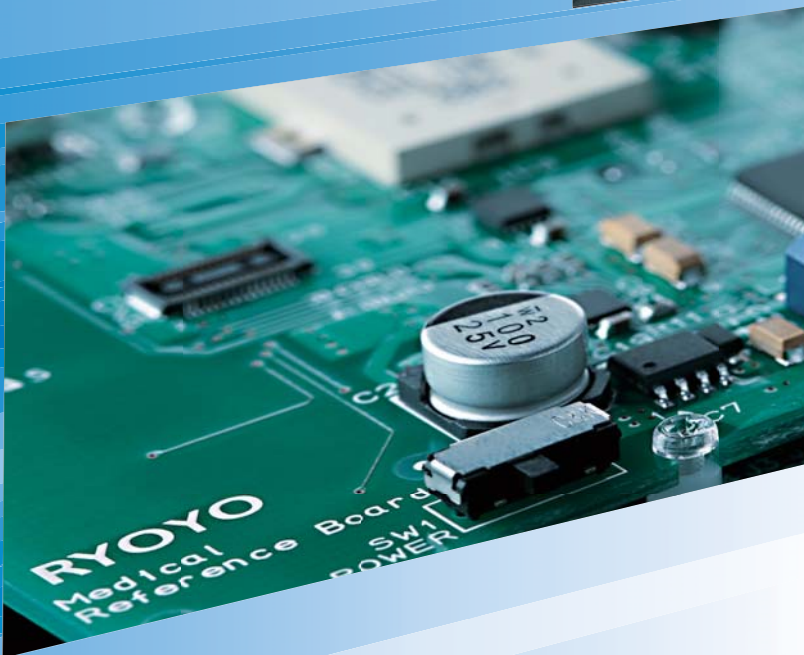
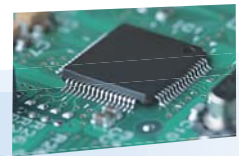


# *Change, Challenge, Speed*



# Financial Highlights

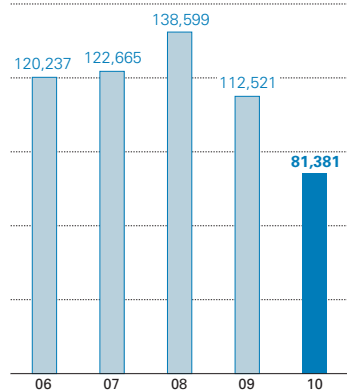
Ryoyo Electro Corporation  
For the years ended January 31, 2010, 2009, and 2008

	Millions of yen			Thousands of U.S. dollars*
	2010	2009	2008	2010
<b>For the Year</b>				
Net sales	¥ 81,381	¥112,521	¥138,599	\$914,394
Operating income	18	935	2,207	203
Net income (loss)	328	(366)	1,565	3,689
<b>At Year-End</b>				
Total assets	¥ 76,749	¥ 75,792	¥ 85,775	\$862,352
Total net assets	62,922	63,137	65,470	706,991
<b>Per Share of Common Stock (Yen/U.S. dollars)</b>				
Net income (loss)	¥ 11.86	¥ (13.20)	¥ 56.53	\$ 0.133
Total net assets	2,273.73	2,281.44	2,365.67	25.548
Cash dividends	30.00	40.00	40.00	0.337
<b>Ratios (%)</b>				
Operating margin	0.0	0.8	1.6	
Return on equity (ROE)	0.5	(0.6)	2.4	

\* U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥89.00 = U.S.\$1.00, the exchange rate prevailing on January 31, 2010.

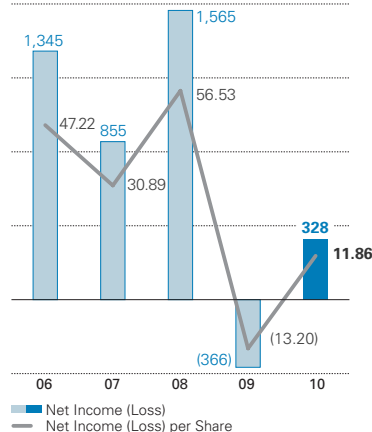
## Net Sales

Millions of yen



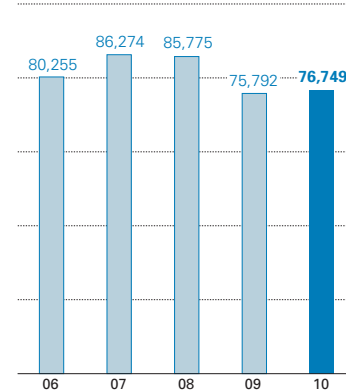
## Net Income (Loss) / Net Income (Loss) per Share

Millions of yen / Yen



## Total Assets

Millions of yen



# About Ryoyo Electro

Since our founding as a semiconductor distributor in 1961, Ryoyo Electro has primarily handled semiconductors, computer systems and peripherals, and electronic devices. We have steadily expanded our businesses over the years in step with developments in the world of electronics. In particular, our semiconductor and computer systems and peripherals product lineups feature a wide range of promising products from both Japan and overseas, and we have developed close business relationships with a number of leading suppliers.

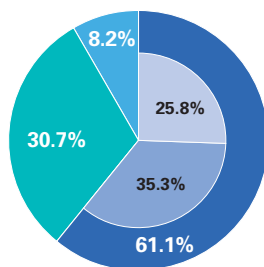
As one of the first semiconductor distributors to establish a technology division, we constantly strive to respond to rapid technological innovation and to further integrate our technical capabilities and sales and marketing efforts to create solutions that meet customer

needs. In addition, we are working to enhance our network of overseas operating bases to provide even faster service.

We have diligently followed our corporate philosophy of “creating value in tune with the times” since our foundation and have consequently evolved from a conventional wholesaler to a comprehensive solutions-based electronics service company that is able to combine its offerings to create superior customer value and greater customer satisfaction.

Boasting “Change, Challenge, Speed” as our slogan, we will continue to strive to become an even more capable comprehensive solutions-based electronics service company that can respond flexibly to the changing times.

## Sales by Product



- Semiconductors
  - Produced in Japan
  - Produced Overseas
- Computer Systems and Peripherals
- Electronic Devices

## Contents

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### Caution on Forward-Looking Statements

Contents of this annual report that are not historical facts represent projections based on expectations and plans for the future. These projections contain elements of risk and uncertainty. As a result, forward-looking statements made in this annual report may differ from actual results and performance.

### Notes on the Scope of this Report

With respect to the contents of this annual report, “the Company” refers to Ryoyo Electro Corporation and “the Group” refers to Ryoyo Electro Corporation and its consolidated subsidiaries Ryoyo Semicon Corporation, Ryoyo Electro (Shanghai) Co., Ltd., Ryoyo Electro Hong Kong Ltd., and Ryoyo Electro Singapore Pte., Ltd.

# Ryoyo's Business Model

Ryoyo Electro strives to continuously enhance its ability to offer customers high-value-added solutions that combine both hardware and software. We are working to strengthen our capability to provide customers with the type of systems and technical support that meet their expectations not only in regard to functionality but also in regard to cost performance.

## SOLUTIONS-BASED SERVICES





## CUSTOMERS

### **Providing High-Value-Added Solutions**

Ryoyo Electro provides an integrated system of support for customers through the efforts of three divisions: sales and marketing, which is responsible for customer support; product marketing, which is responsible for product support; and application engineering, which is responsible for technical support. Leveraging the strong bonds of trust we have built over many years with suppliers, as well as our closely connected network of domestic branches and overseas operating bases, we are striving to continue to increase our competitiveness and strengthen our ability to provide services that further differentiate us from competitors.

### **Improving Technical Support and Quality Control Capabilities at Overseas Operating Bases**

In response to the shift to the localization of production and design operations within Asia seen among customers, Ryoyo Electro has been increasingly focusing on expanding its overseas operating bases and improving the technical support and quality control capabilities of these facilities. At operating bases in Shenzhen, China, and Bangkok, Thailand, we have strengthened local R&D and other technical support and bolstered quality control for new products. As a result, we have established a system that can meet the expectations of Japanese customers.



## SUPPLIERS

### **Maintaining a Sound Financial Structure**

Despite the recent upheavals in our operating environment, we are operating debt free and have done so for the past 20 years. By maintaining the sound financial structure that we have built over these years, we are able to provide our suppliers and other business partners with unrivaled peace of mind.

### **Providing Accurate Feedback about Customer Needs**

By fully leveraging our network that spreads throughout Japan and overseas, Ryoyo Electro gathers information about the needs of equipment manufacturers, which form part of our customer base. This information is then analyzed so that we may provide high-value-added information about industry trends.



### Creating Value in Tune with the Times

We are continuing to strive to offer our customers high-value-added solutions as a comprehensive solutions-based electronics service company.

**Kenhachiro Ogawa**  
President and Chief Executive Officer

**While the economy has yet to see a full recovery, in this fiscal year we managed to keep operating in the black.**

#### EVALUATION OF PERFORMANCE

During the fiscal year ended January 31, 2010, economic measures instituted by nations around the world and recovery in demand from developing nations showed hope that the global economy had bottomed out. However, the global economy still hasn't seen a full recovery. In Japan, the operating environment remains harsh as low earnings have forced corporations to reduce capital investment and as insecurity related to employment has caused a decline in consumer spending. In the electronics industry, in which the Group operates, inventory adjustments have come to a stop, and it would seem that the worst is over. However, aside from a few exceptions, the industry continues to take a cautious stance towards increasing production and capital investment.

In this severe environment, we instituted wide-spread initiatives to bolster sales of the Company's products—including our mainstay semiconductors, computer systems and peripherals, and network-related products.

Net sales in the year under review fell 27.7% year on year, to ¥81.4 billion. As the result of a decline in low-margin businesses and solution proposals for computer systems and peripherals penetrating into the market, we managed to keep ourselves operating in the black, and operating income fell 98.1%, to ¥18.0 million. We also managed to generate net income of ¥0.3 billion, an improvement compared to the net loss of ¥0.4 billion recorded in the previous fiscal year.

**By enhancing our solutions provision and technological capabilities, we will further strengthen ourselves as a comprehensive solutions-based electronics service company.**

**We will continue to promote the development of management systems that are profitable even in hard market conditions and training programs that can further raise human resources that are in tune with the times.**

**We aim to create new business opportunities using solutions geared toward the embedded products market.**

## **FUTURE INITIATIVES**

While we can continue to anticipate that the electronics industry will see steady growth, factors such as the reorganization of semiconductor makers tell us that the industry is currently undergoing a period of intense change.

Even in this rapidly changing environment, Ryoyo Electro will continue working to develop sales structures focused on profitability and efficiency and will continue to pursue the type of value that our customers expect. To realize these goals, we have set a short-term goal of reconstructing internal systems in order to form a foundation that can create continued profitability, and, with the aim of increasing future sales, a medium-term goal of furthering our evolution as a comprehensive solutions-based electronics service company. All of us at Ryoyo Electro are working hard to advance the Company toward meeting these goals.

## **RECONSTRUCTING INTERNAL SYSTEMS—CREATING MANAGEMENT SYSTEMS THAT ARE PROFITABLE EVEN IN HARD MARKET CONDITIONS**

In the year under review, we began instituting wide-spread cost-cutting measures, including decreasing the number of temporary workers that we employ, taking applications for the voluntary retirement of full-time employees, and flattening our management structure at the division and Group level. As a result of these measures, we managed to cut selling, general and administrative expenses by ¥1.0 billion.

Also, in order to enhance our training of human resources we are reevaluating our systems of gauging employee performance, strengthening employee training, and promoting communication between employees. As one facet of these efforts we held a series of “Ryoyo Seminars” as an opportunity for management and employees to share opinions. Through these seminars, we were able to reconfirm that our principle of “Change, Challenge, Speed” had been transmitted to all employees, from the veterans who form the DNA of Ryoyo Electro, to the young employees who will guide its future.

Moving forward, and continuing to be guided by this corporate philosophy, we will focus our attention on training human resources that are in tune with the times and enhancing our ability to respond to all of our customers’ needs, while laying a foundation on which every employee can perform to the fullest of their abilities when economic conditions recover.

## **STRENGTHENING SOLUTIONS BUSINESS**

In this turbulent operating environment, I believe it is vital that we focus our efforts on forming strong bonds of trust with both customers and suppliers. Ryoyo Electro possesses both a semiconductors and electronic devices business and a network and IT business, both of which we have fostered over a period of several years. By combining the capabilities of these two businesses, we are able to easily form a solutions business capable of offering such solutions as embedded products. Leveraging both of these business foundations, we will work in cooperation with our business partners to expand our end-to-end comprehensive

solutions business. Additionally, by developing new products we will work to expand markets, which in turn will lead to increasing Ryoyo's profitability.

We also realize that in order to properly offer our customers solutions, it is crucially important to engage in sales and marketing that utilizes technologies. In accordance with this fundamental belief, we are instituting a number of training and education programs geared toward advancing our employees, from "product engineers," who solely provide product explanations, to "application engineers," who provide solutions based on their knowledge of the technology underpinning the customers' products.

**We are working aggressively to create solutions geared toward growth markets that address three areas of societal concern.**

### **DEVELOPING NEW BUSINESSES**

Currently, we are working to develop solutions geared toward three growth markets in which we anticipate significant future growth—the medical and healthcare market, the IT service and security market, and the energy conservation and eco-friendly product market. By working to quickly bring these new businesses to bear fruit, and due to the subsequent ripple effect, we project net sales in the range of ¥20.0 billion in fiscal 2012. By growing these new businesses into pillars that support our earnings, we hope to bring increased stability to our business operations.

