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## **YUHO REPORT** **Annual**

Fiscal Year Ended	<b>March 31, 2003</b>
Traded	<b>TSE1</b>
Stock Code	<b>4116</b>



**DAINICHISEIKA COLOR & CHEMICALS MFG. CO., LTD.**

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This report is based on the Company's Japanese-language annual filing with the Financial Services Agency and supplemented with materials that facilitate comparison with the Company's peers. The materials from the annual filing with the Financial Services Agency have been edited and reorganized in a format more familiar to the international investment community. All information contained in this report has been obtained from sources believed to be reliable, but the accuracy of the data and the translation, completeness, and timeliness of the information are not warranted by the Company, Pacific Associates, or Asia Securities Printing. None of the above parties shall be responsible for any errors or omissions or for any results obtained from the use of this information.

## Table of Contents

<b>COMPANY PROFILE</b> .....	<b>3</b>
Financial highlights .....	3
Peer comparisons.....	3
Common size statements .....	4
<b>BUSINESS OVERVIEW</b> .....	<b>5</b>
Contents of business .....	5
<b>GROUP INFORMATION</b> .....	<b>6</b>
Group companies .....	6
History .....	7
Research and development .....	8
Directors and auditors .....	9
Employees .....	10
Union .....	10
<b>CASH FLOWS</b> .....	<b>11</b>
Consolidated statement of cash flows.....	11
Capital expenditures.....	13
Dividend policy .....	14
<b>OPERATIONS</b> .....	<b>15</b>
Consolidated statement of income .....	15
Consolidated appropriation of retained earnings .....	17
Results of operations.....	18
Segment information .....	21
Issues requiring action .....	22
Production and sales.....	22
Leases .....	24
<b>CAPITAL STRUCTURE</b> .....	<b>25</b>
Consolidated balance sheet: assets.....	25
Consolidated balance sheet: liabilities and shareholders' equity.....	26
Market value of securities.....	27
Fixed assets .....	28
Debt .....	28
Retirement benefits .....	30
Deferred taxes .....	31
<b>NONCONSOLIDATED STATEMENTS</b> .....	<b>32</b>
Nonconsolidated statement of income .....	32
Nonconsolidated appropriation of retained earnings.....	35
Cost of goods sold.....	35
Nonconsolidated balance sheet: assets.....	36
Nonconsolidated balance sheet: liabilities and shareholders' equity .....	38
Trade credit .....	39
Marketable and investment securities .....	41
Tangible fixed assets.....	42
Reserves .....	42
<b>ACCOUNTING POLICIES</b> .....	<b>43</b>
<b>SHARE-RELATED INFORMATION</b> .....	<b>45</b>
<b>PERFORMANCE IN GRAPHS</b> .....	<b>47</b>

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## Company Profile

*Financial highlights*

Years ended March 31; Millions of yen Consolidated	1999	2000	2001	2002	2003	Change 2003/1999
Net sales	136,604	130,522	135,161	125,331	130,825	96%
Ordinary profit	3,664	5,745	5,097	1,338	5,492	150%
Net income	953	2,625	(8,048)	(98)	2,767	290%
Shareholders' equity	40,661	34,501	22,625	21,940	23,680	58%
Total assets	126,195	151,643	156,178	147,291	138,301	110%
Shareholders' equity per share (Yen)	436.93	412.23	270.34	262.19	280.39	64%
Net income per share (Yen)	10.24	31.37	(96.17)	(1.17)	31.74	310%
Net income per share, fully diluted (Yen)	-	-	-	-	-	
Net cash provided by (used in) operating activities	-	2,131	4,364	6,157	6,481	
Net cash provided by (used in) investing activities	-	3,756	(3,368)	(2,180)	(490)	
Net cash provided by (used in) financing activities	-	(3,564)	(2,289)	(4,769)	(6,586)	
Cash and cash equivalents at term end	9,970	13,640	12,502	12,082	11,502	
Employees	-	3,289	3,274	3,402	3,355	

*Peer comparisons*

Percent	1999	2000	2001	2002	2003
Net income / net sales	0.7	2.0	(6.0)	(0.1)	2.1
Peers	1.8	(0.1)	1.2	1.2	0.8
Ordinary profit / net sales	2.7	4.4	3.8	1.1	4.2
Peers	4.0	4.6	4.5	2.8	3.7
Net income / equity	2.3	7.0	-	-	12.1
Peers	2.8	2.6	1.6	(0.4)	2.6
Net income / assets	0.8	1.7	(5.2)	(0.1)	2.0
Peers	1.4	0.5	0.9	0.6	0.9
Ordinary profit / assets	2.9	3.8	3.3	0.9	4.0
Peers	3.2	3.6	3.8	2.4	3.2
Equity / assets	32.2	22.8	14.5	14.9	17.1
Peers	43.6	43.8	44.2	46.4	48.0

Peers include 46 chemical companies with company codes from 4100 to 4229.

