

ANNUAL REPORT 2004

FROM APRIL 1, 2003 TO MARCH 31, 2004



NIPPON SEIKI

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. SUMMARY OF NIPPON SEIKI CO., LTD. FOR F.Y.2003 / 2004

REVIEW OF OPERATIONS

Instrument Sales

Automotive instrument sales for fiscal year 2004, ending March 31, 2004, decreased by 0.2%, to ¥33,777 million from the previous fiscal year owing to a decline in sales of the North American makers.

Motorcycle instrument sales decreased by 3.8%, to ¥16,938 million from the previous fiscal year owing to an increase of overseas local production.

Instruments for boats, agricultural and construction machinery grew by 12.4%, to ¥5,089 million from the previous fiscal year thanks to an increase in orders for construction machinery for overseas and new model tractors.

Overall, instruments sales for the year totaled ¥55,805 million, a 0.3% decrease from the previous fiscal year.

Liquid Crystal Display Sales

LCD panel and module sales increased by 11.7%, to ¥25,901 million from the previous fiscal year thanks to good sales of reflective color LCD's for mobile-telecommunications equipment and to an increase in orders for them.

Consumer products and Electronic Device Sales

Sales increased by 5.9% to ¥8,887 million, thanks to an increase in orders for control panels for office automation and equipment.

Other Products Sales

Sales of other products totaled ¥3,811 million, a 7.8% increase from the previous fiscal year.

In conclusion, the company's business operations for fiscal year 2004, ending March 31, 2004, resulted in annual sales of ¥94,405 million, 3.6% up from the previous year. In the meantime, ordinary income for the year increased by 42.2%, to ¥4,472 million and net income increased by 81.2%, to ¥3,122 million, respectively.

. Consolidated Business Results

-as of March 31, 2004

Sales by business segment

(¥ million)

Business Segment	Annual sales in F.Y. 2003/2004	Increase (Decrease)	Annual sales in F.Y. 2002/2003
Instrument clusters for automobiles, motorcycles, agricultural/construction machines and boats	85,922	3.9%	82,733
LCD Products	25,901	11.7%	23,197
Consumer-use products	9,464	3.7%	9,122
Other businesses	17,718	2.1%	17,357
Total	139,007	5.0%	132,410

Financial Highlights

	F.Y.2003 /2004 ending March 31 2004	F.Y.2002 /2003 ending March 31 2003	F.Y.2001 /2002 ending March 31 2002	F.Y.2000 /2001 ending March 31 2001
Sales (¥ million)	139,007	132,410	111,685	111,003
Ordinary income (¥ million)	8,467	6,655	4,849	4,005
Net income (¥ million)	4,902	2,927	1,957	1,662
Total assets (¥ million)	114,075	108,903	98,636	96,543
Net assets (¥ million)	42,955	38,272	39,681	38,042
Net income per share (¥)	85.60	48.80	34.62	33.61
Net asset per share (¥)	796.24	708.69	701.91	672.80

Consolidated sales for the fiscal year ending March 31, 2004, increased by 5.0% to ¥139,007 million; ordinary income increased by 27.2% to ¥ 8,467 million, and net income increased by 67.4% to ¥ 4,902 million.

Results by segments are as follows;

< Instruments >

Automotive instrument sales improved because of an increase in sales orders from Thai, Chinese and domestic markets.

Motorcycle instrument sales also improved because of a year-round contribution in sales orders for Indonesia, an increase in sales orders from Thailand and the start of production in Brazil.

As a result, instrument sales increased by 3.9%, to ¥ 85,922 million, operating income increased by 15.8%, to ¥ 8,585 million because of the increase in sales orders in Japan, Europe, South East Asia and China.

< Liquid Crystal Displays >

Thanks to the great increase in sales of color LCD's for mobile-telecommunications, sales increased by 11.7%, to ¥ 25,901 million and operating income increased by 800.5%, to ¥ 189 million.

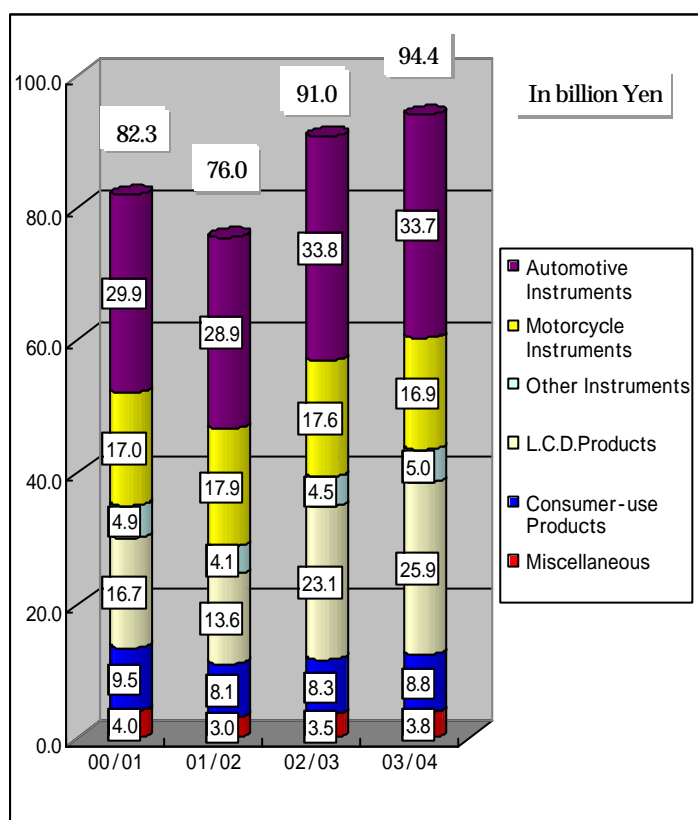
< Consumer Products and Electronic Devices >

Although sales of remote controls for air-conditioners decreased due to the influence of a cool summer, sales of control panels for office automation equipment increased. As a result, sales increased by 3.7%, to ¥ 9,464 million and operating income totaled ¥ 298 million.

