Annual Report 2005

TOKIMEC INC.

Description of Business

The TOKIMEC Group is engaged in the manufacture and sale of marine instruments, hydraulic equipment, aerospace and defense equipment, instruments and systems for industrial use.

Financial Highlights

Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Net sales	¥43,804	¥44,491	$409,383
Operating income	2,207	2,593	20,626
Income before income taxes and minority interests	1,739	1,881	16,252
Net income	1,474	2,097	13,775
Total assets	45,923	49,173	429,186
Shareholders' equity	13,223	11,866	123,579

	Yen		U.S. dollars
Per share of common stock:	2005	2004	2005
Net income (Note 2)	¥17.29	¥24.61	$0.16
Cash dividends	2.00	2.00	0.01

Notes: 1. Yen amounts are translated, for convenience only, at the rate of ¥107=U.S. $1.
2. The computations of net income per share of common stock are based on the weighted average number of shares outstanding during each year.
3. Figures are rounded down to the nearest million yen and thousand of U.S.dollar.

Sales by Operating Segment

Year ended March 31, 2005

	Millions of yen	% to total	% change (2005/2004)
Marine Systems	¥7,621	17.4%	1.4%
Hydraulic and Pneumatic	13,090	29.9	(3.4)
Fluid Measurement	2,118	4.8	(9.9)
Defense and Communications	16,539	37.8	(2.7)
Others	4,433	10.1	8.7
Total	¥43,804	100.0	(1.5)

To Our Shareholders

Review of Business Operations

There was upward momentum in the Japanese economy in the first half of our consolidated fiscal year which was sustained by export growth and expansion in private capital investment. Cautionary flags were raised for a time entering the second half, however, as a result of tightening in the Chinese economy, burgeoning inventories in the IT sector, and soaring prices for raw materials such as crude oil and iron ore but, on the whole, a major decline in business activity did not materialize and the economy remained firm.

Under these circumstances, the TOKIMEC Group focused on cutting back inventories, improving cash flow to reduce interest-bearing debt, speedy development and market launch of new products, and keeping costs down in our efforts to expand profits and improve our financial position.

TOKIMEC Group orders for the year were ¥45,010 million, a decrease of ¥460 million (-1.0%).
Orders for marine systems equipment rebounded but orders for defense and communications equipment, hydraulic and pneumatic equipment, and fluid measurement equipment declined from the previous consolidated year. Net sales for the Group were ¥43,804 million, a decrease of ¥687 million (-1.5%) compared to last year which reflected lowered sales of equipment and systems except for sales related to marine systems and 'other businesses'.

Regarding profit and loss, we actively pursued investment in research and development of new products and also expended efforts to improve cost ratios of existing products. The fall-off in sales overshadowed these efforts, however, resulting in operating income of ¥2,207 million, a decrease of ¥385 million (-14.9%) from the previous year and net income of ¥1,474 million, a decrease of ¥622 million (-29.7%) compared to the prior year.

Business operations by segments were as follows.

Marine Systems Business

In the commercial vessel market, against a backdrop of worldwide growth in demand for marine transport, ship construction activity at domestic shipyards remained brisk and our orders from this segment greatly exceeded the previous year with an increase in sales. Strong domestic demand for automobiles and industrial machinery spurred cargo activity for steel products in the coastal vessel market, a market which had been mired in a protracted slump, resulting in an increase in ship construction over the last year which enabled us to post gains in both orders and sales over the previous year.

In the government vessel market, a decrease in patrol vessel construction for the Japan Coast Guard and deferment in the building of training ships for fisheries high schools precipitated a steep decline in sales compared to the previous year. In the overseas market, new ship construction in Korea continued strong and, bolstered by increases in our mainstay gyrocompass and autopilot products, we were able to achieve gains in orders which greatly exceeded the prior year. In the highly competitive gyrocompass market for small vessels, we emphasized sales of IMO-compliant gyrocompasses and electronic chart display systems (ECDIS) which enabled us to post sales results similar to last year. Regarding marine equipment repair and maintenance parts, although business for gyro parts for midsize ships remained slow reflecting the stagnant coastal vessel market, increased requirements for maintenance and repair from overseas commercial vessel markets propelled demand for sensitive gyro elements for large-size vessels resulting in orders and sales which exceeded the last year.

New product launches in the past year included the TRV-1000, successor to our international VHF (RSS201A, RU224A) radio equipment and TRU-4500, successor to our central FM (SF401A/AT) communications systems and the Nippon Kaiji Kyokai-approved, JG technical performance-certified, TT-3000SSA ship security alert system which has become mandated for vessels since last year.

Overall sales in this segment were ¥7,621 million, an increase of ¥105 million (1.4%) over the previous year and operating income was ¥131 million, an increase of ¥102 million (348.1%) compared to last year.

Hydraulic and Pneumatic Business

With demand for disc-making machinery having peaked, orders and sales from the plastics processing machinery market fell considerably below last year. In the machine tool market, business remained good for automobile-related and general industrial machinery, and aggressive sales efforts enabled us to achieve gains in orders and sales over the previous year. In the construction machinery market, despite a downturn in China-related business, firming conditions in

North America, Europe, and Southeast Asia coupled with increased demand from domestic users for replacements related to aerial work platforms and cranes resulted in orders and sales increases over last year. Financial belt-tightening in China precipitated a fall, however, in orders and sales from the overseas market. In our hydraulic systems market, orders dropped below last year's level reflecting a decline in IT sector-related demand, but increased demand for bulk carrier hatch cover and dam gate systems enabled us to post a gain in sales over the prior year.

