




Consolidated Financial Statements for the 12-month period ended March 31, 2005 (FY2005) May 17, 2005

Company name:  TOKYO SEIMITSU CO., LTD. Stock exchange listings: Tokyo  
 ACCURETECH  
 Code number: 7729 Head office location: Tokyo  
 (URL <http://www.accuretech.jp/>)  
 Representative: Hideo Ohtsubo Chairman & C.E.O. TEL (0422) 48-1011  
 Contact: Kunimasa Ohta Executive Vice President, President & COO of Administration Company  
 Board of Directors meeting: May 17, 2005  
 Use of U.S. accounting standards: No

**1. Results for the period of Fiscal 2005 (April 1, 2004-March 31, 2005)**

(1) Consolidated sales and earnings (Millions of yen, rounded down)

	Net Sales		Operating Income		Ordinary Income	
	(¥mn)	%	(¥mn)	%	(¥mn)	%
FY05	84,750	36.0	13,051	119.4	12,885	141.8
FY04	62,324	32.1	5,947	219.7	5,328	322.9

	Net income (loss)		Net Income (loss) per Share		Net Income per Share (diluted)	Return on Equity	Return on Total Ordinary Income	Ordinary Profit Margin
	(¥mn)	%	¥			%	%	%
FY05	4,459		118	82	108 75	14.3	13.2	15.2
FY04	△ 3,783	-	△ 101	67	—	△ 12.0	5.8	8.5

Notes:

Profit (loss) on equity method investments: 2005 March Yen - million, 2004 March Yen - million

2. Average number of shares outstanding (consolidated): FY05 37,452,407 shares, FY04 37,355,470 shares

3. Changes in accounting methods: No

4. Percentages for net sales, operating income, ordinary income, and interim net income are a comparison with the corresponding period of the previous fiscal year.

(2) Consolidated financial position

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio	Shareholders' Equity per Share	
	¥mn	¥mn	%	¥	
FY05	100,993	33,003	32.7	879	93
FY04	94,893	29,183	30.8	780	87

Note: Number of shares outstanding at end of period (consolidated):

FY05 37,495,725 shares, FY04 37,354,830 shares

(3) Consolidated cash flows

	Cash flow from Operating Activities	Cash flow from Investing Activities	Cash flow from Financing Activities	Cash and Cash Equivalents at End of Period
	¥mn	¥mn	¥mn	¥mn
FY05	7,058	△ 1,769	△ 5,732	11,838
FY04	4,569	△ 167	1,662	12,242

(4) Scope of consolidation and application of the equity method

Consolidated subsidiaries: 8 companies

Unconsolidated subsidiaries accounted for by the equity method: None

Affiliated companies accounted for by the equity method: None

(5) Changes in the scope of consolidation and application of the equity method

Consolidation (new): None (Eliminated): None

Equity method (new): None (Eliminated): None

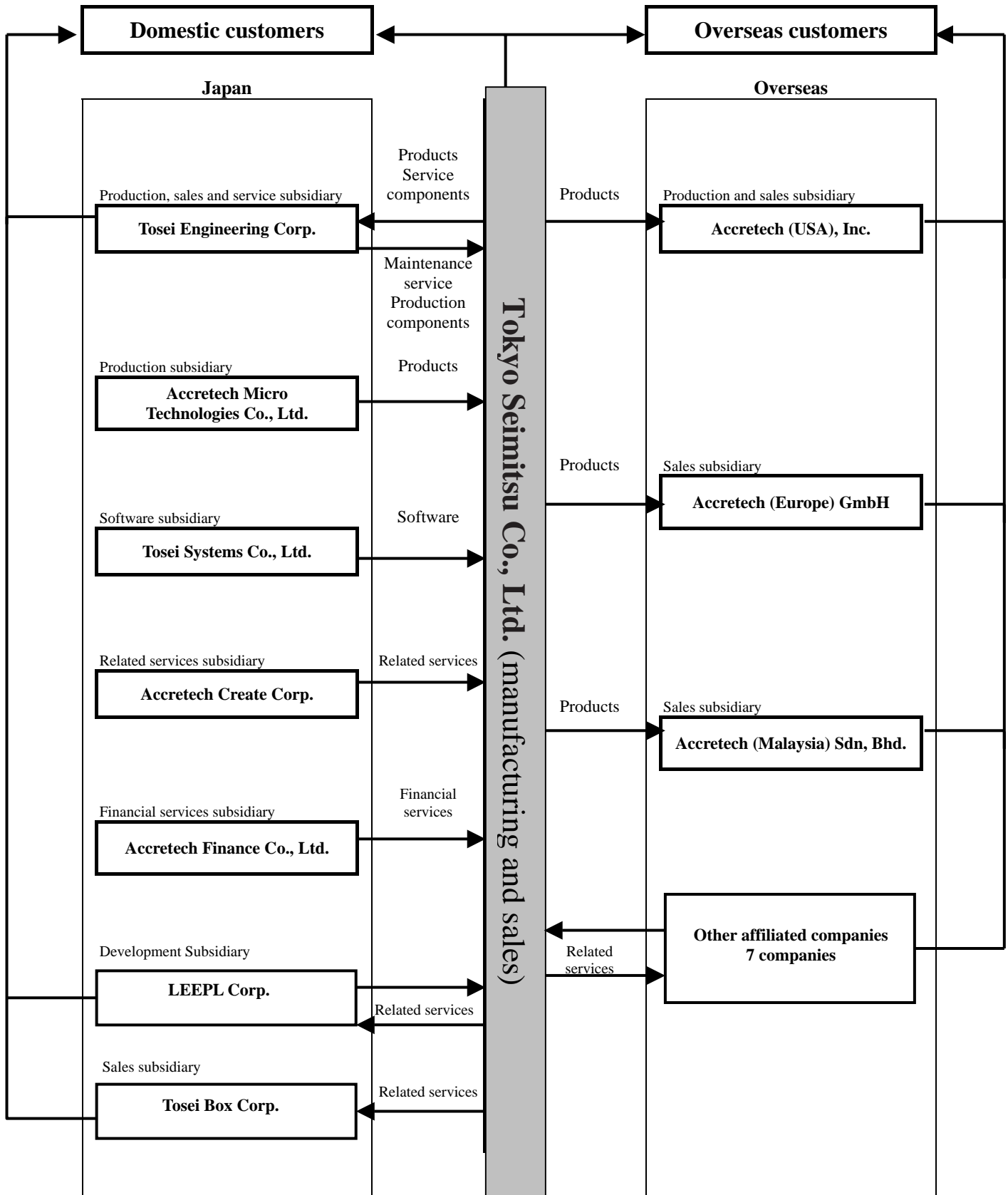
**2. Forecasted Results for Fiscal 2006 (April 1, 2005-March 31, 2006)**

	Net Sales		Operating Income		Net Income	
	¥mn		¥mn		¥mn	
	42,500		6,000		3,200	
Full year	85,000		13,500		7,500	

Reference: Estimated earnings per share (full year): ¥200.02

These forecasts are based on our outlook presented on page 9& 10 of the supplementary material.