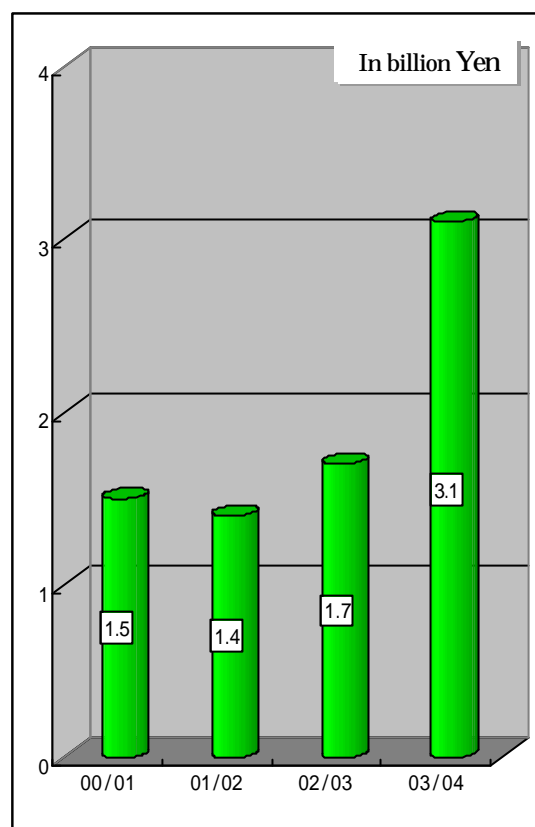
< Other >

Although car sales decreased, sales increased by 2.1%, to ¥ 17,718 million and operating income increased by 72.2%, to ¥ 262 million owing to the distribution section and the sales increase of resin materials.

1. Progress in Sales



2. Progress in Net Income



3. Progress in business results

Fiscal Year	F.Y. 2003/2004 ending March 31 2004	F.Y. 2002/2003 ending March 31 2003	F.Y. 2001/2002 ending March 31 2002	F.Y. 2000/2001 ending March 31, 2001
Sales(¥ million)	94,405	91,098	76,041	82,305
Ordinary income(¥ million)	4,472	3,145	2,988	2,713
Net income (¥ million)	3,122	1,723	1,483	1,528
Net income per share (¥) [Average number of issued shares during the F./Y. (1,000 shares)]	55.06 (53,573)	28.87 (54,050)	26.23 (56,540)	30.90 (49,469)
Dividend per share (¥)	10.00	8.00	8.00	14.00
Total assets (¥million)	93,282	89,041	77,740	76,959
Shareholders' Equity (¥million)	38,750	35,130	37,338	36,314
Common stock capital (¥ million)	12,495	12,495	12,495	12,495
Equity ratio (%)	41.5	39.5	48.0	47.2

N.B.

Net income per share is calculated with the average number of all issued- shares in the F./Y.

Nippon Seiki Co., Ltd.

Incorporated : December 24, 1946

Common stock capital : 12,495,488,142 Yen

Main products

- Automotive instruments
- Motorcycle instruments
- Instruments for agricultural and construction machines and boats
- Sensors for automobiles
- Liquid crystal display panels for:
 - Instruments, clocks, audio appliances, telecommunication equipment, office/household equipment etc.
- Color liquid crystal display modules
- Hybrid IC
- Control panels for household equipment
- System controllers for air conditioner equipment
- Remote controllers for air conditioners and household
- Educational card players
- LED printer head for plotter
- Control panels for office equipment
- Diver's computers
- Automatic wrapping machines for agricultural and food industries
- Automatic liquid filling and packing machines for food industry
- Car aftermarket products
- Lettering sheets

Head office and Factory

2-34, Higashi-Zaoh 2-chome, Nagaoka-shi, Niigata
940-8580 JAPAN

Takami Division

2-8, Higashi-Takami 2-chome, Nagaoka-shi, Niigata
940-0006 JAPAN

Branches

Tokyo, Hong Kong

Research & Development Center

190-1, Fujihashi 1-chome, Nagaoka-shi, Niigata
940-2141 JAPAN

Special Machine Business Operation Division

2-16, Jyoka 3-chome, Nagaoka-shi, Niigata
940-0021 JAPAN

Offices

Utsunomiya, Ageo, Hamamatsu, Nagoya, Suzuka,
Osaka, Mizushima, Kumamoto

Number of Employees

1,634

Worldwide Network

North America

- New Sabina Industries, Inc. / Sabina, Ohio, U.S.A.
- N.S. International, Ltd. / Troy, Michigan U.S.A.

Europe

- UK-NSI Co., Ltd. / Redditch, Worcs., U.K.
- Nippon Seiki (Europe)B.V. / Hoofddorp, Netherlands

