

Financial Section

Daifuku Co., Ltd. and Consolidated Subsidiaries

Five-Year Summary

Daifuku Co., Ltd. and Consolidated Subsidiaries

for the Years Ended March 31, 2005, 2004, 2003, 2002, and 2001

	2005	2005	2004	2003	2002	2001
	(Millions of yen and thousands of U.S. dollars)					
For the Year						
Net sales	¥166,232	\$1,547,638	¥138,661	¥144,108	¥134,628	¥131,078
Cost of sales	134,696	1,254,033	115,034	120,775	113,188	107,402
Selling, general and administrative expenses	20,746	193,149	18,269	18,672	19,236	20,203
Operating income	10,790	100,456	5,358	4,660	2,203	3,474
Income (loss) before income taxes and minority interests	8,580	79,883	3,146	2,050	987	(1,688)
Net income (loss)	5,231	48,707	1,635	1,164	285	(1,372)
Net income (loss) per share (Yen and U.S. dollars)	46.07	0.43	14.50	10.22	2.51	(12.07)
Cash dividends per share (Yen and U.S. dollars)	13.00	0.12	10.00	10.00	10.00	10.00
Capital investment	3,671	34,177	1,374	1,276	1,719	1,477
Depreciation	2,184	20,334	2,474	2,829	3,321	3,498
R&D expenditures	4,970	46,273	4,231	4,253	4,803	4,340
At Year-End						
Total assets	¥147,158	\$1,370,058	¥129,712	¥130,400	¥139,746	¥142,730
Working capital	42,575	396,380	40,440	47,157	39,176	27,532
Interest bearing liabilities	29,136	271,260	32,050	38,600	44,000	44,000
Shareholders' equity	53,337	496,570	49,082	49,026	50,221	51,049
Shareholders' equity per share (Yen and U.S. dollars)	480.14	4.47	442.61	432.93	441.83	449.10
No. of employees	3,716		3,453	3,506	3,496	3,493
Ratios						
Operating income/sales	6.5%		3.9%	3.2%	1.6%	2.7%
Income (loss) before income taxes and minority interests/sales	5.2		2.3	1.4	0.7	(1.3)
Net income (loss)/sales	3.1		1.2	0.8	0.2	(1.0)
Return on shareholders' equity (ROE)	10.2		3.3	2.3	0.6	(2.7)
Shareholders' equity/total assets	36.2		37.8	37.6	36.0	35.8

Note: The U.S. dollar amounts in this report represent translations of Japanese yen for convenience only, at the rate of ¥107.41 = U.S.\$1.00 on the Tokyo Foreign Exchange Market on March 31, 2005.

Contents

Consolidated Financial Review	20
Consolidated Balance Sheets	22
Consolidated Statements of Income.....	24
Consolidated Statements of Shareholders' Equity	25
Consolidated Statements of Cash Flows.....	26
Notes to the Consolidated Financial Statements.....	27
Report of Independent Auditors	37

Consolidated Financial Review

Scope of Consolidation

For fiscal 2004, ended March 31, 2005, the consolidated accounts comprised Daifuku Co., Ltd. and 27 consolidated subsidiaries. During the fiscal year under review, five Group companies in China and Japan were added to the scope of consolidation. Daifuku either established or

increased its ownership in these newly consolidated subsidiaries. SK Daifuku Corporation in the United States was removed from the scope of consolidation after its assimilation into Daifuku America Corporation.

Net Sales

Despite the impact of higher crude oil prices in North America, overall demand, in domestic and overseas markets was strong for mainly logistics systems, including transport and storage systems for the electronics industry as well as logistics center warehouse systems. As a result, consolidated net sales climbed 19.9% year on year to 166,232 million yen.

Overseas net sales (sales to overseas customers)

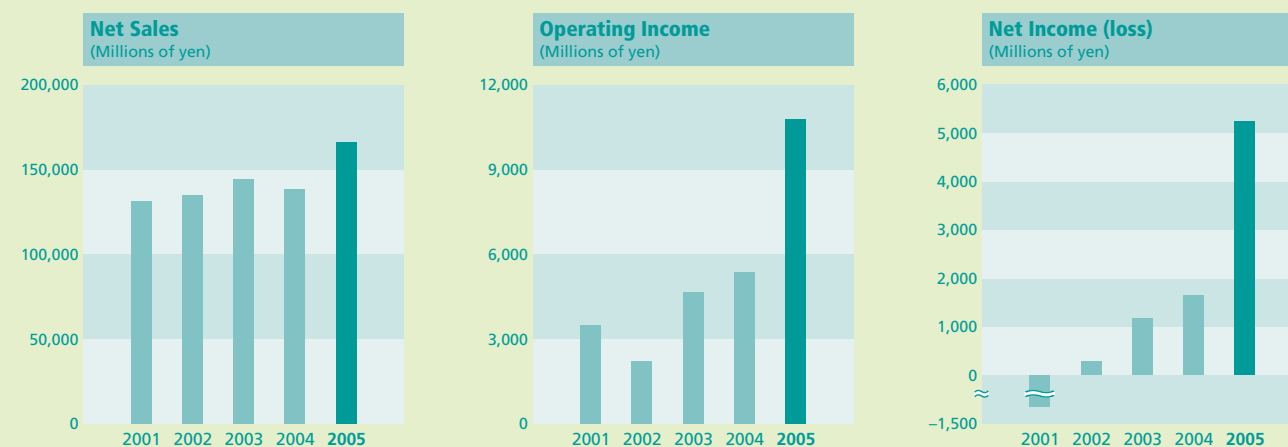
advanced 25.0% to 64,101 million yen, accounting for 38.6% of total consolidated net sales. By region, net sales in North America decreased 9.2% to 12,189 million yen, making up 7.3% of total net sales. Net sales grew 35.7% in Asia to 44,682 million yen, representing 26.9% of consolidated net sales. In other regions, net sales increased 47.1% to 7,230 million yen to account for 4.4% of total net sales.

Net Income

During the fiscal year under review, capacity utilization increased in line with growth in orders received, and Daifuku implemented strict cost management through the introduction of a project manager system for large-scale system projects. Moreover, variable expenses fell as a result of Daifuku's optimal global production system and a higher degree of overseas procurement. In addition, measures to lower costs took hold through the use of a new production management system. As a result, operating income more than doubled to 10,790 million yen compared with the previous fiscal year. Consequently, the operating income margin was 6.5%, compared with 3.9% in the previous fiscal year.

In other income and expenses, the Company recorded expenses of 531 million yen for loss on disposal of prop-

erty, plant and equipment, 583 million yen on special provision for retirement benefit costs for the amortization of insufficient portions of employee retirement benefits (final fiscal year portion of a five-year amortization), and 429 million yen for special accrued directors' retirement benefits in line with changes in the director retirement system. The total of these expenses, however, was less than that of the previous fiscal year, including loss on disposal of inventories. Accordingly, income before income taxes and minority interests totaled 8,580 million yen, an increase of 173% from the previous fiscal year. Net income rose 220% to 5,231 million yen. The ratio of income before income taxes and minority interests to net sales was 5.2%, compared with 2.3% in the previous fiscal year, and the ratio of net income to net sales improved from 1.2% to 3.1%.



