

Consolidated Financial Results

* Any fractional sums less than one million (or one thousand) yen are disregarded.

1. Results of Operation

Years ended October 31	2003		2002	
	Millions of yen	Change from the previous year (%)	Millions of yen	Change from the previous year (%)
Sales	40,628	(5.3)	42,920	(14.2)
Operating income	1,051	25.8	835	9.3
Recurring profit	1,000	11.6	896	(14.4)
Net income	623	113.2	292	70.4
Net income per share	¥57.61		¥27.76	
Return on equity	5.0%		2.4%	
Return on assets	4.1%		3.5%	
Recurring profit/sales	2.5%		2.1%	

Notes:

- (1) The equities in net earnings of subsidiaries for the fiscal years ended October 31, 2003 and 2002 were none.
- (2) An average number of outstanding shares (consolidated) during the years ended October 31, 2003 and 2002 were 10,453,498 and 10,531,879 respectively.

2. Assets and Shareholder's Equity

October 31, 2003 and 2002	2003	Millions of yen 2002
Assets (A)	23,983	24,845
Shareholder's equity (B)	12,556	12,399
(B)/(A)	52.4%	49.9%
Shareholder's equity per share	¥1,256.03	¥1,177.38

Note: A number of outstanding shares (a number of treasury stocks were subtracted) at October 31, 2003 and 2002 were 9,979,969 and 10,531,394 respectively.

3. Cash Flows

Years ended October 31	2003	Millions of yen 2002
Net cash provided by operating activities	49	1,153
Net cash used in investing activities	403	174
Net cash used in financing activities	331	730
Consolidated cash and cash equivalent, October 31	1,770	2,494

4. Consolidation and Application of the Equity Method

Reportable subsidiaries, whose accounts were consolidated in Fiscal 2003, are 6 (One affiliate, which had been reported till Fiscal 2002, was excluded from the statements.).

None of accounts of subsidiaries are accounted for by the equity method.

5. Prospects for the Year ending October 31, 2004

	6 months ending April 30, 2004	Millions of yen The year ending October 31, 2004
Sales	21,176	43,245
Recurring profit	826	1,345
Net income	369	608

We expect that consolidated net income per share for the year ending October 31, 2004 will be ¥58.82.

Tomoe Engineering and Companies

Tomoe Group consists of Tomoe Engineering and its 8 subsidiaries. Its group is mainly engaged in manufacture and distribution of centrifuges, trading of chemical products. Business activities of the group are divided into following 3 main categories. "Business Segments," which will be discussed in a later section, are based on following business activity segments. Since "other businesses" involve no consolidated subsidiary, "Business Segments" do not include figures related to them.

Machinery manufacture & distribution:

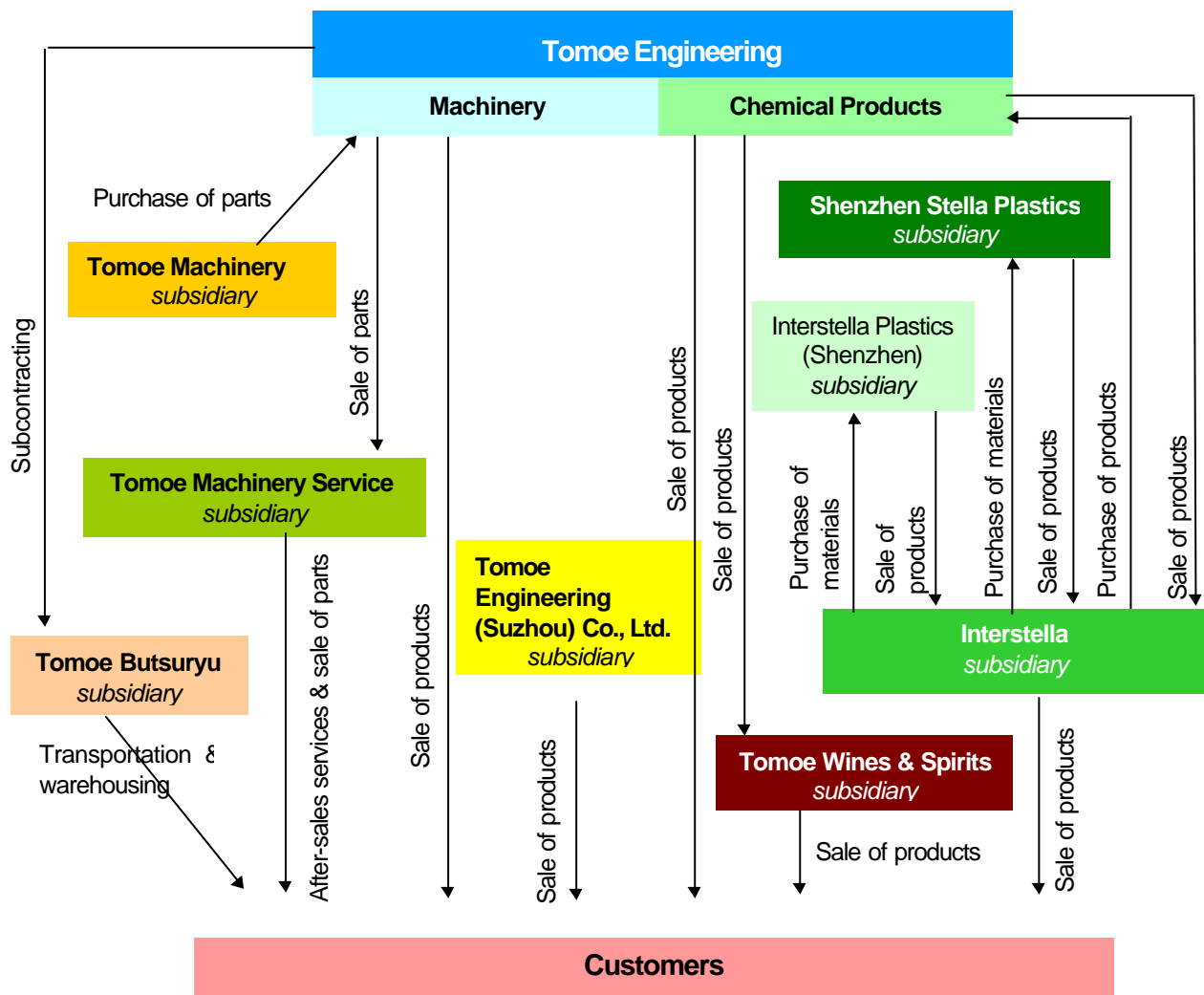
Tomoe Engineering manufactures and distributes solid bowl centrifuges. Tomoe Machinery Service provides centrifuge users with after-sales services as well as parts. Tomoe Machinery undertakes machining, sheet-metal processing and grinding of centrifuge components and building of the small sized centrifuges. Jatek, which had been reported as the affiliate, was excluded from the statements, since its shares the Company owned were transferred in March, 2003.

