

Annual Report 2003

From April 1,2002 to March 31,2003



DAISHINKU CORP.

Profile

Mobile phones and computers are essential communication tools in our daily life today. As information technology (IT) continues to develop remarkably, Daishinku (KDS) supports this enriched electronic society with their crystal devices.

The transparent and beautifully shining crystal has the power to generate stable electrical signal by flowing electricity and resonating precisely through it. Crystal device functions as the heart of various electronic equipment, such as telecommunications, audio- visuals, car electronics, and games. And its use continues to expand greatly.



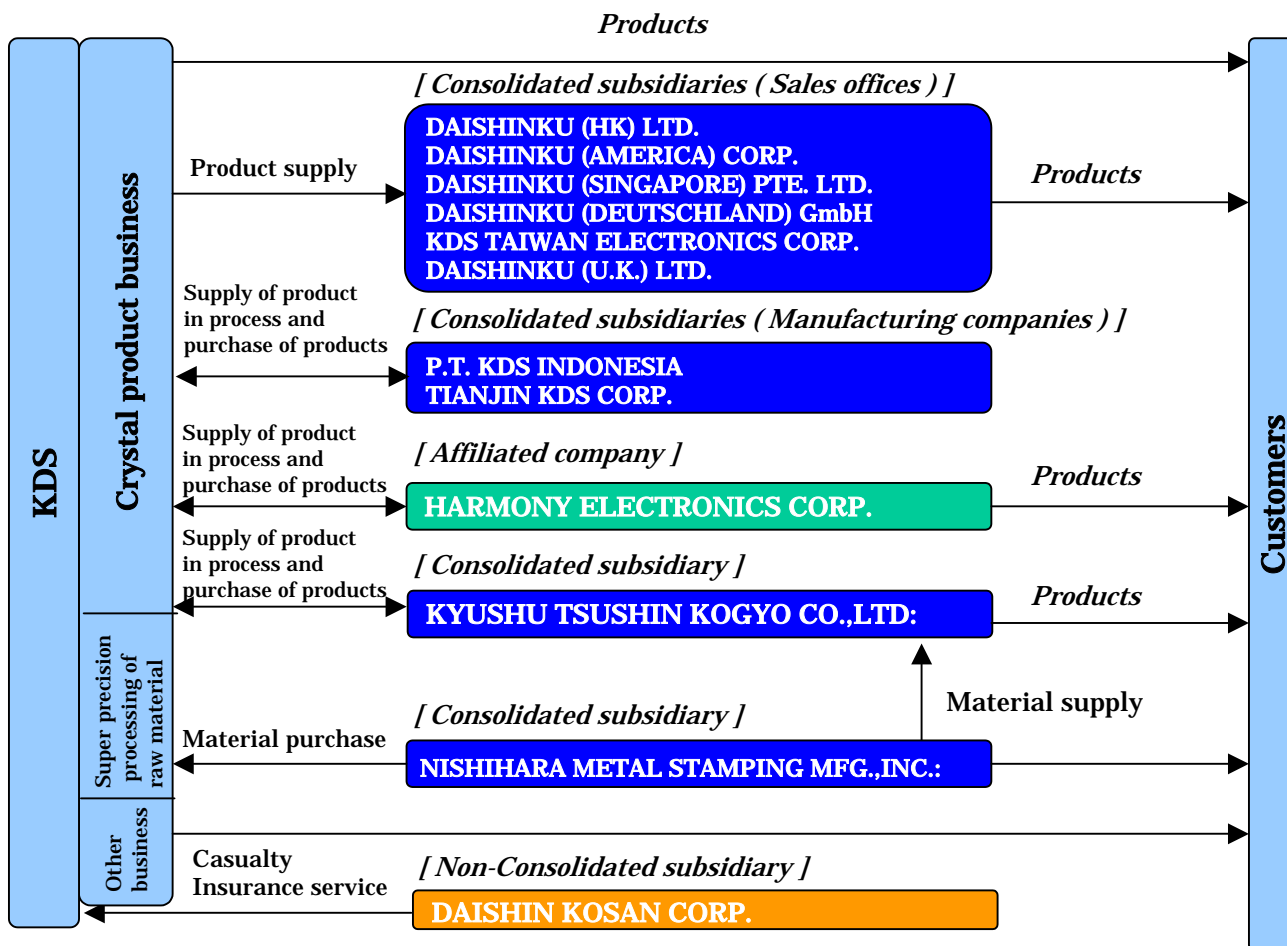
Financial Highlights

	[Million of Yen]			Thousand of U.S. Dollars
For The Year	2003	2002	2001	2003
Net Sales	31,513	32,633	48,032	262,608
Operating Income	-2,717	-3,511	3,579	-22,642
Net Income	-12,757	-3,950	2,226	-106,308
At Year - End				
Total Shareholders' Equity	25,911	39,111	42,822	215,925
Total Assets	65,347	77,882	82,520	544,558
Per Share of Common Stock			[Yen]	U.S. Dollars
Net Income	-317.31	-98.05	55.83	-2.64
Cash Dividends	-	2.00	8.00	-
Shareholders' equity	645.85	971.20	1,062.92	5.38

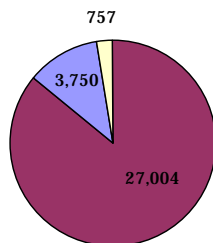
Note : U.S. dollar amounts are calculated at an exchange rate of JPY 120 to US\$1.

Profile

Company Group

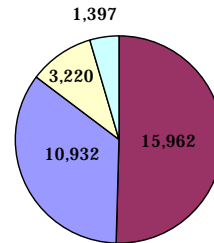


Sales Composition By Business Segment



Million of Yen

Sales Composition By Geographical Segment



Million of Yen

■ Crystal product business ■ Super precision processing of materials □ Other businesses

■ Japan ■ Asia □ North America □ Europe

For Shareholders and Investors



*President
Sohei Hasegawa*

For Shareholders and Investors

“KDS” brand with “Reliance”

Since our establishment in 1959, we Daishinku have been satisfying the advanced needs of the world demand, under our policy of “reliance.” It is expected that the demand for our main product, quartz devices will continue to rise along with the emergence of new medias, particularly with telecommunications and computers.

We work on strategy for new products with the keywords of “ubiquitous,” “digital network,” and “car electronics,” and we are planning to supply wonderful products to expanding markets. Since last year, there was a huge expansion for the demand of optical low pass filters (especially used for DSC), but we will also continue to challenge the new needs and technologies for greater diversity. “KDS” is a “reliable” brand that meets various needs.

Facing Account Settlement difficulties with unit price drop

In the Fiscal year ended March 31, 2003, with the completion of inventory adjustment of IT related devices, the business recovered particularly with mobile phones and AV products. However, we could not completely clear out the oversupply of the quartz market, and due to the drop of the unit price, our profit did not fully improve.

Our company works from product design to structure improvement in order to reform structures at various angles. This term, we worked hard to improve the profit by realignment of unprofitable models like old (lead-type) products. We aimed for disposition of such models, and the charge for the reformation of business structure cost ¥5,395 million. Also, due to the sluggish stock prices, we recorded marketable securities valuation of ¥ 895 million extraordinary loss. Furthermore, with the complete withdrawal of ¥2,480 million of deferred tax assets, net loss was ¥12,757 million. The net loss resulted in a large amount, but the purpose of these accounting procedures were to take away the negative factors and to hedge the risk from next term on. We would appreciate for your understanding and continued support.

For Shareholders and Investors

Profit valued management

Due to changes in the business environment of market trends and accounting systems, we feel that we need to break away from the conventional business style and shift to a new system of profit-valued management. In order to do this, we must reduce the manufacturing cost and strengthen the price competitiveness more quickly. Cost reduction is the result of improvement activities of yield and productivity. Therefore, it requires revision of design changes and production systems once in a while. Another measure is new product development with additional high value, and this also leads to differentiation in the business. This term, we developed 16 new products consisting 11% of sales. We plan to expand this up to 30% in the next term. In order to achieve a major market share in the growing field, we will continue to focus on research and development.

Environmental efforts

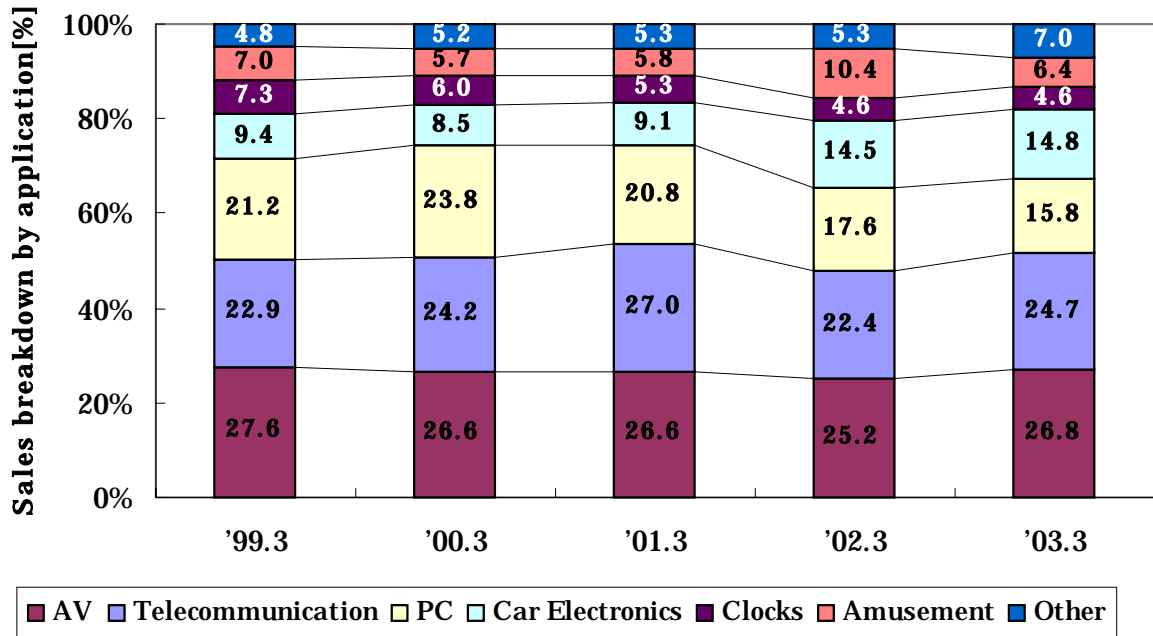
All Daishinku in Japan (including the manufacturing plants, development plant, distribution center, and the main office) and Tianjin KDS have been certified with ISO14000. Environmental preservation activity is considered as one of the most important management subjects and it contributes to the creation of better society through activity, which blends with the environment.