# 1. Tokyo Seimitsu Corporate Group



## 2. Management Policy

### (1) Basic policy

As a maker of precision measurement instruments and semiconductor manufacturing equipment, Tokyo Seimitsu has consistently focused its efforts on the development of products that make full use of its cutting-edge technologies, contribute to the high productivity of our customers, and providing them with support. At a time when technological innovation is moving forward rapidly and reaching higher levels of sophistication, what is most necessary for us to continue to grow is to maintain a strong product development organization, and appropriate product development criteria. To accomplish this, in line with the following “principles for product development” we have set as the core of our management principles, we are working to hold the effects of market cycles in capital investment to the minimum, build a business foundation of high growth and profitability, and increase corporate value.

#### 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 also adopted the Corporate Motto “Win-Win Relationships Create the World’s No.1 Products,” encompassed in the “Strategic Principles for our R&D.” Development of the world’s No.1 products demands both speed and cutting-edge technologies in each respective field. To accomplish this Tokyo Seimitsu must apply the core technologies that it has developed, and build cooperative WIN-WIN relationships with companies and individuals that share a common goal to create the world’s best products, both in Japan and around the world. We are working to foster a global and hybrid corporate culture that integrates the unique cultures of various countries and companies, in order to establish a structure which is able to generate the world’s leading products, and make Tokyo Seimitsu a truly global company.

The corporate brand ACCRETECH was created from the words “accrete,” meaning “to grow together,” and “technology”. The brand thus expresses in a single word our corporate philosophy: growing together with partners and customers by collaborating technology, knowledge and information from internal and external sources to create the world’s No.1 Products.

### (2) A Unique Development Structure

Tokyo Seimitsu adopted a group leader system in 1988, dividing each technology development group into product groups, with a group leader to head each team. Group leaders are responsible for not only the product development, but also the overall performance of the product group, overseeing such functions as the creation of business plans, making decisions on capital investment, and recruiting human resources.

When the executive officer system was introduced in April 2002, group leaders were appointed as executive officers. This strengthening of the group leader system enhanced the speed of decision-making regarding development plans and other matters, as well as provided for quicker and more flexible responses to market trends.

### **(3) Basic Policy on Distributions**

Tokyo Seimitsu seeks to enhance corporate value, and return earnings to shareholders by offering the world's No.1 products that fully utilize cutting-edge technologies in growth fields. With respect to dividends, Tokyo Seimitsu seeks to provide stable dividends from a recognition of the long-term perspective of its shareholders, while giving due consideration to the enhancement of the corporate structure to ensure future growth.

Retained earnings will be effectively utilized for investment in the research and development that is essential for growth, as well as for production equipment.

### **(4) Essential Management Indicators**

Based on the above basic policy and development framework, wafer inspection systems, polish grinders, and CMPs, etc.

Tokyo Seimitsu conducts its management in a manner that conforms to the goals of all its shareholders. We believe that long-term growth in earnings per share and the resulting long-term rise in corporate value are important indicators for management.

### **(5) Medium- to Long-term Management Strategies**

Tokyo Seimitsu, based on the fundamental policies and development structure noted previously, has developed new highly functional and value added products for which the barriers to entry are high, the competition is small and the market is large, such as Wafer Inspection Systems, Polish Grinders, CMP and other products.

Wafer Inspection Systems and Polish Grinders were introduced into the market in fiscal 2001 (ended March 31, 2001), and CMP in fiscal 2003 (ended March 31, 2003). Customer satisfaction with these products has increased each year, and business has grown steadily. In 2004, sales of Tokyo Seimitsu's new semiconductor products reached 17.5 billion yen, an increase of 54% YoY. Sales of new products are expected to steadily increase and account for over half of semiconductor sales over the next couple of years as well as a larger percentage of income.

Also, the completion of both the new factories; Tsuchiura and Hachioji plants in March 2005 will contribute to the production of measuring systems and semiconductors, respectively. These factors will allow us to continue to reform production, improve quality, and reduce costs.

As mentioned above, in the medium-term, Tokyo Seimitsu will work to grow faster than the industry average and to raise the value of the corporation by increasing both sales and profit margin, particularly of new products.

Looking ahead over the next decade or longer, it is necessary to consider that our established products (Measuring Systems Products, Machine Control Gauges, Surface Texture and Contour Measuring Instruments, Cylindrical Form Measuring Instruments, 3D Coordinate Measuring Instruments, Wafer Probing Machines, Wafer Dicing Machines, etc.) may face a harsh business environment of competition from China.

Tokyo Seimitsu is promoting development of highly functional and value added new product lines with minimal competition, which we consider to be important from the perspective of future competition with Chinese-made products.

### **(6) Issues for Tokyo Seimitsu**

#### **(1) Successfully Launch New Products**

Aggressive efforts over the past several years to develop new products has resulted in Tokyo Seimitsu's Polish Grinders, now considered the de facto industry standard, accounting for almost

100% of the market, it has attained expected profit margins. Furthermore, the company is expanding its share of the wafer inspection system market as planned and is progressing with developing new customers for its CMPs. The total sales of these new products have surpassed sales of the measuring system division.

Tokyo Seimitsu will continue to increase sales of new products, focusing at the same time on cutting costs and reaching its target profit margin for both Wafer Inspection Systems and CMPs.

