Ishihara Sangyo Kaisha

Annual Report 2006

Year Ended March 31, 2006

Ishihara Sangyo Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Financial Highlights

For the years ended March 31, 2004, 2005 and 2006

	Millions of yen			Thousands of U.S. dollars (Note)
	2004	2005	2006	2006
For the years ended March 31,				
Net sales:				
Domestic	¥ 38,013	¥ 41,683	¥ 46,671	$ 397,342
Overseas	55,663	54,833	57,696	491,193
Total	93,676	96,516	104,367	888,535
Sales classified by business segment:				
Inorganic chemicals	46,201	45,641	55,825	475,268
Organic chemicals	42,718	44,769	42,180	359,104
Other businesses	4,757	6,106	6,362	54,163
Total	93,676	96,516	104,367	888,535
Operating income	9,009	10,360	13,392	114,013
Net income (loss)	3,639	5,755	(10,774)	(91,721)
Depreciation of property, plant and equipment	4,574	4,374	5,307	45,182
Research and development costs	5,936	6,177	5,900	50,227
At the year end				
Current assets	78,035	80,010	100,043	851,719
Total assets	141,537	146,590	170,491	1,451,480
Current liabilities	67,369	62,805	85,902	731,330
Shareholders' equity	50,254	56,890	47,355	403,162

	Yen			U.S. dollars (Note)
Per share data				
Net income (loss)	¥ 9.86	¥ 15.71	¥ (28.93)	$ (0.25)
Shareholders' equity	137.80	152.60	127.20	1.08

Number of employees (as of March 31)	1,776	1,905	1,882	—

Note: The U.S. dollar amounts in this report have been translated from the yen amounts, for convenience only, at ¥117.46 = U.S.$1.00, the rate of exchange prevailing on March 31, 2006.

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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 2005, ended March 31, 2006.

The global economy was affected by robust economic expansion in the United States and strong economic growth in China, which ensured continued growth throughout Asia. On the other hand, the unemployment situation in Europe showed little sign of abating causing the recovery to be sluggish.

The economy in Japan showed signs of an independent recovery with robust capital investment from the private sector, and the adjustments in inventory in the information technology sector having been completed. As the break away from deflation continues, raw material prices including oil rose dramatically setting the scene for a severe business environment for many companies.

By segment, sales and profits in the inorganic chemicals division were driven higher by acquiring Fuji Titanium Industry Co., Ltd. as a wholly-owned subsidiary, and by buoyant exports to Asia including China and improved sales prices in titanium dioxide business. The organic chemical segment saw strong growth in ISK's new proprietary agrochemical products such as fungicide in the domestic market in Japan as well as overseas.

Foreign exchange gain and loss and reduction of interest-bearing debt remained mostly unchanged from last year, but equity in earnings of affiliates increased, driving up non-operating income. However, heavy metals were detected in Ferosilt, a byproduct from manufacturing of sulfate processed titanium oxide, in the landfill areas where Ferosilt had been used, and the removal cost of ¥32,652 million (US$278 million) was recorded as extraordinary loss.

As a result, consolidated sales for the year under review increased ¥7,851 million to stand at ¥104,367 million (US$899 million), operating income rose ¥3,032 million to post ¥13,392 million (US$114 million) indicating overall solid performance. Net income decreased ¥16,527 million resulting in a loss of ¥10,773 million (US$92 million). ISK carried out its medium-term management plan, covering the three-year period from April 2003 to March 2006, in order to demonstrate our full potential to become a growth-oriented group of companies by building a robust earnings base for the inorganic chemical and the organic chemical divisions.

As a result we achieved our initial earnings targets, but in fiscal 2005, the closing year of the medium-term management plan, the Ferosilt issue arose and profits dropped dramatically to produce less than desirable results.

The third medium-term management plan, covering the three-year period from April 2006 to March 2009, formulated with the management goal of achieving sustained profitable growth by providing products useful to society and carrying out corporate activities in the interest of the customer and the environment. Our watchword will be to rise to the challenge of growth and recovery and every effort will be made to promote growth strategies for each department as well as reforming our corporate structure.

Fujio Tamura
President

First, we will move quickly to find a solution to the Ferosilt issue as well as establish an internal compliance framework to prevent such incidents. We believe this is an issue of the utmost importance as we regain corporate value and the trust of society.

Each department aims to grow as a manufacturer dedicated to research and development and production. We are creating sustainable corporate value through proactive corporate activities and dynamic management.

In our titanium dioxide business, we aim to retain our position as the top supplier in Japan and throughout Asia while striving to achieve a world market share of 5%. We will continue to transform our production framework to chloride processed manufacturing to strengthen our international competitiveness. As for the sulfate processed titanium dioxide, ISK will continue to honor the Company's commitment to existing users while aiming to provide distinctive high-added-value products.

