

Consolidated Balance Sheets

As of March 31, 2004 and 2003

Assets	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Current Assets:			
Cash and cash equivalents (Note 2-c)	¥ 24,780	¥ 14,177	\$ 234,460
Notes and accounts receivable (Notes 2-d and 4):			
Trade	58,241	54,085	551,062
Other	1,602	2,279	15,160
	59,843	56,364	566,222
Allowance for doubtful receivables (Note 2-d)	(408)	(469)	(3,864)
Total notes and accounts receivable	59,435	55,895	562,358
Inventories (Note 2-e)	41,534	43,204	392,980
Deferred tax assets (Note 6)	6,554	8,593	62,012
Prepaid expenses and other current assets	6,650	5,578	62,916
Total current assets	138,953	127,447	1,314,726
Tangible Fixed Assets (Note 2-f):			
Land	16,135	16,711	152,664
Buildings and structures	92,881	97,395	878,806
Machinery and transportation equipment	226,576	238,892	2,143,781
Construction in progress	763	438	7,221
	336,355	353,436	3,182,472
Accumulated depreciation	(187,897)	(190,476)	(1,777,819)
Net tangible fixed assets	148,458	162,960	1,404,653
Intangible Fixed Assets:			
Consolidation adjustments (Note 2-i)	11,423	12,837	108,081
Other	980	912	9,275
	12,403	13,749	117,356
Investments and Other Assets:			
Investments in affiliates (Notes 2-g and 4)	219	216	2,070
Investments in securities (Note 2-g)	6,867	3,766	64,975
Long-term loans receivable	47	188	440
Deferred tax assets (Note 6)	6,167	9,494	58,358
Other	1,897	2,716	17,952
	15,197	16,382	143,795
Allowance for doubtful receivables (Note 2-d)	(142)	(483)	(1,348)
Net investments and other assets	15,055	15,899	142,447
Deferred Charges	46	14	434
Total Assets	¥ 314,915	¥ 320,069	\$ 2,979,616

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

Liabilities and Shareholders' Equity	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Current Liabilities:			
Short-term loans payable (Note 5)	¥ 76,195	¥ 70,475	\$ 720,932
Current portion of long-term debt (Note 5)	43,448	10,787	411,088
Notes and accounts payable (Note 4):			
Trade	22,777	24,025	215,514
Other	7,019	4,609	66,409
Total notes and accounts payable	29,796	28,634	281,923
Income taxes payable (Note 6)	2,639	2,662	24,968
Accrued expenses and other current liabilities	15,548	21,901	147,110
Total current liabilities	167,626	134,459	1,586,021
Long-Term Liabilities:			
Long-term debt (Note 5)	51,842	85,862	490,514
Other (Note 2-h)	902	1,266	8,528
Total long-term liabilities	52,744	87,128	499,042
Minority Interests in Consolidated Subsidiaries	679	269	6,424
Shareholders' Equity (Note 10):			
Common stock			
Authorized 1,000,000,000 shares			
Issued:			
March 31, 2004—399,167,695 shares			
March 31, 2003—399,167,695 shares	68,259	68,259	645,841
Capital reserve	94,757	94,757	896,552
Retained earnings	2,755	(454)	26,073
Differences on revaluation of other marketable securities	1,647	(37)	15,591
Foreign currency translation adjustments	(73,505)	(64,274)	(695,485)
Total shareholdings	93,913	98,251	888,572
Treasury stock	(47)	(38)	(443)
Total shareholders' equity	93,866	98,213	888,129
Contingent Liabilities (Notes 12 and 13)			
Total Liabilities, Minority Interests in Consolidated Subsidiaries and Shareholders' Equity	¥314,915	¥320,069	\$2,979,616

