

Business Report for FY2004

From April 1, 2004 to March 31, 2005



ASAHI **PRE** TEC CORP.

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ASAHI PRETEC CORP.

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Contributing to the recycling society in the 21st century through our two core businesses



Shanghai Asahipretec Co., Ltd. (China)

collects raw materials containing precious metals from manufacturers of semiconductors and electronic components, who have moved into China in waves, and analyzes, extracts and refines them into precious metal products at its own plant for resale in the Chinese market.

Nihon Chemitec Co., Ltd.

provides intermediate treatment of industrial waste with a unique detoxification technology based on biological processing. It boasts an excellent customer base, including semiconductor and electronic components manufacturers and collection and transportation networks that cover the Kanto region.

Precious Metal Recycling Business

Asahi G&S SDN. BHD. (Malaysia)

collects scraps containing precious metals from the industries such as electronic materials, and jewelry processing and manufacturing and processes and sells them. This subsidiary is a base for servicing Malaysia and other ASEAN markets.

Dental materials
Electronic materials, surface processing, catalytic substances
Processing and manufacturing of jewelries

Precious and rare metals such as gold, silver, palladium, platinum, and indium, demand for which is rising in a number of industries, are collected, refined and recycled.

Environmental Protection Business

Photosensitive materials
Treatment of hazardous materials and recycling of wastes

We recycle materials for zero emissions and provide detoxification treatment for all industrial waste, including those subject to special controls.

Eco-Material Co., Ltd.

uses organic sewage emitted by food manufacturing sectors and surplus sludge arising from wastewater treatment facilities as materials to produce fermented compost and reuses them as organic fertilizer for organic farming.

Sansho Co., Ltd.

efficiently selects and crushes various industrial wastes (waste plastic, woodchips, waste glasses and ceramics, wreckage, waste papers, waste textiles, etc) and properly processes them.

Shiouri Building Material Co., Ltd.

recycles concrete and asphalt blocks, which are designated as special building material waste, and waste wood from construction. The company has been designated by Nagano Prefecture as a model business for the creation of a new construction industry.

Daimon Co., Ltd.

provides microorganism treatment for food-related organic waste liquid and sludge emitted by the food manufacturing industry and sewage from the grease traps of the food-service industry, and also cleans of wastewater and sewage treatment tanks, as well as dehydrating and reducing them.

I would like to express my sincere appreciation to all shareholders for their continuing support for Asahi Pretec Corp.

During the 42nd business term (the year ended March 31, 2005), the collected volume of precious metals such as gold and palladium remained high, while the collected volume of indium used for panels such as flat-screen televisions significantly exceeded our forecast. As unit prices of precious and rare metals were higher than initially expected, the results in the precious metal recycling business improved substantially from the previous year. In addition, the performance of the environmental protection business was stronger than our initial forecast, thanks to robust operations at consolidated subsidiaries including Nihon Chemitec Co., Ltd., which we acquired in April 2004. Reflecting the buoyant results of both businesses, consolidated ordinary income for the year under review increased significantly from the previous year, while net income reached ¥1,950 million.

On the strength of these favorable results and in line with our basic policy of profit distribution to provide our shareholders with stable and continuous dividends, we have decided to pay a year-end dividend of ¥14 per share. This dividend recognizes the continued

support and cooperation we enjoy from our shareholders. Adding an interim dividend of ¥13, the annual dividend per share will be ¥27, which is ¥1 higher than the annual dividend per share last year. The final dividend was approved at the ordinary general meeting of shareholders held on June 16, 2005.

For the 43rd business term (year ending March 31, 2006) is the final year of the third medium-term management plan (three years), we will aim to achieve further improvement in the profitability of precious metals recycling operations and to improve the environmental protection business based on our strategies, which include mergers and acquisitions. We expect to achieve this aim through a concerted effort on the part of all employees and officers of the Asahi Pretec Group. We continue to ask for the understanding and support of all shareholders as we pursue these initiatives.



