

**CONSOLIDATED FINANCIAL STATEMENTS  
TAMURA CORPORATION  
AS OF MARCH 31 , 2003 AND 2002**

**TAMURA CORPORATION AND ITS CONSOLIDATED SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	March 31,		March 31,
	2003	2002	2003
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash and bank deposits (Note 2)	¥ 11,442	¥ 15,961	\$ 95,350
Notes and accounts receivable-trade:			
Non-consolidated subsidiaries and affiliates	1,158	590	9,650
Other	25,305	21,755	210,875
Allowance for doubtful accounts	(115)	(133)	(958)
	<u>26,348</u>	<u>22,212</u>	<u>219,567</u>
Inventories (Note 4)	9,593	10,627	79,942
Deferred tax assets (Note 10)	1,329	800	11,075
Other current assets	1,978	1,531	16,483
Total current assets	<u>50,690</u>	<u>51,131</u>	<u>422,417</u>
<b>Investments and Other Assets:</b>			
Securities in the non-current portfolio (Note 3)	2,658	4,012	22,150
Investments in non-consolidated subsidiaries and affiliates	993	853	8,275
Deferred tax assets (Note 10)	3,427	3,036	28,558
Other assets	2,949	2,238	24,575
Total investments and other assets	<u>10,027</u>	<u>10,139</u>	<u>83,558</u>
<b>Property, Plant and Equipment (Note 5):</b>			
Land	6,358	6,248	52,983
Buildings and structures	13,378	13,160	111,483
Machinery and equipment	20,638	21,977	171,984
Construction in progress	127	687	1,058
	<u>40,501</u>	<u>42,072</u>	<u>337,508</u>
Accumulated depreciation	(22,771)	(23,374)	(189,758)
Net property, plant and equipment	<u>17,730</u>	<u>18,698</u>	<u>147,750</u>
Total assets	<u>¥ 78,447</u>	<u>¥ 79,968</u>	<u>\$ 653,725</u>

The accompanying Notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	March 31,		March 31,
	2003	2002	2003
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current Liabilities:</b>			
Short-term loans (Note 5)	¥ 6,155	¥ 6,771	\$ 51,292
Current portion of long-term debt (Note 5)	2,511	3,466	20,925
Notes and accounts payable-trade:			
Non-consolidated subsidiaries and affiliates	467	417	3,892
Other	10,755	8,313	89,625
	<u>11,222</u>	<u>8,730</u>	<u>93,517</u>
Accrued income taxes	736	181	6,133
Deferred tax liabilities (Note 10)	4	9	33
Other current liabilities	4,846	5,336	40,383
Total current liabilities	<u>25,474</u>	<u>24,493</u>	<u>212,283</u>
<b>Long-term Debt (Note 5)</b>	11,457	12,714	95,475
<b>Reserve for Retirement Benefits (Note 6)</b>	2,247	1,460	18,725
<b>Accrued Severance Indemnities for Directors</b>	487	449	4,058
<b>Deferred Tax Liabilities (Note 10)</b>	8	71	67
<b>Other Long-term Liabilities</b>	912	1,207	7,600
<b>Contingent Liabilities (Note 13)</b>			
<b>Minority Interest in Consolidated Subsidiaries</b>	144	142	1,200
<b>Shareholders' Equity (Note 7)</b>			
Common stock:	11,829	11,829	98,575
Authorized - 252,000,000 shares			
Issued and outstanding - 75,067,736 shares			
Additional paid-in capital	15,341	15,341	127,841
Retained earnings	12,563	12,955	104,692
Unrealized gain (loss) on securities	(748)	84	(6,233)
Translation adjustments	(1,120)	(702)	(9,333)
	<u>37,865</u>	<u>39,507</u>	<u>315,542</u>
Treasury stock, at cost (Note 8)	(147)	(75)	(1,225)
Total shareholders' equity	<u>37,718</u>	<u>39,432</u>	<u>314,317</u>
Total liabilities, minority interest in consolidated subsidiaries and shareholders' equity	<u>¥ 78,447</u>	<u>¥ 79,968</u>	<u>\$ 653,725</u>

The accompanying Notes are an integral part of these statements.

