



MARUWA
Annual Report 2003
Year ended 31st March 2003



Ceramic Material Technology



Profile

Since 1973, MARUWA CO., LTD. has specialized in ceramic material technology. Based on this technological expertise and “quality first” policy, MARUWA has been meeting customers’ requirements for almost three decades by supplying electronic components and ceramics for electronic parts, as well as other innovative products.

Today, MARUWA is expediting the transformation of its core business, increasing competitiveness by prioritizing its key business, and concentrating its management resources on these fields. As part of the business strategy, MARUWA is committed to developing quality-valued products in the rapidly expanding information technology field, while promoting development, production and sales localization through its global operations in Asia, Europe and North America. The establishment of these international operations creates part of the driving force that will enable MARUWA to attain high profitability and growth, in turn, increasing the corporate value.

Financial Highlights

MARUWA CO., LTD. and consolidated subsidiaries
For years ended 31st March 2002 and 2003

	Millions of yen		Thousands of U.S. dollars
	For year ended 31st March		For year ended 31st March
	2002	2003	2003
For the year			
Net sales.....	¥9,933	¥10,337	\$85,998
Operating income (loss)	(1,200)	307	2,554
Income (loss) before income taxes	(1,288)	233	1,938
Net income (loss)	(1,239)	105	874
At year-end			
Total shareholders’ equity	24,246	23,488	195,408
Total assets	26,730	26,880	223,627
Per share amounts			
Net income (loss)	(¥112.70)	¥8.99	\$0.07
Cash dividends	14.00	14.00	0.12

Note: U.S. dollar amounts have been converted for convenience only at the rate of ¥120.20=US\$1, the rate of exchange on 31st March 2003.

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Cautionary remarks regarding forward-looking statements

This Annual Report includes forward-looking statements that represent MARUWA’s assumptions and expectation in light of currently available information. These statements reflect industry trends, clients’ situations and other factors, and involve risks and uncertainties which may cause actual performance results to differ from those discussed in the forward-looking statements in accordance with changes in the domestic and overseas business environment.



Sei Kanbe
President

MARUWA was successful in achieving profitability for the fiscal year ended 31st March 2003, after posting a loss in the previous year. Our success was a reflection of exhaustive internal reform efforts aimed at building a profitable system, even amid highly volatile market conditions.

In the fiscal year ending March 2004, MARUWA will be celebrating the 30th anniversary of its foundation. Since it was founded, the Company has been dedicated to the production of materials for electronic components using ceramic material technology, and we see infinite possibilities in ceramic materials. As we currently are involved in the full production cycle, ranging from combining raw materials to manufacturing the actual electronic parts using ceramic materials, even a small idea can immensely enhance the characteristics of these materials in many cases. As it plays an indispensable role in constructing the core circuit of mobile phones and other latest electronic devices, ceramic material is finding increasingly critical applications with the arrival of the ubiquitous networked society.

While economic conditions are expected to remain severe, I feel the environment is ideal for a midsize venture company like MARUWA. I intend to manage our business proactively and courageously.

We hope that you will welcome MARUWA as a leader in ceramic material technology.

June, 2003

A handwritten signature in black ink that reads "Sei Kanbe". The signature is written in a cursive, flowing style.

Sei Kanbe, President



As inventory adjustment in the global electronic component market of which MARUWA is a part has now been completed, the Company has managed to remain generally active throughout fiscal 2003. Supported initially by demand for higher inventories during the period of recovery, demand for digital and mobile telephone components in Asian markets has moved back on track. However, an ongoing slump in component prices and the increasingly uncertain economic outlook both domestically and internationally, especially in the third quarter, meant that the market closed the fiscal year without managing to stage a full-scale recovery.

Even under these circumstances, MARUWA's consistent efforts in internal reforms since the recession last year have proved effective, resulting in establishing a flexible system that enables the Company to achieve profitability irrespective of sales fluctuations in a highly volatile industrial environment.

As a result of these initiatives, net sales for fiscal 2003 were ¥10,337 million (up ¥404 million or 4.1% from the previous year). Concentration on improving our manufacturing process with a focus on reducing production lead-time has enabled us to post operating income of ¥307 million (up ¥1,507 million from the previous year) and net income of ¥105 million (up ¥1,344 million from the previous year).

How do you analyze and assess the business results for fiscal 2003?

Considering the lingering uncertainty over the future of the economy, I feel we did well in achieving sales.

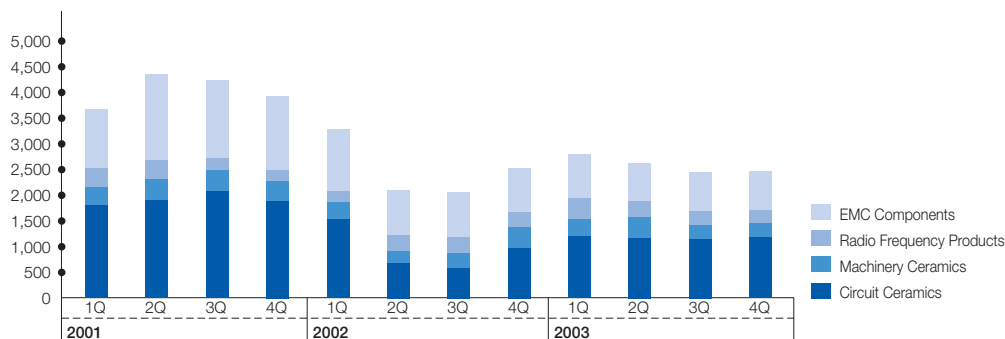
Sales from our Circuit Ceramics products (mainly ceramic substrates for chip resistors) were up from the previous year and overall division sales accounted for 45% of total consolidated sales, an increase from the 38% of the previous year. I see MARUWA back on track after bottoming out in the third quarter.

While our profit figures are not wholly convincing, I am pleased that the Company managed to return to the black after posting losses in the previous year.

Actually, I had anticipated that we would earn higher profits. There are two reasons why we did not. First, in order to attract more orders from customers, we lowered our product prices in the middle of the year. Second, in order to focus on the development of basic materials for capacitors, we introduced new facilities, which inflated our depreciation costs. As both were measures taken proactively, I believe their effects will become apparent in fiscal 2004.

Sales by division

(Quarterly, millions of yen)



MARUWA succeeded in achieving profitability this term.

What management objectives are you pursuing now?

Responsive, flexible management is essential for survival in the rapidly changing electronic component market. Hence, MARUWA's aim is not merely to increase product lineups through corporate expansion, but to operate as a well-structured "manufacturing-based" specialist that emphasizes quality over size. To benefit from the small size of our Company, we operate on a motto of setting simple themes and taking intensive, collective action on a company-wide basis.

On the production side, we strived to reduce lead-time in fiscal 2003. In line with demand for multi-functioning and downsizing of electronic appliances, as well as the shortening of lifecycles, overall demand trends in the electronic components industry are currently shifting dynamically to

high-mix, low-volume products with shorter delivery schedules. Putting top priority on responding to these market needs, MARUWA has streamlined its manufacturing processes and inventory control, thereby reducing production lead-time. As such, we consolidate a framework that can swiftly supply the electronic component market with products.

The new theme for fiscal 2004 is "material technological innovation." To survive the severe pricing competition expected mainly in China as well as to outperform our peers in quality, MARUWA as a corporation will focus on rebuilding our R&D system (that is directly linked to market needs) and a flexible material manufacturing system, by further strengthening our core competence, namely, material technology.

In terms of management, I see the Company's growth stage as a phase not merely to achieve higher earnings, but rather, to pursue our goal of becoming a stronger manufacturer. Hence, we are pushing forward with structural reinforcement.

Specifically, we are shifting from the traditional management style of focusing on consolidated operating income to one that values consolidated cash flows. Also, we introduced an efficiency-evaluation/management system according to each asset at each production division, while reinforcing staff training to foster stronger leadership.

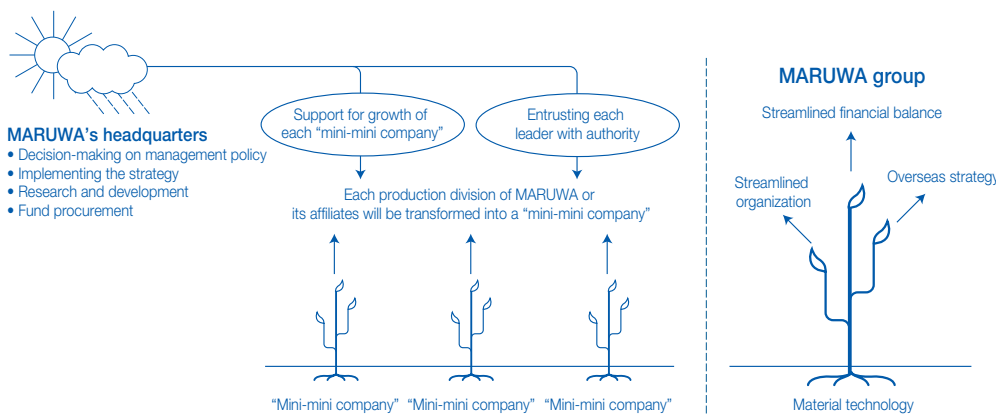


What is your policy on corporate governance, which is an important factor in achieving quick, flexible management?