Net income per share totaled 46.07 yen, compared with 14.50 yen in the previous fiscal year. In consideration of these strong results, Daifuku decided to distribute a dividend for the year of 13 yen per share, an increase of 3

yen per share from the previous fiscal year, with the approval of the ordinary general meeting of shareholders held in June 2005.

Financial Standing

As of March 31, 2005, current assets were 105,025 million yen, an increase of 15.6% from the end of the previous fiscal year. This increase was attributable to increases in cash and cash equivalents, notes and accounts receivable and inventories in line with sales growth during the fiscal year under review. Investments and long-term receivables edged down 0.6% to 8,137 million yen. Net property, plant and equipment amounted to 24,537 million yen, an increase of 3.9% from the previous fiscal year. As a result, total assets expanded 13.4% to 147,158 million yen as of March 31, 2005.

Current liabilities expanded 23.8% to 62,449 million yen, reflecting increases in notes and accounts payable and advances on sales contracts, both in line with sales,

growth, and an increase in current portion of long-term debt. Long-term liabilities rose 3.0% to 30,743 million yen, owing to an increase in the aforementioned retirement benefit reserves despite the refinancing of some long-term debt to short-term borrowings.

Total shareholders' equity was 53,337 million yen, an increase of 8.7% from the end of the previous fiscal year due to a rise in retained earnings. Accordingly, the shareholders' equity ratio was 36.2% as of March 31, 2005, compared with 37.8% a year earlier. Moreover, return on equity (ROE) improved substantially to 10.2%, compared with 3.3% in the previous fiscal year. Shareholders' equity per share increased to 480.14 yen from 442.61 yen in the previous fiscal year.

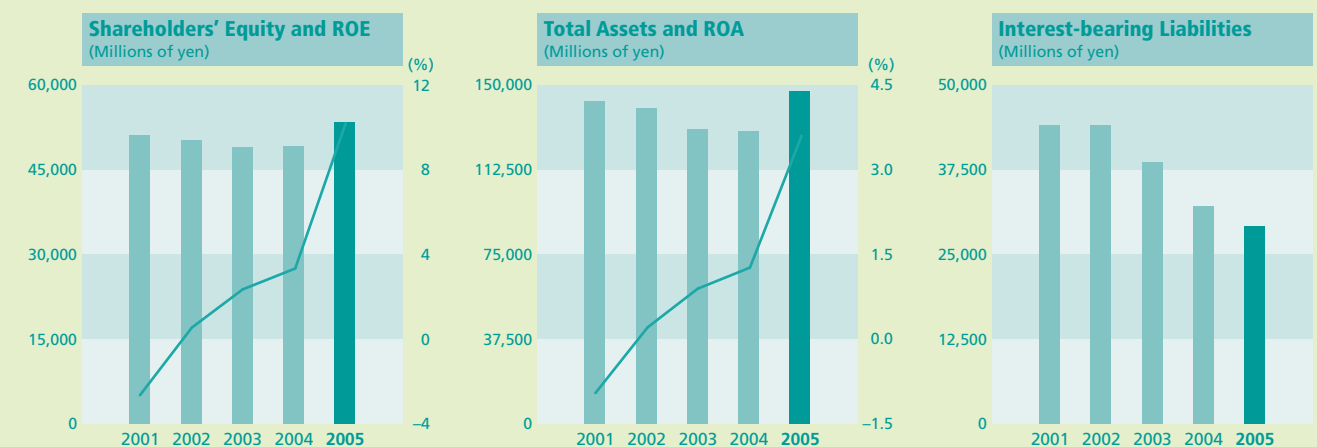
Cash Flows

In the fiscal year ended March 31, 2005, net cash provided by operating activities was 11,245 million yen, significantly higher than the 5,923 million yen provided in the previous fiscal year. The main source of cash was an increase in income before income taxes and minority interests and an improvement in contractual conditions related to advances on sales contracts and trade receivables.

Net cash used in investing activities amounted to 5,373 million yen, compared with net cash provided by investing activities of 2,748 million yen in the previous fiscal year. This was mainly due to an increase in payments for purchase of property, plant and equipment (capital investment) and an increase in payments for purchase of investments in subsidiaries.

Net cash used in financing activities was 4,021 million yen, a decrease from the 8,729 million yen used in the previous fiscal year. This decline mainly reflects the issuance of 3,000 million yen in corporate bonds, despite the continued repayment of long-term debt to created sounder balance sheets.

After factoring in the effect of exchange rate change on cash and cash equivalents, there was a net increase of 2,142 million yen in cash and cash equivalents in fiscal 2004. Cash and cash equivalents at end of year (including increases from the addition of subsidiaries to the scope of consolidation) totaled 20,441 million yen, compared with 17,781 million yen at the end of the previous fiscal year.



Consolidated Balance Sheets

Daifuku Co., Ltd. and Consolidated Subsidiaries March 31, 2005 and 2004

	March 31,		March 31,
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars) (Note 4)
ASSETS			
Current assets:			
Cash and cash equivalents	¥ 20,441	¥ 17,781	\$ 190,312
Notes and accounts receivable (Note 15)			
Trade	44,666	39,042	415,843
Other	549	510	5,107
Inventories (Note 6)	33,639	30,638	313,180
Deferred income taxes (Note 14)	2,278	1,075	21,216
Other current assets (Note 15)	3,717	2,149	34,603
Less; allowance for doubtful accounts	(265)	(308)	(2,468)
Total current assets	105,025	90,887	977,793
Investments and long-term receivables:			
Investments in securities (Note 5)	4,765	4,562	44,361
Investments in and advanced to non-consolidated subsidiaries and affiliates	1,708	1,584	15,904
Long-term loans	192	204	1,789
Long-term receivables and other	2,219	2,275	20,655
Less; allowance for doubtful accounts	(747)	(442)	(6,955)
Total investments and long-term receivables	8,137	8,183	75,754
Property, plant and equipment:			
Land (Note 7)	7,892	7,566	73,479
Buildings and structures (Note 7)	33,727	32,078	314,004
Machinery and equipment	21,926	24,902	204,133
Construction in progress	32	43	295
	63,577	64,589	591,911
Less; accumulated depreciation	39,040	40,981	363,466
Net property, plant and equipment	24,537	23,608	228,445
Other assets:			
Deferred income taxes (Note 14)	6,646	5,499	61,876
Goodwill	50	94	470
Other	2,763	1,441	25,720
Total other assets	9,459	7,034	88,066
	¥147,158	¥129,712	\$1,370,058

The accompanying notes are an integral part of these statements.