**TAMURA CORPORATION AND ITS CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS**

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	March 31,		March 31,
	2003	2002	2003
<b>Net Sales</b>	¥ 72,630	¥ 69,204	\$ 605,250
<b>Operating Cost and Expenses:</b>			
Cost of sales	57,234	56,097	476,950
Selling, general and administrative expenses (Note 9)	12,623	12,371	105,192
	<u>69,857</u>	<u>68,468</u>	<u>582,142</u>
Operating income	2,773	736	23,108
<b>Other Income (Expenses):</b>			
Interest and dividend income	66	215	550
Interest expenses	(544)	(716)	(4,533)
Gain on sales of securities	-	12	-
Exchange gain (loss)	(700)	1,009	(5,834)
Write-down of other securities	(16)	(3,632)	(133)
Recognition of net transition obligation expense	(492)	(492)	(4,100)
Loss on setting up trust for retirement benefits	(-)	(367)	(-)
Other, net	(498)	(1,692)	(4,150)
	<u>(2,184)</u>	<u>(5,663)</u>	<u>(18,200)</u>
Income (loss) before income taxes	589	(4,927)	4,908
<b>Income Taxes (Note 10)</b>			
Current	896	495	7,467
Deferred	(446)	(1,517)	(3,717)
<b>Minority Interest in (Gain) Loss of Consolidated Subsidiary</b>	<u>(19)</u>	<u>4</u>	<u>(158)</u>
Net income (loss)	120	(3,901)	1,000
<b>Retained Earnings:</b>			
At beginning of year	12,955	17,601	107,958
Increase arising from the addition of consolidated subsidiaries	-	28	-
Decrease arising from the deconsolidation of previously consolidated subsidiaries	(-)	(210)	(-)
Cash dividends paid	(449)	(450)	(3,741)
Bonuses to directors and statutory auditors	(63)	(113)	(525)
At end of year	<u>¥ 12,563</u>	<u>¥ 12,955</u>	<u>\$ 104,692</u>
	<u>yen</u>		<u>U.S. dollars</u>
<b>Per Share:</b>			
Primary net income (loss)	¥ 0.86	¥ (52.10)	\$ 0.01
Fully diluted net income	0.86	(52.10)	0.01
Cash dividends per share	6.00	6.00	0.05

The accompanying Notes are an integral part of these statements.

**TAMURA CORPORATION AND ITS CONSOLIDATED SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**

	Millions of yen		Thousands of U.S. dollars (Note 1(a))
	March 31,		March 31,
	2003	2002	2003
<b>Cash Flows from Operating Activities:</b>			
Income (loss) before income taxes	¥ 589	¥ (4,927)	\$ 4,908
Depreciation	2,197	2,368	18,309
Increase (decrease) in reserve for retirement benefits	825	(121)	6,875
Increase (decrease) in allowance for doubtful accounts	(92)	48	(767)
Write-down of investments in securities	16	3,632	133
Interest and dividend income	(66)	(216)	(550)
Interest expenses	544	716	4,533
Exchange (gain) loss	274	(277)	2,283
Gain on sales of marketable securities	( - )	(12)	( - )
Bonuses to directors and statutory auditors	(63)	(112)	(525)
(Increase) decrease in trade receivable	(5,137)	5,628	(42,808)
Decrease in inventories	665	1,319	5,542
Increase (decrease) in trade payable	3,131	(5,584)	26,092
Other, net	(1,447)	3,348	(12,058)
	<u>1,436</u>	<u>5,810</u>	<u>11,967</u>
Interest and dividend received	123	411	1,025
Interest paid	(542)	(710)	(4,517)
Income taxes paid	(468)	(2,563)	(3,900)
Net cash provided by operating activities	<u>549</u>	<u>2,948</u>	<u>4,575</u>
<b>Cash Flows from Investing Activities:</b>			
Acquisition of tangible fixed assets	(2,372)	(2,835)	(19,767)
Proceeds from sale of tangible fixed assets	361	182	3,008
Increase in investments in securities	(586)	(3,117)	(4,883)
Proceeds from sale of investments in securities	472	4,401	3,933
Other, net	188	145	1,567
Net cash used in investing activities	<u>(1,937)</u>	<u>(1,224)</u>	<u>(16,142)</u>
<b>Cash Flows from Financing Activities:</b>			
Increase (decrease) in short-term loans	(286)	28	(2,383)
Proceeds from long-term debt	1,260	5,194	10,500
Repayment of long-term debt	(3,311)	(1,665)	(27,592)
Acquisition of treasury stock	(72)	(79)	(600)
Cash dividends paid	(460)	(448)	(3,833)
Proceeds from bond issuance	-	1,449	-
Redemption of convertible bond	( - )	(9,342)	( - )
Other, net	-	4	-
Net cash used in financing activities	<u>(2,869)</u>	<u>(4,859)</u>	<u>(23,908)</u>
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>	<u>(115)</u>	<u>238</u>	<u>(958)</u>
<b>Net Decrease in Cash and Cash Equivalents</b>	<u>(4,372)</u>	<u>(2,897)</u>	<u>(36,433)</u>
<b>Cash and Cash Equivalents at Beginning of Year</b>	15,759	18,211	131,325
<b>Increase in Cash and Cash Equivalents of Newly Consolidated Subsidiaries</b>	-	466	-
<b>Decrease in Cash and Cash Equivalents Arising from the Deconsolidation of Previously Consolidated Subsidiary</b>	( - )	(21)	( - )
<b>Cash and Cash Equivalents at End of Year (Note 2)</b>	<u>¥ 11,387</u>	<u>¥ 15,759</u>	<u>\$ 94,892</u>

