edion Corporation

Exciting Discovery In One Network

edion

Annual Report 2005

For Year ended March 31, 2005

Management philosophy—In pursuit of the customers' best smile

Putting customers first *Customer Oriented*

- We will offer products well-suited to customers' life styles and allow customers to enjoy the greatest satisfaction.
- We will provide new joy and a satisfying way of life as the customers have never imagined.
- We will offer full-scale post-sale service enabling customers to always use purchased products in the best condition.

Community-based business development

- With the recognition of being the top-brand in the region, we will aim at making stores that will continue to be supported by returning customers.
- We will focus on building long-term relationships with customers on the basis of trust.
- We will offer quality service in all of stores in all regions.

Staying creatively ahead of the curve

- We will aim at becoming a company always ready to face challenges and innovate.
- We will endeavor to be a "creative company" staying ahead of the curve and offering new value.
- We will improve the flexibility of the company to be able to instantly respond to the changes in customers' needs and times.

Outline of EDION Group

EDION Corporation was established on March 29, 2002 as a joint holding company of DEODEO Corporation based in the Chugoku region and EIDEN Co., Ltd. based in the Chubu region, with the aim of becoming a top brand large-volume home electronic appliance store.

As indicated by the name EDION (abbreviation of "Exciting Discovery in One Network"), the Company strives for an ideal form of marchandiser of home electronic appliances, adhering to our corporate philosophy of "putting customers first," "community-based business development" and "staying creatively ahead of the curve." While maximizing economies of scale, we endeavor to enhance our corporate profile and move forward along with our customers.

Consolidated Financial Highlights

(Millions of yen)

	Period from March 29, 2002 to September 30, 2002	Period from October 1, 2002 to March 31, 2003	Period from April 1, 2003 to March 31, 2004	Period from April 1, 2004 to March 31, 2005
For the year:				
Net Sales	222,784	220,074	434,166	437,992
Gross Profit	47,455	46,221	92,588	95,751
Operating Income	2,534	3,261	5,825	5,011
Net Income	1,214	1,176	3,018	4,919
At year-end:				
Total Assets	223,758	230,333	222,615	231,411
Shareholders' Equity	91,885	92,259	94,465	105,596

Disclaimer Regarding Forward-Looking Statements

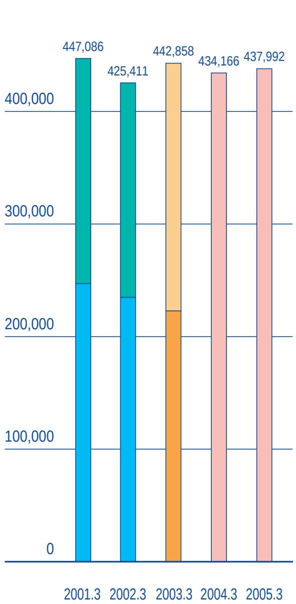
The present document contains forward-looking statements based on currently available information that EDION and the EDION Group consider to be reasonable. Actual results may differ materially from those projected as a result of various risks and uncertainties, including, but not limited to, economic fluctuations or unstable product demands, various domestic and overseas regulations, as well as changes in accounting standards/practices. Consequently, the information contained in this Annual Report should not be construed as the sole basis for investment decisions.

Indicators (Consolidated)

DEODEO　EIDEN　EIDEN Period from March 29, 2002 to September 30, 2002　Period from October 1, 2002 to March 31, 2003

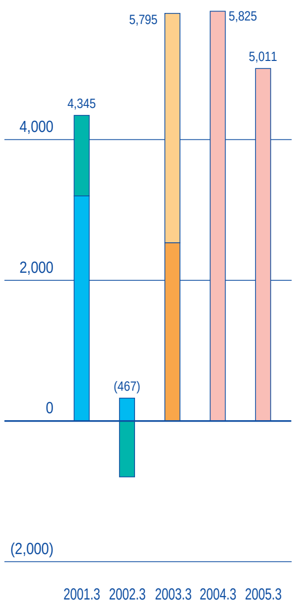
Net Sales

(Millions of yen)



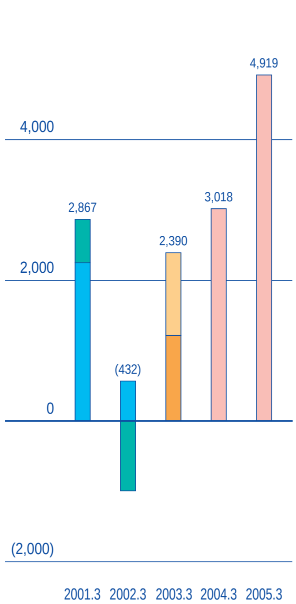
Operating Income (Loss)

(Millions of yen)



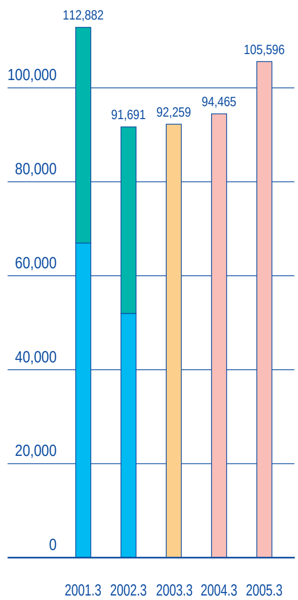
Net Income (Loss)

(Millions of yen)



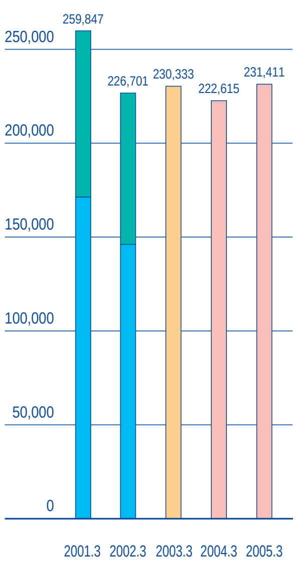
Shareholders' Equity

(Millions of yen)



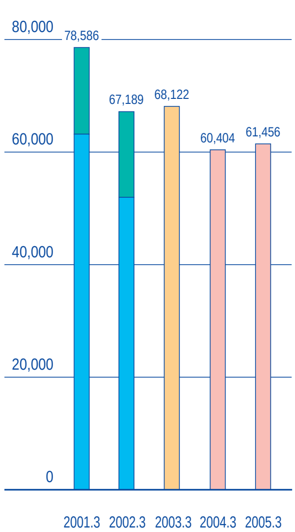
Total Assets

(Millions of yen)



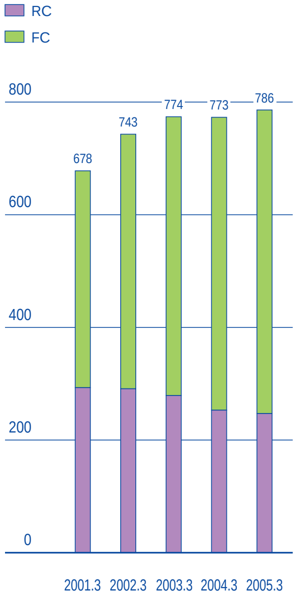
Interest-bearing Debt

(Millions of yen)



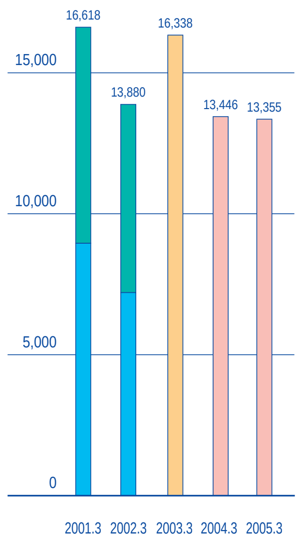
Number of Stores

(Stores)



Balance of Cash and Cash Equivalents at end of period

(Millions of yen)



*The figures from 2001 to 2002 represent the total consolidated results of DEODEO Corporation and EIDEN Co., Ltd. and the figures of 2003 represent the total full year results (1st term, March 29, 2002 – September 30, 2002 and 2nd term, October 1, 2002 – March 31, 2003).

To Our Shareholders ■

Masayuki Umehara	Masataka Kubo	Shoichi Okajima	Kazutoshi Tomonori
Vice President	President	Vice President	Vice President
(President, MIDORI DENKA CO., LTD)		(President, EIDEN Co., Ltd.)	(President, DEODEO Corporation)

EDION will strive to survive a period of tough competition by further promoting "Quality Service Retailing."

Analysis of market environment and challenges to be addressed

The Japanese economy enjoyed recovery as a whole, owing to factors such as increased exports on the back of strong economies in the U.S. and China, as well as brisk capital investment and improved corporate earnings. On the other hand, there has been no improvement in the earnings environment and instability in the future, such as the pension problem, is in a continuing state of suppressed personal consumption.

Under these circumstances the home electronic retailing industry, of which the EDION Group is a member, is ready to enjoy full-scale penetration of flat-screen television sets and DVD recorders, thanks to the Athens Olympic Games which drove demand for these products. Although the uptake of flat-screen television sets is currently said to be 11.5%, their demand is expected to increase further by 2011, when analog broadcasting is scheduled to be terminated.

As for seasonal and life innovation home electronic appliances such as air-conditioning products, refrigerators and washing machines, a steady sales volume has been maintained in each year. In addition, we expect a steady increase in demand, primarily for value-added products such as washer-dryers.

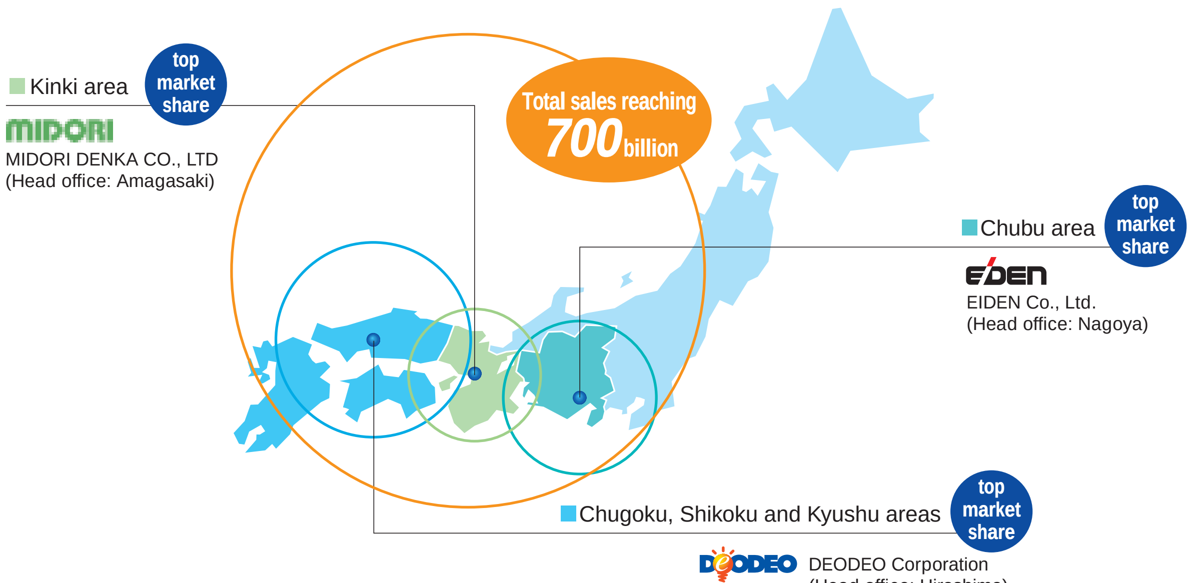
We have been focusing on speedily responding to the needs of customers and providing value-added products, as well as striving to enhance service systems so that customers can use our products in an optimum condition for a long time. In this regard, we will further enhance our efforts toward achieving our ideal of “safe to buy and total permanent satisfaction.”

Focusing on the core market areas and integration with MIDORI DENKA CO., LTD.

Companies in the home electronics retailing industry have been facing tough competition with the strengthening of the oligopoly among leading companies in the industry. Under these circumstances, it is necessary for us to develop ideas, undertake market positioning and make a management strategy to overcome competition from our competitors in various areas, such as store opening strategies, product lineups, customer service and prices, by responding in advance to changes in customer needs and the times.

Under these circumstances, we virtually completed business integration between DEODEO and EIDEN in fiscal 2004. As a result, we have successfully created various integration benefits, such as the consolidation of information systems, the downsizing of headquarters through organizational consolidation and achieving economies of scale through the consolidation of purchasing.

In addition, through an exchange of shares on April 1, 2005, we completed integration with MIDORI DENKA CO., LTD (Head office in Amagasaki, Hyogo Prefecture), a firm boasting the largest market share in the Kinki area. Consequently, we successfully established a marchandiser of home electronic appliances group whose operating companies hold the largest market share in each region to the west of the Chubu area, by consolidating DEODEO, the largest operator in the Chugoku, Shikoku and Kyushu areas, MIDORI DENKA, the leader in the Kinki area, and EIDEN, which has the leading share in the Chubu area. In addition, we have made a strong showing to become the second largest company in the industry, with sales reaching nearly 700 billion yen, and the leading group in terms of the number of stores, with 875. As a basic integration policy, we have decided to pursue consolidation benefits through economies of scale as the second largest company, and enhance community-based business development in each core area of DEODEO, EIDEN and MIDORI DENKA. Looking ahead, we will use our experience of creating benefits from the consolidation between DEODEO and EIDEN as a springboard, to quickly maximize the effect of an integration with MIDORI DENKA, as well as develop an aggressive store opening strategy to achieve sales of 1,000 billion yen.



Home electronic appliances marchandiser network in each region to the west of the Chubu area ▲

Striving to enhance quality service retailing

Under the management principle of “Putting Customers First,” we will strive to further strengthen its proprietary business model of “Quality Service Retailing.” As part of our efforts to achieve this goal, we have been working on such measures as providing thorough operating instructions for purchased products and improving the system of same-day repairs and drop-off repairs, so that customers can use our products comfortably after they have been purchased. In addition, we will focus various challenges such as expanding our sales channels through a direct marketing business using the internet or catalogues and developing the small-size franchise stores business.

We will further pursue high-level services that are far ahead of our competitors and strive to improve our services.

Medium-term vision

Aiming for continuous growth, we developed a medium-term vision for the period up to fiscal 2007 with “growth potential” and “efficiency” as the main areas of focus.

