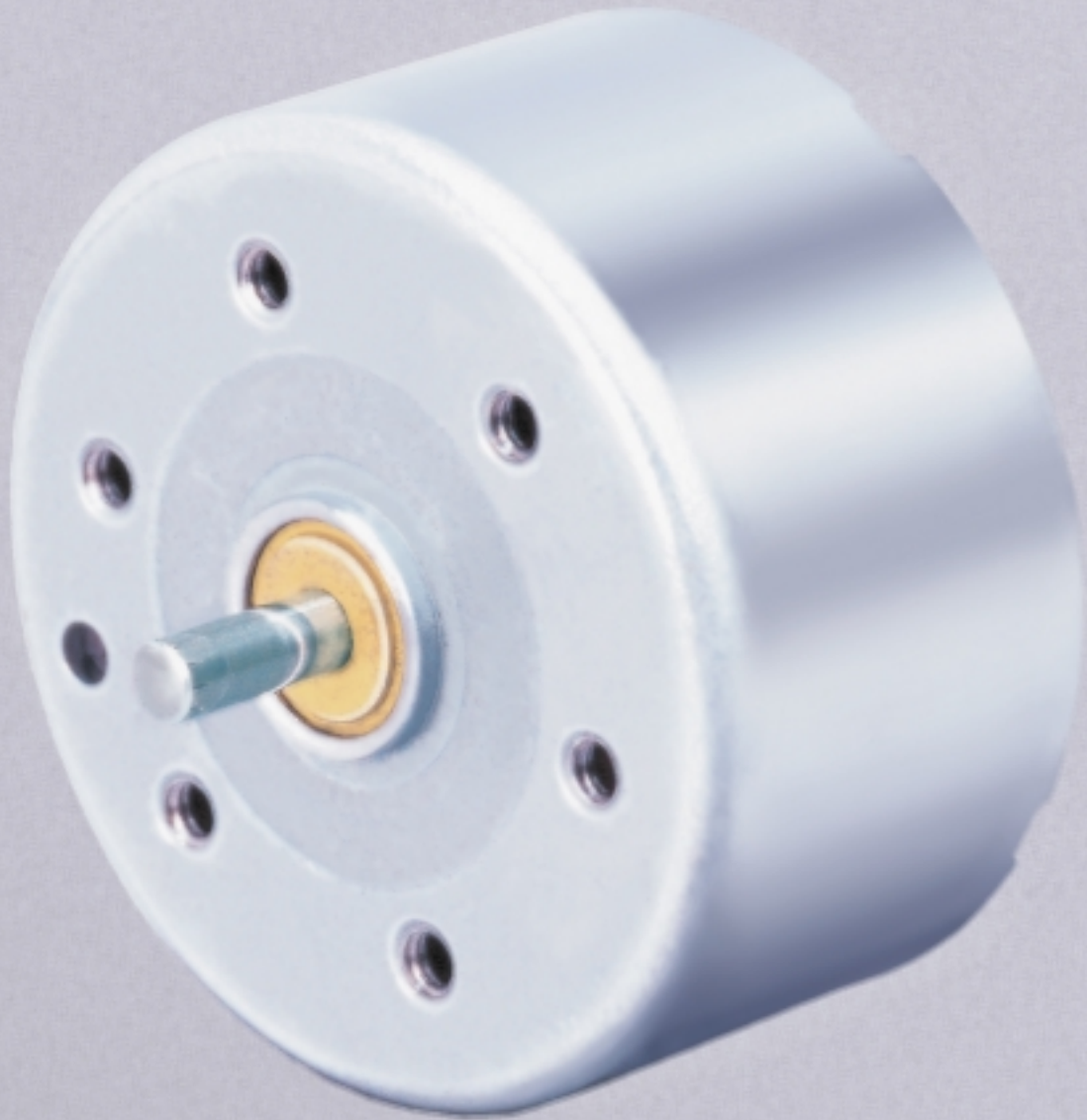


ANNUAL
REPORT
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MABUCHI MOTOR

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FINANCIAL HIGHLIGHTS

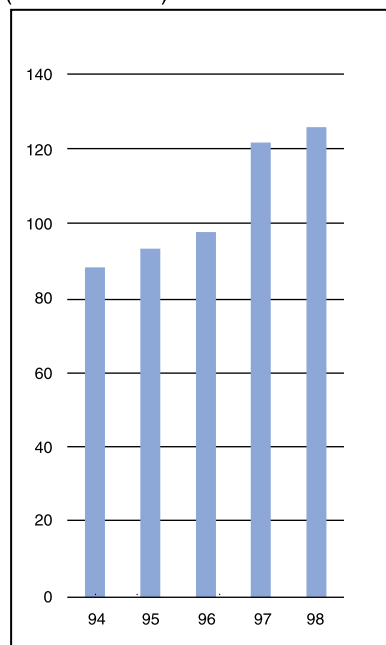
Mabuchi Motor Co., Ltd. and Consolidated Subsidiaries
Years ended December 31

	Yen (millions)			U.S. Dollars (thousands)
	1996	1997	1998	1998
Net sales	¥ 97,765	¥ 121,835	¥ 124,652	\$ 1,083,930
Operating income	14,917	24,196	28,431	247,226
Income before income taxes	17,505	30,698	28,513	247,939
Net income	8,940	16,664	17,016	147,965
Shareholders' equity	157,362	172,422	187,841	1,633,400
Total assets	191,508	213,045	207,682	1,805,930
Per share of common stock :				
	Yen			U.S. Dollars
Net income	¥ 190.70	¥ 354.69	¥ 362.00	\$ 3.15
Cash dividends	30.00	40.00	45.00	0.39

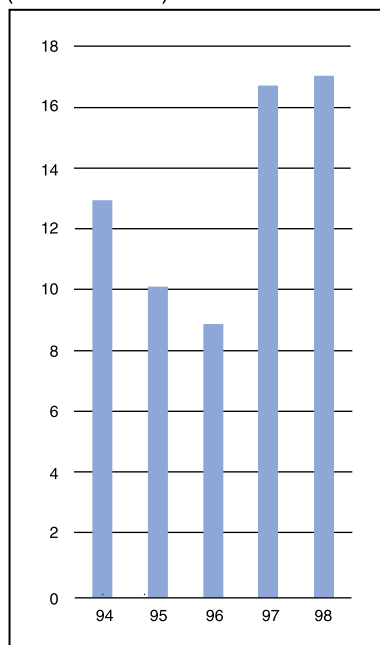
Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥115=U.S.\$1, the approximate exchange rate on December 31, 1998.

2. Net income per share figures are based on the weighted average number of shares of common stock outstanding during each fiscal year.

