ISHIHARA SANGYO KAISHA

Annual Report 2003

Year Ended March 31, 2003

ISK

ISK

Contents

Ishihara Sangyo Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Financial Highlights

For the years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note)
	2003	2002	**2003**
For the years ended March 31,			
Net sales:			
Domestic	**¥ 43,020**	¥ 40,705	**$ 357,901**
Overseas	**52,854**	51,812	**439,719**
Total	**95,874**	92,517	**797,620**
Sales classified by business segment:			
Inorganic chemicals	**48,449**	45,903	**403,072**
Organic chemicals	**42,645**	41,941	**354,783**
Other business	**4,780**	4,673	**39,765**
Total	**95,874**	92,517	**797,620**
Operating income	**8,480**	7,605	**70,552**
Net income	**1,351**	1,833	**11,239**
Depreciation of property, plant and equipment	**4,789**	5,173	**39,840**
Research and development costs	**5,667**	6,350	**47,150**
At the year end			
Current assets	**83,470**	94,318	**694,426**
Total assets	**146,912**	160,525	**1,222,227**
Current liabilities	**74,942**	87,058	**623,477**
Shareholders' equity	**45,671**	43,533	**379,961**

	Yen		U.S. dollars (Note)
Per share data			
Net income	**¥ 3.70**	¥ 5.02	**$ 0.03**
Shareholders' equity	**125.32**	119.32	**1.04**

Number of employees (as of March 31)	**1,814**	**1,863**	**—**

Note: The U.S. dollar amounts in this report have been translated from the yen amounts, for convenience only, at ¥120.20 = U.S.$1.00, the rate of exchange prevailing on March 31, 2003.

To Our Shareholders and Friends

It is a pleasure to present this annual report covering the performance of Ishihara Sangyo Kaisha Group (ISK) for fiscal 2002, ended March 31, 2003.

The outlook for the global economy became increasingly uncertain due to such factors as falling world share prices and deflationary concerns. Although the economies of Asian nations, especially China, were solid, recovery in the United States failed to take hold as signs of a turnaround in the spring of 2002 were cut short by large corporate accounting scandals and crises in the Middle East. In Europe, meanwhile, the strengthening euro caused economies in the region to stagnate.

In Japan, ongoing structural reforms in the industrial sector led to increases in corporate bankruptcies and higher unemployment, while deflation and other factors reflected a severe economic climate.

Amid such challenging conditions in Japan and overseas, ISK strove to improve profitability and expand its business operations while pursuing reforms under its four-year structural improvement plan, which ended in March 2003. As a result, consolidated net sales in fiscal 2002 amounted to ¥95,874 million (US$798 million), up 3.6% from fiscal 2001.

By segment, sales of inorganic chemicals recovered owing to improving demand for mainstay titanium dioxide and functional materials. We also cut costs at the Yokkaichi plant, which helped improve segment earnings. Both revenues and profits in the organic chemicals segment increased thanks to a significant rise in sales of agrochemicals in Europe.

The Group successfully lowered selling, general, and administrative expenses by concentrating and consolidating its R&D functions.

As a result, operating income grew 11.5%, to ¥8,480 million (US$71 million). However, net income declined to ¥1,351 million (US$11 million) due to extraordinary items, including a loss on devaluation of investments in securities and a foreign exchange loss.

During the year, we worked hard to slash interest-bearing liabilities under the four-year structural improvement plan. At the end of the year, which also coincided with the end of the period covered by the plan, we made ¥8.1 billion in bond repayments, thus reaching the plan's overall target of ¥35.0 billion in such repayments. We also made a Groupwide effort to improve profitability and strengthen our financial position—two key objectives of the plan. To improve profitability, we withdrew from unprofitable businesses in Japan and overseas and concentrated on core businesses. To strengthen our financial position, we disposed of non-performing assets and slashed interest-bearing liabilities, thus making great progress in our structural reform program for the Group. We were particularly successful in reinforcing the earnings foundation of our agrochemicals business. However, the earnings power of our inorganic chemicals business stagnated, preventing us from improving the profit structure of that segment as planned.

While reaping the benefits of the four-year structural improvement plan just ended, we have formulated a new medium-term management plan, covering the three-year period from April 2003 to March 2006. Under the new plan, we will strive to reach unattained goals of the old plan while also addressing new issues.

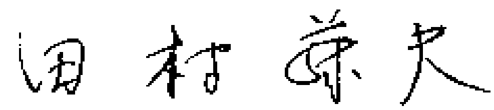
The new plan has two key objectives: (1) Build a robust earnings base for our titanium dioxide business, which is largely resilient to external economic conditions; and (2) Demonstrate our full potential to become a growth-oriented group of companies.

The business climate for ISK, both domestically and overseas, is characterized by increasing uncertainty and dramatic change. Facing these conditions, we must accelerate our decision-making processes and become more efficiency-oriented in order to win against global competition. To this end, we will target sustained growth and improved earnings by cutting costs and reinforcing our R&D activities, which will include establishing new businesses. To solidify our financial position, we will adopt a cash-flow-intensive management policy, shrink our asset base, and further reduce interest-bearing liabilities.