For growth potential, we will accelerate the opening of new stores that are appropriate to each sales channel. For example, we will work on developing large urban stores with floor spaces in the range of 6,600m^2 to 10,000m^2, which customers can visit by using public transportation systems such as trains and buses, and large suburban stores with floor spaces in the range of 5,000m^2 to 10,000m^2 that also offer new business lines such as furniture, housing equipment and housing improvement services. In addition, we will strive to expand our market share by opening stores with floor spaces in the range of 1,500m^2 to 3,000m^2, in accordance with the market size in each area. Furthermore, we will open small convenience store-type franchises with floor spaces in the range of 15m^2 to 70m^2 to offer community-based services such as house-call sales. We will further strive to enhance our positioning in the core areas by opening 79 directly-operated stores in three years, and raise our market share by more than 5% in each region to the west of the Chubu area, through store opening strategies that are appropriate to each sales channel.

As for the efficiency of our business, we will consolidate our distribution and service bases to shorten the lead time for deliveries, through integrated management of procurement and distribution, door-to-door delivery and service operations, as well as achieving efficient inventory control and further improving our delivery, installation and construction businesses.

In order to strengthen our products' marketability, we will enhance the lineup of the original product series "KuaL" by adding the original functions for our Group.

Through the above efforts, we will aim to achieve both growth and efficiency, targeting net sales of 900 billion yen and an ordinary profit of 32 billion yen for the fiscal year ending March 2008.

Medium-term vision ▼

1	2	3
Net sales of 1,000 billion yen Ordinary profit of 50 billion yen	Aggressive store opening strategy	Becoming the leading brand in each region (developing next-generation stores)

To maximize shareholder value

We will continue with the management principle of "Putting Customers First" and pursue the business model of "Quality Service Retailing," with a focus on community-based business development, to comprehensively improve its products' marketability, service capabilities and CS (customer satisfaction). Through the above measures, we, as a value-creating company, will bolster our corporate value for our stakeholders, including our customers, shareholders, clients, employees, group companies and affiliates, and local communities.

We look forward to the continued understanding and support of our shareholders as we address these ongoing challenges.

July 2005

Masataka Kubo
President

Enhancing community-based business development and pursuing economies of scale

Blending of service and extensive product lineup

On April 1, 2005, MIDORI DENKA CO., LTD joined the EDION Group. MIDORI DENKA is the leading large-scale retailer in western Japan with 89 stores mainly in the Kinki area, as well as the Chubu and Kanto areas. Its product lineup includes home electronics products, audio-visual equipment, personal computers, furniture and interior products, toys, CD/DVD software and video game software. Some of the characteristics of MIDORI DENKA are that it has a good track record and expertise in developing various business lines, such as a complex home electronic appliances and furniture store (33 stores) which is very unusual in this industry, in addition to specialty stores for interiors, home improvement and hobbies. It has also developed high-level community-based post-sale services.

Meanwhile, MIDORI DENKA owns six large-scale stores with floor spaces of at least 6,600m^2, and we plan to implement its strategy for developing large-scale stores. Using its affiliate Midori Service Co., Ltd., MIDORI DENKA provides finely tuned services such as same-day delivery, same-day repair, same-day work and time-specified delivery, as well as showing consideration to its customers by changing into new white socks before starting work in their homes. MIDORI DENKA and the EDION Group share the same service principle and concept of values, and we have successfully established a foundation of “Quality Service Retailing” in each region to the west of the Chubu area.

home electronic appliances section


Furniture and interior section

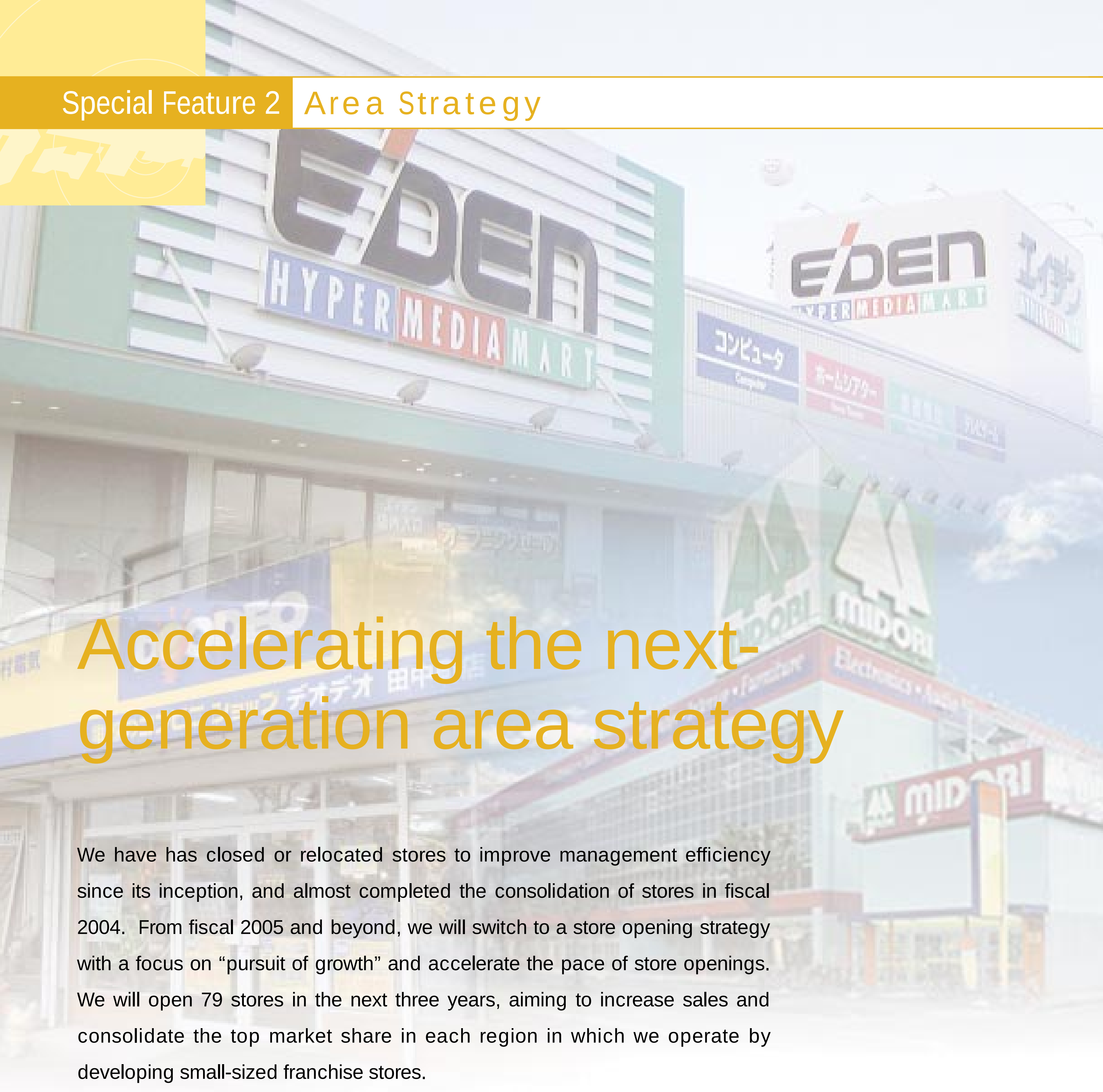

Home-improvement section

Creating consolidation benefits in one of the largest network of home electronic appliances marchandiser in western Japan.

The EDION Group and MIDORI DENKA have already jointly developed and started selling the original product series “KuaL” from January 2005. As for fiscal 2005, we will achieve a consolidation of suppliers and integration benefits through the joint purchase of proper products.

By sharing the expertise of MIDORI DENKA in various lines of business such as furniture, interiors and home-improvement and developing new businesses, we will strive to develop strong stores that can achieve sales of 10 billion yen even in suburban areas.

In an effort to quickly achieve sales of 1,000 billion yen, we have been developing a next-generation system that can support growth. By developing a common next-generation system among our stores, we believe that we will be able to improve our efficiency in distribution and store operations.



Accelerating the next-generation area strategy

We have has closed or relocated stores to improve management efficiency since its inception, and almost completed the consolidation of stores in fiscal 2004. From fiscal 2005 and beyond, we will switch to a store opening strategy with a focus on “pursuit of growth” and accelerate the pace of store openings. We will open 79 stores in the next three years, aiming to increase sales and consolidate the top market share in each region in which we operate by developing small-sized franchise stores.

The EDION Group will also aggressively promote the opening of urban stores located at public transportation terminals as well as large suburban stores with a floor space of at least 10,000m², with the aim of establishing a dominant position to become the leading brand in each region.

Store-opening strategy by channel 1

Developing directly-operated stores

We will open urban stores and suburban stores appropriate for the size of each market. Through this strategy, we will strive to consolidate our dominant market share in each region and penetrate store brands in those regions, while promoting community-based business development.

In the urban area, we will open large-scale stores with a floor space in the range of 6,600m^2 to 10,000m^2, that offer products different to the existing ones, in various categories such as CD/DVDs software, games, hobbies and stationery in accordance with the characteristics of each store. We expect many customers to visit these stores by train and bus, and so we will expand the assortment of "take-home" products and consumable goods. We will open MIDORI Tenmanbashi store with a sales floor space of 8,900m^2 in May 2005, continuing our efforts to open similar stores in major cities in the Chubu, Chugoku and Shikoku areas.

In the meantime, we will open large-scale stores with floor spaces in the range of 5,000m^2 to 10,000m^2 in the suburbs and offer furniture, housing equipment and home-improvement products other than home electronic appliances, thus creating stores that can provide products that are appropriate for customers in various situations.

For fiscal 2005, we will open 26 stores in total (a net increase in sales floor space of about 86,000m^2) across our core area of western Japan.

Store-opening strategy by channel

Urban supersize stores	Located at terminals Floor space in the range of 6,600m^2 to at least 10,000m^2 Offer products in categories such as software, games, hobbies and stationery other than the existing product lineup.	**MIDORI Tenmanbashi store** opening on May 27 • Floor space: 8,900m^2 • Located in the center of downtown Osaka in front of Keihan and Subway Tanimachi Line "Tenmanbashi Station"
Suburban supersize stores	Located in suburbs Floor space in the range of 5,000m^2 to 10,000m^2 Offer products in categories such as furniture, housing equipment and home-improvement other than the existing product lineup.	
Suburban large-scale stores	Located in suburbs Floor space in the range of 1,500m^2 to 3,000m^2	Establishing a dominant market share in the region by opening stores that are appropriate for the size of each market.
Small-sized franchise stores	Satellite stores Floor space in the range of 15m^2 to 70m^2	Newly developing EFS (EIDEN Family Shop) in addition to DFS (DEODEO Family Shop)
Multiple channels	Non-store retailing	Direct marketing by Kurashino Design Catalogue mail order, Internet mail order and TV shopping

We will strive for sales growth by accelerating store opening in various channels.

2 Store-opening strategy by channel

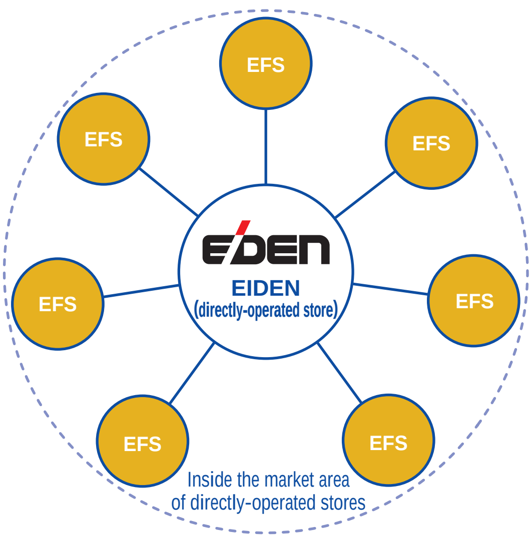
DFS (DEODEO Family shop) has already opened 500 stores in the Chugoku, Shikoku and Kyushu areas.

Developing small-sized franchise stores in the Chubu area on a full-scale basis.

EFS EIDEN Family Shop

〈Whole image of small-sized EFS business〉

Establishing a dominant market share with directly-operated stores and EFS



On June 10, 2005

The first EFS “EIDEN Akechi Store” (Ena, Gifu Prefecture) to be opened.

Developing small size franchise stores

We have been developing small size franchise stores with floor space in the range of 15m^2 to 70m^2, centering on the directly-operated core stores in the market, with the aim of enhancing our dominant position in the region and offering more specialized community-based services.

Franchise stores operate with the concept of a house-call convenience store and offer a wide range of consumable goods such as batteries, electric bulbs, fluorescent tubes and printer ink. By visiting our target customers’ homes and using special fliers, staff will make community-based house-call sales and target elderly households by offering house-call services for such things as changing electric bulbs. In this way we will offer convenient shopping in our customers’ neighborhoods, as well as providing heart-felt services to each customer in the region.

Looking ahead, we will use the expertise of DFS (DEODEO Family Shop) which operates 538 stores mainly in the Chugoku, Shikoku and Kyushu regions as a springboard to fully develop EFS (EIDEN Family Shop) primarily in the Chubu region in fiscal 2005, with a plan to open 140 stores in the next three years by the end of fiscal 2007.

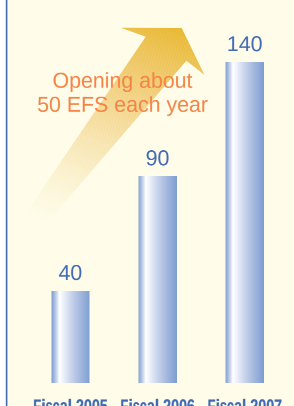
Model for the standard franchise store

- Floor space: 15m^2 to 70m^2
- Operating style: House-call convenience store

- Convenience store-style home electronic appliances store offering a wide range of consumable goods such as batteries, electronic bulbs, fluorescent tubes and printer ink.
- Community-based house-call sales using special fliers.
- Offering services that target elderly households, such as replacing used electric bulbs with new ones.