Consolidated Statements of Income

Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2004	2003	2002	2004
Net Sales (Note 4)	¥268,574	¥272,202	¥279,344	\$2,541,151
Cost of Sales (Note 4)	203,261	203,500	206,061	1,923,175
Gross profit	65,313	68,702	73,283	617,976
Selling, General and Administrative Expenses (Note 2-i)	47,209	49,350	51,311	446,674
Operating income	18,104	19,352	21,972	171,302
Other Income (Expenses):				
Interest income	111	243	586	1,055
Equity in income (loss) of unconsolidated subsidiaries and affiliates	3	10	(21)	32
Prior year's adjustment of losses on liquidation of subsidiaries and affiliates	325	—	—	3,077
Reversal of reserve for liquidation of switching power supplies and related businesses	441	—	—	4,178
Interest expense	(3,213)	(4,765)	(5,673)	(30,403)
Gains (losses) on sales of investment securities and investment securities in affiliates	882	3	(6)	8,342
Losses on devaluation of investment securities	—	(4,945)	(1,466)	—
Foreign currency exchange losses (Note 2-b)	(771)	(506)	(827)	(7,295)
Losses on disposals of inventories	—	—	(1,125)	—
Losses on sales and disposals of tangible fixed assets	(747)	(712)	(612)	(7,074)
Losses on liquidation of subsidiaries and affiliates	—	(1,843)	(937)	—
Losses on liquidation of switching power supplies and related businesses	—	(3,144)	—	—
Environment-related expenses incurred by U.S. subsidiaries	—	(1,206)	—	—
Other, net	(2,177)	(1,992)	1,058	(20,602)
	(5,146)	(18,857)	(9,023)	(48,690)
Income before Income Taxes and Minority Interests	12,958	495	12,949	122,612
Income Taxes (Note 6):				
Current	4,412	4,276	4,919	41,743
Deferred (benefit)	2,798	(1,370)	2,711	26,481
	7,210	2,906	7,630	68,224
Minority Interests	(271)	23	21	(2,568)
Net Income (Loss)	¥ 6,019	¥ (2,434)	¥ 5,298	\$ 56,956
			Yen	U.S. dollars (Note 3)
Per Share Data (Note 11):				
Net income (loss):				
Basic	¥15.08	¥(6.10)	¥13.27	\$0.14
Diluted	14.51	(4.85)	12.60	0.14
Cash dividends applicable to the year	7.00	7.00	7.00	0.07

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

Consolidated Statements of Shareholders' Equity

Years ended March 31, 2004, 2003 and 2002

Millions of yen

	Number of Shares of Common Stock	Common Stock	Capital Reserve	Retained Earnings (Note 10)	Differences on Revaluation of Other Marketable Securities	Foreign Currency Translation Adjustments	Treasury Stock
Balance at March 31, 2001	399,167,695	¥68,259	¥94,757	¥ 3,303	¥ (953)	¥(64,791)	¥ (1)
Net income	—	—	—	5,298	—	—	—
Cash dividends	—	—	—	(2,794)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(66)	—	—	—
Common stock issued on conversion of convertible bonds	—	—	—	—	—	—	—
Other	—	—	—	(967)	(766)	11,458	(5)
Balance at March 31, 2002	399,167,695	68,259	94,757	4,774	(1,719)	(53,333)	(6)
Net loss	—	—	—	(2,434)	—	—	—
Cash dividends	—	—	—	(2,794)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	—	—	—	—
Common stock issued on conversion of convertible bonds	—	—	—	—	—	—	—
Other	—	—	—	—	1,682	(10,941)	(32)
Balance at March 31, 2003	399,167,695	68,259	94,757	(454)	(37)	(64,274)	(38)
Net income	—	—	—	6,019	—	—	—
Cash dividends	—	—	—	(2,794)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	—	—	—	—
Common stock issued on conversion of convertible bonds	—	—	—	—	—	—	—
Other	—	—	—	(16)	1,684	(9,231)	(9)
Balance at March 31, 2004	399,167,695	¥68,259	¥94,757	¥ 2,755	¥ 1,647	¥(73,505)	¥(47)

Thousands of U.S. dollars (Note 3)

	Number of Shares of Common Stock	Common Stock	Capital Reserve	Retained Earnings (Note 10)	Differences on Revaluation of Other Marketable Securities	Foreign Currency Translation Adjustments	Treasury Stock
Balance at March 31, 2003	399,167,695	\$645,841	\$869,552	\$ (4,296)	\$ (355)	\$(608,138)	\$(355)
Net income	—	—	—	56,956	—	—	—
Cash dividends	—	—	—	(26,432)	—	—	—
Bonuses to directors and corporate auditors	—	—	—	—	—	—	—
Common stock issued on conversion of convertible bonds	—	—	—	—	—	—	—
Other	—	—	—	(155)	15,946	(87,347)	(88)
Balance at March 31, 2004	399,167,695	\$645,841	\$869,552	\$ 26,073	\$15,591	\$(695,485)	\$(443)

