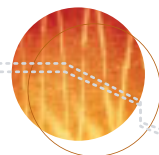


KBK continues to move ahead

Annual Report

2002




KBK

As a specialized trading company focused on engineering, Kyokuto Boeki Kaisha, Ltd. (KBK), has contributed to the growth of Japanese industry since the Company's founding in 1947 through the deployment of cutting-edge technologies and mechanical equipment. Today, KBK is active in a range of fields stretching from the newest technologies to lifestyle-related areas, serving as the interface that links the diverse needs of its customers with technological information that provides solutions.

Aiming to provide unique integration services under its motto, "Supplying technologies for corporate growth to companies that need them," KBK continues to move ahead.

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Growth Businesses



2002

	Millions of yen					Thousands of U.S. dollars (Note)
	1998	1999	2000	2001	2002	2002
For the year:						
Net sales	¥178,985	¥200,556	¥174,910	¥163,686	¥121,686	\$913,216
Net income	451	436	451	922	82	615
At year-end:						
Total assets	54,859	68,971	72,464	61,712	51,692	387,932
Total shareholders' equity	16,053	16,252	17,790	19,653	18,955	142,251
	Yen					U.S. dollars (Note)
Per share:						
Net income, primary	¥16.84	¥16.28	¥16.64	¥33.05	¥2.93	\$0.022
Dividends, historical	7.50	7.50	10.00	7.50	7.50	0.056

Note: U.S. dollar amounts above and elsewhere in the report represent translations of Japanese yen, for convenience only, at the rate of ¥133.25=US\$1, the exchange rate prevailing at March 31, 2002.

2002



Sustainable Core Businesses



Challenging Businesses





Hisago Miyoshi
Chairman and Chief Executive Officer

Performance and Results

In fiscal 2002, ended March 31, 2002, amid sluggish global demand for IT products and a sharp drop in domestic production, the Japanese economy continued to deteriorate, with exports decreasing; corporate earnings and operating rates falling; capital investment, especially in the manufacturing sector, dwindling; and consumer spending remaining sluggish.

Against this backdrop, in an effort to improve its business performance, Kyokuto Boeki Kaisha, Ltd. (KBK), raised the efficiency of its work practices, introduced cost-cutting measures, worked to expand sales of existing products, and cultivated new products and technologies. Nevertheless, despite recording steady sales of food processing and offshore drilling equipment, sales of heavy electrical equipment, electronic components, instrumentation and control equipment, aircraft-related equipment, equipment for public facilities, equipment for manufacturing synthetic composite materials, and construction materials all declined during the term, reflecting stagnation in the industries using these products.

Due to these factors, consolidated net sales decreased 25.7% compared with the previous term, to ¥121,686 million (US\$913.2 million).

Income Statement

Gross profit was ¥8,671 million (US\$65.1 million), down 23.7% from the previous fiscal year as a result of the decline in net sales, and operating income was down 94.3%, to ¥126 million (US\$0.9 million). Income before income taxes decreased 78.3%, to ¥490 million (US\$3.7 million) though extraordinary loss was small. Net income decreased 91.1%, to ¥82 million (US\$0.6 million).

Fund Procurement and Capital Investment

There are no important items to report regarding fund procurement and capital investment during the term under review.

Tasks for the Future

With manufacturers carrying out inventory adjustments for IT products on a global scale, the outlook for the U.S. economy remains uncertain, although a recovery, driven by increased consumer spending and manufacturing output, is expected.

In Europe, there are signs of recovery in the German economy, which has been hindered by stagnation in the manufacturing sector. In the United Kingdom, the economy continues to expand, fueled by strong consumer spending. In Asia, although there are signs of a rise in demand for IT products, the pace of economic recovery is expected to be slow.

In Japan, the mining and manufacturing industries, reflecting inventory adjustments and favorable export conditions, are expected to accelerate manufacturing output. However, downward pressure on corporate earnings will restrain capital investment, while consumer spending is likely to remain sluggish amid falling personal incomes and rising unemployment. Moreover, taking into account the bad debt problem and depressed stock prices, the outlook for the Japanese economy remains grim.

Determined to thrive in the face of fierce competition, KBK will selectively allocate resources to improve earnings and strengthen its financial system, with a focus on improving cash flows. In addition, we plan to make more efficient and effective use of our human resources. To this end, we will redouble our efforts in such promising fields as telecommunications, security, the environment, and energy; cultivate products and technologies tailored to customer needs; build closer client relationships to strengthen our commercial rights; and make every effort to enhance our business performance.

We hope that our shareholders will continue to support us in our business endeavors.

June 2002

Hisago Miyoshi
Chairman and Chief Executive Officer

Motoo Imakita
President and Chief Operating Officer



Motoo Imakita
President and Chief Operating Officer

A handwritten signature in black ink, appearing to read 'Motoo Imakita', written in a cursive style.

Business Overview

Electrical and Energy-Related Division

During the term under review, capital investment declined substantially in industries related to electrical power and iron and steel production, putting downward pressure on sales of heavy electrical equipment and control equipment for thermal power stations. Meanwhile, sales of resource development and off-shore drilling equipment increased.

Due to these factors, divisional sales declined 22.5% compared with the previous term, to ¥50,401 million (US\$378 million).

Electronics • Aerospace Division

Sales of electronic components for use in fiber-optic communications were sluggish, hampered by a sharp drop in global demand for IT-related products, particularly in the United States. Sales of lighting parts for U.S. carmakers declined, reflecting lackluster consumer spending in U.S. markets.

In aerospace-related equipment, sales of peripheral airframe equipment fell, reflecting a precipitous decline in the performance

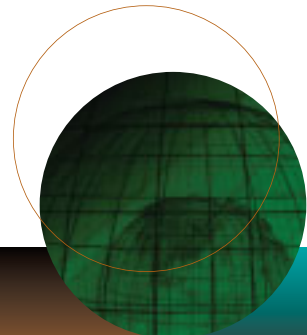
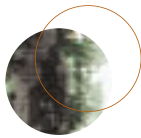
of private-sector aerospace companies, which are struggling under the effects of stagnation in the U.S. economy and the terrorist attacks that occurred in the United States in September of the term under review. In wireless communications equipment, sales in the private sector declined while those in the government sector increased slightly.

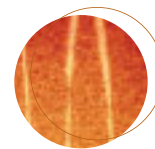
Due to these factors, divisional sales decreased 37.5% compared with the previous year, to ¥30,336 million (US\$228 million).

General Industrial-Related Division

Although KBK recorded an increase in sales of food processing equipment, sales of environmental equipment for use in public facilities declined, and demand was sluggish for CD-manufacturing equipment used by manufacturers in Taiwan. Furthermore, sales of resins, paints, and other synthetic composites decreased, as did those of tunnel segments for sewage systems, due to protracted stagnation in the industry.

Due to these factors, divisional sales decreased 18.4% compared with the previous year, to ¥40,949 million (US\$307 million).





Sales, Expenses, and Income

Amid sluggish global demand for IT products and a sharp drop in domestic production, the Japanese economy continued to deteriorate during the fiscal year under review. KBK's consolidated net sales fell ¥42,000 million, or 25.7% year on year, to ¥121,686 million (US\$913 million).

The cost of sales dropped 25.8%, to ¥113,015 million (US\$848 million), and selling, general and administrative (SG&A) expenses fell ¥602 million, or 6.6%, to ¥8,545 million (US\$64 million). As a result, operating income decreased ¥2,088 million, or 94.3%, to ¥126 million (US\$0.9 million), and the operating income to net sales ratio declined 1.3 percentage points, to 0.1%. Other income, net, decreased to ¥375 million (US\$3 million), compared with ¥400 million in the previous fiscal year, principally because of an increase in evaluation loss on marketable securities and investments in securities.

