HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31,2004

ChuoAoyama PricewaterhouseCoopers

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Report of Independent Auditors

June 25, 2004

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, 2003 and 2004, and the related consolidated statements of income and retained earnings, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Harmonic Drive Systems Inc. and its subsidiaries as of March 31, 2003 and 2004, 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 11 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.

ChuoAoyama PricewaterhouseCoopers

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,
	2003	2004	2004
Current assets:			
Cash and bank deposits (Note 4)	¥1,773,754	¥2,348,234	$22,218
Marketable securities (Note 5)	318,667	61,118	578
Notes and accounts receivable, trade -			
Notes	509,526	639,121	6,047
Accounts	3,313,197	4,525,450	42,818
Allowance for doubtful accounts	(8,940)	(5,356)	(50)
	3,813,783	5,159,215	48,815
Inventories (Note 7)	816,938	867,831	8,211
Deferred income taxes (Note 9)	93,099	170,281	1,611
Prepaid expenses and other current assets (Note 10)	256,009	287,298	2,718
Total current assets	7,072,250	8,893,977	84,151
Property, plant and equipment (Note 8):			
Land	803,913	803,913	7,606
Buildings and structures	3,516,582	3,562,681	33,709
Machinery and equipment	2,313,510	2,409,249	22,796
Construction in progress	8,769	3,943	37
	6,642,774	6,779,786	64,148
Less - Accumulated depreciation	(3,422,603)	(3,655,002)	(34,582)
	3,220,171	3,124,784	29,566
Other assets:			
Investment securities (Note 5)	727,781	760,002	7,191
Investment in affiliated company (Note 6)	1,570,971	1,683,710	15,931
Software and other intangibles, net	239,102	160,365	1,517
Deferred income taxes (Note 9)	132,694	-	-
Others	286,481	222,787	2,108
	2,957,029	2,826,864	26,747
	¥13,249,450	¥14,845,625	$140,464

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,
	2003	2004	2004
Current liabilities:			
Short term borrowings	¥10,000	¥10,000	$94
Current portion of long-term debt (Note 8)	300,878	454,080	4,296
Notes payable, trade	872,251	999,053	9,453
Accounts payable, trade	329,922	629,710	5,958
Other payables	180,397	281,933	2,667
Notes and accounts payable for construction	101,746	63,695	603
Accrued income taxes	44,182	730,842	6,915
Accrued expenses	140,603	166,742	1,578
Accrued bonuses for employees	227,844	325,187	3,077
Other current liabilities	75,896	190,529	1,803
Total current liabilities	2,283,719	3,851,771	36,444
Long-term liabilities:			
Long-term debt (Note 8)	3,027,922	2,573,984	24,354
Reserve for retirement allowances for employees (Note 10)	-	2,381	23
Reserve for retirement allowances for directors and statutory auditors	356,122	295,564	2,797
Reserve for retirement allowances for executive officers	-	14,741	139
Deferred income taxes (Note 9)	-	79,947	756
Other	10,000	5,000	47
Total long-term liabilities	3,394,044	2,971,617	28,116
Total liabilities	5,677,763	6,823,388	64,560
Minority interest	-	3,037	29
Shareholders' equity (Note 11):			
Common stock -			
2003 - Authorized: 44,000 shares			
Issued and outstanding: 11,036 shares			
2004 - Authorized: 132,000 shares			
Issued and outstanding: 33,108 shares	666,800	666,800	6,309
Additional paid-in capital	3,264,200	3,264,200	30,885
Retained earnings	4,070,427	5,261,424	49,782
Unrealized gains on available-for sale securities	28,900	329,279	3,115
Foreign currency translation adjustments	115,136	71,046	672
Treasury stock, at cost	(573,776)	(1,573,549)	(14,888)
	7,571,687	8,019,200	75,875
Commitments and contingent liabilities (Notes 15 and 16)	-	-	-
	¥13,249,450	¥14,845,625	$140,464

