ISHIHARA SANGYO KAISHA

Annual Report 2004

Year Ended March 31, 2004

Contents

Ishihara Sangyo Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Financial Highlights

For the years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note)
	2004	2003	**2004**
For the years ended March 31,			
Net sales:			
Domestic	**¥ 38,013**	¥ 43,020	**$ 359,667**
Overseas	**55,663**	52,854	**526,659**
Total	**93,676**	95,874	**886,326**
Sales classified by business segment:			
Inorganic chemicals	**46,201**	48,449	**437,133**
Organic chemicals	**42,718**	42,645	**404,181**
Other business	**4,757**	4,780	**45,012**
Total	**93,676**	95,874	**886,326**
Operating income	**9,009**	8,480	**85,240**
Net income	**3,639**	1,351	**34,428**
Depreciation of property, plant and equipment	**4,574**	4,789	**43,279**
Research and development costs	**5,936**	5,667	**56,165**
At the year end			
Current assets	**78,035**	83,470	**738,343**
Total assets	**141,537**	146,912	**1,339,172**
Current liabilities	**67,369**	74,942	**637,416**
Shareholders' equity	**50,254**	45,671	**475,487**

	Yen		U.S. dollars (Note)
Per share data			
Net income	**¥ 9.86**	¥ 3.70	**$ 0.09**
Shareholders' equity	**137.80**	125.32	**1.30**

Number of employees (as of March 31)	**1,776**	1,814	–

Note: The U.S. dollar amounts in this report have been translated from the yen amounts, for convenience only, at ¥105.69 = U.S.$1.00, the rate of exchange prevailing on March 31, 2004.

To Our Shareholders and Friends

It is our pleasure to present this annual report covering the performance of Ishihara Sangyo Kaisha Group (ISK) for fiscal 2003, ended March 31, 2004.

The global economy was affected by significant tax cuts in the United States, resulting in a recovery in private sector consumption which led to robust capital investment, especially in information technologies. In Asia, the SARS and atypical pneumonia epidemics came to an end. Combined with strong economic growth in China, these factors ensured continued growth in the region. On the other hand, a strong euro slowed the pace of recovery in the European economy.

Despite the Japanese economy still being in a weakened state, there was light at the end of the tunnel—mostly in the second half of the year—with increased exports and capital investment on the back of a recovering global economy. Furthermore, ongoing intense pressure for organizational adjustments, in addition to a lag in the recovery of individual consumption, set the scene for a severe business climate.

Against this backdrop of gradual recovery, the ISK Group kicked off its new medium-term management plan, covering the three-year period from April 2003 to March 2006. Furthermore, an Action Plan, based on the basic principles of the management plan is being fully implemented.

By segment, sales of inorganic chemicals were down as a result of a high yen in the second half and sluggish sales of titanium dioxide. These were offset somewhat by ongoing cost-cutting efforts at the Yokkaichi Plant. The organic chemical segment saw strong growth in agrochemicals to Europe and the United States. However, adjustments in domestic inventory caused sales to grow slightly. In other income/expenses, reduction of interest-bearing debt improved interest and dividend income.

As a result, sales stood at ¥93,676 million (US $886 million), operating income was ¥9,009 million (US $85 million) and ordinary income was ¥4,501 million (US $43 million).
Furthermore, in line with the new management plan, the Group sold mutual shareholdings in order to bolster its financial base. As a result of income from the sale of investment securities extraordinary income stood at ¥3,639 million (US $34 million).

From this year, ISK is carrying out its new management plan formulated in 2003 to achieve medium term management goals.

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 intensifying 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.

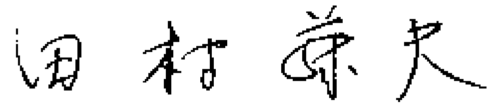
We have formed specific policies for each of our major business categories. In our titanium dioxide business, we will pursue reforms of our cost and business structure in order to restore profitability and strengthen our international competitiveness. In functional materials, we will seek to become a 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 three 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, on April 2004, we established and published "the (ISK) business moral precepts and norms" for all members of our ISK group, in order to 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.
In this manner we will provide high quality products suited to customer needs in the organic and inorganic fields by promoting advances in science in order to contribute to society, the lifestyles of people and the environment.

Based on this corporate philosophy we will improve corporate value by ensuring sustainable growth and achieving stable profits. It is our aim to develop and grow into a resilient company that is seen as vibrant and successful by shareholders, investors, customers and employees alike.

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

Our mainstay titanium dioxide business benefited from healthy overseas demand in the first half, especially in our main market, 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, prices in yen terms remained at previous-year levels due to the yen's appreciation against the U.S. dollar. The sales situation in Japan, meanwhile, remained difficult amid the stagnating domestic economy. We improved production efficiency and cut costs for raw material procurement for manufacturing requirements.

Despite efforts to increase sales of functional materials for IT-related applications, delays in the introduction of stringent nitrogen oxide emission standards in the United States led to a slackening in the pace of orders of titanium dioxide for catalytic use when compared to last year.

Consequently, sales in this segment—also covering sales other inorganic chemicals—amounted to ¥46,201 million (US $437 million) and operating income stood at ¥5,109 million (US $48 million).

