



## Summary of Business Result for FY 2005 (Non-Consolidated)

Date: August 24, 2005

Company INTELLIGENT WAVE INC. Registered on Jasdaq  
 Stock Code 4847 Head office location: Tokyo  
 ( URL <http://www.iwi.co.jp/> )  
 Contact Title: Managing Executive Officer  
 Name Masaharu Shirasugi T E L 03-6222-7015  
 Date of the meeting of board of directors August 24, 2005 Interim divided Yes  
 Date of the annual general meeting of shareholders September 28, 2005  
 Trading unit share plan: Yes (1,000 shares per trading unit share)

### 1. Business Results for FY 2005 (July 1, 2004 - June 30, 2005)

#### (1) Results

( Note: Rounded down to nearest Million yen )

|         | Net Sales       |       | Operating Income |       | Ordinary Income |       |
|---------|-----------------|-------|------------------|-------|-----------------|-------|
|         | Millions of yen | %     | Millions of yen  | %     | Millions of yen | %     |
| FY 2005 | 5,174           | -1.6  | 678              | 82.9  | 688             | 88.4  |
| FY 2004 | 5,257           | -10.8 | 371              | -68.5 | 365             | -68.6 |

|         | Net Income      |       | Net Income per Share (diluted) | Return on Equity | Ratio of Ordinary Income to Total Assets | Ratio of Ordinary Income to Sales |
|---------|-----------------|-------|--------------------------------|------------------|--|-----------------------------------|
|         | Millions of yen | Yen   | Yen                            | %                | %  | %                                 |
| FY 2005 | 264             | 69.5  | 2,047.86                       | 5.9              | 12.3                                     | 13.3                              |
| FY 2004 | 156             | -71.1 | 1,146.66                       | 3.5              | 7.3                                      | 6.9                               |

(Note) 1. Equity in earnings of unconsolidated subsidiaries: FY 2005: ¥0 million, FY 2004: ¥-60 million

2. Average number of shares outstanding: FY 2005: 126,669 shares, FY 2004: 128,214 shares

3. Change in accounting principles applied: Yes

4. Percentages shown for net sales, operating income, ordinary income and net income denote the rate of increase or decrease compared to the previous fiscal year.

#### (2) Dividend

|         | Annual Dividend per Share |     |     | Annual Total Dividend | Payout Ratio | Dividend Rate on Shareholders' Equity |
|---------|---------------------------|-----|-----|-----------------------|--------------|---------------------------------------|
|         | Yen                       | Yen | Yen |                       |              |                                       |
| FY 2005 | 500                       | -   | 500 | 63                    | 24.4         | 1.4                                   |
| FY 2004 | 500                       | -   | 500 | 63                    | 43.6         | 1.4                                   |

#### (3) Financial Position

|         | Total Assets    | Shareholders' Equity | Shareholders' Equity to Total Assets | Shareholders' Equity per Share |
|---------|-----------------|----------------------|--------------------------------------|--------------------------------|
|         | Millions of yen | Millions of yen      | %                                    | Yen                            |
| FY 2005 | 6,144           | 4,613                | 75.1                                 | 36,416.11                      |
| FY 2004 | 5,009           | 4,401                | 87.9                                 | 34,489.64                      |

(Note) 1. Number of shares outstanding at end of period: FY 2005: 131,700 shares, FY 2004: 131,700 shares

2. Treasury stock at end of period: FY 2005: 5,148 shares, FY 2004: 4,335 shares

#### (4) Results of Cash Flows

|         | Net Cash Flows from Operating Activities | Net Cash Flows from Investing Activities | Net Cash Flows from Financial Activities | Balance of Cash and Cash Equivalents at the End of Year |
|---------|--|--|--|---|
|         | Millions of yen                          | Millions of yen                          | Millions of yen                          | Millions of yen   |
| FY 2005 | 457                                      | -533                                     | -202                                     | 1,121   |
| FY 2004 | -122                                     | 273                                      | -307                                     | 1,399   |

### 2. Forecast of Financial Performance in FY 2006 (July 1, 2005 - June 30, 2006)

|                   | Net Sales       | Ordinary Income | Net Income      | Annual Dividend per Share |          |
|-------------------|-----------------|-----------------|-----------------|---------------------------|----------|
|                   |                 |                 |                 | Year-end                  | Year-end |
|                   | Millions of yen | Millions of yen | Millions of yen | Yen                       | Yen      |
| FY 2006 Interim   | 2,633           | 265             | 157             |                           |          |
| FY 2006 Full-year | 7,081           | 1,823           | 1,081           | 500.00                    | 500.00   |

( Note ) Forecasted net income per share for the year: 8,544.91 yen

### 3. Supplementary Information to Business Results for FY 2005

#### (1) Operational Results and Financial Condition

##### Operational Results

During the past fiscal year, Japan's economy was unable to stage a broad-based recovery despite the easing of concerns regarding the financial system and a rebound in consumer spending. In the current calendar year, however, the economy has been slowly recovering due to the upturn in consumer spending. In this environment, the Company benefited from a substantial rebound in orders as customers increased investment in various systems involving the Company's established businesses. In the security systems field, sales were affected by a fiscal year-end decision by the Company's independent auditors concerning the timing of the posting of sales of CWAT, an extrusion prevention system for digital assets. Previously, these sales were posted when licensing documents from sales agents were received and certified. The independent auditors recommended that the company should instead recognize sales either when a license key is given to an end user or when the amount due is received from the sales agent. After examining this recommendation, the Company decided to revise the timing of our recognition of sales as of the end of the fiscal year. As a result of this change, CWAT sales fell substantially short of the Company's forecasts for the fiscal year.