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

Consolidated Statements of Cash Flows

Years ended March 31, 2004, 2003 and 2002

	<i>Millions of yen</i>			<i>Thousands of U.S. dollars (Note 3)</i>
	2004	2003	2002	2004
Cash Flows from Operating Activities:				
Income before income taxes and minority interests	¥ 12,958	¥ 495	¥ 12,949	\$ 122,612
Depreciation and amortization	21,705	22,826	24,385	205,371
Amortization of consolidation adjustments	1,023	1,189	1,192	9,685
Interest and dividend income	(138)	(292)	(630)	(1,309)
Interest expense	3,213	4,765	5,673	30,403
Losses on sales and disposals of tangible fixed assets	664	678	365	6,283
Losses on liquidation of subsidiaries and affiliates	—	1,843	937	—
(Increase) decrease in notes and accounts receivable	(7,734)	(4,070)	5,691	(73,185)
(Increase) decrease in inventories	(1,883)	3,972	5,711	(17,822)
Decrease in notes and accounts payable	(386)	(1,585)	(4,660)	(3,661)
Other	(678)	11,732	(8,609)	(6,401)
Total adjustments	28,744	41,553	43,004	271,976
Interest and dividends received	176	266	598	1,668
Interest paid	(3,197)	(5,087)	(4,597)	(30,256)
Income tax paid	(4,009)	(4,453)	(4,988)	(37,935)
Net cash provided by operating activities	21,714	32,279	34,017	205,453
Cash Flows from Investing Activities:				
Purchase of tangible fixed assets	(18,825)	(16,382)	(26,245)	(178,115)
Proceeds from sales of tangible fixed assets	2,372	662	1,409	22,447
Purchase of shares in subsidiaries	—	—	(53)	—
Proceeds from sales of shares in subsidiaries	385	—	0	3,644
(Decrease) increase in loans receivable	(156)	78	(19)	(1,482)
Other, net	1,292	(591)	562	12,225
Net cash used in investing activities	(14,932)	(16,233)	(24,346)	(141,281)
Cash Flows from Financing Activities:				
Proceeds from (repayment of) long-term debt	6,368	(12,663)	(5,326)	60,255
Cash dividends paid	(2,794)	(2,794)	(2,794)	(26,432)
Cash dividends paid to minority shareholders	(27)	—	(31)	(256)
Other, net	844	(14)	(166)	7,982
Net cash provided by (used in) financing activities	4,391	(15,471)	(8,317)	41,548
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(570)	(350)	668	(5,398)
Net increase in cash and cash equivalents	10,603	225	2,022	100,322
Cash and Cash Equivalents at Beginning of Year	14,177	13,952	11,930	134,138
Cash and Cash Equivalents at End of Year	¥ 24,780	¥ 14,177	¥ 13,952	\$ 234,460

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

1. Basis of Presenting Financial Statements

The accompanying consolidated financial statements of Minebea Co., Ltd. (the “Company”), and its consolidated domestic and overseas subsidiaries are stated in Japanese yen, the accounts of which are maintained in accordance with the accounting principles generally accepted in the respective countries and audited by independent auditors in those countries.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements filed with the Ministry of Finance in Japan as required by the Securities and Exchange Law of Japan, in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. For the purpose of this annual report, certain reclassifications have been made and additional information provided to present the accompanying consolidated financial statements in a format that is familiar to readers outside Japan.

2. Summary of Significant Accounting Policies

a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and all significant subsidiaries controlled directly or indirectly by the Company. All significant intercompany balances, intercompany transactions and unrealized profits have been eliminated in consolidation.

b) Translation of foreign currencies

Monetary assets and liabilities denominated in overseas currencies are translated into Japanese yen at the exchange rates prevailing at the balance sheet date, except for certain accounts that were hedged by forward exchange contracts. Translation differences arising from the translation of the financial statements denominated in overseas currencies are recorded as minority interests in consolidated subsidiaries and foreign currency translation adjustments, in shareholders’ equity.

Financial statement items of consolidated overseas subsidiaries are translated into Japanese yen as follows:

Balance sheet items	At the rates of exchange prevailing at the balance sheet date
Statement of income items	At the average rate of exchange during the fiscal year

c) Cash equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered to be “cash equivalents.”

d) Allowance for doubtful receivables

Allowance for doubtful receivables of the Company and its consolidated domestic subsidiaries is provided for normal receivables based on the historical write-off rate and an estimate of uncollectible amounts for doubtful receivables on a specific identification basis. Allowance for doubtful receivables of consolidated overseas subsidiaries is generally stated in the amount required for estimated uncollectible receivables.

Allowance for doubtful receivables applicable to consolidated subsidiary receivables is eliminated for consolidation purposes. Allowance for doubtful receivables as of March 31, 2004 and 2003, were sufficient to cover the estimated uncollectible receivables.

e) Inventories

Inventories of the Company and its consolidated domestic subsidiaries are stated primarily at cost, being determined by the moving average method, and those of its consolidated overseas subsidiaries are stated at the lower of cost or market, being determined by the first-in, first-out method or the moving average method.

Inventories as of March 31, 2004 and 2003, comprised the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2004	2003	2004
Merchandise and finished goods	¥22,320	¥21,740	\$211,182
Work in process	9,451	9,688	89,422
Raw materials	7,384	8,843	69,864
Supplies	2,379	2,933	22,512
	¥41,534	¥43,204	\$392,980

f) Tangible fixed assets

Tangible fixed assets is stated at cost. Depreciation of buildings and equipment of the Company and its consolidated domestic subsidiaries is computed by the declining balance method based upon the estimated useful lives of the assets, whereas depreciation of buildings and equipment of consolidated overseas subsidiaries is computed primarily by the straight-line method based upon the estimated useful lives of the assets. Maintenance and normal repair expenses are charged against income as incurred, while significant renewals and improvements are capitalized.

g) Investments in securities

Investments in securities consist of equity securities of listed and unlisted companies. Securities held by the Company or its subsidiaries with quoted market values are stated at the lower of cost or market, based on the market closing price on March 31, 2004. Resulting valuation gains and losses are included, after the application of tax effect accounting, in shareholders' equity in the consolidated balance sheets. Those securities with no quoted market value are stated at cost by the moving average method.

