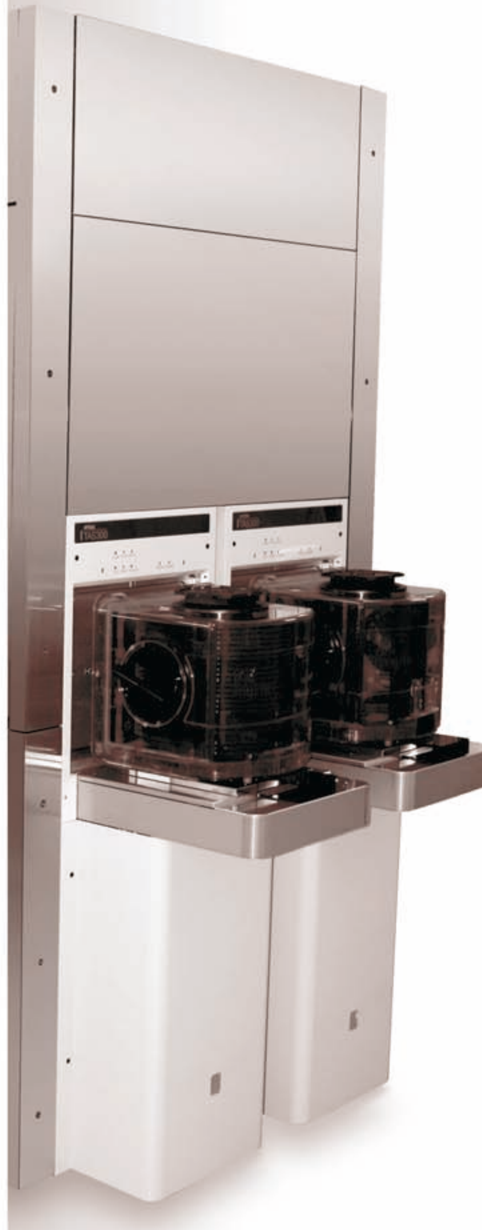
ANNUAL REPORT 2006

FINANCIAL SECTION



SHIBAURA MECHATRONICS CORPORATION

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REPORT OF INDEPENDENT AUDITORS

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Report of Independent Auditors

The Board of Directors
Shibaura Mechatronics Corporation

We have audited the accompanying consolidated balance sheets of Shibaura Mechatronics Corporation and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shibaura Mechatronics Corporation and consolidated subsidiaries at March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Ernst & Young ShinNihon

June 15, 2006

A MEMBER OF ERNST & YOUNG GLOBAL

CONSOLIDATED BALANCE SHEETS

SHIBAURA MECHATRONICS CORPORATION AND SUBSIDIARIES

Assets	March 31, **2006**	March 31, 2005	March 31, **2006**
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Current assets:			
Cash and bank deposits	**¥14,337**	¥ 7,455	**$122,046**
Short-term investments	**222**	75	**1,891**
Notes and accounts receivable, trade	**24,734**	24,295	**210,559**
Allowance for doubtful accounts	**(67)**	(50)	**(574)**
Inventories (Note 4)	**15,700**	17,093	**133,652**
Deferred tax assets (Note 7)	**1,042**	1,176	**8,870**
Other current assets	**636**	917	**5,416**
Total current assets	**56,604**	50,961	**481,860**
Property, plant and equipment:			
Land	**162**	280	**1,384**
Buildings and structures	**27,812**	27,061	**236,755**
Machinery and equipment	**1,167**	994	**9,930**
Construction in progress	**125**	289	**1,063**
Total	**29,266**	28,624	**249,132**
Accumulated depreciation	**(14,067)**	(12,932)	**(119,749)**
Property, plant and equipment, net	**15,199**	15,692	**129,383**
Investments and other assets:			
Investments in securities (Note 3)	**401**	931	**3,413**
Deferred tax assets (Note 7)	**2,096**	2,077	**17,842**
Other assets	**851**	750	**7,245**
Total investments and other assets	**3,348**	3,758	**28,500**
Total assets	**¥75,151**	¥ 70,411	**$639,743**

Liabilities and shareholders' equity	March 31, **2006**	March 31, 2005	March 31, **2006**
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Current liabilities:			
Short-term bank loans (Note 5)	**¥ 793**	¥ 890	**$ 6,749**
Current portion of long-term debt (Note 5)	**2,670**	1,953	**22,731**
Notes and accounts payable, trade	**21,628**	19,649	**184,116**
Accrued expenses	**3,355**	3,644	**28,563**
Accrued income taxes (Note 7)	**964**	2,250	**8,204**
Accrued consumption taxes	**79**	177	**669**
Other current liabilities	**2,560**	1,117	**21,795**
Total current liabilities	**32,049**	29,680	**272,827**
Long-term liabilities:			
Long-term debt (Note 5)	**6,420**	9,875	**54,649**
Retirement benefits (Note 8)	**4,836**	4,525	**41,169**
Directors' retirement benefits	**151**	171	**1,289**
Other long-term liabilities	**3,398**	3,369	**28,923**
Negative goodwill	**299**	–	**2,543**
Total long-term liabilities	**15,104**	17,940	**128,573**
Minority interest in consolidated subsidiaries	**328**	–	**2,796**
Contingent liabilities (Note 11)			
Shareholders' equity:			
Common stock:			
Authorized:100,000,000 shares			
Issued :51,926,194 shares at March 31, 2006			
and 50,033,312 shares at March 31, 2005	**6,762**	5,868	**57,559**
Additional paid-in capital (Note 9)	**10,739**	9,848	**91,421**
Retained earnings (Note 9)	**10,224**	7,228	**87,032**
Net unrealized holding gain on other securities	**125**	60	**1,067**
Foreign currency translation adjustments	**35**	(20)	**295**
Less treasury stock, at cost	**(215)**	(193)	**(1,827)**
Total shareholders' equity	**27,670**	22,791	**235,547**
Total liabilities and shareholders' equity	**¥75,151**	¥ 70,411	**$639,743**