Due to the influence of the operating environment outside of the Company, I believe that the expansion of operations of these focus areas will require some time. However, as these focus areas address current social concerns, such as declining birth rates and the aging population, safety and security, and environmental issues including global warming. I believe that in the future these areas will become key elements of the global economy. Accordingly, I believe that by placing the development of these areas as our mid-term goals we will quickly be able to get back on the track to growth.

**By responding flexibly to the increasing need for design-win activities in the expanding Asian market, we will work to increase the percentage of total net sales produced by overseas sales.**

### **STRENGTHENING GLOBAL SALES SYSTEMS**

Domestic equipment manufacturers, who serve as Ryoyo's principal customers, have been increasingly cutting production costs by moving production operations overseas. Accordingly, the Asian market has been expanding with blinding speed. In particular, instances of companies outsourcing manufacturing to Electronic Manufacturing Service providers in such regions as Taiwan and China are fast increasing. To respond to this situation, it is important, now more than ever, that the Group strengthen its overseas business structure. For this reason, we are laying the foundation so that current domestic-based design-win activities can be performed overseas as well.

Moving forward, we will expand our original overseas businesses by leveraging the strengths of our seven sales offices in East Asia. In particular, at these overseas operating bases we will work to strengthen our import business, in which we sell quality products produced locally to Japanese customers; our offshore trade business, in which we engage in design-win activities geared toward local customers; and locally based OEM and design-win activities. Through these efforts, we aim to bring overseas sales up to 30% of total net sales in the medium term.

**We will work to increase corporate value by achieving continued growth and create a company of which our shareholders can be proud.**

**We will continue to expand the range of our operations by offering solutions unique to Ryoyo Electro.**

## **MESSAGE TO SHAREHOLDERS**

Our policy is to maintain an appropriate balance between improving the level of retained earnings and returning profit to shareholders, and in the fiscal year under review we paid ¥15 per share for both the interim and year-end cash dividends, giving an annual cash dividend of ¥30 per share. Going forward, we will continue to expand our business by increasing retained earnings and building stable management foundations while concurrently paying cash dividends to shareholders with due consideration to the financial conditions and the business environment during each half of the fiscal year.

We are also strengthening our systems for compliance and risk management, have established the Ryoyo Group Codes of Conduct, and are cultivating a corporate culture in which the behavior of both directors and employees reflects the highest standards of corporate and social ethics.

Moreover, we are fulfilling our social responsibilities by contributing to the protection of the global environment, working to improve quality, and constantly striving to upgrade all of our management systems to ensure that organizational and personal information is stored according to the strictest standards.

## **OUTLOOK FOR THE FUTURE**

While operating conditions remain harsh, there are signs of a gradual recovery. While orders will remain relatively low, the current trend is reassuring, and we expect a steady inflow of orders, particularly in relation to products for PCs and peripherals. In the fiscal year ending January 31, 2011, we aim to see a 14.0% year-on-year increase in net sales, to ¥93.0 billion, and a substantial increase in operating income, to ¥1.0 billion. I believe that the key to this growth will be maintaining a balance between our two goals, creating management systems that are profitable even in difficult market conditions and strengthening our solutions business.

Our basic business concept is to provide customers with solutions for their product development and information systems requirements, based on a precise understanding of their needs. To realize that vision, we will work steadily toward accomplishing the short- and mid-term goals that the Group has set and strive to become an even more capable comprehensive solutions-based electronics service company. During these difficult times, I would like to ask our shareholders for their continued support and understanding.

April 2010



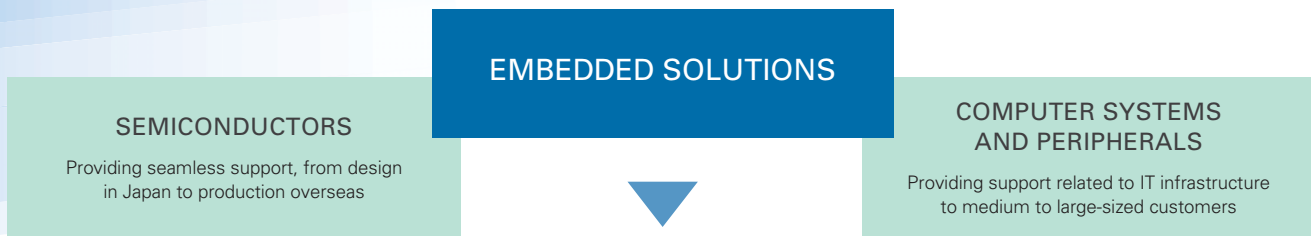
**Kenhachiro Ogawa**  
President and Chief Executive Officer

## Special Feature

# Evolving as a Solutions-Based Company

Leveraging the strength of its solid operating foundation, in addition to its conventional wholesale business, Ryoyo Electro is developing a high-value-added solutions provision business.

Ryoyo Electro currently manages a balanced lineup of domestic and overseas semiconductors, computer systems and peripherals, and electronic devices. Leveraging the strength of our solid operating foundation, we are working to enhance our ability to offer solutions to the embedded devices market. The embedded devices market generally prefers job shop type production models. Accordingly, our solutions provision and technical support capabilities allow us to assist customers in this market in a variety of ways. At Ryoyo Electro, we are working to create additional business opportunities by participating in projects from the planning and production stages, which in turn will lead to increased revenues.



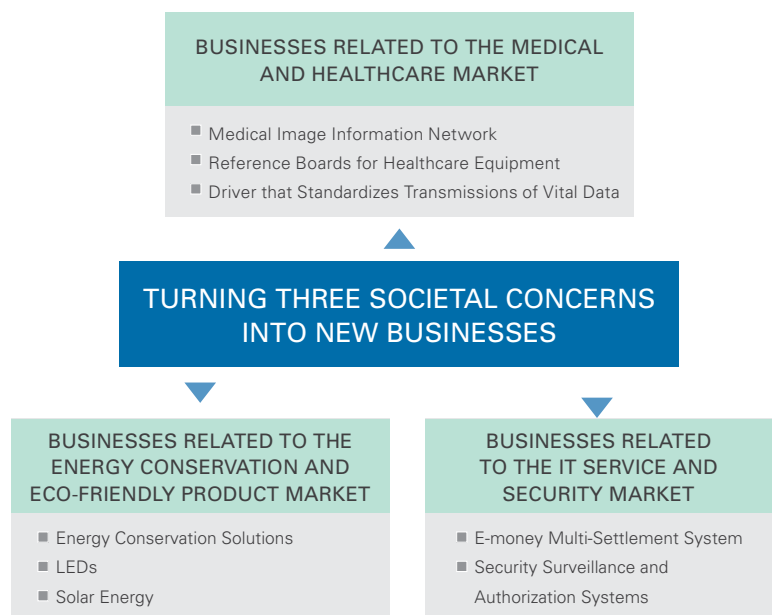
## Targeting New Customers and Customers Using Job Shop Type Production Models

- Build Revenue Pillars Based on Acquiring New Customers and Solid Profit Margins
- Use Embedded Products such as Modules and Solutions as the Means to Increase Profit Margins

## NEW BUSINESS FIELDS

The Group is working to develop new businesses that address the current social concerns of declining birth rates and the aging population, safety and security, and environmental issues. Specifically, we are developing businesses in the medical and healthcare market, the IT service and security market, and the energy conservation and eco-friendly product market.

Leveraging our solutions provision and technical support capabilities, and by developing a business model geared toward the three growth markets mentioned above, we are working to increase our corporate value as a company that not only is profitable but also contributes to the greater society.



## EXAMPLES OF OPERATIONS

### Supporting Customers' Business Strategies with Our Superior Technological Capabilities

In order to engage in design-win activities from the planning and production phases, the ability to offer customers technical support that matches their diverse needs is essential. At Ryoyo Electro, we are working to offer our customers comprehensive support of their business strategies by establishing a firm understanding of their products, by responding to advanced technological markets with our application engineers that have knowledge and solutions provision capabilities geared toward such markets, and through the new business model we are developing based on these principles.

Our ability to provide customers with this type of comprehensive support will depend on our ability to raise superior application engineers. For this reason, we have been restructuring our employee education systems in order to strengthen our engineers' ability to combine the products that Ryoyo handles with solutions that are optimized for application in our customers' businesses. Additionally, we are placing local engineers in our overseas sales offices to increase our ability to respond to customers' overseas R&D operations. Through these efforts, we are working to create systems to more expediently capture high cost-performance development contracts.

## STRENGTHENING IN-HOUSE PRODUCT DEVELOPMENT CAPABILITIES

There are countless semiconductors in the world today, and the semiconductors we make only account for a small percentage of them. However, as a distributor that handles the products of multiple vendors we staff specialists that are highly knowledgeable about each of the products that we offer. By collectively applying this know-how to customers' projects, we are able to effectively reduce the amount of time before the project reaches the manufacturing stage.

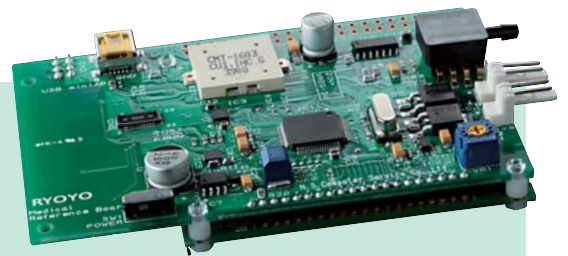
Also, by moving away from just offering IC chips alone to operating a more comprehensive business, Ryoyo Electro has the ability to further expand the range of its business opportunities. In the future, while working to further strengthen our technological capabilities, we will also work in cooperation with our partner corporations to develop increasingly original products.

### DEVELOPING MEDICAL REFERENCE BOARDS

As a member of Continua Health Alliance\*, Ryoyo Electro is working to advance its healthcare market-based business. In September 2009, Ryoyo Semicon Corporation, one of Ryoyo Electro's consolidated subsidiaries, developed a medical reference board that met Continua's specifications. This reference board consists of an 8-bit microcontroller compatible with USB 2.0, a pressure sensor, a three-axis accelerometer, a touch sensor, and sample software for sphygmomanometers and pedometers. By using this reference design, healthcare equipment makers are able to greatly shorten their production periods.

Additionally, in February 2010 we unveiled the first USB driver to meet Continua specifications. This driver allows us to offer healthcare equipment solutions that support customers from the design phase all the way to the actual transmission of vital data.

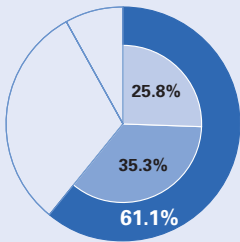
\* Continua Health Alliance is a non-profit, open industry coalition of the finest healthcare and technology companies joining together in collaboration to improve the quality of personal healthcare. With more than 220 member companies around the world, Continua is dedicated to establishing a system of interoperable personal health solutions with the knowledge that extending those solutions into the home fosters independence, empowers individuals, and provides the opportunity for truly personalized health and wellness management.



# Review of Operations

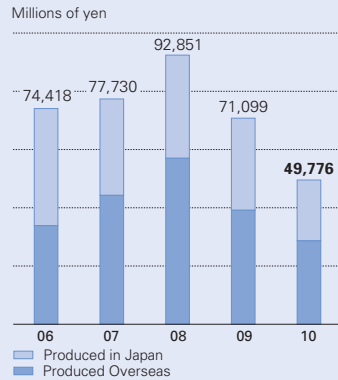
## SEMICONDUCTORS

### Sales by Product



Produced in Japan  
Produced Overseas

### Net Sales



### Main Products

- **Logic**  
MPU / MCU / SOC / ASIC  
ASSP / DSP
- **Memory**  
Flash memory / DRAM /  
SRAM / Mask ROM /  
E2PROM
- **Analog**  
Analog / MSIG /  
Power supply IC
- **Discrete**  
High-frequency wave IC /  
Transistor diode / Laser  
diode / Power module /  
Optical device
- **Evaluation Board**

### OVERVIEW

Net sales of semiconductors fell 30.0% year on year, to ¥49.8 billion, which represented 61.1% of total net sales—25.8% from semiconductors produced domestically and 35.3% from those produced overseas. This was due to a decrease in sales for micro processing units (MPU) for use in computers and for microcomputers for use in cellular phones, as well as a substantial decline in the DRAM business caused by the liquidation of a supplier.

Net sales of ICs decreased 31.9% year on year, to ¥35.4 billion, while net sales of discrete electrical components were down 24.7%, to ¥14.4 billion.

### SALES BY PRODUCT LINE

Net sales of products for communication systems fell 33.2% year on year, to ¥13.4 billion. This was due to harsh market conditions, as well as delays in a large-scale order of products for use in cellular phones that was scheduled for the fourth quarter of the fiscal year ended 2009.

Net sales of products for digital consumer electronics and

other consumer electronics fell 32.1% year on year, to ¥9.6 billion. Due to the substantial decline in the DRAM business, net sales declined in line with our projections.

Net sales of products for installation in vehicles fell 20.1% year on year, as projected, to ¥3.0 billion. This was due to decreases in the sales of microcomputers for car navigation and electronic toll collection (ETC) systems, which offset the increase in new orders for semiconductors for use in power systems and control systems.

Net sales of products for PCs and peripherals declined 39.9% year on year, to ¥9.3 billion, despite an increase in demand for MPUs for use in PCs in the second half of the year under review due to the release of Windows 7.

Net sales of industrial and other applications fell 18.4% year on year, to ¥14.6 billion. This was due to the delayed recovery of the factory automation market.