Regarding product activity, we introduced a small displacement pump system to augment our energy-saving direct drive pump control system lineup. We also market released a large displacement pump system designed for large size hybrid injection molding machine systems. For the construction machinery market, effort was focused on expanding sales channels for our CAN controller system.

Overall sales in this segment were ¥13,090 million, a decrease of ¥454 million (-3.4%) from the previous year with operating income of ¥1,632 million, a decrease of ¥428 million (-20.8%) from the previous year.

Fluid Measurement Equipment Business

In the public sector market, an increasing number of participants has intensified competition on tenders and this has resulted in a noticeable drop in bid prices. This is especially apparent in the agricultural water sector where instrument and communications equipment manufacturers have recently entered the market once dominated by heavy electric machinery manufacturers. Our activities in this sector concentrated on boosting market share and promoting equipment replacements. We introduced a new battery-operated low power consuming ultrasonic flow meter which can be installed in locations lacking power sources and implemented a marketing campaign which enabled customers to directly evaluate our flow and level measurement products. Despite these efforts, however, there was a decline in orders and sales compared to the prior year.

In the private sector market, we worked to expand our business for microwave level gauges through newdistributors, pursuing opportunities presented by the current period of replacements of obsolete plant facilities and broadened our sales channels with the supply of portable ultrasonic flow meters on an OEM basis to our distributor in Singapore. These activities contributed to a gain in orders and sales over the previous period.

Overall sales in this segment were ¥2,118 million, a decrease of ¥232 million (-9.9%) with operating income of ¥217 million, a decrease of ¥129 million (-37.3%) from the prior year.

Defense and Communications Equipment Business

In the defense-related market, the downtrend continues as total defense-related expenditures in fiscal year 2004 decreased 1.0% from the previous year. Although the budget for front-line equipment increased 5.0%, the increase reflected additional new expenditures for ballistic missile defense, and as such, outlays for conventional equipment declined significantly in real terms. Even with the new defense network plan drafted last December and the new midterm defense buildup program, it is clear that a scale-back in defense capabilities is the direction of the future with reductions expected in equipment budgets next year and onward. Despite these circumstances, we achieved significant increases in orders compared to the previous year including orders for self-protection systems for the C-X large size future aircraft, new 2004 product developments relating to equipment for destroyers and submarines, and new service agreements. Sales increases for radar warning receiver prototypes under the F-15 modernization program and increased volumes for modified patrol helicopter countermeasures sets and repair parts were offset by reduced quantities for MLRS multiple launch rocket system equipment resulting in a slight increase in sales over the previous year.

Regarding our communications equipment market, a hold-off on investments for PHS ground stations was evident as Chinese telecommunications carriers awaited government approval for third generation cellular telephones and this caused a steep second half drop in business for our primary product - modules for PHS ground stations - to below last year's level.We began deliveries of 'i-burst' high speed wireless communication microwave modules but production volumes fell short of expectations resulting in a significant decline in orders and sales compared to the prior year.

Product-related activities in the period included product preparation and market introduction of camera stabilizers for broadcasting stations (T-VACS) and amplifier modules for new PHS ground stations.

Overall business results for this segment were sales of ¥16,539 million, a decrease of ¥459 million (-2.7%) from the previous year with an operating loss of ¥187 million.

Other Businesses

Sales of printing inspection equipment and systems were up despite the slump in the printing industry with demand generated by the renewal of existing equipment as well as by the increasingly favorable reputation our products have gained in the market although there was a decline in orders compared to last year.

In our fire extinguishing systems equipment segment, business related to fire control equipment for multilevel parking garages and hazardous material fire extinguishing systems remained flat reflecting the prolonged slump in construction and resulting contraction in the overall market and order and sales declined compared to last year.

In the road and tunnel-equipment segment, sales efforts were focused on subway and flood control tunnel construction projects in Asia where business continued strong and we were able to maintain order levels similar to the year before. Persistent weakness in domestic demand however caused sales to fall below the previous year.

In the railway track maintenance inspection equipment segment, postponement of orders for flaw detection cars to next year led to a drop in overall orders compared to the last period but we were able to record a large increase in sales related to our primary business of equipment and systems with the posting of sales of flaw detection cars ordered in the prior year.

In the information systems segment, orders and sales for development work and contract computing services increased over the previous year.

Overall results of these segments were sales of ¥4,433 million, an increase of ¥353 million (8.7%) over the previous year with operating income of ¥414 million which was an increase of ¥395 million compared to last year.

Status of Cash Flow

Cash and cash equivalents on a consolidated basis for the fiscal year were ¥8,120 million which was a decrease of ¥1,886 million (-18.9%) compared to the previous fiscal year. Cash flow from the various sources and factors involved are as follows.

Cash Flow from Operating Activities

Income before income taxes and minority interests was ¥1,739 million, a decrease of ¥141 million from the previous year. Adjustment for receivables was ¥310 million, a decrease of ¥2,466 million from the previous year. As a result, net cash provided by operating activities was ¥3,788 million which was a decrease of ¥2,763 million (-42.2%) from the previous year.

Cash Flow from Investing Activities

Expenditures for the purchases of property, plant and equipment were ¥533 million which was a decrease of ¥284 million compared to the previous year. This resulted in net cash used in investing activities of ¥313 million, an increase of ¥285 million (47.7%) compared to the previous year

Cash Flow from Financing Activities

Proceeds from long-term debt were ¥2,870 million, an increase of ¥2,870 million from the previous year and expenditures for repayment of long-term debt were ¥2,905 million which was a decrease of ¥725 million from the previous year. There was a net decrease in expenditures of ¥5,149 million in short-term bank loans which represented an increase of ¥3,998 million over the prior year. As a result, net cash used in financing activities was ¥5,359 million for the year which was a decrease of ¥682 million (-14.6%) from the previous year.