*Common size statements*

Years ended March 31; Percent	Consolidated		
	2001	2002	2003
<b>Balance sheet</b>			
<b>Assets</b>	100.0	100.0	100.0
Total current assets	54.2	52.2	53.5
Total tangible fixed assets	30.0	31.5	33.0
Total intangible fixed assets	0.5	0.6	0.6
Total investments and other assets	15.3	15.7	12.9
Total fixed assets	45.8	47.8	46.5
<b>Liabilities, minority interests and shareholders' equity</b>	100.0	100.0	100.0
Total current liabilities	58.7	57.5	56.5
Total long-term liabilities	25.3	25.9	25.7
Total liabilities	84.0	83.4	82.2
Minority interests	1.5	1.7	0.7
Capital stock	6.4	6.8	-
Capital reserves	5.2	5.5	-
Retained earnings	8.0	7.8	-
Unrealized gains or losses on other securities	0.1	(0.0)	-
Foreign currency translation adjustments	(2.0)	(1.8)	-
Treasury stock	(0.0)	(0.0)	-
Parent company capital owned by subsidiaries	(3.2)	(3.4)	-
Total shareholders' equity	14.5	14.9	-
Common stock	-	-	7.3
Capital reserves	-	-	5.9
Retained earnings	-	-	8.8
Unrealized gains or losses on other securities	-	-	0.4
Foreign currency translation adjustments	-	-	(2.4)
Treasury stock	-	-	(2.9)
Total shareholders' equity	-	-	17.1
<b>Statement of income</b>			
<b>Net sales</b>	100.0	100.0	100.0
Total cost of sales	81.8	83.5	82.4
Gross profit	18.2	16.5	17.6
Selling, general and administrative expenses	13.1	14.3	13.1
Operating income	5.1	2.2	4.5
Total non-operating income	1.4	1.2	1.1
Total non-operating expenses	2.7	2.3	1.4
Ordinary profit	3.8	1.1	4.2
Extraordinary gains	0.3	0.2	3.1
Extraordinary losses	14.6	1.5	1.7
Income before income taxes	(10.5)	(0.2)	5.6
Income, enterprise and other taxes	(3.9)	(0.3)	3.0
Minority interest in income of consolidated subsidiaries	(0.6)	0.2	0.5
Net income	(6.0)	(0.1)	2.1

## Business Overview

### *Contents of business*

The corporate group (the Company and its affiliates) comprises the Company (Dainichiseika Color & Chemicals Mfg. Co., Ltd.) and 57 affiliated companies.

The Company has consolidated 25 of its principal subsidiaries. Of the remaining 18 nonconsolidated subsidiaries and 14 affiliates, the Company incorporates the results of four into its consolidated accounts through use of the equity method.

During the fiscal year to March 2003, the Company added Highbridge Co., Ltd. to the group as a new subsidiary.

The group's principal businesses, and the relationships of the various companies to those businesses, are shown below.

Because the information below does not include segment-related information, it has been organized according to the group's business divisions.

### **Pigments**

Group members in this division handle pigments, intermediate products and other fine chemicals used in the production of inks, paints, rubber, synthetic resins, etc. The Company and Daicolorchem EU, S. A. are the principal manufacturers and marketers of these products. The Company and its affiliates transact a certain portion of the business related to products, raw materials, etc., among themselves.

### **Colorants and Printing Inks**

Group members in this division handle colorants used for various synthetic resins, colorants applied to other materials, and final products such as ink used in printing. The Company and a number of its consolidated subsidiaries (including Hokkaido Dainichiseika Kogyo Co., Ltd.; Oyodo Dainichiseika Kogyo Co., Ltd.; Kyushu Dainichiseika Kogyo Co., Ltd.; and Kanto Dainichiseika Kogyo Co., Ltd.) are the principal manufacturers and marketers of these products. The Company and its affiliates transact a certain portion of the business related to products, raw materials, etc., among themselves.

### **Others**

The businesses conducted by this division consist of the sale of various synthetic resins; photoengraving film, presensitized plates and other printing-related materials; printing machines; and chemical products. The Company is the principal marketer of these products, and it deals with its affiliates in certain of these activities.

## Group Information

*Group companies*

Millions of yen Thousands of foreign currency	Common stock	Percent ownership	
			(Indirect)
Hokkaido Dainichiseika Kogyo Co., Ltd.	330	100	-
Oyodo Dainichiseika Kogyo Co., Ltd.	80	100	-
Kyushu Dainichiseika Kogyo Co., Ltd.	160	100	-
Kanto Dainichiseika Kogyo Co., Ltd.	480	100	-
Nagoya Kako Co., Ltd.	50	100	-
Hiroshima Kako Co., Ltd.	10	100	-
Dainichi PC Compound Co., Ltd.	240	51	-
UKIMA Chemicals & Color Mfg. Co., Ltd.	401	24.86	-
Hi-Tech Chemi Co., Ltd.	300	19.5	-
DSF Co., Ltd.	100	19.5	-
Highbridge Co., Ltd.	20	19.88	-
Daicolorchem EU, S.A.	EUR7,452	100	-
Dainichiseika (HK), Ltd.	HK\$3,500	100	-
Dainichiseika Chemical (Shenzhen) Factory Ltd.	HK\$27,300	100	100
Hi-Tech Color, Inc.	US\$5,000	100	-
Daicolor Italy S.R.L.	EUR1,500	100	-
P. T. Hi-Tech Ink Indonesia	IDR5,587,000	100	9
Nicolor Co., Ltd.	US\$3,624	95	-
Dainichiseika (HK) Coloring Co., Ltd.	HK\$83,000	90	25
Dongguan Dainichi Chemical Manufacturing Co., Ltd.	HK\$80,862	90	90
Daicolor Philippines, Inc.	PHP156,042	79.26	41.47
Advanced Polymer, Inc.	US\$500	70	-
Dainichi Color (Thailand), Ltd.	Baht234,000	65	-
Dainichiseika, Inc.	US\$30,037	50	-
Daicolor-Pope, Inc.	US\$154	50	50
<b>Nonconsolidated companies accounted for under the equity method</b>			
Osaka Kako Co., Ltd.	20	19.5	19.5
<b>Affiliated companies accounted for under the equity method</b>			
Tai Chin Chemical Industry Co., Ltd.	NT\$173,621	44.98	-
Sambo Fine Chemical Manufacturing Co., Ltd.	WON1,000,000	40	-
Plalloy MTD B.V.	EUR7,260	40	-

## History

The Company was established as Saika Ganryo L.P. in 1931. In 1939, it was reorganized and renamed Saika Shikiso Kogyo Co., Ltd. It acquired two competitors in 1944 and changed its name to Dainichiseika Kogyo Kabushikigaisha (Dainichiseika Color & Chemicals Mfg. Co., Ltd.).