We have formed specific policies for each of our major business categories. In our titanium dioxide business, we will pursue reforms of our cost and business structure in order to restore profitability and strengthen our international competitiveness. In functional materials, we will seek to become a highly profitable, development-oriented company by continually introducing high-value-added products and targeting ongoing business growth. In agrochemicals, we will enter the second tier of the world market and reinforce our business in an effort to become one of the Top 3 companies in Japan.

To achieve sustained growth and progress over the long term, ISK will endeavor to enhance operating efficiency and reinforce international competitiveness. We are also aware of the importance of building a corporate governance system that focuses on maximizing shareholder value. To achieve such a system, we recognize that increasing the transparency, credibility, and soundness of management will be crucial. For this reason, we will work to elucidate lines of decision-making and business enforcement authority and clarify specific responsibilities. We will also reinforce internal controls and build a strong awareness of the importance of legal and ethical compliance. Crisis management will also play a key role, and to this end we will undertake more extensive risk management activities.

We look forward to the ongoing support and understanding of our shareholders and customers as we tackle the challenges ahead.



Fujio Tamura

President

Business Overview

INORGANIC CHEMICALS

Titanium Dioxide and Functional Materials

Our mainstay titanium dioxide business benefited from healthy overseas demand, especially in China and other parts of Asia. Sales on a volume basis also increased owing to aggressive efforts by our salespeople. Although prices of titanium dioxide improved throughout the world, prices in yen terms remained at previous-year levels due to the yen's appreciation. The sales situation in Japan, meanwhile, remained difficult amid the stagnating domestic economy.

Sales of functional materials were strong owing to increased sales to IT-related companies and higher demand for titanium dioxide for catalytic use stemming from stricter nitrogen oxide emission standards in the United States.

Consequently, sales in this segment—covering sales of titanium dioxide, functional materials, and other inorganic chemicals—amounted to ¥48,449 million (US$403 million), up ¥2,546 million. Operating income grew ¥378 million, to ¥3,251 million (US$27 million).

ORGANIC CHEMICALS

Agrochemicals, Organic Intermediates, and Pharmaceuticals

The global agrochemical industry saw continued mergers and consolidation among North American and European companies, giving further impetus to the trend of increased domination by several major firms. In Japan, the operating environment for the agrochemical business grew more severe, due to industrial reorganization and other factors. In response, we focused on in-house development of highly profitable chemicals with a strong competitive edge.

In the year under review, we achieved significantly higher sales in Europe of Nicosulfuron, a herbicide, and Fluazinum, a fungicide. Sales of Ranman, a newly developed fungicide, also were solid. Sales of products made by FMC Corporation, a U.S. company with whom ISK formed an alliance in the previous fiscal year, were strong, making a full-scale contribution to segment revenue.

Despite the absence of royalty income, sales in this segment rose ¥704 million, to ¥42,645 million (US$355 million), and operating income also rose ¥258 million, to ¥7,166 million (US$60 million).

In the year under review, we consolidated all of our agrochemical-related R&D activities in the Kusatsu Central Research Institute in an effort to maximize R&D efficiency. In addition, we reduced the business scope of Ishihara Argentina S.A., which sells agrochemicals in Argentina, following the collapse of the financial and economic systems in that nation in 2001.

OTHER BUSINESSES

Our other businesses are carried out mainly by Japanese construction and trading company subsidiaries. Fiscal 2002 sales rose ¥107 million, to ¥4,780 million (US$40 million), and operating income slipped ¥242 million, to ¥667 million (US$6 million).

Consolidated Balance Sheets

As of March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Assets			
Current assets			
Cash and time deposits (Notes 5 and 13)	**¥ 17,911**	¥ 20,259	**$ 149,014**
Short-term investments (Notes 3 and 5)	**136**	216	**1,132**
Trade receivables:			
Notes	**4,207**	5,118	**35,001**
Accounts	**29,777**	31,456	**247,726**
	33,984	36,574	**282,727**
Less allowance for doubtful receivables	**(1,432)**	(1,998)	**(11,913)**
Trade receivables, net	**32,552**	34,576	**270,814**
Inventories (Note 4)	**26,790**	32,767	**222,879**
Deferred income taxes (Note 8)	**1,552**	956	**12,907**
Other current assets	**4,529**	5,544	**37,680**
Total current assets	**83,470**	94,318	**694,426**
Investments and advances			
Investments in securities (Notes 3 and 5)			
Unconsolidated subsidiaries and affiliates	**3,369**	3,465	**28,024**
Other	**4,870**	5,481	**40,520**
Total investments in securities	**8,239**	8,946	**68,544**
Long-term loans	**108**	186	**900**
Less allowance for doubtful accounts	**(0)**	(0)	**(0)**
Long-term loans, net	**108**	186	**900**
Deferred income taxes (Note 8)	**4,844**	3,079	**40,298**
Other	**1,109**	1,410	**9,227**
Total investments and advances	**14,300**	13,621	**118,969**
Property, plant and equipment, at cost (Note 5)			
Land	**5,836**	5,858	**48,554**
Buildings and structures	**44,634**	45,222	**371,328**
Machinery and equipment	**100,739**	107,203	**838,098**
Construction in progress	983	1,146	**8,173**
	152,192	159,429	**1,266,153**
Less accumulated depreciation	**(103,691)**	(107,654)	**(862,651)**
Property, plant and equipment, net	**48,501**	51,775	**403,502**
Other assets	**641**	811	**5,330**
Total assets	**¥146,912**	¥160,525	**$1,222,227**

