



TOKYO SEIMITSU CO., LTD.

ANNUAL REPORT 2005

What we **ENVISION**, and what we're **DOING NOW**.



Win-Win

- ✓ UPMC-CARAT Ultra ACC
- ✓ PRISMO-VAST
- ✓ XYZAX SVA fusion
- ✓ XYZAX SVA-A
- ✓ XYZAX RVF-A
- ✓ PRO
- ✓ SMC/ Eagle Eye
- ✓ SURFCOM 130A
- ✓ SURFCOM 1500DX-3DF
- ✓ SURFCOM 2000DX
- ✓ SURFCOM 3000A
- ✓ SURFCOM 5000DX
- ✓ CONTOURECORD 1700DX
- ✓ PS200 Profile Scanner
- ✓ NPS2100A
- ✓ HANDY SURF E-35A
- ✓ RONDCOM 31C
- ✓ RONDCOM 43C
- ✓ RONDCOM 44SD
- ✓ RONDCOM 54DX
- ✓ RONDCOM 55B
- ✓ RONDCOM 60A
- ✓ RONDCOM 65A
- ✓ RONDCOM 72A
- ✓ RONDCOM 75GB
- ✓ CenterMax
- ✓ GageMax
- ✓ Optigo 200
- ✓ FCM-5000A
- ✓ CEI-1000A
- ✓ MHM-2000A
- ✓ PULCOM Σ-D System
- ✓ PULCOM V4
- ✓ PULCOM V6
- ✓ PULCOM V7
- ✓ PULCOM V8
- ✓ PULCOM V10 + V11
- ✓ PULCOM OPTO 15A
- ✓ ATC Run-out Detection system
- ✓ GAP JET
- ✓ ELCOM 8 for wireless
- ✓ DELTAIR 22H
- ✓ Air Servo Wafer Thickness Measuring System
- ✓ MINJAX
- ✓ MINICOM M
- ✓ DELCOM 300/100
- ✓ DISTAX 300A
- ✓ LAZAX
- ✓ E400E-300
- ✓ C-RW-200/300
- ✓ W-GM-4000
- ✓ W-GM-4200
- ✓ W-GM-5200
- ✓ S-LM-50E
- ✓ S-LM-116G
- ✓ S-LM-400E
- ✓ A-WS-100S
- ✓ ChaMP
- ✓ WIN-WIN 50
- ✓ UF60
- ✓ UF190B
- ✓ UF200A
- ✓ UF200SA
- ✓ UF3000
- ✓ FP200A
- ✓ EM-15A
- ✓ EM-21
- ✓ PG200RM
- ✓ PG300RM
- ✓ PG200DRM
- ✓ PG300PRM
- ✓ BG200
- ✓ MAHOHDICING MACHINE
- ✓ A-WD-10A
- ✓ A-WD-100A
- ✓ A-WD-110A
- ✓ A-WD-200T
- ✓ A-WD-208S
- ✓ A-WD-208T
- ✓ A-WD-250S
- ✓ A-WD-300T

WIN-WIN RELATIONSHIPS CREATE THE WORLD'S No. 1 PRODUCTS

The Company

Tokyo Seimitsu develops and manufactures sophisticated measuring instruments and semiconductor manufacturing equipment based on a highly distinctive management style. At the heart of this stance is the principle of "creating the world's number-one products by building WIN-WIN relationships." One way we accomplish this is by fostering an open-minded, stimulating working environment that attracts talented individuals seeking greater challenges. The result is a long list of accomplishments in market leadership that few companies of our scale in any industry can match.

Guiding and defining our activities are:

- ◆ The "Strategic Principles for Our R&D"
- ◆ An unparalleled willingness to tackle big challenges
- ◆ A commitment to becoming a much larger and more profitable organization
- ◆ The ability to identify and target high-potential fields where our strengths are most valuable

Tokyo Seimitsu products bear the ACCRETECH brand, which expresses the desire to accumulate technology to create number-one products based on the integration and creation of pioneering technologies.

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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.

(as of June 30, 2005)



Financial Highlights

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

	Millions of yen		Thousands of U.S. dollars	% change
	2004	2005	2005	
For the year:				
Net sales:	¥ 62,324	¥ 84,750	\$789,035	36.0%
Semiconductor manufacturing equipment	47,045	66,669	620,697	41.7
Measuring systems	15,279	18,081	168,338	18.3
Operating income	5,947	13,051	121,511	119.4
Income (loss) before income taxes and minority interests	(4,064)	6,401	59,601	–
Net income (loss)	(3,783)	4,459	41,519	–
Capital expenditure	2,904	3,771	35,111	29.9
Depreciation and amortization	2,829	2,892	26,928	2.2
Research & development expenses:	5,530	6,300	58,659	13.9
Semiconductor manufacturing equipment	5,076	5,755	53,583	13.4
Measuring systems	454	545	5,075	20.0
At year-end:				
Total assets	¥ 94,893	¥100,993	\$940,259	6.4%
Total shareholders' equity	29,183	33,003	307,265	13.1
		Yen	U.S. dollars	% change
Per share data:				
Net income (loss) – basic	¥ (101.67)	¥ 118.82	\$ 1.10	–
Cash dividends, applicable to earnings of the year	30.00	30.00	0.27	–

Note: The U.S. dollar amounts are translated for convenience only at the rate of ¥107.41 to U.S.\$1, the exchange rate prevailing on March 31, 2005.

To Our Shareholders

Our performance demonstrates that we have in place a framework capable of generating robust and prolonged growth in the years ahead.



Sales rose to an all-time high in the past fiscal year. A longstanding willingness to take on big challenges was a major contributing factor.

Our corporate culture has long been defined by the drive to become number one. We target markets that are on the verge of becoming large but where technological barriers are high. We are currently reaping the benefits of this approach.

Acceptance of our major new semiconductor manufacturing product lines gained momentum. In particular, orders for our Polish Grinders were much higher than we had expected. Established product lines performed well, too. Wafer Probing Machines posted strong sales and Wafer Dicing Machine sales reached an all-time high. Metrology Business sales also rose to an all-time high. The result was record sales.

One of our greatest strengths is the ability to target fast-growing market sectors. As design nodes shrink, demand is increasing for our leading-edge inspection equipment, such as Wafer Inspection Machines and Wafer Probing Machines. The rising use of three-dimensional circuit assembly in cell phones and other compact devices is boosting demand for Polish Grinders. New materials required by high-performance semiconductor devices are fueling demand for CMPs. Our biggest challenge is to continue developing products in high-potential market sectors where our expertise and corporate culture can be used to the greatest advantage.

Building shareholder value over the long term has always been our top priority. Increasing this value requires both a powerful growth engine and investor relationships

rooted in trust. Our performance last year, when we delivered the results as promised, demonstrated that we have both of these qualities.

We have ambitious goals for growth in sales and earnings. But our performance demonstrates that these targets are well within our reach. We are confident that shareholders will be well rewarded for entrusting us with their capital.

Hideo Ohtsubo
Chairman of the Board

Sadakatsu Suzuki
President, CEO & COO

A Discussion With the President Sadakatsu Suzuki

What for you were the highlights of the past fiscal year 2005?

Last year, we saw the first real signs that our efforts to transform the company over the past several years are producing benefits. Investors should focus on our record sales of ¥84,750 million. This was a 36.0% year-on-year increase. Furthermore, this includes 41.7% growth in semiconductor equipment sales to ¥66,669 million. Also, operating income more than doubled.

But, most of all, I want to stress that the products we developed over the past few years to target new markets, namely Wafer Inspection Machines, Polish Grinders and CMPs, are starting to produce results. All are based on "Strategic Principles for Our R&D." In the past fiscal year, these products rose to 26% of total semiconductor manufacturing equipment sales. Polish Grinders have been especially successful. We dominate this high-potential market. We also made progress laying a foundation for market acceptance of Wafer Inspection Machines and CMPs. With these new product lines, we are building a position in front-end processes. This augments our high profile in back-end semiconductor products, where our Probers and Dicers have high market shares. That places us at the center of technological progress required for more advances in semiconductor devices, and the finished products they are used in.



How does Tokyo Seimitsu stay at the forefront of these developments?

We adopt the perspective of semiconductor manufacturers. We are always asking ourselves what new processes they need to achieve advances in their own products. For example, the Polish Grinder is essential to making ultra-thin chips used in cell phones, IC cards and other products. Our Wafer Inspection Machines are vital to enhancing production yields of chips with smaller, higher density circuitry. The confidence we had in our initial decisions years ago to invest in new product lines is now being vindicated by current sales and earnings growth.

Progress in front-end processes drives advances in testing and back-end processes as well. Manufacturers want finer lines and thinner chips. We respond by updating our established product lines to meet even more sophisticated needs. The best illustration of this is our latest Prober for 300mm wafers. Wafer Dicer sales also reached a record high. Sales of established product lines last year were up 37%.

So our record semiconductor sales were driven by balanced growth in established and new product lines alike. I think this accomplishment, more than anything

else, demonstrates that Tokyo Seimitsu is entering a new era of expansion.

How do you plan to make the Metrology Business part of this new era of expansion?

The biggest news in the Metrology Business is the March 2005 completion of a new factory. This facility is configured for maximum efficiency and has space to accommodate several years of growth. The timing couldn't be better—measuring systems sales set a new record last year on higher orders from companies in the automobile industry and growth in orders from machine tool manufacturers, as well as from other market segments. Various trends point to more growth. Among them are rising automobile production in relatively new markets, demand created by the appearance of hybrid and other new types of vehicles, and the growing need to cut noise and vibrations due to the use of entertainment equipment in car interiors. Companies are turning to us to help them achieve the necessary precision. Our new factory, this momentum and trends like these make us highly confident that sales will increase consistently for at least the next few years.



Where is the semiconductor industry headed in 2005 and 2006?

In terms of manufacturing equipment, the full-scale shift to 300mm wafers is one of the most significant events now taking place. But we are seeing another type of shift in the nature of orders for our equipment. Semiconductor companies are discovering that they need new technologies and processes to raise yields with 300mm wafers. This is creating two types of change: refinements of existing technology and the creation of entirely new approaches. Regarding refinements, we have introduced an even more sophisticated Wafer Inspection Machine and a new type of CMP that is so innovative that we gave it a new model name: "ChaMP," which is short for "Chemical highly accurate Mechanical Planarizer." Regarding new approaches, we have established a dominant position in equipment for making ultra-thin wafers. Our Polish Grinder is the industry standard, and we are stepping up sales activities for a Wafer Dicer that cuts wafers with a laser instead of a blade. The success of these products shows that devising new approaches can give us a means of targeting emerging opportunities from a completely different angle than is possible with existing machinery.

What are your specific forecasts for fiscal 2006?

In the semiconductor market, I believe that the long-term outlook is favorable because of rising demand for digital consumer electronics, consistently solid demand for PCs and the rising use of semiconductors in automobiles. For fiscal 2006 alone, however, our forecast calls for a drop in semiconductor industry capital expenditures year on year. For established product lines, mainly Probers and Dicers, we are expecting an 18% decline in sales to ¥40,500 million because of their close link with the silicon cycle. For new product lines, we are projecting very strong growth. Semiconductor manufacturers need equipment to shrink design rules and make thin wafers. Our new lines precisely target these needs while including additional functions. The introduction of new, highly competitive models of Wafer Inspection Machines, Polish Grinders and CMPs is another reason for our confidence. Our projection is for sales of these products to rise from ¥17,500 million last year to ¥25,500 million in fiscal 2006. That translates into a forecast for total semiconductor manufacturing equipment sales of ¥66,000 million. In the Metrology Business, we are forecasting a 5% increase in sales to ¥19,000



million, backed by healthy demand from all user segments. In total, our fiscal 2006 forecasts are for consolidated net sales of ¥85,000 million, operating income of ¥13,500 million and net income of ¥7,500 million.

Finally, what are your long-term earnings goals?

By the fiscal year ending in March 2009, I want to build a business portfolio and operating structure that together can produce an operating margin of at least 25%. In the Semiconductor Company, we will aim for a margin of 30% or more for all new product lines. And we will take actions to boost the profitability of established product lines. In the Metrology Company, key initiatives will be entering new measuring fields, like auto chassis measuring systems, and expanding the scale of operations. Our new measuring systems factory gives us an ideal base for raising profit margins. On the balance sheet, we intend to use assets more productively and cut debt. As we strive to raise margins, we will retain an uncompromising dedication to Quality, Cost and Delivery, three key components of customer satisfaction.

The Chairman's Views on Key Issues *Hideo Ohtsubo*

Taking a long-term perspective has always been a hallmark of your management stance. Tokyo Seimitsu has consistently worked toward big goals and been committed to generating value for shareholders over the long term. What is your current view of the company's growth prospects?

I strongly believe trends in the semiconductor market represent an excellent growth opportunity for us. There are two key aspects. First is the ongoing structural shift in demand. Second is the concentration of investments in production facilities in Asia.

For many years, semiconductor demand has been driven primarily by the PC. But now that the PC is a commodity, we are seeing the emergence of new sources of demand, like flat-screen TVs and smart phones, the successor to today's cell phones. These and other changes are bringing about a major shift in demand for semiconductors.

Regarding capital expenditures, the Asia-Pacific region in 2004 accounted for an estimated 70% of global investments in semiconductor-related capital goods. I think this figure will become even higher. So there is an unmistakable shift to Asia.



To drive growth in the semiconductor market, we will continue to concentrate on raising sales of major products that we introduced in the past few years. We are aiming for semiconductor equipment sales in the year ending in March 2009 that are 50% higher than in the past fiscal year.

Our Metrology Business is performing very well, thanks mostly to the current strength in the automobile industry. Auto makers use our equipment mostly for engine and transmission components, and many companies are planning to increase output capacity substantially. Naturally, that spells more orders for our instruments. We also expect to see growth in demand as auto makers and their suppliers enhance quality and productivity at existing facilities. By the March 2009 fiscal year, we plan to raise measuring systems sales by at least 30% compared with the past fiscal year's results.

