TOWA

ANNUAL REPORT

２ ０ １ ０

A MESSAGE TO OUR SHAREHOLDERS

Greetings

Since its founding in Japan’s ancient capital, Kyoto, in April 1979, TOWA Corporation has consistently developed proprietary technologies and created numerous de facto standards. Our primary operations are composed of development, manufacturing and sales of resin encapsulation systems for semiconductors and LED resin sealed devices, singulation systems and precision molds for manufacturing semiconductors, as well as the manufacture and sales of fine plastic molded products. We maintain a leading share of the global market for our mainstay semiconductor resin encapsulation systems, which enjoy an excellent reputation with users.

Economic Overview

During the current consolidated accounting year, there have been continuing efforts in Japan to search for an exit from the global recession, seeking out "post-crisis" expansion. In addition, companies are looking beyond the stagnation of domestic markets to find paths to overseas markets, resulting in a further increase in interest toward emerging markets.

Although severe conditions continued for the semiconductor industry during the first half of the year, conditions changed drastically during the second half. Economic stimulus policies in various countries have finally had a synergistic effect with strong demands for finished products, allowing manufacturers to make aggressive business investments.

Performance

During the time it takes the semiconductor market to recover fully, the Towa Group has been thoroughly controlling fixed costs to reduce them compared to the previous fiscal year. At the same time, we have responded promptly to a sudden increase in orders, such as by bringing an end to production cutbacks, following the rise of the market during the second half of the previous fiscal year.

As a result, sales are 14,274 million yen (2,696 million yen and 23.3% increase compared with the pre-connected fiscal year), the operating loss 338 million yen (The pre-connected fiscal year is 3,337 million yen of the operating loss), and an ordinary loss 345 million yen (The pre-connected fiscal year is 3,677 million yen of an ordinary loss). The net deficit for the period became 330 million yen (The pre-connected fiscal year is 4,163 million yen of the net loss at this season).

Looking Ahead

We forecast that the semiconductor market will continue to expand steadily, and that manufacturers' drive to invest will continue, such as with updated facilities that will meet the needs of increased production and new packages. Further, we expect the LED market to expand beyond backlighting for LCD televisions and notebook computers, and move fully into the market for lighting fixtures.

However, the semiconductor market is quite volatile, and the interval between fluctuating cycles grows shorter each year. Therefore, we will move forward positively with efforts to implement the strategies stipulated in the medium-term management plan formulated in April 2009 in order to build a system that is economically stable even within the greatly fluctuating market of the semiconductor industry.

The basic philosophy of our company is to "respond to continued evolution in semiconductor technology, which is indispensible to modern society, in order to expand businesses that are built upon the foundation of 'technological development' that is required by industry, and to provide markets with new products taking a quarter lead". We will continue to be a leading company in semiconductor packages, while also actively utilizing the advanced technological skills we have developed in that filed into other high-growth businesses, such as LED.

We have already introduced new compression molded products to the market, and expect to increase our share in the semiconductor molding market.

In our LED business, we will make the most of the advantages of batch molding, utilizing an encapsulation method not found at any other company. This will allow us to cement our position as a leading company in the field of LED encapsulation as well.

TOWA faces the challenge of strengthening the market competitiveness of our products and providing good products in a timely fashion, the starting point of *monozukuri* (manufacturing), by moving forward with reforms in production processes and quality control, improving customer satisfaction and quality, reducing cost price, and improving our balance sheet.

We look forward to your continuing support and assistance in the future.

We would like to express our heartfelt appreciation for your support.

September 2010

Hisao Nishimura

President & COO

Consolidated Balance Sheets

TOWA CORPORATION AND CONSOLIDATED SUBSIDIARIES
March 31, 2009 and 2010

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2009	***2010***	***2010***
ASSETS			
Current assets:	¥	¥	$
Cash on hand and at banks	4,399	**3,897**	**41,885**
Notes and accounts receivable :			
Trade	3,313	**5,623**	**60,436**
Less: Allowance for doubtful accounts	(18)	**(9)**	**(96)**
	3,295	**5,614**	**60,340**
Inventories	4,872	**2,807**	**30,170**
Deferred tax assets (Note 10)	19	**25**	**269**
Other current assets	219	**203**	**2,182**
Total current assets	12,804	**12,546**	**134,846**
Property, plant and equipment, at cost :			
Land	4,361	**4,232**	**45,486**
Buildings and structures	12,413	**12,357**	**132,814**
Machinery and equipment	9,924	**9,784**	**105,159**
Construction in progress	49	**23**	**247**
Less: Accumulated depreciation	(15,375)	**(16,026)**	**(172,249)**
Total property, plant and equipment	11,372	**10,370**	**111,457**
Other assets:			
Investment securities (Note 3)	1,822	**2,318**	**24,914**
Deferred income taxes (Note 10)	9	**11**	**118**
Other	1,943	**1,494**	**16,058**
Total other assets	3,774	**3,823**	**41,090**
Total assets	27,950	**26,739**	**287,393**

The accompanying notes are an integral part of these financial statements.