Mitsuharu Terayama
President & Representative Director

Management Policies under the Third Medium-Term Management Plan

Promotion of consolidated management with a balance between growth and profitability

In the third medium-term management plan, we aim to create a more stable income base by expanding market share, operating a global precious metal recycling business and accelerating our advance into the environmental protection market, which has excellent growth potential. As the growth strategies in the environmental protection business are primarily executed by our affiliates through mergers and acquisitions, we will bolster the consolidated management system.

The Third Medium-Term Management Plan and its Quantitative Targets

(1) Maintain and improve profitability in the precious metal recycling business

- In the dental area, expand market share and achieve stable profitability
- In electronic materials, exploit new businesses leveraging our advanced recycling technology

(2) Execute full-scale global operations

- Establish and expand markets in Asia, including China, where growth is rapid

(3) Shift management resources to the environmental protection business

- Establish a new growth path through the focused injection of management resources

(4) Construct a one-stop structure

- Expand our network in the environmental protection business through mergers and acquisitions and business alliances
- Make the Asahi Pretec Group a one-stop structure

(5) Restructure to create a customer-focused operating structure

- Introduce the business headquarters system to improve our response to customer needs with the integration of manufacturing and sales functions.

Quantitative Targets

Ratio of operating income to sales (the year ending March 31, 2006)

→ 7.5%

Net sales (the year ending March 31, 2006)

→ ¥50 billion

Capital investment (for three years)

→ within the range of operating cash flow (excluding large mergers and acquisitions)



Targets and results

(Unit: Million yen)

	Net sales	Operating income	Cash flow	
Targets	35,000	1,900	Operating activities	3,124
Results	35,897	2,228	Investing activities	2,147

Topics

Shift to business headquarters system
Construction of plant at Shanghai Asahipretec Co., Ltd.
Transfer of Okayama Office
Operation of new Saitama Plant

Targets and results

(Unit: Million yen)

	Net sales	Operating income	Cash flow	
Targets	38,000	2,800	Operating activities	3,561
Results	46,937	3,513	Investing activities	2,599

Topics

Nihon Chemitec Co., Ltd. became our subsidiary
Addition of the Second Fukuoka Plant (collection of indium)
Transfer of the Kofu Office

Targets and budget

(Unit: Million yen)

	Net sales	Operating income
Targets	50,000	3,800
Budget	51,000	3,900

Topics

Shioiri Building Material Co., Ltd. became our subsidiary

Topics

Shioiri Building Material Co., Ltd. became a wholly-owned subsidiary



Shioiri Building Material Co., Ltd (Nagoya)

Shioiri Building Material (Nagano) became a wholly-owned subsidiary of Asahi Pretec in April 2005 through an exchange of shares. Shioiri Building Material

was established in 1985 and has sustained growth with a primary focus on civil engineering and building demolition works. After the special demand resulting from the Nagano Winter Olympics in 1998, it entered the industrial waste treatment business in recognition of changes in the environment surrounding the industry, such as the sluggish civil engineering market and the enforcement of The Construction Material Recycling Law based on the Basic Law for Establishing the Recycling-Oriented Society. In recent years, the company has been increasing its orientation towards the recycling of waste soils, crushed stones, and sands from civil engineering and demolition works, along with the treatment of concrete blocks and waste woods. It also plans to provide the treatment of waste plastic to respond to diversified customer needs. The company has established a system that represents a one-stop solution in construction waste, and we believe that it will contribute to the expansion and enhancement of the environmental protection business of Asahi Pretec.

New construction and transfer of Kofu Office



Kofu Office (Yamanashi)

The Kofu Office opened in September 1997 in Asage, Kofu-shi (Yamanashi), focusing primarily on the jewelry sales operation. The dental division was added in April 1998. As the office building became too small due to the recent addition of the environmental protection division, the office was transferred to a new building, which was constructed in April 2004 in Tamaho-cho, Naka-kyomagun, Yamanashi. The site area and total floor area of the new office are 641 tsubo (approximately 2,100 square meters) and 288 tsubo (950 square meters) respectively, making it larger than the old office. Its operating area has expanded to cover all of Yamanashi Prefecture and part of Nagano Prefecture. To ensure safety and avoid the adverse effect on land, every possible measure has been taken, including possible measures such as a stopper to prevent leakage, side ditches and collection tanks around the car washing area outside the building to prevent the spill of washing water, and asphalt and concrete paved on the office site to prevent underground permeation.

