



Our preparations *for*  
**GROWTH**  
*are* **NOW**  
*producing* **GROWTH**

**Why?**

ACCRETECH  
ACCRETECH  
ACCRETECH

Annual Report 2006

TOKYO SEIMITSU CO., LTD.

*Creating number-one products rooted in “WIN-WIN” relationships drives innovation and growth at Tokyo Seimitsu. Virtually all our products incorporate exclusive concepts and features—whether manufacturing and testing equipment for the semiconductor industry, or precision measuring systems for the automobile, machine tools and other industries. Guided by the “Strategic Principles for Our R&D” (see page 18), we have an entrepreneurial corporate culture that encourages people to be creative and aim for high goals. This process is now generating concrete benefits. Sales of major products introduced in recent years to target new market sectors are gaining momentum. Innovations and improvements in Established Product Lines also set us apart from competitors. Together, these strengths give us an increasingly powerful product lineup and profit structure.*

## THE COMPANY

*Tokyo Seimitsu products bear the ACCRETECH brand, the combination of the words “accrete” and “technology.” This brand embodies our desire to accumulate technology needed to create number-one products and to continue growing by devising solutions for the most difficult challenges faced by our customers.*

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#### CAUTIONARY STATEMENTS WITH RESPECT TO FORWARD-LOOKING STATEMENTS:

Statements made in this annual report with respect to Tokyo Seimitsu’s plans and benefits as well as other statements that are not historical facts are forward-looking statements, which involve risks and uncertainties. Potential risks and uncertainties include, without limitation, general economic conditions in Tokyo Seimitsu’s markets, exchange rates, and Tokyo Seimitsu’s ability to continue to win customers’ acceptance of its products, which are offered in highly competitive markets characterized by continual new product introductions and rapid developments in technology.

## FINANCIAL HIGHLIGHTS

Tokyo Seimitsu Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars	% change
	2005	2006	2006	
<b>For the year:</b>				
Net sales	¥ 84,750	¥ <b>92,845</b>	<b>\$790,373</b>	9.6%
Semiconductor manufacturing equipment	66,669	<b>71,824</b>	<b>611,432</b>	7.7
Measuring systems	18,081	<b>21,020</b>	<b>178,941</b>	16.3
Operating income	13,051	<b>13,991</b>	<b>119,109</b>	7.2
Income before income taxes and minority interests	6,401	<b>7,865</b>	<b>66,959</b>	22.9
Net income	4,459	<b>3,125</b>	<b>26,606</b>	(29.9)
Capital expenditures	3,771	<b>3,978</b>	<b>33,867</b>	5.5
Depreciation and amortization	2,732	<b>2,768</b>	<b>23,567</b>	1.3
Research & development expenses	6,300	<b>7,919</b>	<b>67,421</b>	25.7
Semiconductor manufacturing equipment	5,755	<b>7,296</b>	<b>62,114</b>	26.8
Measuring systems	545	<b>623</b>	<b>5,306</b>	14.3
<b>At year-end:</b>				
Total assets	¥100,993	¥ <b>109,875</b>	<b>\$935,350</b>	8.8%
Total shareholders' equity	33,003	<b>46,703</b>	<b>397,576</b>	41.5
		Yen	U.S. dollars	% change
<b>Per share data (yen and dollars):</b>				
Net income — basic	¥ 118.82	¥ <b>80.77</b>	<b>\$ 0.68</b>	(32.0)%
Cash dividends, applicable to earnings of the year	30.00	<b>40.00</b>	<b>0.34</b>	33.3

Note: The U.S. dollar amounts are translated for convenience only at the rate of ¥117.47 to U.S.\$1, the exchange rate prevailing on March 31, 2006.

## TO OUR SHAREHOLDERS

*Setting in motion the “AA60” Plan to accelerate growth following another year of record performance backed by New and Established Product Lines*



Innovation continued to drive growth at Tokyo Seimitsu in the past fiscal year. Our sales rose to another new record and earnings were strong. More than in any other year, we proved the effectiveness of the “Strategic Principles of Our R&D.”

True to our principles, we have kept our R&D investments consistently high in recent years, regardless of fluctuations in our operating results. Most significantly, these investments have produced several major products that took us into entirely new market sectors. Last year, these products made the biggest-yet contribution to our growth. Thanks to our commitment to R&D, we are positioned to dominate several new sectors of the semiconductor manufacturing and testing equipment market. Our

strategic principles are also a key factor behind the strong sales of our measuring systems.

The past year was also a time to look ahead. To provide a roadmap with concrete goals, we have established the “AA (ACCRETECH Action) 60” Medium-Term Business Plan (see page 4), which ends in March 2009. I know this company very well. I have worked here for 40 years in both our semiconductor manufacturing equipment and measuring systems operations. But the process of creating this plan gave me new insights into our strengths and how they should be used. I have never been more confident about our future than I am today.

Tokyo Seimitsu has always been a company that maps out its own course. That’s how we serve our

customers and build shareholder value. Only an organization like ours could have created a machine like the Polish Grinder (see page 11). Only an organization like ours can devote so much of its energy to the goal of creating number-one products—and then actually achieve that goal. I am proud to lead a company that has this reputation for creative thinking. I pledge to continue to encourage this culture of innovation and big dreams to take Tokyo Seimitsu to the next stage of its development.

June 2006

A handwritten signature in black ink, reading "S. Suzuki". The signature is stylized and written in a cursive-like font.

Sadakatsu Suzuki  
President, CEO & COO

## A DISCUSSION WITH THE PRESIDENT



# What's

## Ahead for Tokyo Seimitsu After a Strong Performance?

### WHY DID TOKYO SEIMITSU PERFORM SO WELL IN THE FISCAL YEAR THAT ENDED IN MARCH 2006?

All of our operations performed very well. The Semiconductor and Metrology Business sales both set new records and topped our projections.

In the Semiconductor Business, the point I want to stress most of all is the strength in both our Established Product Lines (Wafer Probing Machines, Wafer Dicing Machines and other products) and New Product Lines (Wafer Inspection Machines, Polish Grinders and CMPs). In particular, New Product Lines position us to grow faster than the semiconductor production machinery industry by targeting the fastest-growing categories. Collectively, sales of New Product Lines were up 20%. Leading this growth were Polish Grinders, which we started selling in fiscal 2001. This is a market category we dominate. Established Product Lines also contribute to growth. Even though we have long dominated the market for Wafer Probing Machines, which we have been selling for over 40 years, the past fiscal year was one of our best ever in this large and growing market. So it was a year when we reaffirmed existing strengths and made progress in establishing new ones.

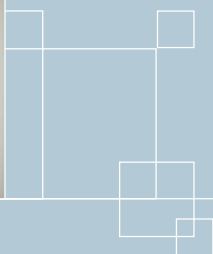
In the Metrology Business, sales and earnings rose for the fourth consecutive year. Orders, sales and operating income have all recorded new highs for three consecutive years. We did well here because we capitalized on strong

capital expenditures in the automobile and machine tool industries in Japan. We were ready for this demand with a line of instruments that precisely targeted requirements for more efficiency, precision and reliability. Our new metrology factory, finished last year, played a big part in the outstanding performance of this business.

Net income was down slightly due to extraordinary losses of ¥6,281 million booked in FY2006 in order to improve the financial structure and strengthen future revenue base. These losses mainly represent inventory appraisal and disposal losses (old models of semiconductor manufacturing equipment) and losses on the write-off of fixed assets and cancellation of leases involving LEEPL (Low Energy E-beam Proximity projection Lithography system). With these actions completed, we have a sound financial base for working toward our future goals.

### DO YOU EXPECT ANOTHER RECORD PERFORMANCE IN THE CURRENT FISCAL YEAR?

We expect sales to increase to ¥102 billion, backed by growth in both the Semiconductor Business and Metrology Business. The Semiconductor Equipment Association of Japan is forecasting 8% growth in orders in the industry as a whole. But we expect even higher growth for our Semiconductor and Metrology Businesses based on the outlook for consistently favorable market conditions. More semiconductors are needed for PCs, mobile phones,



digital consumer electronics, car and many other products. Additionally, the automobile and machine tool industries are expected to continue making large capital investments. Although our sales as a whole will probably increase substantially, exports will decline as a share of Semiconductor Business sales because of strong semiconductor-related capital expenditures in Japan.

A change in how we recognize sales will bring down reported sales in the year ending in March 2007 by about ¥2 billion. Starting in April 2006, we are recording sales of Polish Grinders, Wafer Inspection Machines and CMPs, which are our New Product Lines, when installation is completed. Previously we posted sales when equipment was shipped. We made this change because of the rising percentage of sales from these New Product Lines, which require a considerably longer time between shipment and installation.

<b>"AA60" (ACCURETECH ACTION 60)</b>	
<b>Sales:</b>	125 billion yen
Semiconductor Business	100 billion yen
Metrology Business	25 billion yen
<b>Operating Income:</b>	25%
<b>Target Year:</b>	Fiscal 2009, ending March 2009, the 60th Anniversary

## PLEASE OUTLINE THE OBJECTIVES OF "AA60," YOUR NEW MEDIUM-TERM BUSINESS PLAN LAUNCHED LAST APRIL, AND HOW THIS PLAN WAS FORMULATED.

"AA60" is the product of extensive discussions and studies from realistic viewpoints. The "AA" stands for "ACCURETECH Action." Sixty signifies our 60th anniversary, which is March 2009 when the plan will end.

The goal for the final year of the plan is sales of ¥125 billion, with ¥100 billion from the Semiconductor Business and ¥25 billion from the Metrology Business. We also plan to raise the operating margin from 15.1% in the past fiscal year to 25%. These goals are well within our reach if we execute our plans properly. The outlook for semiconductor demand is bright. The final year of "AA60" coincides with the 2008 Summer Olympics, an event that will create a surge in demand for semiconductors. Furthermore, Japanese auto makers have announced aggressive capital spending plans for the next several years. That means demand for our measuring systems should be strong.

The keys to achieving our goals will be growth in our New Product Lines and the introduction of new products in our Established Product Lines. Our activities will remain firmly rooted in the "Strategic Principles for Our R&D," which have guided this company for almost a decade. Every ACCURETECH product was developed using cutting-edge technologies that specifically target market categories with



P r e s i d e n t , C E O &amp; C O O

## Interview: Sadakatsu Suzuki

excellent prospects for growth and high profit margins. Due to the nature of the cost structure, profit margins are likely to rise significantly once these products reach a certain sales volume. Established products will also drive sales growth. We will constantly enhance specifications while relentlessly cutting costs to make these products even more appealing. Of course, cost-cutting actions will cover New Product Lines and corporate expenses, too. Also financial initiatives were moved up and completed, enabling us to adopt our current aggressive stance. So I think our operating margin goal is not at all unreasonable. Managers of our business units have all made commitments to fulfill their respective goals. Overall, I am extremely confident that we can reach the “AA60” goals.

### WHAT SORT OF COMPANY DO YOU ENVISION TOKYO SEIMITSU BECOMING UNDER YOUR LEADERSHIP?

My ultimate objective is to build a base that can sustain long-term growth. Driving this growth will be technologies that target the most promising markets and a corporate culture of welcoming the opportunity to tackle new challenges. Successfully executing the “AA60” plan will bring us much closer to this goal.

Since I became CEO, I have devoted much time to thinking about how to manage Tokyo Seimitsu to achieve long-term growth. I also discussed this subject with the

members of every product group. “AA60” is the result of this process. Putting this plan together provided valuable opportunities to take a fresh look at the characteristics that define this company.

During this process, my confidence in our numerous strengths was reaffirmed. The “Strategic Principles for Our R&D” is undoubtedly our greatest strength. We have developed many products that took us into new market categories. Products like our Polish Grinder, which created an entirely new market, are most effective at generating high returns on our investments. That’s why we are now focusing on the development of more products like the Polish Grinder. Establishing new markets means that we will face no competition. We can quickly become the de facto standard in such categories even as we limit our investment to hold down risks. And the resulting market leadership will allow us to sustain high profit margins.

Developing these kinds of products is extremely difficult. But Tokyo Seimitsu has a tradition of taking on daunting challenges. We have the technological resources and corporate culture needed to accomplish feats that other companies cannot match. These qualities are at the heart of our ability to compete successfully.

So too is a workforce that thrives on identifying problems and devising solutions. Business activities move much faster as a result. Since we use teams to develop and manufacture products, we have an organization that



emphasizes teamwork. Because of this, we have solid lines of communication linking all team members irrespective of nationality, age and other factors.

Equally important is communication with customers. That's why our engineers frequently visit customers all over the world during the development process. Feedback is directly incorporated in new products as they are still being designed. This process is critical to our ability to create highly appealing products on relatively short schedules. "WIN-WIN" relationships are another reason we can develop products so quickly. These relationships also reduce the investment of each partner.

#### **WHAT ASPECTS OF OPERATIONS DO YOU VIEW AS BEING MOST IMPORTANT WITH RESPECT TO SHAREHOLDER VALUE?**

We believe that raising earnings per share is a highly effective means of building value. Successful completion of "AA60" will raise earnings per share to about ¥470 in the fiscal year ending in March 2009.

Dividends are also important. Our policy is to maintain a payout ratio of 20%. We raised the dividend to ¥40 for the past fiscal year and are planning a ¥50 dividend in the current fiscal year. So we intend to reward shareholders through the constant growth of our businesses along with dividend increases in line with this growth.

Most of our shareholders selected Tokyo Seimitsu because of our long-term growth prospects. R&D has been crucial to this. We have long maintained a high level of these expenditures regardless of fluctuations in sales and earnings. Without this policy, we would never have developed our Wafer Inspection Machine, Polish Grinder, CMP and other new products that are capable of dominating their target markets. R&D will undoubtedly play an even bigger role in our growth in the future. Our investments will continue to target opportunities in promising markets for creating the world's number-one products. I want shareholders to fully understand our goals and how we intend to reach them. I also want to show our shareholders that our highly aggressive R&D program is generating greater value for them. I regard these two items as my central mission as president of Tokyo Seimitsu.

# MESSAGE FROM PRINCIPAL ADVISER HIDEO OHTSUBO

## ON THE DOORSTEP OF A NEW ERA

### 18 Years at Tokyo Seimitsu

I retired as chairman of Tokyo Seimitsu in December 2005. Since 1988, I have had the honor of serving as an executive at this company. During this time, I saw Tokyo Seimitsu become a much different company than it was 18 years ago.

In 1988, our performance was volatile because sales and earnings closely tracked the ups and downs of the silicon cycle. At that time, I strongly believed that our survival hinged on the ability to use the world's number-one technologies to develop the world's number-one products. That's because number-one products will always be in demand, even during market downturns. Anything less is pointless. This heralded the beginning of our relentless pursuit of number-one market positions.

### Conceiving and Supplying Number-one Products

The first step in the transformation of Tokyo Seimitsu was the announcement of the "Strategic Principles for Our R&D." These principles, which set clear guidelines for the development of powerful products, still guide us today. Supporting this stance was an organization based on the group leader system. We further strengthened our organization in 2002 by forming in-house companies. Our aim was to make each business more powerful and self-reliant.

Another step in our drive to become a number-one company with number-one products came in 2001 when we unveiled a new corporate brand: ACCRETECH, which combines the words "accrete" and "technology." At the same time, we stepped up efforts to acquire the world's most advanced technologies and recruit highly talented engineers. Over the years, our commitment to R&D was constant irrespective of



fluctuations in sales and earnings. The result was many New Product Lines and machines that showed the world the excellence of our technologies. Benefits have become increasingly apparent. Most significant is the rapid increase in sales and earnings from major new products launched in recent years.