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

CONSOLIDATED STATEMENTS OF INCOME

SHIBAURA MECHATRONICS CORPORATION AND SUBSIDIARIES

	Year ended March 31, **2006**	Year ended March 31, 2005	Year ended March 31, **2006**
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Net sales	**¥74,913**	¥ 88,513	**$637,716**
Cost of sales	**58,015**	67,492	**493,868**
Gross profit	**16,898**	21,021	**143,848**
Selling, general and administrative expenses	**11,718**	12,197	**99,755**
Operating income	**5,180**	8,824	**44,093**
Other income (expenses):			
Interest and dividend income	**28**	17	**241**
Interest expense	**(117)**	(147)	**(1,001)**
Equity in earnings of affiliates	**–**	262	**–**
Gain on sale of land	**955**	968	**8,134**
Loss on disposal of inventory	**(338)**	(1,468)	**(2,878)**
Loss on impairment of fixed assets	**(111)**	–	**(943)**
Other, net	**155**	(196)	**1,319**
Income before income taxes and minority interest	**5,752**	8,260	**48,965**
Income taxes (Note 7):			
Current	**2,268**	2,370	**19,309**
Deferred	**125**	756	**1,063**
	2,393	3,126	**20,372**
Income before minority interest	**3,359**	5,134	**28,593**
Minority interest in losses of consolidated subsidiaries	**(34)**	–	**(295)**
Net income	**¥ 3,393**	¥ 5,134	**$ 28,888**

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

SHIBAURA MECHATRONICS CORPORATION AND SUBSIDIARIES

	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding gains on other securities	Foreign currency translation adjustments	Treasury stock	Total
				(Millions of yen)				
Balance as of March 31, 2004	50,033,312	¥ 5,868	¥ 9,848	¥ 2,531	¥ 48	¥ (20)	¥ (184)	¥ 18,091
Net income	–	–	–	5,134	–	–	–	5,134
Cash dividends	–	–	–	(399)	–	–	–	(399)
Bonuses to directors and corporate auditors	–	–	–	(38)	–	–	–	(38)
Net increase in unrealized holding gains on other securities	–	–	–	–	12	–	–	12
Foreign currency translation adjustments						0		0
Net increase in treasury stock	–	–	–	–	–	–	(9)	(9)
Balance as of March 31, 2005	50,033,312	5,868	9,848	7,228	60	(20)	(193)	22,791
Stock acquisition rights exercised	1,892,882	894	891	–	–	–	–	1,785
Net income	–	–	–	3,393	–	–	–	3,393
Addition to retained earnings upon consolidation of subsidiaries	–	–	–	34	–	–	–	34
Cash dividends	–	–	–	(376)	–	–	–	(376)
Bonuses to directors and corporate auditors	–	–	–	(55)	–	–	–	(55)
Net increase in unrealized holding gains on other securities	–	–	–	–	65	–	–	65
Foreign currency translation adjustments						55		55
Net increase in treasury stock	–	–	–	–	–	–	(22)	(22)
Balance as of March 31, 2006	51,926,194	¥ 6,762	¥10,739	¥ 10,224	¥125	¥ 35	¥ (215)	¥ 27,670

	Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding gains on other securities	Foreign currency translation adjustments	Treasury stock	Total
			(Thousands of U.S. dollars) (Note 1)				
Balance as of March 31, 2005	$ 49,954	$ 83,831	$ 61,533	$ 510	$ (167)	$ (1,643)	$ 194,018
Stock acquisition rights exercised	7,605	7,590	–	–	–	–	15,195
Net income	–	–	28,888	–	–	–	28,888
Addition to retained earnings upon consolidation of subsidiaries	–	–	286	–	–	–	286
Cash dividends	–	–	(3,210)	–	–	–	(3,210)
Bonuses to directors and corporate auditors	–	–	(465)	–	–	–	(465)
Net increase in unrealized holding gains on other securities	–	–	–	557	–	–	557
Foreign currency translation adjustments	–	–	–	–	462	–	462
Net increase in treasury stock	–	–	–	–	–	(184)	(184)
Balance as of March 31, 2006	$ 57,559	$ 91,421	$ 87,032	$1,067	$ 295	$ (1,827)	$ 235,547