Net income decreased ¥840 million, or 91.1% year on year, to ¥82 million (US\$0.6 million). Net income per share decreased from ¥33.05 to ¥2.93 (US\$0.022), and return on equity fell from 4.9% to 0.4%.

Financial Position

Total assets at March 31, 2002, stood at ¥51,692 million (US\$388 million), down ¥10,020 million, or 16.2%, from the previous fiscal year-end. The main reasons for the decrease were a ¥6,032 million drop in notes and accounts receivable trade, a ¥765 million drop in investments in securities, and a ¥2,680 million drop in marketable securities.

Total liabilities decreased ¥9,322 million, or 22.2%, to ¥32,737 million (US\$246 million).

A ¥7,629 million decrease in notes and accounts payable was the chief contributing factor to this change. The current ratio increased to 141.5%. Total shareholders' equity declined

¥698 million, or 3.6%, to ¥18,955 million (US\$142 million), reflecting a ¥162 million decrease in retained earnings and a ¥538 million decrease in net unrealized gains on securities. As a result, the shareholders' equity ratio rose 4.9 percentage points, to 36.7%, and the shareholders' equity per share decreased from ¥704.4 to ¥679.5 (US\$5.10).

Cash Flows

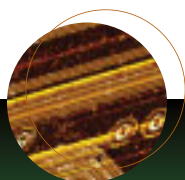
Net cash used in operating activities totaled ¥2,767 million (US\$21 million).

Income before income taxes, after adjustments for gain on sale of securities and noncash expenses, totaled ¥913 million (US\$7 million). However, changes in operating assets and liabilities, reflected as a ¥6,268 million (US\$47 million) net decrease in accounts receivable and a ¥7,717 million (US\$58 million) net decrease in accounts payable, resulted in a cash outflow of ¥1,854 million (US\$14 million).

Net cash provided by investing activities totaled ¥2,440 million (US\$18 million). Payment for acquisition of and proceeds from sales of marketable securities and investment securities produced a cash inflow of ¥2,810 million (US\$21 million), and an increase in time deposits and acquisition of property and equipment as well as net decreases in short- and long-term loans and others led to a ¥370 million (US\$3 million) cash outflow.

Net cash used in financing activities was ¥63 million (US\$0.5 million), comprising a ¥148 million (US\$1 million) net increase in short-term bank loans, a ¥2 million (US\$0.02 million) repayment of long-term debt, and cash dividends paid to the Company's shareholders of ¥209 million (US\$2 million).

As a result of these activities and the effect of exchange rate changes on cash and cash equivalents, cash and cash equivalents at end of the year totaled ¥2,222 million (US\$17 million), down 14.8% from the previous fiscal year-end.



Kyokuto Boeki Kaisha, Ltd. and Its Consolidated Subsidiaries
March 31, 2001 and 2002

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 3)
	2001	2002	2002
Current assets:			
Cash	¥ 2,568	¥ 2,162	\$ 16,225
Time deposits	80	161	1,208
Marketable securities (Note 4)	2,953	273	2,049
Notes and accounts receivable:			
Trade	41,749	35,717	268,045
Unconsolidated subsidiaries and affiliates	866	674	5,058
	42,615	36,391	273,103
Less: Allowance for doubtful accounts	(99)	(36)	(270)
	42,516	36,355	272,833
Inventories	2,937	2,371	17,794
Deferred income taxes (Note 6)	222	127	953
Other current assets	1,415	1,447	10,859
Total current assets	52,691	42,896	321,921
Property and equipment, at cost:			
Buildings	1,493	1,511	11,339
Equipment	949	896	6,724
	2,442	2,407	18,063
Less: Accumulated depreciation	(1,520)	(1,576)	(11,827)
	922	831	6,237
Land	469	475	3,565
Total property and equipment	1,391	1,306	9,801
Investments and other assets:			
Investments in securities (Note 4)	5,569	4,804	36,053
Investments in unconsolidated subsidiaries and affiliates	93	45	338
Deferred income taxes (Note 6)	—	350	2,627
Other assets:	2,172	2,499	18,754
Less: Allowance for doubtful accounts	(204)	(208)	(1,561)
Total investments and other assets	7,630	7,490	56,210
Total assets	¥61,712	¥51,692	\$387,932

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 3)
	2001	2002	2002
Current liabilities:			
Short-term debt (Note 5)	¥ 1,178	¥ 1,351	\$ 10,139
Notes and accounts payable:			
Trade	33,181	24,175	181,426
Unconsolidated subsidiaries and affiliates	2,021	3,398	25,501
	35,202	27,573	206,927
Accrued income taxes (Note 6)	750	50	375
Other current liabilities	2,324	1,341	10,064
Total current liabilities	39,454	30,315	227,505
Long-term liabilities:			
Long-term debt (Note 5)	11	9	67
Deferred income taxes (Note 6)	4	—	—
Reserve for employees' retirement benefits (Note 7)	1,996	1,866	14,004
Reserve for officers' retirement benefits	594	547	4,105
Total long-term liabilities	2,605	2,422	18,176
Total liabilities	42,059	32,737	245,681
Contingent liabilities (Note 9)			
Shareholders' equity (Note 10):			
Common stock:			
Authorized: 52,800,000 shares			
Issued: 27,899,592 shares at March 31, 2001 and 2002	5,030	5,030	37,748
Additional paid-in capital	4,630	4,630	34,747
Retained earnings	8,723	8,561	64,248
Net unrealized gains on securities	1,333	795	5,966
Foreign currency translation adjustments	(63)	(60)	(450)
Treasury stock	(0)	(1)	(8)
Total shareholders' equity	19,653	18,955	142,251
	¥61,712	¥51,692	\$387,932

Kyokuto Boeki Kaisha, Ltd. and Its Consolidated Subsidiaries
For the years ended March 31, 2000, 2001 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2000	2001	2002	2002
Net sales (Note 11)	¥174,910	¥163,686	¥121,686	\$913,216
Cost of sales (Note 11)	162,350	152,325	113,015	848,143
Gross profit	12,560	11,361	8,671	65,073
Selling, general and administrative expenses	9,712	9,147	8,545	64,128
Operating income	2,848	2,214	126	945
Other income (expenses):				
Interest and dividend income	107	115	72	540
Interest expense	(30)	(25)	(9)	(67)
Gain on sale of marketable securities and investments in affiliates	187	432	453	3,400
Evaluation loss on marketable securities and investments in securities	(64)	(65)	(164)	(1,231)
Equity in loss of affiliates	(207)	(115)	(49)	(368)
Other, net	16	58	72	540
	9	400	375	2,814
Extraordinary loss:				
Loss on write-down of golf club memberships	(147)	(33)	(11)	(82)
Amortization of past service costs of the tax-qualified pension plan	(410)	—	—	—
Additional provision for reserve for employees' retirement benefits	(1,044)	—	—	—
Additional provision for reserve for officers' retirement benefits	—	(266)	—	—
Amortization of transition amount related to the employees' retirement benefits	—	(62)	—	—
	(1,601)	(361)	(11)	(82)
Income before income taxes	1,256	2,253	490	3,677
Income taxes (Note 6):				
Current	1,555	1,504	279	2,094
Deferred	(750)	(173)	129	968
	805	1,331	408	3,062
Net income	¥ 451	¥ 922	¥ 82	\$ 615
		Yen		U.S. dollars (Note 3)
Per share:				
Net income, primary	¥16.64	¥33.05	¥2.93	\$0.022
Net income, fully diluted	15.45	31.90	—	—
Dividends, historical	10.00	7.50	7.50	0.056
Weighted average number of shares of common stock (in thousands)	27,098	27,899	27,897	

The accompanying notes are an integral part of these statements.