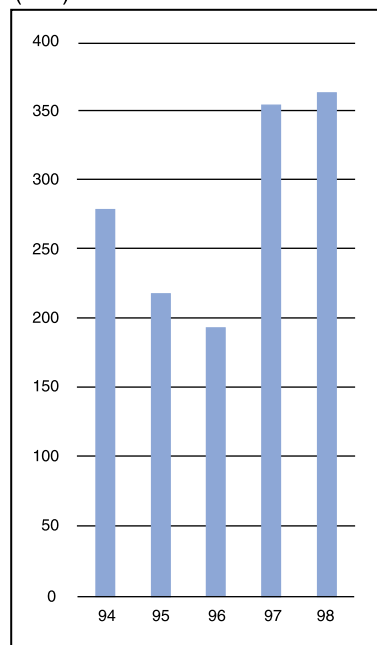
Net Sales
(Yen in billions)



Net Income
(Yen in billions)



Net Income per Share
(Yen)



A Message from the President

Overview of Performance

Throughout the year of 1998, despite Japanese government efforts for economic recovery and financial stability in the domestic market, the recession continued to impact the entire country due to weak consumer spending and the softening investment for manufacturing machinery and equipment. Since autumn in 1998, the Japanese Yen had strengthened against the US dollar, resulting in a slowdown in exports in various industries and lowering the profitability of many export oriented companies.

On the other hand, the demand for our products in North America and E.U. markets had been continuously strong and healthy in 1998, which offset the decreased sales and profits in Japan, South-East Asia, Eastern Europe including Russia and South American markets.

I am very pleased to inform you that Mabuchi Motor, as the world leader of small D.C. motors, had an another record year in 1998 and continued our progress in delivering value to our clients and shareholders.

The results of 1998 Fiscal Year, compared with 1997, were as follows:

• Consolidated net sales	: ¥ 124.7 billion (Up 2.3%)
• Operating income	: ¥ 28.4 billion (Up 17.5%)
• Net income	: ¥ 17.0 billion (Up 2.1%)
• Earning per share	: ¥ 362.00 (Up 2.1%)
• Dividends per share	: ¥ 45.00 (Up 12.5%)

Net Sales by product application were :

• Audio-Visual Equipment	: ¥ 58.5 billion (Up 6.0%)
• Automotive Components	: ¥ 27.8 billion (Down 4.2%)
• Home Appliances and Power Tools	: ¥ 18.1 billion (Up 4.3%)
• Precision Instruments and Office Equipment	: ¥ 11.6 billion (Down 7.6%)
• Toys and Hobbies	: ¥ 8.5 billion (Up 12.0%)

On a regional basis, compared with 1997, we had a mixed sales record as follows; up 0.4% in North and Latin America, up 17.3% in Europe, down 13.9% in Asia-Pacific (excluding China and Hong Kong), up 12.6% in China and Hong Kong and down 1.0% in Japanese market.

The new records in turnover and profit were achieved not only by continuous strong demand for our products, especially in North America and European markets, but also by the Company's management commitment based on long-term strategies such as continuous expansion of production capacities at the plants in Guang-Dong province in China and Vietnam for more stable, flexible and smoother supply of our products, improvement of information network system among Mabuchi group as well as for client and suppliers, and continuous efforts for cost reduction activities made everywhere at Mabuchi operations.

Looking Ahead

Though the business outlook in Japan and Asia Pacific countries for the balance of 1999 seems to be continuously sluggish, the demand for our products in the global markets, especially in North America and Europe, is expected to be still strong and healthy. The expected turnover in 1999 may be slightly decreased due to the weaker exchange rate of the Japanese Yen against the U.S. dollar but we all at Mabuchi group are striving for achieving a new record year in the production quantity of our products and making 1999 the epoch-making-year for strengthening the competitiveness of our products and improvement and renovation of our entire operations for the coming 21st century by taking the following steps:

1. Management with high productivity and cost competitiveness

In order to make our products more competitive in this mega-competition era, we have put up the slogan for a management with no waste anywhere at Mabuchi's production sites and offices and for aggressive cost reduction activities in designing products, purchasing raw materials and components, manufacturing processes, and by shortening production lead-time, decreasing inventories of materials and finished products and cutting general operational expenses. With these activities, we are able to be in a more competitive position in the market and generate better cash-flow for healthier operation and more profitability.

2. Quality

We Mabuchi have always been the quality leader in the industry and our Quality Assurance System is in operation at every factory, laboratory and office under ISO-9002. Additionally, we are expecting to receive QS-9000 Quality Certificates for operation sites, where the automotive-related DC motors are being made, by the end of the second quarter of 1999 and more by the end of 1999.

In order to further enhance customers satisfaction as well as to comply with the global environmental protection requirement, we are also working on obtaining a ISO-14000 Quality Certificate by the end of the year 2000.

3. New Motor Development

Our basic concept of product design is to design products which utilize interchangeable materials and parts, commonly in use for our standard products, and are capable of meeting the needs of diversified applications.

With this basic design concept, we are aggressively investing in R&D projects for creating new technologies and innovative concept of DC motors and are just about releasing several new product lines for audio-visual, automotive, home appliance and information-communication industries for further increase in sales and profitability.

4. Preparations for Year 2000 Problems

Our preparation work for Year 2000 Problems had started in March 1997 and, at present, approximately 80% of the Company's mission-critical problems and electronic systems have been renovated and tested for Year 2000 compliance. We have budgeted approximately ¥13 million (US\$113 thousand) in total for 1998 and 1999 as the Year 2000 compliance expenditures and hopefully, our preparation work for Year 2000 Problems here at Mabuchi will be completed by the end of June, 1999. We are now in the midst of investigating and setting up a written contingency plan to assure the continuing operation of the Company in the event one or more key suppliers or customer's fail to be Year 2000 compliant and hope that this project will be completed by the end of the third quarter of 1999 at the latest.

I am confident that our jobs to be done during 1999, as described above, will lead to an improvement of productivity, stronger cost competitiveness, increase of turnover and profit, which is value creation for our clients and shareholders, and eventually to the steady growth of Mabuchi Group for the 21st century. On behalf of the Board and Mabuchi Group, I would like to thank all of our shareholders, customers, supporting partners and employees worldwide for the continued support.

April 1999



Takaichi Mabuchi
President



FINANCIAL REVIEW

Net Sales

In 1998, net sales increased 2.3% to ¥124,652 million (\$1,084 million) supported by the steady market growths in the U.S. and Europe during the year, and also by the effect of the lower value of the yen in the first half of the year.

Following is the trend of our markets by application and our sales record in 1998:

■ Audio-Visual Equipment

Sales of this market increased 6.0%, to ¥58,524 million (\$509 million) due to the robust demand for CD-ROMs for computer games and personal computers, and also for Mini-Disc and DVD.

■ Automotive Products

Sales of this market decreased 4.2% to ¥27,809 million (\$242 million) due to weak demand for power window lift motors, while the demand for motors for rear view mirror actuators and door lock actuators was continuously strong.

