

Consolidated Interim Financial Results

for the Fiscal Year Ending March 31, 2005

(Six months ended September 30, 2004)

Company name: ELMIC SYSTEMS, INC.
 Stock code: 4770
 Stock market listing: TSE Mothers Market
 Company domicile: Kanagawa prefecture
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 Date of board meeting for approving financial results: November 19, 2004
 Accounting principle: Japanese GAAP

1. Consolidated Interim Financial Results (From April 1, 2004 to September 30, 2004)

(1) Financial Results

(Amounts rounded down to million yen)

	Net sales		Operating income		Ordinary income	
	¥ millions	%	¥ millions	%	¥ millions	%
Interim ended Sep. 2004	570	(29.5)	(22)	-	(14)	-
Interim ended Sep. 2003	808	9.1	(79)	-	(71)	-
Fiscal year ended March 2004	1,733		(77)		(78)	

	Net income		Net income per share (basic)	Net income per share (diluted)
	¥ millions	%	¥	¥
Interim ended Sep. 2004	(10)	-	(2.21)	-
Interim ended Sep. 2003	(73)	-	(15.33)	-
Fiscal year ended March 2004	(142)		29.51	

Notes: 1. Equity in earnings of unconsolidated subsidiaries:

Interim ended September 2004: ¥ (0) million
 Interim ended September 2003: ¥ 3 million
 Fiscal year ended March 2004: ¥ 11 million

2. Average number of shares outstanding (consolidated):

Interim ended September 2004: 4,815,730 shares
 Interim ended September 2003: 4,816,720 shares
 Fiscal year ended March 2004: 4,816,230 shares

3. Changes in accounting principles applied: None

4. The percentages shown for net sales, operating income, ordinary income, and net income represent changes from the corresponding of the same period of the prior year.

(2) Financial Position

(Amounts rounded down to million yen)

	Total assets	Shareholders' equity	Shareholders' equity ratio	Shareholders' equity per share
	¥ millions	¥ millions	%	¥
As of Sep. 30, 2004	3,034	2,703	89.1	561.32
As of Sep. 30, 2003	3,051	2,634	86.3	546.96
As of March 31, 2004	3,221	2,773	86.1	576.02

Note: 1. Number of shares outstanding (consolidated):

As of September 30, 2004: 4,815,730 shares

As of September 30, 2003: 4,816,720 shares

As of March 31, 2004: 4,815,730 shares

(3) Cash Flows Position

(Amounts rounded down to million yen)

	Net cash provided by (used in) operating activities	Net cash provided by (used in) investing activities	Net cash used in financing activities	Cash and cash equivalents at end of period
	¥ millions	¥ millions	¥ millions	¥ millions
Interim ended Sep. 2004	109	(216)	(35)	1,112
Interim ended Sep. 2003	(49)	79	(2)	1,306
Fiscal year ended March 2004	35	(60)	(4)	1,254

(4) Scope of Consolidation and the Application of Equity Method

Consolidated subsidiaries: 1

Unconsolidated subsidiaries accounted for under the equity method: None

Affiliates accounted for under the equity method: 1

(5) Changes in the Scope of Consolidation and Affiliates Accounted for Under the Equity Method

Consolidated subsidiaries:

New: None

Excluded: None

Affiliates accounted for under the equity method:

New: None

Excluded: None

1. Forecast for the Fiscal Year Ending March 2005 (From April 1, 2004 to March 31, 2005)

	Net sales	Ordinary income	Net income
	¥ millions	¥ millions	¥ millions
Full year	1,660	110	71

Reference: Estimated net income per share for the fiscal year ending March 2005: ¥14.74

Note: Forecast for the fiscal year ending March 2005 was made by management based on currently available data and information. Please be aware that actual results may turn out different from those forecast as our company's business is affected by many factors. Please reference page 10 for details on the above forecasts.

1. Corporate Group

The Elmic Systems Group is made up of three companies: Elmic Systems, Inc. (the Company), Airfolc Corporation, (a 78%-owned subsidiary based in Kyoto, Japan) and Wescom Inc. (a 25%-owned affiliate based in Osaka, Japan).

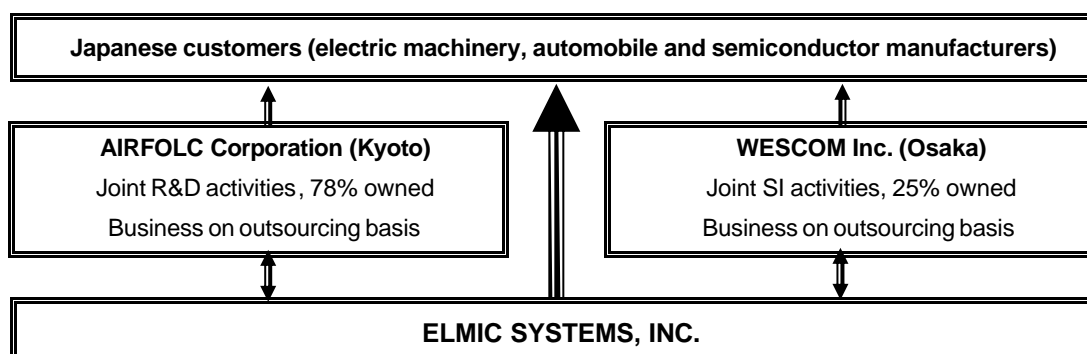
Airfolc specializes in the development of technology, such as programs (H.323 and others) related to software for Internet-linked embedded systems for processing voice and imaging data (VoIP).

Wescom is a software house established in 1982 by Kazuya Murashima, who has served as deputy chairman of the Japan System House Association. This company performs a broad range of software development ranging from applications for microprocessors to multi-purpose computers, stand-alone units and large-scale systems.

Major products are as follows.

Major products		Description	Elmic Systems Group		
			ELMIC SYSTEMS	AIRFORC	WESCOM
Manufactured products	Communications	Software and hardware for wire line and wireless communications	○		
	Internet protocol	Embedded TCP/IP modules, products for KASAGO application modules	○	○	○
	Real-time OS	The ELX exclusive RTOS, ITRON and other existing OS-related products, Windows CE resale and related products	○		○
	SI (customization)	Products and system development using exclusive Elmic Systems key technologies, consigned products	○		○
Purchased products	Others	Products for Windows, Linux and TCP/IP and semiconductor-related products	○		

[Business Flowchart]



This chart shows only consolidated subsidiaries and equity-method affiliates.

2. Management Policies

(1) Fundamental Management Policy

The Elmic Systems Group is guided by the management philosophy of "Justice and Logic." The basic code of behavior is "Speedy, Compact, Perfect." In accordance with these precepts, the Group aims to be an organization capable of meeting the expectations of customers. The Group is mainly involved in the provision of real-time OS (RTOS) products for embedded systems, the commercialization of software, and system integration (SI or customization) services that meet specific customer needs. Consequently, the Group depends heavily on expertise in the field of software. As the experience and skills of employees are critical to the Group's ability to serve customers, management places priority on realizing the full potential of all employees and retaining personnel.

(2) Fundamental Policy Regarding Distribution of Earnings

In the production of software, securing the funds required to implement medium- and long-term business plans as well as to conduct an aggressive R&D program is essential to the success. The Company's fundamental policy is to return earnings to shareholders by paying a stable dividend while maintaining a sound operating base and financial position.

(3) Policy Regarding Reduction in Investment Unit

The Company's investment unit (tangen) was lowered from 1,000 shares to 100 shares on July 1, 2004 in accordance with a resolution approved by the Board of Directors on May 21, 2004. This action was taken to increase the liquidity of the Company's stock and broaden the shareholder base. The trading unit was also changed from 1,000 shares to 100 shares on the Tokyo Stock Exchange Mothers Market on July 1, 2004.

(4) Targeted Performance Indicators

The objective is to use the Group's collective resources to maximize earnings, including earnings of consolidated subsidiaries. As a supplier of software, the Company tends to make the majority of its product deliveries in the second half of each fiscal year. Management therefore desires to alter operations in order to generate more uniform sales and earnings, producing a profit in all four quarters by cutting first-half operating expenses, revising product development schedules and taking other actions.

(5) Medium- and Long-Term Management Strategy

In the fiscal year, which ends in March 2005, the world is witnessing the emergence of a ubiquitous information society in which home electronics appliances other than PCs as well as electrical products (embedded devices) of all types are linked to the Internet. At this time, manufacturers of these appliances and embedded devices, the Company's primary customers, are at the product planning and research stage.

The Company is now conducting marketing activities aimed at having the TCP/IP Internet connection protocol, its core product, and particularly the IPv6, chosen as the standard for communications in Internet-linked home appliances and electronics. The Company is determined to begin selling these Internet-related products at the proper times. For this purpose, the core medium- and long-term strategy of the Company involves initiatives to strengthen its technologies. Actions include the establishment of affiliated companies, investments in partner companies and recruiting product development engineers.

Sales

The Elmic Systems Group is an independent organization having no affiliations with other companies. As such,

the Group sells its products to numerous major producers of electrical products as well as to companies in many other industries. To serve this diverse customer base, the Group is upgrading its ability to conduct sales that seamlessly link expertise in marketing and the development of new technology. Sales target strategic customers and the introduction of new products that reflect market needs.

Development

The Group's core products are RTOS, communications software and other items that are distinguished by their technology and broad market coverage. From this base, the Group is developing new products and building systems (system integration or customization) using those products to meet customers' demands. The pace of technological progress in embedded systems is extremely rapid. It is imperative that Elmic Systems be prepared to offer the embedded products and services for next-generation equipment as well as products for the subsequent generation. For this purpose, the Group is focusing on acquiring new technology, fostering its engineers and many other necessary measures.