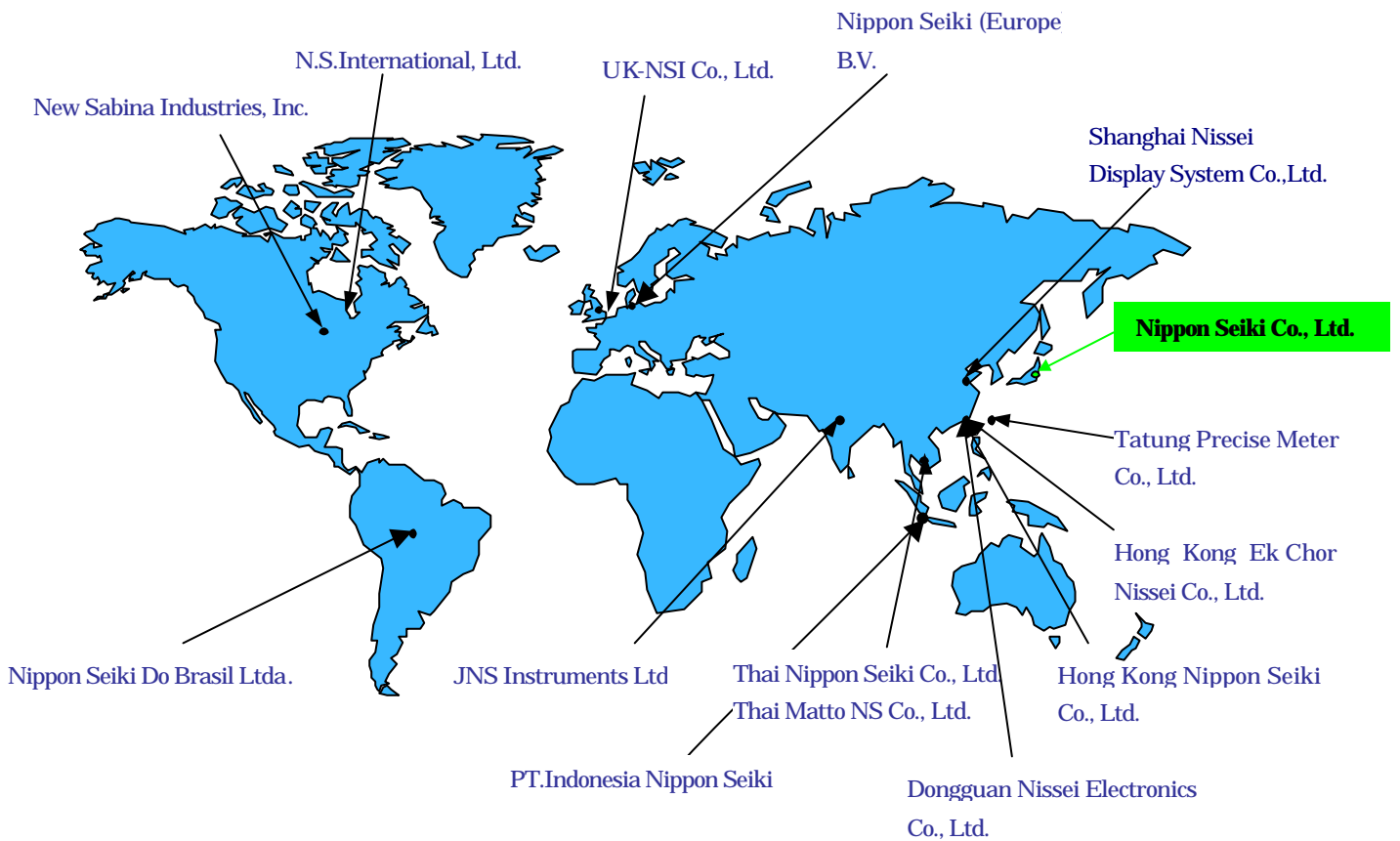
Asia

- Thai Nippon Seiki Co., Ltd. / Chonburi, Thailand
- Thai Matto NS Co., Ltd. / Chonburi, Thailand
- JNS Instruments Ltd. / Haryana, India
- Tatung Precise Meter Co., Ltd. / Taipei, Taiwan R.O.C.
- Hong Kong Ek Chor Nissei Co., Ltd. / Hong Kong, China

South America

- Nippon Seiki Do Brasil Ltda. / Manaus, Brazil

- Hong Kong Nippon Seiki Co., Ltd / Hong Kong, China
- Shanghai Nissei Display System Co., Ltd. / Shanghai, China
- PT. Indonesia Nippon Seiki / Tangerang, Indonesia
- Dongguan Nissei Electronics Co., Ltd. / Dongguan, China



. PROFILE OF THE GROUP COMPANIES

-as of March 31, 2004-

Nippon Seiki Group is mainly composed of 20 consolidated subsidiaries and 3 affiliated companies by equity method. The main activities of the group are manufacturing and sales of instrument clusters for automobiles, motorcycles, agricultural / construction machines and boats, Liquid Crystal Display panels and modules, consumer-products and other products. We are also running businesses related to transport, research and development connected with the above products. Further, we have been running businesses in software development, car sales and other services.

Details of each company in the group and its main activities are as follows.

Consolidated subsidiaries

Name of Company	voting rights equity ratio	Main activities	Main trading with the parent
NS Advantech Co., Ltd.	85.6	Manufacturing of automotive and motorcycle clusters and gages / Plastic injection molding / Compounding, colouring of Plastics and Trading	Selling products and component parts
NS Electronics Co., Ltd.	86.6	Manufacturing of electronic subassemblies for instrument clusters and remote controllers	Selling products and component parts
YNS Inc.	80.0	Manufacturing and sales of automotive instrument clusters and peripheral systems	Purchasing component Parts
NS Computer Service Co., Ltd.	91.9	Computer services, software development And office automation equipment sales	Software development
Nissei Service Co., Ltd.	83.9	Transport and car sales	Packing and Transporting products
Honda Car Sales Nagaoka Co., Ltd.	100.0	Honda car dealer	Car sales
Yamato Honda Co., Ltd.	100.0	Honda car dealer	Car sales
UK-NSI Co., Ltd.	100.0	Manufacturing and sales of automotive and motorcycle instrument clusters	Purchasing products and component parts
Nippon Seiki (Europe) B.V.	100.0	Sales of products made by Nippon Seiki group in the European market	Purchasing products
New Sabina Industries, Inc.	100.0	Manufacturing and sales of automotive and motorcycle instrument clusters	Purchasing products and component parts
NS International, Ltd.	76.5	Sales of products made by Nippon Seiki group in the North American market	Purchasing products
Nippon Seiki Do Brasil Ltda.	100.0	Manufacturing and sales of motorcycle instrument clusters	Purchasing products and component parts
Thai Nippon Seiki Co., Ltd	55.4	Manufacturing and sales of automotive and motorcycle instrument clusters	Purchasing component parts and production equipment
PT. Indonesia NS	70.0	Manufacturing and sales of motorcycle instrument clusters	Purchasing component parts and production equipment
Hong Kong Nippon Seiki Co., Ltd.	100.0	Manufacturing of control panels for office equipment and remote controllers for air conditioners and household equipment	Buying and selling Products
Shanghai Nissei Display System Co., Ltd.	80.0	Manufacturing and sales of automotive and motorcycle instrument clusters	Purchasing component parts and production equipment

*Nippon Seiki (Europe) B.V. and Nippon Seiki Do Brasil Ltda have been added because their importance in the NS group has increased.

**PT. Indonesia NS changed its name to PT. Indonesia Nippon Seiki on 1st June, 2004.

Consolidated subsidiaries

Name of Company	voting rights equity ratio	Main activities	Main trading with the parent
Hong Kong Ek Chor Nissei Co., Ltd.	90.0	Investment and holding company	Investment in China on behalf of the parent
NS Body Service Co., Ltd	100.0	Repairing of car bodies	Repairing of cars
Thai Matto NS Co., Ltd.	83.5	Compounding and colouring of plastics and trading	None
Pretech. N Co., Ltd.	48.8	Manufacturing components of automotive and motorcycle instrument clusters	Selling products and component parts

Affiliated Companies by equity method

Name of Company	voting rights equity ratio	Main activities	Main Trading with Nippon Seiki
Adeon Co., Ltd.	50.0	Manufacturing and sales of Organic EL	Selling products
Kashiwazaki Taxi Co., Ltd.	27.7	Taxicab operator	None
Tatung Precise Meter Co., Ltd.	49.0	Manufacturing and sales of automotive and motorcycle instruments and peripheral systems	Purchasing products and component parts

* Adeon Co., Ltd. has been added because their importance in the NS group has increased.

. THE OWNERSHIP OF THE COMPANY'S SHARE

The company's common shares are held by 4,677 shareholders in total. Details of the issued shares and shareholders are as follows.