## (2) Financial Structure Improvements

Tokyo Seimitsu was able to steadily improve various financial ratios, such as capital ratio and asset turnover ratio on account of its strong performance in fiscal 2004 and an increase in sales of new products although the Company moved up the implementation of various financial measures, such as reestablishing the LEEPL business in the second half of 2004 due to the imminent introduction of asset impairment accounting in 2005. However, further improvements in financial structure are considered necessary; Tokyo Seimitsu expects to improve financial ratios by converting convertible bond redemption certificates to equity and increasing both sales and profits, which should result in positive free cash flow.

## **(7) Basic Stance Regarding Corporate Governance and Implementation of Measures**

### Basic Stance Regarding Corporate Governance

At the present time of economic globalization and remarkable changes in corporate business environment, we realize that it is necessary to create a management structure that can respond to these sudden changes and to implement a system of corporate governance compatible with international management standards and shareholder-focused management for our sustainable growth as a company.

While keeping in mind the principles of protecting shareholder rights and impartial treatment of shareholders, Tokyo Seimitsu is striving to build harmonious relationships with other stakeholders. The Company will continue to implement appropriate disclosure and transparency policies and focus on using both the board of directors and auditors to strengthen corporate governance .

### Implementation of Corporate Governance Measures

#### 1. Introduction of an executive officer system and internal companies

Tokyo Seimitsu introduced the executive officer system and the internal company system in April 2002, dividing the entire company into three internal companies consisting of the Semiconductor Company, Metrology Company, and Administration Company. These three internal companies carry out all operations of Tokyo Seimitsu, and the functions of the head offices were eliminated.

Semiconductor Company and Metrology Company, as fully functioning organizations, are now able to respond to each customer more actively and promptly, while Administration Company is pushing ahead with the rationalization of indirect departments.

A revision of the top management structure was carried out in April 2003, in which the positions of “Chairman and CEO” and “President and COO” were separated. The “Chairman and CEO” was given responsibility for medium- to long-term management strategies, daily operations of each internal company were relegated to each internal company president, while the “President and COO” assumed responsibility for overall operations of the company, clarifying the management execution structure.

#### 2. Assuring the effectiveness of corporate governance

- a) The Board of Directors is responsible for not only making important business related decisions but also supervising the implementation of these decisions by the directors; Tokyo Seimitsu’s board is a hybrid body that is composed of directors from the various companies that make up Tokyo Seimitsu.

With the introduction of an internal company system, Tokyo Seimitsu was transformed into a concern steered theoretical only by the Board of Directors, and operations are entrusted to each company. From a corporate governance perspective, Tokyo Seimitsu stresses the supervisory role of the Board of Directors and continue to strengthen this function.

- b) Tokyo Seimitsu has adopted the auditor system. Auditors are selected from among representatives of our large shareholding companies, and eminent individuals. Currently, three of the four auditors are outside auditors. Auditors are also concurrently members of the compensation committee and management advisory committee, through which they assess the appropriateness of compensation to board members, and other managerial matters.

- c) The systems for Board of Director and auditors described have selected the best elements of the corporate governance systems in Japan, the United States and Germany. Accordingly, we believe that Tokyo Seimitsu’s corporate governance is highly transparent, with clear accountability.

### 3. Internal Control System, Risk Management Structure, and Internal Supervision

Tokyo Seimitsu believes that socially acceptable activities must be undertaken in order to guarantee long-term growth and create a win-win relationship between all stakeholders, including shareholders, customers, vendors, and employees. In order to maintain the integrity and transparency of Tokyo Seimitsu, efforts have centered on a compliance committee, which adopted an “ACCRETECH Group Code of Conduct”, established to strengthen both the Company’s corporate ethics and compliance structure.

Furthermore, a personnel consultation office was created to aid in risk management issues related to human rights and health of employees. Efforts are also being made to prevent the unauthorized disclosure of confidential technical information and to manage confidential information based on a confidential information management policy established by the Information Security Committee.

In conjunction with the Board of Directors, auditing firms, and export management office, the auditing office, the internal auditing department shall conduct ordinary business audits in order to detect problems and recommend improvements.

#### **(8) New companies**

Tokyo Seimitsu did not acquire or create any new corporations as of the end of the fiscal year.

#### **(9) Tosei Engineering becomes a complete subsidiary**

A proposal was adopted during Tokyo Seimitsu’s and Tosei Engineering’s Board of Directors meeting, held on May 6, 2005, to turn Tosei Engineering into a wholly owned subsidiary of Tokyo Seimitsu through a stock swap, and a corresponding stock swap agreement was concluded.

Both the Tokyo Seimitsu and Tosei Engineering have developed semiconductor manufacturing equipment and measuring system businesses. The semiconductor industry has made progress on both the miniaturization and increase of wafer size, which has increased demand for precision semiconductor manufacturing equipment with high throughput and the need for precision and high quality measuring systems. Under these conditions, in order to develop the world’s most advanced products in response to customers’ needs, it was considered necessary to create a closer relationship between the two companies through integration, and implement management that could respond with greater speed and flexibility to changes. This consideration has led to the move to make Tosei Engineering a wholly owned subsidiary.

The expected execution date of the stock swap is October 1, 2005, which will allow time to complete all procedures stipulated by the commercial code. 0.51 shares of Tokyo Seimitsu will be issued for each share of Tosei Engineering.

### **3. Business Performance and Financial Position**

#### **(1) Business performance**

##### **(1) Fiscal Year Summary**

## **[Overall Business Performance]**

During the first half of the fiscal year, the semiconductor industry experienced increasing demand for digital consumer products, such as flat-panel televisions and DVDs, and steady demand for Personal Computers and mobile phones; in addition, capital expenditures by semiconductor manufacturers were also healthy. While various factors, including digital consumer product inventory adjustments, made semiconductor manufacturers more cautious about capital expenditures at the beginning of the second half of the year, signs of a recovery were visible by the end of the second half.

Under these conditions, the semiconductor manufacturing equipment division was able to dramatically increase revenue and income for both established product lines and new product lines, and sales hit a record high.

During the overall economic recovery, the measuring instrument division also recorded healthy performance both domestically and internationally, particular for products targeted to the automobile and machine-tool industries. Sales and income grew substantially on a year-on-year basis, setting new records.

