

***ASAHI TEC CORPORATION  
and Consolidated Subsidiaries***

*Consolidated Financial Statements for the  
Years Ended March 31, 2003 and 2002, and  
Independent Auditors' Report*

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of ASAHI TEC CORPORATION:

We have audited the accompanying consolidated balance sheets of ASAHI TEC CORPORATION and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ASAHI TEC CORPORATION and consolidated subsidiaries as of March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

As discussed in Note 14 to the consolidated financial statements, the following subsequent events occurred.

1. The issuance of Series A preferred stock at a favorable price to third parties in the amount of ¥2,000 million.
2. Refinancing of the Group's debt for approximately ¥19,000 million
3. Payment of refinancing and advisory service fees in the amount of ¥1,200 million.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

June 27, 2003

ASAHI TEC CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
MARCH 31, 2003 AND 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	¥ 2,058	¥ 2,477	\$ 17,150
Short-term investments (Note 3)	-	101	-
Notes and accounts receivable:			
Trade notes and accounts	12,536	12,279	104,467
NGK INSULATORS, LTD.	810	767	6,750
Non-consolidated subsidiaries and associated companies	113	167	942
Other	226	192	1,883
Allowance for doubtful accounts	(11)	(62)	(92)
	<u>13,674</u>	<u>13,343</u>	<u>113,950</u>
Inventories (Note 4)	5,272	5,263	43,933
Deferred tax assets (Note 8)	734	302	6,117
Prepaid expenses and other current assets	211	196	1,758
Total current assets	<u>21,949</u>	<u>21,682</u>	<u>182,908</u>
<b>PROPERTY, PLANT AND EQUIPMENT (Note 5):</b>			
Land	10,147	10,215	84,558
Buildings and structures	12,130	12,180	101,083
Machinery and equipment	28,967	29,128	241,392
Furniture and fixtures	7,817	8,406	65,142
Construction in progress	1,862	1,564	15,517
	<u>60,923</u>	<u>61,493</u>	<u>507,692</u>
Accumulated depreciation	(34,426)	(34,155)	(286,883)
Net property, plant and equipment	<u>26,497</u>	<u>27,338</u>	<u>220,809</u>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Note 3)	817	1,059	6,808
Investments in and loans to non-consolidated subsidiaries and associated companies	301	307	2,508
Deferred tax assets (Note 8)	1,241	1,707	10,342
Other assets	1,025	968	8,542
Total investments and other assets	<u>3,384</u>	<u>4,041</u>	<u>28,200</u>
<b>TOTAL</b>	<u>¥ 51,830</u>	<u>¥ 53,061</u>	<u>\$ 431,917</u>

(Continued)

ASAHI TEC CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
MARCH 31, 2003 AND 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Short-term bank loans (Note 5)	¥ 4,601	¥ 4,357	\$ 38,342
Current portion of long-term debt (Note 5)	8,311	2,606	69,258
Notes and accounts payable:			
Trade notes and accounts	9,116	8,387	75,966
NGK INSULATORS, LTD.	27	29	225
Non-consolidated subsidiaries and associated companies	62	39	517
Acquisition on property and equipment	1,185	1,560	9,875
Other	456	467	3,800
	<u>10,846</u>	<u>10,482</u>	<u>90,383</u>
Accrued expenses	1,336	1,222	11,134
Income taxes payable	90	18	750
Other current liabilities	351	325	2,925
Total current liabilities	<u>25,535</u>	<u>19,010</u>	<u>212,792</u>
<b>LONG-TERM LIABILITIES:</b>			
Long-term debt (Note 5)	2,991	10,601	24,925
Liability for retirement benefits (Note 6)	1,971	2,032	16,425
Deferred tax liability for land revaluation (Notes 2(f) and 8)	2,501	2,619	20,842
Other long-term liabilities	9	13	75
Total long-term liabilities	<u>7,472</u>	<u>15,265</u>	<u>62,267</u>
MINORITY INTERESTS	<u>758</u>	<u>727</u>	<u>6,316</u>
CONTINGENT LIABILITIES (Note 12)			
<b>SHAREHOLDERS' EQUITY (Note 7):</b>			
Common stock:			
Authorized - 120,000 thousand shares			
Issued - 59,835 thousand shares	4,669	4,669	38,908
Capital surplus	5,604	5,604	46,700
Retained earnings	4,026	3,816	33,550
Land revaluation surplus (Note 2(f))	3,824	3,749	31,867
Unrealized gain on available-for-sale securities	98	235	817
Foreign currency translation adjustments	(152)	(13)	(1,267)
Total	<u>18,069</u>	<u>18,060</u>	<u>150,575</u>
Treasury stock - at cost: 37 thousand shares and 6 thousand shares at March 31, 2003 and 2002, respectively	(4)	(1)	(33)
Total shareholders' equity	<u>18,065</u>	<u>18,059</u>	<u>150,542</u>
<b>TOTAL</b>	<u>¥ 51,830</u>	<u>¥ 53,061</u>	<u>\$ 431,917</u>

See notes to consolidated financial statements.

