

April 20, 2005



# Financial Statements

For the fiscal year ended March 31, 2005

## JAPAN PURE CHEMICAL Co., Ltd.

Code No. : 4973  
 URL : <http://www.netjpc.com>  
 Stock Exchange Listed : Tokyo Stock Exchange-First Section  
 Corporate Headquarters : 3-10-18 Kitamachi, Nerima-ku, Tokyo Japan  
 Representative : Masao Watanabe, President  
 Investor Relations : Kaoru Uchida, General Manager,  
 Corporate Planning Division /Tel +81-3- 3550-1048

Date of the meeting of the Board of Directors for approval  
 of financial statements : April 20, 2005  
 Interim dividend : Yes  
 Beginning of dividend payment : June 27, 2005  
 Date of General Meeting of Shareholders : June 24, 2005  
 Adoption of unit stock system : No

### 1. Financial Results for the fiscal year: from April 1, 2004 to March 31, 2005

(1) Results of Operations (Note: amounts less than one million yen have been disregarded)

	Sales		Operating Income		Ordinary Income	
	(million yen)		(million yen)		(million yen)	
Year ended March 31, 2005	5,500	15.7%	1,255	15.0%	1,249	19.1%
Year ended March 31, 2004	4,755	14.6%	1,091	29.4%	1,048	28.5%

	Net Income		Net Income Per Share	Diluted Net Income Per Share	Ratio of net income to shareholders' equity	Ratio of Ordinary Income to total capital	Ratio of Ordinary Income to Sales
	(million yen)		(yen)	(yen)	(%)	(%)	(%)
Year ended March 31, 2005	744	21.3%	23,370.35	23,132.09	22.7	30.8	22.7
Year ended March 31, 2004	614	33.5%	38,263.46	37,990.42	22.5	31.8	22.1

Notes : 1. Equity in earnings (losses) of affiliates : For the year ended March 31, 2005 : million yen  
 : For the year ended March 31, 2004 : million yen  
 2. Weighted average number of shares outstanding : For the year ended March 31, 2005 : 30,800 shares  
 : For the year ended March 31, 2004 : 15,400 shares  
 3. Change in accounting policy : No  
 4. Percentages above represent annual changes over the preceding year unless otherwise stated.

### (2) Dividend Positions

	Annual Dividend Per Share			Total Annual Dividend	Payout Ratio	Ratio of Dividends to Shareholders' Equity
	(yen)	Interim	Year End			
Year ended March 31, 2005	5,000.00	2,000.00	3,000.00	(million yen) 154	(%) 21.4	(%) 4.3
Year ended March 31, 2004	6,000.00	2,500.00	3,500.00	92	15.7	3.1

Note: 1. Breakdown of dividend at year ended March 31, 2005: Ordinary dividend ¥2,000.00 Memorial dividend ¥1,000.00  
 2. The Company conducted a 2-for-1 stock split on May 20, 2004. Dividend at year ended March 31, 2004 (¥6,000 / year) was per share before stock split.

## (3) Financial Positions

	Total Assets	Shareholders' Equity	Ratio of Shareholders' Equity to Total Assets	Shareholders' Equity Per Share
	(million yen)	(million yen)	(%)	(yen)
Year ended March 31, 2005	4,519	3,590	79.4 %	115,752.67
Year ended March 31, 2004	3,585	2,981	83.2 %	191,993.79

Notes : 1. Number of shares outstanding at the end of period  
 2. Number of treasury shares at the end of period

March 31, 2005	: 30,800 shares
March 31, 2004	: 15,400 shares
March 31, 2005	:
March 31, 2004	:

## (4) Cash Flows

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Cash & Cash Equivalents at End of Period
	(million yen)	(million yen)	(million yen)	(million yen)
Year ended March 31, 2005	1,137	-335	-119	2,497
Year ended March 31, 2004	623	-82	-133	1,814

## 2. Financial Forecasts for the Fiscal Year Ending March 31, 2006

	Sales	Ordinary Income	Net Income	Dividends per Share		
				Interim	Year End	
	(million yen)	(million yen)	(million yen)	(yen)	(yen)	(yen)
Six months ended September 30, 2005	2,870	660	400	2,500.00		
Year ending March 31, 2006	6,000	1,375	820		2,500.00	5,000.00

(Reference) Expected Net Income per Share: ¥26,623.38

Please refer to "Review of Operations and Financial Position" on page 10 in relation to above-mentioned forecasts.

## 1. Corporate Group

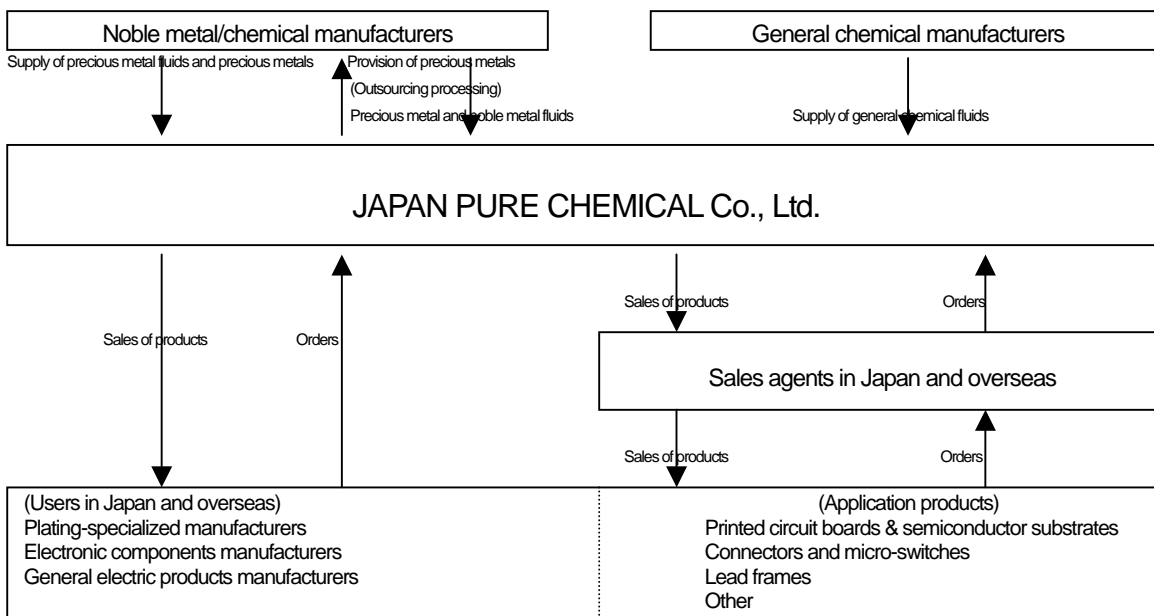
Japan Pure Chemical Co., Ltd. (the Company) is primarily engaged in the development, manufacture and sale of chemicals for the precious metal plating of contacts and connectors for the attachment of electronic components on printed circuit boards (including package substrates), and for connectors and lead frames. The Company is particularly skilled in the provision of comprehensive proposals that extend to advice on processes and after-sales services. This makes possible the development, manufacture and sale of products that closely match the needs of customers.