Chemical product trading:

Shenzhen Stella Plastics and Interstella Plastics (Shenzhen) are engaged in coloring and compounding of plastic materials. Interstella was established for a purpose of investment in those companies. Tomoe Engineering supplies them with plastic materials and buys back a part of their products through Interstella. However, Shenzhen Stella Plastics has been dormant since July 2002, as their production facilities were transferred to Interstella Plastics (Shenzhen). Tomoe Engineering (Suzhou) contracts surface-mount IC packaging and Tomoe Wines & Spirits distributes wines and spirits imported by Tomoe Engineering.

Other businesses:

Tomoe Butsuryu subcontracts with the Company for transportation and warehousing.



Management Policies

1. *Basic Policy Regarding the Appropriation of Retained Earnings*

Since one of our important management goals is to distribute a fair share of Company's earnings to shareholders, our basic dividend policy is based on proportional appropriation of earnings. At the same time the amount of dividends is determined from the standpoint of continuation of its stable payment and accumulation of retained earnings. The earnings are used to streamline and reinforce the corporate structure. They are also invested in new product development programs and saved for the future business plans.

2. *Reduction of a face amount of the share*

Tomoe Engineering reduced a marketable unit of shares from 1,000 shares to 100 shares as of May 1, 2003 in order to encourage circulation of shares and to increase a number of shareholders.

3. *3-Year Plan*

Tomoe Engineering and its subsidiaries are operated in accordance with the Long-term Plan, which set forth the final goal of earning more than the ¥2 billion recurring profit steadily. The long-term plan is broken down into each 3-year Plan.

To our great regret, we were unable to attain the targets in Fiscal 2003 (the second year of the 6th 3-year Plan) owing to the slow economy and this failure may make achievement of the target for the ¥1.65 billion recurring profit in Fiscal 2004 more difficult.

In spite of the retreat in Fiscal 2003, the Company holds fast to the basic plan and tactics. The Company expands sales by pursuing the basic tactics shown below, while strengthening the credit control to minimize exposure to risk of non-performing assets.

Operating divisions are managed in accordance with the following basic tactics:

Machinery & Equipment Division

- Diversification of centrifuge application and foreign marketing
- New technology, price reduction and increase of competitiveness
- Marketing of new products

Chemical Products Division

- Redefinition of the corporate role (value-added services with the engineering approach)
- Expansion of the information technology business
- Marketing of specialty products in niche fields

In Fiscal 2003 recurring profit grew despite of a decline in net sales. It shows that our effort to reorganize the financial structure of the Company into the more profit earning one is bearing the fruits. In order to earn steady income in business environment of uncertainty we have to gain further rigid profit-earning power.

Machinery & Equipment Division strengthens cost competence by enhancing production efficiency of each department and expands sales by way of a throughput control.

Chemical Products Division focuses on sale and production of high value added products. This segment invested in the surface mount IC packaging plant in China, which started production in 2003. In domestic market they expand sales of information technology and nano-technology related products.

Activities and Results

1. Outlook of Fiscal 2003

(1) Operating Highlights

Tomoe Engineering's consolidated net sales decreased 5.3% to ¥40,628 million and its recurring profit increased 11.6% to ¥1,000 million. Net income grew 113.2% to ¥623 million with help of gains from sale of interest in the affiliate.

Sales of **Machinery & Equipment Division** decreased 9.8% to ¥10,642 million. Generally sales in industrial, public and overseas sectors were slow, while the servicing-retrofitting segment stopped the further decline, earning revenue from installation of the carbonization furnace. Counting in sales of the department transferred to Chemical Products Division in Fiscal 2003, sales of this division declined 3%.

