ISHIHARA SANGYO KAISHA

Annual Report 2002

Year Ended March 31, 2002

Contents

Consolidated Financial Highlights

For the years ended March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note)
	2002	2001	**2002**
For the years ended March 31,			
Net sales:			
Domestic	**¥ 40,705**	¥ 43,952	**$ 305,480**
Overseas	**51,812**	48,092	**388,832**
Total	**92,517**	92,044	**694,312**
Sales classified by segment:			
Inorganic chemicals	**45,903**	49,445	**344,488**
Organic chemicals	**41,941**	35,443	**314,758**
Other business	**4,673**	7,156	**35,066**
Total	**92,517**	92,044	**694,312**
Operating income	**7,605**	7,267	**57,072**
Net income	**1,833**	1,427	**13,754**
Depreciation of property, plant and equipment	**5,173**	5,520	**38,821**
Research and development costs	**6,350**	5,551	**47,653**
As of March 31,			
Current assets	**94,318**	112,301	**707,831**
Total assets	**160,525**	183,209	**1,204,691**
Current liabilities	**87,058**	98,761	**653,343**
Shareholders' equity	**43,533**	42,941	**326,704**

	Yen		U.S. dollars (Note)
Per share data			
Net income	**¥ 5.02**	¥ 3.91	**$ 0.04**
Shareholders' equity	**119.32**	117.69	**0.90**

Number of employees (as of March 31)	**1,863**	**1,938**	—

Note: The U.S. dollar amounts in this report have been translated from the yen amounts, for convenience only, at ¥133.25 = U.S.$1.00, the rate of exchange prevailing on March 31, 2002.

To Our Shareholders and Friends

In presenting this annual report covering the business activities of Ishihara Sangyo Kaisha Group (ISK) for fiscal 2001, ended March 31, 2002, we will first summarize the year's business climate worldwide.

After years of dynamic performance, the U.S. economy plunged sharply in the wake of the bursting of the dot-com bubble and the September 11th terrorist attacks. Partly affected by these setbacks, European and Asian markets began to lose momentum, disrupting economic development worldwide. In Japan, stock prices remained in the doldrums and the country's inability to alter its social structure further fueled the deterioration of the economy. As a result, deflationary pressure became stronger and the unemployment rate reached the highest level of the postwar period, soaring above five percent. In the private sector, the overall corporate financial base shrank while capital expenditures and consumption continued to drop.

Constricted by several unfavorable factors, however, we at ISK strove to improve profitability and expand our business operations based on the four-year structural improvement plan we initiated in April 1999. We also endeavored to reshape our corporate structure to survive and achieve further business development.

During the year under review, our revenues in the organic chemical business greatly increased as sales of agrochemicals in overseas markets remained robust and sales royalty income for our new products rose. In contrast, the faltering stock prices in major markets and the Japanese structural economic slump strongly affected the inorganic chemical business. Also, we suffered losses in our other business category. Consequently, we posted sales of ¥92.5 billion (US$694 million), a year-on-year increase of ¥0.4 billion, while reporting an operating profit of ¥7.6 billion (US$57 million), a year-on-year increase of ¥0.3 billion. Reflecting extraordinary losses from the write-down of investment securities and the allowance for doubtful receivables of Ishihara Argentina S.A., an overseas affiliate, net income amounted to ¥1.8 billion (US$14 million), an increase of ¥0.4 billion from the previous year.

Motivated to strengthen our corporate profitability and financial base, we have been making every effort to implement our four-year structural improvement plan. Thanks to these corporate efforts, we have eliminated unprofitable businesses, curtailed non-performing assets, and slashed interest-bearing liabilities. As a result, we have greatly bettered our financial position.

Meanwhile, as businesses throughout the world experience increasing difficulties, the unrestricted flow of goods, capital, and services has become predominant worldwide, and each market has been developing its potential for growth. Within this global economy, we have successfully sharpened our competitive edge and consolidated our management structure appropriate to meet the new challenges in the market.
Paying heed to the ongoing process of globalization, we endeavor to establish a more profitable corporate structure by thoroughly implementing business plans and actions based on departmental strategies.

As our corporate objectives in the future, we intend to obtain more profits from our core businesses and foster our new businesses in the 21st century while creating a stable financial position and increasing our corporate value.

In the agrochemical sector, we consider the next ten years as our second development period, in which we will try to double our sales by 2010. During this period, we will reorganize our corporate structure to provide a satisfactory platform for our business activities for the development, registration, production, and sales promotion in the world's major markets. Also, we will expand our market presence as an R&D-based manufacturer, increasing the number of countries of registration for ISK-developed products. We believe these new products will become a strong foundation for our development in the next decade.

In the titanium dioxide business, we set up a working committee for rationalizing the titanium dioxide business structure in June 2001 to enhance our international cost competitiveness and profit potential. This committee is providing the leadership for the thorough review of the business operations of all our group companies.

We will make our functional material business more profit-oriented by targeting certain growth industries, such as the IT industry, the environmental industry, and the consumer industry. Also we will aggressively utilize IT and other operating resources to further enhance our bottom line and facilitate operational management.

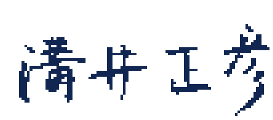
We have been making steady progress in the genetic sector, hoping that it will become one of our core businesses in the future. In April 2002, we initiated the marketing of GenomONE, an HVJ Envelop Vector kit for gene function analysis. We are now intensifying our commitment to vector kit commercialization. In addition, we have been concentrating our research capabilities and resources in the IT industry, the biotechnology industry, the nanotechnology industry, the environmental industry, and the food industry to expand our business potential.

We are accelerating liquidation of corporate assets and reduction of group company inventories to ensure that our businesses further prosper. Therefore, we will be able to minimize our interest-bearing liabilities and make our assets more valuable.

The rating of our corporate bonds was upgraded in December 2001, which we believe is a significant consequence of our continuous efforts to find appropriate solutions to our tasks derived from the four-year structural improvement plan. We intend to add more value to our brick-and-mortar presence in the industry. Directed by our corporate precept, "Contributing to Society and Life by Creating a Better Global Environment," we wish to satisfy our customers' various demands for titanium dioxide, functional materials, agrochemicals, organic intermediates, pharmaceuticals. In this respect, we will redouble our efforts to provide our customers with environmental-friendly products of greater quality at reasonable prices.

