

RHJ INTERNATIONAL



Annual Report

Fiscal Year Ended March 31, 2005

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Introduction

RHJ International's ("RHJI") fiscal year ended March 31, 2005, was marked by a number of pivotal events that have positioned RHJI for the future. These included the listing of RHJI ordinary shares on the Euronext Brussels stock market; the contribution from private equity funds affiliated with Ripplewood Holdings LLC to RHJI on March 31, 2005, of ownership interests in the seven businesses that form the current RHJI portfolio for an aggregate fair value of approximately JPY 91 billion (€ 658 million), together with a cash contribution of JPY 10 billion (€ 72.5 million); and, the sale of newly issued RHJI ordinary shares in successful global offering and private placement transactions on March 31, 2005. Total net cash proceeds were approximately JPY 100 billion (€ 720 million), including the cash contribution.

As a diversified holding company, RHJI remains focused on creating long-term value by acquiring and operating businesses in industries that are attractive to it and building on its existing platform of businesses in Japan and elsewhere. RHJI's operating strategy is to acquire businesses that are under-managed with core strengths and strong growth potential in industries that are undergoing great change. Each of RHJI's businesses is typically highly leveraged, with a significant amount of debt relative to total assets. RHJI intends to grow its businesses into strong national, regional or global competitors, as appropriate, and seeks to implement the best of international and Japanese practices at each business. As this process is not without challenges due to operational and market developments, there is a continual focus by RHJI management on the operating performance and growth potential of each business.

The listing on Euronext has created new opportunities as well as responsibilities of transparency and corporate governance, transitioning RHJI from a private equity environment into a publicly listed enterprise. As a public company, RHJI is well positioned to capitalize on opportunities in Japan and elsewhere due to its longer-term focus, and has the flexibility to use its ordinary shares as an acquisition currency for new businesses.

Taken together, RHJI's public company status, its operating strategy, an existing portfolio of businesses and proven management teams in Japan and elsewhere, plus readily available cash resources and access to public markets provide an excellent platform for RHJI to pursue long-term value creation for shareholders. RHJI looks forward to reviewing with shareholders these and related matters at the Annual Shareholders' Meeting on September 20, 2005, at 3:00 p.m., at 326 Avenue Louise, Brussels.

This Annual Report contains information that RHJI is required to provide as a Belgian listed company to shareholders in advance of the Annual Shareholders' Meeting. This information includes the (i) Directors' Report regarding the fiscal year ended on March 31, 2005, (ii) Consolidated Financial Statements regarding such fiscal year and (iii) related Statutory Auditor's Report. This Annual Report also contains a section on corporate governance as recommended by the Belgian Code on Corporate Governance, and condensed non-consolidated financial statements. The shareholders will be asked to approve the full non-consolidated financial statements and other matters at the Annual Shareholders' Meeting. The full non-consolidated financial statements, together with related Directors' Report and Statutory Auditors' Report, are published separately and are available at RHJI's website and its registered office. This Annual Report, together with the full Non-Consolidated Financial Statements and related Directors' Report, was approved by the Board of Directors on August 11, 2005.

Directors' Report

This Directors' Report presents a business and financial review of the Company's activities for the fiscal years ended March 31, 2005 and 2004. Unless otherwise noted herein, RHJ International SA, a Belgian *société anonyme*, is referred to as "RHJI". RHJ International SA and its businesses are referred to collectively as the "Company".

The Company's Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The presentation currency is the Japanese Yen.

The Contribution

RHJI, a diversified holding company, has ownership interests in seven businesses, six of which are headquartered in Japan. An overview of RHJI's businesses is set forth in the table below. These ownership interests and JPY 10 billion cash were contributed to RHJI at fair value from the private equity funds affiliated with Ripplewood Holdings LLC on March 31, 2005 in exchange for an aggregate of 39.9 million newly issued ordinary shares. On the same day, RHJI completed a private placement and global offering transactions for 37.9 million newly issued ordinary shares.

<u>Name</u>	<u>Ticker</u>	<u>Industry</u>	<u>Ownership / Voting rights**</u>
Asahi Tec Corporation	TSE*: 5606	Automotive Components, Cast Auto Parts Segment	58.4% / 65.4%
Honsel International Technologies S.A.	Private	Automotive Components, Cast Auto Parts Segment	57.9% / 88.8%
Niles Co., Ltd.	Private	Automotive Components, Electronic Components Segment	96.2% / 96.2%
D&M Holdings Inc.	TSE: 6735	Consumer Electronics, Audio-Visual/Home Theater-Related Segment	51.7% / 51.7%
Phoenix Resort K.K.	Private	Hospitality Segment	100% / 100%
Columbia Music Entertainment, Inc.	TSE: 6791	Media and Entertainment, Music Entertainment Segment	25.5% / 49.6%
Shaklee Global Group, Inc.	Jasdaq: 8205	Consumer Products, Nutrition	40.7% / 40.7%

* TSE = Tokyo Stock Exchange
** As of March 31, 2005

Results of Operations

As the contribution of the seven businesses only occurred on the last day of the fiscal year ended on March 31, 2005, their results of operations were not reflected in the Consolidated Income Statement as of March 31, 2005. The net loss for the fiscal year ended March 31, 2005 amounted to JPY 1,025 million and represents the Company's headquarters expenses incurred since it was incorporated on June 18, 2004.

Accordingly, for comparison purposes to the Unaudited Pro Forma Consolidated Income Statement presented in connection with the listing of its ordinary shares on Euronext Brussels, the Company has prepared an Unaudited Pro Forma Consolidated Income Statement for the fiscal year ended March 31, 2005.

Pro Forma Results of Operations

The following Unaudited Pro Forma Consolidated Income Statements for the years ended March 31, 2005 and 2004 have been prepared as if the contribution of the seven businesses, the operations of the Company, the IFRS conversion and the date of acquisition of Honsel International Technologies SA ("HIT") occurred as of the beginning of the two year period.

The Unaudited Pro Forma Consolidated Income Statements for the years ended March 31, 2005 and 2004, give effect to:

- the results of operations of Asahi Tec Corporation (“Asahi Tec”), Niles Co. Ltd. (“Niles”), Columbia Music Entertainment, Inc. (“CME”), D&M Holdings, Inc. (“D&M”) and Phoenix Resort K.K. (“Phoenix Seagaia Resort”) for the fiscal years ended March 31, 2005 and 2004 and of HIT for the years ended December 31, 2004 and 2003, all prepared in accordance with IFRS;
- the income of Shaklee Global Group, Inc. (“Shaklee”) for the fiscal years ended March 31, 2005 and 2004 accounted for under the equity method;
- annual interest expense related to the debt structure of HIT, contracted as of the date of its acquisition (November 30, 2004) by an investor group led by Ripplewood Holdings LLC and expenses of HIT’s new corporate structure; and
- estimated headquarters expenses.

No allocation of goodwill, arising from the contribution to RHJI of the equity interests in the seven businesses at fair value, has been made among the assets acquired and the liabilities assumed because the required valuations have not been completed. When made during the fiscal year ending March 31, 2006, the allocation will have a material negative effect on the Company’s consolidated result of operations.

Unaudited Pro Forma Consolidated Income Statements for the Fiscal Years Ended March 31, 2005 and 2004

	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
	In JPY millions		In € millions	
Net sales	360,314	342,321	2,604	2,496
Cost of sales	(291,102)	(271,454)	(2,104)	(1,979)
Gross profit	69,212	70,867	500	517
Selling, general and administrative	(79,631)	(83,673)	(576)	(610)
Other operating income	2,649	3,870	20	28
Pension termination and curtailment gains	—	14,234	—	104
Profit (loss) from operations	(7,770)	5,298	(56)	39
Income from associates	282	637	2	5
Net financing cost	(6,198)	(4,969)	(45)	(36)
Profit (loss) before tax	(13,686)	966	(99)	7
Income tax expense	(3,559)	(5,410)	(26)	(39)
Loss after tax	(17,245)	(4,444)	(125)	(32)
Minority interest	4,427	4,030	32	29
Net loss	(12,818)	(414)	(93)	(3)

The Unaudited Pro Forma Consolidated Income Statements have been translated for convenience to Euro using the exchange rates of Euro/JPY 138.352 and 137.170 for the fiscal years ended March 31, 2005 and 2004, respectively.

Although the results of operations for HIT have been included in the Pro Forma Consolidated Income Statements above, virtually the entire period (years ended December 31, 2004 and 2003) reflected performance under the ownership of an unaffiliated third party. During this period, the HIT results included significant charges (JPY 6.9 billion in 2004 and JPY 8 billion in 2003) for impairment of goodwill and fixed assets. An investor group led by Ripplewood Holdings LLC acquired HIT only as of November 30, 2004.

Profit from operations for the fiscal year ended March 31, 2004, was favorably impacted by pension termination and curtailment related gains of JPY 14.2 billion as disclosed above. Excluding the effect of HIT results and the exceptional pension related gains, loss from operations was JPY 3.2 billion for fiscal year ended March 31, 2005, compared to a loss of JPY 5.2 billion for fiscal year ended March 31, 2004. Asahi Tec, D&M

(excluding impact of pension related gain in the fiscal year ended March 31, 2004) and CME reported improvements in operating results compared to the fiscal year ended March 31, 2004.

As the Unaudited Pro Forma Consolidated Income Statements mainly comprise the results of operations for the six businesses which are controlled by RHJI, their respective Consolidated Income Statements are presented below along with comments. Pro Forma Consolidated Income Statements are also provided for Shaklee, along with comments.

The results of operations of the businesses were prepared in accordance with IFRS, with an assumed conversion date of April 1, 2003 (January 1, 2003 for HIT). The financial statements have been converted to IFRS from accounting principles generally accepted in Japan (“J-GAAP”) for the six businesses headquartered in Japan and accounting principles generally accepted in the United States (“US-GAAP”) for HIT.

Asahi Tec

Overview

Asahi Tec (www.asahitec.co.jp), primarily designs, manufactures and sells ductile iron cast, aluminum and other fabricated components for automobiles, trucks and construction machinery original equipment manufacturers (“OEMs”) (General Casting and Forging Parts segment) and metal parts for use in the transmission of electricity and water treatment systems (Devices and Equipment segment).

Asahi Tec intends to capitalize on its strong customer relationships (established over thirty years as a supplier to leading truck and construction machinery OEMs), presence in growing Asian markets (with production and business presence in Thailand and China) and a new management team to successfully implement their business strategy. Management is focused on executing the restructuring of the aluminum wheels business, continued efforts to improve cost competitiveness and profitability, establishing core manufacturing bases in Thailand and China, expanding existing customer bases in Japan, Thailand and China, developing lighter weight technology for the production of aluminum wheels, and pursuing selected strategic acquisitions.

Consolidated Income Statements for the Fiscal Years Ended March 31, 2005 and 2004

<i>(In JPY millions)</i>	<u>2005</u>	<u>2004</u>
Net sales	57,618	52,843
Cost of sales	(52,667)	(47,114)
Gross profit	4,951	5,729
Gross margin in %	8.6%	10.8%
Selling, general and administrative	6,798	7,978
Other operating income	273	248
Loss from operations	(1,574)	(2,001)
Income (loss) from associates	(1)	22
Net financing cost	(138)	(663)
Loss before tax	(1,713)	(2,642)
Income tax expense	(321)	(1,939)
Loss after tax	(2,034)	(4,581)
Minority interest	(92)	(40)
Net loss	(2,126)	(4,621)

Results of Operations

Net sales for the fiscal year ended March 31, 2005 included the impact of three additional months of sales resulting from a change in fiscal year end from December to March for Asahi Tec's Thailand subsidiaries. Excluding this effect, net sales were 2.9% higher and reflected improved demand in Japan for aluminum wheels for passenger cars and construction machinery parts, strong growth in Thailand's automotive industry, partially offset by reduced demand in the Japanese truck market. The ductile iron casting business experienced exceptionally strong demand in fiscal year ended March 31, 2004, due mainly to changes in environmental regulations in Japan, which accelerated replacement of trucks. Net sales of JPY 46.8 billion for the General Casting and Forging Parts segment grew 3.8%. Net sales for the Devices and Equipment segment experienced a 2.4% decline.

Loss from operations was reduced by JPY 427 million. The decline in gross margin mainly reflected losses sustained during the second half of the fiscal year ended March 31, 2005 relating to the launch of aluminum wheels manufactured using ATREX technology. Due to these losses, Asahi Tec decided to restructure its aluminum wheels business by terminating production of aluminum wheels manufactured using ATREX technology, adopting a new strategy to produce premium light weight wheels based on existing technology (including possible modifications to such), shutting down the remaining wheels manufacturing at its factory in Japan and shifting such production to its facility in Thailand. A charge of JPY 1.6 billion was recorded to accelerate depreciation of fixed assets that will no longer be utilized. Overall, the operating performances of Asahi Tec's other businesses showed improvement. Selling, general and administrative expenses were lower due to the absence of refinancing related expenses (JPY 794 million) and losses from the disposal of certain non-cancellable leased assets (JPY 648 million), both incurred in the fiscal year ended March 31, 2004.

Net loss in fiscal year ended March 31, 2005, was reduced by JPY 2.5 billion primarily due to the reduction in operating losses, a lower income tax provision and gains (JPY 487 million) from the sale of investment securities. In the fiscal year ended March 31, 2004, valuation allowances were increased for deferred tax assets following management review of the potential utilization of net operating loss carry-forwards.

Profit (loss) from operations before depreciation and amortization, including impairment charges on tangible and intangible assets ("EBITDA") for the fiscal year ended March 31, 2005, amounted to JPY 3.7 billion compared to JPY 1.7 billion a year earlier. Net financial debt (debt less cash and cash equivalents) at March 31, 2005 amounted to JPY 13.2 billion, JPY 1.1 billion lower than the previous year.

HIT

Overview

HIT (www.honsel.com) is a leading European supplier of light metal products to the automotive and heavy truck industries. HIT principally designs, manufactures and sells aluminum and magnesium components and assemblies. HIT has four main product categories: engine, transmission, suspension and body components. HIT's customers include a variety of large automobile and truck OEM manufacturers and other large OEM suppliers that ship directly to vehicle manufacturers.

HIT competes in the casting, machining and finishing phases of the automotive light metal components production process. The acquisition of HIT was based on the belief that the aluminum casting segment of the industry is experiencing key trends on which HIT will be able to capitalize, including: demand for new materials and technologies that reduce the overall weight of vehicles, increasing outsourcing of aluminum components manufacturing by automobile OEMs, preference of automobile OEMs for full service global suppliers, increasing demand for suppliers with the capability to design and engineer components and assemblies, and consolidation opportunities due to the largely regional and fragmented nature of the aluminum casting segment.

Consolidated Income Statements for the Years Ended December 31, 2004 and 2003

<i>(In JPY millions)</i>	<u>2004</u>	<u>2003</u>
Net sales	117,955	109,575
Cost of sales	(107,184)	(99,557)
Gross profit	10,771	10,018
Gross margin in %	9.1%	9.1%
Selling, general and administrative	15,411	15,405
Other operating income	33	1,682
Loss from operations	(4,607)	(3,705)
Net financing cost	(1,545)	(1,131)
Loss before tax	(6,152)	(4,837)
Income tax expense	(3,131)	(2,761)
Loss after tax	(9,283)	(7,598)
Minority interest	(623)	(136)
Net loss	(9,906)	(7,733)

Results of Operations

HIT was acquired by an investor group led by Ripplewood Holdings LLC on November 30, 2004 and the equity interests acquired by Ripplewood affiliates were contributed to RHJI on March 31, 2005. The Income Statement for the year ended December 31, 2004, therefore represents the combined results of operations of the Honsel/Tritech Group for eleven months ended November 30, 2004 and the consolidated results of operations of HIT for one month ended December 31, 2004.

Net sales improved 7.6% (4.9% in euros). Sales in Europe were up 5% and reflected the contribution of new products and the strength of the truck and non-German automobile sectors, partially offset by weak demand in Germany for passenger cars. North American sales were 2% lower due to the overall weakness in the North American automobile market, and other reductions in volume attributed to the cancellations of certain programs due to operating difficulties experienced at Amcan Castings (HIT's Canadian operating subsidiary) in the year ended December 31, 2003.