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

SHIBAURA MECHATRONICS CORPORATION AND SUBSIDIARIES

	Year ended March 31, **2006**	Year ended March 31, 2005	Year ended March 31, **2006**
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Operating activities:			
Income before income taxes	**¥ 5,752**	¥ 8,260	**$ 48,965**
Depreciation and amortization	**1,133**	1,255	**9,643**
Loss on impairment of fixed assets	**111**	–	**943**
Reversal of allowance for doubtful accounts	**(27)**	(49)	**(229)**
Provision for retirement benefits	**201**	66	**1,713**
Interest and dividend income	**(28)**	(17)	**(241)**
Interest expense	**117**	147	**1,001**
Gain on sale of land	**(955)**	(967)	**(8,134)**
Loss on disposal of property, plant and equipment	**79**	24	**673**
Gain on sale of investment securities	**(60)**	–	**(510)**
(Gain) / loss translation	**(1)**	6	**(6)**
Equity in earnings of affiliates	**–**	(262)	**–**
Bonuses to directors and corporate auditors	**(53)**	(38)	**(452)**
Decrease (increase) in notes and accounts receivable, trade	**2,947**	(1,119)	**25,086**
Decrease in inventories	**1,963**	1,535	**16,715**
Decrease in notes and accounts payable, trade	**(2,002)**	(2,492)	**(17,043)**
Decrease in accrued consumption taxes	**(126)**	–	**(1,076)**
Increase (decrease) in advances received	**786**	(1,522)	**6,688**
Other, net	**100**	209	**852**
Subtotal	**9,937**	5,036	**84,588**
Interest and dividends received	**28**	59	**238**
Interest paid	**(117)**	(151)	**(997)**
Income taxes paid	**(3,682)**	(596)	**(31,340)**
Net cash provided by operating activities	**6,166**	4,348	**52,489**

	Year ended March 31, **2006**	Year ended March 31, 2005	Year ended March 31, **2006**
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Investment activities:			
Payments for time deposits	**(309)**	(75)	**(2,628)**
Proceeds from time deposits	**277**	14	**2,358**
Purchases of property, plant and equipment	**(958)**	(593)	**(8,152)**
Proceeds from sale of property, plant and equipment	**1,784**	1,517	**15,185**
Payments for acquisition of business, net of cash acquired	**(246)**	–	**(2,098)**
Purchases of investment securities	**–**	(143)	**–**
Proceeds from sale of investment securities	**114**	–	**969**
Proceeds from acquisition of investment in an affiliate, net of cash acquired	**385**	–	**3,280**
Increase in long-term loans receivable	**(1)**	–	**(9)**
Collection of long-term loans receivable	**1**	15	**9**
Other, net	**8**	(31)	**67**
Net cash provided by investing activities	**1,055**	704	**8,981**
Financing activities:			
Decrease in short-term bank loans	**(97)**	(1,025)	**(825)**
Proceeds from long-term debt	**1,000**	–	**8,513**
Repayment of long-term debt	**(1,953)**	(670)	**(16,625)**
Purchases of treasury stock	**(22)**	(9)	**(184)**
Cash dividends paid	**(377)**	(399)	**(3,210)**
Net cash used in financing activities	**(1,449)**	(2,103)	**(12,331)**
Effect of exchange rate changes on cash and cash equivalents	**104**	0	**882**
Net increase in cash and cash equivalents	**5,876**	2,949	**50,021**
Cash and cash equivalents at beginning of year	**7,455**	4,506	**63,462**
Increase arising from inclusion of subsidiaries in consolidation	**1,006**	–	**8,563**
Cash and cash equivalents at end of year	**¥14,337**	¥ 7,455	**$122,046**

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

1. Basis of Presentation

Shibaura Mechatronics Corporation (the "Company") and its consolidated subsidiaries (collectively, the "Companies") maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which differ in certain respects from the application and disclosure requirements of International Financial Reporting Standards, and have been 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 that is familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include non-consolidated financial statements as supplemental information.

The accompanying consolidated financial statements are stated in yen, the currency of the country in which the Company is incorporated and operates. The translation of yen amounts into U.S. dollar amounts has been included solely for the convenience of readers outside Japan. The translation has been made at the rate of ¥117.47 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2006. This translation should not be construed as a representation that yen could be converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Basis of consolidation
The accompanying consolidated financial statements include the accounts of Shibaura Mechatronics Corporation and seven subsidiaries over which the Company exerts substantial control, either through majority ownership of voting stock and/or by other means. All assets and liabilities of the subsidiaries are revalued at fair value on acquisition, if applicable. All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in unconsolidated subsidiaries that are not deemed material to the consolidated financial statements are stated at cost.

(b) Foreign currency translation
The revenue and expense accounts of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date. The balance sheet accounts, except for the components of shareholders' equity, are also translated into yen at the rate of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates. Differences arising from translations where two exchange rates have been used are presented as "Foreign currency translation adjustments", a component of shareholders' equity in the accompanying consolidated financial statements.

All monetary assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies are translated at the current exchange rates in effect at each balance sheet date. Gains and losses resulting from the settlement of these items are credited or charged currently to income.

(c) Cash and cash equivalents
The Company and its subsidiaries substantially consider all highly liquid investments with a maturity of three months or less from their purchase dates to be cash equivalents.

(d) Securities
Marketable securities categorized as other securities are carried at fair value with changes in unrealized holding gain and loss, net of applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as other securities are stated at cost. Cost of securities sold is computed based on the moving average method.

(e) Derivatives
All derivatives are carried at fair value.

