HARMONIC DRIVE SYSTEMS INC.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2005

ChuoAoyama PricewaterhouseCoopers

PricewaterhouseCoopers

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Report of Independent Auditors

June 21, 2005

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, 2004 and 2005, 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, 2004 and 2005, 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).

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,
	2004	2005	2005
Current assets:			
Cash and bank deposits (Note 4)	¥2,348,234	¥3,386,074	$31,531
Marketable securities (Note 5)	61,118	60,634	565
Notes and accounts receivable, trade -			
Notes	639,121	915,635	8,526
Accounts	4,525,450	4,153,292	38,675
Allowance for doubtful accounts	(5,356)	(5,210)	(49)
	5,159,215	8,510,425	79,248
Inventories (Note 7)	867,831	866,136	8,065
Deferred income taxes (Note 9)	170,281	145,601	1,356
Prepaid expenses and other current assets (Note 10)	287,298	383,508	3,571
Total current assets	8,893,977	9,905,670	92,240
Property, plant and equipment (Note 8):			
Land	803,913	803,913	7,486
Buildings and structures	3,562,681	3,621,003	33,718
Machinery and equipment	2,409,249	2,571,253	23,943
Construction in progress	3,943	1,654	16
	6,779,786	6,997,823	65,163
Less - Accumulated depreciation	(3,655,002)	(3,867,195)	(36,011)
	3,124,784	3,130,628	29,152
Other assets:			
Investment securities (Note 5)	760,002	1,395,894	12,998
Investment in affiliated company (Note 6)	1,683,710	1,730,426	16,114
Software and other intangibles, net	160,365	100,841	939
Deferred income taxes (Note 9)	-	14,841	138
Others	222,787	70,166	654
	2,826,864	3,312,168	30,843
	¥14,845,625	¥16,348,466	$152,235

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,
	2004	2005	2005
Current liabilities:			
Short term borrowings	¥10,000	¥13,200	$123
Current portion of long-term debt (Note 8)	454,080	24,520	228
Notes payable, trade	999,053	1,023,331	9,529
Accounts payable, trade	629,710	510,724	4,756
Other payables	281,933	288,745	2,689
Notes and accounts payable for construction	63,695	96,230	896
Accrued income taxes	730,842	682,106	6,352
Accrued expenses	166,742	180,727	1,683
Accrued bonuses for employees	325,187	383,876	3,575
Other current liabilities	190,529	193,544	1,802
Total current liabilities	3,851,771	3,397,003	31,633
Long-term liabilities:			
Long-term debt (Note 8)	2,573,984	3,179,025	29,603
Reserve for retirement allowances for employees (Note 10)	2,381	3,335	31
Reserve for retirement allowances for directors and statutory auditors	295,564	324,421	3,021
Reserve for retirement allowances for executive officers	14,741	34,396	320
Deferred income taxes (Note 9)	79,947	87,211	812
Other	5,000	-	-
Total long-term liabilities	2,971,617	3,628,388	33,787
Total liabilities	6,823,388	7,025,391	65,420
Minority interest	3,037	16,032	149
Shareholders' equity (Note 11):			
Common stock -			
Authorized: 132,000 shares			
Issued and outstanding: 33,108 shares	666,800	666,800	6,209
Additional paid-in capital	3,264,200	3,264,200	30,396
Retained earnings	5,261,424	6,525,119	60,761
Unrealized gains on available-for sale securities	329,279	341,866	3,183
Foreign currency translation adjustments	71,046	82,607	769
Treasury stock, at cost	(1,573,549)	(1,573,549)	(14,652)
	8,019,200	9,307,043	86,666
Commitments and contingent liabilities (Notes 15 and 16)	-	-	-
	¥14,845,625	¥16,348,466	$152,235