■ Home Appliances, Power Tools, Precision Instruments and Office Equipment

Sales of these markets were ¥29,610 million (\$257 million) in total, down 0.7%, with mixed demand for various applications. Demand for PC printer motors was flat while demand for motors for shavers and health care products was strong.

■ Toys and Hobbies

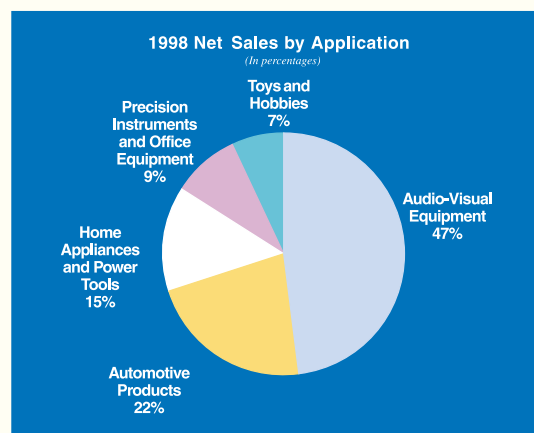
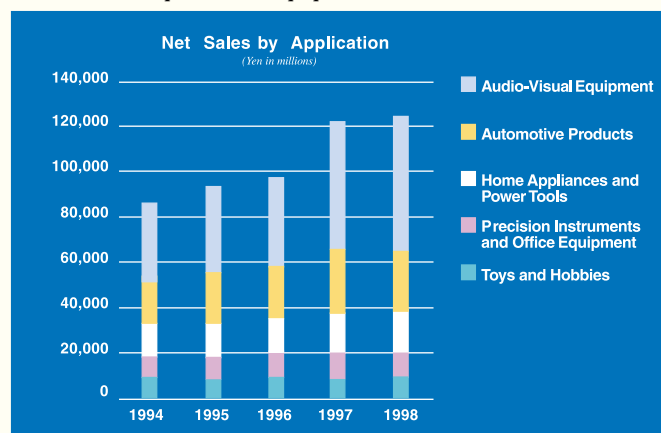
Sales of this market increased 12.0% to ¥8,522 million (\$74 million) due to strong demand for motors used in radio-control toys and child ride-on-vehicles.

Reviewing net sales by regional market in 1998, sales in Japan decreased 1.0% to ¥20,634 million (\$179 million). The Japanese economy remained slow during the year due to sluggishness in personal consumption and corporate capital investment. Overseas, there were growths of 0.4% in North and Latin America, 17.3% in Europe, and 12.6% in China and Hong Kong. The U.S. economy and the European economies continued to enjoy steady overall growth. In Asia Pacific region (excluding China and Hong Kong), sales dropped 13.9% due to the economic turmoil in Asian countries since the currency crisis in late 1997.

Net Sales by Application

Years ended December 31	Yen (millions)					U.S. Dollars (thousands)
	1994	1995	1996	1997	1998	1998
Audio-Visual Equipment	¥ 38,005	¥ 39,389	¥ 40,298	¥ 55,236	¥ 58,524	\$ 508,904
Automotive Products	19,228	21,230	22,958	29,036	27,809	241,817
Home Appliances and Power Tools	13,532	15,120	14,737	17,316	18,056	157,009
Precision Instruments and Office Equipment	8,997	9,513	11,116	12,502	11,554	100,470
Toys and Hobbies	7,029	6,688	7,848	7,608	8,522	74,104
Other	1,028	444	808	137	187	1,626
Total	¥ 87,819	¥ 92,384	¥ 97,765	¥ 121,835	¥ 124,652	\$ 1,083,930

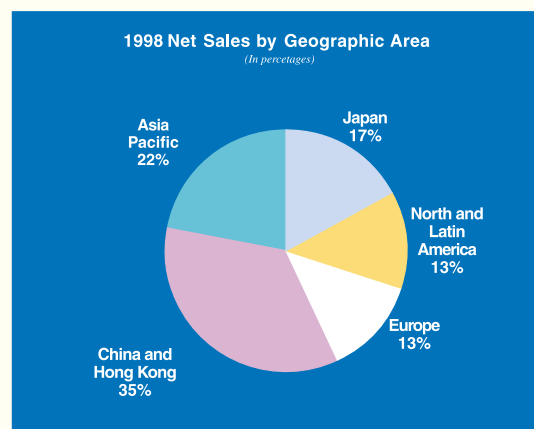
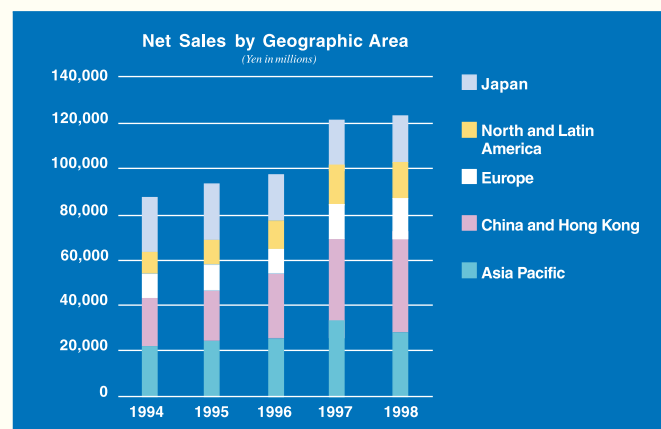
Other includes parts and equipment sales.



Net Sales by Geographic Area

Years ended December 31	Yen (millions)					U.S. Dollars (thousands)
	1994	1995	1996	1997	1998	1998
Japan	¥ 23,806	¥ 24,232	¥ 20,154	¥ 20,832	¥ 20,634	\$ 179,426
North and Latin America	9,491	10,835	12,834	16,107	16,170	140,609
Europe	10,365	11,948	10,830	13,838	16,228	141,113
China and Hong Kong	20,717	21,860	28,441	39,129	44,051	383,052
Asia Pacific	22,412	23,065	24,698	31,792	27,382	238,104
Other	1,028	444	808	137	187	1,626
Total	¥ 87,819	¥ 92,384	¥ 97,765	¥ 121,835	¥ 124,652	\$ 1,083,930

Other includes parts and equipment sales.



Costs, Expenses, and Net Income

Cost of sales as a percentage of net sales was 63.8% in 1998 compared with 66.7% in 1997. The decrease in 1998 was mainly due to lower manufacturing costs such as raw materials, and a slight sales increase.

Selling, general and administrative expenses remained at 13.4% of net sales, almost the same as that in 1997. This ratio continues at lower levels as a result of Company-wide efforts to reduce indirect costs. R&D expenses, which are a part of selling, general and administrative expenses, amounted to ¥3,780 million (\$33 million) in 1998 and ¥3,702 million in 1997. R&D investment has been focused on development of high quality products including improvements to existing products and testing related to the development of new technologies. As a result of these factors, operating income increased 17.5%, to ¥28,431 million (\$247 million) over the previous year.