Year	Event
1939	Saika Shikiso Kogyo Co., Ltd., assumes the operations of its predecessor, Saika Ganryo L.P., which was founded in 1931. Begins manufacture of pigments.
1944	Two other companies in the industry acquired and Company name changed to Dainichiseika Kogyo Kabushikigaisha (Dainichiseika Color & Chemicals Mfg. Co., Ltd.).
1945	Operations commenced at Company headquarters (Chuo Ward, Tokyo) and at Tokyo plant (current manufacturing center).
1947	Sapporo sales office and Sapporo factory (currently a consolidated subsidiary, Hokkaido Dainichiseika Kogyo Co., Ltd.) established. Highbridge Co., Ltd. (a consolidated subsidiary) established.
1948	1945 A vinyl toner colorant for plastics developed and successfully produced domestically.
1950	Osaka sales office (current West Japan branch) established.
1953	Undiluted colorant for use on synthetic fibers and water-based colorant for use in textile printing developed and successfully produced domestically.
1957	Research institute (current Technical Research Center) established, creating a formal structure for pigment research. UKIMA Chemicals & Color Mfg. Co., Ltd. (a consolidated subsidiary) established.
1960	Osaka plant (current manufacturing center) established.
1961	Shares listed on Second Section of the Tokyo Stock Exchange.
1962	Construction of new headquarters building completed. Hong Kong representative office (currently a consolidated subsidiary, Dainichiseika (HK) Ltd.) established.
1963	Narita plant (currently a consolidated subsidiary, Hi-Tech Chemi Co., Ltd.) established.
1964	Nagoya sales office (current Chubu branch) established. Taiyo Kako (current Osaka Kako Co., Ltd.) established.
1967	Manufacture of resins for use in synthetic leather and of surface finishing agents commenced.
1968	Tokai plant (current manufacturing center) established. Oyodo plant (currently a consolidated subsidiary, Oyodo Dainichiseika Kogyo Co., Ltd.) established. Sendai office (current branch) opened. Kyoto office (current branch) opened.
1969	Shares listed on First Section of the Tokyo Stock Exchange. Kyushu sales office (currently a consolidated subsidiary, Kyushu Dainichiseika Kogyo Co., Ltd.) established. Nagoya Kako Co., Ltd. (a consolidated subsidiary) established.
1970	New York representative office (currently a consolidated subsidiary, Daicolor-Pope, Inc.) established. (Operations moved to New Jersey in 1978.)
1972	Kawaguchi plant (current manufacturing center) established.
1973	Tai Chin Chemical Industry Co., Ltd., established.
1974	Revolutionary large-scale water-disposal system completed at Tokai plant. San Paulo representative office (current Daicolor do Brasil, Ind. E Com. Ltda.) established.
1977	Sambo Fine Chemical Manufacturing Co., Ltd. established.
1984	Daicolor Italy S.R.L. (a consolidated subsidiary) established.
1985	Hokuriku sales office (current branch) established.

Year	Event
1986	Dainichiseika, Inc. (a consolidated subsidiary) established.
1987	Hiroshima Kako Co., Ltd. (a consolidated subsidiary) established.
1988	Hi-Tech Color, Inc. (a consolidated subsidiary) established.
1989	Intermedios Organicos S.A. (currently a consolidated subsidiary, Daicolorchem EU, S.A.) acquired. Dainichi Color (Thailand), Ltd. (a consolidated subsidiary) established. Kanto Dainichiseika Kogyo Co., Ltd. (a consolidated subsidiary) established. Dainichi PC Compound Co., Ltd. (a consolidated subsidiary) established. Dainichi System Finance (currently a consolidated subsidiary, DSF Co., Ltd.) established. Plalloy MTD. B.V. established.
1990	Advanced Polymer, Inc. (a consolidated subsidiary) established.
1992	Dainichiseika Chemical (Shenzhen) Factory, Ltd. (a consolidated subsidiary) established.
1993	Katano manufacturing center established. Nicolor Co., Ltd. (a consolidated subsidiary) established.
1995	P.T. Hi-Tech Ink Indonesia (a consolidated subsidiary) established. Dongguan Dainichi Chemical Manufacturing Co., Ltd. (a consolidated subsidiary) established.
1996	Shiga manufacturing center established.
1997	Dainichiseika (HK) Coloring Co., Ltd. (a consolidated subsidiary) established. Daicolor Philippines, Inc. (a consolidated subsidiary) established.

### ***Research and development***

The Company and its affiliates have been pioneers in providing pigments and other colorant technologies to a wide spectrum of manufacturers that use color in their products. The group has also developed an extensive line of fine chemicals and high-technology products.

The group's research and development activities currently encompass the following:

1. Improving existing products; investigating new pigments and developing commercial applications for new pigments
2. Improving colorant technologies to meet the wide demand for colors in fields including paints, printing inks, resins, fibers, toys, etc.; developing and researching new colorants capable of sparking new demand
3. Development and applied research on urethane and polyester-based resins (polymers compounded through polycondensation)
4. Development and applied research on products that meet demand in fields incidental to color, including special resins, dispersion media and functional materials
5. Research and development of electronic products, recording media, and functional composites that utilize processes from organic and inorganic chemistry and technologies from synthetic high-polymer chemistry

## 6. Interdisciplinary research and development of functional materials by chemist and biochemist

The above activities are coordinated among the technical departments of the operating divisions, the Company's technical research center, and the engineering departments of the Company's affiliates.

The group invested a total of 2,880 million yen on R&D during the fiscal year, broken down by division as follows: Pigments, 360 million yen; Colorants and Printing Inks, 2,520 million yen.