### In Good Hands

The new senior management team of Tokyo Seimitsu is made up of experienced executives. They have spent many years here working on the organizational and cultural changes needed to pursue our goal of being number one in the world. All carry on a spirit that has long defined this company—taking on seemingly insurmountable challenges. I have complete confidence in their ability to take this company to even greater heights. We will continue to sustain growth through the accretion of technology in true ACCRETECH style.

June 2006

Hideo Ohtsubo  
Principal Adviser

## REVIEW OF OPERATIONS

# SEMICONDUCTOR MANUFACTURING EQUIPMENT



**Dr. EIJI NAGASAWA**

Executive Vice President  
President and COO of the Semiconductor Company

### **OVERVIEW OF FISCAL 2006 (ENDED MARCH 2006)**

Most industry observers were predicting flat to slightly lower global output of semiconductors in fiscal 2006 in the wake of the high growth rate posted in the prior fiscal year. The forecast turned out to be off target as output increased again. Fueling demand was strong sales of LCD and PDP televisions and digital consumer products like MP3 audio players. Personal computer and mobile phone sales were also high. This translated into solid demand for semiconductor manufacturing equipment. However, total investments in this equipment were lower in fiscal 2006 compared with fiscal 2005, a year when global equipment sales increased by well over 50%.

The Semiconductor Business achieved a 19.4% increase in orders to ¥77,874 million and a 7.7% increase in

net sales to ¥71,824 million. Both figures are all-time highs. Although orders were down slightly as the year began, we achieved our fourth consecutive year of high sales growth by combining a powerful product lineup with sales activities that precisely targeted user needs. Sales growth was especially strong in the fiscal year's second half. New Product Lines to enter new market categories continued to perform well, rising from 26% to 29% of total semiconductor manufacturing equipment sales.

Earnings benefited from the growth in sales along with reductions in fixed expenses and a decline in variable expenses resulting from a decline in outsourced production activities. However, profit margins were pressured by price competition and R&D expenses. The net result was a 2.1% increase in operating income to ¥8,972 million.

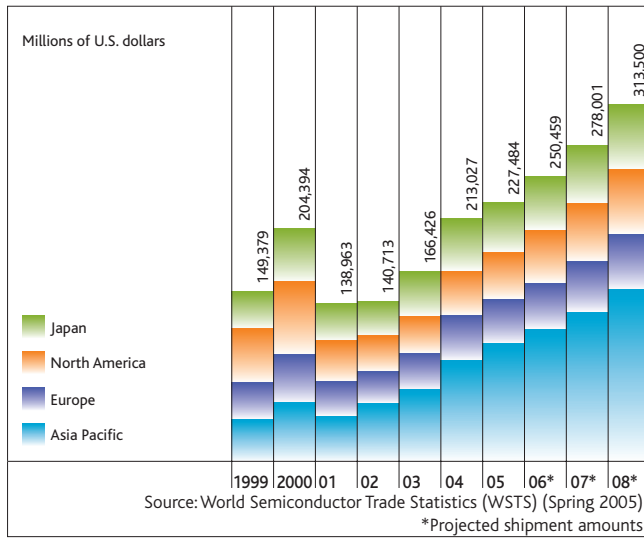
### **WAFER PROBING MACHINES (PROBERS)**

As the fiscal year began, we were forecasting a downturn in Prober sales because semiconductor manufacturers were cutting back on capital expenditures. As the year progressed, though, market conditions staged a dramatic turnaround. Demand for devices was strong, particularly for D-RAMs, NAND Flash memories and LCD drivers. The rising need to full test all devices at the wafer level further raised orders for Probers. Backed by a big upswing in demand for the "UF3000" Prober for 300mm wafer, we further solidified our position as the world's number-one supplier of Probers by increasing our market share in the 300mm wafer Probers.

The "UF3000" is our third generation Prober for 300mm wafers. This machine can handle all types of

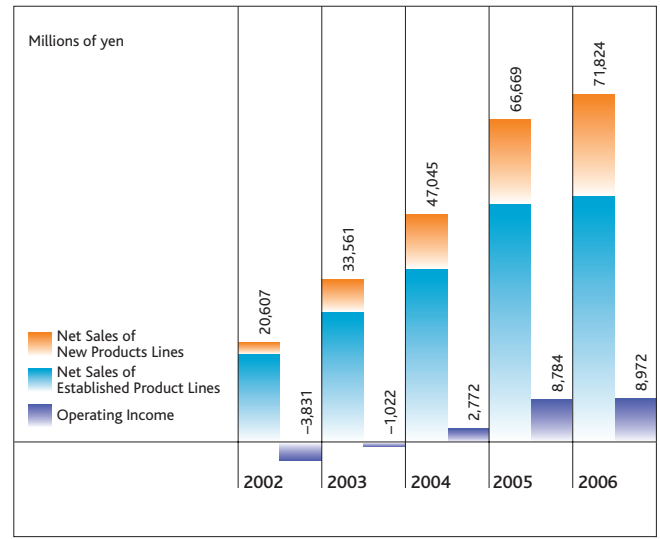
## PRODUCTION OF SEMICONDUCTORS

(Years ended December 31)



## SEMICONDUCTOR BUSINESS NET SALES / OPERATING INCOME

(Years ended March 31)



devices, ranging from memory chips to LSIs. Growth in orders during the past fiscal year is proof of the outstanding reputation these Probers have earned for applications where nothing except the highest level of performance is acceptable. Tokyo Seimitsu Probers received a "10 Best" award in the material handling category in a VLSI Research Inc. customer satisfaction survey for the eleventh consecutive year. Furthermore, we ranked third, higher than any other Prober manufacturer. We also worked on meeting rising demand for 200mm wafer Probers, particularly in Taiwan. One significant event in 2005 was the introduction of the "UF2000," which features outstanding overall accuracy of plus/minus 1.5 micrometer and high rigidity along with high throughput.

All signs point to more growth in demand for Probers. More tests are

needed as semiconductor devices become more complex and design nodes become more advanced. Moreover, rising circuit densities mean that tests take more time. There is also a growing need to identify defective chips at an earlier stage of production to boost efficiency. To do this, manufacturers perform tests when devices are still on wafers, rather than only when the devices are ready for shipment. Collectively, these trends are raising Prober demand faster than in other categories of semiconductor manufacturing equipment. As the world leader in this market, we capitalized on these opportunities to further raise our market share. The result was fiscal year Prober sales that exceeded the previous record set in the fiscal year that ended in March 2001.

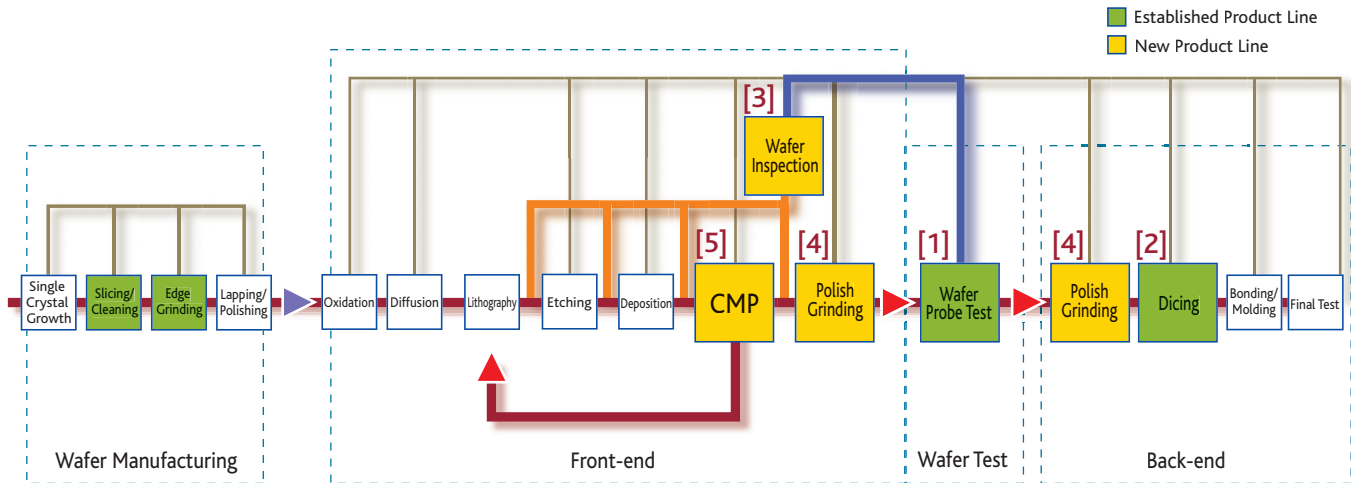
We aim to use favorable market conditions to capture more market

share in fiscal 2007 and post another year of robust growth in orders and sales. In the fiscal year, we expect to set a record for Prober sales for the second consecutive year. Orders remain strong for Probers to test memory chips and LCD drivers. We also foresee healthy demand for the testing of LSI logic devices. Earnings are likely to benefit from growth in sales and the internal production ratio and improvements to production systems. We therefore expect to see a further rise in profit margins.

### WAFER DICING MACHINES (DICERS)

Dicer results were held back by several factors. One was a delay in the rebound in orders relative to Probers, pushing the recovery in sales to the second half of fiscal 2006. Another was that few new models were introduced during

## SEMICONDUCTOR MANUFACTURING PROCESS



fiscal 2006. On the positive side, the Laser Dicer “MAHOHDICING MACHINE” recorded sharply higher orders and sales as more customers recognized its outstanding performance. Tokyo Seimitsu received a “10 Best” award for customer satisfaction in the assembly category for the fifth consecutive year by earning a first-place ranking in the past year.

In December 2005, we unveiled the “A-WD-300TX,” a Blade Dicer for 300mm wafers that features an 80,000rpm spindle rotation speed. This machine raises throughput and enhances cutting quality. We began accepting orders for this model in April 2006.

Sales of the Laser Dicer “MAHOHDICING MACHINE” doubled in fiscal 2006, a performance that was generally in line with our plans. Developed jointly with Hamamatsu Photonics K.K., this revolutionary machine cuts wafers by using

an innovative laser instead of a blade. That makes it possible to dice even extremely thin wafers without causing any damage. Dry operation is another advantage. No silicon dust is generated during cutting, so there is no need to use water when dicing. Furthermore, dicing can be four times faster than with conventional blade machines, and there is no kerf loss that occurs with blade dicing, which means more chips per wafer. All in all, this machine is in a class of its own. Other so-called laser dicers use completely different technologies and systems.

The first major markets for this machine were for the precision dicing of MEMS (Micro Electro Mechanical Systems), which should not be exposed to water, and C-MOS and CCD image sensing devices, where contaminants must be avoided. The laser dicer, which uses no water and cuts cleanly

with no contaminants, is ideal for both applications. We foresee many sources of growth in sales of this machine in fiscal 2007 as repeat orders climb, more companies begin manufacturing products using thin wafers and the production of discrete LEDs increases.

The growth potential of the laser dicing market coupled with the positive market response generated by the high-performance “A-WD-300TX” indicate that dicer sales will rise to a record high in fiscal 2007.

### WAFER INSPECTION MACHINES

Sales of these machines remained solid in fiscal 2006 as there were a number of significant accomplishments. For example, we received more orders for a number of these machines from a Japanese semiconductor manufacturer. Orders from new customers in Asia

**[1] Wafer Probing Machine [UF3000]**

Essential to ensuring the quality of semiconductor devices, Wafer Probing Machines perform electrical tests of every chip on a wafer.

**[2] Wafer Dicing Machine [A-WD-300TX]**

Wafer Dicing Machines (Blade Dicing Machines) cut wafers into individual semiconductor chips with blades.

further demonstrated the value of these machines. Recognition like this from prominent manufacturers is vital to achieving more widespread use of these machines at a faster pace.

Taking this category to an even higher level, we introduced the "WIN-WIN 50 Model 1600" in 2006. The most advanced member of the "WIN-WIN 50" series, this machine boasts superior sensitivity to locate critical defects as well as higher throughput to boost wafer fab productivity. We engineered this unit specifically for semiconductor devices with a 65nm design node. All members of the "WIN-WIN 50" series feature a confocal microscope jointly developed with Carl Zeiss to achieve superior resolution. This meets the demands of manufacturers for the detection of even tinier defects as semiconductor design rules continue to advance.

In fiscal 2007, we are aiming for higher sales by taking advantage of our diverse lineup of Wafer Inspection Machines, led by the incomparable "WIN-WIN 50 Model 1600." With design nodes below 90nm, demand for high-sensitivity inspection machines will certainly climb. Detecting defects is more important than ever, particularly after the lithography process. Our machines are ideally suited to meeting these exacting inspection requirements.

For R&D applications, we also offer the "HA-3000," which was developed with Hitachi High-Technologies Corporation. This machine has higher sensitivity that makes it ideal for R&D facilities. Overall, we are well positioned to serve more customers as advancing design rules and rising circuit densities create greater demand for the detection of fatal defects in semiconductor chips.

**POLISH GRINDERS**

An exclusive Tokyo Seimitsu product, Polish Grinders make wafers thinner while simultaneously removing damaged layers caused by the mechanical back grinding process. Having created the de facto standard for these polish grinders, we have an overwhelming share of the market for making thin wafers. Stacking thin semiconductor devices is essential to saving space in cell phones and other portable devices. But thin wafers are extremely delicate. We solved this problem by engineering a machine that makes wafers thinner and defect free while also performing wafer handling to prevent damage during transport from one step to another. Our best-seller is the "PG300RM," which can perform four functions, thus meeting the current trend toward using a single machine to perform primary and peripheral

### [3] Laser Dicing Machine [MAHOHDICING MACHINE]



With a laser instead of a blade, this Laser Dicing Machine dices wafers at a high speed in completely dry process.

### [4] Wafer Inspection Machine [WIN-WIN 50 Model 1600]



Wafer Inspection Machines detect pattern defects, contaminants and other problems on wafer surfaces, a task vital to raising production yields.

processes. Our Polish Grinders are well suited for 3D mounting techniques such as Stuck-die, PoP (Package on Package) and PiP (Package in a Package). All three of these technologies are critical to the production of finished products like cell phones, digital cameras, and MP3 audio players and other portable devices.

In fiscal 2006, Polish Grinder sales were up significantly, following a large increase in the prior fiscal year. Propelling growth were orders from wafer fabs in China, Taiwan and Southeast Asia. Previously, the majority of Polish Grinders were sold in South Korea. There was also big increase in orders for Polish Grinders used to make NAND Flash devices as the assembly of these devices took place in more countries. As this growth took place, our "PG300" series of Polish Grinders for 300mm wafers achieved dramatic

growth in orders and sales, becoming one of the major contributors to consolidated sales.

Although sales slowed somewhat in the second half of fiscal 2006 due to softening demand in some regions, we expect to see a recovery in key markets by the summer of 2006. We also foresee higher sales in other regions. These trends indicate that we will achieve another substantial increase in Polish Grinder sales in fiscal 2007.

#### **CMPs**

Our CMPs have a proven ability to deliver high operating rates, reliability and outstanding planarization quality especially on 300mm copper-process lines. Tokyo Seimitsu's CMPs feature an exclusive air-float head that maintains stable pressure control on the wafer and retainer ring independently

even at low pressures.

CMPs are one of key tools for device process integration. These machines are used mainly for the planarization of dielectric layers and/or metal layers in the front-end processes. Therefore, the rising production volume of multi-interconnect logic devices and the increasing number of interconnect layers in these devices are positive trends for the CMP market. Particularly noteworthy is the rising production of semiconductor devices with copper multi-interconnection, a trend that is certain to boost demand for CMPs.

Our highest priority in fiscal 2006 was building a solid base for the CMP business. We focused on refining specifications and providing manufacturers with trial machines to demonstrate their excellent performance. These activities have been generating sales as expected, setting the stage for full-scale growth in

**[5] Polish Grinder [PG300RM]**

Polish Grinders simultaneously grind wafer backs and remove damage. In addition to these basic functions, they offer various applications for peripheral processes in one system.