Kyokuto Boeki Kaisha, Ltd. and Its Consolidated Subsidiaries
For the years ended March 31, 2000, 2001 and 2002

	Number of shares of common stock (thousands)	Millions of yen					
		Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock, at cost
Balance as at March 31, 1999	26,781	¥4,578	¥4,180	¥7,494	¥ —	¥ —	¥(0)
Cash dividends	—	—	—	(201)	—	—	—
Conversion of convertible bonds	1,118	452	450	—	—	—	—
Directors' and corporate auditors' bonuses	—	—	—	(37)	—	—	—
Sales/purchases of treasury stocks, net	—	—	—	—	—	—	(0)
Cumulative effect of the adoption of deferred tax accounting	—	—	—	252	—	—	—
Cumulative effect of the change in the scope of equity companies	—	—	—	171	—	—	—
Net income for the year ended March 31, 2000	—	—	—	451	—	—	—
Balance as at March 31, 2000	27,899	5,030	4,630	8,130	—	—	(0)
Cash dividends	—	—	—	(279)	—	—	—
Directors' and corporate auditors' bonuses	—	—	—	(35)	—	—	—
Sales/purchases of treasury stocks, net	—	—	—	—	—	—	(0)
Cumulative effect of the change in the scope of equity companies	—	—	—	(15)	—	—	—
Net income for the year ended March 31, 2001	—	—	—	922	—	—	—
Net unrealized gain on securities, net of income taxes	—	—	—	—	1,333	—	—
Foreign currency translation adjustments	—	—	—	—	—	(63)	—
Balance as at March 31, 2001	27,899	5,030	4,630	8,723	1,333	(63)	(0)
Cash dividends	—	—	—	(209)	—	—	—
Directors' and corporate auditors' bonuses	—	—	—	(35)	—	—	—
Sales/purchases of treasury stocks, net	—	—	—	—	—	—	—
Cumulative effect of the change in the scope of equity companies	—	—	—	—	—	—	—
Net income for the year ended March 31, 2002	—	—	—	82	—	—	—
Net unrealized loss on securities, net of income taxes	—	—	—	—	(538)	—	—
Foreign currency translation adjustments	—	—	—	—	—	3	(1)
Balance as at March 31, 2002	27,899	¥5,030	¥4,630	¥8,561	¥ 795	¥(60)	¥(1)

	Thousands of U.S. dollars (Note 3)					
	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock, at cost
Balance as at March 31, 2001	\$37,748	\$34,747	\$65,463	\$10,004	\$(473)	\$(0)
Cash dividends	—	—	(1,568)	—	—	—
Directors' and corporate auditors' bonuses	—	—	(262)	—	—	—
Sales/purchases of treasury stocks, net	—	—	—	—	—	—
Cumulative effect of the change in the scope of equity companies	—	—	—	—	—	—
Net income for the year ended March 31, 2002	—	—	615	—	—	—
Net unrealized loss on securities, net of income taxes	—	—	—	(4,038)	—	—
Foreign currency translation adjustments	—	—	—	—	23	(8)
Balance as at March 31, 2002	\$37,748	\$34,747	\$64,248	\$ 5,966	\$(450)	\$(8)

The accompanying notes are an integral part of these statements.

Kyokuto Boeki Kaisha, Ltd. and Its Consolidated Subsidiaries
For the years ended March 31, 2000, 2001 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 3)
	2000	2001	2002	2002
Cash flows from operating activities:				
Income before income taxes	¥1,256	¥ 2,253	¥ 490	\$ 3,677
Adjustments for:				
Depreciation and amortization	180	156	157	1,178
Equity in loss of affiliates	215	115	49	368
Loss on write-down of securities	60	65	122	916
Loss on sales and disposals of property and equipment	30	19	7	53
Loss on write-down of golf club memberships	147	33	11	82
Loss on redemption of securities	17	—	—	—
Gain on redemption of securities	(1)	—	—	—
Gain on sale of securities	(187)	(432)	(453)	(3,400)
Net (increase) decrease in accounts receivable	(3,405)	14,152	6,268	47,040
Net (increase) decrease in inventories	61	(694)	585	4,390
Net increase (decrease) in accounts payable	1,912	(11,983)	(7,717)	(57,913)
Net decrease in other current liabilities	—	—	(822)	(6,169)
Others	(79)	9	(109)	(818)
Net increase (decrease) in reserve for retirement benefits	1,049	537	(177)	(1,328)
Increase (decrease) in provision for allowance for doubtful accounts	19	(150)	(59)	(443)
Interest and dividend income	(107)	(101)	(72)	(540)
Interest expense	30	25	9	67
Subtotal	1,197	4,004	(1,711)	(12,840)
Interest and dividend income received	108	130	63	473
Interest expense paid	(30)	(25)	(9)	(68)
Income taxes paid	(943)	(1,822)	(1,110)	(8,330)
Net cash provided by (used in) operating activities	332	2,287	(2,767)	(20,765)
Cash flows from investing activities:				
Increase in time deposits	(55)	(55)	(101)	(758)
Decrease in time deposits	40	55	43	323
Payment for acquisition of marketable securities	(6,883)	(6,590)	(6,500)	(48,780)
Proceeds from sales of marketable securities	6,608	5,336	9,140	68,593
Payment for acquisition of investment securities	—	(63)	(671)	(5,036)
Proceeds from sales of investment securities	—	1,518	841	6,311
Acquisition of property and equipment	(62)	(104)	(273)	(2,049)
Net decrease in short-term loans	8	10	63	473
Net decrease (increase) in long-term loans	(20)	28	30	225
Others	6	(167)	(132)	(991)
Net cash (used in) provided by investing activities	(358)	(32)	2,440	18,311
Cash flows from financing activities:				
Net increase (decrease) in short-term bank loans	(144)	231	148	1,110
Payment for redemption of convertible bonds due within one year	—	(1,041)	—	—
Repayment of long-term debt	(8)	(4)	(2)	(15)
Cash dividends paid to the Company's shareholders	(202)	(278)	(209)	(1,568)
Net cash used in financing activities	(354)	(1,092)	(63)	(473)
Effect of exchange rate changes on cash and cash equivalents	(25)	13	4	30
Net change in cash and cash equivalents	(406)	1,176	(386)	(2,897)
Cash and cash equivalents at beginning of the year	1,838	1,432	2,608	19,572
Cash and cash equivalents at end of the year	¥1,432	¥ 2,608	¥2,222	\$16,675

The accompanying notes are an integral part of these statements.

Kyokuto Boeki Kaisha, Ltd. and Its Consolidated Subsidiaries

1. Basis of Presenting Consolidated Financial Statements

Accounting Principles

The accompanying consolidated financial statements have been prepared from accounts and records maintained by Kyokuto Boeki Kaisha, Ltd. (the “Company”) and its consolidated subsidiaries in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law, 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 accompanying consolidated financial statements are a translation of those filed with the Ministry of Finance (the “MOF”) in Japan, and incorporate certain modifications to enhance the understanding of readers outside Japan. In addition, the notes to the consolidated financial statements include certain financial information that is not required under the disclosure regulations in Japan, but is presented herein as additional information.

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

2. Summary of Significant Accounting Policies

(1) Scope of Consolidation

The consolidated financial statements include the accounts of the Company and, with minor exceptions, all its subsidiaries.

The subsidiaries which have been consolidated with the Company for the years ended March 31, 2000, 2001 and 2002 are listed below:

	Equity ownership percentage
Nippon System Industries Corporation	100.0%
KBK Inc. (New York)	100.0%

One of the consolidated subsidiaries ends its fiscal year on January 31, and its accounts then ended have been used for consolidation after adjusting significant intercompany transactions between February 1 and March 31. All significant intercompany balances, transactions and unrealized profit included in assets have been eliminated in consolidation.

