

## **Financial Results for FY2003**

May 7, 2004

### **1. Management policy**

#### **(1) Basic policy of corporate management**

Social contribution, continuity of enterprise and respect for the humanity form our management philosophy. Asahi Pretec Corp. is dedicated to managing the group companies in such a way as to increase corporate value on a sustainable basis by simultaneously achieving stability and growth.

Since it was founded in 1952, Asahi Pretec has achieved a steady growth in the two core business areas: i.e., recycling of precious and rare metal resources and pollution-free treatment of industrial wastes by exploiting new opportunities in the rapidly changing business environment. We will continue our progress through our broad-based contributions to the formation of resources recycling-oriented society in the 21<sup>st</sup> century, while setting great store by our relationship with all of our stakeholders.

#### **(2) Basic policy on distribution of profit**

The basic policy of the Company is to pay dividends to its shareholders on a stable basis. At the same time we believe it is important to accumulate our retained earnings to enable us to engage in new business development.

In accordance with this basic policy we are declaring a year-end dividend of ¥ 13 per share. When this is added to the interim dividend, the total payout for the fiscal year will come to ¥26 per share.

#### **(3) Medium- to long-term management strategy**

The Company has formulated the 3<sup>rd</sup> medium-term business plan which spans a 3-year period beginning in April 2003 and ending in March 2006. Under this plan, we will strive to strengthen our earnings power and increase our market share further in the precious metals recycling business and at the same time reinforce our efforts to engage in new promising businesses in the field of environmental protection. Through these endeavors we will establish the foundation for our future sustainable growth.

The 3<sup>rd</sup> medium-term business plan calls for sales of ¥50 billion and operating income to sales ratio of 7.5%, on a consolidated basis, during FY 2005, the last fiscal year of the plan period. Capital spending will be made, in principle, in an amount not to exceed the operating cash flow.

The above targets are based on certain premises that we consider reasonable at the present time; actual performance may vary from this

estimate. Some of the major factors that may cause such variance are as follows:

- \*Change in demand structure of precious and rare metals to be recycled due to economic or technological changes.
- \* Fluctuations in prices of precious and rare metals or exchange rates.
- \*Unforeseen changes in laws and regulations concerning environment or in community sentiments related to environmental affairs.
- \*Progress of mergers and acquisitions or partnerships, their success or failure.

#### **(4) Basic approach to corporate governance**

The Company with a small number of directors makes decisions expeditiously, and they mutually oversee business execution with rectitude. With reinforced group of auditors, we undertake thorough audit of business execution by directors. In addition, we also took steps to strengthen an internal control system encompassing the group companies as well. The Board of Auditors is made up of four persons, including three external auditors. They audit total operations by such means as attending Board meetings.

An important aspect of the Company's corporate governance is to strike a proper balance in benefiting our various stakeholders such as shareholders, customers, communities, and employees.

We will continue to improve our corporate transparency and fairness based on a strict compliance with all rules and regulations.

## **2. Management results and financial conditions**

### **(1) Management results**

During the fiscal year under review, the Japanese economy was marked by brisk exports, recovery of corporate profitability and a rise in capital investments, leading to a gradual pickup during the latter half of the year. Yet, no big impact has been felt in employment and personal consumption, while there are concerns that fluctuations in the yen-dollar exchange rates may hinder the economic recovery.

Although optimism for the future is becoming increasingly prevalent, businesses in general remain highly cost-conscious. In the face of these circumstances surrounding us, we are rigidly assessing the profitability of every transaction and working toward reducing the manufacturing and S. &

G. A. costs.

With respect to our precious metals recycling business area, the precious metals collected from dental materials exceeded the level of the previous year as the amount of dental alloy wastes and precious metals used in dental clinics and laboratories have been stable. The precious metals collected from the electronics materials also increased over the previous year reflecting the business recovery of the IT industry. In the area of jewelry processing, we were able to meet the goal set out in the collection plan.

Unit selling prices of gold, silver and platinum exceeded the previous year, while that of palladium was weak.

With respect to the environmental protection business area, the photosensitized liquid wastes, as well as silver contained in them both decreased due to a popularity of digital cameras and a commercialization of dry, solution-free technology for photo processing. As for pollution-free treatment services, the Company handled more chemical reagents and liquid wastes from factories and research institutions.

Our consolidated subsidiaries: Sansho Co., Ltd., Daimon Co., Ltd., and Eco-Material Co., Ltd., all showed solid performance through this period.

The Saitama plant expanded the facilities to collect precious metals from dental alloy scrap. New facilities were installed at the Ehime plant for sampling and analysis of materials containing precious metals, while at the Fukuoka plant, the capacity was increased to collect and refine indium for use in liquid crystal displays.

