



## **INTERIM FINANCIAL STATEMENTS**

From April 1, 2005  
to September 30, 2005

### **Consolidated Subsidiaries**

*Domestic:*

*Makoto Industry Co., Ltd.*

*Edeclinsey System Co., Ltd.*

*Astro Co., Ltd.*

*Overseas:*

*Fuji America Corporation*

*Fuji Machine America Corporation*

*Fuji Machine Mfg. (Europe) GmbH*

*Fuji Machine Mfg. (Dalian) Co., Ltd.*

## Management Policy

### (1) Basic Management Policy

Fuji Machinery Manufacturing Group is to provide customers throughout the world the state of the art technology and professional services, and endeavor to assist in furtherance of corporate values to the benefits of users, stockholders, trading partners and their employees. Our objective is also to promote business growth through profitability improvement of the existing businesses, and development and expansion of LCD Assembly machinery business.

### (2) Basic Policy for the Appropriation of Profits

It is Fuji's policy to set dividend levels based on profitability, and while every attempt is made to maintain dividend levels, in view of the rapidly changing nature of our businesses, the dividend level must be set with an over-riding view to stabilizing the management base and strengthening the company's financial position.

Retained earnings are applied to the development of products focused on market needs, technology development, and effective investment in production facilities with a view towards strengthening our business structure that will ensure profits in the future for our shareholders.

### (3) Mid to Long-term Marketing Strategy

The nation's economy has been on the rise as individual consumption and capital investment indices have indicated. However, the steep rise of crude oil and raw materials which is downside to global economic recovery, and the revaluation of Yuan in China which jolted economy in Asia, still present negative factors for economic conditions.

While the business environment for Fuji Machine Mfg. is expected to stay favorable with surging demand for cellular phones, notebook PCs, digital home appliances, automobiles and other related products, it appears that market competition will be much heated due to technology advancement and price competitions.

In prospect, there will be increased needs for multi-function, high-function versatile cellular phones, notebook PCs, digital home appliances such as LCD TVs, and IT application, "Car Electronics" in automobile sectors. This is the primary target for Fuji products. It is also our projection that as automobile production expands globally, and energy efficient, environment conservation oriented technology gets highlighted, there will further increased needs for our products.

In this market environment, manufacturers have made concentrated efforts on developing multi-function, light-weight, compact products with further sophisticated features through advanced technology. In order to support their manufacturing sophistication, it has become quite essential for us to produce machinery which incorporates mounting, assembly and process capabilities. To this end we will be committed to creating "Only One Technology" which can be applied to digital home appliances and car electronics areas where a further growth is expected. Specifically, in this plan, the technology development center will play the key role in integrating "high-precision, high-speed surface mount technology, high-precision assembly technology"

Under the circumstance Fuji Machine Mfg. group has initiated a challenging business

plan to establish profit-generating business environment under the slogan, “Innovative mind for profitable business”, and then built it up for “set the initiative, act for profitable business”.

This plan is intended to intensify profitability increase and financial management to go with it. It promotes a business plan which allows for efficient and effective internal control with business risk management in mind. This is aimed at increasing market share and stabilizing business activities in the market.

In order to enhance integrated capabilities of development, manufacturing, and marketing, we will promote VA, CD activities focusing on real-life assessment of product development, manufacturing and marketing through coordinate work among the development center and related departments. This is all intended to grasp market needs and provide products which will live up to customer satisfaction.

Quality assurance, cost reduction, a shorter lead time, and development of high-value added products will continue to be our key manufacturing philosophy. We will be also actively promoting in-house assembly capabilities and operations.

It is also our plan to promote effective business execution by taking a quick action and eradicating “waste” to establish profit-generating business environment, and nurture personnel to be self-managing and self-thinking.

#### (4) Basic Policy of Corporate Governance

##### Fundamentals of Corporate Governance

##### 1) Corporate operation and internal control

##### Corporate operation

Fuji Machine Mfg. operates under a corporate audit control system.

Corporate officers hold monthly meeting and audit legal matters stipulated by officer’s council, make management decisions on important issues, and business operations. The officer’s council consists of 7 members.

The audit council consists of 4 members, and 3 members are independent auditors. The audit council attends officers meeting, holds monthly meeting and ad hoc meetings to audit compliance of business management and administration.

Operational decision making function is separated from that of administration. Administration council is instituted to define responsibilities of business operations and administration for prompt execution of activities. The administration council had entrusted authorities and responsibilities to execute business operations. They hold regular and ad hoc meetings to report on operations and execute policymaking. The administration council consists of 14 members (5 of them are officers). Two additional members will be appointed to the council as of October 1.

They also hold business meetings with subsidiaries regularly to review business conditions and corporate governance.

##### Internal Audit System and its operation

Management and planning department plays the key role in internal audit. Additional members are appointed to conduct internal audit as instructed by CEO

to audit selected subjects and report findings. CEO may issue improvement plans to the affected department to assure effective execution of operations.

## 2)Risk management

Designated staff is appointed to risk management. They put together various risk issues and set up countermeasures and define responsibilities.

## 3)Internal Audit and Financial Audit

Internal auditors and financial auditors work closely and share information, their views for better and effective auditing.

We have a contract agreement with Chuo/Aoyama Audit Firm for financial audit engagement. The audit is conducted in accordance with the audit standard promulgated in the commercial law and security exchange regulations. We ascertain that Chuo/Aoyama Audit Firm will conduct financial audit with its independent position. Listed below are auditors who performed financial audit on the interim financial reports.

Certified public accountants: Kaneyoshi Hasegawa, Chizuka Inagoshi,  
Masaru Yamakawa

Assistant auditors: 7 Certified Public Accountants, 4 accountants

## 4)Business relation with outside officers and outside auditors, interest relationship

We have no outside officers, and those 3 outside auditors have no business interest nor siblings relation with our organization, which may impair their auditor independency.

## (5) Parent company

We have no parent company and there is no applicable matter.