Excluding the impact (JPY 6.9 billion in 2004 and JPY 8 billion in 2003) of impairment charges relating to goodwill and fixed assets at Amcan Castings, profit from operations in the year ended December 31, 2004 was JPY 2 billion lower than the prior year. Gross margin remained level with the year ended December 31, 2003. The year ended December 31, 2004, was significantly affected by the poor results at Amcan Castings due to

start-up issues associated with certain projects for a major customer and power outages. While results are improving with the implementation of a restructuring plan at Amcan Castings and cost reduction initiatives at all production sites, these enhancements have been offset by launch inefficiencies relating to new products and the impact of volume shortfalls in both North America and, during the latter part of year ended December 31, 2004, with a major customer in Europe. Excluding the impairment charges in both years, selling, general and administrative expenses of JPY 8.6 billion were JPY 1.1 billion above the year ended December 31, 2003, and included further restructuring costs for Amcan Castings.

EBITDA for the year ended December 31, 2004, amounted to JPY 9.9 billion compared to JPY 11 billion a year earlier. Net financial debt at March 31, 2005, was JPY 60.8 billion and included amounts incurred for the financing of the acquisition of HIT.

Subsequent Events

On June 22, 2005, HIT announced the successful initial public offering of Norcast, a non-core business in the mining industry in Canada. Net proceeds of JPY 6.2 billion have been used mainly to reduce debt.

HIT is currently working with the lead arrangers of its credit facilities to address a default under such facilities due to the breach of a financial covenant as of June 30, 2005, and alleged breaches of certain other covenants. While HIT is optimistic that it will be able to successfully avoid declaration of any default by the lenders under the credit facilities, there is no assurance HIT will be successful and, if successful, the timing and terms of any such resolution are uncertain at this time. The breach of the financial covenant may be cured by an infusion of equity by RHJI in an amount which RHJI does not believe would be material to it.

Niles

Overview

Niles (www.niles.co.jp) primarily manufactures switches for automobiles. The switches serve as key components in many vehicle systems that are typically developed and assembled by larger, more diversified suppliers or by automobile OEMs themselves. Niles' main switch product categories include those related to the steering column, doors and power-train/pedal. Niles also manufactures sensors for automobiles. Niles' customers are principally automobile OEMs, such as Nissan and General Motors, and other suppliers to these automobile OEMs.

Since the acquisition of the initial ownership interest in Niles in 2001, a strong senior management team has been installed, with each member possessing over thirty years of experience in the automotive industry. Comprehensive cost control programs were implemented and a rigorous restructuring program under which Niles closed two manufacturing facilities, discontinued the operation of non-core business and discontinued the manufacturing of approximately 3,000 low-volume, low-margin products. In addition, as part of the restructuring program, Niles reduced headcount and improved financial reporting systems and procurement policies and procedures. Niles has been positioned for growth through additional capital investments including an increase in manufacturing capacities at its Thailand and Winchester, Kentucky facilities. Niles opened a marketing liaison office in Paris, France in 2003 to coordinate service to European automobile OEMs, acquired Micro Craft, Inc. in the United States during 2003 and began exploring manufacturing and sales opportunities in China with a joint venture.

Consolidated Income Statements for the Fiscal Years Ended March 31, 2005 and 2004

<i>(In JPY millions)</i>	<u>2005</u>	<u>2004</u>
Net sales	54,775	54,612
Cost of sales	(46,051)	(44,984)
Gross profit	8,724	9,628
Gross margin in %	15.9%	17.6%
Selling, general and administrative	7,187	6,517
Other operating income	709	10,702
Profit from operations	2,246	13,813
Income from associates	24	42
Net financing cost	(899)	(998)
Profit before tax	1,371	12,857
Income tax expense	325	450
Profit after tax	1,696	13,307
Minority interest	(2)	1
Net profit	1,694	13,308

Results of Operations

Niles' net sales were slightly higher in fiscal year ended March 31, 2005, despite the continued impact of pricing pressures from major customers. Sales in Japan of JPY 34.4 billion were 3.1% lower with sales to Nissan down 1.7%. Sales in North America improved 5.9%, principally from strong demand from Nissan North America despite lower activity with General Motors. Sales outside the two main regions increased by 14.6% mainly due to the start-up of a joint venture assembly plant in Fuzhou, China. During the fiscal year ended March 31, 2005, Niles acquired the rights to an advanced rain sensor technology.

Profit from operations in the fiscal year ended March 31, 2004 included a JPY 10.2 billion gain related to the termination of a pension plan. Excluding pension related gains in both years, profit from operations in

fiscal year ended March 31, 2005 was JPY 1.2 billion below the prior fiscal year, which reflected reduced gross profit and higher selling, general and administrative expenses. Decreases in gross margin mainly reflected operational issues in connection with the relocation of Micro Craft production operations from Michigan to Georgia, and the transfer of the manufacturing of certain component parts from a Mexican supplier to the Niles' facility in Kentucky. To offset sales price reductions, cost saving initiatives included accelerating manufacturing capacity in Thailand, centralizing and coordinating purchasing activities, and investment in equipment and IT capabilities. Selling, general and administrative expenses in the fiscal year ended March 31, 2005 increased JPY 670 million and included relocation costs to Georgia, and a JPY 292 million charge for goodwill impairment, both related to operations in the United States.

EBITDA, excluding pension related gains, for the fiscal year ended March 31, 2005, amounted to JPY 5 billion compared to JPY 6.2 billion a year earlier. Net financial debt at March 31, 2005 amounted to JPY 19 billion, JPY 342 million higher than the previous year.

D&M

Overview

D&M (www.dm-holdings.com) manufactures, markets and sells premium audio-visual systems and components and digital entertainment home networking products for home and professional use. D&M markets these products under its brand names. Denon, Marantz and McIntosh are three prestigious and well-known brands in the worldwide premium home theater, audio-visual consumer electronics and professional markets (Premium audio-visual segment). Rio and Escient are two brands representing converged solutions for managing and enjoying digital media in both personal and home networking applications (DNNA segment).

D&M's Denon, Marantz and McIntosh brands are recognized in North America, Europe and Asia as premium brand franchises. Each brand has its own distinctive product line and target market. D&M's leading market position is a result of its high-quality products, which are priced and marketed to meet the needs of consumers of premium audio-visual equipment, and D&M's ability to manage its distribution channels to avoid diluting the premium status of its brands. With over 200 patents, D&M has extensive know-how in audio reproduction and surround-sound technologies. Moreover, as a result of the implementation of its acquisition and post-acquisition integration strategies, D&M is able to increase its buying power and reduce costs while being able to more quickly and reliably deliver products to its distributors. Its presence in the digital technology market should give it a competitive advantage in the emerging digital media home networking business.

Consolidated Income Statements for the Fiscal Years Ended March 31, 2005 and 2004

<i>(In JPY millions)</i>	<u>2005</u>	<u>2004</u>
Net sales	91,665	87,417
Cost of sales	(60,488)	(55,654)
Gross profit	31,177	31,763
Gross margin in %	34.0%	36.3%
Selling, general and administrative	31,861	34,431
Other operating income	1,095	4,687
Profit from operations	411	2,019
Loss from associates	(3)	—
Net financing cost	(76)	672
Profit before tax	332	2,691
Income tax expense	(378)	(1,020)
Profit/(Loss) after tax	(46)	1,671
Minority interest	(23)	(17)
Net profit/(loss)	(69)	1,654

Results of Operations

Net sales improved 4.9% for the fiscal year ended March 31, 2005. The Premium audio-visual segment reported net sales of JPY 75.6 billion, 1.2% below the fiscal year ended March 31, 2004. Significant market share gains were achieved in the largest category of receivers and amplifiers in the audio-visual specialty store category, despite a double-digit global industry decline for this category. New products were successfully launched by Denon (Premium audio-visual receivers and DVD players), Marantz (surround-sound components) and McIntosh (music server featuring hard-drive technology from Escient and premium speaker line). DNNA segment net sales of JPY 16.1 billion were 48% higher than in the fiscal year ended March 31, 2004 (Rio and Escient were acquired during the fiscal year ended March 31, 2003), although Rio lost market share due to the popularity of both Apple's iPod hard drive and the Shuffle flash memory portable players.

Profit from operations in the fiscal year ended March 31, 2004 included JPY 4.1 billion of pension termination and curtailment related gains. Excluding such gains, results from operations improved JPY 2.4 billion in the fiscal year ended March 31, 2005, from the loss in the prior fiscal year. Gross profit declined JPY

586 million and reflected competitive pricing pressures particularly for the Rio's portable player business and for Marantz's plasma display products, in addition to increases in the cost of certain component parts due to high demand from other industries. In December 2004, a new manufacturing facility was opened in China for Denon and Marantz products. Selling, general and administrative expenses were JPY 2.6 billion lower; expenses in the fiscal year ended March 31, 2004 included JPY 2.5 billion of charges at DNNA relating to inventory write-downs and goodwill impairment.

Net financing costs were JPY 700 million higher, mainly due to the write-off of previously capitalized financing costs upon refinancing of the senior credit facilities and higher foreign exchange losses in the fiscal year ended March 31, 2005. Both years included gains (JPY 816 million for 2005 and JPY 958 million for 2004) from certain warrants acquired at the time of the acquisition of the Rio business and which were exercised in December 2004. An adjustment to D&M Holdings' prior period results of operations has been recorded to properly reflect the gain for the year ended March 31, 2004.

EBITDA, excluding pension related gains, for the fiscal year ended March 31, 2005, amounted to JPY 2.1 billion compared to JPY 1.1 billion a year earlier. Net financial debt at March 31, 2005 amounted to JPY 10 billion, JPY 613 million higher than the previous year.

Subsequent Events

On June 9, 2005, D&M announced the proposed acquisition of Boston Acoustics, a manufacturer of high-performance audio systems in the United States. The acquisition will provide D&M with a premium speaker line and the ability to deliver a complete home entertainment solution. D&M also will gain a strong presence in the automotive OEM business. Boston Acoustics reported revenue of USD 52.6 million in their fiscal year ended March 27, 2004. The transaction is expected to close by late August 2005.

On July 26, 2005, D&M announced that it had signed an agreement to sell certain intellectual property and other technology assets of the Rio business to SigmaTel, a supplier of integrated circuits for the portable digital audio player market. D&M is currently examining additional strategic options for Rio, the financial impact of which has not been determined.

Phoenix Seagaia Resort

Overview

Phoenix Seagaia Resort (www.seagaia.co.jp) is a resort complex located in Miyazaki Prefecture on Kyushu, the southernmost of the main islands of Japan. Miyazaki has a suitable climate for year-round outdoor activities. The principal assets of the Phoenix Seagaia Resort are situated in a historic 750-acre pine forest that extends over 10 kilometers along the Pacific Ocean coastline, which is just outside the city of Miyazaki and 20 minutes from the airport. Phoenix Seagaia Resort includes golf courses, lodging facilities, renovated spa (onsen) and fitness facilities, one of the largest convention centers in Japan, an indoor water amusement park and a tennis club.

Consolidated Income Statements for the Fiscal Years Ended March 31, 2005 and 2004

<i>(In JPY millions)</i>	<u>2005</u>	<u>2004</u>
Net sales	14,015	13,191
Cost of sales	(12,317)	(11,255)
Gross profit	1,698	1,936
Gross margin in %	12.1%	14.7%
Selling, general and administrative	3,839	3,971
Other operating income	44	37
Loss from operations	(2,097)	(1,998)
Net financing cost	(482)	(400)
Loss before tax	(2,579)	(2,398)
Income tax expense	(14)	(15)
Loss after tax	(2,593)	(2,413)
Net loss	(2,593)	(2,413)

Results of Operations

Net sales increased by 6.2% for the fiscal year ended March 31, 2005. Phoenix Seagaia Resort's hotel occupancy rate of 46.6% in the fiscal year ended March 31, 2005 compared favorably to an occupancy rate of 40.7% in fiscal year ended March 31, 2004, while the average daily room rate declined 5%. The volume increase can be attributed to several large conventions. A focused sales effort resulted in 15% growth in the number of wedding events in fiscal year ended March 31, 2005. The new spa (onsen) facility opened in October 2004, along with renovated luxury floors. Golf rounds declined 6.6% in fiscal year ended March 31, 2005, while the average rate per round improved 4%.

Loss from operations was JPY 100 million higher in fiscal year ended March 31, 2005 and included a JPY 418 million charge for past service obligations related to a recently implemented defined benefit pension plan. Gross profit was negatively impacted by the additional pension expenses (JPY 296 million) and headcount additions at the new spa and luxury floor facilities.

Selling, general and administrative expenses were slightly lower due to lower costs of expatriate staff, partially offset by the additional pension costs.

Net financing costs were JPY 82 million higher due to an increase in the interest rate for the senior credit facility, and additional interest on certain obligations incurred for the construction of the new spa (onsen) facility.

EBITDA for the fiscal year ended March 31, 2005, amounted to JPY -1.3 billion compared to JPY -1.4 billion a year earlier. Net financial debt at March 31, 2005 amounted to JPY 10.7 billion, JPY 17 million lower than the previous year.

CME

Overview

CME (www.columbia.co.jp), is engaged primarily in music production and entertainment in Japan (Music Entertainment segment) and pressing services in Japan and the United States (CD/DVD Pressing segment). Music production and entertainment is the production, manufacturing, marketing and distribution of music. Pressing services are comprised of contract manufacturing of CDs, DVDs and other products.

CME has a substantial music catalog, which generates a stable cash flow from the sale of its content. CME continuously seeks to add content to its catalog to ensure it remains dynamic, especially in the new, high-growth music genres such as Japanese pop and Japanese-Rock. The Columbia brand name is one of the most widely recognized brand names in music entertainment in Japan, which helps attract new artists. CME has a strong national Japanese sales force and established relationships with leading retailers in Japan. CME recently doubled its sales force by redeploying employees from other divisions to create one of the largest sales forces of any company in the music entertainment business in Japan. The distribution of third party labels provides both profits and additional marketing and retail strength to CME.

Consolidated Income Statements for the Fiscal Years Ended March 31, 2005 and 2004

<i>(In JPY millions)</i>	<u>2005</u>	<u>2004</u>
Net sales	24,285	24,994
Cost of sales	(12,432)	(13,165)
Gross profit	11,853	11,829
Gross margin in %	48.8%	47.3%
Selling, general and administrative	10,435	11,243
Other operating income	538	748
Profit from operations	1,956	1,334
Income from associates	30	23
Net financing cost	(132)	(221)
Profit before tax	1,854	1,136
Income tax expense	15	25
Profit after tax	1,839	1,111
Net profit	1,839	1,111

Results of Operations

Net sales for the fiscal year ended March 31, 2005 were 2.8% lower than the previous year and reflected the sluggish sales in the broader music market in Japan. Within this environment, the Music Entertainment segment performed well with a title reaching No. 1 in the weekly Oricon chart, the first time in 18 years for an Enka recording by a male solo artist. In an effort to capitalize on the potentially high-growth digital distribution business, CME launched “Mobile Columbia” for subscribers to all the three mobile phone carriers in Japan, the first record company to make this service available. The CD/DVD Pressing segment reported net sales of JPY 4.8 billion for the fiscal year ended March 31, 2005, slightly higher than the prior year in the face of continuing contraction in the overall pressing market and severe competition both in Japan and the United States.

Profit from operations improved JPY 622 million in the fiscal year ended March 31, 2005. Gross margin was higher and reflected efforts to enhance efficiency through continuous reviews of profitability by individual artists and albums across CME’s catalog and to reduce the ratio of product returns. Selling, general and administrative expenses were JPY 808 million lower with tight control over advertising and promotional spending and cost reductions through centralized purchasing. The CD/DVD segment experienced operating losses as a result of pressure on product pricing.

Net income was JPY 728 million higher due to the improvement in operating profit and lower interest expense on reduced loan balances.

EBITDA, for the fiscal year ended March 31, 2005, amounted to JPY 2.9 billion compared to JPY 2.6 billion a year earlier. Net financial debt at March 31, 2005 amounted to JPY 2.3 billion, JPY 1.8 billion lower than the previous year.

Subsequent Events

On July 15, 2005, CME announced the sales of the DVD/CD pressing activity in Japan and the property on which the DVD/CD pressing business was located. Total gross proceeds amounted to JPY 6 billion, of which JPY 4.4 billion has been used to reduce debt.

Shaklee

Overview

Shaklee is a leading provider of premium quality and natural nutrition, personal care, household and air and water treatment products. Shaklee operates in the United States, Japan, Malaysia, Canada and Mexico. The United States is Shaklee's largest market in terms of sales, with Japan, its second largest market. Shaklee uses a sales force of self-employed, independent distributors to sell its products and has over 750,000 members and distributors.