ORGANIC CHEMICALS

The global agrochemical industry saw continued reshuffling of key players, further intensifying competition. In response, we focused on in-house development to achieve a second period of growth. We aim to increase sales using internationally competitive existing and newly developed agrochemicals on a global basis.

Agrochemical sales were solid with strong demand in Europe and the United States for corn crop herbicide. Although herbicide sales for soybeans increased in the United States, inventory adjustments in Japan led to a temporary downturn for sales. This also had an impact on sales of intermediary agents.

As a result, sales, including intermediary agents, leveled at ¥42,717 million and operating income was ¥5,948 million (US $56 million).

With the aim of cutting production costs, we reorganized our production framework for primary agrochemical agents. This involved undertaking capital investment at the Yokkaichi Plant to transfer production that was contracted out to overseas manufacturers to in-house production. Operations are scheduled to commence in the next half.

OTHER BUSINESSES

Our other businesses are carried out mainly by Japanese construction and trading company subsidiaries. Fiscal 2003 sales stood at ¥4,757 million and operating income at ¥588 million.

Consolidated Balance Sheets

As of March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Assets			
Current assets:			
Cash and time deposits (Note 13)	**¥ 17,641**	¥ 17,911	**$ 166,913**
Short-term investments (Note 3)	**91**	136	**861**
Trade receivables:			
Notes	**3,356**	4,207	**31,754**
Accounts	**26,525**	29,777	**250,970**
	29,881	33,984	**282,724**
Less allowance for doubtful receivables	**(941)**	(1,432)	**(8,900)**
Trade receivables, net	**28,940**	32,552	**273,824**
Inventories (Note 4)	**26,564**	26,790	**251,336**
Deferred income taxes (Note 8)	**1,077**	1,552	**10,191**
Other current assets	**3,722**	4,529	**35,217**
Total current assets	**78,035**	83,470	**738,342**
Property, plant and equipment (Note 5):			
Land	**5,825**	5,836	**55,108**
Buildings and structures	**44,392**	44,634	**420,023**
Machinery and equipment	**100,271**	100,739	**948,730**
Construction in progress	**3,847**	983	**36,397**
	154,335	152,192	**1,460,258**
Less accumulated depreciation	**(106,303)**	(103,691)	**(1,005,796)**
Property, plant and equipment, net	**48,032**	48,501	**454,462**
Investments and other assets:			
Investments in securities (Note 3)			
Unconsolidated subsidiaries and affiliates	**2,987**	3,369	**28,262**
Other	**6,397**	4,870	**60,529**
Total investments in securities	**9,384**	8,239	**88,791**
Long-term loans	**110**	108	**1,043**
Deferred income taxes (Note 8)	**4,508**	4,844	**42,650**
Other	**1,468**	1,750	**13,884**
Total investments and other assets	**15,470**	14,941	**146,368**
Total assets	**¥141,537**	¥146,912	**$1,339,172**

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Liabilities, Minority Interests and Shareholders' Equity			
Current liabilities:			
Short-term bank loans (Note 5)	**¥ 41,055**	¥ 43,761	**$ 388,443**
Current portion of long-term debt (Note 5)	**4,671**	6,600	**44,192**
Trade payables:			
Notes	**3,566**	4,213	**33,744**
Accounts	**9,980**	12,585	**94,424**
	13,546	16,798	**128,168**
Accrued income taxes (Note 8)	**192**	125	**1,820**
Accrued expenses	**3,369**	3,718	**31,877**
Other current liabilities	**4,536**	3,940	**42,916**
Total current liabilities	**67,369**	74,942	**637,416**
Long-term liabilities:			
Long-term debt (Note 5)	**15,366**	17,487	**145,390**
Accrued retirement benefits for employees (Note 7)	**5,008**	4,470	**47,381**
Accrued retirement benefits for directors and corporate auditors	**347**	900	**3,280**
Deferred income taxes (Note 8)	**230**	329	**2,175**
Other long-term liabilities (Note 5)	**2,691**	2,857	**25,464**
Total long-term liabilities	**23,642**	26,043	**223,690**
Contingent liabilities (Note 12)			
Minority interests	**272**	256	**2,579**
Shareholders' equity:			
Common stock:			
Authorized: 1,000,000,000 shares			
Issued: 369,757,510 shares in 2004 and 2003	**42,029**	42,029	**397,659**
Capital surplus (Note 9)	**5,235**	5,235	**49,540**
Retained earnings (Notes 9 and 16)	**6,091**	2,452	**57,628**
Surplus arising from land revaluation (Note 10)	**100**	100	**946**
Net unrealized holding gain (loss) on securities (Note 3)	**1,092**	(260)	**10,335**
Translation adjustments	**(1,998)**	(1,609)	**(18,909)**
Less treasury stock, at cost:			
5,407,994 shares in 2004	**(2,295)**	–	**(21,712)**
5,321,501 shares in 2003	**–**	(2,276)	**–**
Total shareholders' equity	**50,254**	45,671	**475,487**
Total liabilities, minority interests and shareholders' equity	**¥141,537**	¥146,912	**$1,339,172**