## **Operation results and financial position**

### 1. Operation results

#### (1) Business conditions for the interim period

During this period Japanese economy has sustained a positive sign of recovery as presented in individual consumption and steadfast increase of capital investment despite the steep price hike of crude oil, raw materials, and Yuan revaluation of China. Outside Japan, the US economy has been solid, and Asian economy has thrived.

In this business condition Fuji Machine Mfg. has operated under the slogan, “set the initiative, act for profitable business” to direct our efforts to expand profitability through effective financial management, a quick turn-around of technology development, manufacturing high-value products which would live up to customer needs, and carry out efficient business operations.

In order to execute the plan, the technology development center has played a key function in advancement of high-speed, high-precision surface mount technology, application engineering, and simulation technology through the coordinating work among other departments. We directed our efforts to accomplish a quicker turnaround of technical development and quality improvement. We also have made continuous efforts to make further improvement through standard application of CAD/CAM.

As an improvement measure for manufacturing philosophy, we have increased staffing of skilled operators and their training, and augmented facilities to intensify in-house assembly operations. This has been intended to refine precision assembly technology and increase in-house manufacturing capabilities for quality, cost and quicker turnaround time purposes.

We have also worked on new manufacturing control system in order to monitor manufacturing status on real-time basis to be able to promptly meet further diversified customer requirements. Simultaneously we have worked on integration of manufacturing, marketing and technology to improve operations, reduce manufacturing costs, and curtail on lead time.

In marketing and service area, we will direct our efforts on market expansion not only in China which is expected to expand further, but also in Brazil, India, Mexico, Easter Europe, possible manufacturing sites of our customers. We also have a plan to increase service personnel and their training.

Under the circumstances, new orders amounted to 43,596 million yen (11.3% increase as compared to the same period of the previous fiscal year), and the sales resulted in 40,935 million yen (5.0% increase over the same period of the previous year), and operating profits resulted in 3,754 million yen (150.9% increase from the same period of the previous year) and ordinary profits resulted in 3,995 million yen (129.8% increase from the same period of the previous year) Net profits resulted in 4,529 million yen (187.9% increase from the same period of the previous fiscal year) after posting extraordinary loss incurred due to Chapter 11 reorganization of a company in Machine Tool business, and additional deferred taxes.

### Business results by segment

#### 1. Surface Mount

In the midst of heated costs and technical competition NXT machine (modular type, high-speed, high-function surface mounter) , our major product, and XP series (medium-sized surface mounter) sustained steadfast sales to major EMS, and ODM in

China and Taiwan owing to increased demand for PCs and digital equipment such as cellular phones. Total sales resulted in 29,256 million yen (11.7% increase over the same period of the previous year). Operating profits resulted in 3,795 million yen (98.7% increase over the same period of the previous year) reflecting cost reduction effect by improved manufacturing efficiency

## 2. Machine tools

There has been a surging demand for automobiles in the market overseas, and Japanese automakers within and outside Japan including medium and small-sized companies have increased a steady demand for manufacturing equipment resulting in sales of 10,064 million yen (25.7% increase over the same period of the previous year), with operating profits of 961 million yen (123.2% increase over the same period of the previous year)

## 3. LCD

Demand for medium and small-sized LCD panels for post-process manufacturing equipment has become stagnant and weakened because of the saturated market, and sales ended at 1,044 million yen (75.4% decrease over the same period of the previous year) with operating loss of 317 million yen (The same period of the previous year reported operating profits of 111 million yen). Our plan is to apply refined LCD technology to not just LCD related business but other areas with potential for growth and more profitability along with lower fixed costs to establish profitable business activities.

### (2) Business outlook throughout this fiscal year

It is expected that Japanese economy will sustain continued recovery due to consumer spending, capital investment, and steadfast export to China, and Taiwan.

It is our expectation that there will be wider application of surface mount equipment for PCs, cellular phones and multi-media products, and we believe there will be no sharp decline in business.

In the automobile industry, we anticipate much activity both within and outside Japan in order to expand market share and increase production volume. This should contribute toward higher demand for machine tool business.

It is our projection for this fiscal year that sales will be at 84 billion yen (19.8% increase over the previous year), operating profits at 7.6 billion yen (162.6% increase over the previous year), and ordinary profits at 8.1 billion yen (151.1 % increase over the previous year). We expect net profits to be at 9.3 billion yen (461.7% increase over the previous year) due to additional deferred taxes.

## 2. Financial Condition

The total consolidated assets for this period, due to increases in notes and accounts receivable, were 108,491 million yen, which was 1,959 million yen more than the previous consolidated fiscal year. Additionally, our consolidated liability for this fiscal year totaled 30,919 million yen, which was 3,647million yen less than the previous consolidated fiscal period due to decreases in Notes and accounts payable.

As for the cash flow, consolidated cash and cash equivalents for this fiscal period were 16,149 million yen, which was 1,393 million yen more than the previous consolidated fiscal period. This was attributable to the total of increased cash flow from business operations activities below decreased cash flow from investment and financial activities

As for cash flow from business operations, cash which was obtained as a result of operations was 1,564 million yen (the previous consolidated fiscal period 2,794 million yen). This was mainly attributable to positive factors such as increases in income before income tax and decreases in depreciation expenses and inventories exceeding negative factors such as increases in trade receivables and decreases in account payable.

As for cash flow from investing activities, cash which was used as a result of the activities was 1,061 million yen (the previous consolidated fiscal period 2,375 million yen). This was attributable mainly from expenditure such as tangible and intangible fixed assets.

As for cash flow from financing activities, cash which was used as a result of these activities was 942 million yen (the previous consolidated fiscal period 611 million yen). This was principally due to a decrease in Long-term borrowings.

