HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2002

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
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Report of Independent Accountants

June 21, 2002

To the 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, 2001 and 2002, 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, 2001 and 2002, 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) applied on a consistent basis.

As described in Note 2, Harmonic Drive Systems Inc. and its subsidiaries have adopted the new Japanese accounting standards for financial instruments, retirement benefits, and foreign currency translation effective for the year ended March 31, 2001.

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.

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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,
	2001	2002	2002
Current assets:			
Cash and bank deposits (Note 4)	¥1,612,138	¥1,215,381	$9,121
Marketable securities (Note 5)	414,387	363,283	2,726
Notes and accounts receivable, trade -			
Notes (Note 15)	1,373,989	327,776	2,460
Accounts	4,373,644	2,596,373	19,485
Allowance for doubtful accounts	(4,930)	(9,104)	(68)
	5,742,703	2,915,045	21,877
Inventories (Note 6)	1,069,548	971,864	7,294
Deferred income taxes (Note 8)	247,381	152,718	1,146
Prepaid expenses and other current assets (Note 9)	133,507	286,499	2,150
Total current assets	9,219,664	5,904,790	44,314
Property, plant and equipment (Note 7):			
Land	803,912	803,913	6,033
Buildings and structures	2,726,322	2,976,581	22,338
Machinery and equipment	1,993,647	2,080,273	15,612
Construction in progress	136,789	507,030	3,805
	5,660,670	6,367,797	47,788
Less - Accumulated depreciation	(2,826,757)	(3,107,163)	(23,318)
	2,833,913	3,260,634	24,470
Other assets:			
Investment securities (Note 5)	1,071,086	996,151	7,476
Software and other intangibles, net	296,942	268,238	2,013
Deferred income taxes (Note 8)	132,339	179,870	1,350
Others	303,385	295,222	2,216
	1,803,752	1,739,481	13,055
	¥13,857,329	¥10,904,905	$81,839

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,
	2001	2002	2002
Current liabilities:			
Short term borrowings	¥10,000	¥10,000	$75
Current portion of long-term debt (Note 7)	224,650	386,940	2,904
Notes payable, trade	1,398,260	642,248	4,820
Accounts payable, trade	398,725	279,290	2,096
Other payables	494,089	174,084	1,306
Notes and accounts payable for construction	122,449	33,535	252
Accrued income taxes	1,265,916	40,025	300
Accrued expenses	18,568	142,790	1,072
Accrued bonuses for employees	263,986	235,310	1,766
Other current liabilities	61,519	92,977	698
Total current liabilities	4,258,162	2,037,199	15,289
Long-term liabilities:			
Long-term debt (Note 7)	595,740	958,800	7,195
Reserve for retirement allowances for directors and statutory auditors	268,120	316,034	2,372
Other	20,000	15,000	113
Total long-term liabilities	883,860	1,289,834	9,680
Total liabilities	5,142,022	3,327,033	24,969
Minority interest	9,369	-	-
Shareholders' equity (Note 10):			
Common stock ¥50,000 par value -			
Authorized: 44,000 shares			
Issued and outstanding: 11,036 shares	666,800	666,800	5,004
Additional paid-in capital	3,264,200	3,264,200	24,497
Retained earnings	4,748,780	4,001,574	30,032
Unrealized gains (losses) on available-for sale securities	(38,153)	52,390	393
Foreign currency translation adjustments	66,571	165,419	1,241
Treasury stock, at cost	(2,260)	(572,511)	(4,297)
	8,705,938	7,577,872	56,870
Commitments and contingent liabilities (Notes 14 and 16)	-	-	-
	¥13,857,329	¥10,904,905	$81,839

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,
	2001	2002	2002
Net sales	¥14,006,555	¥8,326,947	$62,491
Costs of sales	7,568,032	5,206,933	39,076
Gross profit	6,438,523	3,120,014	23,415
Selling, general and administrative expenses (Note 12)	3,103,478	3,050,012	22,889
Operating profit	3,335,045	70,002	526
Other income:			
Interest income	21,123	14,170	106
Rental income	36,600	36,720	276
Other	25,149	19,295	145
	82,872	70,185	527
Other expenses:			
Interest paid	25,343	20,639	155
Rental expense	18,166	34,544	259
Other	12,774	25,172	189
	56,283	80,355	603
Ordinary income	3,361,634	59,832	450
Special losses, net (Note 13)	119,949	361,716	2,715
Income (loss) before income taxes and minority interest	3,241,685	(301,884)	(2,265)
Income taxes (Note 8):			
Current	1,497,175	26,163	196
Deferred	(120,832)	(18,387)	(138)
	1,376,343	7,776	58
Minority interest	2,892	9,370	70
Net income (loss)	1,862,450	(300,290)	(2,253)
Retained earnings:			
Balance at beginning of year	3,395,682	4,748,780	35,638
Cash dividends	419,352	286,915	2,153
Directors' bonuses	90,000	150,000	1,125
Statutory auditors' bonuses	-	10,000	75
Balance at end of year	¥4,748,780	¥4,001,575	$30,032

