

Easy-to-use Internet  
**BUFFALO**



Home Network



For creation of digital  
consumer-electronics peripherals,  
linking consumer-electronics  
products with personal computers.



Home Network



Business Report 2004  
**MELCO Group**

## Targeting the Digital Home Electronics Market to Advance to the Next Stage of Growth

### **Makoto Maki**

President and CEO  
MELCO HOLDINGS INC.



### **Building a Presence in the Digital Home Electronics Market**

MELCO Group has grown by expanding its business domain from PC peripherals to Internet-related devices. Today, digital home electronics and home networks are clearly emerging as a new trend, a new market, opening the way forward to the the digital home-electronics peripherals market and to exciting new opportunities for growth. In these promising circumstances, we plan to offer diverse products and solutions that serve as a bridge between PCs and digital home electronics.

To enhance agility and hone our ability to respond to rapid changes in our operating environment, we

adopted a holding company structure in October 2003. This new framework will allow us to leverage our technology, sales channels and other resources to extend our business into related domains, to enter new business fields through cross-industry alliances, and to nurture next-generation businesses with our in-house venture-capital system!! We are confident of our ability to foresee consumer needs and that we have the technological skills required to realize them these are the strengths that will drive the expansion of our business domains and the maximization of our corporate value.

### **FY03 Sales and Earnings Reach All-time Highs**

Growth remains strong in the broadband market. The PC market continues to improve, with shipments in Japan returning to year-on-year growth. PCs integrating TV tuners are selling particularly well, as more and more people start to use PCs as a new

source of home entertainment for watching and recording TV programs and enjoying video streamed from the Internet.

The increasing use of moving pictures on PCs is sparking explosive growth in demand for storage

space and expansion of the DVD writer and hard disk markets.

MELCO Group reconfirmed its market leadership in external hard disks, a major category of the data storage market, as it won a much improved market share. Overall, sales of storage products climbed 21.6%.

Memory products also enjoyed a steady gain in

market share, with a notable increase in sales of USB flash disks, a portable storage medium for PCs. The result was sales growth of 35.8% in this category.

By introducing products that reflect changes in user needs, and using our competitive edge in the PC peripherals market, MELCO Group was able to achieve record sales and earnings in fiscal 2003.

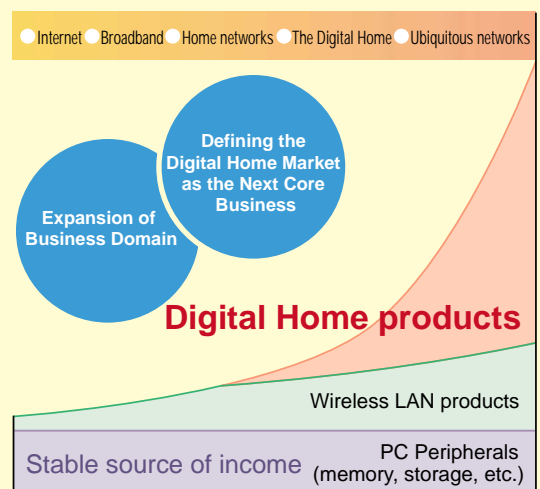
## Actions to Develop the Digital Home Electronics Market

For years, MELCO Group has been a leader in the home network market, through the introduction of products like wireless LAN and network-attached storage devices that facilitate better use of broadband. The Group now regards the increasing need for larger storage capacity by PC users as clear evidence of the burgeoning market for digital home electronics. In the digital home, PCs and digital home appliances will be linked in a home network. Users will have complete freedom in moving video and audio content between devices in the network, and able to enjoy them throughout the home, on the most convenient device.

Anticipating the digital home electronics market, MELCO Group unveiled its new network media player in February 2004. The player can be hooked up to a LAN, allowing movie and picture data stored in a PCs or hard disk to be viewed on an ordinary television. This is only one example of MELCO Group's leadership, and more measures are planned to develop the digital home electronics market. We will introduce a variety of peripherals that can be linked to home networks and that allow downloading, encoding, storing and viewing of movies, TV programs and other data sources.

As the home network market grows so do concerns for network security. MELCO Group has developed a new technology, AOSS, that automatically sets up complex wireless LAN devices, and configures even the most advanced security settings. This technology is expected to dramatically expand the user base for wireless LAN and to establish a de facto market standard for home networks.

### Structure of Businesses



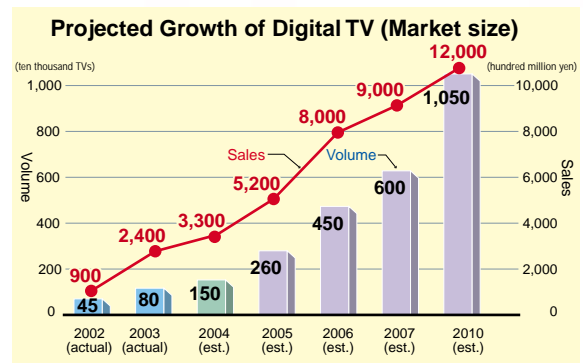
## The Ongoing Evolution of Home Entertainment

### The Full-Scale Launch of Terrestrial Digital Broadcasts

Terrestrial digital broadcasting began in Japan in December 2003 in three major metropolitan areas: Tokyo, Nagoya and Osaka. By 2006, broadcasts will cover the entire nation, and analog broadcasting will come to an end in 2011. In the period to 2011, an enormous number of people will make the switch from analog to digital televisions, and the boom in replacement demand for TVs will continue over the next several years.

As digital television enters the mainstream, more and more programs will tap the interactive potential of digital broadcasting. Quiz shows will encourage viewer participation via the Internet, and perhaps debates will allow viewers to air their views on the

issues of the day. By that time, almost all TVs will be connected to the Internet.



Source: Fuji Chimera Research Institute, Inc.

### Digital Television and Home Networks

The popularity of high-speed Internet access is skyrocketing in Japan. By March 2004, broadband connections (ADSL and FTTH) had reached 15 million households-about one-third of all households. It can easily be inferred that many of these users have two or more PCs linked on a home network-and from this to recognize that wireless LAN technology, which offers cable-free linkage of every room in the house, has excellent potential for becoming the primary home networking platform. The question is, what is the best solution when it

comes to hooking up the TV to the Internet? Currently, almost all Internet access is via by a personal computer. While 65.7% of all Japanese households have at least one PC, they are not always placed near a TV. As often as not, the TV is in the living room while the PC is in another room.

A home network certainly offers the most practical solution for hooking up the TV to the Internet, along with the PC. Indeed, the widespread diffusion of digital TV is unthinkable unless the TV can be linked to a home network.

## Home Networks Will Change the Face of Home Entertainment

Internet access is not the only appeal of home networks. Linking the television and PC in a home network opens up many new possibilities. Many PCs are now equipped with TV tuners and video editing software, allowing users to record TV programs and edit family videos. In the near future, people will be able to edit home video on their PC and then, thanks to the home network, enjoy it on a big-screen television in the living room. And if video data is stored in a device attached to the network, it can be viewed from any PC or television in the house.

Until now, the Internet was for PCs and television

programs were TVs. Home networks will erase this distinction. Movies and recorded data will become available in any and every room of the house. On-screen play lists will make it simple and quick to select specific programs, even from a huge library of movies. We can look forward to a future where we no longer have to search through a pile of VHS tapes to find the movie we want to see.