We look forward to the continued understanding and cooperation of our shareholders and customers.

Takashi Akizawa
Chairman



Masahiko Mizoi
President

Business Overview

INORGANIC CHEMICALS

Titanium Dioxide, Functional Materials, and Magnetic Materials

After years of tight supplies worldwide in the titanium dioxide sector ended with the economic slowdown in the U.S., product prices began to fluctuate in major markets this year. Despite this obstacle to our business, we continued our sales promotion activities. Unfortunately, however, these resulted in a decline of sales owing to the sluggish demand in Japan and overseas.

In the functional materials business, sales in electric materials dropped more than expected due to the considerable shortfall in IT-related demand. As a result, our total sales in this category shrank year on year despite an increase in demand for photocatalytic use titanium dioxide as the EPA tightened its Tier 2 emission standards and ultrafine titanium dioxide.

Magnetic iron oxide sales dwindled in the wake of the company's withdrawal from the magnetic iron oxide business for videocassette tape.

Consequently, our inorganic chemical sales totaled ¥45.9 billion (US$344 million), a decline of ¥3.5 billion from the year before, for an operating profit of ¥2.8 billion (US$ 22 million), a decline of ¥1.5 billion from the previous year.

ORGANIC CHEMICALS

Agrochemicals, Organic Intermediates, and Pharmaceuticals

In the overseas agrochemical industry, mergers and acquisitions among European and U.S. companies have further accelerated trends in major markets in which business is dominated by just a few companies. In Japan, industrial reorganization and competition among manufacturers have been intensifying as foreign companies continue to attract more customers through direct marketing. As a result, industrial competition in the agrochemical business has grown harsh. Industrial competition is expected to grow even more severe as genetically-modified crops increasingly enter into major markets, especially in the U.S.

Searching for good business opportunities within this market trend, we are developing ISK-branded products with a higher margin and stronger competitiveness while expanding our business worldwide. We are now deploying our managerial resources in major markets to establish distribution channels for our products. For this purpose, we increased our equity contribution to Belchim Crop Protection in Belgium, our long-time distribution partner in Europe. We also took an equity stake in Ceranova Handles Gmbh in Austria.

This year, FMC Corporation in the U.S. and ISK reached a development and sales agreement regarding IKI-220, our new insecticide under development. Under this agreement, FMC Corporation obtained permission for promoting this new product in American markets, excluding the four markets in South America, where we have our own distribution channels, and some European markets. Our affiliated company ISK Bioscience K.K. in Japan obtained the exclusive rights to market the agrochemicals and termiticide of the FMC Corporation.

Consequently, we reported sales of ¥41.9 billion (US$315 million), a ¥6.4 billion rise from the previous year, in agrochemicals and intermediates, while recording an operating profit of ¥6.9 billion (US$52 million) for the year, an increase of ¥1.9 billions from the year before, thanks to a surge in ISK-brand agrochemicals exports to American and European markets, and the Brazilian market in particular. Also, sales royalty income contributed to expanding sales in this category.

OTHER BUSINESSES

Our other businesses include Japanese subsidiaries in the construction industry and trading companies. This year, sales in this category amounted to ¥4.6 billion (US$35 million), a year-on-year decline of ¥2.4 billion over our operating profit of ¥0.9 billion (US$7 million), a ¥0.1 billion increase from the previous year.

Consolidated Balance Sheets

As of March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
Assets			
Current assets			
Cash and time deposits (Notes 5 and 13)	**¥ 20,259**	¥30,756	**$ 152,036**
Short-term investments (Notes 3 and 5)	**216**	592	**1,621**
Trade receivables:			
Notes	**5,118**	5,859	**38,408**
Accounts	**31,456**	32,990	**236,070**
	36,574	38,849	**274,478**
Less allowance for doubtful receivables	**(1,998)**	(805)	**(14,992)**
Trade receivables, net	**34,576**	38,044	**259,486**
Inventories (Note 4)	**32,767**	32,264	**245,904**
Deferred income taxes (Note 8)	**956**	1,238	**7,174**
Other current assets	**5,544**	9,407	**41,610**
Total current assets	**94,318**	112,301	**707,831**
Investments and advances			
Investments in securities (Notes 3 and 5)			
Unconsolidated subsidiaries and affiliates	**3,465**	3,961	**26,005**
Other	**5,481**	7,841	**41,130**
Total investments in securities	**8,946**	11,802	**67,135**
Long-term loans	**186**	244	**1,395**
Less allowance for doubtful accounts	**(0)**	(0)	**(0)**
Net long-term loans	**186**	244	**1,395**
Deferred income taxes (Note 8)	**3,079**	2,679	**23,112**
Other	**1,410**	1,318	**10,579**
Total investments and advances	**13,621**	16,043	**102,221**
Property, plant and equipment, at cost (Note 5)			
Land	**5,858**	5,968	**43,961**
Buildings and structures	**45,222**	45,353	**339,379**
Machinery and equipment	**107,203**	106,376	**804,523**
Construction in progress	**1,146**	1,133	**8,598**
	159,429	158,830	**1,196,461**
Less accumulated depreciation	**(107,654)**	(104,239)	**(807,912)**
Property, plant and equipment, net	**51,775**	54,591	**388,549**
Other assets	**811**	274	**6,090**
Total assets	**¥160,525**	¥183,209	**$1,204,691**