Furthermore, trends in the cash flow index were as follows:

	Consolidated Accounting Period (March 31 <sup>st</sup> 2002)	Consolidated Accounting Period (March 31 <sup>st</sup> 2003)	Consolidated Accounting Period (March 31 <sup>st</sup> 2004)	Consolidated Accounting Period (March 31 <sup>st</sup> 2005)	Consolidated Accounting Period (September 30 <sup>th</sup> 2005)
Shareholders' Equity Ratio (%)	85.0	79.7	70.1	67.6	71.5
Shareholder's Equity Ratio (based on market price) %	113.3	48.1	66.7	49.1	61.2
The number of years of debt redemption (Years)	1.4	0.8		3.7	10.4
Interest Coverage Ratio	129.2	122.8		32.7	20.1

Notes:

- The indexes above are calculated using the following formulas:  
 Shareholders' Equity Ratio: shareholders' equity/total assets.  
 Shareholders' Equity Ratio (based on market price): total sum of the market price for stock/total assets.  
 The number of years of debt redemption: liabilities with interest/cash flow from operating activities.  
 Interest Coverage Ratio: cash flow from operating activities/interest payments
- Each index is calculated according to the consolidated financial value.
- The total sum of the market price for stock is calculated as the closing price of the end of term stocks × the number of stocks issued at the end of term (after deduction of treasury stocks).
- "Cash flow from operating activities" refers to the cash flow from operating activities in the statement of consolidated cash flow. "Liabilities with interest" refers to all interest paying debts on the consolidated balance sheet. "Interest Payments" refers to the interest payments in the statement of consolidated cash flow. Moreover, because there was an outflow of cash from operating activities in the consolidated accounting period ending March 31<sup>st</sup>, 2004, the debt redemption and interest coverage ratio are omitted for that period.

### 3. Business risk

Following are business risks which are considered to affect our financial position and business operations significantly.

#### (1) Market fluctuation

The market conditions for electronic component assembly and LCD related business which is the primary market for Fuji Machine Mfg. could be largely affected by sales conditions of digital equipment. It is expected that market conditions for PCs and cellular

phones will continue to be favorable. However,

as experienced in IT industry recession ,and imbalance of supply and demand which caused excessive loss of orders for electronic component assembly machinery, and as we heavily depend on EMS, ODM orders for our business, we could be significantly affected by the market conditions.

#### (2) Currency Exchange Rate Fluctuation

As our customers progressively shifted their manufacturing sites to Asia, particularly China and Taiwan, 70.6% of our total sales is overseas market.

The key currency for our export business is yen to avert exchange rate risk except for sales to our subsidiaries in the US, Germany and China. Although we hedge against currency fluctuation, a steep fluctuation of currency market could incur currency risk.

#### (3) Escalated Price Competition

We have been able to provide products manufactured with much refined technology in order to prevail in market competition, and successfully expanded sales. However, we anticipate that price competition will be further accelerated not only by technical advancement of PCs, cellular phones, digital equipment with high-function, multi-function features, but also price deflation of electronics equipment. This could cause heated price competition with our competitors as our customers would try to reduce production costs and purchase machinery at lower costs.

#### (4) Technology advancement

We have been able to maintain a major market share in the electronic component assembly business (SMT) by incorporating customer requirements into our far advance technology, high-precision, high-speed, high precision assembly technology, and by active and continuous investment for technology advancement. However, as electronic products become further diversified and sophisticated, much advanced machines must be launched into the market timely. This market timing could affect our business performance.

#### (5) Product Quality

We have actively incorporated superb proprietary technology and much advanced technology into new products and launched them into market timely.

We have acquired ISO 9001 to establish quality assurance, and reinforced customer service/support program to assure customer satisfaction. As we incorporate far advanced technology into our products, however, we could anticipate unexpected technical troubles from unknown area of new technology.

#### (6) Market expansion in China

As manufacturing sites of digital equipment products have become concentrated in China, our sales to Chinese market expanded to a large extent. This condition, we anticipate, will continue. We have been able to increase sales primarily to EMS and ODM makers in china and Taiwan backed by a strong business alliance which has been realized as a result of customer satisfaction with our superb technology products.

It is also expected that automobile industry will continuously expand production volume, and machine tool business will be accelerated. Chinese economy will continue to grow further, but Yuan revaluation and political tension could adversely affect our business.

(7) A steep rise of raw materials

We have applied VA, CD in order to evaluate and analyze customer requirements and provide high value products timely, but a steep price rise of crude oil and raw materials will cause price increase of steel, cast iron, electric components and so forth, which are main materials to manufacture our products. This could adversely affect our business.

# CONSOLIDATED BALANCE SHEETS

Fuji Machine Mfg. Co., Ltd. and subsidiaries

ASSETS	Millions of yen		
	First half ended September 30, 2005	First half ended September 30, 2004	Year ended March 31, 2005
<b>Current assets</b>			
Cash on hand and in bank	16,471	15,017	16,414
Notes and accounts receivable – trade	25,301	25,864	21,619
Inventories	28,228	27,027	29,934
Deferred taxes	3,878	3,757	3,460
Other current assets	886	977	1,742
Less-Allowance for doubtful receivable	16	16	10
Total current assets	74,749	72,628	73,160
<b>Fixed assets</b>			
<b>Property, plant and equipment:</b>			
Building and structures	8,953	9,437	9,122
Machinery/equipment and vehicles	3,590	4,284	4,090
Tools, furniture and fixtures	931	1,044	986
Land	3,928	3,923	3,915
Construction in progress	10	28	9
Total property, plant and equipment	17,413	18,718	18,124
<b>Intangible assets:</b>			
Software	5,510	5,763	5,701
Other intangible assets	21	21	20
Total intangible assets	5,532	5,784	5,721
<b>Investments and other assets:</b>			
Investment securities	10,043	7,291	8,656
Deferred taxes	8	403	9
Others	1,240	887	858
Less-Allowance for doubtful receivable	496	-	-
Total investments and other assets	10,795	8,581	9,524
Total fixed assets	33,741	33,085	33,371
Total assets	108,491	105,713	106,532