Shanghai Asahipretec Co., Ltd., our wholly owned subsidiary in China for recycling precious metals, completed a construction of its factory. It will help the Company better meet the customer needs in China and Southeast Asia, together with our Malaysian subsidiary, Asahi G&S Sdn. Bhd. and our branch office in Taiwan.

The total consolidated sales for the fiscal year reached ¥35,897 million, of which ¥28,219 million came from precious metal recycling and ¥7,677 million from environmental protection business. The recurring income for the year stood at ¥2,228 million and the net income at ¥1,002 million, both on a consolidated basis.

During the current fiscal year, the Japanese economy is showing signs of

gradual recovery especially on the corporate level, while enterprises in general are becoming increasingly conscious of protecting the environment and there is a growing momentum for resources recycling and zero-emissions. In these circumstances we are more conscious than ever of the important roles we play in the fields of recycling and waste disposal. We are determined to continue our endeavors to attain sustained growth and to improve the profitability searching for business opportunities and exploring new customers.

We will secure more stable profits in the field of precious metal recycling. To that end, we will increase our market shares in collecting dental materials with higher quality in customer services; we will penetrate electronic materials-related markets such as flat panel display and other rapidly growing areas; we will check up profitability of individual transactions with jewelry processors and manufacturers.

On the other hand, we will strengthen our environmental protection business through the management of consolidated entities. At the environment-conscious markets where a proper treatment of a wide variety of industrial wastes is highly required, what the Asahi Pretec group aims at is a branded “one-stop shop” that covers any kind of requirements from the customers and creates greater added values. In line with this approach, we acquired the stock shares of Nihon Chemitech Co., Ltd., of Kawaguchi City, Saitama Prefecture, in April 2004 so that it has become one of our subsidiaries. Nihon Chemitech has its proprietary technology for pollution-free biological disposal of liquid wastes emitted by electronics manufacturers and other industrial segments.

## **(2) Financial status**

The cash flow from business operations during the consolidated fiscal year under review increased by ¥3,124 million – net profit before tax and other adjustments of ¥1,845 billion and depreciation expenses of ¥1,403 million less tax and other payments.

The cash flow from investment activities decreased by ¥2,147 million due to such factors as expenditure of ¥2,123 million for acquisition of fixed assets. Major items of capital expenditure were: reinforcement of precious metal collection facilities at the Saitama plant; establishment of facilities for sampling and analysis of materials containing precious metals at the Ehime plant; and expanding the capacity to refine indium at the Fukuoka plant.

The cash flow from financial activities decreased by ¥490 million due to a

¥484 million net increase in long and short-term borrowings, ¥533 million dividend payments and ¥440 million purchase of the Company's own stock. As a result, the balance of cash and equivalent at the end of the fiscal year stood at ¥3,141 million.

**Asahi Pretec Corp. and Consolidated Subsidiaries**  
**CONSOLIDATED BALANCE SHEETS**  
**At March 31, 2004, 2003 and 2002**

ASSETS	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2003	2002	2004
Current assets:				
Cash and cash equivalents	¥ 3,141	¥ 2,689	¥ 2,152	\$ 29,719
Notes and accounts receivable:				
- Trade	2,264	2,131	2,095	21,421
- Other	9	47	34	85
Less: allowance for doubtful accounts	(2)	(2)	(4)	(19)
Inventories (Note 5)	3,849	4,145	6,056	36,418
Deferred income taxes (Note 9)	257	191	211	2,432
Other current assets	38	50	99	359
Total current liabilities	9,556	9,251	10,643	90,415
Property, plant and equipment (Note 8):				
Land	6,694	6,624	6,108	63,336
Building and structures	8,158	7,631	6,625	77,188
Machinery and equipment	6,441	5,187	4,962	60,942
Construction in progress	578	1,137	767	5,469
Other	1,489	1,498	1,465	14,088
Less: accumulated depreciation	(6,844)	(5,924)	(5,129)	(64,755)
Total property, plant and equipment	16,516	16,153	14,798	156,268
Investments and other assets:				
Investments in and advances to associates	—	—	13	—
Investments in securities (Note 7)	9	14	27	85
Deferred income taxes (Note 9)	70	117	108	662
Other	997	1,044	1,276	9,434
Total investments and other assets	1,076	1,175	1,424	10,181
Total assets	¥ 27,148	¥ 26,579	¥ 26,865	\$ 256,864