The Tasks of the Company

The TOKIMEC Group is striving to achieve a stable high earnings structure and further strengthen its financial position. Specific objectives related to these efforts are attainment of an equity ratio of more than 30% and a debt to equity ratio of less than 100%. The tasks we need to carry out in order to accomplish these goals are as follows.

1. Reduce variable costs through cost-down and reduce fixed costs through improved operational efficiency.

2. Improve cash flow by reducing inventory and hastening the collection of receivables.

3. Establish the business for multi-output, micro-inertial sensor (MESAG), our focus strategic product and assimilate in a speedy and smooth manner the marine navigation monitoring systems-centered marine communications business which we have taken over.

4. Expand TOKIMEC's business domain identity through new products and market development making effective use of total Group managerial resources.

Progress made on issues raised during the previous fiscal year is as follows.

1. Regarding reduction in interest-bearing debt, efforts were focused on improving cash flow by hastening collection of receivables and reducing inventory. This enabled us to repay ¥5,000 million in borrowings in fiscal year 2004 and improve our equity ratio to 28.8%.

2. Progress made relative to speeding development and market launch of high value-added new products is described in the section of business operations by segments.

3. Cost-down initiatives through the joint efforts of our production, sales, engineering, and service operations resulted in a favorable 0.4% improvement in the cost of sales ratio over last year in an environment of sharply escalating raw material prices.

Research and Development Activities

The basic posture of the Group's R&D effort is development of original products based on original technology. With its comparatively long range view, TOKIMEC's RD Center is tasked with fundamental and applications research as well as product developments which involve relatively long timeframes while individual divisions and affiliated subsidiaries carry out shorter term product development. The core technologies of TOKIMEC include microwave, gyroscope, ultrasound, measurement, control, signal and image processing, and actuator technology.

Overall TOKIMEC Group R&D expenditures totaled ¥2,188 million. The principal segments, objectives, and key accomplishments of our research and development efforts and associated R&D expenses are outlined as follows.

Marine Systems

R&D efforts related to this segment were focused on next generation navigational equipment and marine communications equipment in response to innovations in information technology as well as on development related to revised International Maritime Organization (IMO) international standards. Major accomplishments during the fiscal year include development of DNV type-approved next generation electronic chart display systems, VHF wireless telephone equipment for ships, central FM communications systems, radars with automatic ship identification information display function, ship security alert systems, and rate of turn indicators

R&D expenditures related to these activities were ¥406 million.

Hydraulic and Pneumatic Equipment

Research and development efforts were devoted to fluid power products and related electronic control devices which address environmental concerns and innovations in information technology with a focus on energy and resource savings and noise reduction. Key accomplishments in the fiscal year include various types of direct drive pump control systems, low noise vane pumps for direct drive pump control systems, high response energy-saving solenoid directional valves, and general-purpose controllers for construction machinery.

Related R&D expenditures for these activities were ¥295 million.

Fluid Measurement Equipment

Research and development efforts centered on fluid control measurement equipment and systems for next generation ultrasonic flow meters and microwave level gauges. Major achievements in the fiscal year include battery-powered ultrasonic flow meters for agricultural water applications, new ultrasonic flow meters for sewers, and non-licensed, extremely weak power microwave level gauges.

Related R&D expenditures for these activities were ¥163 million.

Defense and Communications Equipment

Efforts were concentrated on modernizing our defense-related products encompassing electronic warfare equipment, equipment for naval vessels, and ground radar systems and on research and development of products such as mobile communications systems and microwave devices for the private sector IT market. Regarding defense-related products, principle accomplishments during the fiscal year include development of dead reckoning equipment, self-protection systems, AIS automatic stations, inertial sensor units, and tactical situation display equipment. Private sector product development included PHS ground station high frequency modules and power amplifiers, building access control systems, antenna positioning control systems, antenna directing systems, gyro stabilized camera systems for aircraft, and vibrating silicon gyro attitude sensors (VSAS).

R&D expenditures were ¥967 million.

Other Equipment

Other major business segments of the TOKIMEC Group include printing inspection equipment and systems, railway track maintenance equipment, construction machinery equipment, and fire extinguishing systems.

Development efforts related to printing inspection equipment and systems emphasized system upgrades and expanded printing pattern inspection functions. Railway track maintenance equipment is the primary business of our TOKIMEC RAIL TECHNO subsidiary and research and development was devoted to manpower-saving and improvement in accuracies of railway measurement equipment and systems. R&D efforts in the construction machinery equipment segment, the focus of our TOKIMEC CONSTRUCTION SYSTEMS subsidiary, centered on automation of construction machinery. People-safe and environment-safe extinguishing systems were the focus of research and development of our fire extinguishing systems business segment.

Major accomplishments in these segments include trolley type corrugation measurement gauges, laser tunneling control systems, and multi-sonic asphalt finisher blade control systems.

R&D expenses for these activities were ¥355 million.

On behalf of the Board, management and the entire TOKIMEC team, we thank you for your continued confidence and support.

