



ANNUAL REPORT 2004

**TOKYO SEMIMITSU CO., LTD.**  
Win-Win growth gains momentum

# Profile

A manufacturer of precision machinery and instruments, Tokyo Seimitsu Co., Ltd. is distinguished by a commitment to growth by building Win-Win relationships with customers and business partners. Defining the product lineup is a policy of targeting categories that have significant growth potential but considerable technological barriers to entry. By tackling and overcoming these technological challenges, the company is supplying an expanding range of semiconductor manufacturing equipment. All target opportunities are spawned by the constant demand for increasingly sophisticated semiconductor devices. The ACCRETECH corporate brand expresses the desire to accumulate knowledge to create number-one products based on the integration and creation of pioneering technologies.



## Contents:

FINANCIAL HIGHLIGHTS	01	CONSOLIDATED BALANCE SHEETS	26
TO OUR SHAREHOLDERS	02	CONSOLIDATED STATEMENTS OF OPERATIONS	28
QUESTIONS & ANSWERS	03	CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY	29
REVIEW OF OPERATIONS	08	CONSOLIDATED STATEMENTS OF CASH FLOWS	30
ECO AWARENESS	18	NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	31
BOARD OF DIRECTORS	20	INDEPENDENT AUDITORS' REPORT	41
SIX-YEAR SUMMARY	21	NETWORK	42
FINANCIAL REVIEW	22	INVESTOR INFORMATION	43

### 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, 2004)

# FINANCIAL HIGHLIGHTS

TOKYO SEIMITSU CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
YEARS ENDED MARCH 31, 2003 AND 2004

	Millions of yen		Thousands of U.S. dollars	% change
	2003	2004	2004	
<b>For the year:</b>				
Net sales:	¥47,171	¥ 62,324	\$590,027	32.1 %
Semiconductor manufacturing equipment	33,561	47,045	445,379	40.2
Measuring systems	13,610	15,279	144,647	12.3
Operating income (loss)	1,860	5,947	56,304	219.7
Income (loss) before income taxes and minority interests	75	(4,064)	(38,475)	—
Net income (loss)	74	(3,783)	(35,821)	—
Capital expenditures	2,333	2,904	27,495	24.5
Depreciation and amortization	2,659	2,829	26,786	6.4
Research & development expenses:				
Semiconductor manufacturing equipment	3,007	5,076	48,057	68.8
Measuring systems	284	454	4,304	59.9
<b>At year-end:</b>				
Total assets	¥88,669	¥ 94,893	\$898,355	7.0
Total shareholders' equity	33,645	29,183	276,279	(13.3)
		Yen	U.S. dollars	% change
<b>Per share data:</b>				
Net income (loss) — basic	¥ 1.64	¥(101.67)	\$ (0.96)	—
Cash dividends, applicable to earnings of the year	30.00	30.00	0.28	—

Note: The U.S. dollar amounts are translated for convenience only at the rate of ¥105.63 to U.S.\$1, the exchange rate prevailing on March 31, 2004.

## TO OUR SHAREHOLDERS

Tokyo Seimitsu staged a solid rebound in the past fiscal year. Both new and established products contributed, as did our long-standing policy of building Win-Win relationships.



Being number one is a theme that has long defined Tokyo Seimitsu.

No other company in the semiconductor or measuring instrument industry is like us. We focus on the most critical aspects of clients' operations, especially production processes that present the greatest challenges. Then we ask ourselves what is needed to become number one. An essential component is, of course, technology—ideas that competitors find hard to imitate. Equally important, and often overlooked, is our unique working environment.

I take great pride in the fact that Tokyo Seimitsu can offer one of the most rewarding workplaces in the Japanese high-tech industry. Our staff is filled with top-class engineers who welcome the opportunity to take on challenges that are often shunned by our competitors. Many mid-career professionals join our team to become part of an organization that values enthusiasm and creativity.

Our pursuit of market leadership continued to define our activities and operating results in the most recent fiscal year. We retained our leading position in wafer probers, and polish grinders, a

product category that we created virtually on our own, gained widespread market acceptance. This was our single most important accomplishment of the fiscal year. Another highlight of the year was the growing market shares of our wafer inspection machines and dicing machines. In fact, we recorded market share gains in all product categories, including measuring systems. In 2004, we hope to see similar growth in another new product, our chemical mechanical planarizer. Farther down the road, lithography products incorporating LEEPL technology hold much promise.

Never in our history have we had a more powerful lineup of new products and technologies. In fact, these products are accounting for a rising share of our sales growth. We are determined to build on this momentum in 2004, aiming for number-one positions in every market that we target.

June 2004

A handwritten signature in black ink, reading "Hideo Ohtsubo". The signature is written in a cursive, flowing style.

Hideo Ohtsubo  
Chairman and CEO

How would you characterize the company's performance in the year ended March 31, 2004?  
What is your outlook for fiscal 2005?



Answer  
Answer  
Answer  
Answer  
Answer

In 2003, we saw a broad-based and vigorous rebound in the global semiconductor market. While market conditions are somewhat similar to 1999, the period leading up to the 2000 peak, there are notable differences. For example, growth in 2000 was driven mainly by two products: PCs and cell phones. This time, the peak is likely to last longer, backed by the popularity of flat-screen TVs, digital home electronics, car electronics and other products.

Our fiscal 2004 operating results reflected these market conditions. Net sales rose 32.1% to ¥62,324 million and operating income more than tripled to ¥5,947 million. Almost all product categories contributed to this performance. However, we had a net loss of ¥3,783 million, the result of our decision to write off equipment and capitalized R&D expenses related to the chemical mechanical planarizer (CMP) and LEEPL. The removal of these assets from our balance sheet positions us for a rapid improvement in bottom-line earnings. I also want to point out that our operating cash flows rose more than 40% to ¥4,569 million, helping to

almost double cash and cash equivalents.

In fiscal 2005, our current forecasts call for consolidated net sales of ¥82,000 million, up 31.6%, and operating income of ¥14,000 million, up 135.4% over the past fiscal year. Although semiconductor industry capital expenditures will probably not exceed the fiscal 2001 peak, we are projecting record sales and earnings because of our confidence in our newer products. Strong growth in demand for these products is continuing, notably for wafer inspection machines and polish grinders. I also believe that 2004 will be the year our CMP achieves widespread acceptance. Orders are continuing to climb for established products, too.



Answer  
Answer  
Answer  
Answer  
Answer

There will be no shift in the basic policies that have guided us in the past. The tenets that define how we manage our resources have served us very well through all types of market conditions. At the heart of these policies are our Strategic Principles (see below), which provide clear standards for R&D activities including new product development. By adhering to these principles, we will continue to aim for strong growth and earnings while minimizing the impact of market fluctuations. Our past accomplishments provide ample proof that Tokyo Seimitsu can use these principles to its advantage, and to maximize value for shareholders over the long term.

To make the Strategic Principles an integral part of our employees' actions, we have established a motto that distills these guidelines into a single objective: creating the world's number-one products. Achieving this goal demands highly advanced technology along with speed. That means we must fully utilize core technologies we developed over the years. We must also have a workforce that acts as one to achieve

our goal of supplying number-one products while building Win-Win relationships. We have a distinctive combination of policies and intangible attributes that create a stimulating atmosphere. Judging from the high caliber of people that we can attract, I can say with confidence that Tokyo Seimitsu is one of the most appealing workplaces in Japan's high-tech sector. People come here to shoot for ambitious goals while working with others having the same intelligence, enthusiasm and vision. Functioning as a global company is another priority of ours. Succeeding on a global scale calls for a corporate culture that is open to ideas and customs from anywhere in the world. In fact, this is a motto of the company that backs up our fourth Strategic Principle, which calls for us to form alliances whenever prudent. Our corporate brand, ACCRETECH, brings together all of these concepts. Combining the words "accrete" and "technology," this corporate brand expresses our commitment to fusing technology and knowledge in order to grow with partners and customers.

# 2

## Question

# What policies will guide Tokyo Seimitsu as you seek to achieve significant growth over the next several years?

### 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.

Tokyo Seimitsu has kept R&D expenditures high even during the industry downturn of the past three years. When do you expect to begin recovering these investments?

# 3

Question

Answer  
Answer  
Answer  
Answer  
Answer

As I just noted, our goal is to have many products with number-one market shares. This is essential to gaining the respect of peer companies. As a respected member of the industry, we can more easily recruit top-class personnel and take part in joint undertakings and alliances through which we can take on more ambitious, leading-edge research themes while holding down our own R&D expenditures. I firmly believe that producing number-one products depends on the ability to skillfully collect information, as well as to make the necessary investments with the proper timing. Over the long term, the greatest risk of all is the risk that comes from doing nothing.

The R&D expenditures of the past several years have been tightly focused on technologies and products with excellent prospects for success. Most significantly, these expenditures have allowed us to extend our product line to front-end processes. And our expertise in more key aspects of semiconductor production is definitely contributing to our stature in the industry.

We are already beginning to recover our R&D investments, notably through the growth in wafer inspection machine and polish grinder sales. Now, the CMP is on the verge of full-scale commercialization, and LEEPL is not far behind. Mainly in order to fund these R&D expenditures, our debt has grown to ¥36 billion, lowering our equity ratio in recent years. But as sales and earnings rise, I expect this ratio to return to a level more in line with our historical average.



Answer  
Answer  
Answer  
Answer  
Answer

Tokyo Seimitsu has long been distinguished by its ability to come up with and find practical applications for revolutionary ideas. But this process of creativity can make us competitive only if we have a manufacturing infrastructure that can turn technological breakthroughs into successful, profitable products. With this in mind, we manage production activities with a close eye on quality and profit margins.

The semiconductor industry is extremely cyclical. This is why we constantly work hard on building a flexible manufacturing system able to remain profitable even during market downturns. For example, we place considerable emphasis on managing variable expenses. Basically that means personnel expenses. We do this by using a workforce structure that incorporates a significant share of temporary workers. This allows us to adjust factory staffing very quickly. To maximize productivity, products are designed so that temporary workers can assemble top-quality equipment with little training or margin for error. In fact, we are using fewer temporary factory workers than in fiscal 2001, when the

market peaked. But our production volume is about the same as in fiscal 2001, or somewhat higher, even though we were operating night shifts that year.

Further boosting productivity are flexible production lines that can produce two or more products, shifting from one to another over a short time in many cases. Wafer probers and dicing machines, for example, are currently assembled on a single line, allowing us to produce a larger number of these units in relation to floor space used.

Cost reduction is a constant theme of ours. We are constantly achieving further reductions by manufacturing products more efficiently and shortening the order-delivery cycle. Furthermore, our engineering and manufacturing divisions work together to redesign existing products to cut costs.

Tokyo Seimitsu is constantly refining its operations to respond to rapid changes in markets with greater speed and flexibility, and while preserving profitability.