In the digital home the network will extend beyond the PC and TV to embrace other home electronic equipment and appliances and bring big changes to the life of the household. Growth potential is immense for markets involving the digital home.

## The Synergies of Digital Home Electronics and Peripherals

Clearly, the easiest and most convenient way to achieve the digital home is with digital home-electronics peripherals. Once in place, they will open the doors to diverse possibilities. For example, digital broadcasts will be viewed not only on TVs with built-in digital tuners, but also on TVs without such tuners (just like the one in your bedroom). Today, the average Japanese household has 2.4 televisions. A household with three televisions will probably be able to afford to replace only one of them with a digital TV that has built-in terrestrial digital broadcasting tuners. But in a digital home, the remaining two could still be used, thanks to the use of peripherals.

We are in the midst of important advances in image transmission technology. Improving picture quality

translates directly to transmission of larger volumes of data—but the volume must be kept to the minimum to achieve a high transfer rate. The solution to this dilemma is image compression technology. R&D around the world is leading to the appearance of a series of new compression techniques. At the same time, the wireless LAN that will play a central role in creating home networks are becoming increasingly sophisticated as each year passes, able to offer higher transmission rates and advanced security (in terms of functions, data encryption and so on). However, it would hardly be realistic to expect people to buy a new TV set every time another improvement in functions appears, even if they could afford it.

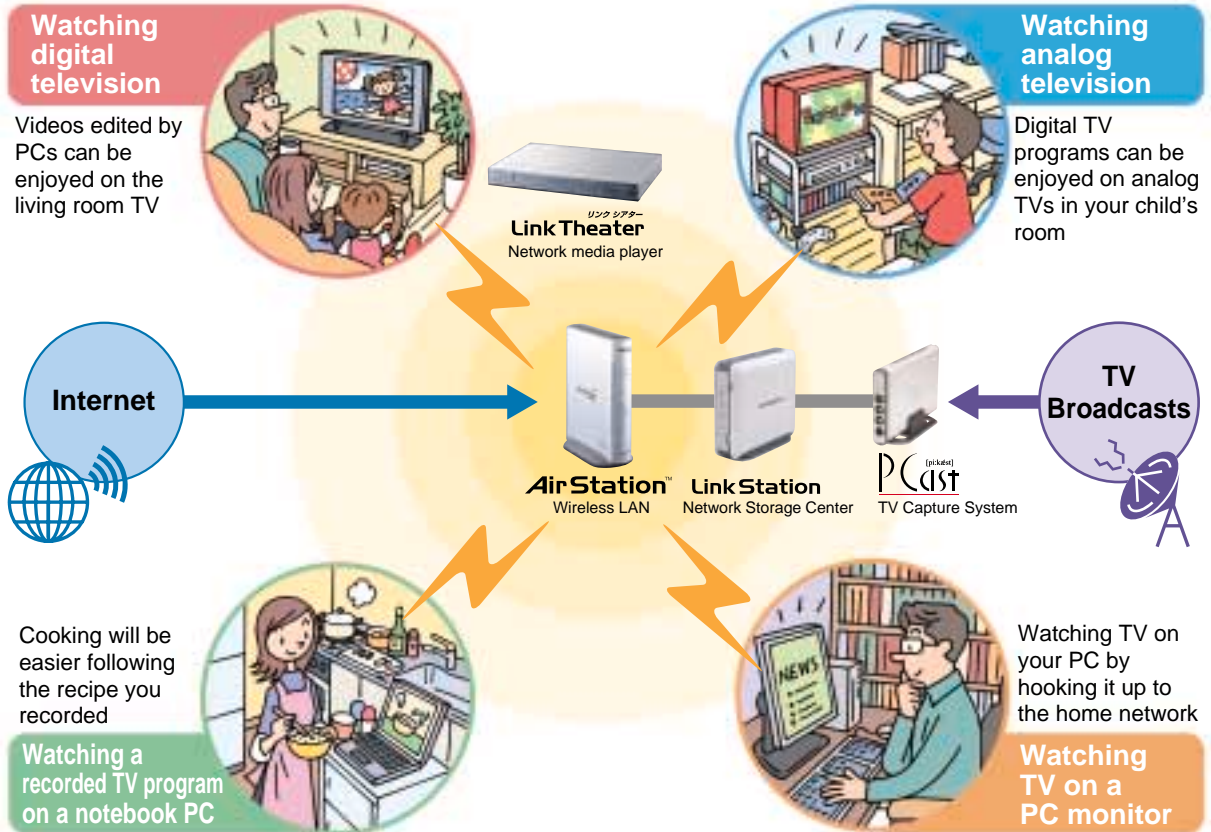
The answers to these concerns are peripherals. The

newest video data conversion and wireless LAN functions will be implemented via peripherals, allowing that very expensive television to be used for a long time.

The peripheral market has grown quickly on rapid advances in computer technology. As home appliances are durable products, built to last for many years, significant growth is predicted for the peripheral market, which will serve as a bridge

between these home appliances and the computer. MELCO Group is one of the few groups of companies in the world with integrated expertise in wireless LAN, image input and output and storage devices. These capabilities confer great advantage on us, and underline our confidence that we can create many and diverse products for the growing digital home market, and so achieve sustained growth and maximized corporate value.

## Enjoyment and Convenience of the Digital Home



Expertise in translating user needs into actual products is the basis for all MELCO operations. Many technologies make this possible...

## Formulating Global Standards

Almost every PC shipped in the world today is equipped with a memory module called the DDR I. JEDEC, an organization that determines standards for these modules, has adopted the BUFFALO substrate design as the global standard. Having already developed the DDR II, a core product used as the memory module in notebook PCs. BUFFALO is now working on a DDR III standard.



Next-generation DDR II PC memory module

## The Wireless LAN AirStation Series, the Global Standard

BUFFALO's WLI-CB-G54 wireless LAN AirStation is the first product in Japan to receive Wi-Fi® certification for IEEE802.11g, a high-speed Wireless LAN standard. This product has also been officially chosen as a certification testing device (a reference product).

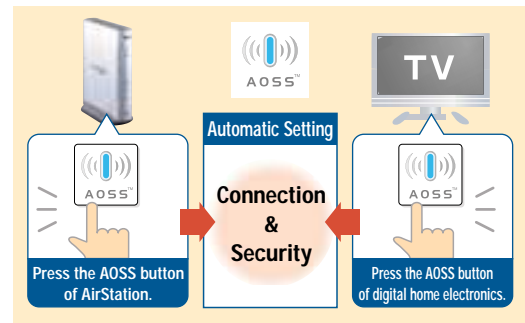


「WLI-CB-G54」 「Wi-Fi® CERTIFIED」

## AOSS™ -Automated Wireless LAN Connection and Security Settings

AOSS™, which stands for AirStation One-Touch Secure System, is simple means for setting up a Wireless LAN. Prior to this, connection and security settings were often too difficult for inexperienced PC users. But with this revolutionary technology, users need only press one button on compatible devices to automatically perform these settings.

This technology is expected to rapidly increase the number of Wireless LAN users while raising the share of these networks protected by security measures. In the future, AOSS™ may also be used in products other than a PC, such as digital home electronics.