(Concluded)

**ASAHI TEC CORPORATION AND CONSOLIDATED SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF OPERATIONS  
YEARS ENDED MARCH 31, 2003 AND 2002**

	<b>Millions of Yen</b>		<b>Thousands of U.S. Dollars (Note 1)</b>
	<b>2003</b>	<b>2002</b>	<b>2003</b>
NET SALES (Note 13)	¥ 51,138	¥ 48,619	\$ 426,150
COST OF SALES (Note 13)	45,480	44,020	379,000
Gross profit	<u>5,658</u>	<u>4,599</u>	<u>47,150</u>
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 13)	5,079	4,925	42,325
Operating income (loss)	<u>579</u>	<u>(326)</u>	<u>4,825</u>
OTHER (EXPENSES) INCOME :			
Interest and dividend income	24	44	200
Interest expense	(334)	(388)	(2,783)
Gain on sales of scrap	86	113	716
Export sales incentives	90	114	750
	(253)	(323)	(2,108)
(Loss) gain on sales of investment securities - net	(0)	529	(0)
Extraordinary retirement payments	-	(509)	-
Compensation for expropriations	253	-	2,108
Reversal of allowance for doubtful accounts	57	4	475
Other-net	(51)	(79)	(425)
Other expenses - net	<u>(128)</u>	<u>(495)</u>	<u>(1,067)</u>
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	<u>451</u>	<u>(821)</u>	<u>3,758</u>
INCOME TAXES (Note 8):			
Current	92	18	767
Deferred	107	(263)	891
Total income taxes	<u>199</u>	<u>(245)</u>	<u>1,658</u>
MINORITY INTERESTS IN NET INCOME	<u>36</u>	<u>4</u>	<u>300</u>
NET INCOME (LOSS)	<u>¥ 216</u>	<u>¥ (580)</u>	<u>\$ 1,800</u>
	<b>Yen</b>		<b>U.S. Dollars</b>
PER SHARE OF COMMON STOCK (Note 2(p)):			
Basic net income (loss)	¥ 3.61	¥ (9.70)	\$ 0.03

See notes to consolidated financial statements.

ASAHI TEC CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
YEARS ENDED MARCH 31, 2003 AND 2002

	Thousands	Millions of Yen						
	Issued Number of Common Shares	Common Stock	Capital Surplus	Retained Earnings	Land Revaluation Surplus	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE AT APRIL 1, 2001	59,835	¥ 4,669	¥ 5,604	¥ 4,396	-	¥ 875	¥ (187)	¥ 0
Net loss	-	-	-	( 580)	-	-	-	-
Land revaluation surplus	-	-	-	-	¥ 3,749	-	-	-
	-	-	-	-	-	(640)	-	-
Net change in foreign currency translation adjustments	-	-	-	-	-	-	174	-
Net increase in treasury stock (6 thousand shares)	-	-	-	-	-	-	-	(1)
BALANCE AT MARCH 31, 2002	59,835	4,669	5,604	3,816	3,749	235	(13)	(1)
Net income	-	-	-	216	-	-	-	-
Effect of tax rate reduction	-	-	-	-	101	-	-	-
Reversal of land revaluation surplus	-	-	-	26	(26)	-	-	-
Decrease due to application of equity method to an associated compæ	-	-	-	(32)	-	-	-	-
	-	-	-	-	-	(137)	-	-
Net change in foreign currency translation adjustments	-	-	-	-	-	-	(139)	-
Net increase in treasury stock (31 thousand shares)	-	-	-	-	-	-	-	(3)
BALANCE AT MARCH 31, 2003	59,835	¥ 4,669	¥ 5,604	¥ 4,026	¥ 3,824	¥ 98	¥ (152)	¥ (4)

	Thousands of U.S. Dollars (Note 1)						
	Common Stock	Capital Surplus	Retained Earnings	Land Revaluation Surplus	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE AT MARCH 31, 2002	\$ 38,908	\$ 46,700	\$ 31,800	\$ 31,242	\$ 1,958	\$ (108)	\$ (8)
Net income	-	-	1,800	-	-	-	-
Effect of tax rate reduction	-	-	-	842	-	-	-
Reversal of land revaluation surplus	-	-	217	(217)	-	-	-
Decrease due to application of equity method to an associated company	-	-	(267)	-	-	-	-
	-	-	-	-	(1,141)	-	-
Net change in foreign currency translation adjustments	-	-	-	-	-	(1,159)	-
Net increase in treasury stock (31 thousand shares)	-	-	-	-	-	-	(25)
BALANCE AT MARCH 31, 2003	\$ 38,908	\$ 46,700	\$ 33,550	\$ 31,867	\$ 817	\$ (1,267)	\$ (33)

See notes to consolidated financial statements.