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,
	2003	2004	2004
Net sales	¥9,101,391	¥12,031,681	$113,839
Cost of sales	5,695,621	6,849,924	64,811
Gross profit	3,405,770	5,181,757	49,028
Selling, general and administrative expenses (Note 13)	3,041,166	3,186,402	30,149
Operating profit	364,604	1,995,355	18,879
Other income:			
Interest income	13,670	13,764	130
Equity in income of affiliated company	9,187	86,810	821
Rental income	39,240	47,811	453
Other	56,869	51,241	485
	118,966	199,626	1,889
Other expenses:			
Interest paid	38,075	64,223	608
Rental expense	28,320	24,791	234
Other	11,112	40,203	380
	77,507	129,217	1,222
Ordinary income	406,063	2,065,764	19,546
Exceptional losses, net (Note 14)	163,561	101,463	960
Income before income taxes and minority interest	242,502	1,964,301	18,586
Income taxes (Note 9):			
Current	27,521	712,914	6,745
Deferred	125,060	(68,771)	(650)
	152,581	644,143	6,095
Minority interest	-	3,037	29
Net income	89,921	1,317,121	12,462
Retained earnings (Note 11):			
Balance at beginning of year	4,001,575	4,070,427	38,513
Cash dividends	21,069	99,024	937
Directors' bonuses	-	26,100	247
Statutory auditors' bonuses	-	1,000	9
Balance at end of year	¥4,070,427	¥5,261,424	$49,782
	Exact yen		U.S. dollars (Note 3)
Net income per share (Notes 2(n) and 11)	¥5,963.38	¥40,204.27	$380.40
Cash dividends per share (Notes 2(m) and 11)			
Year-end dividends for preceding year	¥1,000	¥2,500	$23.66
Interim dividends for current year	1,000	2,300	21.76
	¥2,000	¥4,800	$45.42

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,
	2003	2004	2004
Cash flows from operating activities:			
Income before income taxes and minority interest	¥242,502	¥1,964,301	$18,586
Adjustments for:			
Depreciation and amortization	541,683	552,744	5,230
Net provision of allowance for doubtful accounts	439	3,055	29
Net provision of reserve for retirement allowances for directors and statutory auditors	40,088	(43,436)	(411)
Interest income earned	(13,670)	(13,764)	(130)
Interest expense incurred	38,075	64,223	608
Equity in income of affiliated company	(9,187)	(86,811)	(821)
Commission charges on purchases of treasury stock	-	26,183	248
Government grants received	(83,284)	-	-
Gain on sales of investment securities	-	(5,461)	(52)
Devaluation of investment securities	11,082	-	-
Loss on sale of investment securities	26,345	13,138	124
Retirement allowances for directors and statutory auditors	-	55,930	529
Bonuses for directors and statutory auditors appropriated from retained earnings	-	(27,100)	(256)
Increase in trade receivables	(910,985)	(1,360,469)	(12,872)
Decrease (increase) in inventories	131,971	(69,076)	(654)
Increase in trade payables	324,474	397,062	3,757
Other	103,169	271,976	2,573
Subtotal	442,702	1,742,495	16,487
Interest received	7,703	10,407	99
Dividends received from affiliated company	-	27,253	258
Government grants received	83,284	-	-
Payment of retirement allowances to directors and statutory auditors	-	(55,930)	(529)
Interest paid	(42,391)	(63,582)	(602)
Income taxes paid	(15,064)	(16,451)	(156)
Net cash provided by operating activities	476,234	1,644,192	15,557
Cash flows from investing activities:			
Payments for purchases of fixed assets	(428,986)	(368,941)	(3,491)
Payments for purchases of software and other intangibles	(56,250)	(9,264)	(88)
Proceeds from sale of investment securities	189,621	481,459	4,556
Payments for purchases of investment in affiliated company	(1,593,895)	-	-
Other	2,917	39,131	370
Net cash provided by (used in) in investing activities	(1,886,593)	142,385	1,347
Cash flows from financing activities:			
Proceeds from short-term borrowings	1,610,000	10,000	95
Payment of short-term borrowings	(1,610,000)	(10,000)	(95)
Proceeds from long-term debt	2,370,000	-	-
Payment of long-term debt	(386,940)	(300,737)	(2,845)
Payments for purchases of treasury stock	(1,265)	(999,773)	(9,460)
Payments of commission charges on purchases of treasury stock	-	(26,183)	(248)
Cash dividends paid	(21,069)	(99,024)	(937)
Net cash provided by (used in) financing activities	1,960,726	(1,425,717)	(13,490)
Effect of exchange rate changes on cash and cash equivalents	(36,610)	(43,929)	(416)
Net increase in cash and cash equivalents	513,757	316,931	2,998
Cash and cash equivalents at beginning of year	1,578,664	2,092,421	19,798
Cash and cash equivalents at end of year (Note 4)	¥2,092,421	¥2,409,352	$22,796