**DDR:** Double Data Rate. Refers to DRAMs that use technology to achieve a data transfer rate twice as high as a conventional SDRAM.

**Memory module:** When a PC or other memory device is used, a memory module, which includes DRAMs, is required. There are many types of these modules depending on the type of DRAM used and the number and configuration of signal pins.

**JEDEC:** Joint Electron Device Engineering Council. A global industrial association that promotes the standardization of electronic components.

**WiFi®:** Certifies interoperability of wireless LAN products as certified by WECA (Wireless Ethernet Compatibility Alliance), an organization that sets Wireless LAN standards.

## **BUFFALO Establishes New Digital Home Unit, Unveils Network Media Player**

To launch a new approach to the digital home market, BUFFALO in January 2004 established the Digital Home Solutions Division. This division will take the lead in expanding BUFFALO's lineup of products for the growing digital home electronics market.

In addition, BUFFALO has started selling the LinkTheater, a Network Media Player that acts as a bridge between PCs and televisions, allowing output from a PC to be viewed on a television. Video material, images, music and other content stored on a PC, Hard Disk drive or other medium can be sent through a network to large-screen television, making the LinkTheater a type of home entertainment product.



Network Media Player

## **BUFFALO Enters the PC Accessories Market**



BUFFALO will begin participating in the PC accessories market in July 2004, initially by selling mice, keyboards and cables. All products emphasize quality, design and performance. Customers can choose from many models to obtain the color, design and features they require. By offering products with appeal that existing products cannot match, BUFFALO is clearly setting its accessories apart. As the leading brand in PC peripherals, BUFFALO plans to develop more accessories to target an even broader range of user needs.

The PC mouse lineup has many functions and designs

## **Start of On-site Set-up Service by Female Technicians for Female Customers**



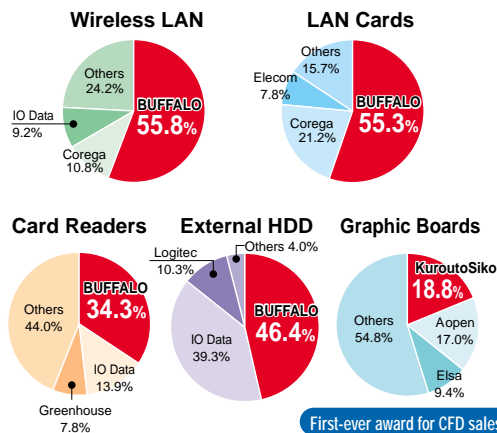
BUFFALO S.A. Service Alliance

The rising use of PCs at home is resulting in growth in first-time users. Many of these users want someone else to hook up the system and perform initial settings. In response, BUFFALO S.A. has a nationwide network to send service technicians to homes to get PCs and peripherals up and running. Recognizing the desire of many female customers to have the set-up performed by a female technician, BSA Ladies Set-up Service was started in December 2003. Using the industry's first team of female technicians, this reliable, worry-free service has received high marks from female customers.

## MELCO Group Ranks First in 13 Categories Based on 2003 Sales Results

MELCO Group garnered top prizes in 13 categories of the BCN Awards 2004 given by BCN, Inc. The awards recognize companies whose products were the best sellers in terms of volume at major retailers throughout Japan. This is the only award in Japan's IT industry based on the strictly objective basis of sales statistics.

BUFFALO has the top market share in 12 categories: Wireless LAN, LAN cards, Hubs, Routers, Printer servers, External HDDs, Internal Hard Disks, CD-R/RW drives, Expandable Interfaces, Memories, Memory cards, and Card readers. Furthermore, CFD SALES INC. ranked first in sales in the Graphic board category, receiving the first BCN Award for a KuroutoSiko brand.



First-ever award for CFD sales!

\*Market shares based on sales volumes at major retailers during calendar 2003 (BCN, Inc.)

## BUFFALO Products Earn Recognition in Markets Around the World

BUFFALO's AirStation for wireless LANs and all of its PC peripherals have been honored with many awards in Japan and other countries.



Award	Product
U.S. LAPTOP Magazine, Editor's Choice award	WHR3-G54 wireless LAN broadband router
U.S. Tech TV, labpick! award	LinkStation LAN-connected HDD
Cnet.com (U.S. technical website), Editor's Choice award	Wireless LAN AirStation router, WBR-G54K repeater set model, LinkStation LAN-connected HDD
Game Over Online (U.S. game site), WLI-TX1-G54 wireless LAN AirStation media converter	WLI-TX1-G54 wireless LAN AirStation media converter
U.K. PC Pro Magazine, PC Pro Recommended award, PC Pro A List award	AirStation series for wireless LAN
China PC Professionell Magazine, Editor's Choice award	AirStation WBR-G54 wireless LAN broadband router
K-Bench, Korea's largest PC&IT info website, K-Bench Best Product award	AirStation series for wireless LAN

## Measures to Protect the Environment

In January 2001, BUFFALO received ISO 14001 certification, an international standard for environmental management systems. About the same time, the company commercialized PC peripherals that conform to "green" procurement standards. In June 2004, in response to enactment of the EU RoHS directive, BUFFALO began selling 47 memory modules that contain no lead. As public concerns about the global environment mount, there is a global trend toward the adoption of environmental actions aimed at establishing a society in which resources are recycled. BUFFALO places priority on environmental protection in all its activities, extending from product development through manufacturing and services.



Lead-free memory module

## A Constantly Evolving Corporate Group

### Business Domains Characterized by Rapid Change

The core businesses of MELCO Group are centered on the rapidly changing business domains associated with PCs and the Internet. And now the group is further enlarging the scope of its businesses to include devices used by digital home electronics.

Technological progress is rapid in all these markets, with a steady stream of new key technologies being developed worldwide. MELCO Group strives to adopt these technologies before others and combine them with its own technology and

know-how to develop the products that end users require.

Accomplishing this demands more than research involving leading-edge technologies and ties with component makers around the world. Success also requires the ability to anticipate user needs. New technologies must be used in many ways. Supplying products incorporating fresh ideas targeting upcoming changes in user demands can stimulate new needs among users.

### A New Framework to Become More Responsive to Change

The user base for MELCO Group products is expanding to include the PC, Internet and digital home electronics domains, at the same time becoming more diverse. To serve these new user segments, the group must alter its product lineup and how it extends customer support, use new sales channels, and adopt other approaches that differ from those of the past. More brands and new companies are needed to accomplish this.

MELCO Group adopted a holding company structure on October 1, 2003. With this organization, the group is determined to advance to a new stage of growth, one backed by developing new markets, like those associated with the digital home, spinning off businesses as separate companies, establishing new companies, and forming alliances with companies in other industries.