**[6] CMP [ChaMP-332M]**

CMPs remove unevenness on wafer surfaces that occurs during production processes. Applications are growing due to the increasing number of layers in semiconductor devices and growing variety of wiring materials.

fiscal 2007. We have introduced a new model, the "ChaMP-332M," that gives us another means of capturing orders. Through this growth, we intend to make the CMP business profitable in the second half of fiscal 2007.

#### **PROGRESS TOWARD THE GOALS OF OUR MEDIUM-TERM BUSINESS PLAN**

Under the "AA60" Medium-Term Business Plan that began in April 2006, our Semiconductor Company is aiming to raise its sales to more than ¥100 billion and achieve an operating margin of at least 25% by the fiscal year ending in March 2009. To reach these goals, the Semiconductor Business is pursuing several core strategies.

We have two strategies for developing new products. First is to steadily increase our market share by developing more highly distinctive models in all product categories. Second is to

develop new products in order to expand the product portfolio of New Product Lines with which we can become the market leader. This will require making products that can create markets. Our plan is to benefit from two key technological trends: the steady advancement of design nodes for semiconductors and the increasing complexity of semiconductor testing and packaging.

There are also two manufacturing strategies. First is to boost earnings by using innovative thinking to raise productivity and cut costs. Second is to make investments in production facilities to support the projected growth in sales. Along with these actions, we will structure our manufacturing bases to be even leaner and more flexible in order to help keep our operations profitable even during market downturns.

The objective is to drive growth

through both Established Product Lines and new ones. Our main goal for Established Product Lines are to improve profit margins by capturing more market share as we continue to cut costs. For New Product Lines, our priority is sales growth to establish number-one market positions and benefit from economies of scale. Of course, we will constantly work on cutting costs here, too.

# MEASURING SYSTEMS



**KAZUO FUJIMORI**

Executive Vice President  
President and COO of the Metrology Company

## **OVERVIEW OF FISCAL 2006 (ENDED MARCH 2006)**

The market for measuring instruments remained strong in fiscal 2006 due to a high level of investments by companies in the automobile and machine tools industries. In the automobile industry, several trends are supporting demand. First is the constant need to raise the precision of components to achieve further gains in vehicle quality. Second is the global growth in automobile production, which is steadily raising demand for measuring instruments at auto makers and their suppliers. Growing needs concerning precision auto body measurements are another source of demand.

The Metrology Business posted a 19.1% increase in orders to ¥21,683 million and a 16.3% increase in sales to ¥21,020 million, both record highs. Operating income rose 17.6% to an

all-time high of ¥5,019 million as more progress was made in cutting manufacturing expenses, such as by increasing internal manufacturing. Playing a central role in this growth was the new factory. Completed in 2005, this facility came on line with perfect timing to fill orders resulting from Japan's high volume of capital expenditures in the manufacturing sector.

In the second half of the fiscal year, there was a broad-based upturn in demand for measuring systems due to strong capital expenditures in the core automobile market as well as in other sectors, notably flat-panel displays and other consumer electronic products and semiconductor manufacturing equipment. The broader scope of the market is generating more orders from makers of machine tools, bearings, electrical machinery, semiconductors and precision devices. As a

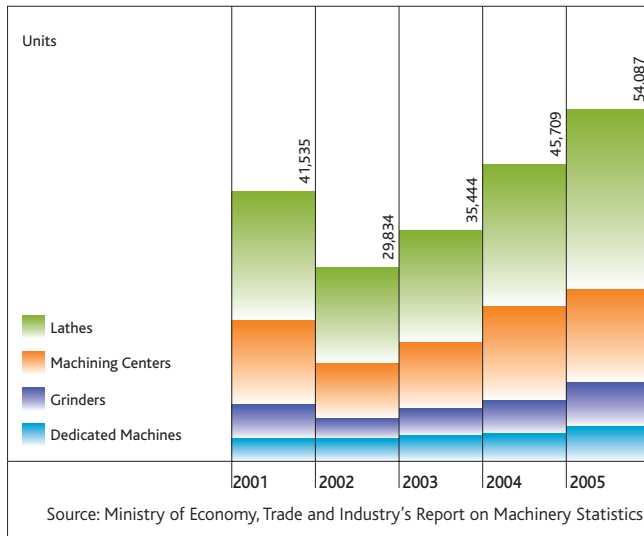
result, we are establishing a more diversified profit structure that is less dependent on automobiles.

## **INDUSTRIAL MEASURING SYSTEMS**

Sales in this product sector were much higher than in the prior fiscal year primarily due to strong growth in 3D Coordinate Measuring Machines. Companies in the automobile industry were a major source of growth. One reason is the shift away from performing "GO"/"NO GO" inspections by using gauges. Instead, companies need systems to collect data from every item on a production line to monitor trends and improve traceability. Another reason for auto-related growth is the need for measuring systems for flexible production lines that can make many types of components. While conventional gauges play a vital role in quality control, they are

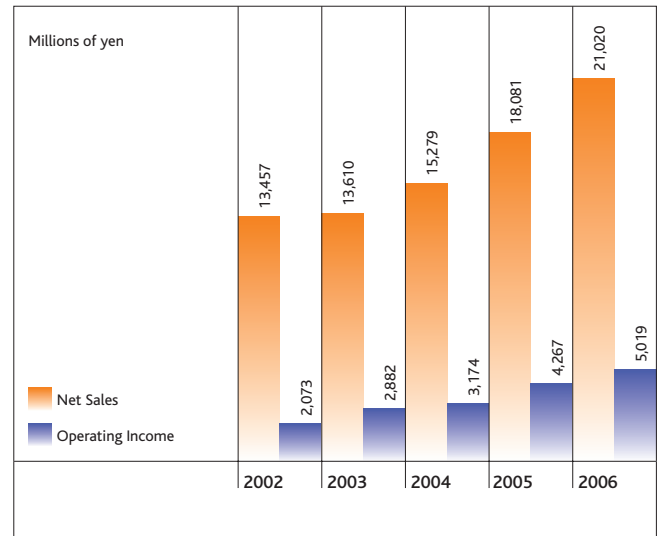
## NUMBER OF MACHINE TOOLS MANUFACTURED

(Years ended December 31)



## METROLOGY BUSINESS NET SALES / OPERATING INCOME

(Years ended March 31)



not suitable for flexible production lines because a different gauge is needed each time the line switches to another product. 3D Coordinate Measuring Machines are the solution. Adapting to a different product requires only a change in software. Only recently have manufacturers started using these machines for applications on production lines. Rising demand for measurements on flexible production lines is one reason. Manufacturers are also seeking ways to cut costs, such as by eliminating the need to design the many types of gauges. Moreover, auto makers need more sophisticated measuring systems to maintain the consistently high level of quality required to stay competitive. Our various metrology machines meet this growing need for performing measurements at the product line, not in an inspection room.

Customer needs are growing in other market sectors, too. For example, demand is rising for measuring systems for the production of lenses used in digital devices and of HDDs. Instruments that combine precision with compact dimensions are in demand, too. We are also targeting instruments required by makers of LCD panels for digital consumer electronics.

In the 3D Coordinate Measuring Machines category, the "XYZAX SVA" series recorded strong sales. Combining the high-rigidity design skills of Tokyo Seimitsu with the analytic and control technologies of Carl Zeiss, these systems closely match customer needs. The "XYZAX SVA fusion," which boasts outstanding scanning precision, continues to attract more customers. Extending the lineup of these machines further, "GageMax," a new 3D Coordinate Measuring Machine by

Carl Zeiss for use on production lines, went on sale in Japan during the fiscal year.

The change in measuring environments is an important theme. Conventional industrial measuring systems require carefully controlled room temperature and other parameters. But with today's growing demand to replace gauges with measuring systems on production lines, as well as to improve production quality and stability, instruments must be designed to operate under conditions where it is difficult to perform high-precision measurements. In response, we developed the "SURFCOM C5" Surface Texture and Contour Measuring Instrument. A key strategic product of the business, this new model quickly generated considerable interest among potential customers.

### [1] 3D Coordinate Measuring Machine [XYZAX SVA fusion]



The 3D Coordinate Measuring Machine is a mechanical system designed to determine the coordinates of points on the surface of a workpiece. "XYZAX SVA fusion" combines world-renowned Active Scanning technology of Carl Zeiss and our "XYZAX" of brisk sales, enabling it to be highly competitive machine.

### [2] 3D Coordinate Measuring Machine [GageMax]



ACCURETECH's solution for shop-floor and production line measurement using advanced Carl Zeiss Technologies. "GageMax" guarantees accuracy in production line environments, with a small footprint and environmental resistant designs etc.

Demand remained strong for high-precision surface contour measuring instruments in the automobile industry, the result of JIS (Japanese Industrial Standard) revisions for surface contour and cylindricity measurements. Making the biggest contributions to sales were the 3D Surface Texture Measuring Instrument "SURFCOM 1500DX" and Contour Measuring Instrument "CONTOURECORD 1700DX." Both models incorporate a linear motor to achieve higher precision and lower vibrations than any competing product. Sales of Cylindricity Measuring Instruments were supported by a continuation of strong demand from the automobile industry for existing models like the "RONDCOM 72A" and "RONDCOM 75GB" Cylindrical Form Measuring Instruments. Rising sales of the recently introduced

"RONDCOM 44/54" also made a contribution.

#### **IN-LINE MEASURING SYSTEMS**

Growth in demand for the "PULCOM" series of machine control gauges resulted in a solid increase in sales in this category. The main reason was an upturn in orders from automobile-related customers because of the high volume of capital expenditures in the automobile industry. Capital investments involving HDDs rose in the fiscal year's second half, producing a large volume of orders for instruments associated with the polishing of glass substrates and the measurement of HDD spindle motors. The higher sales also reflected healthy demand for auto testing systems in the automobile industry. Electric-Column & Hand Gauge "ELCOM 8 for wireless," which enables wireless

transmissions of measurement data between the hand-held unit and the main unit, attracted many inquiries and is expected to generate substantial sales this year. This system makes it possible to perform measurements anywhere on a production line. Workers can confirm data, even from a distance, while taking measurements.

#### **DIVERSIFICATION AND OVERSEAS GROWTH**

The Metrology Business is currently preparing to expand its calibration service for measuring instruments. This service guarantees that measuring systems are functioning properly. Only companies that have been certified can offer this service. Certification systems have been newly established for 3D Coordinate Measuring Machines and Cylindricity Measuring Instruments, creating a new source of demand.

### [3] Cylindrical Form Measuring Instruments [RONDCOM 44/54]



Cylindrical Form Measuring Instruments measure roundness, concentricity, cylindricity and else. "RONDCOM 44/54" boasts the world's highest accuracy and high operability in the compact machine class.

### [4] Automatic Measuring Systems and Machine Control Gauges [PULCOMV10, V11 (Control units) and (PULCOM Measuring Heads)]



Machine control gauges control processing machines based on data taken before, during and after operation. This indispensable system is used to prevent defects and boost accuracy in manufacture, thereby raising productivity. We also produce air micrometers, electric micrometers and high-precision sensors.

We plan to offer a calibration service as a certified company while using these services to create more opportunities to increase sales of our measuring systems.

Outside Japan, we are concentrating on enlarging our sales and service network in China and increasing sales in Europe. In 2005, we opened offices in Guangzhou and Chongqing in China, and plan to add a third location by March 2007. Accretech (Europe) GmbH, which is used chiefly to sell our semiconductor products, will work more closely with our long-established business partner Carl Zeiss to increase sales of Tokyo Seimitsu measuring systems in Europe.

#### GOALS OF THE "AA60" MEDIUM-TERM BUSINESS PLAN

During the three-year management plan that ends in March 2009, the

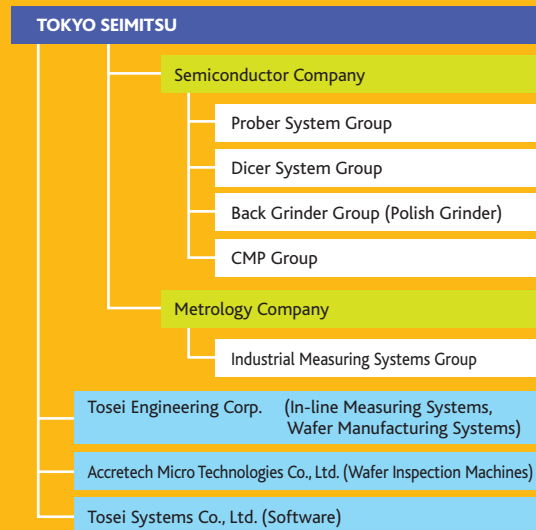
Metrology Business plans to raise sales to ¥25 billion and increase the operating margin to 25%. Reaching this goal will require accomplishing four strategic objectives. First is enlarging product lineups to meet even more market needs. We will seek opportunities in new fields, such as applications requiring nanometer-level measurements. Second is raising sales outside Japan by increasing cooperation with Carl Zeiss and enlarging sales networks, especially in China and South Korea. Based on our partnership with Carl Zeiss, which started in 1995, we share business responsibilities in each other's respective realms of expertise for both product development and sales activities in different geographic areas. We have good prospects in increasing sales by expanding overseas market shares. Third is reinforcing service-based businesses by working closely with

subsidiary Tosei Engineering Corp., which has three business divisions: Measuring Systems Service Division, In-line Measuring Systems Division and Semiconductor Manufacturing Equipment Division. And fourth is constantly improving earnings by raising productivity and cutting costs. Through these actions, the Metrology Business is projecting a sales increase of almost 5% to about ¥22 billion in the first year of the plan, which ends in March 2007.

## R&D PROGRAM AND INTELLECTUAL PROPERTY

### "STRATEGIC PRINCIPLES FOR OUR R&D"

1. Endeavor to create the number-one products in the global market. Products with the leading share in the global market should have the following qualities:
  - The ability to generate maximum profits during favorable economic periods
  - The ability to incur only minimal losses during periods of recession
2. Finance R&D exclusively from internal cash flows.
3. Target fields that have strong technology barriers but where market needs are high and the potential size of the market is large.
4. Actively seek alliances to share R&D costs and utilize synergies that benefit industry partners.



### "STRATEGIC PRINCIPLES FOR OUR R&D"

More than merely the basis for our R&D programs, "Strategic Principles for Our R&D" serve as the core strategy guiding all of our activities. Maintaining a powerful system and proper standards for product development are vital to our ability to sustain growth. This is why we have always adhered strictly to the "Strategic Principles for Our R&D."

### R&D STRUCTURE

#### Group Leader System

Since 1988, we have employed a structure in which a technology development group, led by an engineer with the title of Group Leader, is formed for each product. Armed with considerable authority, these leaders are responsible not only for product development but also the results of products they manage. Responsibilities include business plans, capital investments, and recruiting. In conjunction with the April 2002 adoption of the executive officer system, all Group Leaders were authorized as executive officers. This provides an even better means of leveraging the advantages of the Group Leader system: quick decisions involving product development programs and fast and flexible responses to shifts in market trends.