	March 31,		March 31,
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars) (Note 4)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings (Note 7)	¥ 814	¥ 600	\$ 7,582
Current portion of long-term debt (Note 7)	7,823	10,436	72,835
Notes and accounts payable (Note 15):			
Trade	30,482	24,681	283,789
Other	2,188	1,142	20,372
Income taxes payable (Note 14)	4,609	2,241	42,913
Accrued expenses	2,031	1,705	18,911
Advances on sales contracts	8,330	6,692	77,551
Deferred income taxes (Note 14)	37	16	343
Other current liabilities	6,135	2,934	57,116
Total current liabilities	62,449	50,447	581,412
Long-term liabilities:			
Long-term debt (Note 7)	20,500	21,014	190,853
Accrued severance indemnities (Note 8)	9,589	8,762	89,271
Accrued directors' retirement benefits	551	—	5,126
Other long-term liabilities	103	82	967
Total long-term liabilities	30,743	29,858	286,217
Total liabilities	93,192	80,305	867,629
Minority interests in consolidated subsidiaries	629	325	5,859
Contingent liabilities (Note 10)			
Shareholders' equity (Note 12):			
Common stock:			
Authorized — 200,000,000 shares			
Issued — 113,670,721 shares	8,023	8,023	74,695
Additional paid-in capital	5,012	5,011	46,658
Retained earnings	41,088	36,928	382,532
Net unrealized gain on securities	408	484	3,802
Foreign currency translation adjustments	(95)	(307)	(887)
	54,436	50,139	506,800
Less; treasury stock at cost			
March 31, 2005 — 2,843,881 shares	(1,099)	—	(10,230)
March 31, 2004 — 2,780,324 shares	—	(1,057)	—
Total shareholders' equity	53,337	49,082	496,570
	¥147,158	¥129,712	\$1,370,058

Consolidated Statements of Income

Daifuku Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2005 and 2004

	March 31,		March 31,
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars) (Note 4)
Net sales	¥166,232	¥138,661	\$1,547,638
Cost of sales (Note 13)	134,696	115,034	1,254,033
Gross profit	31,536	23,627	293,605
Selling, general and administrative expenses (Note 13)	20,746	18,269	193,149
Operating income	10,790	5,358	100,456
Other income (expenses);			
Interest and dividend income	140	105	1,308
Interest expenses	(714)	(846)	(6,647)
Other, net (Note 16)	(1,636)	(1,471)	(15,234)
Income before income taxes and minority interests	8,580	3,146	79,883
Income taxes (Note 14)			
Current	5,441	3,191	50,653
Deferred	(2,301)	(1,801)	(21,420)
	3,140	1,390	29,233
Income before minority interests	5,440	1,756	50,650
Minority interests in net income of consolidated subsidiaries	209	121	1,943
Net income	¥ 5,231	¥ 1,635	\$ 48,707
	(Yen)		(U.S. dollars) (Note 4)
Net income per share (Note 18):	¥46.07	¥14.50	\$0.43
Cash dividends per share:	13.00	10.00	0.12

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Daifuku Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2005 and 2004

	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gain (loss) on securities	Foreign currency translation adjustments	Treasury stock
	(Thousands)				(Millions of yen)		
Balance at March 31, 2003	113,671	¥8,023	¥5,011	¥36,433	¥ (781)	¥ 518	¥ (178)
Net income	—	—	—	1,635	—	—	—
Cash dividends	—	—	—	(1,132)	—	—	—
Bonuses to directors	—	—	—	(6)	—	—	—
Decrease of newly consolidated subsidiaries	—	—	—	(2)	—	—	—
Increase in treasury stock	—	—	—	—	—	—	(879)
Gain on sales of treasury stock	—	—	0	—	—	—	—
Net unrealized gain on securities	—	—	—	—	1,265	—	—
Foreign currency translation adjustments	—	—	—	—	—	(825)	—
Balance at March 31, 2004	113,671	¥8,023	¥5,011	¥36,928	¥ 484	¥ (307)	¥(1,057)
Net income	—	—	—	5,231	—	—	—
Increase of newly consolidated subsidiaries	—	—	—	59	—	—	—
Cash dividends	—	—	—	(1,108)	—	—	—
Bonuses to directors	—	—	—	(22)	—	—	—
Increase in treasury stock	—	—	—	—	—	—	(42)
Gain on sales of treasury stock	—	—	1	—	—	—	—
Net unrealized gain on securities	—	—	—	—	(76)	—	—
Foreign currency translation adjustments	—	—	—	—	—	212	—
Balance at March 31, 2005	113,671	¥8,023	¥5,012	¥41,088	¥ 408	¥ (95)	¥(1,099)
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gain (loss) on securities	Foreign currency translation adjustments	Treasury stock
	(Thousands)				(Thousands of U.S. dollars) (Note 4)		
Balance at March 31, 2004	113,671	\$74,695	\$46,655	\$343,806	\$4,501	\$(2,857)	\$ (9,845)
Net income	—	—	—	48,707	—	—	—
Increase of newly consolidated subsidiaries	—	—	—	542	—	—	—
Cash dividends	—	—	—	(10,324)	—	—	—
Bonuses to directors	—	—	—	(199)	—	—	—
Increase in treasury stock	—	—	—	—	—	—	(385)
Gain on sales of treasury stock	—	—	3	—	—	—	—
Net unrealized gain on securities	—	—	—	—	(699)	—	—
Foreign currency translation adjustments	—	—	—	—	—	1,970	—
Balance at March 31, 2005	113,671	\$74,695	\$46,658	\$382,532	\$3,802	\$ (887)	\$(10,230)

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Daifuku Co., Ltd. and Consolidated Subsidiaries Years ended March 31, 2005 and 2004