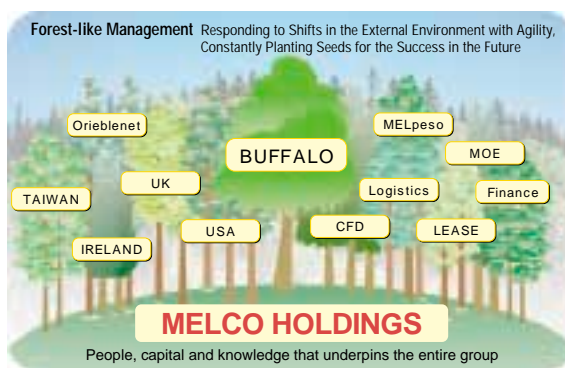
### A Forest-like Approach to Management

The long-term objective of switching to the pure holding company structure is to establish a management framework capable of responding even faster to major changes in markets. Through this speed, the group is aiming to operate in a manner that maximizes its corporate value by sustaining growth in sales and earnings.

This signals a shift from being a company that simply aims to grow fast into an organization with a management framework able to support long-term growth driven by many elements. The goal is a management system that is similar to a forest. Each tree stands alone. But together, they create a forest. And if one tree dies, others will grow to take its place and preserve the forest. In this same way, we want to be a collection of small units that together have great strength along with flexibility. This is the "forest management" style that MELCO Group aims for.

MELCO Group will preserve a prominent stature in the

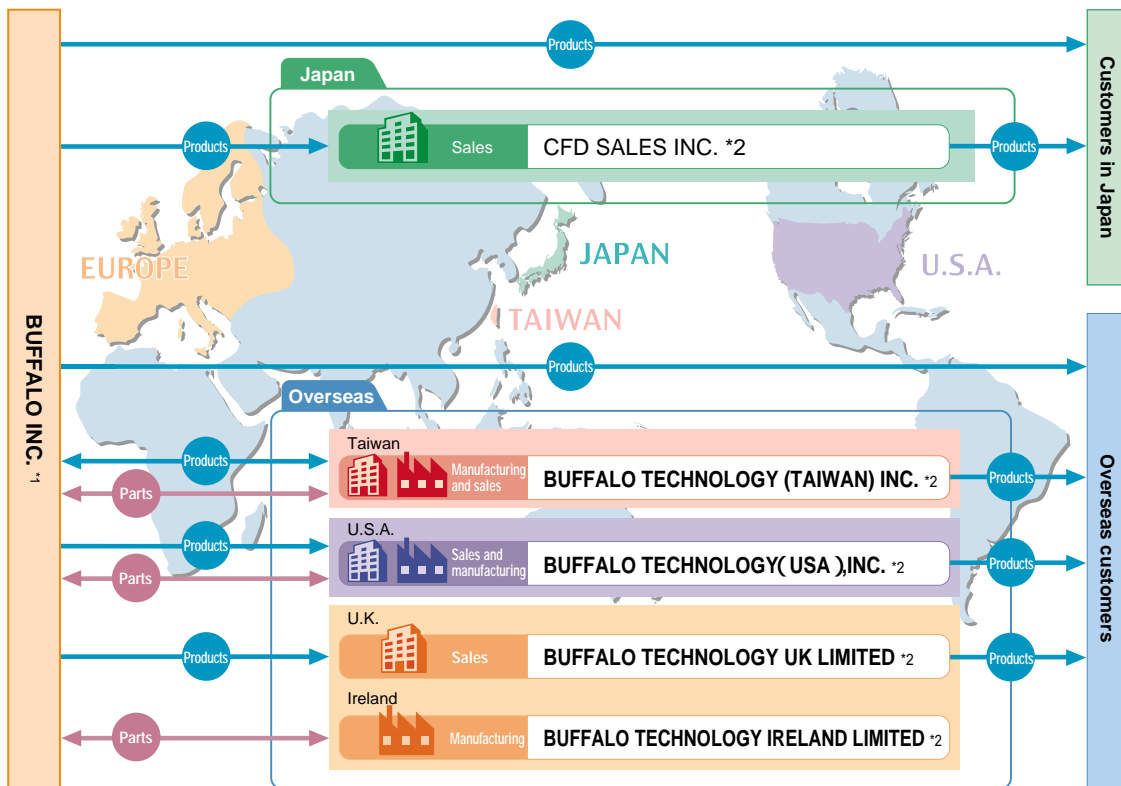
marketplace. The objective is raise the value of the group for the benefit of stakeholders over a time period measured in centuries.



## Structure of MELCO Group

MELCO Group adopted a holding company structure on October 1, 2003 with the establishment of MELCO HOLDINGS INC.

### MELCO HOLDINGS INC. (Holding company) \*1



#### Other business activities

Logistics BUFFALO LOGISTICS INC. *3	Rental of broadband equipment BUFFALO LEASE INC. *3	Human resources MELCO PERSONNELL SUPPORT INC. *4
Securities investments MELCO FINANCE INC.	Sales OribleNet Corp. *3	Sales MELCO Online Entertainment Corp.

\*1 MELCO HOLDINGS INC. and BUFFALO INC. (the former MELCO INC.) conducted an exchange of shares on October 2003 that resulted in BUFFALO becoming a wholly owned subsidiary, thus creating a holding company structure.

\*2 On March 31, 2004, BUFFALO INC. subsidiaries CFD SALES INC., BUFFALO TECHNOLOGY (TAIWAN) INC., BUFFALO TECHNOLOGY (USA), INC., BUFFALO TECHNOLOGY UK LIMITED, and BUFFALO TECHNOLOGY IRELAND LIMITED became directly owned subsidiaries of MELCO HOLDINGS INC.

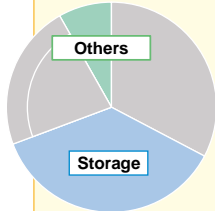
\*3 On June 9, 2004, BUFFALO INC. subsidiaries BUFFALO LOGISTICS INC., BUFFALO LEASE INC. and OribleNet Corp. became directly owned subsidiaries of MELCO HOLDINGS INC.

\*4 MELCO PERSONNELL SUPPORT INC. was established on June 24, 2004.

### Digital products for the home

We are currently developing peripheral devices, for the digital home market, which connect computers and televisions. Hard disks for LAN connection are memory devices which allow a multiple number of computers to share images, data, or access to a printer. In the home, by connecting the hard disk to a wireless LAN, you can access data at anytime from every room in the house.

We also provide TV capture, which lets you download television programs to your computer and Media Players, which lets you watch movie files and listen to audio files from your computer on your television. These products are categorized into the "Storage" and "Others" categories respectively.



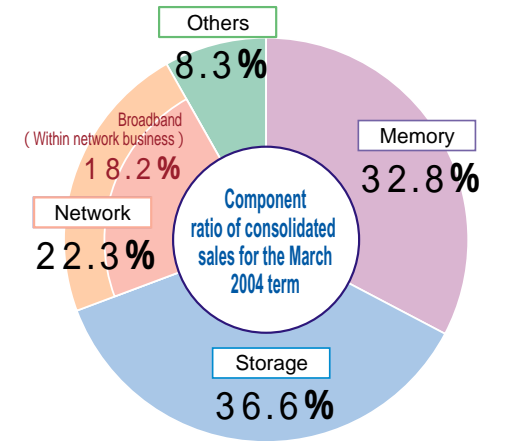
Network Storage Center



TV Capture Systems



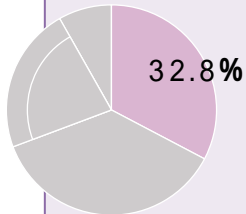
Network media player



### Memory

Sales | ¥33.963 billion( Consolidated sales for fiscal year ended March 31st, 2004 )

"Memory" refers to devices for recording data, and areas within the computer for carrying out operations such as writing and calculating information. The larger the memory capacity, the larger the available space, and the more efficiently and rapidly processing can be carried out. Flash memory is a type of memory that can record data even when it is not connected to a power supply. Smart media cards, and compact flash cards, which are used as the "film" for digital cameras, are both media which make use of flash memory.



