

Business Environment and Performance



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 Director
 President of THK (CHINA) CO., LTD.
 President of THK MANUFACTURING OF CHINA (LIAONING) CO., LTD.

Q What is the overall trend in the China market?

A The collapse of Lehman Brothers in autumn 2008 had a far-reaching impact on the global economy not to mention worldwide financial markets. Spilling over into both developed and developing nations, the effects of financial turmoil were seen even in China. As a result, THK's China business witnessed a sharp and persistent drop in orders from the second half of 2008. More recently, however, the overall strength of the Chinese market has fueled an extremely fast-paced recovery in orders, particularly when compared with developed countries. Building on the Company's record high results in the October to December quarter of 2009, THK has enjoyed a persistent upswing in performance during the January to March and April to June quarters of 2010. In specific terms, results have been supported by extremely robust capital investment in each of the electronics- and automotive-related sectors.

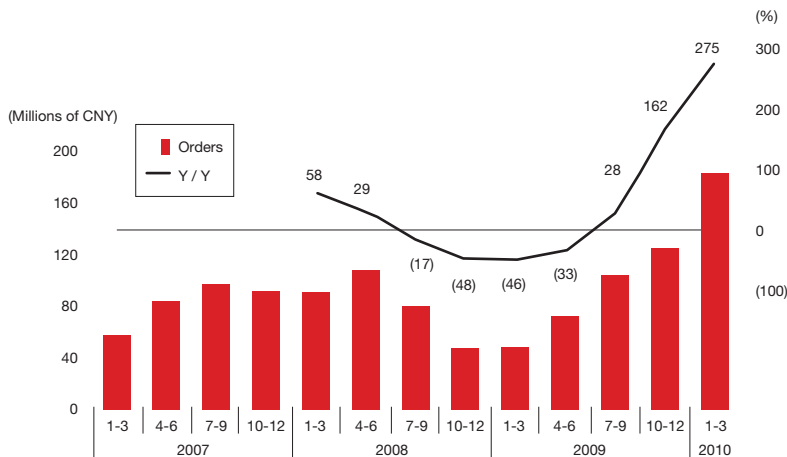
Extending its focus beyond traditional coastal regions, the Chinese government is implementing economic measures that encompass the north-east and inland areas. In its China business, THK is therefore experienced favorable conditions nationwide.

At more than four billion, Asia accounts for around 60% of the world's population with China the undisputed global leader at 1.3 billion. On this figure alone, China's potential spending power is enormous. On the other hand, with a shortage in the supply of labor at the production frontline, there is a growing sense that the trend toward automation is advancing. In the context of future business development in Asia including China, automation will undoubtedly provide an important key to growth.

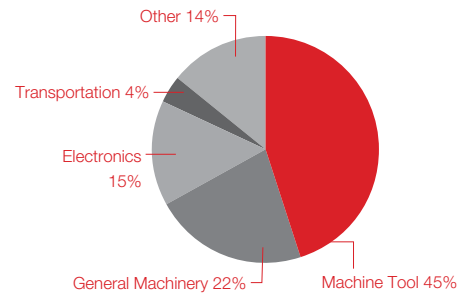
Q How has the Company performed in China to date?

A THK first entered the China market in the 1990s. We are confident that business has progressed positively to date. Recognizing the vast potential that the market offers, the Company worked in earnest to build an integrated production and sales structure from 2003. In this regard, THK continues to optimize production and sales by locating facilities and operations closer to centers of demand. Within its industry, the Company was first to adopt this philosophy and remains the only foreign company of its kind to maintain a local production base. Complementing this initiative and in an effort to foster closer ties with its customers, THK has sought to

Trends in THK CHINA's orders received



User breakdown of THK CHINA's sales (FY2009)





Naoki Kinoshita
President of THK (SHANGHAI) CO., LTD.

expand its sales bases in China. As a result of these endeavors, the Company has successfully secured a high market share in China. By placing the utmost importance on close-knit ties and the constant exchange of opinions between manufacturing and sales, THK has benefited from an integrated system that continues to successfully expand in tune with China market growth.

Q How do demand trends vary from industry to industry?

A Machine tools are currently driving the Company's growth in China, accounting for approximately 50% of total orders received. We have for some time delivered LM guides used in machine tools to major manufacturers in China. With application expanding both in new models and by new customers, product volumes are steadily increasing.

Positioned as a core national project, the Chinese government has in recent years identified the railway industry as a key area for development. On this basis, public authorities have announced plans to construct over 100 railway lines across 16 cities by 2020. Under these circumstances, demand for the Company's products, and particularly those for machine tools used in the processing of railway carriages and railway lines as well as the

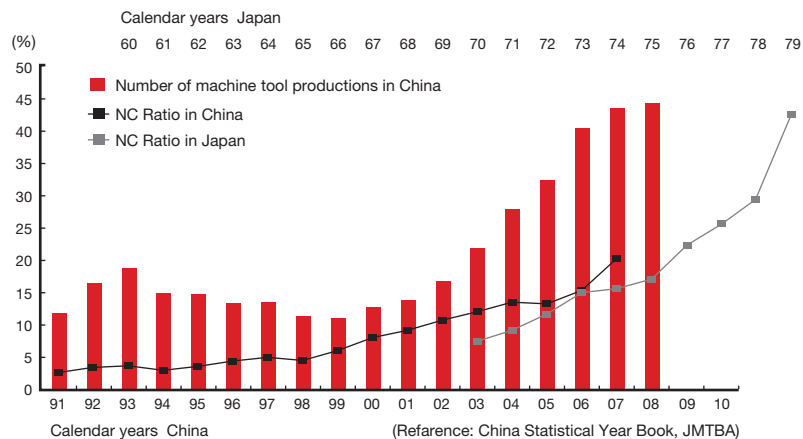
doors installed at station platforms, is expected to rise.

