



Business Report

Year ended March 31, 2006

Seikoh Giken is committed to growing its businesses and boosting its corporate value by taking measures to increase its earnings in view of market trends.



President and CEO
Masatoshi Ueno

Review of Fiscal Year ended March 31, 2006

We aggressively made efforts to form alliances to grow our optical communications operations.

Firstly, I would like to express my deep gratitude to our shareholders for their ongoing support.

The following is an overview of Seikoh Giken's operations in the fiscal year ended March 31, 2006.

In the digital appliances market in which we operate, sales of high-performance computers, DVD recorders, etc. have been buoyant, partly driven by the widespread installation of information infrastructure and the increase in data traffic volume. In the information and communications markets, the development of fiber-optic information and communication networks is gaining momentum on a global scale, on the back of the increase in digital data distributed over the Internet.

Under such circumstances, in September 2005, we acquired the Optical Operations Segment of Seiko Instruments Inc. (SII). In March 2006, we signed a basic agreement with NEC TOKIN Corporation regarding the acquisition of its optical devices business. By taking such measures to expand our businesses, our Optical Communications Segment was able to build a strong relationship with prominent customers both at home and abroad, enhance its product lineup, acquire new technologies and make a strategic move to increase earnings in the future.

Our Mold Products Segment endeavored to provide maintenance services extensively, due to solid demand attributable to the upgrade of molds for DVDs and the replacement of parts and components, notwithstanding the fall in demand for new molds resulting from investments in DVD manufacturing facilities by optical disc molding companies reaching a saturation point.

Consequently, consolidated sales for the fiscal year under review amounted to ¥6,304 million, up 3.3% year-on-year. Consolidated ordinary profit decreased 33.9% year-on-year to ¥1,217 million, due to the impact of the fall in sales in the relatively-high-margin Mold Products Segment.

Outlook for the Future

We will take strategic move to increase earnings from existing businesses and accelerate R&D aimed at creating new businesses.

In the Mold Products Segment, we supply prototype molds to optical disc molding companies to prepare for real demand for next-generation optical discs that are capable of playing back and storing large volumes of data. We also steadily develop technologies with mass production in mind, including improving the molding speed and reducing the rate of defects.

In the Optical Communications Segment, we will develop manufacturing and sales bases around the world in order to globally promote sales of our product lineup, which has been enhanced as a result of the acquisition of operations. We will also put efforts in developing products with high added value that meet the needs of the market, by applying newly-acquired technologies to existing technologies in our portfolio.

In parallel with measures to increase earnings from these two existing businesses, we are striving to create a new business with the potential to become the third pillar. The Development Unit launched last June is engaged in the development of businesses and products that will forge Seikoh Giken's future, through the development of fuel cell separators and the formation of alliances with biotech-related venture companies, while matching the long-term market outlook with our technologies. We will continue to aim at building a diverse business portfolio by developing new products that capitalize on our technologies such as various sensors and microchips in medical and biotechnology sectors and in fields with growth potential, namely, electronics and energy.

Moreover, we are making efforts to enhance internal control and compliance—both of which are the prerequisites of sound corporate governance—based on the recognition that in order to sustain our business stably into the future, it is necessary for us to continue being a trusted company that perpetually contributes to society. As part of such efforts, we are reinforcing

the Internal Audit Office Department under the direct control of the President, and striving to execute management in a highly transparent and sound manner by confirming the accuracy and appropriateness of management data through strict internal audits. In addition, we have acquired Information Security Management System (ISMS) and BS7799 certifications this March, in response to the growing public interest in information management. Based on the certified systems, we will manage our important information assets in an appropriate and secure fashion, including personal information of shareholders and customers.



In accordance with the basic principle of paying stable dividends on a continual basis to our shareholders, it is our policy to pay dividends commensurate with our business performance in the fiscal year, with the target being at least 30% of consolidated net income. Based on this policy, we declared a dividend of ¥30 per share (dividend payout ratio: 41.7%) for the fiscal year ended March 31, 2006.

We intend to continue paying stable dividends to our shareholders in the future, while striving to increase earnings through aggressive business investments.

We look forward to receiving your continued support and guidance.