The accompanying Notes are an integral part of these statements.

## **TAMURA CORPORATION AND ITS CONSOLIDATED SUBSIDIARIES**

### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **1. Significant Accounting Policies**

##### **(a) Basis of Presentation of Consolidated Financial Statements**

The accompanying consolidated financial statements have been prepared from the accounts maintained by Tamura Corporation and its consolidated subsidiaries (the "Companies") in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Accounting Standards.

Certain items presented in the consolidated financial statements submitted to the Director of Kanto Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Amounts in U.S. dollars are included solely for the conveniences of readers outside Japan. The rate of ¥120= U.S.\$1, the rate of exchange on March 31, 2003 has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at the above rate or any other rate.

##### **(b) Principles of Consolidation**

The consolidated financial statements include the accounts of Tamura Corporation ( the "Company" ) and, with the exception of entities which are not material, those of its 23 majority owned subsidiaries. All significant inter-company accounts and transactions have been eliminated on consolidation.

Investments in non-consolidated subsidiaries have been carried at cost, since their total assets, net sales and the Company's equity in their net income (loss), or retained earnings, in aggregate, do not have a material effect on the consolidated financial statements.

Foreign currency financial statements have been translated into yen at the appropriate year-end current rate except for common stock, capital surplus and certain other inter-company accounts. Translation differences resulting therefrom have been deferred and are reflected in the accompanying consolidated balance sheets as "Translation adjustments".

### (c) Financial instruments

#### (1) Derivatives

All derivatives are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise, except for derivatives that are designated as “hedging instruments” (see (3) Hedge accounting below).

#### (2) Securities

Securities held by the Companies are classified as follows;

Other securities with market values are stated at fair value. Net unrealized gains and losses on these securities are reported as a separate component in shareholders’ equity at a net-of-tax amount.

Other securities without market values are stated at moving average cost, except as stated in the paragraph below.

In cases where the fair value of equity securities issued by non-consolidated subsidiaries and affiliates, or other securities, has declined significantly and such impairment of the value is not deemed temporary, those securities are written down to fair value and the resulting losses are included in net profit or loss for the period.

Effective April 1, 2001, the Companies adopted the new Japanese Accounting Standards for Financial Instruments. Under the new standards, other securities with market values are stated at fair value. Net unrealized gains and losses on these securities are reported as a separate component in shareholders’ equity at a net-of-tax amount. As a result of the adoption of the new standard, “Unrealized gain on securities”, included in “Shareholders’ Equity”, increased by ¥84 million and “Deferred tax assets”, included under “Investments and Other Assets”, decreased by ¥60 million for the year ended March 31, 2002.

#### (3) Hedge accounting

Gains or losses arising from changes in fair value of the derivatives designated as “hedging instruments” are deferred as assets or liabilities and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

The derivatives designated as hedging instruments by the Companies are principally forward exchange contracts and interest swaps. The related hedged items are trade accounts receivable and the interest of long-term bank loans.

The Companies have a policy to utilize the above hedging instruments in order to reduce the Companies’ exposure to the risk of exchange rate and interest rate fluctuation. Thus, the Companies’ purchases of the hedging instruments are limited to, at maximum, the amount of the hedged items.

The Companies evaluate the effectiveness of their hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

**(d) Allowance for doubtful accounts**

Allowance for doubtful accounts is provided principally at the estimated amount of uncollectible receivables at the balance sheet date.

**(e) Inventories**

Inventories are stated at cost, the cost of finished goods and work-in-process being principally determined by the retail method and the cost of other inventories being determined by the latest purchase cost method.

**(f) Property, plant and equipment, and depreciation**

Property, plant and equipment, including significant renewals and additions, are stated at cost and have been principally depreciated by the declining-balance method at rates based on the estimated useful lives of the assets. Repairs and maintenance expenses are charged to income as incurred.

