

## Notes to Consolidated Financial Statements

Nissin Kogyo Co., Ltd. and Consolidated Subsidiaries

### 1. Basis of Presentation of Consolidated Financial Statements

Nissin Kogyo Co., Ltd. (the "Company") and its domestic consolidated subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles and practices generally accepted and applied in Japan and its foreign subsidiaries (collectively the "Companies" together with the Company and its domestic consolidated subsidiaries) maintain their books of account in conformity with those of their countries of domicile.

The accompanying financial statements have been compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan, and in conformity with accounting principles and practices generally accepted in Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan. Consolidated statements of shareholders' equity are not required as part of the primary financial statements in Japan but are presented herein as additional information.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements contain certain information which is not required under accounting principles and practices generally accepted in Japan but is presented herein as additional information.

The yen amounts shown in the accompanying consolidated financial statements are stated in millions of yen and, as permitted, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying financial statements do not necessarily agree with the sum of the individual amounts.

### 2. Summary of Significant Accounting Policies

#### (a) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries controlled directly or indirectly by the Company. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. All material intercompany balances and transactions are eliminated in consolidation. The differences between the cost of investments in the consolidated subsidiaries and affiliates accounted for by the equity method and the equity in their net assets at their respective dates of acquisition are being amortised over five years.

#### (b) Cash and cash equivalents

All highly liquid investments, generally with a maturity of three months or less when purchased, which are readily convertible into known amounts of cash and are so near maturity that they represent only an insignificant risk of any change in value attributable to changes in interest rates, are considered cash equivalents.

Under the accounting standard for statements of cash flows, the definition of cash and cash equivalents in the statement of cash flows and cash and bank deposits in the balance sheet differs with respect to certain components. A reconciliation between the cash definitions above is presented in Note 13.

#### (c) Marketable securities and investments securities

Securities other than those of subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities (securities available for sale). Trading securities are carried at market value and held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as securities available for sale are carried at market value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as securities available for sale are carried at cost. Cost of securities sold is determined by the moving average method.

#### (d) Inventories

##### *Finished goods and work in process*

Industrial machinery is stated by the individual cost method, whereas other inventories are stated at their periodic average cost except for those mainly held by subsidiaries, which are stated at the lower of cost (calculated by the first-in, first-out method) or market.

##### *Raw materials and supplies*

Raw materials are stated at their periodic average cost except for those mainly held by subsidiaries, which are stated at the lower of cost (calculated by the first-in, first-out method) or market.

Cutlery and tools are stated at periodic average cost, other inventories are stated at their most recent cost except for those mainly held by subsidiaries, which are stated at the lower of cost (calculated by the first-in, first-out method) or market.

#### (e) Allowance for doubtful accounts

The allowance for doubtful accounts is provided for losses as described below:

For impaired accounts, an allowance is provided based on the uncollectible amount estimated by asset quality review. For other accounts, an allowance is provided based on the historical loss experience and other factors.

#### (f) Property, plant and equipment

Property, plant and equipment is stated at cost. Depreciation is mainly computed by the declining-balance method at rates based on the estimated useful lives of the respective assets.

Depreciation of buildings of the Company and its consolidated subsidiaries, excluding attached structures, acquired on and after 1st April, 1998 is calculated by the straight-line method.

Principal estimated useful lives are as follows:

Buildings and structures	10 years to 39 years
Machinery and vehicle	4 years to 11 years

**(g) Retirement benefits**

The Company and its domestic consolidated subsidiaries have defined benefit plans, which consist of noncontributory qualified pension plans and lump-sum payment plans, covering substantially all their employees.

Accrued retirement benefits for employees have been provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of balance sheet dates, as adjusted for unrecognized actuarial gain or loss. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees.

Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over the period (7 years) that is shorter than the average remaining years of service of the employees.

**(h) Income taxes**

Deferred income tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

**(i) Shareholders' equity**

In accordance with the Commercial Code of Japan (the "Code"), the Company has provided a legal reserve by appropriation of retained earnings. The Code provides that an amount equal to at least 10% of the amount to be disbursed as distributions of earnings be appropriated to the legal reserve until the total of such reserve and the capital surplus account equals 25% of the common stock account.

The Code provides that neither capital surplus nor the legal reserve had been available for dividends, but both might be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. On 1st October, 2001, an amendment (the "Amendment") to the Code became effective. The Amendment provides that if the total amount of capital surplus and the legal reserve exceeds 25% of the common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders. In addition, the Amendment eliminates the stated par value of the Company's outstanding shares, which resulted in all outstanding shares having no par value as of 1st October, 2001. The Amendment also provides that all share issuances after 30th September, 2001 will be of shares with no par value. Prior to the date on which the Amendment came into effect, the Company's shares had a par value of ¥50.