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,
	2004	2005	2005
Net sales	¥12,031,681	¥14,110,082	$131,391
Cost of sales	6,849,924	7,815,669	72,778
Gross profit	5,181,757	6,294,413	58,613
Selling, general and administrative expenses (Note 13)	3,186,402	3,418,137	31,829
Operating profit	1,995,355	2,876,276	26,784
Other income:			
Interest income	13,764	2,691	25
Equity in income of affiliated company	86,810	59,049	550
Rental income	47,811	13,080	122
Other	51,241	84,058	782
	199,626	158,878	1,479
Other expenses:			
Interest paid	64,223	43,262	403
Rental expense	24,791	3,764	35
Other	40,203	56,107	522
	129,217	103,133	960
Ordinary income	2,065,764	2,932,021	27,303
Exceptional losses, net (Note 14)	101,463	89,997	838
Income before income taxes and minority interest	1,964,301	2,842,024	26,465
Income taxes (Note 9):			
Current	712,914	979,478	9,121
Deferred	(68,771)	8,628	81
	644,143	988,106	9,202
Minority interest	3,037	12,995	121
Net income	1,317,121	1,840,923	17,142
Retained earnings (Note 11):			
Balance at beginning of year	4,070,427	5,261,424	48,994
Cash dividends	99,024	524,470	4,884
Directors' bonuses	26,100	47,758	445
Statutory auditors' bonuses	1,000	5,000	46
Balance at end of year	¥5,261,424	¥6,525,119	$60,761

	Exact yen		U.S. dollars (Note 3)
Net income per share (Notes 2(n) and 11) - Basic	¥40,204.27	¥57,895.58	$539.12
- Diluted	-	¥54,891.80	$511.14
Cash dividends per share (Notes 2(m) and 11)			
Year-end dividends for preceding year	¥2,500	¥7,800	$72.63
Interim dividends for current year	2,300	9,500	88.46
	¥4,800	¥17,300	$161.09

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,
	2004	2005	2005
Cash flows from operating activities:			
Income before income taxes and minority interest	¥1,964,301	¥2,842,024	$26,465
Adjustments for:			
Depreciation and amortization	552,744	513,696	4,783
Net provision of allowance for doubtful accounts	3,055	-	-
Net provision of reserve for retirement allowances for employees	2,381	954	9
Net provision of reserve for retirement allowances for directors and statutory auditors	(45,817)	48,512	452
Interest income earned	(13,764)	(2,691)	(25)
Interest expense incurred	64,223	43,262	403
Equity in income of affiliated company	(86,811)	(59,048)	(550)
Income on investment fund	-	(24,333)	(227)
Issuance cost of bond	-	20,584	192
Contract charge for credit line	-	10,500	98
Commission charges on purchases of treasury stock	26,183	-	-
Gain on sales of investment securities	(5,461)	-	-
Loss on sale of investment securities	13,138	-	-
Gain on sales of fixed assets	-	(42)	(1)
Loss on sales of fixed assets	-	6,470	60
Loss on disposal of fixed assets	8,916	19,923	186
Cancellation charge of long-term debt contract	-	63,647	593
Retirement allowances for directors and statutory auditors	55,930	-	-
Bonuses for directors and statutory auditors appropriated from retained earnings	(27,100)	(52,758)	(491)
Decrease (increase) in trade receivables	(1,360,469)	90,277	840
Increase in inventories	(69,076)	(3,100)	(29)
Increase (decrease) in trade payables	397,062	(156,888)	(1,461)
Other	263,060	(53,515)	(498)
Subtotal	1,742,495	3,307,474	30,799
Interest received	10,407	10,399	97
Dividends received from affiliated company	27,253	32,665	304
Payment of retirement allowances to directors and statutory auditors	(55,930)	-	-
Interest paid	(63,582)	(39,562)	(368)
Income taxes paid	(16,451)	(1,026,502)	(9,559)
Net cash provided by operating activities	1,644,192	2,284,474	21,273
Cash flows from investing activities:			
Payments for purchases of fixed assets	(368,941)	(341,238)	(3,178)
Proceeds from sale of fixed assets	-	10,959	102
Payments for purchases of software and other intangibles	(9,264)	(26,006)	(242)
Proceeds from sale of investment securities	481,459	-	-
Payments for purchases of investment securities	-	(499,757)	(4,654)
Other	39,131	60,957	568
Net cash provided by (used in) investing activities	142,385	(795,085)	(7,404)
Cash flows from financing activities:			
Proceeds from short-term borrowings	10,000	3,200	30
Payment of short-term borrowings	(10,000)	-	-
Payment of long-term debt	(300,737)	(2,824,520)	(26,301)
Payment of contract charge for credit line	-	(10,500)	(98)
Payment of cancellation charge of long-term debt contract		(63,646)	(593)
Proceeds from long-term debt	-	2,979,416	27,744
Payments for purchases of treasury stock	(999,773)	-	-
Payments of commission charges on purchases of treasury stock	(26,183)	-	-
Cash dividends paid	(99,024)	(524,470)	(4,884)
Net cash used in financing activities	(1,425,717)	(440,520)	(4,102)
Effect of exchange rate changes on cash and cash equivalents	(43,929)	(11,513)	(107)
Net increase in cash and cash equivalents	316,931	1,037,356	9,660
Cash and cash equivalents at beginning of year	2,092,421	2,409,352	22,436
Cash and cash equivalents at end of year (Note 4)	¥2,409,352	¥3,446,708	$32,096