	March 31,		March 31,
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars) (Note 4)
Cash flows from operating activities:			
Net income before income taxes and minority interests	¥ 8,580	¥ 3,146	\$ 79,883
Adjustments for:			
Depreciation	2,184	2,474	20,334
Gain on sales of investments in securities, net	—	(1,098)	—
Loss on valuation of investment in securities	—	1	—
Interest and dividend income	(140)	(105)	(1,308)
Interest expenses	714	846	6,647
Gain on transfer of securities to employee retirement benefit trust	—	(401)	—
Increase in trade receivables	(5,371)	(1,980)	(50,007)
Increase in inventories	(2,734)	(4,758)	(25,452)
Increase in trade payable	5,586	4,229	52,011
Increase in accrued for directors' retirement benefits	551	—	5,126
Increase in advances on sales contracts	2,903	163	27,030
Other, net	2,793	5,408	26,002
Sub total	15,066	7,925	140,266
Interest and dividend income received	147	107	1,366
Interest expenses paid	(788)	(852)	(7,335)
Income taxes paid	(3,266)	(1,081)	(30,403)
Other, net	86	(176)	797
Net cash provided by operating activities	11,245	5,923	104,691
Cash flows from investing activities:			
Payments for purchase of investments in securities	(341)	(24)	(3,174)
Proceeds from sales of investments in securities	—	2,857	—
Payments for purchase of property, plant and equipment	(3,028)	(1,446)	(28,188)
Proceeds from sales of property, plant and equipment	115	1,332	1,068
Issuances of loans receivable	—	(163)	—
Collections of loans receivable	154	77	1,432
Acquisition of shares of newly consolidated subsidiaries	(1,625)	—	(15,133)
Payments for purchase of investments in and advanced to non-consolidated subsidiaries	(314)	—	(2,924)
Other, net	(334)	115	(3,100)
Net cash provided (used in) by investing activities	(5,373)	2,748	(50,019)
Cash flows from financing activities:			
Increase (decrease) in short-term bank loans, net	214	(2,758)	1,996
Proceeds from long-term debt	4,295	800	39,985
Repayment of long-term debt	(10,436)	(4,616)	(97,160)
Payment of cash dividends	(1,107)	(1,142)	(10,307)
Payments for purchase of treasury stock	(42)	(880)	(392)
Proceeds from issuance of bond	3,000	—	27,930
Proceeds from issuance of share to minority interests	138	—	1,284
Other, net	(83)	(133)	(770)
Net cash used in financing activities	(4,021)	(8,729)	(37,434)
Effect of exchange rate change on cash and cash equivalents	291	(572)	2,709
Net increase (decrease) in cash and cash equivalents	2,142	(630)	19,947
Cash and cash equivalents at beginning of year	17,781	18,271	165,539
Cash and cash equivalents held by newly consolidated subsidiaries at beginning of year	518	140	4,826
Cash and cash equivalents at end of year	¥20,441	¥17,781	\$190,312

The accompanying notes are an integral part of these statements.

Notes to the Consolidated Financial Statements

Daifuku Co., Ltd. and Consolidated Subsidiaries for the Years ended March 31, 2005 and 2004

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by DAIFUKU Co., Ltd. (the "Company") and its consolidated subsidiaries. The Company and its domestic subsidiaries have maintained its accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with generally accepted accounting principles prevailing in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required from the Securities and Exchange Law of Japan. The accounts of the consolidated overseas subsidiaries are based on its accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries in which the subsidiaries have been incorporated.

In general, no adjustments to the accounts of the consolidated overseas 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.

The presentation of the accompanying consolidated financial statements is made in conformity with the "Consolidated Financial Statements Regulation" (ordinance promulgated by the Ministry of Finance) and meets the requirements for disclosure of financial information of the Company on a consolidated basis. However, certain account balances, as disclosed in the basic consolidated financial statements in Japan, have been reclassified to the extent deemed necessary to enable presentation in a form, which is more familiar to readers outside Japan.

2. Summary of significant accounting policies

(1) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries.

The remaining 9 subsidiaries at March 31, 2005 were not consolidated because the aggregate sales, total assets, total net income (loss) and total retained earnings available for the Company were not material to the consolidated results of operations, total assets, total net income and retained earnings, respectively.

All significant intercompany transactions and account balances and unrealized profit among the consolidated group have been eliminated. The difference between the cost of investment in a subsidiary and the equity in its net assets at the date of acquisition is amortized over 15 years.

(2) Translation of foreign currency financial statements (accounts of consolidated overseas subsidiaries)

The accounts of the overseas consolidated subsidiaries are translated into Japanese yen by the methods prescribed under

the accounting standard for foreign currency translation issued by the Business Accounting Deliberation Council of Japan. Under these methods, balance sheet accounts are translated at current rates. However, shareholders' equity is translated at the historical rate. Differences arising from the translations are stated under the section entitled "foreign currency translation adjustments".

Revenues and expenses are translated at the average rate for the respective period.

(3) Foreign currency translation

The Company and its domestic subsidiaries adopted the accounting standard for foreign currency translation. Under this standard, all monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, 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.

(4) Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments, generally with an original maturity date of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

(5) Inventories

Inventories are stated at the lower of cost or market. The cost for components relating to material handling systems and raw materials is determined by the moving-average method, while the specific identification method is used for other inventories.

(6) Financial instruments

(a) Derivatives

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

(b) Securities

Under the Japanese accounting standard for financial instruments, securities are classified into four categories, that is, "trading securities", "held-to-maturity debt securities", "investment in subsidiaries and affiliates" and "other securities".

"Trading securities" mean the securities that are held for the purpose of generating profits on short-term differences in prices. "Held-to-maturity debt securities" mean the debt securities that the companies have intent to hold to maturity.

The Company and its subsidiaries have "investment in subsidiaries and affiliates" and "other securities".

Investments in non-consolidated subsidiaries and affiliates are stated at cost because the effect of application of the equity method would be immaterial.

"Other securities" for which market quotations are available are stated at fair value. Unrealized gain or loss on securities included as a component of shareholders' equity, and cost of

securities sold is determined based on the moving-average method.

"Other securities" for which market quotations are unavailable are stated at cost, cost being determined by the moving average method.

(c) Hedge accounting

Gains or losses arising from changes in fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

The derivatives designated as hedging instruments by the Company are principally forward exchange contracts and interest swap agreements. The related hedged items are trade accounts receivable and payable, long-term bank loans.

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. Thus, the Company's purchases of the hedging instruments are limited to, at maximum, the amounts of the hedged items.

(7) Leases

In Japan, where the financing leases do not transfer ownership of the leased property to the lessee during the lease terms, the leased property is not capitalized and the relating rent expenses are charged to income in the period incurred.

Property of overseas subsidiaries under capital leases is capitalized.

(8) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost. Depreciation of the Company and its domestic subsidiaries is computed principally on the declining-balance method, at rates based on the estimated useful lives of assets. Depreciation of buildings, which acquired on and after April 1, 1998, is computed on the straight-line method, at rates based on the estimated useful lives of assets. Depreciation of the consolidated overseas subsidiaries is computed principally on the straight-line method.

The range of useful lives is principally from 3 to 60 years for buildings and structures and from 2 to 20 years for machinery and equipment.

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

(9) Goodwill

Goodwill of the Company and its certain domestic consolidated subsidiary recognized in acquisitions accounted for as purchases are being amortized on a straight-line basis for 5 years.

(10) Income taxes

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

Deferred income taxes were determined using the asset

and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements.

(11) Accrued severance indemnities

Retirement benefit costs for employees of the Company and its domestic subsidiaries are accrued based on the estimates of the pension obligations and the plan assets at the end of the current fiscal year. At date of initial application of the new accounting standard for retirement benefits, the Company and its domestic subsidiaries had a "unrecognized portion of net obligation" for ¥7,213 million. The Company charged ¥4,297 million of them to income, which is equivalent to "retirement benefit trust" (see Note 8), and the remaining balances of ¥2,916 million is amortized on a straight-line basis over 5 years.

(12) Accrued directors' retirement benefits

Accrued directors' retirement benefits are recorded to state the liability at the amount that would be required by each company's internal regulations if all directors and corporate auditors retired at each balance sheet date. Payments of such benefits are subject to an approval at a general shareholders' meeting (see Note 3).