H. Katsuki

Hideaki Katsuki
President

Consolidated Balance Sheets

TOKIMEC INC. and Consolidated Subsidiaries

March 31, 2005 and 2004

ASSETS	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars (Note 1) 2005
Current assets:			
Cash and cash equivalents	¥8,120	¥10,007	$75,887
Receivables–			
Trade notes	3,246	3,131	30,336
Trade accounts	9,970	10,367	93,177
Associated companies	89	70	831
Other	117	123	1,093
Allowance for doubtful accounts	(95)	(288)	(887)
Inventories (Note 4)	11,065	12,125	103,411
Deferred tax assets (Note 8)	834	804	7,794
Prepaid expenses and other current assets	299	441	2,794
Total current assets	33,648	36,783	314,467
Property, plant and equipment:			
Land (Note 5)	2,418	2,418	22,598
Buildings and structures (Note 5)	12,857	12,852	120,158
Machinery and equipment (Note 5)	13,693	13,754	127,971
Furniture and fixtures (Note 5)	11,184	11,353	104,523
Construction in progress	181	176	1,691
Total	40,334	40,554	376,953
Accumulated depreciation	(32,031)	(31,962)	(299,355)
Net property, plant and equipment	8,303	8,592	77,598
Investments and other assets:			
Investment securities (Note 3)	2,227	2,118	20,813
Investments in and advances to associated companies	210	242	1,962
Software	38	58	355
Deposits	1,277	1,050	11,934
Deferred tax assets (Note 8)	32	36	299
Other assets	327	434	3,056
Allowance for doubtful accounts	(142)	(145)	(1,327)
Total investments and other assets	3,971	3,797	37,112
Total	¥45,923	¥49,173	$429,186

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2005	Millions of yen 2004	Thousands of U.S. dollars (Note 1) 2005
Current liabilities:			
Short-term bank loans (Note 5)	¥14,391	¥19,541	$134,495
Current portion of long-term debt (Note 5)	2,342	2,905	21,887
Payables–			
Trade notes	858	1,014	8,018
Trade accounts	4,444	4,798	41,532
Associated companies	1		9
Other	341	247	3,186
Income taxes payable (Note 8)	248	147	2,317
Accrued bonuses	762	739	7,121
Accrued expenses	966	944	9,028
Other current liabilities	299	459	2,794
Total current liabilities	24,655	30,798	230,420
Long-term liabilities:			
Long-term debt (Note 5)	3,472	2,944	32,448
Liability for retirement benefits (Note 6)	4,048	3,135	37,831
Deposits received	11	13	102
Deferred tax liability (Note 8)	383	341	3,579
Total long-term liabilities	7,915	6,434	73,971
Minority interests	127	75	1,186
Commitments and contingent liabilities (Note 11 and 12)			
Shareholders' equity (Notes 7 and 13):			
Common stock,			
Authorized, 250,000,000 shares			
Issued, 85,382,196 shares in 2005 and 2004	7,217	7,217	67,448
Capital surplus	13	13	121
Retained earnings	5,341	4,037	49,915
Unrealized gain on available-for-sale securities	662	601	6,186
Foreign currency translation adjustments	(0)	2	(0)
Treasury stock –at cost			
81,250 shares in 2005 and 59,713 shares in 2004	(10)	(6)	(93)
Total shareholders' equity	13,223	11,866	123,579
Total	¥45,923	¥49,173	$429,186

See notes to consolidated financial statements.

Consolidated Statements of Income

TOKIMEC INC. and Consolidated Subsidiaries

Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Net sales (Note 9)	¥43,804	¥44,491	$409,383
Cost of sales (Note 10)	33,217	33,903	310,439
Gross profit	10,586	10,588	98,934
Selling, general and administrative expenses (Note 10)	8,378	7,994	78,299
Operating income	2,207	2,593	20,626
Other income (expenses):			
Interest and dividend income	34	24	317
Gain on sales of investment securities		24	
Equity in earnings (losses) of associated companies	26	(2)	242
Interest expense	(297)	(442)	(2,775)
Loss on sales and disposals of property, plant and equipment	(30)	(53)	(280)
Loss on disposals of inventories	(251)	(387)	(2,345)
Other-net	51	124	476
Other expenses–net	(467)	(712)	(4,364)
Income before income taxes and minority interests	1,739	1,881	16,252
Income taxes (Note 8):			
Current	233	162	2,177
Deferred	(24)	(391)	(224)
Total	208	(229)	1,943
Minority interests in net income of consolidated subsidiaries	56	13	523
Net income	¥1,474	¥2,097	$13,775

Per share of common stock (Note 2):

	2005	2004	2005
Net income	¥17.29	¥24.61	$0.16
Cash dividends	2.00	2.00	0.01

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

TOKIMEC INC. and Consolidated Subsidiaries

Years ended March 31, 2005 and 2004

	Millions of yen						
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
Balance at April 1, 2003	84,735,413	¥7,217		¥1,940	¥61	¥13	¥(42)
Net income				2,097			
Net increase in unrealized gain on available-for-sale securities					539		
Net decrease in foreign currency translation adjustments						(11)	
Repurchase of treasury stock	12,569						(2)
Disposal of treasury stock	599,639		¥13				38
Balance at March 31, 2004	85,322,483	7,217	13	4,037	601	2	(6)
Net income				1,474			
Net increase in unrealized gain on available-for-sale securities					61		
Net decrease in foreign currency translation adjustments						(3)	
Repurchase of treasury stock	21,537						(4)
Cash dividends, ¥2 ($0.01) per share (Note 13)				(170)			
Balance at March 31, 2005	85,300,946	¥7,217	¥13	¥5,341	¥662	¥(0)	¥(10)

