

**HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2003

Report of Independent Auditors

June 23, 2003

To the Shareholders and Board of Directors of
Harmonic Drive Systems Inc.

We have audited the accompanying consolidated balance sheets of Harmonic Drive Systems Inc. and its subsidiaries as of March 31, 2002 and 2003, and the related consolidated statements of income and retained earnings, and cash flows for the years then ended, all expressed in Japanese yen. Our audits were carried out in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly, the consolidated financial position of Harmonic Drive Systems Inc. and its subsidiaries as of March 31, 2002 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 2).

As discussed in Note 19 to the consolidated financial statements, the Company made a three-for-one stock split to be distributed on May 20, 2003 to the registered shareholders as of March 31, 2003.

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

PricewaterhouseCoopers

Notice to readers

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. Accordingly the accompanying consolidated balance sheets and related consolidated statements of income and retained earnings, and cash flows and their utilization are not designed for those who are not informed about Japanese accounting principles, procedures and practices.

The standards, procedures and practices utilized in Japan to audit such consolidated financial statements may differ from those generally accepted in countries and jurisdictions other than Japan.

HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	March 31,		March 31,
	2002	2003	2003
Current assets:			
Cash and bank deposits (Note 4)	¥1,215,381	¥1,773,754	\$14,757
Marketable securities (Note 5)	363,283	318,667	2,651
Notes and accounts receivable, trade - Notes (Note 16)	327,776	509,526	4,238
Accounts	2,596,373	3,313,197	27,564
Allowance for doubtful accounts	(9,104)	(8,940)	(74)
	<u>2,915,045</u>	<u>3,813,783</u>	<u>31,728</u>
Inventories (Note 7)	971,864	816,938	6,796
Deferred income taxes (Note 9)	152,718	93,099	775
Prepaid expenses and other current assets (Note 10)	286,499	256,009	2,130
Total current assets	<u>5,904,790</u>	<u>7,072,250</u>	<u>58,837</u>
Property, plant and equipment (Note 8):			
Land	803,913	803,913	6,688
Buildings and structures	2,976,581	3,516,582	29,256
Machinery and equipment	2,080,273	2,313,510	19,247
Construction in progress	507,030	8,769	73
	<u>6,367,797</u>	<u>6,642,774</u>	<u>55,264</u>
Less - Accumulated depreciation	(3,107,163)	(3,422,603)	(28,474)
	<u>3,260,634</u>	<u>3,220,171</u>	<u>26,790</u>
Other assets:			
Investment securities (Note 5)	996,151	727,781	6,055
Investment in affiliated company (Note 6)	-	1,570,971	13,070
Software and other intangibles, net	268,238	239,102	1,989
Deferred income taxes (Note 9)	179,870	132,694	1,104
Others	295,222	286,481	2,383
	<u>1,739,481</u>	<u>2,957,029</u>	<u>24,601</u>
	<u>¥10,904,905</u>	<u>¥13,249,450</u>	<u>\$110,228</u>

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

HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND SHAREHOLDERS' EQUITY

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	March 31,		March 31,
	2002	2003	2003
Current liabilities:			
Short term borrowings	¥10,000	¥10,000	\$83
Current portion of long-term debt (Note 8)	386,940	300,878	2,503
Notes payable, trade	642,248	872,251	7,257
Accounts payable, trade	279,290	329,922	2,745
Other payables	174,084	180,397	1,501
Notes and accounts payable for construction	33,535	101,746	846
Accrued income taxes	40,025	44,182	368
Accrued expenses	142,790	140,603	1,170
Accrued bonuses for employees	235,310	227,844	1,895
Other current liabilities	92,977	75,896	631
Total current liabilities	<u>2,037,199</u>	<u>2,283,719</u>	<u>18,999</u>
Long-term liabilities:			
Long-term debt (Note 8)	958,800	3,027,922	25,191
Reserve for retirement allowances for directors and statutory auditors	316,034	356,122	2,963
Other	15,000	10,000	83
Total long-term liabilities	<u>1,289,834</u>	<u>3,394,044</u>	<u>28,237</u>
Total liabilities	<u>3,327,033</u>	<u>5,677,763</u>	<u>47,236</u>
Minority interest	-	-	-
Shareholders' equity (Notes 11 and 19):			
Common stock ¥50,000 par value -			
Authorized: 44,000 shares			
Issued and outstanding: 11,036 shares	666,800	666,800	5,547
Additional paid-in capital	3,264,200	3,264,200	27,156
Retained earnings	4,001,575	4,070,427	33,864
Unrealized losses on available-for sale securities	52,390	28,900	240
Foreign currency translation adjustments	165,418	115,136	958
Treasury stock, at cost	(572,511)	(573,776)	(4,773)
	<u>7,577,872</u>	<u>7,571,687</u>	<u>62,992</u>
Commitments and contingent liabilities (Notes 15 and 17)	-	-	-
	<u>¥10,904,905</u>	<u>¥13,249,450</u>	<u>\$110,228</u>