	<i>Millions of yen</i>						<i>Thousands of U.S. dollars</i>		
	2004			2003			2004		
	<i>Acquisition cost</i>	<i>Carrying value</i>	<i>Unrealized gain (loss)</i>	<i>Acquisition cost</i>	<i>Carrying value</i>	<i>Unrealized gain (loss)</i>	<i>Acquisition cost</i>	<i>Carrying value</i>	<i>Unrealized gain (loss)</i>
Equity securities	¥3,071	¥5,772	¥2,701	¥2,723	¥2,660	¥(63)	\$29,057	\$54,613	\$25,556

The aggregate acquisition cost and market value of securities held by the Company and its consolidated domestic subsidiaries as of March 31, 2004, are as follows:

	<i>Millions of yen</i>
Aggregate acquisition cost:	
Current	¥ —
Noncurrent	3,071
	¥3,071
Aggregate market value:	
Current	¥ —
Noncurrent	5,772
	¥5,772

h) Accounting for retirement benefits

With effect from April 1, 2000, the Company and its consolidated domestic subsidiaries have adopted the accounting standards for retirement benefits. To facilitate the payment of retirement benefits to employees, the Company makes provisions based on the estimated retirement obligations and the estimated plan assets as of March 31, 2004. The net transition amount of ¥3,050 million resulting from adoption of the new accounting standards is amortized over five years using the straight-line method as other (expenses).

Actuarial gains and losses are amortized using the straight-line method over the average remaining service period of employees (5–15 years), from the period subsequent to the period which they are incurred.

Certain of the Company's overseas subsidiaries provide for retirement allowances for employees using defined-benefit pension plans.

Retirement benefit plans

Principal assumptions used in computing projected benefit obligations for the years ended March 31, 2004 and 2003, are as follows:

Retirement Benefit Obligations	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2004	2003	2004
Projected benefit obligations	¥(20,489)	¥(20,035)	\$(193,859)
Plan assets at fair value	15,978	12,802	151,178
Unfunded projected benefit obligations	(4,511)	(7,233)	(42,681)
Unrecognized transitional obligations	610	1,253	5,772
Unrecognized actuarial gains	3,348	5,225	31,677
Net amount recognized on consolidated balance sheets	(553)	(755)	(5,232)
Prepaid pension cost	—	218	—
Accrued retirement benefits	¥ (553)	¥ (973)	\$ (5,232)

Net Retirement Benefit Costs	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2004	2003	2004
Services cost	¥1,081	¥1,175	\$10,228
Interest cost	666	726	6,301
Expected return on plan assets	(143)	(559)	(1,353)
Amortization of transitional obligations	610	626	5,772
Amortization of actuarial gains	765	333	7,238
Retirement benefit costs	¥2,979	¥2,302	\$28,186

Assumption Used for Calculation	2004	2003
Discount rate	mainly 2.5%	mainly 3.0%
Expected rate of return on plan assets	mainly 2.5%	mainly 3.0%
Allocation of estimated amount of all retirement benefits to be paid at future retirement dates	—	Equally to each service year using the estimated number of total service years

i) Consolidation adjustments

Excess of cost over net assets acquired for business acquisitions is amortized, amounting to ¥1,023 million in fiscal 2004 and ¥1,189 million in fiscal 2003, on a straight-line basis over a period ranging from five to 40 years.

j) Reclassifications

Certain amounts in the shareholders' equity section of prior years' consolidated balance sheets have been reclassified to conform with the fiscal 2004 presentation.

3. Translation into U.S. Dollars

The accompanying financial statements are expressed in Japanese yen and, solely for the convenience of the reader, have also been translated into U.S. dollar amounts at the rate of ¥105.69=US\$1, the approximate rate of exchange on March 31, 2004. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars.