	Thousands of U.S. dollars(Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
Balance at March 31, 2004	$67,448	$121	$37,728	$5,616	$18	$(56)
Net income			13,775			
Net increase in unrealized gain on available-for-sale securities				570		
Net decrease in foreign currency translation adjustments					(28)	
Repurchase of treasury stock						(37)
Cash dividends, ¥2 ($0.01) per share (Note 13)			(1,588)			
Balance at March 31, 2005	$67,448	$121	$49,915	$6,186	$(0)	$(93)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

TOKIMEC INC. and Consolidated Subsidiaries

Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2005	2004	2005
Operating activities:			
Income before income taxes and minority interests	¥1,739	¥1,881	$16,252
Adjustments for:			
Income taxes - paid	(193)	(86)	(1,803)
Depreciation and amortization	844	961	7,887
Increase in accrued bonuses	22	139	205
Decrease in allowance for doubtful accounts	(196)	(83)	(1,831)
Increase in liability for retirement benefits	913	977	8,532
Gain on sales of investment securities		(24)	
Loss on sales and disposals of property, plant and equipment	30	53	280
Changes in assets and liabilities:			
Decrease in receivables	310	2,776	2,897
Decrease in inventories	1,038	113	9,700
Decrease in payables	(508)	(381)	(4,747)
Decrease (increase) in other assets	(143)	424	(1,336)
Decrease in other liabilities	(36)	(209)	(336)
Decrease in interest payable	(30)	(19)	(280)
Other-net	(3)	28	(28)
Total adjustments	2,048	4,670	19,140
Net cash provided by operating activities	3,788	6,551	35,401
Investing activities:			
Purchases of investment securities	(5)	(4)	(46)
Proceeds from sales of investment securities		58	
Purchases of property, plant and equipment	(533)	(817)	(4,981)
Proceeds from sales of property, plant and equipment		14	
Other-net	225	150	2,102
Net cash used in investing activities	(313)	(599)	(2,925)
Financing activities:			
Decrease in short-term bank loans-net	(5,149)	(1,150)	(48,121)
Proceeds from long-term debt	2,870		26,822
Repayments of long-term debt	(2,905)	(3,630)	(27,149)
Proceeds from sales of treasury stock		115	
Other-net	(175)	(11)	(1,635)
Net cash used in financing activities	(5,359)	(4,677)	(50,084)
Foreign currency translation adjustments on cash and cash equivalents	(2)	(5)	(18)
Net increase (decrease) in cash and cash equivalents	(1,886)	1,269	(17,626)
Cash and cash equivalents, beginning of year	10,007	8,737	93,523
Cash and cash equivalents, end of year	¥8,120	¥10,007	$75,887

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

TOKIMEC INC. and Consolidated Subsidiaries

Years ended March 31, 2005 and 2004

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition certain reclassifications have been made in the 2004 financial statements to conform to classifications and presentations used in 2005.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which TOKIMEC INC. (the "Company") is incorporated and operates.The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥107 to $1, the approximate rate of exchange at March 31, 2005. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate. Figures are rounded down to the nearest million yen and thousand of U.S. dollar.

Amounts of less than one million have been eliminated. As a result, totals may not add up exactly.

2. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements as of March 31, 2005 include the accounts of the Company and its 9 significant subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 2 associated companies are accounted for by the equity method.

Investments in the remaining associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of the Company's investments in consolidated subsidiaries and associated companies accounted for by the equity method over its equity in the fair value of the net assets at the respective dates of acquisition, is being amortized over a period of 5 years or charged to income when the effect is immaterial.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and certificate of deposits, all of which mature or become due within three months from the date of acquisition.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the assets outstanding.

Inventories

The cost of finished goods and work in process is determined by the job identification cost method. Raw materials and supplies are stated at cost determined by the first-in, first-out method.

Marketable and Investment Securities

Marketable and investment securities are classified as available-for-sale securities.

Marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity.

Non-marketable available-for-sale securities are stated at cost determined by the average method. For other than temporary declines in fair value, non-marketable available-for-sale securities are reduced to net realizable value by a charge to income.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed on the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998. The range of useful lives is from 8 to 65 years for buildings and structures, from 4 to 11 years for machinery and equipment, and from 2 to 15 years for furniture and fixtures. Although the range of useful lives of buildings for tax purpose was altered in 1998, the Company and its domestic subsidiaries did not alter the useful lives of buildings acquired before April 1, 1998.

Equipment held for leases is depreciated by the straight-line method over the respective lease periods.

Software

Purchased software costs are deferred and amortized over their useful lives.

Accrued Bonuses

An accrual is provided for bonuses to be paid to employees.

Retirement and Pension Plans

The Company has a non-contributory funded pension plan covering substantially all of its employees.

Effective April 1, 2000, the Group adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

The transitional obligation of ¥ 7,627 million ($ 71,280 thousand), determined as of the April 1, 2000, is being amortized over 10 years.

Retirement benefits to directors and corporate auditors are provided at the amount which would be required if all directors and corporate auditors retired at the balance sheet date.

Research and Development Costs

Research and development costs are charged to income as incurred.

Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income.The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

The Group files a tax return under the consolidated corporate-tax system from the fiscal year ended March 31, 2003, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries. Under the consolidated-tax system, a surcharge tax of 2% of taxable income was levied in addition to the national corporate income tax rate for the fiscal years ended March 31, 2004, but such surcharge tax is no longer levied for the fiscal year ended March 31, 2005.

Appropriations of Retained Earnings

Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

Foreign Currency Financial Statements

The balance sheet accounts of the consolidated foreign subsidiary are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at historical rates.