(f) Inventories
Inventories are stated at cost, determined principally by the following methods:
Finished goods and raw materials
— moving average method
Semi-finished goods and work in process
— individual cost method

(g) Depreciation and amortization
Depreciation of property, plant and equipment is generally computed by the declining-balance method, based on the estimated useful lives of the respective assets. The straight-line method is applied to a certain research facility acquired during the year ended March 31, 1995, and buildings acquired after April 1, 1998. The following summarizes the estimated useful lives of property, plant and equipment by major category:

Buildings and structures	3 – 60 years
Machinery and equipment	2 – 17 years

Intangible assets are amortized by the straight-line method. Capitalized software for internal use is amortized by the straight-line method over a period of 5 years, based on the estimated useful life of the software.

The Company amortizes negative goodwill over an estimated useful life of 5 years by the straight-line method.

(h) Allowance for doubtful accounts
The allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on the collection of receivables. For the Companies, the amount of the allowance is determined based on their historical experience with write-offs, plus an estimate of specific probable doubtful accounts based on a review of the collectibility of individual receivables.

(i) Retirement benefits and pension plans
An allowance for employees' retirement benefits has been provided, based on the projected retirement benefit obligation and the pension fund assets. Actuarial gain or loss is amortized effective the year subsequent to the year in which they arise by the straight-line method over a period of 10 years, which is shorter than the average remaining years of service of the employees.

The Companies also provide for retirement benefits to directors and statutory auditors, based on the Companies' internal rules, at the amount that would be required to be paid if all directors and statutory auditors retired or resigned at the balance sheet date.

(j) Accrual for periodic repairs
A certain research facility acquired during the year ended March 31, 1995 requires periodic repairs. An accrual for these repair expenses is recorded based on the current portion of the total expenses estimated for such repairs.

(k) Leases
Finance leases other than those deemed to transfer the title of the leased assets to the lessee are not capitalized, but are accounted for by a method similar to that applicable to operating leases.

(l) Research and development costs
Research and development costs are expensed as incurred and included in cost of sales and selling, general and administrative expenses.

(m) Income taxes
Deferred tax assets and liabilities are determined based on the differences between financial reporting and tax-based reporting of the assets and liabilities, and are measured using the statutory tax rates which will be in effect when the differences are expected to be realized.

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

As a result of the adoption of this new accounting standard, loss on impairment of fixed assets of ¥111 million ($943 thousand) was recognized as other expenses for the year ended March 31, 2006.

3. Securities

At March 31, 2006 and 2005, marketable securities classified as other (available-for-sale) securities are summarized as follows:

	March 31, **2006**			March 31, 2005			March 31, **2006**		
	Acquisition costs	Amount recorded in the balance sheet	Difference	Acquisition costs	Amount recorded in the balance sheet	Difference	Acquisition costs	Amount recorded in the balance sheet	Difference
	(Millions of yen)			(Millions of yen)			(Thousands of U.S. dollars)		
Other securities whose market value recorded in the balance sheet exceed their acquisition costs:									
Equity securities	**¥139**	**¥348**	**¥209**	¥143	¥252	¥109	**$1,181**	**$2,964**	**$1,783**
Debt securities	**–**	**–**	**–**	–	–	–	**–**	**–**	**–**
Other	**–**	**–**	**–**	–	–	–	**–**	**–**	**–**
Total	**¥139**	**¥348**	**¥209**	¥143	¥252	¥109	**$1,181**	**$2,964**	**$1,783**

Marketable securities classified as other (available-for-sale) securities sold for the year ended March 31, 2006 are summarized as follows:

	Year ended March 31, 2006	
	(Millions of yen)	(Thousands of U.S. dollars)
Sales	¥ 116	$ 994
Total of gain on sale of marketable securities	59	510

At March 31, 2006 and 2005, non-marketable securities carried at cost are summarized as follows:

	March 31, **2006**	March 31, 2005	March 31, **2006**
	(Millions of yen)		(Thousands of U.S. dollars)
Investments in subsidiaries and affiliates:			
Unlisted equity securities other than those traded on the over-the-counter market	**¥52**	¥ 637	**$444**
Other unlisted securities other than those traded on the over-the-counter market	**1**	42	**5**

4. Inventories

Inventories at March 31, 2006 and 2005 are summarized as follows:

	March 31, **2006**	March 31, 2005	March 31, **2006**
	(Millions of yen)		(Thousands of U.S. dollars)
Finished products	**¥ 6,034**	¥ 7,810	**$ 51,366**
Raw materials	**147**	129	**1,251**
Work in process	**9,519**	9,154	**81,035**
Total	**¥15,700**	¥ 17,093	**$133,652**

5. Short-Term Bank Loans and Long-Term Debt

The annual interest rates of the Companies' short-term bank loans ranged principally from 0.50 percent to 2.50 percent at March 31, 2006, and from 0.50 percent to 3.00 percent at March 31, 2005.

Long-term debt at March 31, 2006 and 2005 are summarized as follows:

	March 31, **2006**	March 31, 2005	March 31, **2006**
	(Millions of yen)		(Thousands of U.S. dollars)
Unsecured:			
Zero coupon Japanese yen convertible notes (notes with stock acquisition rights)	**¥3,215**	¥ 5,000	**$27,369**
1.25 percent to 2.10 percent loans from banks due 2006 – 2009	**5,870**	6,823	**49,970**
Loans from Pension Welfare Service Public Corporation due 2006 – 2034	**5**	5	**41**
Total	**9,090**	11,828	**77,380**
Less current portion	**(2,670)**	(1,953)	**(22,731)**
Long-term debt ,net	**¥6,420**	¥ 9,875	**$54,649**

Loans from the Pension Welfare Service Public Corporation represent financing for housing loans to the Company's employees, and the same amount is stated as a portion of other assets (loans to employees). The Company pays the interest on such loans to the lender and collects the same amount from the employees as the borrowers.