Since its establishment in July 1971, the Company has consistently targeted the electronics industry. As a result, the Company has grown along with this industry through the provision of gold plating fluids for semiconductor packages and connectors, silver plating fluids, and palladium plating fluids. When developing new products, the Company employs internal resources rather than relying on the adoption of technology from overseas, a stance that has resulted in the accumulation over many years of a storehouse of technology.

Based on their applications, precious metal plating fluids are divided into two categories: functional plating and decorative plating. Functional plating is used to improve performance, such as by making a surface more resistant to corrosion. The development, manufacture and sale of functional plating chemicals using precious metals is the core business of the Company. The types and applications of our products are as follows:

Category by function	Category of plating	Category of plating fluids	Category of applications (Main final products)
Functional plating (for electronics)	Gold plating	Soft gold plating fluids	Printed circuit boards and semiconductor substrates (mobile phone, PC, electronic device, etc.)
		Hard gold plating fluids	Connector and Micro-switches (mobile phone, PC, electronic device, etc.)
	Palladium plating	Plating fluids of palladium-nickel alloy	Lead frame (mobile phone, PC, electronic device, etc.)
		Palladium plating fluids	Lead frame (mobile phone, PC, electronic device, etc.)
Silver plating	Pure silver plating fluids	Lead frame (mobile phone, PC, electronic device, etc.)	

### (Business Flow Diagram)



The Japan Pure Chemical business model is as follows.

1. Selectivity and concentration/specialization: Specialize in precious metal plating fluids that are based on exclusive Company technology developed entirely in Japan.
2. Speed and agility: Act in a speedy and thorough manner with regard to decision-making, customer services and all other activities.
3. Manufacturing: As a rule, produce goods only to order in Japan and overseas; conduct manufacturing so as to meet customers' needs and fill orders quickly.

The Company has earned a reputation as a trusted partner in the electronics industry by leveraging these strengths and remaining at the forefront of global technological progress. By repeating this process, the Company has accumulated the knowledge and trust that produce a competitive edge and high profitability.

## **2. Management Policies**

### a. Fundamental management policies

Japan Pure Chemical takes pride in its role in supporting the foundation needed for the development of an information society. The Company is fulfilling its social mission by constantly acting with speed to take on new challenges and meet market demands with regard to new technologies, markets and products. In addition, Japan Pure Chemical constantly places priority on maximizing shareholder value and on customer satisfaction in order to meet the expectations of shareholders and customers. To accomplish this, the Company is aiming to establish overwhelming positions of leadership in terms of technologies, market share and services, as well as to achieve the industry's highest level of employee skills and ethical standards.

### b. Fundamental policy regarding allocation of earnings

The Company's fundamental policy regarding earnings allocations is to maintain a stable dividend payout ratio in accordance with the level of earnings while preserving the level of retained earnings needed for business activities in the future and strengthening the base of operations.

Based upon this policy on May 20, 2004 the Company conducted a one-to-two stock split and in accordance with a decision at the Board of Directors meeting held on September 15, 2004 an increased dividend was paid for the interim period ending September 2004. Further at the General Meeting of Shareholders scheduled for June 24, 2005 it is planned to propose a motion that a total dividend of 3,000 yen be paid being an ordinary dividend of 2,000 yen together with an additional dividend of 1,000 yen to commemorate the listing of the Company's stock on the first section of the Tokyo Stock Exchange.

As regards the use of retained earnings, while it is desired to give the highest priority to investment for future growth such as the entry into new areas of business and expansion of existing operations, consideration is also been given as to how to return profits to our shareholders through methods such as the flexible purchase of treasury stock.

### c. Policy regarding reduction in investment unit

Management regards raising the liquidity of its shares and increasing the number of shareholders as important issues involving its equity policy. In consideration of the cost of an investment unit, the Company conducted a one-to-two stock split for shareholders and beneficial shareholders of record on March 31, 2004 for the purpose of enabling investors to purchase Company shares with greater ease. Management will continue to carefully examine further reductions in the investment unit and take actions as necessary.

d. Targeted performance indicators

From the standpoint of maximizing gains for shareholders, the Company places priority on maintaining return on equity (ROE) of 20% in order to raise profitability and returns on capital.

The ROE at the end of this fiscal year was 22.7%.

e. Medium- and long-term management strategies

In line with the issues set forth in the Medium-Term Management Plan (from April 2004 to March 2007) based on fundamental policies established by the Company president, the Company has set the following goals and is taking the following actions.

< Business strategy >

Clearly determine the Company's current position in each of its business domains. Conduct rigorous sales and technology development activities based on sales and technology (new product) strategies that reflect an awareness of the competitors in each domain.

1) Entry into new business areas.

Without harming the Company's established business model, target for entry new areas of business other than the electronic components industry.

2) Further strengthen new product development and market research.

Develop new products for the next generation of electronic components and speedily provide into the marketplace products that are suited to changes in the surrounding environment. Aim to anticipate market needs, expand new business and further increase market share.