### *Directors and auditors*

<b>Title</b>		<b>Name</b>
President	Chairman of the Board	Osamu Takahashi
Vice President	Composite Printing Systems	Minoru Yamamoto
Senior Managing Director	Corporate Planning & Control	Yukio Hayami
Senior Managing Director	Prepared Color & Chemicals Group	Mineo Tosa
Senior Managing Director	General Affairs & Personnel	Shigemitsu Yamazaki
Senior Managing Director	Corporate Administration Department	Koji Takahashi
Senior Managing Director	Pigment & Synthetic Color Group	Shigeaki Yamamoto
Managing Director	Composite Printing Systems - Off-set	Keisuke Yamamoto
Managing Director	Technical Research Center & Technology Commercialization Office	Michiei Nakamura
Director	Secretary General, Corporate Secretary & Management Office	Mamoru Takashima
Director	General manager, Production Planning & Management	Kazuhiko Arai
Standing Auditor		Hideo Onami
Standing Auditor		Hiroshi Murakami
Standing Auditor		Hisatsugu Kaiho
Auditor		Terutada Takahashi
Auditor		Kazuo Fujikake

*Employees*

<b>Consolidated</b>	<b>2003</b>
<b>Business segment</b>	<b>Number</b>
Pigments	589
Colorants and printing inks	2,543
Corporate staff	223
	3,355
<b>Parent</b>	<b>Total or average</b>
Number	1,521
Average age	42.9
Average years of service	20.9
Average annual salary (Yen)	7,288,457

*Union*

As of March 31, 2003, the Company's labor union had 1,071 members and was affiliated with no external labor organization. Labor and management enjoy a harmonious relationship based on mutual trust.

## Cash Flows

*Consolidated statement of cash flows*

Years ended March 31; Millions of yen	2001	2002	2003
<b>Net cash provided by (used in) operating activities</b>			
Net income (loss) before taxes and other adjustments	(14,201)	(288)	7,329
Depreciation	3,408	3,520	3,072
Increase (decrease) in allowance for doubtful accounts	316	102	554
Increase (decrease) in reserve for bonuses	(16)	(24)	(330)
Increase (decrease) in reserve for retirement allowances	(4,771)	-	-
Increase (decrease) in retirement benefits	18,663	156	209
Amount of pension plan assets established	1,555	-	-
Increase (decrease) in reserve for losses on guaranteed liabilities	697	(200)	(200)
Interest and dividend income	(412)	(275)	(267)
Interest expenses	1,980	1,762	1,360
Equity in earnings of nonconsolidated companies	(101)	(110)	(126)
Dividend income from nonconsolidated companies accounted for under the equity method	97	97	88
Loss (gain) on sales or valuation of marketable securities	619	136	114
Gain from establishment of pension plan assets	(427)	-	-
Loss (gain) on sales or disposal of tangible fixed assets	10	74	283
Loss (gain) on sales or liquidation of investment securities	531	18	13
Loss (gain) on valuation of investment securities and other investments	1,985	986	1,092
Loss on liquidation of subsidiaries	-	-	44
Loss on valuation of fixed assets	-	606	287
Gain from return to government of "agency portion" obligations related to employees' welfare pensions	-	-	(3,598)
Revised profit carried forward from previous term	-	-	(130)
Decrease (increase) in trade receivables	(4,520)	7,411	(976)
Decrease (increase) in inventories	(699)	1,690	462
Decrease (increase) in accounts receivable - others	-	(355)	585
Increase (decrease) in trade payables	3,804	(6,438)	(1,104)
Increase (decrease) in accounts payable - other	-	-	(326)
Others	479	(252)	30
	9,000	8,617	8,470
Interest and dividend income	434	274	282
Interest expenses	(1,960)	(1,756)	(1,322)
Income tax and others	(3,109)	(977)	(949)
	4,364	6,157	6,481

DAINICHISEIKA

Years ended March 31; Millions of yen	2001	2002	2003
<b>Net cash provided by (used in) investing activities</b>			
Increase in time deposits	(118)	(234)	(375)
Proceeds from decrease in time deposits	123	118	468
Payments for purchase of marketable securities	(6,228)	(3,210)	(505)
Proceeds from sales of marketable securities	5,757	4,413	1,762
Payments for acquisition of tangible fixed assets	(2,939)	(2,777)	(3,328)
Proceeds from sales of tangible fixed assets	378	32	250
Payments for investment securities	(325)	(375)	(708)
Proceeds from sales of investment securities	281	19	209
Payments for loans	(776)	(1,583)	(2,877)
Proceeds from collection of loans	569	1,818	4,150
Others	(91)	(400)	463
	(3,368)	(2,180)	(490)
<b>Net cash provided by (used in) financing activities</b>			
Proceeds from increase in short-term borrowings	66,402	69,190	74,296
Payments of short-term borrowings	(66,729)	(70,791)	(78,281)
Proceeds from increase in long-term debt	3,418	9,225	9,224
Payments of long-term debt	(4,453)	(10,098)	(10,319)
Proceeds from issuing of bonds	-	-	400
Payments for redemption of bonds	-	(1,500)	(1,000)
Proceeds from sales of treasury stock	(0)	(3)	(213)
Dividend payments	(836)	(752)	(585)
Dividend payments for minority interest	(90)	(39)	(107)
	(2,289)	(4,769)	(6,586)
Effect of exchange rate changes on cash and cash equivalents	156	259	(84)
Cash and cash equivalents	(1,137)	(533)	(679)
Cash and cash equivalents at beginning of term	13,640	12,502	12,082
Cash and cash equivalents accompanying new consolidation	-	113	98
Decrease in cash and cash equivalents accompanying termination of consolidation	(0)	-	-
Cash and cash equivalents at end of term	12,502	12,082	11,502

Relationship between balance of cash and cash equivalents as of term end and balance sheet items

Years ended March 31; Millions of yen	2001	2002	2003
Cash and deposits	12,621	12,316	11,643
Time deposits, etc., of 3 months and over	(118)	(234)	(140)
Cash and cash equivalents	12,502	12,082	11,502

## *Capital expenditures*

The Dainichiseika group concentrated its investments on highly efficient projects designed to lower the costs of production, reduce manpower needs, and enhance profitability, and on equipment used to prevent pollution and protect the environment. During the period to March 31, 2003, investments amounted to a total of 3,418 million yen.

In the Pigments Division, the group directed its investments primarily toward new anti-pollution equipment at its Tokai manufacturing center. In the Colorants and Printing Inks Division, it focused its investments on rationalization and capacity increases at the Tokyo manufacturing center, rationalization at the Katano manufacturing center, and capacity increases at Hi-Tech Chemi Co., Ltd.