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	Millions of yen		
	<b>First half ended September 30, 2005</b>	First half ended September 30, 2004	Year ended March 31, 2005
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Notes and accounts payable	6,593	11,921	9,671
Short-term borrowings	-	4,000	-
Return planned long-term borrowings for less than 1 year	5,148	595	1,150
Accrued expenses	2,844	2,689	2,736
Accrued warranty	1,150	807	781
Others	1,781	1,678	1,775
<b>Total current liabilities</b>	<b>17,519</b>	<b>21,692</b>	<b>16,115</b>
<b>Long term liabilities:</b>			
Long-term borrowings	11,071	10,222	15,652
Deferred tax liabilities	1,039	-	1,306
Accrued retirement benefits	1,288	1,780	1,482
Consolidation adjustments	-	20	10
<b>Total long term liabilities</b>	<b>13,399</b>	<b>12,023</b>	<b>18,450</b>
<b>Total liabilities</b>	<b>30,919</b>	<b>33,716</b>	<b>34,566</b>
<b>Shareholders' equity</b>			
<b>Capital stock</b>	5,878	5,878	5,878
<b>Capital surplus</b>	5,413	5,413	5,413
<b>Earnings surplus</b>	61,391	57,512	57,228
<b>Unrealized gain on available for-sale securities, net of taxes</b>	3,175	1,719	2,374
<b>Translation adjustment</b>	1,732	1,488	1,087
<b>Treasury stock</b>	18	15	17
<b>Total shareholders' equity</b>	<b>77,572</b>	<b>71,996</b>	<b>71,965</b>
<b>Total liabilities and shareholders' equity</b>	<b>108,491</b>	<b>105,713</b>	<b>106,532</b>

## CONSOLIDATED INCOME STATEMENT

Fuji Machine Mfg. Co., Ltd. and subsidiaries

	Millions of yen		
	First half ended September 30, 2005	First half ended September 30, 2004	Year ended March 31, 2005
Net sales	40,935	38,988	70,096
Cost of sales	30,016	30,152	53,013
Selling, general and administrative expenses	7,164	7,339	14,188
<b>Operating Income</b>	<b>3,754</b>	<b>1,496</b>	<b>2,894</b>
<b>Non-operating revenue:</b>			
Interest and dividend income	168	102	219
Exchange gain	111	78	5
Others	100	198	377
<b>Non-operating expenses:</b>			
Interest expense	77	72	140
Others	62	65	130
<b>Ordinary Income</b>	<b>3,995</b>	<b>1,738</b>	<b>3,226</b>
Extraordinary gain	416	107	460
Extraordinary loss	898	84	116
<b>Income before income taxes and minority interest</b>	<b>3,512</b>	<b>1,761</b>	<b>3,570</b>
<b>Income taxes:</b>			
Corporate, inhabitant's and enterprise taxes	237	176	351
Adjustment for corporate taxes	1,254	12	1,563
<b>Net Income</b>	<b>4,529</b>	<b>1,573</b>	<b>1,655</b>
<b>Notes:</b>			
Depreciation expense	840	990	2,045
Amortization expense	1,261	1,026	2,205

## CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Fuji Machine Mfg. Co., Ltd. and subsidiaries

	Millions of yen		
	First half ended September 30, 2005	First half ended September 30, 2004	Year ended March 31, 2005
<b>Capital surplus:</b>			
<b>Beginning balance of capital surplus</b>	5,413	5,413	5,413
<b>Ending balance of capital surplus</b>	5,413	5,413	5,413
<b>Earnings surplus:</b>			
<b>Beginning balance of earnings surplus</b>	57,228	56,306	56,306
<b>Increase</b>			
Net Income	4,529	1,573	1,655
<b>Decrease</b>			
Cash dividends	366	366	733
<b>Ending balance of earnings surplus</b>	61,391	57,512	57,228

# CONSOLIDATED CASH FLOWS STATEMENT

Fuji Machine Mfg. Co., Ltd. and subsidiaries

	Millions of yen		
	First half ended September 30, 2005	First half ended September 30, 2004	Year ended March 31, 2005
<b>Operating activities</b>			
Income before income taxes and minority interest	3,512	1,761	3,570
Depreciation and amortization	2,102	2,017	4,250
Increase in accrued warranty	366	117	93
Decrease in accrued retirement benefits	193	247	545
Interest and dividend income	168	102	219
Interest expense	77	72	140
Gain on disposition of fixed assets	84	11	23
Loss on disposition of fixed assets	419	68	103
Gain on sale of investment securities	330	7	316
Increase in accounts receivable	3,608	6,639	2,459
Increase or decrease in inventories	1,854	2,453	528
Increase or decrease in trade payable	3,171	2,712	511
Increase or decrease in accrued consumption taxes	790	443	100
Others	9	531	548
<b>Sub total</b>	<b>1,575</b>	<b>3,171</b>	<b>5,027</b>
Interest and dividend received	203	102	183
Interest paid	77	71	138
Payments of income taxes	136	407	550
<b>Net cash provided by operating activities</b>	<b>1,564</b>	<b>2,794</b>	<b>4,522</b>
<b>Investing activities</b>			
Additions of tangible and intangible fixed assets	1,713	2,134	3,920
Proceeds from sales of tangible and intangible fixed assets	362	113	239
Additions of investment securities	78	468	902
Proceeds from sales of investment securities	419	114	591
Investment in time deposit	126	120	244
Proceeds on maturity of time deposit	67	221	344
Expenditures for long-term prepaid expenses	1	139	233
Others	8	37	62
<b>Net cash used in investing activities</b>	<b>1,061</b>	<b>2,375</b>	<b>4,062</b>
<b>Financing activities</b>			
Increase or decrease in short-term borrowings	-	1,000	3,000
Proceeds on long-term borrowings	-	-	6,000
Expenditures for return of long-term borrowings	574	19	40
Dividends paid	366	366	733
Others	1	1	3
<b>Net cash (used in) provided by financing activities</b>	<b>942</b>	<b>611</b>	<b>2,222</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>438</b>	<b>395</b>	<b>138</b>
<b>Increase or decrease in cash and cash equivalents</b>	<b>1</b>	<b>1,426</b>	<b>2,821</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>16,150</b>	<b>13,329</b>	<b>13,329</b>
<b>Cash and cash equivalents at end of the period</b>	<b>16,149</b>	<b>14,755</b>	<b>16,150</b>

## **BASIS FOR PREPARATION OF INTERIM CONSOLIDATED STATEMENTS**

### **1. Consolidation range**

Number of consolidated subsidiary companies: 7 companies

The names of consolidated subsidiary companies:

Makoto Industry Co., Ltd. Edeclinsey System Co., Ltd. Astro Co., Ltd.  
Fuji America Corporation Fuji Machine America Corporation  
Fuji Machine Mfg. (Europe) GmbH Fuji Machine Mfg. (Dalian) Co., Ltd.