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

Consolidated Statements of Income

For the years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Net sales (Note 15)	**¥93,676**	¥95,874	**$886,326**
Cost of sales (Note 6)	**64,743**	69,388	**612,570**
Gross profit	**28,933**	26,486	**273,756**
Selling, general and administrative expenses (Note 6)	**19,924**	18,006	**188,516**
Operating income (Note 15)	**9,009**	8,480	**85,240**
Other income:			
Interest and dividend income	**137**	224	**1,299**
Gain on sales of property, plant and equipment	**–**	2	**–**
Gain on sales of investments in securities	**655**	–	**6,199**
Other	**287**	326	**2,714**
	1,079	552	**10,212**
Other expenses:			
Interest expense	**1,469**	2,032	**13,895**
Loss on disposal of fixed assets	**174**	716	**1,646**
Loss on devaluation of investments in securities	**35**	1,903	**327**
Foreign exchange loss	**588**	1,295	**5,559**
Other	**3,688**	3,562	**34,913**
	5,954	9,508	**56,340**
Income (loss) before income taxes and minority interests	**4,134**	(476)	**39,112**
Income taxes (Note 8):			
Current	**477**	379	**4,513**
Deferred	**4**	(2,215)	**39**
Minority interests	**14**	9	**132**
Net income	**¥ 3,639**	¥ 1,351	**$ 34,428**

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

Consolidated Statements of Shareholders' Equity

For the years ended March 31, 2004 and 2003

		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, 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)	–
Purchases of treasury stock	–	–	–	–	–	–	–	(55)
Balance at March 31, 2003	369,757,510	¥42,029	¥5,235	¥2,452	¥100	¥ (260)	¥(1,609)	¥(2,276)
Net income for the year ended March 31, 2004	–	–	–	3,639	–	–	–	–
Unrealized holding gain on securities	–	–	–	–	–	1,352	–	–
Translation adjustments	–	–	–	–	–	–	(389)	–
Purchases of treasury stock	–	–	–	–	–	–	–	(20)
Gain on sales of treasury stock	–	–	0	–	–	–	–	1
Balance at March 31, 2004	**369,757,510**	**¥42,029**	**¥5,235**	**¥6,091**	**¥100**	**¥1,092**	**¥(1,998)**	**¥(2,295)**

		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, 2003	369,757,510	$397,659	$49,536	$23,200	$946	$(2,454)	$(15,226)	$(21,535)
Net income for the year ended March 31, 2004	–	–	–	34,428	–	–	–	–
Unrealized holding gain on securities	–	–	–	–	–	12,789	–	–
Translation adjustments	–	–	–	–	–	–	(3,684)	–
Purchases of treasury stock	–	–	–	–	–	–	–	(187)
Gain on sales of treasury stock	–	–	4	–	–	–	–	10
Balance at March 31, 2004	**369,757,510**	**$397,659**	**$49,540**	**$57,628**	**$946**	**$10,335**	**$(18,909)**	**$(21,712)**

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

Consolidated Statements of Cash Flows

For the years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Cash flows from operating activities			
Income (loss) before income taxes and minority interests	**¥ 4,134**	¥ (476)	**$ 39,112**
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**4,814**	5,043	**45,547**
Loss on disposal of fixed assets	**60**	628	**567**
Loss on devaluation and sales of investments in securities and other	**38**	1,947	**361**
Foreign exchange loss	**673**	833	**6,371**
(Gain) loss on sales of investments in securities	**(655)**	14	**(6,199)**
(Reversal) provision of accrued retirement benefits for employees, directors and corporate auditors	**(15)**	591	**(147)**
Interest and dividend income	**(137)**	(224)	**(1,299)**
Interest expense	**1,469**	2,032	**13,895**
Equity in losses of affiliated companies	**839**	315	**7,941**
Other	**252**	(264)	**2,392**
Changes in operating assets and liabilities:			
Trade receivables	**4,005**	2,274	**37,897**
Inventories	**(155)**	5,724	**(1,467)**
Other current assets	**537**	556	**5,085**
Trade payables	**(3,357)**	299	**(31,766)**
Accrued expenses and other current liabilities	**(634)**	(580)	**(5,995)**
Subtotal	**11,868**	18,712	**112,295**
Interest and dividends received	**135**	215	**1,273**
Interest paid	**(1,457)**	(2,070)	**(13,780)**
Income taxes paid	**(456)**	(415)	**(4,316)**
Net cash provided by operating activities	**10,090**	16,442	**95,472**
Cash flows from investing activities			
Purchases of property, plant and equipment	**(4,581)**	(3,616)	**(43,344)**
Purchases of short-term investments and investments in securities	**(129)**	(663)	**(1,221)**
Proceeds from sales of property, plant and equipment	**98**	28	**930**
Proceeds from maturity and sales of short-term investments and investments in securities	**1,296**	217	**12,266**
Loans made	**(123)**	(22)	**(1,161)**
Collection of loans	**124**	96	**1,168**
Other, net	**(349)**	(27)	**(3,308)**
Net cash used in investing activities	**(3,664)**	(3,987)	**(34,670)**
Cash flows from financing activities			
Decrease in short-term bank loans, net	**(2,652)**	(3,165)	**(25,091)**
Proceeds from long-term bank loans	**2,880**	2,660	**27,251**
Repayment of long-term bank loans	**(6,606)**	(5,851)	**(62,502)**
Repayment of bonds	**–**	(8,100)	**–**
Other, net	**(18)**	(55)	**(177)**
Net cash used in financing activities	**(6,396)**	(14,511)	**(60,519)**
Effect of exchange rate changes on cash and cash equivalents	**(290)**	(242)	**(2,747)**
Decrease in cash and cash equivalents	**(260)**	(2,298)	**(2,464)**
Cash and cash equivalents at beginning of year	**17,901**	20,199	**169,377**
Cash and cash equivalents at end of year (Note 13)	**¥17,641**	¥17,901	**$166,913**