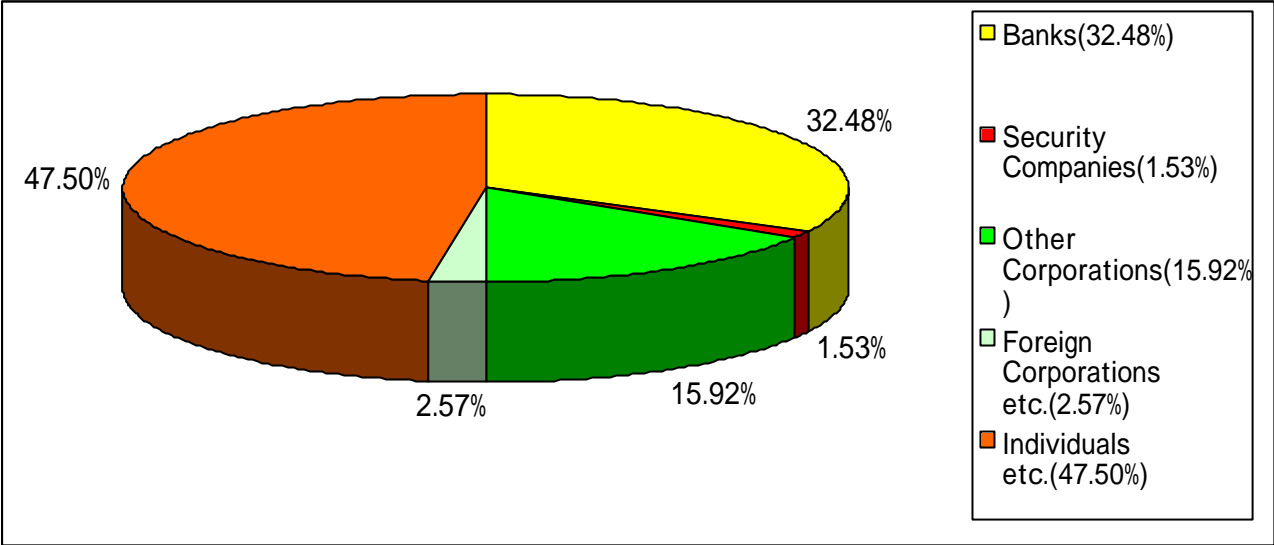
Total number of authorized shares : 220,000,000 shares
 Total number of issued shares : 56,543,409 shares

Major shareholders

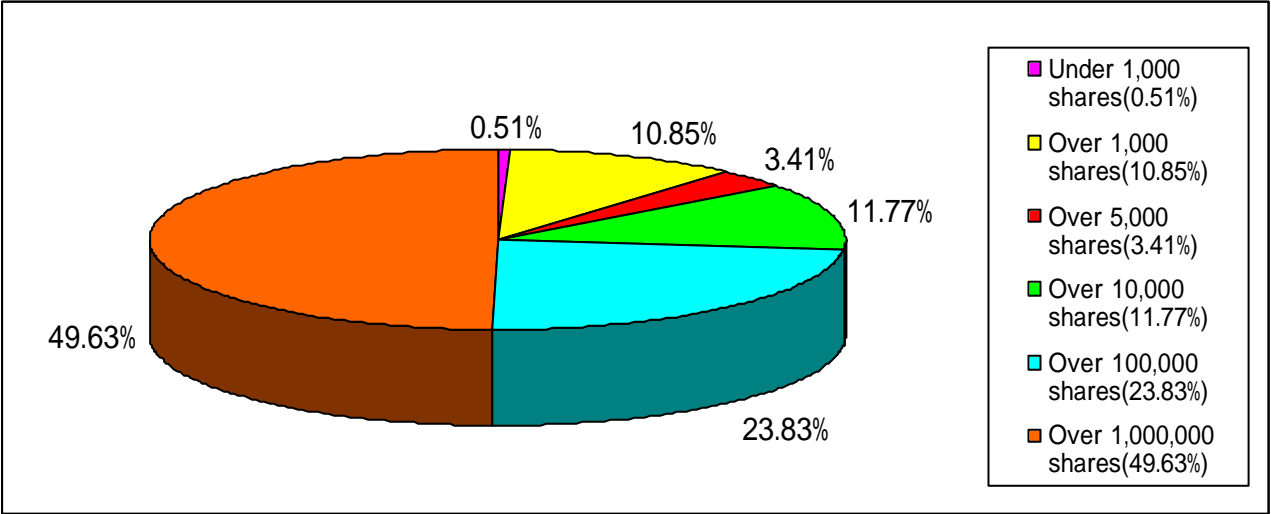
(1000 shares)

Name	Number of shares (voting rights equity ratio)	Number of shares held by the Company (voting rights equity ratio)
Honda Motor Co., Ltd.	3,753(7.17%)	1,671(0.18%)
Yasuo Nagai	3,378 (6.46%)	N/A
Shareholding association of Nippon Seiki Employees	2,512(4.80%)	N/A
Atsuo Nagai	2,504(4.79%)	N/A
The Bank of Tokyo-Mitsubishi, Ltd.	2,391(4.57%)	N/A
The Hokuetsu Bank, Ltd.	2,022(3.87%)	1,572(0.70%)
The Daishi Bank, Ltd.	1,568(3.00%)	240 (0.06%)
Resona Bank, Ltd.	1,370(2.62%)	N/A
Yoshio Nishiyama	1,262(2.41%)	N/A
Yamaha Motor Co.,Ltd.	1,217(2.33%)	171(0.06%)

Distribution Ratio by type of Shareholder



Distribution Ratio by Size of Shareholding per capital



Vice Chairman

Yasuo Nagai

**President and
Representative Director**

Shoji Nagai

**Senior Managing and
Representative Director**

Takashi Nagatsuka

Managing Directors

Michio Hirokawa

Mitsuhiro Kawamata

Kazuo Nirasawa

Hitoshi Yoshikawa

Yoshiaki Yazawa

Directors

Shinichiro Hayakawa

Keiichi Sasaoka

Ryuichi Yamazaki

Takeyoshi Ikarashi

Kazuyoshi Kishi

Norio Yakubo

Yoshinobu Kimura

Takashi Komagata

Yoshiki Takebe

Soichi Fujita

Corporate Auditors

Kimiyuki Saito

Tadao Endo

Youichi Sakurai

. CONSOLIDATED FINANCIAL STATEMENTS of NIPPON SEIKI Co.,Ltd.