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, 2004 AND 2005

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 years ended March 31, 2004 and 2005 are as follows:

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

On April 1, 2003, the 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. were included in the consolidated financial statements together with the three previously-consolidated subsidiaries, effective from that date.

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

The Company has a 25% shareholding in a sales distributor in Europe named Harmonic Drive AG. 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, 2004 and 2005.

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 the 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, with 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.

In accordance with recent amendments to the Japanese Securities and Exchange Law, investments in investing business associations have been reclassified and included in "Investment securities" of the "Other assets" section of the consolidated balance sheet at March 31, 2005, while they were included in "Others" in the "Other assets" section at March 31, 2004. The balances of the investments in investing business associations included in "Others" at March 31, 2004 and "Investment securities" at March 31, 2005 were ¥133,882 thousand and ¥118,081 thousand ($1,099 thousand), respectively.

(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 of employment 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 retiring 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.

The reserve for retirement benefits for employees of the Company and its domestic subsidiaries has been provided at the estimated present value of projected benefit obligations in excess of the fair value of the plan assets, less 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. Actuarial differences are 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 -

The 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" and the Company's "Rule for Retirement Allowances for Executive Officers".

(k) Income taxes -

The Company calculates and records income taxes currently payable based on its taxable income, determined in accordance with the 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 any stock split subsequently made, if appropriate.

Diluted net income per share assumes the dilutive effect that could occur if convertible instruments are converted, options or warrants are exercised, or shares are issued upon the satisfaction of specified conditions. Since no convertible bonds or warrants are issued, there was no dilutive effect on net income per share for the year ended March 31, 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, 2005, 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 ¥107.39=US$1, the approximate exchange rate prevailing in the Japanese foreign exchange market at March 31, 2005. 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 the consolidated statements of cash flows at March 31, 2004 and 2005 comprise the following:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Cash and bank deposits	¥2,348,234	¥3,386,074	$31,531
Highly liquid investments	61,118	60,634	565
Cash and cash equivalents	¥2,409,352	¥3,446,708	$32,096

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, 2004 and 2005 are as follows:

	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

	Thousands of yen			
March 31, 2005:	Cost	Gross unrealized gains	Gross unrealized losses	Carrying amount
Equity securities	¥700,589	¥573,423	-	¥1,274,012
Debt securities	-	-	-	-
Other	-	-	-	-
	¥700,589	¥573,423	-	¥1,274,012

	Thousands of U.S. dollars (Note 3)			
March 31, 2005:	Cost	Gross unrealized gains	Gross unrealized gains	Carrying amount
Equity securities	$6,524	$5,339	-	$11,863
Debt securities	-	-	-	-
Other	-	-	-	-
	$6,524	$5,339	-	$11,863

The proceeds from sales of available-for-sale securities for the years ended March 31, 2004 and 2005 are ¥481,459 thousand and zero, respectively. The gross realized profits and losses on those sales for the year ended March 31, 2004 are ¥5,461 thousand and ¥13,137 thousand.