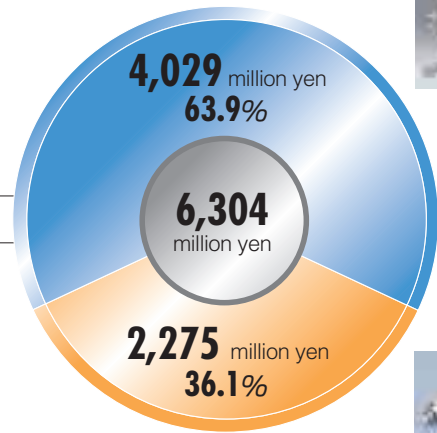
The logo mark became new.



The new logo represents the corporate image of SEIKOH GIKEN in tune with the times and with a future vision, while reflecting the brand image that has been built over the years. With this spirit in mind, we will continue to develop dynamic global businesses to evolve into a more agile, vibrant enterprise.

Mold Products Segment

The Mold Products Segment's mainstay products are molds for optical discs exemplified by DVDs. Currently, we are steadily developing molds for next-generation optical discs such as HD-DVD and blue-ray discs by improving the standards of mold design technology and precision processing technology.



Review of Operations
New demand for molds for DVDs decreased but stable earnings were secured from maintenance services.

While DVDs are penetrating households at a rapid pace, the market retail price of DVDs continues to fall due to the supply of DVDs exceeding market demand. Moreover, the surging price of polycarbonate resin, which is one of the materials of optical discs, is making it difficult for optical disc molding companies—the users of Seikoh Giken's molds—to generate profits. Amid such changes in the business environment, optical disc molding companies have postponed making new investments in DVD production facilities, which has led to the decrease in shipments of molds for DVDs from the previous fiscal year.

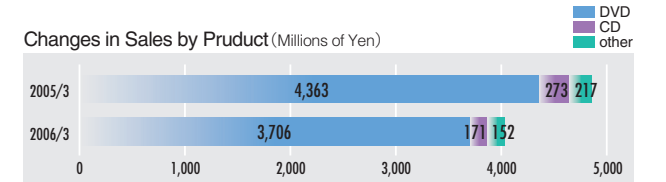
On the other hand, some molding companies have started to replace their existing production lines with those for more profitable double-layer DVDs and 8-cm DVD discs for DVD camcorders, giving rise to the need to diversify designs and further improve

precision in optical disc molds. In other to steadily meet such needs, we strove to improve our mold technology and endeavored to collect market information by frequently visiting customers in sales bases situated in the United States, Taiwan and Germany. This has enabled us to secure stable sales in maintenance services, including the repair of molds and the replacement of consumable parts and components. Consequently, the Mold Products Segment generated ¥4,029 million in sales (down 17.0% year-on-year) and ¥1,275 million in operating profit (down 30.0%) in the fiscal year ended March 31, 2006.

Outlook for the Future
New demand for molds for DVDs decreased but stable earnings were secured from maintenance services.

The emergence of next-generation optical discs that are capable of playing back and storing large volumes of data appears certain, due to terrestrial TV completely switching to digital broadcast in

2011 and the progress in the integration of broadcast and communications. However, it remains unclear when optical disc molding companies will start enhancing their facilities for the mass production of next-generation optical discs on a full scale. Under these circumstances, we have already started providing prototype molds, and are even developing technologies to boost the molding speed and reduce the rate of defects, in order to prepare for the full-fledged growth in demand for next-generation optical discs.



The Optical Communications Segment's mainstay products are optical devices such as optical connectors that are required in fiber-optic communications to facilitate Internet access and attenuators which control the power level of optical signals, as well as optical connector polishing equipment which is indispensable for their processing and assembly.



Review of Operations
Enhanced competitiveness by aggressively taking measures to expand business on the back of the growing optical communications market

Digital data distributed over the Internet is increasing from year to year, and fiber-optic information and communication networks are expanding on a worldwide scale.

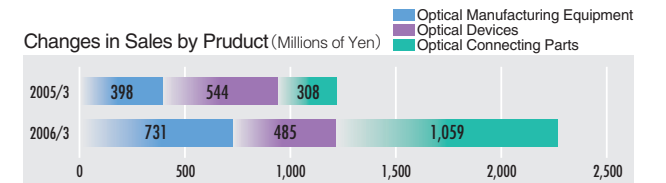
In the face of such trends, the Optical Communications Segment acquired SII's Optical Operations Segment last September. This has enabled us to acquire a new customer base and expand sales, and at the same time, penetrate the "Seikoh Giken brand" more broadly in the market. Furthermore, in January 2006, we acquired SII's production plant for Ferrule (a key component of optical connectors) in Dalian, China, and gained new technologies, namely, mass production technology and ceramic forming technology. Currently, we are exerting efforts in consolidating similar products to demonstrate synergies through the integration of the two companies' businesses.