**(g) Reserve for retirement benefits**

The reserve for retirement benefits represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets except, as permitted under the new standard which was adopted from the year ended March 31, 2001, the unrecognized transitional liability arising from adoption of the new standard of ¥5,202 million, the unrecognized prior service costs and unrecognized actuarial differences are accounted for as follows:

A part of the unrecognized transitional liability arising from adoption of the new standard (¥2,740 million) was amortized by setting up trust which was used only for retirement benefits in the year ended March 31, 2001. The rest of this transitional liability (¥2,462 million) is amortized on a straight-line basis over 5 years. The unrecognized prior service costs are amortized on straight-line basis over the period of 6 ~ 12 years from the year in which they arise, and the unrecognized actuarial differences are amortized on straight-line basis over the period of 6 ~ 12 years from the year following the year in which they arise.

**(h) Accrued severance indemnities for directors and statutory auditors**

The Company and certain of its consolidated subsidiaries provide for severance indemnities for directors and statutory auditors at an amount which would be required in accordance with their rules for directors' and statutory auditors' severance indemnities, if they retired at the balance sheet date.

**(i) Leases**

Leases that transfer substantially all the risks and rewards of ownership of the leased assets to the Companies are accounted for as capital leases, except that leases which do not transfer ownership of the assets to the Companies at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

**(j)Income taxes**

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitants taxes and enterprise taxes.

Income taxes were determined using the assets and liabilities approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements.

Deferred tax assets relating to tax loss carryforwards are recorded because the Japanese accounting standard requires that the benefit of tax loss carryforwards be estimated and recorded as an asset, with deduction of a valuation allowance if it is expected that some portion or all of the deferred tax assets will not be realized.

**(k)Foreign currency translation**

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in net profit or loss for the period.

**(l)Net income per share**

Primary net income per share of common stock is computed on the basis of the weighted average number of shares of common stock outstanding during the respective years. The fully diluted net income per share calculation assumes full exercise of outstanding stock options. Cash dividends per share represent the dividends declared as applicable to the respective period.

Effective from the year ended March 31, 2003, the Company adopted the Statement of Financial Accounting Standard No.2 "Net Income 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 Statements of Income and Retained Earnings. 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 rather than as expenses in the statements of income and retained earnings. 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 statements of income and retained earnings, and the calculation of net income per share be made on that adjusted net income basis. As a result of the adoption of the new standard, the effect on net income per share was immaterial.

**(m)Income from technical assistance**

Income from technical assistance, which was formerly included in other income, is included in net sales from the year ended March 31, 2002. This change indicates recognizing that technical assistance is now one of the main operating activities of the Company and of certain of its consolidated subsidiaries, which drives the expansion of the foreign subsidiaries' activities. As a result of this change, for the year ended March 31, 2002, net sales and operating income have increased by ¥100 million, as compared with the amount which would have been reported if the previous basis had been

applied consistently, whereas income (loss) before income taxes has not changed.

(n) Reclassifications

Certain reclassifications of the financial statements and related footnote amounts in the years ended March 31, 2002 have been made to conform to the presentation in the year ended March 31, 2003.

## 2. Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits able to be withdrawn on demand and short-term investments with maturity of three months or less and which represent a minor risk of fluctuations in value.

At March 31, cash and cash equivalents consisted of:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Cash and time deposits	¥ 11,442	¥ 15,961	\$ 95,350
Total	11,442	15,961	95,350
Time deposits with deposit term of over 3 months	(55)	(202)	(458)
Cash and cash equivalents	¥ 11,387	¥ 15,759	\$ 94,892

## 3. Securities

At March 31, securities in the non-current portfolio consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Other securities for which market quotation is available			
At cost	¥ 3,470	¥ 3,228	\$ 28,917
Fair value	2,222	3,372	18,517
Net	(1,248)	144	(10,400)
Other securities without market quotation:			
Unlisted securities	109	237	908
Others	327	403	2,725
Total	¥ 436	¥ 640	\$ 3,633

Other securities which the Companies sold during this consolidated fiscal year:

	Millions of yen		Thousands of
	2003	2002	U.S. dollars
Sales value	¥ 472	¥ 14,587	\$ 3,933
Gain on sales	124	36	1,033
Loss on sales	17	461	142

#### 4. Inventories

At March 31, inventories consisted of the following:

	Millions of yen		Thousands of
	2003	2002	U.S. dollars
Merchandise	¥ 870	¥ 973	\$ 7,250
Finished goods	2,045	2,402	17,042
Work in process	2,830	2,822	23,583
Raw materials and supplies	3,848	4,430	32,067
Total	¥ 9,593	¥ 10,627	\$ 79,942

#### 5. Short-term Loans and Long-term Debt

Short-term loans at March 31, 2003 and 2002 were principally bank overdrafts and short-term notes bearing interest at annual average rates of 3.68 per cent. and 3.30 per cent., respectively.