Recently, we are working hard to vanish the toxic substances contained in the product. By March 2005, we are aiming for complete lead - free product. For further information, please refer to our "Environmental Report."



Main Market

Sales performance by Application



Mobile Communications

Mobile phones are manufactured 400 million units per year, and it is a large market for our products. In mobile phones, quartz device functions as PLL standard oscillation, microcomputer clock, clock function, and IF filters (MCF); which are all manufactured at our company. We are one of the few crystal device makers, which manufactures tuning fork type crystal resonator, especially for clocks. Recently, due to the increase in the number of camera mount mobile phones, oscillators and optical low pass filters of camera drive are starting to be adopted in some models.

Its functions are continuing to develop, such as color liquid crystals and dual bands, and there are higher needs for miniature and power saving features for quartz devices. To respond to these needs, we developed TCXO module of size 5032 with temperature sensor function mounted. This sized TCXO is the first to be developed in the quartz company, and we have started its sales since this term.

Main Market



AV, Amusement

TV and VTR use quartz devices for tuner, control microcomputer, and clock functions. This term, the production of DSC (digital still camera) maintained high level, but in the recent years, digital AV equipment such as DVD has been growing.

DSC uses crystal oscillators and optical low pass filters (OLPF). Tianjin KDS strengthened its power on OLPF and responded to higher demand. As for digital AV equipment, adoption of miniature SMD product is increasing, and for DSC markets, we developed DSX321G with size 3225, which covers low frequency zones.

A home video game machine is exclusively for PC, and is one of the main markets of our company. There have been limited number of game companies, but crystal device has been supplied from the beginning of the sales of various game machines.

Car Electronics

With cars, crystal device is used for power train system (engine control unit, etc.), driver ability control (ABS, etc.), body control system (keyless entry system, etc.), telematics (car navigation, etc.) and other various systems. There have been no significant increase in car production, but electronic processing has been developed for many functions and demand for quartz device is expanding. Because of this, sales amount of this market is continuing to rise, and is expected to expand even more with the spreading of ITS.

This term, DSX840G with ceramic package was developed for car electronics and started its supply for TPMS and others

PC

Quartz device is used for numbers of purposes in peripheral equipment, starting with motherboard, monitor, recording head control, and monitor control. In 2001, worldwide production has slightly decreased, but it rose in 2002.

Notebook personal computer and PDA products, which provides excellent portability, are expanding and inside this market, the demand for miniature SMD is rising. As a core terminal for network, interfaces such as Bluetooth and W-LAN (Wireless LAN) are starting to be installed and the installing numbers are expected to increase. Storage device is an important component for PC. These HDD and DVD drives are spreading for use at home. PC and peripheral equipment are mainly manufactured in Asia, and with the price competition of local component manufacturers, sales tend to decline.

Topics

Opening Osaka Sales Office

We have opened Osaka Sales Office for fulfillment of customer satisfaction and multi-functional sales operation. With this, we have three sales offices in Japan: Tokyo Branch Office, Nagoya Sales Office, and Osaka Sales Office.

New products

Temperature Compensated Crystal Oscillators (TCXO) DSA/DSB535SA

TCXO with a single-package structure, where driving IC and crystal resonators are packed into a single package. By simplifying the number of components and manufacturing process, we have met lower price and quicker delivery product with high quality.



Temperature Compensated Crystal Oscillators (TCXO) DSA536MA

Multi-functional TCXO with 2nd LOCAL output, two outputs, temperature sensor output. It extends the standby screen time for cellular phones and makes miniaturization and multi-function possible by reducing the mounting area.



Crystal Oscillators DSV321ST

Crystal oscillator, which shuts noise generated from digital camera operation in cellular phones. By adopting this product, we can simplify the shield structure (which used to be needed) and EMI component.



Crystal Resonators DSX321G/DSX321SL

Miniature SMD crystal resonator with size 3225. It is available at low frequency (11MHz~) and low height (0.5mm). The main market for this product is AV equipments, Bluetooth, and wireless LAN.



Crystal Resonators DSX221S

Size of 2520, and it is the smallest SMD crystal resonator in the world. We have minimized 3225 size down to 60%.



Business Outlook

In the Fiscal Year 2003, the business looked to recover with the completion of inventory adjustment of IT related equipment. However, we could not fully improve, due to the economy slowdown. Some applications such as color liquid crystal, camera mounted cellular phone, and popularization of digital AV equipment had expanded, but the drop in sales price lead to suppression of profit.

KDS had strived for increase in production of optical low pass filters, responding to remarkable demand for DSC, and by seeking cost reduction measures for unprofitable models. We also worked hard to improve the profit by expansion of overseas production and realignment of domestic productions. However, our consolidated sales were ¥31,513 million (ratio of previous fiscal: -3.4%) and operating income loss of ¥2,717 million. Furthermore, with the complete withdrawal of structural reform expense, valuation loss on marketable securities, and deferred tax assets, net loss was ¥12,757 million.

Recording of extraordinary loss relating to business reform aiming at v-shaped recovery

While severe economic and financial situations continue, the environment for KDS has also become harsher. Under these circumstances, KDS group decided that it is necessary to implement fundamental business reform in a short period of time in order to break away from the conventional business style and shift to the profit-valued management. With this, we have recorded extraordinary loss relating to business reform, in order to realign unprofitable models and to modify production capacity. This was treated to zero-value the materials, inventories, and production equipment of old and unprofitable models.

Profit improvement plan operated this term

We implemented for the following profit-improvement plans, but the contribution of these plans to profit are planned to be next term after.

1) Integration of Plant

- 1 The old plant and the new plant of Tottori Plant were located in two separate sections, but we have closed the old plant and integrated both at new plant.
- 2 Manufacturing of optical products (Ichikawa Plant) has mostly been transferred to Tianjin KDS.
- 3 Crystal blank processing, which was located in Tokushima Plant and Kurodasho Plant will be integrated as one into Kurodasho Plant around summer, 2003.

2) Design changes of TCXO and module-izing

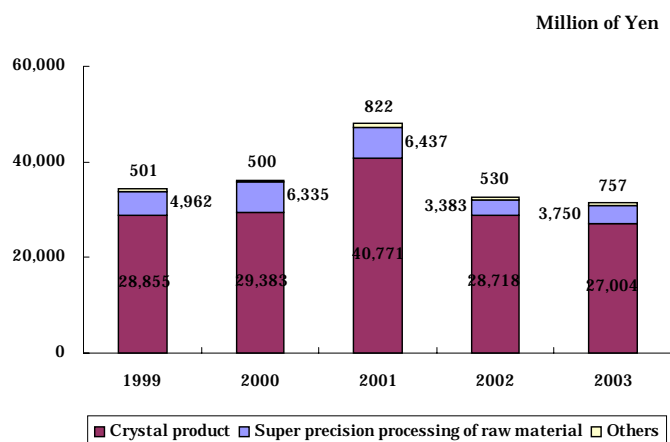
Crystal resonators and IC package had two separate structures, but we have put these together into one. From this, numbers of materials had been removed and assembly process had become more efficient, so manufacturing cost was greatly reduced.

3) Adjustment of unprofitable models

We have recorded extraordinary loss relating to business reform, and adjusted the inventory of lead-type crystal resonators and manufacturing equipments. Also, we have stopped the production of unprofitable models.

Business Outlook

Sales performance by business segment



1) Crystal Product Business

Sales volume increased, but with the drop of unit price, our sales amount were ¥27,004 million (6% decrease from previous term). Drop of unit price worsened the cost percentage, resulting in ¥1,806 million sales loss.

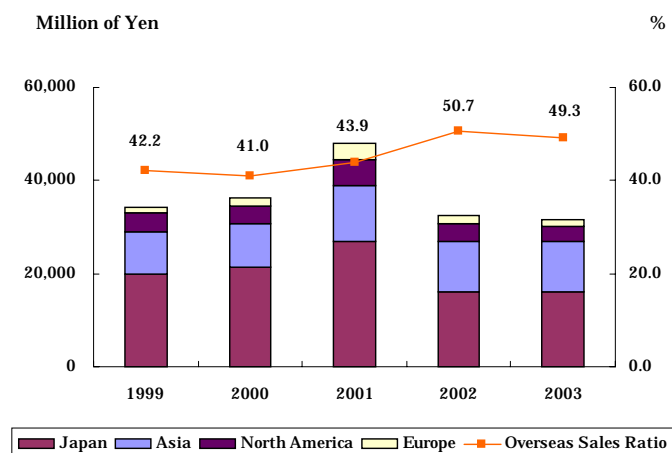
2) Ultra-precise material processing business

With the high demand for products to be used as materials for electronic components particularly in domestic markets, the sales recorded ¥3,751 million (10.8% increase from previous term). Operating profit was ¥189 million, a high increase.

3) Other businesses

In our other businesses, including ceramic electronic components, our sales increased by 42.8% from previous term, reducing operating loss down to ¥72 million. However, this was not enough to reduce the deficit.

Sales performance by geographical region



1) Japan

With the good sales of DSC; OLPF and related products increased. At the end of the term, new products for cellular phones contributed to our sales. On the other hand, because of model changes to inexpensive models and inventory adjustments, sales of game equipment turned down. As a result, our net sales were ¥15,962 million (0.9 % decrease from previous term).

2) Asia

Digital AV equipment made a better sale, but the sales of game equipments and audios slowed down in the latter half of the term. GSM and CDMA cellular phones to China went into inventory adjustments around the end of the term, and its sales were ¥10,933 million (1.6% increase from previous term).

3) North America

The economic environment became tough, due to Asian manufacturing shifts of PCs and rivalry with China. Car electronics had good sales, but price competition was harsh. As a result, net sales were ¥3,220 million (19.4% decrease from previous term).

4) Europe

Overall, the sales performance was weak, with the continuation of production adjustment of AV equipment. Car electronic related products were relatively stable, but the speed of developing new models slowed down. PC products moved in the latter half of the term, but the sales were ¥1,398 million (21.2% decrease from previous term).

Financial Report

Financial Condition

At the end of this term, our total assets were ¥65,347 million, 16.1% decrease from the end of last term. Current assets were ¥34,387 million, 18.4% decrease from previous year. This is mainly due to the decrease of inventories (¥6,203 million, 49.9% decrease compared with last term), and withdrawing deferred tax assets. Fixed assets were ¥30,960 million, 13.4% decrease by zero-valuing production facilities of old models, reduction of machineries by depreciation, loss on valuation of investment in securities, and withdraw of deferred tax assets. Inventories and reduction of machineries were recorded on extraordinary loss relating to business reform.

