



Newsletter for shareholders

35th Term

April 01, 2006 to March 31, 2007

SEIKOH GIKEN Co., Ltd.



Dear Shareholders,

Since its foundation in 1972, we at Seikoh Giken Co., Ltd. have developed our activities based on our core expertise of precision machining technology. Presently our business is focused on the information industry, especially the optical disc mold and optical communications businesses.

In the optical disc mold business, we are at the world forefront in the field of optical disc molds. We have already developed the technologies necessary for manufacturing the molds for HD-DVD and blue-ray discs, which are attracting attention as the next-generation optical discs, and are looking forward to the market growth of these new optical discs.

In the optical communications business, we have been active in M&A for the last two years to expand our product lineup and marketing channels. While our fiber to the home (FTTH) related business is showing steady growth in Japan, the North American market is also promising. We expect that the synergistic effects of the M&A will begin to show tangibly, improving our technical and commercial performance in the current business period, when reorganizations to integrate the acquired businesses will be mostly complete.

We are determined to continue being the most reliable supplier for all customers under the banner, "We respond to our customers through product quality, accuracy and performance". We believe this is the best way to respond to your expectations for us, and appreciate your continued support.

Masatoshi Ueno, President and CEO

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What are Seikoh Giken's lines of business?

Our core competence is precision machining, and we are active in two industrial fields: the optical disc mold business and the optical communications business.

Our optical disc mold business consists of the manufacture of forming molds essential for producing optical discs. Our precision machining technology, outclassing others in this field, has earned us a share in the world market of the molds for optical discs, such as CD-Rs and DVDs, of as high as 60 to 70%.

In the optical communications business, we produce devices for optical communication systems as well as machines. The devices we market include connectors and attenuators for fiber optics, and a typical example of the machines we market is an optical connector polisher, which is essential for working and assembling connectors and attenuators.



Do you have a clear medium-and long-term strategy?

We are active in capital investment to remain at the world forefront.

To keep on growing, we must continue to lead the race in our present fields of business. In the optical disc mold business, we have concentrated our efforts on the development of techniques to machine metal materials to a higher level of precision, and established the technology for manufacturing molds for next-generation optical discs usable in such sophisticated applications as digital high-definition TV. In the optical communications business, we have expanded our lineup and marketing channels through M&As over the last few years to prepare ourselves for the growth of the optical communication market, which is certain to take place worldwide.

Aiming at the further expansion of our businesses, we are planning to actively develop such growth areas as the information,

telecommunications, automobile, energy, healthcare and biotechnology industries through application of our core competences in combination with technologies introduced from outside. We anticipate that this will strengthen our business portfolio to secure stable growth in the medium to long term.



What are the business prospects for the coming period?

We are anticipating the growth of the next-generation optical disc market and the synergistic effects of the M&A.

Our expertise is manufacturing forming molds for optical discs, and we target the optical disc manufacturing industry. Our market tends to boom about six months before a new standard of optical disc begins to sell in quantities in the consumer market. The market for next-generation optical discs is not yet active, and we can do little but wait for the time being. But, it is only a matter of time before high-definition TV and land-based digital TV broadcasting become widespread and create a boom for next-generation optical discs in the market, and we are now completely ready to catch the wave.

In the optical products business, we had to review our product lineup, and reorganize and move our offices and plants after the business acquisition from Seiko Instruments and NEC Tokin. We also had to rearrange our activities after including Seikoh Giken Dalian Co., Ltd. in our group as another consolidated subsidiary. These changes are virtually complete now, and we are in a position to take aggressive action once again. As a result of these acquisitions, our product lineup has expanded and we have many new customers to serve. We will make the most of the synergistic effects of the business acquisition, and thus increase our profit from the optical communications business.



Business acquisitions from Seiko Instruments Inc. and NEC TOKIN Corp.

Present and future effects of integration from the viewpoint of business front

Optical communications is our second mainstay business following optical disc molds. To strengthen our position in this business sector, we integrated the sales organization of Seiko Instruments' optical communications business into ours from 2005 to 2006, and that of NEC Tokin's optical device business in 2006. Seikoh Giken's employees from different origins sat and talked at a round-table on the progress and effects of the integration.



●**Shuichi Takashi** (originally from Seikoh Giken) right
Manager Business Promotion Team Fiber Optic Products Division

●**Masayuki Kimura** (originally from NEC Tokin) center
Manager Business Promotion Team Fiber Optic Products Division

●**Ichiro Saeki** (originally from Seiko Instruments) left
Manager Domestic Sales Team Fiber Optic Products Division

The market conditions of optical products —Our target is an untapped market.

