ESPEC CORP. ANNUAL REPORT 2004

Profile

ESPEC CORP. (the "Company") was established in 1954 and became the first company in Japan to enter the environmental test chamber sector in 1961. The Company has since become the largest and most advanced environmental test chamber manufacturer in Japan through its continual research and development related to new types of environmental test chambers and its peripheral technologies in the said sector. As outlined in the table below, the Company is also engaged in the Electronic Device Business and the Environmental Service Business both of which are built on its unique technologies acquired over the decades in the Environmental Test Business, such as temperature and humidity controlling technologies, measurement and analysis technologies, and design and manufacturing technologies. In addition, the Company has been actively pursuing new types of businesses.

In fiscal 2002, the Company held a significant share in environmental testing market, with about a 60% (*1) share of the Japanese market and a 25% (*2) share of the global market. The Company is also a leader in display device equipment, with nearly a 30% (*3) share of the market for heat-treatment devices in fiscal 2002. The Company has established itself as a world leader in both of these areas.

At present, the Company has seven subsidiaries and affiliates in Japan and eight overseas as part of the ESPEC Group, offering outstanding products and services to customers throughout the world.

(*1) JTM Report 2003
(Committee on Environmental Machinery, adjusted in respect of overseas sales amount)
(*2) Our presumption (2002)
(*3) Prepared by us based on research of "LCD Equipment Data Book" issued by Electronic Journal, Inc.

ESPEC's Fields of Business

Environmental Test Business

Provides environmental test chambers for testing impacts of temperature, humidity and other environmental factors on components used in semiconductors, automobiles, telecommunications, and other electronics industries etc.

Temperature (& Humidity) Chamber Platinous K Series

Electronic Device Business

Provides measurement systems for evaluating electrical characteristics of semiconductors, electronic parts, etc.; burn-in systems for screening semiconductors; heat-treatment and inspection devices for LCD production lines.

TDDB Evaluation System

Environmental Service Business

Offers after-sales services; entrusted testing on behalf of customers on a commissioned basis; product rental. Also develops new businesses in fields such as biotechnology, environment, etc., in which high growth and earnings can be expected.

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Cautionary Statement Regarding Forward-Looking Statement

Statements made in this annual report regarding the Company's current plans, estimates, strategies, beliefs, and other statements that are not historical facts, are forward-looking statements about the future performance of the Company based on management's assumptions and beliefs in light of information available at the time of publication, and involve risks, factors, and uncertainties that could cause the Company's actual results to differ materially from those presented in this report. The Company cautions you not to place undue reliance on such forward-looking statements.
You should also not rely on any obligation of the Company to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. The Company disclaims any such obligation.

Mid-term Plan

ESPEC 130 Plan

Execution Period
(Apr. 2003 – Mar. 2006)

Targets for the year ending March 31, 2006

- Net sales of ¥40 billion or more
  (¥30 billion or more on a non-consolidated basis)
- Operating income margin of 10% or more
- Cost reduction by 30% or more
- Sales ratio for new products of 30% or more

Growth program toward the achievement of ESPEC 130 Plan

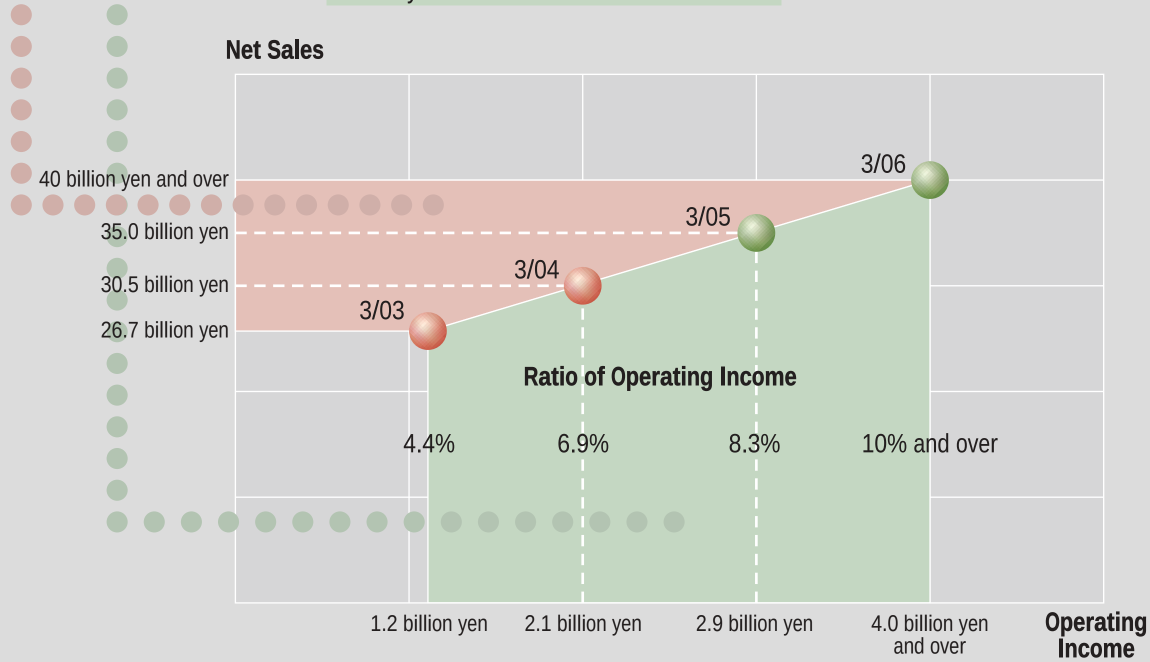
Four Priority Policy Strategies

- Technological R&D Strategy
- Overseas Business Development Strategy
- New Business Development Strategy
- Existing Business Development Strategy

Implementation of reforms to create the infrastructure for the transformation of the corporate culture and the promotion of priority policy strategies

Four Reforms

- Cost/Quality Reform
- Personnel-System Reform
- Information System Reform
- Sales System Reform



An Interview with the President

Susumu Nojii
President, COO

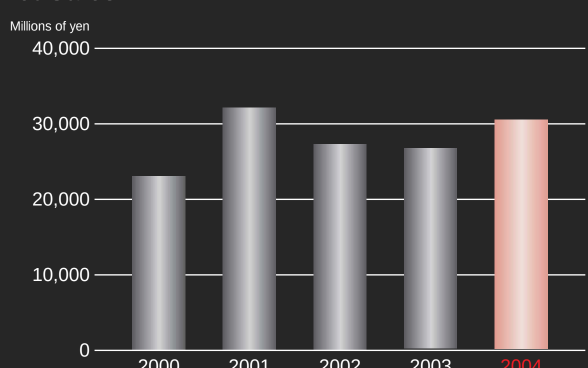
Q Would you mind giving us an overview of the Company's business performance for the year ended March 31, 2004?

A During the fiscal year under review, the economy showed amelioration toward a recovery, as indicated by a stock-market rally, an increase in capital investment, and improvements in the performance of major companies.

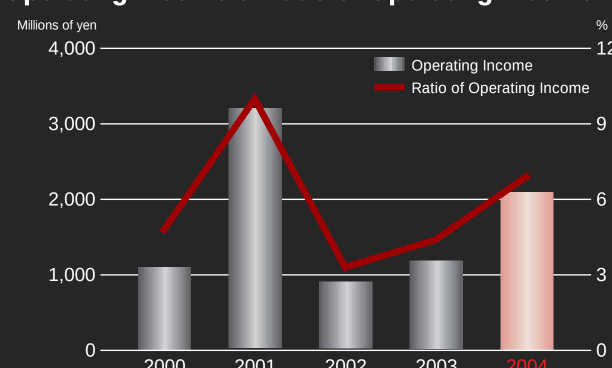
The Company designated this fiscal year, being the first year of the implementation of the “ESPEC 130 Plan” (the Company's three-year management innovation plan), as the year of embarkation on activities to emphasize “reform and development”. We aggressively developed our business operation for our customers in favorable and growing markets such as the automobile-related market and the flat-panel display (FPD) market exemplified by thin-screen TVs. At the same time, we took steps to build a business structure that is oriented toward generating earnings, and channeled efforts into developing the next generation of new technologies and products.

As a result, ESPEC saw substantial increases in orders received, sales and profits. Sharp expansion of the FPD market led by liquid-crystal TVs increased capital equipment investment demand, mainly from liquid-crystal display (LCD) manufacturers in Republic of Korea and Taiwan. We carried out aggressive sales and marketing activities and responded to the increasing demand through effective implementation of outsourcing. As a result, we could ensure a smooth supply of our products to display devices manufacturers and doubled our year-on-year volume of orders received.

Net Sales



Operating Income & Ratio of Operating Income



Furthermore, by strengthening our sales and marketing activities focused on needs of the strong and growing markets such as automotive and digital home appliance markets, we also achieved increases in both orders received and sales of our Environmental Test Business.

As a result, consolidated net sales in the fiscal year were ¥30,537 million, a year-on-year increase of 14.2%. Operating income was ¥2,096 million, a year-on-year increase of 76.9% as an effect of measures including cost-reduction activities. As to net income, the Company was able to earn ¥1,299 million, a year-on-year increase of 586.3%, thanks also to the absence of negative factors such as substantial extraordinary losses.

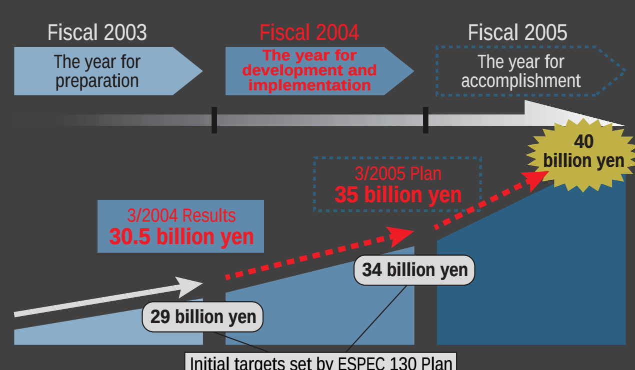
Q Tell us about the progress the Company has made in implementing its management innovation plan, the "ESPEC 130 Plan"?

A Our reforms and strategies are steadily moving forward to the achievement of the targets.

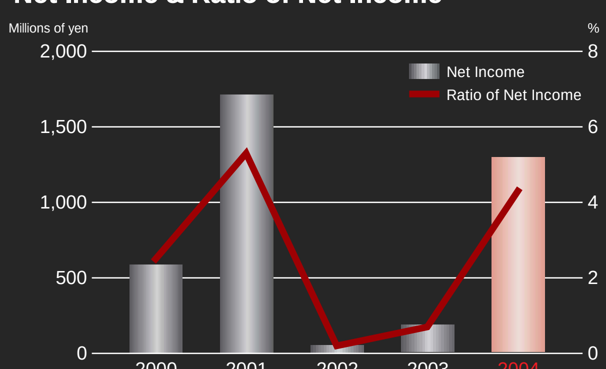
To pursue the cost and quality reform, we have promoted the modularization of customized specifications in environmental test chambers and display devices production equipment. As a result of such efforts, we have improved the cost-of-sales rate by 4.2 points in the Environmental Test Business and by 5.1 points in the Electronic Device Business. Besides, in the production of standard environmental test chambers, we have started to introduce a cell production system in place of the conventional production system that has been used in the past 30 years. By that, we aim to reduce the lead time from product assembly to completion and to reduce processing costs.

