

10. Income Taxes

The significant components of deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

	March 31,		
	2006	2005	2006
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Deferred tax assets:			
Accrued bonuses	¥ 274,498	¥246,373	\$ 2,346
Elimination of unrecognized gain on intercompany accounts and transactions	69,078	67,329	590
Directors' and statutory auditors' retirement benefits	75,435	71,009	645
Accrued enterprise tax	59,073	77,309	505
Allowance for doubtful accounts	66,612	74,732	569
Accrued pension and severance costs	115,489	133,670	987
Impairment losses on fixed assets	63,548	57,070	543
Loss on revaluation of inventories	47,230	5,626	404
Other	110,916	132,549	948
Total deferred tax assets	<u>881,884</u>	<u>865,672</u>	<u>7,537</u>
Deferred tax liabilities:			
Depreciation	(54,784)	(6,668)	(468)
Accumulated earnings of consolidated subsidiaries	(52,610)	(40,627)	(450)
Other	(16,943)	(11,855)	(145)
Total deferred tax liabilities	<u>(124,338)</u>	<u>(59,151)</u>	<u>(1,063)</u>
Net deferred tax assets	<u>¥ 757,545</u>	<u>¥806,520</u>	<u>\$ 6,475</u>

The difference between the statutory tax rate and the effective tax rate for the years ended March 31, 2006 represented less than 5% of the statutory tax rate. As a result, a reconciliation is not required to be disclosed.

A reconciliation between the statutory tax rate and the effective tax rate for the years ended March 31, 2005 and 2004 are presented as follows:

	Year ended March 31,	
	2005	2004
Statutory tax rate	40.69%	42.05%
Disallowed expenses, including entertainment expenses	3.08	3.70
Other	0.79	0.88
Effective tax rate	<u>44.56%</u>	<u>46.63%</u>

11. Stockholders' Equity

The Commercial Code of Japan (the "Code") provides that an amount equal to at least 10% of the amount to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of the legal reserve and the additional paid-in capital account equals 25% of the common stock account. The Code provides that neither additional paid-in capital nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock upon approval by the Board of Directors. The Code further provides that if the total amount of additional paid-in capital and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders. The Company's shares of common stock have no par value in accordance with the Code.

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law stipulates similar requirements on distribution of earnings to those of the Code. Under the Law, however, such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

12. Leases

As lessee under financing and operating leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property held under financing accounted for as operating leases at March 31, 2006 and 2005, and the related depreciation and interest expense for the years ended March 31, 2006, 2005 and 2004, respectively, which would have been reflected in the consolidated balance sheets and the related consolidated statements of income:

	March 31, 2006		
	Property and equipment – other	Software	Total
	<i>(Thousands of yen)</i>		
Acquisition costs	¥221,534	¥18,698	¥240,232
Less accumulated depreciation	86,711	2,492	89,204
Net book value	<u>¥134,822</u>	<u>¥16,205</u>	<u>¥151,028</u>

	March 31, 2006		
	Property and equipment – other	Software	Total
	<i>(Thousands of U.S. dollars)</i>		
Acquisition costs	\$1,893	\$160	\$2,053
Less accumulated depreciation	741	21	762
Net book value	<u>\$1,152</u>	<u>\$139</u>	<u>\$1,291</u>

12. Leases (continued)

As lessee under financing and operating leases (continued)

	March 31, 2005		
	Property and equipment – other	Software	Total
	<i>(Thousands of yen)</i>		
Acquisition costs	¥186,846	¥29,103	¥215,949
Less accumulated depreciation	122,972	29,103	152,075
Net book value	<u>¥ 63,873</u>	<u>¥ –</u>	<u>¥ 63,873</u>

	Year ended March 31,			
	2006	2005	2004	2006
	<i>(Thousands of yen)</i>			<i>(Thousands of U.S. dollars)</i>
Depreciation expense	<u>¥54,227</u>	<u>¥56,424</u>	<u>¥83,951</u>	<u>\$463</u>
Interest expense	<u>¥ 3,872</u>	<u>¥ 2,686</u>	<u>¥ 4,511</u>	<u>\$ 33</u>

No impairment loss had been recognized on leased property for the years ended March 31, 2006 and 2005.

Lease expenses relating to the financing leases accounted for as operating leases amounted to ¥57,941 thousand (\$495 thousand), ¥60,619 thousand and ¥91,306 thousand for the years ended March 31, 2006, 2005 and 2004, respectively.