(13) Appropriation of retained earnings

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, proposals by the board of directors for the appropriation of retained earnings (principally the payment of annual cash dividends) should be approved by a shareholders' meeting which must be held within three months after the end of each financial year. The appropriation of retained earnings reflected in the accompanying consolidated financial statements for each fiscal year represents the appropriations which were approved by the shareholders' meeting and disposed of during that year but which related to the immediately preceding fiscal year.

The payment of bonuses to directors and corporate auditors is made out of retained earnings instead of being charged to income for the period and constitutes a part of the appropriations referred to above.

(14) Net income and dividends per share

Net income per share is based upon the weighted average number of shares of common stock outstanding during each period.

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 outstanding during each period after consideration of dilutive effect of common stock equivalents which include warrants and convertible bonds.

Cash dividends per share represent actual dividends declared as applicable to the respective years.

(15) Japanese consumption taxes

Consumption taxes withheld by the Company and its domestic subsidiaries on sales of products is not included in the amount of "net sales" in the accompanying consolidated statements of income. Equally, any consumption taxes borne by the Company on goods, services and expenses are not included in the accompanying consolidated statements of income, but recorded as an asset or liability in the consolidated balance sheet.

(16) Reclassifications

Certain prior-year amounts on the attached Balance Sheet have been reclassified to conform to the current year's presentation.

(17) Recent accounting pronouncement

On August 9, 2002, the Business Accounting Deliberation Council in Japan issued "Accounting Standard for Impairment of Fixed Assets". The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The standard shall be effective for fiscal years beginning April 1, 2005. However, an earlier adoption was permitted for fiscal years beginning April 1, 2004 and for fiscal years ending between March 31, 2004 and March 30, 2005.

The Company did not apply this new standard nor determined the effect of applying this new standard on the accompanying consolidated financial statements.

3. Accounting change

Until March 31, 2004, the Company and its principal domestic consolidated subsidiary had expensed directors' retirement benefits as incurred.

Effective April 1, 2004, the Company and its principal domestic consolidated subsidiary changed their method of accounting for the retirement benefits on an accrual basis in order to allocate the amount and reflect the periodic results of operations more appropriately and to strengthen the financial positions since the impact has increased considering the trend to increase the length of service and the number of directors and corporate auditors.

In case of an accounting change, the consolidated financial statements are not restated, but the effect of the change at the beginning of the year is included in income of the year of change as other income or expense. The effect of this change was to increase selling, general and administrative expenses by ¥122 million (\$1,132 thousand) and other expenses by ¥429 million (\$3,994 thousand), and to decrease income

before income taxes and minority interests by ¥551 (\$5,126 thousand) million for the year ended March 31, 2005 compared with the case on which the previous method was adopted, respectively.

4. United States dollar amounts

The Company prepares its consolidated financial statements in yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetical results of translating yen into dollars at the rate of ¥107.41 to U.S.\$1, being the effective rate of exchange at March 31, 2005. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in dollars at a rate of ¥107.41 to U.S.\$1 or at any other rate.

5. Investments in securities

Investments in securities as of March 31, 2005 and 2004 were as follows:

	March 31,		March 31,
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Investments in securities:			
Equity securities	¥4,765	¥4,562	\$44,361

A comparison of the carrying amount on the consolidated balance sheet and acquisition cost of "other securities" for which market quotations are available as of March 31, 2005 and 2004 were summarized as follows:

	March 31, 2005		
	(Millions of yen)		
	Acquisition cost	Carrying amount on the consolidated balance sheet	Difference
Securities with carrying amount on the consolidated balance sheet exceed their acquisition cost			
Investments in securities:			
Equity securities	¥1,854	¥2,687	¥833

	March 31, 2004		
	(Millions of yen)		
	Acquisition cost	Carrying amount on the consolidated balance sheet	Difference
Securities with carrying amount on the consolidated balance sheet exceed their acquisition cost			
Investments in securities:			
Equity securities	¥2,591	¥3,438	¥847

March 31, 2005 (Thousands of U.S. dollars)			
	Acquisition cost	Carrying amount on the consolidated balance sheet	Difference
Securities with carrying amount on the consolidated balance sheet exceed their acquisition cost			
Investments in securities:			
Equity securities	\$17,258	\$25,019	\$7,761

March 31, 2005 (Millions of yen)			
	Acquisition cost	Carrying amount on the consolidated balance sheet	Difference
Securities with carrying amount on the consolidated balance sheet do not exceed their acquisition cost			
Investments in securities:			
Equity securities	¥1,163	¥1,032	¥(131)

March 31, 2004 (Millions of yen)			
	Acquisition cost	Carrying amount on the consolidated balance sheet	Difference
Securities with carrying amount on the consolidated balance sheet do not exceed their acquisition cost			
Investments in securities:			
Equity securities	¥74	¥56	¥(18)

March 31, 2005 (Thousands of U.S. dollars)			
	Acquisition cost	Carrying amount on the consolidated balance sheet	Difference
Securities with carrying amount on the consolidated balance sheet do not exceed their acquisition cost			
Investments in securities:			
Equity securities	\$10,826	\$9,605	\$(1,221)

"Other securities" sold during the years ended March 31, 2005 and 2004 were as follows:

	March 31, 2005	March 31, 2004	March 31, 2005
	(Millions of yen)		(Thousands of U.S. dollars)
Proceeds of sales	¥—	¥2,857	\$—
Gain on sales	—	1,098	—

Book values of "other securities" which are not marketable as of March 31, 2005 and 2004 were summarized as follows:

	March 31, 2005	March 31, 2004	March 31, 2005
	(Millions of yen)		(Thousands of U.S. dollars)
Investments in securities:			
Equity securities	¥1,046	¥1,068	\$9,737

6. Inventories

Inventories as of March 31, 2005 and 2004 consisted of the following:

	March 31, 2005		March 31, 2004
	(Millions of yen)		(Thousands of U.S. dollars)
Finished products	¥ 1,594	¥ 1,674	\$ 14,838
Work in process	27,457	24,598	255,628
Raw materials	4,001	3,856	37,248
Others	587	510	5,466
	¥33,639	¥30,638	\$313,180

7. Short-term borrowings and long-term debt

Short-term borrowings are principally bank loans. The principal ranges of annual interest rates applicable to the short-term borrowings outstanding as of March 31, 2005 were from 0.66% to 0.70%.

