

MARUWA



Focus on New Growth

Annual Report 2004 Year ended March 31 2004

MARUWA CO., LTD.

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 three decades by supplying electronic components and ceramics for electronic parts, as well as other innovative products.

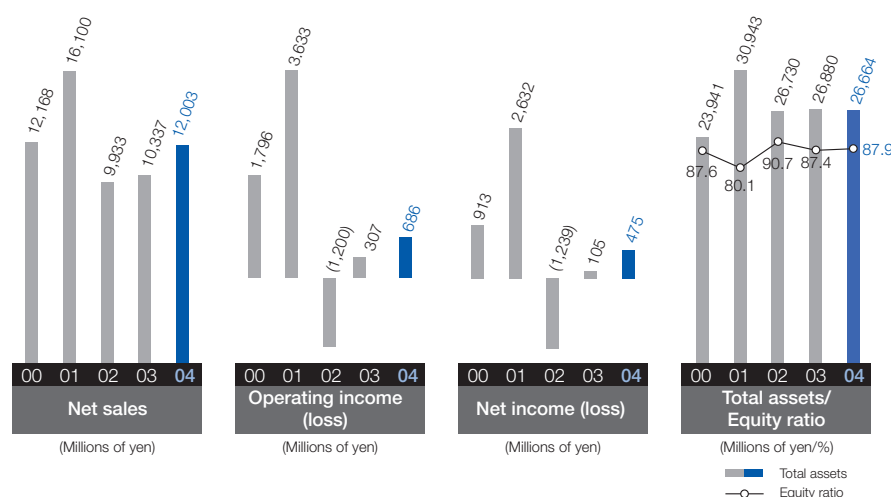
Today, MARUWA is expediting the transformation of its core business, increasing competitiveness by prioritizing its key business, and concentrating its management resources on these fields. As part of the business strategy, MARUWA is committed to developing quality-valued products in the rapidly expanding 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 2003 and 2004

| | Millions of yen | | Thousands of U.S. dollars |
|---------------------------------|---------------------------|---------|---------------------------|
| | For year ended 31st March | | For year ended 31st March |
| | 2003 | 2004 | 2004 |
| For the year | | | |
| Net sales..... | ¥10,337 | ¥12,003 | \$113,568 |
| Operating income..... | 307 | 686 | 6,491 |
| Income before income taxes..... | 233 | 711 | 6,727 |
| Net income..... | 105 | 475 | 4,494 |
| At year-end | | | |
| Total shareholders’ equity..... | 23,488 | 23,429 | 221,677 |
| Total assets..... | 26,880 | 26,664 | 252,285 |
| Per share amounts | | | |
| | Yen | | U.S. dollars |
| Net income..... | ¥8.99 | ¥42.67 | \$0.40 |
| Cash dividends..... | 14.00 | 14.00 | 0.13 |

Note: U.S. dollar amounts have been converted for convenience only at the rate of ¥105.69=US\$1, the rate of exchange on 31st March 2004.



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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.



First of all, I thank our shareholders and investors for their understanding and support. As I present this MARUWA Annual Report 2004, I would like to say a few words.

During the fiscal year ended 31st March 2004, the electronic components industry showed recovery on a global basis and more prominently so in the Asian markets. Meanwhile, in line with the accelerated trend to multi-functions, downsizing and more complexity of electronic devices, faster and more flexible response to satisfy the market demand for components is required.

Facing such management conditions, MARUWA Group has further clarified its business strategy aiming at earning profits in its core product lines — Circuit Ceramics and Machinery Ceramics — through an expansion of its already high global market share and continued investment in its growth business areas such as Radio Frequency Products and EMC (Electromagnetic Compatibility) Components, as well as in research & development of new products.

As a result of these initiatives, MARUWA succeeded in achieving profitability on a consolidated basis for the second consecutive year. Consolidated business results for the fiscal year ended 31st March 2004 were: net sales of ¥12,003 million, an increase of 16.1% from the previous fiscal year, operating income of ¥686 million, an increase of 123.5% from the previous fiscal year and net income of ¥475 million, an increase of 352.4% from the previous fiscal year. I feel that the fiscal year under review has been a cornerstone year towards new growth.

The Group will strive to enhance its corporate value by promoting management efficiency and developing into a unique, highly profitable company.

We appreciate your continued support.

June, 2004

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

Sei Kanbe
President



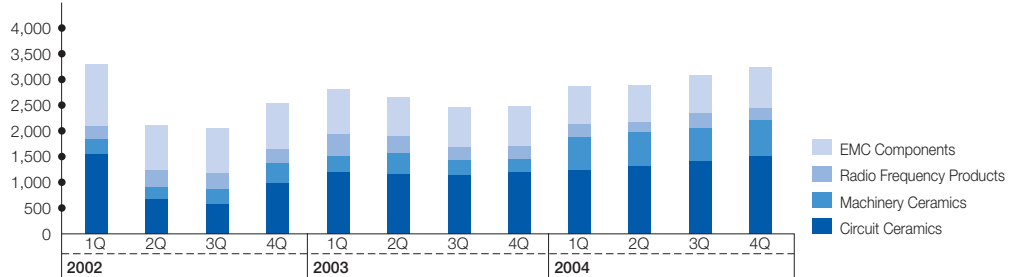
Business results for the fiscal year ended 31st March 2004

How do you assess the business results for the fiscal year ended 31st March 2004 in which you achieved increase in revenue and profit?



MARUWA posted losses in fiscal 2002 for the first time since the Company went public, and we were sorry to have disappointed our shareholders. In fiscal 2003, we concentrated our efforts in reducing production lead-time as part of our structural reform to withstand cost fluctuations and MARUWA managed to return to the black. In fiscal 2004, we succeeded in achieving profit for the second consecutive term, which makes me believe MARUWA can proceed with the next phase of growth. There are two major reasons for the increase in revenue and profit. First, overall demand in the market returned as customers in general completed their inventory adjustments. Second, the Company’s divisions (referred to as “mini-mini companies”) that had been in the red last year due to new products development returned to the black. I expect that recovery in such divisions will have a strong impact on our business in the coming fiscal year and thereafter.

Sales by product division
(Quarterly, millions of yen)

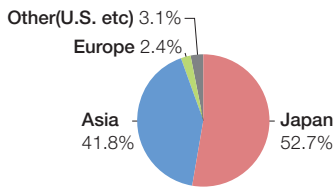


Market environment

What are your views on medium and short-term trends in the electronic components market?



The electronic components market has considerably developed for the past several decades. It is a highly volatile market where technology advances quite rapidly but always at the risk of becoming obsolete soon. On a medium term, I expect to see increasing demand for modulation and systematization of electronic components to support downsizing and multi-functioning of final products. MARUWA, as technology specialist, has



Sales by geographical market

succeeded in accumulating various technologies specific to ceramic material, electronic devices and layering, and establishing the expertise in combining these technological elements. I believe that on a medium term, holding such technological expertise would enable us to secure a highly competitive position in the market. Meanwhile, I have a bullish outlook also on a shorter term in expectation for growth in demand in Asia, centering in China. Unless the Company is hit by a major unforeseen economic or political commotion, I believe MARUWA will be able to record a two-digit growth in both sales and profit in the coming fiscal year.



Organizational strategy

What was the purpose of adopting the “mini-mini company system” aiming to realize management flexible and resilient like “bamboo”, and what effects does the system have?



Facing today’s extremely volatile environment, I feel the need to manage with the characteristics of “bamboo” that are flexibility and resilience so as to survive in any type of market conditions. The “mini-mini company system” adopted last fiscal year is indeed the system that allows execution of flexible, resilient management. Under this system, we divided the organization into 18 mini-mini companies, each of which operates under an open atmosphere with participation of all employees led by a manager. The system has enabled us to expedite our decision-making process as well as clarify roles and accountability in a transparent, open corporate atmosphere, thus responding accurately and efficiently to “low-volume, short-lead time demands.”

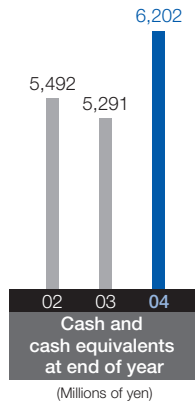


Cash flow management

What was your intent in shifting from the traditional management style of focusing on consolidated operating income to one that values consolidated cash flows?



In line with the adoption of the “mini-mini company system”, we identify cash flows to be the key management indices. Specifically, we analyze the monthly income and expense figures of each mini-mini company and determine ways as part of our daily operations to secure maximum amount of cash on minimal asset size. In addition, we make company-wide efforts in maintaining a good balance between investment cash flows and financial cash flows, while keeping capital investments at a certain level within the amount of operating cash flows so as to retain and expand free cash flows. As at the end of this fiscal term, outstanding cash balance amounted to ¥6,202 million, which in one perspective reflects the high level of retained earnings relative to the size of our business. As I consider our immediate objective as being able to readily respond to market needs, it is important to maintain a highly maneuverable operating condition and make effective use of M&A strategies to well satisfy our shareholders.



