

Sankyo

2000 ANNUAL REPORT

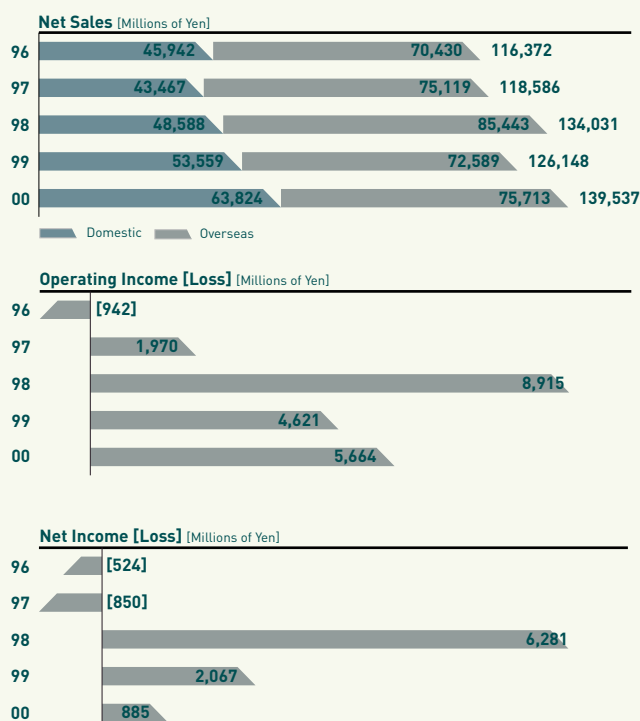
FIVE-YEAR SUMMARY

Sankyo Seiki Mfg. Co., Ltd. and Consolidated Subsidiaries

Years Ended March 31	Millions of Yen					Thousands of U.S. Dollars
	2000	1999	1998	1997	1996	2000
Net sales	¥139,537	¥126,148	¥134,031	¥118,586	¥116,372	\$1,314,526
Net income (loss)	885	2,067	6,281	(850)	(524)	8,336
	Yen					U.S. Dollars
Per share:						
Net income (loss)	¥10.14	¥23.67	¥71.94	¥(9.74)	¥(6.03)	\$0.10
Cash dividends	4.00	2.50	2.50			0.04
	Millions of Yen					Thousands of U.S. Dollars
Total shareholders' equity	¥ 45,701	¥ 43,805	¥ 42,068	¥ 36,778	¥ 37,444	\$ 430,524
Total assets	122,096	107,674	114,899	111,572	114,249	1,150,226
Working capital	17,901	20,535	18,325	11,640	5,247	168,639
Long-term debt, less current portion	6,610	6,730	7,947	14,459	9,977	62,271
Capital expenditures	6,842	5,590	4,931	5,637	8,242	64,450
Depreciation and amortization	6,252	5,610	6,109	6,888	6,650	58,898

Note: U.S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥106.15=US\$1.00.

FINANCIAL REVIEW



Sales

In fiscal 2000, ended March 31, 2000, consolidated net sales rose 10.6% to ¥139,537 million (US\$1,314.5 million), compared with the previous term. Net sales to domestic customers climbed 19.2% to ¥63,824 million (US\$601.3 million), accounting for 45.7% of total net sales. Net sales to foreign customers increased 4.3% to ¥75,713 million (US\$713.3 million), or 54.3% of total net sales.

By sales category, Audiovisual and Home Appliance Equipment rose 3.4% to ¥54,118 million (US\$509.8 million). Sales of stepping motors were favorable for amusement equipment and cameras. However, sales growth was restrained by a drop in prices of video player motors, as well as sluggish sales and falling prices for home appliances.

Sales of Communications and Peripheral Computer Equipment advanced 15.1% to ¥59,495 million (US\$560.5 million), mainly as a result of growth in office equipment units, optical components and molded components. Sales of optical pick-up units for DVD players and CD-Recordable (CD-R) and CD-Rewritable (CD-RW) drives increased, although unit volume was restrained by slow development of the DVD-ROM market and intense competition among customers for CD-ROM units and concerns over quality. On the other hand, sales of motors for hard-disk drives (HDDs) declined sharply as a result of exchange rate fluctuations and falling prices caused by intensified competition.

Sales in Industrial Machinery and Equipment increased 8.3% to ¥18,574 million (US\$175.0 million). Sales of magnetic card readers for the financial industry declined from the impact of delayed

introduction of new items amid a shakeout in the financial industry. Industrial machinery sales increased sharply due to a large volume of orders for liquid-crystal-related products, despite general market weakness.

Sales of Others climbed 48.4% to ¥7,350 million (US\$69.3 million). Growth in this category was mainly due to the robust sales of music boxes for the U.S. market and increased demand in the service business.

Earnings

The cost of sales ratio improved 2.1 percentage points to 85.3%, although selling, general and administrative (SG&A) expenses as a percentage of net sales worsened 1.7 percentage points to 10.6%. Consequently, the operating income margin improved 0.3 percentage point to 4.0%, and operating income rose 22.6% to ¥5,664 million (US\$53.4 million).

Other expenses—net increased ¥2,078 million from the previous term to ¥3,371 million (US\$31.8 million).

Income before income taxes and minority interests declined 31.1% to ¥2,293 million (US\$21.6 million). Income taxes were ¥1,150 million (US\$10.8 million), a decrease of 1.8% compared with the previous fiscal year. Net income decreased 57.2% to ¥885 million (US\$8.3 million), and net income per share declined to ¥10.14 (US\$0.10). Management increased cash dividends per share applicable to the year to ¥4.00 (US\$0.04).

Cash Flow

Net cash provided by operating activities rose ¥846 million to ¥9,778 million (US\$92.1 million). The largest sources of cash in this category were depreciation and amortization of ¥6,252 million (US\$58.9 million), and an increase in trade payables of ¥2,180 million (US\$20.5 million).

Net cash used in investing activities climbed ¥1,066 million to ¥6,399 million (US\$60.3 million). Purchases of property, plant and equipment increased 54.8% to ¥7,166 million (US\$67.5 million).