Therefore, consolidated sales for the fiscal year totaled ¥84.750billion yen (+ 36.0% YoY), which was a historic high. On a consolidated basis, ordinary income rose 2.4 times compared to the previous year to ¥12.885 billion and net income totaled ¥4.459 billion although ¥7.007billion in extraordinary losses were recorded.

## **[Summary of Each Division]**

### **A. Semiconductor Manufacturing Equipment Division**

Although the semiconductor manufacturing equipment division went through an adjustment period during the second half of the year, its performance was healthy overall. By accurately reading the aggressive capital expenditure trend of both domestic and overseas semiconductor manufacturers and developing detailed sales plans to meet customers' needs, the division was able to raise annual sales substantially to ¥66.669billion (+41.7% YoY), reaching an historic high.

In addition to sales growth, cost reduction measures, such as lowering variable ratio by reducing fixed costs and promoting internal production, were successful, which sharply pushed up operating income to ¥8.784 billion, a 3.2 fold increase compared to the previous year.

(Regional breakdown)

While there was healthy growth in sales on a year-on-year basis in all regions, growth was particularly strong in the following regions: Japan; East Asia, including Korea, Taiwan, and China; and North America.

(Breakdown by product)

(a) With regard to wafer-probing machines, demand was strong for machines that can handle 300mm wafers, and sales of the UF3000, which is such a machine, increased dramatically on a year-on-year basis. The third-generation machine UF3000, a fully automatic high performance probing machine capable of handling 300mm wafers, which meets every need of device makers (ranging from those engaged in high-mix low-volume production of items such as system LSI, to

those engaged in the mass production of items such as memory), has been enthusiastically received by our customers.

Sales of the UF200 series were also firm and contributed to the Company's strong performance as the number one wafer-probing machine maker.

(b) With regard to wafer-dicing machines, sales increased on a year-on-year basis, especially for the A-WD-300T, which can handle 300mm wafers. Both the A-WD-200T, which handles 200mm wafers, and the A-WD-300T have received high praise from customers as highly productive machines and continue to attract new customers.

The Company continues to develop new products: one of these new products is the laser dicing machine MAHOHDICING MACHINE, which uses a completely dry process and made its first contributions to sales this year. Users value the machine's performance and productivity, and sales are expected to expand to include use for MEMS and thin wafers.

(c) Among the wafer inspection systems, the WIN-WIN50, which has won praise from users not only for its low cost of ownership but also its excellent defect detection rate, is still a favorite, and we receive both repeat orders from existing users and new orders for the machine. There is also a wide lineup of HA3000 products, deep ultra-violet type machines, which were jointly developed with the Hitachi High-Technologies Corporation. The HA3000 is able to meet the diversified needs of its user.

Not only have sales grown on a year-on-year basis, but the Company has also steadily increased its market share.

(d) With regard to polish grinders, which simultaneously grind wafer backs and remove damage, our machines are unsurpassed and have become the de-facto standard in the thin wafer market. Demand for the PG300, which can handle 300mm wafers, strengthened during the year, which has pushed up both orders and sales on a year-on-year basis and made this one of our core products.

(e) With regard to CMPs, the concept behind and superior construction of the ChaMP series has made it popular among customers, which has led to a marked increase in sales of the series.

## **B. Measuring Instrument Division**

During the recent global economic expansion, the measuring instrument division has increased sales both domestically and internationally through sales efforts that precisely target the needs of users in the automobile and machine-tool industries; sales totaled ¥18.081billion (+18.3 YoY).

Strong efforts to cut production costs helped push operating income to ¥4.267billion (+34.4% YoY).

The measuring instrument division recorded record sales and operating income.

(Regional breakdown)

A breakdown of sales by regions reveals that there was strong growth in sales on a year-on-year basis within Japan and in east and south-east Asia.

(Breakdown by product)

(a) As Multipurpose Measuring Instrument, the 3D Coordinate Measuring Machine "XYZAX SVA" series, which combines Carl Zeiss' analysis and control technologies with our high rigidity design technology, fulfills the needs of our customers and enjoys an excellent reputation.

Furthermore, sales of "XYZAX SVA fusion" which guarantees high precision scanning and went on

sale in April 2004, have also increased sharply.

Since the “SURFCOM 5000DX” was added to the “SURFCOM” series, a Surface Tecture and Contour Measuring Instrument with the unsurpassed precision and low vibration during use due to its linear motor, in November 2004, sales have steadily grown.

The “RONDCOM 54/44”, an addition to the “RONDCOM” series, is a Roundness / Cylindricity Measuring Instrument, which is highly regard for its precision and went on sale in November 2004. The full lineup of products will lead to firm sales growth.

(b) Automatic Measuring Instruments, such as the “PULCOM” series, used in various environments such as automobile parts production lines, also experienced healthy sales growth, reflecting large capital expenditures by the automobile industry. In addition, the ATC Run-out Detection System has become a standard for many users. The ELCOM 8 for Wireless, which allows wireless connection for electro column gauges and hand gauges, went on sale in April 2004.

### **[Extraordinary Losses]**

Looking ahead to the introduction of asset impairment accounting in fiscal 2005, the Company booked ¥7 billion yen in extraordinary losses related to assets associated with the reestablishment of the Low Energy E-beam Proximity Projection Lithography (LEEPL) business, which is expected to start sales sometime after 2008. Writing off the losses earlier than necessary, when revenues are strong, will not only improve the Company’s financial health, but also make it possible for management to progress with greater flexibility.

### **[Distribution of Profits]**

Regarding dividends for the fiscal year, an interim dividend of ¥15 per share was paid. End-of-year dividends will also be ¥15 per share in accordance with the basic policy on profit distribution noted previously. A proposal is expected to be made at the 82nd General Share Holders Meeting to set the annual dividend payments to ¥30 per share.

## **(2) Next Year Forecasts**

### **[Outlook for the Overall Industry and Each Department]**

#### **A. Semiconductor Manufacturing Equipment Division**

The semiconductor market in the mid-term is expected to experience steady growth on account of growing demand for digital consumer products, firm demand for the computers, and growth in automobile related devices. Various factors such as substantial investment in 300 mm-wafer related products will likely lead to continued capital investment by semiconductors manufacturers. In the short term, however as it is currently in a minor adjustment phase, we still view semiconductor manufactures’ capital expenditures with guarded optimism.