4. Investments in Affiliates

Summarized financial information for all affiliates as of March 31, 2004 and 2003, and for the years then ended, is as follows:

Financial Position	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Assets:			
Current assets	¥ 704	¥ 664	\$ 6,664
Other assets, including tangible fixed assets	512	483	4,842
	<u>¥1,216</u>	<u>¥1,147</u>	<u>\$11,506</u>
Liabilities and shareholders' equity:			
Current liabilities	¥ 306	¥ 294	\$ 2,896
Noncurrent liabilities	258	205	2,446
Shareholders' equity	652	648	6,164
	<u>¥1,216</u>	<u>¥1,147</u>	<u>\$11,506</u>

Results of Operations	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Net sales	¥1,207	¥1,052	\$11,422
Cost and expenses	1,201	1,019	11,366
Net income	<u>¥ 6</u>	<u>¥ 33</u>	<u>\$ 56</u>

Summarized below are the significant transactions of the Company and its consolidated subsidiaries with affiliates for the years ended March 31, 2004 and 2003, and the related account balances as of March 31, 2004 and 2003:

Transactions:	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Sales	¥276	¥276	\$2,609
Purchases	0	0	2
Account balances:			
Notes and accounts receivable	91	53	859
Notes and accounts payable	0	—	1

5. Short-Term Loans Payable and Long-Term Debt

Short-term loans payable consists of notes payable to banks and commercial paper, principally due in 30 to 180 days. The average annual interest rates for short-term loans payable are 1.07% and 1.6% for the years ended March 31, 2004 and 2003, respectively. The rates for commercial paper are 0.02% and 0.07%, respectively.

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Short-term loans payable	¥72,195	¥67,475	\$683,085
Commercial paper	4,000	3,000	37,847
Total	<u>¥76,195</u>	<u>¥70,475</u>	<u>\$720,932</u>

The aggregate annual maturities of long-term debt outstanding as of March 31, 2004, are as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
2005	¥43,448	\$411,088
2006	5,842	55,279
2007	9,000	85,155
2008	12,000	113,539
2009 and thereafter	25,000	236,541
	<u>¥95,290</u>	<u>\$901,602</u>

The following is a summary of terms of conversion and redemption of convertible bonds and exercise of warrants:

	<i>Exercise price for conversion per share of common stock as of March 31, 2003</i>	<i>Exchange rate applicable upon conversion</i>	<i>Exercise of warrants or redemption at the option by the Company</i>
0.65% unsecured convertible bonds payable in Japanese yen due 2005	¥ 972.00	—	On or after April 1, 2002, at 103% to 100% of principal amount
1.55% unsecured bonds with warrants payable in Japanese yen due 2005	¥1,350.00	—	Exercisable into common stock from May 20, 2003 to September 30, 2005

Note: Exercise or conversion prices are subject to adjustments in certain events such as stock dividends, free share distributions and combinations or reclassifications of the common stock. If all outstanding bonds, notes and warrants were converted or exercised as of March 31, 2004, 30,735,082 shares of common stock would have been issued.

Long-term debt as of March 31, 2004 and 2003, consists of the following:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	<u>2004</u>	2003	<u>2004</u>
0.65% unsecured convertible bonds payable in Japanese yen due 2005	¥27,080	¥27,080	\$256,221
2.85% unsecured bonds payable in Japanese yen due 2005	10,000	10,000	94,616
3.0% unsecured bonds payable in Japanese yen due 2008	15,000	15,000	141,925
2.0% unsecured bonds payable in Japanese yen due 2003	—	10,000	—
0.655% unsecured bonds payable in Japanese yen due 2007	3,000	3,000	28,385
1.39% unsecured bonds payable in Japanese yen due 2010	10,000	—	94,616
1.55% unsecured bonds with warrants payable in Japanese yen due 2005	4,000	4,000	37,847
0.57% to 7.78% loans from banks, other	26,210	27,569	247,992
	<u>95,290</u>	96,649	<u>901,602</u>
Less current portion	43,448	10,787	411,088
	<u>¥51,842</u>	<u>¥85,862</u>	<u>\$490,514</u>

6. Income Taxes

The Company and its consolidated domestic subsidiaries are subject to a number of different taxes based on income which, in the aggregate, resulted in an effective statutory rate of 39% for fiscal 2004 and 2003. Owing to a revision to the Local Tax Law introducing a Business Scale Taxation of corporate enterprise taxes effective from the fiscal year beginning April 1, 2004, the effective tax rate used for deferred tax assets and deferred tax liabilities herein is 39% for current and noncurrent assets for the fiscal year ended March 31, 2004, and 39% for noncurrent assets for the fiscal year ended March 31, 2003.

The income taxes of consolidated overseas subsidiaries are generally levied at lower rates than those currently applied in Japan. In addition, consolidated subsidiaries in Thailand are granted a status by the Promotion of Investment Act, whereby earnings derived from the manufacture or sale of qualifying products are fully exempt from Thai income tax for a period of three to eight years.

Also, a consolidated subsidiary in China was granted a status by the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises, whereby it is exempt from income tax for two years starting from the year in which its accumulated deficits are settled, subject to 13.5% income tax rate for the following three years and after that subject to 27% income tax rate.

This income tax effect is recognized for temporary differences resulting from elimination of intercompany profit and certain adjustments made in the accompanying consolidated financial statements.