To benefit from our small corporate size, every production division was reorganized as a "mini-mini company" to strengthen their respective operations (in terms of finance, marketing as well as technology) of each division. Also, we established a framework to swiftly implement board decisions throughout the divisions. These efforts have led us to realize an open, sound management system that enables us to transparently assess divisions and to quickly disseminate information. In addition, effective fiscal 2003, the term of company directors was reduced to one year to encourage greater performance based on more clearly defined roles and responsibilities.

What is a "mini-mini company system"?

MARUWA has adopted a "mini-mini company system" aimed at fostering a quick decision-making process and an open, transparent corporate atmosphere without having to enmesh itself in managerial titles such as department manager or section chief. The underlying concept is that MARUWA consists of cells, each referred to as a "mini-mini company" led by a manager. As efforts by each "mini-mini company" are eliminating losses in our weaker business operations, we expect to record a profit for fiscal 2004 in all of our "mini-mini companies" with the exception of components for the optical industry.





What is the status quo on new product development and the outlook for profitability?

New products can have a considerable impact on sales and profit. Today, MARUWA has completed basic development of low temperature co-fired ceramics (LTCC), chip varistors and components for the optical industry, with each division contributing as a “mini-mini company” to our sales and profit. LTCC is utilized in our voltage controlled oscillator (VCO) that earns high marks for its applications in wireless LANs and mobile phones. With the growing trend to multi-functions and downsizing of digital electronics, the chip varistor, a part that protects electronic circuitry from electrostatic surges, is finding new applications in mobile phones and notebook PCs. While the market for optical industry components today has yet to mature, it offers growth potential in the medium and longer terms. In addition, MARUWA is developing unique products, making optimal use of thin-film technology (currently applied in the manufacture of optical components) in processing ceramic materials, such as microwave dielectrics and aluminum nitride.

A new plant was established in the United Kingdom.

What are your overseas strategies for the future?

Though [the U.K. plant](#) was opened as our European base, full-scale operations have been delayed by the sluggish conditions prevailing across the globe. The plant will finally start operating in fiscal 2004. We will be supplying parts to a major manufacturer of mobile phones and other communications equipment. We hope to strengthen our presence step by step.

We plan on pursuing our global strategy in four regions: Japan, Asia, Europe and North America. We already have our Asian base in Malaysia. We use our U.K. base to strengthen ties with global manufacturers of communication equipment. Also, we plan on establishing a site in Canada to extend our business in North America.

Given the uncertainties prevailing in China, such as foreign exchange issues and non-performing loans, we intend to further examine the status quo until making a decision on moving into the country once there is a better outlook for the economy.



The new U.K. plant

What is your dividend policy and your involvement in improving shareholder value?

I hope to continue to offer an interim dividend of ¥7.0, amounting to ¥14.0 for the full year. MARUWA currently holds a high level of retained earnings relative to its business results. We plan on proactively pursuing M&A as a means of effectively utilizing our funds and on enhancing shareholder value.

Please share with us your outlook on business performance and vision for the future.

Management conditions will remain harsh, as a severer selection of companies will prevail. Yet, I believe now is the time to seize opportunities. Even in an environment of intensifying price competition and the stronger prevailing over the weak, MARUWA is determined to proactively build a profitable system and outperform our peers in the sector. I will not be afraid to take risks and will continue managing our business with courage.

Our future vision will involve crucial strategy development centered on M&A. Acquisitions will be promptly reorganized including the adoption of the “mini-mini company system” to improve profitability and support a corporate sales target of ¥45 billion within three years. I believe that by then our operating margin will far exceed our immediate target recovery level at 10%.

Review of Operations

LTCC

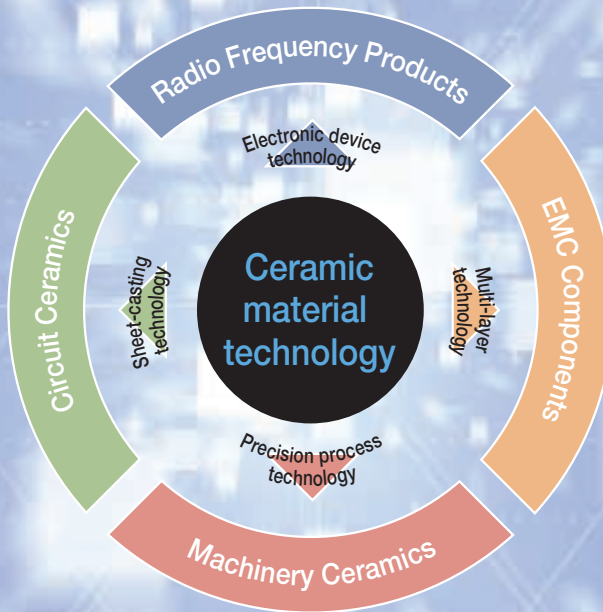


LTCC (low temperature co-fired ceramics) are utilized in radio frequency modules for cellular phones or control modules for automobiles.

Components for optical industry



With thin-film technology that metallizes ceramic materials, components for the optical industry are utilized in fiber optic cables or optical communication devices.



Chip varistors



As the trend of applications becomes more multi-functioned and downsized, chip varistors are components necessary for protecting circuits. They are utilized for protecting digital devices, such as cellular phones and laptop computers, from static electricity that may otherwise lead to malfunctioning or failure.

MARUWA's operations include manufacturing and marketing of ceramics for electronics. Our policy is to supply the market with high value-added electronic components by integrating our material technology with the technological expertise we have accumulated over the years.

Circuit Ceramics



Applications:

- **Ceramics for resistors**
Electronic devices, PCs, digital cameras, game console, mobile phones, components for automobiles.
- **Aluminum nitride**
Hybrid/electric vehicles, DVDs, semiconductor equipment.



Business results

Sales for fiscal 2003 in the Circuit Ceramics division were ¥4,682 million, up ¥929 million (24.8%) from the previous year. As the recovery trend in the division continued since the previous fiscal year, sales moved favorably in the beginning of this fiscal year, partly owing to demand for larger inventories, followed by a moderate adjustment period in the second quarter. The fourth quarter enjoyed solid demand for high value-added ceramic substrates for chip resistors, as the shift to miniaturized chip resistors became apparent in addition to favorable demand for Sony's game console *Playstation 2* and the production increase of mother boards for PCs in Taiwan.

Characteristics

Circuit Ceramics is a generic term used for the ceramics needed to form electronic circuits. The ceramic becomes a material for a substrate itself on which a circuit is designed, or for an electronic component (resistor), which is mounted on the surface of substrates. We are proud to report that MARUWA's core product — ceramic substrates for chip resistors*1 — accounts for 40% of the global market, while aluminum nitride substrates*2 hold a market share of 34%. Both products enjoy the largest market shares in the global market.

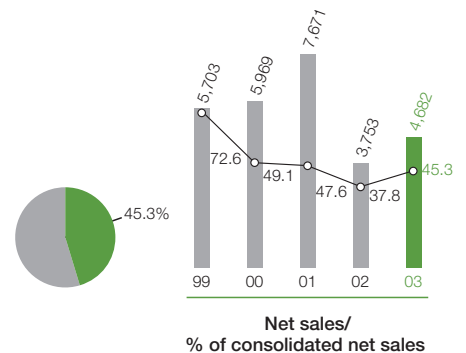
Ceramic substrates for chip resistors and ceramic rods for fixed resistors are mass-produced in Malaysia. In Japan, we produce high value-added ceramic substrates for chip resistors, laser-processed glazed substrates and aluminum nitride.

Technology:

Sheet-casting technology

Product line:

- Ceramic substrates for chip resistors
- Ceramic rods for fixed resistors
- Glazed substrates for thermal printer heads (TPH)
- Large substrates for hybrid ICs
- Aluminum nitride



*1: Ceramic substrates for chip resistors:

A resistor is one of the basic components of an electronic circuit. At MARUWA, slits are precisely embedded on each substrate so that several hundred resistors can be manufactured from a single sheet of substrate by using a method called "break method". High-purity aluminum material is used to offer excellent electric and thermal features.

*2: Aluminum nitride substrates:

This new type of ceramic material offers excellent features, including high thermal conductivity (good for effective radiation of high-density electronic circuits), high strength (allowing thin processing that enhances radiation) and a coefficient of thermal expansion comparable to that of silicon (meaning that it can be mounted directly on a semiconductor). It is primarily used on IC substrates and has wide applications for hybrid cars (which have been the focus of growing attention in recent years), as well as in industrial machinery and communications equipment.

Machinery Ceramics

Business results

In the Machinery Ceramics division, while demand for slider ceramics^{*1} for supporting magnetic heads of floppy disk drives was solid until the third quarter, a market contraction in the fourth quarter prompted us to take a product-mix approach. Ceramic valves for water faucets^{*2} sold well in the domestic market for housing improvement/remodeling. As a result, net sales reached ¥1,285 million, up ¥4 million (0.3%) from the previous year.

Characteristics

Machinery Ceramics is a generic term applied to ceramics used in constructing industrial machinery and functional components. While the ceramic component itself does not have electric features, it must offer durability for use in sliding parts. Concurrently, these ceramic products must also meet the needs for complicated forming and dimensional accuracy, requiring the use of extremely high processing technology.

The key product, slider ceramics for magnetic head support in PCs, has gained a 35% market share to attain the number one position worldwide.