(2) Investments in Subsidiaries and Affiliates

Investments in affiliated companies, with minor exceptions, are accounted for by the equity method.

Consolidated net income includes the Company’s equity in the net income of each affiliate, after the elimination of unrealized intercompany profit.

(3) Foreign Currency Translation

Until the year ended March 31, 2000, the foreign currency financial statements of overseas subsidiaries and affiliates were translated into yen using the current exchange rates prevailing at the balance sheet date, except for the beginning balances of retained earnings, common stock, and additional paid-in capital accounts, which were translated at the historical rates.

The resultant translation differences were accounted for as adjustments in foreign currency statement translation in assets or liabilities.

Effective from the year ended March 31, 2001, the Company and its subsidiaries adopted the new Japanese accounting standard for foreign currency translation. Under the new standard, assets and liabilities of the foreign subsidiaries and affiliates are translated into Japanese yen at exchange rates prevailing at the balance sheet date. Shareholders’ equity at the beginning of the year is translated into Japanese yen at the historical rates. Profit and loss accounts for the year are translated into Japanese yen using the average exchange rate during the year or, alternatively, using the exchange rates prevailing at the balance sheet date. Differences in yen amounts arising from the use of different rates are presented as foreign currency translation adjustments in the shareholders’ equity.

(4) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits able to be withdrawn on demand, and time deposits with original maturities of three months or less.

Cash and cash equivalents at March 31, 2001 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Cash and time deposits	¥2,648	¥2,323	\$17,433
Time deposits with original maturities of more than three months	(40)	(101)	(758)
	¥2,608	¥2,222	\$16,675

(5) Inventories

Inventories are stated at cost, determined by the average cost method or the specific cost method. Inventories of a foreign subsidiary are stated at the lower of cost or market, cost being determined by the first-in, first-out method.

(6) Financial Instruments

Effective from the year ended March 31, 2001, the Company and its subsidiaries adopted the new Japanese accounting standard for financial instruments, which is effective for periods beginning on or after April 1, 2000.

As a result of the adoption of the new standard, other income and income before income taxes for the year ended March 31, 2001 have decreased by ¥21 million, as compared with the amount which would have been reported if the previous standard had been applied consistently.

(a) Derivatives

Under the new standard, derivatives are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise, except for derivatives that are designated as "hedging instruments" (see (c) Hedge accounting).

(b) Securities

Securities held by the Company and its subsidiaries are, under the new standard, classified into two categories:

1. The investments of the Company in equity securities issued by unconsolidated subsidiaries and affiliates are accounted for by the equity method. Occasionally, investments in certain unconsolidated subsidiaries and affiliates are stated at cost because the effect of application of the equity method would be immaterial.
2. Available-for-sale securities ("Other securities") for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate item in the shareholders' equity at a net-of-tax amount.

Available-for-sale securities for which market quotations are unavailable are stated at cost, except as stated in the paragraph below.

In cases where the fair value of equity securities issued by unconsolidated subsidiaries and affiliates or other securities has declined significantly and such impairment of the value is not deemed temporary, those securities are written down to the fair value and the resulting losses are included in the net income for the period.

(c) Hedge accounting

Gains or losses arising from changes in fair value of the derivatives designated as "hedging instruments" are deferred as assets or liabilities and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized. When hedging instruments are forward exchange contracts and they are effective as hedging instruments to fix the cash flows from foreign currency accounts receivable or payable at their settlement in yen amounts, as permitted by the standard, the Company translates the related foreign currency accounts receivable or payable using the contracted rates and the resultant exchange gains or losses are credited or charged to income. If premiums or discounts are material, they are amortized over the period from the contract dates to the settlement dates.

The derivatives designated as hedging instruments by the Company are principally forward-exchange contracts. The related hedged items are trade accounts receivable and payable. The Company has a policy to utilize the above hedging instruments in order to reduce the Company's exposure to the risk of foreign currency exchange rate fluctuation. Thus, the Company does not hold or issue financial instruments for trading purposes.

(7) Property and Equipment

Property and equipment are stated at cost. Depreciation is computed by the declining-balance method for property and equipment of the Company and its domestic subsidiaries at rates based on the estimated useful lives of assets. The depreciation of buildings of overseas subsidiaries is computed by the straight-line method and that of their equipment is computed by the declining-balance method over the estimated useful lives.

The range of useful lives is summarized as follows:

Buildings	8-65 years
Equipment	2-20 years

Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

(8) Software Used by the Company

Costs of software used by the Company are capitalized and depreciated using the straight-line method over estimated useful lives of five years.

(9) Finance Leases

Finance leases that do not transfer ownership to lessees are not capitalized and are accounted for in the same manner as operating leases ("non-capitalized finance leases").

Lease payments for non-capitalized finance leases for the years ended March 31, 2001 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Lease payments	¥55	¥28	\$210

The related outstanding future lease payments at March 31, 2001 and 2002, including interest thereon, are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Future lease payments:			
Within one year	¥41	¥27	\$202
More than one year	49	49	368
Total	¥90	¥76	\$570

Acquisition costs, accumulated depreciation and net book value of the above leased assets (primarily equipment) as at March 31, 2001 and 2002, and depreciation expense for the years then ended are summarized below:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Acquisition costs	¥337	¥162	\$1,216
Accumulated depreciation	247	86	646
Net book value	¥ 90	¥ 76	\$ 570
Depreciation	¥ 55	¥ 28	\$ 210

Depreciation is computed based on the straight-line method over the lease periods.

(10) Income Taxes

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

In accordance with an amendment to the accounting standard for income taxes in Japan, the Company and its domestic subsidiaries adopted the deferred tax accounting method in the year ended March 31, 2000. Deferred income taxes were determined using the asset and liability approach, whereby deferred tax assets and liabilities were recognized with respect to temporary differences between the tax basis of assets and liabilities and those as reported in the consolidated financial statements. The cumulative effect of adopting deferred tax accounting at April 1, 1999 was charged to retained earnings.

(11) Appropriation of Retained Earnings

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, the Board of Directors is required to submit a proposal for appropriation of retained earnings for shareholders' approval at the annual shareholders' meeting. The appropriation of retained earnings reflected in the accompanying consolidated financial statements represents the approved appropriations applicable to the immediately preceding fiscal year.

As is customary practice in Japan, payment of bonuses to directors and corporate auditors is accounted for as an appropriation of retained earnings instead of being charged to income.

(12) Retirement Benefit Plan

Until the year ended March 31, 1999, a reserve for employees' retirement benefits of the Company and its subsidiaries was provided for 40% of the amount required if all employees had terminated their employment at the balance sheet date on a voluntary basis.

Pension premiums for the Company's tax-qualified pension plan were charged to income when they were paid.

The Company and its domestic subsidiaries changed their accounting for employees' lump-sum retirement allowances to providing for the amount required if all employees terminated their employment on a voluntary basis, from providing for 40% of the amount, in the year ended March 31, 2000 in consideration of the expected shortage of the reserve under the new accounting standard for employees' retirement benefits, which was effective from the fiscal year beginning April 1, 2000. As a result, the provision for the reserve for employees' retirement benefits increased by ¥1,073 million and operating income and income before income taxes decreased by ¥29 million and ¥1,073 million, respectively.

In the year ended March 31, 2000, the Company changed its accounting for pension expenses from charging pension premiums to income when they were paid to accruing pension liability based on actuarial calculations in light of the deterioration of the pension asset investment environment and in consideration of the likelihood that pension liability would always exceed pension assets. As a result, operating income increased by ¥193 million, the amortization of past service costs of the tax-qualified pension plan was recorded as an extraordinary loss of ¥410 million and income before income taxes decreased by ¥217 million.