1) Communications Software

The Company is focusing on the next-generation wireline/wireless communications required by the IT market. For example, the Company is expanding products and services, such as by targeting wireline gigabit. Development of these products and services will be conducted by the Company as well as through business alliances. The Company will also work on acquiring new technologies and enlarging sales channels.

2) Internet Software

The Company is currently selling IPv6/IPv4 dual stack systems. However, these systems incorporate exclusive Elmic Systems specifications that enable the use of IPv6 alone. This reflects the need to accommodate finished products ranging from sophisticated data devices to home electronics appliances. In the current fiscal year, emphasis will be placed on options for IPv6. Development activities will include security-related SSL/TLS, UPnP (Universal Plug and Play) technical specifications for the easy connection of home electronics appliances to networks, and upgraded versions of existing technologies. The Company plans to start selling these products in the second half of the current fiscal year.

3) Real-Time OS (RTOS)

In the RTOS market, open source is becoming increasingly common, as is the case with ITRON and Linux for embedded systems. During the first half of the current fiscal year, emphasis is being placed on production of standard interface specifications for hardware applications.

4) System Integration

The Elmic Systems Group offers its consulting services, a particular Elmic Systems strength that links core technology and products, and system development services to enhance the total performance of systems used in embedded systems (finished products or consumer goods). With regard to embedded systems, the operation of software within a particular physical environment, such as the hardware, is critical. The experience of engineers is essential to delivering the needed performance. With expertise gained over its 27-year history, Elmic Systems can offer customers a valuable advantage in this regard.

The Group intends to develop more new products to further solidify its prominent position in its industry. This drive will be backed by the core technologies, products, highly experienced team of engineers and resources of Group companies, as has been outlined above.

The Elmic Systems Group's product strategy will continue in the same basic direction as that outlined above.

The Group is placing particular emphasis on the upcoming post-PC era. Embedded systems, such as phones and other mobile terminals, automotive systems, IT home appliances, kitchen appliances and all other electrical products, will be controlled via the Internet and exchange information. The TCP/IP will be at the nucleus of these systems. IPv6 will open the way to a virtually unlimited number of addresses. Both image processing (H.323, SIP) and security (IPSec) will be needed. In addition, as broadband communications take hold, the importance will grow not only of wired networks, but also of wireless networks and routers that facilitate communications within a limited scope.

Along with the above measures, the Group plans to upgrade products for industrial applications, an existing market that includes systems for semiconductor manufacturing equipment.

Management of sales and development activities

Management systems are being strengthened from the standpoint of corporate governance. The Group is building a more clearly defined structure for submitting reports and directives and performing other management-related tasks covering net sales, gross profit, delivery times, cost of sales, quality assurance, support services and other operating items.

(6) Key Issues

- a. Bolstering alliances
- b. Maintaining stable relationships with reliable vendors
- c. Training personnel
- d. Upgrading risk management
- e. Refining data management systems
- f. Improving marketing capabilities

With expansion foreseen in markets where the Elmic Systems Group is active, the Group must minimize risk and maximize earnings in order to grow.

To accomplish this, the Group is working on cutting fixed costs (reducing SG&A) and direct costs. At the same time, the Group must upgrade marketing capabilities to develop and sell products that accurately target market demands of the future.

(7) Fundamental Approach to and Actions Regarding Corporate Governance

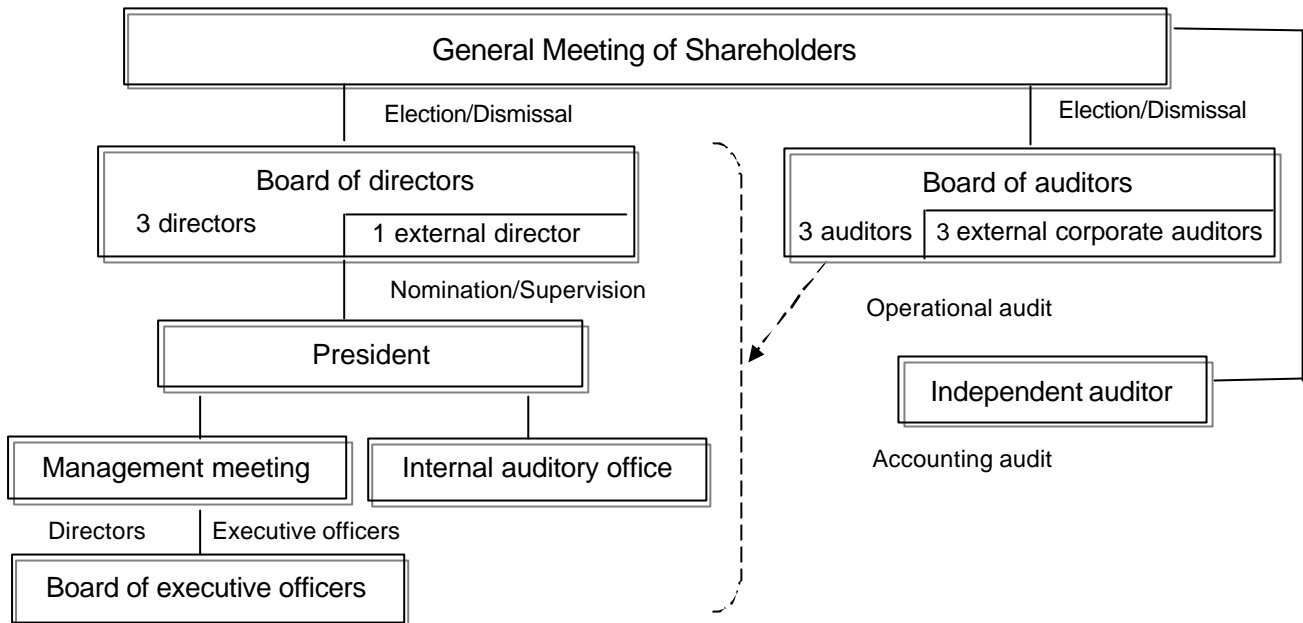
1) Fundamental approach

The Company believes that conducting highly transparent business activities is vital to dealing efficiently with management issues in today's challenging operating environment. This demands the ability to reach the best decisions quickly along with an effective system of checks and balances.

2) Actions

In fiscal 2002, the Company adopted the executive officer system to establish a framework that provides for clearly defined accountability for specific business operations. In addition, the three corporate auditors attend meetings of the Board of Directors. This provides a framework to ensure the legal compliance of business execution, a suitable system of checks, and the opportunity for auditors to state their opinions.

- a. Status of management oversight organization and other corporate governance systems for management decision-making, the execution of business activities and the supervision of operations



As of September 30, 2004, the Company had a corporate auditor system in which all three corporate auditors were from outside the Company. Furthermore, one of the Company's three directors was from outside the Company. To ensure that management decisions can be reached quickly and executed with flexibility and speed, the Company adopted the executive officer system in October 2002, naming six executive officers.

b. Personnel, capital, business and other relationships between the Elmic Systems Group and external directors and external corporate auditors

One external director is representative director of IBT Corp. and a shareholder of the Company.

IBT Corp., which has a business relationship (consulting contract) with the Company, continuously supplies the Company with information on trends in the Japanese and U.S. information industries, events and strategies at major companies in this industry, and other pertinent information.

One external corporate auditor is a tax accountant and another is representative director of Pacific Tsusho Co.

One external director is a director of a company that has a business relationship (a consulting contract) with the Company and a shareholder of the Company.

One external corporate auditor is also a shareholder of the Company.

There are no other related party interests among other external directors and external corporate auditors.

3) Corporate governance actions during the past year

The Board of Directors, which makes decisions involving fundamental management policies and other important matters, held a regular meeting every month. The Board of Executive Officers also held monthly meetings that were attended by the directors, too. The meetings provide for sharing information on analysis of market conditions, progress in meeting earnings plans and other matters, for the rigorous implementation of compliance programs, and for discussion of other subjects that are reflected in management decisions.

By having directors responsible for business execution as well as corporate auditors attend management meetings frequently, the Company is strengthening its corporate governance system.

(8) Other Significant Items

Not applicable.

3. Results of Operations and Financial Position

(1) Results of Operations

Summary of interim period ended September 2004 (From April 1, 2004 to September 30, 2004)

During the first half of the fiscal year, the Japanese economy remained unstable despite a rebound in earnings at a growing number of companies. Since surpassing 12,000 yen in May, the Nikkei average has remained in a narrow trading range that finally took the average under 11,000 yen. The sudden rise in the price of crude oil is another cause for concern. Among manufacturers, the Company's primary customers, earnings at home electronics appliances manufacturers rose as the Summer Olympics generated demand for DVD players and other products. However, structural impediments blocked significant growth in the electrical machinery and semiconductor industries.

As a result, manufacturers of finished products are spending more time for planning and preparations for the development of products required by a ubiquitous information society. They are not yet ready to advance to the next step, which is mass production.

The Company's operations were significantly affected by these market trends, resulting in lower sales and extensions in product delivery dates.

Results by product category

Communications

Results benefited from the large volume of capital expenditures for equipment used to manufacture semiconductors and LCDs. Sales were higher for both communication boards used in conventional equipment as well as for communication boards used in signal control devices. The result was a 50.8% increase in sales of these boards.

Sales of ISDN boards fell 60.0% year-on-year because of a downturn in demand for store controllers (POS) in the prior fiscal year. Sales were strong in the first half of the prior fiscal year because of a shift in the timing of deliveries. Therefore, first half results in the current fiscal year have returned to a normal level.

Internet Protocol

Sales of development sets for next-generation systems are climbing. However, sales were impacted by delays in the product strategies of customers (finished product manufacturers) as they pushed back the launch of products using embedded systems (cell phones and digital home appliances, ITS automotive devices), which are the devices that use TCP/IP. Sales were down 50.8% year on year as mass production royalties declined.