3) Strengthen and expand overseas markets.

Strengthen business activities in respect of expanding overseas markets, in particular South-East Asia.

4) ISO certification for quality assurance and environmental standards (Planned)

The Company is establishing integrated management systems in compliance with the latest ISO9001 and ISO14001 standards with the aim of bringing its quality assurance and environmental preservation systems in line with international standards. It is forecast that ISO certifications in respect of these quality (customer satisfaction) and environmental standards will be granted. (As at April 2005, registration and examination pending.)

< Organizational strategies >

Committed to the principle that the Company's major resource is its personnel, while continuing efficient management, the Company will exercise flexibility in order to achieve business growth, construction of stable organizational systems that fully meet the expectations of each of the stakeholders and continuously achieve high levels of growth.

1) Increase and upgrade the technical staff

Increase the number of engineers in line with a personnel plan and bolster staffing required to develop new products.

2) Upgrade and foster sales framework

Increase strategic sales skills that draw on technical expertise while fostering the development of young and mid-tier sales personnel to lay the groundwork for future growth. Strengthen global market research capabilities and establish a sales management framework that can utilize data in a systematic manner.

3) Strengthen in-house management systems

Based upon a reexamination of the compatibility of each department's operational procedures and

inter-departmental cooperation, gain an understanding of appropriate and efficient in-house checking functions and construct stable in-house management systems.

Further renew the underlying operational systems, heighten precision in forecast and actual management operations, and implement advanced information disclosure systems to ensure further accuracy and speed.

#### f. Key issues

##### < Current status and key issues >

In the Company's core semiconductor and electronic components markets, rapid and dramatic changes are taking place due to strong growth and, since these are global markets, shifts in worldwide supply-demand dynamics and the emergence of new technologies. In such a market environment many of the makers that form the Company's customer base continue to put great effort into the creation of low cost strategies in order to remain price competitive and from a global perspective are undertaking a rapid restructuring of their manufacturing hubs and manufacturing systems. Due to this situation, the Company regards the following items as its most pressing issues.

- Bolster ability to develop new technologies

Rapidly develop new products and products that are armed with scientific knowledge, high quality and performance, low cost, and added value, while constantly targeting the latest advances in technology at customers.

- Reinforce the sales framework

The Company must strengthen its "total solutions framework" to closely reflect customer needs. The Company must also identify customer needs and respond in a manner that is speedy and accurate, as well as enhance its ability to provide customers with proposals. The Company needs to respond in a flexible manner to the overseas shift in production activities and to other forms of diversification in the operations of customers. There is also a need to step up activities to capture new customers.

- Share and centralize information on market needs

Monitor and analyze the activities of competitors, new product introductions and other market trends; develop ties with new customers; develop next-generation technologies; and effectively utilize proposals for sales and technology strategies that target new fields of business.

##### < Specific initiatives >

- Upgrade ability to develop new technologies

The Company will aggressively hire talented new graduates as well as talented research engineers who can make an immediate contribution in order to raise the level of R&D activities. Moreover, to create stronger ties with technology divisions, more people will be shifted from technology divisions to sales-technology divisions while closely monitoring developments involving the latest advances in technology at customers.

- Bolster sales framework

There is a need to accurately identify the needs of customers and respond in a speedy and appropriate manner and upgrade the ability to formulate proposals for customers. For this purpose, the Company is shifting individuals with extensive knowledge and experience involving technologies from its technology divisions to sales-technology divisions and increasing the number of young and mid-tier personnel.

- Share and centralize information

Centered around the President hold regular information sharing meetings attended by representatives of the sales-technology, technology, and management planning divisions for the purpose of monitoring the latest industry developments. Investments are being made in sales support systems to promote the sharing of information, such as by centralizing the management of data within the Company.

g. Measures regarding corporate governance

(1) Corporate governance basic philosophy

The Company, at the same time as accelerating the management decision-making process, from the point of view of strengthening corporate competition is also emphasizing thorough oversight of management based upon transparency of the management process. The Board of Directors as well as making decisions concerning basic management policy, those matters required under law and other important management items is also the body positioned to oversee the execution of operations within the Company. In addition to the monthly meetings of the Board of Directors, every Monday an operation's report meeting attended by Directors, Auditors and the heads of department is held. Through the operation reports delivered it is aimed to share information between the heads of department to further increase the speed of the decision making process at management level and also to improve lateral cooperation and create a system of reciprocal checks and balances.

(2) Implementation of corporate governance strategies

1) Corporate governance systems including management level decision-making and management organizations related to execution and oversight.

- Under the audit system, a Board of Auditors meeting is held monthly for the purpose of allowing monitoring by the auditors of the execution of duties by the Directors. This ensures the ongoing construction of transparent and appropriate management systems.
- From within the 4 auditors, 3 are external company auditors.
- The Board of Directors is positioned as the body that determines basic management policy, those matters required under law and other important management items. The Board of Auditors, to oversee execution of duties by the Directors, is comprised of 4 auditors, 1 of whom is a full-time auditor.
- Ordinary Board of Directors meetings are held monthly with extraordinary meetings of the Board of Directors being held as necessary where urgent management decisions are required to respond to changes in the business environment. The Board of Directors meetings are attended by the auditors who monitor the appropriateness of the management decisions made at these meetings.
- An internal audit office, that audits each department, has been established that reports directly to the President.
- The accounting auditors are members of the auditing firm Ernst &Young ShinNihon. The Company has entered into an agreement with this firm to provide them with appropriate information and to receive an accurate audit in respect of audits under the Commercial Code and Securities Exchange Law.
- Outside counsel is consulted as necessary to provide legal opinions in relation to company management and day-to-day operations to ensure appropriate legal control functions.

2) Outline of personal, financial, trading or other interests between the Company and the Company's external directors and external auditors.

No such interests exist.

3) Implementation of corporate governance strategies at the Company within the past year.