The accompanying notes are an integral part of the consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
Liabilities and Shareholders' Equity			
Current liabilities			
Short-term bank loans (Note 5)	**¥ 46,999**	¥ 48,487	**¥ 352,716**
Current portion of long-term debt (Note 5)	**13,974**	19,639	**104,868**
Trade payables:			
Notes	**4,049**	5,477	**30,389**
Accounts	**12,549**	12,704	**94,174**
	16,598	18,181	**124,563**
Accrued income taxes	**204**	173	**1,532**
Accrued expenses	**5,265**	5,537	**39,511**
Other current liabilities	**4,018**	6,744	**30,153**
Total current liabilities	**87,058**	98,761	**653,343**
Long-term liabilities			
Long-term debt (Note 5)	**21,540**	32,908	**161,652**
Accrued retirement benefits for employees (Note 7)	**3,921**	3,366	**29,426**
Accrued retirement benefits for directors and corporate auditors	**858**	968	**6,442**
Deferred income taxes (Note 8)	**197**	1,141	**1,476**
Other	**3,171**	2,980	**23,791**
Total long-term liabilities	**29,687**	41,363	**222,787**
Contingent liabilities (Note 12)			
Minority interests	**247**	144	**1,857**
Shareholders' equity			
Common stock:			
Authorized: 1,000,000,000 shares			
Issued: 369,757,510 shares in 2002 and 2001	**42,029**	42,029	**315,411**
Capital surplus (Note 9)	**5,235**	5,235	**39,290**
Surplus arising from land revaluation (Note 10)	**98**	—	**733**
Retained earnings (Note 9)	**1,101**	278	**8,263**
Net unrealized holding (loss) gain on securities	**(1,262)**	14	**(9,471)**
Translation adjustments	**(1,447)**	(2,402)	**(10,856)**
Less treasury stock, at cost:			
4,925,543 shares in 2002 and 4,884,163 shares in 2001	**(2,221)**	(2,213)	**(16,666)**
Total shareholders' equity	**43,533**	42,941	**326,704**
Total liabilities and shareholders' equity	**¥160,525**	¥183,209	**$1,204,691**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Income

For the years ended March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
Net sales (Note 15)	**¥92,517**	¥92,044	**$694,312**
Cost of sales (Note 6)	**66,068**	66,707	**495,817**
Gross profit	**26,449**	25,337	**198,495**
Selling, general and administrative expenses (Note 6)	**18,844**	18,070	**141,423**
Operating income (Note 15)	**7,605**	7,267	**57,072**
Other income:			
Interest and dividend income	**336**	519	**2,524**
Gain on sales of property, plant and equipment	**15**	364	**113**
Gain on sales of investments in securities	**195**	—	**1,463**
Foreign exchange gain	**171**	1,946	**1,280**
Other	**1,204**	670	**9,042**
	1,921	3,499	**14,422**
Other expenses:			
Interest expense	**2,472**	2,650	**18,550**
Loss on disposal of property, plant and equipment	**283**	626	**2,127**
Loss on devaluation of investments in securities	**1,229**	1,747	**9,221**
Loss on liquidation of magnetic materials business for videotape operations	**—**	2,264	**—**
Other	**3,346**	3,984	**25,113**
	7,330	11,271	**55,011**
Income (loss) before income taxes and minority interests	**2,196**	(505)	**16,483**
Income taxes (Note 8):			
Current	**412**	557	**3,093**
Deferred	**(96)**	(2,497)	**(721)**
Minority interests	**47**	8	**357**
Net income	**¥ 1,833**	¥ 1,427	**$ 13,754**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Shareholders' Equity

For the years ended March 31, 2002 and 2001

	Millions of yen							
	Number of shares of common stock	Common stock	Capital surplus	Surplus arising from land revaluation	Retained earnings	Net unrealized holding gain (loss) on securities	Translation adjustments	Treasury stock, at cost
Balance at March 31, 2000	369,756,417	¥42,028	¥5,235	¥—	¥(1,149)	¥ —	¥ —	¥(2,213)
Net income for the year ended March 31, 2001	—	—	—	—	1,427	—	—	—
Conversion of convertible bonds	1,093	1	0	—	—	—	—	—
Unrealized holding gain on securities	—	—	—	—	—	14	—	—
Translation adjustments	—	—	—	—	—	—	(2,402)	—
Balance at March 31, 2001	369,757,510	42,029	5,235	—	278	14	(2,402)	(2,213)
Net income for the year ended March 31, 2002	—	—	—	—	1,833	—	—	—
Decrease in retained earnings resulting from restructuring of U.S. subsidiaries	—	—	—	—	(1,010)	—	—	—
Unrealized holding loss on securities	—	—	—	—	—	(1,276)	—	—
Surplus arising from land revaluation	—	—	—	98	—	—	—	—
Translation adjustments	—	—	—	—	—	—	955	—
Increase in treasury stock	—	—	—	—	—	—	—	(8)
Balance at March 31, 2002	**369,757,510**	**¥42,029**	**¥5,235**	**¥98**	**¥1,101**	**¥(1,262)**	**¥(1,447)**	**¥(2,221)**

	Thousands of U.S. dollars (Note 1)							
	Number of shares of common stock	Common stock	Capital surplus	Surplus arising from land revaluation	Retained earnings	Net unrealized holding gain (loss) on securities	Translation adjustments	Treasury stock, at cost
Balance at March 31, 2001	369,757,510	$315,411	$39,290	$ —	$ 2,085	$ 108	$(18,030)	$(16,605)
Net income for the year ended March 31, 2002	—	—	—	—	13,754	—	—	—
Decrease in retained earnings resulting from restructuring of U.S. subsidiaries	—	—	—	—	(7,576)	—	—	—
Unrealized holding loss on securities	—	—	—	—	—	(9,579)	—	—
Surplus arising from land revaluation	—	—	—	733	—	—	—	—
Translation adjustments	—	—	—	—	—	—	7,174	—
Increase in treasury stock	—	—	—	—	—	—	—	(61)
Balance at March 31, 2002	**369,757,510**	**$315,411**	**$39,290**	**$733**	**$ 8,263**	**$(9,471)**	**$(10,856)**	**$(16,666)**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2002 and 2001