4

Question

What measures are you taking in manufacturing and other aspects of operations to improve profitability?

What is your basic policy with regard to shareholder value?

# 5 Question

Answer  
Answer  
Answer  
Answer  
Answer

Most investors buy Tokyo Seimitsu stock because they believe in our long-term growth prospects. Operations are managed in line with those expectations. We are never swayed by short-term fluctuations in market conditions or our own earnings. Our strategies are firmly grounded in long-term objectives. In particular, our goal is to generate the greatest possible value for long-term investors by constantly aiming to supply products that are number one in the world. Earnings per share is a key metric to gauge our progress. Raising this performance indicator will be instrumental to long-term growth in shareholder value.

Our earnings are naturally linked somewhat to the ups and downs of the semiconductor industry. But we believe that adjusting the dividend in accordance with these short-term movements is not consistent with the expectations of long-term shareholders. This is why we have a policy of maintaining a stable dividend, while also taking into consideration the need to preserve adequate funds to support growth.

The management of this company will remain intently focused on generating shareholder value. We have a formula for success that has been effective for well over a decade. And the major R&D outlays of recent years, in line with this formula, are just now beginning to produce top- and bottom-line growth. At the same time, the market outlook is favorable. I have never been more confident about the future of Tokyo Seimitsu than I am at this time.



# REVIEW OF OPERATIONS

## SEMICONDUCTOR MANUFACTURING EQUIPMENT

SADAKATSU SUZUKI  
President and COO



### OVERVIEW OF THE FISCAL YEAR

The global rebound in the semiconductor industry gained momentum during the past fiscal year, developing into a broad-based upturn in the year's second half. Despite favorable market conditions and a positive outlook, semiconductor companies remained somewhat cautious during the first half about capital investments because of lessons learned during the last industry downturn. Driving growth was the rising demand for semiconductors in products such as cell phones, digital cameras, DVD decks, PCs, flat-panel televisions and automobiles. Many key devices used in these products, including flash memories, CCDs and CMOS sensors, are developed and manufactured largely in Japan. Another positive trend is the completion of reorganization and consolidation among Japanese manufacturers, opening the way to a period of stepped-up capital expenditures and output.

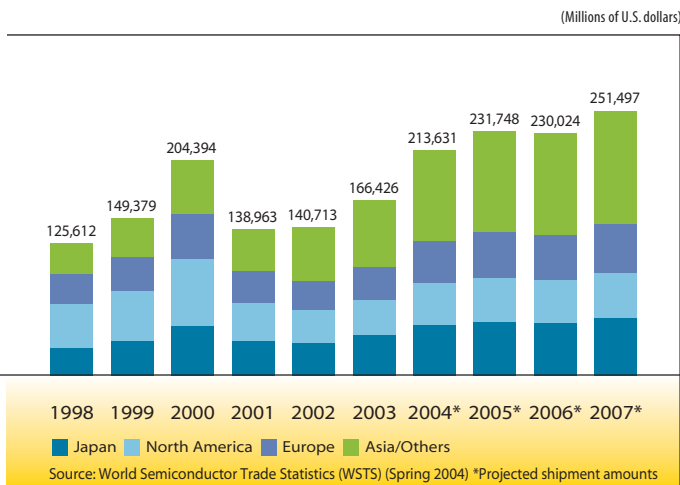
At Tokyo Seimitsu, semiconductor manufacturing equipment orders staged a dramatic rebound late in 2003. In the third quarter of the fiscal year, orders were

more than twice as high as one year earlier and 76% higher than in the preceding quarter. Expansion continued in the following quarter, with orders up an additional 4%. As a result, Tokyo Seimitsu set a new record for orders in a six-month period, beating by 5% the previous record set in the first half of fiscal 2001. Significantly, this was accomplished even though sales of wafer probers, the largest component of sales in this segment, remained below the previous record. Lifting orders to the new six-month high were dicing machines and other products that either had not been introduced or made only a minimal contribution to results in fiscal 2001.

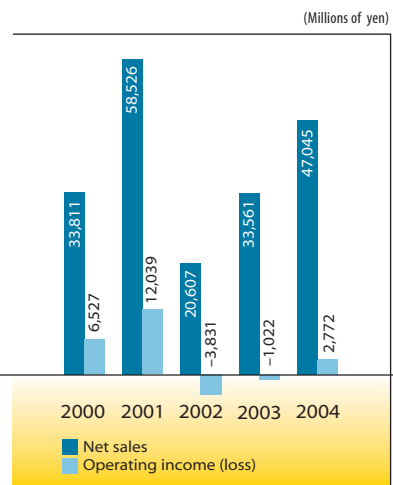
### WAFER PROBING MACHINES

Wafer prober sales were up about 40% year on year as manufacturers expanded 200mm production lines while making substantial investments in 300mm production facilities. Growth in orders has been particularly steep since October 2003. By March 2004, monthly wafer prober output volume at Tokyo

**PRODUCTION OF SEMICONDUCTORS**  
(Years ended December 31)



**NET SALES / OPERATING INCOME**  
(Years ended March 31)



Seimitsu was more than three times higher than in October 2003. Several factors coincided to fuel this expansion. In Japan, the semiconductor industry began bouncing back at the same time that many semiconductor companies were embarking on expansion programs after completing restructuring plans. Demand was also sparked by rising sales of emerging products, including flat-panel televisions, as well as the increasing sophistication of widely used consumer products through the incorporation of digital technology. By region, companies in Japan, South Korea and Taiwan accounted for much of the growth in sales.

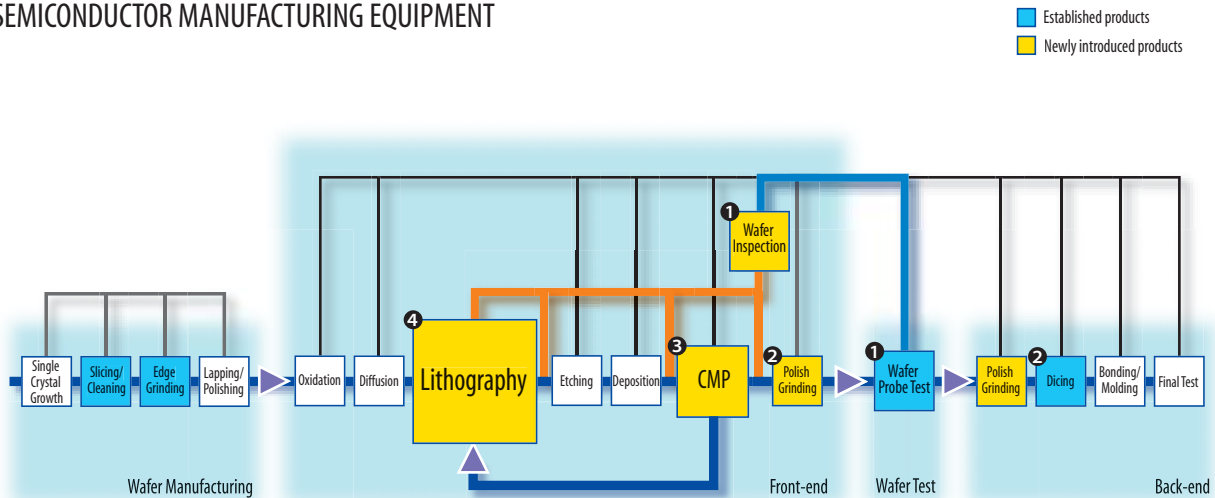
Tokyo Seimitsu took advantage of robust demand to seek further gains in its leading share of the global wafer prober market. Key elements of this leadership are a large base of established customers and a position as the dominant supplier of wafer probes to companies in Taiwan that specialize in wafer testing. Most significant is progress in capturing market share in the critical and highly attractive 300mm-wafer market segment. With indications pointing to more

growth in fiscal 2005, Tokyo Seimitsu is concentrating on raising output while taking steps to further enhance productivity and profit margins, both of which are expected to return to about the same level recorded in fiscal 2001 or higher.

**WAFER DICING MACHINES**

Net sales were up about 50% year on year, only about 10% below the record set in fiscal 2001. However, orders surpassed the fiscal 2001 record to reach an all-time high. Key to this growth was Tokyo Seimitsu's ability to meet replacement demand for dicing machines. Manufacturers are making increasing investments in models capable of meeting greater standards for precision while handling 300mm wafers. In addition, there were a number of sizable orders from existing customers as well as the receipt of orders from companies using Tokyo Seimitsu's dicers for the first time. Also aiding results were synergies with the company's polish grinders, which produce ultra-thin wafers that demand highly sophisticated

## SEMICONDUCTOR MANUFACTURING EQUIPMENT



dicing equipment. The result was steady growth in market share. Based on current trends, Tokyo Seimitsu expects to record all-time high sales and orders in fiscal 2005 while raising profitability to the same level as during the 2000 market peak or higher.

Tokyo Seimitsu and Hamamatsu Photonics K.K. have collaborated in the development of a product called the MAHOHDICING MACHINE that uses exclusive laser technology to dice wafers. Wafer interiors are irradiated to separate the wafer by forming a modification layer. Surfaces, even on monocrystalline silicon wafers, are undamaged because there is no physical contact or stress. This machine is thus ideal for dicing thin wafers, wafers containing CCDs and other devices that must remain dry, and Low-K wafers, all of which tend to peel and chip when using a blade for dicing. With prototypes having received high marks from manufacturers, the two companies will next supply models that customers can use to certify these dicers for use in production lines. Although prospects are good, considerable time will be required to complete

evaluations since these units are employed as part of a new semiconductor production process. As evaluations are conducted, Tokyo Seimitsu will be putting in place the infrastructure to support sales of this product, including peripheral equipment. At this time, the MAHOHDICING MACHINE is expected to begin making a meaningful contribution to sales in fiscal 2005.

#### WAFER INSPECTION MACHINES

Sales of wafer inspection machines were up about 50% year on year. Contributing most to this growth were orders from companies in Japan, South Korea, Taiwan and Europe for high-end models capable of inspecting 300mm wafers. Sales will begin in China during 2004.

The core WIN-WIN 50 series continued to increase its market share, receiving repeat orders from current users while attracting a steady stream of orders from first-time users. One of the key advantages is a low cost of ownership. As semiconductor devices use increasingly finer lines, the cost of inspection equipment

### ESTABLISHED PRODUCTS ①

#### WAFER PROBING MACHINE UF3000

Essential to ensuring the quality of semiconductor devices, wafer probers perform electrical tests of every chip on a wafer. The core UF series has received a 10 BEST Award from VLSI Research, Inc. in each of the past nine years.