### The Tokyo Seimitsu Group R&D System

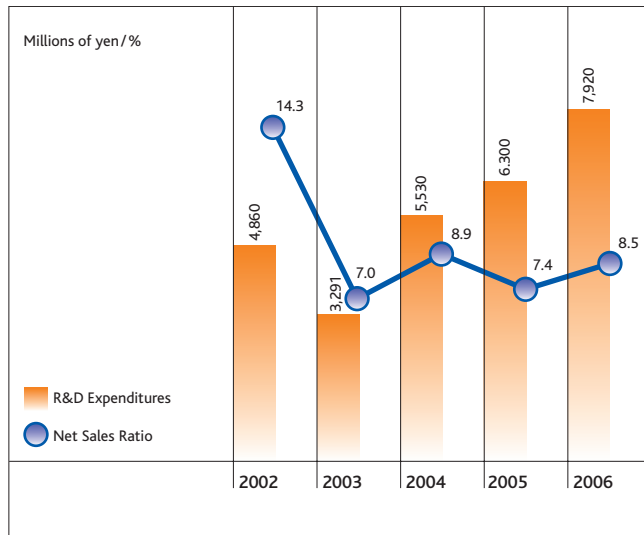
Subsidiary Tosei Engineering Corp. was established for service business on Tokyo Seimitsu's measuring products and in recent years they engaged in the development, manufacture and sales of In-line Measuring Systems and Wafer Manufacturing Equipment. With solid positions in niche markets, this company works closely with our Metrology Company to accurately identify customers' needs. Based on these needs, the latest technology is used to develop products that can become number one in the world. Tosei Engineering plans on working even more closely with Tokyo Seimitsu to conduct its operations with greater speed and flexibility.

Subsidiary Accretech Micro Technologies Co., Ltd. was reorganized in 1997 to create an organization with the same capabilities as the development group of Tokyo Seimitsu. The objective was to establish a sound base for the development, manufacture and sale of Water Inspection Machines, a product we began selling in 2000.

Subsidiary Tosei Systems Co., Ltd. develops software for products of the Semiconductor Company and Metrology Company.

Each group company complements the strengths of Tokyo Seimitsu, creating a powerful organization for performing R&D activities.

**R&D EXPENDITURES / NET SALES RATIO**  
(Years ended March 31)



#### NUMBER OF PATENT RIGHTS

	Patent Rights	New Applications in Fiscal 2006
<b>JAPAN</b>	<b>375</b>	<b>171</b>
<b>OVERSEAS</b>	<b>381</b>	<b>62</b>

(as of March 31, 2006)

## INTELLECTUAL PROPERTY

### Importance of Intellectual Property

The primary objective of Tokyo Seimitsu is to manufacture equipment with overwhelming superiority in market segments that have high technological barriers to new entrants. Accomplishing this requires relentless R&D activities in cutting-edge technologies. Intellectual property, primarily representing technologies produced by these activities, is a key source of added value for future businesses. Accordingly, we make carefully planned investments to acquire patents and accumulate an intellectual property database.

### Strategy for Intellectual Property

Departments overseeing intellectual property work closely with technology development divisions to study and assess patents and technologies of other companies. This takes place at all product development steps, beginning with the initial concept and ending with customer services following the start of shipments. In addition, to meet the demands of our customers, we concentrate on developing and inventing advanced technologies that place us far ahead of our competitors. As our operations become increasingly global, we are also aggressively acquiring intellectual property rights in other countries.

We also place priority on the value of patents. We constantly assess the value of intellectual property based on the status of R&D programs, the superiority of our products relative to competing models, and other relevant factors. This process enables us to maintain a valuable intellectual property portfolio by periodically discarding property of little use. As a result, we can make effective use of our patent maintenance budget.

### Patents During Year Ended March 2006

Activities were focused on applying for and receiving patents to make products more competitive. One theme is patents for equipment that we have introduced in recent years, notably the Polish Grinder, the Wafer Inspection Machine and the CMP. The second involves other products such as Probers, Dicers and In-line Measuring Systems. Currently, semiconductor manufacturing equipment accounts for about 80% of patents pending, with measuring systems accounting for the remainder.

# CORPORATE GOVERNANCE

## BASIC PHILOSOPHY

Progress in the globalization of economic activity is bringing about rapid changes in the requirements and expectations placed on how companies are managed. Tokyo Seimitsu believes that a corporate governance system structured to back up management systems that meet global standards and are shareholder oriented is vital to sustaining growth and increasing corporate value.

Tokyo Seimitsu is dedicated to respecting the rights of shareholders and treating all shareholders equally. We also respect the rights of other stakeholders in order to build sound relationships with all these constituencies. To protect the rights and financial interests of shareholders and other stakeholders, we maintain the transparency of our operations through the proper disclosure of information. We also place importance on fully utilizing the functions of the Board of Directors and Board of Auditors.

## COMPONENTS OF CORPORATE GOVERNANCE

### 1. Directors and Board of Directors

There are 9 directors, including individuals who have worked at many other companies before joining Tokyo Seimitsu. This composition brings many different backgrounds and points of view to the Board of Directors. Board meetings are held monthly and chaired by the company president. At these meetings, the directors reach decisions on semiannual business plans and other important matters, supervise the performance of directors with business responsibilities at Tokyo Seimitsu, and perform other duties. Although we do not have any external directors, an effective external checking function is provided by the external corporate auditors.

In addition, we have a Management Advisory Committee to assist the chairperson of the Board of Directors. Made up of the corporate auditors, this committee examines directors' compensation and many other management themes.

### 2. Corporate Auditors and Board of Auditors

We have adopted the corporate auditor system due to our belief that the use of corporate auditors is a key element of effective corporate governance. All of these auditors are well-experienced executives such as in companies that are major Tokyo Seimitsu shareholders or in the fields of financial audits and accounting. The auditors use their considerable expertise to supervise business operations to be certain that managers are conducting businesses properly and efficiently. In order to reinforce the functions of the corporate auditors, the number of auditors was raised in June 2006 to five, including three external auditors.

The corporate auditors, Auditing Department, which is overseen directly by the president, and financial auditors work closely together. Regular meetings are held to exchange opinions concerning the auditing framework, audit plans and their execution, and other subjects.

### 3. Internal Company System and Executive Officer System

Tokyo Seimitsu adopted the executive officer system and internal company system in April 2002. The primary objectives were to reach fast decisions concerning new product development plans and to better adapt to changes in market conditions with speed and flexibility. Operations were divided among three internal companies: the Semiconductor Company, Metrology Company and Administration Company. Head office functions were eliminated. The Semiconductor and Metrology companies are self-reliant organizations with all resources needed to respond to their customers' needs even faster than before. Tokyo Seimitsu's president chairs monthly meetings of the Executive Committee, which receives progress reports on business plans and conducts other supervisory activities.

#### 4. Auditing Department

Tokyo Seimitsu has an Auditing Department that is overseen directly by the company president. This department performs audits based on a plan and in accordance with rules for internal audits. The department periodically reviews items covered by audits and audit methods, making revisions and improvements as necessary.

In the event that an audit by the Auditing Department reveals a violation of laws, regulations, the articles of incorporation or company rules or any other business activity that could cause a loss, the general manager of the Auditing Department immediately reports the matter to the company president so that corrective actions can be taken.

#### 5. Management Support Department

The Management Support Department, which is overseen directly by the company president, handles various problems within the Tokyo Seimitsu Group, information concerning significant risks and other items. The department's role is to ensure the proper sharing of information and execution of businesses throughout the group from the standpoint of maximizing earnings for the entire group.

To prevent improper transactions and accounting methods concerning activities conducted between Tokyo Seimitsu and its subsidiaries, the Auditing Department of Tokyo Seimitsu and the auditing departments or similar departments of subsidiaries exchange information as required.

### INTERNAL CONTROL SYSTEMS

#### Fundamental Position Regarding Internal Control Systems

Tokyo Seimitsu is dedicated to building "WIN-WIN" relationships with customers, business partners, shareholders, employees and all other stakeholders for the purpose of sustaining long-term growth. To accomplish this, we are constantly working on building an effective system of internal controls and strengthening compliance programs. In this way, we manage the group in a sound and transparent manner.

#### Status of Internal Control Systems

At Tokyo Seimitsu, the Board of Directors is responsible for assembling an effective system of internal controls as well as a framework to ensure compliance with laws, regulations and the Articles of Incorporation. The Board of Auditors is responsible for performing audits to verify that these internal control systems are functioning effectively.

Tokyo Seimitsu has an Auditing Department, Management Support Department and Export Management Department that are overseen directly by the company president. This provides a framework for managing risks associated with activities of Tokyo Seimitsu and its subsidiaries and ensuring business operations are conducted properly.

The ACCRETECH Group Code of Conduct provides guidelines that ensure business operations are conducted in conformity with laws, regulations and the Articles of Incorporation. There is also a Compliance Committee, Information Security Committee, Environmental Management Committee, Health and Hygiene Committee, and Internal Reporting Committee.

Tokyo Seimitsu also has a system for assisting the corporate auditors to perform their duties and a system to be certain that these audits are performed effectively.

## ECO AWARENESS

*Committed to maintaining a "WIN-WIN" relationship with the environment and society, Tokyo Seimitsu conducts activities with sincerity and transparency in order to protect the environment.*



Environmental and Social Report 2005

### BASIC PHILOSOPHY

Recognizing environmental protection as a critical issue, Tokyo Seimitsu makes environmental preservation an integral element of all product development, design, manufacturing and service activities.

### BASIC POLICY

In all activities, extending from manufacturing through the provision of services, everyone at Tokyo Seimitsu must work in an environmentally responsible manner. Efforts are taken to lower the environmental impact to the absolute minimum by examining every action from an environmental standpoint. We have an environmental management system that is overseen by the Environmental Management Committee. Under this system, environmental activities are conducted to ensure strict compliance with applicable laws, regulations and agreements, as well as with the Tokyo Seimitsu basic policy.

The basic policy includes educational activities to make employees more aware of environmental issues. Steps are also taken to have suppliers and other companies that do business with Tokyo Seimitsu participate in environmental programs.

### ENVIRONMENTAL ACTION GUIDELINES

1. We will resolutely conduct environmental protection activities based on a company-wide environmental management system that is overseen by the Environmental Management Committee.
2. We will prevent pollution and protect the environment by complying with environmental laws, regulations and agreements, as well as the Tokyo Seimitsu environmental policy and by establishing voluntary goals.

3. We will develop environmentally responsible products and make improvements.
4. We will establish environmental objectives and targets for the following measures concerning the environmental impact of business activities, and will constantly take necessary actions and perform internal audits and other measures to identify areas requiring revisions:
  - ▶ Initiatives to use natural resources effectively by lowering energy and resource consumption, reducing waste materials, and increasing recycling
  - ▶ Prevention of pollution through the proper management of harmful substances and reduction in the use of substances with a high environmental impact
  - ▶ Develop environmentally responsible new products and improve environmental properties of existing products
5. We will conduct training programs for all employees to raise awareness of environmental issues. We will ask for the understanding and cooperation of suppliers in the execution of environmental programs.
6. We will disclose this environmental policy to the public and make all employees aware of this policy.

#### Tokyo Seimitsu "Environmental and Social Report"

Tokyo Seimitsu publishes an environmental and social report in October each year. This report is available on our website:

<http://www.accretech.jp/english>

Home >> About ACCRETECH >> Eco Awareness

## BOARD OF DIRECTORS



Sadakatsu Suzuki



Kazuo Fujimori



Eiji Nagasawa



Kunimasa Ohta

## DIRECTORS AND AUDITORS (as of June 29, 2006)

President, CEO & COO  
Sadakatsu Suzuki

Executive Vice Presidents  
Kazuo Fujimori  
Eiji Nagasawa  
Kunimasa Ohta

Directors  
Shigeru Umenaka  
Wolfgang Bonatz  
Greg Sebastian  
Hitoshi Yoshida  
Ryuichi Kimura

Standing Corporate Auditor  
Hideaki Takagi

Corporate Auditors  
Hajime Yoshigi  
Seiji Yamamoto  
Masashi Hisatomi  
Eiji Kawahara

# Financial Section

## SIX-YEAR SUMMARY

Tokyo Seimitsu Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31

	Millions of yen						Thousands of U.S. dollars
	2001	2002	2003	2004	2005	2006	2006
<b>For the year:</b>							
Net sales	¥73,172	¥34,064	¥47,171	¥62,324	¥ 84,750	¥ <b>92,845</b>	<b>\$790,373</b>
Operating income (loss)	15,032	(1,757)	1,860	5,947	13,051	<b>13,991</b>	<b>119,109</b>
Net income (loss)	7,237	(2,026)	74	(3,783)	4,459	<b>3,125</b>	<b>26,606</b>
<b>At year-end:</b>							
Total assets	91,477	79,865	88,669	94,893	100,993	<b>109,875</b>	<b>935,350</b>
Total shareholders' equity	38,779	35,423	33,645	29,183	33,003	<b>46,703</b>	<b>397,576</b>
Interest-bearing debt	17,522	31,145	33,531	36,253	31,273	<b>27,726</b>	<b>236,030</b>
<b>Per share data (yen and dollars):</b>							
	Yen						U.S. dollars
Net Income (loss) — basic	¥192.95	¥(54.21)	¥ 1.64	¥(101.67)	¥ 118.82	¥ <b>80.77</b>	<b>\$ 0.68</b>
— diluted	192.21	—	1.64	—	108.75	<b>74.02</b>	<b>0.63</b>
Number of employees	1,160	1,146	1,101	1,100	1,144	<b>1,169</b>	

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## FINANCIAL REVIEW

### OVERVIEW

Due to the rapid pace of change in the markets for semiconductor manufacturing equipment and measuring systems, success demands the provision of products incorporating the latest advances in technology. To sustain growth in this environment, Tokyo Seimitsu must maintain a powerful organization capable of supporting the development of products in accordance with suitable guidelines. This is accomplished by adhering to a unique set of guidelines called the "Strategic Principles for Our R&D" (see page 18). These principles provide a base for businesses with strong growth and high earnings that minimize vulnerability to fluctuations in capital expenditures in user industries.

The most pressing issues at Tokyo Seimitsu are gaining market acceptance of New Product Lines that were recently introduced and strengthening the financial structure. Over the past several years, the company has made substantial investments in the development of semiconductor manufacturing equipment that target new market segments. One result is the Polish

Grinder, which has surpassed its earnings plan. Other examples are the Wafer Inspection Machine and the CMP. Both machines are steadily gaining market acceptance, although more work remains concerning profitability. Tokyo Seimitsu plans to raise profitability of these products to targeted levels by increasing sales and cutting costs.

Tokyo Seimitsu significantly improved its financial position by writing off outdated models of semiconductor manufacturing equipment in inventories and writing off assets associated with the LEEPL (Low Energy E-beam Proximity projection Lithography) business. In April 2006, the company began executing a three-year business plan called "AA (ACCRETECH Action) 60." By executing this plan, Tokyo Seimitsu plans to increase sales and earnings, achieve positive free cash flows, and build a sounder financial position by increasing equity through the conversion of convertible bonds.