M&A strategy

What was the objective of M&A to acquire MARUWA QUARTZ Co., Ltd. as a subsidiary?



MARUWA's business strategy lies in attaining stable profits in its core business segments - Circuit Ceramics and Machinery Ceramics - through maintaining high market shares and utilizing the earned profits to proactively invest in growth areas, such as Radio Frequency Products and EMC Components as well as in the development of new businesses. We pursued M&A to acquire MARUWA QUARTZ Co., Ltd. (former Kimmon Quartz Co., Ltd.) as a subsidiary in April 2004, aiming to expand the quartz glass business, an area within our core Machinery Ceramics business, as one stable source of income. In March 2003, we purchased outstanding shares of former Tokyo Fine Glass Co., Ltd. and established MARUWA TFG Co., Ltd. as a consolidated subsidiary, an approach by which we succeeded in promptly reviving the quartz glass business. Since the latter half of fiscal 2004, the business has been a stable source of revenue, contributing to the Company's overall profit. As MARUWA QUARTZ and MARUWA TFG belong to the same business segment, I believe MARUWA QUARTZ in synergy with MARUWA TFG's high production technology can contribute in promoting MARUWA to further expand market share and develop the quartz glass business to serve as a stronger source of income.



Product development strategy

What is the status quo on new product development?



In accordance with our consistent policy of pursuing development based on our ceramic material technology that responds to diversified, advanced customer needs, MARUWA focuses on the development of components used for IT and mobile communication devices, as well as on enhancement of material technology. Total R&D cost for fiscal 2004 was ¥468 million. New materials and products are being developed at the Toki Plant, the development section within the Yamanota Plant as well as our consolidated subsidiary MARUWA KCK, while improvements to existing products and applications on secondary products are made in each of the production divisions.

Key R&D:

- Development and production of strong ceramic substrates having 1.5 times the strength of traditional aluminum substrates;
- Development and production of ceramic multi-layer substrate products, such as module substrate for automobiles;
- Development and mass production of original products using Aluminum Nitride and dielectric materials (in the optical communication and high frequency products areas)



Shareholder dividends

What is your dividend policy and what efforts are being made to enhance shareholder value?



Based on comprehensive evaluation of our financial status and business performance, as well as intending to proactively invest mainly in technological innovation and development facility aimed at responding to market needs, we decided to disburse a dividend of 14 yen per share for the full year. During fiscal 2004, we purchased 68,600 shares of own Company stocks for a total purchase price of ¥101 million, not only as a measure for mitigating stock price fluctuations, but also for use of shares in offering stock options. We will make every effort to further enhance our investor relations activities so that shareholders may more clearly assess management status of MARUWA.



Outlook for the future

Please share with us your vision for the future.



MARUWA Group does not aim to become a simple conglomerate, but a unique and highly profitable organization. The foundation for building such a company is near completion as we stand at the start of a new growth phase. What is most important for MARUWA going forward is the development of MARUWA Culture, while pursuing M&A activities and welcoming new organizations to the Group. MARUWA Culture must demonstrate three key values: “have pride in MARUWA and continue producing world’s number one products through creatively applying effective technology”, “never give up” and “enhance transparency, promote teamwork and encourage full staff participation in operating the organization”. I feel that continuous sharing of these values by the entire personnel would lead to developing a flexible and resilient corporate culture that can withstand any environmental change. I also believe that in order for MARUWA to continue growing and enhancing its values, the Company, as one corporate citizen, must reside in harmony with a wider range of stakeholders, including the society and environment.

Final comments (regarding societal activities and environmental preservation)

In order to outperform peers in this highly competitive sector, MARUWA operates on a profit-first policy. This does not mean that the Company is solely interested in moneymaking. A corporation cannot exist without the support of many people. We have actively been involved in environmental and societal activities. For example, we built the Maruwa Forest known as the Home of Fireflies in Seto City, Aichi Prefecture, and continue to support the Forest. Concurrently, we offer artistic support through “Fundación Maruwa Fomento de Baile Español” (the Maruwa Foundation for Promotion of Spanish Dancing). I am very proud to see that MARUWA’s prosperity can play a role in supporting societal and artistic activities. We will continue to nurture this disposition as part of MARUWA Culture.



Review of Operations



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.

Review of Operations



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

Applications:

- Ceramics for resistors

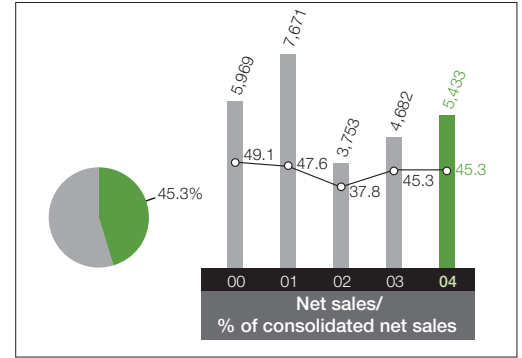
Electronic devices, PCs, digital cameras, game console, mobile phones, components for automobiles.

- Aluminum Nitride

Hybrid/electric vehicles, DVDs, semiconductor equipment.



Circuit Ceramics



In addition to ceramic substrates for resistors essential to various electric devices, the Circuit Ceramics division includes glazed substrates for thermal printer heads (TPH) used in facsimile machines and bar code printers, large-size substrates for hybrid IC and Aluminum Nitride for power modules and automobile parts.

Operating results for the fiscal 2004

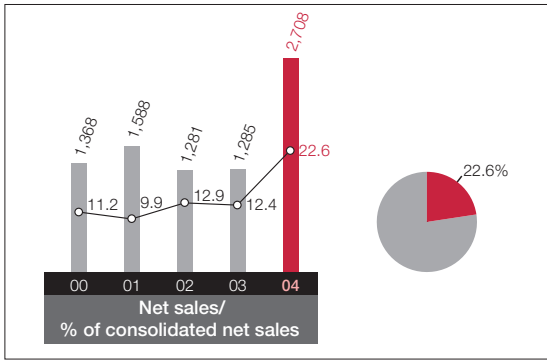
Net sales for the fiscal year ended 31st March 2004 in the Circuit Ceramics division were ¥5,433 million, an increase of ¥751 million (16.0%) from the previous fiscal year. Sales moved favorably in the first and second quarters of the fiscal year mainly for substrates for 1005-sized general-purpose resistors, in line with the favorable sales of Sony's game console *Playstation 2* and the active demand in Taiwan prompted by the switch to highly functional mobile phones.

Moving into the third quarter, as demand for digital equipment (such as DVD) and other new products (such as flat panel TV) continued to increase, we have been enjoying solid demand in this area. In addition, high value-added ceramic substrates for resistors in notebook PCs have been selling well.

Looking ahead and key strategy

There are two immediate objectives in this division. First, in order to further enhance heat dissipation of ceramic substrates used at heat sink widely in industrial sectors, the division must develop and produce materials thinner but stronger with higher thermal conductivity. Already, MARUWA has developed a type of ceramic substrate having at least 1.5 times the strength of a traditional Alumina substrate and began distributing samples to customers. R&D costs totaling ¥21 million were posted for the fiscal 2004 in this division.

Second, we must get further involved in the development and production of multi-layer ceramic substrates often used in various industrial sectors. During fiscal 2004, we made efforts not only to develop technology that heightens the density level and facilitates multi-functioning of products, but also to expand the lineup of products across multiple business divisions as well as establishing mass-production technology. As some of the products are already undergoing steady mass-production, we intend to attract new customers. The total R&D cost for this division was ¥146 million.



Review of Operations

Machinery Ceramics

The Machinery Ceramics division manufactures products that require fine manufacturing technology, such as quartz glass components mainly for semiconductor production devices, ceramics for supporting magnetic heads in disk drives for computers, and ceramic valves for water faucets.

Operating results for the fiscal 2004

Throughout the fiscal year, quartz glass products showed solid sales in response to the active demand for semiconductor production devices. Currently, the division's manufacturing plants are in full operations. Although demand for ceramics for magnetic heads was stagnant in the first half of the fiscal year due to inventory adjustment over long periods by major customers, demand resumed in the third quarter. As supply manufacturers effectuated reorganizations, we succeeded in considerably expanding our market share and the favorable level of demand continues. As a result, net sales for the division totaled ¥2,708 million, an increase of ¥1,423 million (110.7%) compared to the previous fiscal year.

Looking ahead and key strategy

The key objective for this division in the quartz glass segment is integrating the manufacturing technologies of MARUWA QUARTZ Co., Ltd. and MARUWA TFG Co., Ltd. subsidiaries acquired through M&A, with MARUWA's precision processing techniques to promote a synergistic effect that can well support MARUWA in securing a competitive position in technological and marketing aspects.