Sales of **Chemical Products Division** dropped 3.7% to ¥29,985 million. Sales of Industrial Materials Department grew owing to increase in sales of concrete additive and lightweight aggregates. Sales of Plastics Department increased owing to transfer of the business department from Machinery & Equipment Division. However, they were unable to recover significant decline in sales of Advanced Materials Department and Electronic Materials Department.

Operating income increased 25.8% to ¥1,051 million, as selling and administrative costs were reduced significantly. However, recurring profit resulted in ¥1,000 million, less than operating income, owing to losses on foreign exchange.

(2) Cash Flows

In Fiscal 2003, ended October 31, 2003, the Company's consolidated cash position decreased 29.0% (¥724 million) to ¥1,770 million due to a decrease in trade payable, payment of income taxes and reacquisition of issued common stocks.

Net cash provided by operating activities decreased 95.7% (¥1,104 million) to ¥49 million in spite of an increase in net income before income taxes. It was primarily resulted from a decrease in trade payables and an increase in income taxes.

Net cash used by investment activities increased by ¥229 million to ¥403 million, owing to acquisition of securities, property and equipment.

Net cash used in financing activities dropped by ¥398 million to ¥331 million despite of raise of the short-term loan. It was primarily resulted from reacquisition of issued common stocks.

2. Outlook for Fiscal 2004

We expect that the Companies' total sales and recurring profit in Fiscal 2004 will increase 6.40% to ¥43,425 million and 34.5% to ¥1,345 million respectively. Net income will decrease 2.4% to ¥608million, as net income for Fiscal 2003 included tax-exempt extraordinary income.

We expect that sales growth in foreign markets will push up the total sales of the Machinery & Equipment segment significantly, though sales in domestic municipal and industrial sectors are still slow.

Sales in the Chemical Products segment will grow steadily in every area and high profit-earning products will contribute to an increase in gross profit. Also acquisition of distributorship of new advanced materials will accelerate the increase.

Consolidated Financial Statements

Balance Sheets

October 31, 2003 and 2002

Thousands of yen

Assets	2003	2002	Changes
Current assets			
Cash and deposits	1,870,047	2,594,721	(724,674)
Trade receivables	13,013,851	13,193,223	(179,372)
Inventories	3,040,145	3,111,235	(71,089)
Deferred tax assets	279,590	298,849	(19,259)
Other current assets	274,262	363,771	(89,509)
Allowance for doubtful receivables	(110,344)	(206,140)	95,795
Total current assets	18,367,551	19,355,661	(988,109)
Fixed assets			
Tangible fixed assets			
Buildings	2,100,498	2,114,845	
Accumulated depreciation	(1,059,753)	(999,281)	
Net	1,040,745	1,115,564	(74,818)
Machinery, equipment & vehicles	2,821,284	2,991,469	
Accumulated depreciation	(1,987,099)	(2,150,552)	
Net	834,184	840,916	(6,732)
Land	1,049,391	1,049,391	0
Other fixed assets	927,817	992,465	
Accumulated depreciation	(795,784)	(773,404)	
Net	132,032	219,061	(87,029)
Total tangible fixed assets	3,056,355	3,224,934	(168,579)
Intangible fixed assets	197,931	213,006	(15,074)
Investments and others			
Investments in securities (Notes 1, 2)	953,270	583,602	369,668
Guarantee deposits	553,922	580,115	(26,192)
Deferred tax assets	353,005	436,691	(83,685)
Financial derivatives	0	267,233	(267,233)
Financial derivative loss	234,568	0	234,568
Other investments	416,740	458,982	(42,241)
Allowance for doubtful receivables	(149,905)	(274,476)	124,570
Total investment and others	2,361,602	2,052,149	309,453
Total fixed assets	5,615,889	5,490,089	125,799
Total assets	23,983,441	24,845,751	(862,310)

Liabilities and Shareholder's Equity	Thousands of yen		
	2003	2002	Change
Current liabilities			
Trade-payables (Note 3)	6,631,818	7,341,506	(709,688)
Short-term debt (Note 4)	2,475,470	798,592	1,676,877
Account payable-others	520,715	489,389	31,325
Accrued income tax	88,837	384,877	(296,040)
Advances from customers	96,681	99,404	(2,722)
Other current liabilities	771,174	801,352	(30,178)
Total current liabilities	10,584,698	9,915,123	669,574
Long-term liabilities			
Long-term debt (Notes 3, 4)	25,291	1,557,825	(1,532,534)
Accrued pension and severance liabilities (Note 5)	142,900	208,119	(65,219)
Officer's retirement allowance	215,670	248,300	(32,630)
Financial derivative gains	0	267,233	(267,233)
Financial derivatives	234,568	0	234,568
Total long-term liabilities	618,430	2,281,478	(1,663,048)
Total liabilities	11,203,128	12,196,602	(993,474)
Minority interests	224,159	249,738	(25,579)
Shareholder's equity			
Common stock	1,061,210	1,061,210	0
Capital surplus	1,483,410	1,483,410	0
Retained earnings	10,401,120	9,933,458	467,662
Unrealized gains and losses on marketable securities and investments	80,087	2,775	77,312
Foreign currency translation adjustment	(107,962)	(80,196)	(27,766)
Total	12,917,865	12,400,656	517,209
Issued shares reacquired	(361,711)	(1,246)	(360,465)
Total shareholder's equity	12,556,153	12,399,410	156,743
Total	23,983,441	24,845,751	(862,310)