The potential shift from gasoline to electric vehicles has tremendous implications for the measuring systems market. Much more heated competition is likely to be one result. But there will be many opportunities for companies with the right kinds of instruments. Obviously, we need to reexamine our product lineup to be prepared

if this shift begins to occur.

For some time, I have stated that one long-term goal is to raise earnings per share to ¥1,000. I don't expect to reach this level within the next five years. But I do believe that raising earnings per share to ¥500 during that time span is within our reach if sales increase as I expect.

Growth in sales and earnings should naturally translate into shareholder value. Please provide more insight into your views and plans with regard to increasing returns for the owners of Tokyo Seimitsu.

Shareholder value must come from two sources: a growth engine and the reliability of that engine. Tokyo Seimitsu has strengths in both areas.

At one time, Tokyo Seimitsu was viewed as a somewhat audacious company because the products that were our growth engines had to compete head-on with products of huge, dominant corporations. We didn't know if we would succeed until we actually began knocking on doors and asking manufacturers to buy our products. The risks were great. But the ability to prudently take on risks, and control them, is essential to a company's growth.



This approach to risk has been crucial to our launch of several innovative and successful semiconductor manufacturing products. One is our Wafer Inspection Machine. At first, no one believed we would succeed. But we've proved them wrong by steadily raising our share of this market. Although this market has grown more slowly than we expected, I'm confident that our Wafer Inspection Machines will produce consistently higher earnings. Our Polish Grinder virtually created the market for ultra-thin wafers on its own. Orders for this product are still rising fast. A third important product is the CMP, which is in increasing demand because of the growing complexity of semiconductor devices. Although this product didn't become profitable in the past fiscal year as we had expected, I believe it will make a big contribution to growth as the user base increases.

Our decision to postpone the introduction of LEEPL (Low Energy E-beam Proximity projection Lithography) demonstrates our willingness to make tough decisions to control risk. We played a central role in the development of this next-generation lithography technology. However, the emergence of ArF immersion lithography, a refined version of existing ArF

lithography, pushed back the need to advance to the next generation. That means LEEPL won't begin generating sales until at least 2008. We recorded expenses of ¥7.0 billion to write down LEEPL-related assets along with certain other assets. The immediate cost of this decision was enormous. But there will be no more losses from LEEPL.

For the most part, though, risks that we took on in recent years are beginning to yield the expected benefits. Shareholders can see that our past forecasts have been realistic, and can now put their faith in the targets we have set for the remainder of this decade. Our performance last year, and the further growth we expect this year, demonstrate that we have both a growth engine and reliability. As I have said many times before, I am convinced that a company's growth ties in directly with the creation of shareholder value.

We plan to continue to pay an appropriate dividend, while following a guideline of distributing about 20% of consolidated earnings as dividends. Some people believe that companies in the semiconductor industry should shun dividends in favor of channeling resources to R&D and similar activities. But our policy is to use dividends as one way to give shareholders a return on their investments.



Tokyo Seimitsu has a top management structure that separates the roles of the chairman and chief executive officer. What is the thinking behind the selection of this system?

On June 1, 2005, I relinquished the title of CEO to devote my attention exclusively to my role as chairman of the Board. My top priority is managing Tokyo Seimitsu and its group companies from a medium- and long-term perspective. I act on behalf of shareholders to check the status of various business plans, conduct periodic reviews of product designs, and talk to the CEO, the COOs of our two internal companies (the Semiconductor Company and Metrology Company) and other executives to examine business plans and ongoing product development projects. Due to this change, Sadakatsu Suzuki now has the titles of CEO and COO of Tokyo Seimitsu. I regard this as just one more step in our constant process of making adjustments in our management structure to achieve the best possible framework for all stakeholders.

Based on my experience, I believe that the Board of Directors must effectively supervise business operations and give orders from the perspective of

shareholders. Furthermore, to reinforce the supervisory functions of the Board, the roles of the chairman and the CEO need to be separated. This division raises management transparency by clearly making the chairman responsible for the supervision of business execution, an approach that will help increase shareholder value.

At Tokyo Seimitsu, strong operating results and growth potential are backed by the development of new products. Within this context, the role of the chairman is to supervise business operations and the decisions of executives from the standpoint of shareholder interests. The CEO, on the other hand, is responsible for raising sales and earnings by making effective use of people and other resources. By dividing the duties of the chairman and CEO, we have made the Board of Directors more effective. We have also reinforced supervisory functions to be certain Tokyo Seimitsu conducts shareholder-oriented management. Overall, this framework better enables us to meet the expectations of shareholders by meeting goals and schedules set forth in various business plans.



CORPORATE MOTTO

**WIN-WIN RELATIONSHIPS
CREATE THE WORLD'S No. 1 PRODUCTS**

Tokyo Seimitsu is creating a global, hybrid culture that is collaborated with the diversity of various companies and countries united by the common goal of generating the world's number one products.



Our corporate brand "**ACCRETECH**" was created from the words "**accrete**," which means grow together, and "**technology**." The brand thus expresses in a single word our corporate philosophy: growing together with partners and customers by collaborating technology, knowledge and information from internal and external sources to create the world's No. 1 products.

ACCURETECH EXECUTIVES EXCHANGE THOUGHTS ON STRENGTHS AND STRATEGIES

Following a peak in performance in 2000, the past few years have been something akin to a long and bitter winter for semiconductor-related industries. Despite this negativity, Tokyo Seimitsu boldly pushed ahead with large-scale investments. We spoke to Eiji Nagasawa, President and COO of the Semiconductor Company, and Metrology Company COO Kazuo Fujimori about the creation and improvement of diverse and innovative business systems that will secure the Company's future, as well as vital initiatives and Tokyo Seimitsu's inherent strengths.



Kazuo Fujimori

Executive Vice President
President and COO of the Metrology Company



Dr. Eiji Nagasawa

Executive Vice President
President and COO of the Semiconductor Company

Tokyo Seimitsu has introduced a number of highly innovative products over the past several years. What strengths made this possible?

❖Nagasawa❖

We concentrate resources on strategic fields. In doing so, we are guided by “Strategic Principles for Our R&D,” which ensure we consistently target markets that are very large and where technological barriers to entry are high.

A big reason for our prominent stature in the semiconductor industry is our ability to develop technologically unique products that target both progress in miniaturization and three-dimensional packaging.

Success in the semiconductor industry requires the development of equipment with obvious technological superiority. Our customers examine semiconductor technologies to see where and how value is added. One obvious way to add value is by forming finer lines. But taking lithography to the next level

poses enormous technological challenges and will require huge investments in equipment. That’s why semiconductor manufacturers are also looking at packaging to add value, a trend that is making three-dimensional packaging technology increasingly important. Our R&D activities target both finer design rules and advances in packaging, two major themes driving progress in semiconductors.

❖Fujimori❖

The “Strategic Principles for Our R&D” guide the activities of the Metrology Company, too. We gather information from many sources and translate it into unique products. Making sure that this process is consistent with the principles keeps us tightly focused on the most promising technologies and products. Equally critical is having a clear



objective. You can’t create a successful product without knowing where you’re headed. Through this stance, Tokyo Seimitsu can develop highly competitive products that perfectly match user needs and feature distinctive technologies.

Strategic principle number four says “Actively seek alliances to share R&D costs and utilize synergies that benefit industry partners.” How is Tokyo Seimitsu applying this principle to its operations?

❖Nagasawa❖

We have a policy of incorporating the best technologies and ideas from anywhere in the world. When

forming alliances to gain access to external knowledge, we have two basic approaches.

The first is for entering new markets. Here, we develop products in areas where technological barriers are high, potential market size is large and there is a great need for the product. We then aim to create a product that can be number one in the world. In this drive, we aggressively seek partnerships with companies and individuals to acquire the necessary technologies that we don't have. This collaboration speeds development while cutting our expenses.

The second approach concerns maturing products. Here, our aim is to prevent an erosion in earnings. We do this by forming alliances even with a competitor to cut development, selling and other expenses. This gives us an effective option for restructuring our business model for maturing products.



Fujimori

Our alliance with Carl-Zeiss-Stiftung is an excellent example of the second approach. A product's gross margin doesn't have to drop just because a market is maturing. In fact, we believe we can raise earnings by developing number-one products and capturing a big market share. We decided that working with Carl Zeiss would enable us to do this. We have alliances targeting mature products with several other companies, too.

Another critical advantage of Tokyo Seimitsu is a manufacturing infrastructure designed for efficiency and flexibility. How has this been accomplished?

❖Nagasawa❖

Matching production output with market ups and downs is one of the

most difficult aspects of making semiconductor manufacturing equipment. To gain greater flexibility, we've been using contract employees in factories since 1992. This really differentiates us from our competitors. We take extreme care to ensure that these employees adhere to our strict quality standards, such as by preparing detailed manuals for specific tasks, and through extensive use of our own measuring instruments for quality assurance. And we're constantly reexamining work processes to enhance efficiency.

Fujimori

In the Metrology Company, we've standardized most of the tasks

performed on factory floors. In recent years, part-time workers have been performing multiple tasks. This is yielding enormous benefits because of the large number of models we manufacture. Multitasking also allows us to switch lines from one model to another faster, which in some cases even doubles output capacity.

In March, Tokyo Seimitsu completed construction of a new semiconductor manufacturing equipment factory in Hachioji, Japan, and a new measuring instrument factory in Tsuchiura, Japan. What is the significance of these investments?

✧Fujimori✧

The new Tsuchiura factory raises productivity by concentrating all metrology operations at two factories. At the same time, we radically altered the layout of equipment in the factories to raise efficiency.

Additionally, the new factory incorporates many suggestions from employee task forces. All these improvements will raise efficiency by about 30% compared with the previous factories. There's room to grow, too. The new factory gives us enough space to raise output by about 50%. I look forward to using our two factories to establish more growth drivers by targeting new market categories. Eventually, I hope to raise sales enough that we'll have to build another factory.

✧Nagasawa✧

At the Semiconductor Company, the new factory gave us a chance to take a fresh look at all our production activities. We went back to the basics. Success as a manufacturer demands excellence in three respects: Quality, Cost and Delivery ("QCD"). That's why I proclaimed



2005 as a year of manufacturing reforms. Our goal is simultaneous "QCD" improvements.

Unlike at the Metrology Company, the Semiconductor Company is already using most of the space at our overall new factory. At first, we thought this factory would have enough space to accommodate future growth. But orders are so strong that we're experiencing that growth now. With the new factory complete, our overall goal is to cut manufacturing costs and delivery times in half. Reaching this goal will require us to build a production system that can precisely reflect fluctuations in orders.

ACCRETECH EXECUTIVES EXCHANGE THOUGHTS ON STRENGTHS AND STRATEGIES

Tokyo Seimitsu has a reputation for speed and agility. What makes this style of management possible?

❖Nagasawa❖

We have a unique structure in which certain product categories are managed by Group Leaders. In effect, these Group Leaders are like presidents of a small, high-tech company. They are engineers who have authority to make most decisions involving product planning, development, manufacturing and marketing. They even manage recruiting.

Fujimori

The autonomy of the Group Leader system also presents challenges. Group Leaders take the responsibility when things go well, but there is always a possibility that a project will end in failure. To limit this risk, we have a stringent project reviewing

process. So-called gates exist at each critical stage of new product development, beginning with approval to begin work on a new idea. The process can be stopped at any gate. That ensures that we use our resources only on the best ideas. Gates also help keep our projects on schedule.

Skilled engineers are obviously critical to developing new products quickly. How is Tokyo Seimitsu able to recruit the kinds of people it needs?

Fujimori

Tokyo Seimitsu is open-minded about recruiting. We welcome people of all ages and backgrounds who have the right skills and share our philosophy, especially the "Strategic Principles for Our R&D." Outstanding engineers want to come here because we provide a



stimulating, unrestricted workplace that encourages the development of one-of-a-kind products. I joined the company about six years ago after a long career at an auto maker. I used to be a Tokyo Seimitsu customer. Now I'm on the opposite side. What attracted me most was the "WIN-WIN" philosophy in our corporate motto and the policy of aggressively incorporating new technologies and ideas from other companies.

❖Nagasawa❖

We want an engineering team that excels at both analyzing market trends and developing superior technologies. Above all, we are looking for solid core technical skills. Our recruiting activities extend outside

Japan, a stance that is a major strength of ours. We do whatever is needed to find the best person for a particular position. When developing a new product line for instance, we don't just reassign people from an existing technology group. To fill in any technology gaps, we look for people outside the company who have the right skills and mindset.

All engineers share the same dream. They want to create new and break-through technologies that can open the way to next-generation, breakthrough products. Tokyo Seimitsu has a corporate culture that allows these people to tackle these kinds of challenges. I think that's why we've been successful at recruiting so many engineers over the years, including many from large, multinational corporations. That includes me. Before Tokyo Seimitsu, I was the General Manager and Plant Manager

of a wafer fab at a large Japanese semiconductor manufacturer. Like Mr. Fujimori, I switched from being a buyer to a seller of Tokyo Seimitsu products. This experience has been very helpful in determining the best ways to sell our products to prospective customers.

Finally, would you briefly outline your goals for your respective companies?

✧Fujimori✧

Now that we have more production capacity, I want to enlarge product development activities beyond our current markets. For example, I'd like to start supplying products for auto chassis measurements. Entering new metrology market categories will also be key to our growth. Another goal is cutting costs even more. I will be making extensive use of the



lessons I learned when I worked at an auto maker to accomplish this. In all these activities, our objective will be to assist all of our customers raise efficiency and lower costs.

✧Nagasawa✧

Currently, my primary objective is taking our new product lines to the number-one positions in their markets. From a longer term perspective, I believe my mission as Semiconductor Company president is to develop products that precisely target user needs, and then to raise sales of those products to contribute to rapid growth for Tokyo Seimitsu.