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2002	2001	**2002**
Cash flows from operating activities			
Income (loss) before income taxes and minority interests	**¥ 2,196**	¥ (505)	**$ 16,483**
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**5,417**	5,666	**40,655**
Loss on disposal of property, plant and equipment	**160**	556	**1,198**
Loss on devaluation and sales of investments in securities	**1,239**	1,852	**9,301**
Foreign exchange gain	**(722)**	(641)	**(5,416)**
Gain on sales of investments in securities	**(195)**	(5)	**(1,464)**
Reversal of retirement benefits	**—**	(3,495)	**—**
Provision for retirement benefits	**446**	4,334	**3,344**
Interest and dividend income	**(336)**	(519)	**(2,524)**
Interest expense	**2,472**	2,650	**18,550**
Equity in loss (earnings) of affiliated companies	**283**	(68)	**2,121**
Other	**1,182**	442	**8,869**
Changes in operating assets and liabilities:			
Receivables	**3,134**	(6,766)	**23,517**
Inventories	**255**	(381)	**1,914**
Other current assets and other operating assets	**997**	648	**7,485**
Payables	**(1,888)**	3,917	**(14,166)**
Accrued expenses and other current liabilities	**(3,397)**	3,083	**(25,491)**
Subtotal	**11,243**	10,768	**84,376**
Interest and dividend income received	**528**	283	**3,963**
Interest paid	**(2,452)**	(2,440)	**(18,404)**
Income taxes paid	**(342)**	(528)	**(2,567)**
Net cash provided by operating activities	**8,977**	8,083	**67,368**
Cash flows from investing activities			
Purchases of property, plant and equipment	**(3,631)**	(2,692)	**(27,252)**
Increase in investments in securities	**(420)**	(601)	**(3,153)**
Proceeds from sales of property, plant and equipment	**385**	409	**2,890**
Proceeds from sales of investments in securities	**849**	753	**6,372**
Increase in long-term loans	**82**	36	**613**
Decrease in long-term loans	**(23)**	(25)	**(171)**
Other, net	**1,860**	(222)	**13,959**
Net cash used in investing activities	**(898)**	(2,342)	**(6,742)**
Cash flows from financing activities			
(Decrease) increase in short-term bank loans, net	**(1,543)**	531	**(11,578)**
Proceeds from long-term debt	**3,160**	9,530	**23,715**
Repayment of long-term debt	**(6,227)**	(4,512)	**(46,731)**
Repayment of bonds	**(14,335)**	(2,489)	**(107,579)**
Other, net	**(8)**	1	**(61)**
Net cash (used in) provided by financing activities	**(18,953)**	3,061	**(142,234)**
Effect of exchange rate changes on cash and cash equivalents	**377**	444	**2,828**
(Decrease) increase in cash and cash equivalents	**(10,497)**	9,246	**(78,780)**
Cash and cash equivalents at beginning of year	**30,696**	21,450	**230,366**
Cash and cash equivalents at end of year (Note 13)	**¥20,199**	¥30,696	**$151,586**

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

For the years ended March 31, 2001 and 2000

1. Basis of Presenting Financial Statements

Ishihara Sangyo Kaisha, Ltd. (the "Company") and its domestic consolidated subsidiaries maintain their accounts and records in accordance with accounting principles and practices generally accepted and applied in Japan. Its foreign consolidated subsidiaries maintain their accounts in conformity with the requirements of their countries of domicile. The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at the rate of ¥133.25 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2002. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation and Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The accompanying consolidated financial statements for the years ended March 31, 2002 and 2001 consist of the accounts of the Company, ISK Bioscience K.K., ISK Singapore Pte. Ltd., the ISK Americas Incorporated Group (7 subsidaries), ISK Biosciences Europe S.A., ISK Taiwan Co., Ltd., Ishihara Argentina S.A., Ishihara Tecno Corporation, Ishihara Enterprise & Co. Inc., ISK Engineering Corporation and ISK Distribution Service Co. Ltd.

All significant intercompany accounts and transactions have been eliminated in consolidation.

The foreign consolidated subsidiaries are consolidated on the basis of fiscal periods ending December 31, which differs from the balance sheet date of the Company. As a result, adjustments have been made for any significant intercompany transactions which took place during the period between the year ends of these foreign consolidated subsidiaries and the year end of the Company.

The Company's remaining subsidiaries have not been consolidated, because they are not significant in terms of total assets, retained earnings, net sales and net income. The investments in significant affiliates have been stated at the underlying net equity after the elimination of intercompany profit. Investments in unconsolidated subsidiaries and the remaining affiliated companies are stated at cost.

(b) Foreign Currency Translation

Foreign currency transactions

Effective April 1, 2000, the Company and its domestic consolidated subsidiaries adopted a revised "Accounting Standard for Foreign Currency Translation" issued by the Business Accounting Deliberation Council of Japan. Under this standard, all monetary assets and liabilities denominated in foreign currencies are translated into yen amounts at the rates of exchange in effect at the balance sheets date, except that receivables and payables hedged by qualified forward foreign exchange contracts are translated at their corresponding contract rates. All other assets and liabilities denominated in foreign currencies are translated at their historical rates.

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the exchange rates in effect at the respective transaction dates. Foreign exchange gain or loss is credited or charged to income in the year in which such gain or loss is recognized for financial reporting purposes.

The effect of the adoption of the revised standard on the consolidated financial statements was to decrease loss before income taxes and minority interests for the year ended March 31, 2001 by ¥1,119 million from the amounts which would have been recorded if the method applied in the previous year had been followed.

Financial statements of foreign consolidated subsidiaries

The balance sheets accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheets date except that the components of shareholders' equity are translated at their historical rates. Revenue and expense accounts are translated at the average rates of exchange in effect during the year. Differences resulting from translating financial statements denominated in foreign currencies have not been included in the determination of net income but are reported as translation adjustments as a component of shareholders' equity.

(c) Cash and Cash Equivalent

For the purposes of the consolidated statements of cash flows for the years ended March 31, 2002 and 2001, cash and cash equivalents include cash on hand and in banks and other highly liquid investments with maturities of three months or less when purchased.

(d) Inventories

Inventories of the Company and its domestic consolidated subsidiaries are valued at cost determined by the weighted average method. Inventories of the foreign consolidated subsidiaries are stated at the lower of cost or market, the cost of ISK Singapore Pte. Ltd. being determined by the moving average method and the cost of other subsidiaries being determined by the average method.

(e) Investments in Securities

Effective April 1, 2000, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council of Japan. This standard requires that securities be classified into three categories: trading securities, held-to-maturity debt securities and other securities.

Under this standard, trading securities are carried at fair value. Gain and loss, both realized and unrealized, are charged to income. Held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value, with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of shareholders' equity. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method. Though March 31, 2001, marketable securities classified as other securities were carried at cost determined by the moving average method.