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Liabilities and Shareholders' Equity			
Current liabilities			
Short-term bank loans (Note 5)	**¥ 43,761**	¥ 46,999	**$ 364,072**
Current portion of long-term debt (Note 5)	**6,600**	13,974	**54,912**
Trade payables:			
Notes	**4,213**	4,049	**35,048**
Accounts	**12,585**	12,549	**104,705**
	16,798	16,598	**139,753**
Accrued income taxes	**125**	204	**1,039**
Accrued expenses	**3,718**	5,265	**30,933**
Other current liabilities	**3,940**	4,018	**32,768**
Total current liabilities	**74,942**	87,058	**623,477**
Long-term liabilities			
Long-term debt (Note 5)	**17,487**	21,540	**145,482**
Accrued retirement benefits for employees (Note 7)	**4,470**	3,921	**37,185**
Accrued retirement benefits for directors and corporate auditors	**900**	858	**7,489**
Deferred income taxes (Note 8)	**329**	197	**2,733**
Other	**2,857**	3,171	**23,771**
Total long-term liabilities	**26,043**	29,687	**216,660**
Contingent liabilities (Note 12)			
Minority interests	**256**	247	**2,129**
Shareholders' equity			
Common stock:			
Authorized: 1,000,000,000 shares			
Issued: 369,757,510 shares in 2003 and 2002	**42,029**	42,029	**349,655**
Capital surplus (Note 9)	**5,235**	5,235	**43,556**
Retained earnings (Note 9)	**2,452**	1,101	**20,399**
Surplus arising from land revaluation (Note 10)	**100**	98	**832**
Net unrealized holding loss on securities	**(260)**	(1,262)	**(2,158)**
Translation adjustments	**(1,609)**	(1,447)	**(13,387)**
Less treasury stock, at cost:			
5,321,501 shares in 2003 and 4,925,543 shares in 2002	**(2,276)**	(2,221)	**(18,936)**
Total shareholders' equity	**45,671**	43,533	**379,961**
Total liabilities and shareholders' equity	**¥146,912**	¥160,525	**$1,222,227**

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

Consolidated Statements of Income

For the years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Net sales (Note 15)	**¥95,874**	¥92,517	**$797,620**
Cost of sales (Note 6)	**69,388**	66,068	**577,270**
Gross profit	**26,486**	26,449	**220,350**
Selling, general and administrative expenses (Note 6)	**18,006**	18,844	**149,798**
Operating income (Note 15)	**8,480**	7,605	**70,552**
Other income:			
Interest and dividend income	**224**	336	**1,860**
Gain on sales of property, plant and equipment	**2**	15	**19**
Gain on sales of investments in securities	**—**	195	**—**
Foreign exchange gain	**—**	171	**—**
Other	**326**	1,204	**2,711**
	552	1,921	**4,590**
Other expenses:			
Interest expense	**2,032**	2,472	**16,903**
Loss on disposal of property, plant and equipment	**716**	283	**5,955**
Loss on devaluation of investments in securities	**1,903**	1,229	**15,832**
Foreign exchange loss	**1,295**	—	**10,777**
Other	**3,562**	3,346	**29,637**
	9,508	7,330	**79,104**
(Loss) income before income taxes and minority interests	**(476)**	2,196	**(3,962)**
Income taxes (Note 8):			
Current	**379**	412	**3,154**
Deferred	**(2,215)**	(96)	**(18,432)**
Minority interests	**9**	47	**77**
Net income	**¥ 1,351**	¥ 1,833	**$ 11,239**