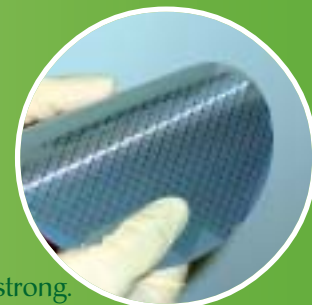
Review of Operations

SEMICONDUCTOR MANUFACTURING EQUIPMENT



The Polish Grinder “PG300RM” One of the Most Successful Products of Fiscal 2005

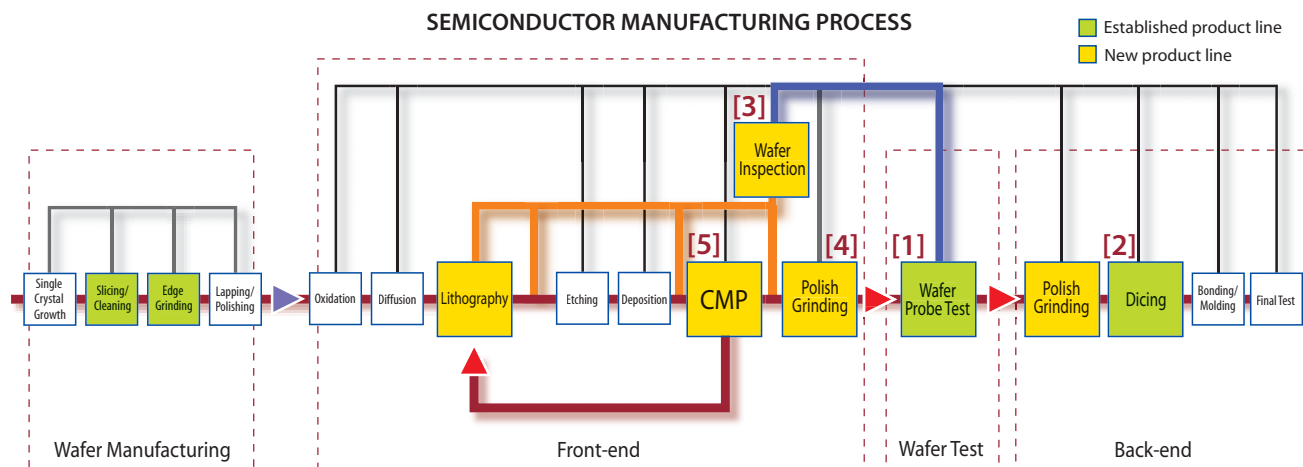
Inspired by Tokyo Seimitsu's own innovative engineering, this Polish Grinder offers an integrated solution for thinner wafer and damage removal required for various IC cards, System-in-Package products, and 3D mounting technology while eliminating wafer damage in transport.



Polish Grinders remove wafer damage to make wafers thin and strong.



Tokyo Seimitsu Co., Ltd.



Overview of Fiscal 2005

Conditions were extremely strong in the global semiconductor industry during the fiscal year's first half. Semiconductor manufacturers made large investments to meet rising demand for devices used in digital consumer electronics and solid demand from the PC industry. Manufacturers became more cautious in the second half as inventories of digital consumer electronics rose, but there were signs of a

rebound in capital expenditures at the close of the fiscal year.

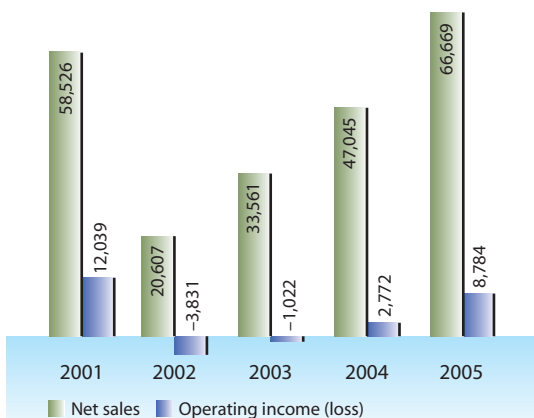
In this environment, our Semiconductor Company recorded much higher sales and earnings in fiscal 2005. Compared to the last fiscal year, net sales increased 41.7% to an all-time high of ¥66,669 million and operating income more than tripled to ¥8,784 million. In addition to the higher sales, earnings were supported by moves to cut costs, such

as lowering fixed expenses and cutting the share of variable expenses by making more products internally.

Orders began posting large increases in the third quarter of fiscal 2004, setting a new record in the first quarter of fiscal 2005. Orders for the year rose 19.4% to ¥65,248 million, another all-time high. Products introduced in recent years made a big contribution to this growth, rising to 26% of total Semiconductor

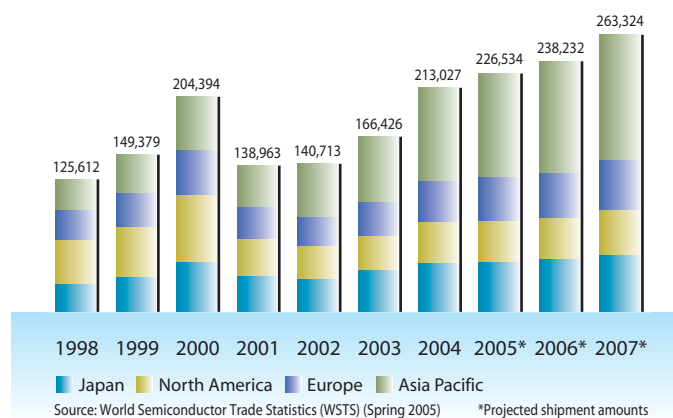
NET SALES / OPERATING INCOME (LOSS)

(Years ended March 31)
(Millions of yen)



PRODUCTION OF SEMICONDUCTORS

(Years ended December 31)
(Millions of U.S. dollars)



Company sales in fiscal 2005. This share is projected to rise further to 39% in fiscal 2006.

Wafer Probing Machines (Probers)

Tokyo Seimitsu is the world's leading supplier of Probers, which have long been a core product of our Semiconductor Company. Demonstrating this position is the company's selection in 2005 for the 10th consecutive year for a "10 BEST" Award in the test & material handling equipment category of the VLSI Research Inc. customer satisfaction survey.

Probers posted record sales in the first half of fiscal 2005. While orders for 200mm Probers continued to grow, demand was extremely strong for the "UF3000" for 300mm wafers due to the worldwide shift to these larger, more productive wafers. The third generation of ACCRETECH 300mm Probers, the "UF3000" is capable of testing system LSIs and other devices produced in small quantities as well as memories and other devices made in high volumes. With this high-performance capability, the "UF3000" has earned an excellent reputation among customers. In the second half of the fiscal year, the "UF3000" accounted for more than half of all prober sales.

As the semiconductor market began rebounding in March 2005,

Prober sales in the first half of fiscal 2006 are expected to be slightly higher than in the past fiscal year's second half. Sales are projected to continue climbing in the second half. But fiscal 2006 Prober sales are likely to be lower because of an estimated decline in the capital budgets of semiconductor manufacturers.

Wafer Dicing Machines (Dicers)

Sales rose to an all-time high as strength in the first half outweighed a subsequent slowdown in orders. The biggest contributor was the "A-WD-300T" for 300mm wafers. Tokyo Seimitsu is proud of its top share of the 300mm dicing market. The machine includes various options and other means of customizing performance to precisely match the requirements of each user. The "A-WD-200T" for 200mm wafers also performed well, with its outstanding productivity attracting a number of new users. VLSI Research in 2005

awarded Tokyo Seimitsu a "10 BEST" Award for the fourth consecutive year in the assembly category.

The "MAHOHDICING MACHINE", which was developed jointly with Hamamatsu Photonics K.K., is a revolutionary Laser Dicer. Introduced in fiscal 2004, the machine made its first significant contribution to sales in fiscal 2005. Its outstanding performance and productivity have attracted the attention of many manufacturers. Growth in sales is foreseen by targeting the dicing of MEMS (Micro-electro-mechanical Systems) devices, thin wafers and other applications.

Since the downturn in demand that began in the second half of fiscal 2005 is continuing, the outlook is for sales in the first half of fiscal 2006 to be on a par with those in the second half of fiscal 2005. However, LCD drivers and



[1] Wafer Probing Machine [UF3000]

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



[2-a] Wafer Dicing Machine [A-WD-300T]

Dicers cut wafers into individual semiconductor chips with blade.

the emergence of a new CPU, which is expected to trigger a rebound in PC demand, are expected to result in higher sales in the second half of fiscal 2006 than in the first half. In addition, results will be supported by sales activities promoting the superiority of ACCRETECH equipment for 300mm wafers as volume production of these wafers expands. Regarding the "MAHOH-DICING MACHINE", the rising use of thin wafers and MEMS points to significant growth in demand in the future.

Wafer Inspection Machines

Sales of these machines rose about 20%, continuing a series of gains in market share and record sales in recent years. Orders climbed for high-precision 300mm-wafer models, mostly from manufacturers in Japan, South Korea, Taiwan and



[2-b] Wafer Dicing Machine
[MAHOH-DICING MACHINE]

With a laser instead of a blade, this machine dices wafers at a high speed in a dry process.

Europe. The core "WIN-WIN 50" series generated a steady stream of repeat orders, chiefly for the "WIN-WIN 50 1400". Along with a steady increase in sales to first-time users, this resulted in continued growth in market share.

To meet a broader range of customer demands, Tokyo Seimitsu and Hitachi High-Technologies Corp. developed the "HA-3000". This unit uses deep-ultraviolet light (DUV) to increase the resolution limit, a new algorithm for finding defects and high-sensitivity inspections. Sales are expected to increase in fiscal 2006.

The "WIN-WIN 50 1500", the latest addition to the "WIN-WIN 50" series, went on sale in April 2005. While retaining the specifications of the "1400", this new model raises throughput by 25% and can raise production yields for devices using a 65nm design node. The "1500" immediately generated a strong market response. With semiconductor



[3] Wafer Inspection Machine
[WIN-WIN 50 1500]

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

manufacturers in Japan and East Asia making large capital investments, all indications point to a successful launch of this new model. Sales of Wafer Inspection Machines in China and the U.S., which began in 2005, are expected to be another component of sales growth in fiscal 2006.

Polish Grinders

ACCRETECH Polish Grinders have become the de facto standard in the market for producing ultra-thin wafers. No company can even approach the performance of ACCRETECH equipment. These machines initially performed two functions at once: grinding to produce ultra-thin wafers and polishing to remove sub-surface damage. This meets the demands for 3D mounting technology, which is used mainly in IC cards, System-in-Package (SiP) products and cell phones.

In fiscal 2005, there was rapid growth in demand for the "PG300RM", a Polish Grinder for 300mm wafers that performs four functions. In addition to grinding and damage removal, this unit removes lamination tape from wafers and mounts wafers on dicing frames. Orders and sales surged by 60% year on year, making this one of our core products.

Fast growth of the market for ultra-thin wafers is expected to continue in fiscal 2006, pointing to

another substantial rise in Polish Grinder sales, primarily in Asia. Building on the success of the “PG300RM”, Tokyo Seimitsu has launched two more series: the “PG-PRM” series, which adds plasma treatment for the backs of wafers; and the “PG-DRM” series, which places die attachment film on the backs of wafers after grinding.

Chemical Mechanical Planarizers (CMPs)

In the summer of 2004, following an upgrade of the performance and selection of CMP models, the Semiconductor Company began selling a series of models called “ChaMP”, which stands for “Chemical highly accurate Mechanical Planarizer.” This equipment has received high marks for various processes including copper-process lines using 300mm wafers. As more companies recognized the advantages of these machines, the Semiconductor Company sold more than 10 of these units for the first time in a fiscal year. Unfortunately, although sales rose sharply year on year, this product category did not achieve its goal of becoming profitable in fiscal 2005 because sales volume was below the break-even point.

The ACCRETECH “ChaMP” models

produce extremely uniform and stable grinding and polishing pressure. End-point detection technology ensures consistent results. To maximize productivity, the optimum combination of constituent units can be selected to match any application. Another feature is the ability to hold defects to a minimum, contributing to higher yields. Moreover, “ChaMP” is compatible with the copper/Low-k structures used in today’s most advanced semiconductor devices. Users also appreciate the unit’s sophisticated software. By making current and potential customers alike aware of the many advantages of its “ChaMP” machines, Tokyo Seimitsu plans to establish a sound base in fiscal 2006 for growth in the following years.

Initiatives to Become More Competitive

Most important to supplying more competitive products is the development of new product lines in

strict accordance with the “Strategic Principles for Our R&D” (see page 26). A faster time-to-market is also essential. Our Semiconductor Company does this by carefully managing development schedules. This is vital because evaluations of front-end semiconductor production machinery typically take anywhere from six months to one year. Any delay can make it virtually impossible to win orders later on. Success requires both products with overwhelming technological superiority and the right timing.

Following the March 2005 completion of another factory at Hachioji, the Semiconductor Company commenced a Manufacturing Reform Program aimed at simultaneously improving Quality, Cost and Delivery. The highest priorities are



[4] Polish Grinder [PG300PRM]

These machines simultaneously grind wafer backs and remove damage (see page 16). In addition to these basic functions, it offers various applications for peripheral processes.



[5] Chemical Mechanical Planarizer (CMP) [ChaMP]

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.

shortening lead times and trimming the cost structure. Two themes are altering how parts are procured and products are assembled. For example, products will use even more common parts. Plans also call for making greater use of modular construction. When an order is received, a factory need only assemble the required modules, making the time to shipment much shorter.