### ESTABLISHED PRODUCTS ②

#### WAFER DICING MACHINE A-WD-300T

Dicers cut wafers into individual semiconductor chips. The company's dicers ranked first in 2003 and 2004 in the assembly equipment category of the 10 BEST Award customer satisfaction survey of VLSI Research.

is rising. Based on its long-standing policy of building Win-Win relationships with customers, Tokyo Seimitsu offers many cost-saving features. For example, "field upgrades" enable converting a unit to a new model by simply replacing modules right on the production line. Other features are a high defect detection rate, thanks to the use of a confocal microscope that enhances image resolution, and the ability to perform inspections during the resist process, the only stage of semiconductor production that can be repeated if necessary to correct defects.

The WIN-WIN 50 Model 1400 went on sale in April 2004 offering technology needed to perform inspections at 65nm design rules. Features include high sensitivity and the ability to inspect intricate chip structures. Moreover, the new unit has an image processing speed that is about 40% faster than in the WIN-WIN 50 Model 1200. Tokyo Seimitsu plans to use the outstanding specifications of this model to increase its share of the inspection machine market. Since its introduction, the new machine has been well received

by customers worldwide. This will ensure that sales activities reflect the increasing volume of capital expenditures throughout eastern Asia, including Japan.

To meet a broader range of needs, Tokyo Seimitsu has teamed with Hitachi High-Technologies Corp. to develop the HA-3000, a machine bearing this company's brand that uses deep-ultraviolet (DUV) light to increase the resolution limit and high-speed image processing for efficiency.

#### POLISH GRINDERS

Sales in the past fiscal year more than doubled as Tokyo Seimitsu polish grinders became the de facto industry standard amid an expanding market for ultra-thin wafers. Orders from Japan, South Korea and Taiwan were up sharply, but demand in the U.S. and Europe also contributed to this performance. Much growth was fueled by the popularity of camera phones and digital cameras. These complex products require sophisticated semiconductor chips along with 3D mounting technology and other advanced

**NEWLY INTRODUCED PRODUCTS ①****WAFER INSPECTION MACHINE WIN-WIN 50 MODEL 1400**

Wafer inspection machines detect pattern defects, contaminants and other problems on wafer surfaces, a task vital to raising production yields. This machine is compatible with a 65nm process node, having a 40% faster image processing speed along with high sensitivity.

**NEWLY INTRODUCED PRODUCTS ②****POLISH GRINDER PG300RM**

Polish grinders produce thin yet highly rigid wafers for the supply of IC chips used in 3D stacked packaging and other applications. These machines simultaneously grind wafer backs and remove damage. The PG300RM performs the two additional functions of lamination tape removal and mounting of wafers on dicing frames.

packaging to deliver more functions and higher speed while cutting size and weight. Making wafers even thinner is essential to meeting these demands.

Tokyo Seimitsu's current best seller is the PG300RM, which grinds the back side of wafers, and removes sub-surface damage from the surfaces of 300mm wafers in the same chuck. Making this unit even more valuable is its ability to perform two more functions by connecting an RM module: removal of lamination tape from wafers, and mounting of wafers on dicing frames. As wafers become thinner, there is growing demand for a die attach film lamination capability. In response, this function was added to the PG series as an option. With current market trends becoming more pronounced, Tokyo Seimitsu expects to achieve another big increase in sales and profitability of products in its PG series.

**CHEMICAL MECHANICAL PLANARIZER (CMP)**

While sales were about the same as one year ago, a combination of repeat orders and orders from first-time

customers, including for 300mm production lines, propelled orders for this equipment to well over twice the previous fiscal year's level. Superior performance is made possible by a distinctive design concept and structure, which includes an exclusive air-float carrier. Another feature is the use of a single-layer pad to produce a more even surface and increase the effective wafer area. Users also appreciate the unit's high productivity and low maintenance expenses. Other advantages are complete compatibility with Low-K materials, copper damascene processes and other processes essential to fabricating leading-edge devices. By offering unique attributes such as these, Tokyo Seimitsu is steadily enhancing its stature in the CMP market, a relatively new product category where significant opportunities for technological refinements still exist.

Many new 300mm-wafer lines are expected to be completed during fiscal 2005, growth that spells new demand for CMPs. Tokyo Seimitsu intends to capitalize on this trend by increasing repeat orders while forming ties with more new customers.

### NEWLY INTRODUCED PRODUCTS 3

#### CHEMICAL MECHANICAL PLANARIZER (CMP) A-FP-310A

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.



### NEWLY INTRODUCED PRODUCTS 4

#### LITHOGRAPHY SYSTEM EBPrinter LEEPL-3000

Lithography systems project intricate circuit patterns on wafers, the most crucial element of front-end semiconductor processes. LEEPL is a revolutionary electron-beam technology based on an entirely new concept in lithography.

### LEEPL

LEEPL, short for low energy e-beam proximity projection lithography, is gradually gaining acceptance among semiconductor manufacturers as a revolutionary technology that can fundamentally alter chip designs. To promote acceptance of this technology, a consortium has been formed that now includes 32 manufacturers of semiconductor devices, manufacturing equipment and other products.

Tests have already proven that LEEPL can be used to create features on wafer surfaces that are too small for conventional optical lithography using ArF lasers. Having advanced to this stage, Tokyo Seimitsu is promoting LEEPL's ability to form narrow-pitch contact holes, an extremely difficult process. Evaluations are now under way at several manufacturers. Plans call for selling LEEPL for this application to lay the groundwork for more broad-based sales activities.

Tokyo Seimitsu also produces the EBScanner ESMI 3000, a stencil mask inspection unit featuring a high defect detection rate and high operating speed.

### BECOMING MORE COMPETITIVE

To take full advantage of its superior technologies, Tokyo Seimitsu continues to conduct various programs to hone its competitive edge. Several measures are aimed at improving product performance to bring down the total cost of ownership. In the past fiscal year, there were many benefits of cost reduction programs, notably dramatic improvements involving such established products as wafer probers and wafer dicing machines. Tokyo Seimitsu will continue to set the bar higher to protect profit margins and retain its agility regardless of challenges posed by shifts in the operating environment.

## MEASURING SYSTEMS

KAZUO FUJIMORI  
Representative Director and  
COO, Metrology Business



### OVERVIEW OF THE FISCAL YEAR

Measuring systems turned in another strong performance in the past fiscal year. Net sales increased 12.3% to ¥15,279 million while operating income was up 10.1% to ¥3,174 million as this business continued to hold its operating margin at about the 20% level. This growth was achieved against a backdrop of generally improving economic conditions in Japan. Growth in demand for measuring systems was particularly strong in the automotive industry as Japanese companies made investments in overseas production facilities. Automotive applications are expected to remain an important source of orders. Results also benefited from an upturn in orders from manufacturers of consumer electronics and bearings. One more favorable trend is growth in demand from mold and die producers.

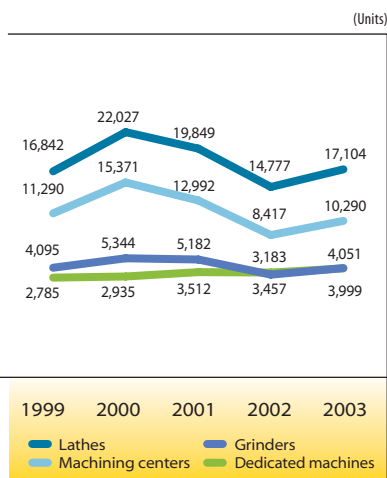
Cooperation with other companies represents an important element of measuring systems operations at Tokyo Seimitsu. Subsidiary Tosei Engineering develops, manufactures and provides services for the in-line measuring systems sold by Tokyo Seimitsu. For industrial

measuring systems, Tokyo Seimitsu handles development, manufacturing and sales activities while Tosei Engineering is responsible for most after-sales services. The relationship with Zeiss in the field of industrial measuring systems, which dates back to 1995, is a prime example of the Tokyo Seimitsu "Win-Win" policy at work. Carl Zeiss is responsible for coordinate measuring machines (CMM); Tokyo Seimitsu develops and manufactures surface texture and cylindrical form instruments. Sales regions are assigned so that each partner covers areas where its respective brands are stronger.

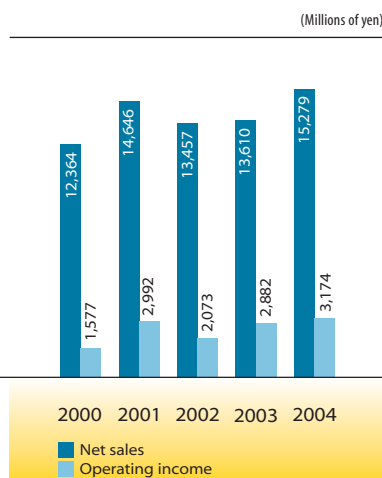
### TARGETING GROWTH OPPORTUNITIES WORLDWIDE

Japan is the primary market for Tokyo Seimitsu measuring systems. However, overseas markets, especially China and elsewhere in Asia, including India, are expected to become a major source of growth. In fact, measuring systems sales were up sharply in China in fiscal 2004. Growth is also foreseen in North America and Europe. The goal is to raise the share of overseas sales to more than 20% by fiscal 2006. Backing this

**NUMBER OF MACHINE TOOLS MANUFACTURED**  
(Years ended December 31)



**NET SALES / OPERATING INCOME**  
(Years ended March 31)



expansion will be upgraded sales activities and a larger service network. Plans also include strengthening technology-backed sales programs and working more closely with Zeiss. In Southeast Asia, for example, where Zeiss conducts sales of industrial measuring systems, Tokyo Seimitsu will assist in formulating proposals that target the needs of local manufacturing bases of Japanese companies. In Europe and North America, plans call for increasing sales of ACCRETECH-branded products by drawing on the support of Zeiss, which has a powerful presence in these markets.

Raising its stature in Southeast Asia, Tosei Engineering in February 2004 established Tosei (Thailand) Co., Ltd. to supply services, as well as machine control gauges and replacement parts, for in-line measuring products. Opportunities are immense due to the rapid growth in manufacturing activity in Thailand. With this Thai subsidiary, Tokyo Seimitsu is even better positioned to function as a group that can be a trusted supplier of highly sophisticated in-line measuring systems to manufacturers throughout Southeast Asia.

## INDUSTRIAL MEASURING INSTRUMENTS

CMMs represent a large share of the industrial metrology market, performing vital tests and inspections at factories, and other locations, particularly those involving quality assurance. Long a prominent supplier of these machines, Tokyo Seimitsu continues to increase its presence in this market through collaboration with Zeiss. In Japan, Tokyo Seimitsu has considerable experience selling CMMs made by Zeiss. Sales are particularly strong for models developed with this partner specifically for the volume zone for these machines in Japan.