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

HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	For the years ended March 31,		For the year ended March 31,
	2002	2003	2003
Net sales	¥8,326,947	¥9,101,391	\$75,719
Cost of sales	5,206,933	5,695,621	47,385
Gross profit	<u>3,120,014</u>	<u>3,405,770</u>	<u>28,334</u>
Selling, general and administrative expenses (Note 13)	<u>3,050,012</u>	<u>3,041,166</u>	<u>25,301</u>
Operating profit	70,002	364,604	3,033
Other income:			
Interest income	14,170	13,670	114
Equity in income of affiliated company	-	9,187	77
Rental income	36,720	39,240	326
Other	19,295	56,869	473
	<u>70,185</u>	<u>118,966</u>	<u>990</u>
Other expenses:			
Interest paid	20,639	38,075	317
Rental expense	34,544	28,320	236
Other	25,172	11,112	92
	<u>80,355</u>	<u>77,507</u>	<u>645</u>
Ordinary income	59,832	406,063	3,378
Exceptional losses, net (Note 14)	<u>361,716</u>	<u>163,561</u>	<u>1,361</u>
Income (loss) before income taxes and minority interest	(301,884)	242,502	2,017
Income taxes (Note 9):			
Current	26,163	27,521	229
Deferred	(18,387)	125,060	1,040
	<u>7,776</u>	<u>152,581</u>	<u>1,269</u>
Minority interest	9,370	-	-
Net income (loss)	(300,290)	89,921	748
Retained earnings:			
Balance at beginning of year	4,748,780	4,001,575	33,291
Cash dividends	286,915	21,069	175
Directors' bonuses	150,000	-	-
Statutory auditors' bonuses	10,000	-	-
Balance at end of year	<u>¥4,001,575</u>	<u>¥4,070,427</u>	<u>\$33,864</u>
	Exact yen		U.S. dollars (Note 3)
Net income (loss) per share (Note 2(n))	<u>(¥27,252.55)</u>	<u>¥5,963.38</u>	<u>\$49.61</u>
Cash dividends per share (Notes 2(m) and 11)			
Year-end dividends for preceding year	¥25,000	¥1,000	\$8.32
Interim dividends for current year	1,000	1,000	8.32
	<u>¥26,000</u>	<u>¥2,000</u>	<u>\$16.64</u>

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

HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	For the years ended March 31,		For the year ended March 31,
	2002	2003	2003
Cash flows from operating activities:			
Income (loss) before income taxes and minority interest	(¥301,884)	¥242,502	\$2,017
Adjustments for:			
Depreciation and amortization	505,992	541,683	4,506
Net provision of allowance for doubtful accounts	3,653	439	4
Net provision of reserve for retirement allowances for directors and statutory auditors	47,914	40,088	334
Interest income earned	(14,170)	(13,670)	(114)
Interest expense incurred	20,639	38,075	317
Equity in income of affiliated company	-	(9,187)	(76)
Government grants received	-	(83,284)	(693)
Devaluation of investment securities	233,598	11,082	92
Loss on sale of investment securities	-	26,345	219
Bonuses to directors and statutory auditors appropriated from retained earnings	(160,000)	-	-
Decrease (increase) in trade receivables	2,853,998	(910,985)	(7,579)
Decrease in inventories	136,603	131,971	1,098
Increase (decrease) in trade payables	(863,587)	324,474	2,699
Other	(314,506)	103,169	859
Subtotal	2,148,250	442,702	3,683
Interest received	11,872	7,703	64
Government grants received	-	83,284	693
Interest paid	(20,014)	(42,391)	(353)
Income taxes paid	(1,268,741)	(15,064)	(125)
Net cash provided by operating activities	871,367	476,234	3,962
Cash flows from investing activities:			
Payments for purchases of fixed assets	(979,922)	(428,986)	(3,569)
Payments for purchases of software and other intangibles	(54,707)	(56,250)	(468)
Proceeds from sale of investment securities	-	189,621	1,578
Payments for purchases of investment in affiliated company	-	(1,593,895)	(13,260)
Other	(243)	2,917	24
Net cash used in investing activities	(1,034,872)	(1,886,593)	(15,695)
Cash flows from financing activities:			
Proceeds from short-term borrowings	710,000	1,610,000	13,394
Payment of short-term borrowings	(710,000)	(1,610,000)	(13,394)
Proceeds from long-term debt	750,000	2,370,000	19,717
Payment of long-term debt	(224,650)	(386,940)	(3,219)
Payments for purchases of treasury stock	(570,251)	(1,264)	(11)
Cash dividends paid	(286,915)	(21,070)	(175)
Net cash provided by (used in) financing activities	(331,816)	1,960,726	16,312
Effect of exchange rate changes on cash and cash equivalents	47,460	(36,610)	(305)
Net increase (decrease) in cash and cash equivalents	(447,861)	513,757	4,274
Cash and cash equivalents at beginning of year	2,026,525	1,578,664	13,134
Cash and cash equivalents at end of year (Note 4)	¥1,578,664	¥2,092,421	\$17,408

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

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

HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2002 AND 2003

1. Nature of operations:

Harmonic Drive Systems Inc. (the "Company") and its consolidated subsidiaries (collectively referred as the "Companies") are engaged in the development, manufacture and sale of harmonic drive gears and related motion control products. The Company's manufacturing facilities are located in Japan and its products are marketed by the Company in Japan, a subsidiary in the United States and an affiliated company in Europe.