### OUTLOOK

While the operating environment of the electronics industry remains harsh, market conditions are showing signs of



MPU  
(Intel)



MCU  
(Renesas Electronics)



ASSP  
(Infineon Technologies)



LED  
(Avago Technologies)



MPU  
(Marvell Semiconductor)



MCU  
(Freescale Semiconductor)



ASSP  
(Gennum)



Flash Memory  
(Macronix)

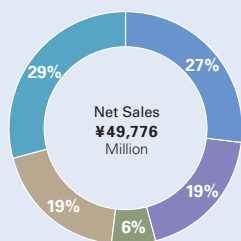


Power Module  
(Mitsubishi Electric)



Analog  
(National Semiconductor)

## Sales by Semiconductor Usage



### Communication Devices

- Cellular phone
- Other

### Digital Appliances

- Television
- DVD player
- Digital camera
- Game machine

### Automotive Electronics

- Car navigation system
- Electronic toll collection system

### Computers and Peripherals

- PC
- Peripheral
- USB memory
- Solid state drive

### Others

- Business equipment
- Industrial instrument
- Factory automation
- Other

recovery and we believe that the worst is over. World Semiconductor Trade Statistics (WSTS) has forecasted positive growth in the semiconductor market in 2010, and the Company anticipates double-digit growth in the fiscal year ending January 31, 2011.

In products for communication systems, we believe that the delayed large-scale order of products for use in cellular phones will contribute greatly to sales.

In products for digital consumer electronics and other consumer electronics, we anticipate higher net sales due to an increase in sales of power supply ICs for game machines. In automobile-mounted products, we plan to increase sales by obtaining new orders, with a special focus on semiconductors for use in motion and control systems.

In products for PCs and peripherals, we expect sales of products for PCs to remain the same while sales of products for peripherals increase. In industrial and other products, we also expect to see improvement in sales of products for industrial equipment.

In regard to orders for semiconductors, the situation is gradually improving, and as stated above we expect to see increased net sales across all semiconductor product lines.

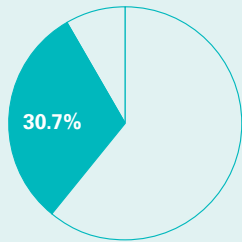
In our semiconductor business, Ryoyo Electro is not only focusing on improving the current performance of the business but is also applying initiatives to promote solutions-based marketing, strengthen overseas business, and begin sales of new products.

Main Suppliers (Semiconductors)				
MANUFACTURER	ANALOG	LOGIC	MEMORY	DISCRETE
Mitsubishi Electric				●
Intel		●	●	
Avago Technologies				●
Macronix		●	●	
Infineon Technologies	●	●		●
Renesas Electronics	●	●	●	●
National Semiconductor	●			
Gennum		●		
Seiko Instruments	●		●	
Marvell Semiconductor		●		
SpectraLinear		●		
Numonyx			●	
Newport Media		●		
Lantiq	●	●		
Freescale Semiconductor*	●	●		●
NVIDIA		●		
Zentel Electronics*			●	

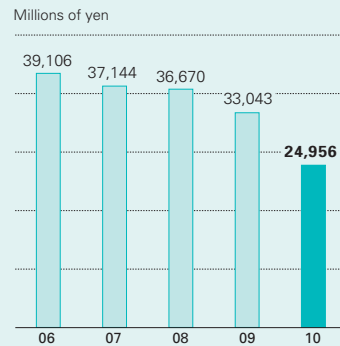
\* Handled by Ryoyo Semicon Corporation

## COMPUTER SYSTEMS AND PERIPHERALS

### Sales by Product



### Net Sales



### Main Products

- **Computer Systems**  
Server / PC / Workstation / Printer / I/O equipment
- **Storage**
- **Security Products**
- **Networks**
- **Network Management / Solution**
- **Operating Systems**
- **Application Software / Middleware**
- **Embedded Products**  
Flash drive / CPU board / Switching power supply

### OVERVIEW

Net sales of computer systems and peripherals fell 24.5% year on year, to ¥25.0 billion, which represented 30.7% of total net sales. This was due to a sudden decrease in IT-related capital investment by customers that occurred after spring 2009.

### SALES BY PRODUCT LINE

Net sales of PC, server, and LAN products fell 28.5% year on year, to ¥11.6 billion. This was due to the steep decline in capital investment among customers, particularly in the manufacturing industry, and the delay in investments recovering to previous levels. Net sales of I/O equipment fell 18.1% year on year, to ¥5.6 billion. While product prices declined drastically, sales figures remained in line with our projections. Net sales of software and embedded products fell 21.7% year on year, to ¥7.8 billion. This was due to the fact that, although the release of Windows 7 contributed to sales, there was a lack of demand from corporations, and sales of embedded products were low.

### OUTLOOK

In sales of PC, server, and LAN products, we anticipate improvement in net sales due to an increase in replacement demand for PCs and servers, which had previously been limited, as well as an expansion of our business through cooperative ventures with suppliers. We anticipate that I/O equipment will continue to face a harsh market environment, and thus net sales will remain about the same. We expect higher net sales of software and embedded products as a result of increased sales of software due to greater demand from corporations for Windows 7, as well as an increase in sales of embedded products.

In the fiscal year ending January 31, 2011, we plan to further increase both our profitability and our customer service capabilities by promoting comprehensive solutions that support the customer—from consulting and product introduction to maintenance and management of systems. Also, while leveraging our current business foundation, the Company will aim to further expand its embedded solutions business.



Workstation  
(Sun Microsystems)



Workstation  
(Hewlett-Packard)



UNIX Server  
(Hewlett-Packard)



Plotter  
(Hewlett-Packard)



Printer  
(Seiko Epson)



Windows  
(Microsoft)



Switching Power Supply  
(TDK-Lambda)



DIGUARD  
(Mitsubishi Electric)



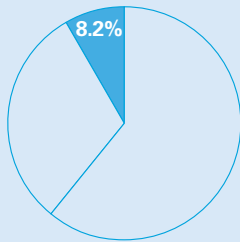
Compact Flash  
(Hagiwara Sys-Com)



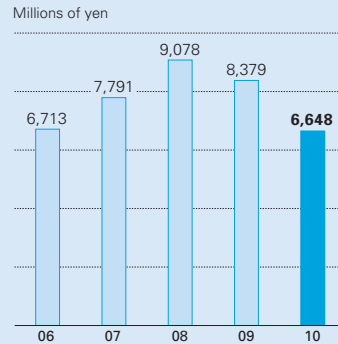
CPU Board  
(DUX)

## ELECTRONIC DEVICES

### Sales by Product



### Net Sales



### Main Products

- LCD Modules
- Contact Image Sensors

### OVERVIEW

Net sales of electronic devices fell 20.7% year on year, to ¥6.6 billion, which constituted 8.2% of total net sales. Although sales of LCD modules from overseas increased, this gain was not enough to offset the impact of suppliers withdrawing from the market.

### SALES BY PRODUCT LINE

While the losses incurred due to a decrease in sales of printed circuit boards, a result of suppliers withdrawing from the market, and a decrease in sales of LCD panels used in industrial machinery, this was offset by an increase of new orders for LCD modules from overseas. As a result, sales remained, for the most part, in line with our projections.

### OUTLOOK

In the fiscal year ending January 31, 2011, we anticipate an increase in demand for contact image sensors to be used in new models of color Multi Function Printers (MFPs). We also expect to see a recovery in the demand for LCD panels to be used in industrial machinery, which had previously been in a slump.

Regarding new products from China, we expect sales of LCD modules used in telephones to remain firm. By continuing to develop new products with high cost performance, we will further expand our import and offshore trade business.



Contact Image Sensor  
(Mitsubishi Electric)



LCD  
(Mitsubishi Electric)



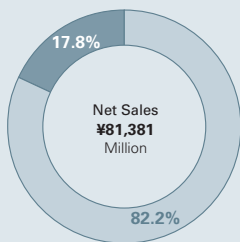
LCD  
(Seiko Instruments)



LCD Module  
(Zastron)

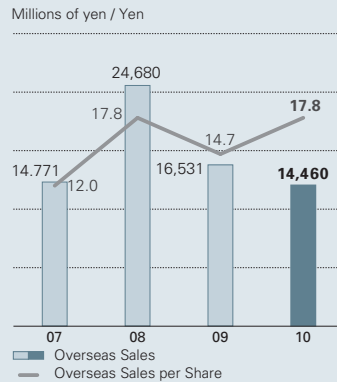
# Overseas Sales and Geographical Segment Information

## Sales by Region<sup>1</sup>



□ Japan ■ Overseas

## Overseas Sales / Overseas Sales per Share<sup>1</sup>



<sup>1</sup> Countries and regions classified by geographic proximity  
Main countries and regions belonging to each classification:  
Asia: China, Hong Kong, Taiwan, Thailand, Malaysia, etc.  
Other: England, U.S.A., Switzerland  
Overseas sales are the net sales by Ryoyo Electro and its consolidated subsidiaries in countries and regions other than Japan.

## SALES BY REGION<sup>2</sup>

### Japan

Net sales in Japan fell 29.6% year on year, to ¥73.9 billion, and we recorded an operating loss of ¥0.1 billion. This was primarily due to decreased sales of semiconductors, including memory for use in digital consumer electronics and photo couplers used in industrial machines, and decreased sales of computer systems and peripherals, such as servers.

### Asia

Net sales in Asia fell 13.1% year on year, to ¥13.0 billion, and operating income totaled ¥0.1 billion. While sales of memory for use in digital consumer electronics decreased, market conditions recovered faster than those of the Japanese electronics market, and accordingly decreases were kept at minimal levels.

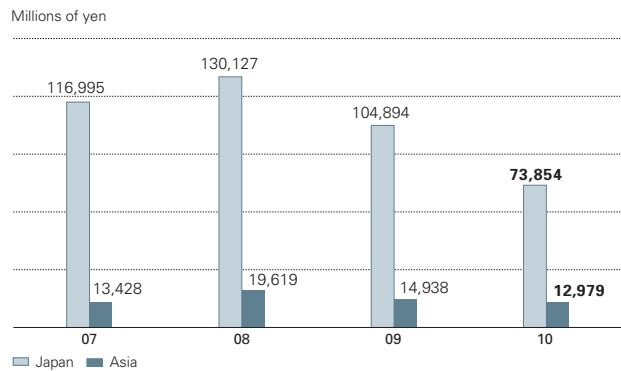
## OUTLOOK

In the fiscal year ending January 31, 2011, the Group will aim to increase overseas sales to a higher level than sales in the Japanese market.

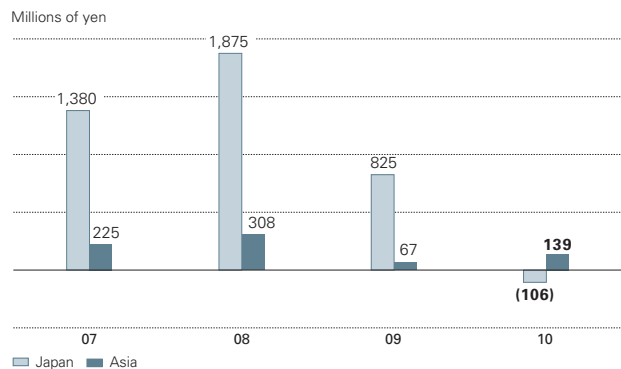
Accordingly, we anticipate that overseas sales will come to represent a significant portion of total net sales. We plan to accomplish this by enhancing the quality of businesses that have been relocated overseas, and expanding our own original businesses—our import business, in which we sell quality products produced locally to Japanese customers, and our offshore trade business, in which we engage in design-win activities geared toward local customers.

## Comparison of Geographical Segments<sup>2</sup>

### Net Sales



### Operating Income (Loss)



<sup>2</sup> Countries and regions classified by geographic proximity  
Main countries and regions belonging to Asia: Singapore, Hong Kong, Shanghai  
Figures in the geographical segments section are not consistent with overseas sales and are before adjustments for internal accounts and transactions and eliminations and corporate.

# Corporate Philosophy / Corporate Governance

## CORPORATE PHILOSOPHY

### MANAGEMENT PRINCIPLES

#### Corporate Philosophy: Creating Value in Tune with the Times

**Develop new products, markets, and services that are based on the changing operating environment and on a firm understanding of customer needs**

#### MANAGEMENT CONCEPT:

#### “CHANGE, CHALLENGE, SPEED”

The Group will change to respond to trends in the electronics industry and take on new challenges with the necessary speed.

As economic globalization continues, the electronics industry, while undergoing continuous reorganization and technological innovation, has been thrust into an era of intense global competition. As a distributor primarily focusing on semiconductors, we have noticed a decline in the effectiveness of the conventional wholesale business model, in which a company only delivers tangible products. Accordingly, the Group has evolved from this model to offer customers high-value-added solutions, providing superior value by participating in projects from

the planning stage and by offering hardware (semiconductors, computer systems and peripherals, and embedded products) as well as high-value-added services and content.

Additionally, to further our evolution as an organization that is optimized not only for operating in globalization but also for driving our future development, we will continue to enhance our human resources training system, thereby ensuring that our employees remain highly trained and capable.

Moving forward, we will continue to strive for improved performance and to contribute to all of our stakeholders as a comprehensive solutions-based electronics service company that can respond flexibly to changing times.

## CORPORATE GOVERNANCE

### BASIC CORPORATE GOVERNANCE PHILOSOPHY

At Ryoyo Electro, we recognize enhancing corporate governance as an important task of management. Therefore, in order to continue to guarantee the soundness, transparency, and effectiveness of management, as well as increase corporate value and fulfill our responsibilities to society, we are striving to develop internal systems that ensure the functionality of corporate governance.

