

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 generally accepted 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 generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. 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 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 11.

(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 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 vehicles	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 the 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) Derivatives

Derivatives positions are stated at fair value.

Gain or loss on derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged item is recognized. Foreign receivables and payables are translated at the applicable forward foreign exchange rates if certain conditions are met.

(i) 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.

(j) 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. Accordingly, the Code 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. The Company's shares of common stock had no fair value in accordance with the Code.

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.

(k) 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.

3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience and has been made, as a matter of arithmetic computation only, at ¥105.69=U.S.\$1.00, the approximate rate of exchange prevailing on 31st March, 2004. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at that or any other rate.

4. Securities

a) Information regarding marketable securities classified as securities available for sale as of 31st March, 2003 and 2004 was as follows:

	Millions of yen						Thousands of U.S. dollars		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
31st March,	2003			2004			2004		
Securities whose carrying value exceeds their acquisition cost:									
Equity securities	¥1,285	¥6,598	¥5,312	¥1,530	¥8,593	¥7,063	\$14,480	\$81,308	\$66,828
Other	-	-	-	66	71	5	629	679	50
Subtotal	1,285	6,598	5,312	1,596	8,665	7,068	15,109	81,987	66,878
Securities whose acquisition cost exceeds their carrying value:									
Equity securities	229	215	(13)	-	-	-	-	-	-
Other	66	47	(19)	-	-	-	-	-	-
Subtotal	295	263	(32)	-	-	-	-	-	-
Total	¥1,581	¥6,861	¥5,279	¥1,596	¥8,665	¥7,068	\$15,109	\$81,987	\$66,878

b) Securities available for sale sold during the year ended 31st March, 2003 and 2004 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	Proceeds from sale	Gain	Loss	Proceeds from sale	Gain	Loss	Proceeds from sale	Gain	Loss
Year ended 31st March,	2003			2004			2004		
Securities available for sale	¥62	¥10	¥0	¥195	¥-	¥84	\$1,845	\$-	\$797

c) Major non-marketable securities classified as other securities 31st March, 2003 and 2004 amounted to ¥439 million and ¥514 million (\$4,863 thousand), respectively.

5. Inventories

Inventories at 31st March, 2003 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Finished goods	¥2,004	¥2,078	\$19,664
Work in process	692	779	7,376
Raw materials and supplies	6,264	6,172	58,401
Total	¥ 8,961	¥9,030	\$85,441

6. Receivable from and Payable to Unconsolidated Subsidiaries and Affiliates

Receivable from and payable to unconsolidated subsidiaries and affiliates at 31st March, 2003 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Accounts receivable	¥1,111	¥1,114	\$10,547
Accounts payable	468	568	5,382

7. Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates included in investment securities and other assets at 31st March, 2003 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Investment equity securities (included in investment securities)	¥2,948	¥2,564	\$24,266
Investments in capital (included in other assets)	392	874	8,272

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 2003 and 2004, 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, 2003 and 2004 differ from the statutory tax rate for the following reasons:

	2003	2004
Statutory tax rate	41.47%	41.47%
Effect of:		
Difference tax rates applied to foreign subsidiaries	(4.59)	(1.65)
Permanently nontaxable dividends received	(0.37)	(0.56)
Tax breaks for corporate R&D expenses	-	(2.38)
Other, net	1.62	(0.05)
Effective tax rate	38.13%	36.83%

Deferred tax assets and liabilities at 31st March, 2003 and 2004 were as follows:

31st March,	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Deferred tax assets (liabilities):			
Net unrealized gain on sales of inventories and fixed assets	¥ 933	¥ 894	\$ 8,465
Enterprise tax payable	331	207	1,963
Accrued bonuses	366	356	3,378
Provision for retirement benefits	253	309	2,933
Net unrealized holding gain on investment securities	(2,119)	(2,834)	(26,821)
Other, net	553	493	4,668
Net deferred tax assets (liabilities)	¥ 318	¥ (572)	\$ (5,414)

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, 2003 and 2004 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Retirement benefit obligation	¥(5,003)	¥(5,993)	\$ (56,704)
Plan assets at fair value	4,142	4,436	41,981
Unfunded retirement benefit obligation	(861)	(1,556)	(14,723)
Unrecognized actuarial gain or loss	215	780	7,383
Net retirement benefit obligation	(646)	(775)	(7,340)
Prepaid pension cost	-	-	-
Accrued retirement benefits	¥ (646)	¥ (775)	\$ (7,340)

The components of retirement benefit expenses for the years ended 31st March, 2003 and 2004 were outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Service cost	¥ 710	¥820	\$7,764
Interest cost	111	72	682
Expected return on plan assets	(39)	(30)	(288)
Amortization of actuarial gain or loss	20	30	291
Total	¥804	¥892	\$8,449

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

	2003	2004
Discount rates	2.5%	1.5%
Expected return on assets	1.0%	0.75%

10. Research and Development Costs

Research and development costs included in selling, general and administrative expenses and manufacturing costs for the years ended 31st March, 2003 and 2004 amounted to ¥4,582 million and ¥5,551 million (\$52,521 thousand), respectively.

