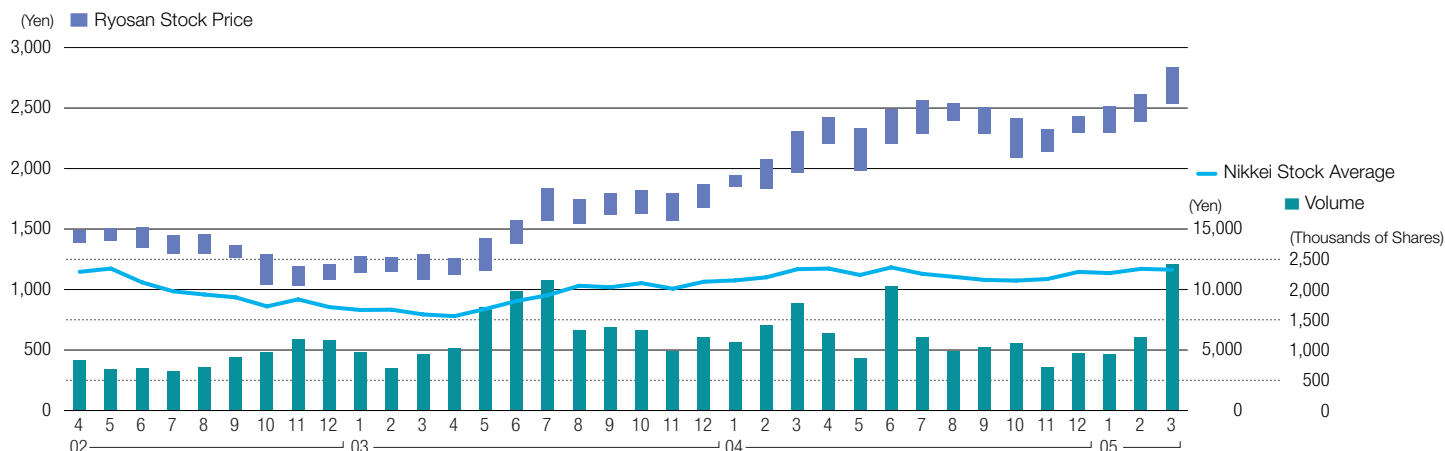
## Composition of Shareholders

	Thousands of shares	%
Financial institutions	17,564	48.12
Securities companies	379	1.04
Other corporations	3,291	9.02
Foreign corporations and other foreign investors	8,416	23.06
Individuals and others	6,848	18.76

## Major Shareholders

	Thousands of shares	Percentage of total shares outstanding %
Japan Trustee Services Bank, Ltd. (Money Trust)	3,808	10.43
The Master Trust Bank of Japan, Ltd. (Holder in Trust)	2,374	6.50
NEC Electronics Corporation	1,204	3.30
Sumitomo Mitsui Banking Corporation	1,049	2.88
The Bank of Tokyo-Mitsubishi, Ltd.	949	2.60
The Sumitomo Trust & Banking Co., Ltd.	934	2.56
Trust & Custody Services Bank, Ltd.	933	2.56
Nippon Life Insurance Company	869	2.38
Sumitomo Life Insurance Company	861	2.36
Mellon Bank, N.A. as Agent for Its Client Mellon Omnibus US Pension	702	1.93

## Common Stock Price Range



FOR FURTHER INFORMATION, PLEASE CONTACT:  
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Printed in Japan