Under these conditions and considering the environment for semiconductor manufacturing equipment in fiscal 2005, conservative forecasts have been made for existing product lines, such as wafer-probing machines and wafer-dicing machines which have larger market shares. Our forecast for the semiconductor manufacturing equipment division’s sales in fiscal 2005 is ¥66.0 billion yen (-1.0% YoY), based on the strong appetite for capital expenditure for miniaturization and thinning tehnology innovations in our new product lines of wafer inspection systems, polish grinders, and the CMPs

## B. Measuring System Division

For the measuring instrument division, we expect continued strong demand both domestically and internationally from all users, including those in the automobile, machine-tool and bearing industries, which will support the healthy performance of the division.

We expect sales for fiscal 2005 to reach ¥19 billion (+5.1% YoY) on account of orders obtained through a clear understanding of customers' needs, which would make fiscal 2005 the second consecutive year of record sales.

Based on the above forecasts and on a consolidated basis, sales for fiscal 2005 are forecast to total ¥ 85 billion (+0.3% YoY), which surpasses fiscal 2004 sales, ordinary income ¥13.5 billion (+4.8%), and net income ¥ 7.5billion (+68.2%), which translates into an increase of both revenue and income compared to the previous year.

### [Distribution of Profits]

As the proposal to turn Tokyo Seimitsu Engineering into a wholly owned subsidiary of Tokyo Seimitsu was approved and recent emphasis for profit distribution is based on consolidated performance, on a consolidated net profit basis our return to shareholders will be targeted at 20%. Profit distribution for the next year is expected to be ¥40 per share (an interim dividend of ¥20) .

### (2) Fiscal Position

Cash and cash equivalents at the end fiscal year were ¥11.8 billion, a decrease of ¥0.4 billion compared to a year earlier. The various cash flows for the fiscal year and factors behind the cash flows are given below.

Net cash provided by operating activities was ¥7.0 billion. This was mainly due to income before income taxes and minority interests (¥6.4 billion), depreciation and amortization (¥2.7 billion), change in trade notes and accounts receivable (- ¥5.4 billion), and changes in inventory (¥1.0billion). Net cash used for investing activities was ¥1.7billion. This was due to the purchase of tangible fixed assets. Net cash provided by financing activities was ¥5.7 billion. This was mainly due to the repayment of short-term debts (¥5.0billion) and dividend payments (¥1.1 billion).

Free cash flow for the fiscal year dramatically improved compared to the previous year, and free cash flow for the coming year is also forecast to improve due to an increase in sales, booking of profits and the leveling-off of investment activities, which is expected to further improve the Company's financial position.

Trends in cash flow indices are shown below:

	H1 FY2006 March	FY2005 March
Shareholders' equity ratio (%)	30.8	32.7
Equity ratio, based on market value (%)	138.6	138.5
Number of years for amortization (years)	7.9	4.4
Interest coverage ratio (times)	15.7	29.4

Shareholders' equity ratio: Shareholders' equity/total assets

Equity ratio based on market value: Total market value of equity/total assets

Number of years for amortization: interest-bearing debt/operating cash flows

Interest coverage ratio: Operating cash flows / interest payments

Notes:

1. All indices are calculated on a consolidated basis based on figures shown in the financial statements.
2. The total market value of equity is calculated by multiplying market price at the balance sheet date by the number of shares outstanding on the balance sheet date.
3. “Operating cash flows” refers to cash flows from operating activities as shown in the consolidated cash flow statements. “Interest-bearing debt” refers to all debts listed in the consolidated balance sheets on which the Company pays interest. “Interest payments” denotes interest payments as reflected in the consolidated cash flow statements.

**Cautionary Statements with Respect to Forward-looking Statements**

Statements made in this summary 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 condition 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.

## 4. Consolidated Balance Sheets

(Millions of yen, rounded down)

Item	FY04 (March 31, 2004)	FY05 (March 31, 2005)	Item	FY04 (March 31, 2004)	FY05 (March 31, 2005)
<b>Assets</b>			<b>Liabilities</b>		
<b>Current Assets</b>	<b>70,944</b>	<b>73,752</b>	<b>Current Liabilities</b>	<b>33,285</b>	<b>34,941</b>
Cash and cash equivalents	12,269	11,866	Notes and accounts payable, trade	17,574	17,809
Notes and accounts receivable	26,554	32,105	Short-term debt	5,543	458
Inventories	29,196	28,134	Current portion of long-term debt	4,311	4,160
Consumption tax receivable	64	539	Current portion of bonds	200	450
Deferred tax assets	2,289	753	Income taxes payable	756	2,890
Other current assets	610	412	Bonus reserve	646	951
Allowance for doubtful accounts	(40)	(60)	Other current liabilities	4,252	8,221
<b>Fixed Assets</b>	<b>23,948</b>	<b>27,240</b>	<b>Long-term Liabilities</b>	<b>30,301</b>	<b>30,538</b>
(Property, plant and equipment)	(12,847)	(13,885)	Bonds	19,850	19,400
Buildings and structures	5,342	7,528	Convertible bonds	51	51
Equipment and vehicles	3,022	1,982	Long-term debt	6,297	6,753
Tools and fixtures	843	927	Allowance for employee retirement benefits	3,498	3,610
Land			Allowance for director retirement benefits	557	675
Construction in progress	2,919	2,917	Deferred tax liabilities	48	46
	719	529	<b>Total Liabilities</b>	<b>63,587</b>	<b>65,479</b>
(Intangible fixed assets)	(3,756)	(2,581)			
Software	3,199	2,263	<b>Minority Interests</b>	<b>2,122</b>	<b>2,510</b>
Other intangible fixed assets	557	317			
Investments (Investments and other assets)	(7,343)	(10,773)	<b>Shareholders Equity</b>		
			Capitalization	7,199	7,392
Investment Securities	3,311	3,524	Capital surplus	11,806	12,017
Long-term loans	381	350	Retained earnings	10,273	13,596
Deferred tax assets	3,109	6,331	Net unrealized holding gain on securities	57	70
Other investments			Foreign currency translation adjustment	(105)	(9)
Other assets	554	578			
Allowance for doubtful accounts	(12)	(10)	Treasury stock	(49)	(63)
<b>Deferred Assets</b>	<b>0</b>	<b>0</b>			
Discount on bonds	0	0	<b>Total Shareholders' Equity</b>	<b>29,183</b>	<b>33,003</b>
<b>Total Assets</b>	<b>94,893</b>	<b>100,993</b>	<b>Total Liabilities and Shareholders' Equity</b>	<b>94,893</b>	<b>100,993</b>