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

HARMONIC DRIVE SYSTEMS INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2003 AND 2004

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 in Japan, which are different in certain respects with regard to the application and disclosure requirements from International Financial Reporting 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 year ended March 31, 2003 were as follows:

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

On April 1, 2003, a further wholly-owned subsidiary, Harmonic AD, Inc., was established by way of the spin-off of an existing business division of the Company. The accounts of Harmonic AD, Inc. are included in the consolidated financial statements together with the three previously-consolidated subsidiaries, for the year ended March 31, 2004.

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 statements for the years ended March 31, 2003 and 2004.

The Company's overseas subsidiary (HD Systems, Inc.) and affiliated company (Harmonic Drive AG) both have a fiscal year end date of December 31, which differs from that of the Company. The consolidation of the overseas subsidiary and the application of the equity method in accounting for the affiliated company are based on the respective financial statements of these entities for the fiscal years ended December 31. Any material transactions occurring in respect of these entities in the period January 1 to March 31 are adjusted for, if appropriate, in these consolidated financial statements.

(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 subsidiary, 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, statutory auditors and executive officers -

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

(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, 2003 and 2004.

(o) Accounting standard for impairment of fixed assets -

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets". The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss should be recognized in the statements of income by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount, which is defined as the higher of net selling price and value in use. The Standard must be adopted for fiscal years ending March 31, 2006, with early adoption possible for the fiscal year ending March 31, 2005.

The Company has not adopted this Standard for the year ended March 31, 2004, and is currently in the process of assessing the potential impact of the Standard.

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 ¥105.69=US$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2004. 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, 2003 and 2004 comprise the following:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2003	2004	2004
Cash and bank deposits	¥1,773,754	¥2,348,234	$22,218
Highly liquid investments	318,667	61,118	578
Cash and cash equivalents	¥2,092,421	¥2,409,352	$22,796

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, 2003 and 2004 are as follows:

	Thousands of yen			
March 31, 2003:	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
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
	¥681,094	¥82,534	(¥39,647)	¥723,981

	Thousands of yen			
March 31, 2004:	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Equity securities	¥200,831	¥556,416	(¥1,045)	¥756,202
Debt securities	-	-	-	-
Other	-	-	-	-
	¥200,831	¥556,416	(¥1,045)	¥756,202

March 31, 2004:	Thousands of U.S. dollars (Note 3) Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Equity securities	$1,900	$5,265	($10)	$7,155
Debt securities	-	-	-	-
Other	-	-	-	-
	$1,900	$5,265	($10)	$7,155

The proceeds from sales of available-for-sale securities for the years ended March 31, 2003 and 2004 are ¥189,621 thousand and ¥481,459 thousand ($4,555 thousand), respectively. The gross realized profits and losses on those sales for the year ended March 31, 2003 are nil and ¥26,345 thousand, respectively, and those for the year ended March 31, 2004 are ¥5,461 thousand ($52 thousand) and ¥13,137 thousand ($124 thousand), respectively.

Impairment losses amounting to ¥11,082 thousand on available-for-sale securities with market quotations were recognized for the year ended March 31, 2003. No impairment losses for the year ended March 31, 2004 were recognized.