Differences arising from such translation were shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the current exchange rate as of the balance sheet date.

Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Fully diluted net income per share at March 31, 2005 and 2004 are not disclosed in the accompanying consolidated financial statements because bonds with warrants or convertible bonds have not been issued.

New Accounting Pronouncements

In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets", and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No.6, "Guidance for Accounting Standard for Impairment of Fixed Assets". These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable.
An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The Group expects to adopt these pronouncements as of April 1, 2005 and is currently in the process of assessing the effect of adoption of these pronouncements.

3. Investment Securities

Investment securities as of March 31, 2005 and 2004, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
Non-current:	2005	2004	2005
Marketable equity securities	¥2,217	¥2,108	$20,719
Trust fund investments and other	10	10	93
Total	¥2,227	¥2,118	$20,813

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2005 and 2004 were as follows:

	Millions of yen			
March 31, 2005	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥951	¥1,116		¥2,068
Other	12		¥2	10
March 31, 2004				
Securities classified as:				
Available-for-sale:				
Equity securities	¥950	¥1,009		¥1,959
Other	12		¥2	10

	Thousands of U.S. dollars			
March 31, 2005	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	$8,887	$10,429		$19,327
Other	112		$18	93

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2005 and 2004 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Available-for-sale:			
Equity securities	¥148	¥148	$1,383

Proceeds from sales of available-for-sale securities for the years ended March 31, 2004 were ¥50 million. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥32 million and ¥8 million, respectively, for the year ended March 31, 2004.

4. Inventories

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

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Finished goods	¥826	¥684	$7,719
Work in process	6,090	6,865	56,915
Raw materials and supplies	4,148	4,574	38,766
Total	¥11,065	¥12,125	$103,411

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

The annual weighted-average interest rate applicable to the short-term bank loans was 1.31% and 1.33% at March 31, 2005 and 2004, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Loans from banks and insurance companies due serially to 2010 with weighted-average interest of 1.65% (2005) and 1.90% (2004)	¥5,814	¥5,849	$54,336
Less current portion	(2,342)	(2,905)	(21,887)
Long-term debt, less current portion	¥3,472	¥2,944	$32,448

Annual maturities of long-term debt at March 31, 2005 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥2,342	$21,887
2007	1,504	14,056
2008	950	8,878
2009	674	6,299
2010	342	3,196
Total	¥5,814	$54,336

The carrying amounts of assets pledged as collateral for the current portion of long-term debt of ¥1,836 million ($17,158 thousand) and the above collateralized long-term debt of ¥1,107 millon ($10,345 thousand) at March 31, 2005, were as follows:

	Millions of yen	Thousands of U.S. dollars
Buildings and structures	¥2,225	$20,794
Other (Land, Machinery and equipment, Furniture and fixtures)	¥2,557	$23,897
Total	¥4,783	$44,700

6. Retirement and Pension Plans

The Company and its certain consolidated subsidiaries have severance payment plans for employees, directors and corporate auditors.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment or annuity payment both from a trustee for the Company and are made in a form of severance payment from certain consolidated subsidiaries. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age. The liability for retirement benefits at March 31, 2005 for directors and corporate auditors is ¥162 million ($1,514 thousand). The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

The liability for employees' retirement benefits at March 31, 2005 and 2004 consisted of the followings:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Projected benefit obligation	¥11,244	¥11,082	$105,084
Fair value of plan assets	(2,802)	(2,525)	(26,186)
Unrecognized actuarial loss	(787)	(1,034)	(7,355)
Unrecognized transitional obligation	(3,768)	(4,521)	(35,214)
Net liability	¥3,886	¥3,001	$36,317

The components of net periodic benefit costs for the year ended March 31, 2005 and 2004 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Service Cost	¥513	¥497	$4,794
Interest Cost	249	237	2,327
Recognized actuarial loss	213	238	1,990
Amortization of transitional obligation	753	753	7,037
Net periodic benefit costs	¥1,729	¥1,727	$16,158

Assumptions used for the year ended March 31, 2005 and 2004 are set forth as follows:

	2005	2004
Discount rate	2.3%	2.3%
Expected rate of return on plan assets	0.0%	0.0%
Recognition period of actuarial gain / loss	10 years	10 years
Amortization period of transitional obligation	10 years	10 years

7. Shareholders' Equity

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥ 3,085 million ($ 28,831 thousand) as of March 31, 2005, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable.

8. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.5% and 41.8%,for the years ended March 31, 2005 and 2004, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2005 and 2004 are as follows:

Deferred tax assets:	Millions of yen 2005	2004	Thousands of U.S. dollars 2005
Allowance for doubtful account	¥53	¥128	$495
Accrued bonuses	309	299	2,887
Pension and severance costs	1,628	1,197	15,214
Tax loss carryforwards	3,640	4,605	34,018
Other	432	666	4,037
Less valuation allowance	(5,195)	(6,056)	(48,551)
Total	¥867	¥841	$8,102
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥(453)	¥(409)	$(4,233)
Offset against deferred tax assets	70	68	654
Total	¥(383)	¥(341)	$(3,579)
Net deferred tax assets	¥483	¥500	$4,514

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statements of income for the year ended March 31 , 2005 and 2004 is as follows:

	2005	2004
Normal effective statutory tax rate	40.5%	41.8%
Valuation allowance	(26.5)	(56.5)
Expenses not deductible for income tax purposes	1.1	1.2
Per capita levy of local taxes	2.2	2.0
Effect of tax rate reduction		1.2
Other-net	(2.1)	(1.9)
Actual effective tax rate	15.2%	(12.2)%

At March 31, 2005, the Company and certain subsidiaries have tax loss carryforwards aggregating approximately ¥8,947 million ($83,616 thousand) which are available to be offset against taxable income of such companies in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of yen	Thousands of U.S. dollars
2006	¥8,947	$83,616
Total	¥8,947	$83,616

9. Transactions with Associated Companies

Sale and purchase transactions with associated companies for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen 2005	2004	Thousands of U.S. dollars 2005
Sales	¥970	¥939	$9,065

10. Research and Development Costs

Research and development costs charged to income were ¥2,188 million ($20,448 thousand) and ¥1,976 million for the years ended March 31, 2005 and 2004, respectively.