Deferred income taxes of ¥11,853 million and ¥16,273 million as of March 31, 2004 and 2003, respectively, are included in deferred tax assets of current assets and deferred tax liabilities of current liabilities in the accompanying consolidated balance sheets. Deferred tax assets and liabilities consist of the following elements:

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2004	2003	2004
Deferred Tax Assets			
Accrued bonuses to employees in excess of tax limit	¥ 744	¥ 631	\$ 7,040
Reserve for retirement benefits in excess of tax limit	93	18	875
Loss on devaluation of investment securities	1,519	2,210	14,372
Loss on investments in affiliates	—	245	—
Allowance for doubtful receivables in excess of tax limit	1,489	1,501	14,089
Unrealized gains on sales of inventories	2,046	2,463	19,361
Operating losses carried forward	5,406	8,770	51,155
Deduction for foreign taxes	1,539	—	14,562
Loss on devaluation of other marketable securities	—	24	—
Other	939	2,225	8,883
Total deferred tax assets	¥13,775	¥18,087	\$130,337
	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2004	2003	2004
Deferred Tax Liabilities			
Depreciation of overseas subsidiaries	¥ 720	¥ 1,758	\$ 6,815
Differences on revaluation of other marketable securities	1,054	—	9,968
Other	148	56	1,398
Total deferred tax liabilities	1,922	1,814	18,181
Net deferred tax assets	¥11,853	¥16,273	\$112,156

The reconciliation of the statutory tax rate in Japan and the effective tax rates appearing in the consolidated statements of income for the years ended March 31, 2004 and 2003, is shown below:

	2004	2003
Statutory tax rate in Japan	39.0%	40.0%
Adjustments:		
Amortization of consolidated adjustments	3.0	93.2
Different tax rates applied to overseas subsidiaries	(17.3)	(713.0)
Valuation allowance for operating losses of consolidated subsidiaries	—	800.3
Nontaxable dividend income	32.6	758.4
Difference resulting from realization of benefits of tax effect accounting at U.S. subsidiaries	—	(560.0)
Difference resulting from change in statutory tax rate	—	41.2
Withholding tax	—	128.7
Other	(1.7)	(2.6)
Effective income tax rate	<u>55.6%</u>	<u>586.2%</u>

7. Leases

Pro forma information for finance leases, except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee, is as follows:

Acquisition Cost, Accumulated Depreciation and Net Book Value of Leased Assets

	2004			2003		
	Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	¥1,196	¥ 657	¥ 538	¥1,364	¥ 650	¥ 714
Machinery and equipment	3,079	1,721	1,358	3,333	1,692	1,641
	<u>¥4,275</u>	<u>¥2,378</u>	<u>¥1,896</u>	<u>¥4,697</u>	<u>¥2,432</u>	<u>¥2,355</u>

Millions of yen

	2004		
	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	\$11,315	\$ 6,222	\$ 5,092
Machinery and equipment	29,134	16,281	12,853
	<u>\$40,449</u>	<u>\$22,503</u>	<u>\$17,945</u>

Thousands of U.S. dollars

Note: Because the pro forma amounts of acquisition cost of leased assets are not material as compared with the outstanding future lease payments payable at the balance sheet date, the interest portion is included in the pro forma amounts of acquisition cost.

Outstanding Future Lease Payments Payable

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Due within one year	¥ 946	¥1,107	\$ 8,949
Due after one year	950	1,247	8,996
	<u>¥1,896</u>	<u>¥2,354</u>	<u>\$17,945</u>

Note: Because the outstanding future lease payments payable at the balance sheet date is not material as compared with the year-end balance of tangible fixed assets, the interest portion is included in the pro forma amounts of outstanding future lease payments payable.

Actual Lease Payments and Depreciation Expense

	<i>Millions of yen</i>		<i>Thousands of U.S. dollars</i>
	2004	2003	2004
Actual lease payments	¥1,242	¥1,247	\$11,757
Depreciation	1,242	1,247	11,757

Depreciation of leased assets is computed on the straight-line method over the lease term with no residual value.

8. Derivatives

The Company and its consolidated subsidiaries have entered into currency exchange contracts on foreign currency-denominated receivables and payables related to actual and forecast import and export transactions to hedge certain risks related to fluctuations in foreign currency exchange rates. In principal, currency exchange contracts are carried at fair value in the consolidated balance sheets, while changes in their fair value are deferred and recognized in earnings. However, the Company and its consolidated subsidiaries adhere to a policy of maintaining the outstanding balance of these instruments within the amounts of hedged foreign currency-denominated receivables and payables.

The execution of derivative transactions is controlled by the Finance Department. It is the policy of the Company and its consolidated subsidiaries to utilize currency exchange contracts solely for the purpose of hedging foreign currency position-related risks.

In line with internal risk management policies, the Company and its consolidated subsidiaries cover currency exchange contracts with forward currency exchange contracts denominated in the same currency, in the same amount and executed on the same day. Accordingly, the hedging relationships between the derivative financial instrument and the hedged item are highly effective in offsetting changes in currency exchange rates.