Three-year store opening plan for EFS

(unit: stores)



Distribution Strategy

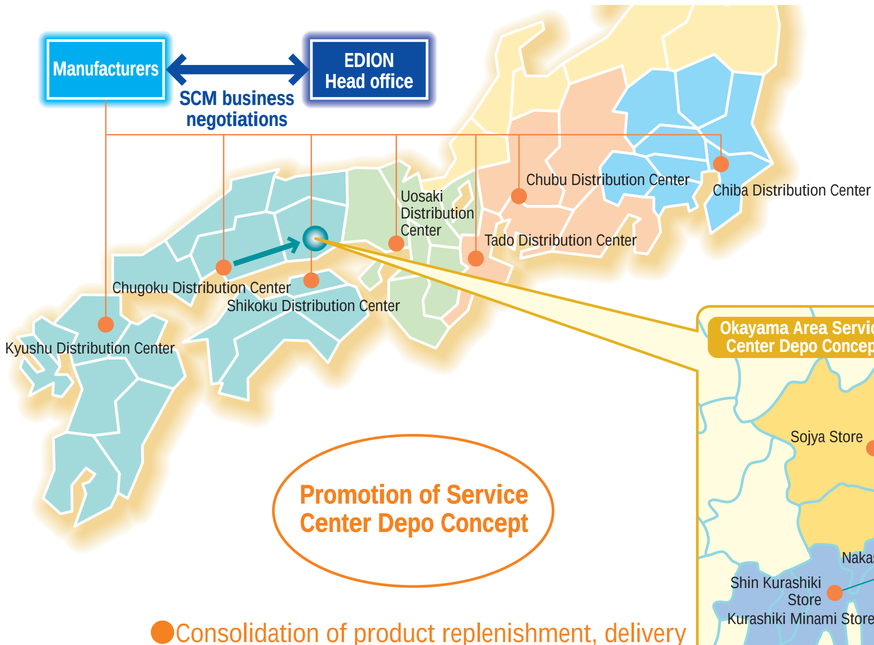
The concept of Okayama Service Center depot

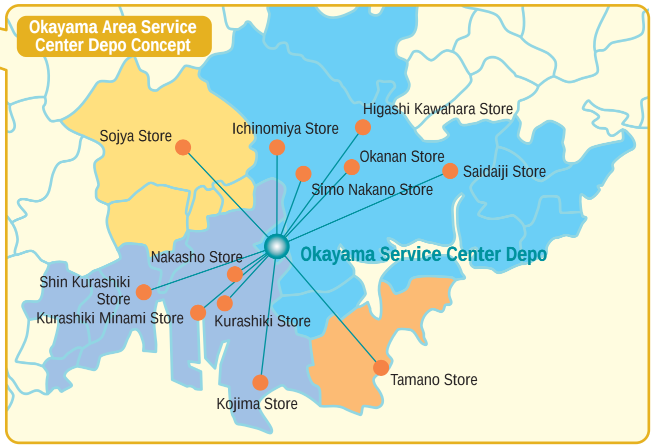
We have been pursuing efficient distribution systems in each store-opening area. As part of this effort, we have developed a "unified procurement and distribution system" in 2002 and started the unified management of procured goods from consumer electronics makers through the four logistics centers established in Hiroshima, Kagawa, Fukuoka and Aichi Prefectures. Consequently, we have successfully simplified the cumbersome operation of receiving products, developing systems that have enabled each store to concentrate on sales and service operations. In addition, the unified management of inventories and the consolidation of purchasing through the logistics centers resulted in reduced inventory losses, leading to a reduction in procurement costs.

In the Hiroshima and Chubu areas, we have established service centers where service operations such as product delivery and repairs within the area are conducted in a concentrated manner, striving to improve efficiency and upgrade distribution and services further.

After completing the transfer of business from NINOMIYA CO., LTD in June 2005, we have concurrently opened four stores after revamping the stores in the Okayama area, consolidating its dominant position in this area. We will use the expertise in developing centralized distribution systems in the Hiroshima and Chubu areas as a springboard to further promote the concept of centralizing distribution and service operations to the service center in all our stores in the overall Okayama area, including existing stores.

By developing a system for seamless management of product procurement from manufacturers and post-sale services such as delivery of products to customers' houses and repairs, we can upgrade and improve our service operations by means such as reducing delivery time, expanding the areas where same-day, next-day delivery and specified-time delivery is available, as well as increasing the efficiency of our inventory management. These are an essential part of our efforts for the next-generation area strategy.





Promotion of Service Center Depo Concept

- Consolidation of product replenishment, delivery and installment work and house-call repairs.
- Establishing a concentrated repair center for drop-off repair requests.

To respond to the diversified needs of shopping

Our multiple-channel strategy

The EDION Group, with the main theme of “Quality Service Retailing,” strives to expand the network of new-style retailing stores by offering a wide range of products and services that are far superior to our competitors. In the meantime, the needs of customers for on-line shopping has been increasing dramatically, and is continuing to increase on the back of the rapid development of digital networking.

The market size of the mail order industry, such as Internet mail order, TV shopping and catalogue mail order, has grown to more than 2,500 billion yen in fiscal 2003, showing an increase of about 40% in the past 10 years. Above all, online shopping of consumer electronics products, primarily personal computers, has shown strong growth.

To respond to this market environment, we have decided on an essential sales strategy for our growth, to create purchasing opportunities for various customers in broad areas that are not bound by market area, by establishing multiple sales channels that are tailored to every purchase option open to our customers and offer the convenience of shopping anywhere at any time.

● The beginning of “edion direct”

We made Kurashino Design a wholly-owned subsidiary in 2004 and started a catalogue mail order business.

In the Internet mail order business, the group consolidated the Internet shopping sites operated individually by DEODEO and EIDEN as “edion direct” in November 2004, and two others operated separately by MIDORI DENKA and Kurashino Design in May 2005 as well. The operation base of edion direct was centralized to Kurashino Design to improve efficiency and enjoy greater economies of scale.

“edion direct” has grown to one of the largest shopping sites in Japan with 300,000 members and nearly 220,000 lines, such as home electronic appliances, personal computers, furniture and interior products, CD/DVD software, hobbies and gifts.

We will strive to improve its products’ marketability by using its economies of scale as a springboard to improve service capabilities (its core concept) and its distribution system, in addition to renovating the site to make it more attractive to customers.

As for service capabilities, we offer equivalent services at the online stores to those offered at offline stores. In fact, we are pursuing customers’ satisfaction by offering special privileges for members, such as free shipping for all orders over 10,000 yen, a “log-in special price,” a special price system for members, point systems and a “my page” function with which members can check their purchase history in a private page.

Kurashino Design will add edion direct to its existing catalogue mail order business, with a view toward entering the TV shopping business, and we will strive to expand it as its direct marketing strategy division, aiming at increasing sales from the non-store retailing business, from the target for fiscal 2005 of 10 billion yen, to 50 billion yen over the medium term.

We have established various sales channels such as offline stores and mail order to respond to the diversified purchasing options of customers.

Offering comprehensive value through the multichannel strategy

These three lines represent the combination of the three sales channels of “broadcast media”, “catalogue media” and “Web media”.

The ear-shape reflects our attitude of listening to the opinions of our customers.

This symbol also resembles the ‘OK’ sign made by a person’s hand, meaning that we offer good service from our users’ viewpoint.

edion direct

Enhancing efforts for the original products

New original product lines "KuaL" series

We have started sales of its new original product series "KuaL" since January 2005. The KuaL series product lineup has increased to 342 items and its sales accounted for more than 30% of total sales, as of March 2005.

The KuaL series consists of our original products, developed jointly with a domestic home electronics maker based on the needs of our customers. We will differentiate the series from outside products by optional functions that meet the lifestyles and needs of our customers. In addition, we have attached a 10-year repair guarantee to some of the air-conditioners and refrigerators, and this has been highly evaluated by our customers.

As for digital consumer electronics products that have short life cycles, we will improve our economies of scale through the integration of business with MIDORI DENKA, and create an integration effect through the consolidation of purchasing.

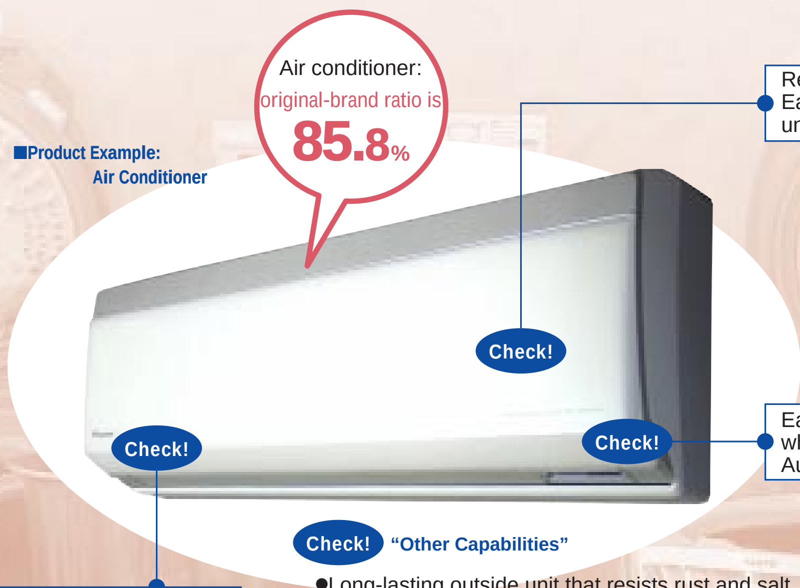
Through the above measures, we aim to offer both value-added services unique to our stores, and to pursue profitability.

In the earnings projection for fiscal 2005, we will strive to increase sales of original products and joint-marketing products to 50% in total, as a percentage of total sales (comprised of 35% for original products and 15% for joint-marketing products) and further improve our gross profit margin rate.

New Original Product lines "KuaL" series

Realizing our customers' dream

■Product Example: Air Conditioner



Repels dust and grime
Easy to care for (inside unit body)

Easy to care for even when not in use
Automatic cleaning mode

Antibacterial coating shields against mold and mildew (fan/filter)

Check! "Other Capabilities"

- Long-lasting outside unit that resists rust and salt
- Odor-cutting filter quickly neutralizes tobacco and pet odors
- No need to worry about the room getting too cold while you are asleep, because temperatures are monitored at two locations (in the remote control and in the indoor unit: "end-to-end temperature sensing") – and others

Our goal is to develop and sell products that meet the needs of our customers.

[KuaL]

New original product lines that realize our customer's dream

Refrigerator
original-brand ratio is
50.9%

Example:

· Vegetable drawer that enables users to rinse vegetables by pouring in water and draining it through a drain tap
· The first silent refrigerator in the industry (in the world)
· Quick-cooling function "Hayawaza Cooling"
· Adopted triple antibacterial resin to interior walls
· Customers can choose from "original colors" to suit their rooms
· Utility case at the top drawer – and others

Example:

· Original washing options
  "Spin-dry later" option, when users cannot dry laundry immediately after finishing their washing
  "Easy iron" option to dry laundry in slightly wet conditions, to make ironing easy (suitable for washing dress shirts)
  "Free arrange" option allows users to arrange the washing course to make it easier to use
  "Soft washing" option to keep laundry feeling soft and fluffy
  "Presoaking" option for tough dirt
  "Light washing (maximum of 2kg)" option
· A special box is attached for storing the bathwater-pump and hose

Washer
original-brand ratio is
45.0%

Adding original functions unique to the EDION Group to highly functional proper products

Microwave
original-brand ratio is
71.1%

Example:

· Original automatic cooking options: "boiling option" and "yogurt making option"
· "Memory function" option allows users to choose their most-used functions and the cooking time with a single touch of a button.
· "150-day cookbook" option allows users to make anything from side dishes to cakes
· "Healthy deep-fry function" to make deep-fried foods with only one or two spoonfuls of oil
· Comes with "pan for boiling and stewing" that is safe for using on the stove and in the oven and microwave.

[jazzberry]

Customers can choose products from three accent colors according to their taste, targeting single customers

[MY & OUR]

Device products specializing in consumable goods such as batteries and electric bulbs

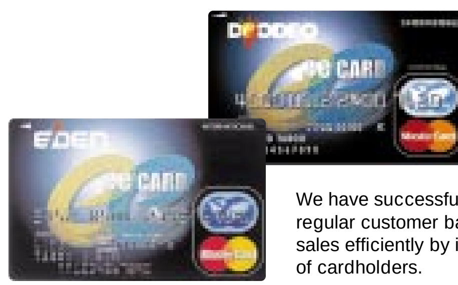
In pursuit of “real service”

Aiming at increasing ee CARD membership to 3 million by the end of fiscal 2005.

In April 2003, we integrated various customer cards issued independently by DEODEO and EIDEN as “ee CARD.”

The greatest attraction of ee CARD is that members are offered a five-year repair guarantee on an unlimited number of products, with payment of an annual membership fee of 1,029 yen (including tax). In January 2005, we introduced a 10-year repair guarantee on designated products such as air conditioners and refrigerators to enhance our service capabilities. In addition, points are awarded for shopping not only at our stores, but also at both domestic and overseas participating stores, as well as for payment through the ee CARD, which can be redeemed for discounts on cellular phone charges and satellite broadcast viewing fees. We plan to upgrade the features of the ee CARD by adding new functions and enhancing benefits for cardholders.

Membership of the ee CARD reached 2.72 million as of the end of March 2005. Judging from the fact that sales from cardholders account for nearly 63.5% of total sales, it has been demonstrated that increasing the number of cardholders will help expand the regular customer base. In addition, it will also be effective for improving services by collecting customer data, such as purchase trends, and enabling a detailed analysis. We are accelerating our efforts to increase the number of card members for all EDION stores to 3.19 million in fiscal 2005.



We have successfully been expanding the regular customer base and promoting sales efficiently by increasing the number of cardholders.

A five-year repair guarantee system

Differentiating ourselves from other consumer electronics retailers through a wide coverage guarantee

● For ●

All home electronic appliances, personal computers and related products

● More than ●

5,250 yen (including tax)

● To ●

Card members as well as their family members

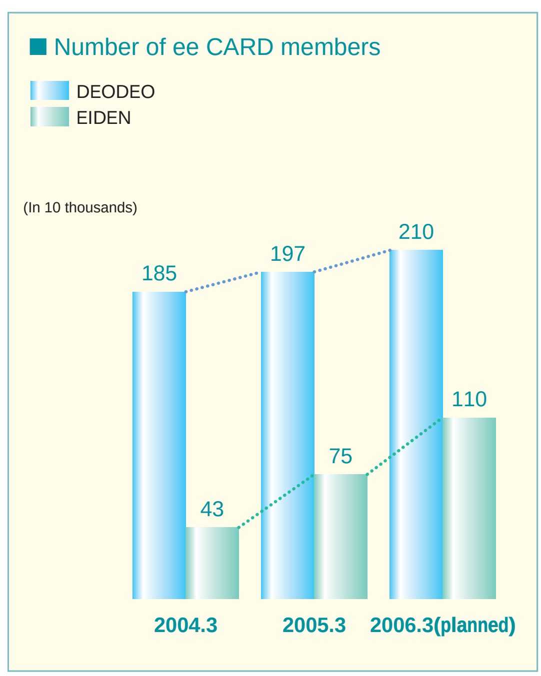
The number of requests for applying a five-year repair guarantee in fiscal 2004: about **290,000** cases

Further upgrading service capabilities

In January 2005

Introduced a ten-year repair guarantee

Applies to designated products such as air conditioners and refrigerators



Our business concept of "Quality Service Retailing" is summarized in the corporate principle of "Putting Customers First." We consider it to be of the utmost importance that customers view their shopping experience with us as "safe-to-buy and total permanent satisfaction," by differentiating from large discount stores and other competitors that aim to attract customers from broad areas through comprehensive community-based sales activities, as well as offering quality post-sale services and product lines that meet the specialized needs of customers. Based on this principle, our targets "executing on our commitment to customers, striving to offer quality services through a framework consisting of the group companies (DEODEO Technonet; COMNET, a subsidiary of EIDEN; and Midori Service, a subsidiary of MIDORI DENKA). In particular, we will focus on improving the handling of digital home electronics, installment, providing operating instructions, establishing detailed product delivery systems and upgrading of service at receiving drop-off repair requests by customers as important differentiating factors.