The carrying amounts of available-for-sale securities without market quotations at March 31, 2003 and 2004 are as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2003	2004	2004
Equity securities	¥3,800	¥3,800	$36
Money management funds	318,667	61,118	578
	¥322,467	¥64,918	$614

The aggregate annual maturities of available-for-sale securities with maturity at March 31, 2003 and 2004 are as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2003	2004	2004
Within 1 year	¥5,000	-	-
1 - 5 years	-	-	-
5 - 10 years	-	-	-
Over 10 years	-	-	-
	¥5,000	-	-

6. Transactions with affiliated company:

Transactions with the affiliated company for the years ended March 31, 2003 and 2004, as well as account balances at the end of the period, are presented below:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2003	2004	2004
Sales to affiliated company	¥576,320	¥821,125	$7,769
Notes and accounts receivable, trade	304,705	303,861	2,875

7. Inventories:

Inventories at March 31, 2003 and 2004 comprise the following:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2003	2004	2004
Finished products	¥177,108	¥104,189	$986
Work in process	279,154	363,642	3,440
Raw materials	360,676	400,000	3,785
	¥816,938	¥867,831	$8,211

8. Long-term debt:

Long-term debt at March 31, 2003 and 2004 is summarized as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2003	2004	2004
Secured loans, principally from banks due from 2005 to 2010 with interest ranging from 1.08% to 2.86%:	¥3,328,800	¥3,028,064	$28,650
Portion due within one year	(300,878)	(454,080)	(4,296)
	¥3,027,922	¥2,573,984	$24,354

The following assets are pledged as collateral to secure long-term debt, including the current portion thereof, at March 31, 2003 and 2004:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2003	2004	2004
Land	¥504,518	¥504,518	$4,774
Buildings	1,447,108	1,357,498	12,844
Structures	4,902	3,951	37
	¥1,956,528	¥1,865,967	$17,655
Secured long-term debt:			
Current portion of long-term loans	¥276,350	¥429,560	$4,065
Long-term loans	2,801,200	2,370,440	22,428
	¥3,077,550	¥2,800,000	$26,493

Included in the above, the following assets are pledged to secure factory founded bonds at March 31, 2003 and 2004:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2003	2004	2004
Land	¥49,168	¥49,168	$465
Buildings	178,298	161,506	1,528
Structures	4,903	3,951	38
	¥232,369	¥214,625	$2,031

The aggregate annual maturities of long-term debt, including the current portion, for each year in the following 5-year period at March 31, 2004 are as follows:

	Thousands of yen	Thousands of U.S. dollars (Note 3)
Year ending March 31,		
2005	454,080	4,296
2006	454,080	4,296
2007	436,690	4,132
2008	1,071,470	10,138
2009		
Over 2010	611,744	5,788
	¥3,028,064	$28,650

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, 2003 and 2004.

Deferred tax assets (liabilities) as of March 31, 2003 and 2004 consist of the following:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2003	2004	2004
Deferred tax assets (liabilities) - current:			
Accrued enterprise taxes	¥333	¥67,230	$636
Accrued bonuses	80,740	99,226	939
Inventory write-down	14,523	15,518	147
Tax loss carry forward	42,080	-	-
Unrealized intercompany profit	36,247	38,826	367
Accrued bonuses for executive officers	-	32,400	307
Accrued social expenses	-	11,895	113
Prepaid pension costs	(78,294)	(92,859)	(879)
Others	-	(1,955)	(19)
	95,629	170,281	1,611
Valuation allowance	(2,530)	-	-
Net deferred tax assets - current	¥93,099	¥170,281	$1,611
Deferred tax assets (liabilities) - non-current:			
Reserve for retirement allowances for directors and statutory auditors	¥144,229	¥120,341	$1,139
Reserve for retirement allowances for executive officers	-	5,970	56
Devaluation of golf memberships	4,274	7,775	74
Depreciation	1,258	766	7
Tax loss carry forward	30,652	-	-
Devaluation of investment securities	43,079	22,256	211
Unrealized losses on available-for-sale securities	(19,671)	(224,131)	(2,121)
Undistributed earnings of foreign subsidiary	(38,801)	(10,940)	(104)
Other	2,600	5,791	55
	167,620	(72,172)	(683)
Valuation allowance	(34,926)	(7,775)	(73)
Net deferred tax assets - non-current	¥132,694	(¥79,947)	($756)

The valuation allowance primarily relates to deferred tax assets recognized in respect of devaluation of golf memberships for 2003 and 2004.