Consequently, in the fiscal year ended March 31, 2006, the Optical Communications Segment generated ¥2,275 million in sales (up 81.9% year-on-year), a substantial increase from the previous fiscal year. The Segment incurred an operating loss of ¥227 million compared to a loss of ¥108 million in the previous fiscal year, due to the accrual of one-off expenses associated with the business acquisitions.

Outlook for the Future
Developing products that are hardly affected by price competition and expanding the scope of business into sectors other than information and communications

In Japan and North America, where optical fiber is widely used, there is likely to be demand for diverse optical communication parts with functions to improve safety and convenience. We are developing unique products, including connectors with shutters, which prevent the leakage of optical signals from the end of optical fibers, and

Ferrule Mate, which cleans the connections of optical connectors. As they are more profitable than standard products whose specifications are standardized worldwide, we will continue to focus our efforts on developing such original products. On June 1, 2006, we acquired NEC TOKIN Corporation's optical devices business. Our long-term policy is to apply the newly-acquired products and technologies and expand into businesses in sectors other than information and communications.



Optical Communications Segment

Accelerating Globalization of Business in View of Regional Market Trends around the World

While the optical communications market is on a growth trajectory worldwide, the Optical Communications Segment merged with SII's Optical Operations Segment last September and gained the ability to globalize our business bases even further. We believe the acquisition has enabled us to make dramatic progress in the development of bases for the purpose of increasing earnings, including acquiring a new customer base in regions where we previously had a weak presence, and securing price competitiveness based on collaboration between production bases.

For the future, we will take advantage of our expanded network of production and sales bases and unleash our extensive product lineup on a global scale, in an effort to penetrate the "Seikoh Giken brand" and establish a solid status in the global optical communications market.



Executive officers
Leader of Optical Communications

Shin Sumida

Regional Market Trends and Seikoh Giken's Measures

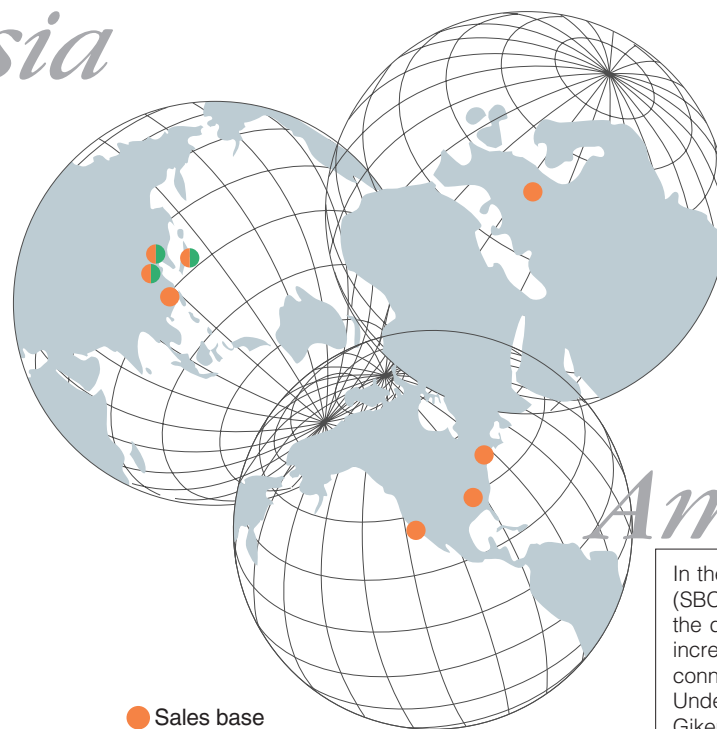
Japan/Asia

The penetration rate of optical subscriber networks in Japan is one of the highest in the world. As NTT has announced its plan to install optical cables in 30 million households by 2010, the market's expansion is expected to continue into the future. In such a domestic market, we will promote the sales of not only standard products which face fierce price competition but also products with higher added value, and run businesses that will drive up business profits.