Technologically, manufacturing glass components in large, complicated forms for semiconductor production devices requires high precision manufacturing techniques. MARUWA Group will endeavor to concentrate its manufacturing expertise fostered through years of experience in enhancing overall productivity. On the marketing side, since the two subsidiaries serve users that hold similar demand with those of MARUWA's existing products, we expect that the mutual use of existing sales channels would lead to expansion in marketing channels. Moreover, MARUWA will enhance global marketing of the Group's every product, utilizing the Group's extensive international network.



Technology:

Precision processing technology

Product line:

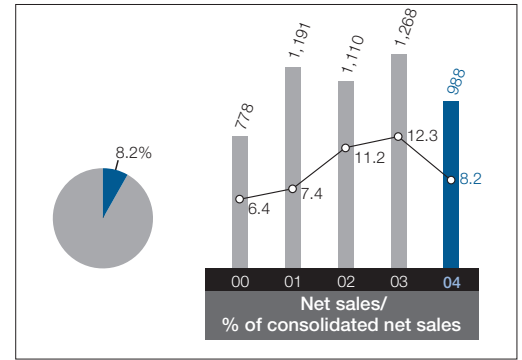
- Slider ceramics
- Ferrite
- Ceramic valves for water faucets
- Quartz glass products

Applications:

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



Review of Operations



Radio Frequency Products

The Radio Frequency Products division manufactures dielectric ceramics for filters used primarily in the mobile communication sector, device products such as voltage controlled oscillator (VCO) for wireless communication devices, mobile phones and base stations, as well as thin-film substrates for use in optical information and communication.

Operating results for the fiscal 2004

As final products pertaining to this division are functionally upgraded in quick cycles, supporting components accordingly have extremely short life cycles. During the second and third quarters of the fiscal year, device products were in a slump due to a transition period in the market for VCO for mobile phones. Since the fourth quarter, however, the market has shown recovery supported by demand for VCO for business wireless communication equipment and base stations. Meanwhile, MARUWA has been expanding marketing of LTCC multi-layer substrates. Demand for products for mobile phones also recovered in the fourth quarter and has been moving on an upward trend since. Likewise, demand for thin-film substrates has been on the increase, supported by the popularity for DVD. As a result, net sales for the division were ¥988 million, a decrease of ¥280 million (down 22.1%) from the previous fiscal year.

Looking ahead and key strategy

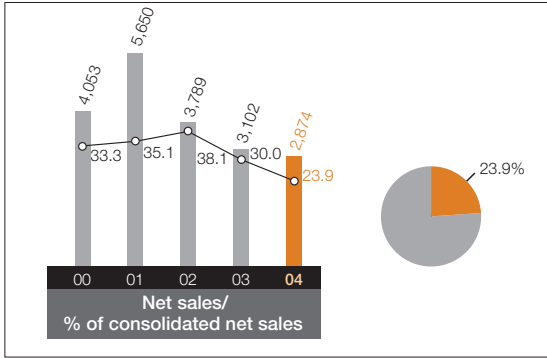
In the dielectric ceramics segment, MARUWA will continue to proactively pursue development of microwave dielectric materials having high-inductive capacity and low dielectric loss, as well as cultivate markets for new products that fully apply material characteristics. In the device products segment, we are promoting development of key VCO products in pursuit of still more downsizing, higher performance and multi-functioning. In addition, we are focusing on the development of new filters and related radio frequency components. Our emphasis in the optical communication and high frequency related segments is the development and production of functional ceramic materials and components. We are also pursuing development of original products that apply the characteristics of highly conductive Aluminum Nitride substrate materials and other dielectric material produced in-house. Some of these products for which we see high future growth potential are already undergoing mass-production. The total R&D cost for the division was ¥40 million.

Technology:
Electronic device technology

- Product line:**
- Devices (VCO/TCXO)
 - Dielectric ceramics
 - Thin film products
 - Multi-layer ceramic substrates

Applications:

- **Devices**
Mobile phones, wireless LAN, other wireless communications equipment.
- **Dielectric ceramics**
Base stations & terminals for mobile phones, GPS, Bluetooth technology.
- **Thin film products**
Mobile communication devices, CD/DVD-RW, Optical network.
- **Multi-layer ceramic substrates**
Mobile communication devices, automobiles.



Review of Operations



EMC Components

EMC Components include EMI filters that intercept electromagnetic waves, chip varistors that control noise, surge and other voltage abnormalities, multi-layer ceramic capacitors that have high voltage resistance and high capacitance used mainly in digital cameras and PCs.

Operating results for the fiscal 2004

MARUWA continues to readily supply multi-layer ceramic capacitors for camera strobes in the robust digital camera market and those for power source-related components in the PC market. Up till the second quarter of the fiscal year, the division's performance slumped as it faced difficulty in responding to the shifting demand in the market for further multi-functioning and downsizing of the ceramic capacitors, as well as tremendous cost competition, especially in the Taiwanese market. Sales of capacitors, however, bounced back after bottoming out in August and have been moving on an upward curve since. Meanwhile, domestic sales of power source related products continue to be favorable as the Company has received orders after some competitors' withdrawal from the market. Net sales for the division were ¥2,874 million, a decrease of ¥228 million (down 7.4%) from the previous fiscal year.

Looking ahead and key strategy

In all business sectors including information communication, automobiles and home electric appliances, there has been growing demand for further downsizing, higher speed and multi-functioning as well as digitization. Concurrently, the advance in realizing higher speed and greater capacity for interactive information communication has highlighted even more the importance of EMC measures (electromagnetic compatibility measures against electromagnetic impacts) in electronic devices. In pursuing EMC business, MARUWA will strive to meet such market needs through the development of materials and products that offer better noise/surge absorption, miniaturized surface mounting, high frequency wave compliance, attractive pricing and environmental consideration, thereby expanding its product lineups for EMI filters and chip varistors, as well as enhancing EMC technology. Total R&D cost for the division was ¥181 million.

Technology:

Multi-layer technology

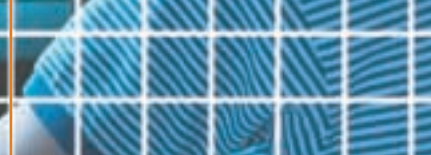
Product line:

- Multi-layer ceramic capacitors
- EMI filters
- Multi-layer ceramic varistors

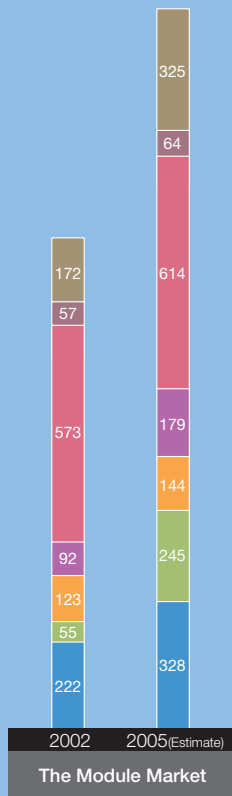
Applications:

- Ceramic capacitors, EMI filters, Chip varistors

Digital cameras, PCs, mobile phones, automobiles.



MARUWA's Ceramic Multi-layer Substrate Technology



Source: "2003 overall research on highly functional, high added-value modules" Speculations made by Fuji Chimera Research Institute Inc., based on total net sales of domestic companies selected as research samples

Types of automotive modules

ETC module, intelligent power module, ECU for airbag, ECU for ABS, car navigation system module, gyro sensor for automobiles.

Types of mobile phone modules

Front-end module, PA module, antenna switch module (ASM), CCD/CMOS camera module, VCO.

Research & development of highly functional modules for growing markets

In line with the growing trend to multi-functionality, downsizing and increasingly complex applications in the electronic component market in which MARUWA plays an important role, there is an increasing demand for the development of highly functional modules to achieve the required downsizing (including height reduction) and high-density mounting; such modules cannot be developed or produced by assembly-only manufacturers.

Facing such market needs, MARUWA is involved in the research and development of highly functional modules specific to mobile devices (including cellphones), automotive electric components as well as applications for other growing markets by proactively combining the Company's expertise accumulated over the years in various technologies involving ceramic material, electronic devices and layering.

Development and production of ceramic multi-layer substrates

MARUWA is developing high-temperature co-fired ceramics (HTCC) multi-layer substrates for automotive parts, the largest segment within the module market. HTCC multi-layer substrates have been created by combining highly reliable multi-layering technology developed for ceramic packaging with thick-film resistors formed on aluminum ceramic of the same base material used in ceramic packages. As the substrate is co-fired at a high temperature of approximately 1,600 degrees centigrade, molybden (Mo) and tungsten (W), which have high melting points, are used for internal wiring.

MARUWA's HTCC multi-layer substrates with high durability, thermal conductivity and reliability, are highly valued for their incomparable performance even under extreme environmental conditions (e.g. temperature, humidity, vibration, dust, electric noise, etc.)