In functional and electronic materials, which is positioned as our third core business and development-oriented high profitable business, ISK is aiming to double sales for a targeted ¥15,000 million (US$127 million) to contribute to the growth of the inorganic chemicals division and further improvement of corporate value. This target will be achieved by bringing high-value specialty products to market, which will propel ISK to become a top-level titanium and non-titanium specialty materials manufacturer.

In agrochemicals, we will reinforce our business in an effort to become one of the TIER II group of manufacturers in the world market and one of the top three companies in Japan as a challenge of realizing a second period of growth with the early achievement of a sales target of ¥70,000 million (US$596 million). Towards achieving this sales target we will pursue unique lines of research and development, expand and grow our business in a sustainable way and enhance competitiveness and generate profits by strengthening cost-cutting measures in a resilient independent framework.

Furthermore we will acquire competing chemicals and introduce them to expand our product lines, strengthen and maintain existing alliances while looking out for M&A opportunities.

ISK believes that its fundamental duty is to provide high-quality, environmentally-friendly 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

Inorganic Chemicals

Our titanium dioxide business and our functional and electronic materials business saw increased sales and earnings as a result of acquiring Fuji Titanium Industry Co., Ltd as a wholly owed subsidiary. The titanium dioxide business benefited from healthy demand and as the markets continued to recover, we were able to improve our sales prices and actively pursue our sales activities. As a result our sales increased due to buoyant exports to our main market China and other parts of Asia as well as improved pricing in Japan and overseas. On the manufacturing front, efforts were made to improve efficiency and reduce production costs, including reduction in energy cost by a coal fired boiler facility which came on stream in June, 2005, but procurement costs of raw materials, heavy oil, and coal and transportation costs for titanium ore have significantly risen.

Efforts were made in the functional and electronic materials business to increase sales to new IT and cosmetics applications, however exports were down and if it were not for the additional sales from Fuji Titanium Industry Co., Ltd. sales and earnings would have remained unchanged.

Consequently, sales in this segment also covering sales for other inorganic chemicals increased ¥10,184 million to amount to ¥55,825 million (US$475 million) and operating income rose ¥1,519 million to stand at ¥5,397 million (US$46 million).

Organic Chemicals

The global agrochemical industry saw continued reshuffling of key players, further intensifying competition. In response to these severe business circumstances, 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 built on solid growth of corn herbicides sales in Europe. ISK launched the proprietary insecticide in the Americas from this fiscal year, which saw robust sales. In Japan, sales of a new ISK-developed fungicide were steady, countering a severe business environment. As part of reorganizing our production framework for agrochemical technical materials and in efforts to strengthen international competitiveness, the manufacturing scheme of key technical materials such as organic intermediates and agrochemical raw materials was changed. This was a primary factor in a slow down of organic intermediate sales, which drove down organic chemical business sales, however, despite this, profits grew solidly.

As a result, sales, including intermediates, decreased ¥2,589 million to ¥42,180 million (US$359 million) and operating income rose ¥1,367 million to ¥10,132 million (US$86 million).

Other Businesses

Our other businesses are carried out mainly by Japanese construction and trading company subsidiaries. Fiscal 2005 sales increased ¥256 million to ¥6,362 million (US$54 million) and operating income rose ¥170 million to ¥825 million (US$7 million).

Consolidated Balance Sheets

As of March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Assets			
Current assets:			
Cash and time deposits (Note 12)	¥ 23,424	¥ 14,940	$ 199,425
Short-term investments (Note 3)	91	91	775
Trade receivables:			
Notes	3,676	3,461	31,295
Accounts	29,705	28,899	252,892
	33,381	32,360	284,187
Less allowance for doubtful receivables	(431)	(276)	(3,673)
Trade receivables, net	32,950	32,084	280,514
Inventories (Note 4)	26,808	26,178	228,233
Deferred income taxes (Note 8)	13,385	2,985	113,956
Other current assets	3,385	3,732	28,816
Total current assets	100,043	80,010	851,719
Property, plant and equipment (Note 5):			
Land	6,437	6,388	54,802
Buildings and structures	47,885	46,722	407,673
Machinery and equipment	121,562	110,574	1,034,920
Construction in progress	1,248	6,586	10,623
	177,132	170,270	1,508,018
Less accumulated depreciation	(123,145)	(116,788)	(1,048,397)
Property, plant and equipment, net	53,987	53,482	459,621
Investments and other assets:			
Investments in securities (Note 3):			
Unconsolidated subsidiaries and affiliates	1,623	1,595	13,819
Other	9,975	7,025	84,922
Total investments in securities	11,598	8,620	98,741
Long-term loans	156	136	1,330
Excess of cost over equity in net assets of subsidiaries	689	861	5,867
Deferred income taxes (Note 8)	3,092	2,418	26,326
Other	926	1,063	7,876
Total investments and other assets	16,461	13,098	140,140
Total assets	¥170,491	¥146,590	$1,451,480