Shaklee is in the process of implementing its operating strategy to restore growth in the United States and provide a unified vision for all markets, reinvigorate and expand the distributor base, assemble a new management team, develop a global product offering strategy, and pursue selective international expansion. Shaklee believes that the global nutrition products industry, which consists of vitamins, herbals/botanicals, meal replacements, sports nutrition, minerals and specialty supplements, offer significant opportunities. The direct selling industry also presents attractive growth potential through its cost-efficient sales model.

Pro forma Condensed Consolidated Income Statements for the Fiscal Years Ended March 31, 2005 and 2004

<i>(In JPY millions)</i>	<u>2005</u>	<u>2004</u>
Net sales	26,082	26,520
Profit from operations	2,842	3,217
Net profit	635	1,344

Shaklee Global Group acquired Shaklee Corporation (US) as of May 27, 2004. The Pro Forma Income Statements for the fiscal years ended March 31, 2005, and 2004, were adjusted (1) for both years to reflect a full year of Shaklee Corporation results, (2) for both years to exclude the contract manufacturing activity of Shaklee Corporation, which was discontinued in early fiscal 2005, and (3) for exchange rate differences. Net sales for the fiscal year ended March 31, 2005, were slightly lower compared to the previous year. Growth in the number of field sales force has been experienced in both Japan and the United States in fiscal year ended March 31, 2005.

Profit from operations was lower for the fiscal year ended March 31, 2005 and reflected costs relating to changes in the strategic direction primarily at Shaklee Corporation following its acquisition, and charges relating to purchase accounting. Net profit for the fiscal year ended March 31, 2005 reflected higher exchange losses.

Liquidity and Capital Resources

The Condensed Consolidated Statement of Cash Flows below represents primarily the net proceeds of JPY 100 billion from the private placement and global offerings, in addition to the cash component of the contribution from private equity funds affiliated to Ripplewood Holding LLC.

RHJ International—Condensed Consolidated Statement of Cash Flows For the Fiscal Year Ended March 31, 2005		
	<u>In JPY millions</u>	<u>In € millions</u>
Cash flow from operating activities	(651)	(4.7)
Cash flow from investing activities	8	0.1
Cash flow from financing activities	104,838	757.7
Acquired cash	14,254	103.0
Cash and cash equivalents	118,449	856.1

The Condensed Consolidated Statement of Cash Flows for the fiscal year ended March 31, 2005, has been translated for convenience to Euro using the exchange rate of Euro/JPY 138.352

Gross proceeds from the offerings amounted to JPY 111 billion. Total transaction costs associated with the offerings amounted to JPY 10,950 million of which JPY 6,142 million were paid as at March 31, 2005.

The following summarizes the Company's contractual obligations as at March 31, 2005, consisting of long-term debt and finance lease liabilities.

<i>(In JPY millions)</i>	Payments due by Period			
	<u>Total</u>	<u>Less than 1 Year</u>	<u>1 – 5 Years</u>	<u>More than 5 Years</u>
Loans and Borrowings (as of March 31, 2005)				
Long-term loans and borrowings, including the current portion of long-term debt	128,911	25,637	45,727	57,547
Finance lease liabilities	3,178	1,218	1,838	122
Total	132,089	26,855	47,565	57,669

All of these contractual obligations are borne by the contributed businesses and are presented below.

Asahi Tec

As of March 31, 2005, Asahi Tec had JPY 17 billion in indebtedness outstanding on a consolidated basis, including JPY 2.7 billion of short-term debt (current portion of long-term debt amounted to JPY 1 billion). As of March 31, 2004, total debt on a consolidated basis was JPY 17.6 billion, including JPY 1.5 billion of short-term debt.

Asahi Tec has a (1) senior credit facility, consisting of both term and revolver facilities, for an aggregate amount of JPY 13.2 billion, (2) subordinated credit facility of JPY 2 billion due December, 2008, and (3) term loan of JPY 2 billion from a non-bank lender, due May, 2008. At March 31, 2005, JPY 15.8 billion of borrowings were outstanding under these facilities. The senior credit facility is collateralized by certain assets, primarily consisting of real property. The term loan under the senior credit facility matures serially through May, 2008.

Asahi Tec was in violation of one or more of the financial covenants under all three credit agreements as of March 31, 2005. Waivers were obtained through December 31, 2005, under both the senior and subordinated credit facilities. In connection with obtaining the waivers under the senior credit facility, Asahi Tec agreed to certain additional terms including (1) a new minimum "EBITDA" covenant, (2) the pledge of additional shares of Asahi Tec (25.95 million shares pledged) as security, and (3) an increase in the interest rate spread to 3.25% and payment of a waiver fee. Subsequent to March 31, 2005, upon confirmation of covenant non-compliance, Asahi Tec reimbursed the JPY 2 billion term loan from a non-banker lender, which was financed through new bank borrowings.

Borrowings under the senior credit facility bear interest at TIBOR plus 3.25%. As of March 31, 2005, the effective interest rate was 4.3%. Interest rates on the subordinated credit facility and term loan are fixed at 6.25% and 2.5%, respectively.

HIT

As of March 31, 2005 HIT had JPY 63.4 billion in indebtedness outstanding on a consolidated basis, including JPY 5.8 billion of short-term debt.

HIT has a senior credit facility of JPY 55 billion, comprised of term loan tranches and revolving credit, and a mezzanine facility of JPY 15 billion. As of March 31, 2005, borrowings under these facilities amounted to JPY 62.3 billion. The debt under these facilities was incurred in connection with the acquisition of HIT in November, 2004 and was used primarily to (1) finance a portion of the acquisition cost, (2) refinance existing indebtedness, and (3) fund working capital requirements. All RHJI shareholdings in HIT have been pledged as collateral under these credit facilities. The term loan tranches have varying annual maturities through 2013, while the mezzanine facility is a bullet loan due 2014.

Borrowings under the credit facilities bear interest at LIBOR or EURIBOR plus an applicable margin ranging from 1.25% to 3.25% for the senior credit facility. The margin on the mezzanine facility is 5% payable in cash and 5.5% payable in kind. The effective interest rate on the outstanding loans as of March 31, 2005 was 7%.

HIT is currently working with the lead arrangers of the credit facilities to address a default under such facilities due to the breach of a financial covenant as of June 30, 2005, and alleged breaches of certain other covenants. While HIT is optimistic that it will be able to successfully avoid declaration of any default by the lenders under the credit facilities, there is no assurance HIT will be successful and, if successful, the timing and terms of any such resolution are uncertain at this time. The breach of the financial covenant may be cured by an infusion of equity by RHJI in an amount which RHJI does not believe would be material to it.

Niles

As of March 31, 2005, Niles had a total of JPY 22.3 billion in indebtedness outstanding on a consolidated basis, including approximately JPY 8 billion of short-term debt (current portion of long-term debt amounted to JPY 2.5 billion). As at March 31, 2004, the total indebtedness outstanding on a consolidated basis was 20.6 billion, including JPY 5.8 billion of short-term debt.

Niles has a (1) senior credit facility of JPY 16.7 billion, comprising term loans totaling JPY 13.2 billion and a revolver facility of JPY 3.5 billion and (2) unsecured term loan facility totaling approximately JPY 4.5 billion, of which approximately JPY 2.5 billion is short-term. As of March 31, 2005, the outstanding balance under these facilities was JPY 19.7 billion. The senior facility is secured by a pledge of trade receivables, inventories, real estate and equipment comprising the factories of Niles Co. Ltd. and its domestic subsidiaries. The term loan under the senior facility is due serially through 2009.

Interest rates on these loans are based on TIBOR plus the applicable margin ranging from 1.5-2.5% for the revolver facility and 2-3% for the term loans. As of March 31, 2005, the effective interest rate on the outstanding loans was 3.5%.

Niles, including its domestic and foreign subsidiaries, has additional credit facilities with other financial institutions.

D&M

As of March 31, 2005, D&M had JPY 11.3 billion in indebtedness outstanding on a consolidated basis, including JPY 5.8 billion of short-term debt (current portion of long-term debt amounted to JPY 2.3 billion). At March 31, 2004, the total indebtedness outstanding on a consolidated basis was JPY 11.8 billion, including JPY 5.5 billion of short-term debt.

D&M has a senior credit facility of JPY 15 billion, comprising a term loan facility of JPY 4 billion and a revolving loan facility of JPY 11 billion. As of March 31, 2005, JPY 7.5 billion of borrowings were outstanding under these facilities. The term loan is due serially through 2008. The facility is secured by liens on all domestic bank accounts, accounts receivable and real properties, and contains various financial covenants. D&M also has an unsecured debt of JPY 1.9 billion, due in 2008, to an unaffiliated third party.

Interest rate on the senior credit facility is based on TIBOR plus the applicable margin ranging from 0.75 -1.5%. As of March 31, 2005, the effective interest rate on outstanding loans under this facility was 2%. The unsecured loan bears a fixed interest rate of 1.375%.

In July 2005, D&M decided to sell the property in Sagamiono on which the office headquarters are located. Net proceeds from the sale will be used to reduce debt.

Phoenix Seagaia Resort

As of March 31, 2005, Phoenix Seagaia Resort had JPY 13.4 billion in indebtedness outstanding, including the current portion of JPY 1 billion. As of March 31, 2004, total debt amounted to JPY 11.7 billion, including the current portion of JPY 349 million.

Phoenix Seagaia Resort has a senior credit facility of JPY 11.6 billion, all of which was outstanding as of March 31, 2005. This facility is secured by a pledge of certain real estate, movable assets and all of the shares of Phoenix Seagaia Resort. The debt is due serially through 2009.

Phoenix Seagaia Resort was in violation of the financial covenant relating to the minimum "EBITDA" as of September 30, 2004. A waiver and amendment to the credit agreement were agreed with the lenders and include, among other things, (1) eliminating the requirement to maintain minimum "EBITDA" for each of the one-year periods ending September 30, 2004, March 31, 2005 and September 30, 2005, (2) reducing the minimum "EBITDA" requirement for the one-year periods ending March 31, 2006 and September 30, 2006, and (3) adding minimum "EBITDA" requirements for each of the one-year periods ending March 31, 2007, September 30, 2007, March 31, 2008 and September 30, 2008. The amendment also required that net proceeds from the future sale of the Kitago and Kogen properties be used as prepayment of the loan balance. As of March 31, 2005 and 2004, RHJI had guaranteed the payment of principal and interest of JPY 4.6 billion and JPY 2.6 billion, respectively, of Phoenix Seagaia Resort's outstanding indebtedness.

Interest rates applicable to the senior credit facility are based on LIBOR plus the applicable spreads ranging from 2 to 4% per annum. As of March 31, 2005, the effective interest under this facility, after giving effect to interest rate swap contracts, was 3.97%.

Upon the completion of Phase II of the development program in October, 2004, Phoenix Seagaia Resort entered into a vendor financing arrangement for the acquisition and construction of property and equipment. These obligations are collateralized by a second lien on certain assets. The non-current balance of this financing at March 31, 2005 amounted to JPY 1.935 billion. Applicable interest rate for this financing is the long-term prime rate published by the Mizuho Bank plus 1% per annum.

CME

As at March 31, 2005, CME had JPY 4.7 billion in borrowings outstanding on a consolidated basis, most of which was short-term. As at March 31, 2004, the total indebtedness outstanding on a consolidated basis was JPY 6.1 billion, all short-term.

CME has a secured credit facility amounting to JPY 3 billion and an unsecured loan of JPY 2.3 billion. The senior credit facility is secured by a mortgage over certain real property and a pledge over accounts receivable. At March 31, 2005, JPY 2.3 billion was outstanding from the senior credit facility. The senior credit facility bears interest by reference to the lender's short-term prime rate plus a 1.5% margin. As at March 31, 2005, effective interest rate for the outstanding borrowings was 4%.

Risk Management and Use of Derivative Financial Instruments

The Company is exposed to various market risks. The risk of loss can be assessed from the perspective of adverse changes in fair values, cash flows and future earnings.

Credit risk

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented on the balance sheets are the amounts, net of allowances for doubtful accounts, estimated by the management of the respective consolidated businesses based on the prior credit loss experience and the current economic environment.

The credit risk on derivative financial instruments is limited because the counterparties to the derivatives are major international financial institutions with high credit ratings assigned by international credit rating agencies.

Commodity risk

Certain consolidated businesses, primarily HIT, procure raw materials, most significantly aluminum, through a combination of contract commitments and spot market purchases. HIT is exposed to commodity risk, which is moderated through the use of customer contracts that typically provide for sales price adjustments related to changes in the cost of light metal alloys. The selling prices however are only adjusted periodically and as a result, HIT is exposed to changes in aluminum prices within the contracts' price indexation periods. Accordingly, HIT hedges a significant portion of its aluminum purchases by entering into forward purchase and sales contracts on the London Metal Exchange.

Interest Rate Risk

The Company is exposed to changes in interest rates primarily as a result of the borrowing activities of its businesses, which include borrowings used to maintain liquidity and to fund business operations. These borrowings consist primarily of floating rate debt.

The Company intends to maintain a mixed balance of fixed and floating rate borrowings, and accordingly has entered into derivative transactions to manage the exposure associated with the floating rate borrowings. As at March 31, 2005, approximately 40% of the outstanding consolidated debt balance has been effectively hedged against changes in interest rates. All the derivative transactions are accounted for as cash flow hedges.

Currency Risk

The Company is exposed to market risk from changes in currency exchanges that could impact the results of operations and the financial position. The Company is exposed to both translation as well as transaction risk. The translation risk is the risk that the consolidated financial statements are affected by changes in the prevailing exchange rates of the various currencies of the businesses or their subsidiaries relative to the Japanese Yen. Transaction risk is the risk that the currency structure of the costs and liabilities deviates to some extent from the currency structure of our sales proceeds and assets.

The functional currency of the five consolidated businesses in Japan is the Japanese Yen. The Euro is the functional currency for HIT. Businesses that transact a material amount of business and have material assets and liabilities in currencies other than their functional currency include D&M (US Dollar and Euro), HIT (US and Canadian Dollars) and Niles (US Dollar). These businesses manage their exposures through normal operating and financing activities and, when appropriate, use forward foreign exchange contracts. Derivative financial instruments are not used for speculative purposes.

RHJI's functional currency is the Japanese Yen. Proceeds from the private placement and global offerings are maintained in Euro, US Dollar and Japanese Yen, and invested primarily in money market mutual funds and fixed income mutual funds for which the Company has defined minimum ratings and concentration limits in order to preserve capital and maintain liquidity.

Research and Development

With the exception of D&M, the consolidated businesses do not incur significant amounts of research and development expenses, which are normally grouped under the selling, general and administrative expense category in the Consolidated Income Statements. For the year ended March 31, 2005, D&M incurred JPY 5.3 billion of research and development expenses (5.8% of net sales) with focus on product innovation in the audio-visual/home theater market, including the emerging digital-media-based home networking business.

Material Events Subsequent to March 31, 2005

The Company announced on May 19, 2005, that it was a part of an investor group led by Ripplewood Holdings LLC (the “investor group”) that had entered into an agreement to acquire Maytag Corporation for USD 14 per share in cash. Subsequent to the adoption of this Directors’ Report, on August 22, 2005, the Company announced that such acquisition agreement had been terminated and that Maytag had on such date paid to the investor group’s acquisition vehicle a termination fee of USD 40 million (€ 33 million). The termination fee, net of expenses, will be paid to the investors pro-rata based on the amount of their commitments.

Material events, that have occurred subsequent to the balance sheet date and up to August 11, 2005, and that relate to RHJI’s consolidated businesses, have been disclosed and commented on in the business reviews presented above.