On the other hand, low-temperature co-fired ceramic (LTCC) multi-layer substrates developed and produced prior to HTCC multi-layer substrates are co-fired at lower temperatures not exceeding 900 degrees centigrade and offer excellent electrical features, as internal electrodes use silver (Ag) and copper (Cu), both highly conductive materials. Also, simultaneously, three-dimensionally integrating multiple functions of high-capacitance capacitors, high Q-level inductors and resonators into the substrates, miniaturization of circuits and substrates has become possible. The main application is in the communications industry, for mobile phones and radio frequency modules.

MARUWA will proactively continue its R&D for highly functional modules specially suited for applications with growing markets by leveraging its vast reserves of technological expertise.

Financial Section

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Five-Year Summary

MARUWA CO., LTD. and consolidated subsidiaries
For years ended 31st March 2000, 2001, 2002, 2003 and 2004

| | Millions of yen | | | | | Thousands of U.S. dollars |
|---|---------------------------|---------|-----------|---------|----------------|---------------------------|
| | For year ended 31st March | | | | | For year ended 31st March |
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2004 |
| For the year | | | | | | |
| Net sales | ¥12,168 | ¥16,100 | ¥9,933 | ¥10,337 | ¥12,003 | \$113,568 |
| Operating income (loss) | 1,796 | 3,633 | (1,200) | 307 | 686 | 6,491 |
| Income (loss) before income taxes | 1,540 | 3,572 | (1,288) | 233 | 711 | 6,727 |
| Net income (loss) | 913 | 2,632 | (1,239) | 105 | 475 | 4,494 |
| At year-end | | | | | | |
| Total shareholders' equity | 20,983 | 24,797 | 24,246 | 23,488 | 23,429 | 221,677 |
| Total assets..... | 23,941 | 30,943 | 26,730 | 26,880 | 26,664 | 252,285 |
| | Yen | | | | | U.S. dollars |
| Per share amounts | | | | | | |
| Net income (loss) | ¥90.88 | ¥261.42 | (¥112.70) | ¥8.99 | ¥42.67 | \$0.40 |
| Cash dividends | 12.00 | 12.00 | 14.00 | 14.00 | 14.00 | 0.13 |

Increased revenue and profit for the second consecutive year

Net sales for the fiscal year ended 31st March 2004 were ¥12,003 million, an increase of ¥1,666 million (16.1%) from the previous fiscal year. In the first quarter, transition costs associated with the acquisition of former Tokyo Fine Glass Co., Ltd. in March 2003 to form a wholly owned subsidiary MARUWA TFG Co., Ltd. in June 2003 impacted our financial base. The subsidiary, however, returned to the black in the second quarter and has been a contributor of profit

thereafter. An uplift in the market primarily in the digital equipment sector since the third quarter, combined with effective internal reform efforts, led MARUWA to post ¥686 million in operating income, an increase of ¥379 million (123.5%) from the previous fiscal year. Net income for the fiscal year was ¥475 million, an increase of ¥370 million (352.4%) from the previous fiscal year.

Revenue conditions reflecting enhanced management efficiency and effective M&A results

During the fiscal year ended 31st March 2004, MARUWA pursued an operating strategy aimed at strengthening sales, production and development on the whole and succeeded in enhancing its core material technology on a company-wide basis. Moreover, concentration in improving yield, reducing lead time, as well as reconstructing a development system (linked directly to market needs) and a flexible material production system led the Company to post net sales of ¥12,003 million, an increase of 16.1 % from the previous fiscal year. Net sales by product were: Circuit Ceramics at ¥5,433 million (percentage of consolidated net sales: 45.3%), an increase of 16.0% from the previous year; Machinery Ceramics at ¥2,708 million (percentage of consolidated net sales: 22.6%), an increase of 110.7% from the previous year; Radio Frequency Products at ¥988 million (percentage of consolidated net sales: 8.2%), a decrease of 22.1% from the previous year; and EMC Components Products at ¥2,874 million (percentage of consolidated net sales: 23.9%), a decrease of 7.4% from the previous year. The prominent percentage surge of Machinery Ceramics in overall net sales was a result of notable contribution by MARUWA TFG, a consolidated subsidiary established in fiscal 2003, and the percentage of consolidated net sales rose accordingly by 10.2%.

Gross profit for the fiscal year increased 27.5% to ¥2,981 million, supported by expansion in net sales. Gross profit

margin improved 2.2% to 24.8%, which was a result of improvement in productivity supported primarily by recovery in loss-incurring divisions, reduction in material costs and streamlining of production lines.

While selling, general and administrative (SG&A) expenses included increased costs associated with the new consolidated subsidiary MARUWA TFG as well as with R&D, we made efforts to contain personnel expenses and other fixed costs over our revenue growth rate. Consequently, MARUWA posted a total of ¥2,295 million in SG&A expenses, an increase of 13.0% from the previous fiscal year. The percentage of SG&A expenses to net sales decreased 0.5% to 19.1%. As a result, operating income for the fiscal year under review was ¥686 million, an increase of 123.5% from the previous fiscal year.

Other income on a net basis was impacted by loss on disposal of inventories worth ¥100 million and loss from valuation of inventories worth ¥56 million. However, income of ¥354 million, including a ¥119 million amortisation of consolidating adjustment account (associated with the consolidated subsidiary MARUWA TFG established in fiscal 2003) resulted in an increase of ¥25 million.

Consequently, income before income taxes for the fiscal year was ¥711 million, while net income after taxes (including corporate tax, inhabitant tax and enterprise tax) was ¥475 million, an increase of 352.4% from the previous fiscal year.

Strengthened financial structure reflected on various financial indices

Total assets as at the end of the fiscal term decreased by ¥216 million to ¥26,664 million. By category, cash and deposits rose ¥911 million to ¥6,202 million, which reflects the gradual effects of our commitment in pursuing a company-wide management style of focusing on consolidated cash flows. While the result in one perspective is a reflection of the high level of retained earnings relative to the size of our business, our immediate objective lies in being able to readily respond to market needs. Hence, we find it important for us to pursue effective use of M&A strategies while maintaining highly

maneuverable operative conditions. Trade notes and accounts receivable increased ¥491 million, supported by strong business results, while the receivables turnover ratio improved from 31.4% to 31.2%. Inventories decreased ¥567 million to ¥3,280 million as a result of proactive reductions of inventory assets, including a loss of ¥100 million on disposal of inventories and ¥56 million in loss from valuation of inventories. Consequently, total current assets rose 6.8% from the previous fiscal year to ¥13,554 million.

Total fixed assets declined ¥1,074 million to ¥13,110 million partly due to the decrease of ¥1,202 million in net property, plant and equipment. With an aim at gaining maximum amount of cash on minimal level of assets, we focused on renewing existing facilities to enhance operating efficiency. As a result, depreciation of ¥1,466 million exceeded capital expenditure of ¥742 million, which led to the decline in net property, plant and equipment.

Meanwhile, ratio of current liabilities to total liabilities rose 5.2% from the previous fiscal year. Current liabilities totaled ¥2,030 million as a consequence primarily of an increase of ¥181 million in trade notes and accounts payable in conjunction with the increase in procurement. Long-term liabilities amounted to ¥1,205 million as a result of amortisation

of ¥119 million to consolidating adjustment account and a decrease of ¥148 million in long-term debt. Interest-bearing debts declined to ¥630 million from ¥782 million in the previous fiscal year. As a result, debt-equity ratio dropped from 3.3% in the previous fiscal year to 2.7%, reflecting a stronger financial structure.

Consequently, total liabilities decreased 4.6% or ¥157 million to ¥3,235 million.

Shareholders' equity was down ¥59 million to ¥23,429 million compared to the previous year's ¥23,488 million, due to negative ¥1,215 million in foreign currency translation adjustment and ¥303 million in treasury stocks. As a result, the equity ratio was 87.9% as of 31st March 2004.