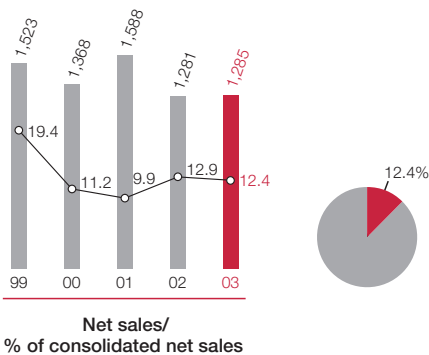
Ferrite is another type of ceramic material, that is used for magnetic heads. Ceramic valves for water faucets, though not part of the electronic component category, are also manufactured using MARUWA's original ceramic material technology and processing techniques.

Both slider ceramics and ceramic valves are produced mainly by our manufacturing subsidiary in Malaysia.



Applications:

- Slider ceramics/ferrite
Floppy disk drives & hard disk drives for PCs
- Ceramic valves for water faucets
Dual (cold and hot) faucets, single faucets



Technology:

Precision processing technology

Product line:

- Slider ceramics
- Ferrite
- Ceramic valves for water faucets

*1: Slider ceramics

Slider ceramics are used in reading heads of floppy disk drives and hard disk drives for computers. The material fixes the magnet (ferrite) that reads and deletes data. The slider ceramic needs to provide high dimensional accuracy and wear resistance, as well as a coefficient of thermal expansion comparable to that of a ferrite. Sintered ceramic blocks are cut and polished into slider ceramics.

*2: Ceramic valves for water faucets

Ceramic valves for water faucets maximize the excellent characteristics of ceramics, i.e., heat resistance, erosion resistance and friction resistance. MARUWA has acquired a patent on carbon-coated valves, which have non-abrasive surfaces so they do not require the use of grease and are thus hygienic.

Radio Frequency Products



Business results

Dielectric ceramics^{*1} for filters are greatly affected by fluctuations in demand at mobile phone parts manufacturers. Demand plummeted in the second quarter, but bounced back after bottoming out in January 2003. Device products, especially for mobile phones, showed extremely favorable results from the beginning of the year through the first quarter, and subsequently moved into an adjustment period in the second quarter. Meanwhile, device products for wireless LANs continued to maintain solid sales. As a result, net sales were ¥1,268 million, up ¥158 million (14.2%) from the previous year.

Characteristics

Radio Frequency Products is a generic term used for ceramics used in mobile phones and other wireless communications devices. Key products are dielectric ceramics for filter products, which only allow signals of a certain frequency range to pass through, and device products (VCO, TCXO)^{*2} that oscillate at certain frequencies. These VCO and dielectric ceramics are produced domestically and can be customized according to individual user needs.

MARUWA is proud to offer a wide selection of dielectric materials, developed exclusively by MARUWA.

Applications:

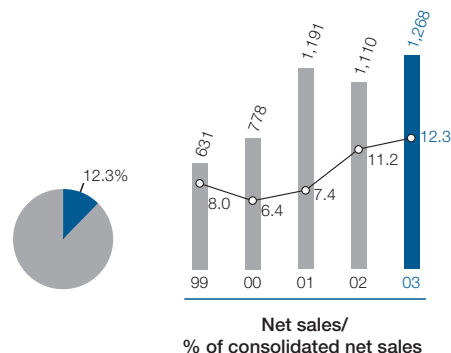
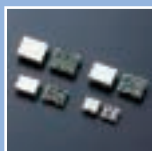
- Devices
Mobile phones, wireless LAN, other wireless communications equipment.
- Dielectric Ceramics
Base stations & terminals for mobile phones, GPS, Bluetooth technology.

Technology:

Electronic device technology

Product line:

- Devices (VCO/TCXO)
- Dielectric ceramics



*1: Dielectric ceramics

Dielectric ceramics have a broad range of applications in filters, antenna and other parts of mobile or satellite communications devices as well as in equipment using radio frequency circuits. They are known for high specific inductive capacity and an extremely small dielectric loss. As characteristics can vary according to the type of raw material used, MARUWA effectively utilizes of its original material technology.

*2: Devices (VCO/TCXO)

Mobile phones and other cutting-edge communications equipment operate under a radio frequency range called GHz. Hence, device products used in this equipment must be compact, high quality and highly functional. VCO is a voltage-controlled oscillator known for its low noise feature, while TCXO is a temperature-compensated crystal oscillator characterized by its excellent thermal resistance.

EMC Components (Capacitor Products)

Business results

Until last year, EMC^{*1} Components were referred to as Capacitor Products, but they were renamed to more clearly represent the direction of MARUWA products. Fiscal 2003 was a difficult year, primarily because of the tremendous cost pressure in the Taiwanese market, which accelerated the fall in unit prices. Yet even under these circumstances, sales of capacitors have remained relatively flat since the second quarter thanks to a recovery in the domestic power supply market. Sales of EMI filters for digital household appliances and base stations have been stable with signs of an upswing since the fourth quarter. Net sales were ¥3,102 million, down ¥686 million (18.1%) from the year earlier.

Characteristics

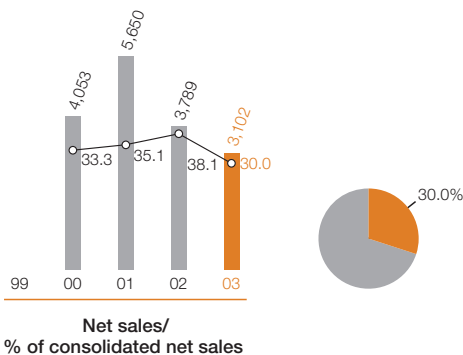
EMC Components include multi-layer ceramic capacitors^{*2}, EMI filters that intercept electromagnetic interference and multi-layer ceramic varistors. A capacitor, fabricated by layering dielectric and metal electrode, is one of the basic components of an electric circuit. It has the role of a storage cell that stores or discharges electricity. While a wide selection of capacitors is available, MARUWA concentrates its manufacturing and sales on those capacitors that offer high voltage and high capacitance. Our core product, multi-layer capacitors for digital camera strobes, has a market share of 65%, making MARUWA the global market leader.

EMC component products are all produced by our domestic manufacturing subsidiary, MARUWA KCK.



Applications:

- Ceramic capacitors, EMI filters, Chip varistors
- Digital cameras, PCs, mobile phones, automobiles



Technology:
Multi-layer technology

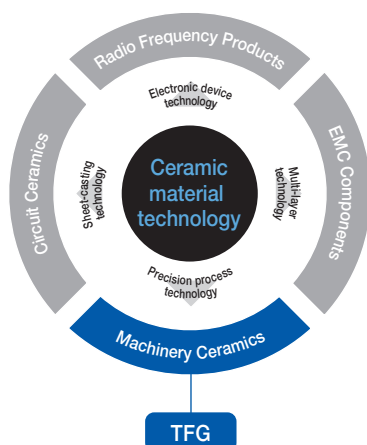
- Product line:**
- Multi-layer ceramic capacitors
 - EMI filters
 - Multi-layer ceramic varistors

*1: EMC

EMC, or Electromagnetic Compatibility, is a device or system capability that ensures that no electromagnetic interference with the any other appliances' functions occurs and that enables operation without malfunctions or failures, when there are electromagnetic impacts in the immediate environment.

*2: Multi-layer ceramic capacitors

By alternatively layering internal electrodes and thin-layer dielectric, this type of capacitor was made even more compact with a higher capacitance than non-ceramic type capacitors. It is one of the key components of a compact electronic circuit and is widely used in PCs and communications equipment.



Based on its corporate vision — “MARUWA for ceramic material technology” — MARUWA is aiming to become the number one company in niche markets. To quickly achieve this objective, MARUWA sees mergers and acquisitions (M&A) as a strategic means. By acquiring the management resources accumulated by other companies and making these resources more competitive in terms of marketing, technology and cost, MARUWA enhances overall corporate competitiveness, thereby expediting the Company’s growth.

Basic M&A Policy

MARUWA’s fundamental M&A policy lies not in the reform of a business structure that intends for diversification or reshuffling of business portfolios, but in strengthening existing businesses and ancillary activities. Specifically, we will pursue M&A within the scope of our existing businesses (refer to the diagram).

Acquisition of TOKYO FINE GLASS shares

In March 2003, MARUWA acquired all outstanding shares of TOKYO FINE GLASS CO.,LTD (hereafter as TFG) from ITOCHU ENEX CO.,LTD., the former parent of TFG .

Objectives of the stock acquisition

This stock transfer was aimed at combining TFG’s processing technology with our precision processing technology to promote a synergy effect that contributes to technological advance in the area of machinery ceramics. Also, as there is some overlap in the customer bases serviced by MARUWA and TFG , MARUWA can make effective use of existing sales channels to expand distribution of its machinery ceramic products. Moreover, with its international sales network, MARUWA will promote sales of TFG products.

TOKYO FINE GLASS CO.,LTD. (MARUWA TFG Co., Ltd.)