The effect of the adoption of this standard for marketable securities classifed as other securities is reported as net unrealized holding (loss) gain on securities as a separate component of shareholder's equity. The overall effect at March 31, 2002 was to decrease investments in securities by ¥1,235 million ($9,268 thousand) and to increase deferred tax liabilities by ¥17 million ($126 thousand) and minority interests by ¥1 million ($8 thousand) as compared to the amounts which would have been recorded under the method applied in the previous year.

As of April 1, 2000, the Company and its domestic consolidated subsidiaries assessed their intent in holding their short-term investments and investments in securities and classified their securities at April 1, 2000 as "held-to-maturity debt securities" or "other securities" in accordance with the new standard referred to above. As a result, short-term investments of ¥8,439 million, which had been included in short-term investments at March 31, 2000, were reclassified to investments in securities effective March 31, 2001.

(f) Derivatives and Hedging Activities

Derivative financial instruments are utilized by the Company and its domestic consolidated subsidiaries principally in order to manage certain risks arising from adverse fluctuation in foreign currency exchange rates and interest rates. The Company and its domestic consolidated subsidiaries have established a control environment which includes policies and procedures for risk assessment, including an assessment of the effectiveness of the hedging, and for the approval, reporting and monitoring of transactions involving derivatives. The Company and its domestic consolidated subsidiaries do not hold or issue derivatives for speculative trading purposes.

The Company and its domestic consolidated subsidiaries are exposed to certain market risks arising from their forward foreign exchange contracts and interest-rate option agreements. The Company and its domestic consolidated subsidiaries are also exposed to the risk of credit loss in the event of non-performance by the counterparties to the currency and interest-rate contracts; however, they do not anticipate nonperformance by any of these counterparties, all of whom are financial institutions with high credit ratings.

Derivatives are carried at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferred hedge accounting under which unrealized gain or loss is deferred as an asset or liability.

(g) Property, Plant and Equipment
Property, plant and equipment are stated at cost. Depreciation of the assets is recognized primarily by the straight-line method.

Costs for maintenance, repairs and minor renewals are charged to income as incurred; major renewals and betterments are capitalized.

(h) Research and Development Costs and Computer Software
Research and development costs are charged to income as incurred. Expenditures relating to computer software developed for internal use is charged to income as incurred, except if these are deemed to contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over their useful lives, generally a period of 5 years.

(i) Allowance for Doubtful Accounts
The Company and its domestic consolidated subsidiaries have provided allowances for doubtful receivables based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific doubtful accounts from customers experiencing financial difficulties.

The allowance for doubtful accounts of the foreign consolidated subsidiaries has been provided at an estimated amount of their probable bad debts.

(j) Leases
The Company and its domestic consolidated subsidiaries lease certain equipment under non-cancelable lease agreements referred to as finance leases. Finance leases other than those which transfer the ownership of the leased property to the Company and its domestic consolidated subsidiaries are accounted for as operating leases.

The foreign consolidated subsidiaries lease certain equipment under non-cancelable lease agreements. These leased assets are generally classified and accounted for either as finance or operating leases in conformity with the accounting principles and practices accepted in the countries in which they are incorporated.

(k) Retirement Benefits
The Company and its domestic consolidated subsidiaries have defined benefit pension plans and retirement benefit plans. The retirement benefit plans provide for lump-sum payments to eligible employees upon retirement determined by reference to their basic salary, years of service and certain other factors.

Effective April 1, 2000, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Retirement Benefits" issued by the Business Accounting Deliberation Council of Japan. In accordance with this standard, accrued retirement benefits are provided based on the amount of the projected benefit obligation reduced by the pension plan assets at fair value at the balance sheet date. The net retirement benefit obligation at transition of ¥6,506 million ($48,826 thousand) is being amortized by the straight-line method over 15 years.

Actuarial gain or loss is amortized in the year following the year in which gain or loss is recognized, principally by the straight-line method over the estimated average remaining years of service of the employees participating in the plans.

The effect of the adoption of this standard for retirement benefits was to increase loss before income taxes and minority interests for the year ended March 31, 2001 by ¥623 million over the amount which would have been recorded under the method applied in the previous year.

Directors and corporate auditors are not covered by this plan. Accrued retirement benefits for directors and corporate auditors have been recorded at an amount equal to an estimate of the amounts payable to them if they retired at the balance sheet date.

The foreign consolidated subsidiaries do not have pension plans such as those of the Company and its domestic consolidated subsidiaries.

(l) Income Taxes
Income taxes are calculated based on taxable income and charged to income on an accrual basis. Certain temporary differences exist between taxable income and income reported for financial statement purposes which enter into the determination of taxable income in a different period. The Company and its domestic consolidated subsidiaries recognize the tax effect of such temporary differences in the consolidated financial statements.

3. Short-term Investments and Investments in Securities

Marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2002 and 2001 were as follows:

(a) Held-to-maturity debt securities

	Millions of yen						Thousands of U.S. dollars		
	2002			2001			2002		
	Carrying value	Estimated fair value	Unrealized loss	Carrying value	Estimated fair value	Unrealized gain	Carrying value	Estimated fair value	Unrealized gain
Securities whose fair value exceeds their carrying value	¥—	¥—	¥—	¥10	¥11	¥1	$—	$—	$—
Securities whose carrying value exceeds their fair value	10	10	0	—	—	—	75	75	0
Total	¥10	¥10	¥0	¥10	¥11	¥1	$75	$75	$0

(b) Other securities

	Millions of yen			Thousands of U.S. dollars		
	2002			2002		
	Acquisition cost	Book value (fair market value)	Unrealized gain (loss)	Acquisition cost	Book value (fair market value)	Unrealized gain (loss)
Securities whose fair market value exceeds their acquisition cost:						
Equity securities	¥720	¥901	¥181	$5,402	$6,761	$1,359
Subtotal	720	901	181	5,402	6,761	1,359
Securities whose acquisition cost exceeds their fair market value:						
Equity securities	4,948	3,532	(1,416)	37,137	26,506	(10,631)
Debt securities	50	50	—	375	375	—
Other	3	2	(1)	21	17	(4)
Subtotal	5,001	3,584	(1,416)	37,533	26,898	(10,635)
Total	¥5,721	¥4,485	¥(1,236)	$42,935	$33,659	$(9,276)