Establishment of a Risk Management Committee and Risk Management Office

We have established a Risk Management Committee and a Risk Management Office as a Company-wide system to properly control potential risks underlying the business execution process and operational structure of the Asahi Pretec Group. In principle, the Risk Management Committee will report to the Board of Directors and will identify, evaluate, and respond to risks related to our business operations. Through these systems, we will prevent the manifestation of risks based on compliance and support corporate governance so that we fulfill our responsibilities as a corporate citizen. In addition, these bodies will be at the core for the promotion of CSR in the future, integrating environmental management and social responsibilities.

Introduction of a cash management system

In April 2005, we introduced a cash management system, primarily for our domestic consolidated subsidiaries and mainly from a risk management standpoint. Through CMS, we will automatically adjust daily cash shortfalls and overages by combining the CMS specialized accounts of Asahi Pretec and its Group companies to control functions such as aggregating the daily cash, grasping actual cash movements and drafting cash plans in an integrated fashion. We will thus simplify and promote the efficiency of cash management work conducted by each Group company and facilitate exclusion of cash risks and reduction of total assets on a consolidated basis.

(1) Basic Management Policies

Our management philosophies are "social contribution," "corporate permanence" and "respect for humanity." The Asahi Pretec Group practices management that is designed to continuously improve corporate value, while simultaneously pursuing safety and growth. Since our establishment in 1952, we have been achieving steady growth in both the precious metals recycling and environmental protection businesses by developing new business areas in a rapidly changing operating environment. We will continue to strive to develop our businesses by contributing to the creation of a recycling society in multifarious areas, while focusing on our relationship with all stakeholders. For this purpose, we will emphasize the development of new businesses from a medium- and long-term perspective, the reinforcement of the risk management system and the comprehensive improvement of management efficiency.

(2) Basic Policy of Profit Distribution

Asahi Pretec recognizes that the distribution of profit to our shareholders is a critical management issue, and our basic policy is to maintain a stable dividend. At the same time, we believe that bolstering retained earnings is also important to prepare to invest in growth areas and future business development.

(3) Target Management Benchmarks

The Asahi Pretec Group has set the third medium-term management plan for the period April 2003 to March 2006. For the year ending March 31, 2006, the final year of the plan, we aim to achieve net sales of ¥50 billion and an operating margin in excess of 7.5% on a consolidated basis.

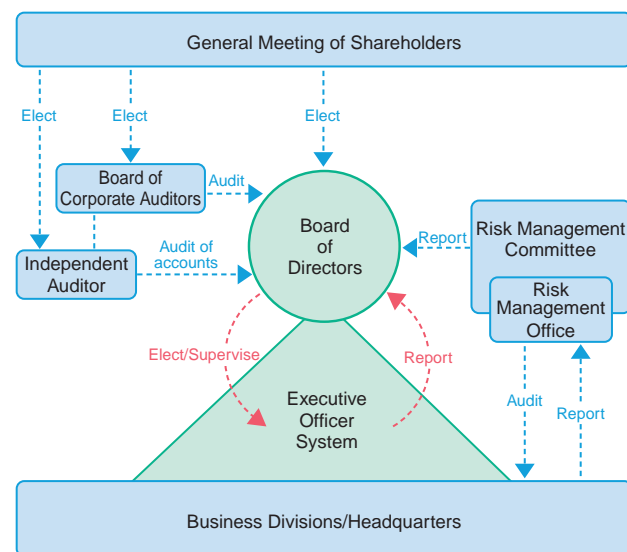
(4) Medium and Long-Term Management Strategies

In the precious metal recycling business, we will strive to enhance profitability and further expand market share. In the environmental protection business, we will lay the groundwork for perpetual growth in the future by enhancing our efforts in new growth areas.