At March 31, long-term debt consisted of the following:

	Millions of yen		Thousands of
	2003	2002	U.S. dollars
1.7 per cent. mortgage bonds due 2003	¥ 500	¥ 500	\$ 4,167
1.2 per cent. mortgage bonds due 2003	500	500	4,167
0.95 per cent. straight bonds due 2007	1,500	1,500	12,500
Long-term loans, principally from banks ( * )	11,468	13,680	95,566
	13,968	16,180	116,400
Less: current portion	(2,511)	(3,466)	(20,925)
Total	¥ 11,457	¥ 12,714	\$ 95,475

(\* )At March 31, long-term loans consisted of the following;

	<u>Millions of yen</u>		<u>Thousands of</u>
	<u>2003</u>	<u>2002</u>	<u>U.S. dollars</u>
			<u>2003</u>
Long-term portion, at annual average ¥ rates of 1.98 per cent. and 2.00 per cent., respectively	9,957	¥ 10,214	\$ 82,975
Current portion, at annual average rates of 2.52 per cent. and 2.00 per cent., respectively	1,511	3,466	12,591
	<u>11,468</u>	<u>13,680</u>	<u>95,566</u>

The aggregate annual maturities of long-term debt at March 31, 2003 were as follows:

	<u>Millions of yen</u>	<u>Thousands of</u>
		<u>U.S. dollars</u>
Year ending March 31,		
2005	¥ 270	\$ 2,250
2006	5,148	42,900
2007	1,500	12,500
After 2008	4,539	37,825

At March 31, 2003, the following assets were pledged as collateral for long-term debt:

	<u>Millions of yen</u>	<u>Thousands of</u>
		<u>U.S. dollars</u>
Buildings and structures	¥ 1,000	\$ 8,333
Land	866	7,217
Other	41	342

## 6.Retirement Benefit Plan

The Company and certain of its consolidated subsidiaries have defined benefit retirement plans covering substantially all employees. Benefits under the plans are covered by two plans. One is governed by the regulations of the Japanese Welfare Pension Insurance Law, and the other is severance indemnities by companies.

The reserve for retirement benefits as of March 31, was analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Projected benefit obligations	¥ 16,674	¥ 15,829	\$ 138,950
Plan assets	6,885	8,582	57,375
	9,789	7,247	81,575
Unrecognized transition amount	984	1,476	8,200
Unrecognized prior service cost	(1,171)	(396)	(9,758)
Unrecognized actuarial differences	7,729	4,707	64,408
	¥ 2,247	¥ 1,460	\$ 18,725

(Notes: The above table includes the amounts related to the portion subject to the Japanese Welfare Pension Insurance Law.)

Net pension expenses related to retirement benefits for the years ended March 31, 2003 and 2002, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Service cost	¥ 561	¥ 683	\$ 4,675
Interest cost	445	412	3,708
Expected return on plan assets	(257)	(253)	(2,142)
Recognition of net transition obligation expense	492	492	4,100
Amortization of prior service cost	(37)	(39)	(308)
Amortization of actuarial differences	424	283	3,533
Net pension expense	¥ 1,628	¥ 1,578	\$ 13,566

Assumptions used in the calculation of the above information were as follows:

	2003	2002
Discount rate	2.5%	3.0%
Expected rate of return on plan assets	2.5%	3.0%
Method of attributing the projected benefits to periods of services	straight-line basis	straight-line basis
Amortization of transition amount	5 years	5 years
Amortization of prior service cost	6 ~ 12 years	6 ~ 12 years
Amortization of actuarial differences	6 ~ 12 years	6 ~ 12 years

## 7.Shareholders' Equity

The Japanese Commercial Code provides that:

- (a) Upon a resolution of the Board of Directors, appropriations of interim cash dividends and the related transfer to the legal earned reserve as described in (c) below, can be made from unappropriated retained earnings brought forward;
- (b) All other appropriations of retained earnings, including year end dividends and bonuses to directors and statutory auditors, require approval by the shareholders at the General Meeting of Shareholders; and
- (c) An amount equal to at least 10 per cent of cash dividends and other cash distributions paid by the Company from retained earnings must be appropriated from retained earnings as a legal earned reserve. No further appropriation is required when the combined amount of capital reserve and the legal earned reserve pursuant to the Japanese Commercial Code equals 25 per cent of stated capital.