2. Summary of significant accounting policies:

The accompanying consolidated financial statements of the Companies are prepared based on the statutory books and records maintained by the Companies in accordance with accounting principles and practices generally accepted and applied in Japan, which are different in certain respects with regard to the application and disclosure requirements from International Accounting Standards. The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows of the Companies in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. However, certain reclassifications are incorporated in order to present the financial statements in a form which is more familiar to readers outside Japan. Such reclassifications have no effect on net income or retained earnings.

(a) Basis of consolidation and accounting for investment in affiliated company -

The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries. Consolidated subsidiaries for the years ended March 31, 2002 and 2003 are as follows:

- HD Systems, Inc.
- HD Logistics Inc.
- Harmonic Precision Inc.

All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated on consolidation.

The Company purchased a 25% shareholding in a sales distributor in Europe named Harmonic Drive AG in July 2002. The investment in the shares of Harmonic Drive AG was accounted for by the equity method in the consolidated financial statement for the year ended March 31, 2003.

(b) Cash and cash equivalents -

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are so close to maturity that they present an insignificant risk of changes in value.

(c) Allowance for doubtful accounts -

The allowance for doubtful accounts of the Company and its domestic subsidiaries is computed based on the past bad debt experience ratio for normal receivables, plus the estimated irrecoverable amount of doubtful receivables on an individual account basis.

(d) Marketable securities and investment securities -

Securities are classified into four categories; trading securities, held-to-maturity debt securities, equity securities of unconsolidated subsidiaries and affiliates, and available-for-sale securities. All securities held by the Company and its subsidiaries are classified as available-for-sale securities, with an exception of the investment in an affiliated company which is classified as equity securities of unconsolidated subsidiaries and affiliates.

Available-for-sale securities with market quotations are stated at fair value, net unrealized gains or losses being reported as a separate component of shareholders' equity on a net-of-tax basis. Those securities without market quotations are stated at cost, cost being determined by the moving average method.

In cases where the fair value of securities is lower than the carrying value by 30% or more, and recovery of fair value to the carrying value is not deemed possible in the foreseeable future, impairment losses are recognized in the statement of income for that period.

(e) Inventories -

Finished products, work in process and raw materials are stated at cost, cost being determined by the moving average method.

(f) Property, plant and equipment -

Property, plant and equipment, including significant renewals and additions, are capitalized at cost. Maintenance and repairs, as well as minor renewals and improvements, are charged to income as incurred. Depreciation is computed by the declining balance method for the Company and its domestic subsidiaries, except that for buildings acquired on or after April 1, 1998, it is computed using the straight-line method. For the overseas subsidiaries, the straight-line method at rates based on the estimated useful lives of the assets is used.

(g) Accounting for leases -

Lease payments under finance lease contracts are charged to income as incurred. Under Japanese accounting principles, finance leases where ownership of the assets does not transfer to the lessee at the end of the lease period may be accounted for as operating leases with an appropriate footnote disclosure.

(h) Intangibles -

Software and other intangibles are amortized by the straight-line method over the estimated useful lives of the assets.

(i) Accrued severance indemnities for employees -

The severance indemnity regulations, which cover substantially all employees of the Company and its domestic subsidiaries, provide for benefit payments determined by reference to the employee's base amount for severance indemnity, length of service, position in the respective company and conditions under which the termination occurs.

The Company has adopted a non-contributory funded, defined benefit, and tax qualified pension plan to provide the benefit payments established under the severance indemnity regulations for its employees. Under the pension plan, a terminating employee may elect either a lump-sum payment or annuity payments. Contributions to the pension plans include current service costs and past service costs, which are amortized over a period of approximately 3 years. Directors are not covered by the regulations.

A U.S. subsidiary maintains a simplified employee plan (the "SEP Plan"). All employees are eligible to participate in the SEP Plan upon completion of one year of service and after attaining the age of 21. The SEP Plan provides for discretionary contributions by the subsidiary. Participants are fully vested in the subsidiary's contributions based on a percentage of their annual compensation.

Effective from the year ended March 31, 2001, the Company and its domestic subsidiaries adopted the new Japanese accounting standard for retirement benefits. In accordance with the new standard, the reserve for retirement benefits represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets, less the unrecognized balance of the transition obligation arising from adoption of the new standard at April 1, 2000 and the unrecognized balance of actuarial differences. In the case that this results in a debit balance, a prepaid pension cost is recorded as an asset.