In pursuit of the personnel-system reform, the Company has adopted systems based on roles and results, choices and self-responsibility, in order to cultivate "management systems which allow people to make the most of their capabilities and to fully develop their potentials". Examples include an annual salary system for management positions, an award for a challenging spirit that is granted to employees who set a high target and achieved it, and an in-house staff recruitment system. Besides, we circulate "Susu-mail", the president's bulletin, among those who have access to the Company's internal website. The bulletin communicates my messages and management-related information to employees. In addition, informal talks between employees and myself have been arranged on an ongoing basis. In the past two years, I had talks with nearly 400 employees. By showing our visions and goals clearly to all employees and by sharing information with them, we try to bring the whole company together and further advance our reforms and strategies.

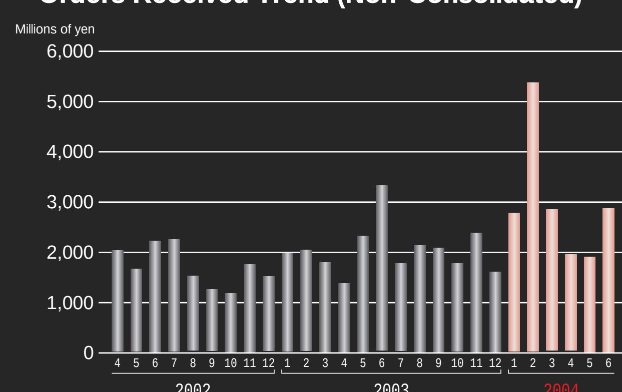
Targeting to accomplish ESPEC 130 Plan



Net Income & Ratio of Net Income



Orders Received Trend (Non-Consolidated)



In the technological R&D strategy, we decided to invest ¥6 billion in R&D in the three-year period from fiscal 2003 through fiscal 2005, an amount equivalent to twice the R&D investment made in the past. We are also making a substantial increase in the number of employees assigned to development. In the given fiscal year, the Company developed products for customers who manufacture display devices compatible with sixth and seventh-generation glass substrates. The Company will continue its efforts to enhance R&D efficiency and shorten the lead time for development, and to create innovative technologies in order to achieve the goal set forth in the "ESPEC 130 Plan" of boosting its new-product sales rate to at least 30% in fiscal 2005.

ESPEC saw advancement in its overseas business development, too. In October 2003, we opened our office in Germany that serves as a base for cultivating EU market and in January 2004 we established ESPEC Evaluation & Test Systems, Inc. in the United States that deals with the sales and planning of measurement system products. Besides, our affiliate in Shanghai constructed a new plant for the production of equipment for display device manufacturers. These are some of the ways for strengthening our functions in each geographic area in order to enhance our worldwide market share.

Q Would you explain about specific policies and plans to achieve the targets, and the outlook for the future?

A

[Management policies for fiscal 2004]

As our clients in the automotive, digital home appliance and LCD markets appear to remain brisk in fiscal 2004, we anticipate favorable trends in our Environmental Test Business and Electronic Device Business. However, as it is uncertain what the market climate would be in fiscal 2005, the final fiscal year of the "ESPEC 130 Plan", we assume that it would be prudent to consider the management of the Company in 24-months time span so as to step up activities that take the next fiscal year into account.

In such circumstances, we will place priority on strengthening Electronic Device Business and building the foundation for overseas business development, and intend to allocate management resources accordingly. We would therefore like to make challenges in development in a creative manner — be it product development, market development, or business development.

[The medium-term direction of the Company's business structure]

Currently our Environmental Test Business is the pillar of our operations. In the future, we would like to increase the ratio of our Electronic Device Business and also of new businesses such as biotechnological and physiological environment, from which we expect high growth and profits.

In recent years, the Company's operating income ratio has stayed at a low level, but we are working to transform our business structure into a high-value-added structure. We aim to increase our operating income ratio to at least 10% by fiscal 2005.

[Approaches for structural reforms]

Currently, employees working in development, production, sales, and other functions directly related to the Company's revenue account for seven-tenths of the Company's workforce, while those in supporting functions make up the other three-tenths. By taking measures such as the promotion of outsourcing and the introduction of supply chain management (SCM) to streamline and simplify office processes, we are to shift human resources to direct functions. Our plan is to reduce the proportion of employees working in indirect functions to two-tenths. By so doing, we can increase added value per employee as well as reducing futile endeavors. In the end, we aim to transform our corporate structure into one that can generate sufficient earnings even with a 20% or 30% fluctuation in sales.

Q Please tell us about ESPEC's corporate governance.

A In an effort to strengthen and to increase the transparency of management and administrative functions, the Company adopted an executive officer system in April 2002. Under this system, concurrent assumption of posts of company director and executive officer is solely limited to the president. Board of directors undertakes to focus on decisions for important business execution and on management monitoring functions. The system also aims to clarify management responsibility by making such changes as shortening the term in office of a director from two years to one year.

The Company has also made changes in its compensation system for directors and officers. The retirement allowances system for newly appointed officers (including executive officers) was repealed in April 2002, and retirement allowances for reappointed directors and auditors were abolished in June 2002.

By way of practicing management focused on shareholder interests, the Company has adopted a stock-option system, and in its second issue of new stock acquisition rights in August 2003, it granted stock acquisition rights to directors, executive officers and management-level employees.

Q Finally, let us share your message to shareholders.

A We hope to create more opportunities for dialogue with our shareholders by holding shareholder conferences after the session of general shareholders' meetings, enhancing our business reports and website, and holding earnings results briefing meetings.

The Company is changing its approach of distributing profits to shareholders. Starting in fiscal 2004, we will be shifting our emphasis from providing a stable level of dividends to a more dividend propensity oriented approach, for example, distributing dividends that reflect the Company's business performance. Also, in an effort to make it easier for individual shareholders to invest, we will reduce the number of shares constituting one full unit of stock from 1,000 to 100, effective September 10, 2004.

We will continue our endeavors to foster better relations with our shareholders and will appreciate your continued understanding and support.

June 2004

Susumu Nojii

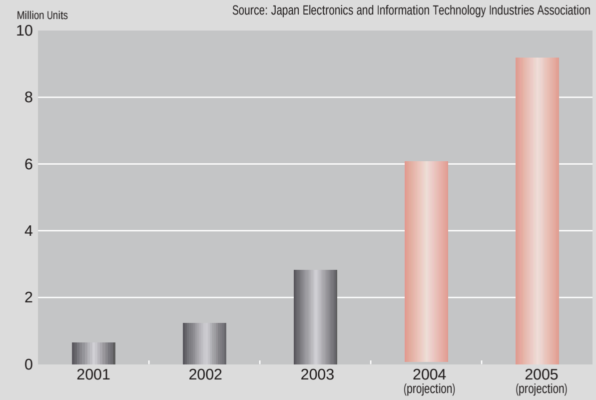
Susumu Nojii
President, COO

ESPEC's highly reliable technologies contribute to the growth of the LCD market

The sharply expanding LCD market

The liquid-crystal display (LCD) market has sharply expanded thanks to the recent steep growth in demand for liquid-crystal TVs and mobile phones, in addition to the demand for such devices as laptop computers and monitors that had been the major contributors to the market up to this point. This growth has prompted a significant increase in capital investment by LCD manufacturers. In 2002, the total production value of flat-panel displays (FPDs) such as LCDs and plasma display panels (PDPs) exceeded that of cathode-ray-tube TVs for the first time ever. The Olympic Games in Athens this year are expected to further boost demand for liquid-crystal TVs and fuel more demand for LCDs.

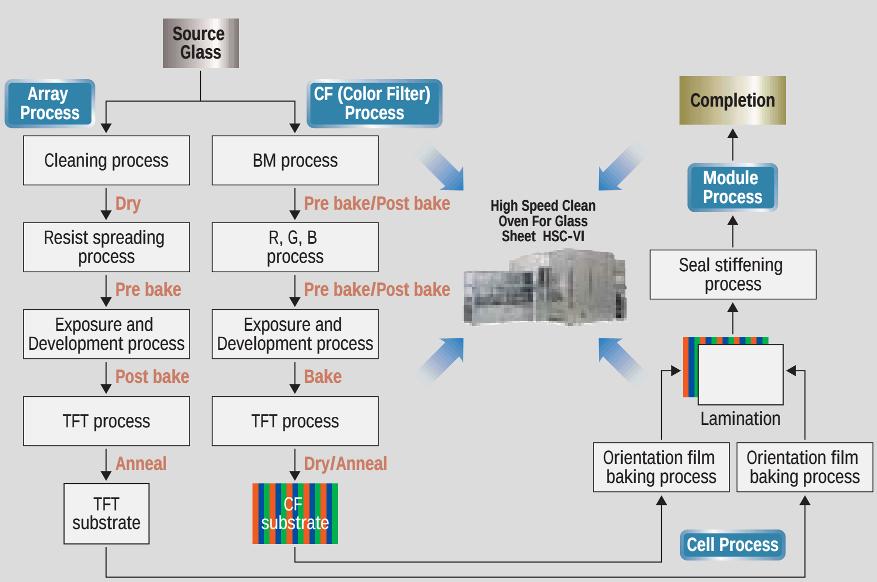
The Size of Global Market of LCD TVs (10" and over)



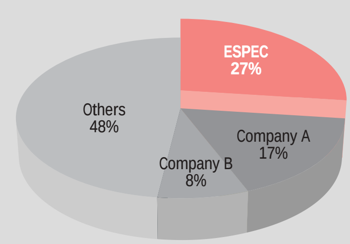
Our products play an active role in LCD production lines

In its Electronic Device Business, ESPEC provides devices used for the production of LCDs and other FPDs. The process of manufacturing LCD panels involves multiple heat-treatment steps such as annealing, baking and drying. The Company supplies heat-treatment devices for these processes. The Company has nearly a 30% share of the world market for heat-treatment devices.

Display Devices Used in LCD Production Lines



The Share in LCD Heat-treatment Device Market



Prepared by us based on research of "LCD Equipment Data Book" issued by Electronic Journal, Inc.

Moving toward further growth

Currently, the mother glass dimensions for LCDs are in the fifth-generation (about 1,100 mm X 1,250 mm), but are getting larger year by year; the dimensions for the sixth and seventh-generations are about 1,500 mm X 1,800 mm and about 1,800 mm X 2,100 mm, respectively. The trends toward large size and high precision have prompted demands from LCD manufacturers for increasingly high degrees of cleanliness and for high-precision temperature-distribution and glass-transport technologies.