Statements of Consolidated Income

Years ended October 31, 2003 and 2002

Thousands of yen

	2003	2002	Change
Net sales (Notes 7, 8)	40,628,510	42,920,680	(2,292,169)
Cost of sales	34,086,550	36,139,948	(2,053,397)
Gross profit	6,541,960	6,780,731	(238,771)
Selling, general and administrative (Notes 9, 10)	5,490,824	5,945,320	(454,495)
Operating income	1,051,135	835,411	215,724
Other income			
Interests	8,461	19,656	
Dividends	43,614	45,517	
Rents	8,416	20,123	
Foreign exchange gains	0	30,870	
Sundry	55,760	60,832	
Other income total	116,252	177,000	(60,747)
Other expenses			
Interests	56,961	82,928	
Discounts on bills of exchange	1,255	17,507	
Foreign exchange loss	80,839	0	
Sundry	27,705	15,093	
Other expense total	166,761	115,529	51,231
Recurring profit	1,000,626	896,881	103,744
Extraordinary gains			
Realized gains on marketable securities	141,288		
Realized gains on property and equipment	1,014		
Reversal from doubtful receivables	103,026	120,835	
Extraordinary gains total	245,329	120,835	124,494
Extraordinary losses			
Unrealized losses on marketable securities	28,000		
Written-off losses on property and equipment	32,149	59,959	
Realized losses on property and equipment (Note 11)	4,283		
Amortization of unrecognized benefit obligation existing at transition	0	325,921	
Additions to doubtful receivables	17,984	0	
Others	0	89,110	
Extraordinary losses total	82,417	474,990	(392,573)
Income before income taxes	1,163,539	542,726	620,812
Income tax (Note 12)			
Current	493,529	519,580	
Deferred	50,650	(176,872)	
Income taxes total	544,180	342,707	201,472
Losses on minority interests	(3,841)	(92,338)	88,497
Income from consolidated operations	623,200	292,357	330,843

Consolidated Retained Earnings

Years ended October 31, 2003 and 2002		Thousands of yen		
		2002	2002	Change
Balance, beginning of year				
Retained earnings		9,933,458	9,789,611	
Net income		623,200	292,357	
Deferred income taxes			0	
	Total	10,556,658	10,081,968	474,690
Deduct:				
Cash dividend paid		136,908	136,930	
Officer's bonuses		18,630	11,580	
	Total	155,538	148,510	7,028
Balance, end of year		10,401,120	9,933,458	467,662

Statements of Consolidated Cash Flows

Years ended October 31, 2003 and 2002

Thousands of yen

	2003	2002	Change
Operating activities			
Net income before income taxes	1,163,539	542,726	620,812
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	331,835	390,890	(59,055)
Increase (decrease) in accrued pension and severance liabilities	(65,219)	157,106	(222,326)
Increase (decrease) in officer's retirement allowance	(32,630)	38,700	(71,330)
Provision for doubtful receivables	(220,365)	104,207	(324,572)
Unrealized loss on investments	28,000	45,342	(17,342)
Interest and dividend income	(52,076)	(65,173)	13,097
Interest expense	56,961	82,928	(25,967)
Losses (gains) on foreign exchanges	28,263	2,163	26,100
Realized gains on marketable securities	(141,288)	0	(141,288)
Realized losses on property and equipment	3,269	3,811	(541)
Write-off of property and equipment	32,149	59,959	(27,810)
Other extraordinary losses	0	7,096	(7,096)
(Increase) decrease in trade receivables	149,568	(317,022)	466,591
Decrease in inventories	39,401	1,478,219	(1,438,817)
Increase (decrease) in trade payables	(652,166)	(1,335,366)	683,199
Increase (decrease) in account payable-others	40,064	(71,021)	111,086
Increase (decrease) in advances from customers	(2,722)	71,943	(74,666)
Increase (decrease) in accrued consumption tax	(76,642)	71,961	(148,603)
Officer's bonuses	(18,630)	(11,580)	(7,050)
Others	232,732	98,132	134,600
Sub total	844,044	1,355,025	(510,980)
Interests and dividends received	52,398	67,739	(15,340)
Interests paid	(57,426)	(93,783)	36,356
Income taxes paid	(789,570)	(174,991)	(614,579)
Net cash provided by operating activities	49,446	1,153,988	(1,104,542)
Investing activities			
Increase in time deposits	(100,000)	(100,000)	0
Decrease in time deposits	100,000	100,000	0
Proceeds from sales of investments	154,040	2	154,038
Acquisition of investments	(280,814)	(17,552)	(263,261)
Expenditures for properties and equipment	(246,498)	(271,525)	25,027
Proceeds from sales of properties and equipment	6,623	23,766	(17,143)
Expenditures for intangible fixed assets	(6,240)	(7,003)	763
Collection of loans receivable	111,925	98,564	13,361
Increase in loans receivable	(173,219)	(38,140)	(135,079)
Decrease in guarantee deposits	25,593	26,170	(577)
Decrease in other investments	4,696	11,571	(6,874)
Net cash used in investing activities	(403,892)	(174,146)	(229,745)