**ASAHI TEC CORPORATION AND CONSOLIDATED SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
YEARS ENDED MARCH 31, 2003 AND 2002**

	Millions of Yen		Thousands of
	2003	2002	U.S. Dollars (Note 1)
			2003
OPERATING ACTIVITIES:			
Income (loss) before income taxes and minority interests	¥ 451	¥ (821)	\$ 3,758
Adjustments for:			
Income taxes-paid (net of refund)	(17)	(98)	(142)
Depreciation	3,432	3,895	28,600
Loss on sales and disposals of property, plant and equipment - net	253	327	2,108
Loss (gain) on sales of investment securities - net	0	(529)	0
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable - trade	(350)	3,339	(2,916)
Increase in inventories	(68)	(460)	(567)
	(42)	28	(350)
Increase (decrease) in notes and accounts payable - trade	868	(1,909)	7,233
Decrease in liability for retirement benefits	(61)	(438)	(508)
Other - net	95	(882)	792
Total adjustments	4,110	3,273	34,250
Net cash provided by operating activities	4,561	2,452	38,008
INVESTING ACTIVITIES:			
Proceeds from short-term investment	101	111	842
Proceeds from sales of investment securities	1	1,451	8
Purchases of property, plant and equipment	(3,682)	(4,649)	(30,683)
Proceeds from sales of property, plant and equipment	118	131	983
Other - net	(104)	1	(866)
Net cash used in investing activities	(3,566)	(2,955)	(29,716)
FINANCING ACTIVITIES:			
Increase in short-term bank loans - net	341	1,731	2,842
Proceeds from long-term debt	824	736	6,866
Repayment of long-term debt	(2,569)	(2,496)	(21,408)
Other - net	(7)	(5)	(58)
Net cash used in financing activities	(1,411)	(34)	(11,758)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(3)	26	(25)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(419)	(511)	(3,491)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,477	2,988	20,641
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 2,058	¥ 2,477	\$ 17,150

See notes to consolidated financial statements.

# ASAHI TEC CORPORATION and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements Years Ended March 31, 2003 and 2002

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### 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

On May 28, 2003, JC Holdings Limited and JC Holdings II Limited purchased all 25,350 thousand of common shares of ASAHI TEC CORPORATION (the "Company") held by NGK Insulators, Ltd., a principal shareholder at March 31, 2003 and 2002. JC Holdings Limited and JC Holdings II Limited then transferred all of the shares of the Company to Japan Casting LP and Japan Casting II LP. As a result of the transfer, Japan Casting LP and Japan Casting II LP are to become principal shareholders of the Company, holding 37.59% and 11.29%, respectively.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥120 to \$1, the approximate rate of exchange at March 31, 2003. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Consolidation*—The consolidated financial statements at March 31, 2003 and 2002 include the accounts of the Company and its three significant subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in an associated company (none in 2002) are accounted for by the equity method at March 31, 2003.

Investments in three non-consolidated subsidiaries and one associated company (three non-consolidated subsidiaries and two associated companies in 2002) are stated at cost at March 31, 2003. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired

subsidiary at the date of acquisition is charged to income as incurred.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

- b. Cash Equivalents**—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, which mature or become due within three months of the date of acquisition.
- c. Inventories**—Inventories are stated at cost, mainly determined by the average method.
- d. Marketable and Investment Securities**—Marketable and investment securities are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method. Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, securities are reduced to net realizable value by a charge to income.
- e. Property, Plant and Equipment**—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed mainly by the declining-balance method, at the rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings, molds (included in furniture and fixtures) of the Company, and all property, plant and equipment of consolidated foreign subsidiaries. The range of useful lives is principally from 10 to 50 years for buildings and structures, from 4 to 12 years for machinery and equipment, and from 2 to 6 years for furniture and fixtures.
- f. Land Revaluation**—Under the “Law of Land Revaluation”, the Company elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 2002. The resulting land revaluation surplus represents unrealized appreciation of land and is stated, net of income taxes, as a component of shareholders' equity. There is no effect on the statement of operations. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation surplus account and related deferred tax liabilities. At March 31, 2003, the carrying amount of the land after the above one-time revaluation was equal to the market value of the land.
- g. Other assets**—Intangible assets are amortized by the straight-line method over the estimated useful lives.
- h. Retirement and Pension Plans**—The Company and its consolidated subsidiary have non-contributory defined benefit pension plans and/or unfunded retirement benefit plans for employees.