Through the above efforts, we will strive to realize dominant services that are far ahead of our competitors.

Delivery and installment work

Delivery truck

Total number of deliveries: 2,200,000cases

Same-day deliveries: 220,000cases

Before starting installment work, staff will change into white socks.

House-call repairs

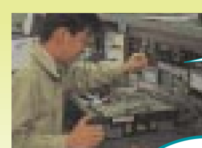
Radio service car

The number of house-call repair requests: 1,290,000cases

The number of same-day house-call requests: 450,000cases

Call center for house-call repairs

Drop-off repairs



Proprietary repair center

The number of drop-off repair requests: 1,080,000cases

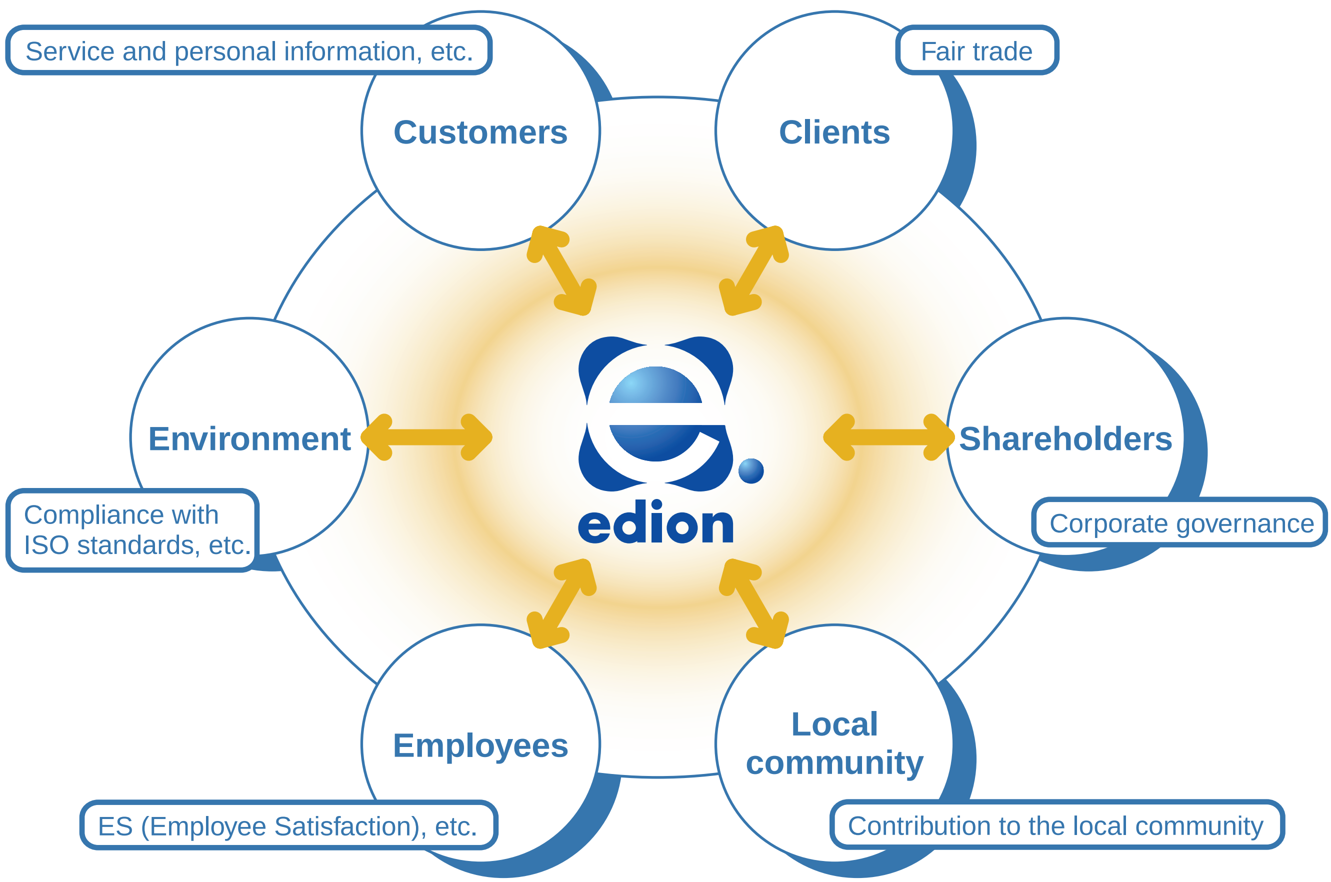
The average number of days required to complete repairs: 6.9days

Techno Reuse Center

Offering quality services through a framework consisting of the group companies

DEODEO	Technonet
EIDEN	COMNET (subsidiary)
MIDORI DENKA	Midori Service (subsidiary)

"More eco-friendly"



Our management principle of "Quality Service Retailing" is the community-based sale of consumable goods built on reassurance and reliance of stakeholders such as shareholders, customers, local communities and clients.

In order to keep developing in the rapidly changing business environment amid severe competition, as well as being widely accepted and supported in the local community, we consider the establishment of favorable relationships with stakeholders and the development of corporate governance to ensure transparency and objectivity in making management decisions, to be important management issues. It is also essential that we make thorough efforts organizationally to familiarize directors and employees with corporate governance, in order to earn the trust of customers.

We will establish a CSR committee to discuss the ideal form of corporate social responsibility, and specific measures to realize it, as well as a "compliance committee" as a risk management headquarters, related to thorough adherence to the code of ethics and compliance. Through the above framework, we will strive to conduct business activities based on the issues of corporate governance and corporate social responsibility.

As specific measures, we established a "code of ethics of the EDION Group" in December 2004, as well as distributing an "ethics and compliance manual" and a "code of ethics card" for employees to carry from fiscal 2005, developing a system to implement training and education for employees, including training new employees.

To comply with the law protecting personal information enforced from April 2005, we have established a policy applied basic administrative provisions for protecting personal information, as well as developing a system to protect and manage personal information.

Environmental efforts

In April 2005, DEODEO decided to introduce an Energy Management System (EMS) that enables the company to centrally manage lighting and air-conditioning facilities as an energy saving measure, as part of environmental conservation activity.

Prior to this decision, DEODEO conducted trial introductions at two of its stores and found that the reduction in the amount of carbon dioxide, as calculated from the total possible savings in electric power consumption at the two stores, amounted to nearly 30 tons annually, indicating that there would be a significant effect if the system were introduced to all its stores. DEODEO Gion Store, established in late April 2005, has already introduced the system. In addition, we will install the system as standard at our new stores, as well as successively introducing it to the existing stores, while investigating the possibility of introducing the system to the overall EDION Group in the future.

The four EIDEN Group companies obtained ISO 14001 certification in March 2000. We have also set up an environment management organization inside the company and have been working on an eco-business from four aspects: sales, repairs, recycling and collecting. In addition, the EDION Group has been actively promoting environmental conservation activities. For example, we have been promoting the sale of eco-friendly products based on the Energy Saving Labeling System, which indicates the achievement of energy savings for air conditioners, refrigerators, CRT-based television sets, gas cooking appliances, gas burning heaters, fluorescent lights, electric toilet seats and personal computers.

The law protecting personal information

We have has been responding to the law protecting personal information that was enforced from April 2005, in two areas: "implementing education and training for employees" and "implementing measures for information security." In terms of education and training, we have been offering training for all its employees to improve their level of understanding, while making it obligatory for all employees to submit a written confidentiality pledge. In addition, we have developed a personal information protection handbook and distributed it to all our employees. In terms of measures for information security, we have implemented such measures as restricting the use of data inside PCs outside the company, encrypting data, restricting access to customer data, implementing log control, introducing biometrics systems for entering machine rooms and introducing an unauthorized access protection system.

Profiles of Edion Group

- Paid-in Capital ¥19,294 million
- President Kazutoshi Tomonori
- Number of employees 2,952
- Date of Establishment May 7, 1947

Head office in Hiroshima, DEODEO Corporation has been providing comprehensive services to local communities through all area strategy characterized by opening “Power Stores” which are large-scale directly-operated stores and small-sized franchise stores “DFS (DEODEO Family shop).”

As of the end of March 2005, DEODEO has a network totaling 648 stores (110 directly-managed and 538 franchise stores), and is steadily increasing its market share in the Chugoku, Shikoku and Kyushu regions.

- Paid-in Capital ¥12,694 million
- President Shoichi Okajima
- Number of employees 1,414
- Date of Establishment April 7, 1955

Head office in Nagoya, EIDEN Co., Ltd. has been striving to meet the specialized needs of its customers and to actively improve customers’ satisfaction through its three main business organizations: “EIDEN,” an integrated chain for home electronic appliances; “CompMart” which provides information and communications equipment; and “HomeExpo,” DIY home centers.

Having 138 stores (85 directly-managed stores, 52 stores owned by consolidated subsidiaries and 1 franchise store) under its network, EIDEN group has a large market share in the Chubu region.

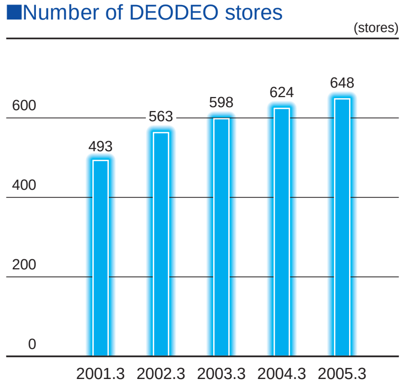
- Paid-in Capital ¥1,560 million
- President Masayuki Umehara
- Number of employees 1,952
- Date of Establishment August 18, 1961

Head office in Amagasaki, Hyogo Prefecture, MIDORI DENKA CO., LTD offers a wide range of products such as home electronic appliances, audio visual equipment, furniture and interior products, CD/DVD software and video game software, and is steadily increasing profits as a community-based quality service retailer.

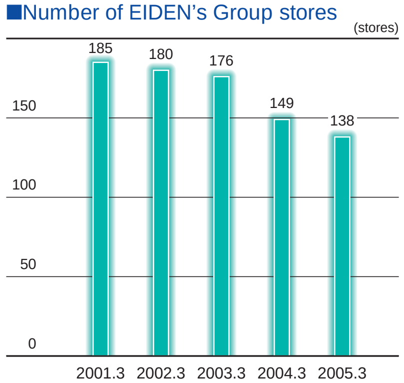
MIDORI DENKA has 89 stores (85 directly-managed and 4 franchise stores) under its network as of the end of March 2005, boasting the largest market share in the Kinki region.

- Paid-in Capital ¥300 million
- President Kenichi Sawayama
- Number of employees 25
- Date of Establishment March 1, 2002

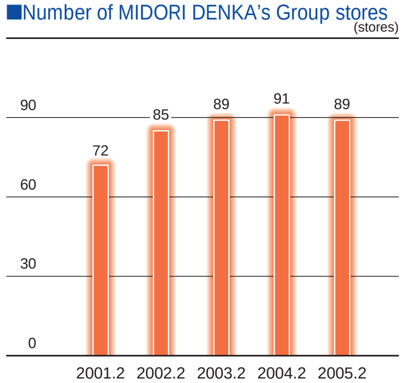
■Number of DEODEO stores



■Number of EIDEN's Group stores



■Number of MIDORI DENKA's Group stores



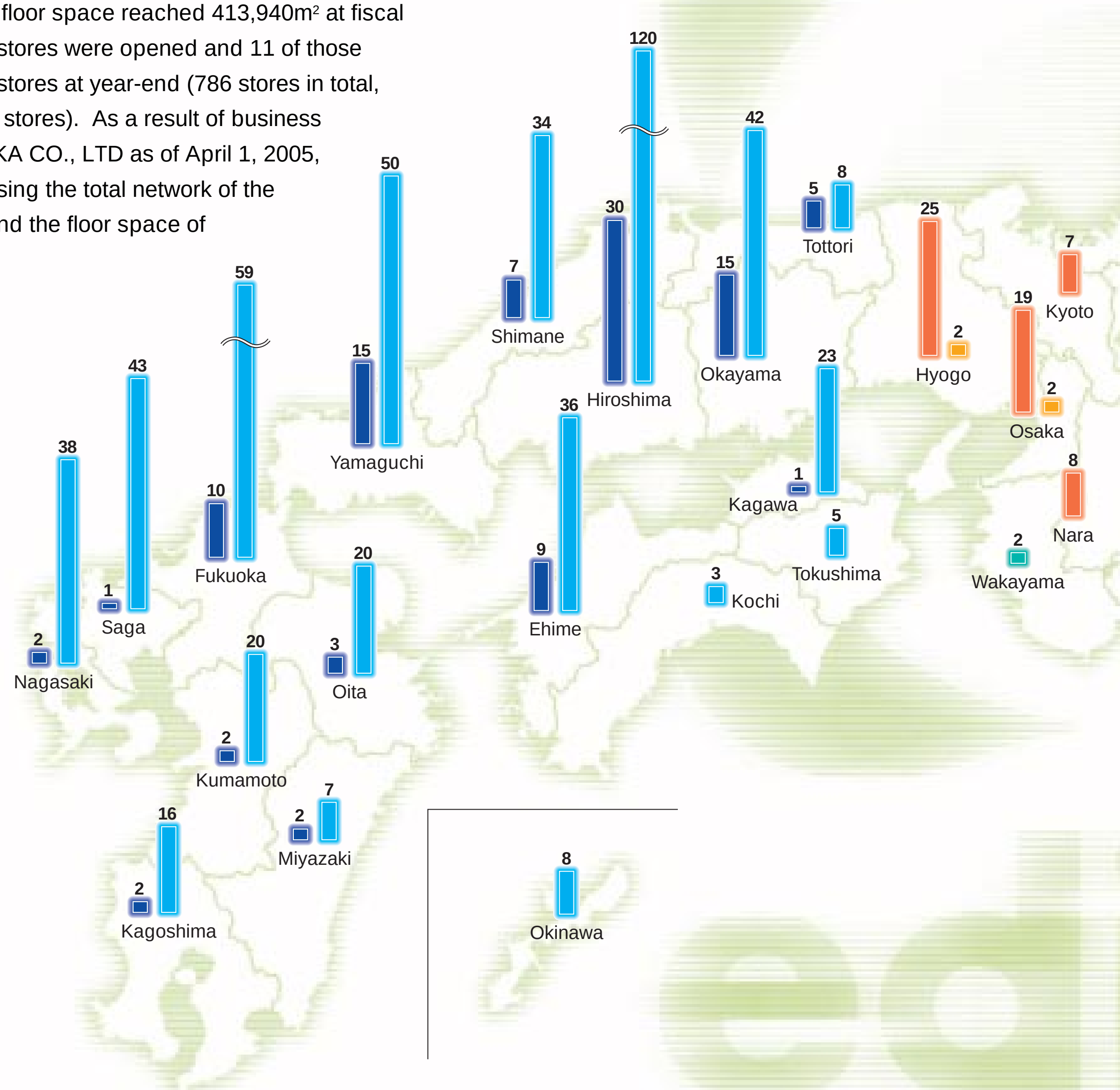
Head office in Shinagawa-ku, Tokyo, Kurashino Design, Inc. operates a direct marketing business primarily through catalogue mail order of furniture and interiors.