Net cash used in financing activities decreased ¥2,910 million to ¥3,483 million (US\$32.8 million). Key factors were an 11.7% decrease in repayments of long-term debt to ¥6,139 million (US\$57.8 million) and proceeds from issuance of commercial paper of ¥1,000 million (US\$9.4 million).

In aggregate, cash and cash equivalents, end of year, increased 8.0% to ¥22,095 million (US\$208.2 million).

Financial Position

Total current assets rose 9.7% to ¥79,268 million (US\$746.8 million), and net property, plant and equipment rose 17.6% to ¥31,126 million (US\$293.2 million). Total investments and other assets climbed 30.5% to ¥11,702 million (US\$110.2 million).

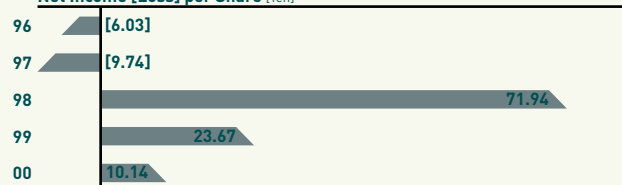
In aggregate, total assets rose 13.4% to ¥122,096 million (US\$1,150.2 million).

Total current liabilities advanced 18.7% to ¥61,367 million (US\$578.1 million), while total long-term liabilities increased 7.4% to ¥12,496 million (US\$117.7 million). Minority interests climbed 371.5% to ¥2,532 million (US\$23.9 million).

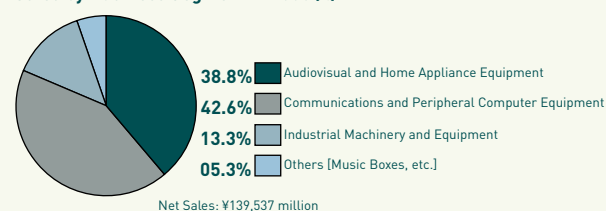
Interest-bearing debt, comprising short-term borrowings, the current portion of long-term debt and long-term debt, less current portion rose 14.1% to ¥30,752 million (US\$289.7 million).

Total shareholders' equity edged up 4.3% to ¥45,701 million (US\$430.5 million), but the shareholders' equity ratio was 37.4%, compared with 40.7% in the previous term.

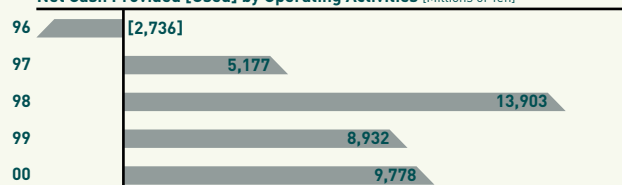
Net Income [Loss] per Share [Yen]



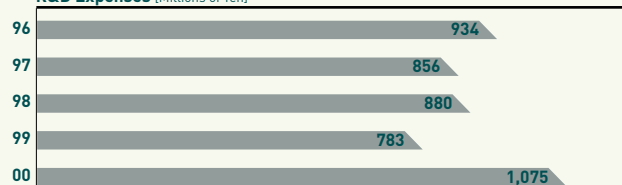
Sales by Business Segment in 2000 [%]



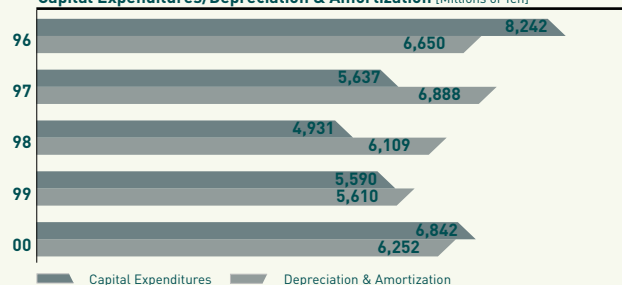
Net Cash Provided [Used] by Operating Activities [Millions of Yen]



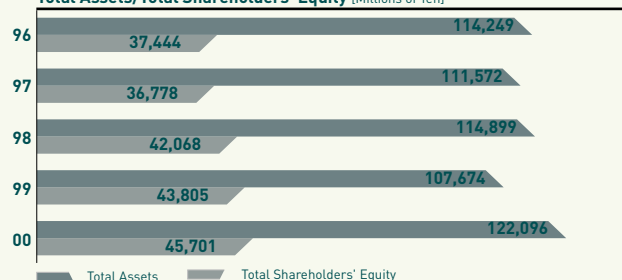
R&D Expenses [Millions of Yen]



Capital Expenditures/Depreciation & Amortization [Millions of Yen]



Total Assets/Total Shareholders' Equity [Millions of Yen]



CONSOLIDATED BALANCE SHEETS

Sankyo Seiki Mfg. Co., Ltd. and Consolidated Subsidiaries

March 31, 2000 and 1999	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	2000
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 22,095	¥ 20,451	\$ 208,154
Marketable securities (Notes 3 and 5)	2,087	1,218	19,662
Short-term investments	2,012	2,392	18,955
Notes and accounts receivable:			
Trade notes	4,564	5,955	42,992
Trade accounts	29,931	22,420	281,966
Unconsolidated subsidiaries and associated companies	245	3,188	2,307
Other (Note 9)	2,587	2,855	24,376
Allowance for doubtful receivables	(321)	(323)	(3,021)
Inventories (Note 4)	14,968	13,663	141,008
Deferred tax assets (Note 8)	374	18	3,522
Prepaid expenses and other current assets	726	399	6,836
Total current assets	79,268	72,236	746,757
Property, plant and equipment (Note 5):			
Land	6,730	4,801	63,401
Buildings and structures	23,114	20,329	217,752
Machinery and equipment	61,977	55,066	583,866
Construction in progress	412	149	3,878
Total	92,233	80,345	868,897
Accumulated depreciation	(61,107)	(53,877)	(575,666)
Net property, plant and equipment	31,126	26,468	293,231
Investments and other assets:			
Investments in securities (Notes 3 and 5)	3,471	2,487	32,704
Investments in unconsolidated subsidiaries and associated companies	1,198	3,085	11,285
Allowance for losses from investments in associated companies		(1,627)	
Foreign currency translation adjustments	2,871	2,597	27,045
Deferred tax assets (Note 8)	1,492	79	14,055
Other assets (Note 9)	2,670	2,349	25,149
Total investments and other assets	11,702	8,970	110,238
Total	¥122,096	¥107,674	\$1,150,226