Future rental expenses under financing leases accounted for as operating leases outstanding at March 31, 2006 and 2005 are summarized as follows:

	March 31,		
	2006	2005	2006
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Within 1 year	¥ 46,073	¥32,466	\$ 394
Over 1 year	107,176	33,291	916
	<u>¥153,250</u>	<u>¥65,758</u>	<u>\$1,310</u>

Future rental expenses under operating leases outstanding at March 31, 2006 and 2005 are summarized as follows:

	March 31,		
	2006	2005	2006
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Within 1 year	¥ 89,646	¥ 80,245	\$ 766
Over 1 year	298,632	276,980	2,552
	<u>¥388,278</u>	<u>¥357,226</u>	<u>\$3,319</u>

12. Leases (continued)

As lessor under operating leases

Certain consolidated subsidiaries lease equipment under operating leases. Future rental income under operating leases outstanding at March 31, 2006 and 2005 are summarized as follows:

	March 31,		
	2006	2005	2006
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Within 1 year	¥ 668,384	¥ 538,368	\$ 5,713
Over 1 year	3,043,895	2,543,864	26,016
	<u>¥3,712,279</u>	<u>¥3,082,232</u>	<u>\$31,729</u>

As lessee and lessor under subleases

The Company subleases equipment to a third party, and the lease agreements between the two original parties remain in effect. The original and the new lease agreements are operating leases.

Future rental revenues as lessor under the new lease agreements outstanding at March 31, 2006 and 2005 are summarized as follows:

	March 31,		
	2006	2005	2006
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Within 1 year	¥ 821,679	¥ 526,037	\$ 7,023
Over 1 year	3,683,504	4,216,538	31,483
	<u>¥4,505,183</u>	<u>¥4,742,576</u>	<u>\$38,506</u>

Future rental expenses as lessee under the original lease agreements outstanding at March 31, 2006 and 2005 are summarized as follows:

	March 31,		
	2006	2005	2006
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Within 1 year	¥ 811,504	¥ 575,177	\$ 6,936
Over 1 year	5,169,459	4,846,103	44,183
	<u>¥5,980,964</u>	<u>¥5,421,281</u>	<u>\$51,119</u>

13. Contingent Liabilities

The Company received complaints from Cecile Co., Ltd. dated October 8, 2004 for the damage based on the default of obligation and misfeasance regarding the pouch-packed curry which the Company had sold to Cecile Co., Ltd. amounted to ¥142,281 thousand (\$1,216 thousand), and complaints from BELLUNA CO., LTD. dated March 18, 2005 for the damage based on default of obligation regarding the pouch-packed curry which the Company had sold to BELLUNA CO., LTD. amounted to ¥300,000 thousand (\$2,564 thousand).

The Company considers that those allegations have no reasonable basis and intend to defend against them. However, the outcome of these lawsuits may affect adversely to the consolidated financial statements of the Company.

14. Amounts Per Share

Net income per share is computed based on the weighted average number of shares of common stock outstanding during each year. The Company and its consolidated subsidiaries have not issued any potentially dilutive stocks during either year. Accordingly, fully diluted net income per share and basic net income per share for the years ended March 31, 2006, 2005 and 2004 were the same.

	Year ended March 31,			
	2006	2005	2004	2006
	<i>(Yen)</i>		<i>(U.S. dollars)</i>	
Net income per share	¥132.57	¥110.62	¥86.21	\$1.133

Net assets per share are computed based on the number of shares of common stock outstanding at each balance sheet date.

	March 31,		
	2006	2005	2006
	<i>(Yen)</i>		<i>(U.S. dollars)</i>
Net assets per share	¥1,036.14	¥908.11	\$8.856

The following table sets forth the basis of the computation of net income per share for the years ended March 31, 2006, 2005 and 2004:

	Year ended March 31,			
	2006	2005	2004	2006
	<i>(Thousands of yen, except share)</i>			<i>(Thousands of U.S. dollars, except share)</i>
Net income	¥1,689,240	¥1,435,670	¥1,085,411	\$14,438
Less: appropriation of bonuses to directors and statutory auditors	2,491	(24,006)	(19,195)	21
Net income available to stockholders of shares of common stock	¥1,691,732	¥1,411,664	¥1,066,216	\$14,459
Weighted average number of shares of common stock outstanding	12,760,783	12,761,085	12,367,114	12,760,783