Consolidated Balance Sheets

	March 31, 2004	March 31, 2003
	(Thousands of Japanese Yen)	(Thousands of Japanese Yen)
ASSETS		
Current Assets		
Cash and bank deposits (Note 7)	¥ 8,948,536	¥ 3,872,340
Notes receivable	2,091,412	2,024,837
Accounts receivable (Note 2)	29,076,869	30,854,385
Inventories	16,620,743	16,432,666
Deferred tax assets (Note 3)	1,121,829	996,756
Other current assets	2,706,077	2,417,716
Allowance for doubtful accounts	(48,177)	(46,321)
CURRENT ASSETS — TOTAL	60,517,292	56,552,381
Fixed Assets		
Tangible Fixed Assets (Note 2)		
Buildings and Structures	10,032,919	10,395,825
Machinery, Equipment and Vehicles	9,053,945	9,247,107
Tools, Jigs and Fixtures	3,269,446	3,117,353
Land	13,892,904	13,657,260
Construction in Progress	860,950	1,442,304
Total	37,110,166	37,859,850
Intangible Fixed Assets		
Consolidation adjustment account	245,421	315,691
Other intangible fixed assets	1,060,652	923,151
Total	1,306,073	1,238,843
Investment and Other Assets		
Investment securities (Note 2)	12,446,497	9,433,550
Deferred tax assets (Note 3)	1,567,567	2,739,732
Other investment and assets	907,544	808,005
Allowance for doubtful accounts	(74,559)	(102,165)
Total	14,847,049	12,879,123
FIXED ASSETS — TOTAL	53,263,289	51,977,817
Deferred Assets		
Research and Development expenses	295,188	373,492
TOTAL ASSETS	¥ 114,075,770	¥ 108,903,690

	March 31, 2004	March 31, 2003
	(Thousands of Japanese Yen)	(Thousands of Japanese Yen)
LIABILITIES		
Current Liabilities		
Notes payable	¥ 3,246,318	¥ 3,425,659
Accounts payable	22,918,807	27,067,781
Short-term loans payable (Note 2)	16,922,688	15,770,633
Accrued income taxes	895,483	1,995,298
Accrued bonuses to employees	1,444,731	1,597,438
Other current liabilities	5,021,110	3,962,243
CURRENT LIABILITIES — TOTAL	50,449,140	53,819,055
Long-term Liabilities		
Bonds	7,500,000	—
Long-term loans payable (Note 2)	4,712,624	6,998,257
Deferred tax liability (Note 3)	459,377	367,141
Allowance for employees' retirement benefits (Note 4)	2,460,004	5,781,972
Allowance for directors' retirement benefits	665,870	619,216
Other long-term liabilities	1,374,288	118,931
LONG-TERM LIABILITIES — TOTAL	17,172,165	13,885,518
TOTAL LIABILITIES	67,621,306	67,704,573
MINORITY INTERESTS	3,499,373	2,926,632
SHAREHOLDERS' EQUITY (Note 5)		
Common stock	12,495,488	12,495,488
Additional paid-in capital	4,220,626	4,220,511
Retained earnings	27,185,627	23,009,432
Unrealized gain on investment securities	2,630,447	1,496,473
Adjustment from foreign currency translation	(1,672,621)	(1,080,468)
Treasury stock	(1,904,477)	(1,868,953)
TOTAL SHAREHOLDERS' EQUITY	42,955,090	38,272,484
TOTAL LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	¥ 114,075,770	¥ 108,903,690

See notes to consolidated financial statements.

Consolidated Statements of Income

	Year ended March 31, 2004	Year ended March 31, 2003
	(Thousands of Japanese Yen)	(Thousands of Japanese Yen)
Sales	¥ 139,007,170	¥ 132,410,313
Cost of Sales	115,246,783	111,218,707
GROSS PROFIT	23,760,387	21,191,605
Selling, General and Administrative Expenses		
Packing and Transportation	2,943,231	2,683,614
Salaries	4,803,635	4,555,074
Provision for doubtful accounts	40,081	—
Provision for accrued bonuses to employees	305,785	347,466
Provision for accrued retirement allowance	389,168	370,602
Provision for accrued directors' retirement allowance	65,004	61,771
Depreciation	562,169	593,196
Other expenses	5,374,538	5,188,941
Total	14,483,615	13,800,667
OPERATING INCOME	9,276,771	7,390,938
Non Operating Income		
Interest income	45,446	26,238
Dividend income	239,057	77,830
Profits on sales of securities	72	—
Equity in income of affiliates	—	51,796
Other non operating income	322,776	402,357
Total	607,352	558,222
Non Operating Expenses		
Interest expense	255,632	282,792
Bond issue costs	185,917	—
Loss on sales of securities	—	9
Loss on foreign exchange	924,072	954,439
Equity in loss of affiliates	41,644	—
Other non operating expenses	9,590	56,487
Total	1,416,858	1,293,728
ORDINARY INCOME	8,467,266	6,655,433
Special Income		
Gain on sales of fixed assets	39,601	33,024
Profits from termination of defined benefit pension plans	581,307	—
Other special income	—	44,756
Total	620,909	77,780
Special Loss		
Loss on sales of fixed assets	8,094	14,304
Loss on disposal of fixed assets	180,333	174,034
Loss on investment security revaluation	85,479	77,610
Amortization of transition difference of retirement allowance due to change of accounting standard (Note 4)	277,899	373,513
Provision for accrued director's retirement allowance	34,032	34,032
Other special loss	49,557	562,913
Total	635,397	1,236,409
INCOME BEFORE TAXES	8,452,778	5,496,804
Income taxes (Note 3)	2,744,328	2,103,559
Minority Interests in Income	805,797	465,294
NET INCOME	¥ 4,902,652	¥ 2,927,950

See notes to consolidated financial statements.

Consolidated Statements of Retained Earnings

	Year ended March 31, 2004	Year ended March 31, 2003
	(Thousands of Japanese Yen)	(Thousands of Japanese Yen)
Retained earnings at beginning	¥ 23,009,432	¥ 20,733,496
Increase in retained earnings :		
Net income	4,902,652	2,927,950
Increase in retained earnings due to increase of consolidated subsidiaries	—	42,382
Increase due to change in ownership ratio of consolidated subsidiary	—	101,794
Total	4,902,652	3,072,126
Decrease in retained earnings :		
Dividends	428,655	445,318
Bonus to directors	275,036	248,960
[Bonus to corporate auditors included]	[15,905]	[11,657]
Decrease in retained earnings due to increase of additional consolidated subsidiary	22,764	—
Decrease in retained earnings due to change of affiliate by equity method to consolidated subsidiary	—	101,912
Total	726,457	796,190
Retained earnings at end	¥ 27,185,627	¥ 23,009,432