### NET SALES

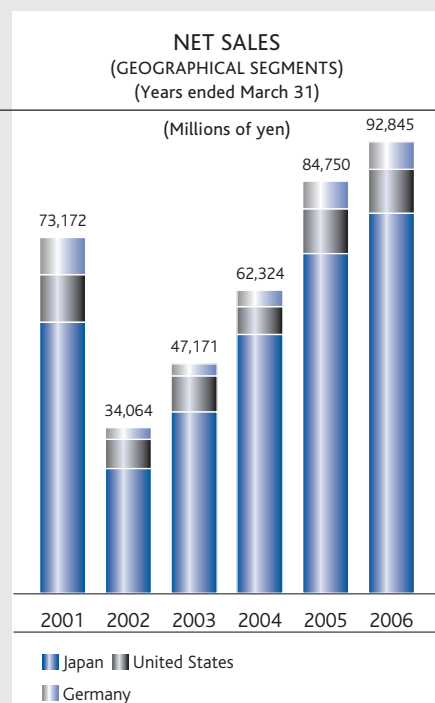
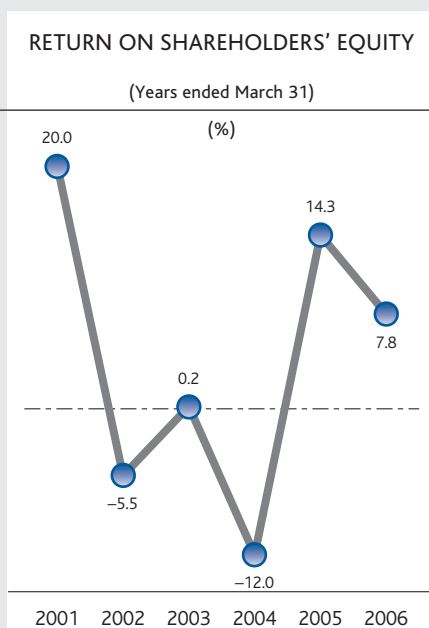
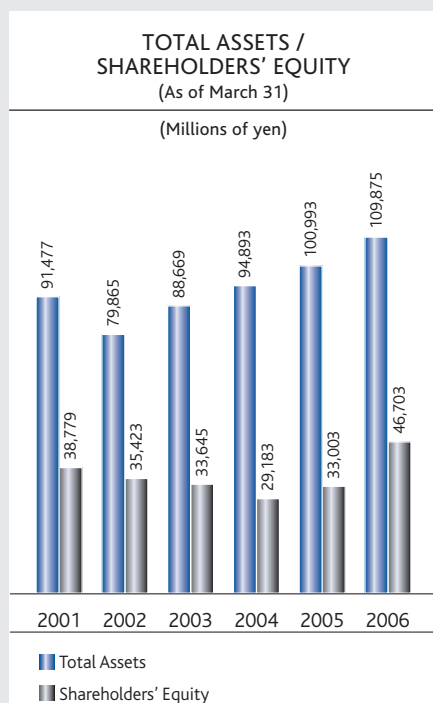
Net sales increased 9.6% to ¥92,845 million, reaching an all-time high for the second

consecutive year. Sales growth was primarily a reflection of extremely favorable market conditions for semiconductor manufacturing equipment and measuring systems.

In the semiconductor industry, companies are making substantial capital expenditures to meet demand generated by the popularity of digital consumer electronics such as flat-panel TVs and portable audio players, and strong sales of mobile phones and PCs. Due to the resulting growth in demand for semiconductor manufacturing equipment, Semiconductor Business sales set a new record, climbing 7.7% to ¥71,824 million.

Performance of the Metrology Business reflected the ability of Tokyo Seimitsu to accurately target the needs of companies in the key automobile and machine tools industries, both of which continued to perform well in the past fiscal year. The result was the third consecutive year of record sales as sales increased 16.3% to ¥21,020 million.

Sales of semiconductor manufacturing equipment were much higher both in Japan and overseas. Outside Japan, sales growth was strongest in East Asia, particularly in



South Korea and China. In measuring systems, there was a large increase in sales in Japan along with growth in overseas sales. Total sales increased 24.7% to ¥31,224 million in East Asia. Sales declined 13.8% to ¥7,043 million in North America and 11.8% to ¥5,034 million in Europe, but increased 11.1% to ¥4,374 million in the rest of the world. Overseas sales totaled ¥47,676 million, up 11.2%, and accounted for 51.3% of total sales compared with 50.6% one year earlier.

## SEMICONDUCTOR MANUFACTURING EQUIPMENT

Market conditions were extremely favorable for Wafer Probing Machines (Probers), Tokyo Seimitsu's mainstay established product in this segment. The most important factors were strong demand for semiconductor chips and the increasing need to perform complete tests of chips at the wafer level before wafers are diced. There was substantial growth in sales of the "UF3000," a fully automated model for 300mm wafers that can handle a broad range of needs. The "UF200" series for

200mm wafers also performed well, notably in Taiwan. Due to this performance, Tokyo Seimitsu reinforced its position as the world's largest supplier of Wafer Probers. Overall, Wafer Prober sales rose to a record high and made a big contribution to Tokyo Seimitsu's consolidated sales and earnings. In Wafer Dicing Machines (Dicers), the "A-WD-300T" and "A-WD-200T" continued to perform well as they earned solid support from customers. The Laser Dicer "MAHOHDICING MACHINE," which went on sale in fiscal 2005, continues to generate a strong market response due to its superb performance and productivity. Fiscal 2006 sales doubled because of higher orders for the precision dicing of MEMS (Micro Electro Mechanical Systems) and image sensors such as C-MOS and CCD. Growth in these markets, along with rising repeat orders and new applications, indicates that sales will continue to climb. In Wafer Inspection Machines, a product targeting a market segment new to Tokyo Seimitsu, demand was solid as more manufacturers recognized this product's low cost of ownership and high defect

detection rate. Orders rose from both current and first-time users of these machines. A new series with high throughput has been introduced to serve an even wider range of user needs.

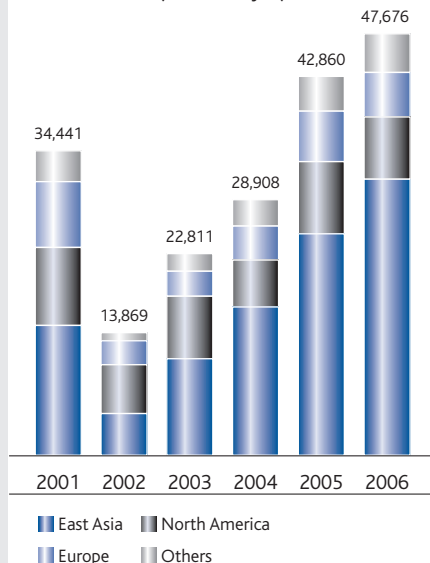
In Polish Grinders, Tokyo Seimitsu's machines are firmly positioned as the de facto standard in the field of ultra-thin wafer processing, offering performance far ahead of any competing model. In fiscal 2006, there was a sharp upturn in demand for the "PG300RM," which processes 300mm wafers and combines four functions in one unit. Both orders and sales rose to all-time highs. The outlook is for more growth in demand for ultra-thin wafer processing.

In the CMP category, the "ChaMP" series concept along with the structural superiority of these machines are attracting much interest among customers. During fiscal 2006, there was more progress in earning user certifications of this machine to capture orders from new customers. The "ChaMP" series now has a reputation for excellence in the planarization of oxidized layers as well as for even more demanding applications such as copper processes.

### OVERSEAS SALES

(Years ended March 31)

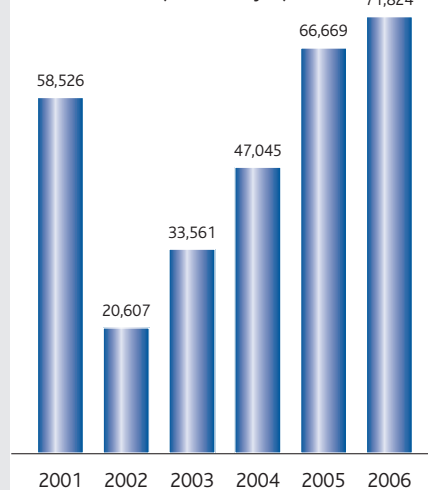
(Millions of yen)



### SEMICONDUCTOR MANUFACTURING EQUIPMENT SALES

(Years ended March 31)

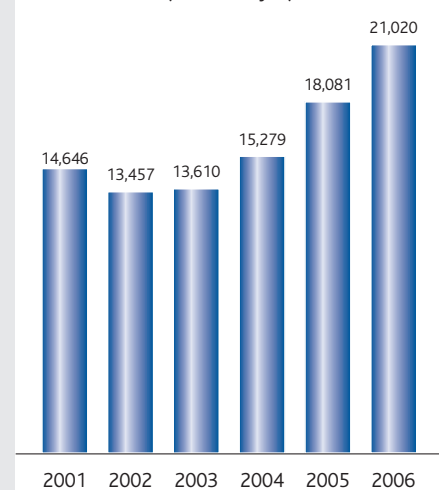
(Millions of yen)



### MEASURING SYSTEMS SALES

(Years ended March 31)

(Millions of yen)



## MEASURING SYSTEMS

In Industrial Measuring Systems, the "XYZAX SVA" series of 3D Coordinate Measuring Machines continued to perform well. This machine combines the high-rigidity design skills of Tokyo Seimitsu with the analytic and control technologies of Carl Zeiss. The "XYZAX SVA fusion," which guarantees a high level of scanning accuracy, also performed well. During fiscal 2006, Tokyo Seimitsu began selling the "GageMax," a new Carl Zeiss in-line 3D Coordinate Measuring Machine that is expected to achieve steady sales growth. Another contributor to sales growth was the "SURFCOM" series of Surface Texture Measuring Instruments. These machines use a linear motor to minimize vibrations and achieve the highest accuracy of any machine in their category. The "SURFCOM 1500DX" and "CONTOURECORD 1700DX" were the best sellers in this series. The "RONDCOM" series of Cylindricity Measuring Instruments also recorded higher sales, mainly due to growth in orders for the "RONDCOM 54/44" and the "RONDCOM 72/75."

Regarding In-line Measuring Systems, sales of the Machine Control Gauge "PULCOM" series posted a big increase. Growth was mainly attributable to rising demand in conjunction with the high volume of capital expenditures in the automobile industry.

## COST OF SALES

The cost of sales increased 11.0% to ¥65,873 million, and the cost of sales ratio rose from 70.0% to 70.9% of sales. The small increase was a reflection of a change in sales composition, which offset the benefits of numerous cost-cutting programs. Actions included cuts in fixed costs and the assembly of more products internally to reduce the variable expense ratio.

## SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

SG&A expenses increased 5.1% to ¥12,980 million, the sum of selling expenses of ¥9,264 million and general and administrative expenses of ¥3,715 million. Although selling expenses declined even though sales increased, this was outweighed by growth

in general and administrative expenses mainly due to higher product development expenses. However, SG&A expenses declined from 14.6% to 14.0% of net sales.

## OPERATING INCOME

Operating income increased 7.2% to ¥13,991 million but declined from 15.4% to 15.1% of net sales. By business segment, semiconductor manufacturing equipment operating income rose 2.1% to ¥8,972 million, the result of sales growth and cost-containment programs. Measuring systems operating income increased 17.6% to ¥5,019 million due to actions to bring down sales and production costs. This was the third consecutive year of record earnings in measuring systems.

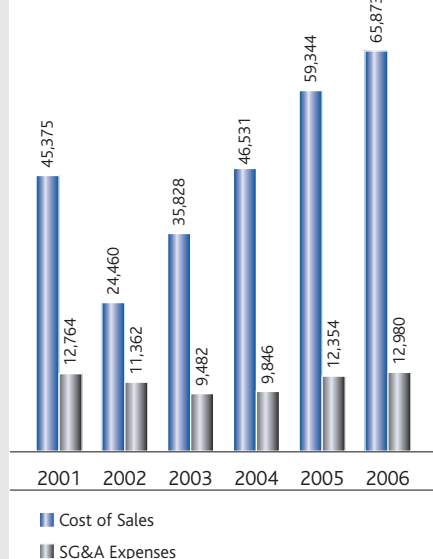
## NON-OPERATING ITEMS

Non-operating income increased ¥597 million to ¥875 million, mainly due to higher exchange gains, and expenses increased ¥392 million to ¥835 million, mainly the result of losses on the disposal of tangible assets.

### COST OF SALES / SG&A EXPENSES

(Years ended March 31)

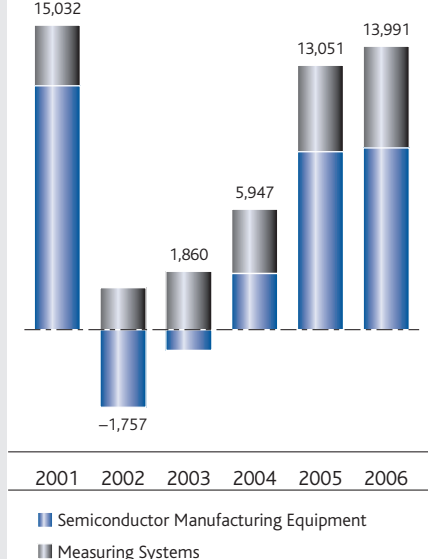
(Millions of yen)



### OPERATING INCOME

(Years ended March 31)

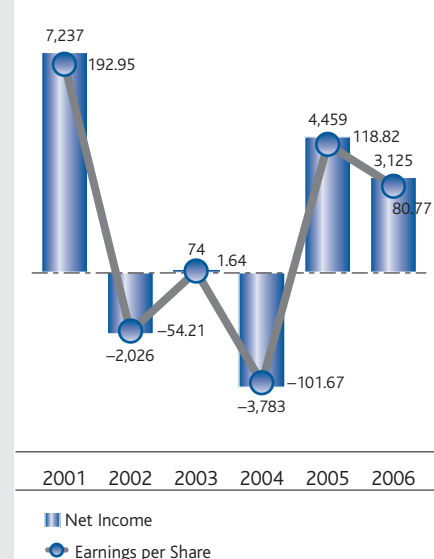
(Millions of yen)



### NET INCOME / EARNINGS PER SHARE

(Years ended March 31)

(Millions of yen)



## NET INCOME

In fiscal 2006, Tokyo Seimitsu wrote off outdated models of semiconductor manufacturing equipment in inventories and disposed of assets of the LEEPL business. These actions were taken voluntarily for the purpose of enhancing the soundness of the balance sheets and strengthening the future earnings base. The result was an extraordinary loss of ¥6,281 million. This figure is composed mainly of an inventory disposal and valuation loss with respect to outdated semiconductor models of about ¥2,800 million and a loss of about ¥3,200 million associated with disposals and lease cancellations of LEEPL assets. Recognizing these expenses will better allow Tokyo Seimitsu to build a more solid financial position.

Income before income taxes and minority interests was ¥7,865 million. After taxes and minority interests, net income was ¥3,125 million, down 30.0%. The dividend per share applicable to the fiscal year was ¥40, the sum of interim and year-end payments of ¥20. Tokyo Seimitsu maintained this dividend despite the extraordinary losses because of its sound financial position and

its policy of distributing earnings to shareholders from a long-term perspective.

## RESEARCH AND DEVELOPMENT EXPENSES

R&D expenses increased 25.7% to ¥7,919 million. As stated in the "Strategic Principles for Our R&D," R&D activities continued to be focused on developing products that can become number one in their respective markets. In semiconductor manufacturing equipment, R&D programs are centered on the shift to 300mm wafers and the use of increasingly finer design rules and ultra-thin wafers. The goal is to develop and supply in a timely manner the next-generation machines required to meet market needs associated with these trends. In measuring systems, the main goal remains developing new models that offer greater precision along with outstanding performance relative to cost.

## CAPITAL EXPENDITURES

Capital expenditures increased 5.5% to ¥3,978 million. The major components were the construction of new factories at

Tsuchiura and Hachioji and the addition of facilities to reduce the amount of work that is outsourced. In fiscal 2007, Tokyo Seimitsu expects that capital expenditures will decline to a level more in line with prior years, but will make expenditures as needed in response to changes in market conditions. Depreciation and amortization expenses were ¥2,768 million, about the same as in fiscal 2005.

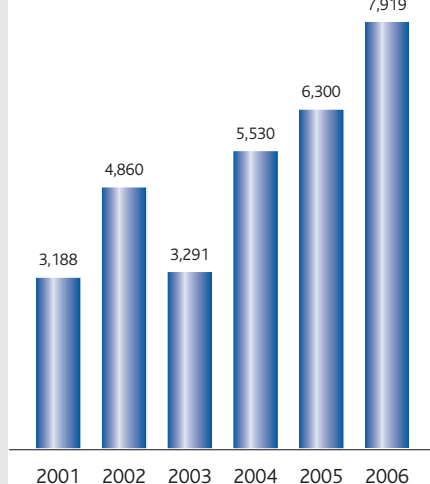
## FOREIGN EXCHANGE

Except for certain business in North America, Tokyo Seimitsu uses yen as the basis for all overseas sales to limit its exposure to foreign exchange rate movements. Foreign currency-denominated trade receivables resulting from transactions at U.S. subsidiaries and other group companies are hedged using forward agreements where deemed necessary to manage foreign exchange risk. These and other derivative transactions are conducted solely for business activities. There are no speculative derivative transactions. Tokyo Seimitsu believes that an effective risk management system is in place for exposure to foreign currency risk.