Real-time OS

A decline in royalties, as was this case with Internet devices, along with a downturn in demand for projects involving devices using Windows caused a year-on-year drop of 63.7% in sales.

System Integration (Customization)

Due to the timing of customers' new product development activities, most orders for system integration projects for embedded devices are received following the sale of development kits. This pushes back deliveries, which are when sales are posted, to the fiscal year's second half. In addition, the Company received a large volume of orders for SoftCom GEM300, a new software product for semiconductor and LCD manufacturing equipment. Design studies are under way at customers to prepare for the launch of products in the following fiscal year. However, more time is needed for final adjustments and inspections, causing first half sales in this category to fall 51.0% year-on-year.

Due to these factors, first half consolidated net sales decreased 29.5% to ¥570 million, there was an ordinary loss of ¥14 million and a net loss of ¥10 million.

Sales by product category

Yen in thousands

Product category			Interim ended Sep. 30, 2004	
Category	Product		Sales	Share (%)
Manufactured products	1	Communications		
		Multi-purpose communications boards	196,617	34.5
		ISDN boards	20,456	3.6
	Subtotal		217,073	38.1
	2	Internet protocol	110,176	19.3
3	Real-time OS	12,547	2.2	
4	System Integration (customization)	148,890	26.1	
Total manufactured products			488,687	85.7
Purchased products	5	Others	81,475	14.3
Total			570,163	100.0

Due to seasonal factors involving the nature of the Group's business activities, sales tend to be recorded mainly in the second half of each fiscal year, resulting in substantial differences between first- and second-half sales.

In the current fiscal year, first-half sales were ¥570 million, compared with ¥808 million in the first half of the prior fiscal year, when consolidated net sales amounted to ¥1,733 million for the full fiscal year.

(2) Financial Position

Cash Flows

Cash and cash equivalents as of September 30, 2004 amounted to ¥1,112 million, ¥142 million less than at the end of the prior fiscal year. A ¥272 million decrease in trade notes and accounts receivables (36.5% year-on-year increase) was somewhat offset by proceeds of ¥16 million from the collection of long-term accounts receivables. There was a net loss before income taxes and minority interest of ¥6 million compared with a ¥58 million losses one year earlier. Accounts payable decreased ¥63 million (14.7% decrease), inventories increased ¥89 million (255.2% increase), other assets increased ¥37 million (54.6% decrease), cash dividends paid were ¥35 million (zero one year earlier), and payments for the acquisition of investment securities were ¥214 million (¥10 million one year earlier).

Cash flows by category in the first half were as follows.

Operating activities

Net cash provided by operating activities was ¥109 million compared with net cash provided of ¥49 million in the first half of the prior fiscal year.

Major uses of cash were the ¥6 million net loss before income taxes and minority interest, ¥89 million increase in inventories, ¥63 million decreases in trade notes and accounts payables, and ¥37 million increases in other assets. Cash was provided by a ¥272 million decrease in trade receivables, a ¥20 million adjustments for a loss on removal of fixed assets (was zero one year earlier), and other items.

Investing activities

Net cash used in investing activities was ¥216 million. In the prior fiscal year's first half, investing activities provided net cash of ¥79 million.

This was mainly the net result of ¥16 million in proceeds from the collection of long-term accounts receivables, payments of ¥214 million for the acquisition of investment securities, and payments of ¥11 million (down 75.9%) for the acquisition of intangible assets.

Financing activities

Net cash used in financing activities was ¥35 million compared with ¥2 million in the first half of the prior fiscal year. This was due to cash dividend paid of ¥35 million.

Trends in cash flow indicators were as follows.

	Fiscal year ended March 31, 2002	Fiscal year ended March 31, 2003	Fiscal year ended March 31, 2004	Interim ended Sep. 30, 2003	Interim ended Sep. 30, 2004
Shareholders' equity ratio	87.5%	83.8%	86.1%	86.3%	89.1%
Shareholders' equity ratio at market value	54.5%	28.5%	88.5%	86.8%	99.9%
Debt repayment multiple	-	0.2 years	-	-	-
Interest coverage ratio	-	98.6	274.3	-	-

Notes: 1. The above figures are calculated as follows.

Shareholders' equity ratio: shareholders' equity divided by total assets

Shareholders' equity ratio at market value: market capitalization divided by total assets

Debt repayment multiple: interest-bearing debt divided by operating cash flows

Interest coverage ratio: operating cash flows divided by interest expenses

2. All indicators are calculated based on consolidated financial figures.
3. Market capitalization is calculated by multiplying the value of the Company's stock at the close of each period by the total number of shares issued at the end of the period.
4. Operating cash flows are calculated using the figures for operating cash flows in the consolidated statements of cash flows. Interest-bearing debt is the sum of all liabilities on the consolidated balance sheets for which interest payments are made. Interest expenses as shown in the consolidated statements of cash flows are used to calculate the interest coverage ratio.
5. The fiscal 2002 and September 2003 interim debt repayment multiples and interest coverage ratios are not shown because operating cash flows were negative in these periods.
6. The September 2004 interim debt repayment multiple and interest coverage ratio are not shown because there was no interest-bearing debt or interest expenses in this year.

(3) Outlook for the Fiscal Year Ending March 2004

Although sales and earnings in the first half were well below prior-year levels, much of this decline is a reflection of a shift in the timing of deliveries from two years earlier that raised operating results in the first half of the prior fiscal year.

In addition, first half performance was affected by the lack of progress in new product planning and other activities at finished product manufacturers (electrical products, etc.) targeting the emergence of a ubiquitous information society. Nevertheless, the Company believes it is making steady progress in meeting market demands, such as by offering a broader selection of TCP/IP (KASAGO) options.

Regarding system integration, longer time frames for deliveries are resulting in an even greater tendency for

most sales to be recorded at the end of each fiscal year.

In addition, there are signs of a rebound in demand for semiconductor manufacturing equipment communication boards and the introduction of the iNHERITOR industrial PC is going well.

Due to the development of a hybrid OS, ITRON with memory protection function, and other products, the Company continues to play a leading role among suppliers of software for embedded systems. Despite these accomplishments, the Company is adopting a conservative view of market trends. Based on this outlook, the Company will concentrate on generating steady improvements in sales and earnings while preserving a sound financial position.

Due to these factors, the Company is forecasting consolidated net sales of ¥1,660 million, ordinary income of ¥110 million and net income of ¥71 million. Non-consolidated forecasts call for net sales of ¥1,620 million, ordinary income of ¥110 million and net income of ¥61 million.

These forecasts are based on management's judgments in accordance with information that is currently available. Actual results may differ significantly due to a variety of factors.

Therefore, investors are cautioned not to make investment decisions based solely on these forecasts. Factors that can affect operating results include, but are not limited to, the economic environment in major markets, changes in demand and prices for products, rapid advances in technology, changes in exchange rates, and revisions in regulations and accounting standards in Japan and overseas.

4. Other Important Information

Presented below are a list of risk factors that can affect the Company's business operations and other aspects of its activities. This information is being supplied from the standpoint of conducting an aggressive disclosure program for investors by providing information on items that are believed to be important to reaching investment decisions. This list even includes items that may not necessarily correspond to obvious risk factors. The Company is aware of these risk factors and is taking measures to respond in the event that any of these problems occurs. However, investors should carefully read this list and all information in this document, as well as gather information from other sources so that all factors can be carefully considered before reaching an investment decision.

Risks concerning business operations

Communications Risk

The Company is acquiring new technology primarily through joint development programs and other forms of alliances. In the event that one or more alliances are terminated, the Company could have difficulty acquiring new technology, an event that could have a material impact on operating results.

Internet risk

KASAGO TCP/IP (IPv4) is employed by a large number of users and sales of KASAGO IPv6 have been started based on these existing users. At present, a number of Japanese companies, mostly large manufacturers of electrical equipment, are using KASAGO IPv6 at no charge to conduct evaluations and research. Elmic Systems is now in phase 2 of the development process, which mainly entails the development of IPv6 optional software packages. Any delay in the market launch of these packages could have an impact on operating results.

System integration risk

By maintaining good relationships with vendors, the Company strives to maintain access to qualified personnel, sustain the profitability of system integration operations and maintain a stable level of orders. Any difficulties concerning these relationships could have a material impact on operating results.

Reliance on external vendors (Orders placed)

During the current interim period, the Company placed a total of ¥142 million of orders with external vendors. Major companies and orders placed are shown below.

Yen in thousands

Vendors	Products	Orders placed		Remarks
		Interim ended Sep. 30, 2004		
			Share (%)	
TKS Co., Ltd.	Customized software	21,659	15.2	
Toshiba Personal Computer System Corp	Hardware products	20,080	14.1	
Kuzumi electron Co., Ltd.	Hardware products	18,678	13.1	
Towada Audio Co., Ltd.	Hardware products	16,969	11.9	
Yamaki Electric Corporation	Hardware products	12,237	8.6	
Other (31 companies)		52,817	37.1	
Total		142,443	100.0	

Notes: The above amounts do not include consumption taxes.

Elmic Systems closely monitors the management, manufacturing supervision, quality assurance and other aspects of the operations of these companies. Furthermore, precautions are taken to diversify risk to avoid excessive reliance on any particular vendor. Nevertheless, a problem in the ability of a vendor to conduct operations could affect the Company's ability to ship products. Therefore, the inability to ship products at the required time due to a problem involving the design, manufacturing or quality assurance capabilities of a vendor could have a material impact on operating results.