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Liabilities, Minority Interests and Shareholders' Equity			
Current liabilities:			
Short-term bank loans (Note 5)	¥ 28,417	¥ 30,625	$ 241,933
Current portion of long-term debt (Note 5)	4,097	4,789	34,884
Trade payables:			
Notes	3,166	5,522	26,952
Accounts	11,051	12,183	94,079
	14,217	17,705	121,031
Accrued income taxes (Note 8)	405	331	3,447
Accrued expenses	4,171	3,338	35,514
Accrual for Periodic Repairs	109	—	924
Reserve for Ferosilt removal	29,632	—	252,269
Other current liabilities	4,854	6,017	41,328
Total current liabilities	85,902	62,805	731,330
Long-term liabilities:			
Long-term debt (Note 5)	27,020	17,527	230,036
Accrued retirement benefits for employees (Note 7)	6,398	5,794	54,468
Accrued retirement benefits for directors and corporate auditors	364	322	3,102
Deferred income taxes (Note 8)	361	264	3,070
Other long-term liabilities (Note 5)	2,766	2,689	23,549
Total long-term liabilities	36,909	26,596	314,225
Contingent liabilities (Note 11)			
Minority interests	325	299	2,763
Shareholders' equity:			
Common stock:			
Authorized: 1,000,000,000 shares			
Issued: 384,360,431 shares in 2006			
384,360,431 shares in 2005	42,029	42,029	357,812
Capital surplus	8,594	8,594	73,166
Retained earnings (deficit)	(2,564)	9,756	(21,830)
Net unrealized holding gain on securities (Note 3)	3,188	1,414	27,143
Translation adjustments	(1,063)	(2,108)	(9,040)
Less treasury stock, at cost:			
12,078,489 shares in 2006	(2,829)	—	(24,089)
11,927,308 shares in 2005	—	(2,795)	—
Total shareholders' equity	47,355	56,890	403,162
Total liabilities, minority interests and shareholders' equity	¥170,491	¥146,590	$1,451,480

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

Consolidated Statements of Operations

For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Net sales (Note 14)	¥104,367	¥96,516	$ 888,535
Cost of sales (Note 6)	70,133	66,497	597,080
Gross profit	34,234	30,019	291,455
Selling, general and administrative expenses (Note 6)	20,842	19,659	177,442
Operating income (Note 14)	13,392	10,360	114,013
Other income:			
Interest and dividend income	202	210	1,718
Equity in earnings of affiliates	524	116	4,459
Foreign exchange gain	177	234	1,506
Gain on sales of investments in securities	5	—	47
Other	167	305	1,420
	1,075	865	9,150
Other expenses:			
Interest expense	1,048	1,326	8,919
Loss on disposal of fixed assets	298	826	2,533
Loss on devaluation of investments in securities	5	123	40
Other	2,627	2,700	22,377
	3,978	4,975	33,869
Income before extraordinary items	10,489	6,250	89,294
Extraordinary items:			
Ferosilt removal expense	3,020	—	25,715
Reserve for Ferosilt removal	29,632	—	252,269
	32,652	—	277,984
(Loss) income before income taxes and minority interests	(22,163)	6,250	(188,690)
Income taxes (Note 8):			
Current	607	505	5,163
Deferred	(12,017)	(39)	(102,312)
Minority interests	21	29	180
Net (loss) income	¥(10,774)	¥ 5,755	$ (91,721)

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

Consolidated Statements of Shareholders' Equity

For the years ended March 31, 2006 and 2005

		Millions of yen							
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings (deficit)	Surplus arising from land revaluation	Net unrealized holding gain on securities	Translation adjustments	Treasury stock, at cost
Balance at March 31, 2004	369,757,510	¥42,029	¥5,235	¥6,091	¥100	¥1,092	¥(1,998)	¥(2,295)
Net income for the year ended March 31, 2005	—	—	—	5,755	—	—	—	—
Shares issued to acquire all outstanding shares of an affiliate by way of an exchange of shares	14,602,921	—	3,359	—	—	—	—	—
Increase in earnings resulting from exclusion of a consolidated subsidiary	—	—	—	52	—	—	—	—
Dividends	—	—	—	(1,093)	—	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(44)	—	—	—	—
Loss on sales of treasury stock	—	—	(0)	(1,005)	—	—	—	—
Decrease in surplus arising from land revaluation resulting from inclusion of a consolidated subsidiary	—	—	—	—	(100)	—	—	—
Net unrealized holding gain on securities	—	—	—	—	—	322	—	—
Translation adjustments	—	—	—	—	—	—	(110)	—
Increase in treasury stock	—	—	—	—	—	—	—	(500)
Balance at March 31, 2005	384,360,431	¥42,029	¥8,594	¥9,756	¥ —	¥1,414	¥(2,108)	¥(2,795)
Net loss for the year ended March 31, 2006	—	—	—	(10,774)	—	—	—	—
Dividends	—	—	—	(1,490)	—	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(56)	—	—	—	—
Net unrealized holding gain on securities	—	—	—	—	—	1,774	—	—
Translation adjustments	—	—	—	—	—	—	1,045	—
Increase in treasury stock	—	—	—	—	—	—	—	(34)
Balance at March 31, 2006	384,360,431	¥42,029	¥8,594	¥(2,564)	¥ —	¥3,188	¥(1,063)	¥(2,829)