Details of derivative financial instruments which qualify for hedge accounting held as of March 31, 2004 and 2003, are as follows:

Currency Exchange Contracts

	<i>Millions of yen</i>							
	2004				2003			
	<i>Nominal amount</i>		<i>Portion in excess of one year</i>		<i>Nominal amount</i>		<i>Portion in excess of one year</i>	
	<i>Total</i>	<i>Fair value</i>	<i>Unrealized gain (loss)</i>		<i>Total</i>	<i>Fair value</i>	<i>Unrealized gain (loss)</i>	
Sell								
U.S. dollars	—	—	—	—	¥ 408	—	¥ 408	—
Japanese yen	—	—	—	—	83	—	83	—
Euro	—	—	—	—	19	—	19	—
Hong Kong dollars	—	—	—	—	2,142	—	2,142	—
Buy								
Japanese yen	—	—	—	—	35	—	35	—
	—	—	—	—	¥2,687	—	¥2,687	—

9. Research and Development Expenses

Research and development expenses incurred by the Company and its consolidated subsidiaries are included in selling, general and administrative expenses and cost of sales.

Research and development expenses for the years ended March 31, 2004 and 2003, amounted to ¥9,639 million and ¥9,741 million, respectively.

10. Shareholders' Equity

The Commercial Code of Japan provides that an amount equivalent to at least 10% of appropriation of retained earnings paid with respect to each financial period be appropriated to the legal reserve until the total of such reserve and the additional paid-in capital account equals 25% of the common stock. The legal reserve may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to the common stock account by resolution of the Board of Directors. The capital surplus and legal reserve may also be drawn down up to an amount that equals 25% of the common stock. In line with consolidated accounting procedures in Japan, the legal reserve is included in capital reserve and the capital surplus is included in retained earnings.

Appropriation of retained earnings with respect to cash dividends, bonuses to directors and corporate auditors, and transfer to the legal reserve are subject to the resolution of the general shareholders' meeting. The accompanying consolidated financial statements reflect appropriations approved by shareholders subsequent to the fiscal years ended March 31, 2004 and 2003.

11. Per Share Data

Dividends per share shown in the consolidated statements of income have been presented on an accrual basis and include, in each fiscal year, dividends approved or to be approved after the fiscal year-end but applicable to the fiscal year.

Basic net income per share is based on the weighted average number of shares of common stock outstanding during each year.

Diluted net income per share is computed using the weighted average number of shares of common stock during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds. In calculating diluted net income per share, net income is adjusted, net of income taxes, by interest expense on the convertible bonds when such bonds are dilutive.

The number of shares used in calculating net income per share for the years ended March 31, 2004 and 2003, is as follows:

	<i>Thousands of shares</i>	
	2004	2003
Basic	399,090	399,131
Diluted	426,950	433,216

12. Litigation

As of March 31, 2004, there are no material claims outstanding or threatened against the Company or its consolidated subsidiaries.

13. Contingent Liabilities

The Company and its consolidated subsidiaries had no contingent liabilities as of March 31, 2004.

14. Segment Information

The Company and its consolidated subsidiaries are engaged in two business segments: machined components, which includes bearings and bearing-related products, notably ball bearings, rod-end and spherical bearings and pivot assemblies, as well as other machined components, such as fasteners, and special machined components; and electronic devices and components, encompassing rotary components and other electronic devices and components, primarily PC keyboards, speakers and FDD subassemblies.

The business segments of the Company and its consolidated subsidiaries as of March 31, 2004 and 2003, and for the years then ended are outlined as follows:

Business Segments

Millions of yen

<i>Year ended March 31, 2004</i>	<i>Machined Components</i>	<i>Electronic Devices and Components</i>	<i>Total before Eliminations</i>	<i>Eliminations or Corporate</i>	<i>Total</i>
Sales to external customers	¥111,693	¥156,881	¥268,574	¥ —	¥268,574
Internal sales	2,191	15	2,206	(2,206)	—
Total sales	113,884	156,896	270,780	(2,206)	268,574
Operating expenses	94,379	158,297	252,676	(2,206)	250,470
Operating income (loss)	19,505	(1,401)	18,104	—	18,104
Assets	189,741	196,918	386,659	(71,744)	314,915
Depreciation and amortization	10,811	10,894	21,705	—	21,705
Capital expenditure	4,168	14,929	19,097	—	19,097

Thousands of U.S. dollars

<i>Year ended March 31, 2004</i>	<i>Machined Components</i>	<i>Electronic Devices and Components</i>	<i>Total before Eliminations</i>	<i>Eliminations or Corporate</i>	<i>Total</i>
Sales to external customers	\$1,056,798	\$1,484,353	\$2,541,151	\$ —	\$2,541,151
Internal sales	20,738	144	20,882	(20,882)	—
Total sales	1,077,536	1,484,497	2,562,033	(20,882)	2,541,151
Operating expenses	892,985	1,497,746	2,390,731	(20,882)	2,369,849
Operating income (loss)	184,551	(13,249)	171,302	—	171,302
Assets	1,795,269	1,863,169	3,658,438	(678,822)	2,979,616
Depreciation and amortization	102,290	103,081	205,371	—	205,371
Capital expenditure	39,438	141,256	180,694	—	180,694