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

Consolidated Statements of Cash Flows

For the years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	**2003**
Cash flows from operating activities			
(Loss) income before income taxes and minority interests	**¥ (476)**	¥ 2,196	**$ (3,962)**
Adjustments to reconcile (loss) income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**5,043**	5,417	**41,959**
Loss on disposal of property, plant and equipment	**626**	160	**5,207**
Loss on devaluation and sales of investments in securities	**1,947**	1,239	**16,196**
Foreign exchange loss (gain)	**833**	(722)	**6,932**
Loss (gain) on sales of investments in securities	**14**	(195)	**116**
Provision for retirement benefits	**591**	446	**4,913**
Interest and dividend income	**(224)**	(336)	**(1,860)**
Interest expense	**2,032**	2,472	**16,903**
Equity in loss of affiliated companies	**315**	283	**2,620**
Other	**(262)**	1,182	**(2,184)**
Changes in operating assets and liabilities:			
Receivables	**2,274**	3,134	**18,918**
Inventories	**5,724**	255	**47,621**
Other current assets and other operating assets	**556**	997	**4,628**
Payables	**299**	(1,888)	**2,489**
Accrued expenses and other current liabilities	**(580)**	(3,397)	**(4,825)**
Subtotal	**18,712**	11,243	**155,671**
Interest and dividends received	**215**	528	**1,787**
Interest paid	**(2,070)**	(2,452)	**(17,218)**
Income taxes paid	**(415)**	(342)	**(3,450)**
Net cash provided by operating activities	**16,442**	8,977	**136,790**
Cash flows from investing activities			
Purchases of property, plant and equipment	**(3,616)**	(3,631)	**(30,079)**
Increase in investments in securities	**(663)**	(420)	**(5,518)**
Proceeds from sales of property, plant and equipment	**28**	385	**233**
Proceeds from sales of investments in securities	**217**	849	**1,803**
Increase in long-term loans	**(22)**	(23)	**(181)**
Decrease in long-term loans	96	82	**800**
Other, net	**(27)**	1,860	**(226)**
Net cash used in investing activities	**(3,987)**	(898)	**(33,168)**
Cash flows from financing activities			
Decrease in short-term bank loans, net	**(3,165)**	(1,543)	**(26,334)**
Proceeds from long-term debt	**2,660**	3,160	**22,130**
Repayment of long-term debt	**(5,851)**	(6,227)	**(48,674)**
Repayment of bonds	**(8,100)**	(14,335)	**(67,388)**
Other, net	**(55)**	(8)	**(460)**
Net cash used in financing activities	**(14,511)**	(18,953)	**(120,726)**
Effect of exchange rate changes on cash and cash equivalents	**(242)**	377	**(2,009)**
Decrease in cash and cash equivalents	**(2,298)**	(10,497)	**(19,113)**
Cash and cash equivalents at beginning of year	**20,199**	30,696	**168,043**
Cash and cash equivalents at end of year (Note 13)	**¥17,901**	¥20,199	**$148,930**

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

Notes to Consolidated Financial Statements

For the years ended March 31, 2003 and 2002

1. Basis of Preparation of Consolidated 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 overseas 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 ¥120.20 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2003. This 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.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

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, 2003 and 2002 consist of the accounts of the Company, ISK Bioscience K.K., ISK Singapore Pte. Ltd., the ISK Americas Incorporated Group (6 subsidiaries), 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.

Concord Research Center, Inc., which was included in the consolidated financial statements of ISK Americas Incorporated for the previous year, was closed during the year ended March 31, 2003.

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

The overseas consolidated subsidiaries are consolidated on the basis of fiscal periods ending December 31, which differs from the year end 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 overseas 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 their 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

All monetary assets and liabilities denominated in foreign currencies are translated into yen amounts at the rates of exchange in effect at the balance sheet 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.

Financial statements of overseas consolidated subsidiaries

The balance sheets accounts of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet 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, 2003 and 2002, 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 overseas consolidated subsidiaries are stated at the lower of cost or market, the cost of inventories at ISK Singapore Pte. Ltd. being determined by the moving average method and the cost of those at other subsidiaries, by the average method.

(e) Investments in Securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities and other securities in accordance with "Accounting Standard for Financial Instruments" issued by the Business Accounting Deliberation Council of Japan.

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.

(f) Derivatives and Hedging Activities

Derivative financial instruments are utilized by the Company and its domestic consolidated subsidiaries principally in order to manage risk 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 risk arising from their forward foreign exchange contracts and interest-rate options positions. 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 credited or charged to income, except for those which meet the criteria for deferral 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 respective 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 are 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 overseas consolidated subsidiaries has been provided at an estimated aggregate 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 overseas 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.

In accordance with "Accounting Standard for Retirement Benefits" issued by the Business Accounting Deliberation Council of Japan, 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 ($54,126 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.

Directors and corporate auditors are not covered by these plans. 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 overseas 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 their 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, 2003 and 2002 were as follows:

(a) Held-to-maturity debt securities

	Millions of yen						Thousands of U.S. dollars		
	2003			2002			2003		
	Carrying value	Estimated fair value	Unrealized gain	Carrying value	Estimated fair value	Unrealized loss	Carrying value	Estimated fair value	Unrealized gain
Securities whose fair value exceeds their carrying value	¥10	¥10	¥0	¥—	¥—	¥—	$84	$84	$0
Securities whose carrying value exceeds their fair value	—	—	—	10	10	0	—	—	—
Total	¥10	¥10	¥0	¥10	¥10	¥ 0	$84	$84	$0

(b) Other securities

	Millions of yen						Thousands of U.S. dollars		
	2003			2002			2003		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:									
Equity securities	¥ 656	¥ 986	¥ 330	¥ 720	¥ 901	¥ 181	$ 5,454	$ 8,198	$ 2,744
Subtotal	656	986	330	720	901	181	5,454	8,198	2,744
Securities whose acquisition cost exceeds their carrying value:									
Equity securities	3,511	2,926	(585)	4,948	3,532	(1,416)	29,212	24,347	(4,865)
Debt securities	—	—	—	50	50	—	—	—	—
Other	3	2	(1)	3	2	(1)	24	14	(10)
Subtotal	3,514	2,928	(586)	5,001	3,584	(1,417)	29,236	24,361	(4,875)
Total	¥4,170	¥3,914	¥(256)	¥5,721	¥4,485	¥(1,236)	$34,690	$32,559	$(2,131)