		Thousands of U.S. dollars (Note 1)						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings (deficit)	Surplus arising from land revaluation	Net unrealized holding gain on securities	Translation adjustments	Treasury stock, at cost
Balance at March 31, 2005	384,360,431	$357,812	$73,166	$83,054	$ —	$12,035	$(17,929)	$(23,798)
Net loss for the year ended March 31, 2006	—	—	—	(91,721)	—	—	—	—
Dividends	—	—	—	(12,683)	—	—	—	—
Bonuses to directors and corporate auditors	—	—	—	(480)	—	—	—	—
Net unrealized holding gain on securities	—	—	—	—	—	15,108	—	—
Translation adjustments	—	—	—	—	—	—	8,889	—
Increase in treasury stock	—	—	—	—	—	—	—	(291)
Balance at March 31, 2006	384,360,431	$357,812	$73,166	$(21,830)	$ —	$27,143	$(9,040)	$(24,089)

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

Consolidated Statements of Cash Flows

For the years ended March 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2006	2005	2006
Cash flows from operating activities			
(Loss) income before income taxes and minority interests	¥(22,163)	¥ 6,250	$(188,690)
Adjustments to reconcile (loss) income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	5,676	4,936	48,326
Loss on disposal of fixed assets	122	769	1,036
Loss on devaluation and sales of investments in securities and other	5	188	40
Foreign exchange gain	(108)	(368)	(923)
Gain on sales of investments in securities	(6)	—	(52)
Provision for accrued retirement benefits for employees, directors and corporate auditors	646	323	5,499
Reserve for Ferosilt removal	29,632	—	252,269
Interest and dividend income	(202)	(211)	(1,718)
Interest expense	1,048	1,326	8,919
Equity in earnings of affiliated companies	(387)	(116)	(3,293)
Other	50	487	431
Changes in operating assets and liabilities:			
Trade receivables	(729)	(2,015)	(6,204)
Inventories	(19)	2,412	(158)
Other current assets	(1,747)	7	(14,878)
Trade payables	(3,186)	2,888	(27,129)
Accrued expenses and other current liabilities	800	362	6,831
Subtotal	9,432	17,238	80,306
Interest and dividends received	425	194	3,616
Interest paid	(1,057)	(1,278)	(8,999)
Income taxes paid	(535)	(392)	(4,557)
Net cash provided by operating activities	¥8,265	¥15,762	$70,366
Cash flows from investing activities			
Purchases of property, plant and equipment	(6,020)	(5,228)	(51,248)
Purchases of short-term investments and investments in securities	(159)	(73)	(1,352)
Proceeds from sales of property, plant and equipment	72	35	611
Proceeds from maturity and sales of short-term investments and investments in securities	387	—	3,294
Loans made	(159)	(108)	(1,358)
Collection of loans	138	107	1,172
Increase in cash and cash equivalents arising from inclusion of a consolidated subsidiary by way of an exchange of shares	—	227	—
Other, net	734	77	6,253
Net cash used in investing activities	(5,007)	(4,963)	(42,628)
Cash flows from financing activities			
Decrease in short-term bank loans, net	(213)	(9,675)	(1,817)
Proceeds from long-term bank loans	12,515	3,100	106,547
Repayment of long-term bank loans	(5,921)	(4,498)	(50,405)
Payment of dividends	(1,475)	(1,076)	(12,559)
Purchases of treasury stock	(62)	(2,611)	(526)
Proceeds from sales of treasury stocks	28	1,205	236
Other, net	—	(56)	—
Net cash provided by (used in) financing activities	4,872	(13,611)	41,476
Effect of exchange rate changes on cash and cash equivalents	354	140	3,015
Increase (decrease) in cash and cash equivalents	8,484	(2,672)	72,229
Cash and cash equivalents at beginning of year	14,920	17,641	127,024
Decrease in cash and cash equivalents resulting from change in consolidation scope	—	(49)	—
Cash and cash equivalents at end of year (Note 12)	¥ 23,404	¥14,920	$ 199,253

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

Notes to Consolidated Financial Statements

March 31, 2006 (For the years ended March 31, 2006 and 2005)

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 have been 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 ¥117.46 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2006. 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 as of end 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 as for and for the years ended March 31, 2006 and 2005 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 (3 subsidiaries), ISK Taiwan Co., Ltd., Fuji Titanium Industry Co., Ltd, Ishihara Techno Corporation, Ishihara Enterprise & Co. Inc., ISK Engineering Corporation and ISK Distribution Service Co. Ltd.