Consolidated Financial Statements for the Fiscal Year Ended March 31, 2005

Consolidated Income Statement

<i>(In JPY millions)</i>	<u>Note</u>	<u>2005</u>
Administrative expenses	4	(997)
Operating loss before financing costs		(997)
Financial income		6
Financial expenses		(9)
Net financing costs		(3)
Loss before tax		(1,000)
Income tax expense	5	(25)
Loss for the period		(1,025)
Attributable to:		
Equity holders of the parent		(1,025)
Minority interest		0
Loss for the period		(1,025)
Basic earnings per share (in JPY)	14	(3,633)
Diluted earnings per share (in JPY)	14	(3,633)

Consolidated Statement of Recognized Income and Expense

<i>(In JPY millions)</i>	<u>Note</u>	<u>2005</u>
Net income recognized directly in equity		0
Loss for the period		(1,025)
Total recognized income and expense for the period	13	(1,025)
Attributable to:		
Equity holders of the parent		(1,025)
Minority interest		0
Loss for the period		(1,025)

Consolidated Balance Sheet as at March 31, 2005

<i>(In JPY millions)</i>	<u>Note</u>	<u>2005</u>
Assets		
Property, plant and equipment	6	99,794
Intangible assets	7	123,157
Investments accounted for under the equity method	8	12,312
Other investments		2,672
Deferred tax assets	9	10,098
Others		1,474
Total non-current assets		249,507
Inventories	10	33,331
Investments		466
Income tax receivable		244
Trade and other receivables	11	66,589
Cash and cash equivalents	12	118,449
Total current assets		219,079
Total assets	2	468,586
Equity		
Issued capital		107,701
Share premium		83,402
Retained earnings		(1,025)
Total equity attributable to equity holders of the parent		190,078
Minority interest		22,086
Total equity	13	212,164
Liabilities		
Interest-bearing loans and borrowings	15	105,234
Employee benefits	16	28,148
Provisions	17	87
Deferred tax liabilities	9	6,551
Trade and other payables	18	2,268
Total non-current liabilities		142,288
Interest-bearing loans and borrowings	15	26,855
Provisions	17	3,492
Tax liabilities	9	3,442
Trade and other payables	18	78,188
Others		2,157
Total current liabilities		114,134
Total liabilities	2	256,422
Total equity and liabilities		468,586

Consolidated Statement of Cash Flows

<i>(In JPY millions)</i>	<u>Note</u>	<u>2005</u>
Cash flows from operating activities		
Net loss		(1,025)
Adjustments for:		
Net finance costs		(5)
Depreciation and impairment		1
Operating profit before working capital changes		(4)
(Increase)/Decrease in trade and other receivables		(68)
Increase/(Decrease) in trade and other payables		446
Cash generated from operations		(651)
Net cash from operating activities		(651)
Cash flows from investing activities		
Interest received		5
Acquisition of property, plant and equipment	6	3
Net cash from investing activities		8
Cash flows from financing activities		
Proceeds from the issue of share capital	13	110,980
Payment of transaction costs		(6,142)
Net cash from financing activities		104,838
Net increase in cash and cash equivalents		104,195
Acquirees' cash at acquisition date		14,254
Cash and cash equivalents at March 31	12	118,449

Notes to the Consolidated Financial Statements

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1. Significant Accounting Policies

RHJI is a company domiciled in Belgium. The consolidated financial statements for the period ended March 31, 2005 comprise RHJI, its subsidiaries and its businesses accounted for under the equity method (together referred to as the “Company”).

The financial statements have been authorized for issue by the Board of Directors on August 11, 2005.

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and its interpretations issued by the International Accounting Standards Board (“IASB”) as adopted by the European Union up to March 31, 2005 and in accordance with the Belgian Royal Decree of January 30, 2001 relating to the consolidated accounts of listed companies. The Company has not applied any standards and interpretations issued up to March 31, 2005, but with an effective date after March 31, 2005.

Basis of Preparation

The financial statements are presented in Japanese Yen, rounded to the nearest million. They are prepared on the historical cost basis except for derivative financial instruments, investments held for trading and investments available-for-sale which are stated at fair value. Investments in equity instruments or derivatives linked to and to be settled by delivery of an equity instrument are stated at cost when such equity instrument does not have a quoted market price in an active market and for which other methods of reasonably estimating fair value are clearly inappropriate or unworkable. Recognized assets and liabilities that are hedged are stated at fair value in respect of the risk that is hedged.

The accounting policies set out below have been applied consistently to all periods presented in the financial statements.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable in the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The consolidated financial statements are presented before the effect of the profit appropriation of RHJI which will be proposed to the shareholders at the Annual Shareholders’ Meeting.

Basis of Consolidation

Subsidiaries

Subsidiaries are entities controlled by RHJI. Control exists when RHJI has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control is presumed to exist when RHJI, directly or indirectly through subsidiaries, owns more than half of the voting power of an entity unless in exceptional circumstances it can be clearly demonstrated that such ownership does not constitute control. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of all subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Associates

Associates are those entities in which RHJI has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when RHJI owns, directly or indirectly through

subsidiaries, between 20 and 50% of the voting power of an entity unless it can be clearly demonstrated that such ownership does constitute control, in which case, the associate is considered to be a subsidiary. The consolidated financial statements include the Company's share of the total recognized gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Company's share of losses exceeds its interest in an associate, the Company's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of an associate.

Joint Ventures

Jointly controlled entities are those enterprises over whose activities RHJI has joint control, established by contractual agreements. The Company records its interest in jointly controlled entities using the equity method from the date that joint control commences to the date that the joint control ceases.

Transactions Eliminated on Consolidation

Intragroup balances and any unrealized gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Unrealized gains arising from transactions with associates are eliminated to the extent of RHJI's interest in the entity. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Foreign Currency

The functional currency of RHJI and of the five consolidated businesses headquartered in Japan is the Japanese Yen. The euro is the functional currency for HIT.

Foreign Currency Transactions

Transactions in foreign currencies other than the presentation currency are translated at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Japanese Yen at the foreign exchange rate ruling at that date. Foreign exchange differences arising from the settlement of foreign currency transactions or on translation of monetary assets and liabilities are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Japanese Yen at foreign exchange rates ruling at the dates the fair value was determined.

Financial Statements of Foreign Operations

The assets and liabilities of a foreign operation of the consolidated businesses with a functional currency other than the presentation currency of its parent are translated to applicable presentation currency at foreign exchange rates prevailing at the balance sheet date. The revenues and expenses of foreign operations are translated to applicable presentation currency at exchange rates at the dates of the transactions, which for practical reasons are approximated by using average exchange rates for the period. The components of shareholders' equity are translated at historical rates. All resulting exchange differences are recognized directly in the foreign currency translation reserve, a separate component of equity.

The translation reserve represents the difference between translating income statement items at average exchange rates and using the exchange rate at balance sheet date, and in respect of the opening balance of equity, the difference between translating at the rate at the balance sheet date of the previous period and using the rate at balance sheet date of the current period. These differences are released in the income statement upon disposal of the investment in the related foreign operations.

Exchange Rates

The following exchange rates have been used in preparing the financial statements.

<u>100 Yen equals</u>	<u>Closing rate</u>		<u>Average rate</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<u>Euro</u>	0.723	0.729	0.744	0.729

Derivative Financial Instruments

The Company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. The Company does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognized initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognized immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

The fair value of interest rate swaps is the estimated amount that the Company would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Hedging

Fair Value Hedges

Where a derivative financial instrument hedges the changes in fair value of recognized assets or liabilities or an unrecognized firm commitment, any gain or loss on the hedging instrument is recognized in the income statement. The hedged item also is stated at fair value in respect of the risk being hedged, with any gain or loss being recognized in the income statement.

Cash Flow Hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognized asset or liability, or a highly probable forecasted transaction, the effective part of any gain or loss on the derivative financial instrument is recognized directly in equity through the statement of changes in equity. The ineffective part of any gain or loss is recognized immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognized in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealized gain or loss recognized in equity is recognized immediately in the income statement.

Property, Plant and Equipment

Owned Assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see below for accounting policy on impairment). Cost of an item of property, plant and equipment comprises its purchase price as well as any directly attributable costs (for example delivery and handling costs, installation and assembly costs) and the initial estimate of the costs of dismantling and removing the item if the Company is obliged to do so.

Subsequent costs are only capitalized if it is probable that it will give rise to future economic benefits in excess of the originally assessed standard of performance of the asset or when it replaces a component that is accounted for separately. Costs incurred simply to restore or maintain the level of future economic benefits is expensed as incurred.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leased Assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

The periodic lease payments should be split into two components: the interest charge for the period and the reduction of the lease liability. The interest charge should be determined so that a constant periodic rate of interest is recognized on the outstanding balance of the liability. The asset under a finance lease should be depreciated over the shorter of the estimated useful life of the asset or the lease term. The reduction of the lease liability is recognized based on an effective (constant) rate of interest method.

An operating lease is a lease other than a finance lease. Rent expense for operating leases is recognized in the income statement on a straight-line basis over the lease term.

Depreciation

Depreciation is charged to the income statement from the date that the asset is available for use, on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Buildings:	3-50 years
Machinery and equipment:	2-17 years
Furniture, fixtures and fittings:	2-15 years

Intangible Assets

Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill resulting from acquisition of subsidiaries, associates and joint ventures represents the difference between the cost of the acquisition and the acquirer's interest in the fair value of the acquired identifiable assets, liabilities and contingent liabilities recognized.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortized but is tested at least annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Goodwill is expressed in the currency of the subsidiary to which it relates and is translated to Japanese Yen using the year-end exchange rate.

Negative goodwill arising on an acquisition is recognized directly in the income statement.

Research and Development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalized if the product or process is technically and commercially feasible and the Company has sufficient resources to complete development. The expenditure capitalized includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognized in the income statement as an expense as incurred. Capitalized development expenditure is stated at cost less accumulated amortisation and impairment losses.

Other Intangible Assets

Other intangible assets that are acquired are stated at cost less accumulated amortization (see below) and impairment losses (see below for accounting policy on impairment).

Expenditure on internally generated goodwill and brands is recognized in the income statement as an expense as incurred.

Subsequent expenditure on capitalized intangible assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives. The estimated useful lives are as follows:

Software:	5 years
Trademarks, patents:	10 years
Customer contracts:	contract period
Intellectual property:	10 years
Land-use rights:	20 years
Purchase rights:	contract period

Investments

Investments in Securities

Financial instruments held for trading are classified as current assets and are stated at fair value, with any resultant gain or loss recognized in the income statement.

Other financial instruments held by the Company are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognized directly in equity, except for impairment losses and, in the case of monetary items such a debt securities, foreign exchange gains and losses. When these investments are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in profit or loss. Where these investments are interest-bearing, interest calculated using the effective interest method is recognized in profit or loss.

The fair value of financial instruments classified as held for trading and available-for-sale is their quoted bid price at the balance sheet date.

Financial instruments classified as held for trading or available-for-sale investments are recognized/derecognized on the date the Company commits to purchase/sell the investments. Securities held-to-maturity are recognized/derecognized on the day they are transferred to/by the Company.

Inventories

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes the direct cost of materials, direct manufacturing expenses and an appropriate, systematically allocated share of overheads, based on normal operating capacity.

Trade and other Receivables

Trade and other receivables are stated at their cost less impairment losses. An estimate is made for doubtful receivables based on a review of all outstanding amounts at each balance sheet date. Bad debt is written off during the year in which it is identified.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts repayable on demand are included as cash and cash equivalents if and when they form an integral part of the entity's cash management.

Impairment

The carrying amounts of the Company's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Calculation of Recoverable Amount

The recoverable amount of the Company's investments in held-to-maturity securities and receivables carried at amortized cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of Impairment

A previously recognized impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

An impairment loss recognized for goodwill shall not be reversed in a subsequent period.

Share Capital

When share capital recognized as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

Dividends are recognized as a liability in the period in which they are declared.

Transaction costs related to the issuance of shares are accounted for as a deduction from equity, net of any tax effects.

Interest-bearing Borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the income statement over the period of the borrowings on an effective interest basis.

Employee Benefits

Defined Contribution Plans

Obligations for contributions to defined contribution pension plans are recognized as an expense in the income statement as incurred.

Defined Benefit Plans

The net obligation in respect of defined benefit pension plans, recognized in the balance sheet, is calculated as the present value of the defined benefit obligation (future benefit that employees have earned in return for their service in the current and prior periods), adjusted for the unrecognized actuarial gains and losses and less any past service costs not yet recognized and the fair value of any plan assets. The discount rate is the yield at the balance sheet date on high quality credit rated bonds that have maturity dates approximating to the terms of the obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in the income statement.

All actuarial gains and losses as at March 31, 2005 have been recognized in retained earnings. In respect of actuarial gains and losses that arise subsequent to April 1, 2005, to the extent that any cumulative unrecognized actuarial gain or loss exceeds 10% of the greater of the present value of the defined benefit obligation and the fair value of plan assets, that portion will be recognized in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognized.

Where the calculation results in a benefit to the Company, the recognized asset is limited to the net total of any unrecognized actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Other Post-retirement Obligations

Some consolidated businesses provide post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans and determined by independent qualified actuaries.

Equity and Equity-related Compensation Benefits

Different stock option programs allow Company employees to acquire shares in their respective companies. No compensation cost or obligation is recognized. When the options are exercised, equity is increased by the amount of the proceeds received.

In addition, certain member of the Company's management team and other employees received RHJI ordinary shares from a significant shareholder of the Company in the context of the recent offerings. No compensation cost or obligation is recognized.

Bonuses

Bonuses received by Company employees and management are recognized as an expense in the year.

Provisions

A provision is recognized in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Warranties

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Restructuring

A provision for restructuring is recognized when the Company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

Site Restoration

In accordance with the applicable legal requirements, a provision for site restoration in respect of contaminated land is recognized when the land is contaminated.

Onerous Contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

Trade and Other Payables

Trade and other payables are stated at cost.

Revenue

Goods Sold and Services Rendered

Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognized in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods and continuing management involvement with the goods.

Construction Contracts

As soon as the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognized in the income statement in proportion to the stage of completion of the contract. The stage of completion is assessed by reference to surveys of work performed. An expected loss on a contract is recognized immediately in the income statement.

Government Grants

Government grants are recognized in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the Company will comply with the conditions attaching to them. Grants that compensate the Company for expenses incurred are recognized as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Company for the cost of an asset are recognized in the income statement as other operating income on a systematic basis over the useful life of the asset.

Royalties

Royalties are recognized as revenue when it is probable that the economic benefits associated with the transaction will flow to the Company and can be measured reliably. The income is recognized in accordance with the substance of the relevant agreement.

Expenses

Employee Benefits

Short-term employee benefits including short-term compensated absences are expensed in the period in which the employees rendered the related services.

Lease Payment

Payments made under operating leases are recognized in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognized in the income statement as an integral part of the total lease expense.

Minimum lease payments related to finance leases are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Net Financing Costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, dividends on redeemable preference shares, interest receivable on funds invested, dividend income, foreign exchange gains and losses and gains and losses on hedging instruments that are recognized in the income statement.

Interest income is recognized in the income statement as it accrues, using the effective interest method. Dividend income is recognized in the income statement on the date the entity's right to receive payments is established. The interest expense component of finance lease payments is recognized in the income statement using the effective interest rate method.

Income Taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for:

- goodwill not deductible for tax purposes;
- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and
- differences relating to investments in subsidiaries to the extent that the parent is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Segment Reporting

A segment is a distinguishable component of the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Company is a diversified holding company engaged in various industries and has chosen a segment reporting format based on the businesses it is managing.

Segment assets and liabilities include those operating assets and liabilities that are directly attributable to a segment or can be allocated to a segment on a reasonable basis.

Discontinuing Operations

A discontinuing operation is a clearly distinguishable component of the Company's business that is abandoned or terminated pursuant to a single plan, and which represents a separate major line of business or geographical area of operations.

2. Segment Reporting

Segment information is presented with respect to the Company's business and geographical segments. The primary format, business segments, is based on the Company's management and internal reporting structure.

Business Segments

The Company comprises the following main business segments:

- Niles Co. Ltd. ("Niles");
- D&M Holdings Inc. ("D&M");
- Columbia Music Entertainment, Inc. ("CME");
- Honsel International Technologies SA ("HIT");
- Asahi Tec Corporation ("Asahi");
- Phoenix Resort KK ("Phoenix");
- Corporate Headquarters.

	Niles	D&M	CME	HIT	Asahi	Phoenix	Corpo- rate Head- quarters	Elimin- ated	Consoli- dated
	2005	2005	2005	2005	2005	2005	2005	2005	2005
<i>(In JPY millions)</i>									
Loss for the period							(1,025)		(1,025)
Non-current assets	19,926	28,043	3,760	101,751	19,440	12,615	90,973	(27,001)	249,507
Current assets	20,190	31,073	10,414	27,081	23,430	2,205	104,685	1	219,079
Total assets	40,116	59,116	14,174	128,832	42,870	14,820	195,658	(27,000)	468,586
Equity	(806)	22,617	(5,050)	25,101	8,837	(1,514)	190,554	(27,575)	212,164
Non-current liabilities	18,998	11,605	8,798	71,694	16,958	14,022	3	210	142,288
Current liabilities	21,924	24,894	10,426	32,037	17,075	2,312	5,101	365	114,134
Total liabilities	40,116	59,116	14,174	128,832	42,870	14,820	195,658	(27,000)	468,586
Cash flows from operating activities							(651)		(651)
Cash flows from investing activities							8		8
Cash flows from financing activities							104,838		104,838
Net change in cash and cash equivalents	0	0	0	0	0	0	104,195	0	104,195
Capital expenditure							3		3

Geographical segments

The Company is primarily managed on a worldwide basis, but operates in four principal geographical areas, Japan, Asia, Europe and North America. Segment assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. In presenting information on the basis of geographical segments, segment information is based on the geographical location of the assets.