The Company addresses these requirements by providing heat-treatment devices that concentrate its technology and expertise. Furthermore, the Company is making great progress toward even higher levels of technological innovation; for example, developing products to meet the FPD market's new needs for PDPs and organic EL displays.

ESPEC TECHNOLOGIES

In the LCD panel manufacturing process, glass substrates are coated with materials such as photosensitive resin or color resist, and then baked. The baking generates a sublimate that can cause problems in several ways. As the glass is being transported, the sublimate flows to the exterior of the heat-treatment device, causing a drop in the degree of cleanliness. The sublimate also adheres to the interior of the heat-treatment device or falls onto the glass substrate, leading to increases in the defect rate.

As mother glass dimensions become larger, the volume of sublimate generated is also increasing, creating the need for measures to cope with the sublimate.

To meet this requirement, the Company has developed technologies that reduce the production of the sublimate itself; technologies for preventing the sublimate from flowing out of the heat-treatment device; and technologies for efficiently recovering the sublimate that has flown out of the device. These thorough countermeasures that minimize defects of the glass substrates are just a few examples of how the Company is using its unique technologies to keep its competitive edge over other companies.

Heat-treatment Device, an Accumulation of Our Expertise and Advanced Technology

Review of Operations

Environmental Test Business

The Company's sales and marketing activities in its Environmental Test Business were focused on addressing new requirements and trends in brisk and growing markets.

In the automotive market, as a result of trends such as a shift to IT-based control systems and enhanced safety features, the number of semiconductors and other electronic components onboard is growing year by year, and accordingly, the need for assurance of reliability is steadily increasing. Specifically, the Company has seen an increase in orders received for temperature and humidity chambers and thermal shock chambers for the evaluation and inspection of secondary batteries and acceleration sensors used in hybrid cars. The business in this area continues to be brisk.

In the digital home appliance market, where large domestic manufacturers of electric and electronic goods are channeling a lot of their resources, a miniaturization trend is under way in the area of electronic devices such as pixel sensors and small LCDs, which are core components of these goods. Accordingly, the Company is seeing an increase in orders received for bench-top temperature and humidity chambers and compact-type thermal shock chambers.

Meanwhile, in an effort to reduce lead times from assembly through completion and to improve quality, the Company adopted a cell production system. The Company also made efforts to reduce costs and increase productivity. In addition, the Company established a Standard Component Center to promote communization of parts and began to make an effort to reduce design labor by switching customized specifications into options. In these ways, the Company laid the groundwork for its cost and quality reform.

As a result of these efforts, the Environmental Test Business experienced substantial growth in orders received, sales and operating income. Orders received grew by 11.9% year-on-year to ¥17,657 million; sales grew by 15.4% year-on-year to ¥17,425 million; and operating income increased by 42.7% year-on-year to ¥1,721 million.

Compact Type Thermal Shock Chamber (left)
Bench-top Temperature and Humidity Chambers (right)

Priority Measures for the Future

Expanding Global Product/Enhancement of Product per Market Segment

- Joint development of high stress (rapid temperature change) product with the U.S. subsidiary targeting overseas market
- Enriching product lineups by use for developing markets

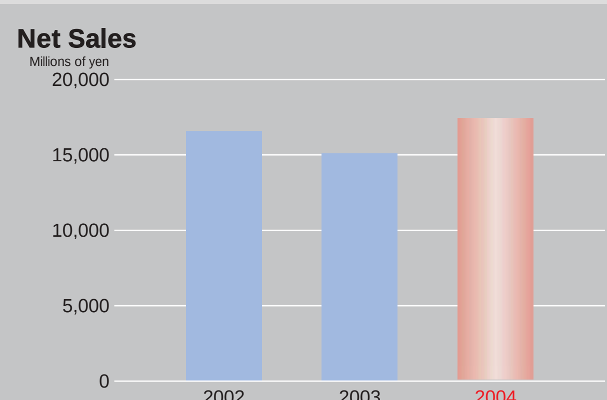
- **Global share expansion**
- **Cultivating developing markets**
- **Execution of non-price competition**

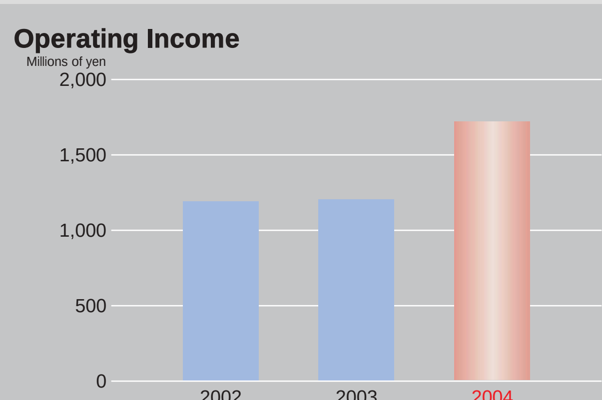
Manufacturing Innovation

- Developing cell production and one-by-one production
- Reducing design man-hours by promoting standardization and modularization
- Abolishing and merging product models and parts

- **Production cost 30% reduction**
- **Lead time reduction 1/3**
- **Production space 1/2**

(By March 2006)





Electronic Device Business

In the LCD market, sharp growth in the demand for liquid-crystal TVs prompted a large increase in capital investment among LCD manufacturers. The Company enhanced its outsourcing setup in the areas of design and production of display device production equipment, and achieved a substantial increase in orders received for product devices compatible with fifth and sixth-generation glass substrates, mainly from manufacturers in Republic of Korea and Taiwan. The Company has also stepped up its activities toward future growth. For example, it is receiving more orders from China, a market that is expected to expand, and is also receiving orders for products compatible with seventh-generation glass substrates.

In the semiconductor market, the trend is toward higher-speed and smaller-sized devices that release higher heat value. The Company has been developing and providing burn-in systems capable of accommodating the higher heat value generated by these devices. In January 2004, ESPEC Evaluation & Test Systems, Inc., a sales and planning company for measurement system products, commenced operations. Working closely with U.S. semiconductor and telecommunications manufacturers that possess world-leading technologies, the company will be engaged in development to meet the need for new products and technologies.

As a result of these efforts, sales increased by 14.5% year-on-year to ¥8,631 million; and orders received increased greatly by 82.2% year-on-year to ¥13,853 million.

To secure profits in the area of display devices manufacturing products, the Company sought to reduce costs by standardizing the modules that make up the products and by promoting outsourcing. In the area of measurement system products, the Company sought to uplift earnings by releasing new models that aim to reduce costs. As a result of these efforts, the Electronic Device Business, which had deficits, was able to turn into a surplus, achieving operating income of ¥77 million.

High Speed Clean Oven For Glass Sheet
HSC Series

Priority Measures for the Future

Measurement/test system

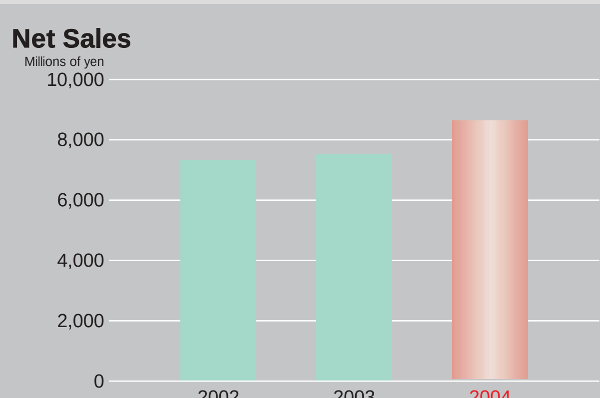
- Expanding high-value-added products for developing devices
- Starting activities by the new measuring system company in the U.S.A
- Cultivating Chinese and Korean semi-conductor manufacturers

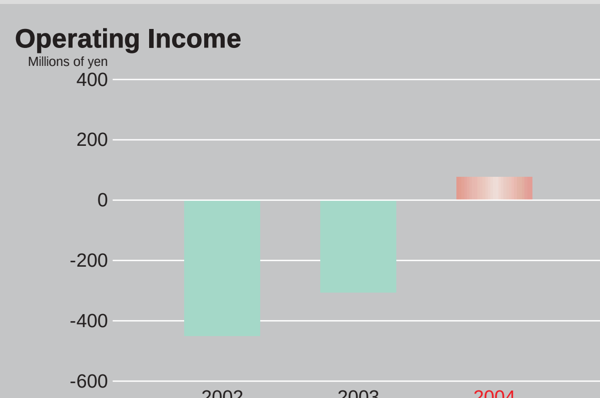
- **Improvement of profit ratio**
- **Satisfying new generation's needs**
- **Creating needs in overseas markets**

Display Device Units

- Enhancing strategic outsourcing
- Promoting localization of each process

- **Reduction of production cost**
- **Coping with rapid increase in orders received**
- **Risk distribution**





Environmental Service Business

The commissioned testing services business has been addressing testing needs in the automotive industry, where the rise of car electronics has added demands for testing services, including evaluation of onboard devices, adoption of lead-free systems, and evaluation of fuel cells. In the rental business, the Company achieved substantial growth mainly in the telecommunications equipment industry that is under boom, by improving its product lineup in response to customer requirements. This growth contributed to the Company's profits.

In its after-sales services business, the Company devoted efforts to strengthening its full-time support system, and achieved steady expansion mainly via overhaul services at the customer's site. In the engineering business, the Company expanded sales of peripheral equipment for test devices and used its servicing network to promote its installation activities.

As to the agri-ecosystem business, the areas of forest creation and environmental loggers showed steady performance. The area of waterfront environment creation also goes well, with a slight increase in sales.

As a result of the performance upturn in commissioned testing services and after-sales service, sales increased 11.5% year-on-year to ¥6,025 million; orders received increased 17.5% year-on-year to ¥6,195 million; and profits increased 18.5% year-on-year to ¥354 million.