(5) Basic Concept and Implementation of Initiatives Concerning Corporate Governance

(a) Basic Concept of Corporate Governance

To achieve perpetual growth and development while fulfilling our social responsibility as a public company, we are introducing innovation to the senior management structure and improving our business execution system to respond rapidly to changes in the operating environment, while maintaining a focus on compliance.



(b) Initiatives in Corporate Governance

(Board of Directors)

The Board of Directors of Asahi Pretec consists of inside directors and strictly supervises the execution of operations by individual directors while promoting the rapid decision-making in areas requiring business judgment. In principle, ordinary meetings of the Board of Directors are held once a month, while extraordinary meetings are held as necessary.

(Executive Management Committee)

The Executive Management Committee consists of the president, managers of business divisions and the general manager at Headquarters. The Committee determines the need for additional discussions at the Board of Directors on matters decided at meetings of the Board and discusses the initiatives for execution of basic policies, plans and strategies decided by the Board.

As we aim to separate management and execution as a future governing system, we have concentrated decision-making on management strategies of the Asahi Pretec Group and supervisory functions within the Board of Directors and adopted an executive officer system, which will undertake an executive function.

(Corporate Auditors and the Board of Corporate Auditors)
Asahi Pretec employs a corporate auditor system. The number of corporate auditors is four, three of whom are outside auditors (two lawyers and one certified public accountant). They attend meetings of the Board of Directors, visit offices and plants for audits, and hold sessions to report the results of audits by the independent auditor. There is no relationship of special interest between the Company and the outside auditors.

(Independent Auditor)

We consign accounting audits to ChuoAoyama PricewaterhouseCoopers.

(c) Development of Internal Control System

The Board of Directors not only makes a decision on basic policies, plans and strategies of the management, matters stipulated by the laws and regulations, and other important matters related to the management, it also supervises the operations of the Asahi Pretec Group.

We believe that Corporate Auditors form an independent force and play a role in corporate governance by attending meetings of the Board of Directors. In line with this belief, our Corporate Auditors conduct audits on the execution of business in general.

ChuoAoyama PricewaterhouseCoopers presents their opinions on the financial statements of Asahi Pretec from its standpoint as an independent auditor.

In addition, Asahi Pretec also conducts an internal audit on all Group companies through the Risk Management Office in a comprehensive and planned manner to promote appropriate administration, improvement and efficiency of their businesses.

(d) Development of Risk Management Systems

We have established a Risk Management Committee as a Group-wide organ to control potential risks underlying the business execution process and operational structure of the Asahi Pretec Group. The Risk Management Committee will identify, evaluate, and respond to risks that relate to our business operations. Through these management systems, we will prevent the manifestation of risks and build up the compliance.

As a subordinate body operating under the aegis of the Risk Management Committee, we established the Risk Management Office on April 1, 2005. The Risk Management Office consists of members with seasoned knowledge of the operations of each division.

In addition, the Corporate Planning Division controls strategic and growth risks at the business portfolio level from a policy implementation perspective.

(6) Financial Review

Business Results

During the year under review, the Japanese economy maintained moderate upward momentum, despite a slight erosion of exports—the driving force for the economy—in the second half. With the yen exchange rate remaining relatively stable, demand for raw materials in China rose, with the result that market prices for precious and rare metals generally climbed. In this economic environment, the Asahi Pretec Group not only expanded its market share through measures such as attracting new customers, it also bolstered its strong earnings profile by improving the profitability of each transaction. Moreover, we sustained a high utilization rate of the collection and refinery facilities of indium for LCD panels at the Fukuoka Plant, the capacities of which were expanded at the end of the previous year.

In the precious metal recycling business, as the supply of recycling raw materials remained stable in dental materials, the collected volume of raw materials for precious metals exceeded the level of the previous year. In electronic materials, the collected volume of raw materials for IT-related precious metals such as indium increased significantly from the level a year earlier. In jewelry processing and manufacturing, the volume of raw materials for precious metals collected declined slightly from the year-ago level, reflecting the continued difficulties in the environment confronting the jewelry industry. The average unit sales price of precious metals such as gold, silver, palladium and platinum rose from a year earlier, while that of indium, a rare metal, significantly exceeded the level of the previous year.