Reconciliation of the differences between the statutory tax rate and the effective income tax rate for the year ended March 31, 2003 and 2004 is as follows:

	2003	2004
Statutory tax rate	42.0%	42.0%
Increase (decrease) in taxes resulting from:		
Tax credit relating to research and development expenses	-	(4.7)
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	(3.2)
Others, net	3.1	(1.3)
Effective income tax rate	62.9%	32.8%

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 sheets as of March 31, 2003 and 2004 is analyzed as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2003	2004	2004
Projected benefit obligations (PBO)	(¥1,118,741)	(¥1,152,700)	($10,906)
Plan assets	975,209	1,316,708	12,458
Excess of plan assets over PBO (Unfunded PBO)	(143,532)	164,008	1,552
Unrecognized actuarial differences	329,948	63,081	596
Sub Total	186,416	227,089	2,148
Reserve for retirement allowances	-	2,381	23
Prepaid pension cost	¥186,416	¥229,470	$2,171

The net periodic pension cost relating to retirement benefits for the years ended March 31, 2003 and 2004 is as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2003	2004	2004
Service cost	¥68,969	¥73,441	$695
Interest cost	26,303	22,375	212
Expected return on plan assets	(22,543)	(19,504)	(185)
Amortization of transition obligation	114,651	-	-
Amortization of unrecognized losses	83,659	148,701	1,407
Net periodic pension cost	¥271,039	¥225,013	$2,129

The assumptions used in the above actuarial computations for the years ended March 31, 2003 and 2004 are as follows:

	2003	2004
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.5%	2.0%
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, less capital reserves. 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, 2004 were approved at the ordinary general meeting of shareholders held on June 22, 2004. These appropriations were not recorded in the consolidated financial statements for the year ended March 31, 2004, but will be recorded in those for the year ending March 31, 2005.

	Thousands of yen	Thousands of U.S. dollars (Note 3)
Appropriations:		
Cash dividends at ¥7,800 ($73.80) per share	¥236,466	$2,237
Directors' bonuses for services in the year ended March 31, 2004	42,000	397
Statutory auditors' bonuses for services in the year ended March 31, 2004	5,000	47

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 ended March 31, 2004, including interim dividends of that period, the increased stocks were deemed as if they were outstanding from April 1, 2003. Assuming the stock split had been made on April 1, 2002, pro forma information of net shareholders' equity per share and net income per share for the year ended March 31, 2003 are ¥238,728.56 and ¥1,987.79, respectively.

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.

The number of treasury stocks at March 31, 2003 and 2004 are 501.6 and 2,791.8, respectively.

12. Derivative financial instruments:

The Companies had no derivative financial instruments at March 31, 2003 or 2004.

13. Selling, general and administrative expenses:

The major items included in selling, general and administrative expenses for the years ended March 31, 2003 and 2004 are as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2003	2004	2004
Shipping and transportation	¥89,734	¥110,121	$1,042
Remuneration, salaries, bonuses, fringe benefits, etc.	1,199,015	1,361,283	12,880
Research and development	937,316	1,028,473	9,731

14. Exceptional losses, net:

Exceptional losses, net for the years ended March 31, 2003 and 2004 consist of the following:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2003	2004	2004
Exceptional gains on:			
- Gain on sales of investment securities	¥ -	(¥5,461)	($52)
- Reversal of allowance for doubtful accounts	-	(2,945)	(28)
- Government grants received for land acquisition	(59,878)	-	-
- Government grants received for building acquisition	(23,406)	-	-
Exceptional losses on:			
- Disposal of property, plant and equipment	12,448	8,916	85
- Devaluation of investment securities	11,082	-	-
- Devaluation of golf memberships	-	8,646	82
- Loss on sale of investment securities	26,345	13,138	124
- Amortization of transition obligation	114,652	-	-
- Loss on reduction in cost of fixed assets acquired with government grants	23,406	-	-
- Retirement allowance for directors	-	55,930	529
- Special retirement allowance	58,912	23,239	220
Exceptional losses, net	¥163,561	¥101,463	$960