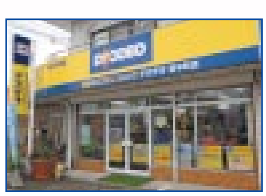
Kurashino Design will play a central role in the direct marketing business strategy of the EDION Group, an example of which is the starting of operations of "edion direct" in May 2005 by consolidating the Internet mail order sites of each of the EDION Group companies.

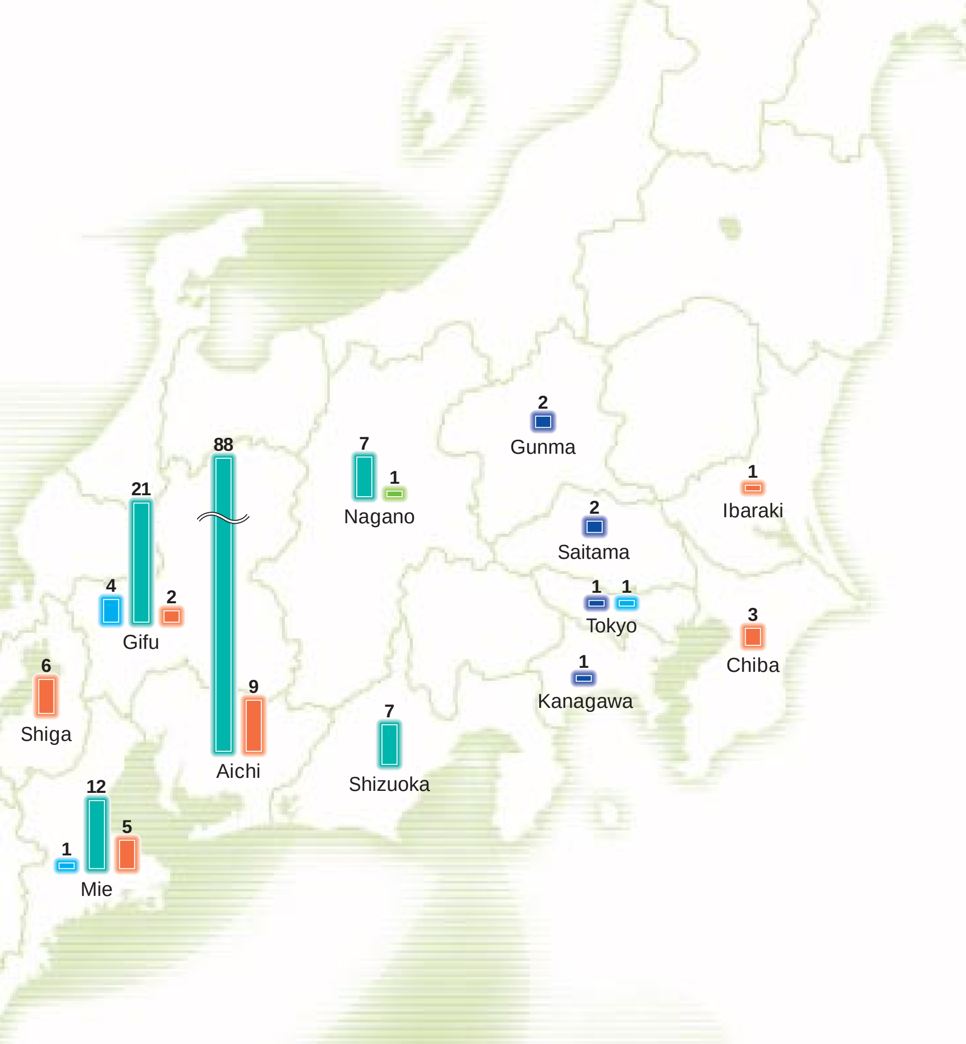
Network

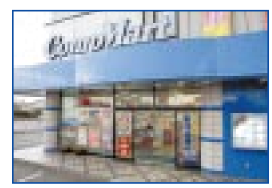
■ Toward the expansion of the Group

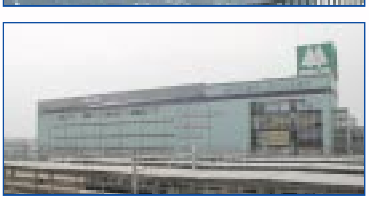
As for home electronic appliances stores, 15 new company-managed stores were opened, 1 was relocated, the floor spaces of 5 stores were enlarged and 20 stores were closed. As for the other retail outlets, 2 company-managed stores were opened and 3 stores were closed. As a result, the number of company-managed stores totaled 247 and the aggregate gross floor space reached 413,940m^2 at fiscal year-end 2004. 30 franchise stores were opened and 11 of those were closed, resulting in 539 stores at year-end (786 stores in total, including company-managed stores). As a result of business integration with MIDORI DENKA CO., LTD as of April 1, 2005, 89 stores were added, increasing the total network of the EDION Group to 875 stores and the floor space of 784,152m^2 as a whole.











Subsidiaries (As of March 31, 2005)

Companies	Location	Business
DEODEO Corporation	Naka-ku, Hiroshima	Sale of consumer electronics products and information/communication devices
EIDEN Co., Ltd.	Nakamura-ku, Nagoya	Sale of consumer electronics products and information/communication devices
MIDORI DENKA CO., LTD	Amagasaki city, Hyogo	Sale of consumer electronics products and information/communication devices
Kurashino Design, Inc.	Shinagawa-ku,Tokyo	Sale of furniture and interior products through catalogue mail-order
DEODEO Shoji Co., Ltd.	Minami-ku, Hiroshima	Sale of consumer electronics products for corporate customers
EIDEN COMMUNICATIONS Co., Ltd.	Chikusa-ku, Nagoya	Sale of cellular telephones
COMNET Co., Ltd.	Kasugai city, Aichi	Repair, delivery and installation of consumer electronics products
DISC STATION Co., Ltd.	Meito-ku, Nagoya	Rental and sale of audio visual CDs & DVDs
HOME EXPO Co., Ltd.	Chikusa-ku, Nagoya	Sale of home center products
NWork Co., Ltd.	Chikusa-ku, Nagoya	Operation and management of information systems
Midori Services, Co., Ltd.	Amagasaki city, Hyogo	Repair, delivery and installation of consumer electronics products
Midori Corporation	Higashi Katsushika-gun, Chiba	Sale of consumer electronics products and information/communication devices
MET Special Purpose Company	Chiyoda-ku, Tokyo	Management of assets specified under liquidation plan

* DEODEO Technonet merged with DEODEO on March 31, 2005.

Financial Results

Management's discussion and analysis on financial standing and operating results (consolidated base)

Business Environment

During fiscal 2004, the economy remained on a recovery trend, as exports showed an increase supported by the brisk U.S. and Chinese economies; also, capital expenditures remained strong and corporate earnings recovered.

About sales breakdown by product of the EDION group (the "Group"), following the previous year, sales of digital-related products, such as flat-screen TVs (y-o-y increase of 79.8%), DVD recorders (y-o-y increase of 53.8%) and digital audio (y-o-y increase of 3,000%), were robust. Furthermore, sales of air conditioners (y-o-y increase of 15.7%) and refrigerators (y-o-y increase of 4.0%) remained strong due to record-setting high temperatures. However, sales of heating-related products declined compared to the previous year because of the unseasonably warm winter. Sales of information-related products such as personal computers (y-o-y decrease of 15.1%) also remained slow.

In such circumstances, following the previous year, the Group continued to strive to develop its original-brand products, and strengthen repairs and maintenance, so as to become "a quality service retailer." The Group also strove to strengthen concentrated sales and earn various incentive incomes under the theme of improvement in the gross profit margin ratio and reduction in expenses.

Operating Results

Net sales stood at ¥437, 992 million (y-o-y increase of 0.9%), and cost of sales was ¥342,241 million (y-o-y increase of 0.2%). Despite the small growth in sales due to the reduced numbers of regular stores, gross profit increased to ¥95,751 million (y-o-y increase of 3.4%), with a gross profit margin of 21.9% (21.3% in the previous period) as a result of releasing original products and implementing business consolidation. SG&A expenses increased to ¥90,740 million (y-o-y increase of 4.6%) due to an increase in expenses for promotion of the point card system and the ratio of SG&A expenses to sales was 20.8% (20.0% in the previous period). Operating income of ¥5,011 million (y-o-y decrease of 14.0%) was posted, resulting in a ratio of operating income to sales of 1.1% (1.3% in the previous period).

Non-operating income totaled ¥7,282 million (y-o-y increase of 18.5%), of which cash rebates accounted for ¥5,383 million (y-o-y increase of 26.4%) as a result of change in the payment terms. Non-operating expenses totaled ¥1,129 million (y-o-y decrease of 35.9%), including ¥541 million (y-o-y decrease of 19.6%) of interest expenses. As a result, ordinary profit totaled ¥11,163 million (y-o-y increase of 9.4%), with the ratio of ordinary profit to sales standing at 2.5% (2.3% in the previous period) and return on assets (ROA) standing at 4.9% (4.5% in the previous period).

The Group posted ¥633 million as extraordinary profit (y-o-y decrease of 41.2%). This was mainly because gain on sale of marketable securities stood at ¥237 million and gain on

Sales by products

	2004		2005		Year-on-Year
	Net Sales	Composition	Net Sales	Composition	
	Millions of yen	%	Millions of yen	%	%
Visual products	78,333	18.1	91,601	20.9	116.9
Audio products	18,811	4.3	16,564	3.8	88.1
Seasonal products	30,525	7.0	34,085	7.8	111.7
Home electronics products	80,774	18.6	77,289	17.6	95.7
Information/communication products	142,419	32.8	118,688	27.1	83.3
Others	83,301	19.2	99,762	22.8	119.8
Total	434,166	100.0	437,992	100.0	100.9

transfer to government of the substitutional portion of pension liabilities stood at ¥193 million. The Group posted ¥2,900 million as extraordinary loss (y-o-y decrease of 59.4%). This was mainly attributed to: ¥1,407 million in loss on disposal of property and equipment for promotion of scrap and build policy; and ¥286 million in cancellation charges on early termination of facility leasing agreements.

As a result, income before income taxes amounted to ¥8,897 million (y-o-y increase of 114.6%). Net income stood at ¥4,919 million (y-o-y increase of 63.0%). Net income per share was ¥60.58 (¥37.78 in the previous period). Return on equity (ROE) stood at 4.9% (3.2% in the previous period), for which the Group will make concerted efforts to achieve more than 10%.

Financial Position

Total current assets stood at ¥87,082 million (y-o-y increase of 2.1%) at the end of March 2005. Fixed assets were ¥144,095 million (y-o-y increase of 5.1%), of which property and equipment at cost accounted for ¥94,268 million (y-o-y decrease of 3.0%) and intangibles assets and deferred charges accounted for ¥4,524 million (y-o-y increase of 17.5%). Other assets including investments increased to ¥45,303 million (y-o-y increase of 25.9%) due to the acquisition of shares of MIDORI DENKA and other factors. As a result, total assets amounted to ¥231,411 million (y-o-y increase of 4.0%).

Total current liabilities were ¥79,921 million (y-o-y decrease of 13.5%), of which notes and accounts payable, trade, totaled ¥27,829 million (y-o-y decrease of 18.4%) and short-term bank loans amounted to ¥27,000 million (y-o-y decrease of 17.6%). The Group posted ¥3,307 million (y-o-y increase of 6.7%) as provision for discount points of the point card system for the future. Long-term liabilities stood at ¥44,869 million (y-o-y increase of 29.4%), of which long-term bank loans stood at ¥27,226 million (y-o-y increase of 67.5%) and accrued retirement benefits to employees amounted to ¥7,721 million (y-o-y increase of 5.0%). As a result of the financial consolidation of DEODEO and EIDEN, ratio of interest-bearing debt was improved to be 26.6% (27.1% in the previous period).

Shareholders' equity totaled ¥105,596 million (y-o-y increase of 11.8%). While common stock increased to ¥10,175 million (y-o-y increase of 154.4%) due to the capital increase implemented in March 2005, capital surplus to ¥66,909 million (y-o-y increase of 10.2%) and retained earnings to ¥45,102 million (y-o-y decrease of 2.2%), deficit on revaluation of land was ¥16,992 million (y-o-y increase of 0.2%). Thus, shareholders' equity ratio stood at 45.6% (42.4% in the previous period), which exceeds the targeted figure of 40% as in the previous period.

The Group will further make effort to maintain shareholders' equity ratio at least 40% and ratio of interest-bearing debt within 30%.

Liquidity and Sources of Funds

(Cash Flow Analysis)
The balance of cash and cash equivalents (hereafter, "the Funds") at the end of March 2005 decreased by ¥91 million from the beginning of the term to ¥13,355 million.

(Cash flows from operating activities)
Net cash provided by operating activities totaled ¥6,126 million (decrease of ¥7,157 million over the previous period). This was primarily attributed to: ¥5,444 million in depreciation and amortization (due to proactive investment in the previous year); ¥6,257 million decrease in notes and accounts payable (because of change of payment method from notes payable to cash payment); and ¥1,840 million increase in inventories.

(Cash flows from investing activities)
Net cash used in investing activities totaled ¥17,613 million (increase of ¥11,441 million over the previous period). This was mainly because payments for acquisition of property and equipment for new stores (opened during the term under review and those to be opened from the next term onwards) stood at ¥7,365 million, and payments for acquisition of marketable securities with respect to acquisition of shares of MIDORI DENKA and others stood at ¥12,820 million.

