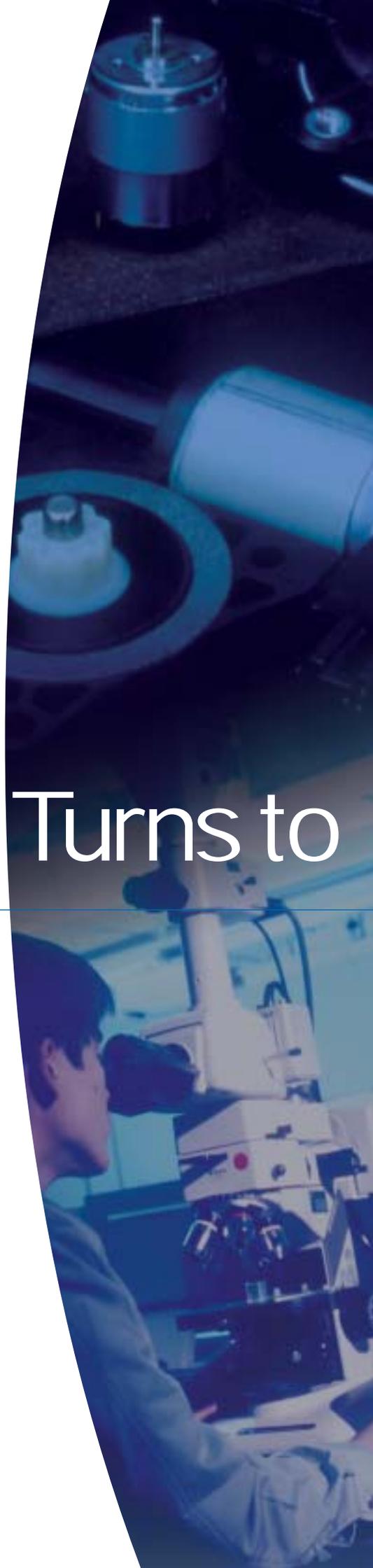


The Motor the World Turns to

Annual Report **2005** Fiscal Year Ended December 31, 2005



Profile

Established in 1954, Mabuchi Motor Co., Ltd. has constantly delivered small, high-quality, high-performance, direct-current motors at affordable prices. Used in automotive products, audio and visual equipment, information and communication equipment, home appliances and power tools, toys, and models, they support convenient and comfortable lifestyles. Today, Mabuchi boasts over 50% worldwide market share in unit sales and conducts all production overseas, mainly in China.

Under the management creed “Contributing to International Society and Ever-expanding Our Contribution,” we take initiatives for new growth. Mabuchi will progress as a leading company specializing in small motors by providing even better, more affordable products to support society and deliver comfort.

Contents

1 Financial Highlights

2 To Our Shareholders

Expeditious Response to the Changing Climate

Rebuilding the Business Structure

Boosting Shareholder Value

6 Business Overview

8 Research & Development Activities

9 Corporate Governance

10 Financial Section

10 Management’s Discussion and Analysis

13 Five-Year Financial Summary

14 Consolidated Balance Sheets

16 Consolidated Statements of Income

17 Consolidated Statements of Shareholders’ Equity

18 Consolidated Statements of Cash Flows

19 Notes to Consolidated Financial Statements

27 Independent Auditors’ Report

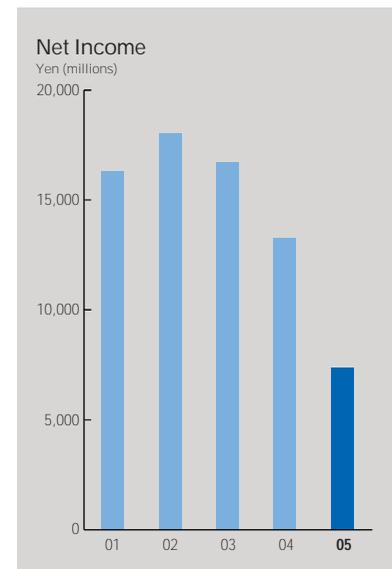
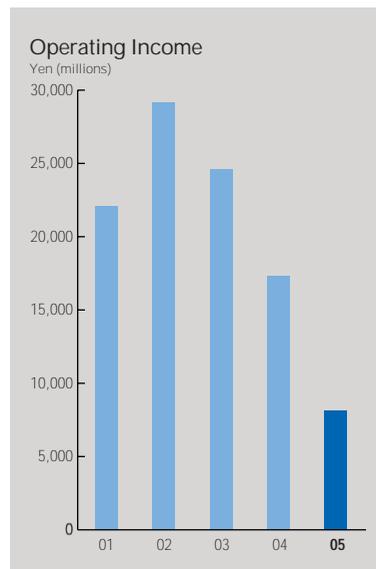
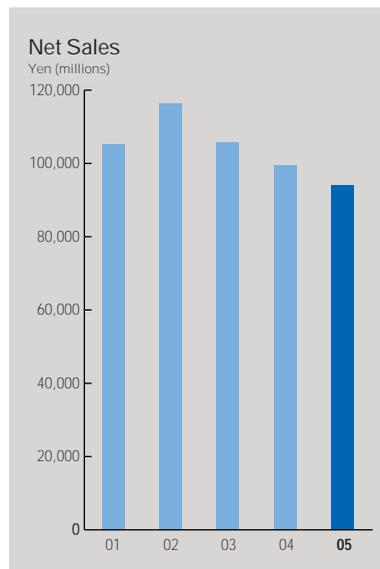
28 Corporate Information

Financial Highlights

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

	Yen (millions)		U.S. Dollars (thousands)	
	2003	2004	2005	2005
Net sales	¥ 105,743	¥ 99,347	¥ 93,927	\$ 795,991
Operating income	24,576	17,312	8,149	69,059
Income before income taxes and minority interests	24,741	19,676	11,597	98,279
Net income	16,731	13,279	7,350	62,288
Shareholders' equity	212,803	201,543	211,875	1,795,550
Total assets	229,674	216,489	227,375	1,926,906
	Yen		U.S. Dollars	
Per share of common stock:				
Net income	¥ 375.41	¥ 316.14	¥ 180.72	\$ 1.53
Cash dividends	128.00	115.00	92.00	0.77

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥118=U.S.\$1, the approximate exchange rate on December 31, 2005.



Forward-Looking Statements

This annual report contains forward-looking statements about Mabuchi Motor Co., Ltd.'s future plans, beliefs, strategies and performance that are not historical facts. They are based on current expectations, forecasts, estimates and projections about the industry in which Mabuchi Motor Co., Ltd. operates and beliefs and assumptions made by management. As the expectations, forecasts, estimates and projections are subject to a number of risks, uncertainties and assumptions, they may cause actual results to differ materially from those projected. Mabuchi Motor Co., Ltd., therefore, wishes to caution readers not to place undue reliance on forward-looking statements. Furthermore, the company undertakes no obligation to update any forward-looking statements as a result of new information, future events or other developments.

Risks, uncertainties and assumptions mentioned above include, but are not limited to, exchange rates and economic conditions; the outcome of pending and future litigation; commodity prices; and the continued financing, financial instruments and financial resources.



Takaichi Mabuchi, Chairman



Shinji Kamei, President

Expeditious Response to the Changing Climate

For the fiscal year ended December 31, 2005, Mabuchi posted strong year-on-year sales growth in two segments—4.0%, or ¥1,220 million (\$10 million), in automotive products, the main pillar of Mabuchi's growth strategy, and 13.1%, or ¥1,903 million (\$16 million), in information & communication equipment. Nonetheless, net sales fell below fiscal 2004 figures, due primarily to a 24.6%, or ¥7,505 million (\$63 million), decline in sales of audio & visual equipment and unexpected market shrinkage.

Significant factors responsible for the sales decline in audio & visual equipment and a less competitive cost of sales ratio included (1) plummeting demand for motors used in CD players reflecting a rapid spread of audio devices using flash memories and small hard disk drives (HDD); (2) a rapid shift to low-cost motors due to dropping prices of end products, mainly digital home appliances; (3) soaring prices for raw materials such as steel and copper; and (4) rising costs of new product launches and higher fixed costs related to declining capacity utilization.

Consequently, on a consolidated basis, Mabuchi posted net sales of ¥93,927 million (\$795 million), down 5.5% from the previous fiscal year, operating income of ¥8,149 million (\$69 million), a decline of 52.9%, and net income of ¥7,350 million (\$62 million), a drop of 44.7%.

Ready to confront future challenges in the business environment, Mabuchi will quickly respond to changes and implement countermeasures to achieve a stable earnings recovery.

Rebuilding the Business Structure

In fiscal 2004, Mabuchi formulated a medium-term plan that focuses on growth and a low cost strategy while building a strong operating base, and took steps proactively to achieve new growth. These efforts are bearing fruit in certain fields such as the power unit motor and brushless motor businesses.

However, because the operating environment in the audio & visual equipment business deteriorated far more than anticipated during the initial phases of the plan, Mabuchi is now revising some of its strategies. In particular, the Company will prioritize structural reforms for rebuilding the basis for growth and correcting the cost structure of its operations. Through these steps, Mabuchi will steadily recover its profitability and build a strong platform for growth.