Memory module



USB flash disk



Compact flash



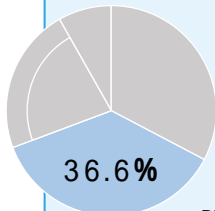
Card reader/Writer



### Storage

Sales | ¥37.977 billion ( Consolidated sales for fiscal year ended March 31st, 2004 )

"Storage" refers to memory devices for storing data. A hard disk is a device which allows the storage of software, data and images. Some hard disks are built into the computer, others are external hard disks, which may be connected to and placed alongside the computer. A DVD drive is a memory disk which can store a large volume of data, and has recently become widespread as the media of choice for storing movies. There are many other types of storage device including CD-RW drives and MO drives.



DVD drive



Hard disk



Portable hard disk



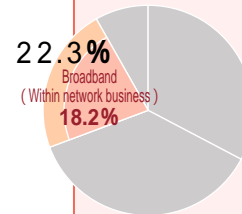
Network Storage Center



### Network/Broadband

Sales | ¥23.166 billion( Consolidated sales for fiscal year ended March 31st, 2004 )

Connecting a number of computers using network products such as LAN adapters, hubs and routers can improve convenience for the user. Or a single hard disk drive can be connected to a number of computers, allowing the same data to be accessed from any of the computers. Using Wireless LAN, you can eliminate the need for a confusing web of cables and create a wireless network. If you have a laptop computer, you can use it to access the Internet wherever you may be in the house.



Wireless Notebook Adapters



Wireless LAN access point



Broadband router



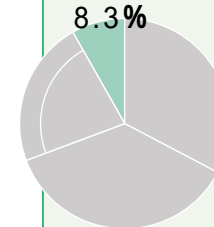
Switch



### Others

Sales | ¥8.596 billion( Consolidated sales for fiscal year ended March 31st, 2004 )

The Other operations section includes multi-media related products ( including TV capture and Liquid crystal displays ), and service businesses. By adding a TV capture to your computer, you can watch and record television programs on your computer. Liquid crystal displays are becoming the most popular type of computer monitor, due to the space-saving and energy-saving capabilities and their flat screen. The service business consists of the BUFFALO SERVICE ALLIANCE, which provides Internet set-up services.



**BUFFALO S.A.**  
SERVICE ALLIANCE  
Internet setup/installation  
on-call service  
( BUFFALO SERVICE ALLIANCE )

TV Capture Systems

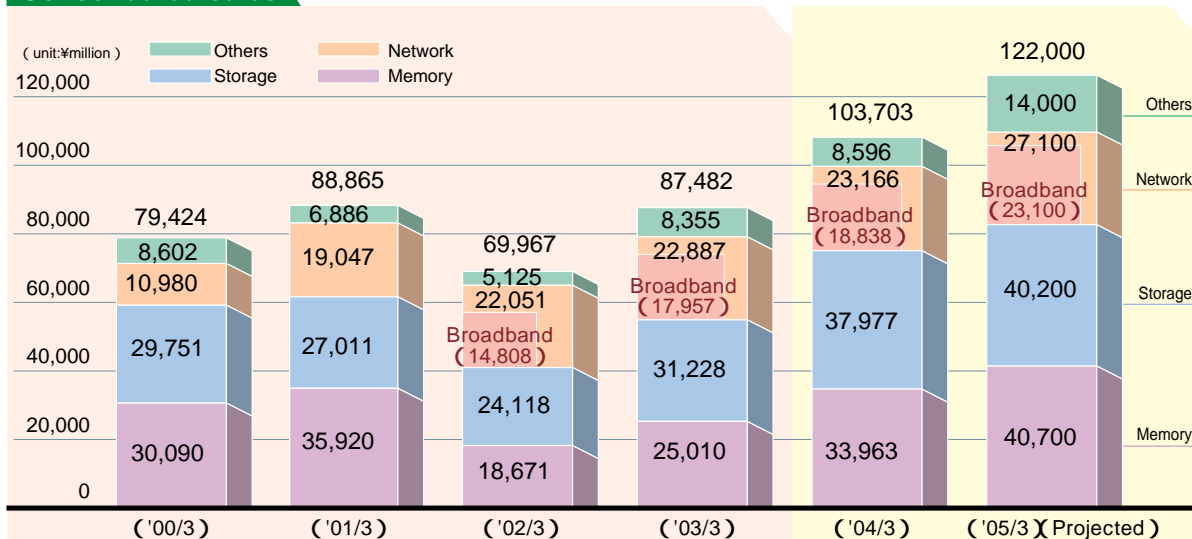


Liquid crystal display



### Consolidated sales

\*Consolidated figures for BUFFALO INC. (formerly MELCO INC.) for the fiscal year ended March 31 and earlier are provided for comparison.



Note: Starting from the year ending March 2002, the "Network" category includes a "Broadband" sub-category for broadband products such as wireless LANs.

### Summary of consolidated sales for the fiscal year ended March 31st, 2004.

#### Memory

In "Memory" category, memory modules, which are the categories main product, saw a further increase in market share and an expansion of sales. In addition, flash disks, which can be connected to a computer via a USB cable, showed substantial growth. Due to the above factors, consolidated sales for the category were ¥33.963 billion, an increase of 35.8% compared with the previous year.

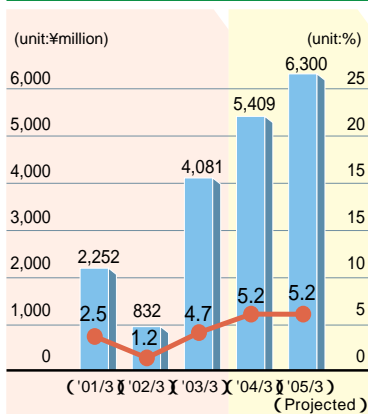
#### Storage

Products in the "Storage" category maintained high market share as the market expanded. Furthermore, we succeeded in stimulating new user needs through the provision of network-enabled hard disks. Due to the above factors, consolidated sales for the category were ¥37.977 billion, an increase of 21.6% compared with the previous year.

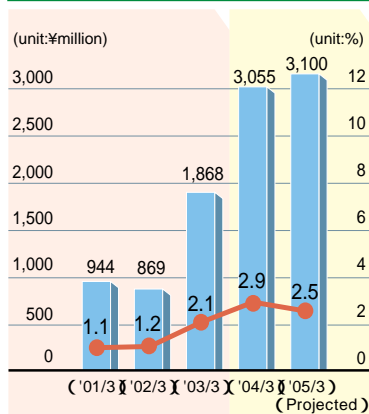
#### Network / Broadband

Our broadband products, contained within the "Network" category, have continued to lead the market as we have responded rapidly to increasingly rapid connection speeds to introduce new products, and also increased our levels of security protection. However, sales rose only slightly to ¥18.838 billion, and increase of 4.9% compared with the previous year.