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

Notes to Consolidated Financial Statements

For the years ended March 31, 2004 and 2003

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 generally accepted in Japan. Its overseas consolidated subsidiaries maintain their accounts in conformity with the requirements of their countries of domicile. The accompanying consolidated financial statements of the Company and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of 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 ¥105.69 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2004. 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 years' financial statements have been reclassified to conform to the current year's presentation. This reclassification had no effect on consolidated net income or shareholders' equity.

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, 2004 and 2003 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. Group (2 subsidiaries), ISK Taiwan Co., Ltd., Ishihara Argentina S.A., Ishihara Techno Corporation, Ishihara Enterprise & Co. Inc., ISK Engineering Corporation and ISK Distribution Service Co. Ltd. IBE France S.A.R.L., which was established during the year ended March 31, 2004, was initially consolidated effective the year ended March 31, 2004.

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

All assets and liabilities of the consolidated subsidiaries are revalued at fair value as of their dates of acquisition by the full value method, if applicable. The difference between the cost of investments in subsidiaries and the equity in their net assets at the respective dates of acquisition is amortized over a period of five years to twenty years on a straight-line basis in accordance with the accounting practices of their countries of domicile if the excess is material, or charged to income when incurred, if immaterial.

The overseas 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 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 sheet 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 minority interests and translation adjustments, a component of shareholders' equity.

(c) Cash and Cash Equivalent

For the purposes of the consolidated statements of cash flows, 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 weighted-average method.

(e) 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 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 market risk arising from their forward foreign exchange contracts, interest-rate options positions and interest-rate swap contracts. 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 a liability. Receivables and payables hedged by forward foreign exchange contracts which meet certain conditions are translated at their contracted rates. Interest-rate swaps which meet certain conditions are accounted for as if the interest rates which apply to the swaps had originally applied to the underlying debt.

(g) Property, Plant and Equipment

Depreciation of the respective assets is recognized primarily by the straight-line method over the useful lives of the respective assets. The useful lives of property, plant and equipment are principally as follows:

Buildings and structures	3 to 55 years
Machinery and equipment	2 to 20 years

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 an allowance 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 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 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 which would be 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.

(m) New accounting pronouncement

A new Japanese accounting standard called "Impairment of Fixed Assets" was issued in August 2002 which will go into effect for fiscal years beginning on or after April 1, 2005. Early adoption is allowed from fiscal years beginning on or after April 1, 2004 and application from fiscal years ending from March 31, 2004 through March 30, 2005 is also permitted. The new standard requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. A company will be required to recognize an impairment loss in its statement of income if certain indicators of asset impairment exist and the book value of an asset exceeds the undiscounted sum of the future cash flows of the asset. The Company is currently assessing the impact of this new accounting standard on the consolidated financial position and results of operations of the Company and its consolidated subsidiaries.

3. Short-Term Investments and Investments in Securities

Marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2004 and 2003 were as follows:

(a) Held-to-maturity debt securities

	Millions of yen						Thousands of U.S. dollars		
	2004			2003			2004		
	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	**$ –**	**$ –**	**$ –**
Securities whose carrying value exceeds their fair value	**10**	**10**	**(0)**	–	–	–	**95**	**90**	**(5)**
Total	**¥10**	**¥10**	**¥ (0)**	¥10	¥10	¥0	**$95**	**$90**	**$ (5)**

(b) Other securities

	Millions of yen						Thousands of U.S. dollars		
	2004			2003			**2004**		
	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	**¥3,525**	**¥5,339**	**¥1,814**	¥ 656	¥ 986	¥330	**$33,351**	**$50,513**	**$17,162**
Subtotal	**3,525**	**5,339**	**1,814**	656	986	330	**33,351**	**50,513**	**17,162**
Securities whose acquisition cost exceeds their carrying value:									
Equity securities	**110**	**96**	**(14)**	3,511	2,926	(585)	**1,037**	**913**	**(124)**
Other	**3**	**3**	**(0)**	3	2	(1)	**27**	**24**	**(3)**
Subtotal	**113**	**99**	**(14)**	3,514	2,928	(586)	**1,064**	**937**	**(127)**
Total	**¥3,638**	**¥5,438**	**¥1,800**	¥4,170	¥3,914	¥(256)	**$34,415**	**$51,450**	**$17,035**