### Capital expenditure and disposal plans

Millions of yen	Budgeted amount	Expenditures to date	Date of commencement	Date completed
<b>Major equipment installations</b>				
<b>Tokyo manufacturing center</b>				
Testing and research facilities	895	205	2003/2	2004/5
<b>Tokai manufacturing center</b>				
Manufacturing equipment for chemical compounds; testing and research facilities	275	75	2003/5	2004/10
<b>Kawaguchi manufacturing center</b>				
Quality assurance	350	290	2002/6	2003/10
<b>Major repairs and improvements</b>				
<b>Tokai manufacturing center</b>				
Environmental protection	200	-	2003/12	2004/9

***Dividend policy***

The Company's basic policy on dividends is to maintain a payout that provides substantial value to its shareholders while enabling it to prepare for future business expansion and to meet its needs for strengthening operational foundations and building internal reserves.

The Company will pay a year-end dividend of 3 yen per share, which together with the previously paid 3-yen interim dividend, results in a total dividend for the year of 6 yen per share.

Our intention going forward is to continue building our internal reserves and strengthening our basic management resources to foster greater sophistication in our corporate capabilities, to expand and develop our international businesses in response to increasing globalization, and to build a solid operating foundation.

## Operations

*Consolidated statement of income*

Years ended March 31; Millions of yen	2001	2002	2003
<b>Sales</b>	135,161	125,331	130,825
<b>Cost of sales</b>	110,594	104,619	107,811
Gross profit	24,566	20,711	23,013
<b>Selling, general and administrative expenses</b>	17,729	17,986	17,134
Operating income	6,836	2,724	5,879
<b>Non-operating income</b>			
Interest income	209	179	176
Dividend income	202	96	90
Rental income	530	437	315
Gains from equity investments in nonconsolidated companies	101	110	126
Others	913	659	709
	1,957	1,483	1,418
<b>Non-operating expenses</b>			
Interest expenses	1,980	1,762	1,360
Loss on valuation of marketable securities	636	132	121
Expenses for rental assets	271	189	103
Foreign exchange losses	332	442	-
Others	475	342	219
	3,696	2,870	1,805
Ordinary profit	5,097	1,338	5,492
<b>Extraordinary gains</b>			
Gain on sales of fixed assets	6	12	33
Gain on sales of investment securities	15	0	-
Gain from establishment of pension plan assets	427	-	-
Gain on reversal of provision for loss on loan guarantees	-	200	200
Gain from return to government of "agency portion" obligations related to employees' welfare pensions	-	-	3,598
Revised profit carried forward from previous term	7	-	130
Others	31	12	36
	488	224	3,997

## DAINICHISEIKA

<b>Years ended March 31; Millions of yen</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>Extraordinary losses</b>			
Loss on sales of fixed assets	2	6	125
Loss on disposal of fixed assets	49	79	190
Loss on sales of investment securities	507	16	11
Loss on valuation of investment securities	1,921	974	1,049
Valuation loss on shares in affiliates	-	-	39
Loss on liquidation of subsidiaries	-	-	44
Loss on valuation of other investments	64	12	3
Provision for allowance for doubtful accounts	304	34	326
Reserve provision for losses on guaranteed liabilities	697	-	-
Retirement benefit expenses due to changes in accounting standards	16,132	-	-
Loss on valuation of fixed assets	-	606	287
Others	106	119	81
	19,786	1,851	2,161
Income before tax adjustments	(14,201)	(288)	7,329
Income, residence and enterprise taxes	2,132	704	1,428
Deferred taxes	(7,444)	(1,122)	2,477
	(5,311)	(417)	3,905
Minority interest in income of consolidated subsidiaries	(840)	227	655
Net income	(8,048)	(98)	2,767

**Consolidated appropriation of retained earnings**

<b>Years ended March 31; Millions of yen</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Retained earnings, beginning of term	21,340	12,423	-
Adjustment for tax effect on subsidiaries' retained earnings	(111)	-	-
	21,228	12,423	-
Increase in retained earnings			
Increase due to decrease in the number of consolidated subsidiaries	120	-	-
	120	-	-
Decrease in retained earnings			
Decrease due to increase in the number of consolidated subsidiaries	-	105	-
Cash dividends	836	752	-
Bonuses to directors and statutory auditors	40	41	-
[Bonuses to statutory auditors included]	[6]	[6]	-
	877	900	-
Net income	(8,048)	(98)	-
Balance at year-end	12,423	11,424	-
<b>Capital reserves</b>			
Capital reserves, beginning of term			
Additional paid-in capital, beginning of term	-	-	8,137
	-	-	8,137
Capital reserves, end of term	-	-	8,137
<b>Retained earnings</b>			
Retained earnings, beginning of term			
Retained earnings, beginning of term	-	-	11,424
	-	-	11,424
Increase in retained earnings			
Increase in earned surplus from merger between consolidated and nonconsolidated subsidiaries	-	-	482
Net income	-	-	2,767
	-	-	3,250
Reduction in retained earnings			
Reduction in retained earnings due to increase in number of consolidated subsidiaries	-	-	1,841
Dividends	-	-	585
Directors' bonuses	-	-	12
[Statutory auditors' bonuses]	-	-	[1]
	-	-	2,439
Balance at year end	-	-	12,234

***Results of operations*****Consolidated fiscal year ended March 31, 2003*****Economic factors affecting operations***

- 1) Deflation and record rates of unemployment in domestic economy, which led to:
  - Continued weakness in capital spending
  - Deterioration of employment and income, which dampen personal consumption and housing investment
- 2) Strong economic growth in China and other Asian countries, which increase exports and stimulate a recovery in industrial production in Japan

***Company's response to adverse economic conditions***

- 1) Cost reductions
  - Through comprehensive and thorough rationalizations
  - Through group-wide cost-cutting programs, including reductions in fixed costs
- 2) Product mix: expanded sales of products that offer both high-performance and environmental advantages
- 3) Manufacturing: increased efficiency through joint procurement of raw materials with other group companies and consolidation of manufacturing sites