In the environmental protection business, the level of business in waste solutions and silver content in photosensitive materials was lower in comparison to the year-ago level, as emissions and collected volumes declined with the proliferation of digital cameras. We did, however, handle a greater volume of waste oil and waste liquid emitted from plants and research laboratories. In addition, the results of consolidated subsidiaries, namely Sansho Co., Ltd., Daimon Co., Ltd. and Eco-Material Co., Ltd. as well as Nihon Chemitec Co., Ltd., which became our consolidated subsidiary in April 2004, remained firm, contributing to the increase in consolidated sales.

As a result of the above, net sales for the year under review amounted to ¥46,937 million, ordinary income reached ¥3,463 million, and net income came to ¥1,956 million. Looking at net sales by segment, the precious metal recycling business posted net sales of ¥37,932 million, while the environmental protection business produced a result of ¥9,004 million.

Financial Status

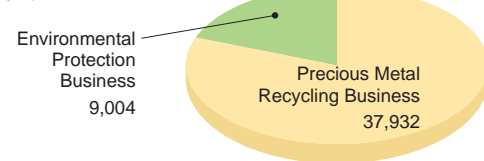
Cash provided by operating activities totaled ¥3,561 million during the year under review, largely as a result of income before income taxes of ¥3,151 million, depreciation and amortization of ¥1,526 million, as well as an increase in inventory and income taxes paid.

Cash used in investing activities during the year was ¥2,599 million, mainly reflecting the ¥575 million acquisition of shares in Nihon Chemitec Co., Ltd. and the ¥2,021 million payment for the acquisition of property, plant and equipment. Major capital investments included a capacity expansion at the Ehime Plant and the new construction of the Nagoya Office, to which a transfer is planned in August 2005.

Cash provided by financing activities amounted to ¥337 million. Major factors were ¥3,492 million in proceeds from issuance of bonds with stock acquisition rights, a ¥2,637 million decrease in short-term loans and long-term debt and ¥525 million in the payment of dividends. The Company plans to use the proceeds from bonds with stock acquisition rights for capital investment and mergers and acquisitions.

As a result of the above, cash and cash equivalents at the end of the year under review reached ¥4,435 million.

Net sales by business segment (Consolidated)
(Million yen)



(7) Business Outlook

Looking ahead to the year ending March 31, 2006 and subsequent periods, business confidence is gradually recovering, particularly in the corporate sector, and activities for the recycling of resources and achieving zero emissions continue to gather pace given clearly rising environmental awareness among corporate management in Japan. The Asahi Pretec Group recognizes the importance of its role in recycling and waste disposal operations in a wide array of areas and will continue striving to ensure growth and improve profitability by expanding into new business fields and attracting new customers.

In the precious metal recycling business, we aim to build up a more stable earnings base. To this end, we will increase our share in the dental materials market by further improving the quality of our customer services, while in the electronic materials arena, we will endeavor to expand the recycling business in high-growth markets such as flat display panels. In jewelry processing

operations, we continue striving to bolster the profitability of each transaction.

In the environmental protection business, our objective is to achieve further progress through consolidated management system. We will move toward a "one-stop" structure able to respond to customer needs in a variety of areas and promote high value-added operations by further reinforcing the confidence that our customers have in us.

(8) Asahi Pretec Group

The Asahi Pretec Group consists of Asahi Pretec Corp. (the Company) and its subsidiaries, namely Sansho Co., Ltd., Daimon Co., Ltd., Eco-Material Co., Ltd., Nihon Chemitec Co., Ltd., Asahi G&S SDN. BHD. (Malaysia), and Shanghai Asahipretec Co., Ltd. (China), and Shioiri Building Material Co., Ltd. (Nagano), which joined the Group in April 2005. Shioiri Building Material has established a one-stop recycling model in areas such as waste soil, waste concrete and building waste wood in addition to its engagement in civil engineering and building demolition work.