Total current liabilities were ¥16,349 million (65.9% increase from last term) with bond of repayment within one year and transfer of long-term debt to total long-term liabilities. Also, total long-term liabilities were ¥22,723 million (19.3% decrease) with transfer of straight corporation bond to total current liabilities.

Shareholder's equity recorded net loss of ¥25,911 million (33.8% decrease) and ratio of net worth decreased 39.7%. Unattended loss of the current fiscal year is to be compensated by withdrawing capital surplus reserve.

Cash flows

At the end of this term, cash and cash equivalents increased ¥873 million from last term, resulting as ¥15,105.

1) Cash flows of operating activities

With the recording of net loss and increase of receivables, the amount was ¥366 million with ¥1,845 million decreases from last term.

2) Cash flows of investing activities

Acquisition of net property, plant and equipment, and marketable securities recorded negative ¥1,157 million with ¥180 million decrease.

3) Cash Flows of financing activities

Because of repayment on long-term debt, the amount was ¥1,764 million, which was ¥65 million decrease from last term.

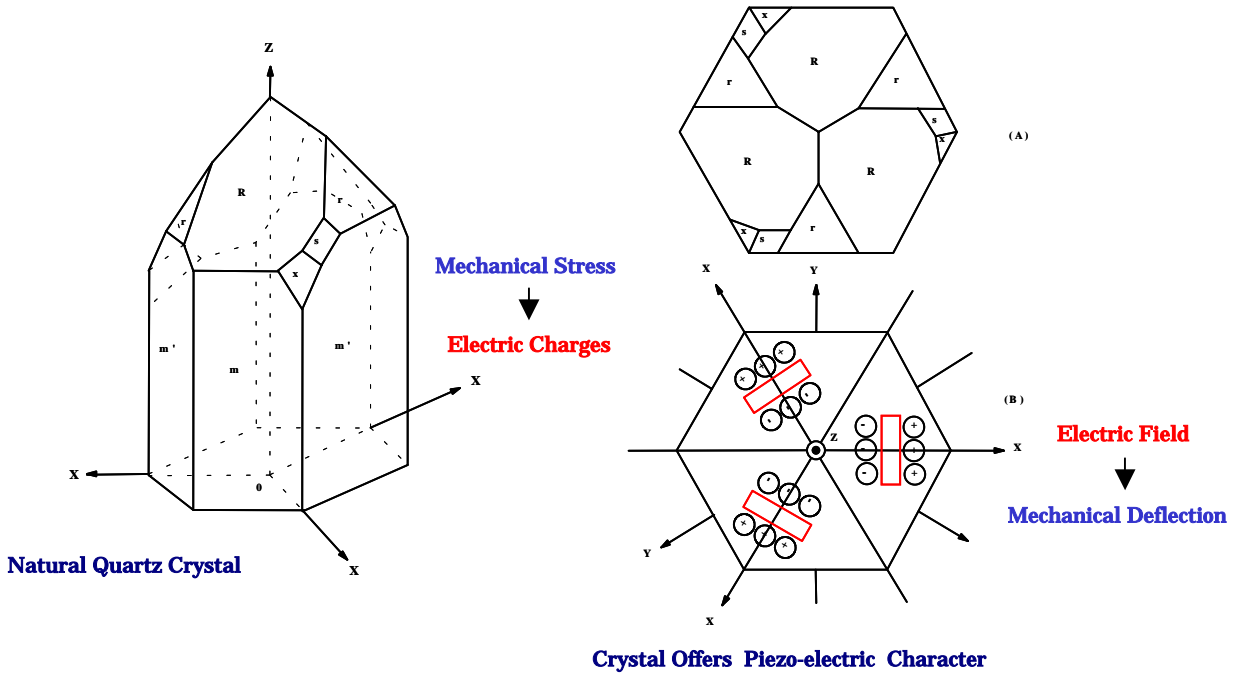
Equipment investments and depreciation

This term's equipment investments, which were ¥2,345 million, were made for increase in equipment of optical products, production equipment of new products, and reengineering equipment.

In Fiscal year ending March 2004, we are planning about ¥3 billion equipment investments for the production equipment of new products.

Quartz Crystal

Electrical Characteristic

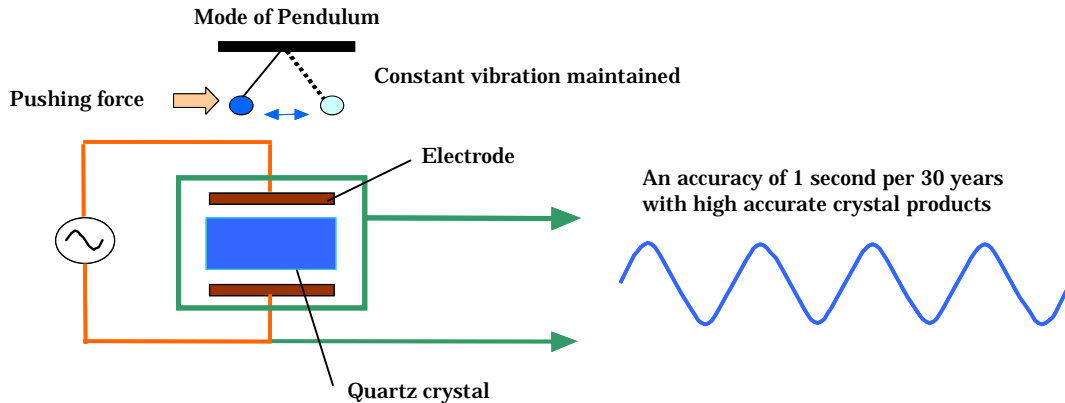


Crystal Application

Certain resonance frequency, depending on the cutting orientation or the shape of crystal elements (dimensions, thickness, etc.)



Highly accurate frequency can be obtained with crystal oscillators



Quartz Crystal

Synthetic Quartz Crystal

Autoclave
(Hydrothermal Growth of Quartz)

1000 to 1500 atmospheres

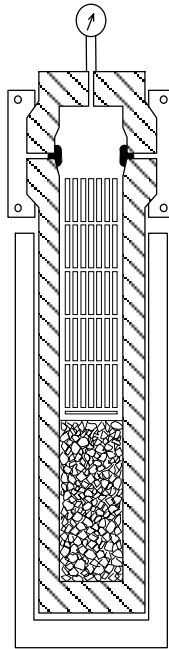
Synthetic Quartz Crystals

300 to 350 degree C

Materials (Lascas)

Dissolution Zone

340 to 350 degree C



Characteristic of Quartz Crystal

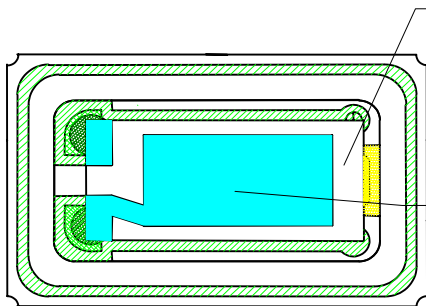
Physically chemically stable
⇒ *Low long-term stability*

Hi-Q ⇒ *Low energy loss*

Piezo-electric effect

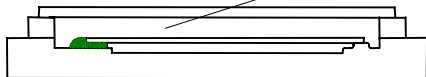
Small impact by temperature
⇒ *Obtain stable frequency*

Internal Structure of Quartz Device



(Top view)

(Cross sectional view)



Controls the dimensions and shape of crystal element

Highly accurate X-Ray measurement techniques
Highly accurate polishing and cutting techniques

Controls the thickness of electrodes in nanometer order

Sophisticated cleaning techniques
Film deposition techniques in high vacuum conditions

Clean inside : Completely removed particle contamination in sub-micron order

Accurate sealing techniques

An accuracy of 0.1 second per day



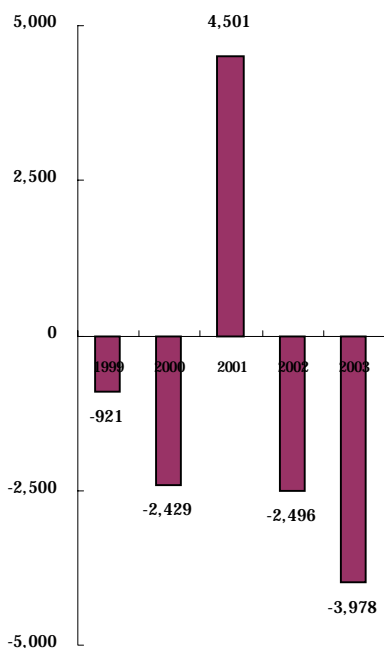
High frequency measurement techniques
Proper process control techniques
Know-how for optimizing each necessary technique

Five Year Summary

For The Year	[Million of Yen]					[Thousand of U.S. Dollars]
	2003	2002	2001	2000	1999	2003
Net sales	31,513	32,633	48,032	36,219	34,319	262,608
Crystal product business	27,004	28,718	40,771	29,383	28,855	225,033
Super precision processing of raw material	3,750	3,383	6,437	6,335	4,962	31,258
Others	757	530	822	500	501	6,317
Cost of sales	28,420	30,183	38,772	31,827	28,130	236,833
Gross profit	3,093	2,450	9,260	4,392	6,188	25,775
Selling general and administrative expenses	5,810	5,961	5,681	5,521	5,425	48,417
Operating Income	-2,717	-3,511	3,579	-1,129	763	-22,642
Income before income taxes and minority interests	-10,561	-4,699	2,502	-1,237	-828	-88,008
Net Income	-12,757	-3,950	2,226	-1,562	-1,035	-106,308
Capital investment	2,345	3,396	3,508	3,570	-	19,542
Depreciation and amortization	3,402	3,937	3,962	3,751	3,587	28,350
Overseas Sales	15,551	16,532	21,073	14,860	14,468	129,592
Overseas Sales Ratio(%)	49.3	50.7	43.9	41.0	42.2	49.3
Return on Equity(%)	-39.2	-9.6	5.3	-3.8	-2.4	-39.2
Total Assets	65,347	77,882	82,520	75,400	79,430	544,558
Total Shareholders' Equity	25,911	39,111	42,822	40,515	42,087	215,925
Equity Ratio(%)	39.7	50.2	51.9	53.7	53.0	39.7
			[Yen]			[U.S. Dollars]
Net Income per share	-317.31	-98.05	55.83	-39.28	-25.77	-2.64
Cash Dividends per share	-	2.00	8.00	-	4.50	-
Shareholders' equity per share	645.85	971.20	1062.92	1018.76	1058.30	5.38