The transition obligation of ¥343,955 thousand at April 1, 2000 is amortized on a straight-line basis over 3 years. Actuarial differences are also amortized on a straight-line basis over 3 years, starting from the year following that in which they occur.

(j) Reserve for retirement allowances for directors and statutory auditors -

A reserve for retirement allowances for directors and statutory auditors of the Company has been provided at 100% of the amount that would have been payable if all directors and statutory auditors had retired at the end of the year, in accordance with the Company's "Rule for Retirement Allowances for Directors and Statutory Auditors".

(k) Income taxes -

The Company calculates and records income taxes currently payable based on the taxable income, determined in accordance with applicable tax laws.

(l) Foreign currency translation -

Assets and liabilities of the foreign subsidiary are translated into Japanese yen at the exchange rate prevailing at the balance sheet date, shareholders' equity accounts of the foreign subsidiary are translated at historical rates, and all income and expense accounts are translated at the average exchange rate during the year.

(m) Appropriations of retained earnings -

Appropriations of retained earnings are recorded in the accompanying consolidated financial statements following approval by the shareholders, as required under Japanese law.

(n) Net income per share -

The computation of net income per share is based on the average number of shares outstanding during each period, with retroactive adjustments to reflect the effect of stock splits subsequently made, if appropriate.

Effective from the year ended March 31, 2003, the Company adopted the Statement of Financial Accounting Standard No. 2 “Earnings per Share” issued by the Accounting Standards Board of Japan. Prior to adopting the new statement, net income per share was calculated based on the net income shown on the consolidated statements of income. The net income per share calculation therefore excluded bonuses to directors and statutory auditors, since, under the Japanese Commercial Code, these are recognized as an appropriation of retained earnings in the consolidated statements of retained earnings, rather than as expenses in the consolidated statements of income. However, the new statement requires that net income should be adjusted by deducting bonuses paid to directors and statutory auditors as well as the payment of dividends to shareholders of preferred stocks to be recognized as an appropriation of retained earnings from net income shown in the consolidated statements of income and the calculation of net income per share be made on that adjusted net income basis. Net income per share for the year ended March 31, 2003 calculated using the previous method and under the new statement is ¥ 8,535.89 and ¥5,963.38, respectively.

Since no convertible bonds or warrants are issued, there is no dilutive effect on net income per share for the years ended March 31, 2002 and 2003.

3. U.S. dollar amounts:

U.S. dollar amounts are included solely for convenience and have been translated, as a matter of arithmetical computation only, at the rate of ¥120.20=US\$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2003. This translation should not be construed as implying that the yen amounts actually represent, have been or could be converted into U.S. dollars at this or any other rate.

4. Cash and cash equivalents:

Cash and cash equivalents for the purpose of consolidated statements of cash flows at March 31, 2002 and 2003 comprise the following:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2002	2003	2003
Cash and bank deposits	¥1,215,381	¥1,773,754	\$14,757
Highly liquid investments	363,283	318,667	2,651
Cash and cash equivalents	<u>¥1,578,664</u>	<u>¥2,092,421</u>	<u>\$17,408</u>

5. Marketable securities and investment securities:

The aggregate cost, gross unrealized gains and losses, and carrying amount on the balance sheet, which were re-valued to the related fair value, of available-for-sale securities with market quotations at March 31, 2002 and 2003 are as follows:

March 31, 2002:	Thousands of yen			Carrying amount
	Cost	Gross unrealized gains	Gross unrealized losses	
Equity securities	¥255,787	¥96,861	(¥48,263)	¥304,385
Debt securities	3,356	1,719	-	5,075
Other	876,480	-	(193,589)	682,891
	<u>¥1,135,623</u>	<u>¥98,580</u>	<u>(¥241,852)</u>	<u>¥992,351</u>

March 31, 2003:	Thousands of yen			Carrying amount
	Cost	Gross unrealized gains	Gross unrealized losses	
Equity securities	¥200,832	¥79,010	(¥876)	¥278,966
Debt securities	3,356	1,669	-	5,025
Other	476,906	1,855	(38,771)	439,990
	<u>¥681,094</u>	<u>¥82,534</u>	<u>(¥39,647)</u>	<u>¥723,981</u>

March 31, 2003:	Thousands of U.S. dollars (Note 3)			Carrying amount
	Cost	Gross unrealized gains	Gross unrealized losses	
Equity securities	\$1,671	\$657	(\$7)	\$2,321
Debt securities	28	14	-	42
Other	3,967	15	(322)	3,660
	<u>\$5,666</u>	<u>\$686</u>	<u>(\$329)</u>	<u>\$6,023</u>

Impairment losses amounting to ¥233,598 thousand (\$1,753 thousand), including those for available-for-sale securities with market quotations of ¥43,871 thousand (\$329 thousand), were recognized for the year ended March 31, 2002, and those amounting to ¥11,082 thousand (\$92 thousand) on available-for-sale securities with market quotations, were recognized for the year ended March 31, 2003.