Among the subsidiaries, Sansho Co., Ltd. provides hauling and intermediate treatment of industrial waste in the Kanto region. Asahi Pretec contracts with Sansho Co., Ltd. to handle some intermediate treatment of industrial waste.

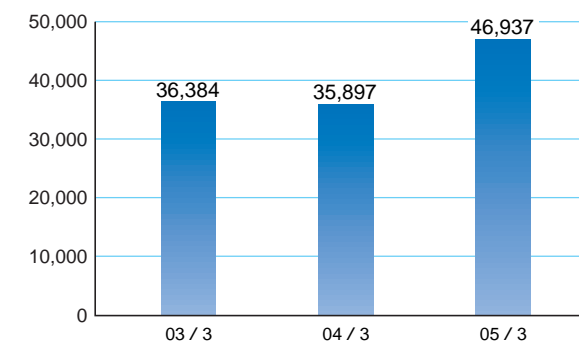
Daimon Co., Ltd. and Eco-Material Co., Ltd. provide intermediate treatment of food-related organic waste liquid and sewage in the Kanto region. Daimon provides microorganism treatment and dehydration, while Eco-Material produces fermented compost from sewage arising from the treatment operations of Daimon.

Nihon Chemitec Co., Ltd. has received permission to carry out a large volume of neutralization treatment and a treatment of toxic heavy metals on the outskirts of large, industry-intensive cities. It provides detoxification treatment using proprietary technology based on biological processing of wastewater and sewage emitted from companies related to semiconductor and electronic components.

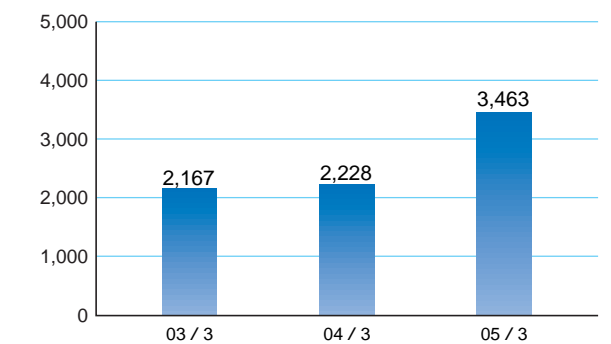
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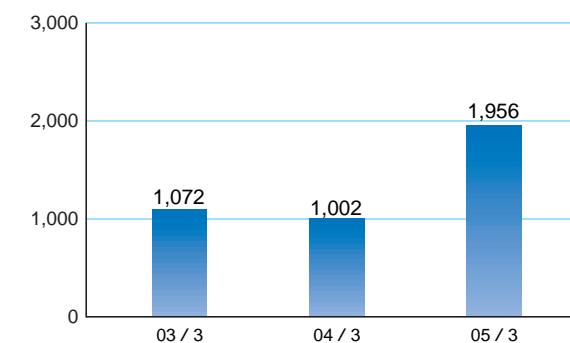
Net Sales (Unit: Million yen)



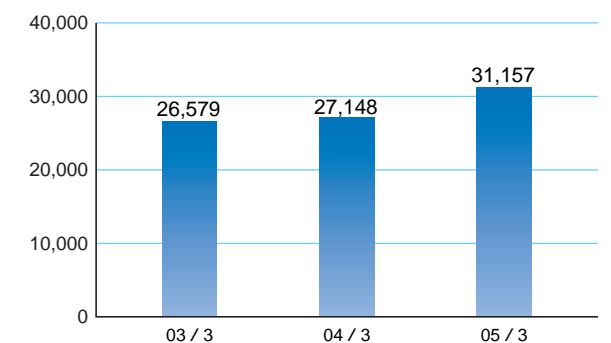
Ordinary Income (Unit: Million yen)