## 5. Consolidated Statements of Income

(Millions of yen, rounded down)

Item		FY04 (April 1, 2003 – March 31, 2004)	FY05 (April 1, 2004 – March 31, 2005)
Ordinary Income	Operating		
	Net sales	62,324	84,750
	Cost of sales	46,531	59,344
	<b>Gross Profit on Sales</b>	<b>15,793</b>	<b>25,405</b>
	Selling, general and administrative expenses	(9,846)	(12,354)
	Selling expenses	7,483	9,516
	General expenses	2,362	2,837
	<b>Operating Income</b>	<b>5,947</b>	<b>13,051</b>
	Non-operating		
	Non-operating income	(146)	(278)
Interest and dividend income	23	51	
Other	122	226	
Non-operation expenses	(765)	(446)	
Interest expenses	278	293	
Other	486	150	
<b>Ordinary Income</b>	<b>5,328</b>	<b>12,885</b>	
Extraordinary Items	Extraordinary gains	(380)	(523)
	Gain on sale of investment in securities	198	358
	Other	182	165
	Extraordinary losses	(9,772)	(7,007)
	Loss on revaluation and disposal of inventories	3,491	5,861
	Loss on sale of fixed assets	2,216	854
	Loss on disposal of software for sale	3,423	–
	Other	641	291
	<b>Income before income taxes and minority interests</b>	<b>(4,064)</b>	<b>6,401</b>
	<b>Income taxes</b>	<b>1,044</b>	<b>3,187</b>
<b>Income tax adjustment</b>	<b>(1,598)</b>	<b>(1,688)</b>	
<b>Minority Stockholder Income</b>	<b>273</b>	<b>444</b>	
<b>Interim net income (loss)</b>	<b>(3,783)</b>	<b>4,459</b>	

## 6. Consolidated Statement of Retained Earnings

(Millions of yen, rounded down)

Item	FY04 (April 1, 2003 – March 31, 2004)		FY05 (April 1, 2004 – March 31, 2005)	
<b>CAPITAL SURPLUS</b>				
<b>Capital surplus at the beginning of the period</b>				
Capital surplus reserve at the beginning of the period		11,806		11,806
<b>Increases in capital surplus</b>				
Increases due to the use of new stock subscribing rights	—	—	211	211
<b>Decreases in capital surplus</b>				
		—		—
<b>Capital surplus at the end of the period</b>		11,806		12,017
<b>RETAINED EARNINGS</b>				
<b>Retained earnings at the beginning of the period</b>				
Consolidated surplus at the beginning of the period		15,191		10,273
<b>Increases in retained earnings</b>				
Net income		—	4,459	4,459
<b>Decreases in retained earnings</b>				
Net loss	3,783		—	
Cash dividends	1,120		1,122	
Directors' bonus	12	4,917	14	1,136
<b>Retained earnings at the end of the period</b>		10,273		13,596

## 7. Interim Consolidated Statement of Cash Flows

(Millions of yen, rounded down)

Item	FY04 (April 1, 2003 – March 31, 2004)	FY05 (April 1, 2004 – March 31, 2005)
<b>Cash flows from operating activities</b>		
Income (loss) before income taxes and minority interests	(4,064)	6,401
Depreciation and amortization	2,749	2,732
Amortization of consolidation goodwill	80	160
Changes in provision for employee bonuses	391	112
Changes in provision for directors' bonuses	95	118
Changes in provision for doubtful accounts	(35)	16
Interest and dividend income	(23)	(51)
Interest expense	278	293
Loss on sale of property, plant and equipment	2,216	936
Loss on revaluation of investment securities and golf club memberships	84	2
Loss on disposal of software for sale	3,423	—
Gain on sale of investment securities	(198)	(358)
Changes in accounts receivable	(10,612)	(5,427)
Decrease in Inventory Assets	3,150	1,006
Changes in purchase liabilities	6,808	37
Payments of directors' bonuses	(12)	(14)
Other income and expenses from operating activities	1,388	2,532
Subtotal	5,721	8,499
Interest and dividends received	23	51
Interest expenses paid	(290)	(291)
Income taxes paid	(883)	(1,201)
<b>Net cash from operating activities</b>	<b>4,569</b>	<b>7,058</b>
<b>Cash flows from investing activities</b>		
Investments in term deposits	(20)	(21)
Payments from term deposits	20	20
Acquisition of investment securities	(81)	(412)
Investment in affiliated companies	—	(46)
Sale of investment securities	474	579
Acquisition of fixed assets	(1,715)	(1,721)
Acquisition of tangible assets	(262)	(277)
Sale of fixed assets	1,741	78
Execution of loans	(356)	(382)
Redemption of loans	31	413
<b>Net cash from investing activities</b>	<b>(167)</b>	<b>(1,769)</b>
<b>Cash flows from financing activities</b>		
Net change in short-term debt	(13,877)	(5,085)
Execution of long-term debt	4,100	5,300
Repayment of long-term debt	(5,235)	(4,994)
Issuance of bonds	18,000	—
Redemption of bonds	(200)	(200)
Exercise of rights for new stock issues	—	383
Cash dividends paid	(1,120)	(1,122)
Other expenses for financing activities	(3)	(13)
<b>Net cash from financing activities</b>	<b>1,662</b>	<b>(5,732)</b>
<b>Cash and cash equivalents translation difference</b>	<b>(16)</b>	<b>39</b>
<b>Change in cash and cash equivalents</b>	<b>6,048</b>	<b>(403)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>6,193</b>	<b>12,242</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>12,242</b>	<b>11,838</b>

## 8. Important Accounting Policies

### 1. Scope of Consolidation

- (1) Consolidated subsidiaries (8 companies)  
Tosei Engineering Corp.; Tosei Systems Co., Ltd.; Accretech Micro Technologies Co., Ltd.; Accretech Create Corp.; Accretech Finance Co., Ltd.; LEEPL Corp.; Accretech USA, Inc.; Accretech (Europe) GmbH
- (2) Non-consolidated subsidiaries (8 companies)  
Tosei Box Corp.; Accretech (Malaysia) Sdn, Bhd.; Accretech (Israel) Ltd.; Accretech (Singapore) Pte Ltd.; Accretech Micro Technologies Korea Co., Ltd; Accretech (China) Co., Ltd.; Tosei (Thailand) Co., Tosei Measuring (Pinghu) Co., Ltd.