Other income (expense) was net other income of ¥82 million (\$0.7 million) in 1998 versus net other income of ¥6,502 million in 1997. The significant decrease in 1998 was principally due to exchange losses incurred in the fourth quarter of 1998, during which the yen appreciated approximately 14% against the U.S. dollar, while a major item of other income in 1997 was exchange gains of ¥4,659 million (\$41 million).

The actual effective tax rate decreased to 39.9 % in 1998 from 44.1% in 1997 primarily due to an increase of foreign tax credits on dividend income received from overseas subsidiaries in 1998. Such dividend income was ¥3,699 million (\$32 million) in 1998 and ¥1,735 million in 1997, which has been eliminated in the consolidated statements of income.

Net income in 1998 of ¥17,016 million (¥362.00 per share) was 2.1% higher than the 1997 net income of ¥16,664 million (¥354.69 per share).

Foreign Currency

As indicated in Note 9 "Segment Information" to consolidated financial statements, overseas sales accounted for approximately 83% of consolidated net sales in 1998, of which 70% was transacted by the U.S. dollar and U.S. dollar linked currencies. In 1998, the average rate of the yen depreciated approximately 8% against the U.S. dollar, compared with 1997. The weakening of the yen against the U.S. dollar resulted in increases of net sales of ¥6,200 million (\$54 million) and operating income of ¥2,800 million (\$24 million).

The parent company uses foreign exchange forward contracts to hedge foreign exchange risks associated with accounts receivable and payable denominated in foreign currencies. It is our current policy to hedge 80% of the receivables, net of the payables. (See Note 7 "Derivative Financial Instruments".)

Financial Position

Net working capital at December 31, 1997 and 1998 is summarized as follows:

Yen (millions)	1997	1998	Increase (Decrease)
Current Assets:			
Cash and cash equivalents	¥ 36,098	¥ 37,432	¥ 1,334
Short-term investments	37,223	35,766	(1,457)
Trade receivables	16,780	13,872	(2,908)
Inventories	35,925	30,529	(5,396)
Other	1,684	1,350	(334)
	<u>127,710</u>	<u>118,949</u>	<u>(8,761)</u>
Current Liabilities:			
Short-term borrowings	12,199	5,210	(6,989)
Accounts payable	7,218	5,367	(1,851)
Accrued expenses	11,392	6,045	(5,347)
Other	394	378	(16)
	<u>31,203</u>	<u>17,000</u>	<u>(14,203)</u>
Net Working Capital	¥ 96,507	¥ 101,949	¥ 5,442
Current Ratio	<u>4.1</u>	<u>7.0</u>	

The decrease in inventories at December 31, 1998 was primarily due to a decrease of production in the latter half of 1998. Short-term borrowings decreased due to repayments by two overseas subsidiaries and conversion and redemption of the 1.7% unsecured convertible bonds. The decrease of accrued expenses was due principally to a decrease of income taxes. See Note 1 (c) to consolidated financial statements as to foreign currency translation adjustments.

Shareholders' equity was ¥187,841million (\$1,633 million) at December 31, 1998, compared with ¥172,422 million at December 31, 1997. Affecting equity were mainly earnings of ¥17,016 million (\$148 million) and dividends paid of ¥1,880 million (\$16 million). The shareholders' equity ratio was 90.4%, compared with 80.9% at December 31, 1997.

The Statement of Cash Flows for the years ended December 31, 1997 and 1998 is summarized below:

Yen (millions)	1997	1998
Net income	¥ 16,664	¥ 17,016
Depreciation	7,837	7,314
Additions to plant and equipment	(11,913)	(6,431)
Purchase of short-term investments and investment securities, net	(9,843)	(13,090)
Cash dividends paid	(1,644)	(1,880)
Other, net	5,282	(1,595)
Net increase in cash and cash equivalents	<u>¥ 6,383</u>	<u>¥ 1,334</u>

Net cash provided by operating activities of ¥24,020 million (\$209 million) in 1998 was used primarily for additions to plant and equipment, for purchase of short-term investments and investment securities, and for cash dividends. Net cash provided by operating activities of ¥30,637 million in 1997 was used mainly for additions to plant and equipment, for purchase of short-term investments and investment securities, and for cash dividends.

Dividends per share increased 12.5% to ¥45 per share in 1998 from ¥40 per share in 1997. (See Note 6 to consolidated financial statements.)

Management believes that internally generated fund will be adequate to finance internal growth and additional investments.

FIVE-YEAR FINANCIAL SUMMARY

Mabuchi Motor Co., Ltd. and Consolidated Subsidiaries
Years ended December 31

	Yen (millions)					U.S. Dollars (thousands)
	1994	1995	1996	1997	1998	1998
Operating Results						
Net sales	¥ 87,819	¥ 92,384	¥ 97,765	¥ 121,835	¥ 124,652	\$ 1,083,930
Operating income	16,459	18,358	14,917	24,196	28,431	247,226
Income before income taxes	21,493	21,090	17,505	30,698	28,513	247,939
Net income	12,830	10,127	8,940	16,664	17,016	147,965
Per share of common stock:						
Net income	¥ 276.46	¥ 216.52	¥ 190.70	¥ 354.69	¥ 362.00	\$ 3.15
(Yen and U.S. Dollars)						
Cash dividends per share	25.00	27.50	30.00	40.00	45.00	0.39
(Yen and U.S. Dollars)						
Depreciation and amortization ..	¥ 5,510	¥ 6,400	¥ 8,320	¥ 7,837	¥ 7,314	\$ 63,600
Capital expenditures	7,027	12,128	8,367	9,753	6,832	59,409
R&D expenses	2,645	2,062	2,920	3,702	3,780	32,870
Balance Sheet						
Shareholders' equity	¥ 138,880	¥ 149,168	¥ 157,362	¥ 172,422	¥ 187,841	\$ 1,633,400
Total assets	¥ 163,321	¥ 184,028	¥ 191,508	¥ 213,045	¥ 207,682	\$ 1,805,930
Other Data						
Number of shares outstanding	46,527	46,817	46,968	46,999	47,076	
(thousands of shares)						
Number of employees	40,029	47,273	44,319	56,547	55,530	

- Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥115=U.S. \$1, the approximate exchange rate on December 31, 1998.
2. Net income per share figures are based on the weighted average number of shares of common stock outstanding during each fiscal year.
3. Number of employees includes contract manufacturing labor at plants in Guang Dong, China.
4. Figure of R&D expenses for 1998 is compiled differently from the previous years as a result of a review of the scope of R&D expenses. In this connection, the figures for 1996 and 1997 previously disclosed are adjusted accordingly, while the figures for 1994 and 1995 are the same as previously disclosed as information to determine the new scope of R&D expenses for 1994 and 1995 was not available.