### **2. Applicability under the holdings law**

The names of affiliated companies to which the equity method is not applied:

Fuji do Brasil Maquinas Industrials Ltda. Fuji Machine Philippines, Inc.

Reasons for not applying the equity method

The total amount of net profit/loss and reserves of the affiliated companies to which the equity method is not applied for this interim consolidated term, and the total amount equivalents for holdings were so insignificant as to have any affect on the net profit/loss and the reserves of the consolidated company during this interim term, and are therefore deemed not to be of consequence from the view of the entity as a whole. Therefore, the Holdings Law does not apply.

### **3. Consolidated Subsidiary Company Business Periods**

The closing date for the interim financial report for Fuji Machine Mfg. Limited (Dalian) is June 30. Financial reports from subsidiaries are based on pro forma statements at the time of consolidation, in order to report consolidated interim financial statements.

### **4. Standard Accounting Practices**

#### **( 1 ) Evaluation standards and methods for important assets**

Securities

Other securities

Securities with market value: The market value method based on the market price as of the date of interim account settlement (The difference in evaluation is fully treated according to the method to be directly incorporated in the capital and the sale cost is calculated by the moving average method.)

Securities without market value: Determined by the moving average method.

Inventories

Determined mainly by final purchase cost method and periodic average method.

#### **( 2 ) Depreciation methods for important assets**

Tangible fixed assets are depreciated mainly using the declining balance method, except for buildings (excluding attached facilities) acquired in Japan subsequent to March 31, 1998 are depreciated according to the straight-line method.

Intangible fixed assets are depreciated using the straight-line method. However, as for software used for sales, the straight-line method is applied based on the estimated term of usefulness. As to software for our company uses, the straight-line method is based on the estimated usable term.

#### **( 3 ) Accounting standard for important allowances**

Allowance for doubtful accounts: to prepare for loss on irrecoverable debts, the estimated irrecoverable amount is appropriated by the actual rate of dead loan as for general credit, And by estimation of possibility of recovery for individual cases for specific doubtful credits that have worries of dead loan.

Accrued warranty: to prepare for outlays for defects found in manufactured goods within the warranty period, the experience rate is computed based on past record, which is then multiplied by the sales for the current term.

Accrued retirement benefits: In preparation of payment of employee retirement benefits, the forecasted amount has be appropriated based on the estimated amount of the debt set aside for retirement benefit and pension assets at the end of the current consolidated annual accounting period. Calculational discrepancies are included in the consolidated fiscal accounting period's calculations as a lump-sum expense.

( 4 ) Method of important hedge account

Hedge account method:

In regard to interest rate swap, we adopt special exemption as we meet the necessary conditions.

Hedge means and subject:

The hedge means: interest rate swap

The hedge subject: loan

Hedge policy:

To decrease the risk posed by interest rate fluctuation and improve the credit situation with regard to income and expenditure.

Method of evaluating hedge validity:

As we meet the necessary conditions for special exemption, judgment on the evaluation of the settlement date is omitted.

( 5 ) Computation of consumption tax and other tax

Tax computed separately.

## 5. Capital Range of Interim Consolidated Cash Flows Accounting Statement

The capital (cash and equivalents) in the Interim Consolidated Cash Flows Statement consists of cash on hand, deposits receivable on demand and short-term investments with 3 month or less until due date after date of acquisition, with very little variance in value and/or can also be easily converted to cash.

### NOTES :

#### (On interim consolidated balance sheet)

(Millions of yen)

	First half ended September 30, 2005	First half ended September 30, 2004	Year ended March 31, 2005
1. Accumulated depreciation of tangible fixed assets	23,789	22,972	23,713
2. Balance of endorsed notes receivable	4	2	0

#### (On interim consolidated cash flow statement)

The relation between the term-end balance of cash and cash-equivalents, and the sums of the items listed on the interim consolidated balance sheet

(Millions of yen)

	First half ended September 30, 2005	First half ended September 30, 2004	Year ended March 31, 2005
Cash and deposit accounts	16,471	15,017	16,414
Time deposits whose deposit terms exceed three months	321	262	263
Cash and cash equivalents at end of the period	16,149	14,755	16,150

**(On consolidated marketable securities)**

(This interim consolidated accounting period) (September 30, 2005)

## 1. Other negotiable securities which currently have a market value

(Millions of yen)

Category	Acquisition cost	Price on interim consolidated balance sheet	Net difference
Other negotiable securities			
Shares	4,336	9,619	5,282
Bonds	-	-	-
Others	211	270	58
Total	4,548	9,890	5,341

## 2. Principal negotiable securities which lack a market value

(Millions of yen)

Category	Price on interim consolidated balance sheet
Other marketable securities	
Unlisted stocks	116
Equity interests in limited liability partnership	11
Total	129

(Previous interim consolidated accounting period) (September 30, 2004)

## 1. Other negotiable securities which currently have a market value

(Millions of yen)

Category	Acquisition cost	Price on interim consolidated balance sheet	Net difference
Other negotiable securities			
Shares	4,076	6,935	2,858
Bonds	-	-	-
Others	211	214	2
Total	4,288	7,150	2,861