Consolidated Balance Sheets

TOWA CORPORATION AND CONSOLIDATED SUBSIDIARIES
March 31, 2009 and 2010

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2009	***2010***	***2010***
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:	¥	¥	$
Short-term borrowings (Note 5)	8,653	**5,587**	**60,049**
Current portion of long-term debt (Note 5)	2,143	**1,775**	**19,078**
Notes and accounts payable	549	**2,043**	**21,958**
Accrued expenses(Note 2(11))	234	**195**	**2,096**
Accrued income taxes	41	**46**	**494**
Other current liabilities(Note 2(10))	928	**870**	**9,352**
Total current liabilities	12,548	**10,516**	**113,027**
Long-term liabilities:			
Long-term debt (Note 5)	3,464	**4,196**	**45,099**
Accrued severance indemnities for employees(Notes2(12)and 6)	764	**783**	**8,416**
Deferred tax liabilities (Note 10)	83	**152**	**1,633**
Other long-term liabilities	1	**0**	**0**
Total long-term liabilities	4,312	**5,131**	**55,148**
Total liabilities	16,860	**15,647**	**168,175**
Contingent liabilities (Note 12)			
Shareholders' equity (Note 7)			
Common stock			
Authorized: 80,000,000 shares			
Issued :			
25,021,832 shares at 31st March, 2010	8,933	**8,933**	**96,012**
Additional paid-in capital	3,115	**462**	**4,966**
Retained earnings	(469)	**1,854**	**19,927**
Unrealized gain (loss) on other securities	82	**406**	**4,364**
Translation adjustments	(564)	**(555)**	**(5,965)**
Less: Treasury stock at cost	(7)	**(8)**	**(86)**
Total shareholders' equity	11,090	**11,092**	**119,218**
Total liabilities and shareholders' equity	27,950	**26,739**	**287,393**

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income

TOWA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Two years ended March 31, 2010

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2009	***2010***	***2010***
	¥	¥	$
Net sales……	11,578	**14,275**	**153,429**
Cost of sales……	10,680	**11,190**	**120,271**
Gross profit……	898	**3,085**	**33,158**
Selling, general and administrative expenses (Notes2(13)and 8)……	4,235	**3,423**	**36,791**
Operating Income……	(3,337)	**(338)**	**(3,633)**
Other income (expenses)			
Interest and dividend income……	43	**25**	**269**
Interest expenses……	(300)	**(265)**	**(2,848)**
Foreign exchange gains (losses) ……	(33)	**(39)**	**(419)**
Valuation loss of investment securities……	(226)	**-**	**-**
Equity in earnings (losses) of affiliates……	(64)	**22**	**236**
Loss on impairment of fixed assets……	(165)	**-**	**-**
Gain on subsidiaries liquidation ……	-	**36**	**387**
Other, net……	22	**274**	**2,945**
Total other income (expenses) ……	(723)	**53**	**570**
Income before income taxes and minority interests ……	(4,060)	**(285)**	**(3,063)**
Income taxes (Note 10)			
Current ……	27	**54**	**580**
Deferred ……	77	**(9)**	**(97)**
Income before minority interests ……	(4,164)	**(330)**	**(3,546)**
Minority Interests ……	-	**-**	**-**
Net Income……	(4,164)	**(330)**	**(3,546)**

			U.S. dollars (Note 1)
Amount per share of common stock (Note 2 (16)):	¥	¥	$
Net Income……	(166.45)	(13.19)	(0.14)
Diluted net income ……	(166.45)	(13.19)	(0.14)
Cash dividends ……	0.00	0.00	0.00

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Shareholders' Equity

TOWA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Two years ended March 31, 2010

	Millions of yen							
	Number of shares of common stock	*Common stock*	*Additional paid-in capital*	*Retained earnings*	*Unrealized gain on other securities*	*Translation adjustments*	*Treasury stock*	*Total shareholders' equity*
		¥	¥	¥	¥	¥	¥	¥
Balance at March 31, 2008 ……………………………………	25,021,832	8,933	3,115	3,921	333	99	(7)	16,394
Effect of change to IFRS ……………………………………	-	-	-	24	-	-	-	24
Net Income ………………………………………………….	-	-	-	(4,164)	-	-	-	(4,164)
Cash dividends ………………………………………………	-	-	-	(250)	-	-	-	(250)
Net increase of treasury stock ……………………………..	-	-	-	-	-	-	0	0
Net increase of unrealized gain on other securities ………..	-	-	-	-	(251)	-	-	(251)
Net increase of translation …………………………………	-	-	-	-	-	(663)	-	(663)
Reserve from legal capital surplus ……………………………	-	-	-	-	-	-	-	0
Balance at March 31, 2009 ……………………………………	25,021,832	8,933	3,115	(469)	82	(564)	(7)	11,090
Effect of change to IFRS ……………………………………	-	-	-	-	-	-	-	0
Net Income ………………………………………………….	-	-	-	(330)	-	-	-	(330)
Cash dividends ………………………………………………	-	-	-	-	-	-	-	0
Net increase of treasury stock ……………………………..	-	-	-	-	-	-	(1)	(1)
Net increase of unrealized gain on other securities ………..	-	-	-	-	324	-	-	324
Net increase of translation …………………………………	-	-	-	-	-	9	-	9
Reserve from legal capital surplus ……………………………	-	-	(2,653)	2,653	-	-	-	0
Balance at March 31, 2010 ……………………………………	25,021,832	8,933	462	1,854	406	(555)	(8)	11,092