### R&D EXPENSES

(Years ended March 31)

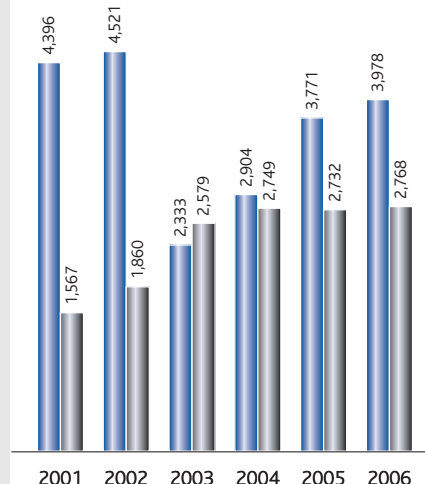
(Millions of yen)



### CAPITAL EXPENDITURES/ DEPRECIATION & AMORTIZATION

(Years ended March 31)

(Millions of yen)

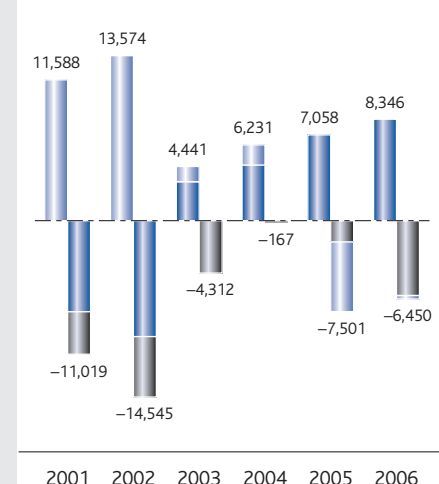


■ Capital Expenditures  
■ Depreciation & Amortization

### CASH FLOWS

(Years ended March 31)

(Millions of yen)



■ Operating Activities ■ Investing Activities  
■ Financing Activities

## BALANCE SHEETS

Total assets were ¥109,875 million as of March 31, 2006, ¥8,882 million more than one year earlier.

Current assets increased ¥7,315 million to ¥81,067 million. This was mainly attributable to an increase in trade cash and cash equivalents and to an increase in notes and accounts receivable due to the growth in sales. Total fixed assets increased ¥1,567 million to ¥28,807 million. This was mainly the result of the purchase of equipment for the new Tsuchiura and Hachioji factories and equipment for making machinery that handles 300mm wafers, a step to reduce the volume of outsourced work.

Total liabilities decreased ¥2,307 million to ¥63,172 million. There was an increase in trade notes and accounts payable due to growth in manufacturing activity, but total liabilities declined due to the conversion of convertible bonds and a decrease in accrued expenses. Debt decreased ¥3,600 million.

Minority interests were eliminated during the fiscal year because Tosei Engineering Corp. became a wholly owned subsidiary on October 1, 2005.

The shareholders' equity ratio increased from 32.7% to 42.5%, and Tokyo Seimitsu estimates that this ratio will climb to 51.3% by the end of March 2007. The goal is to raise the equity ratio to 60% within the next two to three years.

Annual sales were about the same as assets until fiscal 2001, when annual sales began to fall below assets as a downturn in the silicon cycle weakened sales of Established Product Lines and the introduction of New Product Lines had a temporarily negative impact on operating results. In fiscal 2006, annual sales finally returned to about the same level as assets, resulting in an asset turnover ratio of 0.9. New Product Lines made a big contribution to this achievement. The inventory turnover ratio also improved as fiscal 2006 net sales were about 3.4 times average inventories.

## CASH FLOWS

Cash and cash equivalents as of March 31, 2006 totaled ¥13,851 million, ¥2,012 million more than one year earlier. Net cash provided by operating activities was ¥8,346 million. The major components were income before income taxes and minority interests of ¥7,865 million, depreciation and amortization of ¥2,768 million, an increase of ¥4,043 million in trade notes and accounts receivable, a decrease of ¥1,152 million in inventories, and an increase of ¥6,546 million in trade notes and accounts payable. Net cash used in investing activities was ¥6,160 million. Payment for purchase of property, plant and equipment was ¥4,821 million and payment for time deposits was ¥1,048 million. Net cash used in financing activities was ¥290 million. This was mainly the net result of a ¥2,598 million increase in short-term loans payable, a ¥2,160 million decrease in long-term debt, and dividend payments of ¥1,312 million. Due to projected growth in sales and earnings, Tokyo Seimitsu believes that operating cash flows will support further progress in building a sounder financial position.

## RISK FACTORS

The following is a list of major factors that management believes could affect future operating results.

### Market volatility

From a long-term perspective, the semiconductor industry is expanding as society becomes increasingly dependent on information technology. At the same time, the so-called silicon cycle is expected to continue. Semiconductor manufacturing equipment sales and earnings may be affected by this market volatility. However, Tokyo Seimitsu and its group companies are concentrating on building a profit structure capable of consistently generating earnings even as market conditions fluctuate.

### Foreign exchange rate volatility

Tokyo Seimitsu uses yen as the basis for all overseas sales, except for certain businesses in North America and elsewhere that use the U.S. dollar. Foreign currency risks are hedged using forward agreements and other methods. However, an unexpected change in a foreign exchange rate could have an effect on consolidated operating results.

### Protection of intellectual property

All Tokyo Seimitsu products bear respected brands and incorporate highly sophisticated technology. Care is exercised to retain the rights to patents associated with this technology as well as to protect trademarks, brands and other rights. Other measures are taken as well to protect the company's interests. However, a lawsuit or other dispute with a third party concerning these rights could have an effect on consolidated operating results.

### Country risk and related risks

Since Tokyo Seimitsu and its group companies conduct operations on a global scale, businesses are conducted in a manner best suited to the laws and regulations of individual countries. However, an unexpected revision in the laws or regulations of a particular country could have an effect on consolidated operating results. In addition, unpredictable events such as terrorism, wars, natural catastrophes and other events could have an effect on consolidated operating results.

## CONSOLIDATED BALANCE SHEETS

Tokyo Seimitsu Co., Ltd. and Consolidated Subsidiaries  
March 31, 2005 and 2006

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
<b>Current assets:</b>			
Cash and cash equivalents (Note 14)	¥ 11,866	¥ 13,887	\$118,218
Trade notes and accounts receivable	32,105	36,437	310,188
Inventories (Note 4)	28,134	27,053	230,304
Deferred tax assets (Note 7)	753	1,447	12,326
Other	951	2,294	19,535
Allowance for doubtful accounts	(60)	(53)	(459)
Total current assets	73,752	81,067	690,114
<b>Property, plant and equipment:</b>			
Land (Note 5)	2,917	2,937	25,006
Buildings and structures (Note 5)	12,667	12,474	106,191
Machinery and equipment	4,561	5,030	42,820
Construction in progress	529	518	4,412
Other	3,726	3,689	31,408
	24,402	24,649	209,839
Accumulated depreciation	(10,517)	(10,332)	(87,955)
Net property, plant and equipment	13,885	14,317	121,884
<b>Intangible assets:</b>			
Software	2,263	1,451	12,354
Goodwill	221	3,301	28,108
Other	96	83	713
Total intangible assets	2,581	4,837	41,176
<b>Investments and other assets:</b>			
Investment securities (Note 3)	3,394	5,662	48,199
Investments in non-consolidated subsidiaries and affiliates	262	299	2,551
Deferred tax assets (Note 7)	6,331	1,907	16,239
Other	796	1,793	15,269
Allowance for doubtful accounts	(10)	(9)	(84)
Total investments and other assets	10,773	9,653	82,175
Total fixed assets	27,240	28,807	245,236
Total assets	¥100,993	¥109,875	\$935,350

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
<b>Current liabilities:</b>			
Trade notes and accounts payable	¥ 17,809	¥ 24,807	\$211,181
Short-term loans (Note 5)	5,068	6,830	58,142
Accrued expenses	2,133	1,788	15,226
Accrued income taxes	2,890	1,193	10,161
Other	7,038	3,480	29,625
Total current liabilities	34,941	38,099	324,336
<b>Long-term liabilities:</b>			
Long-term debt, less current portion (Note 5)	26,204	20,896	177,887
Accrued pension and severance costs (Note 6)	4,286	4,175	35,549
Deferred tax liabilities (Note 7)	46	—	—
Total long-term liabilities	30,538	25,072	213,436
<b>Minority interests</b>	2,510	—	—
<b>Contingent liabilities</b> (Note 11)			
<b>Shareholders' equity</b> (Notes 8 and 16):			
Common stock, no-par value			
Authorized: 110,501,100 shares in 2006 and 110,501,100 shares in 2005			
Issued: 40,100,167 shares in 2006		9,447	80,425
37,517,954 shares in 2005	7,392		
Capital surplus	12,017	20,466	174,228
Retained earnings	13,596	15,399	131,093
Net unrealized profit on investment securities	70	1,340	11,411
Foreign currency translation adjustments	(9)	139	1,183
Shares of common stock in treasury: 26,421 shares in 2006		(90)	(766)
22,229 shares in 2005	(63)		
Total shareholders' equity	33,003	46,703	397,576
Total liabilities and shareholders' equity	¥100,993	¥109,875	\$935,350

# CONSOLIDATED STATEMENTS OF OPERATIONS

Tokyo Seimitsu Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
<b>Net Sales</b>	¥84,750	<b>¥92,845</b>	<b>\$790,373</b>
<b>Cost of sales</b> (Note 12)	59,344	<b>65,873</b>	<b>560,767</b>
Gross profit	25,405	<b>26,971</b>	<b>229,606</b>
<b>Selling, general and administrative expenses</b> (Note 12)	12,354	<b>12,980</b>	<b>110,496</b>
Operating income	13,051	<b>13,991</b>	<b>119,109</b>
<b>Non-operating income:</b>			
Interest income	10	<b>19</b>	<b>165</b>
Other income	267	<b>855</b>	<b>7,284</b>
<b>Non-operating expenses:</b>			
Interest expense	293	<b>272</b>	<b>2,317</b>
Other expenses	150	<b>563</b>	<b>4,793</b>
Ordinary income	12,885	<b>14,031</b>	<b>119,448</b>
<b>Special income:</b>			
Gain on sales of investment securities	358	<b>93</b>	<b>799</b>
Other income	165	<b>22</b>	<b>188</b>
<b>Special loss:</b>			
Loss on valuation and disposal of inventories	5,861	<b>2,862</b>	<b>24,371</b>
Loss on disposal of tangible assets	854	<b>1,387</b>	<b>11,807</b>
Lease cancellation fee	—	<b>1,854</b>	<b>15,781</b>
Other losses	291	<b>178</b>	<b>1,516</b>
Income before income taxes and minority interests	6,401	<b>7,865</b>	<b>66,959</b>
<b>Income taxes</b> (Note 7)			
Current	3,187	<b>1,690</b>	<b>14,387</b>
Deferred	(1,688)	<b>2,851</b>	<b>24,276</b>
	1,498	<b>4,541</b>	<b>38,663</b>
<b>Minority interests</b>	444	<b>198</b>	<b>1,689</b>
Net income	¥ 4,459	<b>¥ 3,125</b>	<b>\$ 26,606</b>
		yen	U.S. dollars (Note 1)
<b>Per share of common stock</b> (Note 13):			
Shareholders' equity	¥879.93	<b>¥1,165.07</b>	<b>\$9.92</b>
Net income (loss) — basic	118.82	<b>80.77</b>	<b>0.68</b>
— diluted	108.75	<b>74.02</b>	<b>0.63</b>
Cash dividends, applicable to earnings of the year	30.00	<b>40.00</b>	<b>0.34</b>

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

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Tokyo Seimitsu Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2005 and 2006

	Thousands	Millions of yen			
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Others
<b>Balance at March 31, 2004</b>	37,354	¥7,199	¥11,806	¥10,273	¥ (97)
Net income	-	-	-	4,459	-
Foreign currency translation adjustments	-	-	-	-	95
Net unrealized profit or loss on investment securities	-	-	-	-	12
Shares of common stock in treasury	(4)	-	-	-	(13)
Common stock issued upon exercise of warrants	144	192	211	-	-
Cash dividends paid	-	-	-	(1,122)	-
Bonuses to directors	-	-	-	(14)	-
<b>Balance at March 31, 2005</b>	37,495	¥7,392	¥12,017	¥13,596	¥ (3)
Net income	-	-	-	3,125	-
Foreign currency translation adjustments	-	-	-	-	149
Net unrealized profit or loss on investment securities	-	-	-	-	1,270
Shares of common stock in treasury	(4)	-	175	-	(26)
Common stock issued upon exercise of warrants	180	287	287	-	-
Conversion of convertible bonds	690	1,767	1,767	-	-
Increase resulting from stock exchange	1,711	-	6,218	-	-
Cash dividends paid	-	-	-	(1,312)	-
Bonuses to directors	-	-	-	(9)	-
<b>Balance at March 31, 2006</b>	<b>40,073</b>	<b>¥9,447</b>	<b>¥20,466</b>	<b>¥15,399</b>	<b>¥1,389</b>

	Thousands of U.S. dollars (Note 1)			
	Common stock	Capital surplus	Retained earnings	Others
<b>Balance at March 31, 2005</b>	\$62,927	\$102,305	\$115,744	\$ (26)
Net income	-	-	26,606	-
Foreign currency translation adjustments	-	-	-	1,269
Net unrealized profit or loss on investment securities	-	-	-	10,811
Shares of common stock in treasury	-	1,491	-	(226)
Common stock issued upon exercise of warrants	2,450	2,449	-	-
Conversion of convertible bonds	15,047	15,045	-	-
Increase resulting from stock exchange	-	52,937	-	-
Cash dividends paid	-	-	(11,171)	-
Bonuses to directors	-	-	(85)	-
<b>Balance at March 31, 2006</b>	<b>\$80,425</b>	<b>\$174,228</b>	<b>\$131,093</b>	<b>\$11,828</b>

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

Tokyo Seimitsu Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2005 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2006	2006
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥ 6,401	¥ 7,865	\$ 66,959
Depreciation and amortization*	2,892	2,939	25,023
Change in allowance for doubtful accounts	16	(8)	(70)
Change in accrued pension and severance costs	231	(110)	(941)
Interest and dividend income	(51)	(75)	(641)
Interest expense	293	272	2,317
Loss on valuation of investment securities	—	60	510
Loss on valuation of golf membership	2	44	374
Gain on sales of land	(15)	(1)	(11)
Loss on sales and disposal of tangible assets	952	1,704	14,512
Loss on disposal of intangible assets	—	19	162
Gain on sales of investment securities	(358)	(93)	(799)
Change in trade notes and accounts receivable	(5,427)	(4,043)	(34,422)
Change in inventories	1,006	1,152	9,810
Change in trade notes and accounts payable	37	6,546	55,729
Change in other assets and liabilities	2,532	(4,443)	(37,826)
Bonuses to directors	(14)	(9)	(85)
Subtotal	8,499	11,817	100,603
Proceeds from interest and dividend income	51	75	641
Payment of interest	(291)	(284)	(2,425)
Payment of income taxes	(1,201)	(3,261)	(27,766)
Net cash provided by operating activities	7,058	8,346	71,052
<b>Cash flows from investing activities:</b>			
Payment for time deposits due over three months	(21)	(1,048)	(8,921)
Proceeds from time deposits due over three months	20	38	323
Payment for purchase of investment securities	(362)	(140)	(1,195)
Payment for purchase of investment in affiliates	(96)	(163)	(1,394)
Proceeds from sales of investment securities	579	85	727
Payment for purchase of property, plant and equipment	(1,721)	(4,821)	(41,047)
Proceeds from sales of property, plant and equipment	78	87	747
Payment for purchase of intangible assets	(277)	(242)	(2,067)
Other	30	44	382
Net cash used in investing activities	(1,769)	(6,160)	(52,446)
<b>Cash flows from financing activities:</b>			
Change in short-term loans payable	(5,085)	2,598	22,116
Proceeds from long-term debt	5,300	2,500	21,282
Repayment of long-term debt	(4,994)	(4,660)	(39,670)
Payment for redemption of bonds	(200)	(450)	(3,830)
Proceeds from common stock issued upon exercise of warrants	383	646	5,503
Proceeds from sales of shares of common stock in treasury	—	495	4,215
Dividend payments	(1,122)	(1,312)	(11,171)
Other	(13)	(108)	(920)
Net cash used in financing activities	(5,732)	(290)	(2,475)
Effect of exchange rate changes on cash and cash equivalents	39	117	1,000
Net increase (decrease) in cash and cash equivalents	(403)	2,012	17,131
Cash and cash equivalents at beginning of year	12,242	11,838	100,782
Cash and cash equivalents at end of year (Note 14)	¥11,838	¥13,851	\$117,914

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

\* Depreciation and amortization includes amortization of consolidated goodwill.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Tokyo Seimitsu Co., Ltd. and Consolidated Subsidiaries

## 1 BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Tokyo Seimitsu 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. Certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is more familiar outside Japan. In addition, the accompanying notes include additional information which is not required under accounting principles and practices generally accepted in Japan. U.S. dollar amounts in the

accompanying consolidated financial statements are included solely for convenience, at ¥117.47=U.S. \$1, the exchange rate prevailing on March 31, 2006. The translation should not be construed as a representation that yen amounts have been or could be converted into U.S. dollars at that or any other rate.