Despite this shortfall, market interest in CWAT is extremely strong following the full enforcement of Japan's Personal Information Protection Law in April 2005. The Company conducted aggressive sales activities, resulting in an increase in user companies to more than 200, with the aim of developing CWAT as the core of our security systems business.

Due to the above-mentioned factors, net sales decreased 1.6% to 5,174 million yen, ordinary income increased 88.4% to 688 million yen and net income increased 69.5% to 264 million yen.

Growth in ordinary income is mainly attributable to the strong sales of NET+1, which has a high profit margin, entrusted development projects in established businesses and strong hardware sales associated with these projects. Due to the increase in ordinary income, net income increased despite the impact of head office relocation expenses and valuation losses on securities.

Starting with fiscal 2006, business segments will be revised as follows in conjunction with a reorganization that became effective on July 1, 2005.

##### *Summary of new business segments*

| <b>Previous segment</b>  | <b>Revision</b> | <b>New segment</b>   |
|--|-----------------|--|
| Card business – Front office   | None            | <b>Card business – Front office</b>  |
| Dealing and trading, manufacture, sale and technical support for middleware packages | Combined        | <b>System solutions</b>  |
| Other businesses   |                 |  |
| Security systems   | None            | <b>Security systems</b>  |
| Consumer package software Sales  | Terminated      | <b>This segment has been eliminated due to the Company having stopped conducting this business on June 30, 2005.</b> |

##### a) Card business – Front office

Results in this segment include system development services (for three new customers as well as ongoing developments), various system revisions, new function development and system maintenance operations for credit card companies and other existing customers. Sales of the NET+1 package software, ASP services and

sales of hardware to new customers also contributed to segment sales. Segment sales increased 1,052,342 thousand yen (64.4%) to 2,686,103 thousand yen.

Beginning with fiscal 2005, sales of hardware and other products involving system integration orders (except sales associated with retail banking – back office operations) and R&D activities have been combined with this segment. The inclusion of these two business units raised segment sales by 337,447 thousand yen, or 14.4%, compared with the prior fiscal year.

b) Dealing and trading, manufacture, sale and technical support for middleware packages

Results in this segment include sales from existing customers in the securities and trust banking sectors that involve system revisions, the development of additional functions and system maintenance. Results also include sales of the FEXICS credit settlement network connection package and other products. Overall, segment sales increased 137,866 thousand yen, or 19.4%, to 848,934 thousand yen.

c) Security systems

Results in this segment consist primarily of sales of CWAT, extrusion prevention system for digital assets, and download sales of the Virus Chaser anti-virus software. Segment sales increased 28,496 thousand yen, or 3.2%, to 925,489 thousand yen.

d) Consumer package software sales

The main products in this segment are WinCDR and other products of Aplix Corporation, and store sales of the Virus Chaser anti-virus software. Segment sales were down 236,679 thousand yen, or 60.8%, to 152,472 thousand yen. This business was terminated at the end of fiscal 2005 due to the Company's withdrawal from consumer package software sales.

e) Other businesses

Results in this segment include sales to existing customers such as system updates, maintenance and ASP services for the ACE system that detects fraudulent credit card use, and sales of hardware associated with these activities. This segment also includes entrusted development projects. Segment sales increased 478,134 thousand yen, or 571.9%, to 561,737 thousand yen.

***Business segment sales for fiscal 2005 (thousands of yen)***

| <b>Segment</b>   | <b>Net sales (composition)</b> |
|--|--------------------------------|
| Card business – Front office   | 2,686,103 (51.9%)              |
| Dealing and trading, manufacture, sale and technical support for middleware packages | 848,934 (16.4%)                |
| Security systems   | 925,489 (17.9%)                |
| Consumer package software sales  | 152,472 (2.9%)                 |
| Other businesses   | 561,737 (10.9%)                |
| Total  | 5,174,738 (100.0%)             |

**Financial Condition**

Cash and cash equivalents at the end of the fiscal year totaled 1,121,565 thousand yen, a year-on-year decrease of 277,824 thousand yen, or 19.9%.

*A summary of cash flows during the fiscal year is presented below.*

(Cash flows from operating activities)

Net cash flows from operating activities was 457,694 thousand yen (a negative cash flow of 122,694 thousand yen in fiscal 2004). The difference was mainly due to the increase in net income before income taxes from 253,030 thousand yen to 437,384 thousand yen.

(Cash flows from investing activities)

Net cash flows used in investing activities was 533,574 thousand yen. In the previous fiscal year, investing activities provided net cash flows of 273,494 thousand yen. Net cash flows were used mainly due to a 155,462 thousand yen investment to establish a subsidiary.

(Cash flows from financing activities)

Net cash flows used in financing activities was 202,023 thousand yen, which is the sum of payments of 146,635 thousand yen to repurchase stock and 55,387 thousand yen for dividends.