### COMPANY ORGANIZATIONS

#### Directors, Board of Directors

The Board of Directors, which consists of six directors (as of April 2010), is responsible for making decisions as stipulated in laws, regulations, and the articles of incorporation; making important management decisions; and overseeing the execution of operations. The Board of Directors meets once a month, and met a total of 12 times during the period under review.

#### Auditors, Board of Auditors

Ryoyo Electro employs a corporate auditor governance model, whereby corporate auditors act independently of directors and oversee directors' execution of operations. The Board of Auditors consists of four corporate auditors (as of April 2010), one standing corporate auditor and three corporate external auditors. The Board of Auditors meets once a month, and met a total of 14 times during the period under review (including special meetings).

### INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

The following are our basic principles for establishing internal control systems. These principles help us maintain systems for sound internal control.

### Basic Principles

1. System for ensuring that the execution of duties by directors and employees is in compliance with all laws, regulations, and the articles of incorporation
2. Items concerning the storage and management of information related to the execution of duties by directors
3. Rules and other systems for containing the risk of damages
4. System for ensuring the efficient execution of duties by directors
5. System for ensuring the appropriateness of operations undertaken by the corporate group consisting of Ryoyo Electro Corporation and its subsidiaries
6. System concerning employees requested by the Board of Auditors to serve as assistants and items concerning the independence of these employees from directors
7. System concerning reports submitted by directors and employees to the Board of Auditors and other systems concerning reports to the Board of Auditors
8. Other systems for ensuring effective auditing by the Board of Auditors

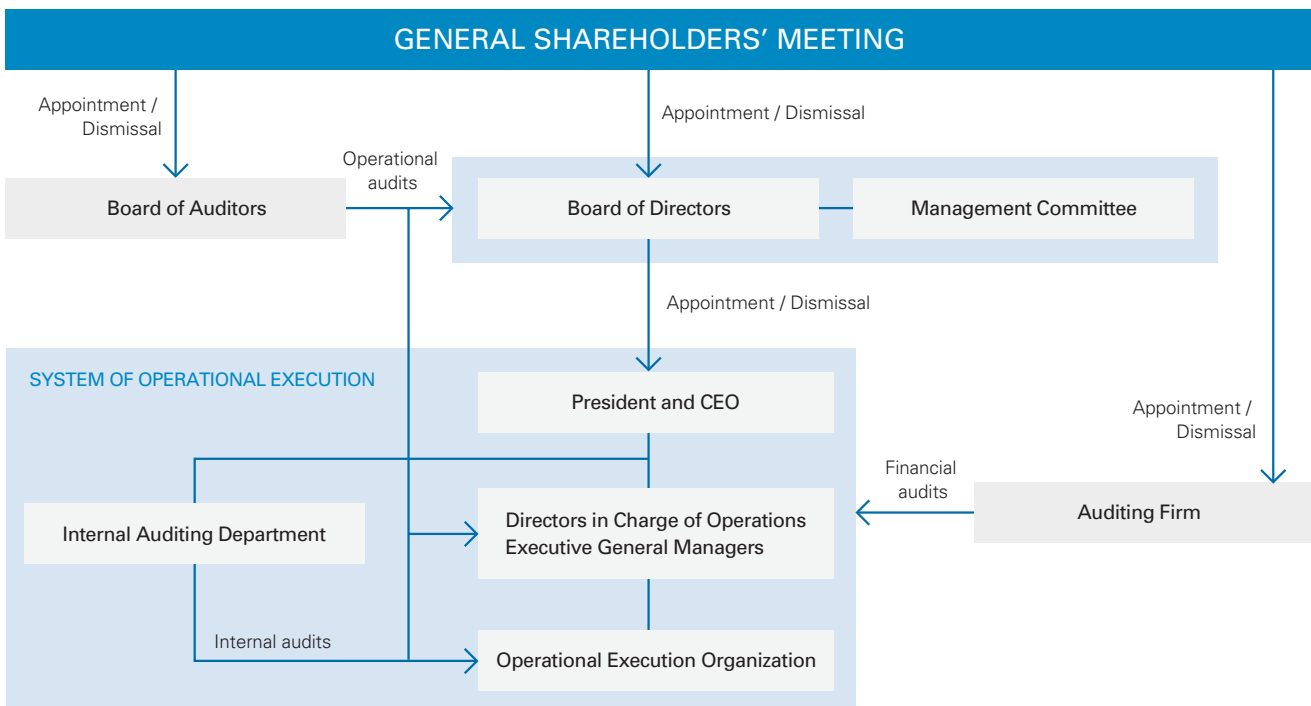
### RISK MANAGEMENT SYSTEMS

Risks that may affect our operations include those related to compliance, the environment, disasters, information security, product quality, foreign exchange rates, and financial reporting. Each department maintains effective risk management systems managed by employees who are responsible for risk management. In the event that any disruption occurs, these employees will guide their department in responding quickly and effectively to those disruptions in order to reduce the impact on operations.

### INVESTOR RELATIONS ACTIVITIES

Ryoyo Electro recognizes that disclosing unbiased, timely information about the management of the Company to our shareholders and other investors is an important function of management. In correspondence with the release of quarterly and annual financial reviews, we also offer information about the current business situation and future direction of the Company through our website\* as well as at information sessions held for analysts and investors. Through these efforts, we will continue to disclose unbiased information in a timely manner.

\* [www.ryoyo.co.jp/english/](http://www.ryoyo.co.jp/english/)



# Corporate Social Responsibility

## BASIC CSR PHILOSOPHY

In accordance with our corporate philosophy of “creating value in tune with the times,” the Ryoyo Group conducts its business with high ethical standards for the greater good of society. In order to fulfill our responsibilities toward society in every aspect of our business, we will continue to act in compliance with this philosophy, as well as with all laws and regulations, throughout our domestic and overseas operations.

## SYSTEMS TO PROMOTE COMPLIANCE

In 2007, we established the Ryoyo Group Codes of Conduct, which we expect directors and employees within all Ryoyo Group companies, whether domestic or overseas, to follow. It also describes matters that should be observed from a compliance perspective and serves as a foundation for our operations moving forward.

We have also set up the “Ryoyo Group Compliance Hotline” so that we can quickly identify violations of the Ryoyo Group Codes of Conduct and carry out the necessary steps to rectify such issues. In addition, the CSR Department of the CSR Promotion Division serves as a further channel for employees to discuss and report compliance-related concerns.

## STRENGTHENING INFORMATION SECURITY MEASURES

Amid the increasing demand from society for companies to strengthen their information security measures—and in consideration of the fact that we handle highly confidential information, including information on products under development by customers and programs to be incorporated into semiconductors—we have obtained certification for all domestic Group companies under ISO 27001, the international standard for helping organizations establish and maintain an information security management system (ISMS). We also plan to continue to raise awareness among all employees of the importance of secure information management. This will help to further enhance the trust placed in us by our customers, our business associates, and society as a whole.

## IMPLEMENTING ENVIRONMENTAL PROTECTION AND QUALITY CONTROL INITIATIVES

All domestic Ryoyo Group companies have acquired ISO 14001 certification, the international standard for environmental management, and ISO 9001 certification, the international standard for quality management, including quality assurance. The Group effectively employs an integrated management system that functions as both an environmental management system (EMS) and a quality management system (QMS). This system allows us to contribute to the preservation of the environment by reducing the environmental impact and the environmental risks of our operations while continuing to improve the quality of our products, which in turn allows us to not only meet the needs of our customers, but to also contribute to society as well.

## IMPLEMENTING GREEN PROCUREMENT INITIATIVES

Dedicated to green procurement, Ryoyo Electro has established two sets of guidelines—the Green Procurement Guidelines and the Management Standards on Environment-Affecting Substances—and requests that all suppliers and outsourcers adhere to these guidelines.

In selecting suppliers and outsourcers, we examine them on the basis of their compatibility with the Green Procurement Guidelines, and give priority to companies that meet these guidelines.

Additionally, we are working to reduce the environmental impact of the products and secondary supplies that we use by examining their compatibility with the Management Standards on Environment-Affecting Substances from the procurement stage. We will continue to promote environmental consideration in our operations and strive to be an increasingly environment-friendly corporation.

# Board of Directors and Corporate Auditors

As of April 28, 2010



**Kenhachiro Ogawa**  
President and Chief Executive Officer

September 1963	Joined Ryoyo Electro	April 1999	Representative Director and Senior Managing Director in charge of Computer System Product Sales and Electronic Devices Sales
May 1982	General Manager, Accounting Dept.	April 2006	Representative Director and Executive Vice President in charge of Computer System Product Sales
April 1984	Director and General Manager, Accounting and Administration Depts.	August 2006	Representative Director and Executive Vice President in charge of all sales and technology divisions
April 1989	Managing Director in charge of General Affairs and Human Resources Dept. and General Manager, Administration Div.	April 2008	President and CEO (incumbent)
July 1995	Senior Managing Director in charge of Computer System Products Sales Div. and Information Technology Dept.		



**Yutaka Horikiri**  
Managing Director



**Kazuo Kaishima**  
Managing Director



**Nobuo Kikutsugi**  
Director



**Takayoshi Oouchi**  
Director



**Masakazu Shinohara**  
Director

**Standing Statutory Auditor**  
Akio Tanaka

**Statutory Auditors**  
Susumu Morikawa  
Iwao Sekiya  
Katsumasa Yasui

**Executive General Managers**  
Masahiko Otsuki  
Satoru Fukumoto  
Kazuhiko Yokoyama

# Sales Network

As of January 31, 2010



## SUBSIDIARIES

### **Ryoyo Electro Trading (Dalian) Co., Ltd.**

9K International Finance Tower, No. 15, Renmin Road,  
Zhongshan District, Dalian 116001, P.R.China  
Phone: +86-411-8250-6377  
Fax : +86-411-8250-6399

### **Ryoyo Electro (Shanghai) Co., Ltd.**

Suite 914-915, 9/F, Chang Chun Teng Yun Tong Building,  
818 Nanjing West Road, Jing An, Shanghai 200041,  
P.R.China  
Phone: +86-21-6271-3377  
Fax : +86-21-6217-1568

### **Ryoyo Electro (Shanghai) Co., Ltd.**

**SHENZHEN BRANCH AND ENGINEERING  
DEVELOPMENT CENTRE**  
7F#05, Shun Hing Square Di Wang Commercial Centre,  
5002 Shennan Road East, Shenzhen 518008, P.R.China  
Phone: +86-755-2592-0123  
Fax : +86-755-8207-3339

### **Ryoyo Electro Hong Kong Ltd.**

Suite No. 1, 20/F, Sino Plaza, 256-257 Gloucester Road,  
Causeway Bay, Hong Kong  
Phone: +852-2573-7418  
Fax : +852-2834-6131

### **Ryoyo Electro Taiwan Co., Ltd.**

Room 802, 8th Floor, No. 96, Chung Shan North Road,  
Section 2, Taipei 104, Taiwan  
Phone: +886-2-2511-8766  
Fax : +886-2-2511-6202

### **Ryoyo Electro (Thailand) Co., Ltd.**

195 Empire Tower, 19/F, 1909 Room, South Sathorn  
Road, Yannawa, Sathorn, Bangkok 10120, Thailand  
Phone: +66-2-659-5701  
Fax : +66-2-659-5705

### **Ryoyo Electro Singapore Pte., Ltd.**

230 Victoria Street, #04-02/03 Bugis Junction Towers,  
Singapore 188024  
Phone: +65-6276-9636  
Fax : +65-6276-9639

### **Ryoyo Electro USA, Inc.**

P.O. Box 15545, Fremont, CA 94539, U.S.A.

# Financial Section

## CONSOLIDATED FINANCIAL REVIEW

### MANAGEMENT ENVIRONMENT

During the fiscal year ended January 31, 2010, as a result of economic measures instituted by nations around the world, as well as the recovery in demand from developing nations, there were signs that the global economy had bottomed out. However, the global economy has yet to see a full recovery.

In Japan, harsh operating conditions continue to persist, and many corporations are suffering from low earnings. Accordingly, the Japanese economy is currently characterized by low levels of capital investment among corporations, higher unemployment, lower income, and decreased consumer spending.

In the electronics industry, in which the Group operates, inventory adjustment has halted, and it would seem that the worst is over. However, aside from a few exceptions, the industry continues to take a cautious stance towards increased production and capital investment.

While operating conditions remain harsh, there are signs of a gradual recovery. World Semiconductor Trade Statistics (WSTS) has forecasted positive growth in the semiconductor market in 2010, and the Company will make full-fledged efforts to increase business results in the fiscal year ending January 31, 2011.

### RESULTS FOR THE FISCAL YEAR ENDED JANUARY 31, 2010

In this severe environment, we instituted several initiatives related not only to the sales of the Group's products—including our mainstay semiconductors, computer systems and peripherals, and network-related products—but also to the pioneering of a new high-value-added business model.

Net sales in the year under review fell 27.7% year on year, to ¥81.4 billion. Gross profit decreased 21.7% year on year, to ¥6.9 billion, while the gross profit margin improved 0.6 percentage point, to 8.5%.

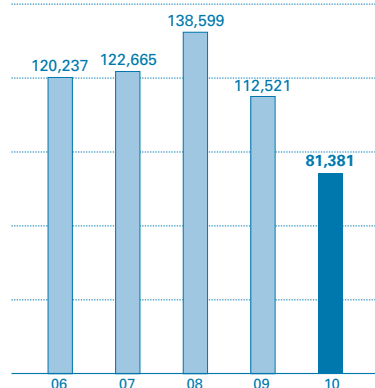
Selling, general and administrative expenses fell 12.6% year on year, to ¥6.9 billion. As we were faced with an extremely harsh operating environment, operating income fell 98.1% year on year, to ¥18 million. This was supported in part by an improved gross profit margin and lower selling, general and administrative expenses. Other income, net was ¥0.2 billion, as opposed to other expenses, net of ¥1.1 billion in the previous fiscal year.