The carrying amounts of available-for-sale securities without market quotations at March 31, 2002 and 2003 are as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2002	2003	2003
Equity securities	¥3,800	¥3,800	\$32
Money management funds	312,975	318,667	2,651
Investment security funds	50,308	-	-
	<u>¥367,083</u>	<u>¥322,467</u>	<u>\$2,683</u>

The aggregate annual maturities of available-for-sale securities with maturity at March 31, 2002 and 2003 are as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2002	2003	2003
Within 1 year	¥50,308	¥5,000	\$38
1 - 5 years	5,000	-	-
5 - 10 years	-	-	-
Over 10 years	-	-	-
	<u>¥55,308</u>	<u>¥5,000</u>	<u>\$38</u>

6. Transactions with affiliated company:

Transactions with the affiliated company for the year ended March 31, 2003, as well as account balances at the end of the period, are presented below:

	Thousands of yen	Thousands of U.S. dollars (Note 3)
Sales to affiliated company	¥576,320	\$4,795
	<u>Thousands of yen</u>	<u>Thousands of U.S. dollars (Note 3)</u>
Notes and accounts receivable, trade	¥304,705	\$2,535

7. Inventories:

Inventories at March 31, 2002 and 2003 comprise the following:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2002	2003	2003
Finished products	¥256,832	¥177,108	\$1,473
Work in process	285,674	279,154	2,322
Raw materials	429,358	360,676	3,001
	<u>¥971,864</u>	<u>¥816,938</u>	<u>\$6,796</u>

8. Long-term debt:

Long-term debt at March 31, 2002 and 2003 is summarized as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2002	2003	2003
Secured loans, principally from banks due from 2004 to 2009 with interest ranging from 0.89% to 2.86%:	¥1,345,740	¥3,328,800	\$27,694
Portion due within one year	<u>(386,940)</u>	<u>(300,878)</u>	<u>(2,503)</u>
	<u>¥958,800</u>	<u>¥3,027,922</u>	<u>\$25,191</u>

The following assets are pledged as collateral to secure long-term debt, including the current portion thereof, at March 31, 2002 and 2003:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2002	2003	2003
Land	¥504,518	¥504,518	\$4,197
Buildings	1,068,084	1,447,108	12,039
Structures	6,103	4,902	41
	<u>¥1,578,705</u>	<u>¥1,956,528</u>	<u>\$16,277</u>
Secured long-term debt:			
Current portion of long-term loans	¥366,420	¥276,350	\$2,299
Long-term loans	727,550	2,801,200	23,304
	<u>¥1,093,970</u>	<u>¥3,077,550</u>	<u>\$25,603</u>

Included in the above, the following assets are pledged to secure factory founded bonds at March 31, 2002 and 2003:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2002	2003	2003
Land	¥49,168	¥49,168	\$409
Buildings	195,464	178,298	1,483
Structures	6,103	4,903	41
	<u>¥250,735</u>	<u>¥232,369</u>	<u>\$1,933</u>

The aggregate annual maturities of long-term debt, including the current portion, for each year in the following 5-year period at March 31, 2003 are as follows:

Year ending March 31,	Thousands of yen	Thousands of U.S. dollars (Note 3)
2004	¥300,878	\$2,503
2005	452,746	3,767
2006	452,746	3,767
2007	452,746	3,767
2008	1,052,746	8,758
Over 2009	<u>616,938</u>	<u>5,132</u>
	<u>¥3,328,800</u>	<u>\$27,694</u>

9. Income taxes:

Income taxes applicable to the Company and its domestic subsidiaries consist of corporate income tax, inhabitants tax and enterprise tax, which in aggregate result in a normal statutory tax rate of approximately 42% for the years ended March 31, 2002 and 2003.

Deferred tax assets (liabilities) as of March 31, 2002 and 2003 consist of the following:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2002	2003	2003
Deferred tax assets (liabilities) - current:			
Accrued enterprise taxes	¥265	¥333	\$3
Accrued bonuses	62,406	80,740	672
Inventory write-down	15,545	14,523	120
Tax loss carry forward	118,305	42,080	350
Unrealized intercompany profit	32,945	36,247	302
Prepaid pension cost	(76,748)	(78,294)	(651)
	<u>152,718</u>	<u>95,629</u>	<u>796</u>
Valuation allowance	-	(2,530)	(21)
Net deferred tax assets - current	<u>¥152,718</u>	<u>¥93,099</u>	<u>\$775</u>
Deferred tax assets (liabilities) - non-current:			
Reserve for retirement allowances for directors and statutory auditors	¥132,734	¥144,229	\$1,200
Devaluation of golf memberships	4,432	4,274	36
Depreciation	2,691	1,258	10
Tax loss carry forward	71,320	30,652	255
Devaluation of investment securities	98,111	43,079	358
Unrealized losses on available-for-sale securities	(37,937)	(19,671)	(164)
Undistributed earnings of foreign subsidiary	(16,258)	(38,801)	(323)
Other	529	2,600	22
	<u>255,622</u>	<u>167,620</u>	<u>1,394</u>
Valuation allowance	(75,752)	(34,926)	(290)
Net deferred tax assets - non-current	<u>¥179,870</u>	<u>¥132,694</u>	<u>\$1,104</u>

The valuation allowance primarily relates to deferred tax assets recognized in respect of devaluation of golf memberships for 2002 and 2003.