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2003	2002	2004
Current liabilities:				
Short-term debt (Note 8)	¥ 2,180	¥ 2,230	¥ 1,550	\$ 20,626
Current portion of long-term debt (Note 8)	1,009	899	562	9,547
Notes and accounts payable:				
- Trade	1,180	1,048	1,186	11,165
- Other	669	566	1,460	6,330
Accrued income taxes (Note 9)	350	362	476	3,312
Accrued expenses	452	475	482	4,277
Other current liabilities	331	268	221	3,131
Total current liabilities	6,171	5,848	5,937	58,388
Non-current liabilities:				
Long-term debt (Note 8)	1,335	911	956	12,631
Accrued severance indemnities (Note 10)	70	95	84	662
Directors' retirement allowance	162	286	287	1,533
Total non-current liabilities	1,567	1,292	1,327	14,826
Total liabilities	7,738	7,140	7,264	73,214
Minority interests	—	—	—	—
Shareholders' equity (Notes 12 and 15):				
Common stock				
Common stock authorized: 86,000,000 shares in 2004 and 2003 and 172,000 shares in 2002; issued and outstanding: 21,590,240 shares in 2004 and 2003 and 43,180 shares in 2002	2,737	2,737	2,737	25,896
Additional paid-in capital	4,310	4,310	4,310	40,780
Retained earnings	13,608	13,160	12,752	128,754
Unrealized gain on securities	1	5	9	9
Foreign currency translation adjustments	(41)	(9)	—	(388)
Treasury stock, at cost: 1,394,390 shares in 2004, 843,790 shares in 2003 and 235 shares in 2002	(1,205)	(764)	(207)	(11,401)
Total shareholders' equity	19,410	19,439	19,601	183,650
Total liabilities and shareholders' equity	¥ 27,148	¥ 26,579	¥ 26,865	\$ 256,864

The accompanying notes are an integral part of these statements.

**Asahi Pretec Corp. and Consolidated Subsidiaries**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**Years ended March 31, 2004, 2003 and 2002**

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2003	2002	2004
Net sales	¥ 35,897	¥ 36,384	¥ 39,745	\$ 339,644
Cost of sales	31,759	32,031	33,325	300,492
Gross profit	4,138	4,353	6,420	39,152
Selling, general and administrative expenses	1,910	2,171	2,285	18,071
Operating income	2,228	2,182	4,135	21,081
Other income (expenses):				
Interest and dividend income	2	2	5	19
Interest expenses	(27)	(29)	(32)	(255)
Foreign exchange gains (loss), net	1	0	58	9
Subsidy from local government	—	6	—	—
Share listing costs	—	—	(7)	—
Gain on sales of property, plant and equipment	0	—	—	0
Loss on disposal of inventories	—	(9)	—	—
Loss on disposal of property, plant and equipment	(395)	(158)	(42)	(3,737)
Loss on sales of property, plant and equipment	0	(20)	(8)	0
Loss on devaluation of investments in securities	—	(9)	(20)	—
Loss on termination of employees' benefit plan	—	—	(26)	—
Other, net	36	23	16	340
Income before income taxes	1,845	1,988	4,079	17,457
Income taxes (Note 9):				
Current	859	902	1,471	8,127
Deferred	(16)	14	298	(151)
	843	916	1,769	7,976
Net income	¥ 1,002	¥ 1,072	¥ 2,310	¥ 9,481

	Yen			U.S. dollars (Note 2)
	2004	2003	2002	2004
Net income per share:				
Basic	¥ 48.20	¥ 49.48	¥ 53,841.04	\$ 0.456
Diluted	48.04	—	53,549.02	0.455
Cash dividends per share	26.00	26.00	13,500.00	0.246

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**Asahi Pretec Corp. and Consolidated Subsidiaries**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**Years ended March 31, 2004, 2003 and 2002**

	Number of shares issued (thousands)	Millions of yen						Total
		Common stock	Additional paid-in capital	Retained earnings	Unrealized gain on securities	Foreign currency translation adjustments	Treasury stock	
Balance at March 31, 2001	43	¥ 2,730	¥ 4,161	¥ 10,915	¥ 0	¥ -	¥ (206)	¥ 17,600
Net income for the year	-	-	-	2,310	-	-	-	2,310
Cash dividends	-	-	-	(428)	-	-	-	(428)
Bonuses to directors	-	-	-	(45)	-	-	-	(45)
Share exchange	0	7	149	-	-	-	-	156
Net changes in unrealized gain on securities	-	-	-	-	9	-	-	9
Net changes in treasury stock	-	-	-	-	-	-	(1)	(1)
Balance at March 31, 2002	43	2,737	4,310	12,752	9	-	(207)	19,601
Net income for the year	-	-	-	1,072	-	-	-	1,072
Cash dividends	-	-	-	(644)	-	-	-	(644)
Bonuses to directors	-	-	-	(42)	-	-	-	(42)
Increase of consolidated subsidiaries	-	-	-	22	-	-	-	22
Share split	21,547	-	-	-	-	-	-	0
Net changes in unrealized gain on securities	-	-	-	-	(4)	-	-	(4)
Foreign currency translation adjustments	-	-	-	-	-	(9)	-	(9)
Net changes in treasury stock	-	-	-	-	-	-	(557)	(557)
Balance at March 31, 2003	21,590	2,737	4,310	13,160	5	(9)	(764)	19,439
Net income for the year	-	-	-	1,002	-	-	-	1,002
Cash dividends	-	-	-	(533)	-	-	-	(533)
Bonuses to directors	-	-	-	(21)	-	-	-	(21)
Net changes in unrealized gain on securities	-	-	-	-	(4)	-	-	(4)
Foreign currency translation adjustments	-	-	-	-	-	(32)	-	(32)
Net changes in treasury stock	-	-	-	-	-	-	(441)	(441)
Balance at March 31, 2004	21,590	¥ 2,737	¥ 4,310	¥ 13,608	¥ 1	¥ (41)	¥ (1,205)	¥ 19,410