Exemplifying this commitment is the XYZAX SVA series of CNC CMMs, which has generated a strong response since its debut in April 2003. Combining the state-of-the-art analysis and control technologies of Zeiss with Tokyo Seimitsu's expertise in highly rigid designs, this series precisely matches the needs of users in many industries. More than 200 units were sold during the past fiscal year, setting a new first-year record at Tokyo Seimitsu for a

### 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 technology for high rigidity with a Carl Zeiss active scanning probe.



### CYLINDRICAL FORM MEASURING INSTRUMENT RONDCOM 75GB

The RONDCOM 75GB cylindrical form measuring instrument has an accuracy on the sub-micron level, the world's highest. This machine is fully automated, covering every step from positioning through production of measurement data. Typical applications are automobile pistons, crankshafts and camshafts, printer heads and copier drums.

series of measuring systems. Building on this momentum, the XYZAX SVA Fusion went on sale in April 2004. This new unit, which features Zeiss technology, incorporates an active scanning method to meet the growing demand for greater precision along with higher efficiency. With this latest addition, the XYZAX series is poised to generate even higher sales in fiscal 2005.

The PRISMO series of CMMs from Zeiss is another way in which Tokyo Seimitsu helps customers raise productivity. Strong sellers for some time now in Japan, these machines feature high speed along with precision that is consistent over a wide temperature range and immune to vibrations and contaminants. Ease of operation is another feature: no specialized knowledge is needed to operate this unit.

Two other units introduced in April 2003 also performed very well during the fiscal year. One was the SURFCOM 1500DX, a surface texture measuring instrument that employs a linear motor to achieve unprecedented measuring speed and cut vibrations to a minimum. The other was the CONTOURECORD

1700DX, a linear motor-driven contour measuring instrument with accuracy and speed far superior to those of competing models. The outlook is positive for surface texture and contour measuring instruments. Along with ongoing strength in capital expenditures, demand in 2004 will be driven by the adoption in Japan by many manufacturers, especially in the automobile industry, of the latest JIS Standards (2001 version) for surface roughness. This is certain to spur considerable replacement demand for measuring systems.

The RONDCOM series of cylindrical form measuring instruments also performed well. Users gave high marks to its outstanding accuracy and durability, thanks in part to the use of a rugged granite column with a straightness accuracy of up to 50nm per 100mm, and an airpad. Due to substantial automotive capital expenditures, sales growth was driven mainly by the RONDCOM 70 series and other large-scale units. This trend shows no signs of weakening during fiscal 2005.

### SURFACE TEXTURE MEASURING INSTRUMENT SURFCOM 1500DX

A member of the SURFCOM series of surface texture measuring instruments, the 1500DX is widely used by manufacturers of auto parts, machine tools and other precision mechanical components. A linear motor is used to achieve unmatched performance in terms of measuring speed and low vibrations.



### ATC RUN-OUT DETECTION SYSTEM

This Run-out Detection System prevents defective machining caused by chips or other foreign matter in a tool chuck. This one-of-a-kind instrument requires a minimal measuring time to perform detections, making it possible to inspect every item, thereby significantly raising the quality of finished products.

### IN-LINE MEASURING SYSTEMS

Sales of instruments in this category were higher both in Japan and overseas. Growth primarily reflected the high volume of automotive capital expenditures, which led to an increase in orders for customized models. The Flex Finger machine control gauge posted higher sales, backed by an excellent reputation for agility and efficiency along with a competitive price and ease of operation. Sales of the PULCOM V series of machine control gauges also increased. Sold for more than five years, these gauges perform a vital role in quality assurance, facilitating high-volume checking of all workpieces during or after processes. Typical applications are measurements of bearings, engine and transmission components, gears and shafts. The ATC Run-out Detection System, a recently introduced product, steadily gained market acceptance. This system is becoming the standard for run-out detection technology in many applications, particularly machining centers that produce aluminum parts.

### CONSTANT IMPROVEMENTS IN QUALITY AND CUSTOMER SATISFACTION

In 2003, with the aim of enhancing customer satisfaction, Tokyo Seimitsu conducted surveys of approximately 150 customers that covered areas such as product quality, cost, delivery and after-sales service. Information from surveys has been immediately put to work to improve technology, manufacturing and sales activities.

Other measures, including refinements in production methods and closer ties between manufacturing and sales personnel, raised productivity and shortened delivery times during the past fiscal year. For example, the standardized task system has been improved to enable temporary workers to perform assembly steps with accuracy and ease. Cost reduction, a process that begins with product design, is another theme. In particular, Tokyo Seimitsu will continue to establish goals for the cost of individual products based on their current sales prices. Through actions such as these, the measuring instrument business is building a base for consistent growth and profitability.

## Establishing a harmonious “Win-Win” relationship with the earth

### 1. BASIC PHILOSOPHY

Recognizing the environment as a critical issue, Tokyo Seimitsu makes environmental preservation an integral element of all manufacturing and service activities.

### 2. HIGHLIGHTS OF ENVIRONMENTAL ACTIVITIES

July 1996:	Commences environmental protection activity program
September 1996:	Creates Environmental Management Committee
February 1997:	Begins environmental impact studies at Hachioji and Tsuchiura production facilities and divisions
May 1997:	Formulates Environmental Management Manual
March 1998:	Acquires ISO14001 certification at both production facilities
April 2001:	Renews ISO14001 certification
March 2003:	Establishes Green Procurement Guidelines



### 3. MAJOR OBJECTIVES

We strive to maintain a clear vision in raising employee awareness toward environmental preservation in all areas of operations, from production to services. The Environmental Management Committee is the core body for implementing and promoting Tokyo Seimitsu’s environmental

preservation activities, ensuring strict compliance with applicable laws, regulations, agreements and the company's internal policies. The following outlines are our chief goals, which are closely monitored through internal audits.

- Conserve energy and resources, reduce the volume of waste, promote recycling and effectively use natural resources.
- Promote the appropriate management of harmful substances to prevent pollution and reduce the use of “high-impact” materials by switching to more eco-friendly items.
- Develop environmentally friendly products and improve existing products by conserving energy and resources, and eliminating the use of harmful materials.

We constantly heighten environmental awareness through various training programs, while also encouraging environmental activities at our suppliers' factories.

### 4. KEY ACTIVITIES

Tokyo Seimitsu strives to employ eco-friendly components and develop products that have a minimal effect on the environment. We practice environmental accounting and promote the effective use of natural resources.

In November 2002, the Environmental Management Committee decided to implement the following initiatives.

- Practice “Green Procurement” of all products.
- Prohibit or reduce harmful substances specified by the Restriction of the use of certain Hazardous Substances (RoHS) directive by 2006 (see section 6) .

These programs are currently being aggressively pursued.

### 5. GREEN PROCUREMENT

This concept refers to the procurement of materials that have a minimal environmental impact from suppliers that possess an efficient environmental management system. Such suppliers must have attained ISO14001 certification

or execute environmental management based on this qualification. Materials must be eco-conscious in terms of substances used, energy and resource conservation, packaging and transportation. The Environmental Management Committee established the Green Procurement Guidelines to clearly delineate the company's stance toward green procurement. We are adamant about using suppliers that meet requirements laid down in these guidelines.

We also conducted a survey to determine which specified chemicals are contained in our suppliers' products. We have introduced a more detailed version of this survey based on our own criteria to create a database for green procurement, which began in May 2004.

## 6. PROHIBIT OR REDUCE SPECIFIED CHEMICAL SUBSTANCES

Materials that are to be prohibited or reduced in green procurement are selected by the company based on survey results. We have already begun studies into six substances specified by the RoHS directive, from technology and cost perspectives. The information will be used to create a chart that will aid us in the selection of suitable suppliers.

We are currently concentrating on the following goals.

- ❑ Eliminate lead. We will evaluate the results of test production of lead-free substances during fiscal 2005 and implement a program in fiscal 2006.
- ❑ Eliminate hexavalent chromium. We are presently investigating expenses and the possibility of switching from components that contain chromate to other plating or entirely new materials.
- ❑ Eliminate cadmium, mercury, PBB and PBDE. We are now studying possible measures for components that use these materials.

We plan to totally eliminate the use of these six substances by the middle of fiscal 2006.

## ROHS DIRECTIVE

The RoHS directive will prohibit the use of six substances (mercury, cadmium, lead, hexavalent chromium, PBB and PBDE) in electrical and electronic equipment in EU nations after July 2006. The regulation extends to a wide range of products, including large and small electrical appliances, IT and communications equipment, electronic devices for the consumer market, lighting equipment, motorized and electric tools, toys, sports and leisure goods, and vending machines. EU members are pushing for the relevant legislation to be passed by August 2004.

These restrictions will considerably affect manufacturers of components and materials, while precipitating the need for swift changes in development and design. For companies that import, manufacture or sell products in the EU, business survival lies in their ability to meet the demands of this directive.

## 7. FUTURE DEVELOPMENTS REGARDING GREEN PRODUCTS

Previously, we evaluated products in terms of quality, cost and delivery. Environmental impact is now also used to determine the true value of products. In particular, we are working hard to incorporate eco-conscious designs into our semiconductor manufacturing equipment, which have a significant impact on the environment. By conducting life-cycle assessments, we aim to save energy (in both the equipment and its utilities), conserve resources (including pure water) and reduce harmful chemical substances, to ensure the continued existence of our products.

Tokyo Seimitsu conducts many activities to manufacture green products, such as green procurement, for its entire product lineup.

# BOARD OF DIRECTORS



From left: Kunimasa Ohta, Sadakatsu Suzuki, Hideo Ohtsubo, Kazuo Fujimori and Eiji Nagasawa

## **CHAIRMAN, CEO AND CFO**

HIDEO OHTSUBO

## **PRESIDENT AND COO**

SADAKATSU SUZUKI

## **REPRESENTATIVE DIRECTORS AND EXECUTIVE VICE PRESIDENTS**

KAZUO FUJIMORI

EIJI NAGASAWA

KUNIMASA OHTA

## **DIRECTORS**

TAKAO NISHIJIMA

SHIGERU UMENAKA

HIDEAKI TAKAGI

WOLFGANG BONATZ

GREG SEBASTIAN

## **CORPORATE AUDITORS**

HAJIME YOSHIGI

SHOZABURO KARUBE

TOSHIYUKI OGURA

SEIJI YAMAMOTO

(as of June 29, 2004)

# SIX-YEAR SUMMARY

TOKYO SEIMITSU CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
YEARS ENDED MARCH 31

	Millions of yen						Thousands of U.S. dollars
	1999	2000	2001	2002	2003	2004	2004
<b>For the year:</b>							
Net sales	¥32,153	¥46,176	¥73,172	¥34,064	¥47,171	¥62,324	\$590,027
Operating income (loss)	1,621	8,104	15,032	(1,757)	1,860	5,947	56,304
Net income (loss)	715	4,422	7,237	(2,026)	74	(3,783)	(35,821)
<b>At year-end:</b>							
Total assets	41,309	61,007	91,477	79,865	88,669	94,893	898,355
Total shareholders' equity	28,437	33,433	38,779	35,423	33,645	29,183	276,279
Interest-bearing debt	1,383	4,328	17,522	31,145	33,531	36,253	343,207
<b>Per share data:</b>							
	Yen						U.S. dollars
Net income (loss)—basic	¥19.41	¥118.43	¥192.95	¥(54.21)	¥1.64	¥(101.67)	\$(0.96)
—diluted	19.15	117.95	192.21	—	1.64	—	—
Number of employees	1,057	1,068	1,160	1,146	1,101	1,100	

# FINANCIAL REVIEW

## OVERVIEW

As a manufacturer of semiconductor manufacturing equipment and measuring systems, Tokyo Seimitsu operates in markets that change rapidly and demand the latest advances in technology. To achieve sustained growth in this environment, the company places priority on maintaining a powerful new product development capability and following a carefully structured set of guidelines for R&D activities. This is why management has for many years based operations on its Strategic Principles (see page 4). Through this approach, Tokyo Seimitsu has succeeded in building a business portfolio oriented toward high growth in sales and earnings over the long term while minimizing the impact of downturns in capital expenditures in its main client industries.