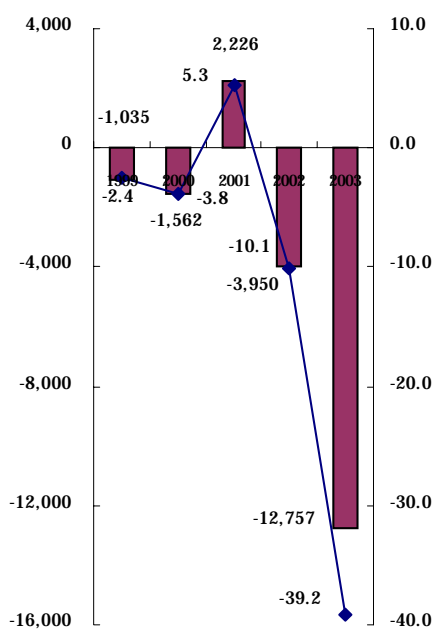
Ordinary Profit

Million of Yen



Net Income & ROE

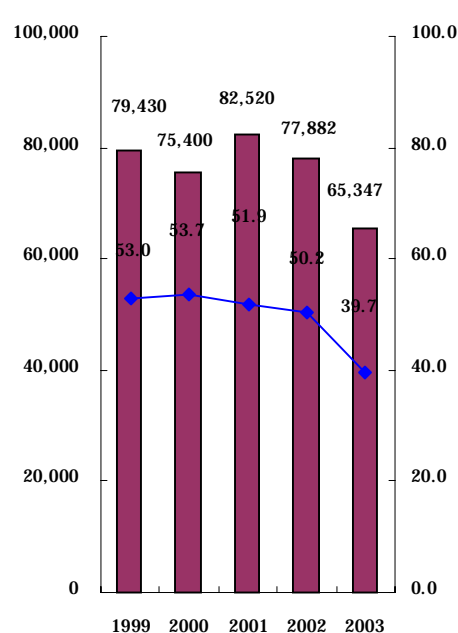
Million of Yen



Net Income ROE

Total Assets & Equity Ratio

Million of Yen



Total Assets Equity Ratio

Investor Information

March 31, 2003

Issued Common Stocks Shares	40,287,558
A securities[stock] exchange	Osaka Exchange
Number of shareholders	7,202

Major Shareholders

Number of Shares (Thousands) Percentage of Total Shares in Issue

	Number of Shares (Thousands)	Percentage of Total Shares in Issue
Hasegawa Fukushimai	3,000	7.45
Sohei Hasegawa	1,717	4.26
Bank of Tokyo-Mitsubishi	1,240	3.08
Minoru Hasegawa	1,142	2.83
Dai-Ichi Life Ins.	1,016	2.52
Nippon Life Ins.	1,004	2.49
Resona Bank	882	2.19
Toshikatsu Uchida	745	1.85
Customers' Stockholding	694	1.72
Noriyuki Takahira	670	1.66

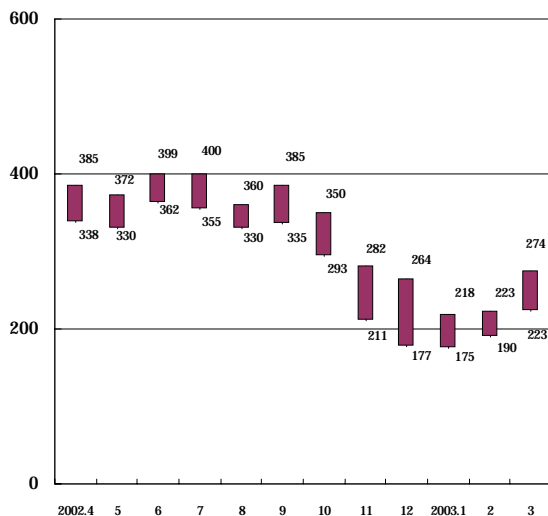
Shareholder Breakdown

Number of Shareholders Number of Shares (Thousands) Percentage of Total Shares in Issue

	Number of Shareholders	Number of Shares (Thousands)	Percentage of Total Shares in Issue
Individuals and Others	6,954	25,545	65.38
Foreign Investors	15	431	1.10
Other Corporation	188	4,980	12.75
Financial Institutions	24	7,683	19.66
Securities Companies	21	435	1.11
Total	7,202	39,074	100

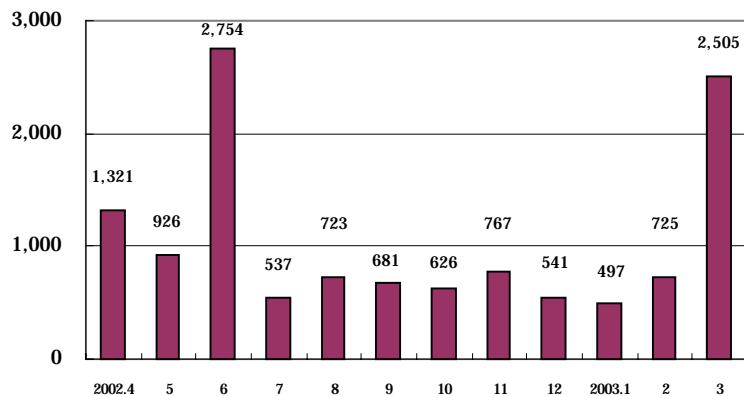
Stock Price

Yen



Trading Volume Shares

Thousands



Financial Section



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Consolidated Balance Sheets

DAISHINKU CORP. and Consolidated Subsidiaries

	(Millions of yen)		(Thousands of U.S. dollars)
	March 31,		(note3) March 31,
	2003	2002	2003
ASSETS			
Current assets:			
Cash and cash equivalents (Note 4,7)	¥15,105	¥14,232	\$125,875
Short-term investments (Note 4)	2,311	4,783	19,258
Trade notes and accounts receivable	8,858	7,484	73,817
Inventories (Note 5)	6,203	12,388	51,692
Deferred tax assets (Note 13)	5	1,637	42
Other current assets	1,937	1,626	16,142
Allowance for doubtful accounts	(32)	(28)	(267)
	<u>34,387</u>	<u>42,122</u>	<u>286,559</u>
Investments and other assets:			
Investment in securities (Note 4,7)	3,158	3,629	26,316
Deferred tax assets (Note 13)	18	1,079	150
Other assets	1,141	1,766	9,508
	<u>4,317</u>	<u>6,474</u>	<u>35,974</u>
Property, plant and equipment, at cost:			
Land (Note 7)	6,029	6,052	50,241
Buildings and structures (Note 7)	19,142	19,471	159,517
Machinery and equipment (Note 7)	40,301	45,374	335,842
Construction in progress	546	133	4,550
	<u>66,018</u>	<u>71,030</u>	<u>550,150</u>
Less : Accumulated depreciation	<u>(39,375)</u>	<u>(41,744)</u>	<u>(328,125)</u>
	<u>26,643</u>	<u>29,286</u>	<u>222,025</u>
	<u>¥65,347</u>	<u>¥77,882</u>	<u>\$544,558</u>

The accompanying notes are an integral part of these statements.

	(Millions of yen)		(Thousands of U.S. dollars) (note3)
	March 31,		March 31,
	2003	2002	2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings (Note 7)	¥2,105	¥1,788	\$17,542
Current portion of long -term debt (Note 7)	10,769	3,828	89,742
Trade notes and accounts payable	2,174	2,248	18,117
Accrued income taxes	62	268	517
Deferred tax liabilities (Note 13)	-	1	-
Accrued employees' bonuses	284	368	2,366
Other current liabilities	955	1,355	7,958
	<u>16,349</u>	<u>9,856</u>	<u>136,242</u>
Long-term liabilities:			
Long-term debt (Note7)	19,127	24,664	159,392
Retirement benefits to employees (Note 8)	3,049	2,786	25,408
Retirement benefits to directors and statutory auditors	143	244	1,192
Deferred tax liabilities (Note 13)	304	399	2,533
Other long-term liabilities	100	66	833
	<u>22,723</u>	<u>28,159</u>	<u>189,358</u>
Total liabilities	<u>39,072</u>	<u>38,015</u>	<u>325,600</u>
Minority interests	364	756	3,033
Contingent liabilities (Note9)			
Shareholders' equity (Note10):			
Common stock:			
Authorized: 79,479,000 shares			
Issued: 40,287,558 shares at March 31, 2003 and 2002	18,085	18,085	150,708
Additional paid-in capital	17,864	17,864	148,867
Retained earnings (Deficit)	(10,219)	2,619	(85,158)
Net unrealized holding gains on other securities	26	(189)	217
Foreign currency translation adjustments	199	737	1,658
Less: treasury stock, at cost: 167,779 shares at March 31, 2003 and 16,335 shares at March 31, 2002	(44)	(5)	(367)
Total shareholders' equity	<u>25,911</u>	<u>39,111</u>	<u>215,925</u>
	<u>¥65,347</u>	<u>¥77,882</u>	<u>\$544,558</u>

The accompanying notes are an integral part of these statements.