## 2. Principal negotiable securities which lack a market value

(Millions of yen)

Category	Price on interim consolidated balance sheet
Other marketable securities	
Unlisted stocks (excluding over-the-counter stocks)	116
Total	116

(Previous consolidated accounting period) (March 31,2005)

1. Other negotiable securities which currently have a market value

( Millions of yen )

Category	Acquisition cost	Price on consolidated balance sheet	Net difference
Other negotiable securities			
Shares	4,336	8,270	3,933
Bonds	-	-	-
Others	211	228	16
Total	4,548	8,499	3,950

2. Principal negotiable securities which lack a market value

( Millions of yen )

Category	Price on consolidated balance sheet
Other marketable securities	
Unlisted stocks	116
Equity interests in limited liability partnership	16
Total	132

**(On consolidated segment information)****1. Business segment information**

This interim consolidated accounting period (April 1, 2005 to September 30, 2005) (Millions of yen)

	PCB Assembly Machinery	Machine Tools	LCD Assembly Machinery	Others	Total	Elimination or all company	Consolidated
<b>. Sales and operating expenses</b>							
Sales							
1. Sales to third parties	29,256	10,064	1,044	569	40,935	-	40,935
2. Interarea sales or transfers	0	-	-	487	487	487	-
Total	29,256	10,064	1,044	1,057	41,423	487	40,935
Operating expenses	25,461	9,103	1,362	1,033	36,960	220	37,180
Operating income	3,795	961	317	23	4,462	707	3,754
<b>. Asset, depreciation and capital expenditure</b>							
Asset	67,668	20,995	4,341	1,993	94,998	13,493	108,491
Depreciation	1,610	212	185	48	2,057	45	2,102
Capital expenditure	1,349	207	229	8	1,795	23	1,818

Previous interim consolidated accounting period (April 1, 2004 to September 30, 2004) (Millions of yen)

	PCB Assembly Machinery	Machine Tools	LCD Assembly Machinery	Others	Total	Elimination or all company	Consolidated
<b>. Sales and operating expenses</b>							
Sales							
1. Sales to third parties	26,183	8,008	4,245	551	38,988	-	38,988
2. Interarea sales or transfers	0	-	-	401	401	401	-
Total	26,183	8,008	4,245	952	39,389	401	38,988
Operating expenses	24,273	7,577	4,134	997	36,982	509	37,492
Operating income	1,910	430	111	44	2,407	911	1,496
<b>. Asset, depreciation and capital expenditure</b>							
Asset	68,339	17,739	7,909	2,125	96,112	9,601	105,713
Depreciation	1,525	209	156	61	1,952	65	2,017
Capital expenditure	1,599	163	295	55	2,113	13	2,126

Previous consolidated accounting period (April 1, 2004 to March 31, 2005)

( Millions of yen )

	PCB Assembly Machinery	Machine Tools	LCD Assembly Machinery	Others	Total	Elimination or all company	Consolidated
<b>. Sales and operating expenses</b>							
Sales							
1. Sales to third parties	46,961	16,921	5,102	1,112	70,096	-	70,096
2. Interarea sales or transfers	0	-	-	838	838	838	-
Total	46,961	16,921	5,102	1,950	70,935	838	70,096
Operating expenses	43,408	15,713	5,253	1,997	66,373	828	67,202
Operating income	3,552	1,207	151	46	4,561	1,667	2,894
<b>. Asset, depreciation and capital expenditure</b>							
Asset	65,679	20,384	5,846	2,040	93,950	12,581	106,532
Depreciation	3,245	428	327	119	4,121	129	4,250
Capital expenditure	2,862	316	623	75	3,878	32	3,910

Notes:

1. Method of segmentation by type of business

Segmentation has been performed by the type and nature of the products.

2. Main products of each business unit.

( 1 ) PCB assembly machinery business: SMT assembly machines

( 2 ) Machine tools business: Automatic lathe, Special-purpose machines

( 3 ) LCD assembly machinery business: LCD related production equipment

( 4 ) Other businesses: Control hardware, PCB Contract Manufacturing, Software development  
Insurance brokerage

## 2. Geographical segment information

This interim consolidated accounting period (April 1, 2005 to September 30, 2005) (Millions of yen)

	Japan	North America	Europe	Asia	Total	Elimination or all company	Consolidated
<b>. Sales and operating expenses</b>							
Sales							
1. Sales to third parties	33,908	4,642	2,206	177	40,935	-	40,935
2. Interarea sales or transfers	5,477	0	6	-	5,483	5,483	-
Total	39,385	4,642	2,212	177	46,419	5,483	40,935
Operating expenses	35,165	4,361	2,056	182	41,765	4,584	37,180
Operating income	4,220	281	156	4	4,653	898	3,754
<b>. Asset</b>	81,366	15,273	2,050	165	98,855	9,636	108,491

Previous interim consolidated accounting period (April 1, 2004 to September 30, 2004) (Millions of yen)

	Japan	North America	Europe	Asia	Total	Elimination or all company	Consolidated
<b>. Sales and operating expenses</b>							
Sales							
1. Sales to third parties	31,984	5,840	1,164	-	38,988	-	38,988
2. Interarea sales or transfers	4,189	12	39	-	4,241	4,241	-
Total	36,173	5,852	1,203	-	43,230	4,241	38,988
Operating expenses	34,047	5,682	1,179	-	40,909	3,417	37,492
Operating income	2,126	170	23	-	2,320	824	1,496
<b>. Asset</b>	82,802	15,183	1,218	93	99,297	6,416	105,713

Previous consolidated accounting period (April 1, 2004 to March 31, 2005) (Millions of yen)

	Japan	North America	Europe	Asia	Total	Elimination or all company	Consolidated
<b>. Sales and operating expenses</b>							
Sales							
1. Sales to third parties	58,099	9,671	2,272	53	70,096	-	70,096
2. Interarea sales or transfers	7,710	12	26	-	7,748	7,748	-
Total	65,809	9,684	2,298	53	77,845	7,748	70,096
Operating expenses	61,380	9,484	2,294	57	73,217	6,014	67,202
Operating income	4,429	200	3	4	4,628	1,733	2,894
<b>. Asset</b>	81,058	14,142	1,390	135	96,726	9,805	106,532