1. Creating Added Value

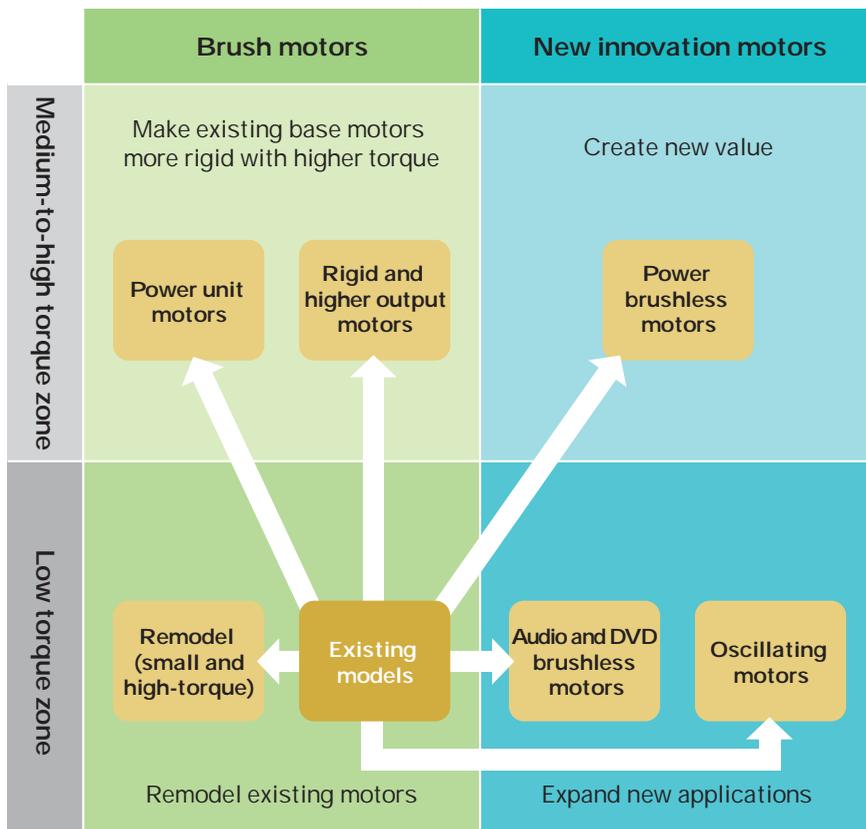
Mabuchi will continue to focus on mainstay small direct-current (DC) brush motors to quickly create growth opportunities that combine new product fields with applications that boast a high market demand. To this end, Mabuchi will consider the following four approaches and reinforce its business portfolio. Mabuchi will fully leverage its strengths to identify new fields and cultivate markets giving the best advantage to the Company.

1. Increase sales of DC brush motors within existing applications
2. Generate sales of DC brush motors in new applications
3. Broaden existing and related applications of power unit, brushless, and oscillating motors
4. Develop new applications for new technology motors

To reinforce product competitiveness, Mabuchi is leveraging the expertise it has built in the core business of small DC brush motors to develop mid-to-high torque motors, actuators, and innovation motors that exploit elemental brush motor technologies.

These efforts are steadily producing positive results in fields that previous product lineups could not cover. Building on these steps, Mabuchi aims to boost demand from automotive power windows and seat adjusters, as well as a score of other applications, such as car audio systems, car navigation systems, electric toothbrushes, shavers, professional power tools, and high-end printers.

Steps to Enhance Product Competitiveness



2. Building a Superior Cost Structure

Mabuchi will keep pursuing an unparalleled cost structure while maintaining excellent product quality. In addition to ongoing cost-cutting efforts in manufacturing, the Company will take full-fledged steps to reduce costs in each department's head office. Specifically, Mabuchi will reassess procurement strategies for materials and equipment, realign functions, and improve operational speed. Furthermore, the Research and Development (R&D) Headquarters will actively look into new materials for cost improvement.

The following four approaches will guide Mabuchi's efforts to produce results in the medium term:

Realigning Production Bases

- 1 In August 2005, Mabuchi closed its factory in Malaysia due to its declining cost competitiveness.
- 2 Mabuchi established its second production base in Danang City, Vietnam in March 2005, acting to reduce risks that could result from excessive concentration of operations in China, boost export capabilities, and achieve a production volume of 300 million units by 2010.
- 3 Dongguan Mabuchi Motor Equipment Co., Ltd. (DGM) has advanced integration of equipment and components factories dispersed across Guangdong Province and consolidated the Guangdong Administration Office into its organization. Thus, Mabuchi will make flexible use of human resources, achieve higher production efficiency, and reduce fixed costs at this location.

1. Components

Mabuchi will procure materials from select suppliers, and expand purchases of components made in China. In addition, Mabuchi will promote proprietary components production—a strategy that will improve medium-term cost competitiveness by containing low-cost production in-house, boosting bargaining power with suppliers, and accumulating exclusive core technologies.

2. Production equipment

Mabuchi manufactures its own equipment in-house to maximize production efficiency while balancing human labor and factory automation to optimize manufacturing costs. The Company promotes the Mabuchi Production System laterally among local factories to cut labor costs and optimize the cost balance in manufacturing. Mabuchi is steadily implementing reforms to build a strong corporate structure that withstands competition from rivals using Chinese labor and components.

3. Realigning production bases

Prioritizing Group-wide operational efficiency, Mabuchi is eliminating redundant functions and inefficiencies by consolidating common functions and cutting fixed costs. First, Mabuchi is rationalizing production lines and space at existing factories to boost efficiency, thus improving their profitability. Second, Mabuchi is adjusting flow efficiency from a comprehensive, long-term perspective by considering infrastructure and labor costs, location, and efficiency of its factories in each region.

4. Enhancing efficiency of the headquarters' back-office functions

In fiscal 2005, the Product Data Management (PDM) system was fully implemented, reinforcing Mabuchi's system management in development design, and reducing product development costs. Alongside reorganizing back-office functions, Mabuchi has established an Overhead Review Board to strengthen budget management. These efforts aim to reduce selling, general, and administrative expenses.

3. Streamlining Worldwide Group Functions

To create a sound operational framework that leverages worldwide Group resources, Mabuchi has transferred relatively less challenging motor design operations to Dongguan Mabuchi Motor Equipment Co., Ltd. (DGM). The company now takes charge of developing and creating value-added functions for motors targeting the home appliances and audio equipment markets, as well as adopting optional components for those motors. Mabuchi is also effectively implementing the PDM system to establish an IT infrastructure that will reinforce information exchange between the headquarters and the satellite offices when developing and remodeling products. Finally, Mabuchi is reinforcing its sales framework in southern China to better cater to local customer needs.

4. Reforming the Management Base

Starting in October 2004, Mabuchi adopted the Mabuchi Virtual Unit (MVU), which aims to achieve a strong, customer-first organization cutting across the sales, development, and planning functions of the headquarters. This initiative is already delivering results. The MVU consists of cross-functional teams specializing in four market segments: automotive products, audio & visual equipment, information & communication equipment, and home appliances, power tools & others. This structure enables Mabuchi to achieve both successful business performance and customer satisfaction without sacrificing organizational efficiency.

In October 2005, Mabuchi created a framework based on four headquarter offices, comprising the existing Sales and R&D Headquarters, and the newly established Operation Control and Administrative Headquarters. With this system in place, Mabuchi will strive to realize speedy management decision-making as well as clarify accountability and responsibility for operating results, thereby reinforcing its management.

Boosting Shareholder Value

Mabuchi boasts the world's top market share in small DC motors. Its production volume, unrivaled worldwide, testifies to high acclaim and trust received from customers. Therefore, as a leading company, Mabuchi understands the importance of fulfilling its social responsibility, and recognizes long-term sustained growth as its ultimate goal. In fiscal 2006, Mabuchi will strive to achieve medium- and long-term growth by carrying out the above strategies, which are crucial to reinforcing its profitability and building a foundation for further progress. Guided by this thinking, Mabuchi places top priority on sharing the fruits of its efforts with shareholders. The active participation and support of our shareholders are extremely important to achieving these goals.

To satisfy the expectations of shareholders, Mabuchi paid a performance-linked dividend equaling 20% of consolidated net income, in addition to paying a fixed dividend of ¥50 per share.

At the beginning of 2006, Mabuchi announced an increase of its annual fixed dividend from ¥50 to ¥60 per share, taking into account the retained earnings and cash flows required to fund future business development, as well as projected future investments. As a result, Mabuchi increased the year-end fixed dividend for 2005 from ¥25 to ¥30 per share. Including the interim dividend, the annual dividend for the fiscal year ended December 31, 2005 was ¥92 per share.

We ask for the continued support of our shareholders as we strive to progress further.