	Millions of yen		
	2001		
	Cost	Fair market value	Net unrealized gain (loss)
Fair market value determinable:			
Equity securities	¥6,891	¥5,834	¥(1,057)
Debt securities	50	51	1
Other	3	3	0
Total	¥6,944	¥5,888	¥(1,956)

(c) A breakdown of other securities whose market value was not determinable at March 31, 2002 and 2001 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Bonds held to maturity	**¥ 156**	¥592	**$1,171**
Other securities	**1,045**	887	**7,845**

(d) The proceeds from sales of, and gross realized gain and loss on, other securities for the years ended March 31, 2002 and 2001 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Proceeds from sales	**¥6**	¥38	**$45**
Gross realized gain	**0**	16	**1**
Gross realized loss	**2**	11	**15**

(e) The carrying value of held-to-maturity debt securities and debt securities classified as other securities at March 31, 2002 is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	Bonds	Bonds
Due in one year or less	¥216	$1,621

4. Inventories

Inventories at March 31, 2002 and 2001 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Finished goods	**¥19,780**	¥18,229	**$148,439**
Work in process	**3,864**	5,199	**28,996**
Raw materials and supplies	**9,123**	8,836	**68,469**
	¥32,767	¥32,264	**$245,904**

5. Short-Term Bank Loans and Long-Term Debt

The average annual interest rates on short-term bank loans for the years ended March 31, 2002 and 2001 were 1.6% and 1.7%, respectively.

Long-term debt including the current portion at March 31, 2002 and 2001 consisted of the following.

Loans from banks and other financial institutions with interest rates in 2002 ranging from 1.0% to 5.8% due through 2017 and in 2001 ranging from 1.6% to 1.8% due through to 2017:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Loans from banks (secured)	**¥21,657**	¥24,073	**$162,527**
Loans from banks (unsecured)	**5,757**	6,039	**43,205**
5.7% yen bonds due 2003	**8,100**	9,000	**60,788**
1.8% yen convertible bonds due 2001	**—**	13,435	**—**
	35,514	52,547	**266,520**
Less amounts due within one year	**(13,974)**	(19,639)	**(104,868)**
	¥21,540	¥32,908	**$161,652**

The aggregate annual maturities of long-term debt subsequent to March 31, 2002 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2003	¥13,974	$104,868
2004	6,478	48,618
2005	4,205	31,558
2006	3,493	26,210
2007	2,657	19,942
2008	4,707	35,324
	¥35,514	$266,520

At March 31, 2002 and 2001, the following assets were pledged as collateral to secure the above short-term bank loans and long-term debt:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Cash and time deposits	**¥ 10**	¥ 60	**$ 75**
Investments in securities including short-term investments	**5,390**	7,918	**40,447**
Property, plant and equipment, net of accumulated depreciation	**37,436**	35,717	**280,949**
All assets of ISK Singapore Pte. Ltd. (except for certain property, plant and equipment)	**12,337**	11,876	**92,584**
	¥55,173	¥55,571	**$414,055**

6. Research and Development Costs

Research and development costs included in manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2002 and 2001 totaled ¥6,350 million ($47,653 thousand) and ¥5,551 million, respectively.

7. Retirement Benefits

The following table sets forth the funded and accrued status of the retirement benefit plans and the amounts recognized in the consolidated balance sheets at March 31, 2002 and 2001 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Retirement benefit obligation	**¥10,470**	¥9,762	**$78,576**
Plan assets at fair value	**(348)**	(356)	**(2,611)**
Unfunded retirement benefit obligation	**10,122**	9,406	**75,965**
Unrecognized net retirement benefit obligation at transition	**(5,639)**	(6,073)	**(42,317)**
Unrecognized actuarial (loss) gain	**(562)**	33	**(4,222)**
Accrued retirement benefits	**¥ 3,921**	¥3,366	**$29,426**

The components of retirement benefit expenses for the years ended March 31, 2002 and 2001 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Service cost	**¥ 490**	¥ 496	**$3,674**
Interest cost	**320**	314	**2,405**
Expected return on plan assets	**(14)**	(15)	**(107)**
Amortization of retirement benefit obligation at transition	**434**	434	**3,255**
Amortization of unrecognized actuarial gain	**(2)**	—	**(13)**
Retirement benefit expenses	**¥1,228**	¥1,229	**$9,214**

The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2002 and 2001 were as follows:

	2002	2001
Discounted rates	**2.5%**	3.5%
Expected rate of return on plan assets	**4.0%**	4.0%

8. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes. The statutory tax rate in Japan for the years ended March 31, 2002 and 2001 was, in the aggregate, approximately 40.8%.

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the corresponding amounts reported for income tax purposes.

The difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2002 is reconciled as follows:

	2002
Statutory tax rate	**40.8%**
Permanently nondeductible expenses	**14.4**
Permanently nontaxable dividends	**(2.6)**
Per capita portion of inhabitants' taxes	**2.6**
Foreign income taxes	**3.2**
Valuation allowance	**(45.8)**
Effect of difference in tax rates on subsidiaries	**(1.1)**
Unrealized profit on intercompany transactions	**2.9**
Effective tax rate	**14.4%**

A reconciliation of the difference between the statutory income tax rate and the effective tax rate for the year ended March 31, 2001 has not been presented because a loss before income taxes and minority interests was recorded.