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Year ended March 31, 2004	Year ended March 31, 2003
	(Thousands of Japanese Yen)	(Thousands of Japanese Yen)
Cash flows from operating activities:		
Income before income taxes and minority interests	¥ 8,452,778	¥ 5,496,804
Depreciation and amortization	5,481,228	5,207,926
Amortization of consolidation adjustment account	88,922	85,191
Accrued bonuses to employees, net of payment	(152,707)	117,417
Employees' retirement benefits, net of payments	(3,321,545)	1,013,907
Directors' retirement benefits, net of payment	46,654	26,425
Allowance for doubtful accounts	39,725	18,399
Interest and dividend income	(284,503)	(104,069)
Interest expense	255,632	282,792
Loss (gain) on foreign exchange	(46,824)	28,952
Equity in loss (income) of affiliates	41,644	(51,796)
Loss (gain) on sales of marketable securities	(72)	9
Loss on sales or disposal of property, net	148,826	155,315
Loss on investment securities revaluation	97,679	619,804
Decrease (increase) in accounts and notes receivable	1,022,375	(7,512,810)
Increase in inventories	(534,119)	(4,492,512)
Increase (decrease) in accounts and notes payable	(3,660,921)	7,220,484
Bonuses to directors	(290,200)	(258,850)
Other, net	2,218,167	(134,258)
Sub-total	9,602,740	7,719,135
Interest and dividend received	285,878	102,702
Interest paid	(254,852)	(284,303)
Income taxes paid	(3,622,347)	(2,270,609)
Cash provided by operating activities	6,011,419	5,266,924
Cash flows from investing activities:		
Purchase of properties	(5,986,790)	(5,444,833)
Proceeds from sale of properties	1,320,264	314,562
Purchase of subsidiary, net of cash and cash equivalents held in subsidiary	—	(595,139)
Purchase of investment securities	(1,545,184)	(401,787)
Proceeds from sales of investment securities	8,668	9,980
Other, net	(836,162)	(149,581)
Cash used in investing activities	(7,039,205)	(6,266,799)
Cash flows from financing activities:		
Increase in short-term loans	1,361,184	3,311,517
Proceeds from long-term loans	72,800	1,800,000
Repayments of long-term loans	(2,480,749)	(3,009,724)
Proceeds from bond issued	7,500,000	—
Proceeds from stock issued to minority shareholders	—	55,237
Cash dividend paid	(429,039)	(441,297)
Cash dividend paid to minority shareholders	(121,396)	(77,018)
Other, net	(35,875)	(1,864,559)
Cash provided by (used in) financing activities	5,866,923	(225,844)
Effect of exchange rate changes on cash and cash equivalents	69,575	(83,687)
Net (decrease) increase in cash and cash equivalents	4,908,713	(1,309,406)
Cash and cash equivalents at beginning of year	3,786,620	4,696,459
Increase in cash and cash equivalents due to inclusion of subsidiaries in consolidation	183,882	399,567
Cash and cash equivalents at end of year (Note 8)	¥ 8,879,216	¥ 3,786,620

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nippon Seiki Co., Ltd. and Consolidated Subsidiaries

March 31, 2004

1. Summary of Significant Accounting Policies

(a) Basis of presentation

Nippon Seiki Co., Ltd. (the "Company") and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles and practices generally accepted in Japan, and foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile. The accompanying consolidated financial statements are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan. For the purposes of this document, certain reclassifications have been made to present the accompanying consolidated financial statements in a format that is familiar to readers outside Japan.

(b) Basis of consolidation and accounting for investments in affiliates

The consolidated financial statements include the accounts of the Company and its 20 significant subsidiaries at March 31, 2004, except for certain subsidiaries whose gross assets, net sales, and net income were not significant in the aggregate in relation to the comparable figure in the consolidated financial statements. All significant inter-company balances and transactions have been eliminated in consolidation.

Investments in three affiliates have been accounted for by the equity method. Investments in two affiliates were stated at cost because the effect of application of the equity method would be immaterial.

One domestic subsidiary is consolidated on the basis of fiscal period ending February 29, and seven foreign subsidiaries are consolidated on the basis of fiscal period ending December 31. Significant transactions, which occurred during the period between these fiscal year-ends and March 31, are adjusted in the accompanying consolidated financial statements.

All assets and liabilities of the subsidiaries are revaluated at fair values on acquisition and the excess of cost over underlying net assets at the date of acquisition is amortized over a period of five years on a straight-line basis.

(c) Foreign currency translation

Monetary assets and liabilities of the Company and its domestic subsidiaries denominated in foreign currencies are translated at the current exchange rates in effect at each balance-sheet date. Resulting gains and losses are included in net profit or loss for the period.

Assets and liabilities of the foreign consolidated subsidiaries are translated at the current exchange rates in effect at each balance-sheet date and revenue and expense accounts are translated at the average rate of exchange in effect during the year. The Company has presented translation adjustments as a component of shareholders' equity and minority interests in consolidated financial statements.

(d) Cash and cash equivalents

All highly liquid investments, generally with a maturity of three months or less when purchased, which are readily convertible into known amounts of cash and are so near maturity that they represent only an insignificant risk of any change in value attributable to changes in interest rates, are cash equivalents.

(e) Securities

Equity securities not classified as trading securities are stated at fair value and the changes in fair value, net of applicable income taxes, have been directly included in shareholders' equity as unrealized gain on investment securities.

Other securities, for which fair values are unavailable, are stated at cost as determined by the moving average method.

(f) Inventories

Finished goods and Work in process;

Instruments Stated at cost by the weighted average method

Others Stated at cost by the identified method

Materials Stated at cost by the weighted average method

Supplies Stated at cost by the most recent purchase price method

(g) Depreciation and Amortization

Depreciation of tangible assets is mainly calculated by the declining-balance method. Useful lives of the respective assets are based on the Corporation Tax Law.

Depreciation of intangible assets is mainly calculated by the straight-line method. Useful lives of the respective assets are based on the Corporation Tax Law.

(h) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on the collection of receivables. For the Company and its consolidated subsidiaries, the amount of the allowance is determined based on (1) past write-off experience, and (2) an estimated amount for probable doubtful accounts based on a review of the collectibility of individual receivables.

(i) Accrued bonuses to employees

Accrued bonuses are recognized based on expected total expenditure at the end of fiscal year.

(j) Pension and retirement benefits

Employees' retirement benefits

Effective the year ended March 31, 2001, the Company and its domestic subsidiaries adopted a new accounting standard for retirement benefits. In accordance with this standard, allowance for employees' retirement benefits has been provided based on the projected retirement benefit obligation and the pension fund assets.

The transition difference from the initial adoption of the new accounting standard is being amortized by the straight-line method over 5 years.

Past service costs are amortized by the straight-line method over 10 years which are shorter than the average remaining years of service of the employees.

Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over 10 years which are shorter than the average remaining years of service of the employees.

Directors' retirement benefits

The Company and seven domestic subsidiaries provide 100% allowance for retirement benefits for the directors under their internal rules.