Notes:

1. Division by country or region based on geographical proximity.
2. Major countries or regions in each division
  - (1) North America: The United States of America
  - (2) Europe: Germany
  - (3) Asia: China

### 3. Overseas sales

This interim consolidated accounting period (April 1, 2005 to September 30, 2005) (Millions of yen)

	North America	Europe	Asia	Other	Total
. Overseas sales	5,151	3,575	19,598	571	28,896
. Consolidated sales					40,935
. Ratio of overseas sales to consolidated sales(%)	12.6	8.7	47.9	1.4	70.6

Previous interim consolidated accounting period (April 1, 2004 to September 30, 2004) (Millions of yen)

	North America	Europe	Asia	Other	Total
. Overseas sales	5,971	2,201	19,944	2,289	30,406
. Consolidated sales					38,988
. Ratio of overseas sales to consolidated sales(%)	15.3	5.6	51.2	5.9	78.0

Previous consolidated accounting period (April 1, 2004 to March 31, 2005) (Millions of yen)

	North America	Europe	Asia	Other	Total
. Overseas sales	10,202	4,978	34,207	2,627	52,015
. Consolidated sales					70,096
. Ratio of overseas sales to consolidated sales(%)	14.6	7.1	48.8	3.7	74.2

#### Notes:

1. Division by country or region based on geographical proximity.
2. Major countries or regions in each division
  - (1) North America: The United States of America, Mexico, etc.
  - (2) Europe: Germany, Poland, etc.
  - (3) Asia: China, Malaysia, etc.
  - (4) Other: Brazil etc.
3. Overseas sales are the aggregation of sales outside of Japan by the parent company and its consolidated subsidiaries.

## CONSOLIDATED ORDER RECEPTION AND SALES SITUATION

Fuji Machine Mfg. Co., Ltd. and subsidiaries

(This interim consolidated accounting period) (April 1, 2005 to September 30, 2005)

( Millions of yen )

Business divided into Market segment type	Sales orders (%)	Sales (%)	Back orders (%)
PCB assembly machinery Business	28,998 (66.5)	29,256 (71.5)	6,577 (37.2)
Machine tools business	13,109 (30.1)	10,064 (24.6)	10,679 (60.4)
LCD assembly machinery Business	886 (2.0)	1,044 (2.5)	299 (1.7)
Other businesses	602 (1.4)	569 (1.4)	127 (0.7)
Total	43,596 (100.0)	40,935 (100.0)	17,684 (100.0)

(Previous interim consolidated accounting period) (April 1, 2004 to September 30, 2004)

( Millions of yen )

Business divided into Market segment type	Sales orders (%)	Sales (%)	Back orders (%)
PCB assembly machinery Business	27,283 (69.6)	26,183 (67.2)	5,908 (50.1)
Machine tools business	8,278 (21.1)	8,008 (20.5)	5,664 (48.0)
LCD assembly machinery Business	3,071 (7.9)	4,245 (10.9)	152 (1.3)
Other businesses	548 (1.4)	551 (1.4)	72 (0.6)
Total	39,182 (100.0)	38,988 (100.0)	11,796 (100.0)

(Previous consolidated accounting period) (April 1, 2004 to March 31, 2005)

( Millions of yen )

Business divided into Market segment type	Sales orders (%)	Sales (%)	Back orders (%)
PCB assembly machinery Business	48,988 (66.6)	46,961 (67.0)	6,835 (45.5)
Machine tools business	19,163 (26.1)	16,921 (24.1)	7,634 (50.8)
LCD assembly machinery Business	4,232 (5.8)	5,102 (7.3)	457 (3.1)
Other businesses	1,132 (1.5)	1,112 (1.6)	94 (0.6)
Total	73,516 (100.0)	70,096 (100.0)	15,022 (100.0)

## BALANCE SHEETS

Fuji Machine Mfg. Co., Ltd.

<b>ASSETS</b>	Millions of yen		
	<b>First half ended September 30, 2005</b>	First half ended September 30, 2004	Year ended March 31, 2005
<b>Current assets</b>			
Cash on hand and in bank	4,784	4,827	5,427
Notes receivable	2,328	3,585	2,034
Accounts receivable	23,429	21,354	19,384
Finished goods and work in process	10,027	8,286	10,813
Raw material and supplies	14,557	15,774	16,080
Deferred taxes	3,376	3,380	3,154
Other current assets	628	847	1,439
Total current assets	59,132	58,057	58,334
<b>Fixed assets</b>			
<b>Property, plant and equipment:</b>			
Building and structures	7,115	7,547	7,311
Machinery and equipment	3,248	3,908	3,768
Vehicles	64	65	68
Tools, furniture and fixtures	840	947	899
Land	3,211	3,211	3,211
Construction in progress	9	28	9
Total property, plant and equipment	14,490	15,709	15,269
<b>Intangible assets:</b>			
Software	5,487	5,744	5,685
Other intangible assets	18	17	17
Total intangible assets	5,505	5,762	5,703
<b>Investments, etc.:</b>			
Investment securities	9,889	7,156	8,529
Investment in related parties	1,140	1,140	1,140
Sundry investments	40	82	52
Sundry investments in related parties	372	372	372
Deferred taxes	-	396	-
Other investments	475	563	575
Total investments	11,918	9,712	10,671
Total fixed assets	31,914	31,185	31,644
Total assets	91,046	89,242	89,978