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	2000
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings (Note 5)	¥ 20,028	¥ 17,452	\$ 188,679
Current portion of long-term debt (Note 5)	4,114	2,762	38,760
Notes and accounts payable:			
Trade notes	7,799	4,626	73,471
Trade accounts	20,225	18,488	190,528
Unconsolidated subsidiaries and associated companies	78	305	734
Other	3,501	3,737	32,985
Income taxes payable (Note 8)	940	554	8,852
Accrued expenses	3,127	3,018	29,462
Deferred tax liabilities (Note 8)	216	46	2,034
Other current liabilities	1,339	713	12,618
Total current liabilities	61,367	51,701	578,123
Long-term liabilities:			
Long-term debt, less current portion (Note 5)	6,610	6,730	62,271
Liability for retirement benefits (Note 6)	5,776	4,901	54,419
Deferred tax liabilities (Note 8)	52		488
Other	58		544
Total long-term liabilities	12,496	11,631	117,722
Minority interests	2,532	537	23,857
Commitments and contingent liabilities (Notes 11 and 13)			
Shareholders' equity (Notes 7 and 14):			
Common stock, ¥50 par value—authorized, 200,000,000 shares; issued and outstanding, 87,311,591 shares	16,575	16,575	156,148
Additional paid-in capital	18,602	18,602	175,239
Retained earnings	10,526	8,628	99,159
Total	45,703	43,805	430,546
Treasury stock—at cost	(2)		(22)
Total shareholders' equity	45,701	43,805	430,524
Total	¥122,096	¥107,674	\$1,150,226

CONSOLIDATED STATEMENTS OF INCOME

Sankyo Seiki Mfg. Co., Ltd. and Consolidated Subsidiaries

Years Ended March 31, 2000 and 1999	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	2000
Net sales (Note 9)	¥139,537	¥126,148	\$1,314,526
Cost of sales (Note 9)	119,089	110,264	1,121,894
Gross profit	20,448	15,884	192,632
Selling, general and administrative expenses (Note 10)	14,784	11,263	139,272
Operating income	5,664	4,621	53,360
Other income (expenses):			
Interest expense	(1,267)	(1,435)	(11,934)
Interest and dividend income	611	713	5,757
Foreign exchange loss	(611)	(175)	(5,755)
Gain (loss) on sales of marketable and investment securities	71	(54)	668
Loss on devaluation of marketable and investment securities	(90)	(155)	(852)
Loss on sale of investment in associated company	(71)		(672)
Additional retirement benefits paid to employees	(536)	(121)	(5,053)
Gain (loss) on sales of property, plant and equipment	(427)	167	(4,018)
Loss on disposals of property, plant and equipment	(627)	(528)	(5,910)
Equity in earnings (losses) of unconsolidated subsidiaries and associated companies	69	(90)	656
Other—net	(493)	385	(4,642)
Other expenses—net	(3,371)	(1,293)	(31,755)
Income before income taxes and minority interests	2,293	3,328	21,605
Income taxes (Note 8):			
Current	1,408	1,118	13,268
Deferred	(258)	53	(2,432)
Total	1,150	1,171	10,836
Minority interests in net income	(258)	(90)	(2,433)
Net income	¥ 885	¥ 2,067	\$ 8,336
		Yen	U.S. Dollars
Per share of common stock (Note 2.n):			
Net income	¥ 10.14	¥ 23.67	\$ 0.10
Cash dividends applicable to the year	4.00	2.50	0.04

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Sankyo Seiki Mfg. Co., Ltd. and Consolidated Subsidiaries

Years Ended March 31, 2000 and 1999	Shares of Common Stock (Thousands)	Millions of Yen			
		Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock
Balance, April 1, 1998	87,312	¥ 16,575	¥ 18,602	¥ 6,892	
Net income				2,067	
Cash dividends, ¥2.50 per share				(218)	
Bonuses to directors and corporate auditors				(1)	
Decrease resulting from changes in the scope of consolidation or adoption of the equity method				(112)	
Balance, March 31, 1999	87,312	16,575	18,602	8,628	
Adjustment of retained earnings for the adoption of deferred income tax accounting method				1,299	
Net income				885	
Cash dividends, ¥2.50 per share				(218)	
Bonuses to directors and corporate auditors				(1)	
Decrease resulting from changes in the scope of consolidation or adoption of the equity method				(67)	
Acquisition of treasury stock					¥ (2)
Balance, March 31, 2000	<u>87,312</u>	<u>¥ 16,575</u>	<u>¥ 18,602</u>	<u>¥10,526</u>	<u>¥ (2)</u>

	Thousands of U.S. Dollars (Note 1)			
	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock
Balance, March 31, 1999	\$156,148	\$175,239	\$81,280	
Adjustment of retained earnings for the adoption of deferred income tax accounting method			12,239	
Net income			8,336	
Cash dividends, \$0.02 per share			(2,056)	
Bonuses to directors and corporate auditors			(9)	
Decrease resulting from changes in the scope of consolidation or adoption of the equity method			(631)	
Acquisition of treasury stock				\$22
Balance, March 31, 2000	<u>\$156,148</u>	<u>\$175,239</u>	<u>\$99,159</u>	<u>\$22</u>

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Sankyo Seiki Mfg. Co., Ltd. and Consolidated Subsidiaries