	Exact yen		U.S. dollars (Note 3)
Net income per share (Note 2(o))	¥168,768.95	(¥27,252.55)	$204.52
Cash dividends per share (Notes 2(n) and 10)			
Year-end dividends for preceding year	¥18,000	¥1,000	$8
Interim dividends for current year	20,000	1,000	8
	¥38,000	¥2,000	$16

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,
	2001	2002	2002
Cash flows from operating activities:			
Income (loss) before income taxes and minority interest	¥3,241,685	(¥301,884)	($2,265)
Adjustments for:			
Depreciation and amortization	476,194	505,992	3,797
Devaluation of golf memberships	10,552	-	-
Net provision (reversal) of allowance for doubtful accounts	(18,741)	3,653	27
Net provision of reserve for retirement allowances for directors and statutory auditors	41,289	47,914	359
Interest income earned	(21,123)	(14,170)	(106)
Interest expense incurred	25,343	20,639	155
Devaluation of investment securities	-	233,598	1,753
Bonuses to directors and statutory auditors appropriated from retained earnings	(90,000)	(160,000)	(1,201)
Decrease (increase) in trade receivables	(1,358,199)	2,853,998	21,418
Decrease in inventories	59,302	136,603	1,025
Increase (decrease) in trade payables	170,276	(863,587)	(6,481)
Other	101,445	(314,506)	(2,360)
Subtotal	2,638,023	2,148,250	16,121
Interest received	21,045	11,872	89
Interest paid	(26,722)	(20,014)	(150)
Income taxes paid	(584,450)	(1,268,741)	(9,522)
Net cash provided by operating activities	2,047,896	871,367	6,538
Cash flows from investing activities:			
Payments for purchases of fixed assets	(1,042,306)	(979,922)	(7,354)
Payments for purchases of software and other intangibles	(198,601)	(54,707)	(411)
Payments for purchases of investment securities	(134,037)	-	-
Payments for purchases of other assets	(200,000)	-	-
Other	25,855	(243)	(2)
Net cash used in investing activities	(1,549,089)	(1,034,872)	(7,767)
Cash flows from financing activities:			
Proceeds from short-term borrowings	510,000	710,000	5,328
Payment of short-term borrowings	(510,000)	(710,000)	(5,328)
Proceeds from long-term debt	260,000	750,000	5,629
Payment of long-term debt	(216,420)	(224,650)	(1,686)
Cash dividends paid	(419,352)	(286,915)	(2,153)
Payments for redemption of bonds	(250,000)	-	-
Other	(2,260)	(570,251)	(4,280)
Net cash used in financing activities	(628,032)	(331,816)	(2,490)
Effect of exchange rate changes on cash and cash equivalents	18,751	47,460	356
Net decrease in cash and cash equivalents	(110,474)	(447,861)	(3,363)
Cash and cash equivalents at beginning of year	2,136,999	2,026,525	15,210
Cash and cash equivalents at end of year (Note 4)	¥2,026,525	¥1,578,664	$11,847

HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2001 AND 2002

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 unaffiliated sales distributor 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 from the application and disclosure requirements of International Accounting Standards. The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows 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 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 -

The consolidated financial statements include the accounts of the Company and its consolidated subsidiaries. Consolidated subsidiaries for the years ended March 31, 2001 and 2002 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.

(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 near maturity that they present an insignificant risk of changes in value.

(c) Financial instruments -

Effective from the year ended March 31, 2001, the Companies adopted the new Japanese accounting standard for financial instruments. As a result, “ordinary income” and “income before income taxes and minority interest” for the year ended March 31, 2001 increased by ¥280 thousand and decreased by ¥67,381 thousand, respectively, as compared with the amounts which would have been reported if the previous standard had been applied consistently. The new accounting standard for financial instruments has affected the accounting treatment for the allowance for doubtful accounts, marketable securities and golf memberships.

As a result of the revaluation of available-for-sale securities to fair value, the balance of investment securities in the “other assets” section decreased by ¥65,781 thousand at March 31, 2001. This resulted in unrealized losses on available-for sale securities of ¥38,153 thousand being recognized as a separate component (as a debit balance) of the shareholders’ equity section, and deferred tax assets of ¥27,628 thousand being recognized in the “other assets” section at March 31, 2001.