On March 8, 2004, the Company issued ¥5,000 million Zero coupon Japanese yen convertible notes (notes with stock acquisition rights) due March 8, 2009. These notes are convertible during the period from March 22, 2004 to February 20, 2009, at the option of the holder, into shares of common stock at a price of ¥943 per share, subject to adjustment in specific circumstances.

The long-term debt, subsequent to March 31, 2006, is summarized by maturity as follows:

	March 31, 2006	
	(Millions of yen)	(Thousands of U.S. dollars)
2007	¥ 2,670	$ 22,731
2008	0	1
2009	6,415	54,611
2010 and thereafter	5	37
Total	¥ 9,090	$ 77,380

At March 31, 2006, the Company had unused committed lines of credit with seven banks for efficient financial arrangements for operating funds aggregating ¥10,000 million ($85,128 thousand). These lines of credit have fee commitment requirements.

6. Research and Development Expenses

Research and development expenses charged to income for the years ended March 31, 2006 and 2005, respectively, were as follows:

	Year ended March 31, **2006**	Year ended March 31, 2005	Year ended March 31, **2006**
	(Millions of yen)		(Thousands of U.S. dollars)
	¥2,851	¥ 2,337	**$24,269**

7. Income Taxes

Income taxes applicable to the Company and its domestic subsidiaries comprise corporation, inhabitants' and enterprise taxes which, in the aggregate, resulted in a statutory tax rate of 40.6% for the years ended March 31, 2006 and 2005. Income taxes of the overseas subsidiaries are based on the tax rates applicable in their countries of incorporation.

The major components of deferred tax assets and liabilities as of March 31, 2006 and 2005 are summarized as follows:

	March 31, **2006**	March 31, 2005	March 31, **2006**
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Employees' retirement benefits	**¥1,917**	¥1,815	**$16,321**
Accrued employees' bonuses	**623**	662	**5,299**
Accrual for periodic repairs	**161**	150	**1,374**
Enterprise tax payable	**133**	232	**1,128**
Tax loss carried forward	**41**	126	**348**
Other	**482**	409	**4,106**
Gross deferred tax assets	**3,357**	3,394	**28,576**
Valuation allowance	**(134)**	(97)	**(1,141)**
Total deferred tax assets	**3,223**	3,297	**27,435**
Deferred tax liabilities:			
Unrecognized holding gain on other securities	**(85)**	(44)	**(723)**
Total deferred tax liabilities	**(85)**	(44)	**(723)**
Net deferred tax assets	**¥3,138**	¥ 3,253	**$26,712**

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2006 and 2005 differ from the statutory tax rate for the following reasons:

	Year ended March 31, **2006**	Year ended March 31, 2005
Statutory tax rate	**40.6 %**	40.6 %
Effect of:		
Tax non-deductible expenses such as entertainment expenses	**0.8**	0.5
Per capita levy of inhabitants' taxes and other	**0.4**	0.2
Changes in valuation allowance	**0.7**	(0.4)
Equity in earnings of unconsolidated subsidiaries and affiliates	**–**	(1.3)
Tax-deductible R&D credits	**(3.5)**	(2.0)
Other, net	**2.6**	0.2
Effective tax rates	**41.6 %**	37.8 %

8. Retirement Benefits

The Companies have defined benefit pension plans and lump-sum retirement payment plans which cover substantially all employees who retire from the Companies. Eligible employees may also receive additional payments under the plans.

The following is a summary of the plans:

	March 31, **2006**	March 31, 2005	March 31, **2006**
	(Millions of yen)		(Thousands of U.S. dollars)
Projected benefit obligation	**¥ (9,761)**	¥ (8,591)	**$ (83,093)**
Fair value of plan assets	**3,339**	2,796	**28,422**
Funded status	**(6,422)**	(5,795)	**(54,671)**
Unrecognized actuarial loss	**1,586**	1,270	**13,502**
Allowance for retirement benefits	**¥ (4,836)**	¥ (4,525)	**$ (41,169)**

The consolidated subsidiaries have adopted a simplified method, as permitted, to calculate the projected benefit obligation.

Components of net periodic pension cost for the years ended March 31, 2006 and 2005 are summarized as follows:

	Year ended March 31, **2006**	Year ended March 31, 2005	Year ended March 31, **2006**
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost	**¥ 431**	¥ 508	**$3,670**
Interest cost on projected benefit obligation	**168**	226	**1,428**
Expected return on plan assets	**(98)**	(109)	**(833)**
Amortization of actuarial loss	**207**	216	**1,764**
Net periodic pension cost	**¥ 708**	¥ 841	**$6,029**

The allowance for retirement benefits was determined by the simplified method by the consolidated subsidiaries and has been included in service cost.