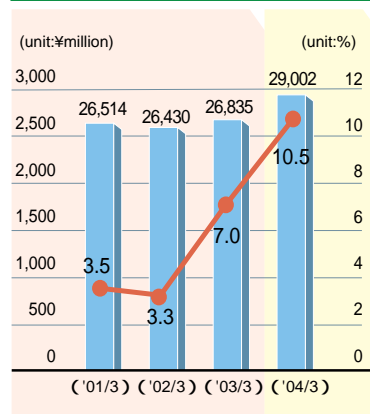
### Consolidated ordinary income and % of sales



### Consolidated net income and % of sales



### Consolidated shareholder's equity and return on equity



\*On October 1, 2003, MELCO HOLDINGS INC. and BUFFALO INC. switched to a holding company system through a stock swap, with BUFFALO INC. as a complete subsidiary.  
 \*Consolidated earnings for the fiscal year ended March 31, 2004 have been calculated by adding the non-consolidated earnings of MELCO HOLDINGS INC. during the period between the stock-for-stock exchange on October 1st, 2003 and March 31, 2004, to the consolidated earnings of BUFFALO INC. during the period April 1st, 2003 to March 31st, 2004.  
 \* Consolidated figures for BUFFALO INC. (formerly MELCO INC.) for the fiscal year ended March 31st are provided for comparison.

Consolidated balance sheet		( unit:¥million )	
Item	Fiscal year	Ended	Ended
		Mar. 31, 2004	Mar. 31, 2003
<b>( Assets )</b>			
Current assets		37,390	30,744
Tangible fixed assets		2,015	2,717
Intangible fixed assets		92	106
Investments, etc.		9,645	10,922
Total Fixed assets		11,753	13,746
<b>Total assets</b>		<b>49,143</b>	<b>44,490</b>
<b>( Liabilities )</b>			
Current liabilities		19,330	16,875
Long-term liabilities		808	780
<b>Total liabilities</b>		<b>20,139</b>	<b>17,655</b>
( Minority interest in consolidated subsidiaries )		1	-
<b>( Capital )</b>			
Capital		1,000	6,400
Capital surplus		11,677	7,593
Profit surplus		16,849	14,260
Balance of other profits on securities		236	71
Exchange adjustment		287	241
Treasury stock		0	1,249
<b>Total capital</b>		<b>29,002</b>	<b>26,835</b>
<b>Total liabilities and capital</b>		<b>49,143</b>	<b>44,490</b>

Consolidated statement of surplus		( unit:¥million )	
Item	Fiscal year	Apr. 1 2003 to	Apr. 1 2002 to
		Mar. 31, 2004	Mar. 31, 2003
Capital surplus opening balance		7,593	7,593
Increase in capital surplus( Stock-for-stock exchange )		5,333	-
Decrease in capital surplus( Retirement of treasury stock )		1,249	-
<b>Capital surplus closing balance</b>		<b>11,677</b>	<b>7,593</b>
Profit surplus opening balance		14,260	12,741
Increase in profit surplus( Net profit from current fiscal year )		3,055	1,868
Decrease in profit surplus( Dividend and other payments )		466	348
<b>Profit surplus closing balance</b>		<b>16,849</b>	<b>14,260</b>

Consolidated statement of income		( unit:¥million )	
Item	Fiscal year	Apr. 1 2003 to	Apr. 1 2002 to
		Mar. 31, 2004	Mar. 31, 2003
Sales		103,703	87,482
Cost of sales		89,886	75,857
Selling, general and administrative expenses		8,589	7,694
<b>Operating income</b>		<b>5,228</b>	<b>3,931</b>
Non-operating income		367	243
Non-operating expenses		186	92
<b>Ordinary income</b>		<b>5,409</b>	<b>4,081</b>
Extraordinary income		-	173
Extraordinary loss		1,262	581
Current term net income before taxes and other adjustments		4,147	3,673
Corporation, resident and enterprise taxes		1,254	1,375
Adjustment for corporation tax, etc.		161	429
Loss in minority interest		1	-
<b>Current term net income</b>		<b>3,055</b>	<b>1,868</b>

Consolidated cash flow statement		( unit:¥million )	
Item	Fiscal year	Apr. 1 2003 to	Apr. 1 2002 to
		Mar. 31, 2004	Mar. 31, 2003
Operating activity cash flow		3,586	6,513
Investment activity cash flow		260	1,043
Financial activity cash flow		512	1,685
Balance of cash/cash-equivalent conversions		53	67
<b>Increase of cash/cash-equivalents</b>		<b>3,280</b>	<b>3,715</b>
Cash/cash-equivalent opening balance		5,746	2,030
Cash/cash-equivalent at newly established consolidated subsidiary		8	-
<b>Cash/cash-equivalent closing balance</b>		<b>9,035</b>	<b>5,746</b>

## MELCO HOLDINGS INC.

### Company Profile

As of March 31, 2004

Company Name	MELCO HOLDINGS INC .		
Incorporated	July 1, 1986		
President and CEO	Makoto Maki	Capital	¥1 billion
Sales	Consolidated ¥103.703 billion. (Actual results for fiscal year ended March 31, 2004)		
Business content	Pure holding company of MELCO Group Holds the shares of subsidiaries involved in various businesses, supports business operations, and carries out integrated administration through directing management.		
No. of employees	4 MELCO Group related: 646		
Group affiliates	Total of 12 companies (8 domestic, 6 overseas)		
Banks	UFJ, Nagoya	URL	<a href="http://melco-hd.jp/">http://melco-hd.jp/</a>

### Business establishment

Headquarters Kamiya Bldg., 11-50, Ohsu 4-chome, Naka-ku, Nagoya, 460-0011, Japan

TEL. 81-52-251-6891 FAX. 81-52-241-7979

## BUFFALO INC.

### Company Profile

As of March 31, 2004

Company Name	BUFFALO INC.		
Founded	May 1, 1975		
Incorporated	August 5, 1978		
Chairman and CEO	Makoto Maki		
Capital	¥6.4 billion		
Business content	Development, manufacture and sales of computer and broadband equipment, and supply of related services		
No. of employees	390		
Banks	UFJ, Nagoya, Iyo, Tokyo-Mitsubishi, UFJ Trust Bank		
URL	<a href="http://buffalo.jp/">http://buffalo.jp/</a>		

### Business establishment

Headquarters 15, Shibata hondori 4-chome, Minami-ku, Nagoya, 457-8520, Japan  
 Tokyo Head Office Eitaro Bldg., 2-5, Nihonbashi 1-chome, Chuo-ku, Tokyo, 103-0027, Japan  
 Head office detached office Kamiya Bldg., 11-50, Ohsu 4-chome, Naka-ku, Nagoya, 460-0011, Japan  
 Nagoya Branch Office Kamiya Bldg., 11-50, Ohsu 4-chome, Naka-ku, Nagoya, 460-0011, Japan  
 Osaka Branch Office Sumitomo Seimei Tanimachi Bldg., 1-18 Tanimachi 9-chome, Chuo-ku, Osaka, 542-0012, Japan  
 Sendai Sales Office Miyagino center Bldg., 5-22, Tsutsujigaoka 4-chome, Miyagino-ku, Sendai, 983-0852, Japan  
 Fukuoka Sales Office Abandant 95, 12-1, Hakataeki Higashi 3-chome, Hakata-ku, Fukuoka, 812-0013, Japan  
 Sapporo Sales Office San Keisei Bldg., 4-1, Kitaichijyo Higashi 1-chome, Chuo-ku Sapporo, 060-0031, Japan