Under the Code, the appropriation of retained earnings with respect to a given financial year is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial year. The accounts for that year do not, therefore, reflect such appropriations.

**(j) Foreign currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing at the balance sheet dates, except for assets and liabilities hedged by forward foreign exchange contracts.

All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions were made. The resulting exchange gains and losses are credited or charged to income.

The accounts of foreign consolidated subsidiaries, except for the components of shareholders' equity, are translated into yen at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates. Translation differences arising from the translation of the financial statements of the foreign consolidated subsidiaries are presented as foreign currency translation adjustments. Translation adjustments are presented as a component of shareholders' equity and minority interests in its consolidated financial statements.

**(k) Amounts per share of common stock**

Until the year ended 31st March, 2002, basic net income per share was computed based on the net income reported in the consolidated statements of income and the weighted average number of shares of common stock outstanding during each year, and diluted net income per share was computed based on the net income reported and the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds and the exercise of warrants. Amounts per share of net assets were computed based on the net assets reported in the consolidated balance sheets and the number of shares of common stock outstanding at each balance sheet date.

In accordance with a new accounting standard for earnings per share which became effective 1st April, 2002, basic net income per share was computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year, and diluted net income per share was computed based on the net income available for distribution to the shareholders and the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds and the exercise of warrants for the year ended 31st March, 2003. Amounts per share of net assets at 31st March, 2003 was computed based on net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the year end. If the previous method of computation had been followed for the year ended 31st March, 2003, basic net income per share, dilutive net income per share and amounts per share of net assets would have been ¥235.65, ¥235.33 and ¥2,008.83, respectively.

Cash dividends per share represent the actual amount paid in each respective year.



## 5. Inventories

Inventories at 31st March, 2002 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Finished goods	¥1,711	¥2,004	\$16,677
Work in process	785	692	5,761
Raw materials and supplies	6,502	6,264	52,118
Total	¥8,998	¥8,961	\$74,556

## 6. Receivables From and Payables to Unconsolidated Subsidiaries and Affiliates

Receivables from and payables to unconsolidated subsidiaries and affiliates at 31st March, 2002 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Trade receivables	¥1,155	¥1,086	\$9,037
Trade payables	862	467	3,891

## 7. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates included in investment securities and other assets at 31st March, 2002 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Investment equity securities (included in investment securities)	¥2,850	¥2,948	\$24,529
Investments in capital (included in other assets)	2	392	3,263

## 8. Income Taxes

Income taxes applicable to the Company include corporation and inhabitants' taxes, which, in the aggregate, resulted in statutory tax rates of approximately 41.47% for 2002 and 2003, respectively. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The effective tax rates reflected in the consolidated statements of income for the years ended 31st March, 2002 and 2003 differ from the statutory tax rate for the following reasons:

	2002	2003
Statutory tax rate	41.47%	41.47%
Effect of:		
Difference tax rates applied to foreign subsidiaries	(2.24)	(4.59)
Permanently nontaxable dividends received	(0.23)	(0.37)
Other, net	(0.04)	1.62
Effective tax rate	38.96%	38.13%

Deferred tax assets and liabilities at 31st March, 2002 and 2003 were as follows:

Year ended 31st March,	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Deferred tax assets (liabilities):			
Net unrealized gain on sales of inventories and fixed assets	¥ 888	¥ 933	\$ 7,762
Enterprise tax payable	385	331	2,756
Accrued bonuses	283	366	3,047
Provision for retirement benefits	213	253	2,111
Net unrealized holding gain on investment securities	(3,177)	(2,119)	(17,635)
Other, net	497	553	4,607
Net deferred tax assets (liabilities)	¥ (910)	¥ 318	\$ 2,648

## 9. Retirement Benefit Plans

The following tables set forth the funded and accrued status of the retirement benefit plans, and the amounts recognized in the consolidated balance sheets as of 31st March, 2002 and 2003 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Retirement benefit obligation	¥(4,684)	¥(5,003)	\$ (41,629)
Plan assets at fair value	3,980	4,142	34,461
Unfunded retirement benefit obligation	(703)	(861)	(7,168)
Unrecognized actuarial gain or loss	167	215	1,792
Net retirement benefit obligation	(536)	(646)	(5,376)
Prepaid pension cost	-	-	-
Accrued retirement benefits	¥ (536)	¥ (646)	\$ (5,376)

The components of retirement benefit expenses for the years ended 31st March, 2002 and 2003 were outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Service cost	¥603	¥710	\$5,913
Interest cost	119	111	931
Expected return on plan assets	(55)	(39)	(325)
Amortization of net retirement benefit obligation at transition	-	-	-
Amortization of actuarial gain or loss	(21)	20	174
Total	¥646	¥804	\$6,693