A Board of Directors meeting to determine basic management principles and other important items is held once a month at a minimum. Further each month at the conclusion of the Board of Directors meeting, a Board of Auditors meeting is held in order to strengthen compliance and monitor operations execution. In addition in June of last year Japan Pure Chemical Co., Ltd. enacted its "Corporate Code of Conduct" that sets forth the basic principles that all Directors, Executives and employees must comply with in the execution of their daily

duties. This code aims to ensure that every person from top-level management to rank and file employees has a thorough awareness of the legal compliance items. In addition through clearly stating the Company's disclosure policy and disclosure regulations, it is aimed to ensure timely and full disclosure. Further disclosure policy and disclosure regulations have been established as well as fully-fledged in-house systems, that from the viewpoint of all investors, ensures that Company information is always promptly, accurately and fairly disclosed. As measures towards the concrete implementation of CSR (Corporate Social Responsibility) as a public corporation, since the second half of FY2004, the Company has been constructing integrated management systems in compliance with the latest ISO9001 and ISO14001 standards. From the viewpoint of quality assurance and environmental friendliness standardization, throughout all the departments within the Company, operational procedures together with PDCA (plan-do-check-action) cycle operations have commenced. (As at April, 2005, under examination.)

(3) Directors and auditors remuneration.

The remuneration for the Company's Directors, full time auditor and auditing firm for this fiscal period are as stated below.

Directors remuneration :	Remuneration paid to Directors	119,642 thousand yen
	Remuneration paid to Full time Auditor	15,150 thousand yen
	Total	134,792 thousand yen
Auditors remuneration :	Remuneration for audit certification	10,000 thousand yen
	Remuneration other than the above	1,000 thousand yen
	Total	11,000 thousand yen

h. Items related to parent companies, etc.

There are no applicable items.

### 3. Review of Operations and Financial Position

#### a) Review of Operations

In this fiscal period, which marked the third year of expansion in the Japanese economy, against a background of solid corporate results, with growth in capital investment and improvements in the employment situation being seen, positive indications of an increase in domestic demand were present. However overseas demand decreased against a backdrop of soaring prices in the international commodities markets centering on the price of crude oil. This together with increased interest rates in the U.S has resulted in an economic flattening out from summer onwards.

In the electronic components industry in spring of last year there was a growth in demand centering on digital home appliances in the lead up to the summer Athens Olympics. Since summer a lull in the demand for digital home appliances and in particular LCD TVs together with sluggish growth in the mobile phone market has compelled adjustments in production levels. Given the influence of these factors and the resulting adjustments of inventory levels for electronic components, in particular semiconductors, since July of last year a slowdown in demand has been clearly seen.

For the Company, despite the influences on the electronic components industry as outlined above, the trend toward using lead-free products coupled with the increasing sophistication of equipment and the growing number of components due to miniaturization has lead to an increased demand for our gold plating chemicals for flexible circuit boards and connectors and our palladium plating chemicals for lead frames. Further new products for next generation package substrates are also being incorporated by our clients.

As a result, sales of 5,500,642 thousand yen (YoY increase of 15.7%), operating income of 1,255,043 thousand yen (YoY increase of 15.0%), ordinary income of 1,249,233 thousand yen (YoY increase of 19.1%) and net income for the fiscal year of 744,806 thousand yen (YoY increase of 21.3%), being the highest sales and income results ever, were recorded.

Sales according to use category are as stated below.

#### ( Printed circuit boards and semiconductor substrates )

In line with the ongoing miniaturization of semiconductors, the movement from lead frame to BGA type continued, with the BGA market expanding.

Further in the flexible printed circuit board market in response to increasing miniaturization and the trend toward use of lead-free products, the shift from solder plating to gold plating continued.

The Company, through its accurate prediction of these trends, increased sales 9.7% from the previous year to 2,923,362 thousand yen.

#### ( Connector and micro-switches )

Through its full response to the demand for highly functional plating liquids driven by increased miniaturization of connectors, the Company increased its market share.

Sales increased 21.6% from the previous year to 1,012,590 thousand yen.

#### ( Lead frames )

In response to the trend for use of lead-free products, palladium PPF has been well received with the demand for palladium plating fluids increasing.

Sales increased 18.1% from the previous year to 1,038,585 thousand yen.

#### ( Others )

Sales in this category grew due largely to a growth in the use of precious metals for ion plating for watch decoration. Sales increased 39.1% from the previous year to 526,103 thousand yen.

#### < Outlook for the Next Fiscal Year >

In the electronic component industry the inventory adjustment is continuing steadily, it is expected that this adjustment phase will be completed between the middle of the year and the beginning of fall and a recovery phase will commence. However, as in the past, a sense of uncertainty still remains.

The Company through its full response to the trend toward the use of lead-free products is actively implementing concrete measures to satisfy the shift in demand from solder plating to gold plating for flexible circuit board and connector use.

In addition, in line with the growth in the BGA market in which the Company already has secured a dominant market share, at the same time as ensuring that we are positioned to take advantage of the increased demand in this market, the Company is implementing concrete measures to secure market share for the new printed circuit boards with memory applications that are shifting from the lead-free to the BOC type with the aim of further increasing market share.

In the flexible circuit board sector, while the Company already holds a dominant share, within the flexible BGA sector, as there is significant potential for the Company to increase its market share, utilizing products developed specifically for this market, the Company is actively striving to expand revenues.

Taking into consideration the Company's cultivation of new clients and fully fledged sales activities resulting from a strengthening of its sales systems to overseas markets, forecast business results for the fiscal year ending March 2006 are as stated below.

Sales	6,000,000 thousand yen (YoY increase 9.1%)
Ordinary Income	1,375,000 thousand yen (YoY increase 10.1%)
Net Income for This Fiscal Year	820,000 thousand yen (YoY increase 10.1%)

#### [Notes regarding forecast results]

While statements in these reports regarding the next fiscal year and other future events are evaluations made based upon the information available at the time these reports were prepared, they contain risk items and uncertainties.

Accordingly actual results may vary significantly from the forecast results stated here for a number of reasons. Major factors that may affect the actual results are the economic environment surrounding the Company's operations and market conditions.