	Japan	Asia	Europe	North America	Unallocated	Eliminated	Consolidated
(In JPY millions)	2005	2005	2005	2005	2005	2005	2005
Non-current assets	65,809	5,971	182,392	23,183	7,555	(35,403)	249,507
Current assets	66,707	8,601	132,470	29,444	2,590	(20,733)	219,079
Total assets	132,516	14,572	314,862	52,627	10,145	(56,136)	468,586
Equity	30,784	4,210	207,239	6,605	3,519	(40,193)	212,164
Non-current liabilities	54,809	2,220	67,479	11,653	8,364	(2,237)	142,288
Current liabilities	58,112	6,515	34,918	24,320	2,459	(12,190)	114,134
Total liabilities	143,705	12,945	309,636	42,578	14,342	(54,620)	468,586
Cash flows from operating activities			(651)				(651)
Cash flows from investing activities			8				8
Cash flows from financing activities			104,838				104,838
Net change in cash and cash equivalents	0	0	104,195	0	0	0	104,195
Capital expenditure			3				3

3a. Acquisitions

RHJI has ownership interests in seven operating businesses. These ownership interests were contributed to RHJI on March 31, 2005 at fair value by private equity funds affiliated to Ripplewood Holdings LLC at fair value. These interests together with cash of JPY 10 billion have been contributed in exchange for 39.9 million newly issued ordinary shares of RHJI.

Ownership interests in the following operating businesses were contributed at that date:

- Niles Co. Ltd.;
- D&M Holdings, Inc.; and
- Columbia Music Entertainment, Inc.;
- Honsel International Technologies SA;
- Asahi Tec Corporation;
- Phoenix Resort KK;
- Shaklee Global Group, Inc.

Due to the date of the contribution, the date of effective control was March 31, 2005. As a result, none of the results of operations of the businesses have been reflected in the Consolidated Income Statement for the period ended March 31, 2005. Additional information is presented in notes 3b and 3c to evaluate the financial effects of the contribution.

3b. Unaudited Pro Forma Consolidated Income Statement

For comparison purposes to the Unaudited Pro Forma Consolidated Income Statement presented in conjunction with the listing of ordinary shares on Euronext Brussels, the Company has prepared an Unaudited Pro Forma Consolidated Income Statement for the year ended March 31, 2005. The Unaudited Pro Forma Consolidated Income Statements for the years ended March 31, 2005 and 2004 have been prepared as if the contribution of the seven businesses, the operations of the Company, the IFRS conversion and the date of acquisition of HIT occurred as of the beginning of the two year period.

Unaudited Pro Forma Consolidated Income Statements For the Years Ended March 31		
<i>(In JPY millions)</i>	2005	2004
Revenue	360,314	342,321
Cost of sales	(291,102)	(271,454)
Gross profit	69,212	70,867
Other operating income	2,649	3,870
Selling, general and administrative expenses	(79,631)	(83,673)
Pension termination and curtailment gains	—	14,234
Profit (loss) from operations	(7,770)	5,298
Net financing costs	(6,198)	(4,969)
Share of profit of associates	282	637
Profit (loss) before tax	(13,686)	966
Income tax expense	(3,559)	(5,410)
Loss after tax	(17,245)	(4,444)
Minority interest	4,427	4,030
Net loss	(12,818)	(414)

For D&M, both 2005 and 2004 include gains (JPY 816 million for 2005 and JPY 958 million for 2004) from certain warrants acquired at the time of the acquisition of the Rio business and which were exercised in December 2004. An adjustment to D&M's prior period results of operations has been recorded to properly reflect the gain for the year ended March 31, 2004.

3c. Income Statements of Acquired Consolidated Businesses

Because the Unaudited Pro Forma Consolidated Income Statements are primarily an aggregation of the results of operations of the consolidated businesses, their income statements for the years ended March 31, 2005 and 2004 (December 31, 2004 and for 2003 for HIT) are presented below.

<i>(In JPY millions)</i>	Niles		D&M		CME	
	2005	2004	2005	2004	2005	2004
Revenue	54,775	54,612	91,665	87,417	24,285	24,994
Cost of sales	(46,051)	(44,984)	(60,488)	(55,654)	(12,432)	(13,165)
Gross profit	8,724	9,628	31,177	31,763	11,853	11,829
Other operating income	709	10,702	1,095	4,687	538	748
Selling, general and administrative expenses	(7,187)	(6,517)	(31,861)	(34,431)	(10,435)	(11,243)
Profit (loss) from operations	2,246	13,813	411	2,019	1,956	1,334
Net financing cost	(899)	(998)	(76)	672	(102)	(221)
Share of profit (loss) of associates	24	42	(3)	—	—	23
Profit (loss) before tax	1,371	12,857	332	2,691	1,854	1,136
Income tax expense	325	450	(378)	(1,020)	(15)	(25)
Profit (loss) after tax	1,696	13,307	(46)	1,671	1,839	1,111
Minority interest	(2)	1	(23)	(17)	—	—
Net profit (loss)	1,694	13,308	(69)	1,654	1,839	1,111

<i>(In JPY millions)</i>	HIT		Asahi		Phoenix Resort	
	2005	2004	2005	2004	2005	2004
Revenue	117,955	109,575	57,619	52,843	14,015	13,191
Cost of sales	(107,184)	(99,557)	(52,669)	(47,114)	(12,317)	(11,255)
Gross profit	10,771	10,018	4,950	5,729	1,698	1,936
Other operating income	33	1,682	275	248	44	37
Selling, general and administrative expenses	(15,411)	(15,405)	(6,799)	(7,978)	(3,839)	(3,971)
Profit (loss) from operations	(4,607)	(3,705)	(1,574)	(2,001)	(2,097)	(1,998)
Net financing cost	(1,545)	(1,131)	(138)	(663)	(482)	(400)
Share of profit (loss) of associates	—	—	(1)	22	—	—
Profit (loss) before tax	(6,152)	(4,836)	(1,713)	(2,642)	(2,579)	(2,398)
Income tax expense	(3,131)	(2,761)	(321)	(1,939)	(14)	(15)
Profit (loss) after tax	(9,283)	(7,597)	(2,034)	(4,581)	(2,593)	(2,413)
Minority interest	(623)	(136)	(92)	(40)	—	—
Net profit (loss)	(9,906)	(7,733)	(2,126)	(4,621)	(2,593)	(2,413)

3d. Effect of Acquisitions

The contribution had the following effect on the Company's assets and liabilities.

Acquiree's net assets at the acquisition date

<i>(In JPY millions)</i>	Recognized values	Fair value adjustments	Carrying values
Property, plant and equipment	99,792	—	99,792
Intangible assets	71,647	—	71,647
Inventories	33,331	—	33,331
Trade and other receivables	81,860	—	81,860
Cash and cash equivalents	14,254	—	14,254
Interest-bearing loans and borrowings	(130,154)	—	(130,154)
Employee benefit obligation	(28,148)	—	(28,148)
Trade and other payables	(93,176)	—	(93,176)
Minority interest	(22,086)	—	(22,086)
Net identifiable assets and liabilities	27,320	—	27,320
Goodwill on acquisition	51,510	—	51,510
Contribution value of consolidated businesses	78,830	—	78,830
Contribution of Shaklee (see note 8)	12,244	—	12,244
Total value of contributed assets	91,074	—	91,074

No allocation of goodwill, arising from the contribution, has been made among the assets acquired and liabilities assumed because the required valuations have not been completed. When made during the fiscal year ending March 31, 2006, the allocation will have a material negative effect on the Company's consolidated result of operations. No impairment test has been performed on the goodwill as all businesses have been contributed at fair value at March 31, 2005.

4. Personnel Expenses

<i>(In JPY millions)</i>	2005
Wages and salaries	658
Total	658

As at March 31, 2005, the total number of employees was as follows:

	2005
Employees and management	7,272
Workers	9,197
Total	16,469

5. Income Tax Expense

<i>(In JPY millions)</i>	<u>2005</u>
Current tax expense	25
Total	25

Reconciliation of effective tax rate

<i>(In JPY millions)</i>	<u>2005</u>
Loss before tax	1,000
Income tax using the domestic tax rate	(340)
Effect of tax rates in foreign jurisdictions	1
Non-deductible expenses	18
Tax losses not utilized	346
	25

6. Property, Plant and Equipment

<i>(In JPY millions)</i>	<u>Land and buildings</u>	<u>Plant and equipment</u>	<u>Fixtures and fittings</u>	<u>Under construction</u>	<u>Others</u>	<u>Total</u>
Cost						
Acquisitions			3			3
Acquisitions through business combinations	42,196	38,026	10,430	6,287	2,853	99,792
Balance at March 31, 2005	42,196	38,026	10,433	6,287	2,853	99,795
Depreciation and impairment loss						
Depreciation charge for the period ..			1			1
Total	0	0	1	0	0	1
Carrying amount	42,196	38,026	10,432	6,287	2,853	99,794

As at March 31, 2005, property, plant and equipment comprised leased plant and equipment, amounting to JPY 1,144 million, net of depreciation.

7. Intangible Assets

<i>(In JPY millions)</i>	<u>Goodwill</u>	<u>Patents and trademarks</u>	<u>Development costs</u>	<u>Software</u>	<u>Others</u>	<u>Total</u>
Cost						
Acquisitions through business combinations	117,079	1,816	314	2,151	1,797	123,157
Balance at March 31, 2005	117,079	1,816	314	2,151	1,797	123,157

No allocation of goodwill arising from the contribution (including the goodwill from the acquisition of HIT amounting to JPY 59,339 million) has been made among the assets acquired and liabilities assumed because the required valuations have not been completed. When made during the fiscal year ending March 31, 2006, the allocation will have a material negative effect on the Company's consolidated result of operations.

8. Investments in Businesses accounted for under the Equity Method

RHJI holds a 40.7% equity investment in Shaklee Global Group, Inc., a provider of premium quality and natural nutrition, personal care, household, and air and water treatment products. Shaklee Global Group, Inc. is listed on the Nasdaq Securities Exchange, Inc. under the ticker 8205. The summary pro forma financial information (100%) as of and for the year ended March 31, 2005, is as follows:

<i>(In JPY millions)</i>	<u>Country</u>	<u>2005</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Equity</u>	<u>Revenues</u>	<u>Profit</u>
Shaklee Global Group, Inc.	Japan	40.7%	36,631	31,713	4,918	26,082	635

9. Tax Assets and Liabilities

Deferred tax assets and liabilities

Deferred tax assets and liabilities, net of valuation allowances, are attributable to the following.

<i>(In JPY millions)</i>	<u>Assets</u>	<u>Liabilities</u>	<u>Net</u>
	2005	2005	2005
Property, plant and equipment	479	(5,954)	(5,475)
Intangible assets	712	(89)	623
Other investments	11	(104)	(93)
Inventories	972	(171)	801
Interest-bearing loans and borrowings	492	(1,047)	(555)
Employee benefits	723	(28)	695
Provisions	2,186	(51)	2,135
Other items	4,244	(1,225)	3,019
Tax value of loss carry-forwards recognized	2,397	—	2,397
Tax assets/(liabilities)	12,216	(8,669)	3,547
Set off	(2,118)	2,118	0
Net tax assets/(liabilities)	10,098	(6,551)	3,547

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following items.

<i>(In JPY millions)</i>	<u>2005</u>
Deductible temporary differences	6,908
Tax losses	43,824
Total	50,732

As at March 31, 2005, RHJI and its consolidated businesses had tax loss carry forwards in aggregate of approximately JPY 93 billion, which are available to be offset against future taxable income. These tax loss carry forwards, if not utilized, will expire in the years ending March 31:

2006	10,243
2007	4,063
2008	2,951
2009	36,241
2010	8,670
2011 and beyond	30,911
Total	93,079

10. Inventories

<i>(In JPY millions)</i>	<u>2005</u>
Raw materials and consumables	12,487
Work in progress	5,317
Finished goods	15,527
Total	33,331

Inventories are stated net of allowances, which amounted to JPY 1,449 million.

11. Trade and other Receivables

<i>(In JPY millions)</i>	<u>2005</u>
Trade receivables and pre-payments	63,187
Other receivables	3,402
Total	66,589

Trade receivables are shown net of provisions for doubtful accounts which amounted to JPY 951 million.

Certain consolidated businesses have entered into factoring agreements with financial institutions whereby trade receivables are sold. As at March 31, 2005, JPY 6,331 million worth of receivables were sold under these agreements and derecognized accordingly as no financial risk is retained.

12. Cash and Cash Equivalents

<i>(In JPY millions)</i>	2005
Cash at bank and at hand	16,105
Term deposits	102,344
Total	118,449

13. Capital and Reserves

Reconciliation of movement in capital and reserves

Attributable to equity holders of RHJI						
<i>In JPY millions</i>	Share capital	Share premium	Retained earnings	Equity (RHJI share)	Minority interest	Total equity
Total recognized income and expense			(1,025)	(1,025)		(1,025)
Acquired through business combinations					22,086	22,086
Shares issued	107,701	94,352		202,053		202,053
Transaction costs		(10,950)		(10,950)		(10,950)
Balance at March 31, 2005	107,701	83,402	(1,025)	190,078	22,086	212,164

JPY 10,950 million costs incurred in relation to the private placement and the global offerings of RHJI's ordinary shares have been recognized directly in equity and presented as a deduction from the share premium. No deferred tax asset has been recorded.

Share capital and share premium

	Ordinary shares	Issue price per share
	<i>(in shares)</i>	<i>(in €)</i>
Incorporation on June 18, 2004	10,000	10.00
Issue of shares for		
Contribution in kind	35,974,218	18.30
Cash contribution	3,961,289	18.30
Private placement	13,839,880	19.25
Global offering	24,060,160	19.25
Total	77,845,547	

The share capital of RHJI amounted to JPY 107,701 million (€ 778,455,470¹) and is represented by 77,845,547 shares without nominal value. All shares are listed on Euronext Brussels, have the same rights and par accounting value and are fully paid up. Each share entitles the holder to one voting right.

The Board of Directors may increase RHJI's capital on one or more occasions by a maximum of € 740,955,470 (JPY 102,523 million). The Board of Directors is expressly authorized, in the event of a public takeover bid for the securities of RHJI, to increase RHJI's capital, in accordance with Article 607 of the Companies Code. Such authority is granted for a period of three years, commencing on the date of the Extraordinary Shareholders' Meeting held on March 23, 2005. If the Board of Directors decides to increase the capital of RHJI pursuant to its authority under this Article, such increase will be deducted from the remaining part of the authorized capital.

¹ The official share capital amount of the Company, as set forth in its Articles of Association, is expressed in euros.

Based on transparency declarations received by RHJI in accordance with Belgian rules and RHJI's Articles of Association, three shareholders have notified RHJI, their holdings.

Percentages indicated hereunder relate to the voting rights attached to the total number of outstanding shares issued by RHJI.

1. Timothy C. Collins and related entities: 11.19% (includes 3.08% of non-beneficially held shares).

In accordance with Belgian rules, 11.19% represents a combination of shares beneficially held by Mr. Collins directly or through entities associated with Mr. Collins (8.11%) and shares held in entities associated with Mr. Collins over which Mr. Collins is deemed to have voting rights (3.08%) but not beneficial ownership.

Approximately 91% of the shares beneficially held by Mr. Collins is subject to a five-year lock up agreement with RHJI and an 18-month lock-up agreement with the lead managers of RHJI's offering completed in March 2005. Shares owned by the senior management of RHJI and which Mr. Collins is deemed to have voting rights (i.e. 1.91%) are generally subject to identical lock-up arrangements.

2. Mitsubishi Corporation: 6.26%.

3. Lord Rothschild and related entities: 5.20%.

This includes voting rights attached to shares held by the J. Rothschild Group of Companies, which includes RIT Capital Partners plc, and family and charitable trusts associated with Lord Rothschild.