Reconciliation of the differences between the statutory tax rate and the effective income tax rate for the year ended March 31, 2003 is as follows:

Statutory tax rate	42.0%
Increase (decrease) in taxes resulting from:	
Equalization	3.6
Decrease in deferred tax assets due to change in enterprise tax rate	2.9
Elimination of dividend received from foreign subsidiary	5.6
Tax effect on undistributed earnings of foreign subsidiary	9.3
Others, net	<u>(0.5)</u>
Effective income tax rate	<u>62.9%</u>

On March 31, 2003, the Japanese National Diet approved various changes to the calculation of the statutory local enterprise tax for companies with capital in excess of ¥100 million, effective April 1, 2004. Under the amended legislation, the enterprise tax will be the sum of three tax components; a) an income based component, b) a value added component and c) a capital based component, whereas there was only an "income tax based component" before the amendment. Concurrently, the basic enterprise tax rate for the "income based component" has been reduced from 9.6% to 7.2%. As a result of this amendment, the tax rate to be applied to deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, that are expected to reverse in the year beginning April 1, 2004 or later, decreased from 42.0% to 40.5% as at March 31, 2003. For temporary differences that are expected to reverse in the year ending March 31, 2004, a tax rate of 42.0% has continued to be used at that date. This resulted in a reduction in deferred tax assets at March 31, 2003 of ¥6,418 thousand, compared with the asset that would have been recognized if a tax rate of 42.0 % had been fully applied to all temporary differences. Net income for the year ended March 31, 2003 was also reduced by ¥7,061 thousand as a result of these changes in statutory local enterprise tax regulations.

10. Severance indemnities and retirement allowances for employees:

The Company and its domestic subsidiaries have defined benefit retirement plans covering substantially all employees. The prepaid pension cost recorded on the consolidated balance sheet as of March 31, 2002 and 2003 is analyzed as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2002	2003	2003
Projected benefit obligations (PBO)	(¥1,052,122)	(¥1,118,741)	(\$9,307)
Plan assets	901,724	975,209	8,113
Unfunded PBO	(150,398)	(143,532)	(1,194)
Unrecognized transition obligation	114,651	-	-
Unrecognized actuarial differences	218,479	329,948	2,745
Prepaid pension cost	<u>¥182,732</u>	<u>¥186,416</u>	<u>\$1,551</u>

The net periodic pension cost relating to retirement benefits for the years ended March 31, 2002 and 2003 is as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2002	2003	2003
Service cost	¥65,610	¥68,969	\$574
Interest cost	29,160	26,303	219
Expected return on plan assets	(26,312)	(22,543)	(188)
Amortization of transition obligation	114,651	114,651	954
Amortization of unrecognized losses	32,497	83,659	696
Net periodic pension cost	<u>¥215,606</u>	<u>¥271,039</u>	<u>\$2,255</u>

The assumptions used in the above actuarial computations for the years ended March 31, 2002 and 2003 are as follows:

	2002	2003
Discount rate	2.5%	2.0%
Expected rate of return on plan assets	3.5%	2.5%
Method of attributing pension benefits to employee service periods	Straight-line basis	Straight-line basis
Amortization of transition obligation	3 years	3 years
Amortization of unrecognized actuarial differences	3 years	3 years

11. Shareholders' equity:

The Japanese Commercial Code provides that an amount equivalent to a minimum of 10% of cash dividends and bonuses paid to directors and statutory auditors be appropriated as a legal reserve until such reserve reaches a certain limit, which was 25% of the capital stock for the period to October 1, 2001, but changed to 25% of the capital stock, less capital reserves, effective from that date, in accordance with an amendment to the Commercial Code. The capital and legal reserves may be used to reduce a deficit following the approval of a shareholders' meeting. In addition, under the Commercial Code, the capital and legal reserves may be transferred to retained earnings and available for dividends by resolution of the shareholders' meeting, to the extent that the total amount of the capital and legal reserve does not fall below 25% of the capital stock. The legal reserve of the Company is included in retained earnings on the consolidated balance sheets.

Appropriations of retained earnings are recorded in the accounts when the shareholders' approval is obtained. The following appropriations of retained earnings of the Company for the year ended March 31, 2003 were approved at the ordinary general meeting of shareholders held on June 20, 2003. These appropriations were not recorded in the consolidated financial statements for the year ended March 31, 2003, but will be recorded in those for the year ending March 31, 2004.