Consolidated Statements of Income

DAISHINKU CORP. and Consolidated Subsidiaries

	(Millions of yen)			(Thousands of U.S. dollars) (note3)
	For the years ended March31,			For the year ended March31,
	2003	2002	2001	2003
Net sales	¥31,513	¥32,633	¥48,032	\$262,608
Cost of sales	28,420	30,183	38,772	236,833
Gross profit	3,093	2,450	9,260	25,775
Selling, general and administrative Expenses (Note 11)	5,810	5,961	5,681	48,417
Operating income (loss)	(2,717)	(3,511)	3,579	(22,642)
Other income (expenses):				
Interest and dividend income	55	73	248	458
Interest expenses	(399)	(412)	(597)	(3,325)
Foreign exchange gain (loss), net	(855)	1,199	1,196	(7,125)
Equity in earning (loss) of affiliates	(102)	62	67	(850)
Loss on sales or disposal of property, plant and equipment, net	(65)	(7)	(179)	(542)
Restructuring charges (Note 12)	(5,395)	-	-	(44,958)
Write-down of investment securities	(895)	(444)	(222)	(7,458)
Reversal of reserve for stock warrants	-	-	936	-
Amortization of transition obligation of retirement benefits	-	-	(2,412)	-
Special retirement expense	-	(1,200)	-	-
Other, net	(188)	(459)	(114)	(1,566)
Income (loss) before income taxes and minority interests	(10,561)	(4,699)	2,502	(88,008)
Income taxes (Note 13):				
Current	(34)	217	1,841	(284)
Deferred	2,480	(948)	(1,697)	20,667
	(13,007)	(3,968)	2,358	(108,391)
Minority interests	(250)	(18)	132	(2,083)
Net income (loss)	¥(12,757)	¥(3,950)	¥2,226	\$ (106,308)
		(Yen)		(Dollars)
Net income (loss) per share (Note 2, 16)				
-Basic	¥(317.31)	¥(98.05)	¥55.83	\$ (2.64)
-Diluted	-	-	53.90	-
Cash dividends per share (Note2)	-	2.00	8.00	-

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

DAISHINKU CORP. and Consolidated Subsidiaries

	(Thousands)	(Millions of yen)					
	Number of shares of common stock outstanding	Common stock	Additional paid-in capital	Retained earnings (Deficit)	Net unrealized holding gains on other securities	Foreign currency translation adjustments	Treasury stock
Balance at March 31,2000	39,769	¥17,899	¥17,660	¥4,968	¥-	¥-	¥(12)
Net income				2,226			
Cash dividends				(160)			
Exercise of warrants	177	78	96				
Conversion of convertible bonds	342	108	108				
Net unrealized holding gains on other securities					(237)	-	-
Foreign currency translation adjustments					-	78	-
Net decrease of treasury stock					-	-	11
Balance at March 31,2001	40,288	18,085	17,864	7,034	(237)	78	(1)
Net loss				(3,950)			
Cash dividends				(161)			
Bonuses to directors and corporate auditors				(41)			
Cumulative effect of change in accounting standards of overseas consolidated subsidiaries				(263)			
Net unrealized holding gains on other securities					48		
Foreign currency translation adjustments						659	
Net increase of treasury stock							(4)
Balance at March 31,2002	40,288	18,085	17,864	2,619	(189)	737	(5)
Net loss				(12,757)			
Cash dividends				(81)			
Net unrealized holding gains on other securities					215		
Foreign currency translation adjustments						(538)	
Net increase of treasury stock							(39)
Balance at March 31,2003	40,288	¥18,085	¥17,864	¥(10,219)	¥26	¥199	¥(44)

	(Thousands of U.S. dollars) (note3)					
Balance at March 31,2002	\$150,708	\$148,867	\$21,825	\$ (1,575)	\$6,141	\$ (42)
Net loss			(106,308)			
Cash dividends			(675)			
Net unrealized holding gains on other securities				1,792		
Foreign currency translation adjustments					(4,483)	
Net increase of treasury stock						(325)
Balance at March 31,2003	\$150,708	\$148,867	\$ (85,158)	\$217	\$1,658	\$ (367)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

DAISHINKU CORP. and Consolidated Subsidiaries

(Millions of yen) (Thousands of
U.S. dollars)
(note 3)

	For the years ended March31,			For the year ended March31
	2003	2002	2001	2003
OPERATING ACTIVITIES:				
Income (Loss) before income taxes and minority interests	¥(10,561)	¥(4,699)	¥2,502	4(88,008)
Adjustments for				
Depreciation and amortization	3,402	3,937	3,962	28,350
Allowance for doubtful accounts	(2)	(38)	72	(17)
Retirement benefits to employees, net	263	110	2,645	2,192
Retirement benefits to directors and statutory auditors, net	(100)	23	(63)	(833)
Loss on sales or disposal of property, plant and equipment, net	65	7	178	542
Interest and dividend income	(55)	(73)	(248)	(458)
Interest expense	399	412	597	3,325
Foreign currency exchange losses (gains)-net	441	(560)	(189)	3,675
Special retirement expense	-	1,200	-	-
Restructuring charges	5,395	-	-	44,958
Write-down of investment securities	895	444	222	7,458
Changes in assets and liabilities:				
(Increase) decrease in trade notes and accounts receivable	(1,646)	5,542	(904)	(13,717)
Decrease (increase) in inventories	1,493	2,338	(1,069)	12,441
Increase (decrease) in trade notes and accounts payable	282	(2,791)	(285)	2,350
Other-net	(178)	(342)	(175)	(1,483)
Sub-total	93	5,510	7,245	775
Interest and dividends-received	81	114	294	675
Interest-paid	(383)	(432)	(467)	(3,192)
Income taxes-received (paid)	575	(1,781)	(254)	4,792
Special retirement expense-paid	-	(1,200)	-	-
Net cash provided by operating activities	366	2,211	6,818	3,050
INVESTING ACTIVITIES:				
Decrease (increase) in short-term investment	2,472	2,149	(2,885)	20,600
Payment for purchase of property, plant and equipment	(2,475)	(3,424)	(3,913)	(20,625)
Payment for purchase of investment in securities	(743)	(37)	(974)	(6,192)
Proceeds from sales of investment in securities	100	187	-	833
Payment for loan receivables	(548)	(9)	(94)	(4,566)
Other-net	37	157	82	308
Net cash (used in) investing activities	(1,157)	(977)	(7,784)	(9,642)
FINANCING ACTIVITIES:				
Increase (decrease) in short-term bank loans	382	(259)	(1,544)	3,183
Proceeds from long -term debt	6,815	6,715	15,388	56,792
Repayments of long-term debt	(5,315)	(4,436)	(13,401)	(44,292)
Proceed from issuance of common stock	-	-	156	-
Cash dividends-paid	(79)	(162)	(139)	(658)
Other- net	(39)	(29)	14	(325)
Net cash provided by financing activities	1,764	1,829	474	14,700
Effect of exchange rate changes on cash and cash equivalents	(100)	260	138	(833)
Net increase (decrease) in cash and cash equivalents	873	3,323	(354)	7,275
Cash and Cash equivalents at beginning of year	14,232	10,909	11,263	118,600
Cash and Cash equivalents at end of year	¥15,105	¥14,232	¥10,909	\$125,875

NON-CASH INVESTING AND FINANCING ACTIVITIES:

Conversion of convertible bonds into common stock and paid-in capital ¥- ¥- ¥216 \$-

The accompanying notes are an integral part of these statements.

Notes to the Consolidated Financial Statements

DAISHINKU CORP. and Consolidated Subsidiaries



1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by Daishinku Corp. (the “Company”) and its consolidated subsidiaries. The company and its domestic subsidiaries have maintained their accounts and records 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 and applied in Japan, which are different in certain respects from the application and disclosure requirement of International Accounting Standards or accounting principles generally accepted in the United States of America. Overseas consolidated subsidiaries maintain their records in conformity with accounting principles and practices generally accepted in their respective countries. In general, no adjustments to the accounts of overseas consolidated subsidiaries have been reflected in the accompanying consolidated financial statements to present them in conformity with Japanese accounting principles and practices followed by the Company as allowed under accounting principles and practices generally accepted in Japan.

Certain items presented in the consolidated financial statements filed with the Director of the Kanto Finance Bureau have been reclassified for the convenience of readers outside Japan.

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

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries. Investments in certain subsidiaries which are not consolidated and in affiliates are, with minor exceptions, accounted for under the equity method.

Generally, shareholdings in companies of more than 50% fall into the category of subsidiaries and shareholdings in companies of between 20% and 50% fall into the category of affiliates. However, shareholdings of between 40% and 50% may also fall into the category of subsidiaries, if the Company either substantially controls the investee company or has significant influence and relationship with the investees, respectively.

All significant intercompany accounts and transactions are eliminated in consolidation. The excess of the investment cost over the fair value of underlying net equity in subsidiaries and affiliates which are consolidated or accounted for under the equity method at the date of an acquisition is amortized on a straight-line basis within mainly five years.

P.T. KDS INDONESIA., TIANJIN KDS CORP. KDS TAIWAN ELECTRONICS CORP. and HARMONY ELECTRONICS CORP. use a fiscal year ending December 31. DAISHINKU (H.K) LTD., DAISHINKU (AMERICA) CORP., DAISHINKU (SINGAPORE) PTE. LTD., DAISHINKU (DEUTSCHLAND) GmbH and DAISHINKU (U.K.) LTD. use a fiscal year ending on January 31. Material intervening events arising from the use of the different fiscal year-end are appropriately adjusted in consolidation.

(b) Translation of foreign currencies

Effective from April 1, 2000, the Company and its domestic subsidiaries adopted the new Japanese accounting standard for foreign currency translation. Under the new standard, all monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in net profit or loss for the period when incurred.

The new standard also amended the method of translating foreign currency financial statements of foreign subsidiaries and affiliates into Japanese yen. Under the new standard, assets and liabilities of the foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. The shareholders' equity at 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 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 and included in minority interests

As a result of the adoption of the new Japanese accounting standard for the year ended March 31, 2001, income before income taxes decreased by ¥94 million, as compared when the previous accounting policy was consistently applied.

(c) Cash and Cash equivalents

Cash and cash equivalents include highly liquid investments purchased with an original maturity of three months or less

(d) Short-term securities and investment securities

Effective from April 1, 2000, the Company and its domestic subsidiaries adopted the new Japanese accounting standard for financial instruments. Securities held by the Company and its subsidiaries are, under the new standard, classified into other securities;

Other securities with readily determinable fair value 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.

Other securities without readily determinable fair value are stated at cost, except as stated in the paragraph below.

When the fair values of other securities fall below 50% of the acquisition cost, a realized loss is recognized on a new cost basis being the current market price. If the fair values fall more than 30% but less than 50%, a judgment is made about the likelihood of a recovery in price and a decision is taken as to whether the cost for other securities is written down by the impaired amount.

As a result of adoption of the new standard, income before income taxes for the year ended March 31, 2001 decreased by 133 million yen, as compared when the previous standard was consistently applied.

(e) Inventories

Inventories are mainly stated at cost determined by the average method

(f) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost, Depreciation is principally computed by the declining-balance method (excluding buildings acquired on April 1, 1998 or later, for which the straight-line method is applied), except that the foreign consolidated subsidiaries mainly compute depreciation by the straight-line method.

The principal estimated useful lives used for computing depreciation are as follows:

Building and structures 3 to 65 years

Machinery and equipment 2 to 17 years

The cost of maintenance, repairs and minor renewals is charged to income when incurred; major renewals and betterments are capitalized.

(g) Allowance for doubtful accounts

The allowance for doubtful accounts is computed based on historical write-off experience from a certain reference period plus an estimated uncollectible amounts based on the analysis of individual accounts.