Increase in free cash flow

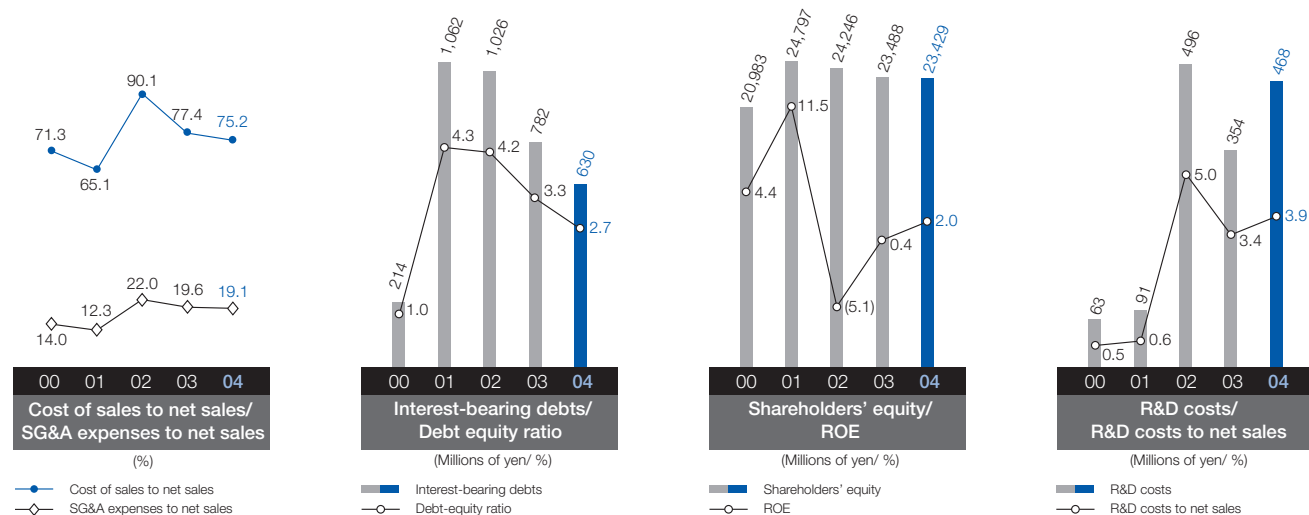
Net cash provided by operating activities rose ¥211 million from the previous fiscal year to ¥2,102 million. Income before income taxes was ¥711 million, up ¥478 million from the previous fiscal year. Cash from the reduction of inventories was ¥477 million, a year-on-year increase of ¥523 million. Depreciation cost was up ¥6 million from the previous fiscal year to ¥1,466 million. Consolidation of a new subsidiary MARUWA TFG caused an increase in trade notes and accounts receivable, which resulted in a decrease of ¥295 million in cash. With the receipt of tax refunds, income taxes (previously paid) posted a positive ¥119 million in fiscal 2003. However, they turned to a negative ¥100 million for this fiscal term.

Net cash used in investing activities totaled ¥708 million, a decrease of ¥338 million from the previous year's ¥1,046 million which included the purchase of shares of the subsidiaries worth ¥137 million. Payments for purchase of

property, plant and equipment, primarily including renewal of facilities and metal molds at home and abroad, totaled ¥733 million, a decrease of ¥50 million from the previous fiscal year. Meanwhile, sales of investment securities resulted in a cash increase of ¥133 million.

Consequently, free cash flow increased 65.0% from the previous year's ¥845 million to ¥1,394 million.

Net cash used in financing activities amounted to ¥407 million, down ¥606 million from the prior year's ¥1,013 million in total, which included payments of long-term debt worth ¥858 million in conjunction with the consolidation of a new subsidiary. The breakdown of payments for the fiscal year 2004 shows ¥101 million paid in purchase of treasury stocks, ¥152 million in repayment of long-term debt and ¥154 million in cash dividends paid. As a result, the balance of cash and cash equivalents at the end of March 2004 was ¥6,202 million, an increase of ¥911 million from the previous fiscal year.



Consolidated Balance Sheets

MARUWA CO., LTD. and consolidated subsidiaries

As of 31st March 2003 and 2004

| | Millions of yen | | Thousands of |
|--|------------------|---------|------------------|
| | As of 31st March | | U.S. dollars |
| | 2003 | 2004 | As of 31st March |
| ASSETS | | | |
| Current assets: | | | |
| Cash and deposits | ¥5,291 | ¥6,202 | \$58,681 |
| Trade notes and accounts receivable | 3,249 | 3,740 | 35,387 |
| Inventories (Note 5) | 3,847 | 3,280 | 31,034 |
| Deferred tax assets (Note 10) | 43 | 81 | 766 |
| Other current assets | 268 | 252 | 2,384 |
| Allowance for doubtful accounts | (2) | (1) | (9) |
| Total current assets | 12,696 | 13,554 | 128,243 |
| Property, plant and equipment (Note 7): | | | |
| Land | 2,541 | 2,548 | 24,108 |
| Buildings and structures | 5,772 | 5,634 | 53,307 |
| Machinery and equipment | 9,831 | 9,115 | 86,243 |
| Other | 2,424 | 2,508 | 23,730 |
| Construction in progress..... | 128 | 152 | 1,438 |
| Total..... | 20,696 | 19,957 | 188,826 |
| Less—Accumulated depreciation | (8,784) | (9,247) | (87,492) |
| Net property, plant and equipment | 11,912 | 10,710 | 101,334 |
| Investments and other assets: | | | |
| Investment securities (Notes 4, 7 and 8)..... | 661 | 662 | 6,263 |
| Deferred tax assets (Note 10) | 26 | 244 | 2,309 |
| Property and equipment for investments..... | 1,016 | 996 | 9,424 |
| Other | 569 | 498 | 4,712 |
| Total investments and other assets..... | 2,272 | 2,400 | 22,708 |
| Total assets | ¥26,880 | ¥26,664 | \$252,285 |

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

| | Millions of yen | | Thousands of |
|---|------------------|---------|------------------|
| | As of 31st March | | U.S. dollars |
| | 2003 | 2004 | As of 31st March |
| | | | 2004 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Trade notes and accounts payable..... | ¥489 | ¥670 | \$6,339 |
| Current portion of long-term debt (Notes 6 and 7) | 152 | 148 | 1,400 |
| Accrued income taxes | 54 | 88 | 833 |
| Accrued bonus..... | 136 | 137 | 1,296 |
| Stock purchase warrants (Note 11)..... | 11 | 11 | 104 |
| Notes payable for property acquisitions | 341 | 328 | 3,104 |
| Other current liabilities | 768 | 648 | 6,131 |
| Total current liabilities..... | 1,951 | 2,030 | 19,207 |
| Long-term liabilities: | | | |
| Long-term debt (Notes 6 and 7)..... | 630 | 482 | 4,561 |
| Accrued retirement benefits (Note 17) | 139 | 176 | 1,665 |
| Consolidating adjustment account (negative goodwill) | 596 | 477 | 4,513 |
| Other | 76 | 70 | 662 |
| Total long-term liabilities | 1,441 | 1,205 | 11,401 |
| Shareholders' equity (Note 11): | | | |
| Common stock, no par value; authorised: 26,000,000 shares; issued and outstanding: | | | |
| 11,050,000 shares in 2003 and 2004 | 6,683 | 6,683 | 63,232 |
| Capital surplus | 9,710 | 9,710 | 91,873 |
| Retained earnings | 7,748 | 8,516 | 80,575 |
| Net unrealised gains (losses) on other securities..... | (7) | 38 | 360 |
| Foreign currency translation adjustment | (444) | (1,215) | (11,496) |
| Treasury stock, at cost—57,126 shares in 2003 and 125,800 shares in 2004..... | (202) | (303) | (2,867) |
| Total shareholders' equity | 23,488 | 23,429 | 221,677 |
| Total liabilities and shareholders' equity | ¥26,880 | ¥26,664 | \$252,285 |

Consolidated Statements of Shareholders' Equity

MARUWA CO., LTD. and consolidated subsidiaries

For years ended 31st March 2002, 2003 and 2004

| | Number of shares of common stock (Thousands) | Millions of yen | | | | | | |
|--|--|-----------------|-----------------|-------------------|---|---|----------------|----------------------------|
| | | Common stock | Capital surplus | Retained earnings | Net unrealised gains (losses) on other securities | Foreign currency translation adjustment | Treasury stock | Total shareholders' equity |
| 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 |
| Net income | | | | 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 |
| Cumulative effect on change of deferred income tax accounting adopted by overseas consolidated subsidiary..... | | | | 453 | | | | 453 |
| Net income | | | | 475 | | | | 475 |
| Cash dividends | | | | (154) | | | | (154) |
| Directors' bonus..... | | | | (6) | | | | (6) |
| Change in net unrealised gains on other securities..... | | | | | 45 | | | 45 |
| Translation adjustments..... | | | | | | (771) | | (771) |
| Changes in treasury stock | | | | | | | (101) | (101) |
| Balance at 31st March 2004 | 11,050 | ¥6,683 | ¥9,710 | ¥8,516 | ¥38 | (¥1,215) | (¥303) | ¥23,429 |

| | Thousands of U.S. dollars | | | | | | |
|---|---------------------------|-----------------|-------------------|---|---|------------------|----------------------------|
| | Common stock | Capital surplus | Retained earnings | Net unrealised gains (losses) on other securities | Foreign currency translation adjustment | Treasury stock | Total shareholders' equity |
| Balance at 31st March 2003 | \$63,232 | \$91,873 | \$73,308 | (\$66) | (\$4,201) | (\$1,911) | \$222,235 |
| Cumulative effect on change of deferred income tax accounting adopted by overseas consolidated subsidiary | | | 4,286 | | | | 4,286 |
| Net income | | | 4,495 | | | | 4,495 |
| Cash dividends | | | (1,457) | | | | (1,457) |
| Directors' bonus | | | (57) | | | | (57) |
| Change in net unrealised gains on other securities..... | | | | 426 | | | 426 |
| Translation adjustments | | | | | (7,295) | | (7,295) |
| Changes in treasury stock | | | | | | (956) | (956) |
| Balance at 31st March 2004 | \$63,232 | \$91,873 | \$80,575 | \$360 | (\$11,496) | (\$2,867) | \$221,677 |