Human resources

Employees involved in marketing and development activities will play an important role in the expansion of new businesses. As Elmic Systems operates in a small industry and there are a limited number of talented individuals, there is a risk that the Company may not be able to hire the necessary personnel due to intense competition. The Company is currently reviewing its personnel system in order to attract skilled individuals and motivate employees. The Company will further upgrade its target management system and compensation structure to reflect the capabilities of each employee. Any difficulty in hiring or retaining the necessary personnel could hinder the Company's ability to reach its medium- and long-term strategic goals and have a material impact on operating results.

Investments

Elmic Systems has consistently invested in its core business. At this time, management plans to aggressively conduct a broad spectrum of business activities that are based on existing products and services. As part of this drive, the Company will be establishing subsidiaries and forming alliances in Japan and overseas.

The investments required by these actions may be large compared to the size of the Company, creating greater risks involving the Company's financial position and business operations. However, it is impossible to accurately predict the impact on the Company's operations of conditions at companies in which it has invested. In some cases, the Company may not be able to recover its investments.

Significant alliances

The Elmic Systems Group enters into a large number of business agreements and alliances to acquire new technologies. Most of these actions involve systems that will be commercialized in the future. Any leaks of such information could be harmful these customers. Consequently, the Company enters into confidentiality contracts with all customers and external vendors in addition to contracts for the placement of orders.

Five-year summary

(1) The following table presents a summary of results of operations for the five-year period ended March 31, 2004.

Yen in thousands									
Fiscal years ended March 31	2000	2001	Change (%)	2002	Change (%)	2003	Change (%)	2004 (prior year)	Change (%)
Net sales	1,719,550	2,005,663	116.6	1,655,266	82.5	1,585,261	95.8	1,526,561	96.3
Ordinary income (loss)	207,058	222,622	107.5	(197,652)	-	38,645	-	70,815	183.2
Ratio of ordinary income to net sales	12.0	11.1	-	(11.9)	-	2.4	-	4.6	-

Regarding significant change in results

Net sales were up 16.6% in the fiscal year ended March 31, 2001 compared with the prior fiscal year.

Sales rose because of growth in capital expenditures by manufacturers of semiconductor manufacturing equipment, machine tools and signal-related products, the primary buyers of the Company's products, as well as by retailers for ISDN-related products used in POS systems.

Trends in capital expenditures by manufacturers of semiconductor manufacturing equipment and other products can have a significant impact on the Company's results of operations.

(2) Regarding seasonal fluctuations in net sales, demand exists throughout the year for products and services in the system integration, Windows and Internet businesses. Within these businesses, special development projects have the following characteristics.

Due to the tendency for the end of user development themes to coincide with fiscal periods, second-half sales tend to be higher than in the first half.

Yen in thousands

Accounting term	1H FY2003	2H FY2003	1H FY2004	2H FY2004	1H FY2005
Period-end month	Sep. 2002	March 2003	Sep. 2003	March 2004	Sep. 2004
Net sale in period-end month	247,953	406,733	268,778	369,124	191,264
Share of total interim sales (%)	40.01	42.12	36.82	46.34	34.61
Share of total annual sales (%)	15.64	25.66	17.61	24.18	-

Note: The above amounts are the results of the Company (non-consolidated).

Research and development

First half R&D expenditures were ¥17 million, ¥42 million less than one year earlier, and 3.0% of net sales. The volume of R&D activities declined in the first half following completion of development of the core elements of IPv6 options. Currently, most R&D activities involve debugging and testing, the development of software related to these options, and various small projects, such as creating upgraded versions of existing products. R&D also includes work involving the creation of products, an activity where expenditures are capitalized. As a result, R&D expenditures were slightly lower, causing a corresponding decline in SG&A.

In the communications software category, the Company is focusing on next-generation wireline/wireless communications demanded by the IT market. Initiatives are aimed at expanding the lineup of products and services, including those for wireline gigabit.

With regard to Internet software, the Company is concentrating on IPv6 options. Work is proceeding on the development of a security-related SSL/TLS, UPnP technical specifications for the easy connection of home electronics appliances to networks, and other products that are to begin going on sale in the second half of the fiscal year. Furthermore, the Company continues to conduct exclusive development work on VoIP (the H.323 and SIP communication protocols for audio and video transmissions), IPsec for secure communications, a router protocol that permits connecting many terminals, and other technologies.

SoftCOM, which was developed for producers of semiconductor manufacturing equipment, fully complies with the U.S. SEMI standard. This makes SoftCOM easy for customers to use as well as a product that generates a high gross profit margin.

In the real-time OS category, the Company has started conducting research concerning new operating systems and is working on specifications for standard interfaces for hardware.

As a software manufacturer, Elmic Systems will continue to focus R&D activities on these areas while continuing to work on the development of a variety of products and upgraded versions of existing products.

5. Consolidated Interim Financial Statements

(1) Consolidated Balance Sheets

Account	Note	FY2004 Interim As of Sep. 30, 2003		FY2005 Interim As of Sep. 30, 2004		FY2004 Selected data As of March 31, 2004	
		¥ thousands	%	¥ thousands	%	¥ thousands	%
Assets							
I Current assets							
1. Cash and deposits		188,365		131,967		154,251	
2. Notes & accounts receivable - trade		601,116		413,858		686,551	
3. Available for sale securities		1,117,996		980,652		1,100,636	
4. Inventories		129,895		187,216		116,614	
5. Other current assets		204,535		245,964		131,900	
Reserve for doubtful receivables		(1,908)		(194)		(264)	
Total current assets		2,240,001	73.4	1,959,465	64.6	2,189,690	68.0
II Fixed assets							
1. Property, plant and equipment	*1	46,619		13,965		15,493	
2. Intangible assets							
(1) Goodwill		58,793					
(2) Other intangible assets		163,293	222,086	109,470	109,470	160,971	160,971
3. Investments and other assets							
(1) Investment securities		98,877		399,581		215,784	
(2) Deferred tax assets - non-current		303,212		284,558		294,773	
(3) Others		141,782		270,096		345,977	
Reserve for doubtful receivables		(1,400)	542,471	(2,850)	951,387	(1,400)	855,136
Total fixed assets		811,177	26.6	1,074,822	35.4	1,031,602	32.0
Total assets		3,051,179	100.0	3,034,288	100.0	3,221,292	100.0

Account	Note	FY2004 Interim As of Sep. 30, 2003		FY2005 Interim As of Sep. 30, 2004		FY2004 Selected data As of March 31, 2004	
		¥ thousands	%	¥ thousands	%	¥ thousands	%
Liabilities							
I Current liabilities							
1. Accounts payable - trade		58,728		63,319		127,041	
2. Income taxes payable		3,969		6,854		5,971	
3. Reserve for accrued bonuses		50,100		49,029		45,691	
4. Other current liabilities	*2	82,013		39,959		48,030	
Total current liabilities		194,810	6.4	159,162	5.2	226,735	7.1
II Long-term liabilities							
1. Reserve for directors' retirement benefits		158,235		166,629		161,499	
2. Other long-term liabilities		55,923				52,094	
Total long-term liabilities		214,159	7.0	166,629	5.5	213,593	6.6
Total liabilities		408,969	13.4	325,792	10.7	440,329	13.7
Minority interest							
Minority interest		7,635	0.3	5,327	0.2	7,006	0.2
Shareholders' equity							
I Common stock		1,160,041	38.0	1,160,041	38.2	1,160,041	36.0
II Capital surplus		1,459,152	47.8	1,459,152	48.1	1,459,152	45.3
III Retained earnings		118,211	3.9	287,406	9.5	334,189	10.4
IV Net unrealized gain (loss) on other securities		126	0.0	(18,246)	(0.6)	5,757	0.2
V Foreign currency translation adjustment		81,662	2.7				
VI Treasury stock		(184,619)	(6.1)	(185,184)	(6.1)	(185,184)	(5.8)
Total shareholders' equity		2,634,573	86.3	2,703,169	89.1	2,773,956	86.1
Total liabilities, minority interest and shareholders' equity		3,051,179	100.0	3,034,288	100.0	3,221,292	100.0

(2) Consolidated Statements of Income

Account	Note	FY2004 Interim Apr. 1, 2003 - Sep. 30, 2003		FY2005 Interim Apr. 1, 2004 - Sep. 30, 2004		FY2004 Selected data Apr. 1, 2003 - Mar. 31, 2004							
		¥ thousands	%	¥ thousands	%	¥ thousands	%						
I Net sales	*1		808,536	100.0		570,163	100.0		1,733,403	100.0			
II Cost of sales			368,493	45.6		310,686	54.5		815,492	47.0			
Gross profit			440,042	54.4		259,476	45.5		917,911	53.0			
III SG&A	*2		519,154	64.2		282,360	49.5		995,720	57.5			
Operating income			79,111	(9.8)		22,883	(4.0)		77,809	(4.5)			
IV Non-operating income													
1. Interest income			475			1,936			1,476				
2. Dividends income			965			50			1,015				
3. Equity in earnings of affiliates			3,791			-			11,180				
4. Gain on anonymous partnerships			3,356			4,285			7,185				
5. Other non-operating income			1,175	9,764	1.2	2,676	8,948	1.5	2,331	23,188	1.4		
V Non-operating expenses													
1. Interest expense			101			-			131				
2. Loss on equity method			-			682			-				
3. Foreign exchange loss			1,679			-			23,835				
4. Other non-operating expenses			0	1,781	0.2	-	682	0.1	-	23,966	1.4		
Ordinary loss				71,128	(8.8)		14,618	(2.6)		78,587	(4.5)		
VI Extraordinary income													
1. Gain on reversal from doubtful receivables				456			70			413			
2. Gain on cancellation of leveraged lease				-			49,179			-			
3. Gain on sales of investment securities				22,904			-			22,904			
4. Gain on sales of subsidiary stock				-	23,360	2.9		49,249	8.6	258,801	282,119	16.3	
VII Extraordinary loss													
1. Loss on removal of fixed assets	*3			98			20,174			232			
2. Provision of allowance for doubtful receivables				-			1,450			-			
3. Loss on revaluation of membership				-			700			-			
4. Loss on revaluation of investment securities				10,735			-			10,735			
5. Loss on revaluation of inventories				-			18,492			-			
6. Prior year consumption taxes, etc				-	10,833	1.3		40,816	7.1	10,466	21,434	1.3	
Net income (loss) before income taxes and minority interest					58,601	(7.2)		(6,185)	(1.1)		182,097	10.5	
Income taxes - current					3,894			3,019			6,091		
Income taxes - deferred					11,403	15,298	1.9	3,140	6,159	1.1	34,555	40,647	2.3
Minority interest					70	(0.0)		1,679	(0.3)		699	(0.0)	
Net income (loss)					(73,830)	(9.1)		(10,665)	(1.9)		142,148	8.2	