One important issue now facing the company is the need to improve its financial position. In 2001, the shareholders' equity ratio and other indicators of financial strength declined as the downturn in the silicon cycle left the company holding higher inventories of wafer probers, mainly at the parent company, and assets related to the development of new products increased. Wafer prober inventories returned to normal levels during fiscal 2003, the year ended March 31, 2003, and sales of new products have been climbing steadily during fiscal 2004, leading to an improvement in the asset turnover ratio. Furthermore, in the second half of fiscal 2004, a special loss of ¥9,772 million was posted to establish a sounder base for earnings growth. This expense mainly represents the restructuring of the CMP business and actions to give the LEEPL business a solid framework for profitability.

As Tokyo Seimitsu is currently entering a phase of growth backed by sales of new products, management expects only a gradual improvement in its financial position over the next few

years. However, substantial free cash flows are expected thereafter as new products make a growing contribution to sales and earnings. Moreover, a major improvement in the equity ratio is foreseen as convertible bonds issued in October 2003 are converted into stock.

## NET SALES

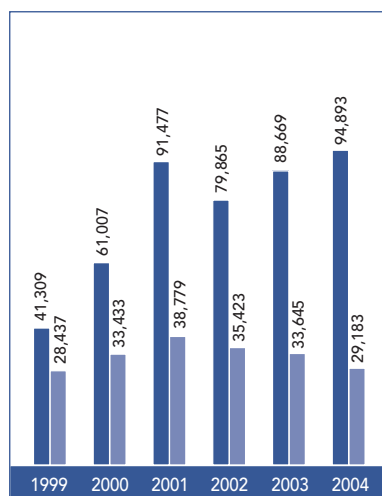
Consolidated net sales increased sharply by 32.1% to ¥62,324 million.

In the semiconductor industry, the recovery mode from the latter half of the previous fiscal year carried over into the first half of fiscal 2004 due to strong demand for digital consumer electronics, the rising popularity of camera phones and a rebound in demand for PCs, among other factors. This turned into a full-fledged recovery in the fiscal year's second half. Semiconductor manufacturers in Japan and overseas, while generally retaining a cautious stance regarding capital expenditures in the first half of fiscal 2004, actively invested in the second half of the year. Reflecting this, market conditions for semiconductor manufacturing equipment rebounded rapidly from the second half of the fiscal year onward, leading to strong sales of both products in established business categories and new business categories. Net sales in the semiconductor manufacturing equipment division thus climbed 40.2% to ¥47,045 million.

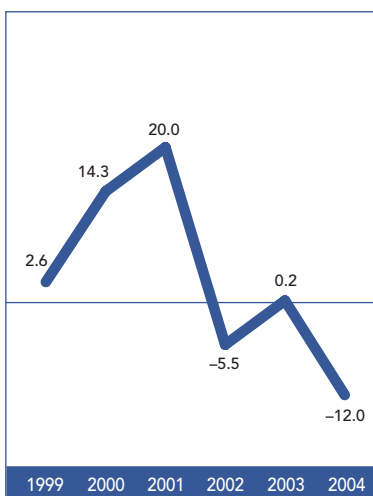
In the measuring systems division, sales were also up, increasing by 12.3% to ¥15,279 million on the back of a steady recovery in the domestic market, particularly in automobile-related industries, amid economic recovery in Japan.

Overseas sales accounted for 46.4% of total net sales. Sales were strong in Japan, South Korea and Southeast Asia, and rebounded rapidly in the second half of the year in Taiwan, after

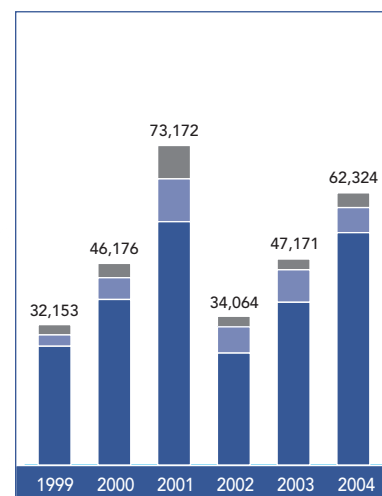
**TOTAL ASSETS AND SHAREHOLDERS' EQUITY**  
(Millions of yen)



**RETURN ON SHAREHOLDERS' EQUITY**  
(%)



**NET SALES (GEOGRAPHICAL SEGMENT)**  
(Millions of yen)



■ Total assets ■ Shareholders' equity

■ Japan ■ United States ■ Germany

being affected by SARS in the first half. In addition, there was steady growth in China. As a result, overseas sales to customers in East Asia climbed 53.7% to ¥16,774 million. Sales to customers in the U.S. declined 24.9% to ¥5,311 million, despite a conspicuous upturn in the fourth quarter. Sales to customers in Europe increased 35.8% to ¥3,838 million, while overseas sales in Southeast Asia and others jumped 49.4% to ¥2,983 million.

### SEMICONDUCTOR MANUFACTURING EQUIPMENT

In wafer probing machines, a mainstay established product, Tokyo Seimitsu solidified its number-one market share on replacement demand for highly precise equipment required to test the latest semiconductor devices, and rapidly increasing new demand for machines that can handle 300mm wafers.

In wafer dicing machines, as a result of an expansion in market share through an increase in new customers, orders during the year and orders outstanding at the end of March 2004 set new records, exceeding the previous high recorded in fiscal 2001.

In wafer inspection machines, a relatively new product line, Tokyo Seimitsu steadily expanded its market share by capturing orders from existing customers and new customers based on the excellent reputation its systems have earned in terms of their low cost of ownership, high defect detection rate and other qualities.

Sales of Tokyo Seimitsu's polish grinders, unmatched by any others on the market in their ability to create thin wafers, rose sharply as the company established its products as the de facto standard in the industry.

Sales of chemical mechanical planarizers (CMP) were on a par with the previous fiscal year. However, amid growing awareness among customers of the superiority of Tokyo Seimitsu's design

concept and mechanical structure for this machine, orders outstanding doubled, leading to expectations for a sharp increase in sales in the year ending March 2005.

### MEASURING SYSTEMS

In industrial measuring systems, there was strong growth in sales of the XYZAX SVA, which earned high marks from a variety of users. Introduced in April 2003, these CNC coordinate measuring machines were developed by combining Tokyo Seimitsu's expertise in rigid designs with the advanced analysis and control technologies of Carl Zeiss. Higher sales were also posted by the SURFCOM series, a surface texture measuring instrument that employs a linear motor to achieve unparalleled precision and cut vibrations to a minimum, the CONTOUR series, surface texture and contour measuring instruments with the world's highest precision, and the RONDCOM series of high-precision cylindrical form measuring instruments.

In in-line measuring systems, large capital expenditures by automakers fueled strong demand for the PULCOM series, which is used by the automobile industry and in other similar applications. In addition, the newly introduced ATC Run-out Detection System has been successful, having been selected by many users as standard equipment for this application.

### INCOME STATEMENT ANALYSIS

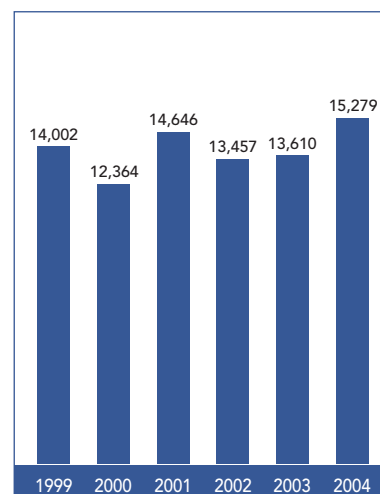
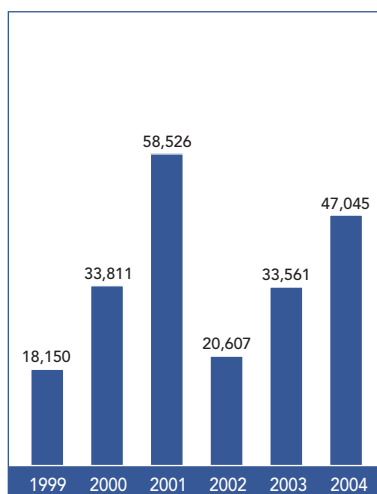
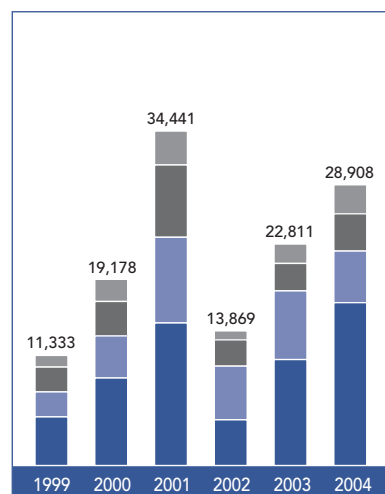
#### COST OF SALES

The cost of sales increased 29.9% to ¥46,531 million and decreased from 76.0% to 74.7% of net sales. This was primarily the result of cost-cutting actions, including lowering fixed costs and the variable ratio.

OVERSEAS SALES  
(Millions of yen)

SEMICONDUCTOR MANUFACTURING EQUIPMENT SALES  
(Millions of yen)

MEASURING SYSTEMS SALES  
(Millions of yen)



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

### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (SG&A)

Selling, general and administrative expenses increased 3.8% to ¥9,846 million, the sum of selling expenses of ¥7,483 million and general and administrative expenses of ¥2,362 million. This was mainly the result of increases in line with the growth in net sales. However, due to resolute actions taken to cut fixed costs and lower the variable ratio, selling, general and administrative expenses fell from 20.1% to 15.7% of net sales.