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.

In accordance with customary practice in Japan, appropriations of retained earnings are recorded in the accounting period in which shareholders' approval is obtained. The relating to the year ended March 31, 2003, appropriation of retained earnings of the Company, which was approved at the general meeting of shareholders held on June 27, 2003, is presented below:

	<u>Millions of yen</u>	<u>Thousands of U.S. dollars</u>
Appropriation for:		
Legal reserve	¥ -	\$ -
Cash dividends	223	1,858
Bonuses to directors and statutory auditors	25	208

## 8.Treasury Stock

The Company acquired treasury stocks of 441,056 shares and 196,329 shares for the years ended March 31, 2003 and 2002, respectively in order to prepare principally for exercising stock options granted to certain directors and certain employees with the approval of the ordinary shareholders' meetings.

The amount of treasury stocks is stated at cost and is presented as a separate deduction from shareholders' equity.

On June 27, 2003, the general meeting of shareholders approved the acquisition of the Company's own shares with a limit of 4,000,000 shares, of which the amount is limited to ¥1,400 million (\$11,667 thousand) until the date of the next general meeting of shareholders.

## 9. Research and Development Expenditures

Total research and development expenditures included in selling, general and administrative expenses amounted to ¥984 million (\$8,200 thousand) in the year ended March 31, 2003 and ¥772 million in the year ended March 31, 2002.

## 10. Income Taxes

The effective statutory tax rate used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2003 and 2002, was 42.0%.

At March 31, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
<b>Deferred tax assets:</b>			
Accrued bonuses	¥ 371	¥ 224	\$ 3,092
Accrued enterprise taxes	56	9	467
Reserve for retirement benefits	2,349	2,079	19,575
Unrealized earnings	172	237	1,433
Tax loss carryforwards	880	959	7,333
Loss on setting up trust for retirement benefits	146	154	1,217
Other	2,014	1,700	16,783
Total	5,988	5,362	49,900
Valuation allowance	(580)	(844)	(4,833)
Deferred tax assets	¥ 5,408	¥ 4,518	\$ 45,067
<b>Deferred tax liabilities:</b>			
Gain on setting up trust for retirement benefits	¥ 616	¥ 647	\$ 5,134
Other	48	116	400
Total deferred tax liabilities	664	763	5,534
Net deferred tax assets	¥ 4,744	¥ 3,755	\$ 39,533

At March 31, 2003, the reconciliation of the statutory tax rate to the effective income tax rate is as follows:

	2003
Statutory tax rate	42.0 %
Increase (decrease) in taxes resulting from	
Permanent differences	5.4
Decrease in deferred tax assets arising from tax rate amendment	22.5
Other	6.3
Effective income tax rate	76.2 %

The reconciliation of the statutory tax rate to the effective income tax rate for the year ended March 31, 2002, is not presented due to a loss-making position before income taxes.

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 based component" before the amendment. Concurrently, the basic 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% to 40% 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% has continued to be used at that date. This resulted in a reduction in deferred tax assets at March 31, 2003 by ¥157 million (\$ 1,308 thousand), compared with the asset that would have been recognized if a tax rate of 42% had been fully applied to all temporary differences. Net income for the year ended March 31, 2003 also reduced by ¥132 million (\$ 1,100 thousand) as a result of these changes in statutory local enterprise tax regulations.

## 11. Leases

Pro forma information regarding leased assets, such as acquisition cost and accumulated depreciation, under finance leases which do not transfer the ownership of the leased assets to the lessee, for the years ended March 31, 2003 and 2002 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Structures and machinery and equipment			
Cost	¥ 1,373	¥ 1,966	\$ 11,442
Accumulated depreciation	989	1,404	8,242
Net amount	¥ 384	¥ 562	\$ 3,200

The following is a schedule of the future minimum lease payments under such lease contracts as of March 31:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Due within one year	¥ 191	¥ 326	\$ 1,592
Due after one year	202	256	1,683
	¥ 393	¥ 582	\$ 3,275

Total lease expenses under finance leases for the years ended March 31, 2003 and 2002 were as follows.