In addition, THK is projecting increased demand for its products used in the electronics field, which is forecast to enjoy the considerable support of the Chinese government at the national level.

Q What are the prospects for NC machine tools?

A Of the machine tools currently being manufactured in China, the proportion offering advanced numerical control (NC) stands at slightly more than 20%. While the number of NC machine tools produced has increased over the past two to three years, the ratio to total machine tools itself is not considered to have registered much growth. Based on the assumption that China will steadily shift toward high-end models, the ratio of NC machine tools to total machine tools is forecast to climb sharply over the next five to six years. With this anticipated trend toward NC machine tools, significant potential exists for substantial growth in demand for the Company's LM guides and ball screws, recognized as essential NC machine tool components.

Trends in machine tool unit production in China and the ratio of NC machine tools to total machine tools



Competitive Advantage

Q What is the Company's business structure-related competitive advantage?

A As mentioned previously, THK's competitive advantage in China stems from its integrated manufacturing and sales structure. In addition to an existing network of 19 sales bases, by providing direct to its customers a host of tailor-made services coupled with the manufacture of industrial equipment-related products from three production facilities located in China as well as transportation equipment-related products at THK RHYTHM GUANGZHOU CO., LTD., THK has built a structure that is capable of supplying a wide range of products in a timely fashion.

Taking into consideration future trends in the market and in an effort to better develop products that address local needs, THK established a research and development division in China in April 2010. Through these means, we are building an unassailable structure and system in China.

Q What are the Company's competitive advantages in sales?

A As a pioneer in the development of business in China, we have had the opportunity and distinct advantage to recruit and nurture over many years local staff. Considerable time and effort is required when developing human resources. The fact that the Company was among the first to enter the market has been and remains a major benefit.

The very fact that these human resources are currently working as sales staff in each of our offices in China, providing tailor-made and detailed services, is a major reason for customers also positioning THK as the preferred supplier of choice in the China market. As calls from customers seeking to manufacture quality products increases with each passing year, we plan to reinforce our emphasis on THK's proposal capabilities moving forward. The purpose of our human resource development endeavors is therefore far removed from the simplistic aim of promoting sales. As we go about our daily education and training activities, our goal is to both address the needs of our customers and to provide marketing proposals unique to THK.

Q What are the Company's competitive advantages in production?

A In order to manufacture high-quality products, we are introducing to the China market high performance equipment. Every effort is being made to ensure that the THK brand remains synonymous with the highest global standards.

Currently, at this time of sharp order growth, we are reaping the benefits of volume production by unflinchingly addressing this robust demand. Looking ahead, THK will expand its production capacity, while effectively applying its existing facilities. In this manner, we plan to further lift the efficiency of our investments.

Production bases in China



THA MANUFACTURING OF CHINA (WUXI) CO., LTD.



THK MANUFACTURING OF CHINA (LIAONING) CO., LTD.



DALIAN THK CO., LTD.



THK RHYTHM GUANGZHOU CO., LTD.

Initiatives Moving Forward

Q What targets and measures have been identified for the medium-to-long term?

A As a Group, THK has set a consolidated net sales target of ¥300 billion. Our aim is to take full advantage of projected high rates of growth throughout Asia, which we recognize will play an important role in our achieving established targets. To this end, the Group is committed to bolstering its integrated manufacturing and sales structure in the Asia region focusing on China.

As an initial step, the THK Group will draw on its local production capabilities to deliver cost competitive products of the highest global standard. To achieve this objective, we will actively diversify material procurement channels while at the same time enhancing onsite production skills. Through these means, the THK Group will work toward increasing productivity.

From the sales and marketing perspectives, we will upgrade and expand our sales bases. Currently, the Group maintains a network of 19 bases. At the earliest possible opportunity we plan to raise increase our network to 30 bases and to again this figure to 60 bases by 2014. Complementing this initiative, we will strengthen relationships with leading sales agents in an effort to develop business deeply rooted in the region.

Through the Future Automotive Industry (FAI) Division, the THK Group is expanding its activities mainly in transportation-use machinery and equipment-related businesses. Looking ahead, we will coordinate with the FAI Division to actively pursue business in the automobile industry throughout the Asia region.

Strengthening the manufacturing and sales structure in China

- Sales office
- Sales office scheduled for establishment

(Established by May 2010)

Q What are your initiatives for fiscal 2010?

A Based on the Group's medium- to long-term strategies, THK will take concrete steps to implement its established measures during fiscal 2010. Key features of these measures include efforts to upgrade and expand our sales network and to boost our endeavors in human resource education and training. In specific terms, we plan to establish approximately 10 new sales bases over the next year. From a human resource development perspective, sales and marketing staff have been dispatched from Japan to make joint marketing calls with local sales personnel. In this manner, we are placing considerable emphasis on raising the skills of onsite employees at each location.

In addition, the Company established a research and development division within its head office in China in 2010. Encompassing both production and sales, we plan to hone our technological capabilities with the aim of providing high value-added products.

Buffeted by the slump in the global economy, the THK Group experienced a period of harsh operating conditions throughout 2009. Despite these difficulties, our determined efforts are now clearly bearing fruit. China is today undergoing change at a dizzying pace. Clothing trends are evolving rapidly and the number and quality of public facilities is gathering considerable momentum. Staff dispatched from Japan are experiencing firsthand the remarkable and significant growth potential of Asia and particularly China. The local working populace clearly recognizes this outstanding potential and continues to carry out their duties with immense pride. Working in unison, all THK Group employees in China will move resolutely forward to achieve established targets.