	Thousands of U.S.dollars (Note 1)							
	Number of shares of common stock	*Common stock*	*Additional paid-in capital*	*Retained earnings*	*Unrealized gain on other securities*	*Translation adjustments*	*Treasury stock*	*Total shareholders' equity*
		$	$	$	$	$	$	$
Balance at March 31, 2009 ……………………………………	25,021,832	96,012	33,480	(5,041)	881	(6,062)	(75)	119,195
Effect of change to IFRS ……………………………………	-	-	-	-	-	-	-	0
Net Income ………………………………………………….	-	-	-	(3,546)	-	-	-	(3,546)
Cash dividends ………………………………………………	-	-	-	-	-	-	-	0
Net increase of treasury stock ……………………………..	-	-	-	-	-	-	(11)	(11)
Net increase of unrealized gain on other securities ………..	-	-	-	-	3,483	-	-	3,483
Net increase of translation …………………………………	-	-	-	-	-	97	-	97
Reserve from legal capital surplus ……………………………	-	-	(28,514)	28,514	-	-	-	0
Balance at March 31, 2010 ……………………………………	25,021,832	96,012	4,966	19,927	4,364	(5,965)	(86)	119,218

The accompanying notes are an integral part of these financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	***2010***	***2010***
Cash Flows from Operating Activities:	¥	¥	$
Net Income before income taxes and minority interests	(4,060)	**(285)**	**(3,063)**
Adjustments for:			
Depreciation	1,315	**1,309**	**14,069**
Loss on impairment of fixed assets	165	**0**	**0**
Equity in earnings of affiliates	64	**(22)**	**(236)**
Interest and dividends income	(43)	**(25)**	**(269)**
Interest expenses	300	**265**	**2,848**
Foreign exchange losses (gains)	175	**68**	**731**
Valuation loss (gains) of investment securities	226	**0**	**0**
Gain on subsidiaries liquidation	-	**(36)**	**(387)**
(Increase) decrease in trade notes and accounts receivable	6,482	**(2,244)**	**(24,119)**
(Increase) decrease in inventories	(922)	**2,046**	**21,991**
(Increase) decrease in other current assets	175	**57**	**613**
Increase (decrease) in notes and accounts payable	(2,258)	**1,485**	**15,961**
Increase(decrease) in accrued and other current liabilities	(439)	**95**	**1,021**
Other, net	(264)	**58**	**623**
Sub-total	916	**2,771**	**29,783**
Interest and dividends received	51	**26**	**279**
Interest paid	(314)	**(255)**	**(2,741)**
Income taxes paid	(46)	**(47)**	**(505)**
Net cash provided by (used in) operating activities	607	**2,495**	**26,816**
Cash Flows from Investing Activities:			
Purchase of investment securities	(7)	**(7)**	**(75)**
Purchase of property, plant and equipment	(1,438)	**(470)**	**(5,052)**
Sale of property, plant and equipment	7	**178**	**1,913**
Other, net	(53)	**8**	**86**
Net cash provided by (used in) investing activities	(1,491)	**(291)**	**(3,128)**
Cash Flows from Financing Activities:			
Increase (decrease) in short-term borrowings	3,246	**(3,098)**	**(33,298)**
Proceeds from issuance of long-term debt	1,500	**3,400**	**36,544**
Repayments of long-term debt	(1,952)	**(2,463)**	**(26,472)**
Redemption of bonds	(572)	**(572)**	**(6,148)**
Cash dividends	(250)	**0**	**0**
Net cash provided by (used in) financing activities	1,972	**(2,733)**	**(29,374)**
Effect of exchange rate changes on Cash and Cash Equivalents	(40)	**(33)**	**(355)**
Net increase(decrease) in Cash and Cash Equivalents	1,048	**(562)**	**(6,041)**
Cash and Cash Equivalents at Beginning of Period	3,351	**4,399**	**47,281**
Cash and Cash Equivalents at End of Period (Note2(3))	4,399	**3,837**	**41,240**

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

TOWA CORPORATION AND CONSOLIDATED SUBSIDIARIES

1. Basis of presenting Consolidated Financial Statements

TOWA CORPORATION (the "Company") and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Corporate Law of Japan and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan ("JPGAAP"), which are different, in certain respects from the application and disclosures and disclosure requirements of International Financial Reporting Standards ("IFRS").

The Company's overseas subsidiaries maintain their accounts and records in conformity with generally accepted accounting principles and practices prevailing in their respective countries of domicile, and the Company makes necessary adjustments to its consolidated accounting process in case there are considerable differences as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements of the Company are prepared on the basis of accounting principles generally accepted in Japan, as required by the Securities and Exchange Law of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with the accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader, using the approximate exchange rate at March 31, 2010, which was ¥93.04 to US$1.00. These convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(1) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries and affiliates. All significant inter-company transactions, account balances and unrealized profits have been eliminated in consolidation. Fiscal year end of some subsidiaries is December 31, which differs from that of the Company, March 31, and the Company consolidate such subsidiaries using their provisional settlements as of March 31. Shown below are the significant subsidiaries and affiliates of the Company.

Subsidiaries

(All subsidiaries have been consolidated)

Name	Ownership	Country of Incorporation
BANDICK Corporation	100%	Japan
TOWATEC Co., Ltd.	100	Japan
TOWA Service Co., Ltd.	100	Japan
TOWAM Sdn. Bhd.	100	Malaysia
TOWA (Suzhou) Co., Ltd.	100	China
TOWA America Corporation ※１	100	The United States of America
TOWA Asia-Pacific Pte. Ltd.	100	Singapore
TOWA (Shanghai) Co., Ltd.	100	China
TOWA TAIWAN Co., Ltd	100	Taiwan
TOWA Semiconductor Equipment Philippines Corporation	100	Philippines
TOWA Europe GmbH	100	Germany
TOWA Singapore Mfg Pte. Ltd. ※２	100	Singapore

Affiliates

(All affiliates are accounted for by the equity method)

Name	Ownership	Country of Incorporation
TONGIJIN Corporation	35 %	Korea
SECRON Co., Ltd.	23	Korea
TOWA Jipal Technologies Co., Ltd.	40	Taiwan
Scientific and Semiconductor Manufacturing Equipment Recycling Co., Ltd	20	Japan

※１. The Board directors of TOWA-Intercon Technology, Inc decided to change its company name as TOWA America Corporation effective July 1, 2008.