(As of 21st February 2003, at the conclusion of the basic agreement)

Established	11th November 1985
Business domains	Manufacturing and marketing of quarts glass products
Capital	¥400 million
Number of employees	105
Net sales	¥1,915 million (for fiscal 2002)
Net profit	¥28 million (for fiscal 2002)
Total assets	¥1,763 million (for fiscal 2002)

1 The corporate name of TOKYO FINE GLASS CO.,LTD. was changed to MARUWA TFG Co., Ltd. on 1st June 2003.

2 This stock acquisition has no impact on consolidated net sales and profit for fiscal 2003.

Financial Section

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Five-Year Summary

MARUWA CO., LTD. and consolidated subsidiaries
For years ended 31st March 1999, 2000, 2001, 2002 and 2003

	Millions of yen					Thousands of U.S. dollars
	For year ended 31st March					For year ended 31st March
	1999	2000	2001	2002	2003	2003
For the year						
Net sales	¥7,857	¥12,168	¥16,100	¥9,933	¥10,337	\$85,998
Operating income (loss)	1,453	1,796	3,633	(1,200)	307	2,554
Income (loss) before income taxes	964	1,540	3,572	(1,288)	233	1,938
Net income (loss)	701	913	2,632	(1,239)	105	874
At year-end						
Total shareholders' equity	20,236	20,983	24,797	24,246	23,488	195,408
Total assets	21,799	23,941	30,943	26,730	26,880	223,627
Per share amounts						
	Yen					U.S. dollars
Net income (loss)	¥69.70	¥90.88	¥261.42	(¥112.70)	¥8.99	\$0.07
Cash dividends	15.00	12.00	12.00	14.00	14.00	0.12

Business Performance Overview

Net sales for fiscal 2003 were ¥10,337 million, a slight increase of ¥404 million (4.1%) from the previous year. Meanwhile, our commitment to production reform (primarily aimed at reducing lead-time) enabled us to return to the black, resulting in

operating income of ¥307 million, up ¥1,507 million from the previous year. Net income for fiscal 2003 was ¥105 million, up ¥1,344 million from the prior year.

Revenue Conditions

MARUWA's consistent efforts since the recession last year aimed at enhancing management efficiency led the Company to book net sales of ¥10,337 million, up 4.1% from the year before. Net sales by product were: Circuit Ceramics at ¥4,682 million (percentage of consolidated net sales: 45.3%); Machinery Ceramics at ¥1,285 million (12.4%); Radio Frequency Products at ¥1,268 million (12.3%); and EMC Components (referred to as Capacitor Products until the previous year) at ¥3,102 million (30.0%).

The cost of sales declined 10.6% to ¥7,999 million from the previous year. The ratio of the cost of sales decreased by 12.7 percentage points to 77.4%, compared to 90.1% in the prior year, reflecting better productivity as a result of a reduction in material costs and more efficient production lines. Although selling, general and administrative (SG&A) expenses were impacted by an increase in depreciation costs associated with R&D facilities, efforts to reduce fixed costs, primarily labor expenses, resulted in a year-on-year decrease of SG&A

expenses by 7.1% to ¥2,031 million. SG&A expenses as a percentage of consolidated net sales dropped 2.4 percentage point from the prior year to 19.6%. As a result, operating income showed a year-over-year increase of ¥1,507 million to ¥307 million.

Other income on a net basis resulted in a loss of ¥74 million, as we appropriated ¥74 million in payments for the lease of property and equipment for investment as well as an ¥82 million loss on the disposal of property, plant and equipment, despite revenue of ¥199 million primarily from lease payments received. Out of other income, interest and dividend income showed a decline of ¥108 million from the previous year, as we redeemed risky securities and shifted to risk-free savings, resulting in a reduction of ¥101 million in interest on securities.

Consequently, income before income taxes for fiscal 2003 was ¥233 million while net income after taxes (including corporate tax, inhabitant tax and enterprise tax) was ¥105 million, up ¥1,344 million from the previous year.

Financial Condition

Total assets as at the end of the term rose 0.6%, or ¥150 million from the previous year to ¥26,880 million. By category, trade notes and accounts receivable increased ¥776 million while inventories rose ¥345 million from the year before. This was mainly because trade notes and accounts receivable increased ¥538 million while the inventories rose ¥383 million with respect to the deemed transfer of TOKYO FINE GLASS CO.,LTD. (referred to as TFG) shares as of the term-end. As a result, total current assets showed a 4.6% year-on-year increase. The relatively high level of cash and deposits considering the business results was due to our efforts to pursue high proactiveness and timely M&A strategies. Total fixed assets declined ¥406 million to ¥14,184 million partly because of the decrease of ¥536 million in net property, plant and equipment. Given the volatile market conditions, we put

off capital expenditure for mass production and focused on renewing existing facilities for enhancing operating efficiency. As a result, depreciation of ¥1,460 million exceeded capital expenditure of ¥1,051 million, which led to the decline in net property, plant and equipment.

Meanwhile, total liabilities showed a year-on-year increase of ¥908 million (36.6%) to ¥3,392 million. This was a consequence of posting ¥596 million to consolidation goodwill, mainly accounting for the difference between the purchase price of ¥115 million for TFG shares and TFG's net assets of ¥711 million, as well as the year-on-year increase of ¥307 million in other current liabilities. The interest-bearing debts declined to ¥782 million from ¥1,026 million in the prior year. As a result, the debt-equity ratio dropped from 4.2% in the previous year to 3.3%, resulting in a stronger financial structure.

Shareholders' equity was down ¥758 million to ¥23,488 million compared to the previous year's ¥24,246 million, due to a decrease of ¥615 million in foreign currency translation

adjustment. Consequently, the equity ratio declined from 90.7% to 87.4%.

Cash Flows

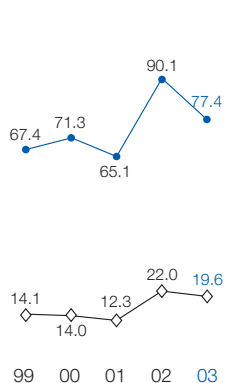
Net cash provided by operating activities rose ¥1,660 million from the previous year to ¥1,891 million. Income before income taxes was ¥233 million, up ¥1,521 million from the previous year while depreciation cost was ¥1,460 million, down ¥80 million from a year earlier. Under operating activities, the increase/decrease in trade notes and accounts receivable showed an increase of ¥1,920 million while the increase/decrease in trade accounts payable dropped ¥850 million. Income taxes paid were down ¥979 million from the previous year after the receipt of tax refunds during the year.

Net cash used in investing activities totaled ¥1,046 million, down ¥2,740 million from the previous year. The majority of

expenditure went to payments for the purchase and the renewal of property, plant and equipment, primarily metal molds both domestically and overseas worth a total of ¥783 million, down ¥2,946 million from the year before.

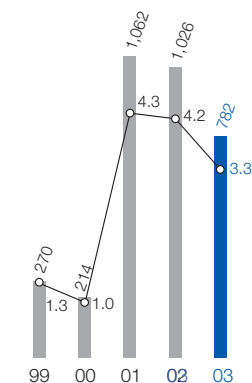
Net cash used in financing activities amounted to ¥1,013 million, up ¥833 million from the prior year. Key contributing factors were ¥858 million in payments of long-term debt and ¥154 million in cash dividends paid.

Consequently, the balance of cash and cash equivalents at the end of the year decreased ¥201 million from the previous year to ¥5,291 million.



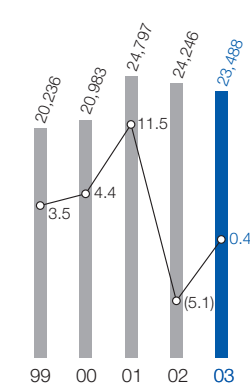
Cost of sales to net sales/
SG&A expenses to net sales
(%)

—●— Cost of sales to net sales
—◇— SG&A expenses to net sales



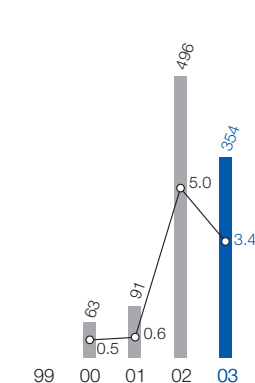
Interest-bearing debts/
Debt equity ratio
(Millions of yen/ %)

■ Interest-bearing debts
—○— Debt-equity ratio



Shareholders' equity/
ROE
(Millions of yen/ %)

■ Shareholders' equity
—○— ROE



R&D costs/
R&D costs to net sales
(Millions of yen/ %)

■ R&D costs
—○— R&D costs to net sales

Consolidated Balance Sheets

MARUWA CO., LTD. and consolidated subsidiaries

As of 31st March 2002 and 2003

	Millions of yen		Thousands of
	As of 31st March		U.S. dollars
	2002	2003	As of 31st March 2003
ASSETS			
Current assets:			
Cash and deposits.....	¥5,492	¥5,291	\$44,018
Trade notes and accounts receivable (Note 10).....	2,473	3,249	27,030
Inventories (Note 5).....	3,502	3,847	32,005
Deferred tax assets (Note 11).....	139	43	358
Other current assets.....	560	268	2,230
Allowance for doubtful accounts.....	(26)	(2)	(17)
Total current assets.....	12,140	12,696	105,624
Property, plant and equipment (Note 7):			
Land.....	2,473	2,541	21,140
Buildings and structures.....	5,348	5,772	48,020
Machinery and equipment.....	9,258	9,831	81,789
Other.....	2,441	2,424	20,166
Construction in progress.....	79	128	1,065
Total.....	19,599	20,696	172,180
Less—Accumulated depreciation.....	(7,151)	(8,784)	(73,078)
Net property, plant and equipment.....	12,448	11,912	99,102
Investments and other assets:			
Investment securities (Notes 4, 7 and 8).....	558	661	5,499
Deferred tax assets (Note 11).....	—	26	216
Property and equipment for investments.....	1,066	1,016	8,453
Other.....	518	569	4,733
Total investments and other assets.....	2,142	2,272	18,901
Total assets.....	¥26,730	¥26,880	\$223,627