	Millions of yen		
	First half ended September 30, 2005	First half ended September 30, 2004	Year ended March 31, 2005
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Notes payable	2,330	8,387	5,902
Accounts payable-trade	4,196	3,843	3,855
Short-term borrowings	-	4,000	-
Return planned long-term borrowings for less than 1 year	5,050	525	1,050
Accounts payable-other	184	160	192
Accrued expenses	2,102	1,944	2,028
Accrued warranty	1,091	692	689
Equipment notes payable	207	136	107
Other current liabilities	699	1,117	930
<b>Total current liabilities</b>	<b>15,861</b>	<b>20,807</b>	<b>14,756</b>
<b>Long term liabilities:</b>			
Long-term borrowings	10,825	9,875	15,350
Deferred tax liabilities	1,032	-	1,306
Accrued retirement benefits	1,277	1,772	1,473
Others	15	15	15
<b>Total long term liabilities</b>	<b>13,150</b>	<b>11,662</b>	<b>18,144</b>
<b>Total liabilities</b>	<b>29,012</b>	<b>32,470</b>	<b>32,901</b>
<b>Shareholders' equity</b>			
<b>Capital stock</b>	5,878	5,878	5,878
<b>Capital surplus:</b>	5,413	5,413	5,413
Capital reserves	5,413	5,413	5,413
<b>Earnings surplus:</b>	47,593	43,773	43,422
Earnings reserve	1,450	1,450	1,450
Retained earnings	39,400	39,400	39,400
Unappropriated retained earnings	6,743	2,923	2,572
<b>Unrealized gain on available for-sale securities, net of taxes</b>	<b>3,167</b>	<b>1,721</b>	<b>2,379</b>
<b>Treasury stock</b>	<b>18</b>	<b>15</b>	<b>17</b>
<b>Total shareholders' equity</b>	<b>62,034</b>	<b>56,772</b>	<b>57,077</b>
<b>Total liabilities and shareholders' equity</b>	<b>91,046</b>	<b>89,242</b>	<b>89,978</b>

# INCOME STATEMENT

Fuji Machine Mfg. Co., Ltd.

	Millions of yen		
	First half ended September 30, <b>2005</b>	First half ended September 30, 2004	Year ended March 31, 2005
Net sales	38,927	35,773	64,963
Cost of sales	29,920	29,069	51,585
Selling, general and administrative expenses	5,638	5,678	11,117
<b>Operating Income</b>	<b>3,368</b>	<b>1,025</b>	<b>2,261</b>
<b>Non-operating revenue:</b>			
Interest and dividend income	58	122	192
Exchange gain	92	79	-
Others	76	126	197
<b>Non-operating expenses:</b>			
Interest expense	68	61	120
Others	54	61	108
<b>Ordinary Income</b>	<b>3,472</b>	<b>1,230</b>	<b>2,422</b>
Extraordinary gain	416	17	365
Extraordinary loss	417	81	101
<b>Income before income taxes</b>	<b>3,470</b>	<b>1,166</b>	<b>2,686</b>
<b>Income taxes:</b>			
Corporate, inhabitant's and enterprise taxes	11	9	20
Adjustment for corporate taxes	1,078	-	1,492
<b>Net Income</b>	<b>4,537</b>	<b>1,157</b>	<b>1,173</b>
Retained earnings brought forward	2,206	1,765	1,765
Interim dividend	-	-	366
<b>Unappropriated retained earnings</b>	<b>6,743</b>	<b>2,923</b>	<b>2,572</b>
<b>Notes:</b>			
Depreciation expense	743	887	1,840
Amortization expense	1,257	1,021	2,195

# ACCOUNTING POLICY

## 1. Evaluation standards and methods for assets

Appraisal method of negotiable securities

Shares of subsidiaries and affiliated companies

Determined by the moving average method.

Other securities

Securities with market value: The market value method based on the market price as of the date of account settlement (The difference in evaluation is fully treated according to the method to be directly incorporated in the capital and the sale cost is calculated by the moving average method.)

Securities without market value: Determined by the moving average method.

Appraisal method of inventories

Finished goods and work in process valued by average cost method.

Raw material and stores valued by last-in cost method.

## 2. Depreciation methods for assets

Tangible fixed assets are depreciated using the declining balance method, except for buildings (excluding attached facilities) acquired in Japan subsequent to March 31, 1998 are depreciated according to the straight-line method.

Intangible fixed assets are depreciated using the straight-line method. However, as for software used for sales, the straight-line method is applied based on the estimated term of usefulness. As to software for our company uses, the straight-line method is based on the estimated usable term.

## 3. Accounting standard for allowances

Allowance for doubtful accounts: to prepare for loss on irrecoverable debts, the estimated irrecoverable amount is appropriated by the actual rate of dead loan as for general credit, and by estimation of possibility of recovery for individual cases for specific doubtful credits that have worries of dead loan.

Accrued warranty: to prepare for outlays for defects found in manufactured goods within the warranty period, the experience rate is computed based on past record, which is then multiplied by the sales for the current term.

Accrued retirement benefits: In preparation of payment of employee retirement benefits, the forecasted amount has be appropriated and is to be set aside at the end of the current interim accounting period based on the estimated amount of the debt set aside for retirement benefits and pension assets at the end of the current annual accounting period. Computational discrepancies are included in the fiscal accounting period's calculations as a lump-sum expense.

## 4 Method of important hedge account

Hedge account method:

In regard to interest rate swap, we adopt special exemption as we meet the necessary conditions.

Hedge means and subject:

The hedge means: interest rate swap

The hedge subject: loan

Hedge policy:

To decrease the risk posed by interest rate fluctuation and improve the credit situation with regard to income and expenditure.

Method of evaluating hedge validity:

As we meet the necessary conditions for special exemption, judgment on the evaluation of the settlement date is omitted.

## 5. Computation of consumption tax and other tax

Tax computed separately.

## NOTES:

### (On balance sheet)

		(Millions of yen)	
	<b>First half ended September 30, 2005</b>	First half ended September 30, 2004	Year ended March 31, 2005
1. Accumulated depreciation of tangible fixed assets	21,986	21,265	21,977
2. Guarantee obligation	345	417	402

### (On marketable securities)

For both the previous and current interim period, there are no current values for the stock of any affiliated companies or subsidiaries.