	Millions of yen		Thousands of
	2003	2002	U.S. dollars
Lease rental expenses	¥ 351	¥ 419	\$ 2,925
Depreciation cost	330	394	2,750
Interest expense	10	19	83

## 12. Derivative Financial Instruments

The Companies do not hold or issue derivatives for trading purposes and it is the Companies' policy to use derivatives only for the purpose of reducing market risks and financing costs in accordance with internal criteria.

The Companies do not anticipate any losses resulting from default of the counterparties as they are limited to major financial institutions with sound operational foundations.

## 13. Contingent Liabilities

The Companies were contingently liable for notes discounted with banks in the ordinary course of business in the amount of ¥7 million (\$58 thousand) at March 31, 2003. In addition, the Companies were contingently liable as guarantor of borrowings, principally by non-consolidated subsidiaries, for the amount of ¥1,776 million (\$14,800 thousand) at March 31, 2003.

## 14. Segment Information

(a) Industry segments:

The operations of the Companies for the years ended March 31, 2003 and 2002 are summarized by business group as follows:

	Year ended March 31, 2003						Consoli - dated
	Millions of yen						
	Information/ Communi - cation equipment	Electronic components and Power supplies	Electro - chemical materials and Soldering systems	Other	Corporate and Elimination		
Sales and operating revenue							
Sales- Customers	¥ 8,317	¥ 38,663	¥ 25,622	¥ 28	¥ -	¥ 72,630	
Inter-segment	0	264	9	566	(839)	-	
	<u>8,317</u>	<u>38,927</u>	<u>25,631</u>	<u>594</u>	<u>(839)</u>	<u>72,630</u>	
Operating costs and expenses	<u>7,801</u>	<u>39,138</u>	<u>21,201</u>	<u>580</u>	<u>1,137</u>	<u>69,857</u>	
Operating income (loss)	<u>¥ 516</u>	<u>¥ (211)</u>	<u>¥ 4,430</u>	<u>¥ 14</u>	<u>¥ (1,976)</u>	<u>¥ 2,773</u>	
Identifiable assets	¥ 5,591	¥ 30,730	¥ 28,381	¥ 379	¥ 13,366	¥ 78,447	
Depreciation and amortization	¥ 96	¥ 1,157	¥ 838	¥ 0	¥ 106	¥ 2,197	
Capital expenditures	¥ 85	¥ 1,031	¥ 794	¥ 0	¥ 836	¥ 2,746	

		Year ended March 31, 2002					
		Millions of yen					
	Information/ Communi - cation equipment	Electronic components and Power supplies	Electro - chemical materials and Soldering systems	Other	Corporate and Elimination	Consoli - dated	
Sales and operating revenue							
Sales- Customers	¥ 6,202	¥ 42,260	¥ 20,715	¥ 27	¥ -	¥ 69,204	
Inter-segment	-	329	10	538	(877)	-	
	6,202	42,589	20,725	565	(877)	69,204	
Operating costs and expenses	5,862	42,822	17,634	581	1,569	68,468	
Operating income (loss)	¥ 340	¥ (233)	¥ 3,091	¥ (16)	¥ (2,446)	¥ 736	
Identifiable assets	¥ 3,212	¥ 32,496	¥ 24,692	¥ 319	¥ 19,249	¥ 79,968	
Depreciation and amortization	¥ 87	¥ 1,425	¥ 769	¥ 0	¥ 87	¥ 2,368	
Capital expenditures	¥ 106	¥ 1,240	¥ 1,351	¥ -	¥ 116	¥ 2,813	
		Year ended March 31, 2003					
		Thousands of U.S. dollars					
	Information/ Communi - cation equipment	Electronic components and Power supplies	Electro - chemical materials and Soldering systems	Other	Corporate and Elimination	Consoli - dated	
Sales and operating revenue							
Sales- Customers	\$ 69,308	\$ 322,192	\$ 213,517	\$ 233	\$ -	\$ 605,250	
Inter-segment	0	2,200	75	4,717	(6,992)	-	
	69,308	324,392	213,592	4,950	(6,992)	605,250	
Operating costs and expenses	65,008	326,150	176,675	4,834	9,475	582,142	
Operating income (loss)	\$ 4,300	\$ (1,758)	\$ 36,917	\$ 116	\$ (16,467)	\$ 23,108	
Identifiable assets	\$ 46,592	\$ 256,084	\$ 236,508	\$ 3,158	\$ 111,383	\$ 653,725	
Depreciation and amortization	\$ 800	\$ 9,642	\$ 6,984	\$ 0	\$ 883	\$ 18,309	
Capital expenditures	\$ 708	\$ 8,592	\$ 6,617	\$ 0	\$ 6,966	\$ 22,883	

(b)Geographic areas:

The operations of the Companies for the years ended March 31, 2003 and 2002 are summarized by geographic areas as follows:

Year ended March 31, 2003						
Millions of yen						
	Japan	Asia	Europe	North and South America	Corporate and Elimination	Consolidated
Sales and operating revenue						
Sales- Customers	¥ 39,665	¥ 26,456	¥ 3,769	¥ 2,740	¥ -	¥ 72,630
Inter-segment	6,682	7,300	214	24	(14,220)	-
	<u>46,347</u>	<u>33,756</u>	<u>3,983</u>	<u>2,764</u>	<u>(14,220)</u>	<u>72,630</u>
Operating costs and expenses	<u>42,010</u>	<u>32,740</u>	<u>4,660</u>	<u>2,801</u>	<u>(12,354)</u>	<u>69,857</u>
Operating Income (loss)	<u>¥ 4,337</u>	<u>¥ 1,016</u>	<u>¥ (677)</u>	<u>¥ (37)</u>	<u>¥ (1,866)</u>	<u>¥ 2,773</u>
Identifiable assets	¥ 50,675	¥ 23,537	¥ 3,026	¥ 1,002	¥ 207	¥ 78,447
Year ended March 31, 2002						
Millions of yen						
	Japan	Asia	Europe	North and South America	Corporate and Elimination	Consolidated
Sales and operating revenue						
Sales- Customers	¥ 35,289	¥ 25,681	¥ 5,134	¥ 3,100	¥ -	¥ 69,204
Inter-segment	6,026	6,867	774	10	(13,677)	-
	<u>41,315</u>	<u>32,548</u>	<u>5,908</u>	<u>3,110</u>	<u>(13,677)</u>	<u>69,204</u>
Operating costs and expenses	<u>38,327</u>	<u>31,486</u>	<u>6,465</u>	<u>3,377</u>	<u>(11,187)</u>	<u>68,468</u>
Operating income	<u>¥ 2,988</u>	<u>¥ 1,062</u>	<u>¥ (557)</u>	<u>¥ (267)</u>	<u>¥ (2,490)</u>	<u>¥ 736</u>
Identifiable assets	¥ 46,416	¥ 22,723	¥ 3,676	¥ 1,439	¥ 5,714	¥ 79,968

Year ended March 31, 2003						
Thousands of U.S. dollars						
	Japan	Asia	Europe	North and South America	Corporate and Elimination	Consolidated
Sales and operating revenue						
Sales- Customers	\$ 330,542	\$ 220,467	\$ 31,408	\$ 22,833	\$ -	\$ 605,250
Inter-segment	55,683	60,833	1,783	200	(118,499)	-
	386,225	281,300	33,191	23,033	(118,499)	605,250
Operating costs and expenses	350,083	272,833	38,833	23,341	(102,948)	582,142
Operating Income (loss)	\$ 36,142	\$ 8,467	\$ (5,642)	\$ (308)	\$ (15,551)	\$ 23,108
Identifiable assets	\$ 422,292	\$ 196,142	\$ 25,217	\$ 8,350	\$ 1,724	\$ 653,725

Total amounts of exports by domestic operations and sales by overseas branches and subsidiaries for the years ended March 31, 2003 and 2002, were as follows:

Year ended March 31, 2003					
Millions of yen					
	Asia	Europe	North and South America	Other	Total
Export sales	¥ 30,971	¥ 3,876	¥ 3,503	¥ 5	¥ 38,355
Consolidated sales					72,630
Export sales as percentage of consolidated sales	42.7%	5.3%	4.8%	0.0%	52.8%
Year ended March 31, 2002					
Millions of yen					
	Asia	Europe	North and South America	Other	Total
Export sales	¥ 27,665	¥ 5,002	¥ 4,187	¥ 5	¥ 36,859
Consolidated sales					69,204
Export sales as percentage of consolidated sales	40.0%	7.2%	6.1%	0.0%	53.3%

**Year ended March 31, 2003**

**Thousands of U.S. dollars**

	<b>Asia</b>	<b>Europe</b>	<b>North and South America</b>	<b>Other</b>	<b>Total</b>
<b>Export sales Consolidated sales</b>	<b>\$ 258,092</b>	<b>\$ 32,300</b>	<b>\$ 29,192</b>	<b>\$ 41</b>	<b>\$ 319,625</b>
<b>Export sales as percentage of consolidated sales</b>	<b>42.7%</b>	<b>5.3%</b>	<b>4.8%</b>	<b>0.0%</b>	<b>52.8%</b>