Takashi Optical networking is becoming commonplace in Japan. In fact, the number of fiber optics contracts of NTT East and West is expected to exceed 9.5 million lines in the current fiscal year. But it is still only in Japan and a few other countries that households are connected through fiber optics.

Saeki The change from copper cable to fiber optics is a change whose time has come, because the transmission cost of fiber optics per bit is far lower. We can say that the entire world is an untapped market.

Takashi In the USA, Ordinary households have finally become able to apply for fiber optics connections. The EU is expected to follow suit, and is planning to expand the fiber optics network to 30 million lines by 2020.

Saeki It has been so long since



Shuichi Takashi



Ichiro Saeki

Seikoh Giken has secured a firm position in the North American market, and now the merger with Seiko Instruments is showing tangible effects in the EU market. After securing our positions in these areas, we will develop in Asia and South America. We will be able to make a decent living for at least 20 years from now (laughter).

Kimura But the problem is that at the present time the market is

limited to Japan and North America, and once the economy enters into an inventory adjustment process, we are likely to be badly hit.

Effective utilization of resources and the next development of optical products

Takashi How are you finding the effects of the mergers? The reorganization and transfer of offices and plants went as expected. Are we now at the point where we can begin to enjoy the synergistic effects of the integration?

Saeki Well, I think the overlap of the product lineups between Seikoh Giken and Seiko Instruments has been sorted out, and now we are in a position to develop our own marketing activities effectively.

Kimura We can now produce in-house some components that we used to outsource, and we are in a position to cut manufacturing costs and raise our gross profit margin.

Takashi The latest mergers brought about unexpected benefits, too. For example, we are finding that ex-Seiko Instruments people are very knowledgeable and experienced in materials. Their organization had an excellent system for numerical management, and people

originally from Seikoh Giken learnt much from them. People from NEC Tokin, on the other hand, are very good at electrical devices and communication systems. The expanded expertise began to take on beneficial functions.

The integration and transfer of offices and plants went as expected. Now it is time for the synergistic effects to show.

Kimura When we were NEC Tokin, our sales office was in Tokyo and our plant was in Shiroishi, Miyagi, about 300km away. Now, working as Seikoh Giken, the sales office and plant are next to each other, and if we get a customer query or request, we can meet each other and discuss it right away. I expect this will shorten lead-time and lead to development of competitive products.

Saeki Customers buy our products not because of our company name but because of the products' quality and performance. So for us, as sales people, it's business as usual. Well, I don't think we expected that to change a lot, or did we? (Laughter).

Kimura FTTH has expanded over the last year, and the sales volume of inexpensive products for home users is steadily increasing. But price competition is stiff in this area, too, and we want to exploit business integration by concentrating more on higher value-added products.

Takashi I agree with you. The three former companies are now taking on an integrated shape, and we have to "select and concentrate" through the most efficient use of our respective resources. So let us plan our next development with a mid-term plan that takes us in a new direction.



Masayuki Kimura

Optical remote antenna contributing to wider diffusion of land-based digital TV broadcasting

Ground-based digital TV broadcasting, which started in 2003, has expanded to cover 37 million households (about 79% of the national total)*, mostly in low-lying metropolitan areas, as of December 2006, and more relay stations are being built to deliver airwaves to other regions. Since these regions are generally mountainous, the construction is not easy and the population covered by the station is limited. Seikoh Giken has successfully developed Optical remote antenna that can solve these problems, and launched it to the market. The new product is attracting wide attention and many inquiries are coming in.

■ Roles of relay stations

Ground-based digital TV broadcasting transmits signals from broadcasting stations over the airwaves via transmitting and relay stations. In the Kanto District around Tokyo, for example, airwaves from Tokyo Tower, which serves as a transmitting station, cover the Kanto Plain area, but Tokyo Tower cannot deliver signals to the areas in the mountain regions and beyond.

Relay stations are built in these mountain regions to relay radio waves to the surrounding area. A relay station consists of a receiving facility to catch radio waves from transmitting stations and a transmitting facility to retransmit the waves received. Locations suitable for receiving radio waves are not necessarily suitable for retransmitting them, and so these facilities are often installed at different locations, and a power supply has to be provided for each of them.