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 2002, 2003 and 2004

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---------------------------|---------|--------|------------------------------|
| | For year ended 31st March | | | For year ended 31st March |
| | 2002 | 2003 | 2004 | 2004 |
| Cash flows from operating activities: | | | | |
| (Loss) income before income taxes | (¥1,288) | ¥233 | ¥711 | \$6,727 |
| Adjustments for: | | | | |
| Depreciation | 1,540 | 1,460 | 1,466 | 13,871 |
| Amortisation of consolidated adjustment account (negative goodwill) ... | — | — | (119) | (1,126) |
| Decrease in allowance for doubtful accounts | (31) | (13) | (20) | (189) |
| (Decrease) increase in accrued pension and severance costs | (7) | 28 | 36 | 341 |
| Loss on disposal of property, plant and equipment | 47 | 82 | 51 | 482 |
| Interest and dividend income | (114) | (6) | (13) | (123) |
| Foreign exchange (gain) loss..... | (59) | 43 | 7 | 66 |
| Write-down of investment securities | 27 | 9 | — | — |
| Decrease (increase) in trade notes and accounts receivable..... | 1,610 | (310) | (605) | (5,724) |
| Decrease (increase) in inventories..... | 470 | (46) | 477 | 4,513 |
| (Decrease) increase in trade accounts payable | (916) | (66) | 207 | 1,959 |
| Other..... | (281) | 367 | (6) | (57) |
| Sub-total | 998 | 1,781 | 2,192 | 20,740 |
| Interest and dividend income received..... | 114 | 6 | 12 | 113 |
| Interest expenses paid..... | (21) | (15) | (2) | (19) |
| Income taxes (paid) refunded | (860) | 119 | (100) | (946) |
| Net cash provided by operating activities | 231 | 1,891 | 2,102 | 19,888 |
| Cash flows from investing activities: | | | | |
| Payments for purchase of property, plant and equipment | (3,729) | (783) | (733) | (6,935) |
| Proceeds from sales of property, plant and equipment | 84 | 88 | 38 | 360 |
| Payments for purchase of investment securities | (172) | (267) | (41) | (388) |
| Proceeds from sales of investment securities | 118 | — | 133 | 1,258 |
| Acquisition of new consolidated subsidiary (Note 3)..... | — | (55) | — | — |
| Payments for loans made | (60) | — | — | — |
| Collection of loan receivables | 62 | — | 1 | 9 |
| Increase in intangible fixed assets | (89) | (33) | (109) | (1,031) |
| Other | — | 4 | 3 | 28 |
| Net cash used in investing activities..... | (3,786) | (1,046) | (708) | (6,699) |
| Cash flows from financing activities: | | | | |
| Issuance of long-term debt..... | 164 | — | — | — |
| Payments of long-term debt | (200) | (858) | (152) | (1,438) |
| Cash dividends paid | (144) | (154) | (154) | (1,457) |
| Purchase of treasury stock | (1) | (1) | (101) | (956) |
| Sales of treasury stock | 1 | — | — | — |
| Net cash used in financing activities | (180) | (1,013) | (407) | (3,851) |
| Effect of exchange rate changes on cash and cash equivalents | (27) | (33) | (76) | (719) |
| Net (decrease) increase in cash and cash equivalents..... | (3,762) | (201) | 911 | 8,619 |
| Cash and cash equivalents at beginning of year..... | 9,254 | 5,492 | 5,291 | 50,062 |
| Cash and cash equivalents at end of year (Note 3)..... | ¥5,492 | ¥5,291 | ¥6,202 | \$58,681 |

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.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥105.69 = U.S.\$1, the rate of exchange on 31st March 2004 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 and 2004). 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 amortised over five years. The Company acquired the whole voting interest of a certain new consolidated subsidiary at 31st March 2003, and has amortised consolidating adjustment account (negative goodwill) from the year ended 31st March 2004. Amortisation in the amount of ¥119 million (\$1,126 thousand) is included in other income in the accompanying consolidated statements of operations for the year ended 31st March 2004. 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.

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.

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

Retirement benefits for employees

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.

MARUWA has principally recognized the retirement benefits for employees including pension cost and related liability based on actuarial present value of projected benefit obligation using actuarial appraisal approach and the pension plan assets available for benefits at the fiscal year-end.

Actuarial gains or losses are amortised using the straight-line method over certain years less than the average remaining service period of employee (10 years) starting from the following year.

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, its domestic subsidiaries and certain overseas 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.

A certain overseas subsidiary located in Malaysia changed calculation method for deferred taxes from the liability method to the asset and liability method from

the current year ended 31st March 2004 in accordance with the local accounting standard generally accepted in its country. MARUWA recorded the effect of this change as the cumulative effect of change of the accounting method on the accompanying consolidated statements of shareholders' equity.

Lease transactions

Where financing leases do not transfer ownership of the leased property to the lessee during the term of the lease, the leased property of the Company and its domestic consolidated subsidiaries is not capitalized and the relating rental and lease expenses are charged to income as incurred.

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.

Translation differences are reported as foreign currency translation adjustment in a separate component of shareholders' equity in the accompanying consolidated balance sheets.

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 for the year ended 31st March 2002 due to recording of a net loss although there is stock purchase warrant outstanding. At 31st March 2004, potential common stock outstanding subject to the computation of diluted earnings per share is 50,000 shares for stock purchase warrant. 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 consolidated 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 2002, 2003 and 2004 are comprised of cash and bank deposits on the consolidated balance sheets, respectively.

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

| | Millions of yen |
|--|-----------------|
| Current assets | ¥982 |
| Non current assets | 573 |
| Current liabilities | (136) |
| Non current liabilities | (708) |
| Consolidating adjustment account | (596) |
| Total acquisition cost | 115 |
| Less, cash and cash equivalents | (60) |
| Cash outflow, net | ¥55 |

4. Investment securities:

Aggregate cost and market value (carrying value) of investment securities, which have market values, at 31st March 2003 and 2004 are as follows:

| | At 31st March 2003 | | |
|---|--------------------|-----------------------------------|---------------------------|
| | Millions of yen | | |
| | Cost | Market value (Carrying amount) | Unrealised gain (loss) |
| Securities with the carrying amount exceeding acquisition costs | | | |
| 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 2004 | | |
| | Millions of yen | | |
| | Cost | Market value (Carrying amount) | Unrealised gain (loss) |
| Securities with the carrying amount exceeding acquisition costs | | | |
| Equity securities | ¥144 | ¥228 | ¥84 |
| Sub-total | 144 | 228 | 84 |
| Securities with the carrying amount not exceeding the cost | | | |
| Equity securities | 129 | 108 | (21) |
| Sub-total | 129 | 108 | (21) |
| Total | ¥273 | ¥336 | ¥63 |

| | At 31st March 2004 | | |
|--|---------------------------|-----------------------------------|---------------------------|
| | Thousands of U.S. dollars | | |
| | Cost | Market value (Carrying amount) | Unrealised gain (loss) |
| Securities with the carrying amount exceeding acquisition cost | | | |
| Equity securities | \$1,362 | \$2,157 | \$795 |
| Sub-total | 1,362 | 2,157 | 795 |
| Securities with the carrying amount not exceeding the cost | | | |
| Equity securities | 1,221 | 1,022 | (199) |
| Sub-total | 1,221 | 1,022 | (199) |
| Total | \$2,583 | \$3,179 | \$596 |

During the years ended 31st March 2002 and 2004, MARUWA sold investment securities. Proceeds from sales of investment securities were ¥118 million and ¥133 million (\$1,258 thousand) for the years ended 31st March 2002 and 2004. On those sales, MARUWA recorded realised gains of ¥15 million and ¥21 million (\$189 thousand) for the year

ended 31st March 2002 and 2004, respectively, and realised losses of ¥84 million for the year ended 31st March 2002. The Company recorded a loss on write-down of marketable securities due to permanent diminution in value in the amount of ¥9 million for the year ended 31st March 2003.