Takaichi Mabuchi, Chairman



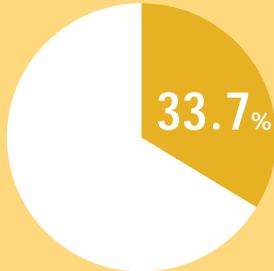
Shinji Kamei, President

March 30, 2006

The Benefits of MVU

- 1 Rebuild product development and sales strategy frameworks in each business unit
- 2 Manage financial performance of each business unit
- 3 Reinforce commitment by both sales and technical departments

Share of Net Sales:



Automotive Products

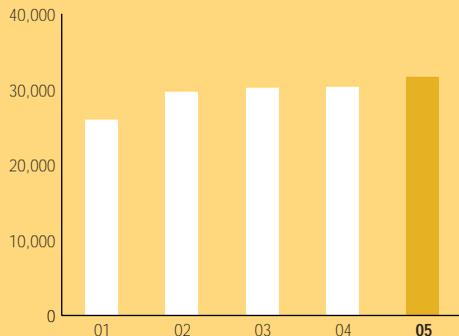
Mabuchi offers small, high-performance motors for advanced automotive electronic equipment, thereby playing an important role in making automobiles safer and more comfortable. In addition to growing automobile production worldwide, especially in China, there is a greater demand for automotive electronics that provide safety, comfort, and affordability. Given the rising number of small motors used in each automobile and the expansion of new applications, Mabuchi expects market growth in this segment to continue going forward.

For fiscal 2005, automotive products comprised 33.7% of net sales, surpassing the audio & visual equipment segment for the first time.

Major applications:

Power window lifters, door locks, rearview mirrors, retractable rearview mirrors, air conditioning damper actuators, headlight beam level adjusters, and door closers.

Net Sales
Yen (millions)

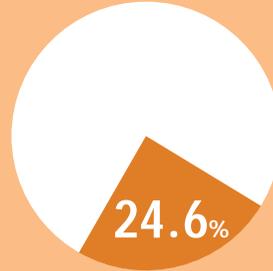


Power Window Lifters



Rearview Mirrors

Share of Net Sales:



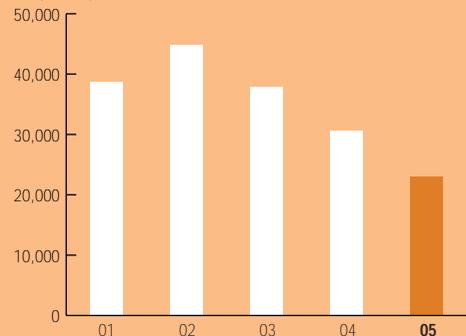
Audio & Visual Equipment

Mabuchi responds quickly to diversifying market needs by providing small, high-performance motors that feature superior quietness and durability. These motors are making a significant contribution to the advancement of audio and visual equipment. Currently, the CD player market, heretofore the segment's main pillar, has been contracting, due to the rapid uptake of audio players with built-in HDDs and flash memories. Against this backdrop, Mabuchi will focus on the steadily growing DVD applications market, as well as the markets for automobile equipment such as car audio and car navigation systems.

Major applications:

DVD players and recorders, CD players, car component systems, car navigation systems, VCRs, camcorders, and DVD/CD-ROM game machines.

Net Sales
Yen (millions)



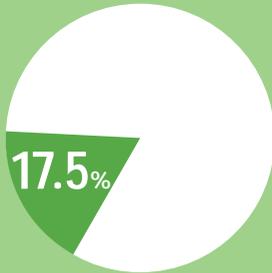
DVD Players



CD/MD Players

Information & Communication Equipment

Share of Net Sales:



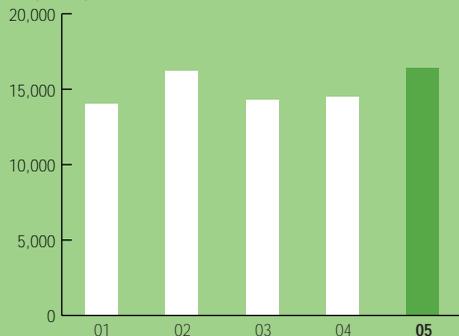
As rapid technological advances are made and various functions of electronics products are linked via networks, electronic appliances are becoming smaller and more multi-functional. Mabuchi's high-performance motors are indispensable to today's high-tech electronics, including personal computers, cameras, and printers.

Fiscal 2005 saw a higher usage of small motors, owing to the expanding ink jet printer market and the rising market share of all-in-one printers. Mabuchi has also successfully entered the market for brushless spindle motors for PC drives, a market possessing great potential for large orders. Our aim is to get into the black as quickly as possible. Meanwhile, the market for film cameras has declined markedly due to the shift to digital cameras.

Major applications:

Digital cameras, DVD/CD-ROM drives, copy machines, facsimile machines, and mobile phones.

Net Sales
Yen (millions)

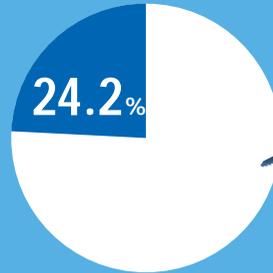


Digital Cameras



Printers

Share of Net Sales:



Home Appliances, Power Tools & Others

As a diverse array of electronic devices becomes available to households, Mabuchi motors are finding numerous applications in home appliances and other consumer goods supporting daily life.

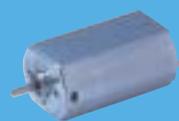
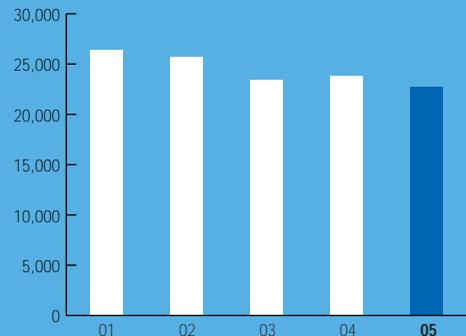
Although demand for electronic fragrance dispensers, which recorded favorable sales in fiscal 2004, declined during the period under review, the popularity of vibrating-type wet shavers boosted the growth of electric shavers.

In addition, the power tools market is promising expansion as the emergence of high-performance batteries fuels higher demand for large, high-power motors.

Major applications:

Electric shavers, toothbrushes, hair dryers, drills, screwdrivers, blood pressure meters, massagers, fragrance dispensers, radio control models, toys, and plastic models.

Net Sales
Yen (millions)



Shavers, Toothbrushes



Cordless Power Tools

R&D Framework and Outline

The Mabuchi Group's research and development (R&D) activities are mainly conducted by its headquarters overseeing two R&D departments and the Production Engineering Department—all of which have their own areas of specialization. Certain functions of the Research and Development Headquarters are being transferred to China as part of our strategy to relocate product development and re-engineering functions there.

Against the backdrop of product diversification and demand for shorter delivery times, Mabuchi is carrying out research focused on making existing products quieter, smaller, and more affordable while offering greater torque. At the same time, Mabuchi is engaged in applied R&D to develop new products that leverage the strengths of earlier products. To deliver products more quickly, Mabuchi is also promoting concurrent engineering to streamline its production system that integrates all phases from design and infrastructure to production and processing.

Furthermore, Mabuchi is taking steps to conduct production technology development and implement the Mabuchi Production System (MPS) across the Group. These steps have proven crucial to improving production processes and cutting costs such as by reducing the number of procedures and inventories, respectively.

Finally, Mabuchi is also focusing on R&D activities that are environmentally conscious. These activities include introducing the industry's first motor parts that use no cadmium, lead, or hexavalent chromium. In addition, Mabuchi is working to discontinue the use of cleaning solvents containing trichloroethylene for cleaning during the production process.

For fiscal 2005, Mabuchi recorded approximately ¥4,196 million (\$35 million) in R&D expenses. Mabuchi owns a total of 542 industrial property rights (135 in Japan and 407 overseas) and has 247 employees engaged in R&D activities.

Major R&D Accomplishments in Fiscal 2005

Motors for car rearview mirrors and compact power mirrors (FK-050PH)

Compact, high-torque, and quiet, these motors were developed for use with power mirrors. They are approximately 25% and 37% lower in weight and volume, respectively, compared to previous models.



FF-030SA

Sled and loading motors for car CD players (FF-030SA)

Using recently developed noise-canceling and low-vibration design technologies, this model was developed to satisfy market demand for motors of the same size as previous models but with higher torque and quality.

Spindle brushless motor for car audiovisual equipment and navigation systems (BSW64AA)

This is a high-speed, slim, brushless motor for car audiovisual equipment and navigation systems.



FF-M10VA

Zoom motor for digital cameras (FF-M10VA)

To minimize vibration and noise, this model offers higher torque for a lower gear ratio and controls fluctuation in rotation of the motor to stabilize the zoom speed. FF-M10VA also features more precision in the motor mounting surface and shaft dimensions, enabling more precise attachment on the gear unit.

Motor for high-grade power tools (RT-8B7WA)

RT-8B7WA improves torque-down caused by heat and rising temperatures from continuous use such as in professional applications. This model has the largest sales volume of all current Mabuchi products.

Development of environment-friendly "eco-motors"

Ahead of the enforcement of the Restriction of Hazardous Substances (RoHS)*, which prohibits the use of six substances in the European Union (EU), Mabuchi created a framework for mass producing motors that will satisfy the directive. Moreover, Mabuchi began using alternative materials in new products to replace vinyl chloride used in motor lead wires, as there are strong calls for the restricted use of vinyl chloride.