(c) The carrying value of the principal investments in non-marketable securities at March 31, 2004 and 2003 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Held-to-maturity debt securities:			
Discounted bank debentures	**¥ 91**	¥136	**$ 861**
Other securities:			
Unlisted equity securities (except for shares traded on the over-the-counter market)	**950**	947	**8,984**

(d) The proceeds from sales of, and gross realized gain and loss on, other securities for the years ended March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Proceeds from sales	**¥1,162**	¥ 1	**$10,993**
Gross realized gain	**655**	–	**6,199**
Gross realized loss	**–**	14	**–**

(e) The redemption schedule at March 31, 2004 for held-to-maturity debt securities and debt securities classified as other securities was as follows:

	Millions of yen			Thousands of U.S. dollars		
	Due in one year or less	Due after through five years	Due after five years through ten years	Due in one year or less	Due after trough five year	Due after five years through ten years
Government bonds	¥ –	¥ –	¥10	$ –	$ –	$95
Discounted bank debentures	91	–	–	861	–	–
Other	–	3	–	–	27	–

4. Inventories

Inventories at March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Finished goods	**¥14,078**	¥16,136	**$133,203**
Work in process	**3,620**	3,132	**34,248**
Raw materials and supplies	**8,866**	7,522	**83,885**
	¥26,564	¥26,790	**$251,336**

5. Short-Term Bank Loans, Long-Term Debt and Other Long-Term Liabilities

The average annual interest rate on short-term bank loans for the years ended March 31, 2004 and 2003 was 1.5%.

Long-term debt including the current portion at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Secured bank loans	**¥16,593**	¥18,433	**$156,996**
Unsecured bank loans	**3,444**	5,654	**32,586**
	20,037	24,087	**189,582**
Less amounts due within one year	**(4,671)**	(6,600)	**(44,192)**
	¥15,366	¥17,487	**$145,390**

Interest rates applicable to long-term bank loans presented in the above table fell in the range from 1.0% to 5.8% at March 31, 2004 and 2003.

These bank loans become due through 2017.

The aggregate annual maturities of long-term debt subsequent to March 31, 2004 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥ 4,671	$ 44,192
2006	3,846	36,388
2007	2,985	28,238
2008	2,579	24,399
2009	1,366	12,921
2010 and thereafter	4,590	43,445
	¥20,037	$189,583

At March 31, 2004, the following assets were pledged as collateral for short-term bank loans, long-term debt and other long-term liabilities:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, net of accumulated depreciation	¥34,103	$322,668
All assets of ISK Singapore Pte. Ltd. (except for certain property, plant and equipment)	9,513	90,006
	¥43,616	$412,674

Short-term banks loans, the current portion of long-term debt, long-term debt and other long-term liabilities secured by such collateral at March 31, 2004 were as follows:

	Millions of yen	Thousands of U.S. dollars
Short-term bank loans	¥14,678	$138,873
Current portion of long-term debt	3,809	36,036
Long-term debt	12,784	120,960
Other long-term liablities	142	1,347
	¥31,413	$297,216

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, 2004 and 2003 totaled ¥5,936 million ($56,165 thousand) and ¥5,667 million, respectively.

7. Retirement Benefits

The following table sets forth the funded and accrued status of the employees' retirement benefit plans and the amounts recognized in the consolidated balance sheets at March 31, 2004 and 2003 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Retirement benefit obligation	**¥10,589**	¥10,473	**$100,194**
Plan assets at fair value	**(314)**	(275)	**(2,976)**
Unfunded retirement benefit obligation	**10,275**	10,198	**97,218**
Unrecognized net retirement benefit obligation at transition	**(4,771)**	(5,205)	**(45,144)**
Unrecognized actuarial loss	**(496)**	(523)	**(4,693)**
Accrued retirement benefits	**¥ 5,008**	¥ 4,470	**$ 47,381**

Domestic consolidated subsidiaries have adopted simplified methods for calculating their accrued retirement benefits as permitted under the accounting standard for employees' retirement benefits.

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

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Service cost	**¥ 540**	¥ 527	**$ 5,105**
Interest cost	**245**	246	**2,319**
Expected return on plan assets	**(7)**	(14)	**(65)**
Amortization of retirement benefit obligation at transition	**434**	434	**4,104**
Amortization of unrecognized actuarial loss	**33**	33	**310**
Retirement benefit expenses	**¥1,245**	¥1,226	**$11,773**

The retirement benefit expenses of domestic consolidated subsidiaries which calculated these by simplified methods have been included in service cost in the above table.