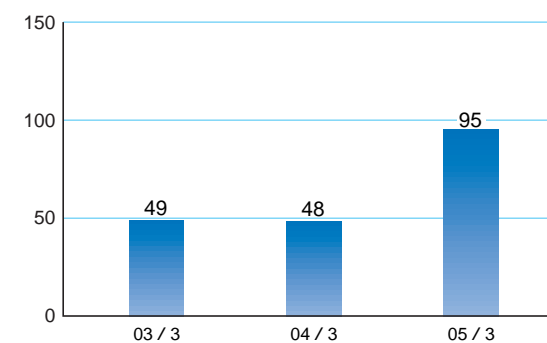
Net Income (Unit: Million yen)



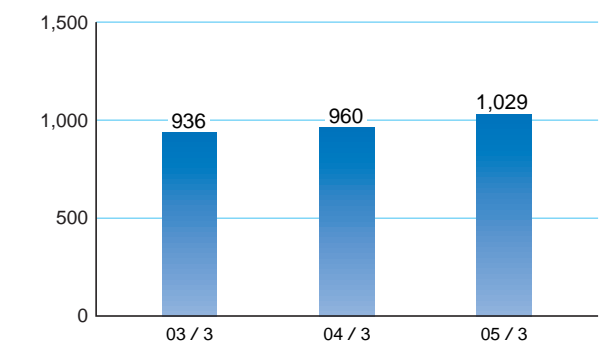
Total Assets (Unit: Million yen)



Net Income Per Share (Unit: yen)



Shareholders' Equity Per Share (Unit: yen)



(As of March 31, 2005)

Total number of shares to be issued 86,000,000 shares

Total number of shares outstanding 21,590,240 shares

Number of shares in one trading unit 100 shares

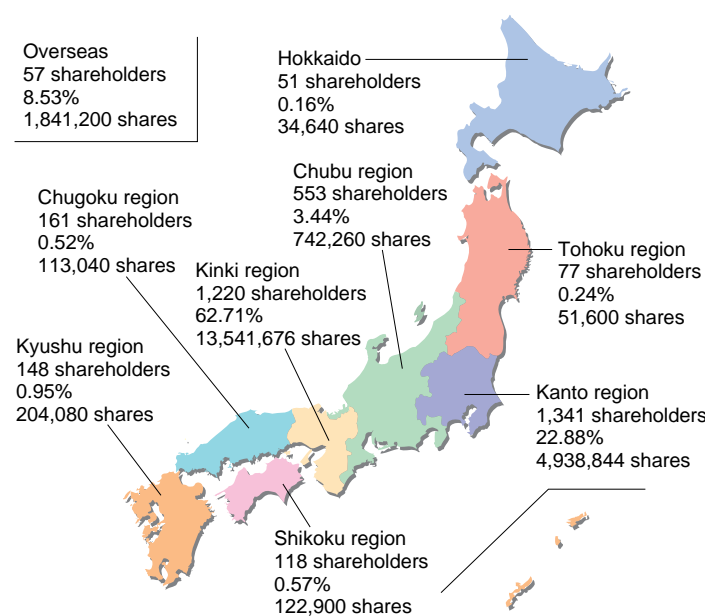
Number of shareholders 3,726

Principal shareholders

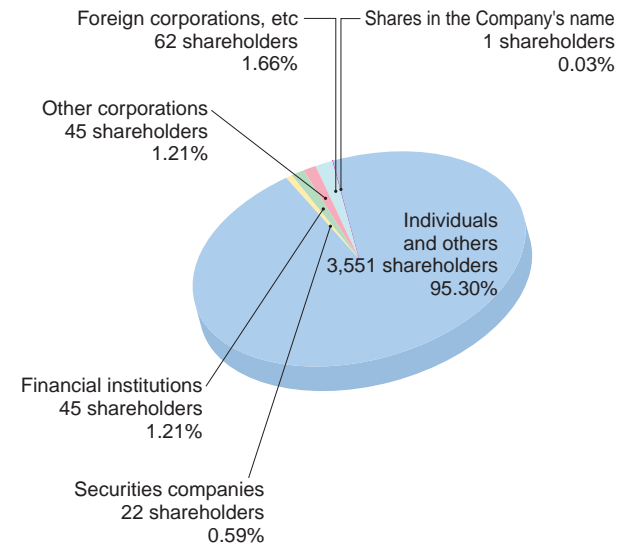
Name	Number of shares held (thousands of shares)	Percentage of voting rights (%)
Mitsuharu Terayama	2,468	12.22
Masamichi Terayama	2,168	10.74
Japan Trustee Services Bank, Ltd.	647	3.20
Sachiko Hanai	597	2.96
Employees shareholding association of Asahi Pretec	575	2.85
The Master Trust Bank of Japan, Ltd.	548	2.72
Junichi Mitsuzono	518	2.57