* Scheduled to take effect in July 2006, the RoHS Directive is an EU law that restricts the use of certain hazardous substances in electrical and electronic equipment with the aim of minimizing the impact on the environment and human health at all stages in a product's lifecycle from production to disposal.

Corporate Governance

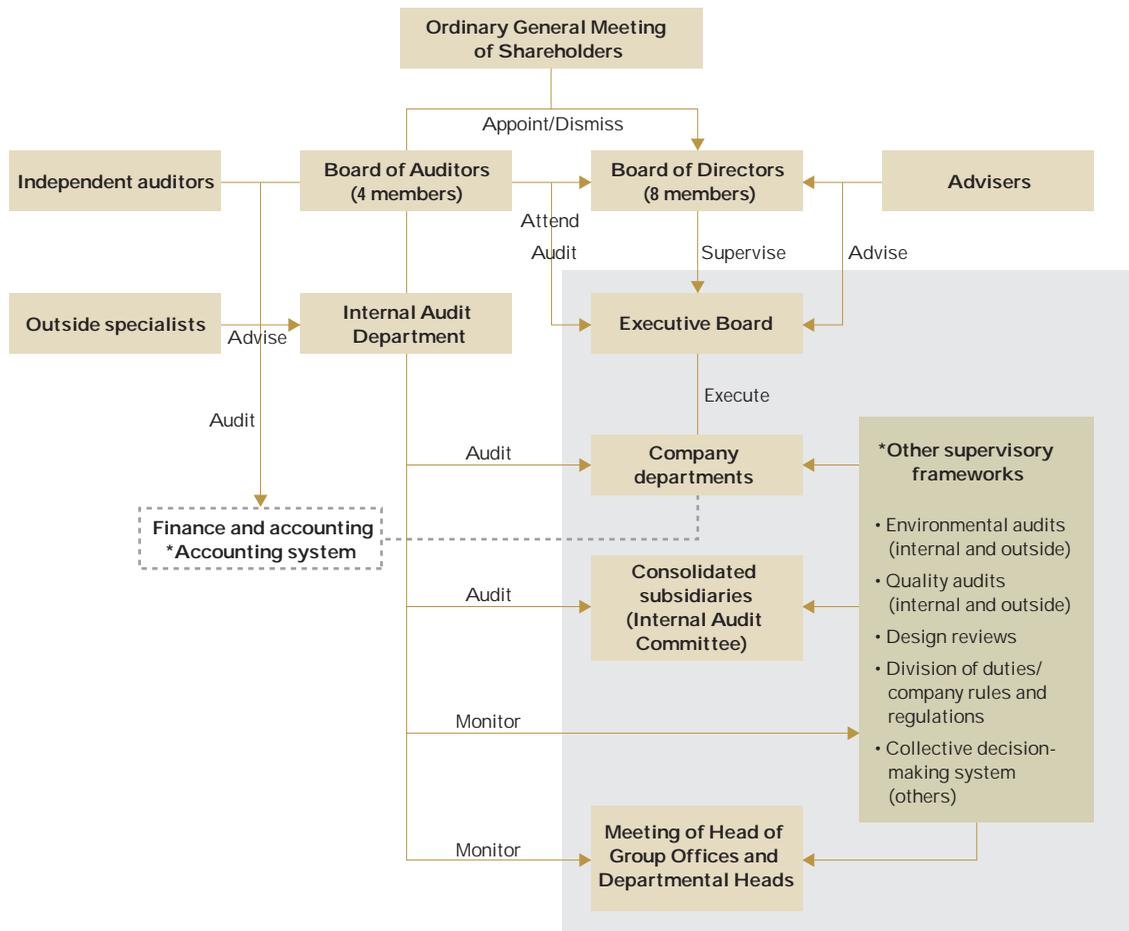
Basic Approach to Corporate Governance

The Mabuchi Group strives to fulfill the mission stated in our management philosophy, "Contributing to International Society and Ever-expanding Our Contribution," through our small DC motor business. Corporate governance provides the necessary management framework to achieve this goal and strategies to ensure it remains an underlying aspect of our business. Therefore, building an adequate corporate governance structure and ensuring its efficacy is one of Mabuchi's top priorities.

Mabuchi's corporate governance endeavors to fulfill the following criteria:

1. Ensure that management decision-making and efficient business execution are clearly separated and the scope of accountability is clear.
2. Build and operate a sound internal control system to establish an effective framework for checks and balances and management supervision.
3. Foster a corporate culture in which all Group employees recognize that compliance and adherence to corporate ethics are crucial to supporting robust corporate activities.
4. Disclose corporate and management information to stakeholders in a fair, timely, and clear manner.

Corporate Governance Framework



Management's Discussion and Analysis

Net Sales

In fiscal 2005, consolidated net sales decreased 5.5% year on year to ¥93,927 million (\$795 million). The vast majority of these sales comprised motors, the net sales of which declined 5.5% to ¥93,833 million (\$795 million). Although robust growth was seen in the automotive products and information and communication equipment markets—the core fields in Mabuchi's growth strategy—sales were down in the audio and visual equipment market.

Net Sales by Application

Years Ended December 31

	Yen (millions)				U.S. Dollars (thousands)	
	2001	2002	2003	2004	2005	2005
Automotive Products	¥ 25,907	¥ 29,603	¥ 30,127	¥30,376	¥31,597	\$267,771
Audio & Visual Equipment	38,663	44,800	37,866	30,567	23,061	195,432
Information & Communication Equipment	14,051	16,240	14,273	14,499	16,402	139,000
Home Appliances, Power Tools & Others	26,451	25,688	23,435	23,806	22,772	192,983
Other	57	25	39	97	93	788
Total	¥105,129	¥116,356	¥105,743	¥99,347	¥93,927	\$795,991

Other includes parts and equipment sales.

Automotive Products

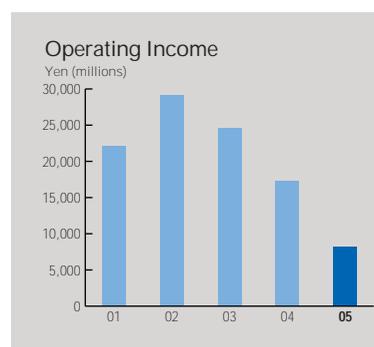
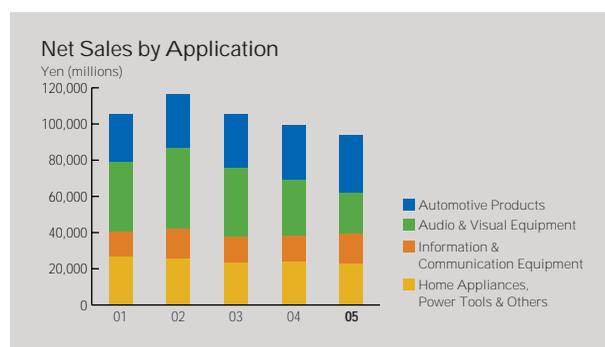
Net sales increased 4.0% from the previous fiscal year to ¥31,597 million (\$267 million), surpassing audio & visual equipment for the first time. Attributable factors included steadily growing demand for small motors, as more electronics are used in automobiles. In particular, demand for motors for retractable rearview mirrors and air-conditioning dampers grew favorably in Europe and other markets. Moreover, full-year sales of motors for power windows exceeded fiscal 2004 results, despite a temporary adjustment in early spring in China.

Audio & Visual Equipment

Net sales decreased 24.6% year on year to ¥23,061 million (\$195 million). The market was hit hard by the rapid spread of mobile digital audio equipment with built-in flash memories and mini-HDDs, triggering a substantial deterioration in the CD player market. Moreover, although sales of motors for car CD and DVD players were healthy, Mabuchi's results were affected by major manufacturing customers losing market share to local Chinese rivals due to price competition.

Information & Communication Equipment

Net sales increased 13.1% from fiscal 2004 to ¥16,402 million (\$139 million), owing to a significant rise in demand for motors created by the expansion of the ink jet printer market, and a higher market share of all-in-one printers. This was largely attributable to the switch from stepping motors to brush motors for paper feeding mechanisms and the higher use of motors in cleaning ink nozzles. Another key factor was the start of shipments of value-added motors with a rotation control mechanism for use in ink jet printers, which also boosted sales.



Home Appliances, Power Tools & Others

Net sales decreased 4.3% compared to a year ago to ¥22,772 million (\$192 million). The popularity of new vibrating-type wet shavers contributed to growth in the shaver market. Motors for health equipment, including blood pressure meters and blood glucose level monitors, also posted solid growth. In addition, motors for power tools were healthy, even though their growth became sluggish during the latter half of the fiscal year under review. These positive factors were offset by a temporary halt in shipments of motors due to customer complaints about certain niche market products, as well as cooling demand for fragrance generators, demand for which had been robust in recent years.

Net Sales by Geographic Area

Years Ended December 31

	Yen (millions)				U.S. Dollars (thousands)	
	2001	2002	2003	2004	2005	2005
Japan	¥ 12,534	¥ 11,942	¥ 11,611	¥11,536	¥10,928	\$ 92,610
North and Latin America	12,830	12,624	10,183	9,091	8,728	73,966
Europe	14,767	15,187	14,781	13,848	13,068	110,745
China and Hong Kong	41,641	50,736	45,797	44,855	41,665	353,093
Asia Pacific	23,300	25,842	23,331	19,917	19,443	164,771
Other	57	25	39	97	93	788
Total	¥105,129	¥116,356	¥105,743	¥99,347	¥93,927	\$795,991

Other includes parts and equipment sales.