Consolidated Balance Sheets

Mabuchi Motor Co., Ltd. and Consolidated Subsidiaries
December 31, 1997 and 1998

ASSETS	Yen (millions)		U.S. Dollars (thousands)
	1997	1998	1998
Current Assets:			
Cash and cash equivalents	¥ 36,098	¥ 37,432	\$ 325,496
Short-term investments	37,223	35,766	311,008
Trade notes and accounts receivable	17,101	14,124	122,817
Less-Allowance for doubtful receivables	(321)	(252)	(2,191)
Inventories	35,925	30,529	265,470
Other current assets	<u>1,684</u>	<u>1,350</u>	<u>11,739</u>
Total current assets	127,710	118,949	1,034,339
Plant and Equipment, at cost:			
Land	4,043	4,021	34,965
Buildings	37,105	37,627	327,191
Machinery and equipment	54,263	51,869	451,035
Construction in progress	<u>2,867</u>	<u>1,545</u>	<u>13,435</u>
	98,278	95,062	826,626
Less-Accumulated depreciation	<u>(50,586)</u>	<u>(52,265)</u>	<u>(454,478)</u>
	47,692	42,797	372,148
Investments and Other assets:			
Investment securities	26,108	39,092	339,930
Long-term loans receivable	5,629	2,991	26,009
Other investments and other assets	<u>5,906</u>	<u>3,853</u>	<u>33,504</u>
	<u>37,643</u>	<u>45,936</u>	<u>399,443</u>
	<u>¥ 213,045</u>	<u>¥ 207,682</u>	<u>\$ 1,805,930</u>

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

LIABILITIES AND SHAREHOLDERS' EQUITY	Yen (millions)		U.S. Dollars (thousands)
	1997	1998	1998
Current Liabilities:			
Short-term borrowings	¥ 11,797	¥ 5,210	\$ 45,304
Convertible bonds to be currently redeemed	402	—	—
Trade notes and accounts payable	7,218	5,367	46,669
Accrued expenses	2,649	2,183	18,983
Accrued income taxes	8,743	3,862	33,583
Other current liabilities	<u>394</u>	<u>378</u>	<u>3,287</u>
Total current liabilities	31,203	17,000	147,826
Long-term Liabilities:			
Long-term debt	134	—	—
Estimated retirement and termination allowances	1,174	1,153	10,026
Other long-term liabilities	<u>68</u>	<u>36</u>	<u>313</u>
	1,376	1,189	10,339
Foreign Currency Translation Adjustments	6,257	240	2087
Minority Interests	1,787	1,412	12,278
Contingent Liabilities			
Shareholders' Equity:			
Common stock, par value ¥50 per share:			
Authorized: 100,000,000 shares:			
Issued: 46,998,525 shares in 1997 and			
47,075,881 shares in 1998	20,511	20,705	180,043
Additional paid-in capital	20,226	20,420	177,565
Legal reserve	2,570	2,774	24,122
Retained earnings	129,116	143,946	1,251,704
Less-Treasury stock	<u>(1)</u>	<u>(4)</u>	<u>(34)</u>
Total shareholders' equity	<u>172,422</u>	<u>187,841</u>	<u>1,633,400</u>
	<u>¥ 213,045</u>	<u>¥ 207,682</u>	<u>\$1,805,930</u>

Consolidated Statements of Shareholders' Equity

Mabuchi Motor Co., Ltd. and Consolidated Subsidiaries
For the years ended December 31, 1997 and 1998

	Number of Shares (thousands)		Yen (millions)		U.S. Dollars (thousands)
	1997	1998	1997	1998	1998
Common Stock:					
Beginning balance	46,968	46,999	¥ 20,434	¥ 20,511	\$ 178,356
Conversion of convertible bonds	<u>31</u>	<u>77</u>	<u>77</u>	<u>194</u>	<u>1,687</u>
Ending balance	<u>46,999</u>	<u>47,076</u>	<u>¥ 20,511</u>	<u>¥ 20,705</u>	<u>\$ 180,043</u>
Additional Paid-in Capital:					
Beginning balance			¥ 20,149	¥ 20,226	\$ 175,878
Conversion of convertible bonds			<u>77</u>	<u>194</u>	<u>1,687</u>
Ending balance			<u>¥ 20,226</u>	<u>¥ 20,420</u>	<u>\$ 177,565</u>
Legal Reserve:					
Beginning balance			¥ 2,396	¥ 2,570	\$ 22,348
Transfer from retained earnings			<u>174</u>	<u>204</u>	<u>1,774</u>
Ending balance			<u>¥ 2,570</u>	<u>¥ 2,774</u>	<u>\$ 24,122</u>
Retained Earnings:					
Beginning balance			¥ 114,387	¥ 129,116	\$ 1,122,748
Adjustment due to an increase in consolidated subsidiaries			(45)	—	—
Net income			16,664	17,016	147,965
Cash dividends			(1,644)	(1,880)	(16,348)
Transfer to legal reserve			(174)	(204)	(1,774)
Bonuses to directors and statutory auditors			(72)	(102)	(887)
Ending balance			<u>¥ 129,116</u>	<u>¥ 143,946</u>	<u>\$ 1,251,704</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Cash Flows

Mabuchi Motor Co., Ltd. and Consolidated Subsidiaries
For the years ended December 31, 1997 and 1998