Years Ended March 31, 2000 and 1999	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	2000
Operating activities:			
Income before income taxes and minority interests	¥ 2,293	¥ 3,328	\$ 21,605
Adjustments for:			
Income taxes—paid	(1,159)	(815)	(10,920)
Depreciation and amortization	6,252	5,610	58,898
Provision for doubtful receivables	(180)	(61)	(1,695)
Provision for retirement benefits—net	(183)	156	(1,728)
Gain on sales of marketable and investment securities	(71)	54	(668)
Loss on sales of associated companies	71		672
Loss on sales of property, plant and equipment	427	(167)	4,018
Loss on disposal of property, plant and equipment	627	528	5,910
Bonuses to directors and corporate auditors	(1)	(1)	(9)
Equity in losses (earnings) of unconsolidated subsidiaries and associated companies	(69)	90	(656)
Loss on devaluation of marketable and investment securities	90	155	852
Changes in assets and liabilities:			
Increase in trade receivables	(2,354)	(1,544)	(22,184)
Decrease in inventories	389	2,638	3,673
Increase (decrease) in trade payables	2,180	(819)	20,545
Other—net	1,466	(220)	13,813
Total adjustments	7,485	5,604	70,521
Net cash provided by operating activities	9,778	8,932	92,126
Investing activities:			
Proceeds from sale of property, plant and equipment	895	843	8,434
Purchases of property, plant and equipment	(7,166)	(4,628)	(67,513)
Proceeds from sales of marketable and investment securities	1,203	3,092	11,335
Purchases of marketable and investment securities	(1,014)	(3,178)	(9,560)
Proceeds from sales of consolidated subsidiaries and associated companies	348	2	3,279
Purchases of consolidated subsidiaries and associated companies	(18)	(799)	(178)
Addition to time deposits	(548)	(992)	(5,168)
Decrease (increase) in other assets	(99)	327	(927)
Net cash used in investing activities	(6,399)	(5,333)	(60,298)
Financing activities:			
Decrease in short-term bank loans—net	(356)	(1,476)	(3,346)
Proceeds from long-term debt	2,296	2,270	21,630
Repayments of long-term debt	(6,139)	(6,952)	(57,841)
Proceeds from issuance of commercial paper	1,000		9,421
Decrease in treasury stock	(5)		(42)
Cash dividends paid	(218)	(218)	(2,056)
Payment of cash dividends to minority interests	(61)	(17)	(579)
Net cash used in financing activities	(3,483)	(6,393)	(32,813)
Effect of exchange rate changes on cash and cash equivalents	(1,376)	(1,106)	(12,959)
Net decrease in cash and cash equivalents	(1,480)	(3,900)	(13,944)
Cash and cash equivalents of newly consolidated subsidiaries, beginning of year	3,124	483	29,435
Cash and cash equivalents, beginning of year	20,451	23,868	192,663
Cash and cash equivalents, end of year	¥22,095	¥20,451	\$208,154
Noncash financing activities:			
Assets increased by consolidation of subsidiaries previously unconsolidated	¥33,877	¥ 1,914	\$319,145
Liabilities increased by consolidation of subsidiaries previously unconsolidated	31,131	1,172	293,274
Additional cash flow information:			
Interest paid	1,216	1,455	11,457
Interest and dividend	631	721	5,947

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Sankyo Seiki Mfg. Co., Ltd. and Consolidated Subsidiaries

Years Ended March 31, 2000 and 1999

1. Basis of Presenting Consolidated Financial Statements

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

Effective April 1, 1999, consolidated statements of cash flows are required to be prepared under Japanese accounting standards, and consolidated statement of cash flows for the year ended March 31, 1999, therefore was restated in conformity with the new accounting standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. Certain reclassifications have been made in the 1999 consolidated financial statements to conform to the classifications used in 2000.

The consolidated financial statements are stated in Japanese yen, the reporting currency of the country in which Sankyo Seiki Mfg. Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥106.15 to \$1, the approximate rate of exchange at March 31, 2000. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of Significant Accounting Policies

a. Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries (together, the "Group"). The number of the consolidated subsidiaries increased from 14 in 1999 to 27 in 2000.

Effective April 1, 1999, the Group changed its consolidation scope of subsidiaries and associated companies from the application of the ownership concept to the control or influence concept in accordance with the new accounting standard for consolidation. Under the control or influence concept, those companies in which the Parent, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

The consolidated financial statements for the year ended March 31, 1999, are not retroactively adjusted. The change of retained earnings arising from the change in the consolidation scope is recognized as "Adjustment of retained earnings for newly consolidated subsidiaries" in the consolidated statements of shareholders' equity for the year ended March 31, 2000.

Investments in certain unconsolidated subsidiaries and associated companies are accounted for by the equity method. The number of the companies which are accounted for by the equity method decreased from 9 in 1999 to 4 in 2000 due to the inclusion of companies, accounted for by the equity method in the past, as a consolidated subsidiary in the accompanying consolidated financial statements.

Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. Effects from not adopting the equity method for foregoing companies are immaterial.

The excess of the cost of the Company's investments in consolidated subsidiaries and associated companies accounted for by the equity method, over its equity in the net assets at the respective dates of acquisition, is charged to income as incurred.

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

In preparing the statement of cash flows, newly consolidated subsidiaries are deemed to be acquired at the beginning of the current fiscal year, therefore beginning balances of the consolidated balance sheet contains the balances of such newly consolidated subsidiaries.

b. Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificate of deposits, commercial paper and mutual funds investing in bonds that represent short-term investments, all of which mature or become due within three months of the date of acquisition. The scope of cash and cash equivalents in 1999 was changed to conform with the presentation in 2000. The effect of the change was to increase cash and cash equivalents from ¥17,344 million to ¥20,451 million in 1999.

c. Marketable and Investment Securities

Listed equity securities included in marketable and investment securities are stated at the lower of cost or market, cost being determined by the average method. Other securities are stated at cost determined by the average method.

d. Inventories

Inventories held by the Company and domestic consolidated subsidiaries are valued at cost and those held by foreign consolidated subsidiaries are valued at the lower of cost or market, all cost of inventories is determined by the first-in, first-out method.

e. Property, Plant and Equipment

Property, plant and equipment are carried at cost. Significant renewals and additions are capitalized; maintenance and repairs, and minor renewals and improvements, are charged to income as incurred. Interest costs relating to construction of property, plant and equipment are not capitalized.

Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed by the declining-balance method while the straight-line method is applied to buildings acquired by the Company and its domestic consolidated subsidiaries on or after April 1, 1998 in accordance with the revised Corporate Tax Law in Japan. Those of foreign subsidiaries are principally computed by the straight-line method. The range of the estimated useful lives of the assets is principally as follows:

Buildings	15-60 years
Machinery and equipment	2-12 years

f. Allowance for Doubtful Receivables

The Company and its domestic subsidiaries have provided allowances for doubtful receivables principally at an estimated amount of probable doubtful accounts plus the maximum amount permitted to be charged to income under Japanese tax regulations. Foreign subsidiaries have provided allowances for doubtful receivables at an estimated amount of probable doubtful accounts.

g. Retirement Benefits and Pension Plans

The liability for retirement benefits for employees of the Company and its consolidated domestic and several foreign subsidiaries is calculated to state the liability at the amount that would be required if all employees voluntarily terminated their employment at each balance sheet date, less amounts covered by contributory pension plans, in which the Company and most of its consolidated domestic subsidiaries participate, which cover approximately 60% of the total liability for retirement benefits. The liability for retirement benefits for directors and corporate auditors is also established at the amount that would be required if all directors and corporate auditors retired at each balance sheet date.

h. Research and Development Costs

In accordance with a new accounting standard for research and development cost, which is in force from the accounting period beginning on or after April 1, 1999 costs attributable to development of software, designed for internal use, which had been charged to income as incurred, have been capitalized and amortized over their estimated useful lives (five years).

The effect of this change in accounting policy is immaterial.

i. Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

j. Income Taxes

Effective April 1, 1999, the Company and its consolidated domestic subsidiaries adopted the new accounting standard for interperiod allocation of income taxes based on the asset and liability method. The cumulative effect of the application of this new standard amounting to ¥1,299 million (\$12,239 thousand), which would have been recorded if the new standard had been applied in the prior year is included as an adjustment to retained earnings as of April 1, 1999. Such cumulative effect is calculated by applying the income tax rate stipulated by enacted tax laws as of April 1, 1999.

Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

The effect of this change in accounting policy is to increase net income and retained earnings as of March 31, 2000 by ¥267 million and ¥1,566 million, respectively, with the recognition of deferred tax assets of ¥1,771 million and deferred tax liabilities of ¥210 million.

k. Appropriations of Retained Earnings

Appropriations of retained earnings at each year end are reflected in the consolidated financial statements in the following year in which shareholders' approval to the proposed appropriations has been obtained.

l. Foreign Currency Transactions

Short-term receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates at each balance sheet date or, where forward exchange contracts are made, at such forward exchange rates. Long-term receivables and payables denominated in foreign currencies are translated into Japanese yen at historical exchange rates. In the case where there is significant fluctuation of currencies with possible exchange losses, long-term receivables or payables denominated in foreign currencies are translated at the current exchange rates as of each balance sheet date. The exchange losses arising from these translations are charged to income. Other exchange gains and losses are recognized in the fiscal periods in which they occur. Transactions denominated in foreign currencies are translated into Japanese yen at approximate exchange rates when such translations occur.

m. Translation of Financial Statements of Foreign Subsidiaries

The balance sheet accounts of foreign subsidiaries are translated into Japanese yen at the current exchange rates as of the balance sheet date except for shareholders' equity, which is translated at the historical rates. Differences arising from such translations are shown as "Foreign currency translation adjustments" in the accompanying consolidated balance sheets. Revenue and expense accounts of foreign subsidiaries are translated into yen at the annual average rate.

n. Per Share Information

The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each year. The average number of common shares used in the computation was 87,248 thousand shares for 2000 and 87,311 thousand shares for 1999.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years and those dividends are to be paid after the end of respective fiscal year.

3. Marketable and Investment Securities

Marketable and investment securities at March 31, 2000 and 1999, were comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Current:			
Marketable equity securities	¥1,484	¥1,462	\$13,975
Government and corporate bonds	332	111	3,132
Trust fund investments and other	271	316	2,555
Total	¥2,087	¥1,889	\$19,662
Non-current:			
Marketable equity securities	¥3,055	¥2,086	\$28,783
Government and corporate bonds	57	56	537
Total	¥3,112	¥2,142	\$29,320

Carrying amounts and aggregate market values of current and non-current marketable equity securities included in marketable securities and investment securities at March 31, 2000 and 1999, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Current:			
Carrying amount	¥2,087	¥1,889	\$19,662
Aggregate market value	4,807	2,440	45,287
Unrealized gain	¥2,720	¥ 551	\$25,625
Non-current:			
Carrying amount	¥3,112	¥2,142	\$29,320
Aggregate market value	5,440	5,584	51,248
Unrealized gain	¥2,328	¥3,442	\$21,928

The difference between the carrying amount mentioned above and the amounts shown in the accompanying consolidated balance sheets principally consists of commercial paper, bond investment trust and non-marketable securities for which there is no readily-available market from or, on which the market value thereof can be obtained or calculated.

4. Inventories

Inventories at March 31, 2000 and 1999, were comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Finished products	¥ 5,265	¥ 3,962	\$ 49,602
Work in process	4,300	3,601	40,510
Raw materials and supplies	5,403	6,100	50,895
Total	¥14,968	¥13,663	\$141,007

5. Short-Term Borrowings and Long-Term Debt

Short-term borrowings consisted of bank loans and commercial paper. The annual interest rates applicable to the short-term bank loans ranged from 1.38% to 8.00% and 1.38% to 6.11% at March 31, 2000 and 1999, respectively.

The amount of commercial paper at March 31, 2000 was ¥1,000 million (\$9,421 thousand).

Average rates applicable to commercial paper were 0.3% (no commercial paper was held in 1999 fiscal year).

Long-term debt at March 31, 2000 and 1999, was comprised of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
1.80% to 4.90% (1.88% to 4.90% in 1999) loans from banks and insurance companies, due serially to 2007	¥ 7,984	¥ 7,472	\$ 75,212
7.00% (5.69% to 9.50% in 1999) loans from banks, in foreign currencies, due serially to 2003	460	1,328	4,339
2.50% to 6.85% loans from government financing institutions, due serially to 2027	2,280	692	21,480
Total	10,724	9,492	101,031
Less current portion	(4,114)	(2,762)	(38,760)
Long-term debt, less current portion	¥ 6,610	¥ 6,730	\$ 62,271

The annual maturities of long-term debt for the years subsequent to March 31, 2000, are as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2001	¥ 4,114	\$ 38,760
2002	2,956	27,847
2003	1,674	15,766
2004	1,113	10,483
2005	253	2,385
Thereafter	614	5,790
Total	¥10,724	\$101,031

A summary of assets pledged as collateral for short-term borrowings and long-term debt at March 31, 2000, is as follows:

	Millions of Yen	Thousands of U.S. Dollars
Marketable and investment securities	¥ 3,383	\$ 31,872
Land	5,112	48,162
Buildings and structures (net book value)	6,685	62,976
Machinery and equipment (net book value)	2,791	26,292
Others	1,615	15,209
Total	¥19,586	\$184,511

As is customary in Japan, security must be provided if requested by a lending bank and such bank has the right to offset cash deposited with it against any debt or obligation that becomes due and, in the case of default or certain other specified events, against all debt payable to the bank.