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, 2003 and 2004 were ¥337,226 thousand and ¥386,267 thousand ($3,655 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, 2003 and 2004:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2003	2004	2004
Machinery and equipment	¥1,421,401	¥1,681,767	$15,912
Tools, furniture and vehicles	168,553	162,552	1,538
Software	28,335	36,107	342
	1,618,289	1,880,426	17,792
Less - Accumulated depreciation	(667,557)	(841,775)	(7,965)
	¥950,732	¥1,038,651	$9,827

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2003	2004	2004
Depreciation	¥286,767	¥334,447	$3,164
Interest expense	28,181	27,345	259

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, 2003 and 2004 are as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2003	2004	2004
Current portion	¥279,639	¥305,995	$2,895
Long-term obligation	694,662	760,486	7,196
	¥974,301	¥1,066,481	$10,091

Future operating lease payments under non-cancelable lease contracts as at March 31, 2003 and 2004 are as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2003	2004	2004
Current portion	¥30,015	¥19,085	$181
Long-term obligation	45,376	20,184	191
	¥75,391	¥39,269	$372

16. Contingent liabilities:

The Companies had no contingent liabilities as at March 31, 2003 or 2004.

17. 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				
	Japan	United States	Combined	Elimination and /or Corporate	Consolidated
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	8,594,871	843,974	9,438,845	(337,454)	9,101,391
Operating expenses	8,253,019	835,488	9,088,507	(351,720)	8,736,787
Operating profit	¥341,852	¥8,486	¥350,338	¥14,266	364,604
II. At March 31, 2003:					
Total Assets	¥11,745,145	¥467,740	¥12,212,885	¥1,036,565	¥13,249,450

	Thousands of yen				
	Japan	United States	Combined	Elimination and /or Corporate	Consolidated
I. For the year ended March 31, 2004:					
Sales -					
Third Party	¥11,224,029	¥807,652	¥12,031,681	¥ -	¥12,031,681
Intersegment	519,698	-	519,698	(519,698)	-
Total	11,743,727	807,652	12,551,379	(519,698)	12,031,681
Operating expenses	9,367,936	775,935	10,143,871	(107,545)	10,036,326
Operating profit	¥2,375,791	¥31,717	¥2,407,508	(¥412,153)	1,995,355
II. At March 31, 2004:					
Total Assets	¥12,968,851	¥728,637	¥13,697,488	¥1,148,137	¥14,845,625

	Japan	United States	Combined	Elimination and /or Corporate	Consolidated
	Thousands of U.S.dollars				
I. For the year ended March 31, 2004:					
Sales -					
Third Party	$106,198	$7,641	$113,839	$ -	$113,839
Intersegment	4,917	-	4,917	(4,917)	-
Total	111,115	7,641	118,756	(4,917)	113,839
Operating expenses	88,636	7,341	95,977	(1,017)	94,960
Operating profit	$22,479	$300	$22,779	($3,900)	$18,879
II. At March 31, 2004:					
Total Assets	$122,707	$6,894	$129,601	$10,863	$140,464

Note 1: Operating expenses amounting to ¥299,228 thousand and ¥420,497 thousand ($3,979 thousand) for the years ended March 31, 2003 and 2004, 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 ¥1,391,609 thousand and ¥1,436,187 thousand ($13,589 thousand) as at March 31, 2003 and 2004, 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, 2003 and 2004 are as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2003	2004	2004
Europe, mainly Germany	¥779,871	¥821,126	$7,769
North America, mainly United States	843,974	807,651	7,642
Other	29,473	54,408	515
Total export sales	¥1,653,318	¥1,683,185	$15,926