Millions of yen

<i>Year ended March 31, 2003</i>	<i>Machined Components</i>	<i>Electronic Devices and Components</i>	<i>Total before Eliminations</i>	<i>Eliminations or Corporate</i>	<i>Total</i>
Sales to external customers	¥118,118	¥154,084	¥272,202	¥ —	¥272,202
Internal sales	7,637	—	7,637	(7,637)	—
Total sales	125,755	154,084	279,839	(7,637)	272,202
Operating expenses	107,235	153,252	260,487	(7,637)	252,850
Operating income	18,520	832	19,352	—	19,352
Assets	191,793	204,489	396,282	(76,213)	320,069
Depreciation and amortization	10,378	12,448	22,826	—	22,826
Capital expenditure	4,750	11,853	16,603	—	16,603

The geographic segments of the Company and its consolidated subsidiaries as of March 31, 2004 and 2003, and for the years then ended are outlined as follows:

Geographic Segments

Millions of yen

<i>Year ended March 31, 2004</i>	<i>Japan</i>	<i>Asia (excluding Japan)</i>	<i>North and South America</i>	<i>Europe</i>	<i>Total before Eliminations</i>	<i>Eliminations or Corporate</i>	<i>Total</i>
Sales to external customers	¥ 68,760	¥121,072	¥48,726	¥30,016	¥268,574	¥ —	¥268,574
Internal sales	138,158	125,129	2,859	1,387	267,533	(267,533)	—
Total sales	206,918	246,201	51,585	31,403	536,107	(267,533)	268,574
Operating expenses	202,035	235,438	49,501	31,029	518,003	(267,533)	250,470
Operating income	4,883	10,763	2,084	374	18,104	—	18,104
Assets	166,277	201,194	29,173	20,075	416,719	(101,804)	314,915

Thousands of U.S. dollars

Year ended March 31, 2004	Japan	Asia (excluding Japan)	North and South America	Europe	Total before Eliminations	Eliminations or Corporate	Total
Sales to external customers	\$ 650,585	\$1,145,537	\$461,031	\$283,997	\$2,541,151	\$ —	\$2,541,151
Internal sales	1,307,196	1,183,927	27,047	13,131	2,531,301	(251,301)	—
Total sales	1,957,781	2,329,464	488,078	297,129	5,072,452	(251,301)	2,541,151
Operating expenses	1,911,577	2,227,627	468,358	293,588	4,901,150	(251,301)	2,369,849
Operating income	46,204	101,837	19,720	3,541	171,302	—	171,302
Assets	1,573,257	1,903,621	276,023	189,946	3,942,847	(963,231)	2,979,616

Millions of yen

Year ended March 31, 2003	Japan	Asia (excluding Japan)	North and South America	Europe	Total before Eliminations	Eliminations or Corporate	Total
Sales to external customers	¥ 72,755	¥107,789	¥58,998	¥32,660	¥272,202	¥ —	¥272,202
Internal sales	110,133	101,269	2,613	3,306	217,321	(217,321)	—
Total sales	182,888	209,058	61,611	35,966	489,523	(217,321)	272,202
Operating expenses	179,755	196,640	59,752	34,024	470,171	(217,321)	252,850
Operating income	3,133	12,418	1,859	1,942	19,352	—	19,352
Assets	175,917	185,397	37,064	20,528	418,906	(98,837)	320,069

Overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2004 and 2003, are summarized as follows:

Overseas Sales

Millions of yen

Year ended March 31, 2004	To Asia (excluding Japan)	To North and South America	To Europe	Total
Overseas sales	¥121,598	¥45,336	¥32,238	¥199,172
Consolidated net sales				¥268,574
Overseas sales as a percentage of consolidated net sales	45.3%	16.9%	12.0%	74.2%

Thousands of U.S. dollars

Year ended March 31, 2004	To Asia (excluding Japan)	To North and South America	To Europe	Total
Overseas sales	\$1,150,513	\$428,961	\$305,026	\$1,884,500
Consolidated net sales				\$2,541,151
Overseas sales as a percentage of consolidated net sales	45.3%	16.9%	12.0%	74.2%

Millions of yen

Year ended March 31, 2003	To Asia (excluding Japan)	To North and South America	To Europe	Total
Overseas sales	¥106,942	¥57,103	¥34,322	¥198,367
Consolidated net sales				¥272,202
Overseas sales as a percentage of consolidated net sales	39.3%	21.0%	12.6%	72.9%