Long-term debt outstanding as of March 31, 2005 and 2004, consisted of the following:

	March 31, 2005		March 31, 2004
	(Millions of yen)		(Thousands of U.S. dollars)
Loans, principally from banks with annual interest ranging from 0.73% to 2.32% secured and unsecured	¥25,323	¥31,450	\$235,758
0.56% yen unsecured bonds, due 2007	3,000	—	27,930
Less: portion due within one year	7,823	10,436	72,835
	¥20,500	¥21,014	\$190,853

Assets pledged as collateral for long-term debt with banks as of March 31, 2005 were as follows:

	March 31, 2005	March 31, 2004
	(Millions of yen)	(Thousands of U.S. dollars)
Land	¥200	\$1,862
Buildings, less accumulated depreciation	47	439
	¥247	\$2,301

The aggregate annual maturity of long-term debt other than the portion due within one year outstanding as of March 31, 2005 was as follows:

Year ending March 31,	(Millions of yen)	(Thousands of U.S. dollars)
2007	¥12,608	\$ 117,378
2008	7,036	65,506
2009	836	7,783
2010 and thereafter	20	186
	¥20,500	\$190,853

8. Retirement benefit plans

Employees who terminate their services with the Company or its domestic subsidiaries are, under most circumstances, entitled to lump-sum severance indemnities determined by reference to current basic rates of pay, length of service and conditions under which the terminations occur.

The amount of severance indemnities to be paid by the Company and its domestic subsidiaries is reduced by the benefits payable under a noncontributory pension plan which entitles an employee with more than certain minimum years of service to receive either a lump-sum payment or an annuity.

In the fiscal year of 2004, the Company additionally contributed certain marketable equity securities to the retirement benefits trust, which were established in 2001, and recognized a gain of ¥401 million as "Gain on transfer of securities to employee retirement benefit trust", which is included in other expenses (see Note 16), in the accompanying consolidated income statement for the year ended March 31, 2004.

The accrued severance indemnities as of March 31, 2005 and 2004 were analyzed as follows:

	March 31, 2005		March 31, 2004
	(Millions of yen)		(Thousands of U.S. dollars)
Projected benefit obligations	¥(23,601)	¥(23,386)	\$(219,729)
Plan assets	14,246	13,075	132,629
Funded status	(9,355)	(10,311)	(87,100)
Unrecognized portion of net obligation at date of initial application of new accounting standards	—	583	—
Unrecognized actuarial differences	1,105	966	10,289
Unrecognized prior service cost	(1,339)	—	(12,460)
Accrued severance indemnities recognized on balance sheet	¥ (9,589)	¥ (8,762)	\$ (89,271)

Net pension expense relating to the retirement benefits for the years ended March 31, 2005 and 2004 were as follows:

	March 31, 2005		March 31, 2004
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost	¥1,246	¥1,120	\$11,597
Interest cost	610	630	5,678
Expected return on plan assets	(167)	(123)	(1,550)
Amortization of transition amount	583	583	5,430
Amortization of actuarial differences	625	1,243	5,817
Net pension expense	¥2,897	¥3,453	\$26,972

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

	March 31,	
	2005	2004
Discount rate	2.5%	2.7%
Expected rate of return on plan assets	2.0%	2.0%
Method of attributing the projected benefits to periods of services	Straight-line basis	Straight-line basis
Amortization of transition amount	5 years	5 years
Amortization of unrecognized actuarial differences	5 years	5 years
Amortization of unrecognized prior service cost	5 years	—

The Company contributed certain marketable equity securities to an employee retirement benefit trust, which is included in plan assets.

Some of the overseas subsidiaries sponsor respective defined contribution plan.

The Company and its domestic consolidated subsidiaries had defined benefit retirement benefit plans including lump-sum severance indemnities and noncontributory pension plans. On March 31, 2005, the Company and its domestic consolidated subsidiaries terminated conventional defined benefit retirement plans. On April 1, 2005, the Company and its domestic consolidated subsidiaries transferred a part of lump-sum severance indemnities to defined contribution pension plans, and noncontributory pension plans to hybrid type of pension plans (cash balance plans).

As a result, profits from termination of the defined benefit retirement benefit plans will be recognized ¥860 million (\$8,007 thousand) for the year ending March 31, 2006.

9. Lease commitments

Rent expenses relating to the financing lease transactions for the years ended March 31, 2005 and 2004 were summarized as follows:

	March 31, 2005		March 31, 2004
	(Millions of yen)		(Thousands of U.S. dollars)
Rental expenses	¥340	¥351	\$3,163

The future minimum lease payments required under the terms of these financing leases as of March 31, 2005 and 2004 were as follows:

	March 31, 2005		March 31, 2004
	(Millions of yen)		(Thousands of U.S. dollars)
Due within one year	¥ 286	¥ 324	\$ 2,667
Due after one year	1,296	1,559	12,063
	¥1,582	¥1,883	\$14,730

Interests implicit in these leases are included in the above minimum lease payments because the total lease payments were not material to the total assets of the Company.

Acquisition costs, accumulated depreciation and net book values as of March 31, 2005 and 2004 were as follows:

	March 31,		March 31,
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Acquisition costs	¥2,630	¥2,932	\$24,490
Accumulated depreciation	1,048	1,049	9,760
Net book values	¥1,582	¥1,883	\$14,730

Depreciation expense for the year ended March 31, 2005 was ¥340 million (\$3,163 thousand), which is calculated by the straight-line method over the terms of the lease based on acquisition cost.

The future minimum lease payments required under the terms of these operating leases as of March 31, 2005 and 2004 were as follows:

	March 31,		March 31,
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Due within one year	¥329	¥329	\$3,062
Due after one year	329	658	3,062
	¥658	¥987	\$6,124

10. Contingent liabilities

Contingent liabilities of the Companies at March 31, 2005 and 2004 are summarized as follow:

	March 31,		March 31,
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Notes discounted in the normal course of business	¥—	¥1,000	\$—

In addition, the Company was contingently liable under guarantees for bank borrowings of non-consolidated subsidiaries, affiliates and the Company employees totaling ¥295 million (\$2,747 thousand) as of March 31, 2005.

11. Derivatives and hedging activities

Derivative financial instruments are utilized by the Company and its subsidiaries principally to reduce interest rate and foreign exchange rate risks. The Company and its subsidiaries have established a control environment which includes policies and procedures for risk assessments and for the approval, reporting and monitoring of transactions involving derivative financial instruments. The Company and its subsidiaries do not hold or issue derivative financial instruments for trading purposes.

The Company and its subsidiaries are exposed to certain market risks arising from its forward exchange contracts and

interest swap agreements. The Company and its subsidiaries are also exposed to the risk of credit loss in the event of non-performance by the counterparties to the currency and interest; however, the Company and its subsidiaries do not anticipate nonperformance by any of these counterparties all of whom are financial institutions with high bond ratings.

12. Shareholders' equity

Capital reserve, which is recorded pursuant to the Japanese Commercial Code and included in additional paid-in capital in the accompanying consolidated balance sheet, primarily consists of proceeds on issuance of shares of common stock of the Company that were not recorded as "common stock" (Under the Japanese Commercial Code, the Company is allowed to account for an amount not exceeding one-half of the issue price of new shares as capital reserve.) Capital reserve may be transferred to other additional paid-in capital to the extent that the sum of capital reserve and earned reserve (collectively, "legal reserves") does not fall below 25% of stated capital. However, capital reserve may not be transferred to retained earnings.