※２. Liquidation proceedings of TOWA Singapore Mfg.Pte.Ltd have been completed in the fiscal year ended March 31, 2010 and its financial statement isn’t consolidated into accompanying financial statement for 2010.

(2) Translation of Foreign Currency Items

In accordance with the Japanese accounting standard, every monetary assets and liabilities denominated in foreign currencies are principally translated into Japanese yen at the exchange rate in effect at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the statements of income.

With respect to financial statements of overseas subsidiaries, the balance sheet accounts are translated into Japanese yen at the exchange rates in effect at the balance sheet date except for shareholders’ equity, which are translated at the historical rates. And revenue and expenses are translated at the exchange rate in effect at the balance sheet date. The differences resulting from translation in this manner are included in “Translation adjustments” which is listed in Shareholders’ Equity in the accompanying consolidated balance sheets.

(3) Cash and Cash Equivalents

For the purposes of cash flow statements, cash and cash equivalents comprise cash in hand, deposits held at call with banks, net of overdrafts and all highly liquid investments with maturities of three months or less.

Components of cash and cash equivalents as of March 31, 2009 and 2010 are as follows:

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2009	2010	2010
Cash on hand and at banks	¥4,399	¥3,897	$41,885
Less: Time deposits with deposit term of over three months	-	¥60	$645
Cash and cash equivalent at end of year	¥4,399	¥3,837	$41,240

(4) Securities

Securities are classified into four categories.

Categorization and valuation for investments in securities are as follows:-

1. Trading Securities

- Such securities held for the purpose of generating profits from short-term price movements.
- Unrealized gain/loss at the end of period resulting from the valuation by applying the fair value at such date is directly debited/credited to income;
- Such securities are treated in current assets in the balance sheet.

2. Held-to-maturity Debt Securities

- Debt securities whose maturity dates are predetermined and are to be redeemed at par, acquired with intention to hold to their maturity dates;
- The difference between the acquisition cost and the amount expected to gain at maturity is amortized or appreciated over the remaining period to maturity date. The amount amortized or appreciated is charged/credited to income for the respective period as interest expense or interest income, as the case may be.
- Unrealized loss will be required to be charged to income as impairment unless unrealized loss is expected to recover within a reasonable period.

3. Shares in equity of Subsidiaries and Affiliates

- Those securities are carried at cost unless such investment is regarded impaired.

4. Other Securities:

- Such securities other than those categorized in 1 to 3 above;
- Other Securities with market quotation are valued at such market price at the end of period, and those without market quotation are valued at cost.
- Unrealized gain/loss at the end of period resulting from such valuation is charged to shareholders' equity as "Unrealized gain/(loss) on Other Securities" after netting off the deferred income taxes thereto.
- Unrealized loss which it incurred as the fair value is less than 50% of its acquisition cost will be required to be charged to income.
- Unrealized loss which it incurred as the fair value is 30% ~50% of its acquisition cost will be required to be charged to income unless the unrealized loss is expected to recover within a reasonable period.

The moving average method is applied for calculation of the costs of securities.

(5) Inventories

Inventories are mainly stated at the lower of cost or net selling value, the cost being determined by mainly specific identification method for finished products and work-in-process, by mainly moving-average method for raw materials and by the last purchase cost method for supplies.

Effective the year ended March 31, 2009, the Company and its domestic subsidiaries adopted “Accounting Standard for Measurement of Inventories” (Accounting Standards Board of Japan (ASBJ) Statement No.9 issued on July 5, 2006).As a result of the adoption of this accounting standard, operating income and income before income taxes for the year ended March 31, 2009 decreased by 133 million yen ($1,354 thousand).

(6) Allowance for Doubtful Accounts

The Company and its domestic subsidiaries have provided the allowance based on the past uncollectible receivable experience for a certain reference period. Furthermore, for receivables which are from the debtors with financial difficulty, the allowance is provided for estimated unrecoverable amounts individually. Overseas subsidiaries have provided an allowance for doubtful accounts in the estimated amounts of possible bad debts.

(7) Property, Plant and Equipment

Property, plant and equipment are stated at cost.

Depreciation for property, plant and equipment of the Company and its domestic subsidiaries is calculated by applying declining-balance method, except for buildings acquired on and after April 1, 1998 which are applied the straight-line method, over the estimated useful lives.

The principal estimated useful lives are as follows:

Buildings and structures	2	～	50	years
Machinery and equipment	2	～	10	years

Depreciation for those of overseas subsidiaries is computed by the straight-line method in accordance with the regulations of respective domicile countries.

(8) Leased Assets

Leased assets are depreciated to a residual value of zero by the straight-line method using the contract term as the useful life.

Up to the year ended March 31, 2008, finance lease transactions which do not transfer ownership to lessee were accounted for as operating leases.