### OPERATING INCOME

Operating income increased ¥4,087 million to ¥5,947 million, and the operating margin rose from 3.9% to 9.5%. By business segment, the semiconductor manufacturing equipment division recorded operating income of ¥2,772 million, substantially reversing an operating loss of ¥1,022 million in the previous fiscal year. The measuring systems segment recorded a 10.1% increase in operating income to ¥3,174 million.

### NON-OPERATING ITEMS

Non-operating income declined ¥151 million to ¥146 million, while non-operating expenses declined ¥132 million to ¥765 million.

### NET INCOME

In the year ended March 31, 2004, Tokyo Seimitsu recorded a special loss of ¥9,772 million involving development-related investments and expenses for the restructuring of the CMP business and strengthening the earnings structure in the LEEPL business. These actions were taken to bolster earnings in the future. The major components of this charge were a ¥3,423 million loss on disposal of software for sale, ¥3,491 million for the

write-down and loss on disposal of inventories, and a ¥2,216 million loss on the disposal of fixed assets.

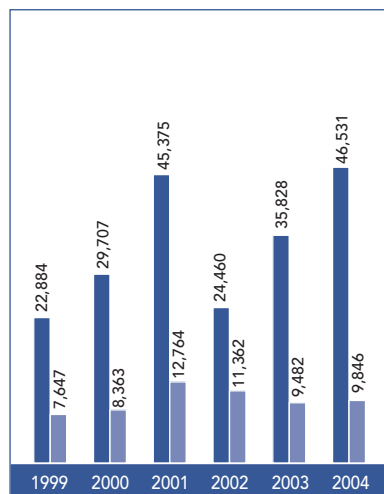
As a result, Tokyo Seimitsu recorded a loss before income taxes and minority interests of ¥4,064 million. After income taxes and minority interests, Tokyo Seimitsu recorded a net loss of ¥3,783 million. However, dividends per share applicable to fiscal 2004 were ¥30, the same as in fiscal 2003, in accordance with Tokyo Seimitsu's dividend policy.

### RESEARCH AND DEVELOPMENT EXPENSES

There was a 68.0% increase in R&D expenses to ¥5,530 million. In semiconductor manufacturing equipment, Tokyo Seimitsu and Hamamatsu Photonics K.K. have collaborated in the development of a product called the MAHOHDICING MACHINE that dices wafers by using a laser instead of a blade. Wafer surfaces are not damaged, and no cleaning is required. Orders have already been received, indicating that this product will begin making a contribution to sales in fiscal 2005.

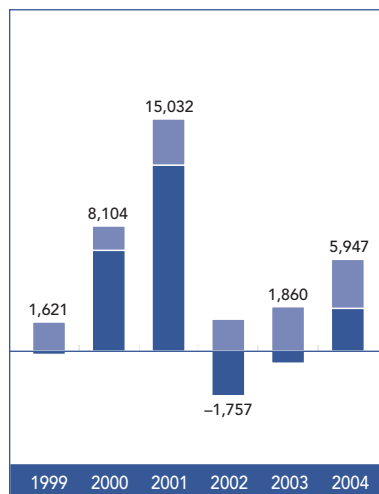
Development by subsidiary LEEPL Corp. of the LEEPL-3000 lithography system, compatible with circuit lines in the 130nm to 35nm node range, is proceeding as planned. Through collaboration with a number of users, this machine is now undergoing full-scale evaluations. Tokyo Seimitsu expects that LEEPL will become a core business in the future. In addition, work on the ESMI 3000, an e-beam stencil mask inspection unit featuring a high defect detection rate, one element of a LEEPL process infrastructure, is proceeding as planned. Introduction to the market of this unit is to begin during fiscal 2005. In June 2001, Tokyo Seimitsu, LEEPL Corp. and Sony Corporation formed the LEEPL Technology Consortium to promote the development and use of this next-

**COST OF SALES AND SG&A EXPENSES**  
(Millions of yen)



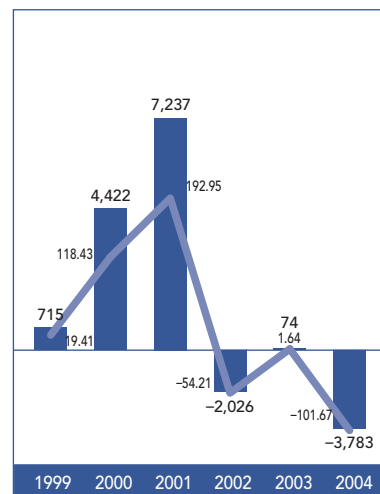
■ Cost of sales    ■ SG&A expenses

**OPERATING INCOME**  
(Millions of yen)



■ Semiconductor manufacturing equipment  
■ Measuring systems

**NET INCOME AND EARNINGS PER SHARE**  
(Millions of yen)



■ Net income    ■ Earnings per share (yen)

generation lithography technology. The consortium began with 13 members, including manufacturers of semiconductors, manufacturing equipment, masks and resist, and has subsequently grown to include 32 companies.

In measuring systems, development of the XYZAX SVA fusion was completed. This CNC coordinate measuring machine incorporates a highly precise active scanning method created by Carl Zeiss. The new machine can not only measure the dimensions of a variety of objects with extreme accuracy, but also measure profiles and positions. Combining all these functions in a single unit greatly shortens measuring and inspection times. Sales of this machine began in April 2004.

### CAPITAL EXPENDITURES

There was a 24.5% rise in capital expenditures to ¥2,904 million. Facilities related to recently introduced products accounted for the largest share of these expenditures. Depreciation expenses increased 6.6% to ¥2,749 million.

### FOREIGN EXCHANGE

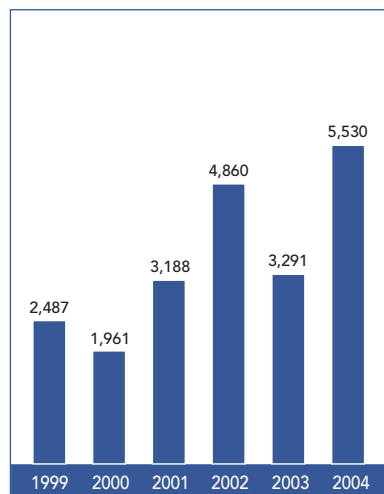
Except for certain business in North America, Tokyo Seimitsu uses yen as the basis for all overseas sales to limit its exposure to foreign exchange rate movements. Foreign currency-denominated trade receivables resulting from transactions at U.S. subsidiaries and other group companies are hedged using 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. An effective risk management system is in place for exposure to foreign currency risk.

### CASH FLOWS

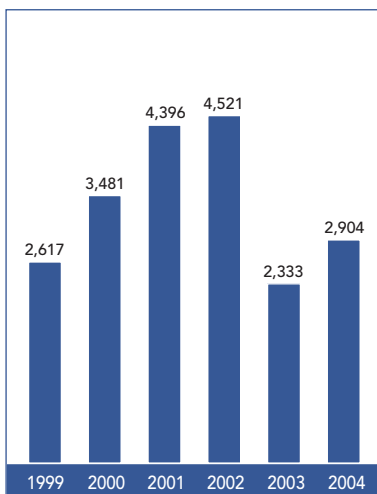
Cash and cash equivalents as of March 31, 2004 amounted to ¥12,242 million, ¥6,049 million more than one year earlier. Net cash provided by operating activities was ¥4,569 million. The major components of this were the net loss, and a ¥10,612 million increase in trade notes and accounts receivable, which were offset by depreciation and amortization of ¥2,829 million, a ¥3,150 million decrease in inventories, and a ¥6,808 million increase in trade notes and accounts payable. Net cash used in investing activities was ¥167 million, the result mainly of ¥1,715 million used for the purchase of property, plant and equipment, which was partly offset by ¥474 million from the sale of investment securities and ¥1,741 million from the sale of property, plant and equipment. Net cash provided by financing activities was ¥1,662 million, mainly reflecting the issuance of corporate bonds of ¥18,000 million, the repayment of short-term loans payable of ¥13,877 million and dividend payments of ¥1,120 million.

Following the sharp upturn in operating cash flows in fiscal 2004, Tokyo Seimitsu expects another improvement in fiscal 2005 due to higher sales and earnings. Stronger operating cash flows, along with a more even pace of investments, are expected to enable the company to further improve its financial position.

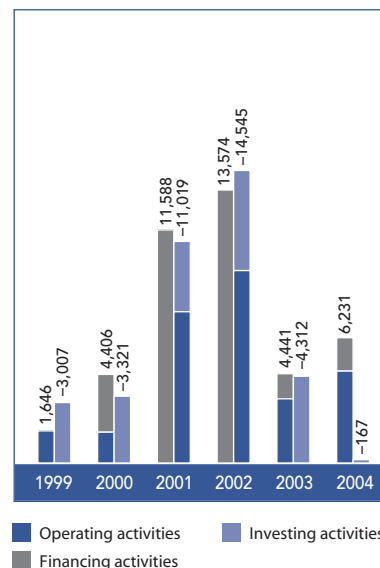
**R&D EXPENSES**  
(Millions of yen)



**CAPITAL EXPENDITURES**  
(Millions of yen)



**CASH FLOWS**  
(Millions of yen)



# CONSOLIDATED BALANCE SHEETS

TOKYO SEIMITSU CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
MARCH 31, 2003 AND 2004

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2004	2004
<b>Current assets:</b>			
Cash and cash equivalents	¥ 6,193	¥ 12,242	\$115,896
Time deposits with original maturities over three months	27	27	255
Trade notes and accounts receivable	16,180	26,554	251,394
Inventories (Note 4)	34,075	29,196	276,402
Deferred tax assets (Note 7)	904	2,289	21,678
Other	1,721	675	6,392
Allowance for doubtful accounts	(40)	(40)	(382)
Total current assets	59,062	70,944	671,636
<b>Property, plant and equipment:</b>			
Land (Note 5)	2,919	2,919	27,634
Buildings and structures (Note 5)	10,159	10,227	96,822
Machinery and equipment	7,139	5,823	55,134
Construction in progress	2,287	719	6,811
Other	3,540	3,662	34,669
	26,044	23,351	221,071
Accumulated depreciation	(10,466)	(10,504)	(99,442)
Net property, plant and equipment	15,578	12,847	121,629
<b>Intangible assets:</b>			
Software	6,845	3,199	30,291
Goodwill	622	461	4,373
Other	113	95	902
Total intangible assets	7,580	3,756	35,567
<b>Investments and other assets:</b>			
Investment securities (Note 3)	2,336	3,232	30,597
Investments in non-consolidated subsidiaries and affiliates	159	164	1,561
Deferred tax assets (Note 7)	3,426	3,109	29,436
Other	575	850	8,048
Allowance for doubtful accounts	(49)	(12)	(121)
Total investments and other assets	6,447	7,343	69,522
Total fixed assets	29,607	23,948	226,719
Total assets	¥ 88,669	¥ 94,893	\$898,355