On the other hand, with respect to the sale of products in Asia centering on China, our main clientele are the local arms of Japanese and Western companies. In January 2006, we acquired the optical business segment of SII's plant in Dalian, China, and thereby added Seikoh Giken Dalian Co., Ltd. to our stable of subsidiaries. Seikoh Giken Dalian, which manufactures Ferrule (a key component of optical connectors), will seek to enhance cost competitiveness by reducing procurement costs and producing parts and components in-house, based on collaboration with Seikoh Giken Hangzhou Co., Ltd., which manufactures optical connectors. Furthermore, in June 2006, we established a new distributor in Hong Kong named Seikoh Giken Hong Kong Co., Ltd. This new base is slated to evolve the sales activities in Singapore acquired from the integration of businesses and serve as a sales base targeted at China, Southeast Asian countries, India, etc. where optical communication parts are expected to grow in demand, and as a strategic base that plays the crucial role of a traffic hub for distributing products manufactured in Chinese plants to all over the world.



SEIKOH GIKEN Hangzhou Co., Ltd.



- Sales base
- Manufacturing center

Europe

Seikoh Giken had not rolled out operations aggressively in the European market, which lags behind Japan and North America in terms of penetration of optical subscriber networks. In contrast, SII has built close relationships with major optical communications companies in Europe, having established a sales base in Frankfurt, Germany in the early days and tapped the market as a pioneer. We took over its sales base last September, and established a new Frankfurt branch of Seikoh Giken Europe GmbH, which previously functioned only as a sale base for the Mold Products Segment.

The acquisition of a new customer base in the European market substantially helps increase business sales, and is expected to continue contributing to stable earnings in the future.



SEIKOH GIKEN Europe GmbH

European countries including Russia, there has been progress in the development of long-distance and metropolitan optical communication networks, and demand for optical products is expected to grow in the future.

America

In the North American market, communication carriers such as Verizon and AT&T (SBC Communications) are rapidly developing optical subscriber networks, and the demand for optical communication parts is trending upwards. We expect an increase in demand for our products including Ferrule, a key component of optical connectors, and Ferrule Mate, which cleans the connections of optical connectors.

Under these circumstances, our subsidiary Seikoh Giken USA has established a new branch called the Western Field Office in California, in conjunction with the consolidation of the optical business. It will meet growing demand by building a sales network that extensively covers the North American market together with the existing Head Office in Georgia and Northeastern Field Office in New Jersey.



SEIKOH GIKEN USA, INC.

Consolidated Financial Statements

Consolidated Balance Sheets

Item	(Millions of Yen)	
	Fiscal Year	Fiscal Year ended March 31, 2006 (current fiscal year)
ASSETS		
Current Assets	16,915	16,383
Cash and deposits	13,275	13,231
Notes receivable accounts receivable-trade	2,092	2,021
Inventory	1,185	775
Accrued income taxes	—	92
Other	369	265
Allowance for doubtful accounts	△ 8	△ 3
Fixed Assets	9,312	8,967
Property, Plant and Equipment	6,028	5,427
Buildings and structures	2,559	2,703
Machinery, equipment and delivery equipment	910	290
Land	2,211	2,211
Other	347	222
Intangible Fixed Assets	526	211
Goodwill	347	67
Other	178	143
Investments and Other Assets	2,757	3,328
Securities investment	1,137	2,235
Investment in real estate	908	923
Other	711	170
Allowance for doubtful accounts	△ 0	△ 0
Total Assets	26,227	25,351

POINT 1

Consolidated Statements of Income

Item	(Millions of Yen)	
	Fiscal Year	Fiscal Year ended From April 1, 2005 to March 31, 2006 (current fiscal year)
Sales	6,304	6,103
Cost of Sales	3,228	2,758
Gross profit	3,076	3,344
Selling General and Administrative Expenses	2,028	1,630
Operating profit	1,048	1,714
Non-operating Income	192	164
Non-operating Expenses	22	36
Ordinary Profit	1,217	1,842
Extraordinary Profit	0	16
Extraordinary Losses	19	7
Net Income Before Income Taxes	1,198	1,851
Income Taxes and Corporate Tax	373	282
Income Tax-deferred	63	△ 209
Income on Minority Interest	5	9
Net Income	756	1,768