The liability for retirement benefits for employees is accounted for based on the projected benefit obligations and plan assets at the balance sheet date.

Retirement benefits to directors and corporate auditors of the Company and its domestic subsidiary are provided at the amount which would be paid if all directors and corporate auditors retired at the balance sheet date.
- i. Research and Development Costs**—Research and development costs are charged to income as incurred.

- j. Leases*—All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that are deemed to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.
- k. Income Taxes*—The provision for current income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.
- l. Appropriations of Retained Earnings*—Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.
- m. Foreign Currency Transactions*—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the statements of operations to the extent that they are not hedged by forward exchange contracts.
- n. Foreign Currency Financial Statements*—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity and in minority interests. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.
- o. Derivatives and Hedging Activities*—The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, currency and interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. Derivative financial instruments and foreign currency transactions are classified and accounted for by hedge accounting because of high correlation and effectiveness between the hedging instruments.
- Borrowings and their interests denominated in foreign currencies, for which foreign exchange forward contracts are used to hedge foreign currency fluctuations, are translated at the contracted rate.
- The currency and interest rate swaps are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in expenses or income.
- p. Per Share Information*—Basic net income (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits. The weighed average number of common shares used in the computation was 59,816 thousand shares for 2003 and 59,829 thousand shares for 2002. Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. For the year ended March 31, 2003, diluted net income per share was not disclosed because it was anti-dilutive. For the year ended March 31, 2002, diluted net income per share was not disclosed because of net loss position.

### 3. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Current:			
Time Deposits	-	¥ 1	-
Corporate bonds	-	100	-
Total	-	¥ 101	-
Non-current:			
Equity securities	¥ 817	¥ 1,059	\$ 6,808
Total	¥ 817	¥ 1,059	\$ 6,808

The carrying amounts and aggregate fair values of securities at March 31, 2003 and 2002 were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>March 31, 2003</b>				
Securities classified as:				
Available-for-sale:				
Equity securities .....	¥ 531	¥ 213	¥ (27)	¥ 717
<b>March 31, 2002</b>				
Securities classified as:				
Available-for-sale:				
Equity securities .....	¥ 546	¥ 419	¥ (11)	¥ 954
Debt securities .....	100	0	-	100
	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>March 31, 2003</b>				
Securities classified as:				
Available-for-sale:				
Equity securities .....	\$ 4,425	\$ 1,775	\$ (225)	\$ 5,975

Available-for-sale securities whose fair value was not readily determinable at March 31, 2003 and 2002 were as follows:

	<b>Carrying Amount</b>		
	<b>Millions of Yen</b>		<b>Thousands of U.S. Dollars</b>
	<b>2003</b>	<b>2002</b>	<b>2003</b>
Available-for-sale:			
Equity securities	¥ 100	¥ 105	\$ 833
Total	¥ 100	¥ 105	\$ 833

Proceeds from sales of available-for-sale securities for the years ended March 31, 2003 and 2002 were ¥101 million (\$842 thousand) and ¥1,551 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were none for the year ended March 31, 2003 and ¥595 million and ¥70 million, respectively, for the year ended March 31, 2002.

#### 4. INVENTORIES

Inventories at March 31, 2003 and 2002 consisted of the following:

	<b>Millions of Yen</b>		<b>Thousands of U.S. Dollars</b>
	<b>2003</b>	<b>2002</b>	<b>2003</b>
Finished products	¥ 2,278	¥ 2,348	\$ 18,983
Work in process	1,393	1,348	11,608
Raw materials and supplies	1,601	1,567	13,342
Total	¥ 5,272	¥ 5,263	\$ 43,933

#### 5. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2003 and 2002 consisted of notes to banks and bank overdrafts. The weighted average rates of annual interest applicable to the short-term bank loans at March 31, 2003 and 2002, were 1.8% and 2.0%, respectively.

Long-term debt at March 31, 2003 and 2002 consisted of the following:

	<b>Millions of Yen</b>		<b>Thousands of U.S. Dollars</b>
	<b>2003</b>	<b>2002</b>	<b>2003</b>
Unsecured 1.0% yen convertible bonds due May, 2003	¥6,682	¥6,682	\$55,683
Loans from banks, due serially to 2007 with weighted average interest rates of 3.4% (2003) and 3.2% (2002)	4,479	6,367	37,325
Deposits received	141	158	1,175
Total	11,302	13,207	94,183
Less current portion	(8,311)	(2,606)	(69,258)
Long-term debt, less current portion	¥2,991	¥10,601	\$24,925

Additional information with respect to the Company's convertible bonds is as follows:

	<b>1.0% Yen Convertible Bonds</b>
Issued	June 1994
Initial principal amount	¥10,000 million
Type of issue	Public
Due	May 2003
Terms of conversion period	From July 1994 to May 2003
Conversion price per share as of March 31, 2003 (*)	¥ 871

(\*) The conversion price of the convertible bonds is subject to adjustments to reflect stock splits and certain other events.