11. Leases

The Group leases certain machinery, computer equipment and other assets. Total rental expense for the years ended March 31, 2005 and 2004 were ¥1,060 million ($9,906 thousand) and ¥976 million, respectively, including ¥119 million ($1,112 thousand) and ¥108 million of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, and interest expense of finance leases that do not transfer ownership of leased property to the lessee on a "as if capitalized" basis for the years ended March 31, 2005 and 2004 was as follows:

	Millions of yen					
	2005			2004		
	Machinery and Equipment	Furniture and Fixtures	Total	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	¥11	¥529	¥540	¥11	¥559	¥571
Accumulated depreciation	8	176	185	6	97	104
Net leased property	¥2	¥352	¥355	¥4	¥461	¥466

	Thousands of U.S. dollars		
	2005		
	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	$102	$4,943	$5,046
Accumulated depreciation	74	1,644	1,728
Net leased property	$18	$3,289	$3,317

Obligations under finance leases as of March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥106	¥107	$990
Due after one year	257	363	2,401
Total	¥363	¥471	$3,392

The imputed interest expense portion which is computed using the interest method is excluded from the above obligations under finance leases.

Depreciation expense and interest expense, which are not reflected in the accompanying statements of operations, determined by the straight-line method and the interest method, respectively for the years ended March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Depreciation expense	¥111	¥101	$1,037
Interest expense	11	10	102

The minimum rental commitments under noncancellable operating leases at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Due within one year	¥577	¥577	$5,392
Due after one year	570	1,148	5,327
Total	¥1,148	¥1,725	$10,728

12. Commitments and Contingent Liabilities

Contingent liabilities at March 31, 2005 and 2004 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Trade notes discounted	¥1,740	¥1,898	$16,261
Guarantees of bank loans	201	3	1,878

13. Subsequent Event

The shareholders' meeting of the Company held on June 29, 2005 approved the following appropriations of retained earnings.

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥2 ($0.01) per share	¥170	$1,588
Transfer to legal reserve	17	158
	¥187	$1,747

14. Segment Information

Information with respect to operations in different business segments, geographical segments and sales to foreign customers of the Group for the years ended March 31, 2005 and 2004, is as follows:

(1) Operations in Different Business Segments

a. Sales and Operating Income

	Millions of yen						
	2005						
	Marine Systems	Hydraulic and Pneumatic	Fluid Measurement	Defense and Communications	Others	Eliminations/ Corporate	Consolidated
Sales to customers	¥7,621	¥13,090	¥2,118	¥16,539	¥4,433		¥43,804
Intersegment sales	106	82	1	79	1,475	¥(1,744)	
Total sales	7,727	13,173	2,119	16,619	5,909	(1,744)	43,804
Operating expenses	7,596	11,540	1,902	16,806	5,495	(1,744)	41,596
Operating income(loss)	¥131	¥1,632	¥217	¥(187)	¥414		¥2,207

b. Assets, Depreciation and Capital Expenditures

	Millions of yen						
	2005						
	Marine Systems	Hydraulic and Pneumatic	Fluid Measurement	Defense and Communications	Others	Eliminations/ Corporate	Consolidated
Assets	¥4,869	¥8,589	¥1,490	¥17,139	¥8,123	¥5,710	¥45,923
Depreciation	19	172	8	307	336		844
Capital expenditures	3	159	4	221	175		563

a. Sales and Operating Income

	Thousands of U.S. dollars						
	2005						
	Marine Systems	Hydraulic and Pneumatic	Fluid Measurement	Defense and Communications	Others	Eliminations/ Corporate	Consolidated
Sales to customers	$71,224	$122,336	$19,794	$154,570	$41,429		$409,383
Intersegment sales	990	766	9	738	13,785	$(16,299)	
Total sales	72,214	123,112	19,803	155,317	55,224	(16,299)	409,383
Operating expenses	70,990	107,850	17,775	157,065	51,355	(16,299)	388,747
Operating income(loss)	$1,224	$15,252	$2,028	$(1,747)	$3,869		$20,626

b. Assets, Depreciation and Capital Expenditures

	Thousands of U.S. dollars						
	2005						
	Marine Systems	Hydraulic and Pneumatic	Fluid Measurement	Defense and Communications	Others	Eliminations/ Corporate	Consolidated
Assets	$45,504	$80,271	$13,925	$160,177	$75,915	$53,364	$429,186
Depreciation	177	1,607	74	2,869	3,140		7,887
Capital expenditures	28	1,485	37	2,065	1,635		5,261

a. Sales and Operating Income

	Millions of yen						
	2004						
	Marine Systems	Hydraulic and Pneumatic	Fluid Measurement	Defense and Communications	Others	Eliminations/ Corporate	Consolidated
Sales to customers	¥7,516	¥13,545	¥2,350	¥16,999	¥4,080		¥44,491
Intersegment sales	70	78		89	1,889	¥(2,129)	
Total sales	7,587	13,623	2,350	17,089	5,969	(2,129)	44,191
Operating expenses	7,557	11,562	2,004	16,952	5,950	(2,129)	41,898
Operating income	¥29	¥2,061	¥346	¥137	¥19		¥2,593

b. Assets, Depreciation and Capital Expenditures

	Millions of yen						
	2004						
	Marine Systems	Hydraulic and Pneumatic	Fluid Measurement	Defense and Communications	Others	Eliminations/ Corporate	Consolidated
Assets	¥4,491	¥8,764	¥1,551	¥18,478	¥8,448	¥7,439	¥49,173
Depreciation	22	168	7	362	400		961
Capital expenditures	25	169	14	168	374		751