Costs, Expenses and Net Income

The cost of sales rose 5.0%, or ¥3,150 million (\$26 million), to ¥66,479 million (\$563 million), the result of an increase in fixed costs per unit due to lower capacity utilization, and higher costs stemming from soaring prices of steel and other materials. On a more positive note, procurement activities and the closure of Mabuchi Motor (Malaysia) SDN. BHD. yielded benefits in terms of lower fixed costs.

Selling, general and administrative expenses increased 3.2%, or ¥592 million (\$5 million), to ¥19,298 million (\$163 million), largely reflecting expenses related to the new headquarters office building and introduction of an IT infrastructure for managing technical information.

Consequently, operating income decreased 52.9% to ¥8,149 million (\$69 million).

Other income was ¥3,447 million (\$29 million). The improvement in 2005 was principally due to an increase in exchange gains on foreign currency transactions.

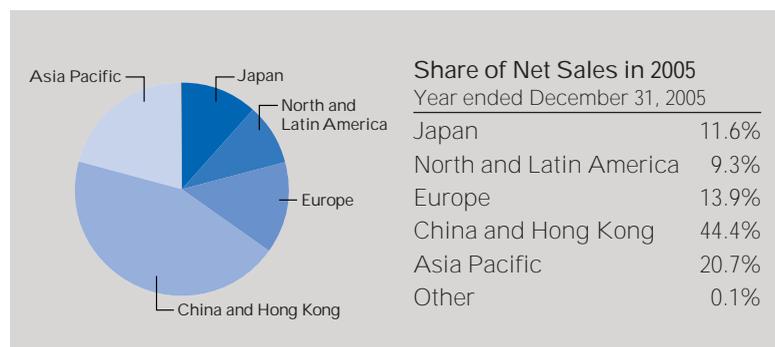
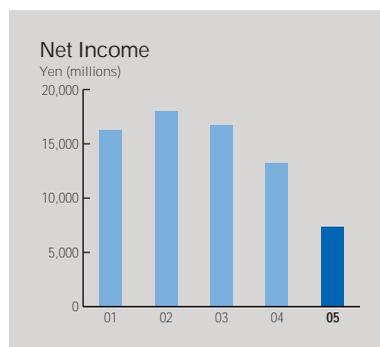
Net income decreased 44.7% to ¥7,350 million (\$62 million), primarily due to an extraordinary loss on the closure of the Malaysian subsidiary and loss on disposal of fixed assets resulting from the demolition of the former headquarters building.

Foreign Currency

In preparing the consolidated financial statements, items in financial statements of overseas subsidiaries that are recorded in local currencies are converted to Japanese yen. As a result, post-conversion figures are affected by the exchange rate on the conversion date. In particular, the appreciation of the yen against the U.S. dollar has a negative impact on Group results, and vice versa.

In fiscal 2005, 88% of consolidated net sales comprised overseas sales, 89% of which were transacted in U.S. dollars.

The average exchange rate during the period under review was ¥110.21 per U.S. dollar, a depreciation of 1.8% from fiscal 2004. As a result, net sales and operating income increased ¥1,700 million (\$14 million) and ¥200 million (\$1 million), respectively.



Financial Position

Net working capital at December 31, 2004 and 2005 is summarized as follows:

	Yen (millions)		Increase (Decrease)
	2004	2005	
Current assets	¥99,713	¥107,365	¥7,652
Current liabilities	11,021	9,920	(1,100)
Net working capital	¥88,692	¥ 97,445	¥8,753
Current ratio (%)	9.0	10.8	

As of December 31, 2005, total assets were ¥227,375 million (\$1,926 million), up ¥10,886 million (\$92 million), or 5.0%, from a year ago. Cash and bank deposits rose ¥5,008 million (\$42 million) and property, plant and equipment, net grew ¥1,997 million (\$16 million), mainly reflecting increases on the conversion of assets denominated in foreign currencies resulting from the lower yen. In addition, investment securities were up ¥1,537 million (\$13 million), owing to higher valuations.

Total liabilities were up ¥554 million (\$4 million), or 3.7%, to ¥15,500 million (\$131 million).

Shareholders' equity increased ¥10,331 million (\$87 million), or 5.1%, to ¥211,875 million (\$1,795 million), compared to December 31, 2004.

Cash Flows

The major items of cash flows for the years ended December 31, 2004 and 2005 are summarized below:

	Yen (millions)		U.S. Dollars (thousands)
	2004	2005	2005
Income before income taxes and minority interests	¥ 19,676	¥11,597	\$98,279
Depreciation and amortization	5,241	5,734	48,593
Increase in property, plant and equipment	(12,030)	(4,908)	(41,593)
Change in short-term investment and purchase investment securities	(462)	3,805	32,245
Cash dividends paid	(5,220)	(3,771)	(31,957)
Purchase of treasury stock	(18,062)	(6,572)	(55,694)
Effect of exchange rate changes on cash and cash equivalents	(931)	6,026	51,067
Other, net	(7,701)	(5,912)	(50,101)
Net (decrease) increase in cash and cash equivalents	¥(19,491)	¥ 5,997	\$50,822

Net cash provided by operating activities declined to ¥11,034 million (\$93 million), largely reflecting lower income before income taxes. Net cash used in investing activities amounted to ¥719 million (\$6 million), primarily as a result of reduced purchase of property, plant and equipment accompanying the construction of a new headquarters office building last year. Finally, net cash used in financing activities dropped to ¥10,343 million (\$87 million), due to lower outflows for cash dividends paid and the purchase of treasury stock. Consequently, as of December 31, 2005, cash and cash equivalents rose ¥5,997 million (\$50 million) from the previous fiscal year-end to ¥64,596 million (\$547 million).

Risks

The following are the major risks related to Group businesses and other risks that could influence the judgment of investors.

- Changes in line items after conversion into yen due to exchange rate fluctuations and higher manufacturing costs accompanying appreciation in currencies of countries where production bases are located.
- Delayed response to changes in market needs and technological innovations that make Mabuchi products obsolete.
- Delayed cost-cutting measures against price competition mainly from Chinese manufacturers, and price drops.
- Damages and loss of public trust and payment of indemnities resulting from inferior product quality.
- Interruptions to production activities due to supply interruptions or shortages of raw materials and higher manufacturing costs from soaring prices of materials.

Acknowledging these risks, Mabuchi works to prevent their occurrence and minimize their impact.

Five-Year Financial Summary

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

	Yen (millions)				U.S. Dollars (thousands)	
	2001	2002	2003	2004	2005	2005
Operating Results						
Net sales	¥105,129	¥116,356	¥105,743	¥ 99,347	¥ 93,927	\$ 795,991
Operating income	22,079	29,122	24,576	17,312	8,149	69,059
Income before income taxes and minority interests	23,495	27,968	24,741	19,676	11,597	98,279
Net income	16,281	18,025	16,731	13,279	7,350	62,288
Per Share of Common Stock:						
Net income (Yen and U.S. Dollars)	¥ 345.85	¥ 392.13	¥ 375.41	¥ 316.14	¥ 180.72	\$ 1.53
Cash dividends per share (Yen and U.S. Dollars)	67.00	70.00	128.00	115.00	92.00	0.77
Depreciation and amortization	¥ 6,599	¥ 6,336	¥ 5,578	¥ 5,241	¥ 5,734	\$ 48,593
Capital expenditures	5,132	6,278	5,673	11,606	5,543	47,118
R&D expenses	3,421	3,535	3,714	4,035	4,196	35,559
Balance Sheet						
Shareholders' equity	¥241,859	¥224,315	¥212,803	¥201,543	¥211,875	\$1,795,550
Total assets	260,328	244,987	229,674	216,489	227,375	1,926,906
Other Data						
Number of shares outstanding (thousands of shares)	47,075	45,966	44,223	41,770	40,469	
Number of employees	45,203	50,762	51,796	49,743	46,412	

Notes:

1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥118=U.S.\$1, the approximate exchange rate on December 31, 2005.

2. Until the year ended December 2002, net income per share was computed based on the net income reported in the consolidated statements of income and the weighted average number of shares of common stock outstanding during each year.

In accordance with a new accounting standard for earnings per share which became effective April 1, 2002, basic net income per share since 2003 was computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the respective year.