6. Liability for Retirement Benefits and Pension Plans

The Company, its domestic subsidiaries and its several foreign subsidiaries have unfunded employees' retirement benefit plans covering substantially all of their employees. Under the plans, employees terminating their employment either voluntarily or upon reaching the mandatory retirement age are, in most circumstances, entitled to lump-sum severance payments based on their rate of pay at the time of termination, years of service and certain other factors. If the termination is involuntary, or caused by death, the employee is usually entitled to a greater payment than in the case of voluntary termination. In addition, the Company and most of its consolidated domestic subsidiaries have funded pension plans which cover substantially all of their employees. The prior service costs of the Company's funded pension plans as of March 31, 1999 (the most recent date of available information) was ¥3,051 million. As to the prior service costs of the consolidated domestic subsidiaries, it is not practical to disclose those amounts due to the diversity of entrance forms to the pension plans participated by the consolidated domestic subsidiaries.

The liabilities for retirement benefits at March 31, 2000 and 1999, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Employees	¥5,199	¥4,273	\$48,983
Directors and corporate auditors	577	628	5,436
Total	¥5,776	¥4,901	\$54,419

The payment and amount of the severance benefits for retired directors or corporate auditors are subject to approval by the shareholders.

Annual contributions to the funded plans charged to income and provision for retirement benefits under the unfunded plans for the years ended March 31, 2000 and 1999, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Contributions to the funded plans	¥ 937	¥ 702	\$ 8,824
Provision for retirement benefits under the unfunded plans	877	640	8,266
Total	¥1,814	¥1,342	\$17,090

7. Shareholders' Equity

The Japanese Commercial Code (the "Code") requires at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital.

The Code also requires companies to appropriate from retained earnings to a legal reserve an amount equal to at least 10% of all cash payments which are made as an appropriation of retained earnings until such reserve equals 25% of stated capital. The Company's reserve amount, which is included in retained earnings, totals ¥703 million (\$6,624 thousand) and ¥681 million as of March 31, 2000 and 1999, respectively, and is not available for dividends but may be used to reduce a deficit by resolution of the shareholders.

The Company may transfer portions of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Company may also transfer portions of retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Under the Code, the Company may issue new common shares to existing shareholders without consideration as a stock split pursuant to resolution of the Board of Directors. The Company may make such a stock split to the extent the aggregate par value of the shares outstanding after the stock split does not exceed the stated capital. However, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split shall not be less than ¥50.

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

Under the Code, the amount available for dividends is based on retained earnings as recorded on the Company's books. At March 31, 2000, retained earnings recorded on the Company's books were ¥6,987 million (\$65,817 thousand) which is available for future dividends subject to the approval of the shareholders and legal reserve requirements.

8. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rates of approximately 41% and 47% for the years ended March 31, 2000 and 1999, respectively. Foreign subsidiaries are subject to income taxes of the jurisdiction in which they operate.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2000, are as follows:

	March 31, 2000	
	Millions of Yen	Thousands of U.S. Dollars
Current:		
Deferred tax assets:		
Accrued bonuses	¥172	\$ 1,622
Unrealized profit incurred in intragroup transaction	108	1,018
Other	94	882
Total	¥374	\$ 3,522
Deferred tax liabilities:		
Reserve for research and development under the tax ordinance in the applicable foreign country	¥151	\$ 1,420
Other	65	613
Total	¥216	\$ 2,033

	March 31, 2000	
	Millions of Yen	Thousands of U.S. Dollars
Non-current:		
Deferred tax assets:		
Tax loss carryforwards	¥1,593	\$15,009
Pension and severance costs	1,231	11,599
Directors' retirement benefits	237	2,233
Other	12	110
Less valuation allowance	(1,581)	(14,897)
Total	¥1,492	\$14,054
Deferred tax liabilities:		
Undistributed earnings of foreign subsidiaries	¥ 38	\$ 359
Other	14	128
Total	¥ 52	\$ 487

A reconciliation between the normal effective statutory tax rate for the year ended March 31, 2000 and the actual effective tax rates reflected in the accompanying consolidated statement of income is as follows:

	Year Ended March 31, 2000
Normal effective statutory tax rate	41.3%
Expenses not deductible for income tax purposes	1.5
Income not taxable for income tax purposes	(0.7)
Per capita portion of inhabitants taxes	1.2
Foreign tax credit	(3.8)
Prior-period income taxes	9.0
Tax benefits not recognized on operating losses of subsidiaries	2.7
Other—net	(1.0)
Actual effective tax rate	50.2%

The normal effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 1999 differs from the actual effective tax rate, primarily due to the effect of permanently non-deductible expenses and temporary differences in the recognition of asset and liability items for tax and financial reporting purposes.

At March 31, 2000, certain consolidated subsidiaries have loss carryforwards, which can be offset against taxable income, if any, of such consolidated subsidiaries in the future, totaling approximately ¥3,898 million (\$36,727 thousand).

These tax loss carryforwards held by domestic subsidiaries, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2001	¥182	\$ 1,716
2002	2	24
2003	483	4,549
2004	563	5,306
2005	649	6,111
Total	¥1,879	\$17,706

The remaining balance of ¥2,019 million (\$19,021 thousand) held by foreign subsidiaries can be carried forward indefinitely provided that certain conditions are met.