	Thousands of U.S. dollars (Note 2)						
	Common stock	Additional paid-in capital	Retained earnings	Unrealized gain on securities	Foreign currency translation adjustments	Treasury stock	Total
Balance at March 31, 2003	\$ 25,896	\$ 40,780	\$ 124,515	\$ 47	\$ (85)	\$ (7,228)	\$ 183,925
Net income for the year	-	-	9,481	-	-	-	9,481
Cash dividends	-	-	(5,043)	-	-	-	(5,043)
Bonuses to directors	-	-	(199)	-	-	-	(199)
Net changes in unrealized gain on securities	-	-	-	(38)	-	-	(38)
Foreign currency translation adjustments	-	-	-	-	(303)	-	(303)
Net changes in treasury stock	-	-	-	-	-	(4,173)	(4,173)
Balance at March 31, 2004	\$ 25,896	\$ 40,780	\$ 128,754	\$ 9	\$ (388)	\$ (11,401)	\$ 183,650

The accompanying notes are an integral part of these statements.

**Asahi Pretec Corp. and Consolidated Subsidiaries**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**Years ended March 31, 2004, 2003 and 2002**

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2004	2003	2002	2004
Cash flows from operating activities:				
Net income	¥ 1,002	¥ 1,072	¥ 2,310	\$ 9,481
Adjustments for:				
Depreciation	1,403	1,280	1,288	13,275
Amortization	73	73	36	691
Net loss on disposal or sales of property, plant and equipment	394	178	32	3,728
Provision for accrued severance indemnities	(25)	11	(845)	(237)
Loss on valuation of investment in securities	-	9	20	-
Deferred income taxes	(16)	14	298	(151)
Change in operating assets and liabilities:				
(Increase) decrease in notes and accounts receivable	(133)	(17)	294	(1,258)
Decrease (increase) in inventories	295	1,911	(784)	2,791
(Decrease) increase in notes and accounts payable	206	(1,237)	907	1,949
Decrease accrued income taxes	(12)	(119)	(712)	(114)
Other	(63)	58	(35)	(597)
Net cash provided by operating activities	<u>3,124</u>	<u>3,233</u>	<u>2,809</u>	<u>29,558</u>
Cash flows from investing activities:				
Payments for purchase of property, plant and equipment	(1,917)	(2,453)	(3,653)	(18,138)
Proceeds from sales of property, plant and equipment	0	19	316	0
Payments for purchase of investments in subsidiaries, net of cash acquired	-	-	(226)	-
Other	(230)	(53)	(35)	(2,176)
Net cash used in investing activities	<u>(2,147)</u>	<u>(2,487)</u>	<u>(3,598)</u>	<u>(20,314)</u>
Cash flows from financing activities:				
(Decrease) increase in short-term debt	(51)	680	470	(483)
Proceeds from issuance of long-term debt	1,500	1,166	300	14,192
Repayment of long-term debt	(965)	(873)	(1,811)	(9,130)
Dividends paid	(534)	(642)	(427)	(5,053)
Purchase of treasury stock	(441)	(557)	(2)	(4,172)
Net cash used in financing activities	<u>(491)</u>	<u>(226)</u>	<u>(1,470)</u>	<u>(4,646)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(34)</u>	<u>(16)</u>	<u>13</u>	<u>(321)</u>
Net increase in cash and cash equivalents	452	504	(2,246)	4,277
Cash and cash equivalents at beginning of year	2,689	2,152	4,398	25,442
Cash and cash equivalents held by a newly consolidated subsidiary at beginning of year	-	33	-	-
Cash and cash equivalents at end of year	<u>¥ 3,141</u>	<u>¥ 2,689</u>	<u>¥ 2,152</u>	<u>\$ 29,719</u>

The accompanying notes are an integral part of these statements.