Kobe Testing Center

Priority Measures for the Future

Maintenance Service and Engineering Business

- Enhancing Engineering Business

→ • Improving profitability

Commissioned Tests and Rental Business

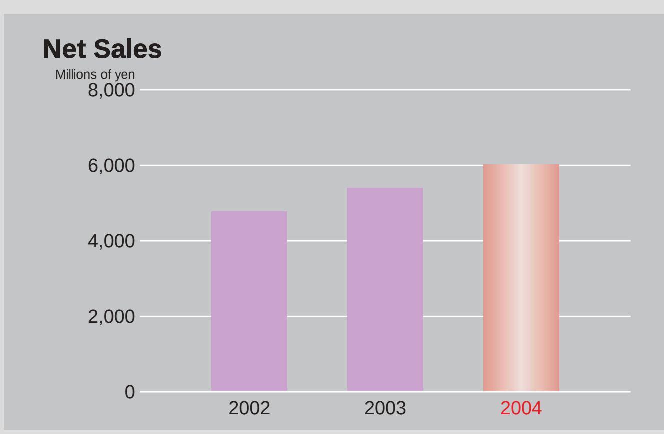
- Establishing new commissioned test lab (in Yokohama and Nagoya)

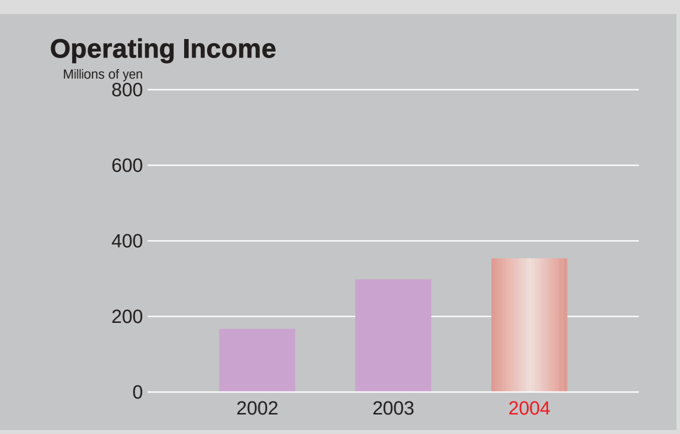
→ • Offering of test solutions
• Coping with development speed

New Businesses

- Launching measurement business of VOC (Volatile Organic Compound)
- Developing automatic culture devices for regenerative medicine

→ • Creation of highly profitable businesses





Environmental Activities

Our Environmental Management Policy

The Company gives the highest priority to “adherence to laws and regulations” as to environmental management activities. Equally important is “communications” with all the stakeholders. Based on these fundamental concepts, the Company engages in environmental management activities aimed primarily at “environmental amelioration relating to products and services”, “environmental management activities at the business premises” and “social contributions” with an understanding that the core concept behind these activities is the ISO14001 Standards.

The 13th Global Environment Award ceremony

Provided by FujiSankei Business i

Topics

Winning the Nihon Kogyo Shimbun environmental award

The Company received the “Nihon Kogyo Shimbun Award of the 13th Global Environment Award” hosted by the Fujisankei Communications Group and Nihon Kogyo Shimbun, Inc., for its efforts made in enhancing environmental management such as its group-wide acquisition of ISO14001 certification. The Company also ranked 37th in the “Seventh Survey of Environmental Management in Manufacturing Sector”, hosted by Nihon Keizai Shimbun, Inc.

Group-wide single-step acquisition of ISO14001 certification

Since its announcement of the introduction of “environmental management system” in 1996, the Company has acquired ISO14001 certification for 10 domestic offices and one overseas office. In order to further boost each and every employee’s understandings and awareness of the environment and step up its environmental activities to the group-wide level, the Company acquired ISO14001 certification in a single step for all 28 offices of its five companies in Japan. This achievement signifies the Company's success in building a group-wide environmental management system.

Recovery of chlorofluorocarbons (CFCs)

In 1995, ESPEC ENGINEERING CORP., a subsidiary of the Company, became the first company in the industry to begin recovery of the CFCs. As of March 2004, the cumulative volume of CFCs recovered since 1995 amounted to as much as 10,159 kg. Besides, in March 2002 the Company developed a recovery device of low-boiling CFCs, which are necessary for producing an ultra low temperature atmosphere. The device has been installed at each service facility to recover low-boiling CFCs, which amounted to 52kg in the fiscal 2003 alone.

Support for the participation in the Eco Action 21 (green procurement)

The Company has established the standard for recognition of suppliers in order to practice green procurement preferentially from those who are actively engaged in environmental conservation and have an environmental management system in place. The Company supports its suppliers in designing their own environmental management systems to promote green procurement. In fiscal 2003, the Company assisted eight of its suppliers in acquiring ISO14001 certification. In addition, the Company assisted suppliers that have had difficulties in obtaining certification in applying for the participation in the Eco Action 21, an evaluation program for environmental activities instituted by the Ministry of Environment, which provides a simple means to make a start on environmental activities. As a result, a total of 66 companies completed their ECO Action 21 program applications in fiscal 2002 and 2003.

Having achieved the targets for reducing waste emissions and saving energy

In pursuit of the second phase of its Medium-Term Environmental Management Plan (fiscal 2002-2003), the Company took steps to reduce waste emissions and conserve electric power. Taking fiscal 1999 as the baseline year, the Company had set targets for reducing waste emissions associated with its operations by 10% (per unit of sales amount) and reducing electric power consumption associated with its manufacturing by 5% (per unit of sales amount) by fiscal 2003. The Company already surpassed those targets, reducing waste emissions by 16% (per unit of sales amount) and electric power consumption by 15% (per unit of sales amount) by fiscal 2003.

Environmental Accounting

Environmental Conservation Costs

Coverage: ESPEC CORP. and ESPEC ENGINEERING CORP.
Period: From April 1, 2003 through March 31, 2004

Thousands of yen

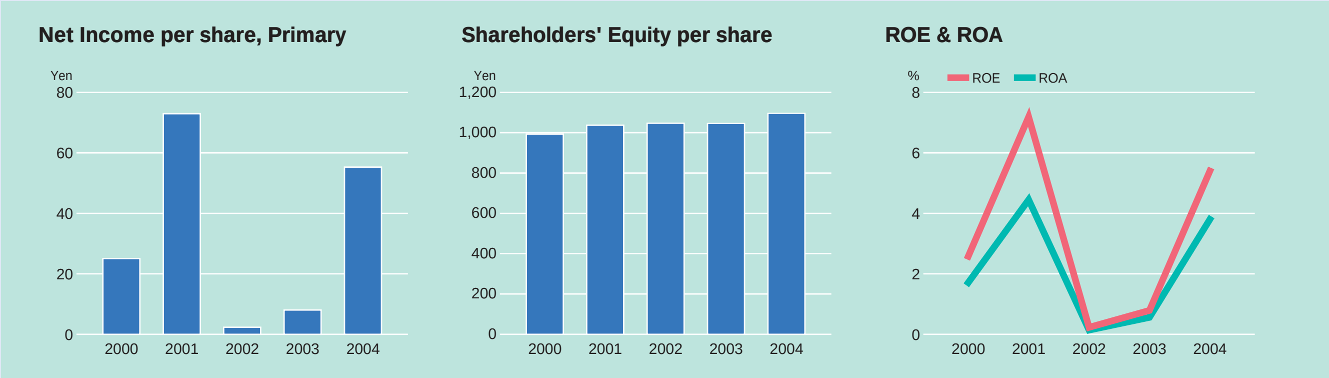
Classification		Main Projects	Fiscal 2003 investments	Fiscal 2003 expenses
1. Environmental conservation costs for reducing environmental loads that arise out of production and service activities within business area:		——	37,398	59,488
Breakdown	(1) Environmental hazard prevention costs:	——	1,551	7,686
	(2) Global environment conservation costs:	Introduction of low-pressure foaming device at foaming facility of Fukuchiyama Plant; switching the ceiling light to fluorescent lighting at Osaka head office	35,398	26,922
	(3) Resource recycling costs:	——	450	24,881
2. Environmental conservation costs for reducing upstream/downstream environmental loads that arise out of production and service activities:		——	—	—
3. Environmental conservation costs in management activities:		Group-wide single-step acquisition of ISO14001 certification	—	73,311
4. Environmental conservation costs in R&D activities:		Development of environmentally friendly products	—	300,582
5. Environmental conservation costs in social activities:		——	5,146	35,317
6. Costs for measures to cope with environmental damage:		——	—	—
TOTAL		——	42,544	468,698

Five-year Summary of Selected Financial Data

ESPEC CORP. and Consolidated Subsidiaries

	Millions of yen					% change	Thousands of U.S. dollars (Note)
	2004	2003	2002	2001	2000	2004/2003	**2004**
For the year:							
Net sales	**30,537**	26,738	27,283	32,115	23,059	14.2%	**288,930**
Operating income	**2,096**	1,185	907	3,209	1,104	76.9%	**19,832**
Net income before income taxes	**2,272**	472	263	2,981	1,116	381.4%	**21,497**
Net income	**1,299**	189	55	1,714	588	587.3%	**12,291**
Depreciation and amortization	**600**	644	701	548	512	(6.8%)	**5,677**
Capital expenditures	**1,763**	398	591	2,043	774	343.0%	**16,681**
Per share amounts (yen and U.S. dollars):							
Net income, primary	**56.30**	8.03	2.33	72.94	25.02	601.1%	**0.53**
Net income, diluted	**55.89**	7.82	—	67.20	23.33	614.7%	**0.53**
Cash dividends applicable for the year	**12.00**	10.00	10.00	10.00	8.00	20.0%	**0.11**
Shareholders' equity	**1,096.18**	1,045.93	1,047.03	1,037.35	991.85	4.8%	**10.37**
At year-end:							
Total assets	**35,684**	31,960	34,970	41,752	35,206	11.7%	**337,629**
Working capital	**12,009**	12,301	11,537	14,156	16,220	(2.4%)	**113,625**
Cash and cash equivalents	**3,614**	4,393	5,880	5,420	4,606	(17.7%)	**34,194**
Interest-bearing debt	**818**	314	3,527	3,527	3,527	160.5%	**7,740**
Shareholders' equity	**24,528**	23,782	24,336	24,377	23,307	3.1%	**232,075**
Cash flows:							
Operating activities	**614**	2,457	1,332	593	659	(75.0%)	**5,810**
Investing activities	**(1,149)**	(243)	(617)	399	862	—	**(10,871)**
Financing activities	**(207)**	(3,684)	(431)	(203)	(186)	—	**(1,959)**
Ratio:							
ROE	**5.38%**	0.79%	0.23%	7.19%	2.58%	581.0%	
ROA	**3.84%**	0.56%	0.14%	4.45%	1.71%	585.7%	
Capital adequacy ratio	**68.7%**	74.4%	69.6%	58.4%	66.2%	(7.7%)	
Other statistics:							
Number of shares outstanding (thousand)	**23,500**	23,500	23,500	23,500	23,500	0.0%	
Number of employees	**972**	869	897	885	873	11.9%	

Note: U.S. dollar amounts are translated from yen at the rate of ¥105.69 = U.S.$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market on March 31, 2004.



Financial Review

Operating Results

Net sales
Consolidated net sales in the year ended March 31, 2004 increased by ¥3,799 million year-on-year. Most of this was attributable to an increase of ¥3,162 million by the Company as the parent company. As to the results disaggregated by segments, in the Environmental Test Business, an outstanding growth occurred in the realm of environmental test chambers for electronic components used in the booming automotive and digital home appliance sectors. As a result, net sales increased by 15.4% year-on-year to ¥17,425 million. As to the Electronic Device Business, the flat panel display (FPD) production market comprising goods such as liquid-crystal TVs expanded, and facilities demand, mainly from LCD manufacturers in Republic of Korea and Taiwan increased. It caused sales of products for display device manufacturers to grow substantially by 14.5%, to ¥8,631 million.