The reason these eight companies are excluded from the scope of consolidation is that they are small companies, their combined assets, sales, net income and retained earnings is also small, and does not have a significant impact on the interim financial statements.

### 2. Application of the Equity Method

The eight non-consolidated subsidiaries and affiliated company Sanmenxia Zhongyuan Tokyo Seimitsu Co., Ltd., to which the equity method is not applied, each have only a minor impact on interim consolidated net income and consolidated retained earnings. Their overall importance is minimal, so investment in these companies is accounted for by the cost method rather than the equity method.

### 3. Interim Settlement Date of Consolidated Subsidiaries

The interim settlement date for consolidated subsidiaries is the same as that of Tokyo Seimitsu's interim consolidated settlement date.

### 4. Accounting Standard

#### (1) Valuation standards and methods for significant assets

##### (a). Investment securities

Other investment securities

Marketable securities..... Market value method based on the market price at the end of the interim consolidated accounting period. (The valuation difference is directly charged, and the cost of securities sold is calculated using the cost method based on the moving-average method.)

Non-marketable securities....Adoption of the cost method based on the moving-average method.

##### (b). Inventories

Products, manufactured goods, materials and inventories of Tokyo Seimitsu and its domestic consolidated subsidiaries are accounted for by the cost method based on the first-in, first-out method. Work-in-progress is accounted for the cost method based on the identified cost method.

#### (2) Depreciation method of significant depreciable assets

##### (a). Property, plant and equipment:

Tokyo Seimitsu and its domestic consolidated subsidiaries use the fixed rate method. Buildings acquired after April 1, 1998 (except equipment with attached buildings), however, are amortized using the straight-line method.

##### (b). Intangible fixed assets:

Software for the purpose of sale is amortized using a method based on the projected sales volume, or the straight-line method based on the remaining period of validity. Software for use in the Company is amortized by the straight-line method, based on the availability period within the Company.

Other intangible fixed assets are amortized by the straight-line method.

(3) Accounting standards for significant allowances and reserves

(a). Allowance for doubtful accounts

To provide against losses resulting from bad debt, for general accounts, general allowances are provided using a rate determined by past bad debts experience. Specific allowances are also provided for the estimated amounts considered to be uncollectible after reviewing individual collectibility of certain doubtful accounts.

(b). Bonus reserve

To provide for payment of bonuses to employees, accrued bonuses are recorded in an amount expected to be paid.

(c). Allowance for employee retirement benefits

To provide for the employees' retirement benefits, allowance for employee retirement benefits is recorded based on the projected retirement benefit obligations and related plan assets as of the current consolidated fiscal year end. Accounting differences are expensed proportionally from the following consolidation fiscal year based on a fixed number of years (10 years) within the average remaining service years of the employee in each consolidated fiscal year incurred.

(d). Allowance for director retirement benefits

To provide for expected payments for retirement benefits for directors at the time of their retirement, an allowance is recorded in a forecast amount at the end of the interim consolidated accounting period, based on internal regulations.

(4) Accounting method for significant lease transactions

Financial lease transactions, except for those in which the rights held in leased properties may be transferred to the lease holder, are accounted for based on a method related to ordinary lease transactions.

(5) Accounting of consumption tax

Consumption tax and local consumption tax is accounted for using the tax excluded method.

5. Scope of Funds in the Consolidated Cash Flow Statements

Funds (cash and cash equivalents) in this consolidated cash flow statements include cash on hand, deposits receivable on demand, and funds easily encashable, as well as short-term investments for which there is a minimal risk of price fluctuation, and the forthcoming redemption period is within three months of the acquisition date.

## 9. Segment Information

### (1) Business segments

**FY 2004 (April 1, 2003 – March 31, 2004)**

(Millions of yen, rounded down)

	Semiconductor manufacturing equipment	Measuring Systems	Total	Eliminations and Corporate	Consolidated
Net Sales and operating income					
(1) Sales to customers	47,045	15,279	62,324	—	62,324
(2) Intersegment sales to transfers	—	—	—	—	—
Total	47,045	15,279	62,324	—	62,324
Operating Expenses	44,272	12,104	56,377	—	56,377
Operating Income	2,772	3,174	5,947	—	5,947
Assets, depreciation expense & Capital Expenditure					
Assets	75,630	15,805	91,435	3,457	94,893
Depreciation expense	2,401	347	2,749	—	2,749
Capital Expenditure	2,712	192	2,904	—	2,904

**FY 2005 (April 1, 2004 – March 31, 2005)**

(Millions of yen, rounded down)

	Semiconductor manufacturing equipment	Measuring Systems	Total	Eliminations and Corporate	Consolidated
Net Sales and operating income					
(1) Sales to customers	66,669	18,081	84,750	—	84,750
(2) Intersegment sales to transfers	—	—	—	—	—
Total	66,669	18,081	84,750	—	84,750
Operating Expenses	57,884	13,814	71,698	—	71,698
Operating Income	8,784	4,267	13,051	—	13,051
Assets, depreciation expense & Capital Expenditure					
Assets	80,434	18,947	99,382	1,611	100,993
Depreciation expense	2,404	327	2,732	—	2,732
Capital Expenditure	2,731	1,040	3,771	—	3,771

(2) Geographical segments

**FY 2004 (April 1, 2003 – March 31, 2004)**

(Millions of yen, rounded down)