### Board of Directors

As of June 29, 2004

President and CEO	Makoto Maki
Senior Managing Director	Kuniaki Saiki
Managing Director	Hiromichi Maki
Director	Hiromi Maki
Director	Iwao Tsusaka
Senior Corporate Auditor	Kiyoshi Kobayashi
Corporate Auditor	Toshio Nishikawa
Corporate Auditor	Yuzuru Kawashima
Corporate Auditor	Tomotsune Sumi

### Board of Directors

As of May 10, 2004

Chairman and CEO	Makoto Maki
President and COO	Kuniaki Saiki
Managing Director	Hiromichi Maki
Director	Seishi Toyooka
Director	Takayuki Nishioka
Director	Hidetoshi Yamaguchi
Senior Corporate Auditor	Kiyoshi Kobayashi
Corporate Auditor	Iwao Tsusaka
Corporate Auditor	Takashi Koide
Corporate Auditor	Tomotsune Sumi

TEL. 81-52-619-1811 FAX. 81-52-619-1800  
 TEL. 81-3-3242-7777 FAX. 81-3-5203-8551  
 TEL. 81-52-251-6891 FAX. 81-52-241-7979  
 TEL. 81-52-249-6600 FAX. 81-52-249-6601  
 TEL. 81-6-6191-1511 FAX. 81-6-6191-1510  
 TEL. 81-22-291-0311 FAX. 81-22-298-9470  
 TEL. 81-92-477-3711 FAX. 81-92-477-3755  
 TEL. 81-11-200-8150 FAX. 81-11-200-8151

	Company	Capital	Ratio of shareholdings	Business content
Japan	CFD SALES INC.	¥98 million	100%	Sales of Internet devices and computer peripherals
	15, Shibata hondori 4-chome, Minami-ku, Nagoya, 457-8520, Japan TEL.81-52-619-1311 FAX.81-52-619-7785			
	BUFFALO LOGISTICS INC.	¥70 million	100%	Packaging and shipment of products
	Chukyo Warehouse No. 33, 1-3, Mutsuno 2-chome, Atsuta-ku, Nagoya, 456-0023, Japan TEL.81-52-883-3035 FAX.81-52-883-3042			
	BUFFALO LEASE INC.	¥98 million	100%	Lease and rental of Internet-related products
	15, Shibata hondori 4-chome, Minami-ku, Nagoya, 457-8520, Japan TEL.81-52-619-1815 FAX.81-52-619-7754			
	MELCO FINANCE INC.	¥20 million	100%	Holding, purchasing, selling, investing in and managing investment of securities
	Kamiya Bldg., 11-50, Ohsu 4-chome, Naka-ku, Nagoya, 460-0011, Japan TEL.81-52-251-6891 FAX.81-52-241-7979			
	OriebleNet Corp.	¥11 million	88.2%	Sales of Internet devices and computer peripherals
	Chukyo Warehouse, 1-3, Mutsuno 2-chome, Atsuta-ku, Nagoya, 456-0023, Japan TEL.81-52-882-3302 FAX.81-52-882-3302			
	MELCO Online Entertainment Corp.	¥10 million	90%	Operation of Internet game center
	Fukuei Akihabara Bldg., 14-3, Sotokanda 3-chome, Chiyoda-ku, Tokyo, 101-0021, Japan TEL.81-3-3252-4141 FAX.81-3-3252-4141			
MELCO PERSONNEL SUPPORT INC.	¥10 million	100%	Personnel services company	
Kamiya Bldg., 11-50, Ohsu 4-chome, Naka-ku, Nagoya, 460-0011, Japan TEL.81-52-251-6823 FAX.81-52-241-7979				

	Company	Capital	Ratio of shareholdings	Business content
Asia	BUFFALO TECHNOLOGY (TAIWAN) INC.	TWN \$100million	100%	Production and sales of Internet devices and computer peripherals
	4F, NO.18, LANE609, SEC.5, CHUNG HSIN RD., SANCHUNG CITY, TAIPEI HSIEN, TAIWAN TEL.886-2-2999-9860 FAX.886-2-2999-2264			
U.S.A.	BUFFALO TECHNOLOGY (USA), INC.	US \$3	100%	Production and sales of Internet devices and computer peripherals
	4030 West Braker Lane, Suite 120, Austin, TEXAS 78759-5319 U.S.A. TEL.1-512-794-8533 FAX.1-512-794-8520			
Europe	BUFFALO TECHNOLOGY UK LIMITED	US \$5,728,000	100%	Sales of Internet devices and computer peripherals
	176 Buckingham Avenue, Slough, Berkshire SL1 4RD, United Kingdom TEL.44-1753-555-000 FAX.44-1753-535-420			
	BUFFALO TECHNOLOGY IRELAND LIMITED	€ 790,000	100%	Production of Internet devices and computer peripherals
East Park, Shannon Free Zone, Shannon, Co.Clare, Ireland TEL.353-61-708090 FAX.353-61-360140				