(3) Consolidated Interim Statements of Retained Earnings

Account	Note	FY2004 Interim Apr. 1, 2003 - Sep. 30, 2003		FY2005 Interim Apr. 1, 2004 - Sep. 30, 2004		FY2004 Selected data Apr. 1, 2003 - Mar. 31, 2004	
		¥ thousands		¥ thousands		¥ thousands	
Capital surplus							
I Capital surplus at beginning of period			1,459,152		1,459,152		1,459,152
II Capital surplus at end of period			1,459,152		1,459,152		1,459,152
Retained earnings							
I Retained earnings at beginning of period			192,041		334,189		192,041
II Increase in retained earnings							
1. Net income		-	-	-	-	142,148	142,148
III Decline in retained earnings							
1. Cash dividends		-	-	36,117	-	-	-
2. Net loss		73,830	73,830	10,665	46,783	-	-
III Retained earnings at end of period			118,211		287,406		334,189

(4) Consolidated Statements of Cash Flows

		FY2004 Interim Apr. 1, 2003 - Sep. 30, 2003	FY2005 Interim Apr. 1, 2004 - Sep. 30, 2004	FY2004 Selected data Apr. 1, 2003 - Mar. 31, 2004
Account	Note	¥ thousands	¥ thousands	¥ thousands
I Cash flows from operating activities				
Net income (loss) before income taxes and minority interest		(58,601)	(6,185)	182,097
Depreciation and amortization		34,603	44,757	76,587
Amortization of long-term prepaid expenses			112	247
Equity in earnings (losses) of affiliates		(3,791)	682	(11,180)
Increase (decrease) in reserve for doubtful receivables		(456)	1,380	(363)
Increase (decrease) in reserve for accrued bonuses		(100)	3,338	(4,508)
Decrease in reserve for employees' retirement benefits		(19)	-	(19)
Increase (decrease) in reserve for directors' retirement benefits		(1,989)	5,130	1,273
Interest and dividends income		(1,440)	(1,986)	(2,491)
Interest expense		101		131
Gain on anonymous partnerships		(3,356)	(4,285)	(7,185)
Foreign exchange gain (loss)		458	(165)	667
Gain on cancellation of leveraged lease		-	(49,179)	-
Gain on sales of investment securities		(22,904)		(22,904)
Gain on sales of subsidiary stock				(258,801)
Loss on removal of fixed assets		98	20,174	232
Loss on revaluation of membership		-	700	-
Loss on revaluation of inventories		10,735		10,735
Decrease in notes and accounts receivable - trade		-	18,492	-
Loss on revaluation of investment securities		199,818	272,693	82,267
Increase in inventories		(25,082)	(89,094)	(11,801)
Decrease in accounts payable - trade		(74,703)	(63,722)	(4,310)
Increase in other assets		(83,342)	(37,811)	29,043
Increase (decrease) in other liabilities		(9,666)	6,542	(15,955)
Decrease in accrued consumption taxes		(7,760)	(10,952)	(4,988)
Subtotal		(47,399)	110,622	38,722
Interest and dividends received		3,940	3,978	4,991
Interest paid		(101)	-	(131)
Income taxes paid		(6,415)	(4,855)	(7,688)
Net cash provided by (used in) operating activities		(49,976)	109,745	35,943

		FY2004 Interim Apr. 1, 2003 - Sep. 30, 2003	FY2005 Interim Apr. 1, 2004 - Sep. 30, 2004	FY2004 Selected data Apr. 1, 2003 - Mar. 31, 2004
Account	Note	¥ thousands	¥ thousands	¥ thousands
II Cash flows from investing activities				
Payments for acquisition of investment securities		(10,280)	(214,048)	(112,280)
Gain on sales of investment securities		138,784	-	138,784
Payments for acquisition of property, plant and equipment		(1,974)	(240)	(3,169)
Payments for acquisition of intangible assets		(47,931)	(11,562)	(77,819)
Payments for long-term loans receivable		(700)		(700)
Proceeds from collection of long-term loans		575	425	1,010
Proceeds from collection of long-term accounts receivable - other		-	16,121	-
Payments for leasehold and security deposits		-	(6,400)	-
Proceeds from return of leasehold and security deposits		3,126	473	4,645
Payments for other investing activities		(2,107)	(1,092)	(6,386)
Net cash provided by (used in) investing activities		79,492	(216,322)	(60,429)
III Cash flows from financing activities				
Payments for finance lease liabilities		(1,854)	-	(3,366)
Payments for acquisition of treasury stock		-	-	(564)
Cash dividends paid		(150)	(35,855)	(168)
Net cash used in financing activities		(2,004)	(35,855)	(4,098)
IV Effect of exchange rate changes on cash and cash equivalents		813	165	5,434
V Increase (decrease) in cash and cash equivalents		28,325	(142,267)	(23,149)
VI Cash and cash equivalents at beginning of period		1,278,037	1,254,887	1,278,037
VII Cash and cash equivalents at end of period	*	1,306,362	1,112,620	1,254,887

Significant Accounting Policies in the Preparation of Consolidated Financial Statements

Period Item	FY2004 Interim Apr. 1, 2003 - Sep. 30, 2003	FY2005 Interim Apr. 1, 2004 - Sep. 30, 2004	FY2004 Apr. 1, 2003 - Mar. 31, 2004
1. Scope of consolidation	<p>(1) Consolidated subsidiaries : 2 Names of consolidated subsidiaries: Elmic Systems USA, Inc. AIRFOLC Corporation</p> <p>(2) Unconsolidated subsidiaries: 0</p>	<p>(1) Consolidated subsidiaries : 1 Names of consolidated subsidiaries: AIRFOLC Corporation</p> <p>(2) Unconsolidated subsidiaries: 0</p>	<p>(1) Consolidated subsidiaries : 1 Names of consolidated subsidiaries: Elmic Systems USA, Inc. AIRFOLC Corporation Effective March 31, 2004, Elmic Systems USA, Inc, a consolidated subsidiary in prior years, has been excluded from the consolidation since the Company sold its entire equity stake in the entity on December 25, 2003. The consolidated financial statements include Elmic Systems USA, Inc.'s statements of income and statements of cash flows for the period from Jan. 1, 2003 to Dec. 31, 2003.</p> <p>(2) Unconsolidated subsidiaries: 0</p>
2. Equity method accounting	<p>(1) Affiliates accounted for by the equity method of accounting: 1 Affiliate name: WESCOM Inc.</p> <p>(2) RockHand Technology, an equity method affiliate, is excluded from the scope of affiliates accounted for by the equity method since it does not have material effect on consolidated interim net income (loss) (equity in earnings) and consolidated retained earnings (interest in earnings) for the period and is of relatively little significance in the context of consolidated interim financial statements.</p>	<p>(1) Affiliates accounted for by the equity method of accounting: 1 Affiliate name: WESCOM Inc.</p> <p>(2) Same as on the left.</p>	<p>(1) Affiliates accounted for by the equity method of accounting: 1 Affiliate name: WESCOM Inc.</p> <p>RockHand Technology, an equity method affiliate, is excluded from the scope of affiliates accounted for by the equity method since it does not have material effect on consolidated fiscal net income (loss) (equity in earnings) and consolidated retained earnings (interest in earnings) for the period and is of relatively little significance in the context of consolidated fiscal financial statements.</p>
3. Balance sheet dates of subsidiaries	<p>The consolidated financial statements include the accounts of the following consolidated subsidiaries, of which the interim period ends on a different day: Elmic Systems USA, Inc. Interim period-end: Jun. 30 AIRFOLC Corporation Interim period-end: Aug. 31</p> <p>In the preparation of consolidated financial statements for the interim period, the financial statements of the subsidiaries for their respective interim period have been used. With respect to significant transactions, which occurred after the balance sheet dates of the</p>	<p>The consolidated financial statements include the accounts of the following consolidated subsidiaries, of which the interim period ends on a different day: AIRFOLC Corporation Interim period-end: Aug. 31</p> <p>In the preparation of consolidated financial statements for the interim period, the financial statements of the subsidiaries for their respective interim period have been used. With respect to significant transactions, which occurred after the balance sheet dates of the</p>	<p>The consolidated financial statements include the accounts of the following consolidated subsidiaries, of which the fiscal year ends on a different day: AIRFOLC Corporation Fiscal year-end: Feb. 28</p> <p>In the preparation of consolidated financial statements for the fiscal year, the financial statements of the subsidiaries for their respective fiscal year have been used. With respect to significant transactions, which occurred after the balance sheet dates of the consolidated</p>