(c) A breakdown of other securities whose market value was not determinable at March 31, 2003 and 2002 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Bonds held to maturity	¥136	¥ 156	$1,132
Other securities	947	1,045	7,877

(d) The proceeds from sales of, and gross realized gain and loss on, other securities for the years ended March 31, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Proceeds from sales	¥ 1	¥6	$ 6
Gross realized gain	—	0	—
Gross realized loss	14	2	116

(e) The carrying value of held-to-maturity debt securities and debt securities classified as other securities at March 31, 2003 is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	Bonds	Bonds
Due in one year or less	¥136	$1,132

4. Inventories

Inventories at March 31, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Finished goods	**¥16,136**	¥19,780	**$134,238**
Work in process	**3,132**	3,864	**26,060**
Raw materials and supplies	**7,522**	9,123	**62,581**
	¥26,790	¥32,767	**$222,879**

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, 2003 and 2002 were 1.5% and 1.6%, respectively.

Long-term debt including the current portion at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Loans from banks (secured)	**¥18,433**	¥21,657	**$153,356**
Loans from banks (unsecured)	**5,654**	5,757	**47,038**
5.7% yen bonds due 2003	**—**	8,100	**—**
	24,087	35,514	**200,394**
Less amounts due within one year	**(6,600)**	(13,974)	**(54,912)**
	¥17,487	¥21,540	**$145,482**

Loans from banks and other financial institutions with interest rates in 2003 ranging from 1.0% to 5.8%, due through 2017, and in 2002, ranging from 1.0% to 5.8%, due through 2017:

The aggregate annual maturities of long-term debt subsequent to March 31, 2003 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2004	¥ 6,600	$ 54,912
2005	4,459	37,100
2006	4,007	33,334
2007	3,165	26,334
2008	2,731	22,719
2009	3,125	25,995
	¥24,087	$200,394

At March 31, 2003 and 2002, 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
	2003	2002	**2003**
Cash and time deposits	**¥ —**	¥ 10	**$ —**
Investments in securities including short-term investments	**3,735**	5,390	**31,076**
Property, plant and equipment, net of accumulated depreciation	**35,977**	37,436	**299,306**
All assets of ISK Singapore Pte. Ltd. (except for certain property, plant and equipment)	**10,107**	12,337	**84,086**
	¥49,819	**¥55,173**	**$414,468**

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, 2003 and 2002 totaled ¥5,667 million ($47,150 thousand) and ¥6,350 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, 2003 and 2002 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Retirement benefit obligation	**¥10,473**	¥10,470	**$87,132**
Plan assets at fair value	**(275)**	(348)	**(2,290)**
Unfunded retirement benefit obligation	**10,198**	10,122	**84,842**
Unrecognized net retirement benefit obligation at transition	**(5,205)**	(5,639)	**(43,303)**
Unrecognized actuarial loss	**(523)**	(562)	**(4,354)**
Accrued retirement benefits	**¥ 4,470**	¥ 3,921	**$37,185**

The components of retirement benefit expenses for the years ended March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Service cost	**¥ 527**	¥ 490	**$ 4,381**
Interest cost	**246**	320	**2,050**
Expected return on plan assets	**(14)**	(14)	**(116)**
Amortization of retirement benefit obligation at transition	**434**	434	**3,608**
Amortization of unrecognized actuarial loss (gain)	**33**	(2)	**276**
Retirement benefit expenses	**¥1,226**	¥1,228	**$10,199**

The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2003 and 2002 were as follows:

	2003	2002
Discounted rate	**2.5%**	2.5%
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, 2003 and 2002 was, in the aggregate, approximately 40.8%.

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 differences in tax rates of consolidated 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, 2003 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, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Deferred tax assets:			
Tax loss carryforward	**¥15,610**	¥15,467	**$129,867**
Retirement benefits	**1,370**	1,018	**11,402**
Unrealized profit on intercompany transactions	**838**	838	**6,976**
Write-downs of marketable and investment securities	**409**	120	**3,402**
Accrued expenses	**182**	203	**1,513**
Write-downs of inventories	**161**	177	**1,343**
Accrued bonuses	**160**	142	**1,328**
Write-downs of property, plant and equipment	**141**	2,116	**1,170**
Other	**1,265**	1,960	**10,523**
Gross deferred tax assets	**20,136**	22,041	**167,524**
Valuation allowance	**(12,828)**	(16,869)	**(106,722)**
Total deferred tax assets	**7,308**	5,172	**60,802**
Deferred tax liabilities:			
Property, plant and equipment	**1,234**	1,316	**10,272**
Other	**7**	17	**58**
Total deferred tax liabilities	**1,241**	1,333	**10,330**
Net deferred tax assets	**¥ 6,067**	¥ 3,839	**$ 50,472**

On March 31, 2003, Cabinet Order No. 9 entitled "Reform of a Portion of Local Tax Law" was issued and this reform will apply to fiscal years beginning after April 1, 2004. As a result, the statutory income tax rate to be used for the calculation of deferred income taxes arising from temporary differences which are expected to be realized or settled after April 1, 2004 was changed to 39.5% from 40.8%. The effect of this change in rate was to decrease deferred tax assets and income taxes – deferred by ¥139 million ($1,154 thousand).