	Japan	U.S.	Germany	Total	Eliminations and Corporate	Consolidated
Net sales and operating income						
(1) Sales to customers	53,210	5,738	3,375	62,324	—	62,324
(2) Intersegment sales or transfers	6,365	—	—	6,365	(6,365)	—
Total	59,575	5,738	3,375	68,689	(6,365)	62,324
Operating expenses	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

**FY 2005 (April 1, 2004 – March 31, 2005)**

(Millions of yen, rounded down)

	Japan	U.S.	Germany	Total	Eliminations and Corporate	Consolidated
Net sales and operating income						
(1) Sales to customers	69,846	9,226	5,677	84,750	—	84,750
(2) Intersegment sales or transfers	9,277	—	—	9,277	(9,277)	—
Total	79,123	9,226	5,677	94,027	(9,277)	84,750
Operating expenses	66,386	9,199	5,478	81,064	(9,365)	71,698
Operating income (loss)	12,737	27	199	12,963	88	13,051
Asset	96,292	6,052	2,363	104,708	(3,715)	100,993

(3) Sales to foreign customers

**FY 2004 (April 1, 2003 – March 31, 2004)**

(Millions of yen, rounded down)

	East Asia	North America	Europe	Other	Total
Overseas sales	16,774	5,311	3,838	2,983	28,908
Consolidated sales					62,324
Overseas proportion of sales	26.9%	8.5%	6.2%	4.8%	46.4%

**FY 2005 (April 1, 2004 – March 31, 2005)**

(Millions of yen, rounded down)

	East Asia	North America	Europe	Other	Total
Overseas sales	25,048	8,166	5,706	3,938	42,860
Consolidated sales					84,750
Overseas proportion of sales	29.6%	9.6%	6.7%	4.7%	50.6%

## 10. Production, Orders and Sales

### (1) Production

(Millions of yen, rounded down)

Business Segment	FY 2004		FY 2005	
	(April 1, 2003 – March 31, 2004)	Y-oY (%)	(April 1, 2004 – March 31, 2005)	Y-o-Y (%)
Semiconductor manufacturing equipment	47,766	+ 44.9 %	67,708	+ 41.7 %
Measuring systems	15,473	+ 5.1 %	18,054	+ 16.7 %
Total	63,239	+ 32.6 %	85,763	+ 35.6 %

Note: Amounts shown are based on the sales price (excluding consumption tax).

### (2) Orders

(Millions of yen, rounded down)

Business Segment	FY 2004		FY 2005	
	(April 1, 2003 – March 31, 2004)		(April 1, 2004 – March 31, 2005)	
	Received	Backlog	Received	Backlog
Semiconductor manufacturing equipment	54,653	14,821	65,248	13,400
Measuring systems	16,635	3,564	18,207	3,691
Total	71,289	18,385	83,456	17,091

Note: Amounts shown are based on the sales price (excluding consumption tax).

### (3) Sales

(Millions of yen, rounded down)

Business Segment	FY 2004		FY 2005	
	(April 1, 2003 – March 31, 2004)	Y-oY (%)	(April 1, 2004 – March 31, 2005)	Y-o-Y (%)
Semiconductor manufacturing equipment	47,045	+ 40.2 %	66,669	+ 41.7 %
Measuring systems	15,279	+ 12.3 %	18,081	+ 18.3 %
Total	62,324	+ 32.1 %	84,750	+ 36.0 %

Note: Amounts are shown excluding consumption tax.

## 11. Market Value of Securities

[FY 2004] (March 31, 2004)

(1) Market value of securities

(Millions of yen, rounded down)

	Cost	Consolidated Balance sheet amount	Difference
Amounts exceeding cost on consolidated balance sheet			
Stocks	723 —	1,161 —	437 —
Other marketable securities			
Sub-total	723	1,161	437
Amounts exceeding cost on consolidated balance sheet			
Stocks	1,604 —	1,287 —	(317) —
Other marketable securities			
Sub-Total	1,604	1,287	(317)
Total	2,328	2,448	120

(2) Non-marketable securities

(Millions of yen, rounded down)

	Consolidated Balance sheet amount
Non-marketable securities	862
Other non-marketable securities	—
Total	862

[FY 2005] (March 31, 2005)

(3) Market value of securities

(Millions of yen, rounded down)

	Cost	Consolidated Balance sheet amount	Difference
Amounts exceeding cost on consolidated balance sheet			
Stocks	939 —	1,320 —	380 —
Other marketable securities			
Sub-total	939	1,320	380
Amounts exceeding cost on consolidated balance sheet			
Stocks	1,651 —	1,395 —	(255) —
Other marketable securities			
Sub-Total	1,651	1,395	(255)
Total	2,591	2,715	124

(4) Non-marketable securities

	Consolidated Balance sheet amount
Non-marketable securities	808
Other non-marketable securities	—
Total	808

## 12. Retirement Benefits

### (1) Summary of the present retirement benefit system

As defined benefits plans, Tokyo Seimitsu employs three plans: an Employee Pension Fund, a Tax-Qualified Pension Plan and a Retirement Allowance Plan. Domestic consolidated subsidiaries make use of the tax-qualified pension plan and the retirement allowance plan.

### (2) Actuarial present value of projected benefit obligations (as of March 31, 2005)

(units: million yen [decimal part is dropped] )

a. Actuarial present value of projected benefit obligations	7,516
b. Plan assets (inclusive of the employees' retirement benefit trust account)	3104
c. <u>Accrued pension and severance costs</u>	<u>3,610</u>

<u>Total deductions (a-b-c)</u>	<u>801</u>
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(Breakdown of deductions)

d. Unrecognized net actuarial loss	801
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### (3) Components of net periodic pension and severance cost(as of March 31, 2005)

(units: million yen [decimal part is dropped] )

a. S e r v i c e c o s t	381
b. I n t e r e s t c o s t	134
c. Expected return on plan assets	15
d. Actuarial loss from change of accounting method	231
d. Unrecognized net obligation	—
e. Pension and severance cost (a+b-c+d+e)	731

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

a. Allocation method of pension and severance costs	Straight-line method
b. D i s c o u n t r a t e	2.0%
c. Expected rate of return on plan assets	2.5%
d. Term of amortization of net actuarial loss	10 years

## 13. Related-Party Transactions

There were no related-party transactions during the fiscal 2005 period (April 1, 2004 to March 31, 2005)