	<u>Thousands of yen</u>	<u>Thousands of U.S. dollars (Note 3)</u>
Appropriations:		
Cash dividends at ¥2,500 (\$20.80) per share	¥26,336	\$219
Directors' bonuses for services in the year ended March 31, 2003	24,000	200
Statutory auditors' bonuses for services in the year ended March 31, 2003	1,000	8

Effective for the year ended March 31, 2003, the Company adopted the Statement of Financial Accounting Standard No. 1 "Accounting for Treasury Stock and Reversal of Capital and Legal Reserves" issued by the Accounting Standards Board of Japan. However, the effect on net income for the period of adopting this new statement was immaterial.

12. Derivative financial instruments:

The Companies had no derivative financial instruments at March 31, 2002 or 2003.

13. Selling, general and administrative expenses:

The major items included in selling, general and administrative expenses for the years ended March 31, 2002 and 2003 are as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2002	2003	2003
Shipping and transportation	¥131,211	¥89,734	\$747
Remuneration, salaries, bonuses, fringe benefits, etc.	1,254,992	1,199,015	9,975
Research and development	844,162	937,316	7,798

14. Exceptional losses, net:

Exceptional losses, net for the years ended March 31, 2002 and 2003 consist of the following:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2002	2003	2003
Exceptional gains on:			
- Reversal of allowance for doubtful accounts	(¥2,423)	¥ -	\$ -
- Government grants received for land acquisition	-	(59,878)	(498)
- Government grants received for building acquisition	-	(23,406)	(195)
Exceptional losses on:			
- Disposal of property, plant and equipment	15,889	12,448	104
- Devaluation of investment securities	233,598	11,082	92
- Loss on sale of investment securities	-	26,345	219
- Amortization of transition obligation	114,652	114,652	954
- Loss on reduction in cost of fixed assets acquired with government grants	-	23,406	195
- Special retirement allowance	-	58,912	490
Exceptional losses, net	<u>¥361,716</u>	<u>¥163,561</u>	<u>\$1,361</u>

15. Finance leases:

Leased assets and related expenses in respect of the Company's finance leases, other than those which transfer ownership of the lease assets to the lessee, are accounted for using a method similar to that used for operating leases. Finance lease charges of the Companies for the years ended March 31, 2002 and 2003 were ¥348,855 thousand and ¥337,226 thousand (\$2,806thousand), respectively. Had they been capitalized on the balance sheet, the following items would have been recognized on the balance sheet and the statements of income and retained earnings as at and for the years ended March 31, 2002 and 2003:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2002	2003	2003
Machinery and equipment	¥1,501,786	¥1,421,401	\$11,825
Tools, furniture and vehicles	212,281	168,553	1,402
Software	14,930	28,335	236
	<u>1,728,997</u>	<u>1,618,289</u>	<u>13,463</u>
Less - Accumulated depreciation	<u>(733,742)</u>	<u>(667,557)</u>	<u>(5,554)</u>
	<u>¥995,255</u>	<u>¥950,732</u>	<u>\$7,909</u>

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2002	2003	2003
Depreciation	¥291,240	¥286,767	\$2,386
Interest expense	31,178	28,181	234

Depreciation costs are calculated based on the straight-line method over the lease period, with no residual asset value at the end of the lease period. The interest expense portion is determined by subtracting an amount equivalent to the acquisition cost from the total lease fee. Total interest payments over the lease period are allocated to each period by the "interest method."

The present values of future lease payments of the Companies as at March 31, 2002 and 2003 are as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2002	2003	2003
Current portion	¥265,895	¥279,639	\$2,326
Long-term obligation	753,995	694,662	5,779
	<u>¥1,019,890</u>	<u>¥974,301</u>	<u>\$8,105</u>

Future operating lease payments under non-cancelable lease contracts as at March 31, 2002 and 2003 are as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2002	2003	2003
Current portion	¥31,699	¥30,015	\$250
Long-term obligation	76,992	45,376	377
	<u>¥108,691</u>	<u>¥75,391</u>	<u>\$627</u>

16. Notes receivable due at the balance sheet date:

Under prevailing business practice in Japan, while notes receivable are often issued with a due date at the month-end, actual settlement of the notes is postponed to the first business day of the following month in cases where the month end date is a bank holiday. In such cases, settlement of the notes is recorded on the respective due date, rather than the actual settlement date, for the Companies. Since March 31, 2002 was a bank holiday, and the Company and its domestic subsidiaries had notes receivable amounting to ¥34,053 thousand due on March 31, 2002, they were actually settled on the first business day of April. These notes receivable were excluded from the notes receivable balance on the consolidated balance sheet at March 31, 2002.

17. Contingent liabilities:

The Companies had no contingent liabilities as at March 31, 2002 or 2003.

18. Segment information:

(a) Industry segment information -

The Companies' business operations fall within a single business segment, based on similarities in the type and nature of business. Accordingly, segment information on operating revenue, operating expenses, operating profit and identifiable assets, depreciation and capital investment, etc., has been omitted.