	Yen (millions)		U.S. Dollars (thousands)
	1997	1998	1998
Cash Flows from Operating Activities:			
Net income	¥ 16,664	¥ 17,016	\$ 147,965
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	7,837	7,314	63,600
Estimated retirement and termination allowance	91	167	1,452
Unrealized losses on marketable securities	1,050	228	1,982
(Increase) Decrease in trade notes and accounts receivable ..	(2,240)	2,908	25,287
(Increase) Decrease in inventories	(1,390)	5,280	45,913
Decrease in other current assets	489	333	2,896
Increase (Decrease) in trade notes and accounts payable	2,057	(2,333)	(20,287)
Increase (Decrease) in accrued income taxes	5,103	(4,881)	(42,443)
Foreign currency translation adjustments	1,783	(3,915)	(34,043)
Other, net	(807)	1,903	16,548
Net cash provided by operating activities	<u>30,637</u>	<u>24,020</u>	<u>208,870</u>
Cash Flows from Investing Activities:			
Additions to plant and equipment	(11,913)	(6,431)	(55,922)
Change in short-term investments	(3,812)	1,229	10,687
Purchase of investment securities	(20,268)	(41,749)	(363,035)
Proceeds from sale of investment securities	14,237	27,430	238,522
Collection of long-term loans receivable, net	1,485	1,882	16,365
Other, net	(499)	1,682	14,626
Net cash used in investing activities	<u>(20,770)</u>	<u>(15,957)</u>	<u>(138,757)</u>
Cash Flows from Financing Activities:			
Change in short-term borrowings	(2,460)	(5,725)	(49,782)
Repayments of long-term debt	(253)	—	—
Cash dividends paid	(1,644)	(1,880)	(16,348)
Net cash used in financing activities	<u>(4,357)</u>	<u>(7,605)</u>	<u>(66,130)</u>
Cash and Cash Equivalents from Consolidating previously			
Unconsolidated Subsidiaries	594	—	—
Effect of Exchange Rate Changes on Cash and Cash Equivalents ..	279	876	7,617
Net Increase in Cash and Cash Equivalents	<u>6,383</u>	<u>1,334</u>	<u>11,600</u>
Cash and Cash Equivalents at Beginning of Year	29,715	36,098	313,896
Cash and Cash Equivalents at End of Year	<u>¥ 36,098</u>	<u>¥ 37,432</u>	<u>\$ 325,496</u>
Supplemental Disclosure of Cash Flow Information:			
Cash paid during the year for:			
Interest	¥ 429	¥ 305	\$ 2,652
Income taxes	8,616	16,265	141,435
Noncash Investing and Financing Activities:			
Increase in common stock and additional paid-in capital on conversion of convertible bonds	¥ 154	¥ 388	\$ 3,374

The accompanying notes to consolidated financial statements are an integral part of these statements.

Notes to Consolidated Financial Statements

Mabuchi Motor Co., Ltd. and Consolidated subsidiaries

1. Summary of Significant Accounting and Reporting Policies

(a) Basis of presenting financial statements

The accompanying consolidated financial statements of Mabuchi Motor Co., Ltd. (the "Company") and its consolidated subsidiaries have been prepared from the consolidated financial statements filed with the Minister of Finance as required by the Securities and Exchange Law of Japan. The Company maintains the accounts in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information. For the purpose of this report, certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is familiar to readers outside Japan.

For the convenience of the reader, the accompanying consolidated financial statements have also been presented in U.S. dollars by arithmetically translating yen amounts at the rate of ¥115 to U.S. \$1, which was the approximate exchange rate prevailing on December 31, 1998.

Certain reclassifications have been made to the accompanying consolidated financial statements for 1997 to conform to 1998 presentations.

(b) Principles of consolidation

The consolidated financial statements include the accounts of the Company and all significant subsidiaries. All significant intercompany balances, transactions, and profits have been eliminated in consolidation. Investments in unconsolidated subsidiaries are stated at cost.

(c) Translation of foreign currencies

Transactions in foreign currencies are translated at the exchange rates in effect at the time of the transactions. Monetary current assets and liabilities denominated in foreign currencies are translated into Japanese yen at the rates of exchange in effect at the balance sheet date. All other accounts are translated at historical rates in effect at the time of each transaction. Exchange differences resulting from these translations are included in income.

Foreign subsidiaries' assets and liabilities are translated into yen at the rates of exchange in effect at the balance sheet date. The accounts of shareholders' equity are translated at historical rates. Revenues and expenses are translated at the average rates of exchange for the year. Translation adjustments are not included in income but are dealt with as an account of assets or liabilities.

(d) Cash and cash equivalents Cash and cash equivalents include all highly liquid investments, generally with original maturities 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.

(e) Short-term investments and investment securities Short-term investments consist principally of marketable equity securities, debt securities and investment trust. Investment securities consist principally of foreign debt securities and marketable equity securities. Marketable securities are stated at the lower of cost determined by the moving average method or market. Closed end investment trust and foreign debt securities are stated at cost.

(f) Inventories Finished goods, work in process and raw materials are principally stated at average cost. Marketable raw materials such as copper, gold, silver and palladium are stated at the lower of average cost or market.

(g) Depreciation Depreciation of plant and equipment is computed by the declining-balance method for the Company and principally by the straight-line method for overseas subsidiaries over the estimated useful lives. In connection with the amendment of the Japanese corporate income tax law in 1998, the Company applied the straight-line method to buildings which were purchased after April 1, 1998. The effect of change of the depreciation method is immaterial.

(h) Research and development expenses Expenditures relating to research and development activities are charged to income as incurred and amounted to ¥3,702 million and ¥3,780 million (\$32,870 thousand) for the years ended December 31, 1997 and 1998, respectively.

(i) Income taxes

Income taxes of the Company are provided based on the amount required by the tax returns for the year. No tax effect has been recorded for timing differences between tax and financial reporting in the recognition of certain revenues and expenses.

Enterprise tax, which is based on income, has been charged to selling, general and administrative expenses on the books of the Company, but has been reclassified to "Income taxes" in the accompanying consolidated statements of income. Enterprise taxes for the years ended December 31, 1997 and 1998 were ¥2,623 million and ¥2,297 million (\$19,974 thousand), respectively.

(j) Termination and retirement plans

The Company has a trustee noncontributory pension plan covering substantially all qualified full-time employees. Under the plan, eligible employees are entitled to a 10-year annuity or lump-sum payments based on the rate of pay at the time of retirement or termination, length of service and certain other factors. Annual payments to the trustees for the pension plan are based on actuarially determined costs of the plan. It is the Company's policy to charge the annual payments to income, including the amortization of prior service costs.

The Company's pension fund assets and the actuarially computed value of pension benefits as of November 30, 1998, the latest date of report available from the trustees, were ¥3,299 million (\$28,687 thousand) and ¥3,981 million (\$34,617 thousand).

Certain subsidiaries have pension plans which are similar to the Company and have pension fund assets of ¥1,552 million (\$13,496 thousand) as of December 31, 1998. Also, Mabuchi Motor Dalian Ltd., a Dalian subsidiary, has an unfunded retirement and termination allowance plan for qualified employees and the amount required under the plan has been fully accrued.

The Company also has an unfunded retirement and termination allowance plan for directors and statutory auditors, and has fully accrued the amount required under the plan.

Total provisions, including the amortization of prior service costs, charged to income under these plans for the years ended December 31, 1997 and 1998 were ¥848 million and ¥682 million (\$5,930 thousand), respectively.