The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2004 and 2003 were as follows:

	2004	2003
Discounted rate	**2.5%**	2.5%
Expected rate of return on plan assets	**2.5%**	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, 2004 and 2003 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, 2004 is reconciled as follows:

	2004
Statutory tax rate	40.8 %
Permanently non-deductible expenses	1.4
Permanently non-taxable income	(0.5)
Per capita portion of inhabitants' taxes	1.3
Foreign income taxes	1.9
Changes in valuation allowance	(37.9)
Effect of differences in tax rates applicable to consolidated subsidiaries	(2.1)
Unrealized profit on intercompany transactions	6.1
Other	0.6
Effective tax rate	11.6%

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's and consolidated subsidiaries' deferred tax assets and liabilities at March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Deferred tax assets:			
Tax loss carryforwards	**¥12,585**	¥15,610	**$119,078**
Retirement benefits	**1,738**	1,370	**16,440**
Unrealized profit on intercompany transactions	**1,157**	838	**10,944**
Write-downs of marketable and investment securities	**386**	409	**3,654**
Accrued expenses	**108**	182	**1,022**
Write-downs of inventories	**260**	161	**2,466**
Accrued bonuses	**198**	160	**1,874**
Write-downs of property, plant and equipment	**126**	141	**1,188**
Other	**1,049**	1,265	**9,931**
Gross deferred tax assets	**17,607**	20,136	**166,597**
Less valuation allowance	**(10,414)**	(12,828)	**(98,536)**
Total deferred tax assets	**7,193**	7,308	**68,061**
Deferred tax liabilities:			
Property, plant and equipment	**1,124**	1,234	**10,638**
Other	**714**	7	**6,756**
Total deferred tax liabilities	**1,838**	1,241	**17,394**
Net deferred tax assets	**¥ 5,355**	¥ 6,067	**$ 50,667**

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 for the year ended March 31, 2003.

9. Shareholders' Equity

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 additional paid-in capital 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, 2004 and 2003.

10. Land Revaluation

At March 31, 2002, a domestic affiliate 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 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, 2004 and 2003.

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, 2004 and 2003, 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		
	2004			2003			2004		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	**¥4,523**	**¥2,386**	**¥2,137**	¥4,394	¥1,972	¥2,422	**$42,794**	**$22,574**	**$20,220**

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2004 and 2003 amounted to ¥776 million ($7,341 thousand) and ¥709 million, respectively. Depreciation of the leased assets computed by the straight-line method over the respective lease terms for the years ended March 31, 2004 and 2003 amounted to ¥776 million ($7,341 thousand) and ¥709 million, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2004 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥ 734	$ 6,945
2006 and thereafter	1,403	13,275
	¥2,137	$20,220

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2004 for operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥288	$2,724
2006 and thereafter	106	999
	¥394	$3,723

12. Contingent Liabilities

At March 31, 2004, the Company and its consolidated subsidiaries were contingently liable for the following:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
Trade notes receivable discounted with banks	¥420	$3,971
As guarantor for borrowings of unconsolidated subsidiaries	238	2,256
	¥658	$6,227

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, 2004 and 2003 is presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Cash and time deposits	**¥17,641**	¥17,911	**$166,913**
Time deposits with a maturity in excess of three months	**–**	(10)	**–**
Cash and cash equivalents	**¥17,641**	¥17,901	**$166,913**

14. Amounts per Share

	Yen		U.S. dollars
	2004	2003	**2004**
Net income	**¥ 9.86**	¥ 3.70	**$0.09**
Net assets	**137.80**	125.32	**1.30**

Net income per share is 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 each year, and the amounts per share of net assets are 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.

No diluted net income per share for the years ended March 31, 2004 and 2003 is presented since no potentially dilutive securities have been issued.

The basic financial data for the computation of net income per share based on the above standard for the years ended March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Net income	**¥3,639**	¥1,351	**$34,428**
Amounts not attributable to shareholders of common stock:			
Bonuses to directors and corporate auditors appropriated from retained earnings	**(44)**	–	**(412)**
Adjusted net income attributable to shareholders of common stock	**¥3,595**	¥1,351	**$34,016**
	Thousands of shares		
Weighted-average number of shares of common stock outstanding during the year	364,397	364,676	

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, 2004 and 2003 is as follows:

	Millions of yen					
	2004					
	Inorganic chemicals	Organic chemicals	Other businesses	Total	Eliminations and corporate	Consolidated
Sales and operating income:						
Net sales:						
Outside customers	**¥46,201**	**¥42,718**	**¥ 4,757**	**¥ 93,676**	**¥ –**	**¥ 93,676**
Intersegment	**–**	**–**	**8,740**	**8,740**	**(8,740)**	**–**
Total sales	**46,201**	**42,718**	**13,497**	**102,416**	**(8,740)**	**93,676**
Operating expenses	**41,091**	**36,769**	**12,909**	**90,769**	**(6,102)**	**84,667**
Operating income	**¥ 5,110**	**¥ 5,949**	**¥ 588**	**¥ 11,647**	**¥ (2,638)**	**¥ 9,009**
Total assets	**¥56,753**	**¥41,398**	**¥13,164**	**¥111,315**	**¥30,222**	**¥141,537**
Depreciation and amortization	**3,521**	**856**	**81**	**4,458**	**297**	**4,755**
Capital expenditures	**3,474**	**1,437**	**74**	**4,985**	**(110)**	**4,875**