5. Inventories:

Inventories at 31st March 2003 and 2004 comprise the following:

| | Millions of yen | | Thousands of U.S. dollars |
|-------------------------|-----------------|--------|------------------------------|
| | 2003 | 2004 | 2004 |
| Finished products | ¥1,268 | ¥1,319 | \$12,480 |
| Work in process | 1,493 | 1,292 | 12,224 |
| Raw materials..... | 780 | 401 | 3,794 |
| Supplies | 306 | 268 | 2,536 |
| Total..... | ¥3,847 | ¥3,280 | \$31,034 |

6. Bank loans and long-term debt:

Borrowings at 31st March 2003 and 2004 are comprised of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|-------|------------------------------|
| | 2003 | 2004 | 2004 |
| Secured loans, representing obligations principally to banks, due 2004 to 2036 with a weighted-average interest of 1.7% per annum at 31st March 2003 and 2004, respectively..... | ¥782 | ¥630 | \$5,961 |
| Less-Current portion due within one year..... | (152) | (148) | (1,400) |
| Total..... | ¥630 | ¥482 | \$4,561 |

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

| Year ending 31st March | Millions of yen | Thousands of U.S. dollars |
|---------------------------|-----------------|---------------------------|
| | | |
| 2005 | ¥148 | \$1,400 |
| 2006 | 148 | 1,400 |
| 2007 | 148 | 1,400 |
| 2008 | 52 | 492 |
| 2009 | 4 | 38 |
| 2010 and thereafter | 130 | 1,231 |
| Total | ¥630 | \$5,961 |

7. Assets pledged as collateral:

Assets pledged as collateral at 31st March 2003 and 2004 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--------------------------------|-----------------|-------------|---------------------------|
| | 2003 | 2004 | 2004 |
| Land | ¥139 | ¥139 | \$1,315 |
| Buildings and structures | 188 | 38 | 360 |
| Investment securities | 39 | — | — |
| Total | ¥366 | ¥177 | \$1,675 |

Related liabilities secured by the pledged asset at 31st March 2003 and 2004 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|-------------|---------------------------|
| | 2003 | 2004 | 2004 |
| Current portion of long-term debt | ¥9 | ¥5 | \$47 |
| Long-term debt | 154 | 149 | 1,410 |
| Total | ¥163 | ¥154 | \$1,457 |

8. Investments in unconsolidated subsidiaries:

Investment securities and other assets included investments in unconsolidated subsidiaries at 31st March 2003 and 2004 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|-----------------------------|-----------------|------|---------------------------|
| | 2003 | 2004 | 2004 |
| Investment securities | ¥327 | ¥327 | \$3,094 |
| Other | 31 | 31 | 293 |

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 and 2004, there were no related party transactions.

10. Income taxes:

Significant components of the deferred tax assets and liabilities at 31st March 2003 and 2004 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|-----------------|--------------|------------------------------|
| | 2003 | 2004 | 2004 |
| Deferred tax assets: | | | |
| Accrued pension and severance costs | ¥73 | ¥106 | \$1,003 |
| Accrued bonus | 46 | 47 | 445 |
| Operating loss carryforwards for tax purposes | 386 | 591 | 5,592 |
| Investment securities | 14 | 14 | 132 |
| Net unrealised losses on other securities | 4 | — | — |
| Write-down of inventories | — | 109 | 1,031 |
| Other | 50 | 33 | 312 |
| Total deferred tax assets | 573 | 900 | 8,515 |
| Less, valuation allowance | (473) | (518) | (4,901) |
| Total deferred tax assets, net of valuation allowance | 100 | 382 | 3,614 |
| Deferred tax liabilities: | | | |
| Gain on securities contributed to employee retirement benefit trust | (29) | (29) | (274) |
| Net unrealised gains on other securities | — | (25) | (237) |
| Other | (2) | (3) | (28) |
| Total deferred tax liabilities | (31) | (57) | (539) |
| Net deferred tax assets | ¥69 | ¥325 | \$3,075 |

Reconciliation of differences between the statutory rate of income taxes and the effective rate of income taxes for the years ended 31st March 2003 and 2004 was as follows:

| | 2003 | 2004 |
|---|---------|----------------|
| Statutory rate of income taxes | 41.75% | 41.75% |
| Addition (reduction) in taxes resulting from: | | |
| Local minimum taxes per capita levy | 5.65 | 3.69 |
| Change in valuation allowance | 26.06 | 6.30 |
| Tax exemptions due to incentives on investments in foreign subsidiaries | (20.67) | — |
| Differences between Japanese and foreign tax rates | — | (10.40) |
| Tax credit for research and development expenses | — | (2.15) |
| Amortisation of consolidating adjustment account (negative goodwill) | — | (6.67) |
| Other | 2.25 | 0.60 |
| Effective rate of income taxes | 55.04% | 33.12% |

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, resulted in a decrease in deferred tax assets by ¥1 million at 31st March 2003.

11. Shareholders' equity:

At 31st March 2003 and 2004, respectively, capital surplus consisted of additional paid-in capital.

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 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 capitalized by resolution of the Board of Directors. Retained earnings presented in the accompanying consolidated financial statements included such legal reserves of ¥1,671 million (\$15,810 thousand) as at 31st March 2003 and 2004, respectively.

The following appropriations of retained earnings at 31st March 2004 were approved at the general meeting of shareholders held on 22nd June 2004. These appropriations were not recorded in the consolidated financial statements for the year ended 31st March 2004.

| | Millions of yen | Thousands of U.S. dollars |
|--|--------------------|------------------------------|
| Appropriation for: | | |
| Cash dividends ¥7 (\$0.07) per common share..... | ¥76 | \$719 |
| Directors' bonus | ¥7 | \$66 |

Stock purchase warrants allow the holder to purchase the common stock of the Company at ¥2,400 (\$23). Consideration of stock purchase warrants was recorded as a liability in amount of ¥11 million (\$104 thousand) at 31st March 2003 and 2004, respectively.

12. Contingent liabilities:

At 31st March 2003 and 2004, the Company had no contingent liabilities and had no material litigation or claims outstanding, nor was there any pending or threatened against them.

13. Leased assets:

Periodic lease payments under finance lease contracts totaled ¥7 million and ¥6 million (\$57 thousand) for the years ended 31st March 2003 and 2004, respectively, and were charged to income.

Committed future lease payments at 31st March 2003 and 2004 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|-----------------------|-----------------|------|------------------------------|
| | 2003 | 2004 | 2004 |
| Within one year | ¥6 | ¥5 | \$47 |
| Later years | 8 | 3 | 29 |
| Total..... | ¥14 | ¥8 | \$76 |

An analysis of amounts, as if they had been capitalized, related to leased assets under finance lease contracts, which were not capitalized at 31st March 2003 and 2004 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--------------------------------|-----------------|-------------|---------------------------|
| | 2003 | 2004 | 2004 |
| Machinery and equipment | ¥39 | ¥30 | \$284 |
| Accumulated depreciation | (25) | (22) | (208) |
| Net amount..... | ¥14 | ¥8 | \$76 |

Depreciation and interest expenses relating to these leased assets, if they had been capitalized, for the years ended 31st March 2003 and 2004 are estimated ¥7 million and ¥6 million (\$57 thousand).

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

14. Selling, general and administrative expenses:

Selling, general and administrative expenses for the years ended 31st March 2002, 2003 and 2004 are comprised of the following:

| | Millions of yen | | | Thousands of U.S. dollars |
|--------------------------------------|-----------------|--------|---------------|---------------------------|
| | 2002 | 2003 | 2004 | 2004 |
| Directors' remuneration | ¥114 | ¥88 | ¥89 | \$842 |
| Salaries and bonuses..... | 529 | 487 | 531 | 5,024 |
| Provision for bonus | 41 | 43 | 52 | 492 |
| Retirement benefit expenses | 13 | 23 | 25 | 236 |
| Depreciation..... | 212 | 263 | 192 | 1,817 |
| Research and development costs | 496 | 354 | 468 | 4,428 |
| Other | 782 | 773 | 938 | 8,875 |
| Total..... | ¥2,187 | ¥2,031 | ¥2,295 | \$21,714 |

15. Research and development costs:

Research and development costs charged to selling, general and administrative expenses were ¥496 million, ¥354 million and ¥468 million (\$4,428 thousand) for the years ended 31st March 2002, 2003 and 2004, respectively.

16. Derivative financial instruments:

The only derivatives used by the Company 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 does 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 considers 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 authorisation and credit limit amount. At 31st March 2004, aggregate contract balances of derivative instruments, other than those accounted for by the hedge accounting, amounted to ¥54 million. Relating unrealised losses of ¥2 million (\$19 thousand) were recorded as other expenses for the year ended 31st March 2004. At 31st March 2002 and 2003 MARUWA had no outstanding derivative instrument contracts.