2. Inventories

Inventories as of December 31, 1997 and 1998 were as follows:

	Yen (millions)		U.S.Dollars (thousands)
	1997	1998	1998
Finished products	¥ 17,128	¥ 16,992	\$ 147,757
Work in process	6,902	4,621	40,183
Raw materials and supplies	11,895	8,916	77,530
	¥ 35,925	¥ 30,529	\$ 265,470

3. Short-term Investments and Investment Securities

Short-term investments and investment securities as of December 31, 1997 and 1998 include marketable debt and equity securities and investment trusts of which market value is as follows:

	Yen (millions)						U.S Dollars (thousands)		
	1997			1998			1998		
	Book value	Market value	Gains (losses)	Book value	Market value	Gains (losses)	Book value	Market value	Gains (losses)
Short-term investments:									
Debt securities	¥ 23,985	¥ 24,195	¥ 210	¥ 21,146	¥ 20,832	¥ (314)	\$ 183,878	\$ 181,148	\$ (2,730)
Equity securities	1,472	1,629	157	1,775	2,003	228	15,435	17,417	1,982
Investment trusts	5,975	5,882	(93)	3,400	3,408	8	29,565	29,635	70
	¥ 31,432	¥ 31,706	¥ 274	¥ 26,321	¥ 26,243	¥ (78)	\$ 228,878	\$ 228,200	\$ (678)
Investment securities:									
Equity securities	¥ 2,310	¥ 3,322	¥ 1,012	¥ 2,165	¥ 2,303	¥ 138	\$ 18,826	\$ 20,026	\$ 1,200

4. Short-term Borrowings and Long-term Debt

Short-term borrowings consist of the borrowings by subsidiaries from banks. The interest rates of short-term borrowings as of December 31, 1998 were 0.8% to 6.2%.

Long-term debt as of December 31, 1997 and 1998 comprise the following:

	Yen (millions)		U.S.Dollars (thousands)
	1997	1998	1998
5.9%-6.4% unsecured loans from banks due 1999	¥ 400	¥ 121	\$ 1,052
1.7% unsecured convertible bonds, due 1998	402	—	—
	802	121	1,052
Less-current portion included in current liabilities	(668)	(121)	(1,052)
	¥ 134	¥ —	\$ —

The 1.7% convertible bonds, which were issued in November 1989, were redeemed at the due date of December 31, 1998.

5. Income Taxes

The Company is subject to several taxes based on income with a normal tax rate aggregating approximately 51% for the years ended December 31, 1997 and 1998. Income taxes applicable to consolidated subsidiaries were levied at the tax rates in effect in the countries where each subsidiary operates.

The amendment of the Japanese corporate income tax law in 1998 was applicable to Japanese corporations of which fiscal years began after March 31, 1998. As a result of the amendment, the Company will be subject to an aggregate normal tax rate of 47.4% in 1999.

6. Shareholders' Equity and Per Share Data

The Japanese Commercial Code (the "Code") provides that an amount equivalent to at least 10% of cash dividends paid and other cash outlays resulting from appropriations of retained earnings with respect to each annual period be appropriated to the legal reserve until such reserve equals 25% of the stated capital. The Code also provides that additional paid in capital and the legal reserve are not available for cash dividends, but may be used to reduce a capital deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors.

Year end cash dividends are approved by the shareholders after the end of each fiscal year, and semi-annual interim cash dividends are declared by the board of directors after the end of each interim six month period. Such dividends are payable to shareholders of record at the end of each fiscal year or interim six month period.

In accordance with the Code, these dividends and the related appropriations of retained earnings have not been reflected in the financial statements at the end of such fiscal year. However, dividends per share shown in the accompanying consolidated statements of income reflect dividends applicable to the respective fiscal year. Net income per share is computed based on the weighted average number of shares of common stock outstanding.

On September 25, 1998, semi-annual interim cash dividends (¥20 or \$0.17 per share) of ¥940 million (\$8,174 thousand) were paid to shareholders of record at June 30, 1998. On March 30, 1999, the shareholders approved the declaration of cash dividends (¥25 or \$0.22 per share) totaling ¥1,177 million (\$10,235 thousand), payments of bonuses to directors and statutory auditors totaling ¥114 million (\$991 thousand) and related appropriations of retained earnings to legal reserve of ¥155 million (\$1,348 thousand).

7. Derivative Financial Instruments

The Company and a consolidated subsidiary have financial instruments such as forward exchange contracts and forward precious metal contracts as a normal part of risk management efforts. As a result, the Company and the consolidated subsidiary are exposed to risk of credit-related losses in the event of nonperformance of counterparties to foreign exchange contracts and precious metal contracts, but management believes risk to be minor because of the high creditability of the counterparties and such financial instruments have not been held for trading purpose. Following is a summary of derivative financial instruments which are currently held by the Company and the consolidated subsidiary.

The Company uses foreign exchange forward contracts to hedge the risk of changes in foreign exchange rates substantially associated with accounts receivable and payable denominated in foreign currencies. The Company had forward exchange contracts which mature within a year to sell ¥327 million (\$2,843 thousand) in U.S. dollars at December 31, 1998, and the estimated fair value outstanding at December 31, 1998 was ¥318 million (\$2,765 thousand). In connection with bank borrowings in Japanese yen, in order to hedge the risk of changes in foreign exchange rates, one of the consolidated subsidiaries had forward exchange contracts which mature within a year to buy ¥7,810 million and ¥4,920 million (\$42,783 thousand) in Japanese yen at December 31, 1997 and 1998, respectively. The estimated fair value outstanding at December 31, 1997 and 1998 were ¥7,665 million and ¥5,059 million (\$43,991 thousand), respectively.

Forward precious metal contracts are used by the Company to hedge the risk of changes in market prices resulting from purchase of precious metals as raw materials for motor products. The contracted amounts outstanding at December 31, 1997 and 1998 were ¥291 million and ¥138 million (\$1,200 thousand), respectively, and the estimated fair value outstanding at December 31, 1997 and 1998 were ¥339 million and ¥126 million (\$1,096 thousand), respectively.

8. Contingent Liabilities

As of December 31, 1998, the Company and consolidated subsidiaries were contingently liable for notes discounted in the amount of ¥17 million (\$148 thousand).

9. Segment Information

The Company and consolidated subsidiaries manufacture and sell small electric motors, parts and equipment used for their production. Almost 100% of the consolidated net sales and operating income are generated from a broad range of motor products.

The information on net sales, operating income and assets by geographic area, and overseas sales is summarized as follows:

Segment Information by Geographic Area

	Yen (millions)		U.S. Dollars (thousands)
	1997	1998	1998
Net sales:			
Japan			
Outside customers	¥ 37,405	¥ 37,694	\$ 327,774
Intersegment	51,006	52,349	455,209
Total	88,411	90,043	782,983
Asia			
Outside customers	60,616	59,971	521,487
Intersegment	51,629	54,045	469,957
Total	112,245	114,016	991,443
U.S.A.			
Outside customers	13,648	14,639	127,296
Intersegment	30	12	104
Total	13,678	14,651	127,400
Europe			
Outside customers	10,166	12,348	107,374
Intersegment	50	37	322
Total	10,216	12,385	107,696
Corporate and elimination	(102,715)	(106,443)	(925,591)
Consolidated	¥ 121,835	¥ 124,652	\$ 1,083,930
Operating Income:			
Japan	¥ 18,221	¥ 18,907	\$ 164,409
Asia	5,731	7,193	62,548
U.S.A.	762	880	7,652
Europe	315	417	3,626
Corporate and elimination	(833)	1,034	8,991
Consolidated	¥ 24,196	¥ 28,431	\$ 247,226
Assets:			
Japan	¥ 78,267	¥ 70,130	\$ 609,826
Asia	77,120	59,161	514,443
U.S.A.	6,496	5,718	49,722
Europe	4,585	4,137	35,974
Corporate and elimination	46,577	68,536	595,965
Consolidated	¥ 213,045	¥ 207,682	\$ 1,805,930

The amount of corporate assets included in Corporate and elimination is ¥83,438 million in 1997 and ¥97,695 million (\$849,522 thousand) in 1998, which comprises principally cash, short-term investments and investment securities.