No impairment losses for the years ended March 31, 2004 and 2005 were recognized on available-for-sale securities with market quotations.

The carrying amounts of available-for-sale securities without market quotations at March 31, 2004 and 2005 are as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Equity securities	¥3,800	¥3,800	$35
Money management funds	61,118	60,634	565
Investments in investing business associations	-	118,081	1,100
	¥64,918	¥182,515	$1,700

6. Transactions with affiliated company:

Transactions with the affiliated company for the years ended March 31, 2004 and 2005, as well as account balances at the end of the period, are presented below:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Sales to affiliated company	¥821,125	¥1,054,537	$9,820
Notes and accounts receivable, trade	303,861	349,554	3,255

7. Inventories:

Inventories at March 31, 2004 and 2005 comprise the following:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Finished products	¥104,189	¥110,751	$1,031
Work in process	363,642	344,280	3,206
Raw materials	400,000	411,105	3,828
	¥867,831	¥866,136	$8,065

8. Long-term debt:

Long-term debt at March 31, 2004 and 2005 is summarized as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Unsecured zero coupon bonds, due 2009 with detachable warrants	-	¥3,000,000	$27,936
Secured loans, principally from banks due from 2006 to 2016 with interest ranging from 1.80% to 3.27%:	¥3,028,064	203,545	1,895
Portion due within one year	(454,080)	(24,520)	(228)
	¥2,573,984	¥3,179,025	$29,603

The following assets are pledged as collateral to secure long-term debt, including the current portion thereof, at March 31, 2004 and 2005:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Land	¥504,518	¥504,518	$4,698
Buildings	1,357,498	1,302,399	12,128
Structures	3,951	5,261	49
	¥1,865,967	¥1,812,178	$16,875
Secured long-term debt:			
Current portion of long-term loans	¥429,560	-	-
Long-term loans	2,370,440	-	-
	¥2,800,000	-	-

Included in the above, the following assets are pledged to secure factory founded bonds at March 31, 2004 and 2005:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Land	¥49,168	¥49,168	$458
Buildings	161,506	161,501	1,504
Structures	3,951	5,261	49
	¥214,625	¥215,930	$2,011

The aggregate annual maturities of long-term debt, including the current portion, for each year in the following 5-year period at March 31, 2005 are as follows:

	Thousands of yen	Thousands of U.S. dollars (Note 3)
Year ending March 31,		
2006	24,520	228
2007	24,520	228
2008	24,520	228
2009	21,855	204
2010	3,020,520	28,127
Over 2011	87,610	816
	¥3,203,545	$29,831

On March 25, 2005, the Company entered credit facility contracts totaling ¥2,000,000 thousand ($18,624 thousand) with four banks. The entire amount of these credit facilities was unused as at March 2005.

9. Income taxes:

The 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 42.0% and 40.4% for the years ended March 31, 2004 and 2005, respectively.