9. Capital Surplus and Retained Earnings

The Commercial Code of Japan (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, 2003 or 2002.

Effective April 1, 2002, the Company and its domestic consolidated subsidiaries adopted Financial Accounting Standards No. 1, "Accounting Standards for Treasury Stock and Reversal of Legal Reserves." The effect of the adoption of this standard on the consolidated statement of income for the year ended March 31, 2003, was immaterial.

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 sheets at March 31, 2003 and 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, 2003 and 2002, 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		
	2003			2002			**2003**		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	**¥4,394**	**¥1,972**	**¥2,422**	¥3,705	¥1,481	¥2,224	**$36,558**	**$16,404**	**$20,154**

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2003 and 2002 amounted to ¥709 million ($5,901 thousand) and ¥551 million, respectively. Depreciation of the leased assets computed by the straight-line method over the respective lease terms for the years ended March 31, 2003 and 2002 amounted to ¥709 million ($5,901 thousand) and ¥551 million, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2003 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2004	¥ 736	$ 6,122
2005 and thereafter	1,686	14,032
	¥2,422	$20,154

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2003 for operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2004	¥346	$2,880
2005 and thereafter	380	3,163
	¥726	$6,043

12. Contingent Liabilities

At March 31, 2003, 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	¥199	$1,651
As guarantor for borrowings of unconsolidated subsidiaries	259	2,156
	¥458	$3,807

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, 2003 and 2002 is presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	**2003**
Cash and time deposits	**¥17,911**	¥20,259	**$149,014**
Time deposits with a maturity in excess of three months	**(10)**	(60)	**(84)**
Cash and cash equivalents	**¥17,901**	¥20,199	**$148,930**

14. Amounts per Share

	Yen		U.S. dollars
	2003	2002	**2003**
Net income	**¥ 3.70**	¥ 5.02	**$0.03**
Net assets	**125.32**	119.32	**1.04**

Until the year ended March 31, 2002, net income per share was computed based on the net income reported in the consolidated statements of income and the weighted average number of shares of common stock outstanding during each year, and amounts per share of net assets were computed based on the net assets reported in the consolidated balance sheets and the number of shares of common stock outstanding at each balance sheet date.

In accordance with a new accounting standard for earnings per share which became effective April 1, 2002, net income per share for the year ended March 31, 2003 has been computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year, and amounts per share of net assets at March 31, 2003 has been computed based on the net assets available for distribution to the shareholders of common stock and the number of shares of common stock outstanding at the year end.

The basic financial data for the computation of basic net income per share based on the above standard for the year ended March 31, 2003 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Information on basic net income per share:		
Net income	¥1,351	$11,239
Deduction from net income:		
Bonuses to directors and statutory auditors	—	—
Adjusted net income attributable to shareholders of common stock	¥1,351	$11,239
Weighted average number of shares of common stock outstanding during 2002	364,675,952 shares	

If the Company had adopted the new standard for the year ended March 31, 2002, net assets per share at March 31, 2002 and basic net income per share for the year ended March 31, 2002, would have remained unchanged.

15. Segment Information

Business segments

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

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 chemicals.

Organic chemicals

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

Other businesses

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

A summary of financial information by business segment for the years ended March 31, 2003 and 2002 is as follows:

	Millions of yen				
	2003				
	Inorganic chemicals	Organic chemicals	Other businesses	Eliminations /corporate	Consolidated
Sales and operating income:					
Net sales:					
Outside customers	¥48,449	¥42,645	¥ 4,780	¥ —	¥ 95,874
Intersegment	—	—	8,906	(8,906)	—
Total sales	48,449	42,645	13,686	(8,906)	95,874
Operating expenses	45,198	35,479	13,019	(6,302)	87,394
Operating income	¥ 3,251	¥ 7,166	¥ 667	¥ (2,604)	¥ 8,480
Total assets	¥60,090	¥45,315	¥12,319	¥29,188	¥146,912
Depreciation and amortization	3,672	908	86	319	4,985
Capital expenditures	2,200	384	70	(99)	2,555

	Millions of yen				
	2002				
	Inorganic chemicals	Organic chemicals	Other businesses	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

	Thousands of U.S. dollars				
	2003				
	Inorganic chemicals	Organic chemicals	Other businesses	Eliminations /corporate	Consolidated
Sales and operating income:					
Net sales:					
Outside customers	**$403,072**	**$354,783**	**$ 39,765**	**$ —**	**$ 797,620**
Intersegment	**—**	**—**	**74,092**	**(74,092)**	**—**
Total sales	**403,072**	**354,783**	**113,857**	**(74,092)**	**797,620**
Operating expenses	**376,025**	**295,167**	**108,308**	**(52,432)**	**727,068**
Operating income	**$ 27,047**	**$ 59,616**	**$ 5,549**	**$ (21,660)**	**$ 70,552**
Total assets	**$499,917**	**$376,997**	**$102,483**	**$242,830**	**$1,222,227**
Depreciation and amortization	**30,551**	**7,555**	**713**	**2,655**	**41,474**
Capital expenditures	**18,304**	**3,192**	**586**	**(825)**	**21,257**

Unallocable operating expenses consisting primarily of the Company's expenses relating to general affairs totaled ¥2,378 million ($19,781 thousand) for the year ended March 31, 2003 and ¥2,553 million for the year ended March 31, 2002. These have been included in "Eliminations/corporate." Corporate assets principally consisted of the Company's cash and time deposits and investments in securities.