The classification of securities between current and non-current was also re-examined, the result being that debt securities with a maturity date of one year or less were classified as current, and debt securities with a maturity date of more than one year and equity securities other than trading securities were classified as non-current. As a result of the reclassification, the balance of marketable securities in the “current assets” section decreased by ¥773,243 thousand and that of investment securities in the “other assets” section increased by the same amount, as at April 1, 2000.

(d) Allowance for doubtful accounts -

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

(e) 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.

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 the case that the fair value of securities is lower than the carrying value by 30% or more, and recovery to the carrying value is not deemed possible in the foreseeable future, impairment losses are recognized in the statements of income.

(f) Inventories -

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

(g) 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 betterments, 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.

(h) 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.

(i) Intangibles -

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

(j) 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.

In the year ended March 31, 2000 and prior, the same amount that had been contributed to the pension plan was recorded as a pension expense and charged to income, not recognizing any related assets or liabilities on the balance sheet.

However, 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.

As a result of adoption of the standard, net periodic pension cost including amortization of the transition obligation for the year ended March 31, 2001 decreased by ¥106,601 thousand, and "ordinary income" and "income before income taxes and minority interest" increased by ¥218,687 thousand and ¥104,035 thousand, respectively, as compared with the amounts which would have been reported if the previous standard had been applied consistently.

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.

(k) 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".

(l) Income taxes -

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

(m) 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.

In the year ended March 31, 2000 and prior, foreign currency translation adjustments, calculated in accordance with the method described above were recorded as an asset or liability. However, effective from the year ended March 31, 2001, the Companies adopted the new Japanese standard for foreign currency translation. As a result, translation adjustments have been recorded as a separate component of shareholders' equity as at March 31, 2001.

(n) 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.

(o) 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. Since no convertible bonds or warrants are issued, there is no dilutive effect on net income per share for the years ended March 31, 2001 and 2002.

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 ¥133.25=US$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2002. This translation should not be construed as meaning 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, 2001 and 2002 comprise the following:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2001	2002	2002
Cash and bank deposits	¥1,612,138	¥1,215,381	$9,121
Highly liquid investments	414,387	363,283	2,726
Cash and cash equivalents	¥2,026,525	¥1,578,664	$11,847

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, 2001 and 2002 are as follows:

	Thousands of yen			
March 31, 2001:	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Equity securities	¥255,787	¥96,103	(¥26,001)	¥325,889
Debt securities	3,356	1,900	-	5,256
Other	873,925	75	(137,859)	736,141
	¥1,133,068	¥98,078	(¥163,860)	¥1,067,286

March 31, 2002:	Thousands of yen Cost	 Gross unrealized gains	 Gross unrealized losses	 Carrying amount
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
	¥1,135,623	¥98,580	(¥241,852)	¥992,351

March 31, 2002:	Thousands of U.S. dollars (Note 3) Cost	 Gross unrealized gains	 Gross unrealized losses	 Carrying amount
Equity securities	$1,920	$727	($362)	$2,285
Debt securities	25	13	-	38
Other	6,578	-	(1,453)	5,125
	$8,523	$740	($1,815)	$7,448

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.

The carrying amounts of available-for-sale securities without market quotations at March 31, 2001 and 2002 are as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2001	2002	2002
Equity securities	¥3,800	¥3,800	$29
Money management funds	313,296	312,975	2,349
Investment security funds	101,090	50,308	376
	¥418,186	¥367,083	$2,754

The aggregate annual maturities of available-for-sale securities with maturity at March 31, 2001 and 2002 are as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2001	2002	2002
Within 1 year	¥101,090	¥50,308	$378
1 - 5 years	5,000	5,000	38
5 - 10 years	-	-	-
Over 10 years	-	-	-
	¥106,090	¥55,308	$416

6. Inventories:

Inventories at March 31, 2001 and 2002 comprise the following:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2001	2002	2002
Finished products	¥261,223	¥256,832	$1,928
Work in process	383,229	285,674	2,144
Raw materials	425,096	429,358	3,222
	¥1,069,548	¥971,864	$7,294

7. Long-term debt:

Long-term debt at March 31, 2001 and 2002 is summarized as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2001	2002	2002
Secured loans, principally from banks due from 2002 to 2004 with interest ranging from 1.60% to 1.70%:	¥820,390	¥1,345,740	$10,099
Portion due within one year	(224,650)	(386,940)	(2,904)
	¥595,740	¥958,800	$7,195