***Financial analysis (percentage changes, year-on-year)***

- 1) 4.4% increase in consolidated sales, broken down by division as follows:
  - Pigments Division: -3.4%, to 24,453 million yen
  - Colorants and Printing Inks Division: +4.9%, to 96,668 million yen
  - Others: +23.3%, to 9,703 million yen
- 2) 115.8% increase in operating income, reflecting wide-ranging cost reductions
- 3) 310.5% increase in ordinary profit, because of lower costs and improved financial balance
- 4) Net income of 2,767 million yen, which included the recognition of extraordinary gains from the Company's return to the government of certain obligations relating to employees' welfare pensions (the so-called "agency portion" obligations that had been assumed on behalf of the government)

***Segment information by region (percentage changes, year-on-year)***

## 1) Japan

Despite a deflationary economy, sales of high-performance colorants for plastics and other high value-added products were strong, contributing to a 6% increase in sales to 108,354 million yen. Operating income, benefiting in part from company-wide cost reductions, increased by 129.7% to 5,692 million yen.

## 2) Asia

Backed by the bustling economy of Southern China, sales of high-performance colorants for plastics and of pigments used by the automobile industry were strong, pushing up sales by 7.6% to 16,943 million yen and operating income by 125.5% to 896 million yen.

## 3) Other regions

Slower economic growth in Europe and the United States meant lower sales, while an influx of imports into both regions caused prices to decline. Consequently, sales fell by 14.8% to 10,064 million yen and this segment registered an operating loss of 708 million yen.

**Consolidated fiscal year ended March 31, 2002*****Economic and other factors affecting operations***

## 1) Unprecedented economic deterioration

- Global economic slowdown caused by recession in IT sector, impact of September 11 terrorist attacks, etc.
- Significant effects of global slowdown on Japanese economy, particularly in corporate-sector exports and capital investments
- Sharply weaker demand for the Company's products in the face of worsening deflation

## 2) Efforts by the Company and its affiliates to reduce costs

- Through extensive rationalization programs
- Through restructuring aimed at reducing fixed costs and other expenses

## 3) Other strategic responses by the Company and its affiliates

- Further measures to internationalize operations
- Efforts to respond rapidly and effectively to customer needs

- Steps to increase competitiveness through launch of high-performance, high-value-added products tailored to the changing structure of domestic and international demand

***Financial analysis (percentage changes, year-on-year)***

1) 7.3% decline in consolidated revenue

- Pigments: -6.1%
- Colorants and printing inks: -5.6%
- Other businesses: -25.7%

2) 60.1% decline in operating income

- Higher retirement benefit expenses, a result of revised assumptions concerning discount rates and expected rates of return on pension assets by domestic consolidated subsidiaries and equity-method affiliates
- Poor results by several foreign subsidiaries

3) Consolidated net loss of 98 million yen, partially reflecting valuation losses on investments held, primarily bank stocks

***Segment information by region (percentage changes, year-on-year)***

1) Japan

With the exception of certain environmentally friendly products, the pace of business slowed considerably at the Pigments Division, which handles products for the paint and automobile industries, and the Colorants Division, which handles functional colorants for the home electronics industry. Sales and operating income declined as a consequence; sales by 11.4% to 102,255 million yen, and operating income by 58.9% to 2,478 million yen.

2) Asia

Although demand at the Colorants Division generally weakened in the face of the U.S. economic slowdown, this segment reported higher sales and profits as a result of a strong economy in South China and the addition of a new consolidated subsidiary. Sales and operating income increased as a result; sales by 20.1% to 15,751 million yen, and operating income by 8.3% to 397 million yen.

## 3) Other regions

The pace of business in Europe and the United States declined as a result of weak demand and falling prices, the latter because of increased competition from Asian suppliers. Sales declined by 0.3% to 11,809 million yen as a consequence. The region registered an operating loss of 151 million yen.

**Segment information**

## Geographical segment information

Millions of yen	Japan	Asia	Others	Total	Eliminations	Consolidated
<b>2003</b>						
Sales						
External customers	104,010	16,853	9,961	130,825	-	130,825
Inter-area	4,343	89	103	4,536	(4,536)	-
	108,354	16,943	10,064	135,361	(4,536)	130,825
Operating expenses	102,661	16,047	10,773	129,482	(4,536)	124,945
Operating income	5,692	896	(708)	5,879	-	5,879
Identifiable assets	124,231	11,035	8,254	143,520	(5,219)	138,301
<b>2002</b>						
Sales						
External customers	98,203	15,634	11,493	125,331	-	125,331
Inter-area	4,052	116	316	4,485	(4,485)	-
	102,255	15,751	11,809	129,816	(4,485)	125,331
Operating expenses	99,776	15,353	11,960	127,091	(4,485)	122,606
Operating income	2,478	397	(151)	2,724	-	2,724
Identifiable assets	127,807	10,719	9,607	148,133	(842)	147,291

## Overseas sales

Millions of yen	2002		2003	
	Overseas sales	As % of net sales	Overseas sales	As % of net sales
Asia	18,210	14.5	20,010	15.3
Others	12,235	9.8	10,888	8.3
	30,446	24.3	30,898	23.6
Consolidated sales	125,331		130,825	

## *Issues requiring action*

Although hopes exist for a modest economic recovery in the United States, economic conditions are likely to remain extremely difficult in the future. For one thing, the uncertainty of the postwar situation in Iraq limits potential export growth. Moreover, Japan will continue to have its share of difficulties, with many fearing further weakness in equity prices and foreseeing further deflationary pressures arising from bankruptcies, labor market adjustments and other effects of loan write-offs by financial institutions.