(2) Geographical Segments

Since domestic sales and total assets held domestically of the Group for the years ended March 31, 2005 and 2004, are more than 90% of the consolidated sales and assets, respectively, segment information by geographic area is not presented.

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2005 and 2004 amounted to ¥5,445 million ($50,887 thousand) and ¥4,581 million, respectively.

Deloitte.

Deloitte Touche Tohmatsu
MS Shibaura Building
4-13-23, Shibaura
Minato-ku, Tokyo 108-8530
Japan

Tel: +81(3)3457 7321
Fax: +81(3)3457 1694
www.deloitte.com/jp

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
TOKIMEC INC.:

We have audited the accompanying consolidated balance sheets of TOKIMEC INC. and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TOKIMEC INC. and consolidated subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2005

Directors and Auditors of the Company

President
Hideaki KATSUKI

Executive Directors
Chiaki TAKANASHI
Kenji WASHINO
Kenichi WAKI

Directors
Yoshisuke AKITA
Noriyuki AKABA
Hidemitsu YAMADA
Kazuteru SATO
Junichi MAEZAWA

Executive Officer
Hiroshi EBINUMA
Motoshi MITOBE
Kazushige MURABAYASHI

Corporate Auditors
Noboru ISHIBASHI
Hiroshi TOHSE
Yasuhiro HARA

(As of June 29, 2005)

Corporate Data of the Company

Head office:
2-16-46, Minami-Kamata, Ohta-ku, Tokyo 144-8551, Japan
Tel: +81-3-3732-2111
Fax: +81-3-3736-0261

www.tokimec.co.jp

Date of Establishment:
May 1, 1896

Common Stock:
Authorized–250,000,000 shares
Issued – 85,382,196 shares

Number of Shareholders:
10,900

Stock Listing:
Tokyo stock exchange (Code:7721)

Number of Employees:
1,085

Offices:
Sapporo, Sendai, Nagano, Kanazawa, Sano, Shizuoka, Nagoya, Osaka, Kobe, Hiroshima, Yamaguchi, Imabari, Kitakyushu, Nagasaki

Plants:
Nasu, Yaita, Sano, Tanuma (Tochigi Prefecture)
Hanno (Saitama Prefecture)

(As of March 31, 2005)

Companies of the TOKIMEC Group

TOKIMEC AVIATION INC.
2-1-1 Misugi-dai, Hanno-shi,
Saitama 357-0041
Phone:+81-429-71-0550 Fax:+81-429-71-0554

TECS, INC.
2-16-46 Minami-Kamata, Ohta-ku,
Tokyo 144-8551
Phone:+81-3-5710-6441 Fax:+81-3-5710-6442

TOKIMEC POWER SYSTEMS INC.
168 Tada-cho, Sano-shi,
Tochigi 327-0311
Phone:+81-283-62-7330 Fax:+81-283-62-7305

TOKIMEC INFORMATION SYSTEMS INC.
2-16-46 Minami-Kamata, Ohta-ku,
Tokyo 144-8551
Phone:+81-3-3731-9841 Fax:+81-3-3735-8310

TECHNOPORT INC.
2-16-46 Minami-Kamata, Ohta-ku,
Tokyo 144-8551
Phone:+81-3-3735-3731 Fax:+81-3-3732-2117

TOKIMEC CONSTRUCTION SYSTEMS INC.
2-16-46 Minami-Kamata, Ohta-ku,
Tokyo 144-8551
Phone:+81-3-3731-2631 Fax:+81-3-3738-8670

TOKIMEC RAIL TECHNO INC.
2-16-46 Minami-Kamata, Ohta-ku,
Tokyo 144-8551
Phone:+81-3-3732-7061 Fax:+81-3-3732-7050

TOKIMEC U.S.A., INC.
445 South Figueroa St. Suite 3770
Los Angeles, California, 90071 U.S.A.
Phone:+1-213-689-4747 Fax:+1-213-689-0303

JYONAN UNYU CO., LTD.
2-16-46 Minami-Kamata, Ohta-ku,
Tokyo 144-8551
Phone:+81-3-3738-0987 Fax:+81-3-3736-0261

MORIOKA TOKKI CORPORATION
15 1Chiwari, Kami-Ioka, Morioka-shi,
Iwate 020-0854
Phone:+81-19-638-5211 Fax:+81-19-637-1015

TOKIMEC KOREA POWER CONTROL CO., LTD.
Rm 803, 8th Wooree venture town 2, 82-29, Mullae-dong
3ga, Yeongdeungpo-gu, Seoul , KOREA
Phone:+82-2-2670-4631 Fax:+82-2-2672-5712

TOKIMEC KOREA HYDRAULICS CO., LTD. changed its name
to TOKIMEC KOREA POWER CONTROL CO., LTD. on April 1, 2004.

TOKIMEC

TOKIMEC INC.