POINT 2

Item	(Millions of Yen)	
	Fiscal Year	Fiscal Year ended March 31, 2006 (current fiscal year)
LIABILITIES		
Current Liabilities	815	614
Trade accounts payable	199	241
Income tax payable	254	42
Other	361	330
Long-term Liabilities	623	539
Allowance for retirement bonuses to officers	136	130
Allowance for retirement benefits	223	218
Other	264	190
Total Liabilities	1,439	1,154
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES		
Minority Interest	78	62
STOCKHOLDER'S EQUITY		
Common Stock	6,791	6,791
Capital Surplus	10,571	10,571
Retained Earnings	7,412	7,134
Variance from Valuation of Securities	241	32
Foreign Exchange Translation Adjustment	6	△ 67
Treasury Stock	△ 314	△ 327
Total Stockholders' Equity	24,709	24,134
Total Liabilities, minority Interest and Stockholders' Equity	26,227	25,351

Consolidated Statements of Cash Flows

Item	(Millions of Yen)	
	Fiscal Year	Fiscal Year ended From April 1, 2005 to March 31, 2006 (current fiscal year)
Cash Flows from Operating Activities	1,570	2,766
Cash Flows from Investing Activities	△ 3,502	△ 7,900
Cash Flows from Financing Activities	△ 450	△ 553
Cash and Cash Equivalents-related Conversion Difference	26	4
Decrease in Cash and Cash Equivalents	△ 2,356	△ 5,682
Cash and Cash Equivalents at Beginning of Year	5,219	10,902
Cash and Cash Equivalents at End of Year	2,863	5,219

POINT 1

Fixed Assets

The closing balance of fixed assets was 9,312 million yen, as increased in fixed assets such as machinery, equipment and goodwill.

POINT 3

Non-Consolidated Financial Statements

Non-consolidated Balance Sheets

Item	(Millions of Yen)	
	Fiscal Year	The 34th term (As of March 31, 2006)
ASSETS		
Current Assets	16,311	16,082
Fixed Assets	10,083	9,448
Property, Plant and Equipment	5,166	5,229
Intangible Fixed Assts	380	133
Investment and other Assets	4,536	4,085
Total Asstes	26,394	25,530

Non-consolidated Statement of Income

Item	(Millions of Yen)	
	Fiscal Year	The 34th term From April 1, 2005 to March 31, 2006
Sales	5,795	5,789
Cost of Sales	3,240	2,823
Gross profit	2,554	2,965
Selling, General and Administrative Expenses	1,636	1,371
Operating Profit	917	1,594
Non-operating Income	203	172
Non-operating Expenses	21	36
Ordinary Profit	1,099	1,730
Extraordinary Profits	0	18
Extraordinary Losses	19	7
Net Income Before Income Taxes	1,080	1,742
Income Taxes and Enterprise Tax	343	270
Income Tax-deferred	65	△ 212
Net Income	672	1,684
Retained Earnings Carried Forward from the previous term	102	91
Disposal loss of treasury stock	3	1
Unappropriated Retained Earnings	771	1,775

POINT 2

Current Net Income

In the previous fiscal year, current net income was 1,768 million yen, partly due to the declaration of income tax-deferred in the amount of 209 million yen increase in association with tax-effect accounting. In the fiscal year ended March 31, 2006, current net income was 756 million yen, as income tax-deferred was 63 million yen.

Item	(Millions of Yen)	
	Fiscal Year	The 34th term (As of March 31, 2006)
LIABILITIES		
Current Liabilities	911	547
Long-term Liabilities	623	539
Total Liabilities	1,534	1,087
STOCKHOLDER'S EQUITY		
Common Stock	6,791	6,791
Capital Surplus	10,571	10,571
Retained Earnings	7,569	7,375
Variance from Valuation of Securities	241	32
Treasury Stock	△ 314	△ 327
Total Stockholder's Equity	24,860	24,443
Total Liabilities and Stockholder's Equity	26,394	25,530