	Millions of yen					
	2003					
	Inorganic chemicals	Organic chemicals	Other businesses	Total	Eliminations and corporate	Consolidated
Sales and operating income:						
Net sales:						
Outside customers	¥48,449	¥42,645	¥ 4,780	¥ 95,874	¥ –	¥ 95,874
Intersegment	–	–	8,906	8,906	(8,906)	–
Total sales	48,449	42,645	13,686	104,780	(8,906)	95,874
Operating expenses	45,198	35,479	13,019	93,696	(6,302)	87,394
Operating income	¥ 3,251	¥ 7,166	¥ 667	¥ 11,084	¥ (2,604)	¥ 8,480
Total assets	¥60,090	¥45,315	¥12,319	¥117,724	¥29,188	¥146,912
Depreciation and amortization	3,672	908	86	4,666	319	4,985
Capital expenditures	2,200	384	70	2,654	(99)	2,555

	Thousands of U.S. dollars					
	2004					
	Inorganic chemicals	Organic chemicals	Other businesses	Total	Eliminations and corporate	Consolidated
Sales and operating income:						
Net sales:						
Outside customers	**$437,133**	**$404,181**	**$ 45,012**	**$ 886,326**	**$ –**	**$ 886,326**
Intersegment	**–**	**–**	**82,695**	**82,695**	**(82,695)**	**–**
Total sales	**437,133**	**404,181**	**127,707**	**969,021**	**(82,695)**	**886,326**
Operating expenses	**388,785**	**347,896**	**122,137**	**858,818**	**(57,732)**	**801,086**
Operating income	**$ 48,348**	**$ 56,285**	**$ 5,570**	**$ 110,203**	**$ (24,963)**	**$ 85,240**
Total assets	**$536,977**	**$391,692**	**$124,557**	**$1,053,226**	**$285,946**	**$1,339,172**
Depreciation and amortization	**33,314**	**8,103**	**768**	**42,185**	**2,811**	**44,996**
Capital expenditures	**32,872**	**13,596**	**702**	**47,170**	**(1,046)**	**46,124**

Unallocable operating expenses, consisting primarily of the Company's expenses relating to general affairs, totaled ¥2,422 million ($22,916 thousand) and ¥2,378 million for the years ended March 31, 2004 and 2003, respectively. These have been included in "Eliminations and corporate." Corporate assets principally consisted of the Company's cash and time deposits and investments in securities.

Geographical segments

Geographical segments are determined on the basis of geographic proximity and the Company's business bases, as follows:

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

	Millions of yen						
	2004						
	Japan	Asia	America	Europe	Total	Eliminations and corporate	Consolidated
Sales and operating income:							
Net sales:							
Outside customers	**¥ 59,275**	**¥ 9,070**	**¥7,857**	**¥17,474**	**¥ 93,676**	**¥ –**	**¥ 93,676**
Intersegment	**23,730**	**2,632**	**53**	**19**	**26,434**	**(26,434)**	**–**
Total sales	**83,005**	**11,702**	**7,910**	**17,493**	**120,110**	**(26,434)**	**93,676**
Operating expenses	**71,760**	**10,834**	**7,878**	**17,254**	**107,726**	**(23,059)**	**84,667**
Operating income	**¥ 11,245**	**¥ 868**	**¥ 32**	**¥ 239**	**¥ 12,384**	**¥ (3,375)**	**¥ 9,009**
Total assets	**¥109,505**	**¥16,796**	**¥4,448**	**¥ 7,368**	**¥138,117**	**¥ 3,420**	**¥141,537**

	Millions of yen						
	2003						
	Japan	Asia	America	Europe	Total	Eliminations and corporate	Consolidated
Sales and operating income (loss):							
Net sales:							
Outside customers	¥ 62,193	¥ 9,513	¥8,971	¥15,197	¥ 95,874	¥ –	¥ 95,874
Intersegment	24,638	2,645	76	57	27,416	(27,416)	–
Total sales	86,831	12,158	9,047	15,254	123,290	(27,416)	95,874
Operating expenses	74,676	12,548	9,361	14,926	111,511	(24,117)	87,394
Operating income (loss)	¥ 12,155	¥ (390)	¥ (314)	¥ 328	¥ 11,779	¥ (3,299)	¥ 8,480
Total assets	¥114,579	¥19,334	¥5,832	¥ 9,037	¥148,782	¥ (1,870)	¥146,912

	Thousands of U.S. dollars						
	2004						
	Japan	Asia	America	Europe	Total	Eliminations and corporate	Consolidated
Sales and operating income:							
Net sales:							
Outside customers	**$ 560,836**	**$ 85,816**	**$74,344**	**$165,330**	**$ 886,326**	**$ –**	**$ 886,326**
Intersegment	**224,527**	**24,899**	**502**	**184**	**250,112**	**(250,112)**	**–**
Total sales	**785,363**	**110,715**	**74,846**	**165,514**	**1,136,438**	**(250,112)**	**886,326**
Operating expenses	**678,964**	**102,511**	**74,535**	**163,254**	**1,019,264**	**(218,178)**	**801,086**
Operating income	**$ 106,399**	**$ 8,204**	**$ 311**	**$ 2,260**	**$ 117,174**	**$ (31,934)**	**$ 85,240**
Total assets	**$1,036,098**	**$158,914**	**$42,085**	**$ 69,713**	**$1,306,810**	**$ 32,362**	**$1,339,172**