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

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 (loss) income but are reported as minority interests and translation adjustments, a component of shareholders' equity.

(c) Cash and cash equivalents

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.

Trading securities, consisting of debt and marketable equity 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) Accrual for Periodic Repairs
The main items of equipment of the Company and its domestic consolidated subsidiaries which were installed during the year ended March 31, 2005 are subject to periodic overhaul every two or more years. Effective April 1, 2005, an accrual has been provided for the current portion of the estimated total costs for overhauling this equipment.

As a result of this accrual, operating income for the year ended March 31, 2006 decreased by ¥86 million (US$ 734 thousand) and loss before income taxes and minority interests increased by the same amount as compared with the amount which would have been recorded under the method applied in the previous year.

(k) Reserve for Ferosilt removal
Effective April 1, 2005, the Company has provided the reserve for Ferosilt removal and disposal based on local each costs for the removal, transportation and disposal estimated according to construction region and disposal locations.

As a result of the new accounting method, loss before income taxes and minority interests for the year ended March 31, 2006 increased by ¥29,632 million (US$ 252,269 thousand).

(l) 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 by methods generally as accepted in the countries in which they are incorporated.

(m) 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 and are determined by reference to their basic salary, years of service and certain other factors.

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.

Prior service cost is amortized by the straight-line method over the estimated average remaining years of service of the employees participating in the plans.

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.

(n) Impairment of Fixed Assets
Effective April 1, 2005, the Company and its domestic consolidated subsidiaries had adopted a new accounting standard for the impairment of fixed assets which 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. The Company and its domestic consolidated subsidiaries would be required to recognize an impairment loss in their statement of income if certain indicators of asset impairment exist and if the book value of an asset exceeds the undiscounted sum of future cash flows of the asset. The standard states that an impairment loss should be measured as the excess of the book value over the higher of (1) the fair market value of the asset, net of its disposition cost, and (2) the present value of future cash flows arising the ongoing utilization of the asset and from disposal after asset use. The standard covers land, buildings, other forms of property, plant and equipment as well as intangible assets. Fixed assets will be grouped at the lowest level for which there is identifiable cash flows that are independent of cash flows of other groups of assets.

As a result of the new accounting standard for impairment of fixed assets, there is no impact on the financial statements as of and for the year ended March 31, 2006.

(o) 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, 2006 and 2005 were as follows:

(a) Held-to-maturity debt securities

	Millions of yen						Thousands of U.S. dollars		
	2006			2005			2006		
	Carrying value	Estimated fair value	Unrealized loss	Carrying value	Estimated fair value	Unrealized loss	Carrying value	Estimated fair value	Unrealized loss
Securities whose fair value exceeds their carrying value	¥—	¥—	¥—	¥—	¥—	¥—	$—	$—	$—
Securities whose carrying value exceeds their fair value	10	9	(1)	10	10	(0)	85	81	(4)
Total	¥10	¥ 9	¥ (1)	¥10	¥10	¥ (0)	$85	$81	$ (4)

(b) Other securities

	Millions of yen						Thousands of U.S. dollars		
	2006			2005			2006		
	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	¥3,645	¥8,982	¥5,337	¥3,632	¥6,024	¥2,392	$31,032	$76,470	$45,438
Subtotal	3,645	8,982	5,337	3,632	6,024	2,392	31,032	76,470	45,438
Securities whose acquisition cost exceeds their carrying value:									
Equity securities	18	17	(1)	31	29	(2)	154	144	(10)
Other	—	—	—	3	3	(0)	—	—	—
Subtotal	18	17	(1)	34	32	(2)	154	144	(10)
Total	¥3,663	¥8,999	¥5,336	¥3,666	¥6,056	¥2,390	$31,186	$76,614	$45,428

The carrying value of the principal investments in non-marketable securities at March 31, 2006 and 2005 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Held-to-maturity debt securities:			
Discounted bank bonds	¥ 91	¥ 91	$ 775
Other securities:			
Unlisted equity securities	966	959	8,223

The proceeds from sales of, and gross realized gain on, other securities for the years ended March 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Proceeds from sales	¥10	¥—	$88
Gross realized gain	5	—	47

The redemption schedule at March 31, 2006 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 through five years	Due after five years through ten years	Due in one year or less	Due trough five year	Due after five years through ten years
Government bonds	¥ —	¥—	¥ 10	$ —	$ —	$ 85
Discounted bank bonds	91	—	—	775	—	—

4. Inventories

Inventories at March 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Finished goods	¥13,539	¥13,860	$115,264
Work in process	5,130	4,137	43,675
Raw materials and supplies	8,139	8,181	69,294
	¥26,808	¥26,178	$228,233

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, 2006 and 2005 was 1.4%.