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)
	2003	2004	2004
<b>Current liabilities:</b>			
Trade notes and accounts payable	¥11,245	¥17,574	\$166,379
Short-term loans (Note 5)	22,983	10,055	95,191
Accrued expenses	1,152	1,283	12,148
Accrued income taxes	598	756	7,165
Other	2,984	3,615	34,230
Total current liabilities	38,964	33,285	315,115
<b>Long-term liabilities:</b>			
Long-term debt, less current portion (Note 5)	10,547	26,198	248,016
Accrued pension and severance costs (Note 6)	3,568	4,055	38,393
Deferred tax liabilities (Note 7)	45	48	455
Total long-term liabilities	14,162	30,301	286,865
Minority interests	1,897	2,122	20,094
Contingent liabilities (Note 11)			
<b>Shareholders' equity (Notes 8 and 13):</b>			
Common stock, no-par value			
Authorized: 110,501,100 shares in 2004 and 110,501,100 shares in 2003			
Issued: 37,372,993 shares in 2004		7,199	68,162
37,372,993 shares in 2003	7,199		
Additional paid-in capital	11,806	11,806	111,774
Retained earnings	15,191	10,273	97,261
Net unrealized profit (loss) on investment securities	(617)	57	547
Foreign currency translation adjustments	111	(105)	(995)
Shares of common stock in treasury: 18,163 shares in 2004		(49)	(470)
17,120 shares in 2003	(46)		
Total shareholders' equity	33,645	29,183	276,279
Total liabilities and shareholders' equity	¥88,669	¥94,893	\$898,355

# CONSOLIDATED STATEMENTS OF OPERATIONS

TOKYO SEIMITSU CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
YEARS ENDED MARCH 31, 2003 AND 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2004	2004
Net sales	¥47,171	¥62,324	\$590,027
Cost of sales	35,828	46,531	440,509
Gross profit	11,343	15,793	149,517
Selling, general and administrative expenses	9,482	9,846	93,212
Operating income	1,860	5,947	56,304
Non-operating income:			
Interest income	7	3	32
Other income	289	142	1,349
Non-operating expenses:			
Interest expense	279	278	2,636
Other expenses	618	486	4,610
Ordinary income	1,259	5,328	50,440
Special gain:			
Gain on sales of land	123	—	—
Gain on sales of investment securities	—	198	1,879
Other gains	—	182	1,722
Special loss:			
Loss on valuation of investment securities	22	48	455
Loss on valuation and disposal of inventories	903	3,491	33,052
Loss on disposal of tangible assets	—	2,216	20,983
Loss on disposal of software	—	3,423	32,408
Other losses	381	593	5,618
Income (loss) before income taxes and minority interests	75	(4,064)	(38,475)
Income taxes (Note 7):			
Current	694	1,044	9,890
Deferred	(908)	(1,598)	(15,130)
Minority interests	215	273	2,585
Net income (loss)	¥ 74	¥ (3,783)	\$ (35,821)

	Yen	U.S. dollars (Note 1)
Per share of common stock:		
Shareholders' equity	¥900.32	¥ 780.87
Net income (loss) — basic	1.64	(101.67)
— diluted	1.64	—
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, 2003 AND 2004

	Thousands	Millions of yen			
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Others
Balance at March 31, 2002	37,370	¥7,199	¥11,806	¥16,463	¥ (46)
Net income	-	-	-	74	-
Foreign currency translation adjustments	-	-	-	-	(97)
Net unrealized profit or loss on investment securities	-	-	-	-	(373)
Shares of common stock in treasury	(14)	-	-	-	(35)
Increase of consolidated subsidiary	-	-	-	(212)	-
Cash dividends paid	-	-	-	(1,121)	-
Bonuses to directors	-	-	-	(12)	-
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>

	Thousands of U.S. dollars (Note 1)			
	Common stock	Additional paid-in capital	Retained earnings	Others
Balance at March 31, 2003	\$68,162	\$111,774	\$143,814	\$(5,232)
Net loss	-	-	(35,821)	-
Foreign currency translation adjustments	-	-	-	(2,048)
Net unrealized profit or loss on investment securities	-	-	-	6,394
Shares of common stock in treasury	-	-	-	(32)
Cash dividends paid	-	-	(10,609)	-
Bonuses to directors	-	-	(121)	-
Balance at March 31, 2004	<u>\$68,162</u>	<u>\$111,774</u>	<u>\$ 97,261</u>	<u>\$ (918)</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, 2003 AND 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2004	2004
<b>Cash flows from operating activities:</b>			
Income (loss) before income taxes and minority interests	¥ 75	¥ (4,064)	\$ (38,475)
Depreciation and amortization	2,659	2,829	26,786
Change in allowance for doubtful accounts	(40)	(35)	(331)
Change in accrued pension and severance costs	233	486	4,609
Interest and dividend income	(143)	(23)	(218)
Interest expense	279	278	2,636
Loss on valuation of investment securities	22	48	455
Loss on valuation of golf membership	3	36	340
Gain on sales of land	(123)	-	-
Loss on disposal of tangible assets	-	2,216	20,983
Loss on disposal of software	-	3,423	32,408
Gain on sales of investment securities	-	(198)	(1,879)
Change in trade notes and accounts receivable	(4,142)	(10,612)	(100,464)
Change in inventories	(198)	3,150	29,824
Change in trade notes and accounts payable	6,283	6,808	64,460
Change in other assets and liabilities	(1,176)	1,388	13,146
Bonuses to directors	(12)	(12)	(121)
Subtotal	3,719	5,721	54,161
Proceeds from interest and dividend income	143	23	218
Payment of interest	(261)	(290)	(2,754)
Payment of income taxes	(408)	(883)	(8,361)
Net cash provided by operating activities	3,193	4,569	43,263
<b>Cash flows from investing activities:</b>			
Payment for time deposits due over three months	(20)	(20)	(189)
Proceeds from time deposits due over three months	20	20	189
Payment for purchase of investment securities	(703)	(73)	(693)
Payment for purchase of investment in affiliates	(41)	(8)	(79)
Proceeds from sales of investment securities	-	474	4,495
Payment for purchase of property, plant and equipment	(3,203)	(1,715)	(16,242)
Proceeds from sales of property, plant and equipment	89	1,741	16,488
Payment for purchase of intangible assets	(497)	(262)	(2,484)
Other	43	(324)	(3,071)
Net cash used in investing activities	(4,312)	(167)	(1,587)
<b>Cash flows from financing activities:</b>			
Change in short-term loans payable	(3,309)	(13,877)	(131,376)
Proceeds from long-term debt	5,000	4,100	38,814
Repayment of long-term debt	(1,284)	(5,235)	(49,568)
Proceeds from issuance of bonds	2,000	18,000	170,406
Payment for redemption of bonds	-	(200)	(1,893)
Dividend payments	(1,121)	(1,120)	(10,609)
Other	(35)	(3)	(32)
Net cash provided by financing activities	1,248	1,662	15,741
Effect of exchange rate changes on cash and cash equivalents	40	(16)	(157)
Net increase in cash and cash equivalents	170	6,048	57,259
Cash and cash equivalents at beginning of year	5,897	6,193	58,637
Increase in cash and cash equivalents due to new consolidated subsidiary	125	-	-
Cash and cash equivalents at end of year	¥ 6,193	¥ 12,242	\$ 115,896

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

# 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 ¥105.63=U.S.\$1, the exchange rate prevailing on March 31, 2004. The translation should not be construed as a representation that yen amounts have been or could be converted into U.S. dollars at that or any other rate.

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (1) Principles of consolidation

The accompanying consolidated financial statements include the accounts of 8 subsidiaries as of March 31, 2003 and 2004. The remaining 7 subsidiaries and 1 affiliate as of March 31, 2003 and 2004, 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) 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.

### (5) 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.

### (6) 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.

### (7) 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.

### (8) 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.

## (9) 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 straightline method over 10 years, which is within the average estimated remaining service lives of the employees, commencing from the following period.

The Company and its consolidated domestic subsidiaries also provide for severance payment to directors and statutory auditors, determined by the estimated amount to be paid if all directors and statutory auditors retired at the balance sheet dates.

## (10) 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.

## (11) 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.

## (12) 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, 2003 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Carrying value	¥ 2,533	¥ 2,328	\$ 22,040
Fair value	1,492	2,448	23,182
Unrealized gain (loss)	¥(1,040)	¥ 120	\$ 1,142

The aggregate carrying value of securities without fair value was ¥914 million as of March 31, 2003 and ¥862 million (U.S.\$8,169 thousand) as of March 31, 2004.

## 4 INVENTORIES

Inventories as of March 31, 2003 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Goods and finished products	¥ 5,305	¥ 3,885	\$ 36,788
Work in progress	26,816	23,330	220,872
Raw materials and supplies	1,953	1,979	18,741
	¥34,075	¥29,196	\$276,402

## 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, 2003 and 2004 are 0.69% and 0.61%, respectively.

Long-term debt as of March 31, 2003 and 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Long-term debt with collateral			
Bank loans			
due 2003 to 2007 with interest ranging from 1.250% to 2.100% as of March 31, 2003,			
due 2004 to 2007 with interest ranging from 1.250% to 2.100% as of March 31, 2004	¥ 5,944	¥ 4,646	\$ 43,992
Bonds			
2.300%, due 2006	150	150	1,420
Long-term debt without collateral			
Bank loans			
due 2003 to 2006 with interest ranging from 0.600% to 1.670% as of March 31, 2003,			
due 2004 to 2011 with interest ranging from 0.880% to 1.650% as of March 31, 2004	5,800	5,961	56,437
Bonds			
due 2003 to 2008 with interest ranging from 0.820% to 1.230% as of March 31, 2003,			
due 2004 to 2008 with interest ranging from 0.820% to 1.230% as of March 31, 2004	2,100	2,400	22,720
Convertible bonds			
0.850%, due 2008	51	51	482
Zero coupon due 2009	–	17,500	165,672
	14,045	30,709	290,726
Less current portion	3,497	4,511	42,709
	<u>¥10,547</u>	<u>¥26,198</u>	<u>\$248,016</u>

As of March 31, 2004, 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.\$48.5) per share, 3,412,636 shares would have been issued.