Overseas Sales

	Yen (millions)		U.S. Dollars (thousands)
	1997	1998	1998
Overseas Sales			
U.S.A.	¥ 16,107	¥ 16,170	\$ 140,609
Europe	13,838	16,228	141,113
Asia and Other	71,058	71,612	622,713
Total	100,998	104,010	904,435
Net Sales	121,835	124,652	1,083,930
% of Overseas Sales to Net Sales	82.9%	83.4%	83.4%

Overseas sales are the total of exports by the Company and sales by consolidated overseas subsidiaries.

Report of Independent Public Accountants

To: The Board of Directors of Mabuchi Motor Co., Ltd.

We have audited the consolidated balance sheets of Mabuchi Motor Co., Ltd. and its consolidated subsidiaries as of December 31, 1997 and 1998, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended. Our audits were made in accordance with auditing standards generally accepted in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Mabuchi Motor Co., Ltd. and its consolidated subsidiaries as of December 31, 1997 and 1998, and the results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan applied on a consistent basis.

The United States dollar amounts shown in the accompanying consolidated financial statements have been translated solely for convenience. We have reviewed this translation and, in our opinion, the consolidated financial statements expressed in yen have been translated into dollars on the basis described in Note 1 (a).

Century Audit Corporation

CENTURY AUDIT CORPORATION
(Certified Public Accountants)

Tokyo, Japan
March 30, 1999

See Note 1 (a) to the consolidated financial statements which explains the basis of preparing the consolidated financial statements of Mabuchi Motor Co., Ltd. and its consolidated subsidiaries under Japanese accounting principles and practices.

CORPORATE INFORMATION

BOARD OF DIRECTORS

As of March 31, 1999

<i>President</i>	Takaichi Mabuchi
<i>Executive Vice President</i>	Akira Ohnishi
<i>Managing Director</i>	Shoji Nishimura
<i>Directors</i>	Yoshimasa Sugiyama Chiaki Kajiwara Sun Zuei Che Shinji Kamei Nobuyo Habuchi
<i>Statutory Auditors</i>	Toshiaki Takahashi Kiyoshi Iwakura Ichiro Ando Yuzaburo Nagase

CORPORATE DIRECTORY

As of December 31, 1998

Consolidated Subsidiaries

MABUCHI INDUSTRY CO., LTD.

19 Sam Chuk St., San Po Kong
Kowloon, Hong Kong
T e l : 852-2328-5575
F a x : 852-2352-5266

MABUCHI TAIWAN CO., LTD.

6/F No.3 Sec.1 Tun Hwa South Rd.
Taipei, Taiwan
T e l : 886-2-2579-0155
F a x : 886-2-2570-6535

MABUCHI MOTOR TAIWAN LTD.

No.66 Kai Fa Rd., N.E.P.Z.
Kaohsiung, Taiwan
T e l : 886-7-362-1111
F a x : 886-7-361-9111

MABUCHI MOTOR DALIAN LTD.

Harbin Rd., Dalian Economic
and Technical Development Zone
China
T e l : 86-411-761-1111
F a x : 86-411-761-2900

MABUCHI MOTOR WAFANGDIAN LTD.

Wafangdian City
Laohutun Town, China
T e l : 86-411-537-0241
F a x : 86-411-537-0291

MABUCHI MOTOR (JIANGSU) CO., LTD.

No.1 Liu Xu Rd., Song Ling
Economic and Technical Development Zone
Wu Jiang City, Jiang Su, China
T e l : 86-512-345-1111
F a x : 86-512-345-0438

MABUCHI MOTOR (MALAYSIA) SDN. BHD.

Plot 15, Kanthan Industrial Estate
31200 Chemor, Perak, Malaysia
T e l : 60-5-201-1888
F a x : 60-5-201-2288

MABUCHI MOTOR VIETNAM LTD.

No.28, Bienhoa Industrial Zone 2
Long Binh Ward, Bienhoa City
Dongnai Province, Vietnam
T e l : 84-61-836711
F a x : 84-61-836712

MABUCHI MOTOR AMERICA CORP.

3001, West Big Beaver Rd., Suite 520
Troy, MI. 48084 U.S.A.
T e l : 1-248-816-3100
F a x : 1-248-816-3242

MABUCHI MOTOR (SINGAPORE) PTE. LTD.

111 North Bridge Rd., #21-02
Peninsula Plaza, Singapore 179098
T e l : 65-339-9991
F a x : 65-339-9091

MABUCHI MOTOR (EUROPE) GmbH

Hahnstrasse 38, 60528
Frankfurt/Main, Germany
T e l : 49-69-6690220
F a x : 49-69-66902229

Non-Consolidated Subsidiaries

MABUCHI PRECISION INDUSTRIES LTD.

MABUCHI PRECISION INDUSTRIES HONG KONG LTD.

DONGGUAN MABUCHI MOTOR EQUIPMENT CO., LTD.

MABUCHI REAL ESTATE CO., LTD.

TAIWAN MABUCHI (HONG KONG) CO., LTD.

INVESTOR INFORMATION

As of March 31, 1999

Corporate Headquarters MABUCHI MOTOR CO., LTD.

430 Matsuhidai, Matsudo-shi
Chiba-ken 270-2280, Japan
T e l : 047-384-1111
F a x : 047-389-5299
[http : //www.mabuchi-motor.co.jp](http://www.mabuchi-motor.co.jp)

Ordinary General Meeting of Shareholders

The Ordinary General Meeting of Shareholders will be held
at the end of March in Matsudo.

Independent Accountants

Century Audit Corporation (Member Firm of KPMG International)
Tokyo, Japan

Transfer Agent of Common Shares Handling Office

The Toyo Trust and Banking Co., Ltd.
Corporate Agency Department
10-11, Higashi-suna 7-chome, Koto-ku
Tokyo 137-8081, Japan
T e l : 03-5683-5111

Japanese Stock Exchange Listing

Tokyo stock exchange

 **MABUCHI MOTOR CO., LTD.**