Overseas sales increased by 14.1% year-on-year to ¥9,586 million, thanks to growth in the products for display device manufacturers in Korea and Taiwan. The ratio of overseas sales remained the same as the previous fiscal year’s at 31.4%.

Cost of sales, SG&A expenses, operating income
Seeking to build the foundation for an income-generating structure, the Company channeled efforts into cost-reducing measures such as modularizing customized specifications and promoting outsourcing, as well as adopting a cell production system and establishing a Standard Component Center. As a result of these efforts, the Company improved its cost-of-sales rate by 4.2 percentage points in the Environmental Test Business, by 5.1 points in the Electronic Device Business, and by 3.8 points overall. These improvements in profitability were a factor in boosting the Company's operating income by ¥1,140 million year-on-year.

SG&A expenses increased by ¥1,304 million as a result of factors such as an increase in R&D expenditures for creating high-value-added new products and new technologies; an increase in the strategic expenditures; and an increase in personnel costs.

As a result, operating income, including the ¥1,075 million increase in operating income due to the aforementioned sales increase, rose by 76.9% to reach ¥2,096 million.

Non-operating income (losses)
Non-operating income increased by ¥267 million year-on-year. The main contributing factor was an improvement of ¥266 million from sales of securities. As a result, ordinary profits grew by 97.3% year-on-year to ¥2,391 million. As for extraordinary profit and loss, devaluation of investment securities decreased by ¥215 million year-on-year. Retirement allowances for directors were ¥45 million.

Net income
As a result of the aforementioned factors, net income for the fiscal year under review reached ¥1,299 million, a year-on-year increase of ¥1,109 million.

Financial Position

Total assets as of March 31, 2004 were ¥35,684 million, a year-on-year increase of ¥3,725 million. The main factors in the increase were a ¥2,665 million increase in receivables due to a burst of sales at the end of the fiscal year; a ¥741 million increase in property, plant and equipment due to the construction of new plant by U.S. consolidated subsidiary ESPEC North America, Inc.; and a ¥325 million increase in intangible fixed assets due mainly to capital investment related to the construction of a backbone information system.

Total liabilities increased by ¥2,989 million year-on-year, reaching ¥11,012 million. The main contributing factors being an increase in the volume of goods-in-progress to be sold during the following year and an increase of ¥1,218 million in trade payables.

Shareholders' equity was ¥24,528 million, a year-on-year increase of ¥746 million. However, as the increase in total assets due to the business expansion exceeded the increase in equity, the equity ratio dropped to 68.7%, resulting in a year-on-year decline of 5.7 percentage points.

Cash Flows

Cash flows generated from operating activities amounted to ¥614 million, a year-on-year decline of ¥1,844 million. The drop was attributable primarily to an increase of ¥2,272 million in income before income taxes and minority interests; a ¥2,665 million decrease in funds due to an increase in trade receivables; and a ¥1,207 million increase in funds due to an increase in trade payables.

Cash flows used in investing activities amounted to ¥1,149 million, a year-on-year increase of ¥907 million. The main contributing factor was a ¥1,385 million reduction in funds due to acquisition of tangible and intangible fixed assets. In particular, new plant construction by the aforementioned U.S. consolidated subsidiary led to a ¥638 million decline in funds.

Cash flows used in financing activities stood at ¥207 million, a year-on-year decline of ¥3,478 million. This was attributable mainly to a ¥460 million increase in funds for the U.S. consolidated subsidiary's assumption of long-term debt to fund its capital investment; a ¥464 million decrease due to the Company's purchase of treasury stock; and a ¥250 million decrease associated with distribution of dividends.

As a result, cash and cash equivalents declined by ¥812 million year-on-year. When a ¥33 million increase associated with changes in the scope of consolidation is factored into this amount, the balance of cash and cash equivalents as of March 31, 2004, stood at ¥3,614 million, a year-on-year decline of ¥778 million.

Risk Information

1. Risk associated with fluctuations in business performance
The Electronic Device Business, one of the Company's business segments, has been seeing increases year after year in its orders received and sales, and orders received on a consolidated basis are coming to account for a growing share of this performance. In this business unit, the Company is significantly affected by the capital investment activities of its transaction partners -- a trend that appears set to continue. Accordingly, the Company's business performance in this field may be affected in case of a drop in capital investment demand from users.

2. Risk associated with an increase in overseas sales
In both fiscal 2002 and fiscal 2003, overseas sales accounted for a high share of the consolidated sales, at 31.4%. The globalization of the Company's business is expected to lead to further increases in this percentage. As the Company develops its business overseas, there is the potential for exposure to various risks; for example, regulations and regulatory changes that pose a challenge to doing business in each country or region; social ferments such as, but not limited to, terrorism; and political uncertainty. If any one of such circumstances should arise, it could potentially exert an adverse impact on the Company's financial condition and operating results.

To manage risk due to foreign-exchange fluctuation, the Company engages in exchange contracts to a suitable degree in accordance with its risk management plan, and because the Company's percentage of yen-denominated export sales is also high, its foreign-exchange risk is believed to be limited.

Consolidated Balance Sheets

ESPEC CORP. AND CONSOLIDATED SUBSIDIARIES
MARCH 31, 2004 AND 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2004**	2003	**2004**
CURRENT ASSETS:			
Cash and cash equivalents	**¥ 3,614**	¥ 4,393	**$ 34,194**
Marketable securities (Note 3)		137	
Receivables:			
Trade notes	**4,956**	4,221	**46,892**
Trade accounts	**8,358**	6,598	**79,080**
Unconsolidated subsidiaries and associated companies	**806**	737	**7,626**
Other	**223**	181	**2,110**
Allowance for doubtful receivables	**(35)**	(85)	**(331)**
Inventories (Note 4)	**2,962**	2,261	**28,025**
Deferred tax assets (Note 10)	**416**	614	**3,936**
Prepaid expenses and other current assets	**181**	246	**1,713**
Total current assets	**21,481**	19,303	**203,245**
PROPERTY, PLANT AND EQUIPMENT (Note 6):			
Land	**4,459**	4,335	**42,189**
Buildings and structures	**7,962**	7,274	**75,334**
Machinery and equipment	**883**	862	**8,355**
Furniture and fixtures	**3,302**	3,236	**31,242**
Construction in progress	**1**		**9**
Total	**16,607**	15,707	**157,129**
Accumulated depreciation	**(7,416)**	(7,257)	**(70,167)**
Net property, plant and equipment	**9,191**	8,450	**86,962**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	**1,932**	1,522	**18,280**
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 5)	**1,070**	928	**10,124**
Deferred tax assets (Note 10)	**388**	485	**3,671**
Other assets	**1,806**	1,488	**17,088**
Allowance for doubtful receivables	**(184)**	(216)	**(1,741)**
Total investments and other assets	**5,012**	4,207	**47,422**
TOTAL	**¥35,684**	¥31,960	**$337,629**

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND SHAREHOLDERS' EQUITY	**2004**	2003	**2004**
CURRENT LIABILITIES:			
Short-term borrowing (Note 6)	¥ 350	¥ 300	$ 3,312
Current portion of long-term debt (Note 6)	23	6	218
Payables:			
Trade notes	4,083	3,488	38,632
Trade accounts	2,671	1,784	25,272
Unconsolidated subsidiaries and associated companies	142	63	1,344
Construction and other	27	4	255
Accrued income taxes (Note 10)	798	200	7,550
Accrued expenses	870	677	8,232
Other current liabilities	508	480	4,806
Total current liabilities	9,472	7,002	89,621
LONG-TERM LIABILITIES:			
Long-term debt (Note 6)	445	8	4,210
Liability for retirement benefit (Note 7)	569	501	5,384
Deposits received	515	508	4,873
Other	12	5	113
Total long-term liabilities	1,541	1,022	14,580
MINORITY INTERESTS	143	154	1,353
COMMITMENTS (Notes 14)			
SHAREHOLDERS' EQUITY (Notes 9 and 17):			
Common stock,			
authorized, 80,000,000 shares; issued 23,499,894 shares at March 31, 2004 and 2003	6,779	6,779	64,140
Capital surplus	7,022	7,020	66,439
Retained earnings	11,734	10,640	111,023
Unrealized gain (loss) on available-for-sale securities	164	(117)	1,552
Foreign currency translation adjustments	(334)	(164)	(3,160)
Total	25,365	24,158	239,994
Treasury stock – at cost			
1,144,051 shares in 2004 and 765,628 shares in 2003	(837)	(376)	(7,919)
Total shareholders' equity	24,528	23,782	232,075
TOTAL	¥35,684	¥31,960	$337,629

See notes to consolidated financial statements.

Consolidated Statements of Income

ESPEC CORP. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2004 AND 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
NET SALES	**¥30,537**	¥26,738	**$288,930**
COST OF SALES	**20,832**	19,247	**197,105**
Gross profit	**9,705**	7,491	**91,825**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**7,609**	6,306	**71,993**
Operating income	**2,096**	1,185	**19,832**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**92**	51	**870**
Interest expense	**(6)**	(27)	**(57)**
Loss on disposals of property, plant and equipment	**(22)**		**(208)**
Loss on sales of securities		(164)	
Loss on devaluation of investment securities	**(23)**	(239)	**(218)**
Foreign currency exchange loss	**(88)**	(31)	**(833)**
Equity in earnings of unconsolidated subsidiaries and associated companies	**158**	105	**1,495**
Retirement benefit for directors	**(46)**	(462)	**(435)**
Other – net	**111**	54	**1,051**
Other income (expenses) – net	**176**	(713)	**1,665**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**2,272**	472	**21,497**
INCOME TAXES (Note 10):			
Current	**873**	237	**8,260**
Deferred	**92**	36	**870**
Total income taxes	**965**	273	**9,130**
MINORITY INTERESTS IN NET INCOME OF SUBSIDIARIES	**8**	10	**76**
NET INCOME	**¥ 1,299**	¥ 189	**$ 12,291**

PER SHARE OF COMMON STOCK (Note 2.o) :	Yen		U.S. dollars
Basic net income	**¥ 56.30**	¥ 8.03	**$ 0.53**
Diluted net income	**55.89**	7.82	**0.53**
Cash dividends applicable to the year	**12.00**	10.00	**0.11**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

ESPEC CORP. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2004 AND 2003

	Thousands	Millions of yen					
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain/loss on Available-for -sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, APRIL 1, 2002	23,243	¥6,779	¥7,020	¥10,804	¥(86)	¥(16)	¥(165)
Adjustment of retained earnings due to change in scope of consolidation				(111)			
Net income				189			
Cash dividends, ¥10 per share				(232)			
Bonuses to directors and corporate auditors				(10)			
Increase in treasury stock - net	(509)						(211)
Net decrease in unrealized gain on available-for-sale securities					(31)		
Net change in foreign currency translation adjustments						(148)	
BALANCE, MARCH 31, 2003	22,734	6,779	7,020	10,640	(117)	(164)	(376)
Adjustment of retained earnings for consolidation of subsidiaries				48			
Net income				1,299			
Cash dividends, ¥12 per share				(250)			
Bonuses to directors and corporate auditors				(3)			
Gain on disposal of treasury stock			2				
Increase in treasury stock - net	(378)						(461)
Net increase in unrealized gain on available-for-sale securities					281		
Net change in foreign currency translation adjustments						(170)	
BALANCE, MARCH 31, 2004	22,356	¥6,779	¥7,022	¥11,734	¥164	¥(334)	¥(837)