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

	Millions of yen		Thousands of
	As of 31st March		U.S. dollars
	2002	2003	As of 31st March 2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade notes and accounts payable (Note 10).....	¥508	¥489	\$4,068
Current portion of long-term debt (Notes 6 and 7).....	204	152	1,265
Accrued income taxes	7	54	449
Accrued bonus	127	136	1,131
Stock purchase warrants (Note 2)	11	11	92
Notes payable for property acquisitions (Note 10)	194	341	2,837
Other current liabilities	461	768	6,389
Total current liabilities	1,512	1,951	16,231
Long-term liabilities:			
Long-term debt (Notes 6 and 7)	822	630	5,241
Accrued pension and severance costs (Note 18).....	17	139	1,156
Deferred tax liabilities (Note 11).....	49	—	—
Consolidating adjustment account (negative goodwill).....	—	596	4,958
Other	84	76	633
Total long-term liabilities	972	1,441	11,988
Shareholders' equity (Note 12):			
Common stock, authorized:			
26,000,000 shares; issued and outstanding:			
11,050,000 shares in 2002 and 2003.....	6,683	6,683	55,599
Additional paid-in capital	9,710	9,710	80,782
Retained earnings	7,797	7,748	64,459
Net unrealised gains (losses) on other securities	86	(7)	(58)
Foreign currency translation adjustment	171	(444)	(3,694)
Treasury stock, at cost-56,726 shares in 2002 and 57,126 shares in 2003.....	(201)	(202)	(1,680)
Total shareholders' equity	24,246	23,488	195,408
Total liabilities and shareholders' equity	¥26,730	¥26,880	\$223,627

Consolidated Statements of Operations

MARUWA CO., LTD. and consolidated subsidiaries

For years ended 31st March 2001, 2002 and 2003

	Millions of yen			Thousands of U.S. dollars
	For year ended 31st March			For year ended 31st March
	2001	2002	2003	2003
Net sales (Note 19)	¥16,100	¥9,933	¥10,337	\$85,998
Cost of sales	10,481	8,946	7,999	66,547
Gross profit	5,619	987	2,338	19,451
Selling, general and administrative expenses (Notes 15 and 16).....	1,986	2,187	2,031	16,897
Operating income (loss)	3,633	(1,200)	307	2,554
Other income (expenses):				
Interest and dividend income	45	114	6	49
Interest expenses	(12)	(17)	(15)	(125)
Foreign exchange gain (loss), net.....	127	49	(56)	(465)
Other, net	(221)	(234)	(9)	(75)
Other income, net	(61)	(88)	(74)	(616)
Income (loss) before income taxes	3,572	(1,288)	233	1,938
Income tax expenses (benefits) (Note 11):				
Current	986	16	48	399
Deferred	(46)	(65)	80	665
	940	(49)	128	1,064
Net income (loss).....	¥2,632	(¥1,239)	¥105	\$874
		Yen		U.S. dollars
Net income (loss) per share	¥261.42	(¥112.70)	¥8.99	\$0.07
Cash dividends per share	¥12.00	¥14.00	¥14.00	\$0.12

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

Consolidated Statements of Shareholders' Equity

MARUWA CO., LTD. and consolidated subsidiaries

For years ended 31st March 2001, 2002 and 2003

	Number of shares of common stock (Thousands)	Millions of yen						
		Common stock	Additional paid-in capital	Retained earnings	Net unrealised gains (losses) on other securities	Foreign currency translation adjustment	Treasury stock, at cost	Total shareholders' equity
Balance at 31st March 2000	10,050	¥5,656	¥8,683	¥6,681	¥ —	¥ —	(¥37)	¥20,983
Net income				2,632				2,632
Cash dividends				(120)				(120)
Net unrealised gains on other securities ..					79			79
Translation adjustments						(659)		(659)
Directors' and corporate auditors' bonuses				(7)				(7)
Capital increase by issuance of shares	1,000	1,027	1,027					2,054
Changes in treasury stock							(165)	(165)
Balance at 31st March 2001	11,050	6,683	9,710	9,186	79	(659)	(202)	24,797
Net loss				(1,239)				(1,239)
Cash dividends				(143)				(143)
Change in net unrealised gains on other securities					7			7
Translation adjustments						830		830
Directors' and corporate auditors' bonuses				(7)				(7)
Changes in treasury stock							1	1
Balance at 31st March 2002	11,050	6,683	9,710	7,797	86	171	(201)	24,246
Change in incomes				105				105
Cash dividends				(154)				(154)
Change in net unrealised losses on other securities					(93)			(93)
Translation adjustments						(615)		(615)
Changes in treasury stock							(1)	(1)
Balance at 31st March 2003	11,050	¥6,683	¥9,710	¥7,748	(¥7)	(¥444)	(¥202)	¥23,488

	Thousands of U.S. dollars						
	Common stock	Additional paid-in capital	Retained earnings	Net unrealised gains (losses) on other securities	Foreign currency translation adjustment	Treasury stock, at cost	Total shareholders' equity
Balance at 31st March 2002	\$55,599	\$80,782	\$64,867	\$716	\$1,422	(\$1,672)	\$201,714
Net income			873				873
Cash dividends			(1,281)				(1,281)
Change in net unrealised loss on other securities				(774)			(774)
Translation adjustments					(5,116)		(5,116)
Changes in treasury stock						(8)	(8)
Balance at 31st March 2003	\$55,599	\$80,782	\$64,459	(\$58)	(\$3,694)	(\$1,680)	\$195,408

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

Consolidated Statements of Cash Flows

MARUWA CO., LTD. and consolidated subsidiaries

For years ended 31st March 2001, 2002 and 2003

	Millions of yen			Thousands of U.S. dollars
	For year ended 31st March			For year ended 31st March
	2001	2002	2003	2003
Cash flows from operating activities:				
Income (loss) before income taxes	¥3,572	(¥1,288)	¥233	\$1,938
Adjustments for:				
Depreciation	1,133	1,540	1,460	12,146
Increase (decrease) in allowance for doubtful accounts	11	(31)	(13)	(108)
Increase (decrease) in accrued pension and severance costs	(22)	(7)	28	233
Gain on securities contributed to employee retirement benefit trust	(72)	—	—	—
Contribution of securities to employee retirement benefit trust	101	—	—	—
Loss on disposal of property, plant and equipment	136	47	82	682
Interest and dividend income	(45)	(114)	(6)	(49)
Foreign exchange (gain) loss	5	(59)	43	358
Write-down of investment securities	—	27	9	75
(Increase) decrease in trade notes and accounts receivable	(347)	1,610	(310)	(2,579)
(Increase) decrease in inventories	(1,611)	470	(46)	(383)
Increase (decrease) in trade accounts payable	433	(916)	(66)	(549)
Other	7	(281)	367	3,053
Sub-total	3,301	998	1,781	14,817
Interest and dividend income received	45	114	6	49
Interest expenses paid	(13)	(21)	(15)	(125)
Income taxes (paid) refunded	(790)	(860)	119	991
Net cash provided by operating activities	2,543	231	1,891	15,732
Cash flows from investing activities:				
Payments for purchase of property, plant and equipment	(3,820)	(3,729)	(783)	(6,514)
Proceeds from sales of property, plant and equipment	122	84	88	732
Payments for purchase of investment securities	(25)	(172)	(267)	(2,221)
Proceeds from sales of investment securities	—	118	—	—
Acquisition of new consolidated subsidiary	—	—	(55)	(458)
Payments for loans made	(2)	(60)	—	—
Collection of loan receivables	1	62	—	—
Increase intangible fixed assets	(158)	(89)	(33)	(274)
Other	—	—	4	33
Net cash used in investing activities	(3,882)	(3,786)	(1,046)	(8,702)
Cash flows from financing activities:				
Issuance of long-term debt	1,000	164	—	—
Payments of long-term debt	(152)	(200)	(858)	(7,138)
Cash dividends paid	(120)	(144)	(154)	(1,282)
Proceeds from issuances of common stock	2,054	—	—	—
Purchase of treasury stock	(195)	(1)	(1)	(8)
Sales of treasury stock	25	1	—	—
Net cash provided by (used in) financing activities	2,612	(180)	(1,013)	(8,428)
Effect of exchange rate changes on cash and cash equivalents	(28)	(27)	(33)	(274)
Net increase (decrease) in cash and cash equivalents	1,245	(3,762)	(201)	(1,672)
Cash and cash equivalents at beginning of year	8,009	9,254	5,492	45,690
Cash and cash equivalents at end of year (Note 3)	¥9,254	¥5,492	¥5,291	\$44,018

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

1. Basis of presentation of consolidated financial statements:

The accompanying consolidated financial statements have been prepared based on the accounts maintained by MARUWA Co., Ltd. (the Company) and its consolidated subsidiaries (collectively, "MARUWA") in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law of Japan, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting Standards.

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

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

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥120.20 = U.S.\$1, the rate of exchange on 31st March 2003 has been used for translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realised or settled in U.S. dollars at this or any other rate. Therefore, amounts in U.S. dollars have not been audited.