(b) Geographic area information and export sales information -

	Thousands of yen				Consolidated
	Japan	United States	Combined	Elimination and /or Corporate	
I. For the year ended March 31, 2002:					
Sales -					
Third Party	¥7,360,702	¥966,245	¥8,326,947	¥ -	¥8,326,947
Intersegment	357,877	-	357,877	(357,877)	-
Total	<u>7,718,579</u>	<u>966,245</u>	<u>8,684,824</u>	<u>(357,877)</u>	<u>8,326,947</u>
Operating expenses	<u>7,762,682</u>	<u>904,693</u>	<u>8,667,375</u>	<u>(410,430)</u>	<u>8,256,945</u>
Operating profit	<u>(¥44,103)</u>	<u>¥61,552</u>	<u>¥17,449</u>	<u>¥52,553</u>	<u>¥70,002</u>
II. At March 31, 2002:					
Total Assets	<u>¥8,955,232</u>	<u>¥584,553</u>	<u>¥9,539,785</u>	<u>¥1,365,120</u>	<u>¥10,904,905</u>

	Thousands of yen				Consolidated
	Japan	United States	Combined	Elimination and /or Corporate	
I. For the year ended March 31, 2003:					
Sales -					
Third Party	¥8,257,417	¥843,974	¥9,101,391	¥ -	¥9,101,391
Intersegment	337,454	-	337,454	(337,454)	-
Total	<u>8,594,871</u>	<u>843,974</u>	<u>9,438,845</u>	<u>(337,454)</u>	<u>9,101,391</u>
Operating expenses	<u>8,253,019</u>	<u>835,488</u>	<u>9,088,507</u>	<u>(351,720)</u>	<u>8,736,787</u>
Operating profit	<u>¥341,852</u>	<u>¥8,486</u>	<u>¥350,338</u>	<u>¥14,266</u>	<u>364,604</u>
II. At March 31, 2003:					
Total Assets	<u>¥11,745,145</u>	<u>¥467,740</u>	<u>¥12,212,885</u>	<u>¥1,036,565</u>	<u>¥13,249,450</u>

	Thousands of yen				
	Japan	United States	Combined	Elimination and/or Corporate	Consolidated
I. For the year ended March 31, 2003:					
Sales -					
Third Party	\$68,698	\$7,021	\$75,719	\$ -	\$75,719
Intersegment	<u>2,808</u>	<u>-</u>	<u>2,808</u>	<u>(2,808)</u>	<u>-</u>
Total	71,506	7,021	78,527	(2,808)	75,719
Operating expenses	<u>68,661</u>	<u>6,951</u>	<u>75,612</u>	<u>(2,926)</u>	<u>72,686</u>
Operating profit	<u>\$2,845</u>	<u>\$70</u>	<u>\$2,915</u>	<u>\$118</u>	<u>\$3,033</u>
II. At March 31, 2003:					
Total Assets	<u>\$97,713</u>	<u>\$3,891</u>	<u>\$101,604</u>	<u>\$8,624</u>	<u>\$110,228</u>

Note 1: Operating expenses amounting to ¥297,823 thousand and ¥299,228 thousand (\$2,489 thousand) for the years ended March 31, 2002 and 2003, respectively, which cannot be allocated to any particular geographical area, are included in the "Elimination and/or Corporate" column. These represent expenses incurred for primary research and development activities, plus certain expenses incurred by corporate departments, such as the General Affairs and Accounting Department.

Note 2: Assets of ¥1,727,726 thousand and ¥1,391,609 thousand (\$11,577 thousand) as at March 31, 2002 and 2003, respectively, which cannot be allocated to any particular geographical area, are included in the "Elimination and/or Corporate" column. These assets represent excess cash at banks, long-term investments such as investment securities, other investments and other assets and those used by corporate departments.

(c) Export sales -

Export sales by major area for the years ended March 31, 2002 and 2003 are as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2002	2003	2003
Europe, mainly Germany	¥1,302,356	¥779,871	\$6,488
North America, mainly United States	966,246	843,974	7,022
Other	<u>19,520</u>	<u>29,473</u>	<u>245</u>
Total export sales	<u>¥2,288,122</u>	<u>¥1,653,318</u>	<u>\$13,755</u>

19. Subsequent events:

On February 27, 2003, the Company's Board of Directors approved a three-for-one stock split to be distributed on May 20, 2003 to the registered shareholders as of March 31, 2003. The outstanding number of stocks increased by 22,072 as a result of the stock split. For the purpose of cash dividends for the year ending March 31, 2004, including interim dividends of that period, the increased stocks are deemed as if they were outstanding from April 1, 2003.

Assuming the stock split had been made on April 1, 2001, pro forma per share information as at March 31, 2002 and 2003, and for the years then ended, is as follows:

	Exact yen		U.S. dollars
	2002	2003	(Note 3) 2003
Net shareholders' equity per share	¥228,883.41	¥238,728.56	\$1,986.09
Net income (loss) per share	(9,070.01)	1,987.81	16.54