Effective the year ended March 31, 2009, as the “Accounting Standard for Lease Transactions” (ASBJ Statement No.13 originally issued by the First Committee of the Business Accounting Council on June 17, 1993 and revised by the ASBJ on March 30, 2007) and the “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No.16 originally issued by the Accounting System Committee of the Japanese Institute of Certified Public Accountants on January 18, 1994 and revised by the ASBJ on March 30, 2007) have been applied, lease transactions of the Company and its domestic subsidiaries are accounted for as finance leases if substantially all of the benefits and risks of ownership have been transferred to the lessee.

Effective April 1, 2008, since the Company and its domestic subsidiaries applied the accounting standard for lease transactions outlined above, finance lease transactions, which do not transfer ownership to lessee, started before April 1, 2008 were accounted for as operating leases.

(9) Derivatives

The Company has entered into foreign exchange agreements and interest rate agreements to hedge the fluctuation of foreign currency and interest rate exposures, and not for speculative purposes. The instruments include foreign currency forward contracts and interest rate swap agreements.

These instruments were accounted by the deferral hedge accounting. The Company has accounted for foreign currency forward contracts by the designation accounting, and accounted for interest rate swap agreements by the exception accounting.

(10) Product Warranties

The Company has accounted for the estimate amounts of maintenance expenses as the product warranties, which corresponded to the sales based on the prior track record for the outcome of maintenance expenses of the sold products during the period of warranty.

As of March 31, 2010, the liability for expected warranty costs was 63 million yen ($677thousand) .

(11) Accrued Bonus

The Company and its subsidiaries provide for accrued bonuses to directors and employees for the expected payment of their bonuses for the current fiscal year to those directors and employees serving at the end of the fiscal year.

(12) Accrued Severance Indemnities

Employees who terminate their service with the Company and its domestic subsidiaries are under most circumstances, entitled to lump-sum severance indemnities determined by reference to current basis rates of pay, length of service and conditions under which the terminations occur.

Accrued severance indemnities are provided based on the amount of projected benefit obligation less pension plan assets at fair value at the end of the annual period.

(13) Research and Development Costs

Research and development expenditure is charged to income when incurred.

(14) Income Taxes

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local taxes and enterprise taxes. Enterprise taxes are deductible when paid for the computation of other taxes.

Deferred income taxes are recognized using the asset and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements.

(15) Appropriation of Retained Earnings

Under the Japanese Corporate Law and the Articles of Incorporation of the Company, the appropriation of retained earnings or disposition of accumulated deficit could be adopted by the Board of Directors. The appropriations of retained earnings reflected in the accompanying consolidated financial statements include the results of such appropriations applicable to the immediately preceding financial year as approved by the Board of Directors, and effected, during the relevant year. Dividends are paid to shareholders on the shareholders' register as at the end of each financial year.

(16) Per Share Information

Net income per share and diluted net income per share are computed based on the weighted-average number of shares of common stock outstanding during each year and stock splits are reflected in the calculation of the weighted-average number of shares of common stock.

Cash dividend per share is the total of the per-share amounts of interim cash distribution and the year-end cash dividends for the income of the respective financial periods.

3. Securities

(1) The following is a summary of investments in affiliates and other securities at March 31, 2009:

	Millions of yen			
	2009			
Other securities:	Cost	Unrealized gains	Unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	¥824	¥196	¥36	¥984
	¥824	¥196	¥36	¥984
Market value not available:				
Equity securities	3	-	-	3
Other securities total	¥827	¥196	¥36	¥987

Investments in affiliates:	Millions of yen
	2009
	Book Value
Market value not available:	
Equity securities	¥835
	¥835
Total	¥1,822

(2) The following is a summary of investments in affiliates and other securities at March 31, 2010:

	Millions of yen			
	2010			
Other securities:	Cost	Unrealized gains	Unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	¥831	¥569	¥12	¥1,388
	¥831	¥569	¥12	¥1,388
Market value not available:				
Equity securities	3	-	-	3
Other securities total	¥834	¥569	¥12	¥1,391

Investments in affiliates:	*Millions of yen*
	2010
	Book Value
Market value not available:	
Equity securities	¥927
	¥927
Total	¥2,318

	Thousands of U.S. dollars (Note 1)			
	2010			
Other securities:	Cost	Unrealized gains	Unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	$8,932	$6,116	$129	$14,919
	$8,932	$6,116	$129	$14,919
Market value not available:				
Equity securities	$ 32	-	-	$ 32
Other securities total	$8,964	$6,116	$129	$14,951

Investments in affiliates:	*Thousands of U.S. dollars (Note 1)*
	2010
	Book Value
Market value not available:	
Equity securities	$9,963
	$9,963
Total	$24,914

4. Estimated Fair Value of Financial Instruments

The book value of the financial instruments on the consolidated balance sheet as of March 31, 2010 and unrealized gain(loss) are shown in the following table. The table does not include financial instruments for which it is extremely difficult to determine the fair value.