#### b Financial Position

##### 1) The financial position and liquidity analysis

Total assets at the end of this fiscal year are 4,519,979 thousand yen being a YoY increase of 934,262 thousand yen.

Liquid assets are 3,916,426 thousand yen being a YoY increase of 648,343 thousand yen.

The main reason for this is cash and deposits, which at 2,698,301 thousand yen increased 682,873 thousand yen from the previous year. (For details, refer to 2) Cash flow analysis.)

Fixed assets are 603,553 thousand yen being a YoY increase of 285,919 thousand yen.

For tangible fixed assets and intangible fixed assets, the major contributing items were respectively,

acquisition of a new R&D facility and acquisition of software for the Company's in-house manufacturing information system.

Investment and other assets are chiefly comprised of stock acquisitions.

Total liabilities are 929,797 thousand yen being a YoY increase of 325,785 thousand yen.

The main reason for this is an increase of income tax payable.

In shareholders' equity, net income for the fiscal year was calculated as 744,806 thousand yen with annual dividends of 115,500 thousand yen, being a YoY increase of 608,477 thousand yen.

## 2) Cash flow analysis

In this fiscal period (Year ending March 2005), cash and cash equivalents (referred to after as "Funds"), due to an increase in net income before taxes increased 682,873 thousand yen from the previous year.

(Cash flow by operating activities)

The funds obtained by operating activities are 1,137,672 thousand yen (YoY increase 82.5%).

This is accounted for by net income before income taxes of 1,248,293 thousand yen, a decrease in accounts receivable of 45,509 thousand yen and a payment of income taxes of 274,545 thousand yen.

(Cash flow by investment activities)

The funds used in investment activities are 335,786 thousand yen (expenditure of 82,280 thousand yen in the previous fiscal year).

This is accounted for by an expenditure of 56,589 thousand yen for the acquisition of tangible fixed assets, 55,300 thousand yen for the acquisition of intangible fixed assets and 222,343 thousand yen for the acquisition of investment securities.

(Cash flow by financing activities)

The funds used in financial activities are 119,013 thousand yen (expenditure of 133,093 thousand yen in the previous fiscal year). This is primarily accounted for by 115,500 thousand yen paid in dividends.

( Reference )

	March, 2001	March, 2002	March, 2003	March, 2004	March, 2005
Equity Ratio	37.0%	82.5%	82.1%	83.2%	79.4%
Ratio of Market Capitalization to Total Assets			282.3%	645.9%	449.7%
Debt Redemption Multiple	1.5 years				
Interest Coverage Ratio	16.2	23.0			

Note) Equity Ratio: Equity at end of fiscal year / Total assets at end of fiscal year

Ratio of market capitalization to total assets: Market capitalization at end of fiscal year / Total assets at end of fiscal year

Debt Redemption Period: Interest bearing debt / Operating cash flow

Interest Coverage Ratio: Operating cash flow / Interest payments

#### 4 Business Risk

From within those items set forth in our financial report related to business and accounting conditions, the items that have or may have a major influence on investors' decisions are as stated below.

##### 1. Heavy reliance on the electronic equipment industry

Given that our Company's precious metal plating fluids are used predominately within the electronic equipment industry for applications such as contacts for semi-conductor mounted circuit boards, printed circuit boards, connectors and lead frames, our major clients are those businesses primarily involved in that industry. Accordingly, trends within this industry, in particular shifts in the mobile phone and PC markets, have a great influence on our Company's results.

##### 2. Influence of market trends on the products and raw materials used by our Company.

In general terms the raw materials used by our Company in the majority of our products can be divided into precious metals and chemicals, with precious metals accounting for the majority of our expenditures. While the price of chemicals is relatively stable, as the international market price of precious metals (gold, silver, palladium) experiences large fluctuations, these fluctuations have a corresponding influence on our Company's sales results.

As the contract price between our Company and clients is determined based upon market value on the date of purchase and sale, and our Company places orders to purchase precious metals at the time of receiving orders from our clients, fluctuations in the market price of precious metals have little effect on our profit margin. However, given the risks that may arise in stock rollover, this influence is kept to an absolute minimum through reduction in delivery times and minimization of the amount of stock on hand.

Further, given that precious metals are a limited resource, where procurement problems arise as a result of sudden fluctuations in supply and demand or mining accidents, there is a possibility that this will have an influence on our Company's business activities.

##### 3. Influence of fluctuations in the exchange rate

In the fiscal years ending March 2004 and March 2005, exports accounted for 29.9% and 34.6% respectively of our Company's business. In terms of trading abroad, while accounts settlement has as a general rule been performed in yen, recently there has been a growing trend to conduct such trade in U.S. dollars. While our Company hedges its risks through forward exchange contracts, it cannot be guaranteed that all risk can be avoided and accordingly currency fluctuations may have an influence on our Company's results.

##### 4. Heavy dependence on particular suppliers

The major raw materials in the precious metal plating chemicals used by the Company are precious metal compounds. The Company selects its suppliers from the viewpoint of quality and ensuring stable supply and as a result two particular companies account for a high percentage of material supplied. These two companies are also the Company's outsourcing companies. Accordingly in the event that unforeseen circumstances arise in respect of either of these companies, this will lead to some disruption of our product supply to customers and accordingly may affect the results of the Company.

##### 5. Research and developments

As technological innovations in the electronic components industry are significant, the Company considers that R&D is of the utmost importance to ensure supply of products to our clients that are in line with their needs to not only maintain but also expand our market share. For these purposes the Company promotes R&D activities in respect of new product development and the improvement of existing products. However given the multitude of possible future technologies for electronic devices, where the Company is unable to correctly predict which technology will become

the future mainstream, this may have a major affect on the results of the Company.

The Company's fundamental principles for future activities are the development of plating fluids for cutting edge devices and development of environmentally friendly plating fluids that contribute to further reductions in our clients' costs. However where R&D activities to achieve these principles do not progress as planned or where there are delays in R&D, this may affect the results of the Company.