2. Summary of significant accounting policies:

Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (four subsidiaries in 2002 and five subsidiaries in 2003). Differences between the acquisition cost of investment in subsidiaries and the underlying equity in their net assets adjusted based on the fair value at the time of acquisition are deferred and amortized over five years. The Company acquired the whole voting interest of a certain new consolidated subsidiary at 31st March 2003. The Company consolidated the balance sheet of the new consolidated subsidiary as at its fiscal year-end. All significant intercompany balances and transactions have been eliminated. The unconsolidated subsidiaries are excluded from consolidation and stated at cost due to their insignificant effect on the consolidated financial statements taken as a whole.

The fiscal year end of the certain consolidated subsidiary was changed from 28th February to 31st March and 13 months of results of operation and cash flows are included in the accompanying consolidated financial statements for the year ended 31st March 2002.

Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits and marketable securities, both of which have original maturities of three months or less and which have minor risk of fluctuations in value.

Marketable securities and investment securities

Other securities with readily determinable fair values are stated at fair value based on market prices at the end of the fiscal year. Unrealised gains and losses are included in "Net unrealised gains (losses) on other securities" at a net-of-tax amount as a separate component of shareholders' equity. Cost of sales of such securities is determined by the moving average method. Other securities without readily determinable fair values are stated at cost, as determined by the moving average method.

Inventories

Inventories held by the Company are stated at cost determined by the moving average method. Inventories held by its consolidated subsidiaries are principally stated at the lower of moving average cost or market value.

Property, plant and equipment and property and equipment for investments

Property, plant and equipment and property and equipment for investments are stated at cost. Depreciation is mainly computed using the declining-balance method, except for buildings acquired on or after 1st April 1998 which are depreciated using a straight-line method by the Company and its domestic consolidated subsidiaries, and computed principally using the straight-line method by its overseas

consolidated subsidiaries, at rates based on estimated useful lives of the assets.

Allowance for doubtful accounts

Allowance for doubtful accounts is calculated based on the aggregate amount of estimated credit losses for doubtful receivables plus an amount for receivables other than doubtful receivables calculated using historical write-off experience from certain prior periods.

Accrued bonus

Accrued bonuses to employees are provided for estimated amounts which MARUWA is obliged to pay to employees based on services provided until the fiscal year-end.

Accrued pension and severance costs

Under the terms of the employee retirement plans of the Company and its consolidated subsidiaries in Japan, substantially all employees are entitled to indemnities at the time of their severance. The amount of the benefit is, in general, based on the length of service, basic salary at the time of severance and the circumstances under which severance occurs.

Until the year ended 31st March 2000, the accrued pension and severance costs are provided, in accordance with Japanese tax regulations, at 40% of the amount that would be required if all eligible employees of the Company and applicable subsidiaries voluntarily retired at the balance sheet date. Effective for the year ended 31st March 2001, MARUWA adopted new accounting standards for retirement benefits. Under the new accounting standards, accrued pension and severance costs are recorded at the amount that the estimated present value of projected benefit obligations are in excess of the fair value of plan assets. The transition obligation arising from adoption of the new standards of ¥58 million at 1st April 2000 was charged to income in the fiscal year. Actuarial gains and losses are amortized using the straight-line method over certain years less than the average remaining service period of employee (10 years) starting from the following year.

As a result of adoption of the new standards, retirement benefit expenses increased by ¥88 million, ordinary income decreased by ¥23 million and income before income taxes decreased by ¥83 million for the year ended 31st March 2001.

Bond issuing expenses

Bond issuing expenses are charged to income as incurred.

Income taxes

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

The Company and its domestic subsidiaries adopted deferred tax accounting in accordance with the regulations for preparation of the consolidated financial statements. Deferred income taxes were determined using the asset and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax base of assets and liabilities and those as reported in the financial statements.

Lease transactions

Periodic lease payments under financing lease contracts are charged to income as incurred. Finance leases without an option to transfer ownership of leased assets to the lessee are accounted for as operating leases.

Foreign currency translation

All assets and liabilities accounts of overseas consolidated subsidiaries are translated into Japanese yen at appropriate year-end rates. Shareholders' equity of overseas consolidated subsidiaries is translated at historical rates. All income and expenses are translated at an average rate.

Per share data

Net income per share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during each period. All prior-period net income per share was restated to conform with the current computation. Diluted per share amount is not presented as there was no potential common stock for the year ended 31st March 2001. Diluted per share amount is not presented for the year ended 31st March 2002 due to recording of a net loss although there is stock purchase warrant outstanding. Diluted net income per share for the year ended 31st March 2003 was ¥8.98. Cash dividends per share shown for each year in the consolidated statements of operations represent dividends declared as applicable to the respective years.

Consumption tax

The consumption tax under the Japanese Consumption Tax Law withheld by the Company and its domestic consolidated subsidiaries on sales of goods is not included in the amount of net sales in the accompanying consolidated statements of

operations, and the consumption tax paid by the Company and its domestic subsidiaries under the law on purchases of goods and services, and expenses is not included in the related amount.

3. Supplemental cash flow information:

Cash and cash equivalents at 31st March 2001, 2002 and 2003 are comprised of the following:

	Millions of yen			Thousands of U.S. dollars
	2001	2002	2003	2003
Cash and bank deposits	¥1,567	¥5,492	¥5,291	\$44,018
Marketable securities	7,687	—	—	—
Total	¥9,254	¥5,492	¥5,291	\$44,018

Cash outflow paid at 31st March 2003 for the acquisition of new consolidated subsidiary consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥982	\$8,170
Non current assets	573	4,767
Current liabilities	(136)	(1,131)
Non current liabilities	(708)	(5,890)
Consolidating adjustment account	(596)	(4,959)
Total acquisition cost	115	957
Less, cash and cash equivalents	(60)	(499)
Cash outflow, net	¥55	\$458

4. Investment securities:

Aggregate cost and market value (carrying value) of investment securities, which have market values, at 31st March 2002 and 2003 are as follows:

	At 31st March 2002		
	Millions of yen		
	Cost	Market value (Carrying amount)	Unrealised gain (loss)
Securities with the carrying amount exceeding acquisition cost			
Equity securities.....	¥185	¥336	¥151
Sub-total	185	336	151
Securities with the carrying amount not exceeding the cost			
Equity securities.....	35	32	(3)
Sub-total	35	32	(3)
Total	¥220	¥368	¥148
	At 31st March 2003		
	Millions of yen		
	Cost	Market value (Carrying amount)	Unrealised gain (loss)
Securities with the carrying amount exceeding acquisition cost			
Equity securities.....	¥117	¥163	¥ 46
Sub-total	117	163	46
Securities with the carrying amount not exceeding the cost			
Equity securities.....	228	171	(57)
Sub-total	228	171	(57)
Total	¥345	¥334	(¥11)
	At 31st March 2003		
	Thousands of U.S. dollars		
	Cost	Market value (Carrying amount)	Unrealised gain (loss)
Securities with the carrying amount exceeding acquisition cost			
Equity securities.....	\$973	\$1,356	\$383
Sub-total	973	1,356	383
Securities with the carrying amount not exceeding the cost			
Equity securities.....	1,897	1,423	(474)
Sub-total	1,897	1,423	(474)
Total	\$2,870	\$2,779	(\$91)

Proceeds from sales of investment securities were ¥118 million for the year ended 31st March 2002. On those sales, gross realised gains and gross realised losses for the year ended 31st March 2002 were ¥15 million and ¥84 million,

respectively. The Company recorded a loss on write-down of marketable securities due to permanent diminution in value in the amount of ¥9 million (\$75 thousand) for the year ended 31st March 2003.

5. Inventories:

Inventories at 31st March 2002 and 2003 are comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Finished products.....	¥1,319	¥1,268	\$10,549
Work in process	1,303	1,493	12,421
Raw materials.....	498	780	6,489
Supplies.....	382	306	2,546
Total	¥3,502	¥3,847	\$32,005

6. Bank loans and long-term debt:

Borrowings at 31st March 2002 and 2003 are comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Secured loans, representing obligations principally to banks, due 2004 to 2036 with a weighted-average interest of 1.8% and 1.7% per annum at 31st March 2002 and 2003, respectively.....	¥1,026	¥782	\$6,506
Less-Current portion due within one year.....	(204)	(152)	(1,265)
Total	¥822	¥630	\$5,241

The aggregate amounts of annual maturities of long-term debt are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending 31st March:		
2004	¥152	\$1,265
2005	148	1,231
2006	148	1,231
2007	148	1,231
2008	52	433
2009 and thereafter	134	1,115
Total	¥782	\$6,506

7. Assets pledged as collateral:

Assets pledged as collateral at 31st March 2003 are as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥139	\$1,156
Buildings and structures	188	1,564
Investment securities	39	325
Total	¥366	\$3,045

Secured liabilities at 31st March 2003 are as follows:

	Millions of yen	Thousands of U.S. dollars
Current portion of long-term debt	¥9	\$75
Long-term debt	154	1,281
Total	¥163	\$1,356

8. Investments in unconsolidated subsidiaries:

Investment securities and other assets included investments in unconsolidated subsidiaries at 31st March 2002 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Investment securities	¥190	¥327	\$2,720
Other	7	31	257

9. Related party transactions:

The Company purchased land at ¥52 million from K Maruwa Co., Ltd. for the year ended 31st March 2002. K Maruwa Co., Ltd.'s 67% shares are owned by the chairman and president of the

Company. This transaction was performed on an arms-length basis. For the year ended 31st March 2003, there were no related party transactions.