	Thousands of U.S. dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain/loss on Available-for -sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, MARCH 31, 2003	$64,140	$66,420	$100,671	$(1,107)	$(1,552)	$(3,557)
Adjustment of retained earnings for consolidation of subsidiaries			454			
Net income			12,291			
Cash dividends, $0.11 per share			(2,365)			
Bonuses to directors and corporate auditors			(28)			
Gain on disposal of treasury stock		19				
Increase in treasury stock - net						(4,362)
Net increase in unrealized gain on available-for-sale securities				2,659		
Net change in foreign currency translation adjustments					(1,608)	
BALANCE, MARCH 31, 2004	$64,140	$66,439	$111,023	$ 1,552	$(3,160)	$(7,919)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ESPEC CORP. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2004 AND 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥2,272**	¥ 472	**$21,497**
Adjustments for:			
Income taxes - paid	**(278)**	(89)	**(2,630)**
Depreciation and amortization	**608**	648	**5,753**
Loss on devaluation of securities	**30**	235	**284**
Provision for doubtful receivables	**(16)**	54	**(151)**
Increase (decrease) in liability for retirement benefits	**69**	(87)	**653**
Equity in earnings of unconsolidated subsidiaries and associated companies	**(158)**	(105)	**(1,495)**
Bonuses to directors and corporate auditors	**(4)**	(12)	**(38)**
Gain on sales of securities	**(103)**		**(975)**
Loss on sales of securities		164	
Changes in assets and liabilities:			
Increase in receivables	**(2,665)**	(162)	**(25,215)**
Increase(decrease) in inventories	**(864)**	324	**(8,175)**
Increase in payables	**1,208**	961	**11,430**
Increase in interest and dividend receivable		250	
Other – net	**515**	(196)	**4,872**
Total adjustments	**(1,658)**	1,985	**(15,687)**
Net cash provided by operating activities	**614**	2,457	**5,810**
INVESTING ACTIVITIES:			
Purchases of marketable securities	**(0)**	(57)	**(0)**
Proceeds from sales and redemptions of marketable securities	**140**	139	**1,325**
Purchases of property, plant and equipment	**(1,386)**	(313)	**(13,114)**
Purchases of investment securities	**(449)**	(568)	**(4,248)**
Proceeds from sales and redemptions of investments securities	**472**	497	**4,466**
Other – net	**74**	59	**700**
Net cash used in investing activities	**(1,149)**	(243)	**(10,871)**
FINANCING ACTIVITIES:			
Increase in short-term bank loans – net	**57**	300	**539**
Proceeds from long-term debt	**461**		**4,362**
Payment for redemption of convertible bond		(3,527)	
Dividends paid	**(252)**	(236)	**(2,384)**
Purchases of treasury stock	**(464)**	(211)	**(4,390)**
Other – net	**(9)**	(10)	**(86)**
Net cash used in financing activities	**(207)**	(3,684)	**(1,959)**
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**(70)**	(61)	**(662)**
NET DECREASE IN CASH AND CASH EQUIVALENTS (FORWARD)	**(812)**	(1,531)	**(7,682)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**4,393**	5,880	**41,564**
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES	**33**	49	**312**
CASH AND CASH EQUIVALENTS DECREASED BY ELIMINATION OF CONSOLIDATED SUBSIDIARIES		(5)	
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥3,614**	¥4,393	**$34,194**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ESPEC CORP. AND CONSOLIDATED SUBSIDIARIES
YEARS ENDED MARCH 31, 2004 AND 2003

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2003 financial statements to conform to the classifications used in 2004.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which ESPEC CORP. (the "Company") is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥105.69 to $1, the approximate rate of exchange at March 31, 2004. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation — Under the control or influence concept, those companies over whose operations the Company, directly or indirectly, is able to exercise control are fully consolidated, and those companies over which the Company has the ability to exercise significant influence are accounted for by the equity method. The consolidated financial statements as of March 31, 2004 include the accounts of the Company and its 8 significant (7 in 2003) subsidiaries (together, the "Group"). Investments in 3 (3 in 2003) associated companies are accounted for by the equity method. Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of cost of the Company's investments in consolidated subsidiaries and associated companies accounted for by the equity method over its equity in the net assets at the respective dates of acquisition, is being amortized over a period of 5 years in principle.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Cash Equivalents — Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, money management funds, money trusts and bond funds, all of which mature or become due within three months of the date of acquisition.

c. Inventories — Inventories are stated mainly at cost determined by the average method, except for work in process which is determined mainly by the specific identification method.

d. Marketable and Investment Securities — Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: i) trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings, ii) held-to-maturity debt securities, which management has the positive intent and ability to hold to maturity, are reported at amortized cost and iii) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The Group's securities are all classified as available-for-sale.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, marketable and investment securities are reduced to net realizable value by a charge to income.

e. Property, Plant and Equipment — Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed principally by the declining-balance method at rates based on the estimated useful lives of the assets. However the straight-line method is applied to buildings of the Company and its consolidated domestic subsidiaries that were acquired after April 1, 1998. Depreciation of property, plant and equipment of consolidated foreign subsidiaries is computed by the straight-line method based on the estimated useful lives of the assets.
The range of useful lives is principally from 15 to 50 years for buildings and structures, 11 years for machinery and equipment, and from 3 to 15 years for furniture and fixtures.

f. Land Revaluation — Under the "Law of Land Revaluation", promulgated on March 31, 1998, and revised on March 31, 1999 and 2001, the Company elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 2002 and the latest assessed value of fixed assets.

The Company performed a one-time revaluation on March 29, 2002. The aggregate carrying amount of the land was the same before and after the revaluation. Continuous readjustment is not permitted unless the land value subsequently declines significantly.

As at March 31, 2004, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥459 million.

g. Employees' Retirement Benefits — The Company and certain domestic consolidated subsidiaries have contributory defined benefit pension plan covering substantially all of their employees. Effective April 1, 2000, the Group adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date. The transitional obligation of ¥397 million ($3,204 thousand) as of April 1, 2000 is being amortized over five years and the annual amortization is presented as other expense in the statement of income.

h. Research and Development Costs — Research and development costs are charged to income as incurred.

i. Leases — All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

j. Income Taxes — The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

k. Appropriations of Retained Earnings — Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholder's approval.

l. Foreign Currency Transactions — All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates at the balance sheet date. The foreign currency exchange gains and losses from translation are recognized in the statement of income to the extent that they are not hedged by forward exchange contracts.

m. Foreign Currency Financial Statements — The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for shareholders' equity, which is translated at historical rates. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate for the year. Differences arising from such translation are shown as "Foreign currency translation adjustments" as a separate component of shareholders' equity.

n. Derivatives and Hedging Activities — The Company uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange. Foreign exchange forward contracts is utilized by the Company to reduce foreign currency exchange risks. The Company does not enter into derivatives for trading or speculative purposes.
Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the income statement and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.
The foreign currency forward contracts employed to hedge foreign exchange exposures for export sales are measured at fair value and the unrealized gains and losses are recognized in income. Forward contracts applied for forecasted (or committed) transactions are also measured at fair value but unrealized gains and losses are deferred until the underlying transactions are completed.

o. Per Share Information — Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were converted into common stock and stock options were fully excised.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

p. New Accounting Pronouncements — In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets", and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No.6, "Guidance for Accounting Standard for Impairment of Fixed Assets". These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.
The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The Company expects to adopt these pronouncements as of April 1, 2005 and is currently in the process of assessing the effect of adoption of these pronouncements.

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Current:			
Government and corporate bonds		¥ 128	
Trust fund investments		9	
Total		¥ 137	
Non-current:			
Marketable equity securities	**¥ 836**	¥ 579	**$ 7,910**
Non-marketable equity securities	**510**	391	**4,825**
Government and corporate bonds	**394**	301	**3,728**
Trust fund investments	**192**	251	**1,817**
Total	**¥1,932**	¥1,522	**$18,280**

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2004 and 2003 were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2004				
Securities classified as available-for-sale:				
Equity securities	**¥546**	**¥306**	**¥(16)**	**¥836**
Debt securities	**293**	**1**		**294**
Trust fund investments	**207**	**1**	**(16)**	**192**
March 31, 2003				
Securities classified as available-for-sale:				
Equity securities	¥682	¥ 27	¥130	¥579
Debt securities	327	2		329
Trust fund investments	355		95	260

	Thousands of U.S. dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2004				
Securities classified as available-for-sale:				
Equity securities	**$5,166**	**$2,895**	**$(151)**	**$7,910**
Debt securities	**2,773**	**9**		**2,782**
Trust fund investments	**1,959**	**9**	**(151)**	**1,817**

The amount of impairment losses were ¥23 million ($218 thousand) and ¥239 million for the years ended March 31, 2004 and 2003, respectively.

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2004 and 2003 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Available-for-sale:			
Non-marketable equity securities	**¥510**	¥390	**$4,825**
Debt securities	**100**	100	**946**
Total	**¥610**	¥490	**$5,771**

Proceeds from sales of available-for-sale securities for the years ended March 31, 2004 and 2003 were ¥534 million ($5,053thousand) and ¥498 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥139 million ($1,315thousand) and ¥36 million ($341thousand), respectively, for the year ended March 31, 2004, and ¥41 million and ¥205 million, respectively, for the year ended March 31, 2003.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2004 are as follows:

	Millions of yen	Thousands of U.S. dollars
Due in one year or less	—	—
Due after one year through five years	—	—
Due after five years through ten years	¥283	$2,678
Due after ten years	203	1,921
Total	¥486	$4,599

4. INVENTORIES

Inventories at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Merchandise	**¥ 40**	¥ 208	**$ 378**
Finished products	**373**	251	**3,529**
Work in process	**1,624**	943	**15,366**
Raw materials and supplies	**925**	859	**8,752**
Total	**¥2,962**	¥2,261	**$28,025**

5. INVESTMENT IN AND ADVANCES TO UNCONSOLIDATED SUBSIDIARIES AND ASSOCIATED COMPANIES

Investments in and advances to unconsolidated subsidiaries and associated companies at March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Investments	**¥1,025**	¥861	**$ 9,698**
Advances	**45**	67	**426**
Total	**¥1,070**	¥928	**$10,124**

6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings consisted of unsecured loans from insurance company and banks. The interest rates ranging from 0.31% to1.38% at March 31, 2004 and 0.2% at March 31, 2003.