The assumptions used in accounting for the above plans were as follows:

	2002	2003
Discount rates	2.5%	2.5%
Expected return on assets	1.5%	1.0%

## 10. Supplementary Cash Flow Information

The following table represents a reconciliation of cash and cash equivalents as of 31st March, 2002 and 2003:

Year ended 31st March,	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Cash and bank deposits	¥ 9,523	¥9,324	\$77,575
Time deposits with a maturity of more than three months	(10)	-	-
Marketable securities with a maturity of less than three months	875	208	1,738
Cash and cash equivalents	¥10,389	¥9,533	\$79,313

## 11. Lease Transactions (Lessees' Accounting)

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of 31st March, 2002 and 2003, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Acquisition costs	¥670	¥792	\$6,594
Accumulated depreciation	478	487	4,055
Net book value	¥192	¥305	\$2,539
Future minimum lease payments:			
Within one year	¥ 69	¥ 88	\$ 739
Over one year	123	216	1,800
	¥192	¥305	\$2,539
Lease payments	¥121	¥ 85	\$ 707
Depreciation expense	121	85	707

## 12. Contingent Liabilities

Contingent liabilities at 31st March, 2002 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
As guarantors for indebtedness of others	¥416	¥42	\$349

### 13. Segment Information

Information concerning the Companies' foreign operations and sales to overseas customers for the years ended 31st March, 2002 and 2003 are summarized as follows:

#### (a) Foreign operations

Year ended 31st March, 2002	Millions of yen						
	Japan	North America	Asia	South America	Total	Eliminations	Consolidated
Net sales:							
Outside customers	¥55,585	¥33,877	¥ 6,967	¥3,356	¥ 99,787	¥ -	¥99,787
Intersegmental sales	20,111	531	343	3	20,990	(20,990)	-
Total	75,697	34,408	7,310	3,360	120,777	(20,990)	99,787
Operating expenses	68,581	31,996	5,167	3,180	108,926	(20,476)	88,450
Operating income	¥ 7,116	¥ 2,411	¥ 2,143	¥ 179	¥ 11,850	¥ (513)	¥11,337
Assets	¥47,812	¥15,211	¥10,617	¥2,869	¥ 76,511	¥ (547)	¥75,963

Year ended 31st March, 2003	Millions of yen						
	Japan	North America	Asia	South America	Total	Eliminations	Consolidated
Net sales:							
Outside customers	¥54,356	¥40,009	¥16,174	¥3,491	¥114,032	¥ -	¥114,032
Intersegmental sales	24,905	265	717	10	25,899	(25,899)	-
Total	79,262	40,275	16,892	3,501	139,931	(25,899)	114,032
Operating expenses	72,617	38,745	12,684	3,044	127,091	(25,720)	101,371
Operating income	¥ 6,644	¥ 1,530	¥ 4,208	¥ 456	¥ 12,839	¥ (178)	¥ 12,660
Assets	¥59,472	¥17,362	¥13,204	¥2,037	¥ 92,075	¥(14,131)	¥ 77,944

Year ended 31st March, 2003	Thousands of U.S. dollars						
	Japan	North America	Asia	South America	Total	Eliminations	Consolidated
Net sales:							
Outside customers	\$452,219	\$332,858	\$134,567	\$29,045	\$ 948,689	\$ -	\$948,689
Intersegmental sales	207,200	2,211	5,972	84	215,467	(215,467)	-
Total	659,419	335,069	140,539	29,129	1,164,156	(215,467)	948,689
Operating expenses	604,139	322,340	105,529	25,329	1,057,337	(213,979)	843,358
Operating income	\$ 55,280	\$ 12,729	\$ 35,010	\$ 3,800	\$ 106,819	\$ (1,488)	\$105,331
Assets	\$494,776	\$144,444	\$109,851	\$16,951	\$ 766,022	\$(117,568)	\$648,454

#### (b) Sales to overseas customers

	Millions of yen		Thousands of U.S. dollars
	2002	2003	2003
Sales to overseas customers:			
North America	¥34,321	¥ 40,377	\$335,918
Asia	8,086	16,307	135,673
Others	5,406	5,758	47,910
Total	¥47,814	¥ 62,443	\$519,501
Consolidated net sales	¥99,787	¥114,032	\$948,689
Percentage of consolidated net sales	47.9%	54.8%	

### 14. Subsequent Event

The following appropriations of retained earnings, which have not been reflected in the consolidated financial statements for the year ended 31st March, 2003, were approved at a general meeting of the shareholders of the Company held on 20th June, 2003:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥11.50 per share)	¥250	\$2,087
Bonuses to directors and statutory auditors	70	582