***Trends in cash flow indicators are presented below.***

| Years ended June 30                | 2003   | 2004   | 2005          |
|------------------------------------|--------|--------|---------------|
| Equity ratio                       | 88.9%  | 87.9%  | <b>75.1%</b>  |
| Equity ratio based on market value | 309.9% | 584.8% | <b>525.2%</b> |
| Debt repayment multiple (years)    | —      | —      | —             |
| Interest coverage ratio (times)    | 48.6   | —      | —             |

### **Outlook for Next Fiscal Year**

According to preliminary report on the Survey of Selected Services Industries announced by the Ministry of Economy, Trade and Industry, sales in Japan's information services sector in June 2005 increased 0.5% year-on-year, the second consecutive month for year-on-year growth in monthly sales. In the core "software made to order" category, sales decreased 0.1% year-on-year despite sales to financial companies increasing since sales to the public sector and manufacturers were down. The projected diffusion index (DI) for total sales in the quarter ending in September 2005 is 17.92, representing a considerable increase. In addition, the DI for the critical "software made to order" category also improved. Business volume for June 2005 in the credit card industry, the primary customer for the Company's products and services, was up 10.0% year-on-year. This includes a 6.7% increase in the overseas category. For the quarter ending in September 2005, the overall business volume DI is projected to be 32.4, which is about the same as in the previous quarter. In this environment, Japan's economy is expected to stage a gradual recovery. The Company expects a continuation in orders being strong, particularly in established businesses.

With regards to fiscal 2006, the Company will continue to conduct aggressive sales activities for CWAT, which is generating much interest in the wake of the full enforcement of Japan's Personal Information Protection Law. In established businesses, the Company will concentrate on package software sales and entrusted business, chiefly in the card business – front office segment. In addition, the Company plans to aggressively make substantial R&D expenditures in line with its medium-term strategies.

### **Earnings Plan**

For fiscal 2006, the Company forecasts net sales of 7,081 million yen, ordinary income of 1,823 million yen and net income of 1,081 million yen.

## **(2) Medium- and Long-term Management Strategies**

In the Company's core "Card business - front office" business, members of the credit card industry are expected to

conduct large-scale reengineering of business process programs in relation to their data systems. This trend is likely to be driven by industry reorganization, the falling costs of operating systems and the increasing use of joint system operations. In this environment, the Company will use its accumulated technology to aggressively develop and launch new products.

In the security systems business, CWAT is positioned to become another core business. The Company will conduct aggressive sales activities in Japan to solidify the market position of CWAT. High-profile sales activities will also take place outside Japan. Furthermore, the Company plans to introduce many new security system products that make full use of technological resources, a key strength of the Company.

#### Important issues

In July 2004, the Company conducted a reorganization to make more effective use of its management resources, creating a framework structured to raise sales and earnings for fiscal 2005. In February 2005, new representative directors were named, and in July 2005 another reorganization was conducted that integrated business divisions. This latest reorganization creates a new platform for achieving growth.

To execute a business model specializing in selected industries, which is the Company's management policy, resources are being focused on maintaining a framework concentrated on the following three fields:

1. On-line network systems for credit and debit cards
2. Support for construction of core networks for LAN environments and development of financial applications
3. Security systems business

At the same time, the Company put together a system that enhances adding new functions and bolsters sales of CWAT, as a new product that targets companies in all industries.

The Company will tackle these issues and take actions aimed at raising earnings, heightening corporate value and creating shareholder value in order to meet the expectations of shareholders.

#### 1) Supply and development of products based on a new focus on the credit card business

Currently, the Company is leveraging expertise gained through NET+1, an external network connection package mainly used by credit card companies for on-line authorizations, to sell the ACE/ART system for detecting fraudulent credit card use. In fiscal 2006, the Company will work on developing ways to enhance detection accuracy. Research will also be continued for a product called the Outstanding Credit Management System that will help increase receivables from creditworthy customers.

Looking at recent trends in the credit card industry, the strategies of the mega banks are expected to spawn many changes. In addition, from the standpoint of reducing system-operating expenses, companies are increasingly making use of jointly operated credit card systems. This is also bringing about changes in how the Company conducts business.

In this environment, the Company is determined to offer services of the highest quality and convince companies to use our products. For this reason, the Company is placing emphasis on incorporating state-of-the-art IT in its products. Expanding its markets is another important issue.

#### 2) Develop new CWAT functions and increase sales

CWAT is an intrusion prevention system for digital assets that performs surveillance of a company's entire information network. Its functions include the ability to detect unregistered PCs, monitor all types of IT devices and identify unusual actions of individuals who have accessed the system. Sales of CWAT began in February 2004. Departing from previous sales strategies, the Company has concluded sales agent agreements with major

computer manufacturers, system construction firms, communication companies and other large companies. There are already over 30 of these agreements. During fiscal 2005, the Company positioned CWAT as a core growth driver. Accordingly, efforts are now focused on developing new functions for CWAT and increasing sales in Japan and overseas.

Enhancing customer services and reinforcing the maintenance framework are two other important issues. The Company will tackle these issues together with its sales agents, with the aim of building various customer support frameworks.

The Company is forming more technology alliances to enable CWAT to perform core functions for all types of security products to protect personal information and prevent the leakage of confidential data. Additionally, since CWAT can be used as an OEM product, the Company plans to create a great variety of business models.