Net income amounted to ¥0.3 billion, compared with a net loss of ¥0.4 billion in the previous fiscal year.

Accordingly, net income per share of common stock was ¥11.86, compared to a net loss per share of common stock of ¥13.20 recorded during the previous fiscal year.

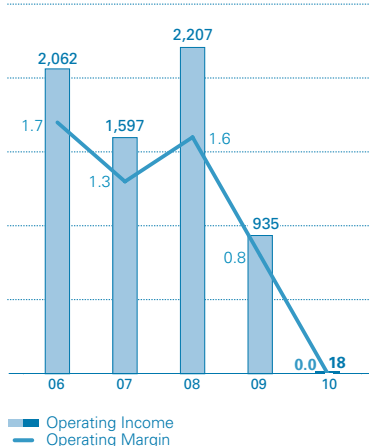
#### Net Sales

Millions of yen



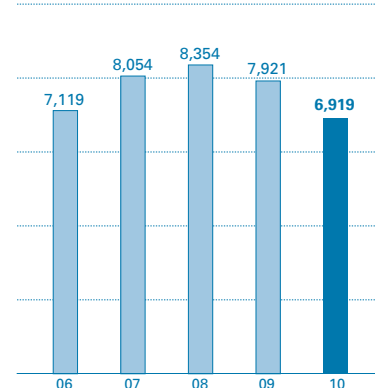
#### Operating Income / Operating Margin

Millions of yen / %



#### Selling, General and Administrative Expenses

Millions of yen



## PERFORMANCE BY PRODUCT LINE

### Semiconductors

Net sales of semiconductors fell 30.0% year on year, to ¥49.8 billion, which constituted 61.1% of total net sales. Net sales of ICs fell 31.9% year on year, to ¥35.4 billion. This was due to a decrease in sales of MPUs for use in computers and of microcomputers for use in cellular phones, as well as a substantial decline in the DRAM business caused by the liquidation of a supplier. Net sales of discrete electrical components were down 24.7%, to ¥14.4 billion. This was due to a decline in shipments of laser diodes used in recordable DVD drives for PCs and photo couplers used in industrial machines.

### Computer Systems and Peripherals

Net sales of computer systems and peripherals fell 24.5% year on year, to ¥25.0 billion, which constituted 30.7% of total net sales. This was due to a substantial decline in capital investment seen among customers as a result of the market recession, and a subsequent decrease in large-scale orders for system solutions based on such products as servers.

### Electronic Devices

Net sales of electronic devices fell 20.7%, to ¥6.6 billion, which constituted 8.2% of total net sales. This was due to a decrease in sales of printed circuit boards, a result of suppliers withdrawing from the market.

## CASH FLOWS

Cash and cash equivalents totaled ¥21.8 billion at the fiscal year-end, a ¥3.1 billion year-on-year increase. Income before income taxes was ¥0.3 billion. Major inflows included acquisitions of investments in securities, while major outflows included decreases in working capital.

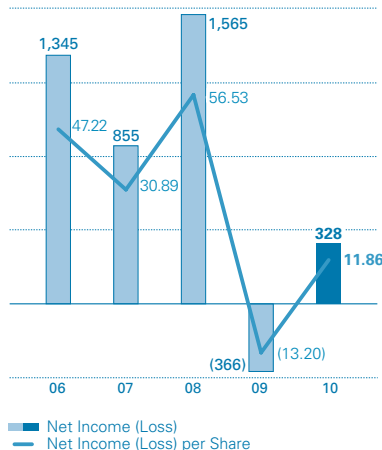
Net cash provided by operating activities was ¥8.4 billion, a ¥1.5 billion year-on-year increase. Income before income taxes was ¥0.3 billion, but working capital declined due to a decrease of ¥3.7 billion in notes and accounts receivable–trade accompanying lower sales and a decrease of ¥2.7 billion in inventories.

Net cash used in investing activities was ¥4.7 billion, compared to net cash provided by investing activities of ¥0.8 billion recorded in the previous fiscal year. Major inflows included ¥5.0 billion generated by the maturity of securities. However, inflows were offset by outflows, which included ¥8.8 billion used in the acquisition of investments in securities.

Net cash used in financing activities, including payment of dividends, was ¥1.0 billion, compared with ¥1.1 billion in the previous year.

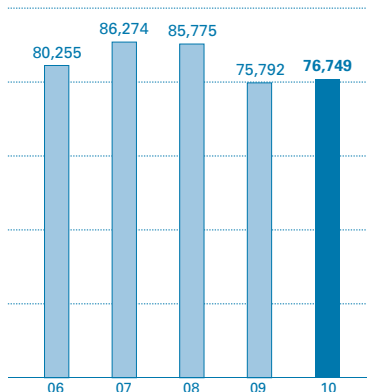
### Net Income (Loss) / Net Income (Loss) per Share

Millions of yen / Yen



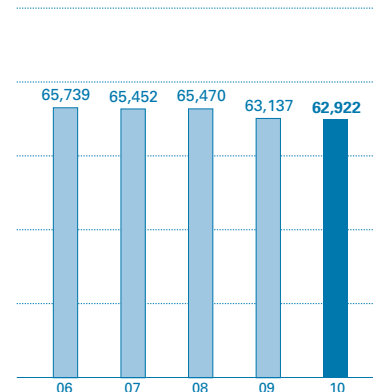
### Total Assets

Millions of yen



### Total Net Assets

Millions of yen



## FINANCIAL POSITION

Total assets increased 1.3% year on year, to ¥76.7 billion. While notes and accounts receivable–trade and merchandise and products decreased, investments in securities and cash in hand and in banks increased. Total liabilities increased 9.3% year on year, to ¥13.8 billion. This was primarily due to a 13.3% increase in notes and accounts payable–trade. Total net assets decreased 0.3% year on year, to ¥62.9 billion.

As a result, the equity ratio decreased 1.3 percentage points, to 82.0%. Nonetheless, we continued to maintain a sound financial structure. In regard to the acquisition of treasury stock, as of January 31, 2010, we held 4,398,918 shares of treasury stock.

## RETURNING PROFIT TO SHAREHOLDERS

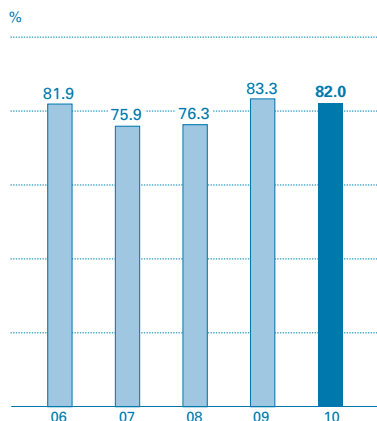
Our policy is to maintain an appropriate balance between improving the level of retained earnings and returning profit to shareholders. Accordingly, in the year under review the Company paid ¥15 per share for the interim and year-end cash dividends, for an annual cash dividend of ¥30 per share.

Going forward, we will continue to expand our business by increasing retained earnings and building stable management foundations, while concurrently paying cash dividends to shareholders with due consideration for financial conditions and the business environment during each half of the fiscal year.

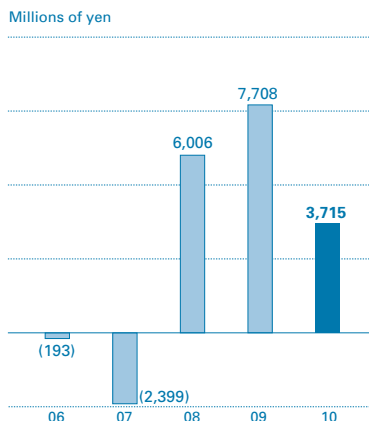
However, the economy and the operating environment in which we operate are undergoing a period of intense change. The electronics industry is currently faced with low demand for products and falling product prices, as well as the reorganization of semiconductor makers. Accordingly, conventional business models can no longer be counted on to ensure growth. In order to survive in this environment, the ability to provide high-value-added solutions is essential. Therefore, based on projections about the electronics industry in the fiscal year ending January 31, 2011, we believe the Company currently needs to devote time to strengthening its internal structures.

Taking these factors into account, the Company intends to pay an annual cash dividend of ¥30 per share, ¥15 for the interim and ¥15 for the year-end cash dividend in the year ending January 31, 2011.

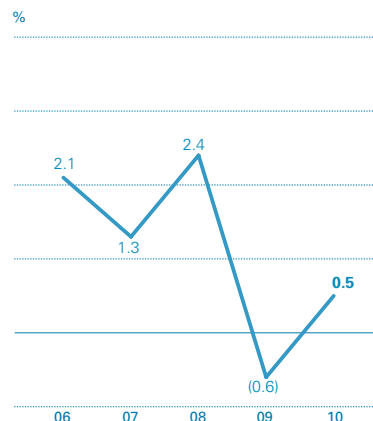
### Equity Ratio



### Free Cash Flows



### ROE



## RISKS PERTAINING TO THE COMPANY'S BUSINESS

Risks that may affect the management performance, stock price, and financial condition of the Company include the following. Forward-looking statements included herein are based on judgments made by the Ryoyo Group as of January 31, 2010.

### **(1) Abrupt Changes in Economic Conditions**

Semiconductors, which comprise a significant portion of the Ryoyo Group's sales, are incorporated into finished products made by equipment manufacturers of such products as digital consumer electronics, cellular phones, PCs, and industrial machinery, for which demand is affected by the economic conditions in countries or regions where they are sold. Consequently, an economic slowdown or decline in demand in such major markets as Japan, Asia, the United States, and Europe may affect the Ryoyo Group's performance and financial condition.

### **(2) Contracts with Suppliers**

The main business of the Ryoyo Group consists of the sales of semiconductors, computer systems and peripherals, embedded products, and other electronic devices. In principle, the term of distributor and principal distributor contracts signed with suppliers is one year. In the event such contracts are not renewed or are canceled mid term, the Ryoyo Group's performance and financial condition may be affected.

### **(3) Fluctuation in Foreign Exchange Rates**

The Ryoyo Group undertakes overseas sales activities. Items denominated in foreign currencies, including sales, costs, and assets for each region, are represented at yen value on the consolidated balance sheets. Fluctuations in exchange rates may affect the yen value of such items even when the value of the local currency remains unchanged. In addition, while the Company strives to avoid foreign exchange losses associated with foreign currency-denominated transactions undertaken in Japan and abroad through various means including forward exchange contracts, the Ryoyo Group's performance and financial condition may be affected depending on the scale of fluctuation in foreign exchange rates.

### **(4) Retirement Benefit Obligations**

The Ryoyo Group's costs and obligations related to retirement benefits for employees are calculated on the basis of preconditions established by discount rates and other actuarial calculations as well as the expected rate of return on pension assets. As a consequence, declines in the level of interest rates and deterioration in the rate of return may increase the costs and obligations related to retirement benefits.

### **(5) Collection of Accounts Receivable**

The Ryoyo Group makes the utmost effort to manage exposure to credit risks by setting credit limits for individual partners according to their public credibility and financial condition, and by undertaking business within those limits. However, should difficulties arise with respect to the collection of accounts receivable due to a rapid deterioration in management or bankruptcy on the part of business partners, the Ryoyo Group's performance and financial condition may be affected.

### **(6) Fall in the Price of Products**

Price competition in the electronics industry to which the Company belongs is becoming increasingly severe. The decline in the prices of final products has created downward pressure on the price of semiconductors and electronic parts. The Ryoyo Group is working to avoid having to reduce its prices by maintaining a lineup of highly competitive products. However, the intensification of competition and product obsolescence accompanying technological innovation may have an impact on the Group's business results and financial conditions.

### **(7) Impairment Losses on Write-Down of Investments in Securities**

To strengthen and maintain its relations with business partners, the Ryoyo Group purchases the shares of specific customers, suppliers, and financial institutions. In the future, a deterioration of conditions in the stock market or the poor business performance of the companies whose stocks the Group has purchased may have an impact on the Group's business results and financial condition.