(h) Retirement Benefits and pension plan

The Company and its subsidiaries maintain the Daishinku welfare pension fund plan and a qualified retirement-funded pension plan and unfounded lump-sum benefit plans. Retirement benefits to employees under those plans are determined by reference to current basic rates of pay and length of service.

Effective from April 1, 2000, the Company and its domestic subsidiaries adopted the new Japanese accounting standard for retirement benefits. In accordance with the new standard, the provision for retirement benefits represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets at the balance sheet date. The unrecognized actuarial gain or loss and unrecognized prior service cost, are amortized from the next period after its occurrence and from the period when incurred using the straight line method within the specific period over 10 years.

As a result of adopting the new standard, net pension expense for the year ended March 31, 2001 increased by 2,675 million yen and income before income taxes decreased by ¥2,675 million as compared when the previous standard was consistently applied.

Directors and statutory auditors are entitled, subject to shareholders' approval, to lump-sum payments under the unfounded retirement plan. The accrued liabilities for their retirement benefits are recorded based upon the amounts required by the Company's internal regulations.

(i) Finance leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases, except that leases do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

(j) Research and development expenses

Research and development expenses are charged to income when incurred.

(k) Income taxes

Accrued income taxes are provided at the amount currently payable. The Company and its subsidiaries adopted deferred tax accounting using the liability method in accordance with the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of each asset and liability.

(l) Hedge Accounting

If interest rate swap contracts are utilized as hedges and meet certain hedging criteria, the net amount to be paid or received under the contract is added to or deducted from the interest on the hedged items.

The derivatives designated as hedging instruments by the Company are principally interest rate swaps. The related hedged items are long-term bank loans and bonds issued by the Company.

The Company has a policy to utilize the above hedging instruments in order to reduce the Company's exposure to the risk of interest rate fluctuation.

(m) Net income per share

The computation of basic net income per share is based upon the weighted average number of shares of common stock outstanding during each period.

The computation of diluted net income per share is based upon the weighted average number of shares of common stock equivalents which include warrants and convertible bonds. Diluted net income per share is not disclosed in 2002 and 2003 as a net losses are recorded.

Cash dividends per share for each year represent the dividends declared as applicable to the respective years.

3.U.S. Dollar Amounts

The United States dollar amounts are included solely for convenience and represent translations of Japanese yen amounts, as a matter of arithmetical computation only, at the rate of ¥120 = US\$1, the exchange rate prevailing on March 31, 2003. The translation should not be construed as a representation that Japanese yen amounts have been, could have been or could be realized or converted into United States dollars at the above or any other rate.

4.Short-term investments and investment in securities

Short-term investment and investment in securities at March 31, 2003 and 2002 were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	March 31, 2003	2002	March 31, 2003
Short term investment			
Time deposits	¥1,622	¥1,696	\$13,516
Money management fund	339	3,087	2,825
Free financial fund	350	-	2,917
Total	¥2,311	¥4,783	\$19,258
Investment in securities:			
Marketable equity securities and investment trust	¥1,668	¥2,110	\$13,900
Investment in unconsolidated subsidiaries and affiliates	1,100	1,519	9,166
Non-marketable equity securities and investment trust	390	-	3,250
	¥3,158	¥3,629	\$26,316

Information regarding marketable securities at March 31, 2003 and 2002 were as follows:

				(Millions of yen)			
				March 31,			
				2003			
		cost	Gross unrealized gains	Gross Unrealized losses	Fair value		
Equity securities		¥1,201	¥164	¥120	¥1,245		
Others		423	-	-	423		
	Total	¥1,624	¥164	¥120	¥1,668		

				(Millions of yen)			
				March 31,			
				2002			
		cost	Gross unrealized gains	Gross Unrealized losses	Fair value		
Equity securities		¥1,704	¥222	¥336	¥1,590		
Others		730	2	212	520		
	Total	¥2,434	¥224	¥548	¥2,110		

				(Thousands of U.S. dollars)			
				March 31,			
				2003			
		cost	Gross unrealized gains	Gross Unrealized losses	Fair value		
Equity securities		\$10,008	\$1,367	\$1,000	\$10,375		
Others		3,525	-	-	3,525		
	Total	\$13,533	\$1,367	\$1,000	\$13,900		

5. Inventories

Inventories at March 31, 2003 and 2002 consist of the followings:

		(Millions of yen)		(Thousands of U.S. dollars)
		March 31,		March 31,
		2003	2002	2003
Finished goods		¥2,865	¥4,794	\$23,875
Materials and supplies		1,354	2,010	11,284
Work in process		1,984	5,584	16,533
		¥6,203	¥12,388	\$51,692

6. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the lease assets at March 31, 2003 and 2002, if finance lease accounting is applied to the finance leases which are currently accounted for as operating leases:

	(Millions of yen)		
	March 31,		
	2003		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥3,748	¥1,878	¥1,870

	(Millions of yen)		
	March 31,		
	2002		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥3,438	¥1,326	¥2,112

	(Thousands of U.S. dollars)		
	March 31,		
	2003		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	\$31,233	\$15,650	\$15,583

The future lease payments related to financing leases and non-cancelable operating leases of the Company and its domestic subsidiaries, including amounts representing interest, at March 31, 2003 and 2002, were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2003	2002	2003
Due within one year	¥550	¥ 551	\$4,583
Due after one year	1,320	1,561	11,000
Future lease payments	¥ 1,870	¥ 2,112	\$15,583

Lease payments relating to finance leases accounted for as operating lease in Japan in the accompanying consolidated financial statements amounted to ¥ 562 million (\$4,683 thousand), ¥543 million and ¥ 398 million for the year ended March 31, 2003, 2002 and 2001.

7.Short-term borrowings and long term-debt

Short-term borrowings consist principally bank loans with weighted average rate of 1.7% and 1.6% at March 31, 2003 and 2002 respectively. Long-term debt at March 31, 2003 and 2002 consists of the followings:

	(Millions of yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2003	2002	2003
Unsecured convertible bonds payable in Japanese yen, due from 2000 to 2004, with interest rate of 0%	¥5,883	¥6,183	\$49,025
Secured bonds, payable in Japanese yen, due from 1999 to 2003, with floating interest rate	5,000	5,000	41,667
Loans principally from banks, due 2003-2015, with weighted average interest of 1.6% and 1.7% at March 31, 2003 and 2002 respectively.	19,013	17,309	158,442
Less; current portion	(10,769)	(3,828)	(89,742)
	¥19,127	¥24,664	\$159,392

The current conversion price of unsecured convertible bond is ¥508 per share. This conversion price is subject to adjustment under certain conditions. This convertible bond is convertible in the period up to September 16, 2004.

The aggregate annual maturities of long-term debt at March 31, 2003 were as follows:

Year ending March 31,	(Millions of yen)	(Thousands of U.S. dollars)
2004	¥10,769	\$89,742
2005	9,364	78,033
2006	2,695	22,458
2007	2,884	24,034
2008	1,910	15,917
2009 and thereafter	2,274	18,950
	¥29,896	\$249,134

Following assets are pledged as collateral for bonds and loans principally from banks at March 31, 2003 and 2002:

Assets pledged as collateral:	(Millions of yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2003	2002	2003
Deposit	¥106	¥125	\$883
Land	3,191	3,191	26,592
Buildings and structures	2,080	2,232	17,333
Machinery and equipments	466	932	3,883
Investments in securities	128	168	1,067
Other assets	134	138	1,117
	¥6,105	¥6,786	\$50,875

Short-term borrowings and long-term debt with pledged assets at March 31, 2003 and 2002 were as follows:

Liabilities secured thereby:	(Millions of yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2003	2002	2003
Short-term borrowings	¥703	¥625	\$5,858
Current portion of long-term debt	109	52	908
Long-term debt	7,250	7,219	60,417
	¥8,062	¥7,896	\$67,183

8. Retirement benefits to employees

Benefit obligation, plan assets and funded status of the Company and its domestic consolidated subsidiaries at March 31, 2003 and 2002 are as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2003	2002	2003
Benefit obligation at end of year	¥6,789	¥6,042	\$56,575
Fair value of plan assets at end of year	(2,996)	(2,955)	(24,967)
Funded status:	3,793	3,087	31,608
Benefit obligation in excess of plan assets			
Unrecognized actuarial loss	342	379	2,850
Unrecognized prior service cost	(1,086)	(680)	(9,050)
Accrued pension liability recognized in the balance sheet	¥3,049	¥2,786	\$25,408

Severance and pension costs of the Company and its domestic consolidated subsidiaries and assumptions in calculation for benefit obligations were as follows:

	(Millions of yen)			(Thousands of U.S. dollars)
	March 31,			March 31,
	2003	2002	2001	2003
Service cost	¥504	¥425	¥514	\$4,200
Interest cost	180	209	199	1,500
Expected return on plan assets	(89)	(121)	(116)	(742)
Amortization:				
Transition obligation at date of adoption	-	-	2,412	-
Prior service cost	(37)	(16)	6	(308)
Actuarial losses	66	4	-	550
Net periodic benefit cost	¥624	¥501	¥3,015	\$5,200
Discount rate	2.5%	3.0%	3.5%	
Expected rate of return on plan assets	3.0%	3.5%	3.5%	

9. Contingent liabilities

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

	(Millions of yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2003	2002	2003
Trade notes endorsed	¥576	¥522	\$4,800
Trade notes discounted	174	169	1,450
Loans guaranteed (HARMONY ELECTRONICS CORP.)	1,354	1,656	11,283

10. Shareholders' equity

Under the Japanese Commercial Code (the "Code"), the entire amount of the issue price of shares is required to be capitalized as stated capital, although the Company may, by resolution of its board of directors, capitalize as amount not exceeding one-half of the issue price of the shares as additional paid-in capital. The Company may, by resolution of the board of directors, distribute additional paid-in capital or the stated capital in the form of stock splits. The Code also provides that legal retained earnings and additional paid-in capital reserve until 25% of the Company's stated capital. The legal reserve and additional paid-in capital may be transferred to stated capital through suitable director actions or used to reduce a deficit through suitable shareholders' action. Under the Code, the Company is allowed to acquire its own shares to the extent that the aggregate cost of treasury shares does not exceeds the maximum amount available for dividends.

11. Research and development expenditure

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2003, 2002 and 2001 amounted to ¥1,201million (\$10,008 thousand), ¥1,339million and ¥ 1,307million respectively.