Period Item	FY2004 Interim Apr. 1, 2003 - Sep. 30, 2003	FY2005 Interim Apr. 1, 2004 - Sep. 30, 2004	FY2004 Apr. 1, 2003 - Mar. 31, 2004
	consolidated subsidiaries, necessary adjustments have been made in the consolidated interim financial statements.	consolidated subsidiaries, necessary adjustments have been made in the consolidated interim financial statements..	subsidiaries, necessary adjustments have been made in the consolidated financial statements.
4. Accounting standards	<p>A. Valuation criteria and methods for significant assets:</p> <p>(1) Securities -</p> <p>Affiliated company stock Stated at cost, cost using the moving average method</p> <p>Other securities Securities with market quotations: Stated at fair value based on market prices on the balance sheet date (Unrealized holding gains and losses are accounted for as a component of the shareholders' equity; cost of other securities sold is determined using the moving average method).</p> <p>Securities without market quotations: Stated at cost, cost using the moving average method.</p> <p>(2) Inventories Merchandise: Stated at cost, cost being determined by the moving average method.</p> <p>Products, work in process and raw materials: Stated at cost, cost being determined by the period average method</p> <p>B. Depreciation and amortization of significant depreciable assets (1) Property, plant and equipment The Company and its domestic subsidiaries compute depreciation using the declining balance method, in accordance with Corporation Tax laws. Overseas consolidated subsidiaries compute depreciation using the straight-line method in accordance with the generally accepted accounting standards of the countries of their domicile.</p>	<p>A. Valuation criteria and methods for significant assets:</p> <p>(1) Securities -</p> <p>Affiliated company stock Same as on the left.</p> <p>Other securities Securities with market quotations Same as on the left.</p> <p>Securities without market quotations: Same as on the left.</p> <p>(2) Inventories Merchandise: Same as on the left.</p> <p>Products, work in process and raw materials: Same as on the left.</p> <p>B. Depreciation and amortization of significant depreciable assets (1) Property, plant and equipment The Company computes depreciation using the declining balance method, in accordance with Corporation Tax laws.</p>	<p>A. Valuation criteria and methods for significant assets:</p> <p>(1) Securities Held-to-maturity securities Valued using the amortized cost method Affiliated company stock Same as on the left.</p> <p>Other securities Securities with market quotations Same as on the left.</p> <p>Securities without market quotations: Same as on the left.</p> <p>(2) Inventories Merchandise: Same as on the left.</p> <p>Products, work in process and raw materials: Same as on the left.</p> <p>B. Depreciation and amortization of significant depreciable assets (1) Property, plant and equipment The Company and its domestic subsidiaries compute depreciation using the declining balance method, in accordance with Corporation Tax laws. Overseas consolidated subsidiaries compute depreciation using the straight-line method in accordance with the generally accepted accounting standards of the countries of their domicile.</p>

Period Item	FY2004 Interim Apr. 1, 2003 - Sep. 30, 2003	FY2005 Interim Apr. 1, 2004 - Sep. 30, 2004	FY2004 Apr. 1, 2003 - Mar. 31, 2004
	<p>(2) Intangible assets The Company and its domestic subsidiaries amortize capitalized costs using one of two alternate methods, which is higher, depreciation based on estimated sales volume or the straight-line method based on remaining the estimated period to expiration. Software for internal use is amortized using the straight-line method over its estimated useful life of five years. Overseas consolidated subsidiaries compute depreciation in accordance with the generally accepted accounting standards of the countries of their domicile.</p> <p>C. Recognition of reserves (1) Reserve for doubtful receivables To prepare for credit losses on accounts receivable, the Company and its domestic subsidiaries provide an allowance equal to the estimated amount of uncollectible receivables for general receivables based on the historical write-off ratio, and bad receivables based on a case-by case determination of collectibility. Overseas consolidated subsidiaries provide allowances for credit losses based on a case-by-case determination of collectibility.</p> <p>(2) Reserve for accrued bonuses As a means of providing for bonus obligations, the Company and its domestic subsidiaries designates in the reserve account an amount accrued for the current interim period among the estimated future obligations.</p> <p>(3) Reserve for employees' retirement benefits To provide for employees' retirement benefits, an allowance for retirement benefits is provided in the amount deemed to have accrued, determined based on the estimated retirement benefit obligations and pension assets on the balance sheet date. Since pension assets at the end of the interim period exceeded the</p>	<p>(2) Intangible assets The Company amortize capitalized costs using two alternate methods, which is higher, depreciation based on estimated sales volume or the straight-line method based on remaining period to expiration. Software for internal use is amortized using the straight-line method over its estimated useful life of five years.</p> <p>C. Recognition of reserves (1) Reserve for doubtful receivables To prepare for credit losses on accounts receivable, the Company provides an allowance equal to the estimated amount of uncollectible receivables for general receivables based on the historical write-off ratio, and bad receivables based on a case-by case determination of collectibility.</p> <p>(2) Reserve for accrued bonuses As a means of providing for bonus obligations, the Company designate in the reserve account an amount accrued for the current interim period among the estimated future obligations.</p> <p>(3) Reserve for employees' retirement benefits To provide for employee retirement benefits, an allowance for retirement benefits is provided in the amount deemed to have accrued, determined based on the estimated retirement benefit obligations and pension assets on the balance sheet date. Since pension assets at the end of the interim period exceeded the</p>	<p>(2) Intangible assets The Company and its domestic subsidiaries amortize capitalized costs using two alternate methods, which is higher, depreciation based on estimated sales volume or the straight-line method based on remaining period to expiration. Software for internal use is amortized using the straight-line method over its estimated useful life of five years.</p> <p>C. Recognition of reserves (1) Reserve for doubtful receivables To prepare for credit losses on accounts receivable, the Company and its domestic subsidiaries provide an allowance equal to the estimated amount of uncollectible receivables for general receivables based on the historical write-off ratio, and bad receivables based on a case-by case determination of collectibility. Overseas consolidated subsidiaries provide allowances for credit losses based on a case-by-case determination of collectibility.</p> <p>(2) Reserve for accrued bonuses As a means of providing for bonus obligations, the Company and its domestic subsidiaries designates in the reserve account an amount accrued for the current fiscal year among the estimated future obligations.</p> <p>(3) Reserve for employees' retirement benefits To provide for employee retirement benefits, an allowance for retirement benefits is provided in the amount deemed to have accrued, determined based on the estimated retirement benefit obligations and pension assets on the balance sheet date. Since pension assets at the end of the fiscal period exceeded the estimated retirement</p>

Period Item	FY2004 Interim Apr. 1, 2003 - Sep. 30, 2003	FY2005 Interim Apr. 1, 2004 - Sep. 30, 2004	FY2004 Apr. 1, 2003 - Mar. 31, 2004
	<p>estimated retirement benefit obligations, ¥2,062 thousand was charged to income as a pre-paid pension expense.</p> <p>(4) Reserve for directors' retirement benefits To provide for directors' retirement benefits, an allowance is provided pursuant to the Company's rules on directors' retirement benefits.</p> <p>D. Accounting for lease transactions Overseas consolidated subsidiaries account all finance lease contracts other than those that are deemed to transfer the ownership of the leased assets to lessees by the method similar to that applicable to regular trading transactions.</p> <p>E. Other significant accounting policies in the preparation of consolidated financial statements for the period (1) Equity method of accounting based on the anonymous partnership agreement The Company in March 1995 entered a leveraged lease agreement (term of agreement: 12 years) with an anonymous partnership. The ¥50,000 thousands investment at the time of participation is recognized as a claim against the anonymous association. A share of the a nonymous partnership's net assets (as recorded in the most recent settlement of accounts) proportional to the Company's investment in the anonymous partnership is recognized as a claim or liability against the anonymous partnership. A share of the anonymous partnership's net income (as recorded in the settlement of accounts for the interim period), applicable to the current consolidated interim period, proportional to the Company's investment in the anonymous partnership is recognized as a gain or loss on investment in the anonymous partnership.</p>	<p>estimated retirement benefit obligations, ¥2,140 thousand was charged to income as a pre-paid pension expense.</p> <p>(4) Reserve for directors' retirement benefits Same as on the left.</p> <p>D.</p> <p>E. Other significant accounting policies in the preparation of consolidated financial statements for the period (1) Equity method of accounting based on the anonymous partnership agreement The Company in March 1995 entered a leveraged lease agreement (term of agreement: 12 years) with an anonymous partnership. The ¥50,000 thousands investment at the time of participation is recognized as a claim against the anonymous association. A share of the anonymous partnership's net assets (as recorded in the most recent settlement of accounts) proportional to the Company's investment in the anonymous partnership is recognized as a claim or liability against the anonymous partnership. A share of the anonymous partnership's net income (as recorded in the settlement of accounts for the fiscal year), applicable to the current consolidated interim period, proportional to the Company's investment in the anonymous partnership is recognized as a gain or loss on investment in the anonymous partnership.</p>	<p>benefit obligations, ¥109 thousand was charged to income as a pre-paid pension expense.</p> <p>(4) Reserve for directors' retirement benefits Same as on the left.</p> <p>D. Accounting for lease transactions Overseas consolidated subsidiaries account all finance lease contracts other than those that are deemed to transfer the ownership of the leased assets to lessees by the method similar to that applicable to regular trading transactions.</p> <p>E. Other significant accounting policies in the preparation of consolidated financial statements for the fiscal year (1) Equity method of accounting based on the anonymous partnership agreement The Company in March 1995 entered a leveraged lease agreement (term of agreement: 12 years) with an anonymous partnership. The ¥50,000 thousands investment at the time of participation is recognized as a claim against the anonymous association. A share of the anonymous partnership's net assets (as recorded in the most recent settlement of accounts) proportional to the Company's investment in the anonymous partnership is recognized as a claim or liability against the anonymous partnership. A share of the anonymous partnership's net income (as recorded in the settlement of accounts for the fiscal year), applicable to the current consolidated interim period, proportional to the Company's investment in the anonymous partnership is recognized as a gain or loss on investment in the anonymous partnership.</p>