#### 6. Intellectual property rights

Given that the gold plating fluid which is the Company's driving product is of a complex component composition which makes analysis difficult, in general it is thought that putting a similar product into the market is not a simple task. Further should the Company make a patent application that failed, as it would require public disclosure of information concerning the composition of the plating fluid, to date the Company has not actively pursued acquisition of patent rights in respect of the gold plating fluid. However, given the advances in recent years in organic analysis technologies, in the future as regards the R&D of new technologies the Company will not to emphasize making patent applications based upon composition information but rather to protect technologies by making patent applications based on physicochemical constants. However given that registration of all patents pending cannot be guaranteed or that there may be a case where another company achieves technological development that is superior to that of the Company, this may have a major affect on the Company's operational strategies.

Further, while the Company conducts thorough in-house investigations to ensure that its operations do not impinge on the intellectual property rights held by a third party, where new patent rights are granted to another company in respect of products developed and sold by the Company, this may affect the results of the Company.

#### 7. Unauthorized distribution or disclosure of technological know-how

The technological information of the Company consists of plating liquid development processes together with plating fluids and their composition and components and technological data that passes between the Company and its clients. This type of technological information is stored in designated secure cabinets that are checked daily and the Company prohibits both the removal of such information from the Company premises and its reproduction. In particular in respect of plating composition and components, measures to prevent unauthorized dissemination, such as coded use of terms by the Company, have been implemented. However in the event that there is unauthorized dissemination of this information, as it is believed that there is a possibility that products similar to that of the Company could be produced by reference to the plating component analysis results in combination with this information, this may affect the results of the Company. Further as regards personnel, while at the time they are hired it is ensured that they are fully aware of the Company's policies, their obligation of compliance with the same and their duties to maintain confidentiality, once personnel leave the Company, despite being under a contractual obligation to continue to maintain confidentiality, were they to unlawfully disseminate any part of the Company's technology or information, it cannot be denied that this may affect the Company's operations.

#### 8. Dependence on the Top Management

As at March 31, 2005, the Company is a small-scale organization with 7 Directors, 4 Auditors and 33 rank and file employees. Accordingly where circumstances arise affecting a staff member's ability to perform their duties or where a staff member leaves the Company, this may affect the operations of the Company.

Further the Company's operations relay heavily on the President, Mr. Masao Watanabe. Mr. Watanabe not only performs an important role in terms of the abilities he possesses in relation to operations management, R&D and ongoing managerial duties but also his personal relationship with the shareholders and business affiliates is strongly linked to the development of the Company's operations. While the Company is endeavoring to strengthen management systems to ensure there is not excessive reliance on Mr. Watanabe, in the event that he is unable to fulfill his executive duties within the Company, this may affect the Company's operational strategies and business results.

#### 9. Securing and fostering of human resources

The electronic components industry, to which the Company supplies its products, is one in which technological standards and clients' needs are rapidly changing. Therefore it is vital that the Company develops new technologies that can be immediately applied to commercial applications and also that it continues to improve existing products. Regardless of the strategies that are employed to increase company name recognition, strengthen recruiting activities and upgrade human resource education and training, if the Company is unable to recruit highly skilled engineers or secure and foster R&D personnel, this may affect the Company's business performance.

To date the Company, based upon its slogan of being small but elite, has expanded its operations not just on the basis that each employee performs their duties as expected, but also that they also have a constant awareness of the Company's operations. In the future, given the predicted expansion of duties, such as entry into overseas markets, entry into new fields of operations and fulfillment of IR, while the Company will make even greater endeavors to secure elite personnel, in the event that the Company is unable to recruit or foster a sufficient number of personnel, this may affect future operational development.

#### 10. Laws and regulations

Given that the Company uses chemicals to which the "Poisonous and Deleterious Substances Control Law" applies as raw materials in its plating fluids, the Company is subject to the regulations regarding their sale, manufacture and import that have been enacted under that Law.

The Company, in addition to implementing measures regarding registration of the sale, manufacture and import of deleterious and poisonous substances as legally required, has also established in-house management systems to ensure compliance with the applicable laws and regulations. In the development of products the Company gives full consideration to their composition and components based upon whether or not the use of poisonous substances is permissible and in addition how to reduce the amount of these substances. However if there is a tightening of the applicable regulations, due to a revision to the law or other circumstances, that results in a use prohibition or restriction on use of any of the chemicals that are used as raw materials in the Company's plating fluids, in the interim period while replacement products are being developed, this may affect the Company's results.

#### 11. Waste control

In the Company's manufacturing and experimentation processes, liquid waste and emissions are created, which given environmental considerations, must be appropriately processed. The Company depending on the concentration of the liquid waste either processes it through discharged liquid waste treatment equipment or has it processed by an outside contractor. As regards emission controls, the exhaust gases produced in the laboratory and manufacturing processes, through a localized ventilation system, are processed by exhaust gas treatment equipment. As a result of these systems, to date the Company has not been the subject of any orders by public authorities or received any complaints by local residents. However, in the future, should any problems arise in respect of the Company's waste control, this may have a major influence on the Company's results.

#### 12. Relation to FBF2000 and LP.

Established by the Company's two major shareholders FBF2000 and LP on March 8, 2000 is the MBO fund. This fund has a limited operation period from March 10, 2000 to March 10, 2010, with a possible extension until March 10, 2012. Accordingly the shares of the Company held by that fund will, as a general rule, be sold within that period. When these shares are sold or where there is a possibility of their sale, this may affect the market price of the Company's shares.