Financing activities			
(Decrease) increase in short-term debt	201,000	(557,000)	758,000
Repayment of long-term debt	(35,401)	(35,371)	(30)
Reacquisition of issued shares of stocks	(360,465)	(1,166)	(359,299)
Cash dividends paid	(136,908)	(136,930)	22
Net cash used in financing activities	<u>(331,775)</u>	<u>(730,468)</u>	<u>398,692</u>
Cash and cash equivalents (Note 15)			
Effect of exchange rate changes	(38,452)	11,391	(49,844)
Increase in cash and cash equivalents	(724,674)	260,765	(985,440)
Cash and cash equivalents at the beginning of year	2,494,721	2,233,955	260,765
Cash and cash equivalents at end of year	<u>1,770,047</u>	<u>2,494,721</u>	<u>(724,674)</u>

Basis of Financial Statements and Summary of Significant Accounting Policies

Significant accounting policies applied in the preparation of the financial statements are summarized below:

Consolidation

(1) Consolidated subsidiaries

Consolidated subsidiaries are Tomoe Machinery Co., Ltd., Tomoe Machinery Service Co., Ltd., Shenzhen Stella Plastics Co., Ltd., Interstella Plastics (Shenzhen) Co., Ltd., Interstella Co., Ltd. and Tomoe Engineering (Suzhou) Co., Ltd.

Tomoe Engineering (Suzhou) Co., Ltd. is the 100% owned subsidiary founded in Fiscal 2003.

And unconsolidated subsidiaries are Tomoe Butsuryu Co., Ltd., and Tomoe Wines & Spirits Co., Ltd. These unconsolidated subsidiaries are small in size and their aggregated assets, sales, incomes and reserves, and make no significant contributions to those of the Company.

(2) Equity-method

None of accounts of subsidiaries are accounted for by the equity method. Main subsidiaries, whose accounts are not accounted for by the equity method, are Tomoe Butsuryu Co., Ltd. and Tomoe Wines & Spirits Co., Ltd. (all the shares of Jatek Ltd. were sold off on Mar. 19, 2003). The investments in these companies are stated at cost, since they make minimal contributions to consolidated earnings and reserves, or make no significant contributions to the general consolidated financial standings.

(3) Fiscal periods of consolidated subsidiaries

The fiscal terms of Interstella Co., Ltd., Shenzhen Stella Plastics Co., Ltd., Interstella Plastics (Shenzhen) Co., Ltd. and Tomoe Engineering (Suzhou) Co., Ltd. end on December 31. Therefore, their accounts are closed temporarily on September 30, of the respective fiscal year, and necessary adjustments are made on their transactions from October 1 to the date of consolidation.

Significant Accounting Policies

(1) Marketable securities and other investments

Marketable securities are stated at fair value at October 31, 2003 (unrealized gains and losses, which are computed at cost on the moving average basis, are included in the equity account). Other securities are stated at cost on the moving average basis.

(2) Foreign currency transactions

Foreign currency receivables and payables are translated into Japanese yen at the respective year-end exchange rates and resulting exchange gains and losses are recognized in earnings.

(3) Inventories

Commodities are stated principally at cost on the moving average basis (specific commodities are stated at cost on the specific identification basis). Finished products and works-in-process are stated at cost on the specific identification basis. Raw materials are stated at cost by the first-in, first-out method. Consumables are stated by the last purchase price method.

(4) Depreciation

Depreciation of "tangible fixed assets" is computed principally under the declining-balance method. However, the straight-line method is applied to buildings (excluding attached facilities) acquired after April 1, 1998. The buildings are amortized over their depreciable life of 5-47 years while equipment and vehicles are depreciated over 2-15 years.

The petty-sum depreciable assets in acquired amounts of ¥100-200 thousand are included in the assets and depreciated evenly over 3 years.

Depreciation of "intangible fixed assets" is computed under the straight-line method. However, Company's internal-use software is computed based on estimated useful life (5 years).

(5) Allowances

An allowance for doubtful receivables is established in amounts considered to be appropriate based on the Company's past credit loss experience with regard to the general receivables outstanding and individual evaluation of potential loss with regard to the impaired receivables outstanding.

Officer's retirement allowance is established in the amounts of grants payable to the officers as of October 31, 2003 in accordance with the Company's by-law.

(6) Derivative financial instruments

The companies are parties to derivative financial instruments, which are used in the normal course of business to reduce exposure to fluctuation in foreign exchange rates and interest rates. The companies enter into foreign exchange forward contracts and currency swap agreements to reduce exposure to fluctuation in foreign exchange rates associated with existing assets and obligations denominated in foreign currency. The companies also enter into the interest rate swap agreement to convert the floating rate debt to a fixed basis.

Assets and liabilities denominated in foreign currencies, whose cash flows are hedged by the forward exchange contracts or currency swap agreements, are translated into Japanese yen at their contract rates. The differences between their amounts on the financial statements and those translated at spot rates at acquisition dates of assets and liabilities are deferred and stated on the consolidated financial statements as the deferred gains or losses.

Paid or received interests on the debts or assets, whose cash flows have been hedged by the interest swap agreements, are stated in the net amounts, setting-off by the fixed-rate and floating-rate interest amounts.

The companies deal with selective domestic financial institutions to minimize the credit risk exposure of derivative financial instruments. Credit risk exposure of these financial instruments is controlled through credit approvals, limits and monitoring procedures based on the Company's credit policy. The Companies do not hold or use derivative financial instruments for speculation purposes.

(7) Net income per share

In calculation of net income per share for Fiscal 2003, officer's bonuses are subtracted from net income subject to the revised accounting principal. Net assets and net income per share for Fiscal 2003 calculated based on the former principal are ¥1,258.16 and ¥59.62 respectively.