Profit Appropriation Statement

Item	(Yen)	
	Fiscal Year	The 34th term
Unappropriated Retained Earnings (Loss)	771,082,428	1,775,389,094
Reversal of Voluntary Reserves		
Reversal of special depreciation reserves	304,773	1,391,827
Total	771,387,201	1,776,780,921
Appropriated Profit		
Dividend payment	276,844,980	461,187,300
Bonus to directors	8,120,000	13,100,000
Voluntary Reserves		
Other reserves	400,000,000	1,200,000,000
Total	684,964,980	1,674,287,300
Retained Earnings Carried Forward to the Following Term	86,422,221	102,493,621

POINT 3

Cash Flows from Investing Activities

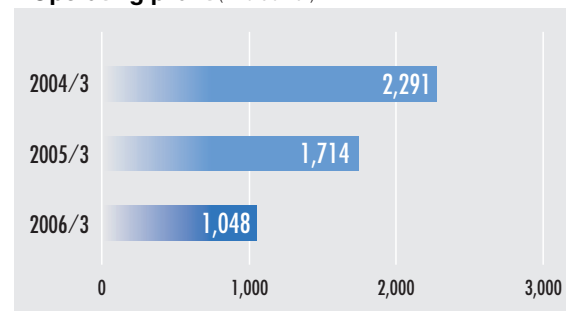
Net cash used in investing activities amounted to 3,502 million yen, partly due to 3 billion yen being put into fixed-term deposits.

Financial HighLights

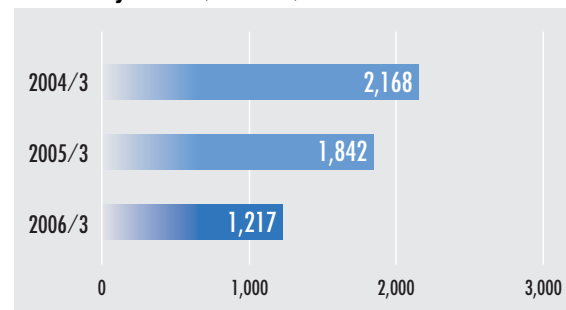
● Sales (Millions of Yen)



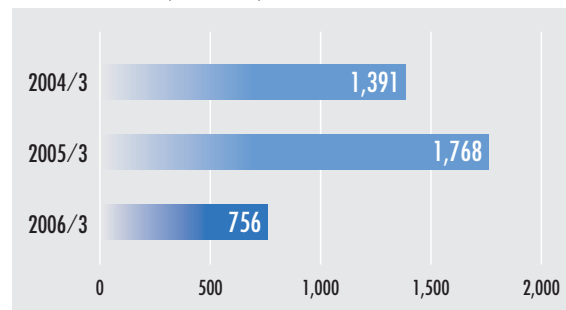
● Operating profit (Millions of Yen)



● Ordinary Profit (Millions of Yen)

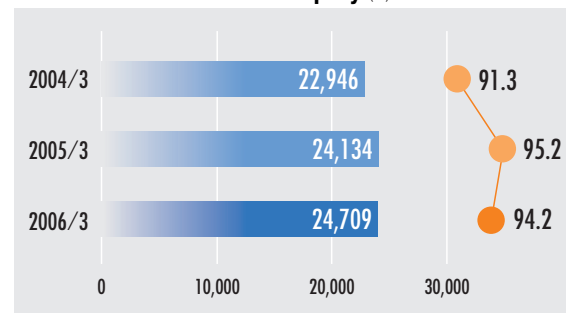


● Net income (Millions of Yen)



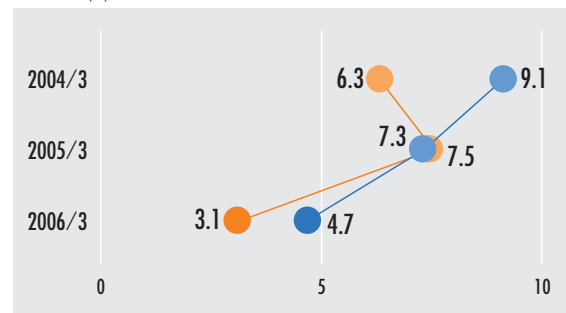
● Shareholders' equity (Millions of Yen)

● Ratio of shareholders' equity (%)



● ROA (%)

● ROE (%)



Share & Company Information

(As of March 31, 2006)