**(4) Financial Statements, etc.**

## A. [Financial Statements]

## 1. [Balance Sheet]

Category	Note No.	Previous Fiscal Period (March 31, 2004)		Current Fiscal Period (March 31, 2005)		Year-on-Year Comparison
		Amount (One Thousand Yen)	% of Total	Amount (One Thousand Yen)	% of Total	
<b>(ASSETS)</b>						
<b>Current assets</b>						
1. Cash and deposits		2,015,428		2,698,301		682,873
2. Notes receivable		199,363		170,380		-28,983
3. Accounts receivable		848,240		831,715		-16,525
4. Products		27,520		69,274		41,754
5. Raw materials		137,894		91,211		-46,683
6. Stock		273		36		-237
7. Prepaid expenses		6,381		6,739		358
8. Deferred tax assets		32,432		48,351		15,919
9. Other		548		414		-133
<b>Total Current Assets</b>		3,268,082	91.1	3,916,426	86.6	648,343
<b>Fixed assets</b>						
<b>1. Tangible fixed assets</b>						
(1) Buildings and structures		56,464		59,524		
Accumulated depreciation		21,270	35,193	26,939	32,584	-2,608
(2) Vehicle and delivery equipment		13,515		12,594		
Accumulated depreciation		11,326	2,189	6,073	6,521	4,331
(3) Tools, equipment and fixtures		249,691		338,398		
Accumulated depreciation		165,359	84,331	200,729	137,669	53,337
<b>Total Tangible Fixed Assets</b>			121,714		176,775	55,060
			3.4		3.9	
<b>2. Intangible Fixed Assets</b>						
(1) Software		35,944		51,708		15,763
(2) Telephone subscription rights		466		466		
(3) Trademark rights		2,661		2,386		-275
<b>Total Intangible Fixed Assets</b>			39,073		54,561	15,448
			1.1		1.2	
<b>3. Investments and Other Assets</b>						
(1) Investment securities		96,210		325,469		229,528
(2) Deposits for guaranty		23,931		24,098		167
(3) Deferred tax assets		33,776		18,734		-15,041
(4) Long-term prepaid expenses		2,927		3,529		602
(5) Other				383		383
<b>Total Investment and Other Assets</b>			156,846		372,216	215,370
			4.4		8.3	
<b>Total Fixed Assets</b>			317,633		603,553	285,919
			8.9		13.4	
<b>Total Assets</b>			3,585,716		4,519,979	934,262
			100.0		100.0	

Category	Note No.	Previous Fiscal Period (March 31, 2004)		Current Fiscal Period (March 31, 2005)		Year-on-Year Comparison
		Amount (One Thousand Yen)	% of Total	Amount (One Thousand Yen)	% of Total	
<b>(LIABILITIES)</b>						
<b>Current liabilities</b>						
1. Notes payable		15,435		2,394		-13,041
2. Accounts payable		204,531		258,939		54,407
3. Monies payable		27,573		33,119		5,546
4. Income tax payable		157,319		390,000		232,681
5. Consumption tax payable		7,248		1,358		-5,890
6. Reserve for bonuses		41,000		46,000		5,000
7. Monies payable for facilities				63,000		63,000
8. Other		33,996		9,911		-24,084
<b>Total Current Liabilities</b>		487,104	13.5	804,723	17.8	317,619
<b>Fixed liabilities</b>						
1. Reserve for Director's retirement benefits for service		116,908		125,074		8,165
<b>Total Fixed Liabilities</b>		116,908	3.3	125,074	2.8	8,165
<b>Total Liabilities</b>		604,012	16.8	929,797	20.6	325,785
<b>(SHAREHOLDERS EQUITY)</b>						
<b>Capital stock</b>						
		1,134,000	31.6	1,134,000	25.1	
<b>Capital surplus</b>						
1. Capital reserve		877,713		877,713		
<b>Total Capital Surplus</b>		877,713	24.5	877,713	19.4	
<b>Retained earnings</b>						
1. Voluntary reserve						
(1) Special depreciation reserve				17,096		17,096
(2) Special reserve		300,000		700,000		400,000
2. Unappropriated earnings at the end of the period		661,656		848,867		187,210
<b>Total Retained Earnings</b>		961,656	26.8	1,565,963	34.6	604,306
<b>Stock valuation differential</b>		8,334	0.3	12,505	0.3	4,171
<b>Total Shareholders' Equity</b>		2,981,704	83.2	3,590,182	79.4	608,477
<b>Total Liabilities and Shareholders' Equity</b>		3,585,716	100.0	4,519,979	100.0	934,262

## 2. [Profit &amp; Loss Statement]

Category	Note No.	Previous Fiscal Period (April 1, 2003 - March 31, 2004)			Current Fiscal Period (April 1, 2004 - March 31, 2005)			Year-on-Year Comparison
		Amount (One Thousand Yen)		% of Total	Amount (One Thousand Yen)		% of Total	
<b>Sales</b>								
1. Product sales			4,755,784	100.0		5,500,642	100.0	744,858
<b>Cost of sales</b>								
1. Product inventory at beginning of the period		17,150			27,520			
2. Product manufacturing costs		2,964,823			3,511,284			
<b>Total</b>		2,981,973			3,538,804			
3. Product inventory at end of the period		27,520	2,954,453	62.1	69,274	3,469,530	63.1	515,076
<b>Gross Income</b>			1,801,331	37.9		2,031,112	36.9	229,781
<b>Selling, general and administrative expenses</b>			709,579	14.9		776,069	14.1	66,489
<b>Operating income</b>			1,091,751	23.0		1,255,043	22.8	163,291
<b>Non-operating income</b>								
1. Interest received		57			61			
2. Dividends received		340			1,494			
3. Currency gain		2,191			231			
4. Other income		42	2,631	0.1	46	1,834	0.0	-797
<b>Non-operating expenses</b>								
1. New share issue expenses					2,108			
2. Public offering expenses		45,313			5,226			
3. Other losses		81	45,394	1.0	309	7,643	0.1	-37,751
<b>Ordinary income</b>			1,048,988	22.1		1,249,233	22.7	200,245