(k) Leases

Finance leases for which ownership does not transfer to lessees are principally accounted for as ordinary rental transactions.

(l) Income taxes

Deferred income taxes are recognized by the asset and liability method. Under this method, deferred assets and liabilities are determined based on the difference between financial reporting and the tax basis of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(m) Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriation.

2. Short-term Loans and Long-term Debt

The weighted average interest rate of short-term loans payable to banks was 0.9% at March 31, 2004.

Long-term debt as of March 31, 2004 consisted of the following:

	<u>Thousands of Yen</u>
Loans from banks and insurance companies, due through 2013 At average rates of 1.4% and 1.2% for current and non-current portion, respectively	¥ 6,815,151
Less: Current portion	<u>2,102,527</u>
	<u>¥ 4,712,624</u>

Aggregate annual maturities of long-term debt subsequent to March 31, 2004 are as follows:

<u>Year ending March 31,</u>	<u>Thousands of Yen</u>
2005	¥ 2,102,527
2006	1,863,024
2007	1,145,100
2008	746,000
2009 and thereafter	<u>958,500</u>
	<u>¥ 6,815,151</u>

The assets mortgaged for short-term and long-term loans payable as of March 31, 2004 were as follows:

	<u>Thousands of Yen</u>
Property, plant and equipment, net of accumulated depreciation	¥ 5,308,671
Securities	4,272,000
Other assets	125,679

3. Income Taxes

Income taxes applicable to the Company and its domestic subsidiaries comprised corporation tax, inhabitant's taxes and enterprise tax which, in aggregate, resulted in a statutory tax rate of approximately 42% for the year ended March 31, 2004. Income taxes of the foreign subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The major components of deferred tax assets and liabilities as of March 31, 2004 were as follows:

	<u>Thousands of Yen</u>	
Deferred tax assets		
Accrued bonuses	¥	583,497
Retirement benefits		1,139,676
Accrued pension contribution		773,304
Unrealized gains on inventories, property and equipment		475,631
Others		<u>1,861,783</u>
Total deferred tax assets		<u>4,833,892</u>
Deferred tax liabilities		
Reserve for special depreciation		(169,860)
Unrealized gains on investment securities		(2,147,156)
Undistributed earnings of foreign subsidiaries		(284,003)
Others		<u>(2,853)</u>
Total deferred tax liabilities		<u>(2,603,873)</u>
Net deferred tax assets	¥	<u>2,230,019</u>

4. Retirement Benefits

The Company and its consolidated subsidiaries have defined benefit pension plans, welfare pension fund plans, tax-qualified pension plans and lump-sum payment plans. The amount of benefits under the plans is determined on the basis of years of service at the time of termination of employment.

On December 1, 2003, the company and certain consolidated subsidiaries transferred defined benefit pension plans, welfare pension fund plans and tax-qualified pension to defined contribution plans.

Following approval on November 27, 2003 from the Minister of Health, Labor and Welfare for liquidation of welfare pension fund plan, the obligation and assets of governmental welfare contributory portion were transferred to a governmental agency.

The following table sets forth the funded and accrued status for the plans, and the amounts recognized in the consolidated balance sheet as of March 31, 2004 for the Company and consolidated subsidiaries' defined benefit plans:

	<u>Thousands of Yen</u>	
Projected benefit obligation	¥	3,302,334
Plan assets at fair value		<u>(390,674)</u>
		2,911,660
Unrecognized past service costs		46,129
Unrecognized actuarial gain or loss		318,854
Difference at change of accounting		<u>86,672</u>
Allowance for employees' retirement benefits	¥	<u>2,460,004</u>

The effect of a transfer from the welfare pension fund plan, tax-qualified pension plan and lump-sum payment plan to defined contribution plans was as follows;

	<u>Thousands of Yen</u>
Decrease in retirement benefit liabilities	¥ 17,433,941
Unrecognized transitional difference at the accounting change	(382,455)
Unrecognized actuarial difference	(4,961,430)
Unrecognized past service cost	683,150
Transfer of plan assets	<u>(9,626,262)</u>
Decrease in allowance for retirement benefit	<u>¥ 3,146,943</u>

The assets to be transferred to defined contribution plans for the next four years are ¥2,565,635 thousands.

The assets yet to be transferred to defined contribution plans at March 31, 2004 amounted to ¥1,914,120 thousands and were included in accounts payable-other and long-term payables.

The components of retirement benefit expenses for the year ended March 31, 2004 were outlined as follows;

	<u>Thousands of Yen</u>
Service cost	¥ 889,948
Interest cost	338,738
Expected return on plan assets	(58,547)
Amortization of past service cost	(48,289)
Amortization of actuarial gain or loss	411,722
Amortization of net retirement obligation at transition	<u>277,899</u>
Net retirement benefit expenses	<u>¥ 1,811,473</u>

The amount of cost recognized for the contribution to the plans for the year ended March 31, 2004 was ¥218,736 thousands.

The assumptions used in accounting for the above plans are as follows:

Discount Rate	2.0% — 2.5%
Expected return rate on plan assets	1.0% — 2.0%
Amortization period of past service cost	10 years (straight-line method)
Amortization period of actuarial gain or loss	10 years (straight-line method)
Amortization period of net retirement benefits obligation at transition	5 years (straight-line method)

5. Shareholders' Equity

In accordance with provisions of the Commercial Code of Japan, the Company has provided a legal reserve as an appropriation of retained earnings. The Code provides that neither additional paid-in capital nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to stated capital (ordinary share / common stock) by resolution of the Board of Directors.

6. Amounts per Share

Net income per share shown below is based on the weighted average number of shares of common stock outstanding during the year:

Net assets per share is based on the number of shares of common stock outstanding at each balance sheet date.

Net income per share and net assets per share for the year ended or as of March 31, 2004 were as follows;

Net income per share	¥ 85.60
Net income per share, fully diluted	¥ 79.95
Net assets per share	¥ 796.24

7. Supplementary Cash Flow Information

The following table represents a reconciliation of cash and cash equivalents as of March 31, 2004 and 2003.

	Thousands of Yen	
	2004	2003
Cash and bank deposit	¥ 8,948,536	¥ 3,872,340
Time deposit with a maturity of more than three months	(69,320)	(85,720)
Cash and cash equivalents	<u>¥ 8,879,216</u>	<u>¥ 3,786,620</u>

Report of Independent Auditors

The Board of Directors
Nippon Seiki Co., Ltd.

We have audited the accompanying consolidated balance sheets of Nippon Seiki Co., Ltd. and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, retained earnings, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nippon Seiki Co., Ltd. and consolidated subsidiaries at March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Shin Nihon & Co.