Stock Information

Authorized Shares 37,000,000

Shares Outstanding 9,333,654

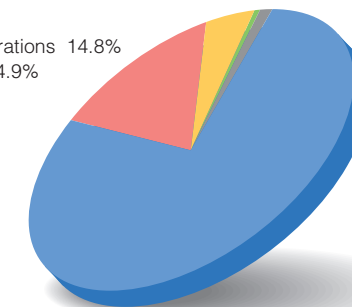
Shareholders 5,280

Major Shareholders

Name	Number of Shares Held	Percentage
Masatoshi Ueno	912,000	9.9
Yumiko Tomaru	890,500	9.7
Yukiko Hosoe	882,500	9.6
KOUSHI Ltd.	694,000	7.5
KOUKEN Ltd.	623,000	6.8
Tamotsu Kimura	609,200	6.6
Mitsuo Takahashi	395,100	4.3
Fujiko Takahashi	381,500	4.1
Jun Ueno	329,000	3.6
Chie Yoshida	329,000	3.6

Breakdown of Shareholders

Individuals	78.4%
Other domestic corporations	14.8%
Financial institutions	4.9%
Foreigners	0.6%
Others	1.3%



Corporate profile

Company Name:
SEIKOH GIKEN Co., Ltd.

Domestic Offices:

- Head Office 296-1 Matsuhidai, Matsudo-city, Chiba Japan
- 1st Building 86-23 Matsuhidai, Matsudo-city, Chiba Japan
- 2nd Building 296-1 Matsuhidai, Matsudo-city, Chiba Japan
- 4th Building 415-2 Matsuhidai, Matsudo-city, Chiba Japan

Overseas Office:

Taiwan Branch 8F-2 285 Kuang Fu Road, Sec 2, Hsin Chu City, Taiwan, Republic of China

Overseas Subsidiaries:

- SEIKOH GIKEN USA, INC
- SEIKOH GIKEN Hangzhou Co., Ltd.
- SEIKOH GIKEN Europe GmbH
- SEIKOH GIKEN Dalian Co., Ltd
- SEIKOH GIKEN Hong Kong Co., Ltd

Established:

June 17, 1972

Capital:

6,791,682,700 yen

Number of Employees:

567 (including subsidiaries)

Executives, etc. (As of June 22, 2006)

Directors

President and Chief Executive Officer:
Masatoshi Ueno *

Executive Director:
Tamotsu Kimura *

Director:
Yasumasa Yoshida *

Director:
Haruo Yanase *

Director:
Koichi Hosokawa

Director:
Katsuhiko Okubo

*Also serves as executive officer

Corporate auditors

Senior Corporate Auditor:
Takeshi Miyanaga

Corporate Auditor:
Toru Miyoshi

Corporate Auditor:
Toshio Aiba

Executive officers

Masahide Hioki

Shigeta Ishikawa

Shin Sumida

Yujiro Yamazaki

Yasuhiko Mori

(Note)

1. Directors Koichi Hosokawa and Katsuhiko Okubo are outside directors.
2. Corporate auditors Toru Miyoshi and Toshio Aiba are outside auditors.
3. The executive officers system was introduced on June 22.

Information for stockholder

Closing Date of Accounts	March 31
Ordinary General Meeting of Shareholders	June every year
Record Date	March 31 every year
Stock Transfer Agent	Chuo Mitsui Trust & Banking Co., Ltd. 33-1 Shiba 3-chome, Minato-ku, Tokyo 105-8754, Japan
Place of Transfer	Transfer Agent Division, Chuo Mitsui Trust & Banking Co., Ltd. 8-4 Izumi 2-chome, Suginami-ku, Tokyo 168-0033, Japan
Service Offices	Branches of Chuo Mitsui Trust & Banking Co., Ltd. Head Office, Branches and Sub-branches Office of Japan securities Agents, Ltd.

(Note) If you wish to change your address, request the purchase of shares constituting less than one unit of shares, request share transfer or designate your account for receiving dividend payments, please call the toll-free number or access the website of the administrator of the shareholders' register Chuo Mitsui Trust and Banking Co., Ltd. stated below to obtain the necessary forms.

- **Toll-free number** (24-hour service: Automatic voice guidance system)
- **Web site** http://www.chuomitsui.co.jp/person/p_06.html

SEIKOH GIKEN Co.,Ltd.

<Contact>

Management Planning
Head Office

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