(Cash flows from financing activities)
Net cash provided by financing activities stood at ¥11,396 million (increase of ¥21,399 million over the previous period). This was primarily attributed to: ¥5,178 million in repayments of long-term bank loans; ¥3,000 million in redemption of bonds; ¥1,565 million in cash dividends paid; ¥15,000 million in proceeds from long-term bank loans; and ¥12,257 million in proceeds from stock issue by capital increase.

Consolidated Balance Sheets

EDION Corporation and Subsidiaries
As of March 31, 2004 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Assets			
Current Assets:			
Cash on hand and deposits in banks	¥ 14,599	¥ 13,495	$ 125,666
Notes and accounts receivable			
Trade	14,332	14,189	132,128
Other	5,545	6,698	62,371
	19,877	20,887	194,499
Less, allowance for doubtful accounts	(107)	(115)	(1,071)
	19,770	20,772	193,428
Marketable securities (Note 5)	57	50	466
Inventories	45,272	47,112	438,693
Deferred tax assets (Note 9)	3,713	3,403	31,686
Other current assets	1,870	2,250	20,951
Total current assets	85,281	87,082	810,890
Investments and Other Assets:			
Investments in securities (Note 5)	4,846	3,918	36,485
Investments in affiliates	1,206	12,852	119,676
Leasehold deposits	20,581	20,527	191,143
Deferred tax assets (Note 9)	5,245	3,459	32,213
Other assets	4,106	4,547	42,340
	35,984	45,303	421,857
Property and Equipment, at cost (Note 6):			
Land	51,538	49,672	462,543
Buildings and structures	74,726	77,108	718,015
Automobiles	120	116	1,080
Furniture and fixtures	13,971	13,996	130,329
Construction in progress	2,154	739	6,884
	142,509	141,631	1,318,851
Less, accumulated depreciation	(45,292)	(47,363)	(441,039)
	97,217	94,268	877,812
Intangible Assets and Deferred Charges			
Consolidating adjustment account	1,241	1,122	10,448
Other intangible assets and deferred charges	2,892	3,636	33,854
Total Assets	¥222,615	¥231,411	$2,154,861

The accompanying notes are an integral part of these financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Liabilities, Minority Interests and Shareholders' Equity			
Current Liabilities:			
Short-term bank loans (Note 6)	¥ 32,770	¥ 27,000	$ 251,420
Current portion of long-term debt (Note 6)	7,878	6,730	62,673
Notes and accounts payable			
Trade	34,086	27,829	259,142
Other	7,009	6,098	56,784
	41,095	33,927	315,926
Income taxes payable	1,224	3,026	28,171
Accrued expenses	3,423	3,338	31,085
Accrued sales discounts	3,099	3,307	30,794
Other current liabilities	2,949	2,593	24,148
Total current liabilities	92,438	79,921	744,217
Long-term Liabilities:			
Long-term debt (Note 6)	19,756	27,726	258,181
Accrued retirement benefits to employees (Note 7)	7,352	7,721	71,900
Accrued retirement benefits to directors and corporate auditors	536	622	5,788
Deferred tax liabilities for land revaluation (Note 9)	2,703	2,681	24,962
Deferred tax liabilities (Note 9)	46	56	522
Other long-term liabilities	4,294	6,063	56,456
Total liabilities	127,125	124,790	1,162,026
Minority Interests in Subsidiaries	1,025	1,025	9,542
Commitments and Contingent Liabilities (Note 8 and 10)			
Shareholders' Equity (Note 12):			
Common stock, no par value;			
Authorized:			
300,000,000 shares in 2004 and 2005,			
Issued: 78,278,839 shares in 2004 and 88,988,839 shares in 2005	4,000	10,175	94,745
Capital surplus	60,736	66,909	623,052
Retained earnings	46,110	45,102	419,985
Land revaluation decrement (Note 2(o))	(16,959)	(16,992)	(158,229)
Unrealized gain on other securities (Note 5)	769	429	3,995
Foreign currency translation adjustments	(173)	—	—
Less, treasury stock: 29,709 shares in 2004, 37,597 shares in 2005	(18)	(27)	(255)
Total shareholders' equity	94,465	105,596	983,293
Total Liabilities, Minority Interests and Shareholders' Equity	¥222,615	¥231,411	$2,154,861

Consolidated Statements of Income

EDION Corporation and Subsidiaries
For the Years ended March 31, 2004 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Net Sales	¥434,166	¥437,992	$4,078,521
Cost of Sales	341,578	342,241	3,186,899
Gross profit	92,588	95,751	891,622
Selling, General and Administrative Expenses	86,763	90,740	844,960
Operating income	5,825	5,011	46,662
Non-operating Income (Expenses):			
Interest and dividend income	230	288	2,680
Interest expenses	(673)	(541)	(5,035)
Purchase discounts	4,259	5,383	50,124
Equity in losses of affiliates	(391)	(138)	(1,282)
Loss on sale or disposal of property and equipment	(2,137)	(1,597)	(14,870)
Loss on write-down of investments in securities	(115)	(201)	(1,874)
Gain on sale of securities	1,019	591	5,505
Loss on fire at stores	—	(181)	(1,684)
Write-offs of receivables	(208)	—	—
Write-downs of merchandise inventories	(250)	—	—
Cancellation charges on early termination of facility leasing arrangements	(688)	(286)	(2,667)
Rearrangement of insurance contracts on repair and warranty costs for goods sold	(3,375)	—	—
Gain on transfer to government for the substitutional portion of pension liabilities	639	—	—
Gain on transfer to defined contribution pension plan	—	193	1,797
Other, net	11	375	3,490
	(1,679)	3,886	36,184
Income before income taxes and minority interests	4,146	8,897	82,846
Income taxes (Note 9)			
Current	2,248	3,793	35,325
Deferred	(1,219)	85	789
	1,028	3,878	36,114
Income before minority interests	3,118	5,019	46,732
Minority interests in subsidiaries	100	100	932
Net income	¥ 3,018	¥ 4,919	$ 45,800

	Yen		U.S. dollars
Amounts per share:			
Net income	¥ 37.78	¥ 60.58	$ 0.56
Cash dividends	¥ 20.00	¥ 20.00	$ 0.19

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Shareholders' Equity

EDION Corporation and Subsidiaries
For the Years Ended March 31, 2004 and 2005

Millions of yen

	Number of shares issued (thousands)	Common stock	Capital surplus	Retained Earnings	Land Revaluation decrement	Unrealized gain on other securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2003	78,278	¥ 4,000	¥60,736	¥45,991	¥(18,324)	¥ 6	¥(139)	¥(11)
Net income for the year				3,018				
Cash dividends				(1,565)				
Bonuses to directors				(51)				
Reversal of land revaluation decrement				(1,283)	1,365			
Net change in unrealized gain						763		
Translation adjustment							(34)	
Fractional shares acquired, net								(7)
Balance at March 31, 2004	78,278	4,000	60,736	46,110	(16,959)	769	(173)	(18)
Net income for the year				4,919				
Cash dividends				(1,567)				
Bonuses to directors				(61)				
Reversal of land revaluation decrement				33	(33)			
Exercise of stock subscription rights	210	148	147					
Issuance of common stock	10,500	6,027	6,026					
Merger of subsidiaries				(4,384)				
Changes due to scope change of equity method				52				
Net change in unrealized gain						(340)		
Translation adjustment							173	
Fractional shares acquired, net								(9)
Balance at March 31, 2005	88,988	¥10,175	¥66,909	¥45,102	¥(16,992)	¥429	¥ —	¥(27)

Thousands of U.S. dollars (Note 3)

	Common stock	Capital surplus	Retained Earnings	Land Revaluation decrement	Unrealized gain on other securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31, 2004	$37,247	$565,569	$429,374	$(157,922)	$7,166	$(1,618)	$(170)
Net income for the year			45,800				
Cash dividends			(14,592)				
Bonuses to directors			(569)				
Reversal of land revaluation decrement			307	(307)			
Exercise of stock subscription rights	1,375	1,372					
Issuance of common stock	56,123	56,111					
Merger of subsidiaries			(40,823)				
Changes due to scope change of equity method			488				
Net change in unrealized gain					(3,171)		
Translation adjustment						1,618	
Fractional shares acquired, net							(85)
Balance at March 31, 2005	$94,745	$623,052	$419,985	$(158,229)	$3,995	$ —	$(255)

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

EDION Corporation and Subsidiaries
For the Years Ended March 31, 2004 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥ 4,146	¥ 8,897	$ 82,846
Adjustments for:			
Depreciation and amortization	5,523	5,444	50,693
Provision for accrued bonuses to employees	317	(58)	(537)
Provision for accrued sales discounts	475	208	1,934
Gain on sale of securities	(1,019)	(591)	(5,505)
Loss on write-down of investments in securities	115	201	1,874
Equity in losses of affiliates	391	138	1,282
Loss on sale or disposal of property and equipment	2,137	1,597	14,870
Decrease in trade receivables	2,159	143	1,327
Decrease (Increase) in inventories	3,853	(1,840)	(17,125)
Decrease in trade payables	(4,182)	(6,257)	(58,259)
Others, net	2,796	537	4,995
Subtotal	16,711	8,419	78,395
Interest and dividend received	59	58	537
Interest expenses paid	(666)	(569)	(5,296)
Income taxes paid	(2,821)	(1,782)	(16,598)
Net cash provided by operating activities	13,283	6,126	57,038
Cash Flows from Investing Activities:			
Net change in time deposits	(690)	960	8,939
Increase in tangible fixed assets and intangibles	(5,934)	(8,166)	(76,046)
Proceeds from sale of tangible fixed assets	365	562	5,233
Increase in investments in securities	(691)	(12,820)	(119,377)
Proceeds from sale of investments in securities	2,076	2,146	19,987
Acquisition of new subsidiaries (Note 4)	(1,309)	—	—
Net change in leasehold deposits to lessors	(267)	(1,108)	(10,319)
Net change in leasehold deposits from lessees	259	1,615	15,043
Others, net	19	(802)	(7,466)
Net cash used in investing activities	(6,172)	(17,613)	(164,006)
Cash Flows from Financing Activities:			
Net change in short-term bank loans	150	(5,770)	(53,729)
Increase in long-term debt	6,500	15,000	139,678
Repayments of long-term debt	(13,368)	(8,178)	(76,155)
Issuance of common stock	—	12,257	114,140
Cash dividends paid	(1,563)	(1,565)	(14,576)
Other, net	(1,722)	(348)	(3,238)
Net cash (used in) provided by financing activities	(10,003)	11,396	106,120
Net Decrease in Cash and Cash Equivalents	(2,892)	(91)	(848)
Cash and Cash Equivalents at beginning of Year	16,338	13,446	125,210
Cash and Cash Equivalents at end of year (Note 4)	¥13,446	¥13,355	$124,362

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

EDION Corporation and Subsidiaries
For the Years Ended March 31, 2004 and 2005

1. Basis of Consolidated Financial Statements

(a) Basis of presenting the consolidated financial statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by EDION Corporation (the "Company") and its subsidiaries (together, hereinafter referred to as "EDION") in accordance with the provisions set forth in the Commercial Code of Japan ("Code") and the Securities and Exchange Law in Japan, and on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. Certain items presented in the consolidated financial statements in Japanese submitted to the Director of Kanto Finance Bureau of Japan have been reclassified for the convenience of readers outside Japan.

Certain comparative figures have been reclassified to conform to the current year's presentation.

(b) Structure

The Company was incorporated on March 29, 2002 as a 100% holding parent company of DEODEO Corporation ("DEODEO") and EIDEN Corporation ("EIDEN") through exchanging the Company's shares with the shares of these companies in accordance with the Code. The formation of EDION and the exchanging of shares of DEODEO and EIDEN were accounted for using the pooling-of-interests method in accordance with "Accounting for the Consolidation of a Holding Company Established by Stock Exchange or Stock Transfers" (Accounting Committee Research Report No. 6) issued by the Japanese Institute of Certified Public Accountants ("JICPA"), since the following conditions under the accounting standard above were all met:

1) All of the common stock with voting rights of the two companies except for fractional shares were exchanged with those of the Company, and no significant restrictions were attached to the shares of the Company;
2) Shareholders of the two companies are regarded as maintaining voting rights and percentage of equity;
3) Neither of the two companies had dominance in the decision-making process of the Company relating to significant financial, operating or business policies;
4) Neither of the two companies had dominance in the Board of Directors or other decision-making bodies of the Company; and
5) Fair values of the two companies were not significantly different from each other.

2. Summary of Significant Accounting Policies

(a) Consolidation and investments in affiliates

Under Japanese accounting standards, a subsidiary and an affiliate are defined as follows:

A subsidiary: a company in which the reporting entity directly or indirectly holds more than 50% of the voting rights thereof or which is deemed to be controlled directly or indirectly by the reporting entity; and

An affiliate: a company in which the reporting entity directly or indirectly holds 20% or more of the voting rights thereof or in which the reporting entity is deemed to exercise significant influence directly or indirectly on its decision making.

Scope of consolidation

The consolidated financial statements included the accounts of all subsidiaries. (12 and 10 at March 31, 2004 and 2005, respectively) During the current year, Bax Co., Ltd. was liquidated and DEODEO Technonet Co., Ltd. was merged into DEODEO Corporation.

Investments in affiliates

The Company had 7 affiliates as of March 31, 2004. The equity method was applied to the investments in 5 major affiliates and the cost method was applied to investments in the remaining affiliates since they were not material to the consolidated financial statements. At March 31, 2005, the Company had 5 affiliates, all investments of which were accounted for by equity method. During the year ended March 31, 2005, IMAGINE Co., Ltd. and TAIIGI Corporation were excluded from the scope of equity method due to the sale of their stocks. Aki Cable Television Co., Ltd. and JHN-Chugoku Co., Ltd. became to be included in the scope of equity method during the current year due to the increase of their materiality. On March 16, 2005, the Company acquired a 38.2% equity share of MIDORI DENKA CO., LTD. ("MIDORI DENKA") Then MIDORI DENKA became to be included in the scope of equity method at March 31, 2005.

Consolidation policies

For the consolidation of the accounts of subsidiaries whose fiscal year-ends do not agree with the Company's year-end, significant transactions for the period between subsidiaries' year-end and the Company's year-end are adjusted on consolidation.

The difference between the cost of investments in subsidiaries and the amount of underling equity in net assets at fair value of such subsidiaries has been amortized over 5 years, except for the case when a definite useful life is available based on the substantive analysis of the Company. The balance of such difference is recorded as consolidating adjustment account in the accompanying consolidated financial statements. Full portion of the assets and liabilities of the subsidiaries is marked to fair values as of the time of acquisition of the control. Full portion of the assets and liabilities of the subsidiaries is marked to fair values as of the time of the acquisition of the control.

(b) Foreign currency transaction and translation of foreign currency financial statements

All monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates in effect at the respective balance sheet dates and resulting translation gains or losses are included in the determination of net income for the year.