## CONSOLIDATED BALANCE SHEETS

Ryoyo Electro Corporation  
At January 31, 2010 and 2009

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
<b>Current assets</b>			
Cash in hand and in banks	¥21,828	¥18,770	\$245,259
Securities (Note 3)	6,000	5,000	67,416
Notes and accounts receivable—trade	24,705	28,376	277,585
Inventories	8,605	9,917	96,686
Deferred income taxes—current (Note 5)	212	114	2,376
Other (Note 14)	1,757	2,186	19,743
Less: allowance for doubtful accounts	(357)	(172)	(4,008)
<b>Total current assets</b>	<b>62,750</b>	<b>64,191</b>	<b>705,057</b>
<b>Investments and other assets</b>			
Investments in securities (Note 3)	6,026	2,282	67,712
Investments in unconsolidated subsidiaries and affiliated companies	5,984	6,040	67,233
Deferred income taxes—non-current (Note 5)	103	307	1,158
Other	1,276	3,007	14,335
Less: allowance for doubtful accounts	(2)	(800)	(19)
<b>Total investments and advances</b>	<b>13,387</b>	<b>10,836</b>	<b>150,419</b>
<b>Property and equipment</b>			
Furniture and equipment	297	308	3,334
Land	5	5	64
Other	491	498	5,511
Less: accumulated depreciation	(580)	(556)	(6,511)
<b>Total property and equipment—net</b>	<b>213</b>	<b>255</b>	<b>2,398</b>
<b>Intangibles</b>			
Software	381	497	4,278
Other	18	13	200
<b>Total intangibles and deferred charges</b>	<b>399</b>	<b>510</b>	<b>4,478</b>
<b>Total assets</b>	<b>¥76,749</b>	<b>¥75,792</b>	<b>\$862,352</b>

The accompanying notes are an integral part of the consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
<b>Current liabilities</b>			
Notes and accounts payable–trade	¥10,400	¥ 9,182	\$116,855
Income taxes payable	83	52	933
Consumption taxes payable	111	106	1,246
Accrued bonuses	97	143	1,089
Other	2,098	1,922	23,572
<b>Total current liabilities</b>	<b>12,789</b>	<b>11,405</b>	<b>143,695</b>
<b>Long-term liabilities</b>			
Accrued retirement benefits for employees (Note 7)	922	986	10,357
Other	116	264	1,309
<b>Total long-term liabilities</b>	<b>1,038</b>	<b>1,250</b>	<b>11,666</b>
<b>Total liabilities</b>	<b>13,827</b>	<b>12,655</b>	<b>155,361</b>
<b>Contingent liabilities</b> (Note 8)			
<b>Net assets</b> (Note 10)			
<b>Shareholders' equity</b>			
Common stock	13,672	13,672	153,618
Authorized: 119,628,800 shares in 2010 and 2009 Issued and outstanding: 32,072,398 shares in 2010 and 2009			
Capital surplus	13,337	13,337	149,848
Retained earnings	41,770	42,354	469,328
Less: treasury stock (2010: 4,398,918 shares; 2009: 4,398,043 shares)	(5,500)	(5,499)	(61,789)
<b>Total shareholders' equity</b>	<b>63,279</b>	<b>63,864</b>	<b>711,005</b>
<b>Valuation and translation adjustments</b>			
Unrealized gains on investments in securities–net	318	7	3,569
Unrealized gains or losses on hedging derivatives, net of tax	0	(1)	3
Foreign currency translation adjustments	(675)	(733)	(7,586)
<b>Total valuation and translation adjustments</b>	<b>(357)</b>	<b>(727)</b>	<b>(4,014)</b>
<b>Total net assets</b>	<b>62,922</b>	<b>63,137</b>	<b>706,991</b>
<b>Total liabilities and net assets</b>	<b>¥76,749</b>	<b>¥75,792</b>	<b>\$862,352</b>

## CONSOLIDATED STATEMENTS OF OPERATIONS

Ryoyo Electro Corporation  
For the years ended January 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
<b>Net sales</b>	<b>¥81,381</b>	<b>¥112,521</b>	<b>\$914,394</b>
Cost of sales (Note 4)	74,444	103,665	836,454
<b>Gross profit</b>	<b>6,937</b>	<b>8,856</b>	<b>77,940</b>
Selling, general and administrative expenses	6,919	7,921	77,737
<b>Operating income</b>	<b>18</b>	<b>935</b>	<b>203</b>
<b>Other income (expenses)</b>			
Interest and dividend income	169	238	1,900
Equity in earnings of an affiliate	100	321	1,129
Foreign exchange gain (loss)–net	(22)	(89)	(250)
Gains on sales of investments in securities	217	–	2,438
Losses on write-down of investments in securities	–	(1,623)	–
Transfer to the allowance for doubtful accounts	(45)	–	(511)
Special retirement payments	(225)	–	(2,531)
Other–net	53	77	600
	247	(1,076)	2,775
<b>Income before income taxes</b>	<b>265</b>	<b>(141)</b>	<b>2,978</b>
<b>Income taxes</b>			
Current	45	40	500
Deferred	(108)	185	(1,211)
	(63)	225	(711)
<b>Net income (loss)</b>	<b>¥ 328</b>	<b>¥ (366)</b>	<b>\$ 3,689</b>

	Yen		U.S. dollars (Note 1)
	2010	2009	2010
<b>Per share of common stock (Note 11)</b>			
Net income (loss)	¥11.86	¥(13.20)	\$0.133
Cash dividends applicable to the year	30.00	40.00	0.337

The accompanying notes are an integral part of the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (NOTE 10)

Ryoyo Electro Corporation  
For the years ended January 31, 2010 and 2009

	Millions of yen							
	Shareholders' equity					Valuation and translation adjustments		
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gains/(losses) on investments in securities	Unrealized gains/(losses) on hedging derivatives, net of tax	Foreign currency translation adjustments
<b>Balance at January 31, 2009</b>	¥13,672	¥13,337	¥42,354	¥(5,499)	¥63,864	¥ 7	¥(1)	¥(733)
Net increase/(decrease) during the fiscal year								
Cash dividends	-	-	(968)	-	(968)	-	-	-
Net income for year	-	-	328	-	328	-	-	-
Increase from a newly consolidated subsidiary	-	-	56	-	56	-	-	-
Other	-	(0)	(0)	(1)	(1)	-	-	-
Net increase/(decrease) other than shareholders' equity	-	-	-	-	-	311	1	58
Total increase/(decrease) during the fiscal year	-	(0)	(584)	(1)	(585)	311	1	58
<b>Balance at January 31, 2010</b>	¥13,672	¥13,337	¥41,770	¥(5,500)	¥63,279	¥318	¥ 0	¥(675)

	Millions of yen							
	Shareholders' equity					Valuation and translation adjustments		
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gains/(losses) on investments in securities	Unrealized gains/(losses) on hedging derivatives, net of tax	Foreign currency translation adjustments
<b>Balance at January 31, 2008</b>	¥13,672	¥13,337	¥43,827	¥(5,498)	¥65,338	¥(37)	¥(1)	¥ 170
Net increase/(decrease) during the fiscal year								
Cash dividends	-	-	(1,107)	-	(1,107)	-	-	-
Net loss for year	-	-	(366)	-	(366)	-	-	-
Other	-	(0)	-	(1)	(1)	-	-	-
Net increase/(decrease) other than shareholders' equity	-	-	-	-	-	44	0	(903)
Total increase/(decrease) during the fiscal year	-	(0)	(1,473)	(1)	(1,474)	44	0	(903)
<b>Balance at January 31, 2009</b>	¥13,672	¥13,337	¥42,354	¥(5,499)	¥63,864	¥ 7	¥(1)	¥(733)

	Thousands of U.S. dollars (Note 1)							
	Shareholders' equity					Valuation and translation adjustments		
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gains/(losses) on investments in securities	Unrealized gains/(losses) on hedging derivatives, net of tax	Foreign currency translation adjustments
<b>Balance at January 31, 2009</b>	\$153,618	\$149,849	\$475,893	\$(61,783)	\$717,577	\$ 73	\$(7)	\$(8,232)
Net increase/(decrease) during the fiscal year								
Cash dividends	-	-	(10,883)	-	(10,883)	-	-	-
Net income for year	-	-	3,689	-	3,689	-	-	-
Increase from a newly consolidated subsidiary	-	-	630	-	630	-	-	-
Other	-	(1)	(1)	(6)	(8)	-	-	-
Net increase/(decrease) other than shareholders' equity	-	-	-	-	-	3,496	10	646
Total increase/(decrease) during the fiscal year	-	(1)	(6,565)	(6)	(6,572)	3,496	10	646
<b>Balance at January 31, 2010</b>	\$153,618	\$149,848	\$469,328	\$(61,789)	\$711,005	\$3,569	\$ 3	\$(7,586)

The accompanying notes are an integral part of the consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Ryoyo Electro Corporation  
For the years ended January 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
<b>Cash flows from operating activities</b>			
Income before income taxes	¥ 265	¥ (141)	\$ 2,978
Adjustments to reconcile net income to net cash used in operating activities			
Depreciation	250	250	2,810
Losses (gain) on disposal and sales of property, and equipment–net	4	1	44
Losses on write-down of investments in securities	–	1,623	–
Foreign exchange (gain) loss–net	(17)	(15)	(194)
Decrease in allowances	(728)	(340)	(8,175)
Interest and dividend income	(169)	(238)	(1,900)
Gains on sales of investments in securities–net	(217)	–	(2,438)
Equity in earnings of an affiliate	(100)	(321)	(1,129)
Decrease in notes and accounts receivable–trade	3,734	9,503	41,961
Decrease in inventories	2,697	2,997	30,299
Increase (decrease) in notes and accounts payable–trade	954	(6,618)	10,726
Increase in consumption taxes payable	5	106	53
Other	1,077	626	12,105
<b>Sub-total</b>	<b>7,755</b>	<b>7,433</b>	<b>87,140</b>
Interest and dividend income received	255	415	2,863
Income taxes refunded (paid)	361	(963)	4,058
<b>Net cash provided by operating activities</b>	<b>8,371</b>	<b>6,885</b>	<b>94,061</b>
<b>Cash flows from investing activities</b>			
Payments for preparation of time deposits	(1,169)	–	(13,130)
Proceeds from withdrawal of time deposits	1,169	–	13,130
Payments for acquisition of securities	(1,000)	(3,000)	(11,236)
Proceeds from sales of securities	5,000	6,000	56,180
Payments for acquisition of properties and intangibles	(91)	(131)	(1,021)
Proceeds from sales of properties and intangibles	2	10	26
Payments for acquisition of investments in securities	(8,807)	(1,049)	(98,963)
Proceeds from sales of investments in securities	805	–	9,045
Payments for acquisition of investments in subsidiaries and affiliates	(48)	(107)	(537)
Payments for loans receivable	(30)	(900)	(337)
Payments for addition to insurance reserve funds	(500)	–	(5,618)
Other	12	(0)	138
<b>Net cash provided by (used in) investing activities</b>	<b>(4,657)</b>	<b>823</b>	<b>(52,323)</b>
<b>Cash flows from financing activities</b>			
Cash dividends paid	(964)	(1,102)	(10,838)
Other	(1)	(1)	(7)
<b>Net cash used in financing activities</b>	<b>(965)</b>	<b>(1,103)</b>	<b>(10,845)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>47</b>	<b>(801)</b>	<b>524</b>
<b>Net increase in cash and cash equivalents</b>	<b>2,796</b>	<b>5,804</b>	<b>31,417</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>18,770</b>	<b>12,966</b>	<b>210,896</b>
<b>Increase in cash and cash equivalents from a newly consolidated subsidiary</b>	<b>262</b>	<b>–</b>	<b>2,946</b>
<b>Cash and cash equivalents at end of year</b>	<b>¥21,828</b>	<b>¥18,770</b>	<b>\$245,259</b>

The accompanying notes are an integral part of the consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTING THE CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Ryoyo Electro Corporation (“the Company”) and its consolidated subsidiaries have been prepared in accordance with the Financial Instruments and Exchange Law and its related accounting regulations, and also in conformity with accounting principles and practices generally accepted in Japan (“Japanese GAAP”), which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on the accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial

Products Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The accompanying consolidated financial statements are not intended to present the consolidated financial position, the results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Amounts in U.S. dollars are presented solely for the convenience of readers outside Japan. The rate of ¥89.00 = U.S.\$1.00, the exchange rate prevailing on January 31, 2010, has been used for the translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at the above or any other rate.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of consolidation

The Company had two domestic and seven overseas subsidiaries as of January 31, 2010. The consolidated financial statements include the accounts of the Company and its four significant subsidiaries. The accounts of the remaining five subsidiaries whose combined assets, net sales, net income and retained earnings are not material to the related consolidated totals have not been consolidated with the Company’s results. Investments in these non-consolidated subsidiaries are stated at cost.

The financial year of the consolidated overseas subsidiaries is the calendar year, January 1 through December 31, while the consolidated financial statements of the Company are prepared either as of January 31 or for years ended January 31. All significant transactions that occurred during the period from January 1 to January 31 have been reflected in preparing the consolidated financial statements.

#### (b) Valuation of assets and liabilities of consolidated subsidiaries

Assets and liabilities of consolidated subsidiaries are valued using the full mark-to-market method.

#### (c) Application of equity method

The Company had one domestic equity-method affiliate as of January 31, 2010 and 2009. The financial year of the affiliate is April 1 through March 31,; therefore, the Company is using the third quarter financial statements of the affiliate for the application of the equity method. All significant transactions that occurred between the fiscal year end of the affiliate and the Company have been reflected in preparing the consolidated financial statements.

#### (d) Cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents in the consolidated statements of cash flows comprises cash in hand, bank deposits that are readily withdrawn on demand and other short-term investments that are highly liquid and represent insignificant risk of changes in value, generally with original maturity of three months or less. Time deposits with a maturity due over three months that are to be used in payments of accounts payable are also included in cash and cash equivalents.

#### **(e) Inventories**

Inventories primarily comprise merchandise are mainly stated at cost. Costs of the inventories are mainly determined by the moving average method and valued in conformity with the decline in profitability.

Effective from the fiscal year ended January 31, 2010, the Company has adopted "Accounting Standard for Measurement of Inventories (Statement No. 9 issued by the Accounting Standards Boards of Japan-ASBJ on July 5, 2006).

As a result, operating income and income before income taxes decreased by ¥59 million (\$666 thousand) in the year ended January 31, 2010.

The effect of this change on the segment information is stated in the relevant sections.

#### **(f) Financial instruments**

Securities held to maturity are stated at amortized or accumulated cost. Other securities with market prices are stated at market value and those without market prices are stated at cost; cost being determined by the moving average method. The unrealized gains or losses are reported, net of applicable income taxes, as a separate component of net assets.