Annual maturities of long-term debt at March 31, 2003, were as follows:

<b>Year Ending March 31</b>	<b>Millions of Yen</b>	<b>Thousands of U.S. Dollars</b>
2004	¥8,311	\$69,258
2005	1,516	12,633
2006	1,154	9,617
2007	137	1,142
2008	99	825
2009 and thereafter	85	708
Total	<u>¥11,302</u>	<u>\$94,183</u>

The Group entered into line of credit agreements with banks. The details of the agreements at March 31, 2003 were as follows:

	<b>Millions of Yen</b>	<b>Thousands of U.S. Dollars</b>
Line of credit amount	¥ 4,764	\$ 39,700
Balance used	1,792	14,933

The carrying amounts of assets pledged as collateral for the current portion of long-term debt of ¥240 million (\$2,000 thousand) at March 31, 2003, were as follows:

	<b>Millions of Yen</b>	<b>Thousands of U.S. Dollars</b>
Land	¥3,135	\$26,125
Buildings—net of accumulated depreciation	514	4,283
Total	<u>¥3,649</u>	<u>\$30,408</u>

## 6. RETIREMENT AND PENSION PLANS

The Company and its consolidated subsidiaries have severance payment plans for employees, directors and corporate auditors.

Under most circumstances, employees terminating their employment with service of one year or more are entitled to retirement benefits determined based on the rate of pay at the time of termination, and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or consolidated subsidiaries and annuity

payments from a trustee. The amounts of the liability for retirement benefits at March 31, 2003 and 2002 for directors and corporate auditors were ¥147 million (\$1,225 thousand) and ¥110 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

The liability for employees' retirement benefits at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Projected benefit obligation	¥ 7,148	¥ 7,375	\$ 59,567
Fair value of plan assets	(4,247)	(4,814)	(35,392)
Unrecognized actuarial loss	(1,477)	(966)	(12,308)
Net liability	1,424	1,595	11,867
Prepaid pension cost	400	327	3,333
Liability for employees' retirement benefits	¥ 1,824	¥ 1,922	\$ 15,200

The components of net periodic benefit costs for the years ended March 31, 2003 and 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Service cost	¥ 284	¥ 279	\$ 2,366
Interest cost	179	227	1,492
Expected return on plan assets	(142)	(146)	(1,183)
Recognized actuarial loss	102	57	850
Additional retirement payments	85	26	708
Net periodic benefit costs	¥ 508	¥ 443	\$ 4,233

Assumptions used for the years ended March 31, 2003 and 2002 are set forth as follows:

	2003	2002
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	3.0%	3.0%
Recognition period of actuarial gain / loss	10 years	10 years

## 7. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained

earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥4,610 million (\$38,417 thousand) at March 31, 2003, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

## **8. INCOME TAXES**

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41.13% for the years ended March 31, 2003 and 2002.

On March 31, 2003, a local tax reform law was enacted in Japan which changed the normal effective statutory tax rate from approximately 41.13% to 39.54%, effective for the year beginning April 1, 2004. The effect of this change was to decrease deferred tax assets by ¥46 million (\$383 thousand), increase income taxes-deferred by ¥46 million (\$383 thousand), decrease deferred tax liability for land revaluation by ¥101 million (\$842 thousand), and increase land revaluation surplus by ¥101 million (\$842 thousand) in the consolidated financial statements.

The tax effects of significant temporary differences and loss which resulted in deferred tax assets and liabilities at March 31, 2003 and 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Deferred tax assets:			
Accrued bonuses	¥ 203	¥ 149	\$ 1,692
Depreciation and amortization	100	158	833
Disposals of molds	196	179	1,633
Unrealized gains on fixed assets	147	118	1,225
Allowance for doubtful accounts	66	80	550
Liability for retirement benefits	733	462	6,108
Tax loss carryforwards	1,431	2,141	11,925
Other	50	167	417
Less valuation allowance	(838)	(1,228)	(6,983)
Total	<u>¥ 2,088</u>	<u>¥ 2,226</u>	<u>\$ 17,400</u>
Deferred tax liabilities:			
Deferred gain on sales or replacements of property	¥ 35	¥ 37	\$ 291
Reserve for special depreciation	2	12	17
Unrealized gain on available-for-sale securities	76	168	633
Total	<u>¥ 113</u>	<u>¥ 217</u>	<u>\$ 941</u>
Net deferred tax assets	<u>¥ 1,975</u>	<u>¥ 2,009</u>	<u>\$ 16,459</u>
Deferred tax liability for land revaluation	<u>¥ 2,501</u>	<u>¥ 2,619</u>	<u>\$ 20,842</u>