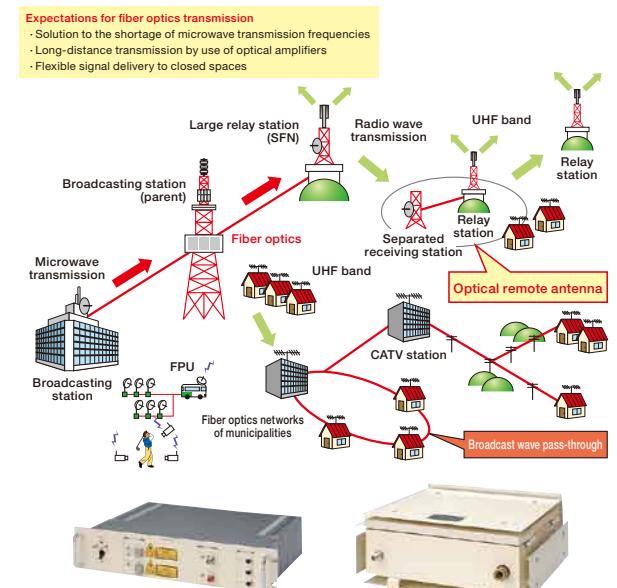
■ Revolutionary Optical remote antenna solves the problem
Optical remote antenna developed by Seikoh Giken is a revolutionary system for separated receiving and retransmitting stations. It requires no power supply and only a small area for construction. Fiber optics, instead of copper cable, connect the receiving and retransmitting facilities, making the system resistant to lightning strikes, which are common in mountain regions. Seikoh Giken is actively promoting the new relaying equipment in response to rapidly increasing demands for such relay stations.

Optical remote antenna is the crystallization of Seikoh Giken's optical communications technology. The equipment is expensive, but does not require construction work for a power supply, and since the receiving facilities are compact, it is very economical when construction and operating costs are considered. Many inquiries for the new product are coming in. The company will continue to develop other unique products based on original technology.



Yoshikazu Toba
Project Leader
Device Development Project
Development Group No.2

◎ Ground-based digital broadcasting network



* The household coverage rate is based on the Roadmap publicized by the Ministry of Internal Affairs and Communications.

Outlines of Seikoh Giken's Business Performance

Management Performance

In the industrial field of digital household appliances for telecommunications, to which Seikoh Giken's activities are related, the markets for products such as mobile phones, digital cameras and flat-screen TVs continued to thrive, leading the whole domestic consumer market. On the other hand, the competition in this business field grew fiercer: some actors disappeared and others restructured, and rationalization of production facilities and sales networks proceeded in the oligopolistic markets. Against this background, the Seikoh Giken group endeavored to strengthen its foundations continue to grow steadily and contribute to society in the wider business domains. To this end, we actively invested to enhance technology and business in both the optical disc mold and optical communications areas. Envisaging creating new businesses, we also concentrated efforts on the development of new products such as separators for fuel cells, optical elements, and different kinds of sensors, and took initiatives on market research and expansion of seed technologies for these products.

As a result of these efforts, our consolidated financial statements for the fiscal year ending March 31, 2007 showed net sales of ¥7,156 million (up 13.5% year-on-year), ordinary income of ¥73 million (down 93.9% year-on-year), and net income of ¥208 million (down 72.4% year-on-year). Please note that we plan to continue paying a year-end dividend of ¥30 per share.

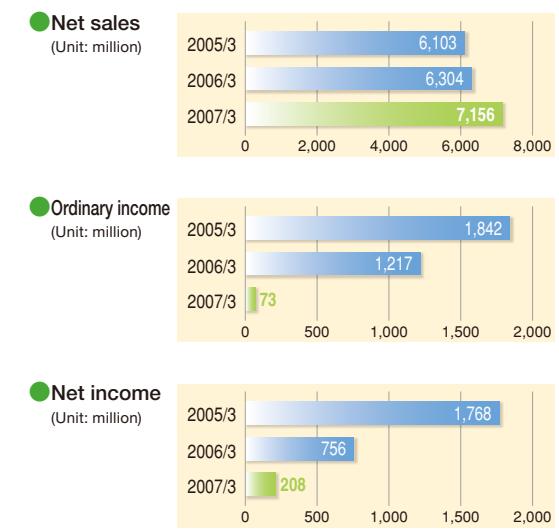
Business outline by segments

■ Optical Disc Mold Group

In the optical disc mold market, the market price of recording DVDs continued to fall, and it became difficult for many optical disc manufacturers (the users of our molds) to secure profits. Many actors in the DVD manufacturing industry restructured themselves to downsize their business activities, and as a consequence, the sales of our optical disc molds for DVDs tended to decrease over the business period.