	Millions of yen		
	2010		
	Book Value	Fair Value	Difference
Cash and deposits	¥3,897	¥3,897	¥0
Notes and accounts receivable	5,623		
Less:Allowance for Doubtful Accounts	(9)		
	¥5,614	¥5,614	¥0
Investment securities	1,388	1,388	0
Total assets	¥10,899	¥10,899	¥0
Notes and accounts payable	2,043	2,043	0
Short-term borrowings	5,587	5,587	0
Bonds	508	509	1
Long-term borrowings	5,463	5,466	3
Total liabilities	¥13,601	¥13,605	¥4
Derivative financial instruments	¥0	¥(29)	¥(29)

	Thousands of U.S. dollars (Note 1)		
	2010		
	Book Value	Fair Value	Difference
Cash and deposits	$41,885	$41,885	$0
Notes and accounts receivable	60,436	0	
Less:Allowance for Doubtful Accounts	(96)	0	
	$60,340	$60,340	$0
Investment securities	14,918	14,918	0
Total assets	$117,143	$117,143	$0
Notes and accounts payable	21,958	21,958	0
Short-term borrowings	60,049	60,049	0
Bonds	5,460	5,471	11
Long-term borrowings	58,717	58,479	32
Total liabilities	$146,184	$146,227	$43
Derivative financial instruments	$0	$(312)	$(312)

Financial instruments for which it is extremely difficult to determine the fair value as of March 31, 2010 were as follows:

	Millions of yen	*Thousands of U.S. dollars (Note 1)*
Unlisted equity securities	¥930	$9,996

Because no quoted market prices are available and it is extremely difficult to determine the fair value, the above financial instruments are not included in "Investment securities" in the preceding table.

The redemption schedule for bonds and long-term borrowings is disclosed in Note5.

5. Short-term Borrowings and Long-term Debt

Short-term borrowings represent loans from banks and an insurance company. The annual average interest rates applicable to short-term borrowings at March 31, 2009 are 2.0% and 2010 are 1.8%, respectively.

Long-term debt as of March 31, 2009 and 2010 consisted of the following:

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2009	2010	2010
Borrowings from financial institutions	¥4,526	¥5,463	$58,717
0.7% Yen Bonds due 2010	300	100	1,075
1.1% Yen Bonds due 2011	200	100	1,075
0.6% Yen Bonds due 2011	400	200	2,150
1.6% Yen Bonds due 2011	180	108	1,161
Long-term installment payment for Purchase of machinery and equipment	16	1	11
Capital lease payable	1	-	-
Less: Portion due within one year	(2,159)	(1,776)	(19,090)
	¥3,464	¥4,196	$45,099

The aggregate annual maturity of long-term debt after March 31, 2010 is summarized as follows:

Years ending March 31,	*Millions of Yen*	*Thousands of U.S. dollars (Note 1)*
2011	¥1,776	$19,090
2012	1,734	18,637
2013	2,275	24,452
2014 and thereafter	187	2,010
	¥5,972	$64,189

The Company's assets pledged as collateral for short-term borrowings and long-term debt were as follows:

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2009	2010	2010
Principal of debt:			
Short-term borrowings	¥ 110	¥ 5	$54
Portion due within one year	18	500	5,374
Long-term borrowings	0	2,900	31,169
	¥ 128	¥ 3,405	$36,597
Assets pledged as collateral:			
Land	¥2,375	¥3,893	$41,842
Buildings	2,572	3,196	34,351
	¥4,947	¥7,089	$76,193

Regarding loan payables, the syndicate loan contract with limit of ¥3,400 million yen($36,543thousand) and commitment line contracts with limits of ¥ 2,500 million yen ($ 26,870 thousand), respectively include financial covenant terms. The contractor triggers acceleration and is enforced to repay the full principal and interest if the contractor breaches either of the following terms.

(Financial covenant terms included in the syndicated loan contract and commitment line contract)

(1) The amount of shareholder’s equity on the consolidated balance sheets at the end of each fiscal year and each semiannual period must be maintained 9,040 million yen（$97,163 thousand）or more.

(2) The ordinary losses in both consolidated statements of income for each fiscal year must not be existed in two successive periods after the fiscal year ended March 31, 2010.

6. Accrued Severance Indemnities for employees

The following tables set forth the changes in benefit obligation, plan assets and funded status of the Company and its subsidiaries at March 31, 2009 and 2010.

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2009	2010	2010
Projected benefit obligation at end of year	¥1,500	¥1,652	$17,756
Fair value of plan assets at end of year	628	781	8,394
Funded status:			
Benefit obligation in excess of plan assets	872	871	9,362
Unrecognized actuarial loss	108	88	946
Accrued pension liability recognized in the Consolidation balance sheets	¥764	¥783	$8,416

Note: Some subsidiaries adopted the alternative method of accounting for retirement benefit allowable for small business entity under the new accounting standards.

Severance and pension costs of the Company and its subsidiaries included the following components for the year ended March 31, 2009 and 2010.

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2009	2010	2010
Service cost	¥94	¥102	$1,096
Interest cost	27	27	290
Expected return on plan assets	0	0	0
Actuarial losses	10	22	236
Net periodic benefit cost	¥131	¥151	$1,622

Assumption used in the accounting for the defined benefit plans for the year ended March 31, 2009 and 2010 are as follows:

	2009	2010
Method of attributing benefit to periods of service	Straight –line basis	Straight –line basis
Discount rate	2.0%	2.0%
Long-term rate of return on fund assets	0.0%	0.0%
Amortization unrecognized projected Benefit obligation at the date of transition	-	-
Amortization period for actuarial losses	15years(declining-balance basis)	10years(declining-balance basis)

7. Shareholders' Equity

Under the Japanese Corporate Law the appropriation of retained earnings or disposition of accumulated deficit could be adopted by the Board of Directors.

The Japanese Company Law requires that amounts equal to 10% of interim cash dividend and 10% or more of cash dividends and other appropriations of retained earnings paid out with respect to each financial period be set aside in the legal reserve until an aggregate amount of additional paid-in capital and the legal reserve equals 25% of the amount of stated capital. The amount of total additional paid-in capital and legal reserve which exceeding 25% of stated capital can be transferred to retained earnings by a resolution of the shareholders, which may be available for dividends.