#### **(g) Derivatives and hedge accounting**

Derivative financial instruments are stated at fair value and changes in the fair value are recognized in the consolidated statements of income unless the derivative financial instruments are used for hedging purposes.

When derivative financial instruments are used as hedges, and meet certain hedging criteria, gains or losses resulting from the changes in the fair value of the derivative financial instruments are deferred until the corresponding gains or losses on the hedged items are recognized.

The Company and its subsidiaries utilize forward foreign exchange contracts as derivative transactions in order to hedge foreign currency risks arising from normal business transactions.

In cases where forward foreign exchange contracts are used as hedges, and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

(1) If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,

- i. the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the consolidated statements of operations in the period that includes the inception date, and
- ii. the discount or premium on the contract (the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.

(2) If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

#### **(h) Foreign currency translation**

Transactions denominated in foreign currencies are translated using the exchange rate as of the transaction date (or average exchange rates). Receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting exchange gains or losses are credited or charged to income as incurred.

The assets and liabilities of foreign currency financial statements are translated into Japanese yen at exchange rates prevailing at the balance sheet date. Common stock, capital surplus and retained earnings are translated at the historical exchange rates. Income, expenses and net income are translated at average rates of exchange. Translation adjustments are debited or credited to "Foreign currency translation adjustment," which is included in net assets in the consolidated balance sheets.

#### **(i) Allowance for doubtful accounts**

The Company provides allowance for doubtful accounts for probable collection losses by applying the actual rate of bad debt losses experienced in the past reference period for normal receivables and by individual assessment of collectibility for other accounts receivable.

**(j) Retirement benefits**

Accrued retirement benefits for employees have been provided at an amount based on the estimated present value of projected benefit obligations in excess of the fair value of the plan assets except that, as permitted under the retirement benefit accounting standards, unrecognized actuarial differences are amortized by the straight-line method over a period of 10 years from the following year in which they arise. And the past service costs are amortized by the straight-line method over a period of 10 years from the year in which they arise.

**(k) Property and equipment**

Property and equipment are stated at cost. Depreciation of property and equipment of the Company and its domestic subsidiaries is computed by the declining-balance method based on the estimated useful lives of assets. The overseas consolidated subsidiaries apply the straight-line method over the estimated useful lives of assets. The primary useful lives of the assets are as follows:

Furniture and equipment:	2 to 20 years
Other:	2 to 47 years

**(l) Intangibles**

Amortization of intangibles is computed using the straight-line method. Costs of software purchased and/or developed for internal use is amortized by the straight-line method over the expected useful live of five years.

**(m) Leases**

Until the year ended January 31, 2009, finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees had been accounted for using a method similar to that used for operating leases.

Effective from the fiscal year ended January 31, 2010, the Company adopted "Accounting Standard for Lease Transactions" (Statement No. 13 issued by the Accounting Standards Boards of Japan-ASBJ on June 17, 1993 and last revised on March 30, 2007) and "Guidance on Accounting Standard for Lease Transactions" (Guidance No. 16 issued by the Accounting Standards Boards of Japan-ASBJ on January 18, 1994 and last revised on March 30, 2007), and the Company applies accounting methods of ordinary sale and purchase transactions.

Such leases are amortized by the straight-line method over the period of lease contract with zero residual value, and those which were contracted before January 31, 2009 are continuously accounted for using a method similar to that used for operating leases.

This application has no impact in profit and loss.

**(n) Income taxes**

Income taxes comprise corporation, enterprise and inhabitants taxes. The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. Income taxes were determined using the asset-liability approach, whereby deferred tax assets and liabilities are recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the consolidated financial statements.

**(o) Consumption tax**

Consumption tax is imposed at a flat rate on all domestic purchases of goods and services, with certain exemptions. The consumption tax imposed on sales to customers is withheld at the time of sale and is paid to the government subsequently. The consumption taxes that are withheld on the sale, and paid on purchases of goods and services, are excluded from revenues and expenses in the consolidated statements of operations.

**(p) Accounting policies applied to foreign subsidiaries**

Effective from the fiscal year ended January 31, 2010, the Company adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force No. 18 issued by the Accounting Standards Board of Japan-ASBJ on May 17, 2006).

This application has no impact in profit and loss.

**(q) Reclassification and restatement**

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications and restatement had no impact on previously reported results of operations.

### 3. SECURITIES

As of January 31, 2010 and 2009, securities with market prices were as follows:

	Millions of yen						Thousands of U.S. dollars		
	2010			2009			2010		
	Cost	Carrying value	Unrealized gain (loss)	Cost	Carrying value	Unrealized gain (loss)	Cost	Carrying value	Unrealized gain (loss)
Securities with carrying value exceeding their costs									
Stocks	¥1,358	¥1,899	¥541	¥ 19	¥ 30	¥11	\$15,259	\$21,342	\$6,083
Sub Total	1,358	1,899	541	19	30	11	15,259	21,342	6,083
Other									
Stocks	88	82	(6)	1,207	1,207	–	986	920	(66)
Sub Total	88	82	(6)	1,207	1,207	–	986	920	(66)
<b>Total</b>	<b>¥1,446</b>	<b>¥1,981</b>	<b>¥535</b>	<b>¥1,226</b>	<b>¥1,237</b>	<b>¥11</b>	<b>\$16,245</b>	<b>\$22,262</b>	<b>\$6,017</b>

Loss on write-down of investments in securities with carrying value amounting to ¥1,623 million was charged to income for the year ended January 31, 2009.

As of January 31, 2010 and 2009, securities without market prices were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Securities held to maturity			
Euro-yen bonds	¥10,000	¥6,000	\$112,360
Sub Total	10,000	6,000	112,360
Other securities			
Unlisted stocks	45	45	505
Sub Total	45	45	505
<b>Total</b>	<b>¥10,045</b>	<b>¥6,045</b>	<b>\$112,865</b>

Proceeds from sales of other securities was ¥805 million (\$9,045 thousand) for the year ended January 31, 2010. Gross realized gain on this sales was ¥217 million (\$2,438 thousand) for the period.

The redemption schedule for securities with maturity dates as of January 31, 2010 and 2009 are summarized as follows:

2010	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Other	¥6,000	¥4,000	–	–
<b>Total</b>	<b>¥6,000</b>	<b>¥4,000</b>	<b>–</b>	<b>–</b>

2009	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Other	¥5,000	¥1,000	–	–
<b>Total</b>	<b>¥5,000</b>	<b>¥1,000</b>	<b>–</b>	<b>–</b>

2010	Thousands of U.S. dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Other	\$67,416	\$44,944	–	–
<b>Total</b>	<b>\$67,416</b>	<b>\$44,944</b>	<b>–</b>	<b>–</b>

#### 4. INVENTORIES

The amount of inventory write-down included in cost of sales in the consolidated statement of operations for the year ended January 31, 2010 was ¥59 million (\$666 thousand).

#### 5. DEFERRED TAXES

The Company is subject to a number of taxes levied on income, which, in the aggregate, indicate a statutory rate in Japan of approximately 40.69% for the years ended January 31, 2010 and 2009.

As of January 31, 2010 and 2009, the significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
<b>Deferred tax assets:</b>			
Loss carry forward for tax purposes	¥ 528	¥ 408	\$ 5,926
Accrued retirement benefits for employees	258	238	2,900
Allowance for doubtful accounts	118	198	1,328
Long-term accounts payable	41	101	465
Intangibles	40	45	452
Accrued bonuses	40	58	443
Inventories	24	–	271
Other	65	57	730
<b>Sub Total</b>	<b>1,114</b>	<b>1,105</b>	<b>12,515</b>
Valuation allowance	(581)	(680)	(6,530)
<b>Total</b>	<b>533</b>	<b>425</b>	<b>5,985</b>
<b>Deferred tax liabilities:</b>			
Unrealized gains on investments in securities	(218)	(4)	(2,448)
Other	(0)	–	(3)
<b>Total</b>	<b>(218)</b>	<b>(4)</b>	<b>(2,451)</b>
<b>Net deferred tax assets</b>	<b>¥ 315</b>	<b>¥ 421</b>	<b>\$ 3,534</b>

For the year ended January 31, 2010, the difference between the statutory tax rate and the effective income tax rate was as follows:

Statutory tax rate	40.69 %
Adjustment:	
Expenses not deductible for tax purposes	11.11
Permanent differences such as non-taxable dividend income	(0.33)
Inhabitants taxes	6.41
Valuation allowance	(52.38)
Lower income tax rates applicable to income in subsidiaries	(14.24)
Equity in earnings of an affiliate	(15.43)
Other	0.32
<b>Effective income tax rate</b>	<b>(23.85)%</b>

The difference between the statutory tax rate and the effective income tax rate for the year ended January 31, 2009 is not disclosed, as a loss was recorded in "Income before income taxes" for the period.

## 6. LEASES

### 1. Finance leases

Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees is accounted for using a method of ordinary sale and purchase transactions, but the concerned lease contract did not exist as of January 31, 2010.

Such leases which were contracted before January 31, 2009 are continuously accounted for using a method similar to that used for operating leases, and the information on such leases is summarized as follows:

#### (a) Acquisition costs, accumulated depreciation and remaining balances

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Acquisition costs:			
Furniture and equipment	¥72	¥72	\$ 813
Software	21	21	236
<b>Total</b>	<b>93</b>	<b>93</b>	<b>1,049</b>
Accumulated depreciation:			
Furniture and equipment	16	6	177
Software	17	14	198
<b>Total</b>	<b>33</b>	<b>20</b>	<b>375</b>
Balance	¥60	¥73	\$ 674

#### (b) Future minimum lease payments under lease contracts

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year	¥12	¥13	\$140
Due after more than one year	48	60	534
<b>Total</b>	<b>¥60</b>	<b>¥73</b>	<b>\$674</b>

The amounts of costs and the future minimum lease payments under finance lease contracts include the interest expense portion.

The lease payment during the year ended January 31, 2010 was ¥13 million (\$143 thousand).

### 2. Operating leases

Future minimum lease payments for noncancelable operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year	¥1	¥2	\$9
Due after more than one year	–	1	–
<b>Total</b>	<b>¥1</b>	<b>¥3</b>	<b>\$9</b>

## 7. RETIREMENT BENEFITS

The Company has defined benefit pension plans, including a tax-qualified pension plan and an internal-funded lump-sum retirement benefit plan for employees.

According to the Company's rules, the employees may be, in case of their involuntary retirements, entitled to an additional payment of retirement benefits, which are not reflected in the actuarial calculation of the projected benefit obligations.

Accrued retirement benefits for employees as of January 31, 2010 and 2009 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
(1) Projected benefit obligation	¥(2,724)	¥(2,936)	\$(30,602)
(2) Fair value of plan assets	1,813	1,676	20,367
(3) Unfunded benefit obligation	(911)	(1,260)	(10,235)
(4) Unrecognized actuarial difference	272	669	3,055
(5) Unrecognized past service obligation	6	6	65
(6) Net amount recognized in the consolidated balance sheets	(633)	(585)	(7,115)
(7) Prepaid benefit cost	289	401	3,242
(8) Accrued retirement benefits	¥ (922)	¥ (986)	\$(10,357)

Components of net periodic pension cost for the years ended January 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
(1) Service cost	¥173	¥175	\$1,943
(2) Interest cost	59	58	660
(3) Expected return on plan assets	(34)	(43)	(376)
(4) Amortization of actuarial difference	80	20	903
(5) Amortization of past service obligation	2	2	20
(6) Net periodic pension cost	¥280	¥212	\$3,150

Assumptions used to determine costs and benefit obligations as of January 31, 2010 and 2009 are summarized as follows:

	2010	2009
(1) Allocation method of benefit obligation	<b>Straight-line method</b>	Straight-line method
(2) Discount rate	<b>2.00%</b>	2.00%
(3) Expected rate of return on plan assets	<b>2.00%</b>	2.00%
(4) Amortization of past service obligation	<b>10 years</b>	10 years
(5) Amortization of actuarial difference	<b>10 years</b>	10 years

## 8. CONTINGENT LIABILITIES

As of January 31, 2010, the Company had contingent liabilities for guarantees of accounts payable–trade of Ryoyo Electro (Thailand) Co., Ltd., an unconsolidated subsidiary, amounting to ¥3 million (\$34 thousand).

## 9. SHAREHOLDERS' EQUITY

Under Japanese Company Law ("the Law"), in case when dividends are paid, an amount equal to 10% of the dividends or the excess of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve, whichever is the smaller, must be set aside as additional paid-in-capital or legal earnings reserve.

Even when the total amount of additional paid-in-capital is less than 25% of common stock, additional paid-in-capital and legal earnings reserve may be available for dividends if there are sufficient distributable surplus.

Legal earning reserve and additional paid-in-capital could be used to eliminate or reduce deficit or may be capitalized by a resolution of the shareholders' meeting.

Additional paid-in-capital is included in capital surplus and legal earning reserve is included in retained earnings in the accompanying consolidated balance sheets.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Japanese laws and regulations.

At the annual shareholders' meeting held on April 28, 2010, the shareholders resolved cash dividends amounting to ¥415 million (\$4,664 thousand). Such appropriation has

not been accrued in the consolidated financial statements as of January 31, 2010. Such appropriation will be recognized in the period when they are resolved.