Effective from the year ended March 31, 2001, the Company and its domestic subsidiaries adopted the new Japanese accounting standard for employees' retirement benefits. In accordance with the new standard, the reserve for employees' retirement benefits as of March 31, 2001 was provided for to cover the amount of projected benefit obligation in excess of the fair value of the plan assets except that, as permitted under the new standard, unrecognized actuarial differences are amortized on a straight-line basis over 13 years from the year after the one in which they arise. The transition amount arising from the adoption of the new standard of ¥62 million at April 1, 2000 was charged to income. As a result of adopting the new standard, net pension expense for the year ended March 31, 2001 increased by ¥117 million, and operating income and income before income taxes decreased by ¥55 million and ¥117 million, respectively, as compared with the amounts which would have been reported if the previous standard had been applied consistently.

As is customary in Japan, the Company and its domestic subsidiaries make lump-sum payments to retiring directors and corporate auditors (officers). Such payments are subject to the approval of the shareholders. In the year ended March 31, 2001, the Company and its subsidiaries changed their accounting for officers' retirement benefits to providing for the amount required if all eligible officers retired their offices at the balance sheet date, from providing for 50% of that amount, in consideration of the expected short-term fluctuation of officers' retirement benefits costs due to the officers' ages and service periods and with the objective of a better matching of benefits cost to income and strengthening their financial structure for future benefit payments.

As a result of this change, selling, general and administrative expenses increased by ¥31 million and an "Additional provision for reserve for officers' retirement benefits" in the amount of ¥266 million was recorded as an extraordinary loss and income before income taxes decreased by ¥297 million as compared with the amounts which would have been reported if the previous policy had been applied consistently.

(13) Net Income and Dividends per Share

Net income per share of common stock shares in the accompanying consolidated statements of income is computed based upon the weighted average number of shares of common stock outstanding during each period, appropriately adjusted for subsequent stock splits.

Net income per share adjusted for dilution assumes the full conversion of all convertible debentures. Since all dilutive convertible bonds were not issued during the year ended March 31, 2002, diluted net income per share has not been presented.

Cash dividends per share shown for each period in the accompanying consolidated statements of income represent dividends as applicable to the respective periods rather than those paid during the periods.

3. Translation into U.S. Dollars

Japanese yen amounts are translated into U.S. dollars only for the convenience of readers outside Japan using the exchange rate of ¥133.25 to US\$1 at March 31, 2002.

The translations should not be construed as representations that Japanese yen have been, could have been or could in the future be converted into U.S. dollars at that or any other rate.

4. Marketable Securities and Investments in Securities

At March 31, 2001 and 2002, the aggregate cost, fair value and gross unrealized holding gains and losses on available-for-sale securities were as follows:

At March 31, 2001	Millions of yen			Fair value
	Aggregate cost	Unrealized gains	Unrealized losses	
Securities classified as:				
Available-for-sale with fair market values:				
Marketable equity securities	¥1,958	¥2,420	¥(96)	¥4,282
Debt securities	25	2	(0)	27
Other securities	377	4	(25)	356

At March 31, 2002	Millions of yen			Fair value
	Aggregate cost	Unrealized gains	Unrealized losses	
Securities classified as:				
Available-for-sale with fair market values:				
Marketable equity securities	¥1,785	¥1,406	¥(37)	¥3,154
Debt securities	25	1	(0)	26
Other securities	225	4	(2)	227

At March 31, 2002	Thousands of U.S. dollars			Fair value
	Aggregate cost	Unrealized gains	Unrealized losses	
Securities classified as:				
Available-for-sale with fair market values:				
Marketable equity securities	\$13,396	\$10,552	\$(278)	\$23,670
Debt securities	188	7	(0)	195
Other securities	1,689	30	(15)	1,704

At March 31, 2001 and 2002, the book values of other securities for which market quotations are unavailable are as follows:

At March 31, 2001 and 2002	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Unlisted equity securities	¥ 952	¥1,397	\$10,484
Opened unit investment trusts	2,953	272	2,045

Total sales of available-for-sale securities sold in the year ended March 31, 2001 and 2002 amounted to ¥1,518 million and ¥841 million (US\$6,311 thousand) and the related gains and losses amounted to ¥432 million and ¥453 million (US\$3,400 thousand) and ¥13 million and ¥13 million (US\$98 thousand), respectively.

The carrying values and maturities for available-for-sale securities at March 31, 2001 and 2002 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
At March 31,			
Due in one year or less	¥126	¥—	\$ —
Due after one year through five years	45	43	323
Due after five years	10	9	68

5. Short-Term Debt and Long-Term Debt

Short-term debt at March 31, 2001 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Short-term bank loans	¥1,178	¥1,351	\$10,139

Short-term bank loans are represented principally by 12-month notes bearing interest at rates ranging from 0.62% to 6.963% at March 31, 2001 and from 0.60% to 6.65% at March 31, 2002.

The maximum month-end balance and the average month-end balance of short-term loans outstanding during the year ended March 31, 2002 were ¥973 million (US\$7,302 thousand) and ¥922 million (US\$6,919 thousand), respectively.

Long-term debt as at March 31, 2001 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Others	¥11	¥9	\$67

Other long-term debt of the Company as at March 31, 2001 and 2002 consisted of 4.45% to 6.65% loans from a government-sponsored agency, due in installments through 2019.

As is customary in Japan, bank loans are made under general agreements which provide that additional security and guarantees for present and future indebtedness will be given upon request of the bank under certain circumstances and that any collateral so furnished will be applicable to all indebtedness to that bank. To date, the Company has not received any such request. In addition, the agreements provide that the banks have the right to offset cash deposits against any short-term or long-term debt that becomes due, in case of default and certain other specified events, against all other debt payable to the bank.

6. Income Taxes

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities as at March 31, 2001 and 2002 was 41.8%.

At March 31, 2001 and 2002, the reconciliations of the statutory tax rate to the effective income tax rates were as follows:

	2001	2002
Statutory tax rate	41.8%	41.8%
Equity in loss of affiliates	2.1	4.2
Permanently nondeductible expenses	6.1	25.2
Undistributed profits on sale of stocks of affiliate company	8.0	—
Prior year income taxes	—	11.4
Other	1.1	0.7
Effective income tax rate	59.1%	83.3%

At March 31, 2001 and 2002, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Deferred tax assets:			
Reserve for retirement benefits and accrued pension costs	¥ 854	¥ 817	\$6,131
Accrued expenses	181	78	585
Devaluation of assets	75	111	833
Unrealized loss on securities	57	26	195
Other	97	72	541
Total gross deferred tax assets	¥1,264	¥1,104	\$8,285
Deferred tax liabilities:			
Tax deductible reserve	¥ 32	¥ 31	\$ 232
Unrealized gain on securities	1,014	596	4,473
Total gross deferred tax liabilities	1,046	627	4,705
Net deferred tax assets	¥ 218	¥ 477	\$3,580

In assessing the realizability of deferred tax assets, the management of the Company considered whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is entirely dependent upon the generation of future taxable income in specific tax jurisdictions during the periods in which those temporary differences become deductible. Management believes it is more likely than not that the benefits of these deductible differences, net of the existing valuation allowance, will be realized from future taxable income.

Operating loss carryforwards will expire in 2005.

7. Reserve for Employees' Retirement Benefits

The Company and its domestic subsidiaries have unfunded retirement allowance plans covering substantially all 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.

In addition to the unfunded retirement allowance plan, the Company has a funded noncontributory pension plan (the tax-qualified pension plan) that provides a lump-sum payment or pension payment for 10 years after the age of 60, at the option of retiring employees with at least 15 years of participation in the plan. Those employees retiring with three years but less than fifteen years of participation are entitled to a lump-sum payment. In addition to the benefits based on the above plans, the Company sometimes pays special retirement allowances which are not subject to the reserve for retirement benefits.