While next-generation optical discs are attracting attention, blue-ray discs and HD-DVDs exist in parallel. An agreement on a unified standard system has not been forthcoming, and it is unclear when these media will become popular. In view of this, the Seikoh Giken group has tightened its ties to existing customers through proposals of solutions as well as strengthened its disc mold manufacturing technology base to prepare for the new generation of products. As a result of the above, net sales of the Optical Disc Mold Group in the fiscal year were ¥1,914 million (down 52.5% year-on-year).

Highlights of consolidated business performance



■ Optical Communications Group

The optical communications market has been expanding steadily, backed by the latest worldwide diffusion of broadband communication. Against this background, Seikoh Giken merged the optical device sales organization of NEC Tokin in June 2006 to significantly increase the net sales of the Group. In the same month, we established a new sales subsidiary, Seikoh Giken Hong Kong Co., Ltd., in Hong Kong, China. This subsidiary began operation as an important strategic base to comprehensively cover the customers in those regions, which are expected to show remarkable expansion of the optical communications market.

After the merger of the optical communications business of Seiko Instruments in the year before last, Group net sales more than quadrupled, and the number of personnel more than tripled over the last two years.

As a result, the net sales of the Optical Communications Group during the fiscal year were ¥5,241 million (up 130.4% year-on-year).

Consolidated Financial Statements

(Unit: million yen, rounded down)

■ Consolidated Balance Sheets

Item	Period	
	Current fiscal year As of March 31, 2007	Previous fiscal year As of March 31, 2006
Assets		
Current assets	17,442	16,915
Cash and deposits	13,399	13,275
Notes and accounts receivable	1,684	2,092
Inventories	1,743	1,185
Other current assets	622	369
Allowance for doubtful accounts	△ 7	△ 8
Fixed assets	8,771	9,312
Property, plant, and equipment	6,407	6,028
Buildings and structures	2,610	2,559
Machinery and delivery equipment	951	910
Land	2,211	2,211
Other	634	347
Intangible fixed assets	728	526
Goodwill	570	347
Other	157	178
Investments and other assets	1,635	2,757
Investment securities	30	1,137
Investment in real estates	896	908
Other	710	711
Allowance for doubtful accounts	△ 1	△ 0
Total Assets	26,214	26,227

Item	Period	
	Current fiscal year As of March 31, 2007	Previous fiscal year As of March 31, 2006
Liabilities		
Current liabilities	1,117	815
Trade accounts payable	215	199
Income taxes payable	34	254
Other	867	361
Fixed liabilities	585	623
Allowance for retirement bonuses for directors	–	136
Long term accounts payable	148	–
Allowance for retirement benefits	243	223
Other	193	264
Total Liabilities	1,703	1,439
Minority interests	–	78
Net assets		
Shareholders' equity	24,388	24,461
Common Stock	6,791	6,791
Capital Surplus	10,571	10,571
Retained earnings	7,335	7,412
Treasury stock	△ 309	△ 314
Valuation and translation adjustments	122	248
Unrealized gains on securities	7	241
Foreign currency translation adjustment	114	6
Total net assets	24,510	24,709
Total liabilities and net assets	26,214	26,227

Due to the adoption of new accounting standards, the heading "Capital" in the balance sheet was replaced by "Net assets".
The figures under "Net assets" for the previous period were converted based on the figures in "Capital".

■ Consolidated Income Statements

Item	Period	
	Current fiscal year April 1, 2006 to March 31, 2007	Previous fiscal year April 1, 2005 to March 31, 2006
Net sales	7,156	6,304
Cost of sales	4,765	3,228
Gross profit	2,391	3,076
Selling, general and administrative expenses	2,465	2,028
Operating income or loss	△ 74	1,048
Non-operating income	170	192
Non-operating expenses	22	22
Ordinary income	73	1,217
Extraordinary profit	405	0
Extraordinary loss	88	19
Net income before taxes	390	1,198
Income taxes	168	373
Deferred income taxes	13	63
Minority interests	–	5
Net income	208	756

■ Consolidated Statement of Cash Flows

Item	Period	
	Current fiscal year April 1, 2006 to March 31, 2007	Previous fiscal year April 1, 2005 to March 31, 2006
Cash flows from operating activities	695	1,570
Cash flows from investing activities	△ 1,335	△ 3,502
Cash flows from financing activities	△ 360	△ 450
Effect of exchange rate on cash and cash equivalents	24	26
Decrease in cash and cash equivalents	△ 975	△ 2,356
Balance of cash and cash equivalents at the beginning of year	2,863	5,219
Balance of cash and cash equivalents at the end of year	1,887	2,863