## 4. Non-consolidated Financial Statements

### (1) Non-consolidated Balance Sheets

(Thousands of yen)

|   | Fiscal 2005<br>(As of June 30, 2005) |                       | Fiscal 2004<br>(As of June 30, 2004) |                       | Increase/<br>Decrease |
|---|--------------------------------------|-----------------------|--------------------------------------|-----------------------|-----------------------|
|   | Amount                               | Share of<br>Total (%) | Amount                               | Share of<br>Total (%) | Amount                |
| <b>ASSETS</b>                             |                                      |                       |                                      |                       |                       |
| <b>I Current Assets:</b>                  |                                      |                       |                                      |                       |                       |
| Cash and bank deposits                    | 1,121,565                            |                       | 1,399,390                            |                       | (277,824)             |
| Accounts receivable - trade               | 1,797,000                            |                       | 1,361,410                            |                       | 435,590               |
| Products                                  | 226,535                              |                       | 29,409                               |                       | 197,125               |
| Work in process                           | 165,178                              |                       | 126,845                              |                       | 38,332                |
| Supplies                                  | 9,583                                |                       | 2,225                                |                       | 7,357                 |
| Advances                                  | 1,995                                |                       | 9,793                                |                       | (7,798)               |
| Prepaid expenses                          | 34,583                               |                       | 52,435                               |                       | (17,852)              |
| Deferred tax assets                       | 330,700                              |                       | 10,350                               |                       | 320,350               |
| Accounts receivable - other               | 12,958                               |                       | 3,926                                |                       | 9,031                 |
| Loans to affiliates                       | 30,000                               |                       | -                                    |                       | 30,000                |
| Uncollected enterprise tax refunds, etc.  | -                                    |                       | 92,023                               |                       | (92,023)              |
| Other current assets                      | 10,642                               |                       | 4,687                                |                       | 5,954                 |
| Less: Allowance for doubtful accounts     | (15,684)                             |                       | (14,329)                             |                       | (1,355)               |
| <b>Total Current Assets</b>               | <b>3,725,058</b>                     | <b>60.6</b>           | <b>3,078,169</b>                     | <b>61.4</b>           | <b>646,888</b>        |
| <b>II Fixed Assets:</b>                   |                                      |                       |                                      |                       |                       |
| 1. Property and Equipment:                |                                      |                       |                                      |                       |                       |
| Buildings                                 | 344,734                              |                       | 329,476                              |                       | 15,258                |
| Accumulated depreciation                  | (74,593)                             |                       | (71,557)                             |                       | (3,036)               |
| Structures                                | 16,479                               |                       | 16,479                               |                       | -                     |
| Accumulated depreciation                  | (5,869)                              |                       | (3,834)                              |                       | (2,035)               |
| Tools, furniture and fixtures             | 242,166                              |                       | 249,977                              |                       | (7,811)               |
| Accumulated depreciation                  | (166,603)                            |                       | (157,246)                            |                       | (9,357)               |
| Land                                      | 124,299                              |                       | 124,299                              |                       | -                     |
| <b>Total Property and Equipment</b>       | <b>480,613</b>                       | <b>7.8</b>            | <b>487,594</b>                       | <b>9.8</b>            | <b>(6,981)</b>        |
| 2. Intangible Fixed Assets:               |                                      |                       |                                      |                       |                       |
| Goodwill                                  | -                                    |                       | 6,000                                |                       | (6,000)               |
| Software                                  | 58,031                               |                       | 75,961                               |                       | (17,929)              |
| Telephone subscription rights             | 3,806                                |                       | 3,806                                |                       | -                     |
| Others                                    | -                                    |                       | 256                                  |                       | (256)                 |
| <b>Total Intangible Fixed Assets</b>      | <b>61,837</b>                        | <b>1.0</b>            | <b>86,023</b>                        | <b>1.7</b>            | <b>(24,186)</b>       |
| 3. Investments and Other Assets:          |                                      |                       |                                      |                       |                       |
| Investment securities                     | 1,202,764                            |                       | 766,646                              |                       | 436,118               |
| Affiliated companies' shares              | 280,288                              |                       | 156,626                              |                       | 123,662               |
| Investment in capital                     | 50                                   |                       | 98,518                               |                       | (98,468)              |
| Deferred tax assets                       | 70,879                               |                       | 149,357                              |                       | (78,478)              |
| Pre-paid pension expenses                 | 480                                  |                       | -                                    |                       | 480                   |
| Long-term deposits                        | 100,000                              |                       | -                                    |                       | 100,000               |
| Guarantees and deposits                   | 192,813                              |                       | 166,739                              |                       | 26,073                |
| Insurance reserves                        | 29,523                               |                       | 19,322                               |                       | 10,200                |
| Others                                    | 600                                  |                       | 600                                  |                       | -                     |
| <b>Total Investments and Other Assets</b> | <b>1,877,399</b>                     | <b>30.6</b>           | <b>1,357,812</b>                     | <b>27.1</b>           | <b>519,587</b>        |
| <b>Total Fixed Assets</b>                 | <b>2,419,850</b>                     | <b>39.4</b>           | <b>1,931,430</b>                     | <b>38.6</b>           | <b>488,419</b>        |
| <b>Total Assets</b>                       | <b>6,144,908</b>                     | <b>100.0</b>          | <b>5,009,600</b>                     | <b>100.0</b>          | <b>1,135,308</b>      |