(8) Consumption tax

The consumption taxes are separately stated with no inclusion to goods and services imposed.

(9) Assets and liabilities of consolidated subsidiaries

All the assets and liabilities of consolidated subsidiaries are valued at market.

(10) Retained earnings

Consolidated retained earnings are reported based on earnings appropriated by the consolidated subsidiaries during the fiscal term of the Company.

(11) Cash and cash equivalents

Cash and cash equivalents stated in statements of consolidated cash flow consist of cash in hand, the readily withdrawable deposits and the short term investments of maturity within 3 months, which are easily cashable and run low risks against fluctuation of prices.

Notes to Consolidated Financial Statements

1. Marketable Securities and Investments

The aggregate cost, gross unrealized holding gains and losses, and aggregate fair value for marketable equity securities and debt securities as available-for-sale security type at October 31, 2002 and 2001 were as follows:

October 31	2003			Thousands of yen 2002		
	Cost	Fair value	Unrealized holding gains	Cost	Fair value	Unrealized holding gains
Appreciated marketable securities						
Shares	253,514	409,018	155,503	124,523	164,140	39,616
Bonds	0	0	0	0	0	0
Corporate bonds	2,674	3,418	743	5,826	8,315	2,488
Sub-total	256,189	412,436	156,247	130,349	172,455	42,105
Depreciated marketable securities						
Shares	105,932	79,368	(26,563)	222,110	169,028	(53,082)
Other securities	11,428	7,236	(4,192)	11,428	5,996	(5,432)
Sub-total	117,361	86,604	(30,756)	233,538	175,024	(58,514)
Total	373,550	499,041	125,491	363,888	347,479	(16,409)

Proceeds from sale and gross realized gains and losses on available –for –sale securities for years ended October 31, 2003 are as follows.

	Thousands of yen	
Proceeds from sale	Gross realized gains	Gross realized losses
154,040	141,288	0

Investments other than investments in marketable equity securities and debt securities at October 31, 2003 and 2002 were as follows:

October 31	Thousands of yen Carrying value	
	2003	2002
Unlisted securities (except for OTC market securities)	402,729	175,023
Stocks of subsidiaries and affiliates	51,500	61,100
Total	454,229	236,123

Debt securities classified as held-to-maturity at October 31, 2003 mature as follows:

Contractual maturities:	2003		Thousands of yen 2002	
	Corporate bonds	Other securities	Corporate bonds	Other securities
Within 1 year				
After 1 year through 5 years	3,418		8,315	
After 5 years through 10 years		7,236		5,996
After 10 years				

2. Investments in Non-consolidated and Affiliated Companies

The following items in balance sheets are related to non-consolidated and affiliated companies.

October 31	Thousands of yen	
	2003	2002
Investments in securities (capital stocks)	51,500	61,100

3. Pledged Assets

At October 31, 2002 and 2001 the following assets were pledged as collateral for certain liabilities of the Company.

October 31		Thousands of yen	
		2003	2002
Collateral	Investment securities:	202,469	124,536
Related liabilities	Long-term debt	20,000	40,000
	Trade payables	181,088	137,828

4. Short-term Borrowing and Long-term Debt

October 31	2003		2002	
	Outstanding balance	Weighed average interest rate	Outstanding balance	Weighed average interest rate
Short-term bank loans	942,936	0.87%	763,190	1.2%
Long-term debt maturing in 1 year	1,532,534	2.43%	35,401	2.0%
Long-term debt maturing after 1 year	25,291	2.76%	1,557,825	2.44%
Total	<u>2,356,417</u>		<u>2,356,417</u>	

The Company maintained committed lines with Japanese banking syndicates totaling Japanese yen facility of ¥6,100 million as of October 31, 2003 to finance daily operation. The unused committed lines were totaling ¥5,400 million as of October 31, 2003.

Maturities of long-term debt subsequent to October 31, 2003 are as follows:

Year ending October 31	Thousands of yen	
	2003	2002
2005	11,272	1,532,501
2006	10,892	11,304
2007	3,127	10,812
2008	0	3,207
Total	<u>25,291</u>	<u>1,557,825</u>

5. Accrued Pension and Severance Indemnities

The companies have defined benefit pension plans covering substantially all employees other than directors. Net periodic pension and severance cost for the year ended October 31, 2003 and 2002 included the following components:

Year ending October 31	Thousands of yen	
	2003	2002
Service cost benefits earned during the year	162,123	137,145
Interest cost on projected benefit obligation	54,068	82,985
Expected return on plan assets	(25,716)	(54,357)
Amortization of unrecognized net obligation at transition	0	325,921
Amortized arithmetic error	90,084	24,802
Net periodic pension and severance cost	<u>280,559</u>	<u>516,496</u>

The following table sets forth the reconciliation of benefit obligation, plan assets and funded status of the plans:

October 31	Thousands of yen	
	2003	2002
Projected benefit obligation at end of year	3,129,670	3,134,367
Fair values of plan assets at end of year	1,988,025	1,723,951
Fair value of the employee benefit trust funds at end of year	511,743	326,252
Fair values of plan assets at end of year	2,499,768	2,050,204
Funded status	629,902	1,084,162
Unrecognized arithmetic error	(487,001)	(876,043)
Unrecognized net obligation at transition		0
Accrued pension liabilities	142,900	208,119

A discount rate of 1.75% and an expected long-term rate of return on plan assets of 1.50% were used in measuring pension obligation outstanding as of October 31, 2003.