Under the Japanese Corporate Law, although the entire amount of the issue price of new shares is required to be accounted for as common stock a company may, by resolutions of its Board of Directors, account for an amount not exceeding one-half of the issue price of such new shares as additional paid-in capital.

8. Research and Development Costs

Research and development costs charged to income for the years ended March 31, 2009 and 2010 were ¥266million and ¥145million ($1,558 thousand), respectively.

9. Loss on impairment of fixed assets

The Company has recognized impairment loss of 165 million yen ($1,680 thousand), for the following group of assets as of March 31, 2009.

Location	Use	Category	Impairment loss (millions of yen)
Kyoto East Plant (Kyoto, Japan)	Equipment for development Manufacturing plant for precision mold.	Land	165

The company and its subsidiaries assessed impairment of each group of assets, which are grouped on the basis of segment by products for domestic companies and by location for foreign subsidiaries.

Therefore, due to the decline in real estate value and poor performance of assets, operating profitability has worsened substantially, the company has decided to mark the assets down to the recoverable value, and accrued impairment loss as ¥165million ($1,680thousand).

10. Income Taxes

The company is subject to a number of different income taxes, which in the aggregate, result in a statutory tax rate in Japan of approximately 39.8% and 40.6% for the years ended of March 31, 2009 and 2010 respectively.

The deferred tax assets and deferred tax liabilities at March 31, 2009 and 2010 are as follows:

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2009	2010	2010
Deferred tax assets:			
Inventory write down	¥303	¥229	$2,461
Impairment loss of fixed assets	707	696	7,481
Retirement and severance benefits	261	298	3,203
Net operating loss carried forward	3,429	2,940	31,599
Other, net	1,086	900	9,673
Valuation Allowance	(5,758)	(5,000)	(53,740)
	28	63	677
Deferred tax liabilities:			
Other, net	(83)	(179)	(1,923)
	(83)	(179)	(1,923)
Net deferred tax assets/(liabilities)	¥(55)	¥(116)	$(1,246)

11. Leases

The Company and its consolidated subsidiaries and equity method affiliates have been utilizing finance lease arrangements other than those deemed to transfer the ownership of the leased property to the lessee to employ certain machinery and equipment.

The finance lease transactions, which do not transfer ownership to lessee, started before April 1, 2008 were accounted for as operating leases.

Total lease payments for such lease arrangements for the year ended March 31, 2009 and 2010 are ¥7million and ¥2 million ($21 thousand), respectively.

Summarized below are the pro forma information on acquisition costs, accumulated depreciation and future minimum lease payments for the property held under such lease as mentioned above:

As of March 31, 2009

Millions of yen

	Machinery And Equipment	Other	Total
Acquisition costs	¥ 7	¥12	¥19
Accumulated Depreciation	3	9	12
Net leased property	¥ 4	¥ 3	¥7

As of March 31, 2010

Millions of yen

	Machinery And Equipment	Other	Total
Acquisition costs	¥ 7	¥3	¥10
Accumulated Depreciation	4	3	7
Net leased property	¥ 3	¥ 0	¥3

Thousands of U.S. dollars (Note 1)

	Machinery And Equipment	Other	Total
Acquisition costs	$75	$32	$107
Accumulated Depreciation	43	32	75
Net leased property	$32	$ 0	$32

Future minimum lease payments as of March 31, 2009 and 2010:

	Millions of yen 2009	*Millions of yen* 2010	*Thousands of U.S. dollars (Note 1)* 2010
Due within one year	¥4	¥ 2	$21
Due after one year	3	2	21
Total	¥7	¥4	$42

Depreciation is calculated by the straight-line method on the assumption that the term of the lease is useful life of the relevant leased asset and residual value is zero.

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, would have been ¥7 million and ¥2 million ($21 thousand) for the year ended March 31, 2009and 2010, respectively.

12. Contingent Liabilities

The Companies have no significant contingent liabilities.

13. Segment Information

(1) Segment by products

Year ended March 31, 2009 *Millions of Yen*

	Semiconductor equipment	Fine plastic mold	Elimination/ Unallocated Assets	Consolidated
Ⅰ.Sales and operating income				
Net sales to customers	¥ 10,361	¥1,217	¥ -	¥11,578
Inter-segment sales	-	-	-	-
	10,361	1,217	-	11,578
Cost of sales and Operating expenses	13,826	1,089	-	14,915
Operating income	¥ (3,465)	¥ 128	¥ -	¥ (3,337)
Ⅱ.Assets				
Total assets	¥ 26,895	¥ 1,055	-	¥ 27,950
Depreciation and amortization	¥ 1,205	¥ 110	-	¥ 1,315
Capital expenditure	¥ 1,192	¥ 105	-	¥ 1,297

Year ended March 31, 2010 *Millions of Yen*

	Semiconductor equipment	Fine plastic mold	Elimination/ Unallocated Assets	Consolidated
Ⅰ.Sales and operating income				
Net sales to customers	¥ 13,172	¥1,103	¥ -	¥14,275
Inter-segment sales	-	-	-	-
	13,172	1,103	-	14,275
Cost of sales and Operating expenses	13,689	924	-	14,613
Operating income	¥ (517)	¥ 179	¥ -	¥ (338)
Ⅱ.Assets				
Total assets	¥ 25,759	¥ 980	-	¥ 26,739
Depreciation and amortization	¥ 1,210	¥ 99	-	¥ 1,309
Capital expenditure	¥ 216	¥ 20	-	¥ 236