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the corresponding amounts for income tax purposes. The significant components of the Company and consolidated subsidiaries' deferred tax assets and liabilities at March 31, 2002 and 2001 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Deferred tax assets:			
Tax loss carryforward	**¥3,239**	¥3,280	**$24,302**
Write-down of inventories	**82**	78	**615**
Unrealized profit on intercompany transactions	**282**	212	**2,118**
Retirement benefits	**166**	146	**1,243**
Accrued expenses	**137**	140	**1,030**
Other	**130**	61	**978**
Total deferred tax assets	**4,036**	3,917	**30,286**
Deferred tax liabilities:			
Property, plant and equipment	**179**	1,141	**1,343**
Unrealized holding gain on securities	**18**	—	**133**
Total deferred tax liabilities	**197**	1,141	**1,476**
Net deferred tax assets	**¥3,839**	¥2,776	**$28,810**

9. Capital Surplus and Retained Earnings

On October 1, 2001, an amendment (the "Amendment") to the Commercial Code of Japan (the "Code") became effective. The Amendment eliminates the stated par value of the Company's outstanding shares, which resulted in all outstanding shares having no par value as of October 1, 2001. As a result of the Amendment, all share issuances after September 30, 2001 will be of shares with no par value. Prior to the date on which the Amendment became effective, the Company's shares had a par value of ¥50 per share.

The Code provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of the legal reserve and capital surplus equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of the capital surplus account and the legal reserve exceeds 25% of the common stock account, any such excess is available for appropriation by resolution of the shareholders. No legal reserve has been included in retained earnings at March 31, 2002 or 2001.

10. Land Revaluation

At March 31, 2002, a domestic affiliate, which has been accounted for by the equity method, revalued its land held for business use in accordance with the "Land Revaluation Law" and the "Amended Land Revaluation Law." As a result of this revaluation by the affiliate, the Company recognized the portion attributable to the Company's interest in the unrealized gain on land revaluation and this has been accounted for as "surplus arising from land revaluation" under shareholders' equity in the consolidated balance sheet at March 31, 2002.

11. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2002 and 2001, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen						Thousands of U.S. dollars		
	2002			2001			**2002**		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	**¥3,705**	**¥1,481**	**¥2,224**	¥2,858	¥996	¥1,862	**$27,807**	**$11,113**	**$16,694**

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2002 and 2001 amounted to ¥551 million ($4,134 thousand) and ¥442 million, respectively. Depreciation of the leased assets computed by the straight-line method over the respective lease terms for the years ended March 31, 2002 and 2001 amounted to ¥551 million ($4,134 thousand) and ¥442 million, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2002 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2003	¥ 622	$ 4,671
2004 and thereafter	1,602	12,023
	¥2,224	$16,694

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2002 for operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2003	¥ 334	$ 2,503
2004 and thereafter	690	5,181
	¥1,024	$7,684

12. Contingent Liabilities

As of March 31, 2002, the Company and its consolidated subsidiaries were contingently liable for the following:

	Millions of yen	Thousands of U.S. dollars
Trade notes receivable discounted with banks	¥ 983	$7,376
As guarantor for borrowings of unconsolidated subsidiaries	287	2,151
	¥1,270	$9,527

13. Supplemental Information to Consolidated Statements of Cash Flows

A reconciliation between cash and cash equivalents in the consolidated statements of cash flows and cash and time deposits in the consolidated balance sheets as of March 31, 2002 and 2001 is presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2002	2001	**2002**
Cash and time deposits	**¥20,259**	¥30,756	**$152,036**
Time deposits with a maturity in excess of three months	**(60)**	(60)	**(450)**
Cash and cash equivalents	**¥20,199**	¥30,696	**$151,586**

14. Amounts per Share

	Yen		U.S. dollars
	2002	2001	**2002**
Net income	**¥ 5.02**	¥ 3.91	**$0.04**
Net assets	**119.32**	117.69	**0.90**

Net income per share is based on the weighted average number of shares of common stock outstanding during the respective years.

Net assets per share are based on the number of shares outstanding at the respective balance sheet dates.

15. Segment Information

Business segments

The Company and its consolidated subsidiaries' operations are classified into 3 segments:

Inorganic chemicals

This segment's business involves titanium dioxide and functional materials which are value-added products designed to take advantage of the characteristics of titanium dioxide, magnetic materials and other inorganic chemical materials.

Organic chemicals

This segment's business involves agrochemicals, organic intermediates and active pharmaceutical ingredients.

Other business

This segment's business involves principally industries which trade and distribute the Company's goods, construct chemical plants, rent real estate, etc.

The summarized financial information by business segment for the years ended March 31, 2002 and 2001 is as follows:

	Millions of yen				
	2002				
	Inorganic chemicals	Organic chemicals	Other business	Eliminations /corporate	Consolidated
Sales and operating income:					
Net sales					
Outside customers	**¥45,903**	**¥41,941**	**¥4,673**	**¥ —**	**¥ 92,517**
Intersegment	**—**	**—**	**10,685**	**(10,685)**	**—**
Total sales	**45,903**	**41,941**	**15,358**	**(10,685)**	**92,517**
Operating expenses	**43,030**	**35,033**	**14,449**	**(7,600)**	**84,912**
Operating income	**2,873**	**6,908**	**909**	**(3,085)**	**7,605**
Total assets	**71,021**	**46,853**	**13,388**	**29,263**	**160,525**
Depreciation and amortization	**3,985**	**918**	**92**	**367**	**5,362**
Capital expenditures	**3,642**	**912**	**36**	**(259)**	**4,331**

	Millions of yen				
	2001				
	Inorganic chemicals	Organic chemicals	Other business	Eliminations /corporate	Consolidated
Sales and operating income:					
Net sales					
Outside customers	¥49,445	¥35,443	¥ 7,156	¥ —	¥ 92,044
Intersegment	—	—	10,635	(10,635)	—
Total sales	49,445	35,443	17,791	(10,635)	92,044
Operating expenses	44,976	30,461	17,045	(7,705)	84,777
Operating income	4,469	4,982	746	(2,930)	7,267
Total assets	72,824	51,943	13,875	44,567	183,209
Depreciation and amortization	4,133	932	119	424	5,608
Capital expenditures	2,619	453	47	(178)	2,941

	Thousands of U.S. dollars				
	2002				
	Inorganic chemicals	Organic chemicals	Other business	Eliminations /corporate	Consolidated
Sales and operating income:					
Net sales					
Outside customers	**$344,488**	**$314,758**	**$35,066**	**$ —**	**$ 694,312**
Intersegment	**—**	**—**	**80,187**	**(80,187)**	**—**
Total sales	**344,488**	**314,758**	**115,253**	**(80,187)**	**694,312**
Operating expenses	**322,924**	**262,915**	**108,439**	**(57,038)**	**637,240**
Operating income	**21,564**	**51,843**	**6,814**	**(23,149)**	**57,072**
Total assets	**532,990**	**351,615**	**100,477**	**219,609**	**1,204,691**
Depreciation and amortization	**29,901**	**6,888**	**692**	**2,757**	**40,238**
Capital expenditures	**27,336**	**6,841**	**272**	**(1,946)**	**32,503**

Unallocable operating expenses consisting primarily of the Company's expenses relating to general affairs totaled ¥2,553 million ($19,158 thousand) for the year ended March 31, 2002 and ¥2,453 million for the year ended March 31, 2001. These have been included in "Eliminations/corporate". Corporate assets principally consisted of the Company's cash and time deposits and investments in securities.