9. Related Party/Employee Transactions

Related party transactions are not disclosed for the year ended March 31, 2000, because transactions with unconsolidated subsidiaries and associated companies became immaterial as a result of expansion of consolidation scope. While, those for the year ended March 31, 1999, were as follows:

	Millions of Yen
Sales	¥2,433
Purchases	2,949

Loans to employees at March 31, 2000 and 1999, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Current	¥ 37	¥ 42	\$ 352
Non-current	340	421	3,200
Total	¥377	¥463	\$3,552

The loans bear annual interest ranging from 2.50% to 3.50%.

10. Research and Development Costs

Research and development costs relating to new products and technologies were ¥1,075 million (\$10,132 thousand) and ¥783 million for the years ended March 31, 2000 and 1999, respectively.

11. Leases

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

Total rental expenses for the years ended March 31, 2000 and 1999, were ¥1,934 million (\$18,690 thousand) and ¥1,567 million, respectively, including ¥787 million (\$7,414 thousand) and ¥475 million of lease payments under finance leases.

On an "as if capitalized" basis, pro forma information of leased property such as acquisition cost, accumulated depreciation, lease payment obligations under finance lease, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee for the years ended March 31, 2000 and 1999, was as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	March 31, 2000			March 31, 2000		
	Machinery and Equipment	Furniture and Fixtures	Total	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥2,119	¥1,556	¥3,675	\$19,963	\$14,666	\$ 34,629
Accumulated depreciation	935	805	1,740	8,810	7,588	16,398
Net leased property	¥1,184	¥ 751	¥1,935	\$11,153	\$ 7,078	\$ 18,231
	Millions of Yen			Thousands of U.S. Dollars		
	March 31, 1999			March 31, 1999		
	Machinery and Equipment	Furniture and Fixtures	Total	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥ 931	¥1,201	¥2,132	\$ 8,810	\$ 7,588	\$ 16,398
Accumulated depreciation	455	626	1,081	4,010	2,700	6,710
Net leased property	¥ 476	¥ 575	¥1,051	\$ 4,010	\$ 2,700	\$ 6,710

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Due within one year	¥ 692	¥ 399	\$6,517
Due after one year	1,291	706	12,168
Total	¥1,983	¥1,105	\$18,685

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
Depreciation expense	¥716	¥415	\$6,746
Interest expense	69	59	647
Total	¥785	¥474	\$7,393

Depreciation expense and interest expense, which were not reflected in the accompanying consolidated statements of income, were computed by the straight-line method over the lease period.

12. DERIVATIVES

a. Utilization

The Company utilizes various derivative financial instruments ("derivatives") to mitigate the risk of fluctuating foreign currency exchange rates and interest rates. The derivatives utilized by the Company include foreign exchange forward contracts, currency option contracts, interest rate swaps and interest rate option contracts.

The Company enters into contracts with major financial institutions in order to avoid credit loss in the event of non-performance by counterparties to the contracts.

Exposure to market risk is managed through position limits, approvals and monitoring procedures. The operational reports prepared by the executive section with transaction report sent directly from financial institutions to the administrative section are regularly submitted to the Board of Directors for their analysis and monitoring of the current status of derivative activities.

For derivatives to hedge interest risk exposure, preapproval from the Board of Directors is required and basic policy and credit limits are established and approved by the Board of Directors.

b. Market Value of Contracts

The Company had the following derivatives contracts outstanding at March 31, 2000 and 1999:

	Millions of Yen			
	2000		1999	
	Contract or Notional Amount	Fair Value	Contract or Notional Amount	Fair Value
Non-listed:				
Currency option trading:				
Selling—call option U.S.\$	¥2,374	¥34	¥ 365	¥ 8
Buying—put option U.S.\$	2,360	84	363	13
Interest rate option trading:				
Cap—selling	1,000	18	1,000	21
Collar:				
Selling	500	12	500	13
Buying	500	6	500	8
Interest rate swaps trading (fixed rate payment, floating rate receipt)	500	(10)	500	(7)

	Thousands of U.S. Dollars	
	2000	
	Contract or Notional Amount	Fair Value
Non-listed:		
Currency option trading:		
Selling—call option U.S.\$	\$22,369	\$320
Buying—put option U.S.\$	22,230	794
Interest rate option trading:		
Cap—selling	9,421	165
Collar:		
Selling	4,710	113
Buying	4,710	61
Interest rate swaps trading (fixed rate payment, floating rate receipt)	4,710	(90)

Forward exchange contracts which are assigned to certain assets or liabilities denominated in foreign currency, shown by using that forward exchange rate in the consolidated balance sheets, are excluded from the above.

The contract or notional amounts of derivatives shown above do not represent the amounts of which those contracts could be exchanged to the counterparties and do not prescribe the index to credit or market risk sustained by the Company.

13. Contingent Liabilities

At March 31, 2000, the Group had the following contingent liabilities:

	Millions of Yen	Thousands of U.S. Dollars
Trade notes discounted with banks	¥1,102	\$10,383
Guarantees and items of a similar nature of:		
Unconsolidated subsidiaries and associated companies	18	171
Employees' housing loans	217	2,048
Other	1	11
Total	¥1,338	\$12,613

14. Subsequent Event

The following appropriations of retained earnings at March 31, 2000, were approved at the Company's shareholders meeting held on June 29, 2000:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥4 (\$0.04) per share	¥349	\$ 3,290
Transfer to legal reserve	35	329

15. Segment Information

Information on operations in different industry segments, foreign operations and sales to foreign customers of the Company and its consolidated subsidiaries for the years ended March 31, 2000 and 1999, were as follows:

(1) Operations in Different Industries

Year Ended March 31, 2000	Millions of Yen					
	Audiovisual and Home Appliance Equipment	Communications and Peripheral Computer Equipment	Industrial Machinery and Equipment	Others	Eliminations and Corporate	Consolidated
Sales to customers	¥54,118	¥59,495	¥18,574	¥7,350		¥139,537
Intersegment sales		604	1	1,757	¥(2,362)	
Total sales	54,118	60,099	18,575	9,107	(2,362)	139,537
Operating expenses	49,744	60,515	15,729	9,068	(1,183)	133,873
Operating income (loss)	¥ 4,374	¥ (416)	¥ 2,846	¥ 39	¥(1,179)	¥ 5,664
Assets	¥31,651	¥44,668	¥11,630	¥7,722	¥26,425	¥122,096
Depreciation	2,484	2,754	460	385	169	6,252
Capital expenditures	2,624	3,231	357	449	181	6,842