Year ended March 31, 2010	*Thousands of U.S. dollars (Note 1)*			
	Semiconductor equipment	Fine plastic mold	Elimination/ Unallocated Assets	Consolidated
Ⅰ.Sales and operating income				
Net sales to customers	$141,574	$11,855	$ -	$153,429
Inter-segment sales	-	-	-	-
	141,574	11,855	-	153,429
Cost of sales and Operating expenses	147,130	9,931	-	$157,062
Operating income	$(5,556)	$1,924	$ -	$(3,633)
Ⅱ.Assets				
Total assets	$276,859	$10,534	-	$287,393
Depreciation and amortization	$ 13,005	$ 1,064	-	$ 14,069
Capital expenditure	$ 2,322	$ 215	-	$ 2,537

(2) Segmented by geographical location of activities

Year ended March 31, 2009	*Millions of Yen*					
	Japan	Asia	North America	Others	Elimination/ Unallocated Assets	Consolidated
Ⅰ.Sales and operating income						
Net sales to customers	¥11,423	¥145	¥5	¥5	¥ -	¥11,578
Inter-segment sales	207	3,715	364	60	(4,346)	-
	11,630	3,860	369	65	(4,346)	¥11,578
Cost of sales and Operating expenses	15,026	3,761	384	80	(4,336)	14,915
Operating income(loss)	¥(3,396)	¥ 99	¥(15)	¥(15)	¥(10)	¥(3,337)
Ⅱ.Assets	¥27,068	¥3,815	¥1,273	¥56	¥(4,262)	¥27,950

Year ended March 31, 2010	*Millions of Yen*					
	Japan	Asia	North America	Others	Elimination/ Unallocated Assets	Consolidated
Ⅰ.Sales and operating income						
Net sales to customers	¥13,681	¥568	¥17	¥9	¥ -	¥14,275
Inter-segment sales	143	2,772	274	57	(3,246)	-
	13,824	3,340	291	66	(3,246)	¥14,275
Cost of sales and Operating expenses	14,178	3,223	470	72	(3,330)	14,613
Operating income (loss)	¥(354)	¥ 117	¥(179)	¥(6)	¥(84)	¥(338)
Ⅱ.Assets	¥25,537	¥4,241	¥937	¥55	¥(4,031)	¥26,739

Year ended March 31, 2010	*Thousands of U.S. dollars (Note 1)*					
	Japan	Asia	North America	Others	Elimination/ Unallocated Assets	Consolidated
Ⅰ.Sales and operating income						
Net sales to customers	$147,044	$6,105	$183	$97	$ -	$153,429
Inter-segment sales	1,537	29,794	2,945	613	(34,889)	-
	148,581	35,899	3,128	710	(34,889)	$153,429
Cost of sales and Operating expenses	152,386	34,641	5,052	774	(35,791)	157,062
Operating income (loss)	$(3,805)	$ 1,258	$(1,924)	$(64)	$(902)	$(3,633)
Ⅱ.Assets	$274,473	$45,583	$10,071	$591	$(43,325)	$287,393

(3) Sales by region

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
Year ended March 31	2009	2010	2010
Japan	¥ 3,303	¥ 3,381	$36,339
Overseas			
Asia	7,588	10,305	110,759
America	410	382	4,106
Other	277	207	2,225
Overseas total	8,275	10,894	117,090
Consolidated sales	¥11,578	¥14,275	$153,429

Corporate Information

as of June 29, 2010

Corporate Data

Corporate Name:	TOWA CORPORATION
Headquarters/Factory:	5 Kamichoshi-cho, Kamitoba, Minami-ku, Kyoto 601-8105, Japan
Established:	April 17, 1979
Operations:	Develop, design, manufacture, and sell precision molds, manufacturing systems for electronic components, inspection systems for electronic components, precision-molded and assembly products, medical-use equipment, and electronic-communications equipment. Other related business.
Paid-in Capital:	¥8,932,627,777
Common Stock	
Authorized:	80,000,000
Issued Number of Shares:	25,021,832
Unit for Trading:	100
Stock Listings:	First Section of the Tokyo Stock Exchange First Section of the Osaka Securities Exchange
Transfer Agents:	Mizuho Trust & Banking Co., Ltd
Fiscal Year:	From April 1 to March 31
Number of Employees:	460
URL:	http://www.towajapan.co.jp
Subsidiaries and Affiliated Companies:	BANDICK Corporation TOWATEC Co., Ltd. TOWA Service Co., Ltd. TOWAM Sdn. Bhd. TOWA (Suzhou) Co., Ltd. TOWA America Corporation TOWA Asia-Pacific Pte. Ltd. TOWA (Shanghai) Co., Ltd. TOWA TAIWAN Co., Ltd. TOWA Semiconductor Equipment Philippines Corporation TOWA Europe GmbH TONGJIN Corporation SECRON Co., Ltd. TOWA-Jipal Technologies Co., Ltd. Scientific and Semiconductor Manufacturing Equipment Recycling Co., Ltd.

Board of Directors

Chairman & CEO
Kazuhiko Bandoh

Vice Chairman
Yoichi Kawahara

President & COO
Hisao Nishimura

Directors
Hirokazu Okada
Makoto Fukutomi

Standing Corporate Auditor
Kiyoshi Osaki

Corporate Auditors
Masanori Sugiyama
Katsuhiro Umeyama

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