3. Number of employees includes contract manufacturing labor at plants in Guangdong and Wafangdian in China.

Consolidated Balance Sheets

Mabuchi Motor Co., Ltd. and Consolidated Subsidiaries
December 31, 2004 and 2005

ASSETS	Yen (millions)		U.S. Dollars (thousands)
	2004	2005	2005
Current Assets:			
Cash and bank deposits	¥ 56,390	¥ 61,399	\$ 520,330
Short-term investments	10,772	11,325	95,974
Trade notes and accounts receivable	13,235	14,407	122,093
Less—Allowance for doubtful receivables	(267)	(344)	(2,915)
Inventories	16,430	17,061	144,584
Deferred tax assets	1,593	1,132	9,593
Other current assets	1,557	2,384	20,203
Total current assets	99,713	107,365	909,872
Property, Plant and Equipment, at Cost:			
Land	6,173	6,198	52,525
Buildings	41,419	44,866	380,220
Machinery and equipment	56,763	63,680	539,661
Construction in progress	1,673	1,106	9,372
	106,030	115,852	981,796
Less—Accumulated depreciation	(66,324)	(74,148)	(628,372)
Property, plant and equipment, net	39,705	41,703	353,415
Investments and Other Assets:			
Investment securities	74,130	75,668	641,254
Long-term loans receivable	338	224	1,898
Deferred tax assets	157	142	1,203
Other investments and other assets	2,444	2,271	19,245
Total investments and other assets	77,070	78,306	663,610
Total assets	¥216,489	¥227,375	\$1,926,906

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)
	2004	2005	2005
Current Liabilities:			
Trade notes and accounts payable	¥ 3,094	¥ 2,877	\$ 24,381
Accrued income taxes	2,562	891	7,550
Accrued bonus to employees	396	293	2,483
Accrued loss on reorganization of subsidiary	–	558	4,728
Other current liabilities	4,968	5,300	44,915
Total current liabilities	11,021	9,920	84,067
Long-term Liabilities:			
Accrued retirement benefits for employees	379	122	1,033
Accrued retirement benefits for directors and statutory auditors	446	484	4,101
Deferred tax liabilities	3,017	4,847	41,076
Other long-term liabilities	81	124	1,050
Total long-term liabilities	3,924	5,579	47,279
Shareholders' Equity:			
Common stock, without par value:			
Authorized:			
2004 and 2005—100,000,000 shares			
Issued:			
2004—47,075,881 shares	20,704	–	–
2005—47,075,881 shares	–	20,704	175,457
Additional paid-in capital	20,419	20,419	173,042
Retained earnings	224,816	228,319	1,934,906
Unrealized holding gains on securities	611	4,034	34,186
Foreign currency translation adjustments	(6,863)	3,115	26,398
Treasury stock, at cost; 6,511,971 shares in 2004 and 7,514,118 shares in 2005	(58,145)	(64,718)	(548,457)
Total shareholders' equity	201,543	211,875	1,795,550
Total liabilities and shareholders' equity	¥216,489	¥227,375	\$1,926,906

Consolidated Statements of Shareholders' Equity

Mabuchi Motor Co., Ltd. and Consolidated Subsidiaries
For the years ended December 31, 2004 and 2005

	Number of Shares (thousands)		Yen (millions)		U.S. Dollars (thousands)
	2004	2005	2004	2005	2005
Common Stock:					
Beginning balance	47,075	47,075	¥ 20,704	¥ 20,704	\$ 175,457
Ending balance	47,075	47,075	¥ 20,704	¥ 20,704	\$ 175,457
Additional Paid-in Capital:					
Beginning balance			¥ 20,419	¥ 20,419	\$ 173,042
Ending balance			¥ 20,419	¥ 20,419	\$ 173,042
Retained Earnings:					
Beginning balance			¥216,890	¥224,816	\$1,905,220
Net income			13,279	7,350	62,288
Cash dividends			(5,225)	(3,772)	(31,966)
Bonuses to directors and statutory auditors			(127)	(74)	(627)
Ending balance			¥224,816	¥228,319	\$1,934,906
Unrealized Holding Gains on Securities:					
Beginning balance			¥ 171	¥ 611	\$ 5,177
Net change during the year			439	3,423	29,008
Ending balance			¥ 611	¥ 4,034	\$ 34,186
Foreign Currency Translation Adjustments:					
Beginning balance			¥ (5,299)	¥ (6,863)	\$ (58,161)
Net change during the year			(1,563)	9,978	84,559
Ending balance			¥ (6,863)	¥ 3,115	\$ 26,398
Treasury Stock:					
Beginning balance			¥ (40,083)	¥ (58,145)	\$ (492,754)
Net change during the year			(18,062)	(6,572)	(55,694)
Ending balance			¥ (58,145)	¥ (64,718)	\$ (548,457)

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, 2004 and 2005

	Yen (millions)		U.S. Dollars (thousands)
	2004	2005	2005
Cash Flows from Operating Activities:			
Income before income taxes and minority interests	¥ 19,676	¥ 11,597	\$ 98,279
Depreciation and amortization	5,241	5,734	48,593
Provision for retirement benefits, net payments	(532)	(230)	(1,949)
Increase in accrued loss on reorganization of subsidiary	–	558	4,728
Interest and dividend income	(1,736)	(2,169)	(18,381)
Foreign exchange loss (gain)	387	(1,220)	(10,338)
Loss on sales and disposal of fixed assets	73	267	2,262
Decrease in trade notes and accounts receivables	801	236	2,000
(Increase) Decrease in inventories	(1,968)	1,329	11,262
Increase (Decrease) in trade notes and accounts payable	217	(943)	(7,991)
Other, net	(216)	(216)	(1,830)
Sub total	21,945	14,943	126,635
Interest and dividends received	1,737	2,162	18,322
Interest paid	(0)	(13)	(110)
Income taxes paid	(7,206)	(6,058)	(51,338)
Net cash provided by operating activities	16,475	11,034	93,508
Cash Flows from Investing Activities:			
Purchase of short-term investments	(5,849)	(5,712)	(48,406)
Proceeds from sales of short-term investments	13,677	8,881	75,262
Purchase of property, plant and equipment	(12,175)	(5,411)	(45,855)
Proceeds from sales of property, plant and equipment	144	502	4,254
Purchase of investment securities	(14,017)	(6,558)	(55,576)
Acquisition of minority interests	(1,710)	–	–
Proceeds from sales of investment securities	7,437	7,193	60,957
Other, net	741	384	3,254
Net cash used in investing activities	(11,752)	(719)	(6,093)
Cash Flows from Financing Activities:			
Cash dividends paid	(5,220)	(3,771)	(31,957)
Purchase of treasury stock	(18,062)	(6,572)	(55,694)
Net cash used in financing activities	(23,282)	(10,343)	(87,652)
Effect of Exchange Rate Changes on Cash and Cash Equivalents			
	(931)	6,026	51,067
Net (Decrease) Increase in Cash and Cash Equivalents	(19,491)	5,997	50,822
Cash and Cash Equivalents at Beginning of Year	78,089	58,598	496,593
Cash and Cash Equivalents at End of Year	¥ 58,598	¥ 64,596	\$ 547,423

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 consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of 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 translating yen amounts at the rate of ¥118 to U.S.\$1, which was the approximate exchange rate prevailing on December 31, 2005.

Certain reclassifications have been made to the accompanying consolidated financial statements for 2004 to conform to the 2005 presentations.

(b) Principles of consolidation

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

On August 8, 2005, Mabuchi Motor (Malaysia) SDN. BHD., a wholly owned subsidiary, ceased its operations and undertook a voluntary liquidation on November 30, 2005. The results of its operations for the period from January 1, 2005 to November 29, 2005 were included in consolidation, reflecting adjustments on material transactions made after November 30, 2005 to December 31, 2005.

(c) Translation of foreign currencies

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rate of exchange in effect at the balance sheet date. 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. The resulting foreign currency translation adjustments are shown as a separate component of shareholders' equity.

(d) Cash equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

(e) Short-term investments and investment securities

The Company classifies securities as "held-to-maturity" for which management has the positive intent and ability to hold to maturity, and "available-for-sale" which represent securities not classified as either trading or held-to-maturity.

Held-to-maturity securities are reported at amortized or accumulated cost. Available-for-sale securities are stated at fair value with changes in unrealized holding gains or losses, net of the applicable income taxes, and are reported in a separate component of shareholders' equity. However, when the fair value of available-for-sale securities declines significantly and is considered to be irrecoverable to the book value, such unrealized holding losses are charged to income.

Available-for-sale securities for which fair value is not readily determinable are stated at moving average 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.

Effective this fiscal year, Mabuchi Industry Co., Ltd. a wholly owned subsidiary, changed its accounting method of valuing inventories from stating at average cost to stating at the lower of cost or market. The effect of this change decreased gross profit, operating income and income before income taxes by ¥74 million (\$627 thousand), respectively.

(g) Property, plant and equipment and depreciation

Property, plant and equipment is stated at cost. Depreciation is computed primarily by the declining-balance method for the Company (except for certain buildings) and principally by the straight-line method for overseas subsidiaries over their estimated useful lives. Buildings acquired by the Company on and after April 1, 1998 are depreciated by the straight-line method. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred.

(h) Leases

Finance leases, except for those leases of which lease agreements stipulate the transfer of ownership of the leased assets to the lessee, are accounted for as operating leases.

(i) Research and development expenses

Expenditures relating to research and development activities are charged to income as incurred and amounted to ¥4,035 million and ¥4,196 million (\$35,559 thousand) for the years ended December 31, 2004 and 2005, respectively.

(j) Income taxes

Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts using presently enacted tax rates. Provision for Japanese income taxes on undistributed earnings of foreign subsidiaries is made only on those amounts in excess of the funds considered to be permanently reinvested.