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of operations for the years ended March 31, 2003 and 2002 is as follows:

	2003	2002
Normal effective statutory tax rate	41.13%	41.13%
Expenses not deductible for income tax purposes	9.74	(6.67)
Income not recognized for income tax purposes	(0.93)	1.34
Per capita tax	2.96	(1.62)
Valuation allowance	(10.41)	(3.52)
Effect on tax rate change	10.18	-
Lower income tax rate applicable to income of foreign subsidiaries	(5.62)	0.53
Other – net	(2.74)	(1.39)
Actual effective tax rate	<u>44.31%</u>	<u>29.80%</u>

## 9. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥996 million (\$8,300 thousand) and ¥915 million for the years ended March 31, 2003 and 2002, respectively.

## 10. LEASES

### (As Lessee)

The Group leases certain machinery, computer equipment and other assets.

Total rental expenses under finance leases for the years ended March 31, 2003 and 2002 were ¥41 million (\$342 thousand) and ¥33 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2003 and 2002 was as follows:

	Millions of Yen			
	2003			
	<b>Machinery and Equipment</b>	<b>Furniture and Fixtures</b>	<b>Software</b>	<b>Total</b>
Acquisition cost	¥ 676	¥ 70	¥ 12	¥ 758
Accumulated depreciation	32	40	5	77
Net leased property	¥ 644	¥ 30	¥ 7	¥ 681

	Millions of Yen			
	2002			
	<b>Machinery and Equipment</b>	<b>Furniture and Fixtures</b>	<b>Software</b>	<b>Total</b>
Acquisition cost	¥ 17	¥ 87	¥ 12	¥ 116
Accumulated depreciation	8	43	3	54
Net leased property	¥ 9	¥ 44	¥ 9	¥ 62

	Thousands of U.S. Dollars			
	2003			
	<b>Machinery and Equipment</b>	<b>Furniture and Fixtures</b>	<b>Software</b>	<b>Total</b>
Acquisition cost	\$5,634	\$ 583	\$ 100	\$6,317
Accumulated depreciation	267	333	42	642
Net leased property	\$5,367	\$ 250	\$ 58	\$5,675

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Due within one year	¥ 100	¥ 20	\$ 833
Due after one year	581	42	4,842
Total	¥ 681	¥ 62	\$ 5,675

Depreciation expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Due within one year	¥ 41	¥ 33	\$ 342

Depreciation expense, which is not reflected in the accompanying statements of operations, is computed by the straight-line method.

Minimum rental payments under noncancellable operating leases at March 31, 2003 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 174	\$ 1,450
Due after one year	328	2,733
Total	¥ 502	\$ 4,183

*(As Lessor)*

The Group leases certain machinery as lessor.

The minimum lease payments to be received under the noncancellable operating lease at March 31, 2003 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 71	\$ 592
Due after one year	595	4,958
Total	¥ 666	\$ 5,550

## 11. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Group also enters into currency and interest rate swap contracts to manage its interest rate exposures on certain liabilities.

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated within its business. The Group does not enter into derivatives for trading or speculative purposes. The Group does not anticipate market risks in these derivatives.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and reporting to the management.

All derivative transactions were accounted for under hedge accounting and are not subject to the disclosure of market value information.

## 12. CONTINGENT LIABILITIES

At March 31, 2003, the Group had the following contingent liabilities:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Trade notes sold with recourse	¥ 4	\$ 33
Guarantees of bank loans of an associated company	56	467
Guarantees of bank loans to employees	5	42

## 13. RELATED PARTY TRANSACTIONS

The following transactions were carried out by the Group with related parties:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2003</u>	<u>2002</u>	<u>2003</u>
Sales:			
NGK Insulators, Ltd.	¥ 1,772	¥ 1,788	\$ 14,767
Non-consolidated subsidiaries and associated companies	131	179	1,092
Purchases:			
NGK Insulators, Ltd.	29	27	242
Non-consolidated subsidiaries and associated companies	403	382	3,358
Other operating expenses:			
NGK Insulators, Ltd.	26	8	217
Non-consolidated subsidiaries and associated companies	120	99	1,000
Other transactions:			
NGK Insulators, Ltd.	58	260	483
Non-consolidated subsidiaries and associated companies	7	11	58

## 14. SUBSEQUENT EVENTS

### *a. Issuance of preferred stock*

At the general shareholders meeting held on June 27, 2003, the Company's shareholders approved the issuance of 28,572 thousand shares of Series A preferred stock at a favorable price.