The following assets are pledged as collateral to secure long-term debt, including the current portion thereof, at March 31, 2001 and 2002:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2001	2002	2002
Land	¥504,518	¥504,518	$3,786
Buildings	1,122,006	1,068,084	8,016
Structures	7,627	6,103	46
	¥1,634,151	¥1,578,705	$11,848
Secured long-term debt:			
Current portion of long-term loans	¥216,420	¥366,420	$2,750
Long-term loans	343,970	727,550	5,460
	¥560,390	¥1,093,970	$8,210

Included in the above, the following assets are pledged to secure factory founded bonds at March 31, 2001 and 2002:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2001	2002	2002
Land	¥49,168	¥49,168	$369
Buildings	166,189	195,464	1,467
Structures	7,627	6,103	46
	¥222,984	¥250,735	$1,882

The aggregate annual maturities of long-term debt, including the current portion, for each year of the 5-year period at March 31, 2002 are as follows:

	Thousands of yen	Thousands of U.S. dollars (Note 3)
Year ending March 31,		
2003	¥386,940	$2,904
2004	298,070	2,237
2005	170,520	1,280
2006	170,520	1,280
2007	170,520	1,280
Over 2008	149,170	1,118
	¥1,345,740	$10,099

8. 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 rate of approximately 42% for the years ended March 31, 2001 and 2002.

Deferred tax assets (liabilities) as of March 31, 2001 and 2002 consist of the following:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2001	2002	2002
Deferred tax assets (liabilities) - current:			
Accrued enterprise taxes	¥118,376	¥265	$2
Accrued bonuses	61,175	62,406	468
Inventory write-down	17,850	15,545	117
Tax loss carry forward	-	118,305	888
Unrealized intercompany profit	46,046	32,945	247
Foreign income tax credit carryforwards	97,604	-	-
Prepaid pension cost	(44,776)	(76,748)	(576)
Other	(92)	-	-
	296,183	152,718	1,146
Valuation allowance	(48,802)	-	-
Net deferred tax assets - current	¥247,381	¥152,718	$1,146
Deferred tax assets (liabilities) - non-current:			
Reserve for retirement allowances for directors and statutory auditors	¥112,610	¥132,734	$996
Devaluation of golf memberships	4,432	4,432	34
Depreciation	5,968	2,691	20
Tax loss carry forward	-	71,320	535
Devaluation of investment securities	-	98,111	736
Unrealized (gains) losses on available-for-sale securities	27,628	(37,937)	(285)
Undistributed earnings of foreign subsidiary	(18,829)	(16,258)	(122)
Other	530	529	4
	132,339	255,622	1,918
Valuation allowance	-	(75,752)	(568)
Net deferred tax assets - non-current	¥132,339	¥179,870	$1,350

The valuation allowance primarily relates to deferred tax assets recognized in respect of foreign income tax credit carryforwards for 2001, and devaluation of golf memberships for 2002.

9. 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, 2001 and 2002 is analyzed as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2001	2002	2002
Projected benefit obligations (PBO)	(¥971,983)	(¥1,052,122)	($7,896)
Plan assets	751,798	901,724	6,767
Unfunded PBO	(220,185)	(150,398)	(1,129)
Unrecognized transition obligation	229,304	114,651	860
Unrecognized actuarial differences	97,491	218,479	1,640
Prepaid pension cost	¥106,610	¥182,732	$1,371

The net periodic pension cost relating to retirement benefits for the years ended March 31, 2001 and 2002 is as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2001	2002	2002
Service cost	¥63,044	¥65,610	$492
Interest cost	28,184	29,160	219
Expected return on plan assets	(20,842)	(26,312)	(197)
Amortization of transition obligation	114,651	114,651	860
Amortization of unrecognized losses	-	32,497	244
Net periodic pension cost	¥185,037	¥215,606	$1,618

The assumptions used in the actuarial computation for the year ended March 31, 2001 and 2002 above are as follows:

	2001	2002
Discount rate	3.0%	2.5 %
Expected rate of return on plan assets	3.5%	3.5 %
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

10. 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 certain capital reserves, effective from that date, in accordance with an amendment to the Commercial Code.

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, 2002 were approved at the ordinary general meeting of shareholders held on June 21, 2002. These appropriations were not recorded in the consolidated financial statements for the year ended March 31, 2002, but will be recorded in those for the year ending March 31, 2003.

	Thousands of yen	Thousands of U.S. dollars (Note 3)
Appropriations:		
Cash dividends at ¥1,000 ($7.5) per share	¥10,535	$79

11. Derivative financial instruments:

The Companies had no derivative financial instruments at March 31, 2001 or 2002.