The reserve for employees' retirement benefits as of March 31, 2001 and 2002 is analyzed as follows.

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Unfunded retirement allowance plan	¥(1,776)	¥(1,909)	\$(14,327)
Tax-qualified pension plan	(1,611)	(1,696)	(12,728)
Projected benefit obligations	(3,387)	(3,605)	(27,055)
Plan assets	1,258	1,214	9,111
Unrecognized actuarial differences	133	525	3,940
	¥(1,996)	¥(1,866)	\$(14,004)

Net pension expense related to employees' retirement benefits for the year ended March 31, 2001 and 2002 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Service costs	¥136	¥139	\$1,043
Interest expense	99	101	758
Expected return on plan assets	(38)	(31)	(233)
Amortization of unrecognized actuarial differences	—	10	75
Amortization of transition amount	62	—	—
Special retirement allowances	38	67	503
	¥297	¥286	\$2,146

Assumptions used in the calculation of the aforementioned information were as follows:

	As of March 31, 2001	As of March 31, 2002
Method of attributing the projected benefits to periods of service	Straight-line basis	Straight-line basis
Discount rate	3.0%	2.5%
Expected rate of return on plan assets	3.0%	2.5%
Amortization of unrecognized actuarial differences	13 years	13 years

8. Information on Derivatives

The Company uses derivative financial instruments, which comprise principally foreign exchange forward contracts, to reduce its exposure to market risks from fluctuations in foreign currency exchange rates. The Company does not hold or issue financial instruments for trading purposes.

Foreign Exchange Transactions

The Company has entered into foreign exchange forward contracts to minimize exposure to and reduce risk from foreign exchange fluctuations with respect to receivables and payables denominated in foreign currencies.

The foreign exchange forward contracts at March 31, 2001 and 2002 are summarized as follows:

	Millions of yen					
	2001			2002		
	Carrying (contracted) value	Fair value	Valuation gain (loss)	Carrying (contracted) value	Fair value	Valuation gain (loss)
Selling:						
US\$	¥ 79	¥ 81	¥ (2)	¥ 19	¥ 19	¥ (0)
Buying:						
US\$	¥ 929	¥1,027	¥ 98	¥1,047	¥1,139	¥92
UK£	108	121	13	11	12	1
Others	81	92	11	34	39	5
	¥1,118	¥1,240	¥122	¥1,092	¥1,190	¥98

Although the Company may be exposed to losses in the event of nonperformance by counterparties or exchange rate fluctuations, it does not anticipate significant losses from the arrangements described above.

9. Contingent Liabilities

As at March 31, 2001 and 2002, the Company had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars
	2001	2002	2002
Trade notes endorsed	¥ 95	¥58	\$435
Guarantees for bank loans of non-consolidated subsidiaries and customers	203	12	90
	¥298	¥70	\$525

10. Shareholders' Equity

Effective from October 1, 2001, the Japanese Commercial Code was amended to provide for elimination of the stated par value of stock. As a result, all outstanding shares have no par value as of October 1, 2001. Before the Amendment, the Company's shares had a par value of ¥50 per share.

Under the Japanese Commercial Code, at least 50% of the issue price of new shares is required to be designated as stated capital. The excess amount of the issue price over stated capital is accounted for as additional paid-in capital.

Interim cash dividends in the aggregate amount of ¥104 million (US\$780 thousand), or ¥3.75 (US\$0.028) per share, were paid for the year ended March 31, 2002.

Under the Japanese Commercial Code, the Company is required to appropriate an amount equal to at least 10% of cash dividends as other cash distribution until the total amount of additional paid-in capital and the legal reserve equals 25% of the stated capital.

The Japanese Commercial Code also provides that to the extent that the sum of the additional paid-in capital and the legal reserve exceed 25% of the stated capital, the amount of the excess (if any) is available for appropriations by the resolution of the shareholders.

11. Related Party Transactions

The Company's sales to and purchases from its unconsolidated subsidiaries and affiliates for each of the three years in the period ended March 31, 2002 are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2000	2001	2002	2002
Sales	¥ 1,877	¥ 433	¥ 398	\$ 2,987
Purchases	24,218	9,646	6,577	49,358

12. Segment Information

(1) Information by Business Segment

The Company and its consolidated subsidiaries engage in a comprehensive range of business activities that center on the domestic and overseas trading of various commodities. As a trading company with engineering expertise, the Company provides numerous financial and other services that are integrated with its trading transactions.

The business segment categories used correspond to categories the Company uses to organize its business management structure.

The business segment information for the Company and its consolidated subsidiaries for the year ended March 31, 2001 is as follows:

	Millions of yen					
	Electrical and Energy-Related Division	Electronics•Aerospace Division	General Industrial-Related Division	Total	Elimination or corporate	Consolidated
I. Sales and operating income						
Sales						
(1) Sales to external customers	¥65,027	¥48,500	¥50,159	¥163,686	¥ —	¥163,686
(2) Intersegment internal sales or transfers	—	—	—	—	—	—
Total	65,027	48,500	50,159	163,686	—	163,686
Operating expenses	64,394	47,510	49,717	161,621	(149)	161,472
Operating income	¥ 633	¥ 990	¥ 442	¥ 2,065	¥ 149	¥ 2,214
II. Total assets, depreciation and capital expenditures						
Total assets	¥17,791	¥ 6,173	¥18,190	¥ 42,154	¥19,558	¥ 61,712
Depreciation and amortization	17	31	8	56	100	156
Capital expenditures	14	32	8	54	51	105

Notes: 1. Business classification method:

Businesses are classified based on similarities among products and markets.

2. Capital expenditures include long-term prepaid expenses.

3. Principal products in each business segment

Business segment	Principal products
Electrical and Energy-Related Division	Electrical machinery facilities, measuring and control systems, drilling equipment, oil and gas exploration services and other natural resource development equipment
Electronics•Aerospace Division	Electronic equipment, electronic components and software, image processing equipment aircraft-mounted avionics, ground support electronic equipment, aircraft machinery and automotive illumination equipment
General Industrial-Related Division	Steel, nonferrous metals, automobile chemicals, ships, plant engineering-related machinery, environmental preservation facilities, composite materials manufacturing facilities, textile processing machinery, food-processing machinery, resin-processing machinery, painting facilities, measuring and analysis devices and associated secondary foodstuff materials, industrial resins and paints, construction materials, synthetic composite materials, drop forged products and textile products

4. The amount of corporate assets, included in those under the elimination or corporate heading, was ¥19,558 million. The principal items were the Company's surplus funds under management (cash and marketable securities), long-term investment funds (investment securities), administrative division-related assets and other assets.

5. Accounting changes

(1) Change in accounting for officers' retirement benefits

As described in Note 2 (12) to the consolidated financial statements, the Company and its domestic subsidiaries changed their accounting for officers' retirement benefits to providing for the amount required if all eligible officers retired their offices at each balance sheet date, from providing for 50% of that amount, in the year ended March 31, 2001.

As a result of this change, consolidated operating expenses in the term were ¥15 million for the Electrical and Energy-Related Division, ¥8 million for the Electronics•Aerospace Division and ¥8 million for the General Industrial-Related Division more than they would have been under the previous method. Operating income for each category declined by the same amounts.

(2) Adoption of the new accounting standard for employees' retirement benefits

As described in Note 2 (12) to the consolidated financial statements, the Company and its domestic subsidiaries adopted the new Japanese accounting standard for employees' retirement benefits, which was effective from the period beginning on or after April 1, 2000. In conjunction with adopting the new standard, net pension expense in the term was ¥26 million for the Electrical and Energy-Related Division, ¥15 million for the Electronics•Aerospace Division and ¥15 million for the General Industrial-Related Division more than it would have been under the previous standard. Operating income for each category declined by the same amounts.