11. Supplementary Cash Flow Information

The following table represents a reconciliation of cash and cash equivalents as of 31st March, 2003 and 2004:

Year ended 31st March,	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Cash and bank deposits	¥9,324	¥11,073	\$104,771
Marketable securities with a maturity of less than three months	208	291	2,756
Cash and cash equivalents	¥9,533	¥11,364	\$107,527

12. 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, 2003 and 2004, 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
	2003	2004	2004
Acquisition costs	¥792	¥451	\$4,276
Accumulated depreciation	487	236	2,239
Net book value	¥305	¥215	\$2,037
Future minimum lease payments:			
Within one year	¥ 88	¥ 78	\$ 745
Over one year	216	136	1,292
	¥305	¥215	\$2,037
Lease payments	¥ 85	¥ 84	\$ 801
Depreciation expense	85	84	801

13. Contingent Liabilities

Contingent liabilities at 31st March, 2003 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
As guarantors for indebtedness of others	¥42	¥42	\$397

14. Segment Information

Information concerning the Companies' foreign operations and sales to overseas customers for the years ended 31st March, 2003 and 2004 are summarised as follows:

(a) Foreign operations

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
Intersegment 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, 2004	Millions of yen						
	Japan	North America	Asia	South America	Total	Eliminations	Consolidated
Net sales:							
Outside customers	¥ 57,219	¥41,244	¥21,789	¥4,689	¥124,943	¥ -	¥124,943
Intersegment sales	24,091	139	819	0	25,051	(25,051)	-
Total	81,311	41,384	22,608	4,690	149,995	(25,051)	124,943
Operating expenses	75,585	39,530	17,473	4,071	136,660	(25,030)	111,630
Operating income	¥ 5,726	¥ 1,853	¥ 5,135	¥ 618	¥ 13,334	¥ (21)	¥ 13,313
Assets	¥65,639	¥15,780	¥15,324	¥ 1,932	¥ 98,677	¥ (14,477)	¥ 84,199

Year ended 31st March, 2004	Thousands of U.S. dollars						
	Japan	North America	Asia	South America	Total	Eliminations	Consolidated
Net sales:							
Outside customers	\$541,389	\$390,243	\$206,164	\$44,373	\$ 1,182,169	\$ -	\$ 1,182,169
Intersegment sales	227,950	1,319	7,753	7	237,029	(237,029)	-
Total	769,339	391,562	213,917	44,380	1,419,198	(237,029)	1,182,169
Operating expenses	715,159	374,024	165,328	38,523	1,293,034	(236,829)	1,056,205
Operating income	\$ 54,180	\$ 17,538	\$ 48,589	\$ 5,857	\$ 126,164	\$ (200)	\$ 125,964
Assets	\$621,059	\$ 149,305	\$144,996	\$ 18,286	\$ 933,646	\$ (136,979)	\$ 796,667

(b) Sales to overseas customers

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Sales to overseas customers:			
North America	¥ 40,377	¥ 41,244	\$ 390,243
Asia	16,307	22,459	212,502
Others	5,758	7,056	66,769
Total	¥ 62,443	¥ 70,760	\$ 669,514
Consolidated net sales	¥114,032	¥124,943	\$1,182,169
Percentage of consolidated net sales	54.8%	56.6%	

15. Subsequent Event

The following appropriations of retained earnings, which have not been reflected in the consolidated financial statements for the year ended 31st March, 2004, were approved at a general meeting of the shareholders of the Company held on 18th June, 2004:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥12.00 per share)	¥261	\$2,476
Bonuses to directors and statutory auditors	62	587

16. Amounts Per Share

Basic net income per share has been 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 each year. Diluted net income per share has not been presented for the year ended 31st March, 2004 since neither the Company nor any of the consolidated subsidiaries had any potentially dilutive stock at 31st March, 2004.

Year ended 31st March,	Yen		U.S. dollars
	2003	2004	2004
Net income per share of common stock	¥232.44	¥232.89	\$2.2035

The following table sets forth the computation of net income per share of common stock for the years ended 31st March, 2003 and 2004.

Year ended 31st March,	Millions of yen, except share		Thousands of U.S. dollars, except share
	2003	2004	2004
Net income available to shareholders of common stock (numerator):			
Net income	¥5,133	¥5,141	\$48,650
Less: appropriation of bonuses to directors and statutory auditors	¥ 70	¥ 62	\$ 587
Weighted average number of shares of common stock outstanding (denominator)	21,782,648	21,811,663	21,811,663

Net assets per share have been computed based on net assets available for distribution to shareholders of common stock and the number of shares of common stock outstanding at each balance sheet date.

31st March,	Yen		U.S. dollars
	2003	2004	2004
Net assets per share	¥2,005.62	¥2,210.54	\$20.9153