Period Item	FY2004 Interim Apr. 1, 2003 - Sep. 30, 2003	FY2005 Interim Apr. 1, 2004 - Sep. 30, 2004	FY2004 Apr. 1, 2003 - Mar. 31, 2004
	<p>(2) Accounting treatment for consumption taxes Consumption taxes are accounted by the tax exclusion method.</p> <p>(3) Accounting for corporation, residential and enterprise taxes Appropriation of retained earnings for the consolidated period reflects the planned reserve and withdrawal from the general reserve, program reserve, and special depreciation reserve.</p>	<p>Since the lease was cancelled at the end of the current interim period, the Company booked its share of residual assets (¥49,179 thousand) as "Gain on cancellation of leveraged lease" under "Extraordinary income."</p> <p>(2) Accounting treatment for consumption taxes Same as on the left.</p> <p>(3) Accounting for corporation, residential and enterprise taxes Same as on the left.</p>	<p>(2) Accounting treatment for consumption taxes Same as on the left.</p> <p>(3)</p>
5. Scope of cash and cash equivalents on consolidated statement of cash flows	For the purpose of consolidated statement of cash flows, cash and cash equivalents consists of vault cash, deposits that can be withdrawn on demand, and short-term investments, with original maturities of three months or less, that are readily convertible to known amounts of cash and present insignificant risk of change in value.	Same as on the left.	Same as on the left.

Reclassifications

FY2004 Interim Apr. 1, 2003 - Sep. 30, 2003	FY2005 Interim Apr. 1, 2004 - Sep. 30, 2004
<p>Consolidated balance sheets</p> <p>Effective from the consolidated interim period ended September 30, 2003 "Deferred tax assets - non-current", presented as a component of "Other" in the "Investments and other assets" account for the consolidated interim period ended September 30, 2002, are reclassified and presented as a separate item since the value of deferred assets exceeded 5% of total assets as of the end of the consolidated interim period ended September 30, 2003. "Deferred tax assets - non-current" totaled ¥38,081 thousand as of the end of the interim period ended September 30, 2002.</p> <p style="text-align: center;">—————</p>	<p>Consolidated Statements of Cash Flows</p> <p>"Payments for leaseholds and security deposits," included in "Others" under "Cash flows from investing activities" in the prior interim period, is reclassified and presented as a separate line item, given the increase in the materiality of impact in the context of the consolidated financial statements.</p> <p>In the prior interim period, "Payments for leaseholds and security deposits," included in "Others" under "Cash flows from investing activities" amounted to ¥1,302 thousand.</p>

Supplementary Information

FY2004 Interim Apr. 1, 2003 - Sep. 30, 2003	FY2005 Interim Apr. 1, 2004 - Sep. 30, 2004	FY2004 Apr. 1, 2003 - Mar. 31, 2004
<p>(Employer contribution to employees' welfare insurance)</p> <p>A new system for assessing premiums on employees' welfare insurance and health insurance was introduced on April 1, 2003. Under the new rules, aggregate annual remuneration forms the basis of assessing insurance premiums. To comply with the revised regulations, effective the current consolidated interim period, contributions for the bonus portion of employees' remuneration are accounted as "Accrued expenses."</p> <p>The application of new rules caused "Other current liabilities (Accrued expenses)" in current liabilities, operating loss and ordinary loss to rise by ¥5,828 thousand.</p>		

Notes to consolidated financial statements

Notes to consolidated balance sheets

FY2004 Interim As of Sep. 30, 2003	FY2005 Interim As of Sep. 30, 2004	FY2004 As of March 31, 2004
*1. Accumulated depreciation on property, plant and equipment: ¥114,079 thousand	*1. Accumulated depreciation on property, plant and equipment: ¥101,689 thousand	*1. Accumulated depreciation on property, plant and equipment: ¥99,920 thousand
*2. Accounting for consumption taxes: Consumption tax suspense payments and receipts are included in the "Other current liabilities" account in current liabilities since the amount is insignificant in the context of total current assets.	*2. Accounting for consumption taxes Same as on the left.	*2.

Notes to consolidated statements of income

Yen in thousands

FY2004 Interim Apr. 1, 2003 - Sep. 30, 2003	FY2005 Interim Apr. 1, 2004 - Sep. 30, 2004	FY2004 Apr. 1, 2003 - Mar. 31, 2004
*1. The Company's sales are characterized by seasonal fluctuations. Since production on order is concentrated heavily in the second half, there is considerable difference in sales between the first and the second halves.	*1. Same as on the left	*1.
*2. Principal components and corresponding amounts of SG&A expenses are as follows: Wages & allowances: 196,748 Provision of reserve for accrued bonuses: 22,200 Provision of reserve for directors' retirement benefits: 3,702 R&D: 59,202	*2. Principal components and corresponding amounts of SG&A expenses are as follows: Wages & allowances: 84,147 Provision of reserve for accrued bonuses: 19,880 Provision of reserve for directors' retirement benefits: 5,130 R&D: 17,030	*2. Principal components and corresponding amounts of SG&A expenses are as follows: Wages & allowances: 382,320 Provision of reserve for accrued bonuses: 24,683 Provision of reserve for directors' retirement benefits: 6,965 R&D: 79,078
*3. A significant component of the loss from removal of fixed assets represents a loss on removal of tools, furniture and fixtures.	*3. A significant component of the loss from removal of fixed assets represents a loss on removal of software.	*3. A significant component of the loss from removal of fixed assets represents a loss on removal of tools, furniture and fixtures.

Notes to consolidated statements of cash flows

Yen in thousands

FY2004 Interim Apr. 1, 2003 - Sep. 30, 2003	FY2005 Interim Apr. 1, 2004 - Sep. 30, 2004	FY2004 Apr. 1, 2003 - Mar. 31, 2004
1. Reconciliation of cash and cash equivalents of the statements of cash flows and account balances of consolidated balance sheets for the interim period is made as follows: As of September 30, 2003	1. Reconciliation of cash and cash equivalents of the statements of cash flows and account balances of consolidated balance sheets for the interim period is made as follows: As of September 30, 2004	1. Reconciliation of cash and cash equivalents of the statements of cash flows and account balances of consolidated balance sheets for the fiscal year is made as follows: As of March 31, 2004
Cash and deposits: 188,365 Short-term investments with original maturities of less than 3 months: 1,117,996	Cash and deposits: 131,967 Short-term investments with original maturities of less than 3 months: 980,652	Cash and deposits: 154,251 Short-term investments with original maturities of less than 3 months: 1,100,636
Cash and cash equivalents: 1,306,362	Cash and cash equivalents: 1,112,620	Cash and cash equivalents: 1,254,887

Accounting for Leases

Not applicable.

Securities

FY2004 Interim (As of September 30, 2003)

1. Securities with market quotations classified as "Other securities"

Yen in thousands

Security	Acquisition cost	Carrying value	Unrealized gain/(loss)
(1) Equity securities	8,060	10,120	2,060
(2) Debt securities			
a. JGBs and municipal bonds	-	-	-
b. Corporate bonds	-	-	-
c. Others	-	-	-
(3) Others			
Total	8,060	10,120	2,060

2. Securities without market quotations

Yen in thousands

	Carrying value
(1) Other securities	
Money management funds	975,876
Free financial funds	100,017
Medium-term government bond funds	42,103
Unlisted stock (excluding OTC stock)	11,354
Total	1,129,351

FY2005 Interim (As of September 30, 2004)

1. Securities with market quotations classified as "Other securities"

Yen in thousands

Security	Acquisition cost	Carrying value	Unrealized gain/(loss)
(1) Equity securities	8,060	8,780	720
(2) Debt securities			
a. JGBs and municipal bonds	-	-	-
b. Corporate bonds	214,048	193,330	(20,717)
c. Others	-	-	-
(3) Others	102,000	103,060	1,060
Total	324,108	305,170	(18,937)

2. Securities without market quotations

Yen in thousands

	Carrying value
(1) Other securities	
Money management funds	880,631
Free financial funds	100,020
Unlisted stock (excluding OTC stock)	11,354
Total	992,007

FY2004 (As of March 31, 2004)**1. Securities with market quotations classified as “Other securities”**

Yen in thousands

Security	Acquisition cost	Carrying value	Unrealized gain/(loss)
(1) Equity securities	8,060	110,800	3,740
(2) Debt securities			
a. JGBs and municipal bonds	-	-	-
b. Corporate bonds	-	-	-
c. Others	-	-	-
(3) Others	102,000	105,560	3,560
Total	110,060	117,360	7,300

2. Securities without market quotations

Yen in thousands

	Carrying value
(1) Other securities	
Money management funds	998,513
Free financial funds	100,019
Medium-term government bond funds	2,104
Unlisted stock (excluding OTC stock)	11,354
Total	1,111,990

Derivatives**FY2004 Interim (April 1, 2003 - September 30, 2003)**

No information is presented since The Company and its major consolidated subsidiaries did not employ derivatives during the interim consolidated accounting period.

FY2005 Interim (April 1, 2004 - September 30, 2004)

No reportable information. The Company and its major consolidated subsidiaries do not hold or issue financial derivative instruments for trading purposes.

FY2004 (April 1, 2003 - March 31, 2004)

No reportable information. The Company and its major consolidated subsidiaries do not hold or issue financial derivative instruments for trading purposes.