The business segment information for the Company and its consolidated subsidiaries for the year ended March 31, 2002 is as follows:

	Millions of yen					
	Electrical and Energy-Related Division	Electronics• Aerospace Division	General Industrial-Related Division	Total	Elimination or corporate	Consolidated
I. Sales and operating income						
Sales						
(1) Sales to external customers	¥50,401	¥30,336	¥40,949	¥121,686	¥ —	¥121,686
(2) Intersegment internal sales or transfers	—	—	—	—	—	—
Total	50,401	30,336	40,949	121,686	—	121,686
Operating expenses	50,566	29,937	41,095	121,598	(38)	121,560
Operating income (loss)	¥ (165)	¥ 399	¥ (146)	¥ 88	¥ 38	¥ 126
II. Total assets, depreciation and capital expenditures						
Total assets	¥15,345	¥ 6,853	¥14,419	¥ 36,617	¥15,075	¥ 51,692
Depreciation and amortization	16	34	8	58	99	157
Capital expenditures	8	16	5	29	312	341

	Thousands of U.S. dollars					
	Electrical Energy-Related Division	Electronics• Aerospace Division	General Industrial-Related Division	Total	Elimination or corporate	Consolidated
I. Sales and operating income						
Sales						
(1) Sales to external customers	\$378,244	\$227,662	\$307,310	\$913,216	\$ —	\$913,216
(2) Intersegment internal sales or transfers	—	—	—	—	—	—
Total	378,244	227,662	307,310	913,216	—	913,216
Operating expenses	379,482	224,668	308,405	912,555	(284)	912,271
Operating income (loss)	\$ (1,238)	\$ 2,994	\$ (1,095)	\$ 661	\$ 284	\$ 945
II. Total assets, depreciation and capital expenditures						
Total assets	\$115,159	\$ 51,430	\$108,210	\$274,799	\$113,133	\$387,932
Depreciation and amortization	120	255	60	435	743	1,178
Capital expenditures	60	120	38	218	2,341	2,559

Notes: 1. Business classification method:

Businesses are classified based on similarities among products and markets.

2. Capital expenditures include long-term prepaid expenses.

3. Principal products in each business segment

Business segment	Principal products
Electrical and Energy-Related Division	Electrical machinery facilities, measuring and control systems, drilling equipment, oil and gas exploration services and other natural resource development equipment
Electronics•Aerospace Division	Electronic equipment, electronic components and software, image processing equipment, aircraft-mounted avionics, ground support electronic equipment, aircraft machinery and automotive illumination equipment
General Industrial-Related Division	Steel, nonferrous metals, automobile chemicals, ships, plant engineering-related machinery, environmental preservation facilities, composite materials manufacturing facilities, textile processing machinery, food-processing machinery, resin-processing machinery, painting facilities, measuring and analysis devices and associated secondary foodstuff materials, industrial resins and paints, construction materials, synthetic composite materials, drop forged products and textile products

4. The amount of corporate assets, included in those under the elimination or corporate heading, was ¥15,075 million (US\$113,133 thousand). The principal items were the Company's surplus funds under management (cash and marketable securities), long-term investment funds (investment securities), administrative division-related assets and other assets.

(2) Segment Information by Geographical Area

The Company's operating results by geographical area for the year ended March 31, 2001 are summarized as follows:

	Millions of yen						Consolidated
	Japan	North America	Europe	Southeast Asia	Total	Elimination or corporate	
I. Sales and operating income							
Sales							
(1) Sales to external customers	¥157,296	¥ 3,363	¥1,849	¥1,178	¥163,686	¥ —	¥163,686
(2) Intersegment internal sales or transfers	3,363	15,159	—	—	18,522	(18,522)	—
Total	160,659	18,522	1,849	1,178	182,208	(18,522)	163,686
Operating expenses	158,727	18,431	1,815	1,171	180,144	(18,672)	161,472
Operating income	¥ 1,932	¥ 91	¥ 34	¥ 7	¥ 2,064	¥ 150	¥ 2,214
II. Assets	¥ 41,445	¥ 2,309	¥ 339	¥ 157	¥ 44,250	¥17,462	¥ 61,712

Notes: 1. The country or regional classification categories are based on geographical contiguity.

2. Principal country or regional classifications other than Japan

(1) North America: U.S., Canada

(2) Europe: U.K., France

(3) Southeast Asia: Taiwan

3. Accounting changes

(1) Change in standards for provision of officers' retirement benefits

As described in Note 2 (12) to the consolidated financial statements, the Company and its domestic subsidiaries changed their accounting for officers' retirement benefits to providing for the amount required if all eligible officers retired their offices at each balance sheet date, from providing for 50% of that amount, in the year ended March 31, 2001. As a result of this change, consolidated operating expenses in Japan increased by ¥31 million as compared with the previous method and operating income decreased by the same amount.

(2) Adoption of the new accounting standard for employees' retirement benefits

As described in Note 2 (12) to the consolidated financial statements, the Company and its domestic subsidiaries adopted the new Japanese accounting standard for employees' retirement benefits, which was effective from the period beginning on or after April 1, 2000. In conjunction with adopting the new standard, consolidated operating expenses in Japan increased by ¥55 million as compared with the previous standard and operating income decreased by the same amount.

The Company's operating results by geographical area for the year ended March 31, 2002 are summarized as follows:

	Millions of yen						Consolidated
	Japan	North America	Europe	Southeast Asia	Total	Elimination or corporate	
I. Sales and operating income							
Sales							
(1) Sales to external customers	¥120,157	¥ 427	¥517	¥585	¥121,686	¥ —	¥121,686
(2) Intersegment internal sales or transfers	427	3,003	—	—	3,430	(3,430)	—
Total	120,584	3,430	517	585	125,116	(3,430)	121,686
Operating expenses	120,359	3,550	523	598	125,030	(3,470)	121,560
Operating income (loss)	¥ 225	¥ (120)	¥ (6)	¥ (13)	¥ 86	¥ 40	¥ 126
II. Assets	¥ 34,221	¥1,885	¥213	¥148	¥ 36,467	¥15,225	¥ 51,692

	Thousands of U.S. dollars						Consolidated
	Japan	North America	Europe	Southeast Asia	Total	Elimination or corporate	
I. Sales and operating income							
Sales							
(1) Sales to external customers	\$901,741	\$ 3,205	\$3,880	\$4,390	\$913,216	\$ —	\$913,216
(2) Intersegment internal sales or transfers	3,205	22,537	—	—	25,742	(25,742)	—
Total	904,946	25,742	3,880	4,390	938,958	(25,742)	913,216
Operating expenses	903,257	26,642	3,925	4,488	938,312	(26,041)	912,271
Operating income (loss)	\$ 1,689	\$ (900)	\$ (45)	\$ (98)	\$ 646	\$ 299	\$ 945
II. Assets	\$256,818	\$14,146	\$1,598	\$1,111	\$273,673	\$114,259	\$387,932

Notes: 1. The country or regional classification categories are based on geographical contiguity.

2. Principal country or regional classifications other than Japan

(1) North America: U.S., Canada

(2) Europe: U.K., France

(3) Southeast Asia: Taiwan

3. The amount of corporate assets, including those under the elimination or corporate heading, was ¥15,225 million (US\$114,259 thousand). The principal items were the Company's surplus funds under management (cash and marketable securities), long-term investment funds (investment securities), administrative division-related assets, and other assets.

(3) Overseas Sales

Overseas sales information of the Company and its consolidated subsidiaries for the fiscal year ended March 31, 2001 is as follows:

	Millions of yen				Total
	North America	Europe	Southeast Asia	Other areas	
I. Overseas sales	¥40,366	¥4,522	¥6,207	¥1,749	¥ 52,844
II. Consolidated sales					163,686
III. Overseas sales as proportion of consolidated sales	24.6%	2.8%	3.8%	1.1%	32.3%

Notes: 1. The country or regional classification categories are based on geographical contiguity.