Long-term debt at March 31, 2004 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Loan from banks at interest rates ranging from 1.5% to 2.91%, due serially to 2009:			
Collateralized	**¥461**	—	**$4,362**
Unsecured	**7**	¥14	**66**
Total	**468**	14	**4,428**
Less current portion	**(23)**	(6)	**(218)**
Long-term debt, less current portion	**¥445**	¥ 8	**$4,210**

Annual maturities of long-term debt as of March 31, 2004 for the next five years were as follows:

	Millions of yen	Thousands of U.S. dollars
Year Ending March 31		
2005	¥ 23	$ 218
2006	19	178
2007	18	171
2008	18	171
2009	390	3,690
Total	¥468	$4,428

The carrying amounts of assets pledged as collateral for long-term bank loans of ¥461 million ($4,362 thousand) as of March 31, 2004 were as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment – net of accumulated depreciation	¥499	$4,721
Total	¥499	$4,721

7. RETIREMENT AND PENSION PLANS

The Company and certain domestic consolidated subsidiaries have a contributory defined benefit pension plans covering substantially all of their employees.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment or annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

In addition, the Company participates in a contributory multiemployer pension plan covering substantially all of its employees. The pension fund assets available for benefits under this plan were approximately ¥2,710 million ($25,641 thousand) and ¥2,082 million at March 31, 2004 and 2003, respectively.

The liability for employees' retirement benefits, other than the above multiemployer pension plan, at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Projected benefit obligation	**¥1,999**	¥1,912	**$18,914**
Fair value of plan assets	**(954)**	(629)	**(9,026)**
Unrecognized actuarial loss	**(406)**	(639)	**(3,842)**
Unrecognized transitional obligation	**(74)**	(149)	**(700)**
Prepaid pension cost	**4**	6	**38**
Net liability	**¥ 569**	¥ 501	**$ 5,384**

The components of net periodic retirement benefit costs for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Service cost	**¥138**	¥162	**$1,306**
Interest cost	**48**	79	**454**
Expected return on plan assets	**(15)**	(63)	**(142)**
Amortization of transitional obligation	**74**	75	**700**
Recognized actuarial loss	**132**	55	**1,249**
Contribution for the multiemployer pension plan	**180**	175	**1,703**
Net periodic retirement benefit cost	**¥557**	¥483	**$5,270**

Assumptions used for the year ended March 31, 2004 and 2003 were set forth as follows:

	2004	2003
Discount rate	**2.5%**	2.5%
Expected rate of return on plan assets	**2.5%**	2.5%
Recognition period of actuarial gain / loss	**10 years**	10 years
Amortization period of transitional obligation	**5 years**	5 years

8. STOCK OPTION PLAN

The stock option plan which was approved by the shareholders meeting held on June 27, 2002, provides options on subscriptions to purchase the Company's common stock in an aggregate maximum of 250,000 shares for the Group's executive officers, and the Company's operating officers and managers. The exercise period of stock options is between July 1, 2004 and June 30, 2007, at the exercise price of ¥547 per share.

The stock option plan which was approved by the shareholders meeting held on June 25, 2003, provides options on subscriptions to purchase the Company's common stock in an aggregate maximum of 359,000 shares for the Group's executive officers, and the Company's operating officers and managers. The exercise period of stock options is between July 1, 2005 and June 30, 2008, at the exercise price of ¥747 per share.

The exercise price of stock options is subject to adjustment in certain circumstances.

9. SHAREHOLDERS' EQUITY

Japanese Companies are subject to the Japanese Commercial Code (the "Code") to which various amendments have became effective since October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting or by resolution of the Board of Directors provided it is stipulated in an article of incorporation and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥7,934 million ($75,069 thousand) as of March 31, 2004, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42% for the years ended March 31, 2004 and 2003.

On March 31, 2003, a tax reform law concerning enterprise tax was enacted in Japan which changed the normal effective statutory tax rate from 42.0% to 40.4%, effective for years beginning on or after April 1, 2004. The deferred tax assets and liabilities which will realize on or after April 1, 2004 are measured at the effective tax rate of 40.4% as at March 31, 2004 and 2003.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets at March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Deferred tax assets:			
Enterprise tax	¥ 71		$ 672
Write-down of securities	41	¥ 50	388
Unrealized loss on available-for-sale securities		79	
Bad debt allowance	49	87	463
Accrued bonuses	166	139	1,571
Accrued warranty cost	100	97	946
Pension and severance costs	229	201	2,167
Tax loss carryforwards	125	352	1,183
Other	135	94	1,277
Total	916	1,099	8,667
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(112)		(1,060)
Total	(112)		(1,060)
Net deferred tax assets	¥804	¥1,099	$7,607

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2003 is as follows:

	2003
Normal effective statutory tax rate	42.0%
Expenses not deductible for income tax purposes	8.4
Income not taxable for income tax purposes	(3.9)
Taxation per capita	8.2
Other – net	3.1
Actual effective tax rate	57.8%

Difference between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the year ended March 31, 2004 is immaterial.

At March 31, 2004, certain subsidiaries have tax loss carryforwards aggregating approximately ¥125 million ($1,183 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire in the years 2006 through 2012.

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,551 million ($14,675 thousand) and ¥1,080 million for the years ended March 31, 2004 and 2003, respectively.

12. LEASES

(1) Lessee's accounting
The Group leases certain machinery, computer equipment and other assets.

Total rental expenses for the years ended March 31, 2004 and 2003 were ¥512 million ($4,844 thousand) and ¥474 million, respectively, including ¥121 million ($1,145 thousand) and ¥128 million of lease payments under finance leases.

Pro forma information of leased property under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2004 and 2003 was as follows:

	Millions of yen						Thousands of U.S. dollars		
	2004			2003			**2004**		
	Machinery and Equipment	Furniture and Fixtures	Total	Machinery and Equipment	Furniture and Fixtures	Total	Machinery and Equipment	Furniture and Fixtures	Total
Acquisition cost	**¥433**	**¥280**	**¥713**	¥433	¥282	¥715	**$4,097**	**$2,649**	**$6,746**
Accumulated depreciation	**291**	**122**	**413**	225	149	374	**2,754**	**1,154**	**3,908**
Net leased property	**¥142**	**¥158**	**¥300**	¥208	¥133	¥341	**$1,343**	**$1,495**	**$2,838**

Obligations under finance leases:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Due within one year	**¥121**	¥114	**$1,145**
Due after one year	**178**	227	**1,684**
Total	**¥299**	¥341	**$2,829**

The cost of leased property and obligations under finance leases include imputed interest expense. Depreciation expenses, which are not reflected in the accompanying statements of income, computed by the straight-line method were ¥121 million ($1,145 thousand) and ¥128 million for the years ended March 31, 2004 and 2003, respectively.

(2) Lessors' accounting
A consolidated subsidiary leases certain devices to third parties.

Information of leased property under finance leases that do not transfer ownership of the leased property to the lessee for the year ended March 31, 2004 was as follows:

	Millions of yen		Thousands of U.S. dollars	
	2004		**2004**	
	Furniture and Fixtures	Total	Furniture and Fixtures	Total
Acquisition cost	**¥61**	**¥61**	**$577**	**$577**
Accumulated depreciation	**8**	**8**	**76**	**76**
Net leased property	**¥53**	**¥53**	**$501**	**$501**

Rights under finance leases:

	Millions of yen	Thousands of U.S. dollars
	2004	**2004**
Due within one year	**¥14**	**$132**
Due after one year	**39**	**369**
Total	**¥53**	**$501**

The income of leased property and rights under finance leases include imputed interest revenue. Depreciation expenses computed by the straight-line method were ¥8 million ($76 thousand) for the year ended March 31, 2004.

13. DERIVATIVES

The Company enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

All derivative transactions are entered into to hedge foreign currency exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Company does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Company have been made in accordance with internal policies which regulate the authorization and credit limit amount.

The Company uses only foreign currency forward contracts which qualify for hedge accounting for the years ended March 31, 2004 and 2003.

14. COMMITMENTS

The parent company has a credit agreement to meet short-term working capital needs with a group of financial institutions that provides an unsecured revolving credit facility with an aggregate commitment of ¥1,800 million ($ 17,031 thousand). There was no borrowing under the agreement at March 31, 2004.

15. CONTINGENT LIABILITIES

At March 31, 2004, the Group had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Guarantees of bank loans of associated company	¥191	$1,807
Guarantees of lease obligations of associated company	4	38

16. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2004 and 2003 is as follows:

	Millions of yen	Thousands of shares	Yen	Dollars
	Net income	Weighted average shares	EPS	
For the year ended March 31, 2004:				
Basic EPS				
Net income available to common shareholders	¥1,276	22,667	¥56.30	$0.53
Effect of dilutive securities				
Stock option		167		
Diluted EPS				
Net income for computation	¥1,276	22,834	¥55.89	$0.53
For the year ended March 31, 2003:				
Basic EPS				
Net income available to common shareholders	¥ 186	23,125	¥ 8.03	
Effect of dilutive securities				
Convertible bonds	12	2,191		
Diluted EPS				
Net income for computation	¥ 198	25,316	¥ 7.82	

17. SUBSEQUENT EVENTS

a. Appropriations of Retained Earnings — The following appropriations of retained earnings at March 31, 2004 were approved at the Company's shareholders meeting held on June 24, 2004:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥6 ($0.06) per share	¥134	$1,268

b. Purchase of treasury stock — Pursuant to the revision of the Japanese Commercial Code, the Company revised its articles of incorporation as the Company could repurchase its common stock as treasury stock by resolution of the Board of Directors at the Company's shareholders meeting held on June 24, 2004.