## 10. NOTES ON CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

During the fiscal year, changes in net assets are summarized as follows:

### (a) Total number and class of shares issued

Class of shares	As of January 31, 2009	Increase	Decrease	As of January 31, 2010
Common stock	32,072,398	–	–	<b>32,072,398</b>

### (b) Total number and class of treasury stock

Class of shares	As of January 31, 2009	Increase	Decrease	As of January 31, 2010
Common stock	4,398,043	1,053	178	<b>4,398,918</b>

### (c) Dividends paid

Resolution	Class of shares	Amount of dividend paid	Dividend per share	Record date	Effective date
General shareholders' meeting (April 28, 2009)	Common stock	¥553 millions	¥20	January 31, 2009	April 30, 2009
Board of Directors' meeting (August 31, 2009)	Common stock	¥415 millions	¥15	July 31, 2009	October 1, 2009

### (d) Dividends whose record date is attributable to the fiscal year but to be effective after the said year

Resolution	Class of shares	Amount of dividend paid	Dividend resource	Dividend per share	Record date	Effective date
General shareholders' meeting (April 28, 2010)	Common stock	¥415 millions	Retained earnings	¥15	January 31, 2010	April 30, 2010

## 11. INFORMATION ON NET INCOME PER SHARE

Net income per share of common stock is computed based upon the weighted average number of outstanding shares of common stock during each year. The number of shares and net income used in computing net income per share for the years ended January 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Net income (loss) of common stock	¥328	¥(366)	<b>\$3,689</b>
Average number of shares of common stock	<b>27,673,969 shares</b>	27,674,939 shares	

There were no diluted stocks outstanding as of January 31, 2010 and 2009.

## 12. INFORMATION ON DERIVATIVES

### (a) Company policy, transactions and objectives of derivative transactions

The Company uses foreign exchange forward contracts to hedge the exposure to unfavourable changes in foreign currency exchange rates associated with trade receivables and payables denominated in foreign currencies.

### (b) Risks of transactions and management of such risks

Derivative instruments that the Company uses have risks associated with changes in market prices and/or foreign exchange rates. However, management believes that the

credit risk by non-fulfillment of a contract is minimal as the Company trades such derivatives with major financial institutions with high credit ratings.

The Company has established its own internal rules to manage risks associated with derivative transactions. Proper segregation of duties has been established and derivative transactions have been executed and monitored by the finance and accounting departments. Key information, including notional amounts, performance of the transactions, and unrealized gains and losses, is reported to the monthly Board of Directors' meetings and monitored regularly.

### (c) Fair market value information

The estimated fair value of the derivative financial instruments as of January 31, 2010 and 2009 were as follows:

2010	Millions of yen		
	Contract amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts			
Sell			
U.S. dollars	¥1,956	¥1,919	¥37
Buy			
U.S. dollars	281	274	(7)

2009	Millions of yen		
	Contract amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts			
Sell			
U.S. dollars	¥1,100	¥1,021	¥79
Buy			
U.S. dollars	61	59	(2)

2010	Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts			
Sell			
U.S. dollars	\$21,976	\$21,565	\$411
Buy			
U.S. dollars	3,155	3,081	(74)

## 13. SEGMENT INFORMATION

### (a) Business segments

Business segment information is not disclosed for the years ended January 31, 2010 and 2009, because the Company

and all its subsidiaries engage in trading of semiconductors, computer systems and peripherals and others, which are considered by management to be a single business segment.

## (b) Geographical segments

Information on geographical segments for the year ended January 31, 2010 and 2009 are as follows:

2010	Millions of yen				
	Japan	Asia	Total	Eliminations and corporate	Consolidated
1. Sales and operating income					
Sales					
Sales to external customers	¥68,475	¥12,906	¥81,381	¥ -	¥81,381
Inter-segment sales or transfers	5,379	73	5,452	(5,452)	-
<b>Total</b>	<b>73,854</b>	<b>12,979</b>	<b>86,833</b>	<b>(5,452)</b>	<b>81,381</b>
Operating expenses	73,960	12,840	86,800	(5,437)	81,363
Operating income	(106)	139	33	(15)	18
2. Assets	¥71,275	¥ 6,013	¥77,288	¥ (539)	¥76,749

Notes: 1. Countries and regions classified by geographic proximity  
2. Main countries and regions belonging to Asia: Singapore, Hong Kong, Shanghai  
3. Change in accounting policies  
Effective from the fiscal year ended January 31, 2010, the Company has adopted "Accounting Standard for Measurement of Inventories" (Statement No. 9 issued by the Accounting Standards Boards of Japan-ASBJ on July 5, 2006).  
As a result, operating loss increased by ¥59 million (\$666 thousand) for the year ended January 31, 2010.

2009	Millions of yen				
	Japan	Asia	Total	Eliminations and corporate	Consolidated
1. Sales and operating income					
Sales					
Sales to external customers	¥ 97,731	¥14,790	¥112,521	¥ -	¥112,521
Inter-segment sales or transfers	7,163	148	7,311	(7,311)	-
<b>Total</b>	<b>104,894</b>	<b>14,938</b>	<b>119,832</b>	<b>(7,311)</b>	<b>112,521</b>
Operating expenses	104,069	14,871	118,940	(7,354)	111,586
Operating income	825	67	892	43	935
2. Assets	¥ 70,990	¥ 4,328	¥ 75,318	¥ 474	¥ 75,792

Notes: 1. Countries and regions classified by geographic proximity  
2. Main countries and regions belonging to Asia: Singapore, Hong Kong, Shanghai

2010	Thousands of U.S. dollars				
	Japan	Asia	Total	Eliminations and corporate	Consolidated
1. Sales and operating income					
Sales					
Sales to external customers	\$769,383	\$145,011	\$914,394	\$ -	\$914,394
Inter-segment sales or transfers	60,444	820	61,264	(61,264)	-
<b>Total</b>	<b>829,827</b>	<b>145,831</b>	<b>975,658</b>	<b>(61,264)</b>	<b>914,394</b>
Operating expenses	831,013	144,271	975,284	(61,093)	914,191
Operating income	(1,186)	1,560	374	(171)	203
2. Assets	\$800,840	\$ 67,570	\$868,410	\$ (6,058)	\$862,352

## (c) Overseas sales

Information on overseas sales for the year ended January 31, 2010 and 2009 are as follows:

2010	Millions of yen		
	Asia	Other	Total
1. Overseas sales	¥14,393	¥ 67	¥14,460
2. Consolidated sales	-	-	81,381
3. Overseas sales ratio (%)	17.7	0.1	17.8

Notes: 1. Countries and regions classified by geographic proximity  
2. Main countries and regions belonging to each classification:  
Asia: China, Hong Kong, Taiwan, Thailand, Malaysia, etc  
Other: England, U.S.A., Switzerland

2009	Millions of yen		
	Asia	Other	Total
1. Overseas sales	¥16,391	¥140	¥ 16,531
2. Consolidated sales	-	-	112,521
3. Overseas sales ratio (%)	14.6	0.1	14.7

Notes: 1. Countries and regions classified by geographic proximity  
2. Main countries and regions belonging to each classification:  
Asia: China, Hong Kong, Taiwan, Thailand, Malaysia, etc  
Other: Germany, U.S.A., England, etc

2010	Thousands of U.S. dollars		
	Asia	Other	Total
1. Overseas sales	\$161,716	\$755	\$162,471
2. Consolidated sales	–	–	914,394
3. Overseas sales ratio (%)	17.7	0.1	17.8

## 14. RELATED PARTY TRANSACTIONS

Significant transactions of the Company with its related companies and individuals for the year ended January 31, 2009 are as follows:

Subsidiaries:							
2009							
Millions of yen							
Name or related company	Paid in capital	Principal business	Ownership ratio (%) of direct equity	Description of transactions	Amount of transactions	Account	Balance
Ryoyo Semicon Corporation	¥100	Sales of semiconductor and peripherals	100	Loan of operating fund	¥900	Long-term loans receivable	¥1,350

Note: The loan interest rate was determined by the money-market rate

Significant transaction of the Company with its related companies and individuals for the year ended January 31, 2010 are not disclosed, because those are not significant.

## 15. CAUSE OF LAWSUIT

On July 25, 2007, the Company filed a lawsuit asking for payment of a trading amount of ¥806 million (\$9,054 thousand) against Nihon Unisys, Ltd. However on December 19, 2008, the Tokyo District Court rejected the Company's claim.

On December 25, 2008, the Company appealed to the Tokyo High Court against this decision.

On February 3, 2010, we agreed to accept the Tokyo High Court-mediated compromise settlements each other and arrived at an amicable settlement.

## 16. SUBSEQUENT EVENTS

a) On April 18, 2007, Tokyo Leasing Co., Ltd. (now Century Tokyo Leasing Corporation) ("Tokyo Leasing") filed a legal proceedings against the Company asking for the payment of a transaction. On March 11, 2010, the Company finally compounded with Tokyo Leasing for the proceedings at Tokyo District Court. Following the settlement the Company will reduce the debt to Tokyo Leasing of ¥582 million (\$6,538 thousand) and record a profit of the amount in the next fiscal year

b) On July 15, 2009, Ryosen Engineers Co., Ltd., ("Ryosen") requested the mediation that the Company pay for amount of a transaction. On April 13, 2010, the Company agreed to settle with Ryosen at Tokyo Summary Court. Following the settlement the Company will reduce the debt to Ryosen of ¥94 million (\$1,056 thousand) and record a profit of the amount in the next fiscal year.

# Independent Auditors' Report

## Independent Auditors' Report

To the Board of Directors of  
Ryoyo Electro Corporation:

We have audited the accompanying consolidated balance sheets of Ryoyo Electro Corporation and consolidated subsidiaries as of January 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ryoyo Electro Corporation and subsidiaries as of January 31, 2010 and 2009, 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.

Without qualifying our opinion, we draw attention to the followings:

- (1) As discussed in Note 16 a) to the consolidated financial statements, Ryoyo Electro Corporation compounded with Tokyo Leasing Co., Ltd. (now Century Tokyo Leasing Corporation) at Tokyo District Court on March 11, 2010.
- (2) As discussed in Note 16 b) to the consolidated financial statements, Ryoyo Electro Corporation made a settlement with Ryosen Engineers Co., Ltd. at Tokyo Summary Court on April 13, 2010.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended January 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*KPMG AZSA & Co.*

(KPMG AZSA & Co.)  
Tokyo, Japan  
April 28, 2010

## Investor Information

As of January 31, 2010

### Authorized Shares

119,628,800

### Outstanding Shares

32,072,398

### Shareholders

8,773

### Stock Trading Unit

100 shares

### Stock Listing

Tokyo Stock Exchange, First Section

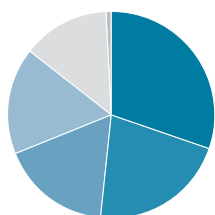
### Ticker Code

8068

### Transfer Agent

Mitsubishi UFJ Trust and Banking Corporation

### Composition of Shareholders

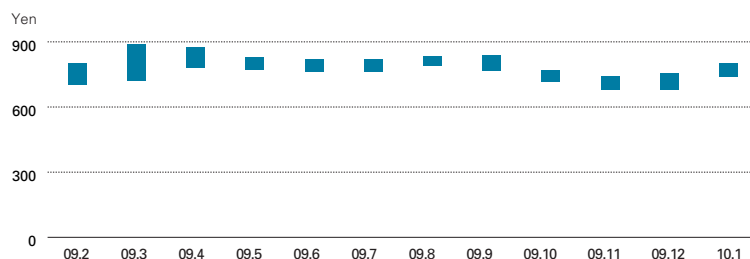


Individuals and other	30.50%
Foreign corporations and other foreign investors	21.36%
Financial institutions	17.20%
Other corporations	16.54%
Treasury stock	13.72%
Securities companies, etc.	0.68%

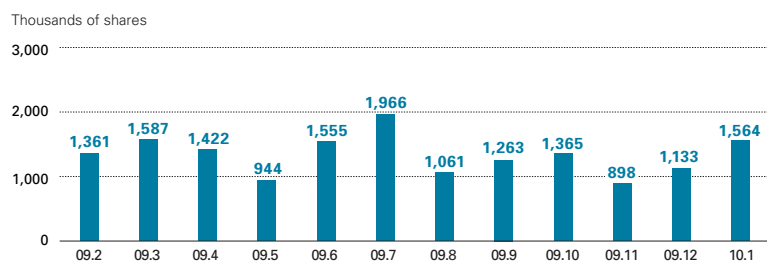
### Major Shareholders

	Thousands of shares	%
Mitsubishi Electric Corporation	2,247	7.01
SHC Corporation	2,119	6.61
CBNY Fidelity Small Cap Value Fund	1,273	3.97
Japan Trustee Services Bank, Ltd. (Trust account)	1,110	3.46
The Master Trust Bank of Japan (Trust account)	707	2.21
CBNY DFA International Cap Value Portfolio	627	1.96
The Master Trust Bank of Japan (Retail trust account)	552	1.72
Sheep Shokai Co.	523	1.63
Japan Trustee Services Bank, Ltd. (Trust account 9)	434	1.35
Nippon Life Insurance Company	410	1.28

### Common Stock Price Range (Tokyo Stock Exchange)



### Monthly Trading Volume



## Corporate Data

As of January 31, 2010

### Corporate Name

Ryoyo Electro Corporation

### Address

Konwa Building, 1-12-22 Tsukiji, Chuo-ku, Tokyo 104-8408, Japan

### Phone

+81-3-3543-7711

### Fax

+81-3-3545-3507

### Date of Incorporation

February 27, 1961

### Paid-in Capital

¥13,672 million



Ryoyo Electro has acquired the following certification at all offices in Japan.

- ISO 14001 (Environmental management systems)
- ISO 9001 (Quality management systems)
- ISO 27001 (Information security management systems)

# RYOYO ELECTRO CORPORATION

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