### 3. Non-consolidated Financial Statements

#### (1) Non-consolidated Balance Sheets

(Thousands of yen)

|   | Fiscal 2005<br>(As of June 30, 2005) |                       | Fiscal 2004<br>(As of June 30, 2004) |                       | Increase/<br>Decrease |
|---|--------------------------------------|-----------------------|--------------------------------------|-----------------------|-----------------------|
|   | Amount                               | Share of<br>Total (%) | Amount                               | Share of<br>Total (%) | Amount                |
| <b>LIABILITIES</b>                                |                                      |                       |                                      |                       |                       |
| <b>I Current Liabilities:</b>                     |                                      |                       |                                      |                       |                       |
| Accounts payable - trade                          | 628,087                              |                       | 281,381                              |                       | 346,705               |
| Accounts payable - other                          | 143,561                              |                       | 95,649                               |                       | 47,911                |
| Costs payable                                     | 41,096                               |                       | 18,732                               |                       | 22,364                |
| Accrued income taxes                              | 475,335                              |                       | -                                    |                       | 475,335               |
| Accrued consumption taxes                         | 19,863                               |                       | 17,618                               |                       | 2,245                 |
| Advance received                                  | 50,602                               |                       | 6,547                                |                       | 44,054                |
| Deposits received                                 | 163                                  |                       | 47                                   |                       | 116                   |
| Allowances for product return adjustments         | -                                    |                       | 2,538                                |                       | (2,538)               |
| Other Current Liabilities                         | 44,801                               |                       | 39,410                               |                       | 5,391                 |
| <b>Total Current Liabilities</b>                  | <b>1,403,512</b>                     | <b>22.8</b>           | <b>461,925</b>                       | <b>9.2</b>            | <b>941,586</b>        |
| <b>II Long-Term Liabilities:</b>                  |                                      |                       |                                      |                       |                       |
| Non-current accounts payable                      | 13,607                               |                       | 28,951                               |                       | (15,343)              |
| Allowances for employees' retirement benefits     | 73,766                               |                       | 68,752                               |                       | 5,014                 |
| Allowances for directors' retirement benefits     | 40,490                               |                       | 48,197                               |                       | (7,707)               |
| <b>Total Long-Term Liabilities</b>                | <b>127,864</b>                       | <b>2.1</b>            | <b>145,901</b>                       | <b>2.9</b>            | <b>(18,037)</b>       |
| <b>Total Liabilities</b>                          | <b>1,531,376</b>                     | <b>24.9</b>           | <b>607,826</b>                       | <b>12.1</b>           | <b>923,549</b>        |
| <b>SHAREHOLDERS' EQUITY</b>                       |                                      |                       |                                      |                       |                       |
| <b>I Capital Stock (Note 1)</b>                   |                                      |                       |                                      |                       |                       |
|   | 843,750                              | 13.7                  | 843,750                              | 16.8                  | -                     |
| <b>II Capital Surplus</b>                         |                                      |                       |                                      |                       |                       |
| Additional paid-in capital                        | 559,622                              |                       | 559,622                              |                       |                       |
| <b>Total Capital Surplus</b>                      | <b>559,622</b>                       | <b>9.1</b>            | <b>559,622</b>                       | <b>11.2</b>           | <b>-</b>              |
| <b>III Retained earnings</b>                      |                                      |                       |                                      |                       |                       |
| Legal reserve                                     | 18,000                               |                       | 18,000                               |                       |                       |
| Voluntary reserves                                |                                      |                       |                                      |                       |                       |
| Separate reserves                                 | 3,300,000                            |                       | 3,200,000                            |                       |                       |
| Unappropriated retained earnings                  | 394,774                              |                       | 303,055                              |                       |                       |
| <b>Total Retained earnings</b>                    | <b>3,712,774</b>                     | <b>60.4</b>           | <b>3,521,055</b>                     | <b>70.3</b>           | <b>191,718</b>        |
| <b>IV Net unrealized gain on other securities</b> |                                      |                       |                                      |                       |                       |
|   | 225,798                              | 3.7                   | 60,058                               | 1.2                   | 165,740               |
| <b>V Treasury Stock (Note 2)</b>                  |                                      |                       |                                      |                       |                       |
|   | (728,413)                            | (11.8)                | (582,713)                            | (11.6)                | (145,700)             |
| <b>Total Shareholders' Equity (Note 4)</b>        | <b>4,613,532</b>                     | <b>75.1</b>           | <b>4,401,773</b>                     | <b>87.9</b>           | <b>211,758</b>        |
| <b>Total Liabilities and Shareholders' Equity</b> | <b>6,144,908</b>                     | <b>100.0</b>          | <b>5,009,600</b>                     | <b>100.0</b>          | <b>1,135,308</b>      |