Assumptions used in the actuarial calculation for the years ended March 31, 2006 and 2005 are summarized as follows:

	March 31, **2006**	March 31, 2005
Actuarial cost method	Projected unit credit method	
Discount rate	2.0% per annum	2.0% per annum
Expected rate of return on plan assets	3.5% per annum	3.5% per annum
Amortization period for actuarial loss	10 years (within the employees' average remaining years of service)	

9. Legal Reserve and Additional Paid-In Capital

The Commercial Code of Japan (the "Code") provides that an amount equal to at least 10% of the amount to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of the legal reserve and the additional paid-in capital account equals 25% of the common stock account. The Code provides that neither additional paid-in capital nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock upon approval by the Board of Directors. The Code further provides that if the total amount of additional paid-in capital and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders. The Company's shares of common stock have no par value in accordance with the Code.

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law stipulates similar requirements on distribution of earnings to those of the Code and that such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

At March 31, 2006 the retained earnings account in the accompanying consolidated financial statements includes a legal reserve of ¥411 million ($3,501 thousand).

10. Leases

(1) Finance leases

Leased property under finance leases that do not transfer the title of the leased property to the lessee on an as-if-capitalized-basis for the years ended March 31, 2006 and 2005 are as follows:

	March 31, **2006**	March 31, 2005	March 31, **2006**
	(Millions of yen)		(Thousands of U.S. dollars)
Machinery, equipment and other assets:			
Acquisition cost	**¥3,778**	¥ 2,688	**$32,163**
Accumulated depreciation	**1,459**	1,196	**12,426**
Net leased property	**¥2,319**	¥ 1,492	**$19,737**

Non-cancelable lease transactions are primarily accounted for as operating leases (regardless of whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of the title of the leased asset to the lessee are accounted for as finance leases.

Lease expenses relating to finance leases accounted for as operating leases amounted to ¥743 million ($6,326 thousand) and ¥693 million for the years ended March 31, 2006 and 2005, respectively.

Future minimum lease payments subsequent to March 31, 2006 for finance lease transactions accounted for as operating leases are summarized as follows:

	March 31, 2006	
	(Millions of yen)	(Thousands of U.S. dollars)
Due within one year	¥ 810	$ 6,898
Due after one year	1,549	13,186
Total	¥ 2,359	$20,084

(2) Operating leases

	March 31, 2006	
	(Millions of yen)	(Thousands of U.S. dollars)
Due within one year	¥ 8	$ 66
Due after one year	7	60
Total	¥ 15	$ 126

11. Contingent Liabilities

The Company had the following contingent liability:

	March 31, 2006	
	(Millions of yen)	(Thousands of U.S. dollars)
As guarantor for housing loans of employees	¥ 66	$ 564

12. Significant Non-Cash Transactions

Significant Non-Cash Transactions for the year ended March 31, 2006 are as follows:

	Year ended March 31, 2006	
	(Millions of yen)	(Thousands of U.S. dollars)
Increase in common stock upon exercise of stock acquisition rights	¥ 893	$ 7,606
Increase in additional paid-in capital resulting from exercise of stock acquisition rights	892	7,589
Decrease in convertible notes (notes with stock acquisition rights)	1,785	15,195

13. Derivatives and Hedging Activities

The Company has entered into interest-rate swap contracts to reduce the cost of borrowing. The Company uses these contracts to manage its exposure to interest-rate risk for trading purposes. As a matter of policy, the Company does not enter into derivative transactions for trading purposes. The Company does not anticipate nonperformance by any of the counterparties to the above transactions, all of whom are domestic financial institutions with high credit ratings.

In accordance with the Company's policy, derivative transactions are entered into under the decision-making rules approved by the Management Strategy Committee of the Company. The department which has the responsibility to enter into such contracts monitors and controls the inherent risk and performance on a daily basis and reports these to management of the Company, if and when necessary.

At March 31, 2006 and 2005, the fair value information for derivatives was not presented, since all derivatives were accounted for as hedges.

14. Segment Information

The business segment information of the Companies for the years ended March 31, 2006 and 2005 is summarized as follows:

Business segments

	Year ended March 31, 2006						
	Fine mechatronics	Electric & vacuum systems	Vending machines & systems	Real estate leasing	Total	Eliminations or unallocated amounts	Consoli-dated
				(Millions of yen)			
I. Sales and operating income							
Sales to external customers	¥53,826	¥12,155	¥ 7,054	¥ 1,878	¥74,913	¥ –	¥74,913
Intersegment sales or transfers	–	–	–	–	–	(–)	–
Total sales	53,826	12,155	7,054	1,878	74,913	–	74,913
Operating expenses	50,498	11,458	5,959	1,200	69,115	618	69,733
Operating income	¥ 3,328	¥ 697	¥ 1,095	¥ 678	¥ 5,798	¥ (618)	¥ 5,180
II.Total assets, depreciation and capital expenditures							
Total assets	¥42,994	¥ 7,648	¥ 3,072	¥ 9,724	¥63,438	¥ 11,713	¥75,151
Depreciation	353	103	101	576	1,133	–	1,133
Capital expenditures	531	69	100	8	708	–	708

	Year ended March 31, 2005						
	Fine mechatronics	Electric & vacuum systems	Vending machines & systems	Real estate leasing	Total	Eliminations or unallocated amounts	Consoli-dated
	(Millions of yen)						
I. Sales and operating income							
Sales to external customers	¥61,987	¥15,046	¥ 9,496	¥ 1,984	¥ 88,513	¥ –	¥88,513
Intersegment sales or transfers	–	–	–	–	–	(–)	–
Total sales	61,987	15,046	9,496	1,984	88,513	–	88,513
Operating expenses	56,701	13,810	7,520	1,251	79,282	407	79,689
Operating income	¥ 5,286	¥ 1,236	¥ 1,976	¥ 733	¥ 9,231	¥ (407)	¥ 8,824
II.Total assets, depreciation and capital expenditures							
Total assets	¥38,260	¥ 9,516	¥ 8,296	¥10,341	¥ 66,413	¥3,998	¥70,411
Depreciation	393	164	103	595	1,255	–	1,255
Capital expenditures	306	115	166	–	587	–	587