12. Restructuring charges

The restructuring charges recorded for the year ended March 31, 2003 were comprised of ¥4,372 million (\$36,433 thousand) of inventory write-offs, ¥638 million (\$5,317 thousand) of fixed asset write-offs and ¥385 (\$3,208 thousand) of bad debt losses.

The definition of restructuring charges is different from that of International Accounting Standards or accounting

principles generally accepted in the United States of America.

13. Income taxes

Income taxes applicable to the Company and its domestic subsidiaries include (1) corporation tax, (2) enterprise tax and (3) inhabitants tax which, in the aggregate, result in an effective tax rate approximately equal to 41.9% for the year ended March 31, 2003, 2002 and 2001.

Reconciliation between the Japanese statutory income tax rate and the effective tax rate for the year ended March 31, 2001 is as follows.

	<u>2001</u>
Japanese statutory tax rate	41.9 %
Expenses not deductible for tax purposes	1.0
Permanently non-taxable income	-0.5
Income of foreign subsidiaries taxed at lower than statutory tax rates	-8.7
Valuation allowances	-24.5
Others	<u>-3.5</u>
Effective income tax rate	<u><u>5.7 %</u></u>

No reconciliations are shown for the years ended March 31, 2003 and 2002 as net loss were recorded respectively.

For the year ending March 31, 2005, a corporation size-based enterprise tax will be introduced and which will supersede the current enterprise tax. As a result, the statutory tax rate for the year ending March 31, 2005 will be reduced from the rate used before April 1, 2004. The newly enacted tax rates were used in calculating the future expected tax effects of temporary differences to be realized after April 1, 2004, as of March 31, 2003. However there is no impact on the accompanying consolidated financial statements, since deferred tax assets are almost offset by valuation allowance.

The components of the deferred tax assets and deferred tax liabilities at March 31, 2003 and 2002 were as follows:

	(Millions of yen)		<i>(Thousands of U.S. dollars)</i>
	March 31, 2003	2002	March 31, 2003
Deferred tax assets:			
Tax loss carry forward	¥2,161	¥1,707	\$18,008
Write-down of inventories	1,714	-	14,283
Retirement benefits to employees	1,242	1,148	10,350
Write-down of investment	512	186	4,267
Write-down of property, plant and equipment	258	-	2,150
Other	546	569	4,550
Gross deferred tax assets	<u>6,433</u>	<u>3,610</u>	<u>53,608</u>
Less: Valuation allowance	(6,314)	(680)	(52,616)
Total deferred tax assets	<u><u>¥119</u></u>	<u><u>¥2,930</u></u>	<u><u>\$992</u></u>
Deferred tax liabilities:			
Tax purpose reserves by Japanese tax law	¥-	¥(152)	\$-
Depreciation of overseas consolidated subsidiaries	(382)	(448)	(3,183)
Other	(18)	(14)	(150)
Gross deferred tax liabilities	<u>(400)</u>	<u>(614)</u>	<u>(3,333)</u>
Net deferred tax assets (liabilities)	<u><u>¥(281)</u></u>	<u><u>¥2,316</u></u>	<u><u>\$(2,341)</u></u>

14. Segment Information

The operations of the Company and its consolidated subsidiaries were classified into three industrial segment: quartz crystal, ultra-precision work and others.

Quartz crystal operation consists of crystal resonators, crystal oscillators and monolithic crystal filters.

Ultra-precision work operation consists of ultra-precision presswork and dies manufacture.

Others consist of ceramic resonators and moving-image display boards utilizing static electricity.

Industrial segment information for the years ended March 31, 2003, 2002 and 2001 were as follows:

	(Millions of yen)				Consolidated total
	Quartz crystal	Ultra-precision work	Others	Elimination	
For the year ended March 31, 2001					
Sales:					
Sales to outside customers	¥40,771	¥6,438	¥823	¥-	¥48,032
Inter-segment sales	-	341	-	(341)	-
Total	40,771	6,779	823	(341)	48,032
Operating expenses	36,162	6,535	897	859	44,453
Operating income(loss)	¥4,609	¥244	¥(74)	¥(1,200)	¥3,579
Identifiable assets	¥57,851	¥5,542	¥473	¥18,655	¥82,521
Depreciation and amortization	¥3,462	¥300	¥94	¥106	¥3,962
Capital expenditure	¥3,107	¥401	¥-	¥-	¥3,508
For the year ended March 31, 2002					
Sales:					
Sales to outside customers	¥28,718	¥3,384	¥531	¥-	¥32,633
Inter-segment sales	-	161	-	(161)	-
Total	28,718	3,545	531	(161)	32,633
Operating expenses	30,230	3,985	649	1,280	36,144
Operating income(loss)	¥(1,512)	¥(440)	¥(118)	¥(1,441)	¥(3,511)
Identifiable assets	¥52,123	¥4,753	¥405	¥20,601	¥77,882
Depreciation and amortization	¥3,461	¥239	¥65	¥172	¥3,937
Capital expenditure	¥3,353	¥43	¥-	¥-	¥3,396
For the year ended March 31, 2003					
Sales:					
Sales to outside customers	¥27,004	¥3,751	¥758	¥-	¥31,513
Inter-segment sales	-	138	-	(138)	-
Total	27,004	3,889	758	(138)	31,513
Operating expenses	28,810	3,700	830	890	34,230
Operating income(loss)	¥(1,806)	¥189	¥(72)	¥(1,028)	¥(2,717)
Identifiable assets	¥44,560	¥3,911	¥360	¥16,516	¥65,347
Depreciation and amortization	¥3,024	¥188	¥46	¥144	¥3,402
Capital expenditure	¥2,316	¥17	¥12	¥-	¥2,345
(Thousands of U.S. dollars)					
	Quartz crystal	Ultra-precision work	Others	Elimination	Consolidated total
For the year ended March 31, 2003					
Sales:					
Sales to outside customers	\$225,033	\$31,258	\$6,317	\$-	\$262,608
Inter-segment sales	-	1,150	-	(1,150)	-
Total	225,033	32,408	6,317	(1,150)	262,608
Operating expenses	240,083	30,833	6,917	7,417	285,250
Operating income(loss)	\$(15,050)	\$1,575	\$(600)	\$(8,567)	\$(22,642)
Identifiable assets	\$371,333	\$32,592	\$3,000	\$137,633	\$544,558
Depreciation and amortization	\$25,200	\$1,567	\$383	\$1,200	\$28,350
Capital expenditure	\$19,300	\$142	\$100	\$-	\$19,542

The operations of the company and its consolidated subsidiaries were classified into geographical area: Japan, Europe, Asia, and North America. The information by geographic area for the year ended March 31, 2003, 2002 and 2001 were as follows:

	(Millions of yen)					Consolidated total
	Japan	Europe	Asia	North America	Elimination	
For the year ended March 31, 2001						
Sales:						
Sales to outside customers	¥28,601	¥3,008	¥12,182	¥4,241	¥-	¥48,032
Inter-segment sales	16,134	8	7,368	28	(23,538)	-
Total	44,735	3,016	19,550	4,269	(23,538)	48,032
Operating expenses	40,292	2,876	18,763	4,491	(21,969)	44,453
Operating income(loss)	¥4,443	¥140	¥787	¥(222)	¥(1,569)	¥3,579
Identifiable assets	¥55,114	¥1,079	17,986	¥2,042	¥6,300	¥82,521
For the year ended March 31, 2002						
Sales:						
Sales to outside customers	¥17,369	¥1,644	¥9,633	¥3,987	¥-	¥32,633
Inter-segment sales	10,762	18	6,102	15	(16,897)	-
Total	28,131	1,662	15,735	4,002	(16,897)	32,633
Operating expenses	29,556	1,692	16,946	4,177	(16,227)	36,144
Operating income(loss)	¥(1,425)	¥(30)	¥(1,211)	¥(175)	¥(670)	¥(3,511)
Identifiable assets	¥48,389	¥518	¥19,103	¥1,388	¥8,484	¥77,882
For the year ended March 31, 2003						
Sales:						
Sales to outside customers	¥18,147	¥1,481	¥8,674	¥3,211	¥-	¥31,513
Inter-segment sales	12,231	5	8,414	2	(20,652)	-
Total	30,378	1,486	17,088	3,213	(20,652)	31,513
Operating expenses	31,103	1,525	18,212	3,207	(19,817)	34,230
Operating income(loss)	¥(725)	¥(39)	¥(1,124)	¥6	¥(835)	¥(2,717)
Identifiable assets	¥41,901	¥483	¥18,884	¥1,252	¥2,827	¥65,347
	(Thousands of U.S. dollars)					
	Japan	Europe	Asia	North America	Elimination	Consolidated total
For the year ended March 31, 2003						
Sales:						
Sales to outside customers	\$151,225	\$12,342	\$72,283	\$26,758	\$-	\$262,608
Inter-segment sales	101,925	41	70,117	17	(172,100)	-
Total	253,150	12,383	142,400	26,775	(172,100)	262,608
Operating expenses	259,192	12,708	151,767	26,725	(165,142)	285,250
Operating income(loss)	\$(6,042)	\$(325)	\$(9,367)	\$50	\$(6,958)	\$(22,642)
Identifiable assets	\$349,175	\$4,025	\$157,367	\$10,433	\$23,558	\$544,558

(3) Overseas sales were those of the Company and its subsidiaries in countries other than Japan, including overseas subsidiaries' sales to overseas third parties. Overseas sales for the years ended March 31, 2003, 2002 and 2001 were as follows:

	(Millions of yen, except percentages)			(Thousands of U.S. dollars, except percentages)
	For the year ended March 31,			For the year ended March 31,
	2003	2002	2001	2003
Overseas sales	¥15,551	¥16,532	¥21,073	\$129,592
Consolidated sales	31,513	32,633	48,032	262,608
Ratio of overseas sales to consolidated sales	49.3%	50.7%	43.9%	49.3%

15. Related Party Transactions

The transaction with HARMONY ELECTRONICS CORP., an affiliated company, during the years ended March 31, 2003, 2002, 2001 were as follows:

	(Millions of yen)			(Thousands of U.S. dollars)
	2003	2002	2001	2003
Sales	¥58	¥68	¥144	\$483
Purchase	¥829	¥944	¥1,709	\$6,908

Amounts due from /to HARMONY ELECTRONICS CORP., an affiliated company, as of March 31, 2003 and 2002 were as follows:

	(Millions of yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2003	2001	2003
Trade notes and accounts receivable	¥22	¥37	\$183
Trades notes and accounts payable	¥73	¥130	\$608

16. Net income per share

The computation of net income per share for the year ended March 31, 2003 was summarized as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Net loss	¥(12,757)	\$(106,308)
Bonuses to directors and corporate auditors	-	-
Adjusted net loss	¥(12,757)	\$(106,308)
Basic weighted average number of shares outstanding	40,204,806	
Basic earnings per share	¥(317.31)	\$(2.64)

17. Reclassifications

Certain reclassifications of previously reported amounts have been made to the consolidated balance sheets at March 31, 2002, the consolidated statements of income, shareholders' equity and cash flows for the years ended March 31, 2002 and 2001 to conform to the current year presentation. Such reclassifications have no effect on net assets, net income and cash flows.