Long-term debt including the current portion at March 31, 2006 and 2005 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Secured bank loans	¥14,886	¥16,448	$126,736
Unsecured bank loans	16,231	5,868	138,184
	31,117	22,316	264,920
Less amounts due within one year	(4,097)	(4,789)	(34,884)
	¥27,020	¥17,527	$230,036

Interest rates applicable to long-term bank loans presented in the above table fell in the range from 1.0% to 5.9% at March 31, 2006 and 2005. These bank loans become due through 2017.

The aggregate annual maturities of long-term debt subsequent to March 31, 2006 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 4,097	$ 34,884
2008	6,848	58,298
2009	5,483	46,681
2010	7,091	60,371
2011	4,989	42,477
2012 and thereafter	2,609	22,209
	¥31,117	$264,920

At March 31, 2006, 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	¥42,568	$362,403
All assets of ISK Singapore Pte. Ltd. (except for certain property, plant and equipment)	9,891	84,210
	¥52,459	$446,613

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, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
Short-term bank loans	¥14,100	$120,039
Current portion of long-term debt	4,097	34,884
Long-term debt	10,789	91,852
Other long-term liabilities	71	606
	¥29,057	$247,381

The Company has concluded line-of-credit agreements with certain banks to finance the Ferosilt removal expense and other related costs. The status of these lines of credit at March 31, 2006 is summarized as follows.

	Millions of yen	Thousands of U.S. dollars
Lines of credit	¥25,000	$212,838
Credit utilized	10,000	85,135
Available credit	¥15,000	$127,703

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, 2006 and 2005 totaled ¥5,900 million ($50,227 thousand) and ¥6,177 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, 2006 and 2005 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Retirement benefit obligation	¥11,036	¥10,476	$93,955
Plan assets at fair value	(588)	(455)	(5,002)
Unfunded retirement benefit obligation	10,448	10,021	88,953
Unrecognized net retirement benefit obligation at transition	(3,904)	(4,338)	(33,235)
Unrecognized actuarial (gain) loss	(72)	219	(611)
Unrecognized prior service cost	(102)	(108)	(871)
Prepaid plan cost	28	—	232
Accrued retirement benefits	¥ 6,398	¥ 5,794	$54,468

The 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, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service cost	¥ 590	¥ 562	$ 5,019
Interest cost	230	251	1,958
Expected return on plan assets	(7)	(8)	(61)
Amortization of retirement benefit obligation at transition	434	434	3,693
Amortization of unrecognized actuarial (gain) loss	(7)	33	(60)
Amortization of unrecognized prior service cost	6	7	58
Retirement benefit expenses	¥1,246	¥1,279	$10,607

The retirement benefit expenses of certain 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, 2006 and 2005 were as follows:

	2006	2005
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	2.5%	2.5%

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, 2006 and 2005 was, in the aggregate, approximately 39.5%.

The difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2005 is reconciled as follows:

	2005
Statutory tax rates	39.5 %
Permanently non-deductible expenses	2.9
Permanently non-taxable income	(0.7)
Per capita portion of inhabitants' taxes	0.7
Foreign income taxes	0.4
Changes in valuation allowance	(21.1)
Effect of differences in tax rates applicable to consolidated subsidiaries	(0.8)
Unrealized profit on intercompany transactions	(13.4)
Other	—
Effective tax rate	7.5 %

A reconciliation of the difference between the statutory income tax rate and the effective tax rate for the year ended March 31, 2006 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, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Tax loss carryforwards	¥10,163	¥10,219	$ 86,525
Retirement benefits	2,511	2,145	21,381
Unrealized profit on intercompany transactions	839	1,023	7,144
Write-downs of marketable and investment securities	386	386	3,284
Accrued expenses	789	458	6,718
Write-downs of inventories	279	345	2,373
Accrued bonuses	262	232	2,227
Write-downs of property, plant and equipment	138	122	1,178
Reserve for Ferosilt removal	11,716	—	99,747
Other	1,595	1,859	13,570
Gross deferred tax assets	28,678	16,789	244,147
Less valuation allowance	(8,593)	(9,578)	(73,151)
Total deferred tax assets	20,085	7,211	170,996
Deferred tax liabilities:			
Property, plant and equipment	(1,450)	(1,125)	(12,343)
Unrealized holding gain on securities	(2,115)	—	(18,004)
Other	(404)	(947)	(3,437)
Total deferred tax liabilities	(3,969)	(2,072)	(33,784)
Net deferred tax assets	¥16,116	¥ 5,139	$137,212

9. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2006 and 2005, 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		
	2006			2005			2006		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥4,036	¥2,347	¥1,689	¥4,492	¥2,423	¥2,069	$34,366	$19,984	$14,382