	Year ended March 31, 2006						
	Fine mechatronics	Electric & vacuum systems	Vending machines & systems	Real estate leasing	Total	Eliminations or unallocated amounts	Consoli-dated
	(Thousands of U.S. dollars)						
I.Sales and operating income							
Sales to external customers	$ 458,209	$ 103,475	$ 60,051	$ 15,981	$ 637,716	$ –	$ 637,716
Intersegment sales or transfers	–	–	–	–	–	(–)	–
Total sales	458,209	103,475	60,051	15,981	637,716	–	637,716
Operating expenses	429,882	97,539	50,724	10,217	588,362	5,261	593,623
Operating income	$ 28,327	$ 5,936	$ 9,327	$ 5,764	$ 49,354	$ (5,261)	$ 44,093
II.Total assets, depreciation and capital expenditures							
Total assets	$ 366,004	$ 65,105	$ 26,152	$ 82,774	$ 540,035	$ 99,708	$ 639,743
Depreciation	3,001	874	862	4,906	9,643	–	9,643
Capital expenditures	4,518	591	849	72	6,030	–	6,030

Notes:

a) Basis of segmentation
Business segments are divided into product categories by the same criteria as applied for internal control purposes.

b) Major products in each business segment

(1) Fine mechatronics
FPD manufacturing equipment (wet cleaning equipment, stripping equipment, etching equipment, developing equipment, PI inkjet coater, cell assembly equipment, outer lead bonders), semiconductor manufacturing equipment (wet cleaning equipment, etching equipment, ashing equipment, die bonders, inner lead bonders, flip chip bonders, wafer inspection equipment), railroad maintenance equipment, non-destructive inspections, and other items.

(2) Electric & vacuum systems
Laser equipment, microwave equipment, media device manufacturing equipment (sputtering equipment, vacuum bonding equipment), industrial vacuum evaporation equipment, rechargeable battery manufacturing equipment, precision parts manufacturing equipment, other automation equipment, vacuum pumps, and other items.

(3) Vending machines & systems
Vending machines, ticket vending machines, and others.

(4) Real estate leasing
Real estate leasing and management, and other businesses.

c) Included in eliminations or unallocated amounts of operating expenses are unallocable amounts relating to research and development expenses incurred over the entire Group as part of the Company's research and development activities.

d) Included in the eliminations or unallocated amounts of total assets were unallocable amounts totaling ¥11,713 million ($99,708 thousand) and ¥8,036 million for the years ended March 31, 2006 and 2005, respectively, which primarily consisted of surplus funds (cash and bank deposits), investment funds (investment securities) of the Company and deferred tax assets.

Geographical segments

No information by geographical segment for the years ended March 31, 2006 and 2005 has been presented, due to the fact that the net sales and total assets of the operations in Japan constituted more than 90% of the respective totals for all segments.

Overseas sales

	Year ended March 31, 2006		
	Northeastern Asia	Other	Total
	(Millions of yen)		
I. Overseas sales	¥ 26,079	¥ 3,547	¥ 29,626
II. Consolidated net sales			74,913
III. % of consolidated net sales	34.8%	4.7%	39.5%

	Year ended March 31, 2005		
	Northeastern Asia	Other	Total
	(Millions of yen)		
I. Overseas sales	¥ 42,026	¥ 3,148	¥ 45,174
II. Consolidated net sales			88,513
III. % of consolidated net sales	47.5%	3.5%	51.0%

	Year ended March 31, 2006		
	Northeastern Asia	Other	Total
	(Thousands of U.S. dollars)		
I. Overseas sales	¥ 222,001	¥30,196	¥ 252,197
II. Consolidated net sales			637,716
III. % of consolidated net sales	34.8%	4.7%	39.5%

Notes:

a) Overseas sales are sales recorded by the Company and its consolidated subsidiaries in countries or regions other than Japan.

b) The division of overseas sales into countries or regions is determined as follows:

(1) Overseas sales by country or region:
Geographical areas are defined based on geographical proximity.

(2) Major countries or regions included in each geographical area:
Northeastern Asia – Taiwan, Korea, China
Other – U.S.A., Hungary

15. Related Party Transactions

Toshiba Corporation held 37.4% of the Company's voting rights as of March 31, 2006.

The Company sold semiconductor manufacturing equipment to Toshiba Corporation and received rent revenue from Toshiba Corporation. The aggregate amounts of these transactions were ¥3,675 million ($31,291 thousand) and ¥4,037 million for the years ended March 31, 2006 and 2005, respectively.

The Company purchased material from Toshiba Corporation totaling ¥132 million ($1,130 thousand) and ¥1,084 million for the years ended March 31, 2006 and 2005, respectively.