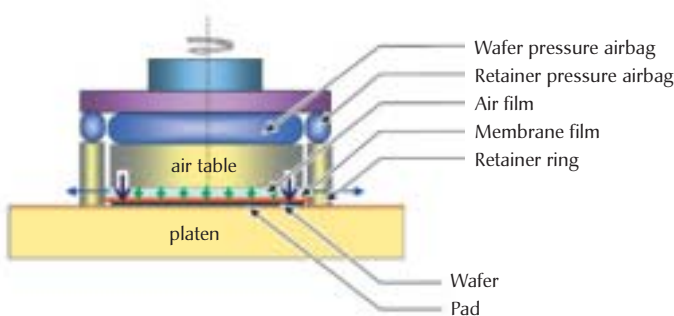
A More Powerful Organization

The goal of our Semiconductor Company is to assemble a business portfolio that can generate earnings irrespective of economic conditions. This is a difficult proposition in the semiconductor industry, which has been historically very volatile. Building such a portfolio will above all require the rigorous elimination of

waste. Our Semiconductor Company plans to accomplish this with an exhaustive target management program, one that does not use industry volatility as an excuse for falling short. Target management will be applied to every step from new product development through shipment of finished products, a process that will raise profitability as well as enhance Quality, Cost and Delivery for the benefit of customers.



CMP “ChaMP” Air-float Head



Hachioji Plant

Work was completed in March 2005 on an additional factory building at the Hachioji Plant on the outskirts of Tokyo. The two-story building, which has a floor area of 10,000 square meters, is used for the manufacture of the Wafer Dicing Machine, Polish Grinder and CMP.

Review of Operations

MEASURING SYSTEMS



CNC COORDINATE
MEASURING MACHINE
XYZAX
SVA FUSION



CMMs perform measurements with an accuracy ranging from about 5 microns to the sub-micron level. They are used in many industries, ranging from automobiles to consumer products. This model combines hardware featuring Tokyo Seimitsu technology for high rigidity with a Carl Zeiss active scanning probe.

VAST head Active Scanning
Maintaining a constant measuring force while applying measuring pressure in the normal direction (perpendicular to the surface) is made possible only by a Carl Zeiss technology called Active Scanning technology.



Tokyo Seimitsu Co., Ltd.

Overview of Fiscal 2005

Measuring Systems sales increased in Japan and overseas as Tokyo Seimitsu conducted sales activities targeting solid demand in key user industries, such as automobiles and machine tools, which was fueled by a generally healthy global economy. The result was an 18.3% increase in fiscal 2005 sales to ¥18,081 million and, due to measures to cut manufacturing expenses, a 34.4% increase in operating income to ¥4,267 million. Both sales and earnings are all-time highs for the Metrology Business. Significantly, sales surpassed the ¥18,000-million target for fiscal 2006 that was established three years ago. By continuing to develop new products and enter new markets, the company is confident of raising sales above ¥19,000 million in fiscal 2006 and reaching ¥20,000 million in the near future.

As fiscal 2005 began, results benefited from strong orders from the automobile and machine tools industries, and also from sharp growth in semiconductor-related orders because of rising demand for semiconductor manufacturing equipment. The share of sales associated with this equipment was particularly high in June and July. Another highlight of fiscal 2005 was the big rebound in automotive orders due to the large volume of capital expenditures in the automobile industry beginning around the second quarter.

Many auto makers are making substantial investments in plants and equipment in line with plans to increase output on a global scale. Overall automotive demand for measuring instruments has grown by between 30% and 50% over about the past five years. The outlook is for the current high level of demand

to continue for the next three or four years.

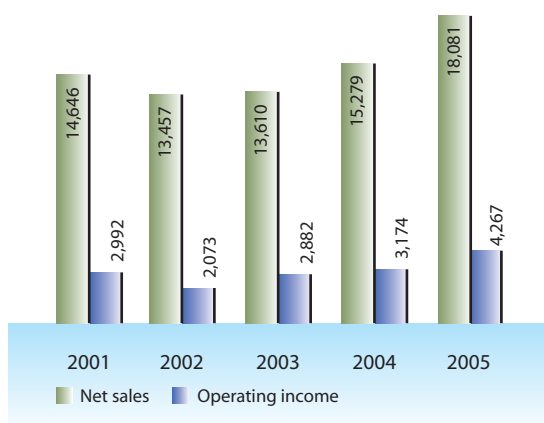
Machine tool makers were another source of growth. Japan's machine tool industry has been recording year-on-year increases of about 30% for 30 consecutive months. The industry's order backlog is estimated to be equivalent to one-year of production capacity.

Innovative Products Targeting Specific User Needs

Approximately 60% of both In-line and Industrial Measuring Systems made by Tokyo Seimitsu are sold to the automobile industry. Bearing manufacturers account for another 30% of In-line Measuring Systems. To create products that can become new growth drivers, work is proceeding on the development of instruments for automotive chassis components, including stamped

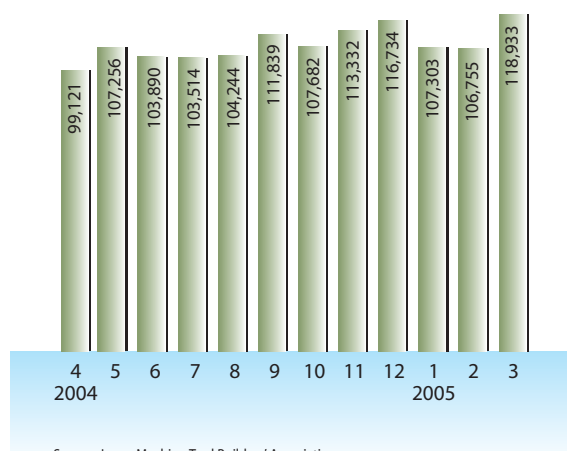
NET SALES / OPERATING INCOME

(Years ended March 31)
(Millions of yen)



MACHINE TOOLS ORDER IN FISCAL 2005

(Millions of yen)



Source: Japan Machine Tool Builders' Association

and molded parts. Two products will be at the center of this drive. One is a Horizontal-arm-type 3D Coordinate Measuring Machine that can measure an entire car body. The other is the Optigo 3D Vision System, which uses a camera to measure the form of solid objects. These products were developed by Carl Zeiss and CogniTens Ltd., respectively.

Work has started on developing technologies required for nanometer-scale machining processes. One project involves tiny HDDs for cell phones. Tokyo Seimitsu is drawing on its precision processing expertise to create measuring systems that will be essential to fabricating its components. Another promising field is MEMS (Micro-electro-mechanical Systems), microscopic devices that are already used in some applications. MEMS has immense growth potential, mainly for automotive sensors and medical equipment.

Another trend in measurement is that measuring systems users are demanding not only machines that measure points, but also have the capability to measure along lines and even an entire surface. Measuring a surface, however, requires the rapid input of a massive amount of data. Contact-free and camera measurements are two ways to accomplish this. Tokyo Seimitsu plans to capitalize on

these opportunities for surface measurement by forming alliances with companies that have expertise in this field.

Industrial Measuring Systems

Surface Texture and Contour Measuring Instruments are still benefiting from replacement demand resulting from the change in JIS Standards in 2001 for surface roughness. This demand, which is likely to continue for some time, boosted sales of the 3-D Surface Texture Measuring Instrument "SURFCOM 1500DX-3DF" and Contour Measuring Instrument "CONTOURECORD 1700DX" in fiscal 2005. Featuring linear motors to achieve a high measuring speed with minimal vibrations, both models have earned high marks from customers.

3D Coordinate Measuring Machines are expected to see strong demand from the automobile industry. Used on component production lines for quality control, these machines eliminate the need to replace gages each

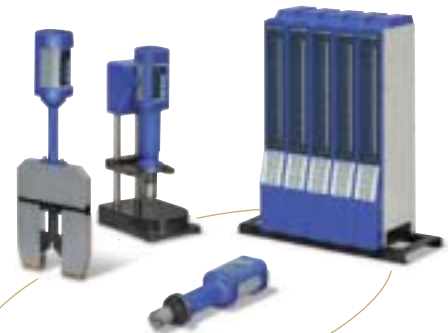
time a line is switched to a new workpiece. Early in fiscal 2005, Tokyo Seimitsu began selling the "XYZAX SVA fusion," generating a very strong market response. Sales were brisk throughout the fiscal year. The basic unit combines the high-rigidity design skills of Tokyo Seimitsu with the analytic and control technologies of Carl Zeiss, as well as a Carl Zeiss active scanning probe. Customers have been extremely pleased with the high precision of measurements made possible by extending from point to line measuring.

Demand for Cylindricity Measuring Instruments is rising as diesel engine manufacturers use direct fuel injection to meet tightening emission standards, which require precision measurements of nozzles, pumps, pistons, cylinders, injectors and other cylindrical components. The "RONDCOM 44SD/54DX," which



Cylindricity Measuring Instrument [RONDCOM 75GB]

Cylindricity Measuring Instruments are for the measurement of any round component in sub-micron level. Typical applications are automobile pistons, crankshafts and camshafts, printer heads and copier drums.



Electric-Column & Hand Gage [ELCOM 8 FOR WIRELESS]

Using a wireless link between a hand gage and main unit, this system makes it possible to perform measurements anywhere on a production line. Workers can confirm data, even from a distance, while measurements are being taken.

performs extremely high-precision measurements is widely used for these applications. Also driving sales growth in this category was the "RONDCOM 72A/75GB," which measures large objects. This model posted very strong sales in the fiscal year's second half.

In-line Measuring Systems

Sales of In-line Measuring Systems were up by approximately 20%, primarily a reflection of strong growth in orders from the machine tool industry. Higher sales were also the result of substantial capital spending in other key user segments, notably the automobile and bearing industries.

One contributor to sales growth is the "ATC Run-out Detection System," which is used to monitor processes in machining centers. Able to prevent defective processing, this system has

become standard equipment on machining centers due to its excellent reputation among users. Growth in sales is expected to continue.

The "ELCOM 8 for wireless" hand gage set with wireless communications has been unveiled. This system performs wireless transmissions of measurement data between the hand-held unit and the main unit, providing unrestricted freedom of movement for the hand-held gage. Inquiries are already being received prior to the launch of this revolutionary product, which is highly likely to become a best seller worldwide.

Growth Outside Japan

Overseas sales are accounting for an increasing share of Tokyo Seimitsu's sales as Japanese manufacturers continue to make investments in other countries. Alliance partner Carl Zeiss is an important sales channel. Tokyo Seimitsu will be deepening ties with this company to raise sales even more outside Japan. The two com-

panies work closely together in eastern Europe, and Carl Zeiss is assisting in sales of ACCRETECH products elsewhere in Europe, North America and Southeast Asia, too. Information and other support from Carl Zeiss will be used to develop products matching the unique needs of auto makers in these regions. In Southeast Asia, an agreement with Japanese trading companies as sales agents to Carl Zeiss is playing a big part in raising sales. More growth is expected in China, where several large orders were received during the past fiscal year, mostly from auto makers.

Dedicated to Honing a Sharper Competitive Edge

The Metrology Company completed construction in March 2005 of a new factory that is expected to raise efficiency while cutting costs. Further contributing to efficiency is this company's small group activity, in which specific tasks are performed by small groups of four or five workers. Each group determines problems, and devises solutions, to perform its assigned task better. This approach is also employed in technology and administrative functions associated with manufacturing. Using small groups is one way in which the Metrology Company is preserving its high profit margin.



Tsuchiura Plant

At the Metrology Company's Tsuchiura Plant, which is in Ibaraki prefecture, Tokyo Seimitsu finished its major expansion and upgrading in March 2005, providing a solid base for future growth. With a total floor area of 4,500 square meters, this highly efficient facility manufactures Surface Texture and Contour Measuring Instruments and Roundness and Cylindricity Measuring Instruments.

R&D Program and Intellectual Property

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

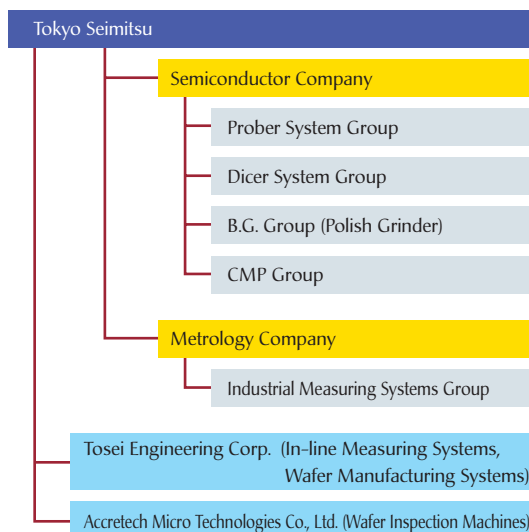
In May 2005, we announced our intention of transforming Tosei Engineering Corp. into a wholly owned subsidiary. With solid positions in niche markets, this company develops, manufactures and sells Wafer Manufacturing Equipment for silicon wafers and In-line Measuring Systems. This decision reflects our belief that working more closely with Tosei Engineering will yield greater speed and flexibility in R&D activities as well. We are convinced that these qualities are essential to our ability to continue using highly sophisticated technology to develop products that can respond accurately to customer needs and become number one in the world.

Accretech Micro Technologies Co., Ltd. was reorganized in 1997 to provide an organization focused solely on the development, manufacture and sale of Wafer Inspection Machines, a product we began selling in 2000. This new company will perform the same functions as our product development groups.

Both Tosei Engineering and Accretech Micro Technologies will be playing an important role in our R&D programs in the years ahead as sources of expertise in highly specialized fields.

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.



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 division 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 right in other countries.

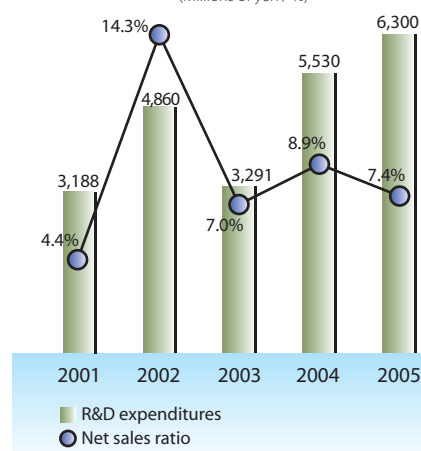
We also place priority on the value of patents. We constantly assess the value of intellectual property based on the status of R&D programs, the superiority of our products relative to competing models, and other relevant factors. This process enables us to maintain a valuable intellectual property portfolio 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 2005

During the past fiscal year, patent applications were primarily in two categories. The first involves technology for equipment that we have introduced in recent years, notably the Polish Grinder, which now dominates its market category, the CMP and the Wafer Inspection Machine. The second involves technology for innovative products that achieve dramatic improvements over existing ACCRETECH products. In this category, most patents were associated with the "MAHOHDICING MACHINE", a Laser Wafer Dicing Machine, and the "ELCOM 8 for wireless" In-line Measuring System. Currently, semiconductor manufacturing equipment accounts for about 70% of patents pending, with measuring systems accounting for the remainder.