18.Subsequent events

With the promulgation of the defined benefit enterprise pension plan law in June 2001, the Company obtained an authorization for an exemption from its obligation for benefits related to future employee service which cover a portion of the governmental welfare pension program from the Minister of Health, Labor and Welfare on April 15, 2003.

Adopting the alternative treatment prescribed by No.47-2 of Accounting Committee Report No.13, "Practical Guidance for Accounting for Retirement Benefit (Interim Report)," the Company will recognize the relinquishment of the substitutional portion of the retirement benefit obligation of the welfare pension funds effective April 15, 2003, and any differences between the obligation relinquished and the related pension fund assets were charged to income as of that date.

As a result, the amount of the impact for the year ending March 31, 2004 is estimated to be ¥691 million (\$5,758 thousand) gain.

Report of Independent Auditors

To the Board of Directors

DAISHINKU CORP.,

We have audited the accompanying consolidated balance sheet of DAISHINKU CORP. and its consolidated subsidiaries as of March 31, 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of DAISHINKU CORP. and its consolidated subsidiaries as of March 31, 2002 and 2001 and for the years then ended were audited by other independent auditors who have ceased operations. Those independent auditors expressed an unqualified opinion on those financial statements in their report dated June 27, 2002. Their report contained an explanatory paragraph that described the adoption of new accounting standards discussed in Note 2 to the consolidated financial statements.

We conducted our audit in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of DAISHINKU CORP. and its consolidated subsidiaries as of March 31, 2003, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1).

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.

Chuohoyama Audit Corporation

Osaka, Japan

June 27, 2003

**REPORT OF INDEPENDENT AUDITORS
ON THE CONSOLIDATED FINANCIAL STATEMENTS**

The following is a copy of the audit report previously issued by Mizuho audit Corporation in connection with DAISHINKU CORP., Annual Report for the year ended March 31,2002.This audit report has not been reissued by Mizuho Audit Corporation.

**To the Board of Directors
Daishinku Corp.**

We have examined the consolidated balance sheets of Daishinku Corp. and its consolidated subsidiaries as of March 31,2002 and 2001,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 examinations were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Daishinku Corp. and its consolidated subsidiaries as of March 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2002, in conformity with generally accepted accounting principles in Japan, which have been applied on a consistent basis.

As described in Note 2,effectively April 1 2000,the consolidated financial statements have been prepared in accordance with new accounting standards for employee's retirement benefits, financial instruments and a revised accounting standard for foreign currency transaction.

We have reviewed the translation into U.S. dollars of financial statements referred to above and, in our opinion, the translation amounts have been computed on the basis described in Note 1.

Kobe, Japan
June 27,2002



MIZUHO AUDIT CORPORATION

See Note 1 which explains the basis of preparing the consolidated financial statements of Daishinku Corp. under Japanese accounting principles and practices.

Non-consolidated Balance Sheets (Supplemental Information)

DAISHINKU CORP.

	(Millions of yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2003	2002	2003
ASSETS			
Current assets:			
Cash and cash deposits	¥12,888	¥13,647	\$107,400
Short-term investments	689	3,087	5,742
Notes and accounts receivable	9,806	8,351	81,717
Inventories	3,263	7,981	27,191
Deferred tax assets	-	1,629	-
Other current assets	2,874	1,830	23,950
Allowance for doubtful accounts	(55)	(47)	(458)
Total current assets	29,465	36,478	245,542
Investments and other assts:			
Investment in securities	2,022	2,073	16,850
Investment in and advances to unconsolidated subsidiaries and affiliates	6,410	5,974	53,416
Long-term loans to subsidiaries and affiliate	312	733	2,600
Deferred tax assets	-	1,079	-
Other assets	571	618	4,758
	9,315	10,477	77,624
Property, plant and equipment, at cost:			
Land	5,286	5,286	44,050
Buildings and structures	14,109	14,099	117,575
Machinery and equipment	25,365	30,000	211,375
Construction in progress	17	12	142
	44,777	49,397	373,142
Less: Accumulated depreciation	(28,566)	(31,339)	(238,050)
	16,211	18,058	135,092
	¥54,991	¥65,013	\$458,258

Notes: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥120 to US\$1, the approximate exchange rate at March 31, 2003.

	(Millions of yen)		(Thousands of U.S. dollars)
	March 31,		March 31,
	2003	2002	2003
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings	¥182	¥318	\$1,517
Current portion of long-term debt	8,648	2,301	72,067
Trade accounts payable	1,892	1,788	15,766
Accounts payable	244	450	2,033
Accrued income taxes	23	-	192
Accrued expenses	237	230	1,975
Accrued employees' bonuses	253	364	2,108
Other current liabilities	30	25	250
	<u>11,509</u>	<u>5,476</u>	<u>95,908</u>
Long-term debt:			
Long-term debt	11,099	16,697	92,492
Retirement benefits to employees	3,003	2,739	25,025
Retirement benefits to directors and statutory auditors	143	244	1,192
Other non-current liabilities	9	9	74
	<u>14,254</u>	<u>19,689</u>	<u>118,783</u>
Total liabilities	<u>25,763</u>	<u>25,165</u>	<u>214,691</u>
Shareholders' equity:			
Common stock:			
Authorized: 79,479,000 shares			
Issued: 40,287,558 shares at March 31, 2003 and 2002			
	18,085	18,085	150,708
Additional paid-in capital	17,864	17,864	148,867
Retained earnings (Deficit)	(6,703)	4,093	(55,858)
Net unrealized holding gains on other securities	26	(189)	217
Less: treasury stock, at cost: 167,799 shares at March 31, 2003 and 16,335 shares at March 31, 2002	(44)	(5)	(367)
Total shareholders' equity	<u>29,228</u>	<u>39,848</u>	<u>243,567</u>
	<u>¥54,991</u>	<u>¥65,013</u>	<u>\$458,258</u>

Notes: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥120 to US\$1, the approximate exchange rate at March 31, 2003.

Non-consolidated Statements of Income (Supplemental Information)

DAISHINKU CORP.

	(Millions of yen)			(Thousands of U.S. dollars)
	For the years ended March31,			For the year ended March31,
	2003	2002	2001	2003
Net sales	¥26,633	¥24,749	¥38,265	\$221,942
Cost of sales	25,057	23,305	31,733	208,808
Gross profit	1,576	1,444	6,532	13,134
Selling, general and administrative expenses	3,569	3,696	3,664	29,742
Operating income (loss)	(1,993)	(2,252)	2,868	(16,608)
Other income (expenses):				
Interest and dividend income	85	161	223	708
Interest expenses	(210)	(174)	(330)	(1,750)
Foreign exchange gain, net	(223)	442	808	(1,858)
Loss on sale or disposal of property, plant and equipment, net	(11)	(32)	(179)	(92)
Restructuring charge	(4,981)	-	-	(41,508)
Write-down of investment securities	(824)	(443)	(220)	(6,867)
Reversal of reserve for stock warrants	-	-	936	-
Amortization of transition obligation of retirement benefits	-	-	(2,371)	-
Special retirement expense	-	(1,200)	-	-
Other, net	23	(375)	28	192
Income (loss) before income taxes	(8,134)	(3,873)	1,763	(67,783)
Income taxes:				
Current	27	26	1,602	225
Deferred	2,554	(1,169)	(1,403)	21,284
Net income (loss)	¥(10,715)	¥(2,730)	¥1,564	\$ (89,292)
		(Yen)		(Dollars)
Net income (loss) per share				
-Basic	¥(266.51)	¥(67.78)	¥39.22	\$ (2.22)
-Diluted	-	-	38.82	-
Cash dividends per share	-	2.00	8.00	-

Notes: 1 U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥120 to US\$1, the approximate exchange rate at March 31, 2003.

2 Effective from the year ended March 31, 2003 the Company have adopted the Financial Accounting Standard on "Accounting for Earnings per Share"

Non-consolidated Statements of Shareholders' Equity (Supplemental Information)

DAISHINKU CORP.

	(Thousands)	(Millions of yen)				
	Number of shares of common stock outstanding	Common stock	Additional paid-in capital	Retained earnings (Deficit)	Net unrealized holding gains on other securities	Treasury stock
Balance at March 31,2000	¥39,769	¥17,899	¥17,660	¥5,621	¥-	¥-
Net income	-	-	-	1,564	-	-
Cash dividends	-	-	-	(160)	-	-
Exercise of warrants	177	78	96	-	-	-
Conversion of convertible bonds	342	108	108	-	-	-
Net unrealized holding gains on other securities	-	-	-	-	(237)	-
Balance at March 31,2001	40,288	18,085	17,864	7,025	(237)	-
Net loss	-	-	-	(2,730)	-	-
Cash dividends	-	-	-	(161)	-	-
Bonuses to directors and corporate auditors	-	-	-	(41)	-	-
Net unrealized holding gains on other securities	-	-	-	-	48	-
Net increase of treasury stock	-	-	-	-	-	(5)
Balance at March 31,2002	40,288	18,085	17,864	4,093	(189)	(5)
Net loss	-	-	-	(10,715)	-	-
Cash dividends	-	-	-	(81)	-	-
Net unrealized holding gains on other securities	-	-	-	-	215	-
Net increase of treasury stock	-	-	-	-	-	(39)
Balance at March 31,2003	¥40,288	¥18,085	¥17,864	¥(6,703)	¥26	¥(44)

	(Thousands of U.S. dollars)				
Balance at March 31,2002					
Net loss	\$150,708	\$148,867	\$34,108	\$(1,575)	\$(42)
Cash dividends	-	-	(89,292)	-	-
Net unrealized holding gains on other securities	-	-	(674)	1,792	-
Net increase of treasury stock	-	-	-	-	(325)
Balance at March 31,2003	\$150,708	\$148,867	\$(55,858)	\$217	\$(367)

Notes: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥120 to US\$1, the approximate exchange rate at March 31, 2003.