10. Accounting for notes receivable and notes payable maturing at year-end date:

Notes receivable and notes payable maturing at year-end are accounted as if they were settled at the clearing date of notes. Consequently, as the year-end date of the year ended 31st March 2002 was a holiday for banking institutions, the

following notes receivables and notes payable maturing at year-end date were included in the ending balance of trade notes and accounts receivable, trade notes and accounts payable, and notes payable for property acquisition.

	Millions of yen
Trade notes receivable	¥66
Trade notes payable	35
Notes payable for property acquisition	40

11. Income taxes:

Significant components of the deferred tax assets and liabilities at 31st March 2002 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Deferred tax assets:			
Accrued pension and severance costs	¥37	¥73	\$607
Accrued bonus	35	46	383
Operating loss carry forwards for tax purposes	260	386	3,211
Investment securities	11	14	117
Net unrealised holding losses on other securities	—	4	33
Other	70	50	416
Total deferred tax assets	413	573	4,767
Valuation allowance	(199)	(473)	(3,935)
Total deferred tax assets, net of valuation allowance.....	214	100	832
Deferred tax liabilities:			
Net unrealised gains on other securities	(62)	—	—
Gain on securities contributed to employee retirement benefit trust	(30)	(29)	(241)
Allowance for doubtful accounts	(29)	—	—
Other	(3)	(2)	(17)
Total deferred tax liabilities	(124)	(31)	(258)
Net deferred tax assets	¥90	¥69	\$574

Reconciliation of differences between the statutory rate of income taxes and the effective rate of income taxes for the year ended 31st March 2001 and 2003 was as follows:

	2001	2003
Statutory rate of income taxes	41.75 %	41.75 %
Addition (reduction) in taxes resulting from:		
Local minimum taxes per capita levy	—	5.65
Charge in valuation allowance	(10.36)	26.06
Tax exemptions due to incentives on investments in foreign subsidiaries	(5.57)	(20.67)
Other	0.51	2.25
Effective rate of income taxes	26.33 %	55.04 %

Since loss before income taxes were resulted, above table is not disclosed for the year ended 31st March 2002.

A change in tax rate for the calculation of deferred tax assets and liabilities, which is expected to decrease from

41.75% to 40.41% effective for the period subsequent to 1st April 2004, and result is a decrease in deferred tax assets by ¥1 million (\$8 thousand) at 31st March 2003.

12. Shareholders' equity:

Under the Commercial Code of Japan, a company is required to appropriate an amount equal to at least 10% of cash dividends paid and other cash distributions from retained earnings to legal reserve. This appropriation is continued until the total amount of capital surplus, which is included in additional paid-in capital, and legal reserve becomes 25% of the common stock amount. The legal reserve is not available for dividends but may be used to reduce a deficit with shareholder approval or can be capitalised by resolution of the Board of Directors. Retained earnings presented in the

accompanying consolidated financial statements included such legal reserves of ¥1,414 million as at 31st March 2001, ¥1,671 million as at 31st March 2002 and ¥1,671 million (\$13,902 thousand) as at 31st March 2003, respectively.

The following appropriations of retained earnings at 31st March 2003 were approved at the general meeting of shareholders held on 24th June 2003. These appropriations were not recorded in the consolidated financial statements for the year ended 31st March 2003.

	Millions of yen	Thousands of U.S. dollars
Appropriation for:		
Cash dividends ¥7 (\$0.06) per common share	¥77	\$641
Directors' bonus	6	50

On 20th March 2001, the Company issued shares (1,000,000 shares). Consequently common stock and additional paid-in capital increased by ¥1,027 million, respectively.

On 16th October 2001, the Company issued bonds due 2005 with detachable stock purchase warrants. Principal portion of bonds was purchased by consolidated subsidiary

and eliminated on a consolidated basis. Stock purchase warrants allow the holder to purchase the common stock of the Company at ¥2,400 (\$20). Consideration of stock purchase warrants was recorded as a liability in amount of ¥11 million (\$92 thousand) at 31st March 2002 and 2003, respectively.

13. Contingent liabilities:

At 31st March 2003, MARUWA had no contingent liabilities and had no material litigation or claims outstanding, nor was there any pending or threatened against them.

At 31st March 2002, contingent liabilities for trade notes discounted with the bank amounted to ¥9 million.

14. Leased assets:

Periodic lease payments under finance lease contracts totaled ¥8 million and ¥7 million (\$58 thousand) for the years ended 31st March 2002 and 2003, respectively, and were charged to income.

Committed future lease payments at 31st March 2002 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Within one year.....	¥7	¥6	\$50
Later years.....	14	8	66
Total	¥21	¥14	\$116

An analysis of amounts, as if they had been capitalised, related to leased assets under finance lease contracts which were not capitalised at 31st March 2002 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Machinery and equipment.....	¥84	¥39	\$324
Accumulated depreciation	(63)	(25)	(208)
Net amount	¥21	¥14	\$116

Depreciation and interest expenses relating to these leased assets, if they had been capitalised, for the years ended 31st March 2002 and 2003 are estimated ¥8 million and ¥7 million (\$58 thousand).

Depreciation is computed using a straight-line method over the term of the underlying lease contracts.

15. Selling, general and administrative expenses:

Selling, general and administrative expenses for the years ended 31st March 2001, 2002 and 2003 are comprised of the following:

	Millions of yen			Thousands of U.S. dollars
	2001	2002	2003	2003
Distribution costs	¥214	¥142	¥178	\$1,481
Directors' remuneration.....	71	114	88	732
Salaries and bonuses	561	529	487	4,052
Provision for bonuses.....	30	41	43	358
Retirement benefit expenses.....	7	13	23	191
Traveling expenses.....	117	117	105	874
Depreciation	185	212	263	2,188
Research and development costs.....	91	496	354	2,945
Other	710	523	490	4,076
Total	¥1,986	¥2,187	¥2,031	\$16,897

16. Research and development costs:

Research and development costs charged to selling, general and administrative expenses were ¥91 million, ¥496 million

and ¥354 million (\$2,945 thousand) for the years ended 31st March 2001, 2002 and 2003, respectively.

17. Derivative financial instruments:

The only derivatives used by the Company and its consolidated subsidiaries are foreign exchange forward contracts in order to manage exposures resulting from fluctuations in foreign currency exchange associated with certain assets and liabilities denominated in foreign currencies. The Company and its consolidated subsidiaries do not use derivative transactions for speculative or trading purposes.

The Company established credit guidelines and only enters into transactions with financial institutions of investment grade

or better. The Company and its subsidiaries consider the risk of counter-party default to be minimal.

The execution and control of foreign exchange forward contracts are managed by the financial department applying internal policies which regulate the authorization and credit limit amount. The Company and its consolidated subsidiaries have no outstanding foreign exchange forward contracts at 31st March 2001, 2002 and 2003.

18. Retirement benefits:

The Company and a domestic subsidiary (MARUWA TFG Co., Ltd.) maintain tax qualified pension plans and lump-sum indemnities plans, both of which are non-contributory defined benefit pension plans. In addition, a domestic subsidiary (MARUWA KCK Co., Ltd.) maintains lump-sum indemnities plans. Also, the Company established an employee retirement benefit trust.

Lump-sum indemnities plans of both the Company and consolidated subsidiaries were adopted at the establishment of the companies. Tax qualified pension plan was adopted by the Company in 1992, and by a domestic subsidiary (MARUWA TFG) in 1990.

Components of accrued pension and severance costs as of 31st March 2002 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Benefit obligations.....	¥204	¥360	\$2,995
Plan assets	(135)	(136)	(1,131)
Benefit obligations in excess of plan assets	69	224	1,864
Unrecognized actuarial losses	(54)	(85)	(708)
Net amount recognized on the balance sheet	15	139	1,156
Prepaid pension expenses	(2)	—	—
Accrued pension and severance costs	¥17	¥139	\$1,156

A certain consolidated subsidiary uses a simplified method of calculation for benefit obligations.

Components of retirement benefit expenses for the years ended 31st March 2001, 2002 and 2003 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2001	2002	2003	2003
Service cost.....	¥33	¥37	¥49	\$408
Interest cost.....	5	5	6	50
Expected return on plan assets	(2)	(2)	(1)	(8)
Amortization of transition obligation	58	—	—	—
Amortization of actuarial gains and losses.....	—	4	5	41
Retirement benefit expenses				
Net amount	¥94	¥44	¥59	\$491

Retirement expenses under the simplified method are included in service cost.

Assumptions used for calculation of retirement benefits for the years ended 31st March 2002 and 2003 are as follows:

	2002	2003
Discount rate	2.5%	2.5%
Expected return on plan assets	3.5%	2.0%
Method of attribution of estimated retirement benefits to periods of employee service	Straight-line method	Straight-line method
Amortization period of unrecognized actuarial gains or losses	10 years	10 years

19. Segment information:

MARUWA operates as one business segment that represents manufacturing and selling electronic components and ceramics for electronic parts in Japan and foreign countries.