■ Consolidated Statements of Changes in Net Assets

	Shareholders' equity					Total Valuation and translation adjustments	Minority interest	Total net assets
	Current fiscal year April 1, 2006 to March 31, 2007	Common Stock	Capital surplus	Retained earnings	Treasury stock			
Balance on March 31, 2006	6,791	10,571	7,412	△ 314	24,461	248	78	24,788
Changes of items during the period								
Dividends from retained earnings				△ 276		△ 276		△ 276
Bonuses to directors					△ 8		△ 8	△ 8
Net income				208		208		208
Loss on disposal of treasury stocks				△ 1		△ 1		△ 1
Purchase of treasury stocks					△ 0	△ 0		△ 0
Cancellation of treasury stocks					4	4		4
Changes except in shareholders' equity							△ 125	△ 78
Total changes during the period	–	–	△ 77	4	△ 73	△ 125	△ 78	△ 277
Balance on March 31, 2007	6,791	10,571	7,335	△ 309	24,388	122	–	24,510

The Consolidated Statement of Changes in Net Assets is included as a new financial statement, in accordance with the new accounting standards, to show the changes of "Net Assets" of the Consolidated Balance Sheet in a reader-friendly format.

Share outlook

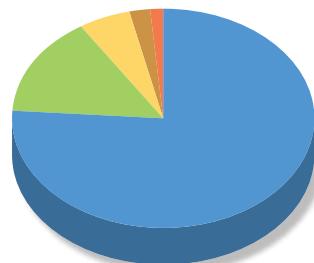
Authorized shares	37,000,000
Outstanding shares	9,333,654
Shareholders	4,504

Major Shareholders

Name	Shares held	Shareholding ratio
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

Distribution of shareholders

Individual, others	76.2%
Domestic corporations	14.7%
Financial institutions	5.6%
Non-Japanese	2.2%
Others	1.3%



Notes for Shareholders

Fiscal year: April 1 to March 31

General meeting of stockholders held in June

Shareholder registration date: Every March 31.

Shareholder's register manager:

The Chuo Mitsui Trust and Banking Company, Limited
3-33-1 Shiba, Minato-ku, Tokyo 105-8574

Office:

The Chuo Mitsui Trust and Banking Company, Limited Head Office
3-33-1 Shiba, Minato-ku, Tokyo 105-8574

Contact and postal address:

The Chuo Mitsui Trust and Banking Company, Limited
2-8-4 Izumi, Suginami-ku, Tokyo 168-0063

Stock transfer agency department

Phone (toll-free): 0120-78-2031

Agency:

The Chuo Mitsui Trust and Banking Company, Limited
Branches throughout Japan
Japan Securities Agents, Ltd. Head office and branches

(Notice) Please ask for the forms for notice of address change, request to purchase shares of less than one unit, requests for stock transfer, and notice of account number for receipt of dividends through the following toll-free phone number or the website of Chuo Mitsui Trust and Banking Co., Ltd., our nominated shareholders' register manager.

●Toll-free phone: 0120-87-2031 (24-hour operation, automated voice guide)

●URL: http://www.chuomitsui.co.jp/person/p_06.html

Our financial results are available at our website.

URL : <http://www.seikoh-giken.co.jp>

Corporate Profile

Company Name: SEIKOH GIKEN Co., Ltd.

Domestic Offices:

- Head Office 296-1 Matsuhidai, Matsudo City, Chiba, Japan.
- 1st Building 286-23 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: 690 (including subsidiaries)
(As of March 31, 2007)

Executives:

- | | |
|---------------------------------------|-------------------|
| President and Chief Executive Officer | Masatoshi Ueno* |
| Executive Director | Tamotsu Kimura* |
| Director | Yasumasa Yoshida* |
| Director | Haruo Yanase* |
| Director | Katsuhiko Okubo |
- *Additional post as company executive

Senior Corporate Auditor	Takeshi Miyanaga
Corporate Auditor	Toru Miyoshi
Corporate Auditor	Toshio Aiba

Executive Officer	Masahide Hioki
Executive Officer	Shigeta Ishikawa
Executive Officer	Shin Sumida
Executive Officer	Yujiro Yamazaki
Executive Officer	Yasuhiro Mori

Notes: 1. Director Katsuhiko Okubo is an external director.
2. Corporate auditors Totoro Miyoshi and Toshio Aiba are external auditors.

Overseas offices



Our company information is available also at our Web site.



<http://www.seikoh-giken.co.jp>



Contact: Management Planning

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