18. SEGMENT INFORMATION

Information about industry segments, geographic segments and sales to foreign customers of the Company and consolidated subsidiaries for the years ended March 31, 2004 and 2003, were as follows:

(1) Industry Segments

a. Sales and Operating Income

	Millions of yen										Thousands of U.S. dollars				
	2004					2003					**2004**				
	Environmental Testing Business	Electronics Devices Business	Environmental Service Business	Eliminations/ Corporate	Consolidated	Environmental Testing Business	Electronics Devices Business	Environmental Service Business	Eliminations/ Corporate	Consolidated	Environmental Testing Business	Electronics Devices Business	Environmental Service Business	Eliminations/ Corporate	Consolidated
Sales to customers	¥17,208	¥8,376	¥4,953		¥30,537	¥14,983	¥7,409	¥4,346		¥26,738	$162,816	$79,251	$46,863		$ 288,930
Intersegment sales	217	255	1,072	¥(1,544)		112	128	1,059	¥(1,299)		2,053	2,413	10,143	$(14,609)	
Total sales	17,425	8,631	6,025	(1,544)	30,537	15,095	7,537	5,405	(1,299)	26,738	164,869	81,664	57,006	(14,609)	288,930
Operating expenses	15,704	8,554	5,671	(1,488)	28,441	13,889	7,843	5,107	(1,286)	25,553	148,585	80,935	53,657	(14,079)	269,098
Operating income	¥ 1,721	¥ 77	¥ 354	¥ (56)	¥ 2,096	¥ 1,206	¥ (306)	¥ 298	¥ (13)	¥ 1,185	$ 16,284	$ 729	$ 3,349	$ (530)	$ 19,832

b. Assets, Depreciation and Capital Expenditures

	Millions of yen										Thousands of U.S. dollars				
	2004					2003					**2004**				
	Environmental Testing Business	Electronics Devices Business	Environmental Service Business	Eliminations/ Corporate	Consolidated	Environmental Testing Business	Electronics Devices Business	Environmental Service Business	Eliminations/ Corporate	Consolidated	Environmental Testing Business	Electronics Devices Business	Environmental Service Business	Eliminations/ Corporate	Consolidated
Assets	**¥14,638**	**¥11,262**	**¥4,069**	**¥5,715**	**¥35,684**	¥13,800	¥8,037	¥4,138	¥5,985	¥31,960	**$138,500**	**$106,557**	**$38,499**	**$54,073**	**$337,629**
Depreciation	**248**	**214**	**156**	**(18)**	**600**	308	212	125	(1)	644	**2,346**	**2,025**	**1,476**	**(170)**	**5,677**
Capital expenditures	**1,036**	**460**	**323**	**(56)**	**1,763**	145	129	138	(14)	398	**9,802**	**4,353**	**3,056**	**(530)**	**16,681**

Notes:

1. The Group is primarily engaged in the manufacture and sale of products in three major segments grouped on the basis of similarities in the nature of the products and the market. The three segments and their primary products are as follows:
   Environmental Testing Business: Temperature and humidity chambers, High accelerated stress system, Thermal shock chambers, Clean ovens, Artificial climatic chambers.
   Electronics Devices Business: Measurement evaluation system, Burn-in system, LCD production equipment.
   Environmental Service Business: Commissioned testing service, Artificial agriculture system, Eco system, A service network and support system for environmental test equipment.
2. Corporate assets mainly consisted of cash, time deposits, marketable and investments securities and administrative assets of the Company amounting to ¥6,327 million ($59,864 thousand) and ¥6,300 million as of March 31, 2004 and 2003, respectively.

(2) Geographical Segments

The geographical segments of the Company and consolidated subsidiaries for the years ended March 31, 2004 and 2003 were summarized as follows:

	Millions of yen										Thousands of U.S. dollars				
	2004					2003					**2004**				
	Japan	U.S.A	Other	Eliminations/ Corporate	Consolidated	Japan	U.S.A	Other	Eliminations/ Corporate	Consolidated	Japan	U.S.A	Other	Eliminations/ Corporate	Consolidated
Sales to customers	**¥28,237**	**¥1,480**	**¥820**		**¥30,537**	¥24,939	¥1,496	¥303		¥26,738	**$267,168**	**$14,003**	**$7,759**		**$288,930**
Inter area transfer	**866**	**50**	**15**	**¥ (931)**		541	47		¥ (588)		**8,194**	**473**	**142**	**$ (8,809)**	
Total sales	**29,103**	**1,530**	**835**	**(931)**	**30,537**	25,480	1,543	303	(588)	26,738	**275,362**	**14,476**	**7,901**	**(8,809)**	**288,930**
Operating expenses	**26,984**	**1,559**	**773**	**(875)**	**28,441**	24,268	1,607	253	(575)	25,553	**255,313**	**14,750**	**7,314**	**(8,279)**	**269,098**
Operating income	**¥ 2,119**	**¥ (29)**	**¥62**	**¥ (56)**	**¥ 2,096**	¥ 1,212	¥ (64)	¥ 50	¥ (13)	¥ 1,185	**$ 20,049**	**$ (274)**	**$ 587**	**$ (530)**	**$ 19,832**
Assets	**¥27,658**	**¥1,663**	**¥424**	**¥5,939**	**¥35,684**	¥20,546	¥1,385	¥ 87	¥9,942	¥31,960	**$261,690**	**$15,735**	**$4,012**	**$56,192**	**$337,629**

Notes:

1. The segment information is grouped by geographic area based on the countries where the companies are located.
2. Corporate assets mainly consisted of cash, time deposits, marketable and investments securities and administrative assets of the Company amounting to ¥6,327 million ($59,864 thousand) and ¥10,120 million as of March 31, 2004 and 2003, respectively.

(3) Sales to Foreign Customers

	Millions of yen						Thousands of U.S. dollars		
	2004			2003			**2004**		
	Asia	Other	Total	Asia	Other	Total	Asia	Other	Total
Sales to foreign customers (A)	**¥7,652**	**¥1,934**	**¥ 9,586**	¥6,690	¥1,715	¥ 8,405	**$72,400**	**$18,299**	**$ 90,699**
Consolidated sales (B)			**30,537**			26,738			**288,930**
(A)/(B)	**25.1%**	**6.3%**	**31.4%**	25.0%	6.4%	31.4%	**25.1%**	**6.3%**	**31.4%**

Notes:

The sales to foreign customers grouped by geographic area based on the countries where the Group's customers are located. The geographic groupings mainly consist of the following countries:

Asia: China, Taiwan, Republic of Korea, Singapore, Malaysia, Philippines and Thailand
Other: United States of America

Independent Auditors' Report

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www.deloitte.com/jp

To the Board of Directors of ESPEC CORP.:

We have audited the accompanying consolidated balance sheets of ESPEC CORP. and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ESPEC CORP. and consolidated subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Deloitte Touche Tohmatsu

June 24, 2004

Directory

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Tokyo Branch
Tokyo Technical Center
Fukuchiyama Plant
Utsunomiya Technocomplex
Kobe Technocomplex

Sales Offices
Sendai, Saitama, Tsukuba, Tokyo, Nishi-Tokyo, Matsumoto, Shizuoka, Nagoya, Kanazawa, Osaka, Hiroshima, Fukuoka

Rep. Office
EUROPE Office, Liaison
Mergenthaleralle 79-81 TOPAS2, 5.0G
65760 Eschborn, Germany
Telephone: 49-6196-77-99980
Facsimile: 49-6196-77-99985

Subsidiaries and Affiliates

Japan
ESPEC ENGINEERING CORP.*
15-8, Taimahigashi-machi, Neyagawa,
Osaka 572-0072, Japan

ESPEC ENVIRONMENTAL TEST TECHNOLOGY CENTER CORP.*
3-5-6, Tenjinbashi, Kita-ku,
Osaka 530-8550, Japan

ESPEC KANSAI CORP.*
8, Nishimizosaki-cho, Saiin, Ukyo-ku,
Kyoto 615-0046, Japan

ESPEC BUSINESS CREATE CORP.
3-5-6, Tenjinbashi, Kita-ku,
Osaka 530-8550, Japan

ESPEC MIC CORP.*
1-233-1, Omido, Oguchi-cho, Niwa-gun,
Aichi 480-0138, Japan

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5-10-18, Sumiyoshi-miyamachi,
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ESPEC OLIGO SERVICE CORP.
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* Consolidated subsidiary


Head Office

ESPEC NORTH AMERICA, INC.


SHANGHAI ESPEC ENVIRONMENTAL EQUIPMENT CORP.


GUANGZHOU ESPEC ENVIRONMENTAL EQUIPMENT CO., LTD.

Directors, Officers and Auditors

As of June 30, 2004

CEO
Kiyoshi Shimazaki (Representative Director)

President/COO
Susumu Nojii (Representative Director)

Director
Nobuyoshi Shin

Hisakazu Wada

Senior Officer
Toshikazu Adachi
Technical Development Headquarters
Tokyo Technical Center
(Technical and Overseas Business Issue)

Eishiro Hizukuri
Business Development Headquarters
Business Process Re-Engineering Department
(Sales Issue)

Yoshio Nakai
Export Control Headquarters
Administration Headquarters
Tokyo Branch
(Administrative Issue)

Hiromichi Fukumoto
Environmental Test Business Division
(Production and Environmental Management Issue)

Officer
Kouzo Mizuno
Fukuchiyama Plant
Quality Assurance Department
Environmental Management Department

Hitoshi Kirimura
Logistics Department
Information System Development Department
Kobe Technocomplex

Masaaki Ishida
Material Headquarters
Overseas Business Headquarters

Taneo Shimada
Display Device Business Division

Kunikazu Ishii
Measurement & Test System Business Division
Utsunomiya Technocomplex

Seiji Soda
Sales Headquarters

Standing Corporate Auditor
Nobuyoshi Hiro

Yoshinobu Yamada

Corporate Auditor
Shouichiro Yoshioka

Corporate Data

As of March 31, 2004

Company Name: ESPEC CORP.

Founded: July 25, 1947

Incorporated: January 13, 1954

Paid-in Capital: ¥6,779 million

Number of Employees (Consolidated): 972

Number of Shares Authorized: 80,000,000 shares

Number of Shares Issued: 23,499,894 shares

Stock Listings:
The first section of the Tokyo Stock Exchange
and Osaka Securities Exchange

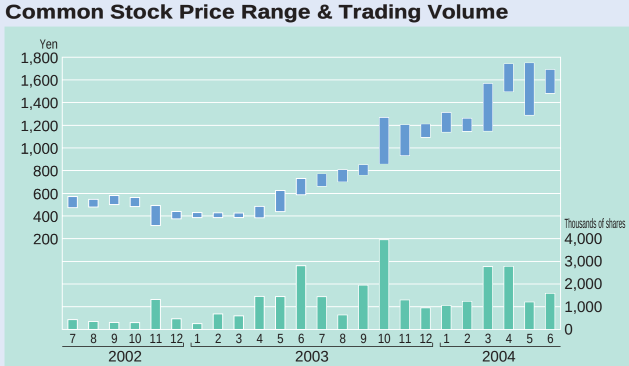
Number of Shareholders: 3,320

Transfer Agent and Registrar:
Mizuho Trust & Banking Co., Ltd.
1-2-1, Yaesu, Chiyoda-ku, Tokyo, Japan

Principal Shareholders

Shareholder	Number of shares (thousands)	% of total shares issued
The Master Trust Bank of Japan, Ltd. (Trust Account)	2,117	9.65%
Japan Trustee Services Bank, Ltd. (Trust Account)	1,295	5.90
Nippon Life Insurance Company	929	4.23
Mizuho Corporate Bank, Ltd.	813	3.71
The Bank of New York Europe Limited, Luxembourg Branch	775	3.53
ESPEC's Business Partners Shareholders' Association	758	3.46
The Chase Manhattan Bank N.A. London	700	3.19
Resona Bank, Limited	660	3.01
ESPEC's Employees Shareholders' Association	637	2.90
The Dai-ichi Mutual Life Insurance Company	546	2.49

Common Stock Price Range & Trading Volume



Note: Stock prices and trading volume are based on Tokyo Stock Exchange data.

For further information, please contact

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ESPEC CORP.