R&D EXPENDITURES / NET SALES RATIO

(Years ended March 31)
(Millions of yen / %)



NUMBER OF PATENT RIGHTS

	Patent Rights	New Applications in Fiscal 2005
Japan	408	111
Overseas	392	59

(As of March 31, 2005)

Eco Awareness

Committed to maintaining a “WIN-WIN” relationship with the earth, Tokyo Seimitsu conducts environmentally responsible business activities

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. The goal is to reduce our environmental impact to the absolute minimum. 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.

MAJOR ACTIVITIES DURING THE PAST FISCAL YEAR

1. Green procurement

The Semiconductor Company and Metrology Company work with 179 suppliers and other business partners. Between March and August 2004, a survey was conducted to determine the status of environmental management systems at these companies and the presence of harmful chemicals

in the products they supply. Companies accounting for more than 80% of the number of items Tokyo Seimitsu purchases responded to the survey. Responses were then checked against the company's green procurement standards. For sub-standard suppliers, follow-up surveys along with various forms of assistance were provided. At present, we use no products or materials that include prohibited substances.

2. Activities to eliminate or reduce use of RoHS designated substances

Although our products do not fall under the jurisdiction of the RoHS (restriction of the use of certain hazardous substances) directive, we have announced our intention of voluntarily meeting RoHS standards beginning with new products and models introduced in 2006. In addition, we are using “green” procurement to purchase more items, using lead-free solder, coatings and resins, and conducting studies and experiments concerning plating and coating materials that do not have hexavalent chromium. Our objective is to optimize product quality and environmental sensitivity.

3. Reduction of harmful substances

The manufacture of certain components for measuring instruments requires the use of dichloromethane, acetone, ferric chloride and other chemicals. We have taken extreme care to handle these chemicals and the effluents of cleaning fluids properly. During the

Tokyo Seimitsu Environmental Report

Tokyo Seimitsu publishes an environmental report in October each year. This report is available on our website: <http://www.accretech.jp/english>
Home » About ACCRETECH » Eco Awareness



year that ended in March 2005, we removed all special facilities for handling these chemicals and effluents following the switch to alternative technologies that reduce our environmental impact.

In the Semiconductor Company, slurry containing chemicals is used to conduct demonstrations of the CMP and Polish Grinder. The effluent from these demonstrations is treated, but the equipment we use to cleanse this effluent also employs chemicals. During the year that ended in March 2005, we made improvements to the effluent cleansing process that resulted in a reduction of about 20% in treatment chemicals despite growth in the number of CMP and Polish Grinder units shipped.

4. Switch to ISO14001-2004 standard

At the end of 2004, the ISO14001 environmental management standards were revised to create a 2004 version. This has resulted in standards having a broader scope and greater depth. For example, companies are evaluated regarding compliance with laws and other requirements, and must specify activities that have the possibility of indirectly affecting the environment. We underwent an examination under the 2004 standards in May 2005 and received certification.

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 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 increase recycling*

**Prevention of pollution through the proper management of harmful substances and reduction in 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.

Corporate Governance

BASIC PHILOSOPHY

Tokyo Seimitsu places priority on two components of management. The first is creating a framework capable of rapidly responding to change. The second is fashioning a corporate governance system that meets global standards and is aligned with the interests of shareholders.

The primary goal of corporate governance is to protect the rights of and treat equally all shareholders while building sound relationships with other stakeholders. We will continue to take actions aimed at building an effective corporate governance framework. We want Tokyo Seimitsu to remain a company that makes full use of its Board of Directors and Board of Auditors, properly discloses information and maintains the transparency of its management.

INITIATIVES CONCERNING CORPORATE GOVERNANCE

1. Adoption of executive officer and internal company systems

In April 2002, Tokyo Seimitsu adopted the executive officer system and the internal company system, which created the Semiconductor Company, Metrology Company and Administration Company. Following the transfer of operations to these companies, head office functions were eliminated. The Semiconductor Company and Metrology Company are self-reliant organizations with all resources needed to respond to their customers' needs. The Administration Company is responsible primarily for the efficient execution of administrative tasks.

2. Ensuring the effectiveness of corporate governance

The Board of Directors is responsible for making decisions involving important matters affecting business operations and for overseeing the performance of the directors.

Due to the adoption of the internal company system, our operations are, in theory, managed solely by the Board of Directors, which then delegates responsibility for the execution of business activities to the internal companies. To further strengthen corporate governance, we plan to give the directors even greater authority for supervising business activities.

Tokyo Seimitsu has adopted the corporate auditor system. We have four corporate auditors, including three from outside the company, all of whom have worked at companies that are major shareholders or are prominent in a particular field. The corporate auditors also serve on the Compensation Committee and Management Advisory Committee. This allows the corporate auditors to reach decisions regarding the suitability of directors' compensation and how the company is managed.

The above corporate governance framework based on a Board of Directors and Board of Auditors combines many of the advantages of corporate governance practices in Japan, the United States and Germany. This gives Tokyo Seimitsu a corporate governance system structured for outstanding management transparency and accountability.

3. Internal controls, risk management and internal audits

Tokyo Seimitsu is dedicated to building "WIN-WIN" relationships with all stakeholders. We firmly believe that our long-term growth is dependent on being a responsible corporate citizen. Through our Compliance Committee, we ensure adherence to accepted standards for transparency and ethics. Based on the ACCRETECH Group Code of Conduct, this committee is promoting standards for corporate ethics and strengthening compliance systems.

The risk management system includes a Personnel Consultation Office where employees can discuss matters ranging from alleged infringements on their rights to health problems. Regarding risks associated with information leaks, we manage sensitive information and prevent leaks of technological information based on an information management policy established by our Information Security Committee. The Auditing Department performs internal audits of business activities with the corporate auditors, independent auditor, Export Management Department and other units to identify problems and suggest improvements.

Board of Directors



(as of June 29, 2005)

Directors and Auditors

Chairman of the Board
Hideo Ohtsubo

President, CEO & COO
Sadakatsu Suzuki

Executive Vice Presidents
Kazuo Fujimori
Eiji Nagasawa

Kunimasa Ohta

Directors
Shigeru Umenaka
Hideaki Takagi
Wolfgang Bonatz
Greg Sebastian
Hitoshi Yoshida
Ryuichi Kimura

Standing Corporate Auditor
Hajime Yoshigi

Corporate Auditors
Shozaburo Karube
Seiji Yamamoto
Masashi Hisatomi

Six-year Summary

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

	Millions of yen						Thousands of U.S. dollars
	2000	2001	2002	2003	2004	2005	2005
For the year:							
Net sales	¥46,176	¥73,172	¥34,064	¥47,171	¥62,324	¥ 84,750	\$789,035
Operating income (loss)	8,104	15,032	(1,757)	1,860	5,947	13,051	121,511
Net income (loss)	4,422	7,237	(2,026)	74	(3,783)	4,459	41,519
At year-end:							
Total assets	61,007	91,477	79,865	88,669	94,893	100,993	940,259
Total shareholders' equity	33,433	38,779	35,423	33,645	29,183	33,003	307,265
Interest-bearing debt	4,328	17,522	31,145	33,531	36,253	31,273	291,160
Per share data:							
	Yen						U.S. dollars
Net income (loss) – basic	¥118.43	¥192.95	¥(54.21)	¥ 1.64	¥(101.67)	¥118.82	\$1.10
– diluted	117.95	192.21	–	1.64	–	108.75	1.01
Number of employees	1,068	1,160	1,146	1,101	1,100	1,144	

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Financial Review

Overview

The markets for semiconductor manufacturing equipment and measuring systems are highly volatile and require the provision of products incorporating the latest advances in technology. To sustain growth in these markets, Tokyo Seimitsu must maintain a powerful organization capable of supporting the development of products in line with suitable guidelines. This is why the company conducts operations in accordance with a unique set of guidelines called the "Strategic Principles for Our R&D" (see page 26). These principles provide a base for businesses with strong growth and high earnings and that minimize vulnerability to swings in capital expenditures in user industries.

The most pressing issues at Tokyo Seimitsu are gaining market acceptance of major products introduced in recent years to target new market segments and strengthening the balance sheet. Over the past several years, the company has made substantial investments in the development of new types of semiconductor manufacturing equipment. One result is the Polish Grinder, a highly profitable product that has become an enormous success. Others are the Wafer Inspection Machine, which is steadily gaining market share, and the CMP, for which Tokyo Seimitsu is conducting aggressive sales activities. These and other new semiconductor manufacturing products generated sales in the past fiscal year that were equivalent to total measuring systems sales. Tokyo Seimitsu will continue to work on raising sales of these products while reducing expenses. In particular, the company is aiming to raise profitability of the Wafer Inspection Machine and CMP to targeted levels.

Due to the strong sales and earnings growth in fiscal 2005, along with much higher sales of products targeting new markets,

there were substantial improvements in indicators of financial strength, including increases in the equity ratio and asset turnover ratio. Management believes that further improvements in the financial position are needed. Over the next few years, substantial improvements in financial indicators are expected as growth in sales and earnings produce positive free cash flows and as the convertible bonds are converted to stock.

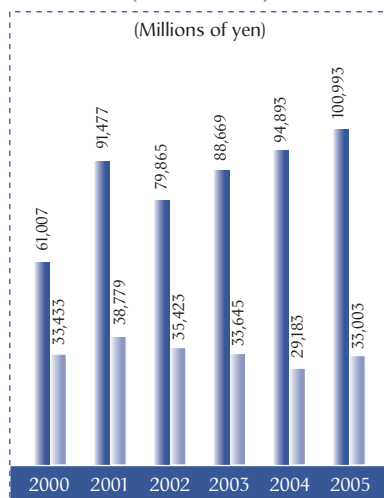
Net Sales

In fiscal 2005, the year ended March 31, 2005, consolidated net sales increased 36.0% to ¥84,750 million. This was 15.8% higher than the previous record for sales in fiscal 2001 of ¥73,172 million.

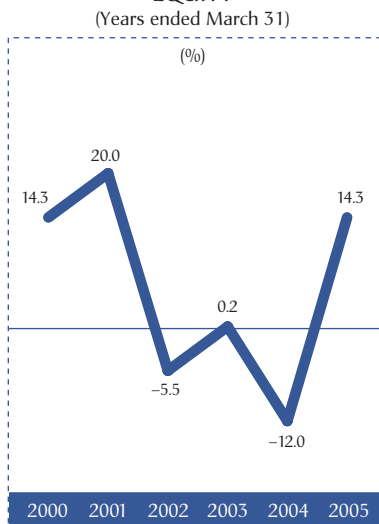
In the semiconductor industry, market conditions were extremely strong during the fiscal year's first half. Demand for flat-panel TVs, DVD recorders and other digital consumer electronics increased as demand for cell phones and PCs remained healthy. The result was a large volume of capital expenditures by semiconductor manufacturers. In the second half, reductions in inventories of consumer digital electronics and other factors caused semiconductor manufacturers to adopt a slightly more cautious stance concerning capital spending. By the end of the fiscal year, however, signs of a rebound were beginning to appear. In this environment, the Semiconductor Company achieved substantial increases in sales and earnings of established and new products. It posted a 41.7% increase in net sales to an all-time high of ¥66,669 million.

In the Metrology Company, a broad-based economic recovery led to strong orders, mainly from companies in the automobile and machine tool industries worldwide. As a

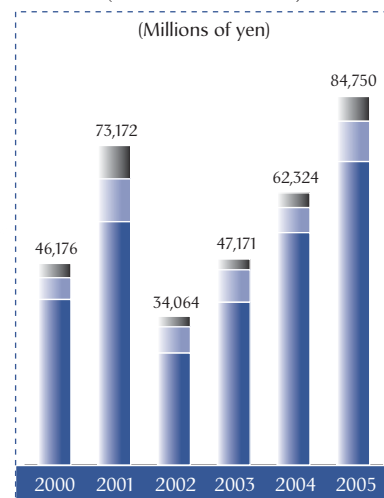
TOTAL ASSETS / SHAREHOLDERS' EQUITY
(As of March 31)



RETURN ON SHAREHOLDERS' EQUITY
(Years ended March 31)



NET SALES
(GEOGRAPHICAL SEGMENTS)
(Years ended March 31)



■ Total assets ■ Shareholders' equity

■ Japan ■ United States ■ Germany

result, net sales increased 18.3% to an all-time high of ¥18,081 million.

Sales of semiconductor manufacturing equipment rose in all regions of the world, but the highest growth occurred in Japan, Eastern Asia, notably South Korea, Taiwan and China, and North America. In measuring systems, sales were much higher in Japan, Eastern Asia and Southeast Asia. Total sales increased 49.3% to ¥25,048 million in Eastern Asia, 53.8% to ¥8,166 million in the United States, 48.7% to ¥5,706 million in Europe, and 32.0% to ¥3,938 million in other regions. Overseas sales accounted for 50.6% of total sales compared with 46.4% one year earlier.

Semiconductor Manufacturing Equipment

Wafer Probing Machines, Tokyo Seimitsu's most important established product in this segment, benefited from strong demand for models used with 300mm wafers as manufacturers shifted to these larger wafers. In particular, there was a dramatic rise in sales of the "UF3000," a fully automated model for 300mm wafers that can handle anything from small numbers of different devices to volume output of a single device. Orders for the "UF200" series for 200mm wafers remained solid. Overall, Tokyo Seimitsu was able to preserve its leading share of the Wafer Prober market.