## (2) Non-consolidated Statements of Income

|   | Fiscal 2005<br>(From July 1, 2004<br>to June 30, 2005) |                       | Fiscal 2004<br>(From July 1, 2003<br>to June 30, 2004) |                       | Increase/<br>Decrease |
|---|--|-----------------------|--|-----------------------|-----------------------|
|   | Amount   | Share of<br>Total (%) | Amount   | Share of<br>Total (%) | Amount                |
| <b>I Net Sales</b>  | <b>5,174,738</b>                                       | <b>100.0</b>          | <b>5,257,359</b>                                       | <b>100.0</b>          | <b>(82,621)</b>       |
| Product sales   | 3,646,327  |                       | 3,524,808  |                       |                       |
| Commodity sales   | 1,528,411  |                       | 1,732,551  |                       |                       |
| <b>II Cost of Sales</b>   | <b>3,259,621</b>                                       | <b>63.0</b>           | <b>4,056,699</b>                                       | <b>77.2</b>           | <b>(797,078)</b>      |
| Product manufacturing costs   | 2,180,418  |                       | 2,637,701  |                       |                       |
| Product sales costs   | 2,180,418  |                       | 2,637,701  |                       |                       |
| Start-of-year commodity inventory                                       | 29,409   |                       | 13,433   |                       |                       |
| Commodity procurement amount  | 1,289,837  |                       | 1,433,216  |                       |                       |
| Sub-total   | 1,319,247  |                       | 1,446,649  |                       |                       |
| Transfers from other accounts   | 13,509   |                       | 779  |                       |                       |
| End-of-year commodity inventory   | 226,535  |                       | 29,409   |                       |                       |
| Commodity sales costs   | 1,079,203  |                       | 1,416,459  |                       |                       |
| Carried-forward balance of allowances for product<br>return adjustments | -  |                       | 2,538  |                       |                       |
| <b>Gross profit</b>   | <b>1,915,116</b>                                       | <b>37.0</b>           | <b>1,200,659</b>                                       | <b>22.8</b>           | <b>714,456</b>        |
| <b>III Selling, General and Administrative<br/>Expenses</b>             | <b>1,236,273</b>                                       | <b>23.9</b>           | <b>829,418</b>   | <b>15.8</b>           | <b>406,855</b>        |
| Advertising expenses  | 146,091  |                       | 109,769  |                       |                       |
| Provision for allowance for doubtful accounts                           | 1,355  |                       | 13,379   |                       |                       |
| Directors' remuneration   | 58,710   |                       | 58,148   |                       |                       |
| Salaries  | 349,869  |                       | 178,354  |                       |                       |
| Retirement benefits expenses  | 7,823  |                       | 3,895  |                       |                       |
| Provision for directors' retirement benefits                            | 5,280  |                       | 5,695  |                       |                       |
| Welfare expenses  | 60,877   |                       | 37,205   |                       |                       |
| Transportation expenses   | 48,203   |                       | 21,242   |                       |                       |
| Communication expenses  | 22,406   |                       | 9,032  |                       |                       |
| Article of consumption  | 31,492   |                       | 14,951   |                       |                       |
| Depreciation and amortization   | 17,751   |                       | 18,859   |                       |                       |
| R&D expenses  | 88,509   |                       | 128,620  |                       |                       |
| Office rent   | 61,056   |                       | 30,993   |                       |                       |
| Payment compensation  | 36,932   |                       | 40,147   |                       |                       |
| Other   | 299,914  |                       | 159,123  |                       |                       |
| <b>Operating Income</b>   | <b>678,842</b>   | <b>13.1</b>           | <b>371,241</b>   | <b>7.1</b>            | <b>307,601</b>        |
| <b>IV Non-Operating Income</b>  | <b>28,911</b>  | <b>0.6</b>            | <b>8,600</b>   | <b>0.2</b>            | <b>20,311</b>         |
| Interest income   | 1,032  |                       | 371  |                       |                       |
| Dividend income   | 9,722  |                       | 5,750  |                       |                       |
| Foreign exchange gain   | -  |                       | 239  |                       |                       |
| Investment returns of investment partnerships                           | 11,151   |                       | -  |                       |                       |
| Others  | 7,005  |                       | 2,238  |                       |                       |
| <b>V Non-operating Expenses:</b>  | <b>19,574</b>  | <b>0.4</b>            | <b>14,588</b>  | <b>0.3</b>            | <b>4,986</b>          |
| Interest expense  | -  |                       | 34   |                       |                       |
| Investment loss of investment partnerships                              | -  |                       | 4,136  |                       |                       |
| Commitment fee (Note 3)   | 6,609  |                       | 8,700  |                       |                       |
| Depreciation and amortization   | 10,314   |                       | -  |                       |                       |
| Others  | 2,650  |                       | 1,716  |                       |                       |
| <b>Ordinary Income</b>  | <b>688,179</b>   | <b>13.3</b>           | <b>365,254</b>   | <b>6.9</b>            | <b>322,925</b>        |

|  | Fiscal 2005<br>(From July 1, 2004<br>to June 30, 2005) |                       | Fiscal 2004<br>(From July 1, 2003<br>to June 30, 2004) |                       | Increase/<br>Decrease |
|--|--|-----------------------|--|-----------------------|-----------------------|
|  | Amount   | Share of<br>Total (%) | Amount   | Share of<br>Total (%) | Amount                |
| <b>VI Extraordinary Income</b>                             | <b>11,950</b>  | <b>0.2</b>            | <b>41,440</b>  | <b>0.8</b>            | <b>(29,489)</b>       |
| Return from investments in silent partnerships<br>(Note 6) | 4,885  |                       | -  |                       |                       |
| Gain on sale of investments in securities                  | 20   |                       | 41,440   |                       |                       |
| Refund of Allowances for directors' retirement<br>benefits | 7,045  |                       | -  |                       |                       |
| <b>VII Extraordinary Loss</b>                              | <b>262,746</b>   | <b>5.1</b>            | <b>153,664</b>   | <b>2.9</b>            | <b>109,081</b>        |
| Loss on disposal of intangible fixed assets (Note 5)       | 35,895   |                       | -  |                       |                       |
| Head office relocation expenses                            | 114,561  |                       | -  |                       |                       |
| Consumer package software business termination<br>loss     | 14,129   |                       | -  |                       |                       |
| Loss on investments in silent partnerships (Note 6)        | -  |                       | 4,433  |                       |                       |
| Loss on sale of investments in securities                  | -  |                       | 37,540   |                       |                       |
| Loss on sale of affiliate companies' shares                | 9,950  |                       | -  |                       |                       |
| Write-down of investments in securities                    | 21,210   |                       | 111,690  |                       |                       |
| Write-down of affiliate companies' shares                  | 67,000   |                       | -  |                       |                       |
| <b>Income before Income Taxes</b>                          | <b>437,384</b>   | <b>8.4</b>            | <b>253,030</b>   | <b>4.8</b>            | <b>184,354</b>        |
| <b>Income Taxes</b>  | <b>172,983</b>   | <b>3.3</b>            | <b>97,012</b>  | <b>1.8</b>            | <b>75,971</b>         |
| Income taxes-current                                       | 526,283  |                       | 137,912  |                       |                       |
| Income taxes-deferred                                      | (353,300)  |                       | (40,900)   |                       |                       |
| <b>Net Income</b>  | <b>264,401</b>   | <b>5.1</b>            | <b>156,018</b>   | <b>3.0</b>            | <b>108,382</b>        |
| Surplus brought forward                                    | 130,373  |                       | 147,037  |                       | (16,664)              |
| <b>Unappropriated retained earnings</b>                    | <b>394,774</b>   |                       | <b>303,055</b>   |                       | <b>91,718</b>         |