14. Earnings per Share

Basic earnings per share

Basic earnings per share is calculated by dividing the loss attributable to ordinary shareholders of JPY 1,025 million by the weighted average number of ordinary shares outstanding, for the period from June 18, 2004 (date of incorporation) to March 31, 2005. The weighted average number of ordinary shares outstanding was 282,152 shares and reflected the issuance of (1) 10,000 shares on June 18, 2004 and (2) 77,835,547 shares on March 31, 2005 as part of the private placement and global offering. The 10,000 shares were outstanding for the entire 286-day period, and the 77,835,547 shares were outstanding for one day during the 286-day period.

15. Interest-bearing Loans and Borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings. For more information about the Company's exposure to interest rate and foreign currency risk, see note 19.

<i>(In JPY millions)</i>	2005
Non-current liabilities	
Finance lease liabilities	1,960
Bank loans	94,997
Others	8,277
Total	105,234
Current liabilities	
Finance lease liabilities	1,218
Bank loans	25,164
Others	473
Total	26,855

Terms and debt repayment schedule

Bank loans

Bank loans are payable as follows:

<i>(In JPY millions)</i>	2005
Less than one year	25,164
Between one and five years	37,514
More than five years	57,483
Total	120,161

Consolidated indebtedness outstanding consisted of borrowings under (1) senior credit facilities, (2) subordinated credit facilities, (3) term loans from non-bank lenders, (4) other secured and unsecured bank loans and (5) finance leases. At March 31, 2005, JPY 95.7 billion of borrowings were outstanding under senior credit facilities. These facilities generally contain a number of financial covenants, other customary terms and conditions and/or are collateralized by certain assets of the businesses and shares of the companies. The subordinated debt amounted to JPY 17.2 billion at March 31, 2005 and generally has secondary claims over the same collateral as provided for the senior credit facilities, in addition to requiring the consolidated businesses to comply with the same kind of covenants. Term loans from non-bank lenders, including those related to vendor financing, amounted to JPY 8.2 billion at March 31, 2005. Obligations under finance leases amounted to JPY 3.2 billion at March 31, 2005.

HIT is currently working with the lead arrangers of its credit facilities to address a default under such facilities due to the breach of a financial covenant as of June 30, 2005, and alleged breaches of certain other covenants. As of March 31, 2005, borrowings under these facilities amounted to JPY 62.3 billion. While HIT is optimistic that it will be able to successfully avoid declaration of any default by the lenders under the credit facilities, there is no assurance HIT will be successful and, if successful, the timing and terms of any such resolution are uncertain at this time. The breach of the financial covenant may be cured by an infusion of equity by RHJI in an amount which RHJI does not believe would be material to it.

Asahi Tec was in violation of the financial covenants under three of its credit agreements at March 31, 2005. Total outstanding debt under these credit arrangements was JPY 16 billion at March 31, 2005. Waivers were obtained through December 15, 2005 under both the senior and subordinated credit facilities. In connection with obtaining the waivers under the senior credit facility, Asahi Tec agreed to certain additional terms including (1) a new minimum "EBITDA" covenant, (2) the pledge of additional shares of Asahi Tec as security and (3) an increase in the interest rate spread to 3.25% and payment of a waiver fee. Subsequent to March 31, 2005, upon confirmation of covenant non-compliance, Asahi Tec reimbursed a JPY 2 billion term loan from a non-bank lender, which was financed through new bank borrowings.

Phoenix Seagaia Resort has a senior credit facility of JPY 11.6 billion, all of which was outstanding as of March 31, 2005. Phoenix Seagaia Resort was in violation of the financial covenant relating to the minimum "EBITDA" as of September 30, 2004. A waiver and amendment to the credit agreement was agreed with the lenders in February 2005 and included, among other things, (1) eliminating the requirement to maintain minimum "EBITDA" for each of the one-year periods ending September 30, 2004, March 31, 2005 and September 30, 2005, (2) reducing the minimum "EBITDA" requirement for the one-year periods ending March 31, 2006, September 30, 2006 and (3) adding minimum "EBITDA" requirements for each of the one-year periods ending March 31, 2007, September 30, 2007, March 31, 2008 and September 30, 2008. The amendment also required that net proceeds from the sale of the Kitago and Kogen be used as prepayment of the loan balance. As of March 31, 2005, RHJI had guaranteed the payment of principal and interest totaling JPY 4.6 billion of Phoenix Seagaia Resort's indebtedness under this facility.

Finance lease liabilities

Finance leases are payable as follows:

<i>(In JPY millions)</i>	2005		
	Minimum lease payments	Interest	Principal
Less than one year	1,244	26	1,218
Between one and five years	1,884	46	1,838
More than five years	126	4	122
Total	3,254	76	3,178

Under the terms of the lease agreements, no contingent rents are payable.

Various credit facilities are secured by asset collateral. The carrying value as at March 31, 2005 of collateralized assets is as follows.

<i>(In JPY millions)</i>	Niles	D&M	CME	HIT	Asahi	Phoenix
Current assets	7,772	2,296	3,270	26,859	9,496	301
Non-current assets	13,245	3,421	5,305	42,004	18,058	12,392
Total	21,017	5,717	8,575	68,864	27,554	12,693

The outstanding borrowings for which these assets have been collateralized are as follows.

<i>(In JPY millions)</i>	Niles	D&M	CME	HIT	Asahi	Phoenix
	17,682	7,500	2,300	64,287	14,028	11,600

RHJI has pledged certain of its shares in certain businesses as collateral for these businesses' respective senior credit facilities.

The following shareholdings (presented as a percentage of RHJI's ownership) were pledged as at March 31, 2005:

Asahi Tec Corporation: 50%
 Phoenix Resort KK: 100%
 Shaklee Global Group, Inc.: 66%
 Honsel International Technologies SA: 100%

16. Employee Benefits

The consolidated businesses have various plans for providing benefits to retired employees, including defined benefit and defined contribution pension and retirement plans.

<i>(In JPY millions)</i>	2005
Present value of unfunded obligations	19,318
Present value of funded obligations	24,072
Fair value of plan assets	(14,079)
Present value of net obligations	29,311
Unrecognized actuarial gains and losses	(1,163)
Recognized liability for defined benefit obligations	28,148
Liability for long-service leave	0
Cash-settled transactions liability	0
Total employee benefits	28,148

Liability for defined benefit obligations

Principal actuarial assumptions at the balance sheet date.

	2005
Discount rate at March 31, 2005	Between 1.8% and 4.8%
Expected return on plan assets at March 31, 2005	Between 3.0% and 4.5%
Future salary increases	Between 2.0% and 3.9%

Share-based payments

Certain consolidated businesses have adopted stock option plans that provide options to directors and employees to purchase common stock of their respective companies. For the consolidated businesses that have a quoted stock price at March 31, 2005, the potential dilutive effect on RHJI's ownership interest resulting from the future exercise of all vested in-the-money options outstanding as at March 31, 2005, is as follows;

D&M: 1.40%

CME: 1.60%

At March 31, 2005, a significant shareholder distributed a total of 1,599,600 shares of RHJI's ordinary shares to certain members of the Company's management team and other employees. Certain of these shares were granted, subject to a five-year lockup and vesting provisions. Certain shares were sold at fair market value, partially financed by the shareholder and subject to a five-year lockup.

As of April 1, 2005, the Company will apply IFRS 2 for the first time. IFRS 2 will require the Company to reflect in its profit or loss and financial position the effects of these share-based payment transactions. The provisions of IFRS 2 apply to equity-settled share-based payment transactions, in which the Company receives services as consideration for its equity instruments, including shares and share options, either transferred by the Company or its shareholders.

17. Provisions

<i>(In JPY millions)</i>	2005
Warranties	2,199
Onerous contracts	1,087
Other	293
Total	3,579

<i>(In JPY millions)</i>	2005
Non-current	87
Current	3,492
Total	3,579

Warranties

The warranty reserve is stated based on past product warranty expenses incurred.

18. Trade and Other Payables

<i>(In JPY millions)</i>	<u>2005</u>
Trade payables	
Suppliers	52,984
Advances received	1,739
Other payables	
Taxes	2
Remuneration, social security and pension	9,547
Acquisition of tangible fixed assets	2,582
Allowance for sales return	657
Accrued expenses	3,792
Other	9,153
Total	80,456
Non-current	2,268
Current	78,188
Total	80,456

19. Financial Instruments

Exposure to credit, commodity, interest rate and foreign currency risks arises in the normal course of the Company's business. Derivative financial instruments can be used to hedge exposure to fluctuations in foreign exchange rates, commodity prices and interest rates.

Credit risk

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented on the balance sheets are the amounts, net of allowances for doubtful accounts, estimated by the management of the respective consolidated businesses based on the prior credit loss experience and the current economic environment. The Company's five largest customers account for approximately 12% of trade accounts receivables as at March 31, 2005.

The credit risk on derivative financial instruments is limited because the counterparties to the derivatives are major international financial institutions with high credit ratings assigned by international credit rating agencies.

Commodity risk

Certain consolidated businesses, primarily HIT, procure raw materials, most significantly aluminum, through a combination of contract commitments and spot market purchases. HIT is exposed to commodity risk, which is moderated through the use of customer contracts that typically provide for sales price adjustments related to changes in the cost of light metal alloys. The selling prices are however only adjusted periodically and as a result, HIT is exposed to changes in aluminum prices within the contracts' price indexation periods. Accordingly, HIT hedges a significant portion of its aluminum purchases by entering into forward purchase and sales contracts on the London Metal Exchange. As at March 31, 2005, HIT had forward purchase and sales contracts for notional amounts of JPY 3,336 million and JPY 499 million, respectively. The fair value of these contracts, designated as cash flow hedges for which hedge accounting is applied, amounted to JPY 3,540 million and JPY 479 million, respectively.

Interest rate risk

The Company is exposed to changes in interest rates primarily as a result of the borrowing activities of its consolidated businesses, which include borrowings used to maintain liquidity and to fund business operations and acquisitions. These borrowings consist primarily of floating rate debt. The Company intends to maintain a balanced mix of fixed and floating rate borrowings, and accordingly has entered into derivative transactions to manage the exposure associated with the floating rate borrowings. As of March 31, 2005, approximately 40% of the outstanding consolidated debt balance has been effectively hedged against changes in interest rates. All the derivative transactions, JPY 43 billion in aggregate, are accounted for as cash flow hedges.

Effective interest rates and maturity schedule

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

<i>(In JPY millions)</i>	Effective interest rate	Total	1 year or less	1 to 2 years	2 to 5 years	More than 5 years
Debt securities held-to-maturity		15			15	
Cash and cash equivalents	Between 0.1% and 3.0%	118,449	118,449			
Secured bank loans:						
Fixed rate loan	Between 1.4% and 3.0%	(3,933)			(3,933)	
JPY denominated floating rate notes	Between 1.6% and 4.0%	(50,231)	(50,231)			
<i>Impact of hedging</i>	0.9%		(13,600)	1,396	4,094	8,110
Euro denominated floating rate notes	6.7%	(63,124)	(63,124)			
<i>Impact of hedging</i>			(29,747)	7,609	22,138	
USD denominated floating rate notes	Between 3.8% and 9%	(2,628)	(2,628)			
Finance lease liabilities	Between 1.2% and 4.0%	(3,178)	(1,218)	(765)	(1,051)	(144)
Unsecured facility (JPY denominated)	Between 1.6% and 3.0%	(5,800)	(3,800)		(2,000)	
Unsecured facility (USD denominated)	Between 3.8% and 4.6%	(1,987)	(1,987)			
Bank overdrafts	Between 1.9% and 4.0%	(1,205)	(1,205)			

Foreign currency risk

The Company is exposed to market risk from changes in currency exchanges that could impact the results of operations and the financial position. The Company is exposed to both translation as well as transaction risk. The translation risk is the risk that the consolidated financial statements are affected by changes in the prevailing exchange rates of the various currencies of the businesses or their subsidiaries relative to the Japanese Yen. Transaction risk is the risk that the currency structure of the costs and liabilities deviates to some extent from the currency structure of the sales proceeds and assets.

The functional currency of the five consolidated businesses headquartered in Japan is the Japanese Yen. The Euro is the functional currency for HIT. Companies that transact a material amount of business and have material assets and liabilities in currencies other than their functional currency include D&M (US Dollar and Euro), HIT (US and Canadian Dollars) and Niles (US Dollar). These companies manage their exposures through normal operating and financing activities and, when appropriate, use forward foreign exchange contracts. Derivative financial instruments are not used for speculative purposes, and are accounted for as cash flow hedges and fair value hedges in the amount of JPY 3,520 million and JPY 474 million, respectively.

Fair values

The fair values together with the carrying amounts shown in the balance sheet are as follows:

<i>(In JPY millions)</i>	Carrying amount 2005	Fair value 2005
Equity securities available-for-sale	1,719	1,719
Debt securities held-to-maturity	15	15
Trade and other receivables	66,589	66,589
Cash and cash equivalents	118,449	118,449
Interest rate swaps:		
Assets		
Liabilities	(248)	(248)
Forward exchange contracts:		
Assets		
Liabilities	(69)	(69)
Secured bank loans	(119,916)	(119,645)
Finance lease liabilities	(3,178)	(3,171)
Unsecured bank facilities	(7,787)	(7,905)
Trade and other payables	(79,702)	(79,702)
Bank overdraft	(1,205)	(1,205)
	(25,333)	(25,173)
Unrecognized (losses)/gains		160

Estimation of fair values

The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

Fair value of available-for-sale securities is primarily obtained from quoted market prices. The carrying amount of both trade accounts receivable and payable approximates fair value due to their short-term nature. The fair value of long-term interest bearing loans and borrowings is estimated based on the discounted amount of the future cash flows. The fair value of finance lease liabilities is estimated based on the discounted cash flows using the current borrowing rates for similar liabilities. The fair value of foreign currency interest rate swaps is based on quoted prices or appropriate valuation methods.

20. Operating Leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows.

<i>(In JPY millions)</i>	2005
Less than one year	799
Between one and five years	1,507
More than five years	78
Total	2,384

The operating leases are mainly long-term rental contracts of cars and equipment.

Under the terms of the lease agreements, no contingent rents are payable.

Leases as lessor

Future minimum lease payments for property leased out under operating leases, is as follows:

<i>(In JPY millions)</i>	2005
Less than one year	71
Between one and five years	283
More than five years	171
Total	525

21. Capital Commitments

As at March 31, 2005, the Company had no material capital commitments.

22. Contingencies

As at March 31, 2005 the Company had no material contingencies.

23. Related Parties

Identity of related parties

The Company has related party relationships with its consolidated businesses and business accounted for under the equity method (see note 24), with its Directors and Senior Management, and with Ripplewood Holdings LLC and affiliates.

Transactions with Senior Management

Compensation to Senior Management is as follows:

<i>(In JPY millions)</i>	2005
Short-term employee benefits	617
	617

Total remuneration is included in "Personnel Expenses" (see note 4).

Non-executive Directors did not receive any benefits for the period ended March 31, 2005.

Other related party transactions

As at March 31, 2005, net payables of JPY 330 million and JPY 22 million to Ripplewood Holdings LLC and RHJ Industrial Partners were outstanding as a result of advances to RHJI and funding of operating costs of RHJ International Japan, Inc.