As permitted, amounts of less than one million yen have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements (both yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts. Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (1) Principles of consolidation

The accompanying consolidated financial statements include the accounts of 8 subsidiaries as of March 31, 2005 and 7 subsidiaries as of March 31, 2006. The remaining 8 subsidiaries and 1 affiliate as of March 31, 2005 and 10 subsidiaries as of March 31, 2006, whose total assets, net sales and net income are immaterial in relation to the comparable amounts in these statements, have been excluded.

The differences between the cost and the fair value of the net assets at the dates of acquisition of the consolidated subsidiaries are amortized by the straight-line method over the respective years (10 years) which were judged rationally for every acquisition for the year ended March 31, 2006.

All significant inter-company transactions, accounts and unrealized profits, have been eliminated. Investments in the affiliate and unconsolidated subsidiaries, not significant in amount, are carried at cost or less. Where there has been permanent impairment in the value of investments, the Company has written down such investments. Appropriation of retained earnings are recorded in the fiscal year when such proposed appropriation of retained earnings are approved by the shareholders.

### (2) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, available funds on deposit and short-term, highly liquid investments that are readily convertible to cash and with original maturities of three months or less, and substantially free from price fluctuation risk.

### (3) Securities

Investment securities that have fair values are stated at fair value, with unrealized gains and losses excluded from earnings and included in a separate component of shareholders' equity on a net-of-tax basis. Cost of securities sold is determined by the moving average method.

Other securities that do not have fair values are stated at cost determined by the moving average method.

### (4) Derivative financial instruments

Derivative financial instruments are generally required to be stated at fair value. However, the Company employs derivative financial instruments including foreign currency exchange contracts and interest rate

swap agreements to hedge its exposures to adverse fluctuations in foreign currency exchange rates associated with export sales transactions and interest rate on bank loans. Special hedge accountings have been used for the foreign currency exchange contracts and the interest rate swap agreements, as is permitted by the accounting standards for financial instruments. No derivative financial instruments for trading purposes have been held. Since the counterparties are domestic banks with high credit ratings, the Company does not anticipate any credit loss due to default by the counterparties. The Company will hedge any significant foreign currency exchange risks and interest rate risks under its internal regulation.

### (5) Inventories

Inventories of the Company and its consolidated domestic subsidiaries are stated at cost determined by the first-in, first-out method, excluding work in progress, which is stated at specific identification costs.

Inventories of its consolidated foreign subsidiaries are stated at the lower of cost or market, cost being determined by the first-in, first-out method.

### (6) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation in the Company and its consolidated domestic subsidiaries is principally computed by the declining balance method over the estimated useful lives of the respective assets.

Depreciation in its consolidated foreign subsidiaries is computed by the straight-line method over the useful lives of the respective assets.

The significant useful lives are summarized as follows:

Buildings and structures	3–50 years
Machinery and equipment	2–11 years

### (7) Intangible assets

Intangible assets are stated at cost less accumulated amortization. Capitalized costs of software for sale are amortized, using the greater of the ratio of current volume of sales to the total anticipated volume of sales or the straight-line method over the remaining useful life of the assets as a basis of amortization. Capitalized costs of software for internal use and other intangible assets are amortized using the straight-line method over the estimated lives.

#### (8) Leases

Non-cancelable lease transactions are primarily accounted for as operating leases except that lease agreements which stipulate the transfer of ownership of the leased assets at the end of lease period are accounted for as finance leases.

#### (9) Allowance for doubtful accounts

Allowance for doubtful accounts is provided in an amount sufficient to cover probable losses on collection. It consists of the estimated uncollectible accounts, based on individual collectibility with respect to identified doubtful receivables and past experience of bad debt losses.

#### (10) Accrued pension and severance costs

Accrued pension and severance costs are provided based on an estimate of the pension and severance obligation and the plan assets at the end of the year.

Actuarial gains and losses are amortized by the straight-line method over 10 years, which is within the average estimated remaining service lives of the employees, commencing from the following period.

The Company and its consolidated domestic subsidiaries also provide for severance payment to directors and statutory auditors, determined by the estimated amount to be paid in accordance with the Company's or its domestic consolidated subsidiaries' internal regulations if all directors and statutory auditors retired at the balance sheet dates. The Company discontinued its severance payments plan for directors and statutory auditors from the fiscal year ended March 31, 2006. At March 31, 2006, accrued pension and severance costs was recorded at the amount determined by the estimated amount to be paid at March 31, 2005 for directors and at June 30, 2005 for statutory auditors.

#### (11) Foreign currency translation

In accordance with the accounting standards of Japan for foreign currency transactions, assets and liabilities denominated in foreign currencies of the Company and its consolidated domestic subsidiaries and financial statements of its consolidated foreign subsidiaries are translated as follows:

- a) Assets and liabilities denominated in foreign currencies of the Company and its consolidated domestic subsidiaries:  
Assets and liabilities are principally translated into yen using exchange rates effective at the balance sheet dates. However in cases where forward foreign exchange contracts used as hedges meet certain hedging criteria, the existing foreign currency assets and liabilities are translated at their respective contract rates.
- b) Financial statements of its consolidated foreign subsidiaries:  
Except for shareholders' equity, the assets, liabilities, and revenue and expense accounts of its consolidated foreign subsidiaries are translated into yen at the rate of exchange in effect at the

balance sheet dates. The components of shareholders' equity are translated into yen at historical rates. Differences arising from translation are presented as "Minority interests" and "Foreign currency translation adjustments" as a separate component of shareholders' equity in the accompanying balance sheets.

#### (12) Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

#### (13) Amounts per share of common stock

Shareholders' equity per share is based on the number of shares outstanding at the respective balance sheet dates.

The computation of basic net income per share is based on the weighted average number of shares of common stock outstanding during the respective fiscal year. Diluted net income per share is computed based on the weighted average number of shares of common stock outstanding during the respective fiscal year and assuming the conversion of convertible bonds and exercise of warrants.

Cash dividends per share represent the cash dividends declared as applicable to the respective year together with the interim cash dividends paid.

#### (14) Impairment of fixed assets

Effective the year ended March 31, 2006, the Company and its consolidated domestic subsidiaries have adopted a new accounting standard for the impairment of fixed assets which requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Companies would be required to recognize an impairment loss in their statement of income if certain indicators of asset impairment exist and the book value of an asset exceeds the undiscounted sum of future cash flows of the asset. The standard states that impairment losses should be measured as the excess of the book value over the higher of (1) the fair market value of the asset, net of disposition costs and (2) the present value of future cash flows arising from ongoing utilization of the asset and from disposal after asset use. The standard covers land, factories, buildings and other forms of property, plant and equipment as well as intangible assets. Fixed assets will be grouped at the lowest level for which there is identifiable cash flows that are independent of cash flows of other groups of assets.

As a result of the adoption of this new accounting standard, no loss on impairment of fixed assets was recognized for the year ended March 31, 2006.

### 3 INVESTMENT SECURITIES

The aggregate carrying value and fair value of securities with fair value (equity and debt securities) as of March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Carrying value	¥2,591	<b>¥2,836</b>	<b>\$24,145</b>
Fair value	2,715	<b>5,097</b>	<b>43,390</b>
Unrealized gain	¥ 124	<b>¥2,260</b>	<b>\$19,244</b>

The aggregate carrying value of securities without fair value was ¥808 million as of March 31, 2005 and ¥689 million (U.S.\$5,868 thousand) as of March 31, 2006.

### 4 INVENTORIES

Inventories as of March 31, 2005 and 2006 consisted of the following items:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Goods and finished products	¥ 4,390	<b>¥ 3,429</b>	<b>\$ 29,190</b>
Work in progress	21,570	<b>21,429</b>	<b>182,428</b>
Raw materials and supplies	2,174	<b>2,194</b>	<b>18,685</b>
	<b>¥28,134</b>	<b>¥27,053</b>	<b>\$230,304</b>

## 5 SHORT-TERM LOANS PAYABLE AND LONG-TERM DEBT

The average annual interest rates of short-term loans payable, principally to banks, for the years ended March 31, 2005 and 2006 are 0.69% and 0.64%, respectively.

Long-term debt as of March 31, 2005 and 2006 consisted of the following items:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Long-term debt with collateral			
Bank loans			
Due 2005 to 2006 with interest ranging from 1.250% to 2.100% as of March 31, 2005,	¥ 2,699		
Due 2006 with interest of 1.370% as of March 31, 2006		¥ 750	\$ 6,384
Bonds			
2.300%, due 2006	150	—	—
Long-term debt without collateral			
Bank loans			
Due 2005 to 2010 with interest ranging from 0.880% to 1.650% as of March 31, 2005,	8,214		
Due 2006 to 2010 with interest ranging from 0.880% to 1.600% as of March 31, 2006		8,003	68,136
Bonds			
Due 2005 to 2007 with interest ranging from 0.820% to 1.230% as of March 31, 2005,	2,200		
Due 2006 to 2007 with interest ranging from 0.910% to 1.230% as of March 31, 2006		1,900	16,174
Convertible bonds			
0.850%, due 2008	51	51	434
Zero coupon due 2008	17,500	13,965	118,881
	30,815	24,669	210,010
Less current portion	4,610	3,773	32,122
	¥26,204	¥20,896	\$177,887

As of March 31, 2006, if all the outstanding 0.850% convertible bonds due 2008 had been converted at the current conversion price of ¥1,816.60 (U.S.\$15.5) per share, 28,074 shares would have been issued. If all the outstanding Zero coupon convertible bonds due 2008 had been converted at the current conversion price of ¥5,121.60 (U.S.\$43.6) per share, 2,726,686 shares would have been issued.

The annual maturities of long-term debt (including current portion) subsequent to March 31, 2006 are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2007	¥ 3,773	\$ 32,122
2008	3,568	30,373
2009	15,857	134,987
2010	1,462	12,445
2011 and thereafter	9	80
	¥24,669	\$210,010

Assets pledged as collateral for ¥1,200 million (U.S.\$10,215 thousand) of short-term loans and ¥750 million (U.S.\$6,384 thousand) of the current portion of long-term debt as of March 31, 2006, were ¥378 million (U.S.\$3,220 thousand) in land and ¥3,945 million (U.S.\$33,585 thousand) in buildings and structures.

## 6 ACCRUED PENSION AND SEVERANCE COSTS

The Company sponsors the employee pension fund which was pursuant to the Japanese Welfare Pension Insurance Law, noncontributory tax-qualified pension plans and retirement plans for employees of the Company. Its domestic subsidiaries sponsor noncontributory tax-qualified pension plans and retirement plans for their respective

employees. The following amounts represent actuarial present value of projected benefit obligations, components of pension expense and major assumptions at the beginning of the year for the years ended March 31, 2005 and 2006.

### (1) Actuarial present value of projected benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Actuarial present value of projected benefit obligations	¥7,516	¥ 7,409	\$ 63,076
Plan assets (inclusive of the employees' retirement benefit trust account)	3,104	5,599	47,664
Accrued pension and severance costs	3,610	3,822	32,539
Unrecognized net actuarial loss	¥ 801	¥(2,012)	\$(17,127)

### (2) Components of net periodic pension and severance cost

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Service cost	¥381	¥382	\$3,253
Interest cost	134	132	1,125
Expected return on plan assets	(15)	(14)	(126)
Actuarial loss	231	169	1,441
Net periodic pension and severance cost	¥731	¥668	\$5,693

### (3) Major assumptions at the beginning of year

	2005	2006
Discount rate	2.00%	2.00%
Expected rate of return on plan assets	2.50%	2.50%
Allocation method of pension and severance costs	Straight-line method	<b>Straight-line method</b>
Term of amortization of unrecognized net actuarial loss	10 years	<b>10 years</b>

The total liabilities in connection with the severance payment to directors and statutory auditors were ¥675 million and ¥353 million (U.S.\$3,009 thousand) as of March 31, 2005 and 2006, respectively.

## 7 INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to a number of taxes based on income which, in the aggregate, resulted in statutory tax rates of approximately 40.69% in 2005 and 2006. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation. The effective tax rates in the accompanying consolidated statements of operations for

the years ended March 31, 2005 and 2006 differ from the statutory rate primarily because of the effect of permanently nondeductible expenses and the effect of different tax rates applied to the income of the foreign consolidated subsidiaries. The effective tax rates reflected in the consolidated statements of operations for the years ended March 31, 2005 and 2006 differ from the statutory tax rate for the following reasons:

	2005	2006
Statutory tax rate	40.69%	<b>40.69%</b>
Effect of:		
Valuation allowance	35.47	<b>11.59</b>
Temporary difference on investment in a subsidiary	(52.19)	—
Tax credit for increased research expenses	(4.77)	—
Undistributed earnings of foreign subsidiaries	—	<b>1.81</b>
Gain on cancellation of treasury stocks	—	<b>2.30</b>
Other, net	4.20	<b>1.35</b>
Effective tax rate	23.40%	<b>57.74%</b>

The significant components of deferred tax assets and liabilities as of March 31, 2005 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Deferred tax assets:			
Temporary difference of investment in a subsidiary	¥ 3,340	¥ —	\$ —
Accrued pension and severance costs	2,465	<b>2,663</b>	<b>22,670</b>
Unrealized profit	804	<b>557</b>	<b>4,749</b>
Tax loss carryforwards	1,319	<b>2,431</b>	<b>20,701</b>
Accrued bonuses	387	<b>352</b>	<b>2,997</b>
Other	1,090	<b>788</b>	<b>6,708</b>
Gross deferred tax assets	9,408	<b>6,793</b>	<b>57,827</b>
Less valuation allowance	(1,285)	<b>(1,241)</b>	<b>(10,564)</b>
Deferred tax assets	8,123	<b>5,551</b>	<b>47,263</b>
Deferred tax liabilities:			
Gain on securities contribution to employees' retirement benefit trust	(704)	<b>(704)</b>	<b>(5,999)</b>
Deferred capital gains on fixed assets	(101)	<b>(50)</b>	<b>(425)</b>
Undistributed earnings of foreign subsidiaries	(229)	<b>(371)</b>	<b>(3,160)</b>
Net unrealized gain on securities	(49)	<b>(919)</b>	<b>(7,828)</b>
Other	—	<b>(150)</b>	<b>(1,282)</b>
Deferred tax liabilities	(1,084)	<b>(2,196)</b>	<b>(18,697)</b>
Net deferred tax assets	¥ 7,038	<b>¥ 3,355</b>	<b>\$28,565</b>

## 8 SHAREHOLDERS' EQUITY

The Japanese Commercial Code (the "Code") requires at least 50% of the issue price of new shares to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital.