In Wafer Dicing Machines, the "A-WD-300T" for 300mm wafers and "A-WD-200T" for 200mm wafers won strong support from customers for their outstanding productivity. The "MAHOHDICING MACHINE," a new machine that cuts wafers with a laser instead of a blade, also generated a strong market response due to its superb performance and productivity. Sales

are expected to increase, mainly for dicing MEMS devices and ultra-thin wafers.

In Wafer Inspection Machines, a product targeting a new market segment, sales rose because of repeat orders from current users and orders from first-time customers, both groups appreciating the low cost of ownership and high defect detection rate. The "HA-3000" deep-ultraviolet light inspection machine, which was developed with Hitachi High-Technologies Corp., steadily increased its market share.

The ACCRETECH Polish Grinder is firmly positioned as the de facto standard for this wafer process, offering performance far ahead of any competing model in the field of ultra-thin wafer processing. During fiscal 2005, rapid growth in orders and sales for the "PG300RM," which handles 300mm wafers, made this machine one of Tokyo Seimitsu's largest contributors to sales growth.

In the CMP category, the "ChaMP" series concept along with the structural superiority of these machines earned high marks from customers.

Due to the above factors, total semiconductor manufacturing equipment sales were much higher than in the prior fiscal year.

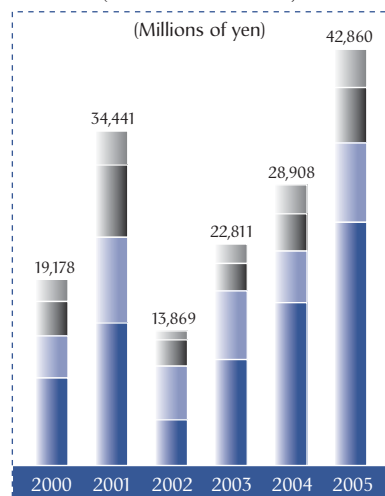
Measuring Systems

In Industrial Measuring Systems, the "XYZAX SVA" series of 3D Coordinate Measuring Machines turned in a strong performance. Targeting user needs with the high-rigidity design skills of Tokyo Seimitsu and analytic and control technologies of Carl Zeiss, this system generated a very strong market response. In particular, sales of the "XYZAX SVA fusion," which went on sale in April 2004, grew strongly. The "SURFCOM" series of Surface

OVERSEAS SALES

(Years ended March 31)

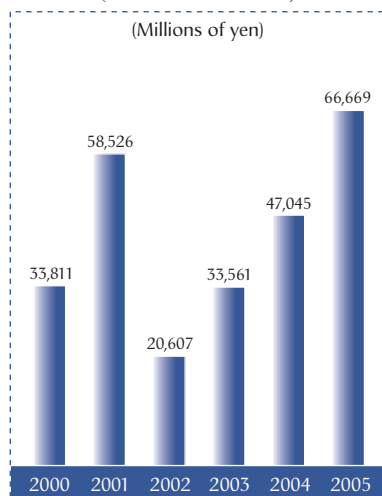
(Millions of yen)



SEMICONDUCTOR MANUFACTURING EQUIPMENT SALES

(Years ended March 31)

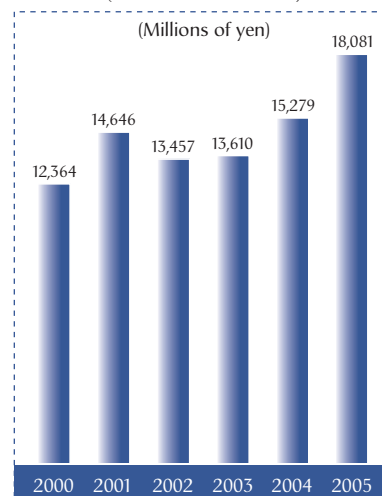
(Millions of yen)



MEASURING SYSTEMS SALES

(Years ended March 31)

(Millions of yen)



■ East Asia ■ North America
 ■ Europe ■ Southeast Asia & others

Texture Measuring Instruments also posted solid sales growth. One reason was the addition of the "SURFCOM 5000DX," which measures both surface roughness and contour. This innovative unit features a linear motor for minimal vibrations and achieves the highest accuracy of any machine in its category. Another reason for the sales growth was the start of sales of the "RONDCOM 54/44" in the "RONDCOM" series of Cylindricity Measuring Instruments.

Regarding In-line Measuring Systems, the "PULCOM" series recorded brisk sales backed mainly by orders from the automobile industry due to strong capital expenditures in the auto industry. In addition, the "ATC Run-out Detection System" was adopted by a growing number of users during the fiscal year as standard equipment for this application. During fiscal 2005, sales of the "ELCOM 8 for wireless" started. Based on the initial market reaction, Tokyo Seimitsu expects that this wireless Electric-Column and Hand Gage will post strong sales growth in fiscal 2006.

Income Statement Analysis

Cost of Sales

The cost of sales increased 27.5% to ¥59,344 million, but the cost of sales ratio declined from 74.7% to 70.0%. This improvement was the result of various cost-cutting initiatives, including reductions in fixed costs and a lower variable expense ratio because more products were assembled internally.

Selling, General and Administrative Expenses

SG&A expenses increased 25.5% to ¥12,354 million, the sum of selling expenses of ¥9,516 million and general and

administrative expenses of ¥2,837 million. Growth in sales was responsible for most of this increase. However, SG&A expenses declined from 15.8% to 14.6% of net sales, a reflection of the contribution of sales of products targeting new market segments and cost-containment programs.

Operating Income

Operating income more than doubled, rising from ¥5,947 million to ¥13,051 million, and increased from 9.5% to 15.4% of net sales. By business segment, semiconductor manufacturing equipment operating income more than tripled to ¥8,784 million. Measuring systems operating income increased 34.4% to ¥4,267 million, an all-time high.

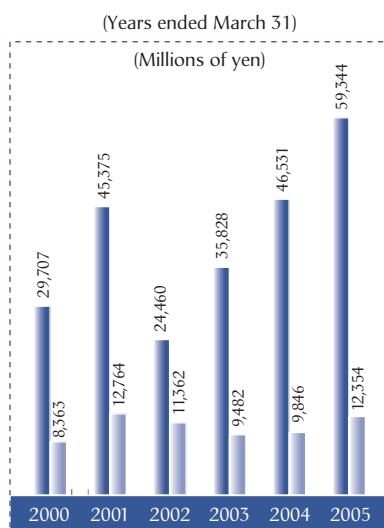
Non-operating Items

Non-operating income increased ¥132 million to ¥278 million and expenses decreased ¥322 million to ¥443 million.

Net Income

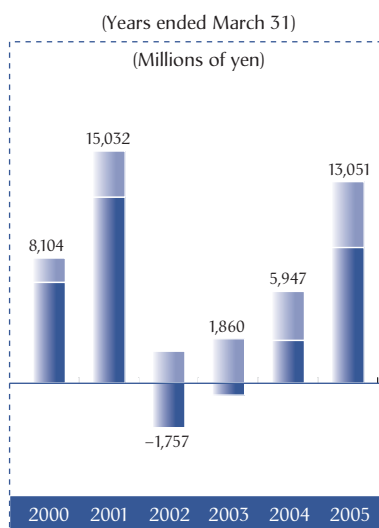
Due to the upcoming adoption of asset impairment accounting in fiscal 2006, the decision was made to record a special loss of ¥7,007 million in fiscal 2005 that mainly represents valuation losses on tangible assets associated with restructuring of the LEEPL business, which is not expected to start contributing to sales until at least 2008. By taking this action before it was required, as well as during a fiscal year of strong earnings, Tokyo Seimitsu has created an even sounder financial position while providing for more flexibility in conducting business operations.

COST OF SALES / SG&A EXPENSES



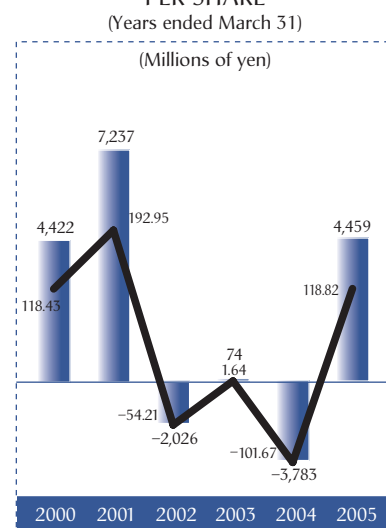
■ Cost of sales ■ SG&A expenses

OPERATING INCOME (LOSS)



■ Semiconductor manufacturing equipment
■ Measuring systems

NET INCOME (LOSS) / EARNINGS PER SHARE



■ Net income (loss) ■ Earnings per share (yen)

Due to these items, income before income taxes and minority interests was ¥6,401 million, compared with a loss in fiscal 2004. After income taxes and minority interests, net income was ¥4,459 million, an improvement of ¥8,242 million over the fiscal 2004 net loss. In accordance with the basic policy for distribution of earnings, interim and year-end dividends of ¥15 per share were paid, resulting in an annual dividend of ¥30 per share, the same as for fiscal 2004.

Research and Development Expenses

R&D expenses increased 13.9% to ¥6,300 million. As is stated in the "Strategic Principles for Our R&D" (see page 26), 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 continued to target the shift to 300mm wafers, the use of increasingly finer design rules and rising demand for 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 Expenditure

Capital expenditure increased 29.9% to ¥3,771 million, mainly for construction of new factories at Tsuchiura and Hachioji. In fiscal 2006, capital expenditures are expected to return to a level more in line with previous fiscal years. At present, the fiscal 2006 capital expenditure budget is ¥2,788 million. Depreciation expenses were ¥2,732 million, about the same as in fiscal

2004. Tokyo Seimitsu plans to make depreciation expenses the upper limit for capital expenditure.

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 exclusively for business activities. Tokyo Seimitsu conducts no speculative derivative transactions. Tokyo Seimitsu believes that an effective risk management system is in place for exposure to foreign currency risk.

Balance Sheet

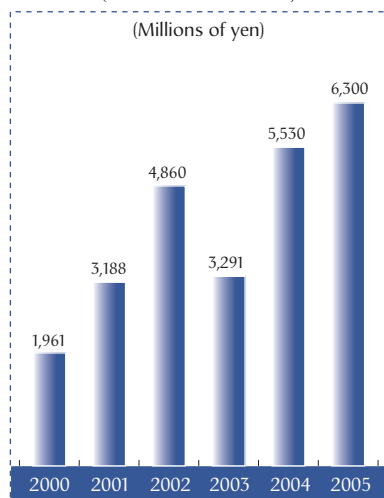
Total assets were ¥100,993 million as of March 31, 2005, ¥6,100 million more than one year earlier.

Current assets rose ¥2,808 million to ¥73,752 million. This was mainly attributable to an increase of ¥5,551 million in trade notes and accounts receivables due to the growth in sales. Products targeting new market segments accounted for about ¥4,600 million of this increase. Until fiscal 2001, Tokyo Seimitsu's sales were approximately the same as average total assets. Since then, the asset turnover ratio has declined due to a downturn in the asset turnover ratio for established products and a growing burden from products targeting new market segments. In fiscal 2005, however, the established product turnover ratio returned

R&D EXPENSES

(Years ended March 31)

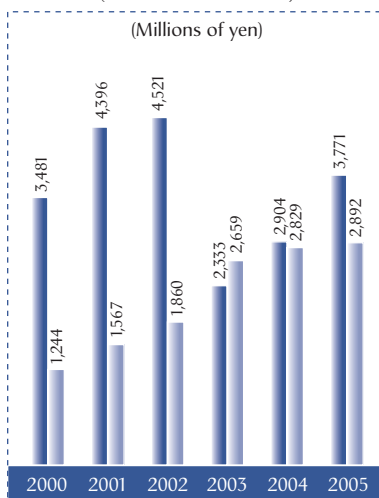
(Millions of yen)



CAPITAL EXPENDITURE / DEPRECIATION & AMORTIZATION

(Years ended March 31)

(Millions of yen)

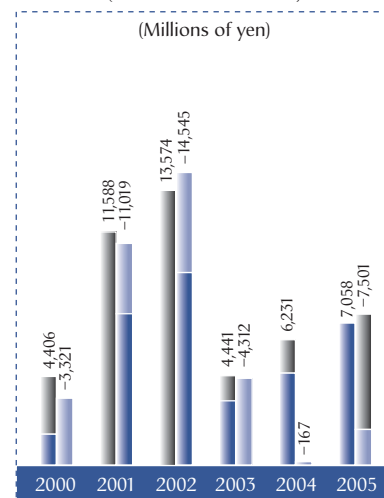


■ Capital expenditures
■ Depreciation & amortization

CASH FLOWS

(Years ended March 31)

(Millions of yen)



■ Operating activities
■ Financing activities
■ Investing activities

to the historic norm of about 1.0. Furthermore, sales of products for new markets are rising steadily. The fiscal 2006 goal is therefore to improve the asset turnover ratio to 0.8.

Total fixed assets amounted to ¥27,240 million, ¥3,292 million more than one year earlier. This was mainly the result of growth in property, plant and equipment due to the construction of new semiconductor manufacturing equipment and measuring system factories in Hachioji and Tsuchiura, respectively.

Total liabilities increased ¥1,892 million to ¥65,479 million, mainly because of a ¥2,134 million increase in accrued income taxes resulting from higher taxable income. Debt decreased ¥4,980 million.

The shareholders' equity ratio improved from 30.8% to 32.7%. The goal is to raise the equity ratio to 39.1% by March 2006 and then to 60% within the next two or three years.