Niigata, Japan
June 25, 2004

. OTHER INFORMATION

Non-consolidated Financial Statements of NIPPON SEIKI Co.,Ltd. for the Fiscal Year 2003/2004

Balance Sheets

	March 31, 2004	March 31, 2003
	(Thousands of Japanese Yen)	(Thousands of Japanese Yen)
ASSETS		
Current Assets		
Cash and bank deposits	¥ 5,604,468	¥ 1,641,061
Notes receivable	1,597,307	1,414,502
Accounts receivable	26,240,356	29,243,173
Finished goods	1,338,628	1,280,977
Raw materials and Parts	4,230,404	4,620,179
Work in process	793,350	1,013,392
Supplies	90,663	138,532
Prepaid expenses	38,394	109,197
Deferred tax assets	426,520	419,093
Short-term loans	5,235,452	2,849,951
Sundry receivable	1,608,726	1,332,229
Other current assets	159,092	139,494
Allowance for doubtful accounts	(17,164)	(3,431)
CURRENT ASSETS — TOTAL	47,346,202	44,198,353
Fixed Assets		
Tangible Fixed Assets		
Buildings	4,813,732	5,087,701
Structures	237,664	253,310
Machinery and Equipment	4,187,760	4,517,818
Vehicles	55,340	47,564
Tools, Jigs and Fixtures	2,546,129	2,399,322
Land	9,507,506	9,507,506
Construction in progress	131,959	1,008,257
Total	21,480,092	22,821,480
Intangible Fixed Assets		
Software	750,597	433,787
Other intangible assets	33,744	311,411
Total	784,341	745,199
Investment and Other Assets		
Investment securities	11,566,284	8,703,062
Investment in subsidiary and affiliate companies	11,155,070	10,637,494
Long-term loans	100,000	—
Prepaid expenses	214,961	221,571
Deferred tax assets	501,199	1,577,667
Other investments and assets	208,789	206,838
Allowance for doubtful accounts	(74,103)	(70,447)
Total	23,672,202	21,276,187
FIXED ASSETS — TOTAL	45,936,636	44,842,866
TOTAL ASSETS	¥ 93,282,838	¥ 89,041,220

	March 31, 2004	March 31, 2003
LIABILITIES	(Thousands of Japanese Yen)	(Thousands of Japanese Yen)
Current Liabilities		
Notes payable	¥ 349,947	¥ 370,454
Accounts payable	22,173,934	27,397,881
Short-term loans payable	12,940,047	11,379,983
Current maturities of long-term loans payable	1,413,600	1,409,100
Accrued liabilities	1,128,523	465,753
Accrued expenses	1,433,769	1,325,303
Accrued income taxes	120,575	818,257
Advance received	1,091	8,887
Deposits received	152,322	60,171
Accrued bonuses to employees	732,119	827,028
Bills payable - capital investment	112,794	247,509
CURRENT LIABILITIES — TOTAL	40,558,727	44,310,329
Long-term Liabilities		
Bonds	7,500,000	—
Long-term loans payable	3,692,200	5,105,800
Allowance for employees' retirement benefits	1,319,792	4,002,442
Allowance for directors' retirement benefits	403,434	423,767
Other long-term liabilities	1,057,928	68,250
LONG-TERM LIABILITIES — TOTAL	13,973,354	9,600,259
TOTAL LIABILITIES	54,532,082	53,910,589
SHAREHOLDERS' EQUITY		
Common stock	12,495,488	12,495,488
Additional paid-in capital	4,220,626	4,220,511
Retained earnings		
Legal reserves	960,230	960,230
Allowance for special depreciation	194,997	125,063
General reserve	16,480,000	15,530,000
Unappropriated retained earnings	3,691,722	2,180,399
[Net income for the period included]	[3,122,913]	[1,723,236]
Total	21,326,950	18,795,693
Unrealized gain on investment securities	2,612,169	1,487,891
Treasury stock	(1,904,477)	(1,868,953)
TOTAL SHAREHOLDERS' EQUITY	38,750,756	35,130,631
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	¥ 93,282,838	¥ 89,041,220

Statements of Income

	Year ended March 31, 2004	Year ended March 31, 2003
	(Thousands of Japanese Yen)	(Thousands of Japanese Yen)
Sales	¥ 94,405,985	¥ 91,098,154
Operating Expenses		
Cost of Sales	82,966,265	80,991,327
Selling, General and Administrative Expenses	7,440,135	7,238,942
Total	90,406,401	88,230,269
OPERATING INCOME	3,999,584	2,867,885
Non Operating Income		
Interest and Dividend income	838,573	522,537
Other non operating income	512,675	456,665
Total	1,351,248	979,203
Non Operating Expenses		
Interest expenses	110,427	110,877
Other non operating expenses	768,035	590,995
Total	878,463	701,872
ORDINARY INCOME	4,472,369	3,145,215
Special Income		
Gain on sales of fixed assets	96	5,081
Profits from termination of defined benefit pension plans	249,051	—
Other special income	—	10,182
Total	249,148	15,263
Special Loss		
Loss on disposal of fixed assets	119,372	24,446
Loss on investment security revaluation	85,479	54,360
Amortization of transition difference of retirement allowance due to change of accounting standard	30,431	74,648
Other special loss	16,374	240,979
Total	251,656	394,433
INCOME BEFORE TAXES	4,469,860	2,766,044
Income Taxes	1,346,947	1,042,808
NET INCOME	3,122,913	1,723,236
Retained earnings brought forward from previous period	783,085	671,845
Interim dividend paid	214,276	214,682
Unappropriated retained earnings	¥ 3,691,722	¥ 2,180,399

Statements of Retained Earnings

	Year ended March 31, 2004	Year ended March 31, 2003
	(Thousands of Japanese Yen)	(Thousands of Japanese Yen)
Unappropriated retained earnings for the period	¥ 3,691,722	¥ 2,180,399
Disposition of special depreciation allowance	42,470	30,238
Total	3,734,193	2,210,638
Appropriations of surplus		
Dividends [¥4 per share for ordinary dividend and ¥2 per share for special dividend for F.Y.2004]	321,300	214,379
Bonus to directors	173,000	163,000
[Bonus to corporate auditors included]	[9,600]	[9,600]
Allowance for special depreciation	32,472	100,173
General reserve	2,400,000	950,000
Retained earnings brought forward to the next period	¥ 807,420	¥ 783,085

* Interim dividend: ¥214,682thousand at December 17, 2002 [¥ 4 per share for dividend]

* Interim dividend: ¥214,276thousand at December 16, 2003 [¥ 4 per share for dividend]