Against this background, the aim of the Dainichiseika group will be to “reconstruct operations in an age of zero economic growth.” The group believes that it will have to address key issues in the following two areas:

### 1) Corporate reform:

- Improving profitability on a group-wide basis, through managerial reforms in each of the Company’s business areas
- Responding to globalization through more aggressive international expansion

### 2) Corporate mission:

- Staying abreast of technical innovations in the areas of polymers, biochemistry, IT and electronics, and multimedia
- Through these efforts, solidifying its industry position as an integrated manufacturer of high-tech materials and color-related products

## *Production and sales*

### Production

Tons	2003	
	Amount	Year-on-year comparison (%)
Pigments	25,396	89.7
Colorants and printing inks	278,202	113.7
	303,598	111.2

## Procurement

Millions of yen	2003	
	Amount	Year-on-year comparison (%)
Pigments	1,639	89.3
Colorants and printing inks	2,160	97.7
Others	20,196	116.3
	23,996	112.1

## Sales by product

Millions of yen	2003	
	Amount	Year-on-year comparison (%)
Pigments	24,453	96.6
Colorants and printing inks	96,668	104.9
Others	9,703	123.3
	130,825	104.4

## Selling, general and administrative expenses

Years ended March 31; Millions of yen	2001	2002	2003
Freight and transportation	3,062	2,901	2,978
Provision of allowance for doubtful accounts	157	56	160
Employees' salaries	7,021	6,259	5,649
Provision for employees' bonuses	820	779	635
Pension benefit expenses	528	795	696
Others	6,138	7,194	7,014
	17,729	17,986	17,134

## Leases

Under generally accepted accounting principles in Japan, finance leases that do not transfer ownership are accounted for in the same manner as operating leases when “as if capitalized” information is disclosed.

Pro forma information on leased property is as follows:

Years ended March 31; Millions of yen	2001	2002	2003
<b>Machinery and delivery equipment</b>			
Acquisition cost	1,812	1,933	1,514
Accumulated depreciation	815	1,030	592
Net leased property	997	902	922
<b>Tools, furniture and fixtures</b>			
Acquisition cost	532	541	548
Accumulated depreciation	270	296	278
Net leased property	261	245	269
<b>Others (intangible fixed assets)</b>			
Acquisition cost	66	73	64
Accumulated depreciation	28	41	43
Net leased property	38	32	20
<b>Total</b>			
Acquisition cost	2,411	2,549	2,127
Accumulated depreciation	1,114	1,368	915
Net leased property	1,297	1,180	1,212
<b>Future minimum lease payments (including interest portion)</b>			
Due within one year	390	383	342
Due after one year	947	844	914
	1,337	1,227	1,256
Lease payments	423	579	436
Pro forma depreciation expenses (assuming straight-line method)	385	499	398
Pro forma interest expenses	42	56	42
<b>Operating leases</b>			
Due within one year	84	45	14
Due after one year	102	99	39
	186	144	54

## Capital Structure

*Consolidated balance sheet: assets*

Years ended March 31; Millions of yen	2001	2002	2003
<b>Current assets</b>			
Cash and deposits	12,621	12,316	11,643
Notes and accounts receivable, trade	45,576	39,211	40,111
Marketable securities	3,010	1,650	276
Inventories	20,709	19,775	19,013
Deferred tax assets	1,387	2,179	1,327
Others	1,690	2,111	1,918
Less allowance for doubtful accounts	(374)	(294)	(319)
	84,621	76,951	73,970
<b>Fixed assets</b>			
<b>Tangible fixed assets</b>			
Buildings and structures	31,645	31,513	32,240
Accumulated depreciation	17,407	18,065	18,769
	14,237	13,448	13,470
Machinery, equipment and vehicles	42,689	44,976	43,101
Accumulated depreciation	34,398	36,583	36,044
	8,290	8,393	7,057
Tools, furniture and fixtures	8,100	8,232	8,019
Accumulated depreciation	6,698	6,917	6,812
	1,401	1,314	1,206
Land	22,761	23,139	23,727
Construction in progress	129	90	167
	46,820	46,386	45,629
<b>Intangible fixed assets</b>			
Intangible fixed assets	866	908	822
<b>Investments and other assets</b>			
Investment securities	7,897	6,672	6,691
Investments in subsidiaries other than joint stock corporations	997	1,034	1,067
Long-term loans	3,662	3,447	2,993
Deferred tax assets	7,519	7,872	6,000
Others	4,831	5,253	4,317
Less allowance for doubtful accounts	(1,037)	(1,235)	(3,192)
	23,869	23,044	17,878
Total fixed assets	71,556	70,340	64,331
<b>Total assets</b>	156,178	147,291	138,301

**Consolidated balance sheet: liabilities and shareholders' equity**

Years ended March 31; Millions of yen	2001	2002	2003
<b>Current liabilities</b>			
Notes and accounts payable, trade	27,403	22,722	21,301
Short-term borrowings	47,826	46,727	42,768
Current portion of long-term debt	9,533	7,531	7,359
Bonds redeemable within 1 year	-	1,000	-
Accrued corporate and residence taxes	769	514	1,003
Deferred tax liabilities	86	-	11
Accrued bonuses to employees	2,437	2,421	2,092
Others	3,566	3,808	3,629
	91,622	84,727	78,165
<b>Long-term liabilities</b>			
Corporate bonds	2,500	-	400
Long-term debt	16,475	17,868	18,650
Deferred tax liabilities	150	76	87
Employees' retirement benefits	18,664	18,821	15,458
Reserve for losses on guaranteed liabilities	697	497	-
Others	1,075	844	878
	39,562	38,108	35,474
	131,185	122,835	113,640
<b>Minority interests</b>	2,367	2,515	981
<b>Shareholders' equity</b>			
Capital stock	10,039	10,039	-
Capital reserve	8,137	8,137	-
Retained earnings	12,423	11,424	-
Unrealized gains or losses on other securities	198	(37)	-
Foreign currency translation adjustments	(3,157)	(2,603)	-
Treasury stock	(0)	(4)	-
Parent company capital owned by subsidiaries	(5,015)	(5,015)	-
	22,625	21,940	-
Common stock	-	-	10,039
Capital reserves	-	-	8,137
Retained earnings	-	-	12,234
Unrealized gains or losses on other securities	-	-	546
Foreign currency translation adjustments	-	-	(3,306)
Treasury stock	-	-	(3,970)
Total shareholders' equity	-	-	23,680
<b>Total liabilities, minority interests and shareholders' equity</b>	156,178	147,291	138,301