The Company may transfer portions of additional paid-in capital to stated capital by resolutions of the Board of Directors. The Company may also transfer a portion of undistributed retained earnings, available for dividends, to stated capital by resolution of the shareholders.

Retained earnings include a legal reserve provided in accordance with the provisions of the Code. This reserve is not available for dividends, but may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors.

Dividends are approved by the shareholders at a meeting held

subsequent to the fiscal year to which the dividends are applicable. In addition, semiannual interim dividends may be paid upon resolution of the Board of Directors, subject to limitations imposed by the Code.

Cash dividends charged to retained earnings during the fiscal year were year-end cash dividends for the preceding fiscal year and interim cash dividends for the current fiscal year.

The Code provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of the legal reserve and additional paid-in capital equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders.

## 9 LEASE INFORMATION

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of property as of March 31, 2005 and 2006, which would have been reflected in the balance

sheets if the finance lease accounting had been applied to the finance lease currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Machinery and equipment:			
Acquisition cost	¥3,534	¥1,348	\$11,481
Accumulated depreciation	1,095	826	7,038
Net book value	¥2,439	¥ 521	\$ 4,443
Others:			
Acquisition cost	¥ 557	¥ 537	\$ 4,571
Accumulated depreciation	284	182	1,553
Net book value	¥ 273	¥ 354	\$ 3,018

Concerning the above finance lease transactions, lease payments, estimated depreciation expense, which is computed by the straight-line method over the respective lease terms without scrap value, and

estimated interest expense for the years ended March 31, 2005 and 2006, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Lease payments	¥635	¥730	\$6,215
Estimated depreciation expense	571	648	5,521
Estimated interest expense	76	95	808

Future lease payments for finance lease transactions accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Current portion	¥ 607	¥315	\$2,689
Non-current portion	2,187	604	5,144
	¥2,795	¥920	\$7,833

## 10 DERIVATIVE INSTRUMENTS

Because all derivatives held by the Company and its consolidated subsidiaries at March 31, 2005 and 2006 were for hedge purpose, the related information on their respective market value has not been presented.

## 11 CONTINGENT LIABILITIES

Contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Trade notes receivable discounted	¥2,941	¥4,943	\$42,079
Bills of exchange without L/C	696	1,270	10,815
Guarantee of obligation for bank loans of an unconsolidated subsidiary, Accretech (China) Co., Ltd.	90	—	—

## 12 SUPPLEMENT TO CONSOLIDATED STATEMENTS OF OPERATIONS

### (1) Research and Development Costs

Research and development costs included in selling, general and administrative expenses and manufacturing costs are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Selling, general and administrative expenses	¥ 315	¥1,414	\$12,040
Manufacturing costs	5,984	6,505	55,381

### (2) Selling, General and Administrative Expenses

The details of selling, general and administrative expenses are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Selling expenses			
Salaries for employees	¥1,831	¥2,004	\$17,062
Provision for employees' bonuses	120	79	677
Provision for retirement benefits for employees	98	104	885
Sales commission	2,531	2,318	19,733
Provision for doubtful accounts	17	—	—
General and administrative expenses			
Salaries for employees	571	647	5,515
Provision for employees' bonuses	28	19	169
Provision for retirement benefits for employees	35	37	322
Provision for retirement benefit for directors and statutory auditors	214	18	154
Research and development costs	315	1,414	12,040
Amortization of consolidated goodwill	—	171	1,456

### 13 RECONCILIATION OF THE DIFFERENCES BETWEEN BASIC AND DILUTED NET INCOME PER SHARE

A reconciliation of the difference between basic and diluted net income per share ("EPS") for the years ended March 31, 2005 and 2006 is as follows:

	Millions of yen	Thousands of shares	Yen	U.S. dollars
	Net income	Weighted average shares	EPS	
<b>For the year ended March 31, 2006:</b>				
Basic EPS				
Net income available to common shareholders	<b>¥3,110</b>	<b>38,515</b>	<b>¥ 80.77</b>	<b>\$0.68</b>
Effect of Dilutive Securities				
Stock options	–	<b>186</b>		
Convertible bonds	<b>0</b>	<b>3,328</b>		
Diluted EPS				
Net income for computation	<b>¥3,111</b>	<b>42,029</b>	<b>¥ 74.02</b>	<b>\$0.63</b>
<b>For the year ended March 31, 2005:</b>				
Basic EPS				
Net income available to common shareholders	¥4,449	37,452	¥118.82	
Effect of Dilutive Securities				
Stock options	–	13		
Convertible bonds	0	3,453		
Diluted EPS				
Net income for computation	¥4,450	40,920	¥108.75	

### 14 SUPPLEMENT TO CONSOLIDATED STATEMENTS OF CASH FLOWS

A reconciliation of the cash and cash equivalents of the balance sheets and those of the statements of cash flows at March 31, 2005 and 2006 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Cash and cash equivalents (Balance sheets)	¥11,866	<b>¥13,887</b>	<b>\$118,218</b>
Money reserve fund	–	<b>2</b>	<b>19</b>
Time deposits with original maturities over three months	(28)	<b>(38)</b>	<b>(323)</b>
Cash and cash equivalents (Statements of cash flows)	¥11,838	<b>¥13,851</b>	<b>\$117,914</b>

Significant non-cash transaction:

(1) On October 2005, the Company executed a share exchange contract and made Tosei Engineering Corp. a wholly owned subsidiary of the Company. As a result of the share exchange, additional paid-in capital increased by ¥6,218 million.

(2) The conversions of convertible bonds for the year ended March 31, 2005 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Increase in common stock due to the conversion of convertible bonds	¥ -	<b>¥1,767</b>	<b>\$15,047</b>
Increase in additional paid-in capital due to the conversion of convertible bonds	-	<b>1,767</b>	<b>15,045</b>
Decrease in convertible bonds	¥ -	<b>¥3,534</b>	<b>\$30,092</b>

## 15 SEGMENT INFORMATION

The Company and its consolidated subsidiaries are primarily engaged in the sales and manufacture of products in two major segments.

1) Semiconductor manufacturing equipment: Wafer Probing Machines, Wafer Dicing Machines, Wafer Inspection Machines, CMPs, Polish Grinders, Wafer Manufacturing Systems, etc.

2) Measuring systems: Coordinate Measuring Machines, Surface Texture and Contour Measuring Instruments, Cylindrical Form Measuring Instruments, Machine Control Gauges, etc.

The business and geographical segments and overseas sales of the Company and its consolidated subsidiaries for the years ended March 31, 2005 and 2006 are outlined as follows:

### (a) Business Segments

	Millions of yen				
	Semiconductor manufacturing equipment division	Measuring systems division	Total	Corporate and elimination	Consolidation
<b>Year ended March 31, 2005</b>					
Sales and operating income:					
Sales to third parties	¥66,669	¥18,081	¥84,750	¥ -	¥ 84,750
Intersegment sales and transfer	-	-	-	-	-
Total sales	66,669	18,081	84,750	-	84,750
Cost of revenue from operations	57,884	13,814	71,698	-	71,698
Operating income	<u>¥ 8,784</u>	<u>¥ 4,267</u>	<u>¥13,051</u>	<u>¥ -</u>	<u>¥ 13,051</u>
Assets, depreciation and capital expenditure:					
Assets	¥80,434	¥18,947	¥99,382	¥ 1,611	¥100,993
Depreciation	2,404	327	2,732	-	2,732
Capital expenditure	2,731	1,040	3,771	-	3,771

	Millions of yen				
	Semiconductor manufacturing equipment division	Measuring systems division	Total	Corporate and elimination	Consolidation
<b>Year ended March 31, 2006</b>					
Sales and operating income:					
Sales to third parties	¥71,824	¥21,020	¥ 92,845	¥ -	¥ 92,845
Intersegment sales and transfer	-	-	-	-	-
Total sales	71,824	21,020	92,845	-	92,845
Cost of revenue from operations	62,852	16,000	78,853	-	78,853
Operating income	<u>¥ 8,972</u>	<u>¥ 5,019</u>	<u>¥ 13,991</u>	<u>¥ -</u>	<u>¥ 13,991</u>
Assets, depreciation and capital expenditure:					
Assets	¥83,885	¥21,256	¥105,141	¥4,733	¥109,875
Depreciation	2,337	430	2,768	-	2,768
Capital expenditure	3,399	578	3,978	-	3,978

	Thousands of U.S. dollars				
	Semiconductor manufacturing equipment division	Measuring systems division	Total	Corporate and elimination	Consolidation
<b>Year ended March 31, 2006</b>					
Sales and operating income:					
Sales to third parties	\$611,432	\$178,941	\$790,373	\$ –	\$790,373
Intersegment sales and transfer	–	–	–	–	–
Total sales	<u>611,432</u>	<u>178,941</u>	<u>790,373</u>	–	<u>790,373</u>
Cost of revenue from operations	535,051	136,212	671,263	–	671,263
Operating income	<u>\$ 76,380</u>	<u>\$ 42,729</u>	<u>\$119,109</u>	<u>\$ –</u>	<u>\$119,109</u>
Assets, depreciation and capital expenditure:					
Assets	\$714,100	\$180,950	\$895,050	\$40,299	\$935,350
Depreciation	19,902	3,664	23,567	–	23,567
Capital expenditure	28,942	4,924	33,867	–	33,867

(b) Geographical Segments

	Millions of yen					
Year ended March 31, 2005	Japan	United States of America	Germany	Area total	Corporate and elimination	Consolidation
Sales and operating income:						
Sales to third parties	¥69,846	¥9,226	¥5,677	¥ 84,750	¥ –	¥ 84,750
Intersegment sales and transfer	9,277	–	–	9,277	(9,277)	–
Total sales	<u>79,123</u>	<u>9,226</u>	<u>5,677</u>	<u>94,027</u>	<u>(9,277)</u>	<u>84,750</u>
Cost of revenue from operations	66,386	9,199	5,478	81,064	(9,365)	71,698
Operating income	<u>¥12,737</u>	<u>¥ 27</u>	<u>¥ 199</u>	<u>¥ 12,963</u>	<u>¥ 88</u>	<u>¥ 13,051</u>
Assets	¥96,292	¥6,052	¥2,363	¥104,708	¥(3,715)	¥100,993

	Millions of yen					
<b>Year ended March 31, 2006</b>	Japan	United States of America	Germany	Area total	Corporate and elimination	Consolidation
Sales and operating income:						
Sales to third parties	¥ 78,130	¥9,054	¥5,660	¥ 92,845	¥ –	¥ 92,845
Intersegment sales and transfer	9,409	–	–	9,409	(9,409)	–
Total sales	<u>87,539</u>	<u>9,054</u>	<u>5,660</u>	<u>102,254</u>	<u>(9,409)</u>	<u>92,845</u>
Cost of revenue from operations	74,322	8,809	5,137	88,269	(9,415)	78,853
Operating income	<u>¥ 13,217</u>	<u>¥ 244</u>	<u>¥ 523</u>	<u>¥ 13,985</u>	<u>¥ 6</u>	<u>¥ 13,991</u>
Assets	¥101,349	¥6,468	¥2,940	¥110,758	¥ (882)	¥109,875

	Thousands of U.S. dollars					
<b>Year ended March 31, 2006</b>	Japan	United States of America	Germany	Area total	Corporate and elimination	Consolidation
Sales and operating income:						
Sales to third parties	\$665,112	\$77,076	\$48,184	\$790,373	\$ -	\$790,373
Intersegment sales and transfer	80,098	-	-	80,098	(80,098)	-
Total sales	745,210	77,076	48,184	870,472	(80,098)	790,373
Cost of revenue from operations	632,694	74,993	43,732	751,419	(80,156)	671,263
Operating income	\$112,516	\$ 2,082	\$ 4,452	\$119,052	\$ 57	\$119,109
Assets	\$862,765	\$55,067	\$25,030	\$942,863	\$(7,513)	\$935,350

### (c) Overseas Sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales of the foreign consolidated subsidiaries, are as follows:

	Millions of yen				
Year ended March 31, 2005	East Asia	North America	Europe	Others	Total
Overseas sales	¥25,048	¥8,166	¥5,706	¥3,938	¥42,860
Consolidated sales					84,750
Ratio of overseas sales to consolidated sales	29.6%	9.6%	6.7%	4.7%	50.6%

	Millions of yen				
<b>Year ended March 31, 2006</b>	East Asia	North America	Europe	Others	Total
Overseas sales	¥31,224	¥7,043	¥5,034	¥4,374	¥47,676
Consolidated sales					92,845
Ratio of overseas sales to consolidated sales	33.6%	7.6%	5.4%	4.7%	51.3%

	Thousands of U.S. dollars				
<b>Year ended March 31, 2006</b>	East Asia	North America	Europe	Others	Total
Overseas sales	\$265,808	\$59,958	\$42,857	\$37,238	\$405,863
Consolidated sales					790,373
Ratio of overseas sales to consolidated sales	33.6%	7.6%	5.4%	4.7%	51.3%

## 16 SUBSEQUENT EVENT

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2006, were approved by the shareholders at a meeting held on June 29, 2006:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥20=U.S.\$0.17 per share)	¥801	\$6,822

## REPORT OF INDEPENDENT AUDITORS



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The Board of Directors  
Tokyo Seimitsu Co., Ltd.

We have audited the accompanying consolidated balance sheets of Tokyo Seimitsu Co., Ltd. and consolidated subsidiaries as of March 31, 2005 and 2006, 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 Tokyo Seimitsu Co., Ltd. and consolidated subsidiaries at March 31, 2005 and 2006, 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 March 31, 2006 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.

*Ernst & Young ShinNihon*

June 29, 2006

# NETWORK

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(as of July 2006)

## INVESTOR INFORMATION

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Telephone: 81 (422) 48-1011  
Facsimile: 81 (422) 48-1204

### ESTABLISHED:

March 28, 1949

### PAID-IN CAPITAL:

¥9,447 million

### NUMBER OF EMPLOYEES:

Consolidated: 1,169  
Non-consolidated: 644

### NUMBER OF SHARES:

Authorized: 110,501,100 shares  
Outstanding: 40,100,167 shares (Treasury Stock 26,421 shares Included)

### NUMBER OF SHAREHOLDERS:

18,444

### EXCHANGE LISTING:

Tokyo Stock Exchange, 1st Section (Code No. 7729)

### MAJOR SHAREHOLDERS:

The Master Trust Bank of Japan, Ltd.  
Japan Trustee Services Bank, Ltd.  
The Nomura Trust and Banking Co., Ltd.  
The Precise Measurement Technique Promoting Foundation  
Mizuho Corporate Bank, Ltd.  
Mitsui Life Insurance Company Limited

### TRANSFER AGENT AND REGISTRAR:

Mizuho Trust & Banking Co., Ltd.  
2-1, Yaesu 1-chome, Chuo-ku, Tokyo 103-8670, Japan

### ANNUAL MEETING OF SHAREHOLDERS:

The annual meeting of shareholders of the Company is normally held in June each year in Tokyo, Japan.

### INDEPENDENT AUDITORS:

Ernst & Young ShinNihon

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(As of March 31, 2006)



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