Year Ended March 31, 2000	Thousands of U.S. Dollars					
	Audiovisual and Home Appliance Equipment	Communications and Peripheral Computer Equipment	Industrial Machinery and Equipment	Others	Eliminations and Corporate	Consolidated
Sales to customers	\$509,826	\$560,478	\$174,972	\$69,250		\$1,314,526
Intersegment sales		5,688	10	16,556	\$(22,254)	
Total sales	509,826	566,166	174,982	85,806	(22,254)	1,314,526
Operating expenses	468,619	570,087	148,178	85,427	(11,145)	1,261,166
Operating income (loss)	\$ 41,207	\$ (3,921)	\$ 26,804	\$ 379	\$(11,109)	\$ 53,360
Assets	\$298,170	\$420,806	\$109,561	\$72,744	\$248,945	\$1,150,226
Depreciation	23,409	25,948	4,330	3,626	1,585	58,898
Capital expenditures	24,715	30,433	3,367	4,226	1,709	64,450

Year Ended March 31, 1999	Millions of Yen					
	Audiovisual and Home Appliance Equipment	Communications and Peripheral Computer Equipment	Industrial Machinery and Equipment	Others	Eliminations and Corporate	Consolidated
Sales to customers	¥52,341	¥51,707	¥17,148	¥4,952		¥126,148
Operating expenses	49,595	50,531	15,445	5,173	¥ 783	121,527
Operating income (loss)	¥ 2,746	¥ 1,176	¥ 1,703	¥ (221)	¥ (783)	¥ 4,621
Assets	¥30,858	¥35,491	¥10,007	¥5,453	¥25,865	¥107,674
Depreciation	2,564	2,014	550	342	140	5,610
Capital expenditures	2,543	2,433	247	96	271	5,590

Notes: The audiovisual and home appliance equipment segment consists of micromotors, magnetic heads, timers and motor units.

The communications and peripheral computer equipment segment contains micromotors, optical pick-up units and stepping motors.

The industrial machinery and equipment segment consists of magnetic card readers and machining units.

The others segment contains musical movements, etc.

The unallocated operating expenses is principally composed of general corporate expenses incurred by the Administration Headquarters of the Company.

(2) Foreign Operations

The foreign operations of the Company and its consolidated subsidiaries for the years ended March 31, 2000 and 1999, were summarized as follows:

Year Ended March 31, 2000	Millions of Yen				
	Japan	Asia	North America	Eliminations and Corporate	Consolidated
Sales:					
Outside customers	¥ 86,624	¥ 50,555	¥ 2,358		¥ 139,537
Interarea	31,276	20,579	399	¥ (52,254)	
Total sales	117,900	71,134	2,757	(52,254)	139,537
Operating expenses	114,070	70,537	2,640	(53,374)	133,873
Operating income	¥ 3,830	¥ 597	¥ 117	¥ 1,120	¥ 5,664
Assets	¥ 69,960	¥ 38,834	¥ 1,732	¥ 11,570	¥ 122,096

Year Ended March 31, 2000	Thousands of U.S. Dollars				
	Japan	Asia	North America	Eliminations and Corporate	Consolidated
Sales:					
Outside customers	\$ 816,053	\$ 476,257	\$ 22,216		\$ 1,314,526
Interarea	294,637	193,870	3,763	\$(492,270)	
Total sales	1,110,690	670,127	25,979	(492,270)	1,314,526
Operating expenses	1,074,615	664,505	24,875	(502,829)	1,261,166
Operating income	\$ 36,075	\$ 5,622	\$ 1,104	\$ 10,559	\$ 53,360
Assets	\$ 659,072	\$ 365,841	\$ 16,319	\$ 108,993	\$ 1,150,225

Year Ended March 31, 1999	Millions of Yen				
	Japan	Asia	North America	Eliminations and Corporate	Consolidated
Sales:					
Outside customers	¥ 74,606	¥ 48,671	¥ 2,871		¥ 126,148
Interarea	30,998	20,623	399	¥ (52,020)	
Total sales	105,604	69,294	3,270	(52,020)	126,148
Operating expenses	102,423	67,176	3,320	(51,392)	121,527
Operating income (loss)	¥ 3,181	¥ 2,118	¥ (50)	¥ (628)	¥ 4,621
Assets	¥ 62,466	¥ 34,671	¥ 1,361	¥ 9,176	¥ 107,674

Notes: Asia area is composed of China, Hong Kong, Malaysia, Singapore, Thailand, Korea.
North America area represents the United States of America.

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2000 and 1999, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2000	1999	2000
North America	¥ 3,337	¥ 1,822	\$ 31,442
Europe	5,190	5,728	48,893
Asia	66,785	64,511	629,155
Others	401	528	3,776
Total	¥75,713	¥72,589	\$713,266

Notes: North America area consists of the United States of America and Canada.
Europe area contains the United Kingdom, France, Germany, Finland and Italy.
Asia area is composed of China, Hong Kong, Malaysia, Singapore, Thailand, Korea and Indonesia.
Sales to foreign customers represent the aggregate sum of exports of the Company and its domestic consolidated subsidiaries and the aggregate sum of sales of foreign consolidated subsidiaries, excluding internal transactions between the Company and its consolidated subsidiaries and exports from consolidated subsidiaries to Japan.

INDEPENDENT AUDITORS' REPORT

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**Deloitte
Touche
Tohmatsu**

To the Board of Directors of
Sankyo Seiki Mfg. Co., Ltd.:

We have examined the consolidated balance sheets of Sankyo Seiki Mfg. Co., Ltd. and consolidated subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Sankyo Seiki Mfg. Co., Ltd. and consolidated subsidiaries as of March 31, 2000 and 1999, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 2, effective April 1, 1999, the consolidated financial statements have been prepared in accordance with new accounting standards for consolidated financial statements, research and development costs and interperiod allocation of income taxes.

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

Deloitte Touche Tohmatsu

June 29, 2000