17. Retirement benefits for employees:

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 2003 and 2004 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|--|-----------------|-------|---------------------------|
| | 2003 | 2004 | 2004 |
| Benefit obligations | ¥360 | ¥399 | \$3,775 |
| Plan assets | (136) | (137) | (1,296) |
| Benefit obligations in excess of plan assets | 224 | 262 | 2,479 |
| Unrecognized actuarial losses | (85) | (86) | (814) |
| Accrued pension and severance costs | ¥139 | ¥176 | \$1,665 |

Components of retirement benefit expenses for the years ended 31st March 2002, 2003 and 2004 are as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|--|-----------------|------|------|---------------------------|
| | 2002 | 2003 | 2004 | 2004 |
| Service cost | ¥37 | ¥49 | ¥41 | \$388 |
| Interest cost | 5 | 6 | 6 | 57 |
| Expected return on plan assets | (2) | (1) | (1) | (10) |
| Lump-sum provision for the change from the simplified calculation method to the actuarial appraisal method*1 | — | — | 20 | 189 |
| Amortisation of actuarial gains and losses | 4 | 5 | 10 | 95 |
| Total retirement benefit expenses | ¥44 | ¥59 | ¥76 | \$719 |

*1 Until the year ended 31st March 2003, one of the consolidated subsidiaries provided for its projected benefit obligation using simplified calculation method as permitted by the accounting standard for employee retirement benefits. Effective the current fiscal year, it has recognized the retirement liability based on actuarial present value of projected benefit obligation using actuarial appraisal approach.

Assumptions used for calculation of retirement benefits for the years ended 31st March 2002, 2003 and 2004 are as follows:

| | 2002 | 2003 | 2004 |
|---|----------------------|----------------------|-----------------------------|
| Discount rate | 2.5% | 2.5% | 2.5% |
| Expected return on plan assets | 3.5% | 2.0% | 2.0% |
| Method of attribution of estimated retirement benefits to periods of employee service | Straight-line method | Straight-line method | Straight-line method |
| Amortisation period of unrecognized actuarial gains or losses | 10 years | 10 years | 10 years |

18. 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 2002, 2003 and 2004 is as follows:

| | 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) |
| Identifiable 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 |
| Identifiable assets..... | ¥24,484 | ¥6,559 | ¥872 | (¥5,035) | ¥26,880 |
| | | | | | |
| | For the year ended 31st March 2004 | | | | |
| | Millions of yen | | | | |
| | Japan | Asia | Europe and America | Eliminations or corporate | Consolidated |
| Sales: | | | | | |
| To customers..... | ¥8,877 | ¥2,707 | ¥419 | ¥ — | ¥12,003 |
| Intersegment..... | 567 | 1,003 | 2 | (1,572) | — |
| Total net sales..... | 9,444 | 3,710 | 421 | (1,572) | 12,003 |
| Operating expenses..... | 8,776 | 3,127 | 508 | (1,094) | 11,317 |
| Operating income (loss)..... | ¥668 | ¥583 | (¥87) | (¥478) | ¥686 |
| Identifiable assets..... | ¥23,804 | ¥6,382 | ¥853 | (¥4,375) | ¥26,664 |
| | | | | | |
| | For the year ended 31st March 2004 | | | | |
| | Thousands of U.S. dollars | | | | |
| | Japan | Asia | Europe and America | Eliminations or corporate | Consolidated |
| Sales: | | | | | |
| To customers..... | \$83,991 | \$25,613 | \$3,964 | \$ — | \$113,568 |
| Intersegment..... | 5,365 | 9,490 | 19 | (14,874) | — |
| Total net sales..... | 89,356 | 35,103 | 3,983 | (14,874) | 113,568 |
| Operating expenses..... | 83,036 | 29,586 | 4,806 | (10,351) | 107,077 |
| Operating income (loss)..... | \$6,320 | \$5,517 | (\$823) | (\$4,523) | \$6,491 |
| Identifiable assets..... | \$225,225 | \$60,384 | \$8,071 | (\$41,395) | \$252,285 |

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 ¥651 million, ¥485 million and ¥449 million (\$4,248 thousand) included in “Eliminations or corporate” for the years ended 31st March 2002, 2003 and 2004, 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 ¥5,753 million, ¥5,321 million and ¥4,800 million (\$45,416 thousand) at 31st March 2002, 2003 and 2004, 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 2002, 2003 and 2004 are as follows:

| | For the year ended 31st March 2002 | | | |
|--------------------------------|------------------------------------|---------|---------|-----------|
| | Millions of yen | | | |
| | Asia | Europe | Other | Total |
| Overseas sales | ¥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 |
| Overseas sales | ¥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 2004 | | | |
| | Millions of yen | | | |
| | Asia | Europe | Other | Total |
| Overseas sales | ¥5,019 | ¥287 | ¥376 | ¥5,682 |
| Total consolidated sales | | | | ¥12,003 |
| Percentage | 41.8% | 2.4% | 3.1% | 47.3% |
| | | | | |
| | For the year ended 31st March 2004 | | | |
| | Thousands of U.S. dollars | | | |
| | Asia | Europe | Other | Total |
| Overseas sales | \$47,488 | \$2,715 | \$3,558 | \$53,761 |
| Total consolidated sales | | | | \$113,568 |

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.

19. Significant subsequent events:

At 1st April 2004, the Company acquired a 100.0% interest in the issued and outstanding shares of common stock of Kimmon Quartz Co., Ltd. ("Kimmon") with the approval of the Board of Directors on 5th March 2004. Kimmon is renamed to MARUWA QUARTZ CO., LTD.

The purpose of this acquisition is in order to expand the scale of fused quartz business, which is basic production of the Company, and obtain stable profit-earning ability in this field.

- (a) Counterparty
Kimmon Manufacturing Co.,Ltd.
- (b) Kimmon's business field
Production and distribution of fused quartz
- (c) Common stock of Kimmon
¥100 million (\$946 thousand)

- (d) Number of acquired stock
One share
- (e) Tentative consideration of acquired stock
¥664 million (\$6,093 thousand)

Information for tentative price was based on the appraisal as of 31st December 2003. Final consideration is expected to be settled in July 2004, after final settlement of accounts for the year ended 31st March 2004. Payment is expected to be made by 20th August 2004.

- (f) Equity interest percentage after acquisition
100%

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS 

Dai Nagoya Building
3-28-12, Meieki, Nakamura-ku
Nagoya, 450-8565 Japan
Telephone 81-52-551-3001
Facsimile 81-52-551-3005

Report of Independent Auditors

To the Board of Directors and Shareholders of MARUWA CO., LTD.

We have audited the accompanying consolidated balance sheets of MARUWA CO., LTD. and its consolidated subsidiaries as of 31st March 2003 and 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended 31st March 2004, 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 generally accepted 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 CO., LTD. and its consolidated subsidiaries as of 31st March 2003 and 2004 and the consolidated results of their operations and their cash flows for each of the three years in the period ended 31st March 2004 in conformity with accounting principles generally accepted in Japan.

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 PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Nagoya, Japan
22nd June 2004

Global Network

(As of June 2003)

Offices and Plants

Head Office

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

Hokkaido Sales Office

1007-47, Izumisawa, Chitose-shi, Hokkaido 066-0051, Japan

Tohoku Sales Office

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

Hokushinetsu Sales Office

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

Kitakanto Sales Office

750 Shimoakasaka, Kawagoe-City, Saitama 350-1150, Japan

Tokyo Sales Office

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

Kansai Sales Office

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

Kyushu Sales Office

1462-17, Imaizumihei, Kiyotake-town, Miyazaki-gun, Miyazaki 889-1602, 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.

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

MARUWA TFG Co., Ltd.

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

MARUWA QUARTZ Co., Ltd.

750 Shimoakasaka, Kawagoe-City, Saitama 350-1150, 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.30, Sec.2, Chung Cheng Road, Taipei, Taiwan R.O.C.

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 S. A. R.

Maruwa (Shanghai) Trading Co., Ltd.

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

Maruwa Europe Ltd.

The Boulevard Orbital Park, Ashford, Kent TN24 OGA, U.K.

Maruwa America Corporation

3655 Torrance Blvd. Suite#358, Torrance, CA 90503, U.S.A.



Investor Information

Corporate Data (As of April 2004)

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 22nd June 2004)

Board of Directors

Chairman and Representative Director

Yoshiki Kanbe

President and Representative Director

Sei Kanbe

Senior Managing Director

Kazunari Kawabata

Directors

Tetsuya Nagamitsu

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 2004)

Common Stock

Authorized 26,000,000 shares
Issued 11,050,000 shares
Number of shareholders 5,554
Stock exchange listings Tokyo, Nagoya, London, Singapore

Principal Shareholders

| | Shares | Percentage* |
|---|-----------|-------------|
| K Maruwa Co., Ltd. | 3,171,220 | 28.69 |
| Lombard Odier Darier Hentsch & Cie | 410,000 | 3.71 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 407,800 | 3.69 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 380,600 | 3.44 |
| Sei Kanbe | 287,070 | 2.59 |
| Yoshiki Kanbe | 278,070 | 2.51 |
| Dexia BIL Julius Baer Multistock Japan leading | 216,500 | 1.95 |
| Setsuya Kanbe | 215,880 | 1.95 |
| MARUWA employees' shareholding union | 171,289 | 1.61 |
| SIS Segaintersettle AG | 147,200 | 1.33 |

*Percentage of total number of shares in issue

Transfer Agent

The Chuo Mitsui Trust and Banking Company, Limited