Geographic segments

Geographic segments are determined in conformity with geographic proximity and the Company's business bases as follows:

Asia: Singapore, Taiwan
America: United States, Argentina
Europe: Belgium

	Millions of yen					
	2002					
	Japan	Asia	America	Europe	Eliminations /corporate	Consolidated
Sales and operating income:						
Net sales						
Outside customers	**¥ 63,951**	**¥ 8,229**	**¥ 9,242**	**¥11,095**	**¥ —**	**¥ 92,517**
Intersegment	**19,384**	**3,224**	**715**	**66**	**(23,389)**	**—**
Total sales	**83,335**	**11,453**	**9,957**	**11,161**	**(23,389)**	**92,517**
Operating expenses	**73,132**	**10,848**	**10,125**	**10,754**	**(19,947)**	**84,912**
Operating income (loss)	**¥ 10,203**	**¥ 605**	**¥ (168)**	**¥ 407**	**¥ (3,442)**	**¥ 7,605**
Identifiable assets	**¥126,556**	**¥21,584**	**¥ 8,063**	**¥ 6,562**	**¥ (2,240)**	**¥160,525**

	Millions of yen					
	2001					
	Japan	Asia	America	Europe	Eliminations /corporate	Consolidated
Sales and operating income:						
Net sales						
Outside customers	¥ 67,719	¥ 5,250	¥ 9,759	¥9,316	¥ —	¥ 92,044
Intersegment	21,632	6,417	1,014	67	(29,130)	—
Total sales	89,351	11,667	10,773	9,383	(29,130)	92,044
Operating expenses	77,242	10,732	11,432	9,066	(23,695)	84,777
Operating income (loss)	¥ 12,109	¥ 935	¥ (659)	¥ 317	¥ (5,435)	¥ 7,267
Identifiable assets	¥133,268	¥20,886	¥11,469	¥5,833	¥11,753	¥183,209

	Thousands of U.S. dollars					
	2002					
	Japan	Asia	America	Europe	Eliminations /corporate	Consolidated
Sales and operating income:						
Net sales						
Outside customers	**$479,934**	**$ 61,756**	**$69,355**	**$83,267**	**$ —**	**$ 694,312**
Intersegment	**145,468**	**24,194**	**5,370**	**493**	**(175,525)**	**—**
Total sales	**625,402**	**85,950**	**74,725**	**83,760**	**(175,525)**	**694,312**
Operating expenses	**548,832**	**81,414**	**75,983**	**80,708**	**(149,697)**	**637,240**
Operating income (loss)	**$ 76,570**	**$ 4,536**	**$ (1,258)**	**$ 3,052**	**$ (25,828)**	**$ 57,072**
Identifiable assets	**$949,767**	**$161,980**	**$60,508**	**$49,245**	**$ (16,809)**	**$1,204,691**

Unallocable operating expenses consisting primarily of the Company's expenses relating to general affairs totaled ¥2,553 million ($19,158 thousand) for the year ended March 31, 2002 and ¥2,453 million for the year ended March 31, 2001. These have been included in "Eliminations/ corporate".

Corporate assets principally consisted of the Company's cash and time deposits, and investments in securities

Overseas net sales

The regions are determined in conformity with geographic proximity and the Company's business activities, as follows:

Asia: China, Taiwan, South Korea, Thailand, Indonesia, Singapore
America: United States, Canada, Puerto Rico, Brazil, Argentina, Mexico
Europe: Germany, Holland, France, Great Britain, Belgium, Italy, Eastern Europe and Middle East
Other: Australia, New Zealand, Africa

	Millions of yen				
	2002				
	Asia	America	Europe	Other	Total
Overseas net sales	**¥16,449**	**¥17,549**	**¥17,326**	**¥488**	**¥51,812**
Consolidated net sales					**92,517**
Overseas net sales as a percentage of net sales	**17.8%**	**19.0%**	**18.7%**	**0.5%**	**56.0%**

	Millions of yen				
	2001				
	Asia	America	Europe	Other	Total
Overseas net sales	¥17,684	¥16,100	¥13,840	¥468	¥48,092
Consolidated net sales					92,044
Overseas net sales as a percentage of net sales	19.2%	17.5%	15.0%	0.5%	52.2%

	Thousands of U.S. dollars				
	2002				
	Asia	America	Europe	Other	Total
Overseas net sales	**$123,448**	**$131,700**	**$130,022**	**$3,662**	**$388,832**
Consolidated net sales					**694,312**
Overseas net sales as a percentage of net sales	**17.8%**	**19.0%**	**18.7%**	**0.5%**	**56.0%**

Shin Nihon & Co.

Report of Independent Certified Public Accountants

The Board of Directors
Ishihara Sangyo Kaisha, Ltd.

We have audited the consolidated balance sheets of Ishihara Sangyo Kaisha, Ltd. and consolidated subsidiaries as of March 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Ishihara Sangyo Kaisha, Ltd. and consolidated subsidiaries at March 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 2, Ishihara Sangyo Kaisha, Ltd. and its domestic consolidated subsidiaries have adopted new accounting standards for foreign currency translation, financial instruments and employees' retirement benefits effective the year ended March 31, 2001 in the preparation of their consolidated financial statements.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2002 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

Shin Nihon & Co.

June 27, 2002

See Note 1 which explains the basis of preparation of the consolidated financial statements of Ishihara Sangyo Kaisha, Ltd. under Japanese accounting principles and practices.

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