Geographical segments

Geographical 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					
	2003					
	Japan	Asia	America	Europe	Eliminations /corporate	Consolidated
Sales and operating income:						
Net sales:						
Outside customers	**¥ 62,193**	**¥ 9,513**	**¥8,971**	**¥15,197**	**¥ —**	**¥ 95,874**
Intersegment	**24,638**	**2,645**	**76**	**57**	**(27,416)**	**—**
Total sales	**86,831**	**12,158**	**9,047**	**15,254**	**(27,416)**	**95,874**
Operating expenses	**74,676**	**12,548**	**9,361**	**14,926**	**(24,117)**	**87,394**
Operating income (loss)	**¥ 12,155**	**¥ (390)**	**¥ (314)**	**¥ 328**	**¥ (3,299)**	**¥ 8,480**
Total assets	**¥114,579**	**¥19,334**	**¥5,832**	**¥ 9,037**	**¥ (1,870)**	**¥146,912**

	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
Total assets	¥126,556	¥21,584	¥ 8,063	¥ 6,562	¥ (2,240)	¥160,525

	Thousands of U.S. dollars					
	2003					
	Japan	Asia	America	Europe	Eliminations /corporate	Consolidated
Sales and operating income:						
Net sales:						
Outside customers	**$517,415**	**$ 79,141**	**$74,629**	**$126,435**	**$ —**	**$ 797,620**
Intersegment	**204,972**	**22,004**	**634**	**476**	**(228,086)**	**—**
Total sales	**722,387**	**101,145**	**75,263**	**126,911**	**(228,086)**	**797,620**
Operating expenses	**621,267**	**104,389**	**77,878**	**124,175**	**(200,641)**	**727,068**
Operating income (loss)	**$101,120**	**$ (3,244)**	**$ (2,615)**	**$ 2,736**	**$ (27,445)**	**$ 70,552**
Total assets	**$953,240**	**$160,845**	**$48,516**	**$ 75,185**	**$ (15,559)**	**$1,222,227**

Unallocable operating expenses consisting primarily of the Company's expenses relating to general affairs totaled ¥2,378 million ($19,781 thousand) for the year ended March 31, 2003 and ¥2,553 million for the year ended March 31, 2002. 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 the Middle East
Other: Australia, New Zealand, Africa

	Millions of yen				
	2003				
	Asia	America	Europe	Other	Total
Overseas net sales	**¥18,569**	**¥15,160**	**¥18,514**	**¥611**	**¥52,854**
Consolidated net sales					**95,874**
Overseas net sales as a percentage of consolidated net sales	**19.4%**	**15.8%**	**19.3%**	**0.6%**	**55.1%**

	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 consolidated net sales	17.8%	19.0%	18.7%	0.5%	56.0%

	Thousands of U.S. dollars				
	2003				
	Asia	America	Europe	Other	Total
Overseas net sales	**$154,483**	**$126,125**	**$154,026**	**$5,085**	**$439,719**
Consolidated net sales					**797,620**
Overseas net sales as a percentage of consolidated net sales	**19.4%**	**15.8%**	**19.3%**	**0.6%**	**55.1%**

Consolidated Statements of Shareholders' Equity

For the years ended March 31, 2003 and 2002

	Millions of yen							
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Surplus arising from land revaluation	Net unrealized holding gain (loss) on securities	Translation adjustments	Treasury stock, at cost
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)	—	—	—	—
Surplus arising from land revaluation	—	—	—	—	98	—	—	—
Unrealized holding loss on securities	—	—	—	—	—	(1,276)	—	—
Translation adjustments	—	—	—	—	—	—	955	—
Increase in treasury stock	—	—	—	—	—	—	—	(8)
Balance at March 31, 2002	369,757,510	¥42,029	¥5,235	¥1,101	¥ 98	¥(1,262)	¥(1,447)	¥(2,221)
Net income for the year ended March 31, 2003	—	—	—	1,351	—	—	—	—
Surplus arising from land revaluation	—	—	—	—	2	—	—	—
Unrealized holding gain on securities	—	—	—	—	—	1,002	—	—
Translation adjustments	—	—	—	—	—	—	(162)	—
Increase in treasury stock	—	—	—	—	—	—	—	(55)
Balance at March 31, 2003	**369,757,510**	**¥42,029**	**¥5,235**	**¥2,452**	**¥100**	**¥ (260)**	**¥(1,609)**	**¥(2,276)**