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2006 and 2005 amounted to ¥767 million ($6,533 thousand) and ¥769 million, respectively. Depreciation of the leased assets computed by the straight-line method over the respective lease terms for the years ended March 31, 2006 and 2005 amounted to ¥767 million ($6,533 thousand) and ¥769 million, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2006 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 632	$ 5,382
2008 and thereafter	1,057	9,000
	¥1,689	$14,382

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2006 for operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 342	$ 2,913
2008 and thereafter	1,058	9,003
	¥1,400	$11,916

10. Derivatives

Open interest-rate swaps at March 31, 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	Notional amount	Fair value	Unrealized loss	Notional amount	Fair value	Unrealized loss
(Interest-rate-related derivatives)						
Interest-rate swaps:						
Receiving/floating and pay/fixed	¥750	¥(6)	¥(0)	$6,385	$(50)	$(0)

Disclosure of the corresponding information on other derivatives which qualified for hedge accounting has been omitted.

11. Contingent Liabilities

At March 31, 2006, 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	¥170	$1,447
As guarantor for borrowings of unconsolidated subsidiaries	211	1,798
	¥381	$3,245

12. 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 and for the years ended March 31, 2006 and 2005 is presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash and time deposits	¥23,424	¥14,940	$199,425
Time deposits with a maturity in excess of three months	20	20	172
Cash and cash equivalents	¥23,404	¥14,920	$199,253

13. Amounts per Share

	Yen		U.S. dollars
	2006	2005	2006
Net (loss) income	¥ (28.93)	¥ 15.71	$ (0.25)
Net assets	127.20	152.60	1.08

Net (loss) income per share is based on the net (loss) 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 (loss) income per share for the years ended March 31, 2006 and 2005 is presented since no potentially dilutive securities have been issued.

The basic financial data for the computation of net (loss) income per share based on the above standard for the years ended March 31, 2006 and 2005 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Net (loss) income	¥(10,774)	¥5,755	$(91,721)
Amounts not attributable to shareholders of common stock:			
Bonuses to directors and corporate auditors appropriated from retained earnings	—	(56)	—
Adjusted net (loss) income attributable to shareholders of common stock	¥(10,774)	¥5,699	$(91,721)
	Thousands of shares		
Weighted-average number of shares of common stock outstanding during the year	372,383	362,725	

14. 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 such as electronic materials, 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, 2006 and 2005 is as follows:

	Millions of yen					
	2006					
	Inorganic chemicals	Organic chemicals	Other businesses	Total	Eliminations and corporate	Consolidated
Sales and operating income:						
Net sales:						
Outside customers	¥55,825	¥42,180	¥ 6,362	¥104,367	¥ —	¥104,367
Intersegment	10	—	8,470	8,480	(8,480)	—
Total sales	55,835	42,180	14,832	112,847	(8,480)	104,367
Operating expenses	50,438	32,048	14,007	96,493	(5,518)	90,975
Operating income	¥ 5,397	¥10,132	¥ 825	¥ 16,354	¥ (2,962)	¥ 13,392
Total assets	¥70,847	¥37,311	¥12,530	¥120,688	¥49,803	¥170,491
Depreciation and amortization	4,181	962	75	5,218	244	5,462
Capital expenditures	4,344	852	143	5,339	(81)	5,258

	Millions of yen					
	2005					
	Inorganic chemicals	Organic chemicals	Other businesses	Total	Eliminations and corporate	Consolidated
Sales and operating income:						
Net sales:						
Outside customers	¥45,641	¥44,769	¥ 6,106	¥ 96,516	¥ —	¥ 96,516
Intersegment	—	—	8,156	8,156	(8,156)	—
Total sales	45,641	44,769	14,262	104,672	(8,156)	96,516
Operating expenses	41,763	36,004	13,607	91,374	(5,218)	86,156
Operating income	¥ 3,878	¥ 8,765	¥ 655	¥ 13,298	¥ (2,938)	¥ 10,360
Total assets	¥64,251	¥41,861	¥12,922	¥119,034	¥27,556	¥146,590
Depreciation and amortization	3,324	993	78	4,395	268	4,663
Capital expenditures	3,829	1,380	44	5,253	(98)	5,155

	Thousands of U.S. dollars					
	2006					
	Inorganic chemicals	Organic chemicals	Other businesses	Total	Eliminations and corporate	Consolidated
Sales and operating income:						
Net sales:						
Outside customers	$475,268	$359,104	$ 54,163	$ 888,535	$ —	$ 888,535
Intersegment	88	—	72,107	72,195	(72,195)	—
Total sales	475,356	359,104	126,270	960,730	(72,195)	888,535
Operating expenses	429,410	272,843	119,249	821,502	(46,980)	774,522
Operating income	$ 45,946	$ 86,261	$ 7,021	$ 139,228	$ (25,215)	$ 114,013
Total assets	$603,157	$317,646	$106,679	$1,027,482	$423,998	$1,451,480
Depreciation and amortization	35,593	8,192	640	44,425	2,080	46,505
Capital expenditures	36,978	7,255	1,218	45,451	(690)	44,761