Category	Note No.	Previous Fiscal Period (April 1, 2003 - March 31, 2004)		Current Fiscal Period (April 1, 2004 - March 31, 2005)		Year-on-Year Comparison
		Amount (One Thousand Yen)	% of Total	Amount (One Thousand Yen)	% of Total	
<b>Extraordinary income</b>						
1. Reversal of allowance for doubtful accounts		800				
2. Profit on sale of fixed assets				284		
3. Profit on sale of securities				319		
4. Insurance payments received		295	1,095	831	1,434	0.0
<b>Extraordinary losses</b>						
1. Loss on sale of fixed assets				772		
2. Loss of retirement of fixed assets		111		1,603		
3. Loss on valuation of investment securities		51	163		2,375	0.0
Income before income taxes			1,049,920		1,248,293	22.7
Income taxes, residence taxes and enterprise taxes		260,031		507,226		
Income tax effect adjustment		175,631	435,663	-3,739	503,486	9.2
<b>Net income</b>			614,257		744,806	12.9
<b>Retained earnings brought forward</b>			85,899		165,660	
<b>Interim dividend</b>			38,500		61,600	
<b>Unappropriated retained earnings at end of year</b>			661,656		848,867	

## 3. [Cash Flows]

Category	Note No.	Previous Fiscal Period (April 1, 2003 - March 31, 2004)	Current Fiscal Period (April 1, 2004 - March 31, 2005)	Year-on-Year Comparison
		Amount (One Thousand Yen)	Amount (One Thousand Yen)	
<b>Cash flow from operating activities</b>				
1. Income before income taxes		1,049,920	1,248,293	
2. Depreciation expenses		50,827	76,936	
3. Profit on sale of fixed assets			-284	
4. Loss on sale of fixed assets			772	
5. Profit on sale of investment securities			-319	
6. Loss on valuation of investment securities		51		
7. Reduction in allowance for doubtful accounts		-800		
8. Increase in reserve for bonuses		3,000	5,000	
9. Increase in reserve for Directors' retirement benefits for service		30,164	8,165	
10. Loss on retirement of fixed assets		111	1,603	
11. Interest and dividends receivable		-397	-1,556	
12. Public offering expenses		45,313	5,226	
13. Increase/decrease in accounts receivable (minus = increase)		-246,230	45,509	
14. Increase/decrease in inventory (minus = increase)		-29,627	5,165	
15. Increase in purchase liabilities		39,610	41,366	
16. Payment of bonuses for Directors		-25,000	-25,000	
17. Other		124	217	
<b>Sub Total</b>		917,067	1,410,661	
18. Interest and dividends received		397	1,556	
19. Income taxes paid		-294,122	-274,545	
<b>Cash flow from operating activities</b>		623,342	1,137,672	514,330
<b>Cash flow from investing activities</b>				
1. Expenditures for acquisition of tangible fixed assets		-62,249	-56,589	
2. Income from sale of tangible fixed assets			90	
3. Expenditures for acquisition of intangible fixed assets		-11,365	-55,300	
4. Expenditures for acquisition of investment securities		-3,076	-222,343	
5. Income from sale of investment securities			437	
6. Other		-5,589	-2,080	
<b>Cash flow from investing activities</b>		-82,280	-335,786	-253,506
<b>Cash flow from financing activities</b>				
1. Payments for stock exchange listing-related expenses		-45,313	-3,513	
2. Dividend payments		-87,780	-115,500	
<b>Cash flow from financing activities</b>		-133,093	-119,013	14,080
<b>Increase in cash and cash equivalents</b>		407,968	682,873	274,905
<b>Balance of cash and cash equivalents at beginning of the period</b>		1,406,663	1,814,632	407,969
<b>Balance of cash and cash equivalents at end of the period</b>		1,814,632	2,497,506	682,873

4. [Proposal for the Appropriation of Retained Earnings]

Category	Note No.	Previous Fiscal Period		Current Fiscal Period	
		Amount (One Thousand Yen)		Amount (One Thousand Yen)	
<b>Unappropriated earnings at end of period</b>		661,656		848,867	
<b>Reversal of voluntary reserve</b>					
1. Reversal of special depreciation reserve				7,300	7,300
<b>Total</b>			661,656		856,167
<b>To be appropriated as follows</b>					
1. Dividends		53,900		92,400	
(Ordinary dividend)		(¥2,500 per share)		(¥2,000 per share)	
(Commemorative dividend)		(¥1,000 per share)		(¥1,000 per share)	
2. Directors' bonuses		25,000		25,000	
3. Voluntary reserve					
(1) Reserve for special depreciation		17,096		28,424	
(2) Special reserve		400,000	495,996	500,000	645,824
<b>Retained earnings carried forward</b>			165,660		210,343

(Note)

In current fiscal period, an interim dividend of ¥2,000 per share (Total dividend ¥61,600,000) was paid.

## (5) Sales Results

The sales results by product for the 34<sup>th</sup> fiscal period (ending March 2005) are as stated below.

Product Type	33 <sup>rd</sup> Fiscal Period (April 1, 2003 – March 31, 2004)		34 <sup>th</sup> Fiscal Period (April 1, 2004 – March 31, 2005)	
	Amount (One Thousand Yen)		Amount (One Thousand Yen)	Year-on-year comparison (%)
For printed circuit boards & semiconductor substrates	2,664,896		2,923,362	109.7
For connectors & micro-switches	833,005		1,012,590	121.6
For lead frames	879,561		1,038,585	118.1
Other	378,321		526,103	139.1
Total	4,755,784		5,500,642	115.7

(Notes)

1. The above amounts do not include consumption tax.
2. The major export regions, their sales amounts and the percentage of region in terms of sales for the latest two years is as stated below.  
The percentages stated within the brackets are the percentage of exports to total sales.

	33 <sup>rd</sup> Fiscal Period (April 1, 2003 – March 31, 2004)		34 <sup>th</sup> Fiscal Period (April 1, 2004 – March 31, 2005)	
	Amount (One Thousand Yen)	% of Total	Amount (One Thousand Yen)	% of Total
Korea	274,269	19.3	338,706	17.8
Taiwan	458,029	32.2	525,611	27.6
Singapore / Malaysia	140,699	9.9	151,998	8.0
China	296,294	20.9	554,816	29.2
Other Regions	251,710	17.7	329,896	17.4
Total	1,421,003 (29.9%)	100.0	1,901,029 (34.6%)	100.0