(k) Retirement benefits

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, which are deductible for tax purposes, are based on actuarially determined costs of the plan.

Accrued retirement benefits are provided based on the amount of retirement benefit obligation reduced by the fair value of pension plan assets at the end of the annual period.

Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over the period of mainly 10 years which are shorter than the average remaining years of service of the employees.

Certain subsidiaries have pension plans similar to the Company or unfunded retirement and termination allowance plans for qualified employees. The amounts required under the plans have been fully accrued.

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

(l) Derivative and hedging activities

If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the Company defers recognition of gains or losses on evaluation of derivative financial instruments until the related losses or gains on the hedged items are recognized.

(m) Enterprise taxes

Effective this fiscal year, according to the new accounting rule, a certain portion of enterprise taxes, which was computed based on the revised Japanese tax law, was included in selling, general and administrative expenses. As a result, selling, general and administrative expenses increased by ¥158 million (\$1,338 thousand) and operating income and income before income taxes decreased by the same amount.

2. CASH AND CASH EQUIVALENTS

Reconciliation of cash and cash equivalents to the accounts on the consolidated statements of cash flows as of December 31, 2004 and 2005 were as follows:

	Yen (millions)		U.S. Dollars (thousands)
	2004	2005	2005
Cash and bank deposits on the consolidated balance sheet	¥ 56,390	¥ 61,399	\$ 520,330
Time deposits with original maturities over three months at the time of purchase	(3,243)	(3,052)	(25,864)
Short-term investments	10,772	11,325	95,974
Securities under the risk value fluctuation	(5,321)	(5,075)	(43,008)
Cash and cash equivalents	¥ 58,598	¥ 64,596	\$ 547,423

3. INVENTORIES

Inventories as of December 31, 2004 and 2005 were as follows:

	Yen (millions)		U.S. Dollars (thousands)
	2004	2005	2005
Finished goods	¥ 9,327	¥ 9,316	\$ 78,949
Work in process	1,433	1,656	14,033
Raw materials	5,668	6,088	51,593
	¥ 16,430	¥ 17,061	\$ 144,584

4. SECURITIES

The cost, net of unrealized gains and losses, and fair value for securities classified as available-for-sale and held-to-maturity as of December 31, 2004 and 2005 was as follows:

	Yen (millions)		
	2004		
	Cost	Fair value	Gains (losses)
Available-for-sale:			
Debt securities	¥19,152	¥17,992	¥(1,159)
Equity securities	3,056	4,861	1,805
Other	18,246	18,625	378
	¥40,455	¥41,479	¥ 1,024
Held-to-maturity:			
Debt securities	¥34,709	¥31,789	¥(2,920)

	Yen (millions)			U.S. Dollars (thousands)		
	2005			2005		
	Cost	Fair value	Gains (losses)	Cost	Fair value	Gains (losses)
Available-for-sale:						
Debt securities	¥19,271	¥19,086	¥ (185)	\$163,313	\$161,745	\$ (1,567)
Equity securities	3,056	6,548	3,491	25,898	55,491	29,584
Other	18,085	21,546	3,461	153,262	182,593	29,330
	¥40,413	¥47,181	¥ 6,767	\$342,483	\$399,838	\$ 57,347
Held-to-maturity:						
Debt securities	¥31,180	¥29,028	¥(2,152)	\$264,237	\$246,000	\$(18,237)

The securities for which fair values were not available as of December 31, 2004 and 2005 were as follows:

	Yen (millions)		U.S. Dollars (thousands)
	2004	2005	2005
Commercial paper	¥ 4,274	¥ 4,158	\$ 35,237
Money Management Funds	4,259	4,260	36,101
Equity securities of non-consolidated subsidiaries	70	102	864
Other equity securities	109	110	932
	¥ 8,713	¥ 8,632	\$ 73,152

The contractual maturities for securities classified as available-for-sale and held-to-maturity at December 31, 2004 and 2005 were as follows:

	Yen (millions)				Total
	2004				
	Within one year	Over one year through five years	Over five years through ten years	Over ten years	
Corporate bonds	¥2,169	¥18,720	¥ 8,414	¥23,397	¥52,702
Commercial paper	4,274	–	–	–	4,274
Other	–	7,282	1,652	–	8,935
	¥6,444	¥26,003	¥10,067	¥23,397	¥65,912

	Yen (millions)					U.S. Dollars (thousands)
	2005					2005
	Within one year	Over one year through five years	Over five years through ten years	Over ten years	Total	Total
Corporate bonds	¥2,000	¥16,558	¥7,646	¥24,061	¥50,267	\$425,991
Commercial paper	4,158	–	–	–	4,158	35,237
Other	826	9,046	382	–	10,255	86,906
	¥6,985	¥25,605	¥8,028	¥24,061	¥64,681	\$548,144

5. RETIREMENT PLANS

The table below sets forth the plan's funded status and amounts recognized in the balance sheets at December 31, 2004 and 2005.

	Yen (millions)		U.S. Dollars (thousands)
	2004	2005	2005
Retirement benefit obligation	¥ (7,108)	¥ (7,125)	\$ (60,381)
Plan assets of fair value	6,597	6,984	59,186
Unfunded retirement benefit obligation	(510)	(140)	(1,186)
Unrecognized actuarial gain or loss	131	33	279
Net retirement benefit obligation	(379)	(107)	(906)
Prepaid pension cost	–	15	127
Accrued retirement benefits	¥ (379)	¥ (122)	\$ (1,033)

The components of net periodic pension cost for the years ended December 31, 2004 and 2005 were as follows:

	Yen (millions)		U.S. Dollars (thousands)
	2004	2005	2005
Service cost	¥ 507	¥ 479	\$ 4,059
Interest cost	123	122	1,033
Expected return on plan assets	(51)	(56)	(474)
Amortization of unrecognized actuarial gain or loss	27	18	152
Net periodic pension cost	¥ 607	¥ 563	\$ 4,771

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

	2004	2005
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	1.0%	1.0%

6. INCOME TAXES

The Company and domestic consolidated subsidiaries are subject to a number of taxes based on income with a normal tax rate aggregating approximately 41.7% and 40.4% for the years ended December 31, 2004 and 2005. Foreign subsidiaries are subject to income taxes in the countries where they operate.

The following table summarizes the significant differences between the Japanese statutory income tax rate and the effective income tax rate on pre-tax income for the years ended December 31, 2004 and 2005:

	2004	2005
Statutory income tax rate	41.7%	40.4%
International income taxed at varying rates	(16.3)	(11.7)
Effect on elimination of dividend income from foreign subsidiaries for consolidation purposes	21.6	28.6
Foreign and R&D tax credit utilization	(10.1)	(15.6)
Undistributed earnings in foreign subsidiaries	(5.1)	(4.6)
Other, net	0.2	(0.5)
Effective income tax rate	32.0%	36.6%

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of deferred tax assets and liabilities at December 31, 2004 and 2005 were as follows:

	Yen (millions)		U.S. Dollars (thousands)
	2004	2005	2005
Deferred tax assets			
Unrealized profits on inventories and fixed assets	¥ 1,367	¥ 1,160	\$ 9,830
Evaluation losses on assets	2,004	1,997	16,923
Depreciation	201	224	1,898
Accrued enterprise taxes	272	96	813
Accrued retirement benefits	303	195	1,652
Other	439	255	2,161
Total	¥ 4,589	¥ 3,929	\$ 33,296
Deferred tax liabilities			
Tax on undistributed foreign earnings	¥ 4,974	¥ 4,440	\$ 37,627
Unrealized loss on investments	508	2,733	23,161
Other	372	329	2,788
Total	¥ 5,855	¥ 7,503	\$ 63,584

	Yen (millions)		U.S. Dollars (thousands)
	2004	2005	2005
As reported in the consolidated balance sheet			
Deferred tax assets	¥ 1,751	¥ 1,274	\$ 10,796
Deferred tax liabilities	3,017	4,847	41,076

7. SHAREHOLDERS' EQUITY

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 the total of such reserve and additional paid-in capital equals 25% of the stated capital. As of December 31, 2005, the total of the legal reserve of ¥3,819 million (\$32,364 thousand), which is included in retained earnings at December 31, 2005, and additional paid-in capital, already reached 25% of the stated capital. The Code also provides that additional paid-in capital and the legal reserve up to 25% of the started capital are not available for cash dividends but may be used to reduce a capital deficit or may be capitalized. The paid-in capital and legal reserve exceeding 25% of the stated capital are available for dividends or purchase of treasury stock upon approval of the shareholders' meeting.

Year-end cash dividends are approved by the shareholders after the end of each fiscal year. 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.

On September 22, 2005, semi-annual interim cash dividends (¥42 or \$0.35 per share) of ¥1,703 million (\$14,432 thousand) were paid to shareholders of record at June 30, 2005. On March 30, 2006, the shareholders approved the declaration of cash dividends (¥50 or \$0.42 per share) totaling ¥1,978 million (\$16,762 thousand) and payment of bonuses to directors and statutory auditors totaling ¥29 million (\$245 thousand).