	Thousands of U.S. dollars (Note 1)							
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Surplus arising from land revaluation	Net unrealized holding gain (loss) on securities	Translation adjustments	Treasury stock, at cost
Balance at March 31, 2002	369,757,510	$349,655	$43,556	$ 9,160	$812	$(10,500)	$(12,035)	$(18,475)
Net income for the year ended March 31, 2003	—	—	—	11,239	—	—	—	—
Surplus arising from land revaluation	—	—	—	—	20	—	—	—
Unrealized holding gain on securities	—	—	—	—	—	8,342	—	—
Translation adjustments	—	—	—	—	—	—	(1,352)	—
Increase in treasury stock	—	—	—	—	—	—	—	(461)
Balance at March 31, 2003	**369,757,510**	**$349,655**	**$43,556**	**$20,399**	**$832**	**$ (2,158)**	**$(13,387)**	**$(18,936)**

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

Shin Nihon & Co.

Report of Independent Auditors

The Board of Directors
Ishihara Sangyo Kaisha, Ltd.

We have audited the accompanying consolidated balance sheets of Ishihara Sangyo Kaisha, Ltd. and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion independently on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ishihara Sangyo Kaisha, Ltd. and consolidated subsidiaries at March 31, 2003 and 2002, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 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, 2003

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

Osaka Kokusai Building
3-13, Azuchimachi 2chome,
Chuo-ku, Osaka 541-0052, Japan
Tel. 06-4964-6655 Fax. 06-6263-0710

Head Office & Directors

Head Office:
1-3-15 Edobori, Nishi-ku, Osaka 550-0002, Japan
Tel: (06)6444–1451 (General Affairs Division)
Fax: (06)6445–7798 (General Affairs Division)

Tokyo Head Office:
2-10-30 Fujimi, Chiyoda-ku, Tokyo 102-0071, Japan
Tel: (03)3230–8697 (General Affairs Department)
Fax: (03)3230–8787 (General Affairs Department)

President
Fujio Tamura

Vice President
Atsumi Shiraka

Executive Managing Director
Katsu Fujita

Senior Managing Directors
Mamoru Fujimura
Fumio Kimura
Masayoshi Ando

Directors
Takeshi Satoh
Haruo Ohta
Seizaburo Aimi
Hideki Hayashi

Corporate Auditors
Hiromitsu Kawano
Noritsugu Sera
Kenji Ohara

Overseas Branches

ISK Europe Headquaters
TOUR ITT 480, Avenue Louise-Bte 12
B-1050 Brussels Belgium
Tel: (32)2-627-8611 Fax: (32)2-648-3472

Argentina Branch
Reconquista 656, Piso 9(CP1003), Buenos Aires, Argentina
Tel: 4312-7877 Fax: 4311-1756

Overseas Affiliated Companies

ISK SINGAPORE PTE. LTD.
39 Tuas West Drive, Singapore 638406
Tel: (65)861-2077 Fax: (65)861-3566

ISK Taiwan Co., Ltd.
Empire Bldg., F1 11-1., 87 Sung Chiang Road, Taipei, Taiwan
Tel: (022)504-5387 Fax: (022)509-4961

AVC CHEMICAL CORPORATION
7th Floor, Padilla Bldg., Emerald Avenue, Pasig,
Metro Manila, Philippines
Tel: (632)631-5704 Fax: (632)631-1526

ISK AMERICAS INCORPORATED
7474 Auburn Rd., P.O.Box 759, Concord, OH,
USA 44077-759
Tel: (440)357-4600 Fax: (440)357-4610

ISK Biosciences Corporation
7470 Auburn Road, Suite A, Concord, OH,
USA 44077
Tel: (440)357-4640 Fax: (440)357-4662

ISK Magnetics, Inc.
600 Montgomery Street, San Francisco, CA, USA 94111
Tel: (415)249-4747 Fax: (415)249-4744

ISHIHARA CORPORATION (U.S.A.)
600 Montgomery Street, San Francisco, CA, USA 94111
Tel: (415)421-8207 Fax: (415)397-5403

ISHIHARA ARGENTINA SOCIEDAD ANONIMA
Reconquista 656, Piso 9(CP1003), Buenos Aires, Argentina
Tel: 4312-7877 Fax: 4311-1756

ISK Biosciences Europe S.A.
TOUR ITT 480, Avenue Louise-Bte 12
B-1050 Brussels Belgium
Tel: (32)2-627-8611 Fax: (32)2-627-8600

SUD ISK–SNPE S.A.
146 route d’Avignon-BP311-84706 Sorgues cedex France
Tel: (33)490-33-6285 Fax: (33)490-33-6291

ISK Australia Pty Limited
Lot 7, Harris Road, Picton, Bundury, WA Australia 6229
Tel: (097)25-4899 Fax: (097)25-4757

ISK Minerals Pty Limited
Lot 7, Harris Road, Picton, Bundury, WA Australia 6229
Tel: (097)25-4899 Fax: (097)25-4757

Ishihara Sangyo Kaisha, Ltd.

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