Unallocable operating expenses, consisting primarily of the Company's expenses relating to general affairs, totaled ¥2,750 million ($23,413 thousand) and ¥2,727 million for the years ended March 31, 2006 and 2005, respectively. These have been included in "Eliminations and corporate." Corporate assets consisted principally 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, and Taiwan
America: The United States
Europe: Belgium, France, and Spain

	Millions of yen						
	2006						
	Japan	Asia	America	Europe	Total	Eliminations and corporate	Consolidated
Sales and operating income (loss):							
Net sales:							
Outside customers	¥ 69,495	¥ 9,537	¥5,923	¥19,412	¥104,367	¥ —	¥104,367
Intersegment	26,675	4,124	28	66	30,893	(30,893)	0
Total sales	96,170	13,661	5,951	19,478	135,260	(30,893)	104,367
Operating expenses	80,561	12,832	6,087	19,223	118,703	(27,728)	90,975
Operating income (loss)	¥ 15,609	¥ 829	¥ (136)	¥ 255	¥ 16,557	¥ (3,165)	¥ 13,392
Total assets	¥116,325	¥20,409	¥3,993	¥ 9,353	¥150,080	¥(20,411)	¥170,491

	Millions of yen						
	2005						
	Japan	Asia	America	Europe	Total	Eliminations and corporate	Consolidated
Sales and operating income (loss):							
Net sales:							
Outside customers	¥ 62,792	¥ 9,279	¥6,336	¥18,109	¥ 96,516	¥ —	¥ 96,516
Intersegment	24,461	2,154	46	40	26,701	(26,701)	—
Total sales	87,253	11,433	6,382	18,149	123,217	(26,701)	96,516
Operating expenses	74,185	10,897	6,401	17,928	109,411	(23,255)	86,156
Operating income (loss)	¥ 13,068	¥ 536	¥ (19)	¥ 221	¥ 13,806	¥ (3,446)	¥ 10,360
Total assets	¥119,794	¥16,556	¥3,869	¥10,572	¥150,791	¥ (4,201)	¥146,590

	Thousands of U.S. dollars						
	2006						
	Japan	Asia	America	Europe	Total	Eliminations and corporate	Consolidated
Sales and operating income (loss):							
Net sales:							
Outside customers	$ 591,656	$ 81,190	$50,424	$165,265	$ 888,535	$ —	$ 888,535
Intersegment	227,095	35,114	236	565	263,010	(263,010)	0
Total sales	818,751	116,304	50,660	165,830	1,151,545	(263,010)	888,535
Operating expenses	685,860	109,249	51,822	163,657	1,010,588	(263,010)	774,522
Operating income (loss)	$ 132,891	$ 7,055	$ (1,162)	$ 2,173	$ 140,957	$ (26,944)	$ 114,013
Total assets	$ 990,340	$173,751	$33,996	$ 79,627	$1,277,714	$ 173,766	$1,451,480

Unallocable operating expenses, consisting primarily of the Company's expenses relating to general affairs, totaled ¥2,750 million ($23,413 thousand) and ¥2,727 million for the years ended March 31, 2006 and 2005, respectively. These have been included in "Eliminations and corporate." Corporate assets consisted principally 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, and Singapore
America: The United States, Canada, Brazil, Argentina, and Mexico
Europe: Germany, Netherland, France, the United Kingdom, Belgium, Italy, Eastern Europe, and the Middle East
Other: Australia, New Zealand, and Africa

	Millions of yen				
	2006				
	Asia	America	Europe	Other	Total
Overseas net sales	¥24,532	¥10,606	¥21,890	¥668	¥ 57,696
Consolidated net sales					104,367
Overseas net sales as a percentage of consolidated net sales	23.5%	10.2%	21.0%	0.6%	55.3%

	Millions of yen				
	2005				
	Asia	America	Europe	Other	Total
Overseas net sales	¥19,112	¥14,227	¥20,829	¥665	¥ 54,833
Consolidated net sales					96,516
Overseas net sales as a percentage of consolidated net sales	19.8%	14.7%	21.6%	0.7%	56.8%

	Thousands of U.S. dollars				
	2006				
	Asia	America	Europe	Other	Total
Overseas net sales	$208,854	$90,292	$186,363	$5,684	$491,193
Consolidated net sales					888,535
Overseas net sales as a percentage of consolidated net sales	23.5%	10.2%	21.0%	0.6%	55.3%

Report of Independent Public Accountants

ERNST & YOUNG SHINNIHON

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, 2006 and 2005, and the related consolidated statements of operations, 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, 2006 and 2005, 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, 2006 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.

Ernst & Young Shin Nihon

June 29, 2006

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(As of June 29, 2006)

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