The unrecognized arithmetic error is amortized evenly over 10 years, which is within the average remaining service years of employees.

6. A number of outstanding shares

10,533 thousand common stocks, including 553 thousand treasury stocks, were outstanding at October 2003.

7. Segment Information

The companies' reportable operating segments were aggregated based on the nature of the products and other criteria into two product-wise reportable operating segments and two region-wise reportable operating segments.

Machinery & Equipment Segment manufactures and distributes centrifuges, separators and other machines.

Chemical Products Segment distributes plastics, inorganic materials and other chemical products.

Operating Segment Information

The companies' operating segment information for the years ended October 31, 2003 and 2002 were as follows:

Year ended	Machinery & Equipment	Chemical Products	Total	Thousands of yen	
				Elimination & Other	Consolidated
October 31, 2003					
Net sales					
External customers	10,642,886	29,985,624	40,628,510	0	40,628,510
Intersegment	0	0	0	0	0
Total	10,642,886	29,985,624	40,628,510	0	40,628,510
Operation costs	10,378,810	29,198,564	39,577,375		39,577,375
Operating income	264,075	787,059	1,051,135		1,051,135
Segment assets	6,927,899	13,277,871	20,205,770	3,777,670	23,983,441
Depreciation	225,663	106,172	331,835		331,835
Capital expenditures	77,448	175,290	252,738		252,738
October 31, 2002					
Net sales					
External customers	11,794,736	31,125,944	42,920,680	0	42,920,680
Intersegment	0	0	0	0	0
Total	11,794,736	31,125,944	42,920,680	0	42,920,680
Operation costs	11,286,255	30,799,014	42,085,269	0	42,085,269
Operating income	508,481	326,930	835,411	0	835,411
Segment assets	7,192,317	13,273,796	20,466,114	4,379,637	24,845,751
Depreciation	227,193	163,697	390,890	0	390,890
Capital expenditures	213,850	64,678	278,529	0	278,529

Corporate assets that are not allocated to reportable segments ("elimination & other") consist primarily of cash, time deposits, securities for financial and investments activities.

Geographic Area Information

Net sales, which are attributed to areas based on the locations of the assets producing revenues for years ended October 31, 2003 and 2002, were as follows:

Year ended October 31, 2003	Thousands of yen				
	Japan	Asia	Total	Elimination & Other	Consolidated
Net sales					
External customers	32,839,091	7,789,419	40,628,510		40,628,510
Intersegment	77,442	74	77,516	(77,516)	0
Total	32,916,533	7,789,493	40,706,027	(77,516)	40,628,510
Operation costs	32,075,259	7,572,824	39,648,084	(70,709)	39,577,375
Operating income	841,273	216,668	1,057,942	(6,807)	1,051,135
Identifiable assets	19,050,194	1,168,869	20,219,064	3,764,376	23,983,441

Year ended October 31, 2002	Thousands of yen				
	Japan	Asia	Total	Elimination & Other	Consolidated
Net sales					
External customers	33,422,674	9,498,005	42,920,680	0	42,920,680
Intersegment	12,611	0	12,611	(12,611)	0
Total	33,435,285	9,498,005	42,938,291	(12,611)	42,920,680
Operation costs	32,860,137	9,236,631	42,096,769	(11,500)	42,085,269
Operating income	575,148	261,374	836,522	(1,111)	835,411
Identifiable assets	19,219,746	1,246,368	20,466,114	4,379,637	24,845,751

(Countries included in Asia are China, Korea, Taiwan and Indonesia.)

Total net sales to external customers outside Japan for the years ended October 31, 2003 and 2002 were as follows:

Year ended October 31, 2002 & 2002	2003			2002		
	Asia	Other areas	Total	Asia	Other areas	Total
Total net sales to external customers	8,514,280	693,540	9,207,820	9,684,108	1,300,874	10,984,983
Consolidated net sales			40,628,510			42,920,680
Ratio to consolidated net sales	21.0%	1.7%	22.7%	22.6%	3.0%	25.6%

(The Asian area consists of primarily China, Korea, Taiwan and Indonesia. And other areas consist of mainly North America and Europe.)

8. Intercompany Transactions

Transactions between the Company and subsidiaries for years ended October 31, 2003 and 2002 are as follows:

Subsidiary	Capital	Share-holding	Main businesses	Directors from the Company	Transactions	Thousands of yen Annual transactions	
						2003	2002
Tomoe Butsuryu	30,000	100%	Transportation and warehousing	3	Subcontract	280,951	335,510
Tomoe Wines & Spirits	30,000	71.7%	Distribution of wine and spirits	3	Sale of products	529,882	493,148

Annual transactions do not include consumption taxes, while outstanding balances at the fiscal year end include them. The trade and subcontract terms with subsidiaries and affiliates are the same as the general trading terms with customers with whom the Company has no capital relationship. Those terms are determined individually based on

market prices.