### (3) Non-consolidated Statements of Cash Flows

|  | Fiscal 2005<br>(From July 1, 2004<br>to June 30, 2005) | Fiscal 2004<br>(From July 1, 2003<br>to June 30, 2004) |
|--|--|--|
|  | Amount   | Amount   |
| <b>I Cash Flows from Operating Activities</b>                        |  |  |
| Income before income taxes   | 437,384  | 253,030  |
| Depreciation and amortization  | 71,931   | 87,894   |
| Increase (Decrease) in allowance for doubtful accounts               | 1,355  | 13,379   |
| Increase (Decrease) in allowances for product return adjustments     | (2,538)  | 2,538  |
| Increase (Decrease) in allowances for employees' retirement benefits | 5,014  | 944  |
| Increase (Decrease) in allowances for directors' retirement benefits | (7,707)  | (16,945)   |
| Interest and dividends income  | (10,754)   | (6,121)  |
| Interest expense   | -  | 34   |
| Commitment fee   | 6,609  | 8,700  |
| Foreign exchange losses (gains)                                      | 1,702  | (239)  |
| Loss on disposal of intangible fixed assets                          | 35,895   | -  |
| Head office relocation expenses                                      | 17,990   | -  |
| Consumer package software business termination loss                  | 4,000  | -  |
| Fee for trading of treasury stock                                    | 935  | 1,716  |
| Gain on sale of investments in securities                            | (20)   | (41,440)   |
| Loss on sale of investments in securities                            | -  | 37,540   |
| Loss on sale of affiliate companies' shares                          | 9,950  | -  |
| Write-down of investments in securities                              | 21,210   | 111,690  |
| Write-down of affiliate companies' shares                            | 67,000   | -  |
| Investment losses (returns) of silent partnerships                   | (4,885)  | 4,433  |
| Investment losses (returns) of investment partnerships               | (11,151)   | 4,136  |
| Decrease (Increase) in accounts receivables - trade                  | (436,923)  | (407,459)  |
| Decrease (Increase) in inventories                                   | (242,815)  | 57,902   |
| Increase (Decrease) in accounts payables - trade                     | 345,698  | 67,369   |
| Decrease (Increase) in other assets                                  | (2,706)  | (38,683)   |
| Increase (Decrease) in other current liabilities                     | 147,003  | 19,005   |
| Increase (Decrease) in other long-term liabilities                   | (15,343)   | 1,755  |
| Increase (Decrease) in consumption tax payables                      | (2,245)  | 15,364   |
| Payment for directors' bonuses                                       | (9,000)  | (5,000)  |
| Sub-total  | 427,589  | 171,546  |
| Interest and dividend received                                       | 13,488   | 2,371  |
| Interest paid  | -  | (34)   |
| Payment for commitment fee   | (7,907)  | (6,419)  |
| Income taxes paid  | 24,524   | (290,159)  |
| <b>Net Cash Provided by (Used in) Operating Activities</b>           | <b>457,694</b>   | <b>(122,694)</b>                                       |
| <b>II Cash Flows from Investing Activities</b>                       |  |  |
| Payments for acquisition of property and equipment                   | (61,442)   | (47,042)   |
| Payments for acquisition of intangible fixed assets                  | (44,624)   | (20,697)   |
| Proceeds from sale of investments in securities                      | 20   | 389,978  |
| Proceeds from dividend of liquidation from investment's company      | 6,840  | -  |
| Payments for purchases of investment securities                      | (95,533)   | (25,408)   |
| Proceeds from sale of affiliate companies' equities                  | 29,850   | -  |
| Payments for acquisition of affiliate companies' equities            | (230,462)  | (39,800)   |
| Proceeds from guarantees and deposits                                | 132,695  | 11,363   |
| Payments for guarantees and deposits                                 | (158,769)  | -  |
| Payments for loans to affiliate company                              | (30,000)   | -  |
| Proceeds from dividend from investment partnerships                  | 17,851   | 5,101  |
| Payments for time deposits   | (100,000)  | -  |
| <b>Net Cash Provided by (Used in) Investing Activities</b>           | <b>(533,574)</b>                                       | <b>273,494</b>   |
| <b>III Cash Flows from Financing Activities</b>                      |  |  |
| Net payments for acquisition of treasury stock                       | (146,635)  | (250,915)  |
| Payments for dividends   | (55,387)   | (56,929)   |
| <b>Net Cash Used in Financing Activities</b>                         | <b>(202,023)</b>                                       | <b>(307,845)</b>                                       |
| <b>IV Effect of Exchange Rate on Cash and Cash Equivalents</b>       | <b>78</b>  | <b>(174)</b>   |
| <b>V Net Increase in Cash and Cash Equivalents</b>                   | <b>(277,824)</b>                                       | <b>(157,219)</b>                                       |
| <b>VI Cash and Cash Equivalents at Beginning of Year</b>             | <b>1,399,390</b>                                       | <b>1,556,610</b>                                       |
| <b>VII Cash and Cash Equivalents at End of Year (Note 7)</b>         | <b>1,121,565</b>                                       | <b>1,399,390</b>                                       |