24. List of Consolidated Businesses and Businesses accounted for under the Equity Method

Fully consolidated subsidiaries

	Country of incorporation	Ownership interest direct	Ownership interest indirect
Niles Co., Ltd.	Japan	96.2%	
Jonan Industrial Co., Ltd.	Japan		96.2%
Ami Co., Ltd.	Japan		96.2%
Akita Niles Co., Ltd.	Japan		96.2%
Niles Logistics Co., Ltd.	Japan		96.2%
Nitto Manufacturing Co., Ltd.	Japan		93.1%
Niles Production Service Co., Ltd.	Japan		96.2%
Niles Americas Corporation	USA		96.2%
Wintech, Inc.	USA		96.2%
Niles U.S.A., Inc.	USA		96.2%
Micro Craft, Inc.	USA		96.2%
Niles (Thailand) Co., Ltd.	Thailand		96.2%
Fuzhou Niles Electric Co., Ltd.	China		49.1%
Niles CTE Electronic Co., Ltd.	Taiwan		19.2%
Niles Europe, SAS	France		96.2%
Phoenix Resort KK	Japan	100.0%	
Kogen Country Club KK	Japan		100.0%
Columbia Music Entertainment Inc. ⁽¹⁾	Japan	25.5%	
Columbia Digital Media, Inc.	Japan		25.5%
Columbia Songs, Inc.	Japan		25.5%
C2 Design Inc.	Japan		25.5%
CME, Inc.	USA		25.5%
Denon Digital, LLC	USA		25.5%
SLG, LLC	USA		25.5%
Jazz Masters Holdings, LLC	USA		25.5%
MD Digital Manufacturing, LLC	USA		10.20%
Honsel International Technologies SA	Belgium	57.9%	
Honsel Holdings Germany GmbH	Germany		57.9%
Honsel Management GmbH	Germany		57.9%
Honsel Leichtmetall GmbH	Germany		57.21%
Honsel Beteiligungsverwaltungs GmbH	Germany		57.21%
Honsel GmbH & Co. KG	Germany		57.21%
Amcan Consolidated Technology Corp.	Canada		57.9%
Flamborough Tool & Mould Ltd.	Canada		57.9%
Grenville Castings Limited	Canada		57.9%
Norcast Castings Company Limited	Canada		57.9%
Honsel Services US Inc.	USA		57.9%
Fonderie Lorraine SAS	France		57.21%
Fonderie Messier SAS	France		57.21%
Magal Indústria e Comercio Ltda.	Brazil		37.18%
D&M Holdings Inc.	Japan	51.7%	
Denon Ltd.	Japan		51.7%
Marantz Japan Inc.	Japan		51.7%
D&M Manufacturing Inc.	Japan		51.7%
Denon Labs Co.	Japan		51.7%
Denon Electronics LLC	USA		51.7%
Denon Canada Inc.	Canada		51.7%
Denon Electronic GmbH	Germany		51.7%
Denon France SAS	France		51.7%
Denon UK Ltd.	UK		51.7%
Denon Asia Company Ltd.	Hong Kong		51.7%
Denon Electronics Singapore Pte Ltd.	Singapore		51.7%
Denon Shenzhen Company Ltd.	China		51.7%
D&M Digital Audio Trading (Shanghai) Ltd.	China		51.7%

	Country of incorporation	Ownership interest direct	Ownership interest indirect
CTN Inc.	Japan		51.7%
Marantz Europe BV	Netherlands		51.7%
Marantz UK Ltd.	UK		51.7%
Marantz France SAS	France		51.7%
Marantz GmbH	Germany		51.7%
Marantz Italy SRL	Italy		26.37%
Marantz Shanghai Trading Ltd.	China		26.37%
D&M Holdings US Inc.	USA		51.7%
Marantz America Inc.	USA		51.7%
Marantz Canada Inc.	Canada		51.7%
McIntosh Laboratory Inc.	USA		51.7%
Digital Networks North America Inc.	USA		51.7%
Marantz HK Ltd.	Hong Kong		51.7%
MK Enterprise Ltd.	Korea		25.33%
D&M (Zhong Shan) Co., Ltd.	China		51.7%
Asahi Tec Corporation	Japan	58.4%	
Hoei Industries Co., Ltd.	Japan		30.18%
Asahi Tec Aluminum (Thailand) Co., Ltd.	Thailand		57.83%
Asahi Tec Metals (Thailand) Co., Ltd.	Thailand		58.01%
Asahi Tec Touhoku Sales Co., Ltd.	Japan		58.40%
Asahi Services Co., Ltd.	Japan		58.40%
Asahi Tec Service Co., Ltd.	Japan		58.40%
Asahi Somboon Shippo Moulds Co., Ltd.	Thailand		28.52%
Dicastal Asahi Aluminum Co., Ltd.	China		14.60%
RHJ International Japan Inc.	Japan	100.0%	
RHJ US Management Inc.	United States	100.0%	

(1) In addition to the direct ownership of 25.5% of CME, RHJI controls the voting of another 24.1% of outstanding shares. CME is fully consolidated on the basis of established power to control.

Businesses accounted for under the equity method

RHJ Shaklee Holding S.A.	Belgium	100.0%	
Shaklee Global Group Inc.	Japan		40.7%

25. Subsequent Events

RHJI

RHJI announced on May 19, 2005, that it was a part of an investor group led by Ripplewood Holdings LLC (the “investor group”) that had entered into an agreement to acquire Maytag Corporation for USD 14 per share in cash. Subsequent to the adoption of this Directors’ Report, on August 22, 2005, RHJI announced that such acquisition agreement had been terminated and that Maytag had on such date paid to the investor group’s acquisition vehicle a termination fee of USD 40 million (€ 33 million). The termination fee, net of expenses, will be paid to the investors pro-rata based on the amount of their commitments.

Material events that have occurred subsequent to the balance sheet date and up to August 11, 2005, and that relate to RHJI’s consolidated businesses are set forth below.

D&M

On June 9, 2005, D&M announced the proposed acquisition of Boston Acoustics, a manufacturer of high-performance audio systems in the United States. The acquisition will provide D&M with a premium speaker line and the ability to deliver a complete home entertainment solution. D&M also will gain a strong presence in the automotive OEM business. Boston Acoustics reported revenue of USD 52.6 million in its fiscal year ended March 27, 2004. The transaction is expected to close by late August 2005.

On July 26, 2005, D&M announced that it had signed an agreement to sell certain intellectual property and other technology assets of the Rio business to SigmaTel, a supplier of integrated circuits for the portable digital audio player market. D&M is currently examining additional strategic options for Rio, the financial impact of which has not been determined.

CME

On July 15, 2005, CME announced the sales of the DVD/CD pressing activity in Japan and the property on which the DVD/CD pressing business was located. Total gross proceeds amounted to JPY 6 billion, of which JPY 4.4 billion has been used to reduce debt.

HIT

On June 22, 2005, HIT announced the successful initial public offering of Norcast, a non-core business in the mining industry in Canada. Net proceeds of JPY 6.2 billion have been used mainly to reduce debt.

HIT is currently working with the lead arrangers of its credit facilities to address a default under such facilities due to the breach of a financial covenant as of June 30, 2005, and alleged breaches of certain other covenants. While HIT is optimistic that it will be able to successfully avoid declaration of any default by the lenders under the credit facilities, there is no assurance HIT will be successful and, if successful, the timing and terms of any such resolution are uncertain at this time. The breach of the financial covenant may be cured by an infusion of equity by RHJI in an amount which RHJI does not believe would be material to it.

Auditor's Report

Independent Auditor's report

To the shareholders of RHJ International S.A.

We have audited the consolidated balance sheet of RHJ International S.A. and its subsidiaries ("the Company") as of March 31, 2005, and the related consolidated statements of income, changes in equity and cash flows for the period then ended, with a balance sheet total of ¥ 468,586 million and a loss for the period of ¥ 1,025 million. These consolidated financial statements have been prepared under the responsibility of the Board of Directors of the Company. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of a number of consolidated subsidiaries and of an investment accounted for under the equity method have been audited by other auditors. The financial statements of these subsidiaries excluding their attached goodwill reflect total assets constituting 29% of the related consolidated total. The reports of these other auditors were furnished to us, and our opinion is based on their reports. In addition we have reviewed the Board of Directors' report.

Unqualified audit opinion on the consolidated financial statements

We conducted our audit in accordance with International Standards on Auditing (ISA) as issued by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the consolidated financial statements referred to above present fairly the financial position of the Company as of March 31, 2005 and of the consolidated results of its operations and its cash flows for the period then ended, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Additional assertion and information

The following additional assertion and information is provided in order to complete the audit report but does not alter our audit opinion on the consolidated financial statements.

- The consolidated Board of Directors' report contains the information required by law and is in accordance with the consolidated financial statements.
- Supplementary information included in Note 3b to the consolidated financial statements has been presented for purposes of additional analysis but is not a required part of the consolidated financial statements. Such information is unaudited and we do not express any opinion.

Klynveld Peat Marwick Goerdeler Bedrijfsrevisoren—Réviseurs d'Entreprises
Statutory Auditor
represented by

Benoit Van Roost

Brussels, August 11, 2005

Condensed Non-Consolidated Financial Statements for the Fiscal Year Ended March 31, 2005

In accordance with Article 105 of the Belgian Companies Code, the non-consolidated accounts are presented below in a condensed version. The full version of the non-consolidated annual accounts, along with the related Directors' Report and the Joint Statutory Auditors' Report, as they will be presented at the Annual Shareholders' Meeting, are available on request from RHJI's registered office and on its website (www.rhji.com). The Joint Statutory Auditors have expressed an unqualified opinion on these annual accounts.

As at March 31, 2005

(In JPY millions and in accordance with Belgian Accounting Principles)

Condensed Non-Consolidated Balance Sheet

	<u>2005</u>
ASSETS	
Fixed assets	
Tangible fixed assets	2
Financial fixed assets	90,762
	<u>90,764</u>
Current assets	
Short-term investments	102,345
Cash and cash equivalents	1,851
Other current assets	63
	<u>104,259</u>
Total assets	<u><u>195,023</u></u>
LIABILITIES	
Capital and reserves	
Issued capital	107,701
Share premium	94,352
Retained earnings	(11,968)
	<u>190,085</u>
Creditors	
Trade and other payables	4,824
Other current liabilities	114
	<u>4,938</u>
Total liabilities	<u><u>195,023</u></u>

Condensed Non-Consolidated Income Statement

	<u>2005</u>
Operating expenses	
Services and other goods	(10,890)
Depreciation	(1)
Other operating expenses	(1,073)
	<u>(11,964)</u>
Operating loss	<u>(11,964)</u>
Financial income	5
Financial expenses	(9)
	<u>(11,968)</u>
Loss before tax	<u>(11,968)</u>
Income tax expense	0
Loss for the period	<u><u>(11,968)</u></u>

Corporate Governance

The Belgian Corporate Governance Committee published on December 9, 2004 a Code on Corporate Governance, which is a code of best practice applying to listed companies on a non-binding basis. Many of the provisions of this Code are already reflected RHJI's corporate governance structure. In accordance with the Code, RHJI is preparing a Corporate Governance Charter, which will be published on RHJI's website at www.rhji.com by January 1, 2006.

This section summarizes the corporate governance structure under which RHJI operates.

Board of Directors

Powers and Responsibilities

In accordance with the Belgian Companies Code, RHJI is administered by a Board of Directors with full powers and authority to undertake any action, except where specific powers are reserved to the Shareholders' Meeting, either by law or pursuant to RHJI's Articles of Association. Among others, the Board of Directors reviews and approves the annual and six-month financial statements and presents to the Annual Shareholders' Meeting an evaluation of RHJI's financial situation. The Board of Directors appoints the Chief Executive Officer and members of the Board Committees. Taking into consideration the Chief Executive Officer's recommendations, the Board of Directors also decides, among others, on the structure of RHJI, major or long-term transactions, the budget and investment plans. The Board of Directors may assign a special mandate to one or more directors, but all other Board decisions must be taken by the Board of Directors as a whole. The Board has delegated the daily management of RHJI to the Chief Executive Officer, Mr. Collins (see section "Chief Executive Officer" hereunder).

Functioning

The Board of Directors is a collegial body. It can only deliberate if a majority of its members are present or represented (except in the case of force majeure, in which case the quorum is three directors present or represented).

The Board of Directors meets as regularly and as frequently as required by RHJI's interests.

In accordance with the Belgian Companies Code (Article 523), any director with a conflicting interest must bring this to the notice of both the Statutory Auditors (see "Statutory Auditors" below) and his fellow directors and may take no part in related deliberations.

During the financial year ended March 31, 2005, the Board of Directors held three meetings. Major issues on the agenda of the Board of Directors during the financial year were: global offering and private placement of ordinary shares of RHJI, contribution in kind to the capital of RHJI of seven businesses, authorized capital, codes and policies, appointment of Mr. Collins as Chief Executive Officer, outside activities of Mr. Collins and lock-up agreements. The conflicting interest procedure provided by Article 523 of the Belgian Companies Code was applied three times (please refer to the directors' report relating to RHJ International SA, which is published separately to this Annual Report and is available on RHJI's website at www.rhji.com). The average attendance rate at Board meetings in 2005 was 100%.

Composition

Board members are appointed by the shareholders at the Shareholders' Meeting upon proposal by the Board of Directors. RHJI's Articles of Association provide that the Board of Directors must count between seven and twelve directors. RHJI's Articles of Association provide also that as long as Mr. Collins, together with his affiliates, owns, directly or indirectly, at least 5% of RHJI's outstanding shares, he will have the right to present a pool of two candidates, from which the Shareholders' Meeting must select one, but may select both, for election to the Board of Directors. The Nomination and Remuneration Committee (see "Nomination and Remuneration Committee") nominates the other candidates for election to the Board of Directors.

The following table sets forth the current members of the Board of Directors. Each director will serve for a three-year term ending on the date of the Annual Shareholders' Meeting which will approve the statutory accounts relating to the financial year closing on March 2008. Directors may be re-appointed. Biographies of each director may be consulted on RHJI's website at www.rhji.com.

<u>Name</u>	<u>Age</u>	<u>Position</u>
D. Ronald Daniel ⁽¹⁾	75	Chairman of the Board of Directors
Timothy C. Collins	48	Chief Executive Officer
Jeffrey M. Hendren	46	Managing Director, RHJ US Management, Inc.
Victor Halberstadt ⁽¹⁾⁽²⁾	66	Director
Björn König ⁽¹⁾⁽²⁾	43	Director
Jun Makihara ⁽¹⁾⁽²⁾	47	Director
Lord Jacob Rothschild ⁽¹⁾⁽²⁾	69	Director
Jeremy W. Sillem ⁽¹⁾⁽²⁾	55	Director

⁽¹⁾ Appointed with effect as from April 1, 2005, i.e. after the end of the fiscal year ended March 31, 2005.
⁽²⁾ Independent director within the meaning of Article 524, paragraph. 4 of the Belgian Companies Code.

Compensation

All RHJI's non-executive directors other than the Chairman of the Board of Directors are paid a retainer of € 200,000 for the first year of service and € 100,000 for each year thereafter. The Chairman is paid an annual retainer of € 250,000. In addition, the Chairman of the Audit and Compliance Committee is paid an annual retainer of € 60,000, and members of that Committee are paid an annual retainer of € 40,000. The Chairman of the Nomination and Remuneration committee is paid an annual retainer of € 40,000, and members of that Committee are paid an annual retainer of € 25,000. Directors do not receive separate Board or Committee meeting fees. A director who is a member of RHJI's senior management does not receive additional compensation for his services as a director.

Board Committees

The RHJI Board of Directors has created the following Board committees: the Audit and Compliance Committee and the Nomination and Remuneration Committee. The Board of Directors has adopted formal charters for such committees. Amendments to key principles with respect to the composition and core tasks of such committees, as set out in their respective charters, may be made by the Board of Directors.

Audit and Compliance Committee

The Audit and Compliance Committee must consist of at least three non-executive directors, all of whom must be independent and none of which may be the Chairman of the Board of Directors. Directors may be appointed to the Audit and Compliance Committee for terms of up to three years and may be re-appointed.

The Audit and Compliance Committee's role is to assist and advise the Board of Directors regarding (i) the quality and integrity of RHJI's financial statements, (ii) the relationship with RHJI's statutory auditors, (iii) the internal audit function, (iv) the risk management, (v) the compliance with legal and regulatory requirements, (vi) the compliance with internal codes of conduct and other policies and (vii) potential conflicts of interests of the Chief Executive Officer (see section "Chief Executive Officer").

The Audit and Compliance Committee currently consists of Messrs. Sillem, König and Makihara.

The Audit and Compliance Committee did not hold any meeting during the fiscal year closed on March 31, 2005, as it was created after the completion of the global offering and listing of RHJI's ordinary shares in March 2005.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee must consist of at least three non-executive directors, a majority of whom must be independent within the meaning of the Belgian Code on Corporate Governance. Directors may be appointed to the Nomination and Remuneration Committee for terms of up to three years and may be re-appointed.

The Nomination and Remuneration Committee's role is to assist and advise the Board of Directors regarding essentially (i) the composition of, and appointment to, the Board of Directors, (ii) the composition of, and appointment to, the committees of the Board of Directors, (iii) the remuneration policy, evaluation and strategy for directors and personnel.

The Nomination and Remuneration Committee currently consists of Messrs. Daniel, Halberstadt and Rothschild.

The Nomination and Remuneration Committee did not hold any meeting during the financial year closed on March 31, 2005, as it was created after the completion of RHJI's global offering and listing in March 2005.

Chief Executive Officer

RHJI's Chief Executive Officer is Mr. Collins. The biography of Mr. Collins may be consulted on RHJI's website at www.rhji.com.