The Japanese Commercial Code requires all the companies to appropriate as an earned reserve an amount equivalent to at least 10% of cash payments for appropriation of retained earnings until the legal reserves equals 25% of stated capital. Earned reserve may be transferred to unappropriated retained earnings to the extent that the legal reserves do not fall below 25% of stated capital. Earned reserve is included in retained earnings on the consolidated balance sheet.

Legal reserves may be transferred to stated capital through suitable directors' actions or offset against deficit through suitable shareholders' actions.

13. Research and development

Research and development expenditures charged to income were ¥4,970 million (\$46,273 thousand) and ¥4,232 million for the years ended March 31, 2005 and 2004, respectively.

14. Income taxes

The Company and its domestic consolidated subsidiaries are subject to a number of different taxes based on income, which in the aggregate indicate a normal effective statutory income tax rate of approximately 41% and 42% for the years ended March 31, 2005 and 2004. Foreign consolidated subsidiaries are subject to income taxes of the countries in which they operate.

For the year ended March 31, 2005, a corporation size-based enterprise tax was introduced and which superseded the current enterprise tax. The enterprise tax is the sum of three tax components; a) an income based component, b) a value added component and c) a capital based component. As a result, the statutory tax rate for the year ended March 31, 2005 was reduced. The newly enacted tax rates were used in calculating the future expected tax effects of temporary differences realizing after April 1, 2004.

According to this tax reform act, the value added component and the capital based component of ¥164 million (\$1,530 thousand) was included in general and administrative expenses for the year ended March 31, 2005.

The significant components of deferred tax assets and liabilities as of March 31, 2005 and 2004 were summarized as follows:

	March 31,		March 31,
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Accrued bonus	¥ 1,112	¥ 368	\$ 10,353
Enterprise tax	334	205	3,111
Allowance for doubtful accounts	175	182	1,629
Accrued severance indemnities	6,381	5,748	59,410
Operating loss carryforwards for tax purposes	976	1,267	9,088
Others	2,281	1,313	21,238
Sub total	11,259	9,083	104,829
Less valuation allowance	(640)	(762)	(5,958)
Total deferred tax assets	¥10,619	¥ 8,321	\$ 98,871
Deferred tax liabilities:			
Deferred gain on sales of assets	¥ (135)	¥ (135)	\$ (1,259)
Gain on securities contributed to employee retirement benefit trust	(1,229)	(1,228)	(11,437)
Net unrealized gain on securities	(288)	(340)	(2,682)
Others	(80)	(60)	(744)
Total deferred tax liabilities	(1,732)	(1,763)	(16,122)
Net deferred tax assets	¥ 8,887	¥ 6,558	\$ 82,749

	March 31,		March 31,
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Statutory tax rate	41.0%	42.0%	
Lower tax rates of overseas subsidiaries	(4.5)	(8.5)	
Utilization of net operating loss carryforwards in the consolidated subsidiaries	(0.4)	(2.4)	
Expenses not deductible for income tax purpose	0.8	11.6	
Others	(0.3)	1.5	
Effective tax rate	36.6%	44.2%	

Reconciliation of the differences between the statutory tax rate and the effective income tax rate as of March 31, 2005 and 2004 were as follows:

	March 31,	
	2005	2004
	(Millions of yen)	
Foreign exchange gain (loss), net	¥ 31	¥ (318)
Gain on sales of property, plant and equipment	4	127
Gain on sales of investments in securities	—	1,098
Loss on disposal of inventories	—	(1,365)
Loss on disposal of property, plant and equipment	(531)	(84)
Loss on sales of property, plant and equipment	(21)	—
Loss on sales of land	—	(514)
Loss on valuation of investment in securities	—	(1)
Gain on transfer of securities to employee retirement benefit trust	—	401
Directors' retirement benefits	(30)	(206)
Special provision for retirement benefit costs	(583)	(583)
Special accrued directors' retirement benefits	(429)	—
Other, net	(77)	(26)
Total	¥(1,636)	¥(1,471)

15. Notes and accounts due from and to non-consolidated subsidiaries and affiliates

Notes and accounts due from and to non-consolidated subsidiaries and affiliates as of March 31, 2005 and 2004 were summarized as follows:

	March 31,		March 31,
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Notes and accounts receivable	¥143	¥258	\$1,327
Other current assets (Short-term loans)	22	144	205
Notes and accounts payable	233	60	2,167

16. Other income and other expenses

"Other, net" consisted of the following for the years ended March 31, 2005 and 2004, respectively.

	March 31,		March 31,
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Foreign exchange gain (loss), net	¥ 31	¥ (318)	\$ 286
Gain on sales of property, plant and equipment	4	127	38
Gain on sales of investments in securities	—	1,098	—
Loss on disposal of inventories	—	(1,365)	—
Loss on disposal of property, plant and equipment	(531)	(84)	(4,948)
Loss on sales of property, plant and equipment	(21)	—	(194)
Loss on sales of land	—	(514)	—
Loss on valuation of investment in securities	—	(1)	—
Gain on transfer of securities to employee retirement benefit trust	—	401	—
Directors' retirement benefits	(30)	(206)	(283)
Special provision for retirement benefit costs	(583)	(583)	(5,430)
Special accrued directors' retirement benefits	(429)	—	(3,994)
Other, net	(77)	(26)	(709)
Total	¥(1,636)	¥(1,471)	\$ (15,234)

17. Segment information

Segment Information of the Company and its consolidated subsidiaries for the years ended March 31, 2005 and 2004 is presented below:

(1) Segment information by products

For the year ended March 31, 2005

(Millions of Yen)					
	Logistics systems	Electronic goods	Other products	Adjustments and eliminations	Consolidated total
Sales:					
Sales to outside customers	¥142,622	¥13,647	¥ 9,963	¥ —	¥166,232
Inter—segment sales	121	4,197	2,367	(6,685)	—
Total	142,743	17,844	12,330	(6,685)	166,232
Operating expenses	128,369	16,548	12,382	(1,857)	155,442
Operating income (loss)	¥ 14,374	¥ 1,296	¥ (52)	¥ (4,828)	¥ 10,790
Identifiable assets					
Identifiable assets	¥ 88,402	¥12,387	¥ 5,996	¥40,373	¥147,158
Depreciation	1,063	123	54	944	2,184
Capital expenditure	3,140	219	60	252	3,671

As mentioned in Note 3, the Company and its principal domestic consolidated subsidiary have changed their method of accounting for retirement benefits to be paid to directors and corporate auditors effective April 1, 2004.

The effect of this change was to increase operating expenses in the electronic goods segment and adjustment and eliminations by ¥27 million and ¥94 million and decrease operating income by the same amount compared with the case on which the previous method was adopted, respectively.