#### (4) Non-consolidated Statements of Appropriated Retained Earnings

|   | Fiscal 2005<br>(From July 1, 2004<br>to June 30, 2005) | Fiscal 2004<br>(From July 1, 2003<br>to June 30, 2004) |
|---|--|--|
|   | Amount   | Amount   |
| <b>Unappropriated retained earnings</b>                         | 394,774  | 303,055  |
| <b>Appropriated retained earnings</b>                           | 168,276  | 172,682  |
| Cash dividends  | 63,276   | 63,682   |
| Directors' bonus  | 5,000  | 9,000  |
| Voluntary reserves  |  |  |
| Separate reserves   | 100,000  | 100,000  |
| <b>Deferred retained earnings of carry forward to next year</b> | 226,498  | 130,373  |

## (5) Notes to Non-consolidated Financial Statements

1. Total authorizes shares and outstanding shares as of June 30, 2004 and 2005 were as follows:

|                          | As of June 30, 2005 | As of June 30, 2004 |
|--------------------------|---------------------|---------------------|
| Total authorizes shares  | 526,800 shares      | 526,800 shares      |
| Total outstanding shares | 131,700 shares      | 131,700 shares      |

2. Treasury stock as of June 30, 2004 and 2005 were as follows:

|              | As of June 30, 2005 | As of June 30, 2004 |
|--------------|---------------------|---------------------|
| Common stock | 5,148 shares        | 4,335 shares        |

3. Commitment Agreement

Loan commitment agreements were concluded with three banks in 2004 and with four banks in 2005 to ensure efficient procurement of working capital.

The total amount of the loan commitment and balance presently not borrowed was ¥2.5 billion in 2004 and ¥3.0 billion in 2005.

4. Dividend Restrictions

Shareholders' equity that increased with the assignment of market value to the assets, as regulated in Article 124-3 of the Commercial Code Enforcement Regulations, totaled ¥60,058,000 in 2004 and ¥225,798,000 in 2005.

5. Breakdown of intangible fixed asset removal losses for the years ended June 30, 2004 and 2005 were as follows:

|   | From July 1, 2004 to June 30, 2005 | From July 1, 2003 to June 30, 2004 |
|---|------------------------------------|------------------------------------|
| Software                                | ¥35,639 thousand                   | -                                  |
| Cable and telephone facility use rights | ¥256 thousand                      | -                                  |

6. Investment Profits and Losses of silent partnerships

The content of the Investment Profits and Losses of silent partnerships is the recorded amount equivalent to the Company's interest in the profit and loss imputed to this period of the silent partnerships with whom the Company concluded an agreement of participation.

7. Reconciliation between cash and cash equivalents on the consolidated statements of cash flows and the amounts disclosed on the consolidated balance sheets as of June 30, 2004 and 2005 were as follows:

|                           | From July 1, 2004 to June 30, 2005 | From July 1, 2003 to June 30, 2004 |
|---------------------------|------------------------------------|------------------------------------|
| Cash and bank deposits    | ¥1,121,565 thousand                | ¥1,399,390 thousand                |
| Cash and cash equivalents | ¥1,121,565 thousand                | ¥1,399,390 thousand                |

8. Per share information for the years ended June 30, 2004 and 2005 was as follows:

|                                | From July 1, 2004 to June 30, 2005 | From July 1, 2003 to June 30, 2004 |
|--------------------------------|------------------------------------|------------------------------------|
| Shareholders' equity per share | ¥36,416.11                         | ¥34,489.64                         |
| Net income per share           | ¥2,047.86                          | ¥1,146.66                          |
| Diluted income per share       | ¥2,027.05                          | ¥1,143.62                          |

Note) The following is the basis for calculating the net income per share, and diluted income per share:

|  | From July 1, 2004 to June 30, 2005 | From July 1, 2003 to June 30, 2004 |
|--|------------------------------------|------------------------------------|
| Net income per share:  |                                    |                                    |
| Net income (¥ thousand)  | 264,401                            | 156,018                            |
| Net income unavailable common stock (¥ thousand)                 | 5,000                              | 9,000                              |
| Directors bonuses in appropriated retained earnings (¥ thousand) | 5,000                              | 9,000                              |
| Net income available common stock (¥ thousand)                   | 259,401                            | 147,018                            |
| Weighted average number of shares outstanding (shares)           | 126,669                            | 128,214                            |
| Diluted income per share:  |                                    |                                    |
| Net income adjustment amount (¥ thousand)                        | -                                  | -                                  |
| Increase in common stock (shares)                                | 1,300                              | 341                                |