Cash Flows

Cash and cash equivalents as of March 31, 2005 totaled ¥11,838 million, ¥404 million less than one year earlier. Net cash provided by operating activities was ¥7,058 million. The major components were income before income taxes and minority interests of ¥6,401 million, depreciation and amortization of ¥2,732 million, an increase of ¥5,427 million in trade notes and accounts receivables, and a decrease of ¥1,006 million in inventories. Net cash used in investing activities was ¥1,769 million, mostly the result of payments of ¥1,721 million for the purchase of property, plant and equipment. Net cash used in financing activities was ¥5,732 million. There were payments of ¥5,085 million for the repayment of short-term loans and dividend payments of ¥1,122 million.

There was an improvement in free cash flows. In fiscal 2006, Tokyo Seimitsu is projecting further growth in free cash flows because of higher sales and earnings. This is expected to support further progress in building a sounder financial position.

Decision to Make Tosei Engineering a Wholly Owned Subsidiary

On May 6, 2005, the directors of Tokyo Seimitsu and Tosei Engineering separately approved resolutions to enter into an agreement to make Tosei Engineering a wholly owned subsidiary of Tokyo Seimitsu through a stock-for-stock exchange. Both companies are engaged in the semiconductor manufacturing equipment and measuring systems businesses. User demands have been increasing in both of these businesses. Regarding semiconductor manufacturing equipment, there are growing demands concerning the use of larger diameter wafers and finer design rules, as well as for more advances in precision and productivity. In measuring systems, users are demanding advances in precision and overall quality.

The decision to make Tosei Engineering a wholly owned subsidiary reflects the belief that enabling the two companies to work more closely will yield greater speed and flexibility in business activities. These qualities are essential to the ability to continue using highly sophisticated technology to develop products that can respond accurately to customer needs and become number one in the world.

After completing procedures prescribed in the Japanese Commercial Code, the stock-for-stock exchange is to take place on October 1, 2005. The exchange ratio will be 0.51 share of Tokyo Seimitsu stock for each share of Tosei Engineering stock.

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 business in North America and elsewhere that uses 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, 2004 and 2005

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2005	2005
Current assets:			
Cash and cash equivalents	¥ 12,242	¥ 11,838	\$110,222
Time deposits with original maturities over three months	27	28	260
Trade notes and accounts receivable	26,554	32,105	298,907
Inventories (Note 4)	29,196	28,134	261,940
Deferred tax assets (Note 7)	2,289	753	7,012
Other	675	951	8,861
Allowance for doubtful accounts	(40)	(60)	(561)
Total current assets	70,944	73,752	686,643
Property, plant and equipment:			
Land (Note 5)	2,919	2,917	27,163
Buildings and structures (Note 5)	10,227	12,667	117,939
Machinery and equipment	5,823	4,561	42,464
Construction in progress	719	529	4,932
Other	3,662	3,726	34,693
	23,351	24,402	227,194
Accumulated depreciation	(10,504)	(10,517)	(97,914)
Net property, plant and equipment	12,847	13,885	129,279
Intangible assets:			
Software	3,199	2,263	21,071
Goodwill	461	221	2,060
Other	95	96	898
Total intangible assets	3,756	2,581	24,029
Investments and other assets:			
Investment securities (Note 3)	3,232	3,394	31,604
Investments in non-consolidated subsidiaries and affiliates	164	262	2,440
Deferred tax assets (Note 7)	3,109	6,331	58,950
Other	850	796	7,411
Allowance for doubtful accounts	(12)	(10)	(98)
Total investments and other assets	7,343	10,773	100,307
Total fixed assets	23,948	27,240	253,616
Total assets	¥ 94,893	¥100,993	\$940,259

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)
	2004	2005	2005
Current liabilities:			
Trade notes and accounts payable	¥17,574	¥ 17,809	\$165,810
Short-term loans (Note 5)	10,055	5,068	47,189
Accrued expenses	1,283	2,133	19,864
Accrued income taxes	756	2,890	26,909
Other	3,615	7,038	65,532
Total current liabilities	33,285	34,941	325,306
Long-term liabilities:			
Long-term debt, less current portion (Note 5)	26,198	26,204	243,971
Accrued pension and severance costs (Note 6)	4,055	4,286	39,907
Deferred tax liabilities (Note 7)	48	46	434
Total long-term liabilities	30,301	30,538	284,313
Minority interests	2,122	2,510	23,374
Contingent liabilities (Note 11)			
Shareholders' equity (Notes 8 and 14):			
Common stock, no-par value			
Authorized: 110,501,100 shares in 2005 and 110,501,100 shares in 2004			
Issued: 37,517,954 shares in 2005 37,372,993 shares in 2004		7,392	68,821
	7,199		
Additional paid-in capital	11,806	12,017	111,887
Retained earnings	10,273	13,596	126,585
Net unrealized profit on investment securities	57	70	655
Foreign currency translation adjustments	(105)	(9)	(93)
Shares of common stock in treasury: 22,229 shares in 2005 18,163 shares in 2004		(63)	(590)
	(49)		
Total shareholders' equity	29,183	33,003	307,265
Total liabilities and shareholders' equity	¥94,893	¥100,993	\$940,259

Consolidated Statements of Operations

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2005	2005
Net Sales	¥62,324	¥84,750	\$789,035
Cost of sales	46,531	59,344	552,506
Gross profit	15,793	25,405	236,529
Selling, general and administrative expenses	9,846	12,354	115,018
Operating income	5,947	13,051	121,511
Non-operating income:			
Interest income	3	10	96
Other income	142	267	2,494
Non-operating expenses:			
Interest expense	278	293	2,730
Other expenses	486	150	1,402
Ordinary income	5,328	12,885	119,967
Special income:			
Gain on sales of land	–	15	145
Gain on sales of investment securities	198	358	3,334
Other income	182	150	1,396
Special loss:			
Loss on valuation of investment securities	48	–	–
Loss on valuation and disposal of inventories	3,491	5,861	54,570
Loss on disposal of tangible assets	2,216	854	7,955
Loss on disposal of software	3,423	–	–
Other losses	593	291	2,718
Income (loss) before income taxes and minority interests	(4,064)	6,401	59,601
Income taxes (Note 7)			
Current	1,044	3,187	29,671
Deferred	(1,598)	(1,688)	(15,723)
	(553)	1,498	13,948
Minority interests	273	444	4,133
Net income (loss)	¥ (3,783)	¥ 4,459	\$ 41,519

	Yen	U.S. dollars (Note 1)
Per share of common stock:		
Shareholders' equity	¥ 780.87	¥879.93
Net income (loss) – basic	(101.67)	118.82
– diluted	–	108.75
Cash dividends, applicable to earnings of the year	30.00	30.00

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, 2004 and 2005

	Thousands	Millions of yen			
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Others
Balance at March 31, 2003	37,355	¥7,199	¥11,806	¥15,191	¥(552)
Net loss	-	-	-	(3,783)	-
Foreign currency translation adjustments	-	-	-	-	(216)
Net unrealized profit or loss on investment securities	-	-	-	-	675
Shares of common stock in treasury	(1)	-	-	-	(3)
Cash dividends paid	-	-	-	(1,120)	-
Bonuses to directors	-	-	-	(12)	-
Balance at March 31, 2004	<u>37,354</u>	<u>7,199</u>	<u>11,806</u>	<u>10,273</u>	<u>(97)</u>
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)	-
Balance at March 31, 2005	<u>37,495</u>	<u>¥7,392</u>	<u>¥12,017</u>	<u>¥13,596</u>	<u>¥ (3)</u>

	Thousands of U.S. dollars (Note 1)			
	Common stock	Additional paid-in capital	Retained earnings	Others
Balance at March 31, 2004	\$67,032	\$109,922	\$ 95,650	\$(903)
Net income	-	-	41,519	-
Foreign currency translation adjustments	-	-	-	885
Net unrealized profit or loss on investment securities	-	-	-	117
Shares of common stock in treasury	-	-	-	(127)
Common stock issued upon exercise of warrants	1,788	1,965	-	-
Cash dividends paid	-	-	(10,453)	-
Bonuses to directors	-	-	(130)	-
Balance at March 31, 2005	<u>\$68,821</u>	<u>\$111,887</u>	<u>\$126,585</u>	<u>\$ (28)</u>

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, 2004 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2005	2005
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	¥ (4,064)	¥ 6,401	\$ 59,601
Depreciation and amortization*	2,829	2,892	26,928
Change in allowance for doubtful accounts	(35)	16	155
Change in accrued pension and severance costs	486	231	2,150
Interest and dividend income	(23)	(51)	(482)
Interest expense	278	293	2,730
Loss on valuation of investment securities	48	—	—
Loss on valuation of golf membership	36	2	26
Gain on sales of land	—	(15)	(145)
Loss on sales and disposal of tangible assets	2,216	952	8,864
Loss on disposal of software	3,423	—	—
Gain on sales of investment securities	(198)	(358)	(3,334)
Change in trade notes and accounts receivable	(10,612)	(5,427)	(50,534)
Change in inventories	3,150	1,006	9,371
Change in trade notes and accounts payable	6,808	37	349
Change in other assets and liabilities	1,388	2,532	23,582
Bonuses to directors	(12)	(14)	(130)
Subtotal	5,721	8,499	79,132
Proceeds from interest and dividend income	23	51	482
Payment of interest	(290)	(291)	(2,709)
Payment of income taxes	(883)	(1,201)	(11,188)
Net cash provided by operating activities	4,569	7,058	65,717
Cash flows from investing activities:			
Payment for time deposits due over three months	(20)	(21)	(195)
Proceeds from time deposits due over three months	20	20	186
Payment for purchase of investment securities	(73)	(362)	(3,375)
Payment for purchase of investment in affiliates	(8)	(96)	(898)
Proceeds from sales of investment securities	474	579	5,399
Payment for purchase of property, plant and equipment	(1,715)	(1,721)	(16,023)
Proceeds from sales of property, plant and equipment	1,741	78	729
Payment for purchase of intangible assets	(262)	(277)	(2,583)
Other	(324)	30	288
Net cash used in investing activities	(167)	(1,769)	(16,472)
Cash flows from financing activities:			
Change in short-term loans payable	(13,877)	(5,085)	(47,342)
Proceeds from long-term debt	4,100	5,300	49,343
Repayment of long-term debt	(5,235)	(4,994)	(46,498)
Proceeds from issuance of bonds	18,000	—	—
Payment for redemption of bonds	(200)	(200)	(1,862)
Proceeds from common stock issued upon exercise of warrants	—	383	3,574
Dividend payments	(1,120)	(1,122)	(10,453)
Other	(3)	(13)	(127)
Net cash provided by (used in) financing activities	1,662	(5,732)	(53,365)
Effect of exchange rate changes on cash and cash equivalents	(16)	39	367
Net increase (decrease) in cash and cash equivalents	6,048	(403)	(3,753)
Cash and cash equivalents at beginning of year	6,193	12,242	113,975
Cash and cash equivalents at end of year	¥ 12,242	¥ 11,838	\$ 110,222

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 ¥107.41=U.S.\$1, the exchange rate prevailing on March 31, 2005. 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 ¥1 million 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, 2004 and 2005. The remaining 7 subsidiaries and 1 affiliate as of March 31, 2004 and 8 subsidiaries and 1 affiliate as of March 31, 2005, whose total assets, net sales and net income are immaterial in relation to the comparable amounts in these statements have been excluded.

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 rates on bank loans. Special hedge accounting has 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 purpose 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 regulations.

(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 (whether such leases are classified as operating leases or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased assets 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 payments 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.

(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 at

the rates of exchange in effect at the balance sheet dates. Assets and liabilities hedged by foreign forward exchange contracts are translated at the rate of the respective forward rates. The resulting gains and losses are allocated through the period of transaction.

- 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.

3 INVESTMENT SECURITIES

The aggregate carrying value and fair value of securities with fair value (equity and debt securities) as of March 31, 2004 and 2005 were as follows:

	Millions of yen		Thousands of
	2004	2005	U.S. dollars
Carrying value	¥2,328	¥2,591	\$24,123
Fair value	2,448	2,715	25,285
Unrealized gain	¥ 120	¥ 124	\$ 1,161

The aggregate carrying value of securities without fair value was ¥862 million as of March 31, 2004 and ¥808 million (U.S.\$7,526 thousand) as of March 31, 2005.

4 INVENTORIES

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

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Goods and finished products	¥ 3,885	¥ 4,390	\$ 40,871
Work in progress	23,330	21,570	200,826
Raw materials and supplies	1,979	2,174	20,241
	<u>¥29,196</u>	<u>¥28,134</u>	<u>\$261,940</u>

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, 2004 and 2005 are 0.61% and 0.69%, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Long-term debt with collateral			
Bank loans			
Due 2004 to 2007 with interest ranging from 1.250% to 2.100% as of March 31, 2004,	¥ 4,646		
Due 2005 to 2007 with interest ranging from 1.250% to 2.100% as of March 31, 2005		¥ 2,699	\$ 25,132
Bonds			
2.300%, due 2006	150	150	1,396
Long-term debt without collateral			
Bank loans			
Due 2004 to 2006 with interest ranging from 0.600% to 1.670% as of March 31, 2004,	5,961		
Due 2005 to 2011 with interest ranging from 0.880% to 1.650% as of March 31, 2005		8,214	76,477
Bonds			
Due 2004 to 2008 with interest ranging from 0.820% to 1.230% as of March 31, 2004,	2,400		
Due 2005 to 2008 with interest ranging from 0.880% to 1.230% as of March 31, 2005		2,200	20,482
Convertible bonds			
0.850%, due 2008	51	51	474
Zero coupon due 2009	17,500	17,500	162,927
	<u>30,709</u>	<u>30,815</u>	<u>286,891</u>
Less current portion	4,511	4,610	42,920
	<u>¥26,198</u>	<u>¥26,204</u>	<u>\$243,971</u>

As of March 31, 2005, if all the outstanding 0.850% convertible bonds due 2008 had been converted at the current conversion price of ¥1,818.90 (U.S.\$17.2) per share, 28,038 shares would have been issued. If all the outstanding Zero coupon convertible bonds due 2009 had been converted at the current conversion price of ¥5,128.00 (U.S.\$47.7) per share, 3,412,636 shares would have been issued.