## Evolution of the MELCO GROUP

History		Business/Others	
Incorporated for the purpose of manufacturing and selling audio equipment	Aug	1978	Aug Began marketing a string-driven turntable
		1981	Jul Entered the personal computer peripherals market in earnest
		1982	Nov Began marketing an internal printer buffer
Established BUFFALO ( now MELCO HOLDINGS INC. )	Jul	1986	
		1988	Oct Began marketing Japan's first EMS board
Made packaging/distribution business independent by establishing BUFFALO LOGISTICS INC.	Sep	1990	
	Oct	1991	
MELCO INC. ( now BUFFALO INC. ) registered with JASDAQ	Oct		
MELCO INC. established MELCO INTERNATIONAL INC. ( now BUFFALO LEASE INC. )	Oct		
MELCO INC. opened High-Tech Center ( now BUFFALO INC. headquarters ) as TECHNICAL R&D center	Jan	1992	Jul Began marketing CPU accelerator products
			Aug Began marketing LAN products
Made Taiwan office a local corporation by establishing BAPILU PRODUCTS INC. ( now BUFFALO TECHNOLOGY ( TAIWAN ) INC. )	Jun		
		1993	May Began marketing window accelerators; entered the multimedia market in earnest
			Oct Received top prize in PCB Technology Leadership Awards
		1994	Feb Began marketing hard disks; shifted emphasis to manufacture of computer peripheral devices
MELCO INC. listed in second section of Nagoya Stock Exchange	Jan	1995	Sep MELCO INC. obtained ISO9001 certification, the international quality assurance standard
	Aug		Nov Began marketing DOS/V component PCs; shifted emphasis to manufacture of PC components
MELCO INC. listed in second section of Tokyo Stock Exchange			Oct Began marketing LCD monitors
		1996	
MELCO INC. listed in first section of Tokyo Stock Exchange & Nagoya Stock Exchange	Sep		
MELCO INC. made CFD SALES INC. a subsidiary	Oct		
MELCO INC. introduced divisional organization	Oct	1997	
MELCO INC. made TechWorks ( Delaware ), Inc. ( now BUFFALO TECHNOLOGY ( USA ), INC. ) a subsidiary	Jan	1998	
MELCO INC. made TechWorks ( UK ), Limited. ( now BUFFALO TECHNOLOGY UK LIMITED. ) a subsidiary	Dec		
MELCO INC. made TechWorks ( Ireland ), Limited. ( now BUFFALO TECHNOLOGY IRELAND LIMITED. ) a subsidiary			
MELCO FINANCE INC. began investment management of securities	Aug	1999	Jan Entered the wireless LAN market; released "AIRCONNECT"
	Oct		Nov Began marketing memory for Rambus devices
BUFFALO INC. reorganized into holding company		2000	Apr Began marketing the wireless LAN "AirStation"
			Oct Developed worldwide standard specification of DDR memory for notebook computers
MELCO INC. launched BUFFALO Service Alliance service system	Jan	2001	Jan Began Internet service business
	Mar		Jan MELCO INC. obtained ISO14001 certification, the environmental management system standard
Established joint venture Digital Reuse Inc. for reuse business			
		2002	Jul Proposed FREESPOT to promote Internet wireless spot service
Established Orielenet Corp. sales company	May		Dec Released LinkStation, a Network Storage Center
BUFFALO LEASE INC. began renting broadband devices	Mar	2003	Mar Began broadband equipment rental business
	May		Dec Formed "BSA Ladies Set-up Service"
BUFFALO INC. changed trade name to MELCO HOLDINGS INC., moved head office	May		
MELCO INC. changed company name to BUFFALO INC., moved head office	Oct		
MELCO HOLDINGS INC. and BUFFALO INC. swapped stock and shifted to holding company system	Oct		
MELCO HOLDINGS INC. listed in first section of Tokyo Stock Exchange & Nagoya Stock Exchange	Oct		
Established MELCO Online Entertainment Corp.	Oct		
The following five companies ceased to be subsidiaries of BUFFALO INC., and became directly-financed subsidiaries of MELCO HOLDINGS INC.: CFD SALES INC., BUFFALO TECHNOLOGY ( TAIWAN ) INC., BUFFALO TECHNOLOGY ( USA ), INC., BUFFALO TECHNOLOGY UK LIMITED, and BUFFALO TECHNOLOGY IRELAND LIMITED.	Mar	2004	Jan Established new Digital Home Solutions Business Div.
			Feb Launched the Network Media Player "LinkTheater"
The following three companies ceased to be subsidiaries of BUFFALO INC., and became directly-financed subsidiaries of MELCO HOLDINGS INC.: BUFFALO LOGISTICS, INC., BUFFALO LEASE, INC., and Orielenet Corp. sales company	Jun		May Cumulative sales of the Wireless LAN "AirStation" exceed 5 million units
			Jul Entered the computer supplier market
Established MELCO PERSONNEL SUPPORT INC., as a personnel services company	Jun		

# Investor Information

## Origin of Company Name

MELCO Group shifted to a holding company system on October 1, 2003 with MELCO HOLDINGS INC. as the pure holding company. At the same time, MELCO INC. changed its name to BUFFALO INC. unifying the company and brand names. The long-established and well-known BUFFALO brand name is now also the company name.

### MELCO

#### MELCO stands for "Maki Engineering Laboratory Company".

The company was named MELCO in 1975. "M" is for Maki, the family name of the company founder and president, Makoto Maki, "E" is for engineering, "L" is for laboratory, and "CO" is for company.

### BUFFALO

#### The BUFFALO name is derived from "printer buffer" products.

Many years ago, users had to wait until printing was complete before they could continue using their computer. Then came the printer buffer, a revolutionary product that stored printing data in its memory, instantly releasing the computer which could be used even during printing. MELCO's built-in printer buffer released in 1982 represented a significant step forward for the computer industry. It also met a market need and was a huge hit. When the new product was released MELCO advertised publicly for a brand name, eventually adopting "BUFFALO". The name had a pleasant ring to it, sounding similar to "buffer" and also conjuring up an image of a strong animal running. It was the perfect product name for such a progressive company as MELCO. Since then, the BUFFALO brand has been developed into a solutions business providing ease of use.

### MELCO HOLDINGS INC. Investor Information (As of Mar. 31, 2004)

Accounts closed	: March 31	Newspaper with notice to shareholders	: Nihon Keizai Shimbun
Scheduled shareholder's meeting	: June	Transfer agent	: UFJ Trust Bank Limited 4-3, Marunouchi 1-chome, Chiyoda-ku, Tokyo
Dates to determine stock ownership	: Shareholders entitled to vote : March 31	Handling office	: UFJ Trust Bank Limited Security Agent Department : 10-11, Higashi-suna, 7-chome, Koto-ku, Tokyo 137-8081 : Tel. 81-3-5683-5111
	: Shareholders entitled to year-end dividend : March 31	Managing underwriters	: (main) Daiwa Securities SMBC : (others) Nomura Securities : Mizuho Investors Securities : Nikko Cordial Securities
	: Shareholders entitled to interim dividend : September 30		
Listed Stock Exchanges	: First Section of Tokyo Stock Exchange and : First Section of Nagoya Stock Exchange		
Stock code	: 6676		
Number of shares issued	: 26,125,773		
Number of shareholders	: 12,686		
Number of shares per unit	: 100		

## MELCO Group

<http://melco-hd.jp/>

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On October 1, 2003, MELCO HOLDINGS INC. and BUFFALO INC.(formerly MELCO INC. ) switched to a holding company system through a stock swap, with BUFFALO INC. as a complete subsidiary. At the same time, MELCO INC.'s trading name was changed to BUFFALO INC.

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### **MELCO HOLDINGS INC.** <http://melco-hd.jp/> ( Code 6676 )

Headquarters Kamiya Bldg., 11-50, Ohsu 4-chome, Naka-ku, Nagoya, 460-0011, Japan Tel:81-52-251-6891 Fax:81-52-241-7979

### **BUFFALO INC.** ( formerly MELCO INC. )<http://buffalo.jp/>

Headquarters 15, Shibata hondori 4-chome, Minami-ku, Nagoya, 457-8520, Japan Tel:81-52-619-1811 Fax:81-52-619-1800  
Tokyo Head Office Eitaro Bldg., 2-5, Nihonbashi 1-chome, Chuo-ku, Tokyo, 103-0027, Japan Tel:81-3-3242-7777 Fax:81-3-5203-8551  
Head office detached office Kamiya Bldg., 11-50, Ohsu 4-chome, Naka-ku, Nagoya, 460-0011, Japan Tel:81-52-251-6891 Fax:81-52-241-7979

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#### Domestic operations

CFD SALES INC.

BUFFALO LOGISTICS INC.

BUFFALO LEASE INC.

MELCO FINANCE INC.

OriebleNet Corp.

MELCO Online Entertainment Corp.

MELCO PERSONNEL SUPPORT INC.

#### Overseas operations

BUFFALO TECHNOLOGY ( TAIWAN ) INC.

BUFFALO TECHNOLOGY ( USA ), INC.

BUFFALO TECHNOLOGY UK LIMITED

BUFFALO TECHNOLOGY IRELAND LIMITED