Deferred tax assets (liabilities) as of March 31, 2004 and 2005 consist of the following:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Deferred tax assets - current:			
Accrued enterprise taxes	¥67,230	¥53,819	$501
Accrued bonuses	99,226	131,000	1,220
Inventory write-down	15,518	15,448	144
Unrealized intercompany profit	38,826	48,942	456
Accrued bonuses for executive officers	32,400	24,300	226
Accrued social expenses	11,895	15,615	146
Prepaid pension costs	(92,859)	(145,170)	(1,352)
Others	(1,955)	1,647	15
Net deferred tax assets – current	¥170,281	¥145,601	$1,356
Deferred tax assets – non current			
Reserve for retirement allowances for directors and statutory auditors	-	¥12,988	121
Other	-	1,853	17
Net deferred tax assets - non-current	-	¥14,841	$138
Deferred tax liabilities - non-current:			
Reserve for retirement allowances for directors and statutory auditors	¥120,341	¥118,281	$1,102
Reserve for retirement allowances for executive officers	5,970	13,930	130
Devaluation of golf club memberships	7,775	7,775	72
Depreciation	766	528	5
Devaluation of investment securities	22,256	22,256	207
Unrealized losses on available-for-sale securities	(224,131)	(232,699)	(2,167)
Undistributed earnings of foreign subsidiary	(10,940)	(11,478)	(107)
Other	5,791	1,971	18
	(72,172)	(79,436)	(740)
Valuation allowance	(7,775)	(7,775)	(72)
Net deferred tax liabilities - non-current	(¥79,947)	(¥87,211)	($812)

The valuation allowance primarily relates to deferred tax assets recognized in respect of devaluation of golf club memberships for 2004 and 2005.

Reconciliation of the differences between the statutory tax rate and the effective income tax rate for the years ended March 31, 2004 and 2005 is as follows:

	2004	2005
Statutory tax rate	42.0%	40.4%
Increase (decrease) in taxes resulting from:		
Tax credit relating to research and development expenses	(4.7)	(5.8)
Tax effect on undistributed earnings of foreign subsidiary	(3.2)	0.4
Others, net	(1.3)	(0.4)
Effective income tax rate	32.8%	34.8%

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, 2004 and 2005 is analyzed as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Projected benefit obligations (PBO)	(¥1,152,700)	(¥1,233,542)	($11,486)
Plan assets	1,316,708	1,635,595	15,230
Excess of plan assets over PBO (Unfunded PBO)	164,008	402,053	3,744
Unrecognized actuarial differences	63,081	(46,633)	(434)
Sub total	227,089	355,420	3,310
Reserve for retirement allowances for employees	2,381	3,335	31
Prepaid pension cost	¥229,470	¥358,755	$3,341

The net periodic pension cost relating to retirement benefits for the years ended March 31, 2004 and 2005 is as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Service cost	¥73,441	¥70,725	$659
Interest cost	22,375	23,006	214
Expected return on plan assets	(19,504)	(26,334)	(245)
Amortization of unrecognized losses	148,701	76,815	715
Net periodic pension cost	¥225,013	¥144,212	$1,343

The assumptions used in the above actuarial computations for the years ended March 31, 2004 and 2005 are as follows:

	2004	2005
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.0%	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 are 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, 2005 were approved at the ordinary general meeting of shareholders held on June 21, 2005.

	Thousands of yen	Thousands of U.S. dollars (Note 3)
Appropriations:		
Cash dividends at ¥7,200 ($67.05) per share	¥218,277	$2,033
Directors' bonuses for service in the year ended March 31, 2005	75,000	698
Statutory auditors' bonuses for service in the year ended March 31, 2005	5,000	47

These appropriations were not recorded in the consolidated financial statements for the year ended March 31, 2005, but will be recorded in those for the year ending March 31, 2006.

The number of treasury stocks at March 31, 2004 and 2005 is 2,791.8.

12. Derivative financial instruments:

The Companies had no derivative financial instruments at March 31, 2004 or 2005.