The annual maturities of long-term debt (including current portion) subsequent to March 31, 2004 are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2005	¥ 4,511	\$ 42,709
2006	3,657	34,621
2007	2,320	21,967
2008	2,115	20,022
2009 and thereafter	18,105	171,404
	<u>¥30,709</u>	<u>\$290,726</u>

Assets pledged as collateral for ¥800 million (U.S.\$7,573 thousand) of short-term loans, ¥1,947 million (U.S.\$18,435 thousand) of the current portion of long-term debt and ¥2,849 million (U.S.\$26,976 thousand) of long-term debt as of March 31, 2004, were ¥655 million (U.S.\$6,201 thousand) in land and ¥4,539 million (U.S.\$42,978 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, 2003 and 2004.

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

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Actuarial present value of projected benefit obligations	¥7,535	¥7,603	\$71,980
Plan assets (inclusive of the employees' retirement benefit trust account)	1,489	2,447	23,173
Accrued pension and severance costs	3,107	3,498	33,118
Unrecognized net actuarial loss	¥2,938	¥1,657	\$15,688

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

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Service cost	¥341	¥380	\$3,605
Interest cost	178	132	1,257
Expected return on plan assets	(18)	(16)	(153)
Actuarial loss	205	327	3,097
Net periodic pension and severance cost	¥706	¥824	\$7,807

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

	2003	2004
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 ¥461 million and ¥557 million (U.S.\$5,275 thousand) as of March 31, 2003 and 2004, 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 42.05% in 2003 and 2004. 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, 2003 and

2004 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, 2003 and 2004 differ from the statutory tax rate for the following reasons:

	2003	2004
Statutory tax rate	42.05%	42.05%
Effect of:		
Expenses not deductible for income for tax purposes	43.45	(1.09)
Inhabitant tax	75.77	(1.41)
Valuation allowance	(563.72)	(19.89)
Undistributed earnings of foreign subsidiaries	71.51	–
Tax rate changed	49.69	(1.36)
Other, net	(4.43)	(4.68)
Effective tax rate	(285.68)%	13.62%

The significant components of deferred tax assets and liabilities as of March 31, 2003 and 2004 were as follows:

	Millions of yen		Thousands of
	2003	2004	U.S. dollars
Deferred tax assets:			2004
Accrued pension and severance costs	¥2,188	¥ 2,321	\$ 21,976
Unrealized profit	1,278	1,006	9,530
Tax loss carryforwards	953	3,238	30,658
Net unrealized loss on securities	426	–	–
Accrued bonuses	207	263	2,497
Other	489	755	7,150
Gross deferred tax assets	5,543	7,585	71,813
Less valuation allowance	(319)	(1,216)	(11,521)
Deferred tax assets	5,224	6,368	60,292
Deferred tax liabilities:			
Gain on securities contribution to employees' retirement benefit trust	(708)	(708)	(6,705)
Deferred capital gains on fixed assets	(105)	(103)	(981)
Undistributed earnings of foreign subsidiaries	(126)	(164)	(1,560)
Net unrealized gain on securities	–	(40)	(385)
Deferred tax liabilities	(939)	(1,017)	(9,632)
Net deferred tax assets	¥4,284	¥ 5,351	\$ 50,659

## 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, 2003 and 2004, 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
	2003	2004	2004
Machinery and equipment:			
Acquisition cost	¥2,085	¥2,085	\$19,741
Accumulated depreciation	412	727	6,890
Net book value	¥1,672	¥1,357	\$12,850
Others:			
Acquisition cost	¥ 730	¥ 767	\$ 7,262
Accumulated depreciation	391	551	5,218
Net book value	¥ 338	¥ 215	\$ 2,044

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, 2003 and 2004, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Lease payments	¥551	¥570	\$5,396
Estimated depreciation expense	495	514	4,867
Estimated interest expense	88	73	6,98

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

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Current portion	¥ 479	¥ 270	\$ 2,563
Non-current portion	1,584	1,060	10,039
	¥2,063	¥1,331	\$12,602

## 10 DERIVATIVE INSTRUMENTS

The Company and its consolidated subsidiaries do not hold financial instruments other than for entering into foreign exchange contracts to hedge the risk of fluctuations in foreign currency exchange rates associated with export sales transactions denominated in foreign currencies. The Company and its consolidated subsidiaries do not hold foreign currency exchange contracts related to future trade transactions. The Company and its consolidated subsidiaries do not

hold financial instruments for trading purposes. As the counterparties are domestic banks with high credit ratings, the Company and its subsidiaries do not anticipate any credit loss from nonperformance from the counterparties to foreign exchange contracts. During the years ended March 31, 2003 and 2004 the Company and its subsidiaries have never entered future, swap or option contracts.

## 11 CONTINGENT LIABILITIES

Contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2004	2004
Trade notes receivable discounted	¥2,383	¥2,456	\$23,254
Bills of exchange without L/C	1,039	1,469	13,914

## 12 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, 2003 and 2004 are outlined as follows:

### (a) Business Segments

Year ended March 31, 2003	Millions of yen				
	Semiconductor manufacturing equipment division	Measuring systems division	Total	Corporate and elimination	Consolidation
Sales and operating income:					
Sales to third parties	¥33,561	¥13,610	¥47,171	¥ -	¥47,171
Intra-group sales and transfer	-	-	-	(-)	-
Total sales	33,561	13,610	47,171	(-)	47,171
Cost of revenue from operations	34,583	10,727	45,311	(-)	45,311
Operating income (loss)	¥ (1,022)	¥ 2,882	¥ 1,860	¥ -	¥ 1,860
Assets, depreciation and capital expenditure:					
Assets	¥71,158	¥14,303	¥85,462	¥3,207	¥88,669
Depreciation	2,255	323	2,579	-	2,579
Capital expenditure	2,029	303	2,333	-	2,333

Millions of yen

Year ended March 31, 2004	Semiconductor manufacturing equipment division	Measuring systems division	Total	Corporate and elimination	Consolidation
Sales and operating income:					
Sales to third parties	¥47,045	¥15,279	¥62,324	¥ -	¥62,324
Intra-group sales and transfer	-	-	-	(-)	-
Total sales	<u>47,045</u>	<u>15,279</u>	<u>62,324</u>	<u>(-)</u>	<u>62,324</u>
Cost of revenue from operations	44,272	12,104	56,377	(-)	56,377
Operating income	<u>¥ 2,772</u>	<u>¥ 3,174</u>	<u>¥ 5,947</u>	<u>¥ -</u>	<u>¥ 5,947</u>
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

Thousands of U.S. dollars

Year ended March 31, 2004	Semiconductor manufacturing equipment division	Measuring systems division	Total	Corporate and elimination	Consolidation
Sales and operating income:					
Sales to third parties	\$445,379	\$144,647	\$590,027	\$ -	\$590,027
Intra-group sales and transfer	-	-	-	(-)	-
Total sales	<u>445,379</u>	<u>144,647</u>	<u>590,027</u>	<u>(-)</u>	<u>590,027</u>
Cost of revenue from operations	419,130	114,592	533,722	(-)	533,722
Operating income	<u>\$ 26,249</u>	<u>\$ 30,055</u>	<u>\$ 56,304</u>	<u>\$ -</u>	<u>\$ 56,304</u>
Assets, depreciation and capital expenditure:					
Assets	\$715,993	\$149,626	\$865,619	\$32,735	\$898,355
Depreciation	22,737	3,291	26,028	-	26,028
Capital expenditure	25,675	1,819	27,495	-	27,495

## (b) Geographical Segments

Year ended March 31, 2003	Millions of yen					
	Japan	United States of America	Germany	Area total	Corporate and elimination	Consolidation
Sales and operating income:						
Sales to third parties	¥37,268	¥7,440	¥2,462	¥47,171	¥ –	¥47,171
Intra-group sales and transfer	5,910	–	–	5,910	(5,910)	–
Total sales	43,179	7,440	2,462	53,082	(5,910)	47,171
Cost of revenue from operations	41,299	7,796	2,425	51,521	(6,209)	45,311
Operating income (loss)	¥ 1,880	¥ (355)	¥ 37	¥ 1,561	¥ 298	¥ 1,860
Assets	¥83,195	¥5,316	¥1,185	¥89,697	¥(1,027)	¥88,669

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
Intra-group 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, 2004	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	\$503,746	\$54,324	\$31,955	\$590,027	\$ –	\$590,027
Intra-group sales and transfer	60,258	–	–	60,258	(60,258)	–
Total sales	564,004	54,324	31,955	650,285	(60,258)	590,027
Cost of revenue from operations	509,371	54,170	30,795	594,337	(60,614)	533,722
Operating income	\$ 54,633	\$ 154	\$ 1,159	\$ 55,947	\$ 356	\$ 56,304
Assets	\$847,029	\$60,190	\$18,506	\$925,726	\$(27,370)	\$898,355

## (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, 2003	Millions of yen				
	North America	East Asia	Europe	Others	Total
Overseas sales	¥7,069	¥10,916	¥2,826	¥1,997	¥22,811
Consolidated sales					47,171
Ratio of overseas sales to consolidated sales	15.0%	23.2%	6.0%	4.2%	48.4%

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, 2004	Thousands of U.S. dollars				
	North America	East Asia	Europe	Others	Total
Overseas sales	\$50,287	\$158,807	\$36,341	\$28,244	\$273,681
Consolidated sales					590,027
Ratio of overseas sales to consolidated sales	8.5%	26.9%	6.2%	4.8%	46.4%

## 13 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, 2004 were approved by the shareholders at a meeting held on June 29, 2004:

Year-end cash dividends (¥15=U.S.\$0.14 per share)	Millions of yen	Thousands of U.S. dollars
	¥560	\$5,304

# INDEPENDENT AUDITORS' REPORT



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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, 2004 and 2003, 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 and applied 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 consolidated 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, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 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 to the consolidated financial statements.

A handwritten signature in cursive script that reads "Shin Nihon &amp; Co." is positioned above the date.

June 29, 2004

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(as of July 2004)

# INVESTOR INFORMATION

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**ESTABLISHED:** March 28, 1949

**PAID-IN CAPITAL:** ¥7,199 million

## NUMBER OF EMPLOYEES:

Consolidated: 1,100

Non-consolidated: 642

## NUMBER OF OUTSTANDING SHARES:

Authorized: 110,501,100 shares

Issued: 37,372,993 shares

**NUMBER OF SHAREHOLDERS:** 27,061

**EXCHANGE LISTING:** Tokyo Stock Exchange

## MAJOR SHAREHOLDERS:

The Master Trust Bank of Japan, Ltd.

The Nomura Trust and Banking Co., Ltd.

Japan Trustee Services Bank, Ltd.

Mizuho Corporate Bank, Ltd.

NSK Ltd.

The Precise Measurement Technique Promoting Foundation

Mitsui Mutual Life Insurance, Co.

Sompo Japan Insurance Inc.

Ms. Hideko Takagi

The Dai-ichi Mutual Life Insurance Company

## TRANSFER AGENT AND REGISTRAR:

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## 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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