8. PER SHARE DATA

Until the year ended December 2002, net income per share was computed based on the net income reported in the consolidated statements of income and the weighted average number of shares of common stock outstanding during each year.

In accordance with a new accounting standard for earnings per share which became effective April 1, 2002, basic net income per share was computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year ended December 31, 2005.

9. DERIVATIVE FINANCIAL INSTRUMENTS

The Company enters into forward exchange contracts and forward precious metal contracts as a normal part of risk management efforts.

As a result, the Company is exposed to risk of credit-related losses in the event of nonperformance of counterparties to foreign exchange contracts and precious metal contracts. Management believes such risks are minor because of the high credit worthiness of the counterparties and such financial instruments have not been held for trading purposes. Following is a summary of derivative financial instruments which are currently held by the Company.

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. Gains and losses explicitly deferred, arising from contracts related to future trade transactions, were insignificant at December 31, 2004 and 2005. There were no outstanding currency option contracts at December 31, 2004 and 2005.

Forward precious metal contracts are used by the Company to hedge the risk of changes in market prices resulting from the purchase of precious metals as raw materials for motor products.

There were no outstanding forward precious metal contracts at December 31, 2004 and 2005.

10. CONTINGENT LIABILITIES

As of December 31, 2005, there were no significant reportable contingent liabilities.

11. SEGMENT INFORMATION

The Company and consolidated subsidiaries manufacture and sell small electric motors, parts and equipment used for production purposes. Substantially all 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)
	2004	2005	2005
Net sales:			
Japan			
Outside customers	¥ 20,395	¥ 20,040	\$ 169,830
Intersegment	42,365	38,190	323,644
Total	62,760	58,230	493,474
Asia			
Outside customers	56,795	52,725	446,822
Intersegment	39,918	40,222	340,864
Total	96,714	92,948	787,694
U.S.A.			
Outside customers	8,289	8,118	68,796
Intersegment	0	29	245
Total	8,289	8,148	69,050
Europe			
Outside customers	13,866	13,043	110,533
Intersegment	0	0	0
Total	13,866	13,043	110,533
Corporate and elimination	(82,283)	(78,442)	(664,762)
Consolidated	¥ 99,347	¥ 93,927	\$ 795,991
Operating income:			
Japan	¥ 7,003	¥ 2,654	\$ 22,491
Asia	10,058	4,346	36,830
U.S.A.	137	63	533
Europe	(14)	165	1,398
Corporate and elimination	127	920	7,796
Consolidated	¥ 17,312	¥ 8,149	\$ 69,059
Assets:			
Japan	¥ 63,492	¥ 64,131	\$ 543,483
Asia	86,087	95,758	811,508
U.S.A.	4,225	4,788	40,576
Europe	5,968	5,514	46,728
Corporate and elimination	56,714	57,182	484,593
Consolidated	¥216,489	¥227,375	\$1,926,906

The amount of corporate assets included in "Corporate and elimination" is ¥106,273 million in 2004 and ¥110,835 million (\$939,279 thousand) in 2005, which comprises principally cash, short-term investments and investment securities.

Overseas Sales

	Yen (millions)		U.S. Dollars (thousands)
	2004	2005	2005
Overseas Sales:			
U.S.A.	¥ 9,091	¥ 8,728	\$ 73,966
Europe	13,914	13,068	110,745
Asia and other	64,801	61,199	518,635
Total	¥ 87,807	¥ 82,996	\$ 703,355
Net sales	99,347	93,927	795,991
% of overseas sales to net sales	88.4%	88.4%	88.4%

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

Independent Auditors' Report

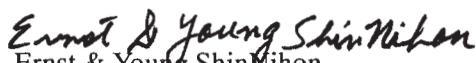
The Board of Directors
Mabuchi Motor Co., Ltd.

We have audited the accompanying consolidated balance sheets of Mabuchi Motor Co., Ltd. and consolidated subsidiaries as of December 31, 2004 and 2005, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Mabuchi Motor Co., Ltd. and consolidated subsidiaries at December 31, 2004 and 2005, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2005 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1(a) to the consolidated financial statements.


Ernst & Young Shin Nihon

March 30, 2006

BOARD OF DIRECTORS

As of March 30, 2006

Chairman Takaichi Mabuchi

President Shinji Kamei

Managing Director Nobuyo Habuchi

Directors Sun Zuei Che
Seiya Nakanishi
Yasuo Uehara
Shunroku Nishimura
Yoshinori Sugimoto

Statutory Auditors Kiyoshi Iwakura
Ichiro Ando
Yuzaburo Nagase
Toyokuni Yazaki

CORPORATE DIRECTORY

As of December 31, 2005

Consolidated Subsidiaries

MABUCHI INDUSTRY CO., LTD.
19 Sam Chuk Street, San Po Kong,
Kowloon, Hong Kong
Tel: 852-2328-5575
Fax: 852-2352-5266

MABUCHI TAIWAN CO., LTD.
No. 18, Chung Hwa Road,
Hsinchu Ind. District, Hsinchu, Taiwan
Tel: 886-3-598-1111
Fax: 886-3-598-6256

MABUCHI MOTOR TAIWAN LTD.
No. 66 Kaifa Road, N.E.P.Z.,
Kaohsiung, Taiwan
Tel: 886-7-362-1111
Fax: 886-7-361-9111

MABUCHI MOTOR DALIAN LTD.
No. 41 Harbin Road, Dalian Economic and
Technical Development Zone, 116600,
China
Tel: 86-411-8761-1111
Fax: 86-411-8761-2900

MABUCHI MOTOR WAFANGDIAN LTD.
Laohutun Town,
Wafangdian City, Liaoning Province,
116322, China
Tel: 86-411-8537-0241
Fax: 86-411-8537-0291

MABUCHI MOTOR (JIANGSU) CO., LTD.
No. 1 Liuxu Road,
Wujiang Economic Development Zone,
Jiangsu Province, 215200, China
Tel: 86-512-6345-1111
Fax: 86-512-6345-0438

**MABUCHI MOTOR
(MALAYSIA) SDN. BHD.***
Plot 15, Kanthan Industrial Estate,
31200 Chemor, Perak, Malaysia
Tel: 60-5-201-1888
Fax: 60-5-201-2288

MABUCHI MOTOR VIETNAM LTD.
No. 28, Bienhoa Industrial Zone 2,
Long Binh Ward, Bienhoa City,
Dongnai Province, Vietnam
Tel: 84-61-836711
Fax: 84-61-836712

MABUCHI MOTOR DANANG LTD.
Lot A2, No. 3 Street, Hoa Khanh Industrial
Zone, Lien Chieu Dist., Danang City,
Vietnam

**MABUCHI PRECISION INDUSTRIES
HONG KONG LTD.**
19 Sam Chuk Street, San Po Kong,
Kowloon, Hong Kong
Tel: 852-2328-5575
Fax: 852-2352-1008

**DONGGUAN MABUCHI MOTOR
EQUIPMENT CO., LTD.**
Guan Cheng Science & Technology Park,
Shilong Road, Guanlong Road's Section,
Dongguan City, Guangdong Province,
523119, China
Tel: 86-769-2225-6985
Fax: 86-769-2225-6984

MABUCHI MOTOR AMERICA CORP.
3001, West Big Beaver Road, Suite 520,
Troy, MI. 48084 U.S.A.
Tel: 1-248-816-3100
Fax: 1-248-816-3242

**MABUCHI MOTOR
(SINGAPORE) PTE. LTD.**
111, North Bridge Road, #12-05
Peninsula Plaza, Singapore 179098
Tel: 65-6339-9991
Fax: 65-6339-9091

MABUCHI MOTOR (EUROPE) GmbH
Herriotstrasse 1, D-60528
Frankfurt am Main, Germany
Tel: 49-69-6690220
Fax: 49-69-66902247

**MABUCHI MOTOR
(SHANGHAI) CO., LTD.**
Room 2001 Tower A, Shanghai City
Building, No. 100 Zunyi Road, Changning
District, Shanghai, 200051, China
Tel: 86-21-6237-1533
Fax: 86-21-6237-1933

* This company closed during the fiscal year
under review.

Non-consolidated Subsidiaries

MABUCHI REAL ESTATE CO., LTD.
MABUCHI MOTOR KOREA CO., LTD.

INVESTOR INFORMATION

As of March 31, 2006

Corporate Headquarters

MABUCHI MOTOR CO., LTD.

430 Matsuhidai, Matsudo-shi,
Chiba-ken 270-2280, Japan

Tel: 81-47-710-1111

Fax: 81-47-710-1141

<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

Ernst & Young Shin Nihon

Tokyo, Japan

Transfer Agent of Common Shares Handling Office

Mitsubishi UFJ Trust and Banking Corporation
Corporate Agency Department

4-5, Marunouchi 1-chome, Chiyoda-ku,

Tokyo 100-8212, Japan

Japanese Stock Exchange Listing

Tokyo Stock Exchange

MABUCHI MOTOR CO., LTD.

CORPORATE HEADQUARTERS

430 Matsuhidai, Matsudo-shi, Chiba-ken 270-2280, Japan

Tel. 81-47-710-1111 Fax. 81-47-710-1141 www.mabuchi-motor.co.jp



Printed in Japan