2. Principal country or regional classifications other than Japan

(1) North America: U.S., Canada

(2) Europe: U.K., Norway

(3) Southeast Asia: Taiwan

(4) Other areas: Middle East, Australia

3. Overseas sales are sales of the Company and its consolidated subsidiaries to countries and regions other than Japan.

Overseas sales information of the Company and its consolidated subsidiaries for the fiscal year ended March 31, 2002 is as follows:

	Millions of yen				Total
	North America	Europe	Southeast Asia	Other areas	
I. Overseas sales	¥20,373	¥2,416	¥5,101	¥996	¥ 28,886
II. Consolidated sales					121,686
III. Overseas sales as proportion of consolidated sales	16.7%	2.0%	4.2%	0.8%	23.7%

	Thousands of U.S. dollars				Total
	North America	Europe	Southeast Asia	Other areas	
I. Overseas sales	\$152,893	\$18,131	\$38,281	\$7,475	\$216,780
II. Consolidated sales					913,216

Notes: 1. The country or regional classification categories are based on geographical contiguity.

2. Principal country or regional classifications other than Japan

(1) North America: U.S., Canada

(2) Europe: U.K., Netherlands, Norway, Sweden

(3) Southeast Asia: China, Taiwan, Singapore, Korea

(4) Other areas: Middle East, Australia

3. Overseas sales are sales of the Company and its consolidated subsidiaries to countries and regions other than Japan.

13. Subsequent Event

The following appropriations of retained earnings for the year ended March 31, 2002 were approved at the shareholders' meeting of the Company held on June 21, 2002:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥3.75 (US\$0.028) per share	¥104	\$780
Bonuses to directors and corporate auditors	—	—

The Board of Directors of
Kyokuto Boeki Kaisha, Ltd.

We have audited the accompanying consolidated balance sheets of Kyokuto Boeki Kaisha, Ltd. and its consolidated subsidiaries as of March 31, 2001 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2002, all expressed in Japanese yen. Our audits 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 consolidated financial position of Kyokuto Boeki Kaisha, Ltd. and its consolidated subsidiaries as of March 31, 2001 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2002, in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis, except for the accounting changes, with which we concur, for the reserve for employees' retirement benefits and amortization of past service costs of the tax-qualified pension plan for the year ended March 31, 2000 and for the additional provision for reserve for officers' retirement benefits for the year ended March 31, 2001 as described in Notes 2 (12).

As described in Note 2, effective for the year ended March 31, 2000, Kyokuto Boeki Kaisha, Ltd. and its domestic subsidiaries adopted new Japanese accounting standards for income taxes, and effective for the year ended March 31, 2001, for the employees' retirement benefits, financial instruments, and foreign currency translation.

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 3 to the accompanying consolidated financial statements.

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ChuoAoyama Audit Corporation
Tokyo, Japan
June 21, 2002

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(As of August 31, 2002)

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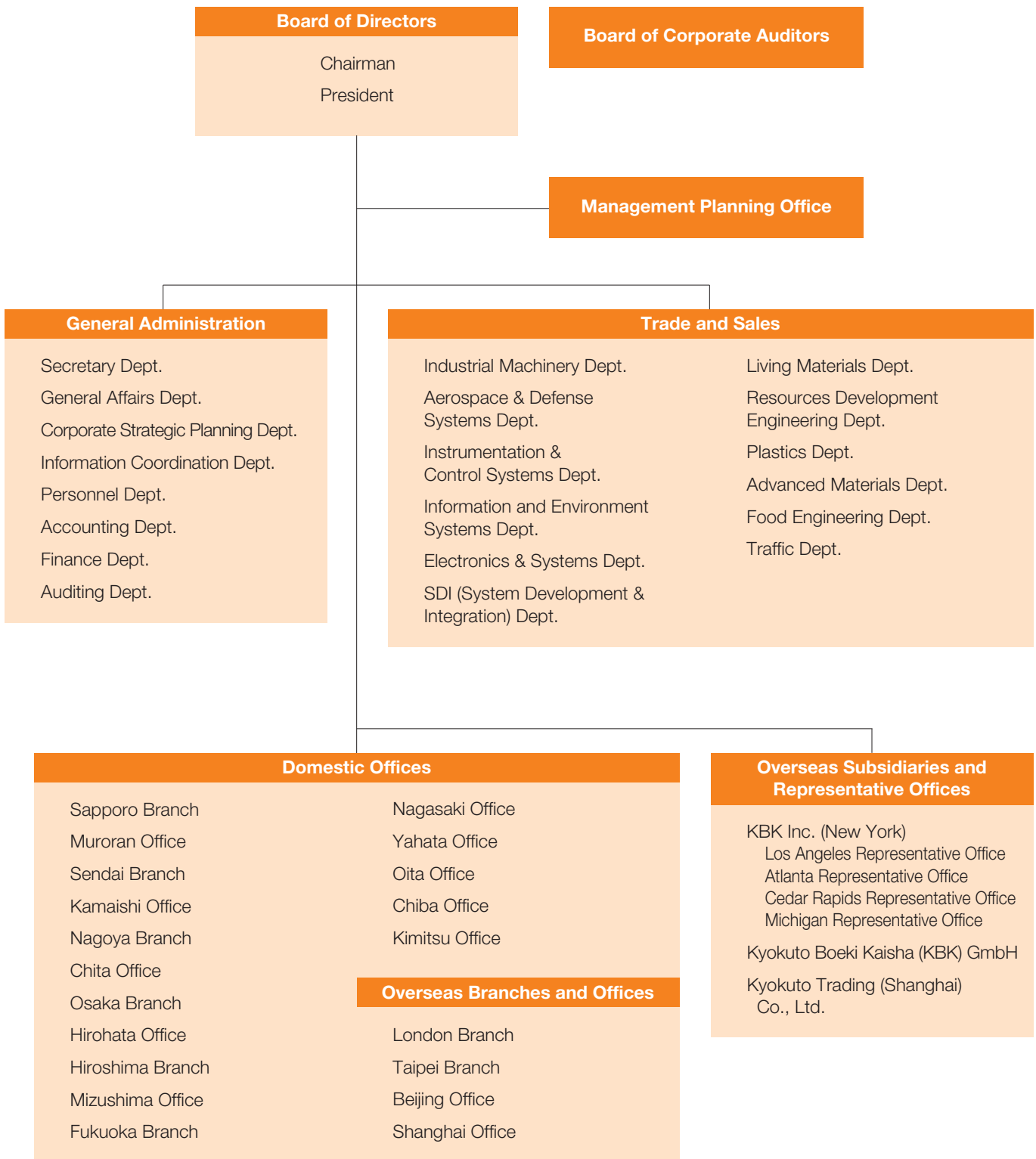
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(As of August 31, 2002)



(As of August 31, 2002)

Board of Directors

Chairman and Chief Executive Officer
Hisago Miyoshi*

President and Chief Operating Officer

Motoo Imakita*

Executive Vice President

Takashi Hiraishi*

Senior Managing Director

Kunihiko Irie*

Managing Directors

Masayoshi Fujimoto
Takehiko Takatori
Shinya Araki
Ryuji Sato

Directors

Kosaku Inaba
Masami Kurihara
Hiroshi Inoue

Corporate Auditors

Hiroshi Sato
Hideyuki Aiso
Kozo Fujita

*Representative Directors

(As of June 21, 2002)

Established

November 27, 1947

Paid-in Capital

¥5,030 million (US\$37,748 thousand)

Number of Employees

533

Common Stock

Authorized: 52,800,000 shares

Issued: 27,899,592 shares

Number of shareholders: 5,800

(As of March 31, 2002)



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