Amounts due from and to Toshiba Corporation at March 31, 2006 and 2005 were as follows:

	March 31, **2006**	March 31, 2005	March 31, **2006**
	(Millions of yen)		(Thousands of U.S. dollars)
Due from Toshiba Corporation	**¥ 149**	¥ 806	**$ 1,268**
Due to Toshiba Corporation	**3,159**	3,446	**26,897**

16. Per Share Information

Basic net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year. Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted-average number of shares of common stock outstanding during each year, assuming full dilution of common stock equivalents. Net assets per share is computed based on the weighted-average number of shares of common stock outstanding at each balance sheet date.

	Year ended March 31, **2006**	Year ended March 31, 2005	Year ended March 31, **2006**
	(Yen)		(U.S. dollars)
Net income:			
– Basic	**¥ 66.52**	¥ 101.92	**$ 0.57**
– Diluted	**62.30**	92.12	**0.53**
Net assets	**534.03**	456.15	**4.55**

SUPPLEMENTAL INFORMATION

NON-CONSOLIDATED BALANCE SHEETS

	March 31, 2006	March 31, 2005	March 31, 2006
	(Millions of yen)		(Thousands of U.S. dollars)
Assets			
Current assets:			
Cash and bank deposits	**¥ 9,053**	¥ 4,398	**$ 77,063**
Notes and accounts receivable, trade:			
Notes	**132**	404	**1,123**
Accounts	**19,784**	18,109	**168,416**
Allowance for doubtful accounts	**(24)**	(26)	**(204)**
Inventories	**13,353**	15,316	**113,675**
Deferred tax assets	**553**	626	**4,709**
Other current assets	**564**	939	**4,802**
Total current assets	**43,415**	39,766	**369,584**
Property, plant and equipment:			
Land	**68**	79	**580**
Buildings and structures	**26,874**	26,709	**228,775**
Machinery and equipment	**681**	734	**5,792**
Construction in progress	**125**	289	**1,060**
Total	**27,748**	27,811	**236,207**
Accumulated depreciation	**(13,500)**	(12,571)	**(114,919)**
Property, plant and equipment, net	**14,248**	15,240	**121,288**
Investments and other assets:			
Investments in securities	**328**	276	**2,790**
Investments in subsidiaries and affiliates	**1,415**	987	**12,049**
Deferred tax assets	**1,836**	1,912	**15,626**
Other assets	**785**	590	**6,684**
Total investments and other assets	**4,364**	3,765	**37,149**
Total assets	**¥62,027**	¥ 58,771	**$528,021**

Liabilities and shareholders' equity	March 31, 2006	March 31, 2005	March 31, 2006
	(Millions of yen)		(Thousands of U.S. dollars)
Current liabilities:			
Current portion of long-term debt	**¥ 2,670**	¥ 1,920	**$ 22,730**
Notes and accounts payable:			
Notes	**3,200**	3,571	**27,237**
Accounts	**13,158**	11,175	**112,010**
Other	**–**	9	**–**
Advances from customers	**1,016**	500	**8,645**
Accrued expenses	**2,923**	3,142	**24,883**
Accrued income taxes	**517**	1,162	**4,409**
Other current liabilities	**66**	65	**564**
Total current liabilities	**23,550**	21,544	**200,478**
Long-term liabilities:			
Long-term debt	**6,420**	9,875	**54,649**
Allowance for retirement benefits	**4,173**	4,321	**35,528**
Directors' retirement benefits	**126**	144	**1,072**
Accrual for periodic repairs	**398**	369	**3,384**
Other long-term liabilities	**3,000**	3,000	**25,538**
Total long-term liabilities	**14,117**	17,709	**120,171**
Shareholders' equity:			
Common stock:			
Authorized: 100,000,000 shares			
Issued: 51,926,194 shares at March 31, 2006			
and 50,033,312 shares at March 31, 2005	**6,761**	5,868	**57,559**
Additional paid-in capital	**10,739**	9,848	**91,421**
Legal reserve	**354**	353	**3,005**
Retained earnings	**6,604**	3,587	**56,217**
Net unrealized holding gain on other securities	**117**	55	**997**
Less treasury stock, at cost	**(215)**	(193)	**(1,827)**
Total shareholders' equity	**24,360**	19,518	**207,372**
Total liabilities and shareholders' equity	**¥62,027**	¥ 58,771	**$528,021**

NON-CONSOLIDATED STATEMENTS OF INCOME

	Year ended March 31, **2006**	Year ended March 31, 2005	Year ended March 31, **2006**
	(Millions of yen)		(Thousands of U.S. dollars)
Net sales	**¥58,663**	¥ 71,674	**$499,388**
Cost of sales	**48,491**	58,391	**412,800**
Gross profit	**10,172**	13,283	**86,588**
Selling, general and administrative expense	**7,721**	7,810	**65,728**
Operating income	**2,451**	5,473	**20,860**
Other income (expenses):			
Interest and dividend income	**1,470**	184	**12,518**
Interest expense	**(105)**	(128)	**(898)**
Gain on sale of land	**955**	968	**8,134**
Other, net	**3**	(1,347)	**23**
Income before income taxes	**4,774**	5,150	**40,637**
Income taxes:			
Current	**1,226**	1,109	**10,437**
Deferred	**112**	800	**952**
	1,338	1,909	**11,389**
Net income	**¥ 3,436**	¥ 3,241	**$ 29,248**
	(Yen)		(U.S. dollars)
Per share of common stock:			
Net income	**¥ 67.58**	¥ 64.11	**$ 0.58**
Cash dividends applicable to the year	**7.00**	7.00	**0.06**

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