At March 31, 2004, assets and liabilities of foreign affiliates were translated into yen at exchange rates prevailing at the balance sheet date, except for the components of the shareholders' equity at the beginning of the year, which were translated into yen at the historical rates. Related profit and loss accounts were also translated into yen at exchange rates at the balance sheet date. Differences in yen amounts arising from the translation were presented as "Foreign currency translation adjustments" in the accompanying shareholders' equity section. At March 31, 2005, the Company has no overseas subsidiaries and affiliates.

(c) Cash and cash equivalents

Cash and cash equivalents included in the accompanying consolidated financial statements are composed of cash on hand, bank deposits that may be withdrawn on demand and highly liquid investments purchased with initial maturities of three months or less , which represent low risk of fluctuation in value.

(d) Securities

Securities are classified in accordance with Japanese accounting standards into four categories: 1) trading securities; 2) held-to-maturity debt securities; 3) shares in equity of subsidiaries and affiliates; and 4) other securities, whose classification determines the respective accounting method as stipulated by the accounting standard for financial instruments. EDION did not have any securities classified as trading securities for the years ended March 31, 2004 and 2005.

Trading securities and certain financial instruments which meet strict conditions are categorized as current assets and included in marketable securities, and all securities other than investments in subsidiaries are shown as investments in securities or investments in affiliates in the accompanying consolidated balance sheets, as the case may be.

Held-to-maturity debt securities that EDION has intention to hold to maturity are stated at cost after application of amortization/accumulation to premium or discount on acquisition over the period to maturity.

Other securities for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate item in shareholders' equity, net of tax effect thereon. Gains and losses on disposition of marketable securities are computed using the moving average method. Other securities for which market quotations are not available are stated at cost determined by the moving average method.

Held-to-maturity and debt securities due within one year are presented as marketable securities in the current assets and all other securities are presented as non-current assets. Where the fair value of such securities other than trading securities has declined significantly and such impairment in value is not deemed temporary, those securities are written down to the fair value and the resulting losses are charged to net income for the year. Where market values of other securities are 50% of the carrying value or lower at the end of the financial year, such securities are written off to such market value. With respect to other securities of which market values have declined between 30% and 50%, amounts to be written off are determined by considering the recoverability of the respective securities.

(e) Derivative financial instruments

Gains or losses arising from changes in fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net income in the same financial year during which the gains and losses on the hedged item or transactions are recognized in accordance with the Japanese accounting standard.

Interest rate swap arrangements are used to hedge against the interest risks associated with long-term bank loans. The related elements including principals, notional amounts, receive/pay rates and terms approximately coincide with those of the corresponding bank loans, accordingly the difference of amounts received or paid on such interest rate swap arrangements are charged/credited to income as adjustments to interest expenses of the related bank loans in accordance with the Japanese accounting standard.

(f) Merchandise Inventories

Merchandise inventories are stated at cost. Cost was principally determined by the moving average method for consumer electronics merchandise and the retail method for home-center appliance merchandise.

Until the year ended March 31, 2004, cost for consumer electronics merchandise held by DEODEO and EIDEN was principally determined by the moving average method and the first-in, first-out method, respectively. From the year ended March 31, 2005, EIDEN changed its accounting method for such merchandise inventories from the first-in, first-out method to the moving average method based on the unification background of the computerized accounting system of the both companies. This accounting change resulted in no material effects on the consolidated financial statements.

(g) Property and equipment

Depreciation is computed based on the declining-balance method while the straight-line method is applied to buildings acquired on and after April 1, 1998. The range of useful lives is principally from 2 to 60 years for buildings and from 2 to 20 years for vehicles, equipment, furniture and tools.

(h) New accounting standard for "Impairment of fixed assets"

On August 9, 2002, the Business Accounting Council of Japan issued "Accounting Standard for Impairment of Fixed Assets". The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price or value in use. The standard shall be effective for fiscal years beginning April 1, 2005, with early adoption permitted. However, the Company has not applied this new standard for the year ended March 31, 2005 nor has determined the effect of applying on the Company's consolidated financial statements.

(i) Leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as finance leases except that leases do not transfer ownership of the assets at the end of the lease term are accounted for using the accounting treatment similar to operating leases, in accordance with accounting principles generally accepted in Japan.

(j) Intangible assets

Amortization of intangible assets including capitalized software for internal use is computed using the straight-line method mainly for 5 years.

Pre-operating costs and new share issue costs are amortized over five and three years, respectively, as permitted by the Commercial Code Enforcement Regulation of Japan.

(k) Leasehold deposits

The balances of leasehold deposits comprise fixed leasehold deposits and advances made to lessors for construction costs.

Fixed leasehold deposits are mainly those paid to lessors in connection with the lease of buildings and facilities or chain store operations. Lessors in Japan generally require leasehold deposits equivalent to several months' lease rental payments. Such leasehold deposits do not bear interest and are generally refundable only when the lease is terminated.

In connection with the lease of a store, EDION generally enters into an agreement with and makes advances to the lessor in the amount equivalent to the construction cost of a store. Under such agreement, EDION leases the land and building from the lessor after the completion of construction and pays lease rentals thereon from such advances previously made to the lessors in installments over the period specified in each agreement (generally 20 years). Lease rentals from such agreements are charged to income as incurred. Such advances are included in “Leasehold deposits” in the accompanying consolidated balance sheets.

(l) Allowance for doubtful accounts

Allowance for doubtful accounts is provided for at the aggregate amount of estimated credit losses based on the individual financial review approach for doubtful or troubled receivables and a general reserve for other receivables calculated using historical loss experience for a certain past period.

(m) Accrued sales discounts

Certain points are granted to member customers on their purchase of merchandise at stores in proportion to their purchase amounts, allowing them purchase discounts on merchandise in the future. (“Club point card system”). EDION has recorded accrued sales discounts granted to member customers through the Club point card system stated above based on the available appropriate estimates at the fiscal year-ends.

(n) Accrued retirement benefits

The Company and its subsidiaries have defined retirement benefit plans in addition to retirement lump sum payment schemes covering substantially all employees. In certain cases additional payments are made to employees who terminate their service.

In accordance with the Japanese accounting standard for employee retirement benefits, accrued retirement benefits to employees represent the actuarial present value of projected benefit obligations calculated based on the actuarial appraisal approach in excess of the fair value of the pension plan assets less unrecognized actuarial differences and unrecognized prior service costs with respect to assumptions and accounting policies employed for the calculation of accrued retirement benefits to employees (See Note 7.) Unrecognized actuarial differences as changes in the projected benefit obligation or pension plan assets resulting from the experience different from that assumed and from changes in assumptions are amortized on a straight-line basis over ten years as a certain period within remaining service lives of employees from the next year in which they arise. Past service costs are amortized on a straight-line basis over ten years as a certain period within the average remaining service lives of employees from the year in which they incur.

As is customary in Japan, accrued retirement benefits to directors and corporate auditors of EDION are provided for based on internal regulations. EDION recognizes 100% of such liability EDION would have paid if all directors and corporate auditors had retired at year-end, which is shown as “Accrued retirement benefits to directors and corporate auditors” in the accompanying consolidated balance sheets. Payment of such retirement benefits to directors and corporate auditors requires prior approval of shareholders as a part of appropriation of retained earnings.

(o) Revaluation of land

In accordance with the Law Concerning Revaluation of Land, DEODEO and EIDEN elected the one-time revaluation to restate the cost of land used for the business at values rationally reassessed effective in March 2002, reflecting appropriate adjustments for land shape and other factors, based on the municipal property tax bases. According to the Law, the amount equivalent to the tax effect on the excess portion of sound reassessed values over the original book values is recorded as deferred tax liabilities for land revaluation account, and the difference between the carrying amount and the revalued amount, net of the tax effect, is recorded in the shareholders’ equity as land revaluation decrement account in the accompanying consolidated balance sheets. At March 31, 2004 and 2005, the differences of the carrying values of land used for the business after reassessment over the market value of such land at the respective fiscal year-end amounted to ¥7,847 million and ¥11,071 million ($103,091 thousand), respectively.

(p) Consumption taxes

Consumption taxes are levied at the flat rate of 5% on all domestic consumption of goods and services (with certain exemptions). The consumption tax withheld by EDION on its revenues and consumption tax paid by EDION on its purchases of products, merchandise and services from vendors are not included in the amounts of respective accounts in the consolidated statements of income, but is recorded as an asset or a liability, as the case may be and the net balance is included in other current liabilities on the consolidated balance sheets.

(q) Enterprise taxes

With the implementation of the “Revision of the Local Tax Law” (Legislation No.9, 2003) on March 31, 2003, size-based corporate taxes for local government enterprise taxes have been newly levied from the fiscal year beginning April 1, 2004. As a result, EDION has recorded enterprise taxes calculated based on the “added value” and “capital” amounts in the amount of ¥413 million ($3,846 thousand) as selling, general and administrative expenses for the year ended March 31, 2005 in accordance with the practical solution report issued by Accounting Standards Board of Japan.

(r) Income taxes

Deferred tax accounting is applied for the preparation of consolidated financial statements. Income taxes are accounted for using the assets and liability approach in order to recognize deferred tax assets and liabilities in respect of temporary differences which arise between the financial statement carrying amounts of the existing assets and liabilities and their respective tax bases and operating loss carryforward. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

(s) Appropriation of retained earnings

Under the Code, the plan for appropriation of retained earnings (including year-end cash dividends) proposed by the Board of Directors should be approved at the shareholders’ annual general meeting, which must be held within three months after the end of each fiscal year. On the other hand, the Code allows directors to make interim cash dividends at a certain date in accordance with the Article of Incorporation specifically stipulated in the Code.

Cash dividends and bonuses to directors and corporate auditors are recorded in the fiscal year when a proposed appropriation of retained earnings is approved by the Board of Directors and/or shareholders. Payments of bonuses to directors and corporate auditors, if any, are recorded as a part of the appropriations mentioned above, instead of being charged to income of the year, as permitted by the Japanese accounting standards.

(t) Per share data

Net income per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the respective years. At March 31, 2004 and 2005, the Company had no dilutive potential common shares, while the Company had stock subscription rights outstanding at March

31, 2005. Cash dividends per share shown for each fiscal year in the accompanying consolidated statements of income represent dividends declared as applicable to the respective years.

For the purpose of calculation of earnings per share, net income shown in the consolidated statements of income is reduced, in accordance with the Japanese accounting standards, by the amounts deemed not attributable to the shareholders holding ordinary shares of the company, which include dividends to preferred stocks and bonuses to directors and corporate auditors which are approved by the shareholders as appropriation of retained earnings of that year.

3. United States Dollar Amounts

U.S. dollar amounts presented in the accompanying consolidated financial statements and in these notes are translated at ¥107.39=US$1, the rate of exchange prevailing at March 31, 2005. These amounts are included solely for the convenience of readers, and should not be construed as representations that Japanese yen amounts have been, or could be converted into U.S. dollars at that or any other rate of exchange.

4. Cash and Cash Equivalents

(a) The reconciliation of cash and cash equivalents in the accompanying consolidated statements of cash flows to the account balances in the accompanying consolidated balance sheets is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Cash on hand and deposits in banks	¥ 14,599	¥ 13,495	$ 125,666
Securities in current assets	57	50	466
Less, time deposits with maturities more than three months	(1,210)	(190)	(1,770)
Cash and cash equivalents	¥ 13,446	¥ 13,355	$ 124,362

(b) During the year ended March 31, 2004, the Company acquired shares of Kurashino Design, Inc. ("Kurashino Design") for ¥1,309 million to make a subsidiary. The amounts paid for acquisition of shares and cash and cash equivalent acquired at the commencement of consolidation are analyzed as follows:

	Millions of yen
Current assets	¥ 808
Fixed assets and other assets	21
Current liabilities	(638)
Consolidating adjustment account	1,439
Cash consideration	1,630
Cash and cash equivalents acquired	321
Consideration for acquisition	¥ 1,309

5. Marketable Securities and Investments in Securities

Information for marketable securities and investments in securities held by EDION is as follows:

(a) The following is a summary of other securities and held-to-maturity securities at March 31, 2004 and 2005:

	Millions of yen, At March 31, 2004			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
Other Securities:				
Market value available	¥ 2,701	¥ 1,356	¥ 73	¥ 3,984
Market value not available	913	–	–	913
Total other securities	3,614	1,356	73	4,897
Held-to-maturity securities	¥ 6	¥ –	¥ –	¥ 6

	Millions of yen, At March 31, 2005			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
Other Securities				
Market value available	¥ 2,197	¥ 766	¥ 47	¥ 2,916
Market value not available	1,046	–	–	1,046
Total other securities	3,243	766	47	3,962
Held-to-maturity securities	¥ 6	¥ –	¥ –	¥ 6

	Thousands of U.S. dollars (Note 3), At March 31, 2005			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
Other Securities:				
Market value available	$ 20,453	$ 7,129	$ 432	$ 27,150
Market value not available	9,744	–	–	9,744
Total other securities	30,197	7,129	432	36,894
Held-to-maturity securities	$ 56	$ –	$ –	$ 56

The Company wrote-off equity securities amounting to ¥115 million and 36 million ($ 339 thousand) for the years ended March 31, 2004 and 2005, respectively.

(b) Details of other securities sold for the years ended March 31, 2004 and 2005 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Equity securities:			
Sales amount	¥ 2,076	¥ 2,265	$ 21,090
Aggregate gain	1,023	926	8,621
Aggregate loss	5	335	3,116

(c) Contractual maturities of other securities and held-to-maturity securities as at March 31, 2005, are summarized as follows:

	Millions of yen		Thousands of U.S. Dollars (Note 3)	
	Other securities	Held-to-maturity	Other securities	Held-to-maturity
Due over 1 year to 5 years	¥ 100	¥ 6	$ 931	$ 56

6. Short-term loans and long-tem debt

The annual average interest rate applicable to short-term bank loans was 0.39% for the year ended March 31, 2005 (0.49% of short-term bank loans for the year ended March 31, 2004).