The Series A preferred stock will be convertible during the period from October 1, 2003 to September 30, 2013, at an initial conversion price of ¥70 per common share. The conversion price may be subject to change based upon an average closing market price of the common shares for 30 business days starting from 45 business days before the conversion date or other conditions. Each share of the Series A convertible preferred stock is entitled to receive cumulative dividends at a rate of ¥1.75 per annum, inclusive of a ¥0.87 semi-annual dividend, for seven fiscal years. The convertible preferred stock has voting rights and receives ¥77 per share prior to distribution of residual value to common shareholders at liquidation. Proceeds from issuance of preferred stock are to be used for operating activities, investing activities and repayment of borrowings.

Details of preferred stock are summarized as follows:

Issue price:	¥70 per share (\$0.58 per share)
Total proceeds from issuance:	¥2,000 million (\$16,667 thousand)
Amounts to be allocated to capital:	¥35 per share (\$0.29 per share)
Total amounts to be allocated to capital:	¥1,000 million (\$8,333 thousand)
Subscription date:	July 3, 2003
Closing date:	July 3, 2003
Effective date for initial dividends to be paid :	April 1, 2004
Issued to third parties:	Japan Casting LP (17,572 thousand shares) Japan Casting II LP (5,286 thousand shares) Japan Casting III LP (5,714 thousand shares)

***b. Refinancing***

On May 27, 2003, the Company reached agreements with financial institutions and other parties to refinance the Group's short-term borrowings and unsecured convertible bonds in the amount of ¥6,682 million (\$55,683 thousand). The refinancing is summarized as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Secured senior loans from several banks, Due, May 30, 2008 Secured by notes and accounts receivable, inventories, property, plant and equipment, intangible assets, investment securities and other (in an approximate amount of ¥342 million) owned by the Group	¥15,000	\$125,000
Secured 2.5% loans from NGK Insulators, Ltd., Due, May 30, 2008 Secured by land of the Company and its domestic consolidated subsidiary in the amount of ¥9,800 million	¥ 2,000	\$16,667
Unsecured subordinated 6.5% loans from The Tokio Marine and Fire Insurance Co., Ltd., Due, December 30, 2008	¥2,000	\$16,667

***c. Refinancing and Advisory Service Fee***

At the Board of Directors meeting held on May 13, 2003, the Company resolved to enter into refinancing and advisory service agreements with several financial institutions and other parties. The total fee relating to the agreements is expected to be approximately ¥1,200 million (\$10,000 thousand) and to be expensed during the year ending March 31, 2004.

As a result of reconsideration of the long-term business plan, including the above events, taxable income could not be reasonably estimated in future years. Consequently, deferred tax assets of ¥1,911 million (\$15,925 thousand) at March 31, 2003 are to be reversed during the year ending March 31, 2004.

## 15. SEGMENT INFORMATION

The Company operates in the following business segments:

Parts for machinery consists of automobile parts including aluminum wheels, parts for construction and industrial machinery and shackle for insulators.

Devices and plants consists of clamp iron for electric wire, plants for environment and other plants.

Information about business segments, geographic segments and sales to foreign customers of the Group for the years ended March 31, 2003 and 2002, is as follows:

### (1) Industry Segments

#### a. Sales and Operating Income

	Millions of Yen				
	2003				
	Parts for machinery	Devices and plants	Total	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 43,234	¥ 7,904	¥51,138	-	¥ 51,138
Intersegment sales	52	-	52	¥ (52)	-
Total sales	43,286	7,904	51,190	(52)	50,138
Operating expenses	42,285	7,142	49,427	1,132	50,559
Operating income	¥ 1,001	¥ 762	¥ 1,763	¥ (1,184)	¥ 579

#### b. Total Assets, Depreciation and Capital Expenditures

	Millions of Yen				
	2003				
	Parts for machinery	Devices and plants	Total	Eliminations/ Corporate	Consolidated
Total assets	¥ 35,707	¥ 7,665	¥ 43,372	¥ 8,458	¥ 51,830
Depreciation	3,216	184	3,400	32	3,432
Capital expenditures	3,231	152	3,383	7	3,390

*a. Sales and Operating Income*

	Thousands of U.S. Dollars				
	2003				
	Parts for machinery	Devices and plants	Total	Eliminations/ Corporate	Consolidated
Sales to customers	\$ 360,283	\$ 65,867	\$426,150	-	\$ 426,150
Intersegment sales	433	-	433	\$ (433)	-
Total sales	360,716	65,867	426,583	(433)	426,150
Operating expenses	352,375	59,517	411,892	9,433	421,325
Operating income	<u>\$ 8,341</u>	<u>\$ 6,350</u>	<u>\$ 14,691</u>	<u>\$ (9,866)</u>	<u>\$ 4,825</u>