The annual maturities of long-term debt (including current portion) subsequent to March 31, 2005 are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥ 3,273	\$ 30,476
2007	3,068	28,563
2008	18,892	175,886
2009	962	8,956
2010 and thereafter	9	88
	<u>¥26,204</u>	<u>\$243,971</u>

Assets pledged as collateral for ¥2,093 million (U.S.\$19,486 thousand) of the current portion of long-term debt and ¥756 million (U.S.\$7,042 thousand) of long-term debt as of March 31, 2005, were ¥655 million (U.S.\$6,098 thousand) in land and ¥5,070 million (U.S.\$47,208 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 years for the years ended March 31, 2004 and 2005.

(1) Actuarial present value of projected benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Actuarial present value of projected benefit obligations	¥7,603	¥7,516	\$69,981
Plan assets (inclusive of the employees' retirement benefit trust account)	2,447	3,104	28,907
Accrued pension and severance costs	3,498	3,610	33,614
Unrecognized net actuarial loss	¥1,657	¥ 801	\$ 7,459

(2) Components of net periodic pension and severance cost

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Service cost	¥380	¥381	\$3,550
Interest cost	132	134	1,248
Expected return on plan assets	(16)	(15)	(148)
Actuarial loss	327	231	2,157
Net periodic pension and severance cost	¥824	¥731	\$6,807

(3) Major assumptions at the beginning of year

	2004	2005
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	Straight-line method
Term of amortization of unrecognized net actuarial loss	10 years	10 years

The total liabilities in connection with the severance payment to directors and statutory auditors were ¥557 million and ¥675 million (U.S.\$6,293 thousand) as of March 31, 2004 and 2005, 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 42.09% in 2004 and 40.69% in 2005, respectively. 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, 2004 and 2005 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, 2004 and 2005 differ from the statutory tax rate for the following reasons:

	2004	2005
Statutory tax rate	42.05%	40.69%
Effect of:		
Expenses not deductible for income for tax purposes	(1.09)	-
Inhabitants' tax	(1.41)	-
Valuation allowance	(19.89)	35.47
Temporary difference of investment in a subsidiary	-	(52.19)
Tax credit for increased research expenses	-	(4.77)
Tax rate changed	(1.36)	-
Other, net	(4.68)	4.20
Effective tax rate	13.62%	23.40%

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

	Millions of yen		Thousands of
	2004	2005	U.S. dollars
Deferred tax assets:			
Temporary difference of investment in a subsidiary	¥ -	¥ 3,340	\$ 31,104
Accrued pension and severance costs	2,321	2,465	22,957
Unrealized profit	1,006	804	7,490
Tax loss carryforwards	3,238	1,319	12,284
Accrued bonuses	263	387	3,603
Other	755	1,090	10,150
Gross deferred tax assets	7,585	9,408	87,591
Less valuation allowance	(1,216)	(1,285)	(11,965)
Deferred tax assets	6,368	8,123	75,626
Deferred tax liabilities:			
Gain on securities contribution to employees' retirement benefit trust	(708)	(704)	(6,561)
Deferred capital gains on fixed assets	(103)	(101)	(941)
Undistributed earnings of foreign subsidiaries	(164)	(229)	(2,132)
Net unrealized gain on securities	(40)	(49)	(462)
Deferred tax liabilities	(1,017)	(1,084)	(10,098)
Net deferred tax assets	¥ 5,351	¥ 7,038	\$ 65,528

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 it 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, 2004 and 2005, 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
	2004	2005	2005
Machinery and equipment:			
Acquisition cost	¥2,085	¥3,534	\$32,906
Accumulated depreciation	727	1,095	10,195
Net book value	¥1,357	¥2,439	\$22,711
Others:			
Acquisition cost	¥ 767	¥ 557	\$ 5,191
Accumulated depreciation	551	284	2,646
Net book value	¥ 215	¥ 273	\$ 2,544

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, 2004 and 2005, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Lease payments	¥570	¥635	\$5,920
Estimated depreciation expense	514	571	5,323
Estimated interest expense	73	76	714

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

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Current portion	¥ 270	¥ 270	\$2,520
Non-current portion	1,060	789	7,352
	¥1,331	¥1,060	\$9,872

10 DERIVATIVE INSTRUMENTS

Because all derivatives held by the Company and its consolidated subsidiaries at March 31, 2004 and 2005 were for hedge purposes, 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
	2004	2005	2005
Trade notes receivable discounted	¥2,456	¥2,941	\$27,383
Bills of exchange without L/C	1,469	696	6,486
Guarantee of obligation for bank loans of an unconsolidated subsidiary, Accretech (China) Co., Ltd.	–	90	845

The Company takes the responsibility of a surety for debt of unconsolidated subsidiary, Accretech (China) Co., Ltd., amounted to ¥90 million (\$845 thousand).

12 SUPPLEMENT TO CONSOLIDATED STATEMENTS OF OPERATIONS

(1) Research and Development Costs

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

	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
General and administrative expenses	¥ 503	¥ 315	\$ 2,939
Manufacturing costs	5,027	5,984	55,719

(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
	2004	2005	2005
Selling expenses			
Salaries for employees	¥1,637	¥1,831	\$17,054
Provision for employees' bonuses	72	120	1,122
Provision for retirement benefits for employees	97	98	913
Sales commission	1,584	2,531	23,569
Provision for doubtful accounts	17	17	164
General and administrative expenses			
Salaries for employees	501	571	5,322
Provision for employees' bonuses	25	28	261
Provision for retirement benefits for employees	39	35	332
Provision for retirement benefits for directors and statutory auditors	97	214	1,998

(3) Corporation Size-based Enterprise Tax

During the year ended March 31, 2005, a corporation size-based enterprise tax was introduced and the portion of enterprise tax subject to income was reduced. The Company applied new accounting guidelines and recorded a corporation size-based portion of enterprise tax as selling, general and administrative expenses.

As a result, selling, general and administrative expenses increased by ¥143 million (U.S.\$1,338 thousand) and operating income, ordinary income and income before income taxes and minority interests decreased by the same amount, respectively, for the year ended March 31, 2005.

13 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 Systems, CMP,

Polish Grinders, Lithography Systems, 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, 2004 and 2005 are outlined as follows:

(a) Business Segments

	Millions of yen				
	Semiconductor manufacturing equipment division	Measuring systems division	Total	Corporate and elimination	Consolidation
Year ended March 31, 2004					
Sales and operating income:					
Sales to third parties	¥47,045	¥15,279	¥62,324	¥ –	¥62,324
Intersegment sales and transfer	–	–	–	(–)	–
Total sales	47,045	15,279	62,324	(–)	62,324
Cost of revenue from operations	44,272	12,104	56,377	(–)	56,377
Operating income	¥ 2,772	¥ 3,174	¥ 5,947	¥ –	¥ 5,947
Assets, depreciation and capital expenditure:					
Assets	¥75,630	¥15,805	¥91,435	¥3,457	¥94,893
Depreciation	2,401	347	2,749	–	2,749
Capital expenditure	2,712	192	2,904	–	2,904

	Millions of yen				
	Semiconductor manufacturing equipment division	Measuring systems division	Total	Corporate and elimination	Consolidation
Year ended March 31, 2005					
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	¥ 8,784	¥ 4,267	¥13,051	¥ –	¥ 13,051
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

	Thousands of U.S. dollars				
	Semiconductor manufacturing equipment division	Measuring systems division	Total	Corporate and elimination	Consolidation
Year ended March 31, 2005					
Sales and operating income:					
Sales to third parties	\$620,697	\$168,338	\$789,035	\$ –	\$789,035
Intersegment sales and transfer	–	–	–	–	–
Total sales	620,697	168,338	789,035	–	789,035
Cost of revenue from operations	538,914	128,610	667,524	–	667,524
Operating income	\$ 81,782	\$ 39,728	\$121,511	\$ –	\$121,511
Assets, depreciation and capital expenditure:					
Assets	\$748,852	\$176,407	\$925,259	\$15,000	\$940,259
Depreciation	22,389	3,048	25,437	–	25,437
Capital expenditure	25,425	9,685	35,111	–	35,111

(b) Geographical Segments

Year ended March 31, 2004	Millions of yen					
	Japan	United States of America	Germany	Area total	Corporate and elimination	Consolidation
Sales and operating income:						
Sales to third parties	¥53,210	¥5,738	¥3,375	¥62,324	¥ –	¥62,324
Intersegment sales and transfer	6,365	–	–	6,365	(6,365)	–
Total sales	59,575	5,738	3,375	68,689	(6,365)	62,324
Cost of revenue from operations	53,804	5,721	3,252	62,779	(6,402)	56,377
Operating income	¥ 5,770	¥ 16	¥ 122	¥ 5,909	¥ 37	¥ 5,947
Assets	¥89,471	¥6,357	¥1,954	¥97,784	¥(2,891)	¥94,893

Year ended March 31, 2005	Millions of yen					
	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	79,123	9,226	5,677	94,027	(9,277)	84,750
Cost of revenue from operations	66,386	9,199	5,478	81,064	(9,365)	71,698
Operating income	¥12,737	¥ 27	¥ 199	¥ 12,963	¥ 88	¥ 13,051
Assets	¥96,292	¥6,052	¥2,363	¥104,708	¥(3,715)	¥100,993

Year ended March 31, 2005	Thousands of U.S. dollars					
	Japan	United States of America	Germany	Area total	Corporate and elimination	Consolidation
Sales and operating income:						
Sales to third parties	\$650,277	\$85,901	\$52,856	\$789,035	\$ –	\$789,035
Intersegment sales and transfer	86,373	–	–	86,373	(86,373)	–
Total sales	736,650	85,901	52,856	875,409	(86,373)	789,035
Cost of revenue from operations	618,067	85,647	51,002	754,717	(87,192)	667,524
Operating income	\$118,583	\$ 253	\$ 1,854	\$120,691	\$ 819	\$121,511
Assets	\$896,498	\$56,348	\$22,005	\$974,853	\$(34,593)	\$940,259

(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:

Year ended March 31, 2004	Millions of yen				
	North America	East Asia	Europe	Others	Total
Overseas sales	¥5,311	¥16,774	¥3,838	¥2,983	¥28,908
Consolidated sales					62,324
Ratio of overseas sales to consolidated sales	8.5%	26.9%	6.2%	4.8%	46.4%

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

Year ended March 31, 2005	Thousands of U.S. dollars				
	North America	East Asia	Europe	Others	Total
Overseas sales	\$76,034	\$233,208	\$53,127	\$36,665	\$399,035
Consolidated sales					789,035
Ratio of overseas sales to consolidated sales	9.6%	29.6%	6.7%	4.7%	50.6%

14 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, 2005, were approved by the shareholders at a meeting held on June 29, 2005:

Year-end cash dividends (¥15=U.S.\$0.14 per share)	Millions of yen	Thousands of U.S. dollars
		¥562

On May 6, 2005, the Company entered into a share exchange contract with Tosei Engineering Corp. ('TSE'), the Company's consolidated subsidiary, in order to make TSE a wholly owned subsidiary. The details are as follows:

(1) Purpose of stock-for-stock exchange

The transaction is expected to create synergies such as "information-sharing on product development and new business and a clarification of roles" and "the effective and efficient use of the manufacturing division and back-office divisions", through the creation of these synergies, to enhance the competitiveness of the semiconductor manufacturing equipment and measuring system businesses of the Tokyo Seimitsu Group and increase the corporate value of the group as a whole.

(2) Terms of the share exchange

a) The expected date of the share exchange

October 1, 2005

b) Kind of stock to be issued by the share exchange

Common stock

c) Number of shares to be issued by the share exchange

The number of Company shares to be issued will be a total of 1,681,368 shares of common a stock and the shares of TSE issued through stock option exercised between April 1, 2005 and the day before the date of the stock-for-stock exchange, multiplied by 0.51.

d) Issue price of shares and increase of capital

The issue price of the new shares is decided as net assets of TSE as of the share exchange date multiplied by the ratio of TSE's number of shares to be allocated to the Company to the total number of outstanding shares of TSE, divided by the number of shares to be issued by the Company.

The amount of the capital increase per share will be nil.

e) Total amount of issued stock and total amount of capital increase

The total amount of issued shares will be the net assets of TSE as of the share exchange date multiplied by the ratio of TSE's number of shares to be allocated to the Company to the total number of outstanding shares of TSE.

The amount of capital increase will be nil.

f) Share allocation ratio

0.51 shares of the Company will be allocated to each share of TSE stock. However, no allocation of shares will be made with respect to 6,630,000 shares of TSE's common stock held by the Company.

g) Sum of cash issued stock and spent for

None

h) Stock exchange expected to be listed

Tokyo Stock Exchange

i) TSE's Shareholders to acquire the Company's new shares

Shares of the Company will be allocated to the shareholders listed on the TSE's shareholders' list as of the day before the share exchange date.

(3) Outline of Tosei Engineering

Head Office

4-6, Higashi-Nakanuki-machi, Tsuchiura-shi, Ibaraki, Japan

Representative

Shigeru Umenaka, President

Capital stock

953 million yen

Business

Manufacturing, sales and after-sales service of measuring systems, and manufacturing and sales of semiconductor manufacturing equipment

Independent Auditors' Report



■ Certified Public Accountants
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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 2004, 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 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental information

As described in Note 14 Subsequent Event, Tokyo Seimitsu Co., Ltd. and Tosei Engineering Corp. entered into a share exchange contract on May 6, 2005.

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

A handwritten signature in cursive script that reads 'ShinNihon & Co.'.

June 29, 2005

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(as of July 2005)

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

Established: March 28, 1949

Paid-in Capital: ¥7,392 million

Number of Employees:

Consolidated: 1,144
Non-consolidated: 635

Number of Outstanding Shares:

Authorized: 110,501,100 shares
Issued: 37,517,954 shares

Number of Shareholders: 21,558

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
NSK Ltd.
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:

Shin Nihon & Co.

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