13. Selling, general and administrative expenses:

The major items included in selling, general and administrative expenses for the years ended March 31, 2004 and 2005 are as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Shipping and transportation	¥110,121	¥127,084	$1,183
Remuneration, salaries, bonuses, fringe benefits, etc.	1,361,283	1,382,644	12,875
Research and development	1,028,473	1,100,685	10,249

14. Exceptional losses, net:

Exceptional losses, net for the years ended March 31, 2004 and 2005 consist of the following:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Exceptional gains on:			
- Gain on sales of investment securities	(¥5,461)	-	-
- Reversal of allowance for doubtful accounts	(2,945)	-	-
- Gain on sales of property, plant and equipment	-	(¥42)	($1)
Exceptional losses on:			
- Disposal of property, plant and equipment	8,916	19,923	186
- Sales of fixed assets	-	6,470	60
- Devaluation of golf club memberships	8,646	-	-
- Loss on sale of investment securities	13,138	-	-
- Cancellation charge for long-term debt contracts	-	63,646	593
- Retirement allowance for directors	55,930	-	-
- Special retirement allowance	23,239	-	-
Exceptional losses, net	¥101,463	¥89,997	$838

15. Finance leases:

Leased assets and related expenses in respect of the Company's finance leases, other than those which transfer ownership of the leased 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, 2004 and 2005 were ¥386,267 thousand and ¥392,925 thousand ($3,659 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, 2004 and 2005:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Machinery and equipment	¥1,681,767	¥1,864,709	$17,364
Tools, furniture and vehicles	162,552	91,174	849
Software	36,107	49,000	456
	1,880,426	2,004,883	18,669
Less - Accumulated depreciation	(841,775)	(913,172)	(8,503)
	¥1,038,651	¥1,091,711	$10,166

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Depreciation	¥334,447	¥345,650	$3,219
Interest expense	27,345	22,510	210

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, 2004 and 2005 are as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Current portion	¥305,995	¥338,200	$3,149
Long-term obligation	760,486	756,692	7,046
	¥1,066,481	¥1,094,892	$10,195

Future operating lease payments under non-cancelable lease contracts as at March 31, 2004 and 2005 are as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Current portion	¥19,085	¥33,411	$311
Long-term obligation	20,184	92,799	864
	¥39,269	¥126,210	$1,175

16. Contingent liabilities:

The Companies had no contingent liabilities as at March 31, 2004 or 2005.

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, 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

	Thousands of yen				
	Japan	United States	Combined	Elimination and /or Corporate	Consolidated
I. For the year ended March 31, 2005:					
Sales -					
Third party	¥13,025,496	¥1,084,586	¥14,110,082	¥ -	¥14,110,082
Intersegment	546,153	-	546,153	(546,153)	-
Total	13,571,649	1,084,586	14,656,235	(546,153)	14,110,082
Operating expenses	10,340,920	1,002,286	11,343,206	(109,400)	11,233,806
Operating profit	¥3,230,729	¥82,300	¥3,313,029	(¥436,753)	2,876,276
II. At March 31, 2005:					
Total Assets	¥14,123,627	¥755,849	¥14,879,476	¥1,468,990	¥16,348,466

	Thousands of U.S. dollars				
	Japan	United States	Combined	Elimination and /or Corporate	Consolidated
I. For the year ended March 31, 2005:					
Sales -					
Third party	$121,292	$10,099	$131,391	$ -	$131,391
Intersegment	5,086	-	5,086	(5,086)	-
Total	126,378	10,099	136,477	(5,086)	131,391
Operating expenses	96,293	9,333	105,626	(1,019)	104,607
Operating profit	$30,085	$766	$30,851	($4,067)	$26,784
II. At March 31, 2005:					
Total Assets	$131,517	$7,039	$138,556	$13,679	$152,235

Note 1: Operating expenses amounting to ¥420,497 thousand and ¥422,227 thousand ($3,932 thousand) for the years ended March 31, 2004 and 2005, 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 ¥1,436,187 thousand and ¥1,738,195 thousand ($16,186 thousand) as at March 31, 2004 and 2005, 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, 2004 and 2005 are as follows:

	Thousands of yen		Thousands of U.S. dollars (Note 3)
	2004	2005	2005
Europe, mainly Germany	¥821,126	¥1,054,537	$9,820
North America, mainly the United States	807,651	1,084,586	10,100
Other	54,408	46,339	431
Total export sales	¥1,683,185	¥2,185,462	$20,351