Unallocable operating expenses, consisting primarily of the Company's expenses relating to general affairs, totaled ¥2,422 million ($22,916 thousand) and ¥2,378 million for the years ended March 31, 2004 and 2003, respectively. These have been included in "Eliminations and 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, the United Kingdom, Belgium, Italy, Eastern Europe and the Middle East
Other:	Australia, New Zealand, Africa

	Millions of yen				
	2004				
	Asia	America	Europe	Other	Total
Overseas net sales	**¥19,534**	**¥13,785**	**¥21,826**	**¥518**	**¥55,663**
Consolidated net sales					**93,676**
Overseas net sales as a percentage of consolidated net sales	**20.9%**	**14.7%**	**23.3%**	**0.5%**	**59.4%**

	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%

	Thousands of U.S. dollars				
	2004				
	Asia	America	Europe	Other	Total
Overseas net sales	**$184,827**	**$130,429**	**$206,507**	**$4,896**	**$526,659**
Consolidated net sales					**886,326**
Overseas net sales as a percentage of consolidated net sales	**20.9%**	**14.7%**	**23.3%**	**0.5%**	**59.4%**

16. Subsequent Event

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2004, were approved at a shareholders' meeting held on June 29, 2004:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥3.0 = U.S.$0.028 per share)	¥1,108	$10,481
Bonuses to directors and corporate auditors	44	412

17. Other

The Company is one of several defendants in two class action lawsuits filed in the United States on behalf of certain customers claiming that those customers suffered unquantified losses because of the Company's participation in alleged infringements of U.S. antitrust laws with respect to certain transactions involving magnetic iron oxide products. The Company has filed answers in each of the litigations denying all liability.

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, 2004 and 2003, 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 on these financial statements based on our audits.

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

In our opinion, the 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, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 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 29, 2004

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: (81)6-6444–1451 (General Affairs Division)
Fax: (81)6-6445–7798 (General Affairs Division)

Tokyo Head Office:
2-10-30 Fujimi, Chiyoda-ku, Tokyo 102-0071, Japan
Tel: (81)3-3230–8697 (General Affairs Department)
Fax: (81)3-3230–8787 (General Affairs Department)

President
Fujio Tamura

Executive Managing Directors
Motohiro Yano
Katsu Fujita
Fumio Kimura

Senior Managing Directors
Mamoru Fujimura
Masayoshi Ando

Directors
Takeshi Satoh
Haruo Ohta
Seizaburo Aimi
Hideki Hayashi
Yasuo Sumino
Yutaka Kofukada

Corporate Auditors
Noritsugu Sera
Junji Kondo
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: (54)11-4312-7877 Fax: (54)11-4312-7910

Overseas Affiliated Companies

ISK SINGAPORE PTE. LTD.
39 Tuas West Drive, Singapore 638406
Tel: (65)6861-2077 Fax: (65)6861-3566

ISK Taiwan Co., Ltd.
Empire Bldg., F1 11-1., 87 Sung Chiang Road, Taipei, Taiwan
Tel: (886)22-504-5387 Fax: (886)22-509-4961

ISK KOREA CORPORATION
5F, Yoosung Bldg., 830-67, Yeoksam-Dong Kangnam-ku,
Seoul, Korea
Tel: (82)2-555-1409 Fax: (82)2-555-1401

ISK BIOSCIENCES KOREA LTD.
5F, Yoosung Bldg., 830-67, Yeoksam-Dong Kangnam-ku,
Seoul, Korea
Tel: (82)2-555-1409 Fax: (82)2-555-1401

AVC CHEMICAL CORPORATION
7th Floor, Padilla Bldg., Emerald Avenue, Pasig,
Metro Manila, Philippines
Tel: (63)2-631-5704 Fax: (63)2-631-1526

ISK AMERICAS INCORPORATED
7474 Auburn Rd., P.O.Box 8011, Concord, OH 44077,
USA
Tel: (1)440-357-4600 Fax: (1)440-357-4610

ISK Biosciences Corporation
7470 Auburn Road, Suite A, Concord, OH 44077,
USA
Tel: (1)440-357-4640 Fax: (1)440-357-4662

ISK Magnetics, Inc.
600 Montgomery Street, San Francisco, CA 94111, USA
Tel: (1)415-249-4747 Fax: (1)415-249-4744

ISHIHARA CORPORATION (U.S.A.)
600 Montgomery Street, San Francisco, CA 94111, USA
Tel: (1)415-421-8207 Fax: (1)415-397-5403

ISHIHARA ARGENTINA SOCIEDAD ANONIMA
Reconquista 656, Piso 9(CP1003), Buenos Aires, Argentina
Tel: (54)11-4312-7877 Fax: (54)11-4311-1756

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
16 Hastie Road, Gelorup, 6230 WA, Australia
Tel: (61)8-9795-7189 Fax: (61)8-9795-7189

ISK Minerals Pty Limited
16 Hastie Road, Gelorup, 6230 WA, Australia
Tel: (61)8-9795-7189 Fax: (61)8-9795-7189

Ishihara Sangyo Kaisha, Ltd.

Printed in Japan