*b. Total Assets, Depreciation and Capital Expenditures*

	Thousands of U.S. Dollars				
	2003				
	Parts for machinery	Devices and plants	Total	Eliminations/ Corporate	Consolidated
Total assets	\$ 297,559	\$ 63,875	\$ 361,434	\$ 70,483	\$ 431,917
Depreciation	26,800	1,533	28,333	267	28,600
Capital expenditures	26,925	1,267	28,192	58	28,250

*a. Sales and Operating Income (loss)*

	Millions of Yen				
	2002				
	Parts for machinery	Devices and plants	Total	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 41,510	¥7,109	¥48,619	-	¥ 48,619
Intersegment sales	74	37	111	¥ (111)	-
Total sales	41,584	7,146	48,730	(111)	48,619
Operating expenses	40,964	6,796	47,760	1,185	48,945
Operating income (loss)	<u>¥ 620</u>	<u>¥ 350</u>	<u>¥ 970</u>	<u>¥ (1,296)</u>	<u>¥ (326)</u>

**b. Total Assets, Depreciation and Capital Expenditures**

	Millions of Yen				
	2002				
	Parts for machinery	Devices and plants	Total	Eliminations/ Corporate	Consolidated
Total assets	¥ 37,252	¥ 6,364	¥ 43,616	¥ 9,445	¥ 53,061
Depreciation	3,686	175	3,861	34	3,895
Capital expenditures	3,475	145	3,620	1	3,621

**(2) Geographical Segments**

The geographical segments of the Group for the years ended March 31, 2003 and 2002 are summarized as follows:

	Millions of Yen				
	2003				
	Japan	Asia	Total	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 45,298	¥ 5,840	¥ 51,138	-	¥ 51,138
Interarea transfer	732	2,184	2,916	¥ (2,916)	-
Total sales	46,030	8,024	54,054	(2,916)	51,138
Operating expenses	44,415	7,757	52,172	(1,613)	50,559
Operating income	¥ 1,615	¥ 267	¥ 1,882	¥ (1,303)	¥ 579
Total assets	¥ 37,563	¥ 6,638	¥ 44,201	¥ 7,629	¥ 51,830

	Thousands of U.S. Dollars				
	2003				
	Japan	Asia	Total	Eliminations/ Corporate	Consolidated
Sales to customers	\$ 377,483	\$ 48,667	\$ 426,150	-	\$ 426,150
Interarea transfer	6,100	18,200	24,300	\$ (24,300)	-
Total sales	383,583	66,867	450,450	(24,300)	426,150
Operating expenses	370,125	64,642	434,767	(13,442)	421,325
Operating income	\$ 13,458	\$ 2,225	\$ 15,683	\$ (10,858)	\$ 4,825
Total assets	\$ 313,025	\$ 55,317	\$ 368,342	\$ 63,575	\$ 431,917

	<b>Millions of Yen</b>				
	<b>2002</b>				
	<b>Japan</b>	<b>Asia</b>	<b>Total</b>	<b>Eliminations/ Corporate</b>	<b>Consolidated</b>
Sales to customers	¥ 44,181	¥ 4,438	¥ 48,619	-	¥ 48,619
Interarea transfer	422	2,328	2,750	¥ (2,750)	-
Total sales	44,603	6,766	51,369	(2,750)	48,619
Operating expenses	43,689	6,720	50,409	(1,464)	48,945
Operating income (loss)	¥ 914	¥ 46	¥ 960	¥ (1,286)	¥ (326)
Total assets	¥ 37,988	¥ 6,343	¥ 44,331	¥ 8,730	¥ 53,061

### (3) Sales to Foreign Customers

Sales to foreign customers of the Group for the year ended March 31, 2003 are summarized as follows:

	<b>Millions of Yen</b>		
	<b>2003</b>		
	<b>Asia</b>	<b>Other</b>	<b>Total</b>
Overseas sales	¥ 5,913	¥ 143	¥ 6,056
Net sales			51,138
Ratio of overseas sales to net sales	11.5%	0.3%	11.8%

  

	<b>Thousands of U.S. Dollars</b>		
	<b>2003</b>		
	<b>Asia</b>	<b>Other</b>	<b>Total</b>
Overseas sales	\$ 49,275	\$ 1,192	\$ 50,467
Net sales			426,150

Figures for the year ended March 31, 2002 are not disclosed, since they were less than 10% of consolidated sales.

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