Asahi Pretec holds 1,394 thousands of shares of treasury stock. Treasury stock does not have a voting right pursuant to Article 241, Paragraph 2 of the Commercial Code.

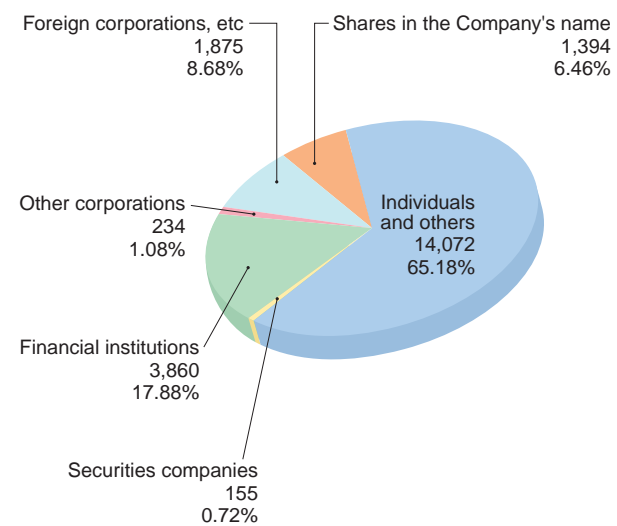
Shareholding by Geographic Area



Shareholding by Shareholder (thousands of shares)



Shareholding by Number of Shares (thousands of shares)



(As of June 16, 2005)

Corporate name Asahi Pretec Corp.

Founded July 1952

Capital ¥2,737 million

Head Office Nissei Sannomiya Building, 4-4-17 Kano-cho, Chuo-ku, Kobe

Number of employees 699 (as of March 31, 2005)

Business lines Recycling of precious and rare metals
Environmental protection (detoxification treatment of industrial wastes)

Subsidiary Sansho Co., Ltd.
Daimon Co., Ltd.
Eco-Material Co., Ltd.
Nihon Chemitec Co., Ltd.
Shioiri Building Material Co., Ltd.
Asahi G&S SDN. BHD. (Malaysia)
Shanghai Asahipretec Co., Ltd. (China)

Board of Directors, Executive Officers and Corporate Auditors

President and Representative Director Mitsuharu Terayama

Director and Executive Officer Yoshikatsu Takeuchi

Director Katsunori Shimazaki

Director and Executive Officer Akabane Noboru

Executive Officers Kiyoto Magoori
Yoshihiko Kamekura
Tomoya Higashiura
Masayuki Hirano
Seiichi Akeno
Masaaki Yamaguchi

Standing Statutory Auditor Masami Inoue

Statutory Auditors Teigo Kobayashi
Kazuhiko Tokumine
Sumiaki Ariumi

Business Network

Branch Tokyo Branch

Research Laboratory Technical Research Center

Plant Saitama, Shizuoka, Kobe, Ehime, Kitakyushu, Fukuoka, Personal Computer Recycle Center

Office Sapporo, Aomori, Sendai, Niigata, Kitakanto, Kanto, Yokohama, Kofu, Shizuoka, Nagoya, Hokuriku, Osaka, Kobe, Okayama, Hiroshima, Shikoku, Fukuoka, Kagoshima, Okinawa

Bases with ISO 14001 Head Office, Sendai, Kitakanto, Shizuoka, Kobe, Shikoku, Fukuoka, Technical Research Center

Base with ISO 9001 Technical Research Center

Hauling business permission 47 prefectures and 57 government ordinance cities

Disposal business permission 13 prefectures and 7 government ordinance cities