Segment Information

1. Segment information by operating segment

FY2004 Interim (April 1, 2003 - September 30, 2003)

No reportable items. The Company and its major consolidated subsidiaries operate in a single industry commonly classified as electronics component manufacturing. These activities include manufacturing and marketing of components products related to communications and real-time operating systems.

FY2005 Interim (April 1, 2004 - September 30, 2004)

No reportable items. The Company and its major consolidated subsidiaries operate in a single industry commonly classified as electronics component manufacturing. These activities include manufacturing and marketing of components products related to communications and real-time operating systems.

FY2004 (April 1, 2003 - March 31, 2004)

No reportable items. The Company and its major consolidated subsidiaries operate in a single industry commonly classified as electronics component manufacturing. These activities include manufacturing and marketing of components products related to communications and real-time operating systems.

2. Geographical segment information

FY2004 Interim (April 1, 2003 - September 30, 2003)

Yen in thousands

	Japan	N. America	Europe	Total	Elimination or Corporate	Consolidated
Net sales						
(1) Sales to external customers	741,932	46,715	19,888	808,536	-	808,536
(2) Inter-segment sales and transfers	-	84,657	-	84,657	(84,657)	-
Total	741,932	131,372	19,888	893,193	(84,657)	808,536
Operating expenses	720,901	214,699	22,538	958,139	(70,491)	887,647
Operating income (loss)	21,030	(83,327)	(2,649)	(64,945)	(14,165)	(79,111)

Notes: 1. Countries and regions are grouped together according to the proximity of their geographical locations.

2. The principal countries or areas included in each region, outside Japan, are as follows:

North America: U.S.A.

Europe: France

3. Operating expenses (¥21,396 thousand) included in Eliminations or Corporate consist primarily of expenses of the administration division.

FY2005 Interim (April 1, 2004 - September 30, 2004)

Overseas sales information is not presented since the Company had no consolidated subsidiaries or significant branch offices in countries and regions other than Japan in the current interim period.

FY2004 (April 1, 2003 - March 31, 2004)

Yen in thousands

	Japan	N. America	Europe	Total	Elimination or Corporate	Consolidated
Net sales						
(1) Sales to external customers	1,571,284	141,715	20,404	1,733,403	-	1,733,403
(2) Inter-segment sales and transfers	-	111,537	-	111,537	(111,537)	-
Total	1,571,284	253,252	20,404	1,844,940	(111,537)	1,733,403
Operating expenses	1,477,167	352,354	52,331	1,881,853	(70,639)	1,811,213
Operating income (loss)	94,117	(99,101)	(31,927)	(36,912)	(40,897)	(77,809)

Notes: 1. Countries and regions are grouped together according to the proximity of their geographical locations.

2. The principal countries or areas included in each region, outside Japan, are as follows:

North America: U.S.A.

Europe: France

3. Operating expenses (¥42,564 thousand) included in Eliminations or Corporate consist primarily of expenses of the administration division.

3. Overseas sales**FY2004 Interim (April 1, 2003 - September 30, 2003)**

Yen in thousands

	North America	Other	Total
I. Overseas sales	45,770	20,833	66,604
II. Consolidated net sales	-	-	808,536
II. Weight of overseas sales in total consolidated net sales	5.6%	2.6%	8.2%

Notes: 1. Countries and regions are grouped together according to the proximity of their geographical locations.

2. The principal countries or areas included in each region, outside Japan, are as follows:

(1) North America: U.S.A., Canada

(2) Other regions: Germany, Britain, Hong Kong and India, etc.

3. Overseas sales of the Company and its consolidated subsidiaries represent sales in countries and regions other than Japan.

FY2005 Interim (April 1, 2004 - September 30, 2004)

Overseas sales information is not provided since overseas sales represented less than 10% of total consolidated sales.

FY2004 (April 1, 2003 - March 31, 2004)

Yen in thousands

	North America	Other	Total
I. Overseas sales	95,023	86,747	181,770
II. Consolidated net sales	-	-	1,733,403
II. Weight of overseas sales in total consolidated net sales	5.5%	5.0%	10.5%

Notes: 1. Countries and regions are grouped together according to the proximity of their geographical locations.

2. The principal countries or areas included in each region, outside Japan, are as follows:

(1) North America: U.S.A., Canada

(2) Other regions: Germany, Britain, Hong Kong and India, etc.

3. Overseas sales of the Company and its consolidated subsidiaries represent sales in countries and regions other than Japan.

Amounts Per Share

Yen

FY2004 Interim Apr. 1, 2003 - Sep. 30, 2003	FY2005 Interim Apr. 1, 2004 - Sep. 30, 2004	FY2004 Apr. 1, 2003 - Mar. 31, 2004
Net assets per share 546.96 Net loss per share 15.33	Net assets per share 561.32 Net loss per share 2.21	Net assets per share 576.02 Net loss per share 29.51
Net income per share (diluted) is not presented since the company reported net loss per share for the interim period.	Same as on the left.	Net income per share (diluted) is not presented since the company reported net loss per share for the fiscal year.

Note: Basis of calculating interim net income or interim net loss

Yen in thousands

	FY2004 Interim Apr. 1, 2003 - Sep. 30, 2003	FY2005 Interim Apr. 1, 2004 - Sep. 30, 2004	FY2004 Apr. 1, 2003 - Mar. 31, 2004
Net loss for the period	(73,830)	(10,665)	142,148
Equity in net loss not account of common shareholders			
Common stock in net loss	(73,830)	(10,665)	142,148
Average number of shares outstanding for the period (1,000 shares)	4,816	4,815	4,816
Details on potential stock not included in the calculation of net income per share (diluted) since there is no dilution.	Pursuant to Article 280-19 of the Commercial Code of Japan, the Company has only one type of share acquisition right by way of stock options outstanding (Shares to be issued upon execution of share acquisition rights: Common shares, Number of shares to be issued upon execution of share acquisition rights: 164,000 shares)	Pursuant to Article 280-19 of the Commercial Code of Japan, the Company has only one type of share acquisition right by way of stock options outstanding (Shares to be issued upon execution of share acquisition rights: Common shares, Number of shares to be issued upon execution of share acquisition rights: 156,000 shares)	Pursuant to Article 280-19 of the Commercial Code of Japan, the Company has only one type of share acquisition right by way of stock options outstanding (Shares to be issued upon execution of share acquisition rights: Common shares, Number of shares to be issued upon execution of share acquisition rights: 160,000 shares)

Subsequent events

Not applicable.

6. Production, Orders Received and Net sales

(1) Production

Yen in thousands

Product category		FY2004 Interim Apr. 1, 2003 - Sep. 30, 2003		FY2005 Interim Apr. 1, 2004 - Sep. 30, 2004		FY2004 Apr. 1, 2003 - Mar. 31, 2004	
		Sales	Shares (%)	Sales	Shares (%)	Sales	Shares (%)
Manufactured products	Communications	222,059	32.5	168,596	42.1	667,510	36.4
	Internet protocol	112,211	16.4	86,034	21.5	461,916	25.2
	Real-time OS	19,625	2.9	1,841	0.4	60,748	3.4
	SI (customization)	328,662	48.2	144,184	36.0	641,281	35.0
Total		682,558	100.0	400,656	100.0	1,831,456	100.0

- Notes: 1. Amounts are calculated based on sales prices.
2. The above amounts do not include consumption taxes.

(2) Orders received

Yen in thousands

Product category		FY2004 Interim Apr. 1, 2003 - Sep. 30, 2003		FY2005 Interim Apr. 1, 2004 - Sep. 30, 2004		FY2004 Apr. 1, 2003 - Mar. 31, 2004	
		Orders received	Order backlog	Orders received	Order backlog	Orders received	Order backlog
Manufactured products	Communications	195,526	143,889	182,583	69,497	386,988	119,231
	Internet protocol	208,758	47,255	86,281	39,306	512,092	78,615
	Real-time OS	39,146	22,666	24,907	26,760	75,450	38,590
	SI (customization)	240,327	139,676	248,696	164,141	411,287	9,110
Total		683,758	353,487	542,469	299,705	1,385,819	245,546
Purchased products	Others	46,333	21,967	90,803	20,918	151,201	11,969
Total		730,091	375,454	633,272	320,623	1,537,020	257,515

- Notes: 1. Amounts are calculated based on sales prices.
2. The above amounts do not include consumption taxes.

(3) Net sales

Yen in thousands

Product category		FY2004 Interim Apr. 1, 2003 - Sep. 30, 2003		FY2005 Interim Apr. 1, 2004 - Sep. 30, 2004		FY2004 Apr. 1, 2003 - Mar. 31, 2004	
		Sales	Shares (%)	Sales	Shares (%)	Sales	Shares (%)
Manufactured products	Communications	181,510	22.4	217,073	38.1	353,638	20.4
	Internet protocol	224,114	27.7	110,176	19.3	503,213	29.0
	Real-time OS	34,583	4.3	12,547	2.2	79,154	4.6
	SI (customization)	303,812	37.6	148,890	26.1	618,313	35.7
Total		744,020	92.0	488,687	85.7	1,554,320	89.7
Purchased products	Others	64,515	8.0	81,475	14.3	179,083	10.3
	Total	808,536	100.0	570,163	100.0	1,733,403	100.0

- Notes: 1. Amounts are calculated based on sales prices.
2. Sales by major customer are not presented since no single customer represented more than 10% of aggregate net sales in the current consolidated interim period.

Yen in millions

Customer	FY2004 Interim Apr. 1, 2003 - Sep. 30, 2003		FY2005 Interim Apr. 1, 2004 - Sep. 30, 2004	
	Sales	Shares (%)	Sales	Shares (%)
Tokyo Electron Kyushu Limited	30	3.8	68	11.9

3. The above amounts do not include consumption taxes.

* This financial report is solely a translation of summary of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.