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

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
1.68% unsecured straight bonds due September 22, 2004	¥ 3,000	¥ –	$ –
1.55% unsecured straight bonds due July 29, 2005	2,000	2,000	18,624
0.36% unsecured straight bonds due August 12, 2005	1,000	1,000	9,312
1.04% unsecured straight bonds due April 30, 2007	500	500	4,656
Bank loans	21,134	30,956	288,262
	27,634	34,456	320,854
Less, portion due within one year	(7,878)	(6,730)	(62,673)
	¥ 19,756	¥ 277,267	$ 258,181

Aggregated annual maturities of long-term debt are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars (Note 3)
2006	¥ 6,730	$ 62,673
2007	6,498	60,509
2008	6,328	58,925
2009	1,600	14,899
2010	13,300	123,848
	¥ 34,456	$ 320,854

At March 31, 2004 and 2005, the following assets are pledged as collateral for long-term debt and other long-term liabilities:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Buildings and structures	¥ 3,336	¥ 2,971	$ 27,666
Land	9,048	5,115	47,630
	¥ 12,384	¥ 8,086	$ 75,296

At March 31, 2004 and 2005, the Company entered into the loan commitment agreements with major banks. At March 31, 2004 and 2005, total committed lines of credit under such agreements amounted to ¥36,000 million and ¥40,000 million ($372,474 thousand), respectively, of which ¥10,800 million and ¥13,000 million ($121,054 thousand) were available, respectively. As is customary in Japan, substantially all loans from banks (including short-term bank loans) are made under general agreements which provide that, at the request of the relevant bank, the borrower is required to provide collateral or guarantors (or additional collateral or guarantors, as appropriate) with respect to the loans, and that all assets pledged as collateral under such agreements will be applicable to all present and future indebtedness to the bank concerned. The Company and its subsidiaries have not received such requests. The general agreements further provide that the banks have the right, as the indebtedness matures or becomes due prematurely by reason of default thereon, to offset deposits at the banks against the indebtedness due to the banks.

7. Accrued Retirement Benefits to Employees

Accrued retirement benefits to employees at March 31, 2004 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Projected benefit obligations	¥ 14,858	¥ 13,026	$ 121,297
Pension plan assets	(5,648)	(5,226)	(48,665)
Projected benefit obligations in excess of pension plan assets	9,210	7,800	72,632
Unrecognized actuarial differences	(1,933)	(350)	(3,262)
Unrecognized past service costs	69	258	2,408
Prepaid pension cost	6	13	122
Balance of accrued retirement benefits to employees	¥ 7,352	¥ 7,721	$ 71,900

Note: 1) Projected benefit obligation of certain subsidiaries was calculated using the simplified calculation method as permitted by the accounting standard for employee retirement benefits.
2) Past service costs resulted from the amendment of the welfare pension plan.
3) The above table excluded the amounts for the assets not separately allocated to some of the subsidiaries in a certain welfare pension fund organized by others together with the subsidiaries or effectively restricted so that they cannot be used by the employees for other purpose, which amounted to ¥11,763 million and ¥13,438 million ($125,133 thousand) at March 31, 2004 and 2005, respectively. Contributions to this welfare pension fund were included in "service cost" in the table below. (see also Note 12(d))

Net periodic benefit expense for the years ended March 31, 2004 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Service cost	¥ 1,723	¥ 1,655	$ 15,413
Interest cost	328	256	2,379
Expected return on plan assets	(52)	(52)	(476)
Amortization of actuarial differences	249	237	2,203
Amortization of past service cost	(8)	(24)	(217)
Gain on transfer to government for the substitutional portion of pension liabilities	(639)	–	–
Other	–	(148)	(1,380)
Net periodic benefit expense	¥ 1,601	¥ 1,924	$ 17,922

In addition to above-mentioned expense, special payments of ¥181 million were paid under the early retirement scheme for the year ended March 31, 2004. Net benefit expense for subsidiaries adopting a simplified method is recorded in "Service cost".

Major assumptions used in the calculation of the above information were as follows:

	2004	2005
Method attributing the projected benefits to periods of services	Straight-line method	Straight-line method
Discount rate	1.5%~2.5%	1.4%~2.0%
Expected rate of return on pension plan assets	0.8%~1.0%	0.8%~1.0%
Amortization of actuarial differences	10 years	10 years
Amortization of past service cost	10 years	10 years

On June 15, 2001, the Contributed Benefit Pension Plan Law was enacted and allows a company to return the substitutional portion within the national pension scheme to the government thereby exempting the company's responsibility for future benefits subject to approval from the Ministry of Health, Labor and Welfare for the exemption from the payment of future benefits. On July 25, 2003, certain subsidiaries obtained an approval from the Ministry of Health, Labor and Welfare for exemption from the payment of future benefit obligations with respect to the substitutional portion operated by those subsidiaries on behalf of the national government. The Company applied the transitional treatment specified on Paragraph 47-2 of the "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" issued by JICPA, and recognized an extinguishment of the retirement benefit obligation with respect to such substitutional portion as of the date of the approval. As a result, the Company recorded this effect of ¥639 million as non-operating income on the consolidated statements of income for the year ended March 31, 2004.

8. Contingencies

EDION was contingently liable for guarantee of bank borrowings made by certain affiliates in the aggregate amounts of ¥1,380 million and ¥1,478 million ($13,772 thousand) at March 31, 2004 and 2005, respectively. EDION was also contingently liable for guarantee of trade payables of others for ¥784 million ($7,297 thousand) at March 31, 2005.

9. Income Taxes

Income taxes in Japan applicable to the Company and its subsidiaries consist of corporate tax, inhabitants' taxes and enterprise taxes. Enterprise taxes are deductible when paid as an expense for the purpose of the calculation of other income taxes. The effective statutory tax rate was approximately 42.1% and 40.2% for the years ended March 31, 2004 and 2005, respectively.

At March 31, 2004 and 2005, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Deferred tax assets:			
Depreciation expense	¥ 384	¥ 398	$ 3,702
Allowance for doubtful accounts	859	243	2,262
Accrued bonuses to employees	1,336	1,344	12,514
Accrued retirement benefits to employees	2,929	3,049	28,388
Accrued retirement benefits to directors and corporate auditors	68	267	2,489
Accrued welfare expenses	90	137	1,272
Accrued sales discounts	1,251	1,334	12,424
Enterprise tax accruals	90	326	3,040
Intercompany gain on fixed assets	2,386	139	1,292
Operating loss carryforward	376	107	1,000
Other	900	796	7,415
Total deferred tax assets	10,669	8,140	75,798
Less, valuation allowance	(1,032)	(824)	(7,672)
Net deferred tax assets	9,637	7,316	68,126
Deferred tax liabilities:			
Adjustment on land revaluation	(2,703)	(2,681)	(24,962)
Unrealized gain on other securities	(519)	(294)	(2,739)
Other	(206)	(216)	(1,905)
Total deferred tax liabilities	(3,428)	(3,191)	(29,711)
Net deferred tax assets	¥ 6,209	¥ 4,125	$ 38,415

At March 31, 2004 and 2005, deferred tax assets and liabilities were recorded as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Deferred tax assets:			
Current	¥ 3,713	¥ 3,403	$ 31,686
Non-current	5,245	3,459	32,213
Deferred tax liabilities			
Non-current for land revaluation	(2,703)	(2,681)	(24,962)
Non-current	(46)	(56)	(522)
Net deferred tax assets	¥ 6,209	¥ 4,125	$ 38,415

In assessing the realizability of deferred tax assets, management of EDION considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of the future taxable income during the periods in which those temporary differences become deductible. At March 31, 2004 and 2005, a valuation allowance was provided to reduce the deferred tax assets to the extent that the management believes that the amount of the deferred tax assets is expected to be realizable.

Reconciliation of the differences between the Japanese statutory effective tax rate and the actual effective income tax rate on pre-tax income reflected in the accompanying consolidated statements of income for the years ended March 31, 2004 and 2005 was as follows:

	2004	2005
Japanese statutory effective tax rate	42.1%	40.2%
Increase (decrease) due to:		
Permanently non-deductible expenses	0.7	0.3
Different income tax rates applied to a certain subsidiary	(3.1)	(1.3)
Local minimum taxes per capita levy	6.4	3.1
Effect of change in the tax rates	2.5	–
Write-down of investments in securities	(2.0)	–
Amortization of consolidating adjustment account	(1.7)	0.5
Allowance for doubtful accounts	(5.1)	–
Change in valuation allowance	(16.7)	(0.6)
Other	1.7	1.4
Actual effective tax rate in the consolidated statements of income	24.8%	43.6%

10. Leases

Total lease expenses under finance lease contracts other than those which transfer ownership of the assets at the end of the lease term amounted to ¥2,267 million and ¥2,277 million ($21,204 thousand) and are charged to expense when incurred for the years ended March 31, 2004 and 2005, respectively.

Pro forma information of the leased property such as acquisition costs, accumulated depreciation, and depreciation expenses, as at or for the years ended March 31, 2004 and 2005, on "as if capitalized" basis, was as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Acquisition costs	¥ 11,528	¥ 10,809	$ 100,648
Accumulated depreciation	5,997	6,298	58,638
Net book value	¥ 5,531	¥ 4,511	$ 42,010
Depreciation	¥ 2,147	¥ 2,161	$ 20,121

Note: Depreciation is calculated based on the straight-line method over the lease terms of the relevant leased assets.

At March 31, 2004 and 2005, aggregate future minimum lease payments for such noncancelable agreements, excluding the imputed interest, were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Finance leases as lessee			
Within one year	¥ 2,133	¥ 1,732	$ 16,127
Over one year	3,512	2,855	26,591
	¥ 5,645	¥ 4,587	$ 42,718
Operating leases as lessee			
Within one year	¥ 2,494	¥ 2,572	$ 23,958
Over one year	29,157	28,215	262,728
	¥ 31,651	¥ 30,787	$ 286,686

11. Segment Information

Information by industry segment is not disclosed, as EDION operates predominantly in a principal industry, “Household electric and related products and repair service” for the years ended March 31, 2004 and 2005. Information by geographic segment and overseas sales is also not disclosed, as EDION had no overseas subsidiaries and branches.

12. Subsequent Events

(a) Appropriation of retained earnings

The following appropriations of retained earnings in respect of the year ended March 31, 2005 were proposed by the Board of Directors and approved by the shareholders of the Company at the annual general meeting held on June 29, 2005:

	Millions of yen	Thousands of U.S. dollars (Note 3)
Appropriations:		
Year-end cash dividends		
(¥10 per share)	¥ 890	$ 8,287

(b) Agreement of business integration (exchange of shares) with MIDORI DENKA

On May 18, 2004, the Company entered into the integration agreement with MIDORI DENKA for the purpose of establishing the competitive enterprise group. This integration is expected to provide regional service through wide-ranging network simultaneously under the idea of “the business development for customers in the local community” and to raise customer satisfaction by providing the goods and service with higher satisfaction. Business integration is also expected to decrease cost by obtaining the scale merit and accomplish further improvement by maximizing management vitality.

In accordance with this integration agreement, on April 1, 2005, the Company issued 16,676,797 shares of common stock of the Company in exchange of outstanding shares of MIDORI DENKA, except for the Company’s portion. As a result, MIDORI DENKA became a wholly owned subsidiary of the Company.

MIDORI DENKA is engaged in sales and repairs of electric products and communication equipment, and sales of furniture and upholstery. Information of MIDORI DENKA is as follows:

Establishment date	August 1961
Address of head office	Amagasaki city, Hyogo prefecture
Capital stock	¥1,560 million ($14,526 thousand) (*1)
Issued stocks	18,000 thousand shares (*1)
Shareholders’ equity	¥20,120 million ($187,355 thousand)(*1)
Total assets	¥78,436 million ($730,393 thousand)(*1)
Gross sales	¥212,273 million ($1,976,661 thousand)(*1)
Net income for the year	¥2,371 million ($22,079 thousand)(*1)
Numbers of employees	1,959 (*1)
Gross sales	¥233,201 million ($2,171,534 thousand)(*2)
Net income for the year	¥4,784 million ($44,548 thousand)(*2)

(*1) Data based on the non-consolidated financial statements as of February 15, 2005
(*2) Data based on the consolidated financial statements as of February 15, 2005

(c) Cancellation of stock subscription rights

On April 18, 2005, the Company cancelled stock subscription rights which were issued on April 12, 2004, based on the resolution of the Board of Directors of the Company. The stock subscription rights (Shinkabu-yoyakuken) granted to issue 6,790,000 shares of common stock of the Company were outstanding at April 18, 2005. As a result of the cancellation of the stock subscription rights, a consideration of the stock subscription rights of ¥32 million ($299 thousand) was credited on that date.

(d) Retirement benefit plan of DEODEO

On April 27, 2005, a subsidiary, DEODEO, had an approval from Japanese government for the withdrawal from a certain welfare pension fund organized by others including DEODEO. This withdrawal requires DEODEO to pay a special contribution to the fund in the approximate amount of ¥800 million ($7,449 thousand), which will be recorded as non-operating expenses in the following year. DEODEO expects to build a new retirement benefit plan and record a reversal of accrued retirement benefits of approximately ¥800 million ($7,449 thousand) in relation to this shift to a new retirement benefit plan.

ChuoAoyama PricewaterhouseCoopers

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Report of Independent Auditors

To the Board of Directors and Shareholders of
EDION Corporation

We have audited the accompanying consolidated balance sheets of EDION Corporation and its subsidiaries as of March 31, 2004 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of EDION Corporation and its subsidiaries as of March 31, 2004 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 2(f), effective from the year ended March 31, 2005, a certain subsidiary, EIDEN Corporation, changed its accounting method of merchandise inventories.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Nagoya, Japan
June 29, 2005

Board of Directors and Corporate Auditors

(As of June 29, 2005)

Board of Directors

President	Masataka Kubo (Chairman, DEODEO Corporation)
Vice President	Shoichi Okajima (President, EIDEN Co., Ltd.)
Vice President	Masayuki Umehara (President, MIDORI DENKA CO., LTD.)
Vice President	Kazutoshi Tomonori (President, DEODEO Corporation)
Director	Tsutomu Yanagita
Director	Makoto Fujikawa
Director	Hiroo Murata
Director	Shingo Toyama

Corporate Auditors

Standing Auditor	Masahiro Sasaki
Auditor	Katsuharu Ishida
Auditor	Kouji Hosoda
Auditor	Takenori Iso
Auditor	Takashi Okinaka

Corporate Information

(As of March 31, 2005)

Trade name	EDION Corporation
Head office	8-9-5 Nishi Shinagawa Shinagawa-ku, Tokyo 140-0031, Japan
Date of establishment	March 29, 2002
Paid-in capital	¥10,174.63 million
Close of fiscal year	March 31 Note: The fiscal period consisted of two 6-month periods: Fiscal period 1: March 29, 2002 to September 30, 2002 Fiscal period 2: October 1, 2002 to March 31, 2003
Number of stores	875 (194 directly operated, 44 consolidated subsidiaries and 543 franchised)
Number of employees	Non-consolidated : 226 Consolidated : 5,364
Number of issued shares	88,988,839
Number of shareholders	18,122
Stock listing	First Section of Tokyo and Nagoya Stock Exchanges
Share transfer agent	UFJ Trust Bank Limited
Minimum trading unit of shares	100
Stock code	2730

edion Corporation

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