For the year ended March 31, 2004

(Millions of Yen)					
	Logistics systems	Electronic goods	Other products	Adjustments and eliminations	Consolidated total
Sales:					
Sales to outside customers	¥115,426	¥13,515	¥ 9,720	¥ —	¥138,661
Inter—segment sales	68	238	2,025	(2,331)	—
Total	115,494	13,753	11,745	(2,331)	138,661
Operating expenses	109,107	11,712	11,375	1,109	133,303
Operating income	¥ 6,387	¥ 2,041	¥ 370	¥ (3,440)	¥ 5,358
Identifiable assets					
Identifiable assets	¥ 78,020	¥11,100	¥ 3,859	¥36,733	¥129,712
Depreciation	1,143	116	167	1,048	2,474
Capital expenditure	806	100	210	258	1,374

For the year ended March 31, 2005

(Thousands of U.S. dollars)					
	Logistics systems	Electronic goods	Other products	Adjustments and eliminations	Consolidated total
Sales:					
Sales to outside customers	\$1,327,828	\$127,057	\$ 92,753	\$ —	\$1,547,638
Inter—segment sales	1,123	39,072	22,042	(62,237)	—
Total	1,328,951	166,129	114,795	(62,237)	1,547,638
Operating expenses	1,195,133	154,061	115,276	(17,288)	1,447,182
Operating income (loss)	\$ 133,818	\$ 12,068	\$ (481)	\$ (44,949)	\$ 100,456
Identifiable assets					
Identifiable assets	\$ 823,036	\$115,324	\$ 55,822	\$375,876	\$1,370,058
Depreciation	9,900	1,143	500	8,791	20,334
Capital expenditure	29,235	2,037	563	2,346	34,181

These sections include the following main products:

- Logistics systems: Conveyor systems, Monorail systems, Automatic guided vehicles, Automated storage and retrieval systems, Racks, Box pallets
- Electronic goods: Modules for personal computers
- Other: Car-washing machines

(2) Segment information by geographic areas

For the year ended March 31, 2005

(Millions of Yen)					
	Japan	North America	Other	Adjustments and eliminations	Consolidated total
Sales:					
Sales to outside customers	¥141,478	¥12,190	¥12,564	¥ —	¥166,232
Inter—segment sales	9,967	718	5,098	(15,783)	—
Total	151,445	12,908	17,662	(15,783)	166,232
Operating expenses	137,529	12,769	16,099	(10,955)	155,442
Operating income (loss)	¥ 13,916	¥ 139	¥ 1,563	¥ (4,828)	¥ 10,790
Identifiable assets	¥ 99,592	¥ 9,209	¥11,399	¥ 26,958	¥147,158

As mentioned in Note 3, the company and its principal domestic consolidated subsidiaries have changed their method of accounting for retirement benefits to be paid to directors and corporate auditors.

The effect of this change was to increase operating expenses in Japan segment and adjustment and eliminations by ¥27 million and ¥94 million and decrease operating income by the same amount compared with the case on which the previous method was adopted, respectively.

For the year ended March 31, 2004

(Millions of Yen)					
	Japan	North America	Other	Adjustments and eliminations	Consolidated total
Sales:					
Sales to outside customers	¥115,360	¥14,080	¥ 9,221	¥ —	¥138,661
Inter—segment sales	8,734	941	2,882	(12,557)	—
Total	124,094	15,021	12,103	(12,557)	138,661
Operating expenses	115,883	15,217	11,320	(9,117)	133,303
Operating income (loss)	¥ 8,211	¥ (196)	¥ 783	¥ (3,440)	¥ 5,358
Identifiable assets	¥ 90,519	¥ 9,085	¥ 6,654	¥ 23,454	¥129,712

For the year ended March 31, 2005

(Thousands of U.S. dollars)					
	Japan	North America	Other	Adjustments and eliminations	Consolidated total
Sales:					
Sales to outside customers	\$1,317,181	\$113,486	\$116,971	\$ —	\$1,547,638
Inter—segment sales	92,787	6,690	47,469	(146,946)	—
Total	1,409,968	120,176	164,440	(146,946)	1,547,638
Operating expenses	1,280,412	118,885	149,882	(101,997)	1,447,182
Operating income (loss)	\$ 129,556	\$ 1,291	\$ 14,558	\$ (44,949)	\$ 100,456
Identifiable assets	\$ 927,214	\$ 85,733	\$106,130	\$ 250,981	\$1,370,058

(3) Overseas sales

For the year ended March 31, 2005

	(Millions of Yen)			
	North America	Asia	Other	Total
Overseas sales	¥12,189	¥44,682	¥7,230	¥ 64,101
Consolidated sales	—	—	—	166,232
Ratio of overseas sales to consolidated sales	7.3%	26.9%	4.4%	38.6%

For the year ended March 31, 2004

	(Millions of Yen)			
	North America	Asia	Other	Total
Overseas sales	¥13,424	¥32,923	¥4,914	¥ 51,261
Consolidated sales	—	—	—	138,661
Ratio of overseas sales to consolidated sales	9.7%	23.7%	3.6%	37.0%

For the year ended March 31, 2005

	(Thousands of U.S. dollars)			
	North America	Asia	Other	Total
Overseas sales	\$113,485	\$415,993	\$67,308	\$ 596,786
Consolidated sales	—	—	—	1,547,638
Ratio of overseas sales to consolidated sales	7.3%	26.9%	4.4%	38.6%

Overseas net sales for the years ended March 31, 2005 and 2004 included exports by the Company and offshore sales by its consolidated subsidiaries, excluding sales to Japan.

18. Earnings per share

The amounts of basic and diluted net income per share for year ended March 31, 2005 and 2004 were as follows:

	March 31,		March 31,
	2005	2004	2005
	(Yen)		(U.S. dollars)
Net income per share			
—Basic	¥46.07	¥14.50	\$0.43
—Diluted	—	—	—

The figure of diluted net income per share is not disclosed, since there was no potential share of common stock that had dilutive effect.

The amounts and numbers used for the basic net income per share computation for year ended March 31, 2005 and 2004 were as follows:

	March 31,		March 31,
	2005	2004	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Net income	¥5,231	¥1,635	\$48,707
Bonuses to directors and corporate auditors	(123)	(22)	(1,153)
Adjusted net income	¥5,108	¥1,613	\$47,554

Weighted average number of shares of common stock **110,860,835** 111,219,936

19. Subsequent event

On June 29, 2005 the shareholders of the Company approved the payment of a cash dividend to shareholders of record on March 31, 2005 of ¥13 per share, or a total of ¥1,441 million (\$13,414 thousand).

Report of Independent Auditors

To the Board of Directors and Shareholders of
DAIFUKU Co., Ltd.

We have audited the accompanying consolidated balance sheets of DAIFUKU Co., Ltd. and its consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of DAIFUKU Co., Ltd. and its consolidated subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan applied on a consistent basis, except for the change described in the following paragraph.

As described in Note 3, effective April 1, 2004, DAIFUKU Co., Ltd. and its principal domestic consolidated subsidiary changed their accounting policy for retirement benefits of their directors and corporate auditors.

The amounts expressed in U.S. dollars, 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.

Chuo Aoyama PricewaterhouseCoopers

June 29, 2005