Geographical segment information for the years ended 31st March 2001, 2002 and 2003 are as follows:

	For the year ended 31st March 2001				
	Millions of yen				
	Japan	Asia	Europe and America	Eliminations or corporate	Consolidated
Sales:					
To customers	¥10,791	¥4,420	¥889	¥ —	¥16,100
Intersegment	881	1,214	7	(2,102)	—
Total net sales.....	11,672	5,634	896	(2,102)	16,100
Operating expenses.....	8,950	4,248	882	(1,613)	12,467
Operating income	¥2,722	¥1,386	¥14	(¥489)	¥3,633
Assets	¥19,478	¥7,531	¥633	¥3,301	¥30,943

	For the year ended 31st March 2002				
	Millions of yen				
	Japan	Asia	Europe and America	Eliminations or corporate	Consolidated
Sales:					
To customers	¥7,151	¥2,608	¥174	¥ —	¥9,933
Intersegment	429	723	3	(1,155)	—
Total net sales.....	7,580	3,331	177	(1,155)	9,933
Operating expenses.....	7,679	3,762	227	(535)	11,133
Operating loss.....	(¥99)	(¥431)	(¥50)	(¥620)	(¥1,200)
Assets	¥22,718	¥7,092	¥715	(¥3,795)	¥26,730

	For the year ended 31st March 2003				
	Millions of yen				
	Japan	Asia	Europe and America	Eliminations or corporate	Consolidated
Sales:					
To customers	¥7,309	¥2,774	¥254	¥ —	¥10,337
Intersegment	470	862	1	(1,333)	—
Total net sales.....	7,779	3,636	255	(1,333)	10,337
Operating expenses.....	7,198	3,350	362	(880)	10,030
Operating income (loss)	¥581	¥286	(¥107)	(¥453)	¥307
Assets	¥24,484	¥6,559	¥872	(¥5,035)	¥26,880

	For the year ended 31st March 2003				
	Thousands of U.S. dollars				
	Japan	Asia	Europe and America	Eliminations or corporate	Consolidated
Sales:					
To customers	\$60,807	\$23,078	\$2,113	\$ —	\$85,998
Intersegment	3,910	7,171	8	(11,089)	—
Total net sales.....	64,717	30,249	2,121	(11,089)	85,998
Operating expenses.....	59,884	27,870	3,011	(7,321)	83,444
Operating income (loss)	\$4,833	\$2,379	(\$890)	(\$3,768)	\$2,554
Assets	\$203,694	\$54,567	\$7,254	(\$41,888)	\$223,627

Principal countries or jurisdictions in each geographic segment are as follows:

“Asia” includes Malaysia and Taiwan.

“Europe and America” includes the United Kingdom.

Operating expenses of ¥558 million, ¥651 million and ¥485 million (\$4,035 thousand) included in “Eliminations or corporate” for the years ended 31st March 2001, 2002 and 2003, respectively, are unallocatable amounts related mainly to cost of administrative and management division in the Company.

The amount of corporate assets included in “Eliminations or corporate” are ¥9,500 million, ¥5,753 million and ¥5,321 million (\$44,268 thousand) at 31st March 2001, 2002 and 2003, respectively, and mainly consisted of surplus funds (cash and marketable securities) and long-term investment funds (investment securities and others) owned by the Company.

Overseas sales for the years ended 31st March 2001, 2002 and 2003 are as follows:

	For the year ended 31st March 2001			
	Millions of yen			
	Asia	Europe	Other	Total
Sales to overseas.....	¥7,385	¥972	¥350	¥8,707
Total consolidated sales				16,100
Percentage.....	45.9%	6.0%	2.2%	54.1%

	For the year ended 31st March 2002			
	Millions of yen			
	Asia	Europe	Other	Total
Sales to overseas.....	¥4,743	¥228	¥166	¥5,137
Total consolidated sales				9,933
Percentage.....	47.7%	2.3%	1.7%	51.7%

	For the year ended 31st March 2003			
	Millions of yen			
	Asia	Europe	Other	Total
Sales to overseas.....	¥4,925	¥294	¥143	¥5,362
Total consolidated sales				10,337
Percentage.....	47.7%	2.8%	1.4%	51.9%

	For the year ended 31st March 2003			
	Thousands of U.S. dollars			
	Asia	Europe	Other	Total
Sales to overseas.....	\$40,973	\$2,446	\$1,190	\$44,609
Total consolidated sales				85,998
Percentage.....	47.7%	2.8%	1.4%	51.9%

Principal countries or jurisdictions in each geographic segment are as follows:

“Asia” includes Malaysia, Taiwan, Korea and Hong Kong.

“Europe” includes Germany and the United Kingdom.

“Other” includes the United States of America.

ChuoAoyama Audit Corporation

PRICEWATERHOUSECOOPERS 

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3-28-12, Meieki, Nakamura-ku
Nagoya, 450-8565 Japan
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Facsimile 81-52-551-3005

Report of Independent Accountants

To the Board of Directors and Shareholders of
MARUWA Co., Ltd.

We have audited the accompanying consolidated balance sheets of MARUWA and its consolidated subsidiaries as of 31st March 2002 and 2003, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended 31st March 2003, 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of MARUWA and its consolidated subsidiaries as of 31st March 2002 and 2003 and the consolidated results of their operations and their cash flows for each of the three years in the period ended 31st March 2003 in conformity with accounting principles and practices generally accepted in Japan (see Note 1).

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

ChuoAoyama Audit Corporation

ChuoAoyama Audit Corporation
Nagoya, Japan
24th June 2003

Global Network

(As of 1st June 2003)

Offices and Plants

Head Office

3-83 Minamihonjigahara-cho, Owariasahi-City, Aichi 488-0044, Japan

Tokyo Sales Office

2-17-8 Shinyokohama, Kouhoku-ku, Yokohama-City, Kanagawa
222-0033, Japan

Kyushu Sales Office

1-19-27 Shiobaru, Minami-ku, Fukuoka-City, Fukuoka 815-0032,
Japan

Kansai Sales Office

1-28-6 Tarumi-cho, Suita-City, Osaka 564-0062, Japan

Niigata Sales Office

1-4 Fukuda-machi, Joetsu-City, Niigata 942-0032, Japan

Tohoku Sales Office

7-1 Taihei, Kumagami, Miharu-machi, Tamura-county, Fukushima
963-7704, Japan

Toki Plant

2322-3 Kakinohirohata, Tsurusato-cho, Toki-City, Gifu 509-5312,
Japan

Yamanota Plant

92-1 Yamanota-cho, Seto-City, Aichi 489-0975, Japan

Domestic Subsidiaries

MARUWA KCK Co., Ltd.

Kasugayama Plant

3-2-6 Kasugayama-machi, Joetsu-City, Niigata 943-0807, Japan

Naoetsu Plant

1-4 Fukuda-machi, Joetsu-City, Niigata 942-0032, Japan

MARUWA TFG Co., Ltd.

Miharu Plant

7-1 Taihei, Kumagami, Miharu-machi, Tamura-county, Fukushima
963-7704, Japan

Overseas Subsidiaries

Maruwa (Malaysia) Sdn. Bhd.

Lot 27 & 28, Batu Berendam, Ftz., Phase 3, Industrial Estate, 75350,
Melaka, Malaysia

Taiwan Maruwa Co., Ltd.

1F, No.11, Lane 154, Sec.2, Chung Cheng Road, Taipei, Taiwan
ROC

Korea Maruwa Co.,Ltd.

926-11, Kyiwin-dong, Dongan-ku, Anyang-si, Kyungki-do, Republic
of Korea

Maruwa Electronics (HK) Co., Ltd.

Suite No.B, 17th/fl, Ritz Plaza, No.122 Austin Road, Kowloon,
Hong Kong SAR

Maruwa (Shanghai) Trading Co., Ltd.

Room 709 Pine City, No.8 Dong An Road, Xu Hui Qu, Shanghai
200032, PRC

Maruwa Europe Ltd.

The Boulevard Orbital Park, Ashford, Kent TN24 0GA, UK

Maruwa America Corporation

3655 Torrance Blvd. Suite#358, Torrance, CA 90503, USA



Corporate Data (As of 31st March 2003)

Head Office

3-83 Minamihonjigahara-cho, Owariasahi-City,
Aichi 488-0044, Japan
TEL: +81-561-51-0841
FAX: +81-561-51-0845

Established

5th April 1973

Paid-in Capital

¥6,683,450,000

Management (As of 24th June 2003)

Board of Directors

Chairman and Representative Director

Yoshiki Kanbe

President and Representative Director

Sei Kanbe

Senior Managing Director

Kazunari Kawabata

Executive Managing Director

Tetsuya Nagamitsu

Directors

Akio Kato

Kenji Okumura

Akira Uchida

Chunting Li

Manimaran Anthony

Corporate Auditors

Standing Auditor

Koji Chujo

Outside Corporate Auditors

Toshihiro Yamanaka

Katsuhiro Muranaka

Stock Information (As of 31st March 2003)

Common Stock

Authorized 26,000,000 shares
Issued 11,050,000 shares
Number of shareholders 5,963
Stock exchange listings Tokyo, Nagoya, London, Singapore

Principal Shareholders

	Number of shares	Percentage*
K Maruwa Co., Ltd.	3,171,220	28.70
The Master Trust Bank of Japan, Ltd. (Trust Account)	318,900	2.89
Japan Trustee Services Bank, Ltd. (Trust Account)	318,600	2.88
Yoshiki Kanbe	308,070	2.79
Sei Kanbe	287,070	2.60
Setsuya Kanbe	215,880	1.95
MARUWA employees' shareholding union	171,889	1.56
UFJ Bank Limited	147,000	1.33
SIS Segaintersettle AG	142,100	1.29
Julius Baer Multistock Asia Megatrend Stock Fund	140,000	1.27

Percentage of total number of shares in issue

Transfer Agent

The Chuo Mitsui Trust and Banking Company, Limited