9. Selling, General and Administrative

Significant components of "selling, general and administrative" for the years ended October 31, 2003 and 2002 were as follows:

Years ended October 31, 2003 and 2002	2003	Thousands of yen
		2002
Shipping & packaging costs:	601,043	585,385
Provision for doubtful receivables	0	182,670
Provision for retirement allowance	172,871	111,645
Provision for officer's indemnities	35,360	38,700
Employee's pay-rolls	1,768,916	1,768,253
Welfare expenses	399,189	411,128
Travel expenses	314,703	323,912
Depreciation	117,660	131,623
Rents	433,110	428,790
Other expenses	4,238	349,177

10. Research and Development

Research and development costs were charged to expenses ("selling, general and administrative" and cost of sales) as incurred. They amounted to ¥193,206 thousand and ¥208,557 thousand for the years ended October 31, 2003 and 2002, respectively.

11. Gains and Losses on Property and Equipment

Realized gains and losses on write-off of property and equipment for the years ended October 31, 2003 and 2002 are as follows:

Years ended October 31	2003	Thousands of yen
		2002
Realized gains		
Equipment and vehicles	965	0
Other assets	48	0
Total	1,014	0
Losses on write-off		
Equipment and vehicles	30,541	50,083
Other assets	1,607	9,875
Total	32,149	59,959

12. Income Taxes

Significant components of deferred tax assets and liabilities as of October 31, 2003 and 2002 were as follows:

October 31, 2003 and 2002	2003	Thousands of yen
		2002
Deferred Tax Assets:		
Accrued pension and severance liabilities	149,128	188,708
Allowances for bonuses	200,848	158,621
Estimated losses on inventory	24,441	49,667
Depreciation	613	23,316
Loss on marketable securities	64,709	55,936
Allowances for officer's bonuses	86,699	103,789
Allowance for doubtful receivables	72,427	70,361
Welfare payable	21,987	
Others	91,157	118,313
Total deferred tax assets	712,012	768,713
Valuation allowance for deferred tax assets		(3,598)

Deferred Tax Liabilities:

Deferred income tax on gains on land sold	(25,129)	(27,579)
Gains on other securities	(54,287)	(1,993)
Others		0
Total deferred tax liabilities	(79,416)	(29,573)
Net deferred tax assets	632,596	735,540

A reconciliation of the combined statutory tax rates for the year ended October 31, 2003 and 2002 to the effective rates of income taxes reflected in the accompanying statements of consolidated income is as follows:

Years ended October 31	2003	2002
Combined statutory income tax rate	41.8 %	41.8 %
Increases (decreases) in taxes resulting from:		
Expenses not deductible for tax purposes	2.9	7.3
Residential taxes (not proportional to the income amount)	1.4	2.9
Income not taxable	(5.7)	(0.5)
Unrecognized deferred tax assets	2.4	10.4
Adjustment of cash and cash equivalents at October 31	1.1	0
Others	1.2	1.2
Effective income tax rate	45.1 %	63.1 %

Effective March 31, 2003, separate new local tax legislation was enacted in Japan changing the parent company's and its domestic subsidiaries' statutory income tax rate from 41.8% to 40.4% for fiscal years beginning on or after November 1, 2004. The net deferred tax assets have been adjusted to reflect the revised rates, which decreased by ¥11,289 thousand. Deferred income tax balance and realized gains-net increased by ¥13,170 thousand and ¥1,881 thousand respectively.

13. Finance Leases

Finance lease transactions are treated in accordance with the generally accepted accounting method for the ordinary lease transactions, except for the case in which ownership to property is considered that it is transferred to the lessee under lease agreement.

Lessee

The companies lease machinery, equipment and other certain properties. Equivalent values of lease properties were estimated at October 31, 2003 and 2002 as follows:

October 31, 2003 and 2002	2003	Thousands of yen 2002
Machinery, equipment and vehicles		
Purchase price equivalents	22,590	190,418
Accumulated depreciation equivalents	(21,688)	(152,511)
Net value equivalence	901	37,906
Others		
Purchase price equivalents	316,685	317,562
Accumulated depreciation equivalents	(195,769)	(185,390)
Net value equivalence	120,916	132,171
Total	121,818	170,078

Accrued rental expenses outstanding at October 31, 2003 and 2002 were as follows:

Years ended October 31	2003	Thousands of yen 2002
Due in one year or less	51,738	105,437
Due after one year	75,936	73,418
Total	127,674	178,891

Rental expenses paid for the year ended October 31, 2003 and 2002 were as follows:

Years ended October 31	2003	Thousands of yen
		2002
Rental expenses paid	115,638	141,797
Depreciation portion	101,845	129,534
Interest portion	4,386	8,007

The depreciation portion was computed by the straight-line method estimating that each rental period is a useful life and each remaining value is zero. The interest portion was computed by the interest method estimating that a difference between an aggregate rental fee amount and an assumed acquisition cost of each rental asset is an assumed interest amount.

14. Contingent Liabilities

Tomoe Engineering guarantees indebtedness of employees who took mortgage loans in accordance with company's mortgage loan program.

At October 31, 2003 and 2002	2003	Thousands of yen
		2002
Guarantees	32,678	39,575

15. Cash and Cash Equivalents

Relationship between "cash and deposits" in Balance Sheets and "cash and cash equivalents" of in Statements of Consolidated Cash Flows at October 31, 2001 and 2000 were as follows:

At October 31, 2003 and 2002	2003	Thousands of yen
		2002
Cash and deposits	1,870,047	2,594,721
Time deposits with contractual period more than 3 months	(100,000)	(100,000)
Cash and cash equivalents	<u>1,770,047</u>	<u>2,494,721</u>