12. Selling, general and administrative expenses:

The major items included in selling, general and administrative expenses for the years ended March 31, 2001 and 2002 are as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2001	2002	2002
Shipping and transportation	¥185,898	¥131,211	$985
Remuneration, salaries, bonuses, fringe benefits, etc.	1,324,061	1,254,992	9,418
Research and development	740,519	844,162	6,335

13. Special losses, net:

Special losses, net for the years ended March 31, 2001 and 2002 consist of the following:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2001	2002	2002
Special gains on:			
- Reversal of allowance for doubtful accounts	(¥15,918)	(¥2,423)	($18)
- Sale of property, plant and equipment	(127)	-	-
Special losses on:			
- Disposal of property, plant and equipment	6,961	15,889	119
- Sale of property, plant and equipment	3,829	-	-
- Devaluation of investment securities	-	233,598	1,753
- Amortization of transition obligation	114,652	114,652	861
- Devaluation of golf memberships	10,552	-	-
Special losses, net	¥119,949	¥361,716	$2,715

14. 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, 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, 2001 and 2002 were ¥372,611 thousand and ¥348,855 thousand ($2,618 thousand), 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, 2001 and 2002:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2001	2002	2002
Machinery and equipment	¥1,522,052	¥1,501,786	$11,270
Tools, furniture and vehicles	246,732	212,281	1,593
Software	29,666	14,930	112
	1,798,450	1,728,997	12,975
Less - Accumulated depreciation	(1,123,565)	(733,742)	(5,507)
	¥674,885	¥995,255	¥7,468

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2001	2002	2002
Depreciation	¥307,949	¥291,240	$2,186
Interest expense	29,153	31,178	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, 2001 and 2002 are as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2001	2002	2002
Current portion	¥244,269	¥265,895	$1,995
Long-term obligation	470,557	753,995	5,658
	¥714,826	¥1,019,890	$7,653

Future operating lease payments under non-cancelable lease contracts as at March 31, 2001 and 2002 are as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2001	2002	2002
Current portion	¥4,787	¥31,699	$238
Long-term obligation	1,057	76,992	578
	¥5,844	¥108,691	$816

15. Notes receivable due at the balance sheet date:

In 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, 2001 and 2002 were both bank holidays, and the Company and its domestic subsidiaries had notes receivable amounting to ¥127,393 thousand and ¥34,053 thousand ($256 thousand) due on March 31, 2001 and 2002, respectively, 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.

16. Contingent liabilities:

The Companies had no contingent liabilities, such as guarantees for loans, etc., as at March 31, 2001 or 2002.

17. Segment information:

(a) Industry segment information -

The Companies' business is a single 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				
	Japan	United States	Combined	Elimination and /or Corporate	Consolidated
I. For the year ended March 31, 2001:					
Sales -					
Third Party	¥12,475,837	¥1,530,718	¥14,006,555	¥ -	¥14,006,555
Intersegment	1,089,723	-	1,089,723	(1,089,723)	-
Total	13,565,560	1,530,718	15,096,278	(1,089,723)	14,006,555
Operating expenses	10,383,920	1,332,015	11,715,935	(1,044,425)	10,671,510
Operating profit	¥3,181,640	¥198,703	¥3,380,343	(¥45,298)	¥3,335,045
II. At March 31, 2001:					
Total Assets	¥11,657,112	¥777,995	¥12,435,107	¥1,422,222	¥13,857,329

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

	Thousands of U.S. dollars (Note3)				
	Japan	United States	Combined	Elimination and /or Corporate	Consolidated
I. For the year ended March 31, 2002:					
Sales -					
Third Party	$55,240	$7,251	$62,491	$ -	$62,491
Intersegment	2,686	-	2,686	(2,686)	-
Total	57,926	7,251	65,177	(2,686)	62,491
Operating expenses	58,257	6,789	65,046	(3,081)	61,965
Operating profit	($331)	$462	$131	$395	$526
II. At March 31, 2002					
Total Assets	$67,206	$4,387	$71,593	$10,246	$81,839

Note 1: Operating expenses amounting to ¥282,546 thousand and ¥297,823 thousand ($2,235 thousand) for the years ended March 31, 2001 and 2002, 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 ¥1,812,532 thousand and ¥1,727,726 thousand ($12,966 thousand) as at March 31, 2001 and 2002, 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, 2001 and 2002 are as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2001	2002	2002
Europe, mainly Germany	¥1,417,297	¥1,302,356	$9,774
North America, mainly United States	1,530,718	966,246	7,251
Other	13,809	19,520	146
Total export sales	¥2,961,824	¥2,288,122	$17,171