Delegation of Authority

The Board of Directors has delegated to Mr. Collins the powers typically exercised by a chief executive officer, which consists of general executive authority over RHJI's affairs arising in the ordinary course of business. The Board's delegation of authority expressly provides that Mr. Collins has authority to cause RHJI to make any acquisition in which the purchase price payable by RHJI, together with any other commitment made by RHJI, does not exceed € 100 million and any disposal in which the sale price, together with any other form of payment, does not exceed € 100 million. The authority delegated to Mr. Collins is intended to be within the limits of the daily management of RHJI's business within the meaning of the Belgian Companies Code. At any time the Board of Directors will have the power to withdraw or modify the authority it has delegated or terminate the agreement with Mr. Collins with or without cause, as defined below.

Compensation

During the term of the agreement, Mr. Collins will receive annual compensation of € 100,000 and will not be entitled to participate in any bonus or equity compensation plan. Mr. Collins will not be eligible to participate in executive benefit plans and programs established by RHJI.

Time Commitment

Under the terms of RHJI's agreement with Mr. Collins, he is not obligated to spend a majority of his aggregate business time and attention on RHJI, but is only required to spend as much of his aggregate business time and attention as is required to fulfil his functions as the Chief Executive Officer of RHJI. Mr. Collins continues to be obligated under the terms of the partnership agreement for Ripplewood Fund II to be substantially involved in the management of Ripplewood Fund II. Mr. Collins also has ongoing responsibilities with respect to Ripplewood Fund I. In addition, in the future he also may create funds or other investment entities that could require a substantial portion of his business time and attention.

Term and Termination

Mr. Collins was appointed in March 2005 and the initial term of RHJI's agreement with Mr. Collins is five years. At the end of the initial term the agreement will automatically renew for successive one-year terms unless earlier terminated by either party.

Mr. Collins' agreement may be terminated by the Board of Directors at any time, with or without cause. No severance will be paid to Mr. Collins upon termination except as may be required by law. Upon termination of the agreement, Mr. Collins will receive payment for any accrued compensation and unreimbursed expenses. In addition, Mr. Collins will resign from the Board of Directors and any committee thereof, and any Board of Directors (and committee thereof) of any companies owned directly or indirectly by RHJI. In the event Mr. Collins is subject to the so-called "golden parachute" excise tax under Section 4999 of the U.S. Internal Revenue Code upon any termination, RHJI will pay him an additional amount to place him in the same after-tax position that he would have been in had no excise tax been imposed.

New Opportunities

Mr. Collins has agreed that he will use reasonable efforts to provide additional acquisition opportunities to RHJI that are consistent with RHJI's strategy, although Mr. Collins will not have any obligation to allocate any particular opportunity to RHJI.

RHJI's Board of Directors has adopted a resolution waiving the specific provisions of RHJI's Code of Business Conduct and Ethics (see "Code of Business Conduct and Ethics Code") that would apply to the outside activities of Mr. Collins, as a member of the Board of Directors and as RHJI's Chief Executive Officer. The resolution is valid for a period ending on the first anniversary date of such resolution.

On an annual basis, the Board of Directors will determine whether to renew the above waiver, after a thorough review of Mr. Collins' activities outside RHJI. Any resolution renewing the waiver shall only be validly adopted if it has been approved by at least three-quarters of RHJI's independent directors present or represented at the relevant meeting of the Board of Directors.

Non-competition

Mr. Collins has agreed that, for a period of two years after the date of completion of RHJI's global offering in March 2005, he will not participate, directly or indirectly, in any acquisitions of interests in Japanese companies except through RHJI. The foregoing restriction will not apply to acquisitions made by the portfolio companies of any private equity funds or of other entities in which Mr. Collins has an interest or manages.

Restrictions on Certain of RHJI's Business Strategies

Because of restrictions imposed on Mr. Collins and his affiliates under the partnership agreement for Ripplewood Fund II, RHJI has agreed that for so long as Mr. Collins is an affiliate of RHJI and such restrictions are in effect with respect to Ripplewood Fund II, RHJI's primary acquisition objectives in executing the component of RHJI's growth strategy focused on acquisitions will not be substantially similar to the investment objectives of Ripplewood Fund II. The investment objectives of Ripplewood Fund II are to seek long-term capital appreciation by acquiring, holding and disposing of securities of a portfolio of companies which are located primarily in the United States or Canada. In addition, Ripplewood Fund II is prohibited from investing more than 35% of its total capital commitments in companies organized and headquartered outside the United States and Canada. Accordingly, RHJI's Board of Directors has resolved that until December 31, 2007, (1) in executing the component of RHJI's strategy focused on acquisitions, RHJI's primary acquisition objective will be to acquire a portfolio of companies which are not primarily located in the United States or Canada and (2) RHJI will not acquire assets if, after giving effect to such acquisition, more than 35% of the total assets of RHJI's portfolio of companies would be comprised of companies which are organized and headquartered inside the United States and Canada. The foregoing policy, however, does not prohibit any acquisitions of assets by RHJI's subsidiaries in furtherance of their respective businesses. Notwithstanding the difference in the objectives of the acquisition component of RHJI's strategy from Ripplewood Fund II's investment objectives, RHJI's acquisition strategy may from time to time overlap with Ripplewood Fund II's investment objectives.

Senior Management

Composition

The following table sets forth information as to the individuals who, in addition to RHJI's Chief Executive Officer, comprise RHJI's senior management. Biographies for such individuals may be consulted in the listing prospectus dated March 23, 2005 that was prepared in connection with the listing of RHJI's ordinary shares on Euronext Brussels (as such listing was completed in March 2005).

<u>Name</u>	<u>Age</u>	<u>Position</u>
Jack K. Liu	55	Chief Financial Officer, RHJ International
Robert Ewers	49	General Counsel, RHJ International
Jeffrey M. Hendren	46	Managing Director, RHJ US Management, Inc.
Yoshiyuki Honda	49	Chief Financial Officer, RHJ International Japan, Inc.
Frank Baker	32	Managing Director, RHJ US Management, Inc.
Shinsuke Kataoka	45	Managing Director, RHJ International Japan, Inc.
Hiroshi Nonomiya	55	Managing Director, RHJ International Japan, Inc.
Yukiko Okumura	45	Managing Director, RHJ International Japan, Inc. and as of April 2005, Chief Financial Officer of Phoenix Seagaia Resort
Kenji Ueda	53	Managing Director, RHJ International Japan, Inc.
Yuji Sugimoto	36	Managing Director, RHJ International Japan, Inc.

Compensation

The terms of RHJI's agreements with the members of its senior management, other than Mr. Collins, provide for an estimated aggregate compensation, including benefits, of approximately € 6.7 million for services in all capacities for the fiscal year ending March 31, 2006. Bonuses will be based on performance and will be paid at the discretion of the Board of Directors. All of the members of RHJI's senior management, other than Mr. Collins, will receive executive-level benefits commensurate with their respective positions.

Term and Termination

The term of RHJI's agreement with Mr. Hendren is for five years, with Mr. Liu is for one year and with Mr. Ewers is for five years. The term of RHJI's agreements with its Tokyo-based senior management generally is for three years, with two one-year renewal options, in each case from March 31, 2005.

These agreements may be terminated at any time by RHJI. Except for RHJI's Tokyo-based senior management and as may be required by law, generally no severance will be paid to members of RHJI's senior management upon termination. RHJI will pay severance to its Tokyo-based senior management who are Japanese if they are terminated without cause. The amount of the severance generally will be the lesser of (1) one month's base salary per year of service and (2) one year's base salary. Payment of any severance will be conditioned on the receipt by RHJ International Japan, Inc. of an effective waiver and general release of claims in favor of RHJ International Japan, Inc. and its subsidiaries and affiliates, including RHJI.

Stock Option Plan

RHJI does not plan to implement a stock option plan for at least two years. The adoption of any stock option plan will be subject to approval by RHJI's Board of Directors.

RHJI Shares held by certain of RHJI's Directors and Senior Management

- The Chairman of the Board of Directors holds, indirectly, approximately 223,262 of RHJI's total outstanding ordinary shares;
- Lord Jacob Rothschild (including certain entities affiliated with him) holds approximately 5.20% of RHJI's total outstanding ordinary shares;
- RHJI's Chief Executive Officer (including certain entities affiliated with him) beneficially holds approximately 8.11% of RHJI's total outstanding ordinary shares;

- members of RHJI's senior management other than Mr. Collins hold, directly or indirectly, approximately 1.91% of RHJI's total outstanding ordinary shares.
- RHJI's directors, Chief Executive Officer and other members of senior management as a whole held approximately 15.5% of RHJI's total outstanding ordinary shares.

Most of these shares are subject to certain lock-up arrangements with RHJI's and/or with the financial institution's managers of its offering completed in March 2005, and such arrangements were described in the listing prospectus dated March 23, 2005 that had been prepared in connection with the initial listing of RHJI's ordinary shares on Euronext Brussels (as such listing was completed in March 2005).

Statutory Auditors

Under Belgian law, statutory auditors are appointed by a resolution adopted by a simple majority vote at a shareholders' meeting. Statutory auditors are appointed for renewable terms of three years. During their term of office, statutory auditors can be removed only by a shareholders' meeting for just cause. KPMG Reviseurs d'Entreprises/Bedrijfsrevisoren (represented by Mr. Benoit Van Roost, partner) and BDO Reviseurs d'Entreprises/Bedrijfsrevisoren (represented by Mr. Félix Fank, partner) were appointed as RHJI's statutory auditors at the time it was formed. In the event KPMG is prevented from taking part in the issuance of a report required under the Belgian Companies Code due to U.S. law constraints, such report will be issued by BDO solely.

The Shareholders' Meeting determines the remuneration of RHJI's Statutory Auditors for their services in connection with the audit of RHJI's financial statements. Their annual fee for these services is € 200,000, excluding value-added tax and outlays as approved by the shareholders during their meeting on March 23, 2005. This amount does not include exceptional remuneration received in 2004 and 2005 in the amount of approximately € 6 million. Such remuneration represents fees in connection with RHJI's offering completed in March 2005 for audit and related services provided by member firms of KPMG and BDO.

Shareholders' Meeting

RHJI holds its Annual Shareholders' Meeting on the third Tuesday of September of each year. If such day is a legal public holiday, the meeting will be held on the following working day. At this meeting, the Board of Directors and the Statutory Auditors report on the management and RHJI's financial situation at the end of the previous fiscal year. RHJI's shareholders then vote on the approval of the statutory annual accounts, the allocation of the profit or loss, the appointment, if necessary, of new directors or statutory auditors, and the release from liability of the directors and the Statutory Auditors (see "Statutory Auditors") for the previous fiscal year.

The Board of Directors or the Statutory Auditors may convene an Extraordinary Shareholders' Meeting at any time RHJI's interests so require. Shareholders representing one-fifth of RHJI's total issued share capital may also convene an Extraordinary Shareholders' Meeting.

Notices of all Shareholders' Meetings contain the agenda of the meeting and the Board of Directors' recommendations on the matters to be voted upon and are published in accordance with the Belgian Companies Code and posted on RHJI's website at www.rhji.com.

Except as described below, no quorum is required for a Shareholders' Meeting and decisions are taken upon a simple majority vote of the shares present in person or represented by proxy. Each ordinary share is entitled to one vote.

Resolutions relating to amendments of RHJI's Articles of Association are subject to special quorum and majority requirements. Specifically, any resolution on these matters requires the presence in person or by proxy of shareholders holding an aggregate of at least 50% of RHJI's total issued share capital and the approval by at least 75% of the shares present in person or represented by proxy at the meeting (80% in case of modification to RHJI's corporate purposes or legal form). If a quorum is not present, a second meeting must be convened. At the second meeting, the quorum requirement does not apply. The special majority requirement, however, will continue to apply.

Business Conduct and Ethics Code

RHJI's Code of Business Conduct and Ethics summarizes the values, principles and business practices that guide its business conduct. The Code sets out a set of basic principles regarding the minimum requirements which each of RHJI's employees, officers, members of senior management, directors, advisors and consultants are expected to become familiar with and to apply as guiding principles in the daily performance of their job responsibilities.

In addition to general principles, there are specific provisions which address various legal and ethical compliance issues, including, among others, conflicts of interest, outside directorships and other outside activities, business gifts and entertainment, whether offered or received, competition and fair dealing, discrimination and harassment, health and safety, confidentiality and personal data protection and protection of proprietary information. The Code also provides procedures for addressing complaints concerning auditing issues.

The Code encourages the reporting of any possible unethical or illegal conduct and sets forth specific compliance procedures. This includes the opportunity for all complaints to be brought anonymously.

The Code is intended to supplement RHJI's other policies including the Dealing and Disclosure Code (see "Dealing and Disclosure Code") and RHJI's general commitment to comply with applicable laws, and is not intended to replace those laws.

Dealing and Disclosure Code

RHJI's Dealing and Disclosure Code applies to all of RHJI's employees, officers, members of senior management and directors, as well as to the other persons and entities indicated therein.

The purpose of the Code is to ensure that such persons and entities do not abuse, nor place themselves under suspicion of abusing, and maintain the confidentiality of price sensitive information that they may have or may be thought to have, especially in periods leading up to an announcement of financial results or of price sensitive events or decisions. To this end, the Code sets out minimum standards to be followed. In particular, subject to special clearance that can only be granted in very limited circumstances, covered persons may not deal in RHJI's ordinary shares during a closed period or a prohibited period. A closed period is defined substantially as the period preceding the publication of periodical financial results, beginning on the last day of the period covered by such results and ending on the date of such publication. A prohibited period is a period that RHJI's General Counsel or RHJI's Board of Directors has determined is a sensitive period. The Code is not intended to replace the applicable laws prohibiting insider dealing and disclosure of price sensitive information.

Shareholders' Information

All outstanding ordinary shares of RHJI have been listed on Euronext Brussels and have been part of the BEL Mid Index since July 1, 2005.

Share Code:	RHJI
ISIN Code:	BE0003815322
Reuters Code:	RHJI.BR
Bloomberg Code:	RHJI.BB
Number of shares:	77,845,547
Market Capitalization (31/07/2005):	€ 1,557 million

Share Price Performance

Month	Share Price				Volume
	Last	Average	Highest	Lowest	Average Shares Traded
March-05*	22.05	21.49	22.88	19.75	2,559,349
April-05	19.80	20.95	23.00	19.50	248,815
May-05	20.50	19.41	20.80	17.32	54,862
June-05	19.50	19.43	20.55	18.40	34,982
July-05	20.00	19.93	20.80	19.00	38,354

* First trading day on March 24, 2005

Shareholding Structure

The share capital of RHJI amounted to € 778,455,470 million and is represented by 77,845,547 shares without nominal value. All shares are listed on Euronext Brussels, have the same rights and par accounting value and are fully paid up. Each share entitles the holder to one voting right.

Based on transparency declarations received by RHJI in accordance with Belgian rules and RHJI's Articles of Association, three shareholders have notified RHJI of their holdings.

Percentages indicated hereunder relate to the voting rights attached to the total number of outstanding shares issued by RHJI.

1. Timothy C. Collins and related entities: 11.19% (includes 3.08% of non-beneficially held shares)

In accordance with Belgian rules, 11.19% represents a combination of shares beneficially owned by Mr. Collins directly or through entities associated with the Collins (8.11%) and shares held in entities associated with Mr. Collins over which Mr. Collins is deemed to have voting rights (3.08%) but not beneficial ownership.

Approximately 91% of the shares beneficially held by Mr. Collins is subject to a five-year lock up agreement with RHJI and an 18-month lock-up agreement with the lead managers of RHJI's offering completed in March 2005. Shares owned by the senior management of RHJI and which Mr. Collins is deemed to have voting rights (i.e. 1.91%) are generally subject to identical lock-up arrangements.

2. Mitsubishi Corporation: 6.26%.
3. Lord Rothschild and related entities: 5.20%.

This includes voting rights attached to shares held by the J. Rothschild Group of Companies, which includes RIT Capital Partners plc, and family and charitable trusts associated with Lord Rothschild.

Investor Relations

Shareholders and investors wishing to obtain copies of this Annual Report or other information on RHJI can contact:

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When accessing RHJ International's website on www.rhji.com, you will find a PDF version of the Annual Report, the non-consolidated financial statements and the related directors' report and auditors' report, press releases, stock price and other information on RHJ International, in French and English.

Financial Calendar

<u>Date</u>	<u>Event</u>
Tuesday, September 20, 2005	Annual Shareholders' Meeting
Friday, December 30, 2005	Half-Year Results 2005 (period ending September 30, 2005)
Friday, June 30, 2006	Preliminary Full-Year Results 2005 (fiscal year ending March 31, 2006)
Tuesday, September 19, 2006	Annual Shareholders' Meeting