**Market value of securities**

## Marketable securities for trading purposes

2002		2003	
Millions of yen			
Book value	Unrealized gains or losses recognized at year-end	Book value	Unrealized gains or losses recognized at year-end
400	(132)	276	(121)

## Other quoted securities

Millions of yen	2002			2003		
	Cost of acquisition	Book value	Unrealized gain (loss)	Cost of acquisition	Book value	Unrealized gain (loss)
Securities for which value on the consolidated balance sheet exceeds purchase cost						
Shares	894	1,465	570	800	2,033	1,233
	894	1,465	570	800	2,033	1,233
Securities for which value on the consolidated balance sheet does not exceed purchase cost						
Shares	2,980	2,340	(640)	2,008	1,695	(313)
Others	9	7	(1)	7	6	(0)
	2,990	2,348	(642)	2,015	1,701	(313)
	3,884	3,813	(71)	2,816	3,735	919

The Company provided for permanent diminution in the value of "Other quoted securities—shares" in the amount of 965 million yen in the consolidated fiscal 2002, and in the value of "Other quoted securities—shares and others" in the amount of 1,020 million yen in the consolidated fiscal 2003. The Company recognizes permanent diminution for all securities whose market value as of the end of the term has declined by more than 50 percent of acquisition costs. In instances where the rate of decline is more than 30 percent but less than 50 percent, the Company recognizes permanent diminution primarily on the basis of internal regulations entitled "Management Regulations Relating to Transactions in Securities and Derivatives."

## Other marketable securities sold during the years ended March 31, 2002 and 2003

2002			2003		
Millions of yen					
Amount sold	Total gain on sales	Total loss on sales	Amount sold	Total gain on sales	Total loss on sales
20	0	16	209	-	11

## Major investment securities without market prices

Millions of yen	2002	2003
Bonds held to maturity		
Negotiable certificates of deposit	1,250	-
Other securities		
Unlisted stocks (excluding OTC stocks)	808	565

Scheduled redemptions of bonds with maturity dates and bonds being held to maturity (among holdings in the "other securities" account)

Millions of yen	2002				2003			
	Up to 1 year	Greater than 1 and up to 5 years	Greater than 5 and up to 10 years	Greater than 10 years	Up to 1 year	Greater than 1 and up to 5 years	Greater than 5 and up to 10 years	Greater than 10 years
Bonds								
Corporate bonds	-	5	-	-	-	5	-	-
Others	1,250	-	-	-	1	-	-	-
Others								
Securities investment trust	-	2	-	-	-	-	2	-
	1,250	7	-	-	1	5	2	-

## Fixed assets

### Facilities

Millions of yen	Buildings and structures	Machinery and equipment	Land		Others	Total	Number of employees
	Book value	Book value	Book value	Square meters	Book value		
<b>Parent</b>							
Tokyo production plant	1,854	1,279	504	33,577	452	4,090	394
Kawaguchi production plant	384	198	1,346	20,150	73	2,003	144
Tokai production plant	1,978	1,731	471	175,506	76	4,258	285
Osaka production plant	258	266	853	20,082	71	1,449	158
Shiga production plant	289	161	620	20,077	13	1,084	11
Headquarters (Tokyo)	1,329	46	2,965	5,142	192	4,534	368
West Japan branch	157	13	349	2,520	1	522	112
Chubu branch	81	15	1,039	13,810	2	1,139	49
<b>Domestic subsidiaries</b>							
UKIMA Chemicals & Color Mfg.	1,008	350	7,232	31,570	75	8,668	201
Others	1,905	776	3,242	97,516	106	6,044	503
<b>Overseas subsidiaries</b>	2,000	1,970	289	169,520	95	4,364	767

## Debt

### Bonds

Millions of yen	Date issued	Issue amount	Outstanding	Interest rate	Maturity
Mortgage debenture	3/25/96	1,000	-	3.20%	3/31/03
Unsecured corporate bond	3/24/03	-	400	0.60%	3/24/08
		-	1,000	-	-

## Borrowings

Millions of yen	Previous period	Outstanding	Average rate	Maturity
Short-term borrowings	46,727	42,768	1.2%	-
Current portion of long-term debt	7,531	7,359	2.2%	-
Long-term debt (excluding current portion of long-term debt)	17,868	18,650	1.3%	From 2004 to 2036
Other interest-bearing liabilities	-	-	-	-
	72,128	68,778	-	-

## Assets provided as collateral

Millions of yen	2002	2003
<b>Assets provided as collateral</b>		
Buildings and structures	5,296	5,503
Machinery and delivery equipment	3,834	3,232
Tools, furniture and fixtures	653	600
Land	6,639	7,537
Marketable securities	2,028	1,690
	18,453	18,565
	<b>2002</b>	<b>2003</b>
<b>Liabilities for which collateral provided</b>		
Claims for recovery based on guarantee agreement on unsecured bonds	-	412
Bonds redeemable within 1 year	1,000	-
Long-term debt	11,838	16,154
	12,838	16,566

## Guarantees

Millions of yen	2002	2003
Will Corporation	1,641	DAISECO Co., Ltd. 636
DAISECO Co., Ltd.	892	Presstek, Inc. 474
Dainichi Pla Board Co., Ltd.	578	REGLUS Co., Ltd. 397
REGLUS Co., Ltd.	433	16 other companies 1,424
13 other companies	1,347	2,932
	4,894	
Discounts on notes receivable	5,849	4,916
Endorsed notes receivable	161	147

## Retirement benefits

### Summary of retirement benefit system

The Company, its domestic consolidated subsidiaries and its nonconsolidated companies accounted for under the equity method offer pension annuity fund systems, qualified retirement pension systems and lump-sum retirement benefits as defined benefit plans. In addition to these defined benefit pension plans, certain overseas subsidiaries have established defined contribution annuity plans. The Company has also established a retirement benefit investment trust.

On April 23, 2003, the Company and its consolidated and nonconsolidated (equity method) domestic subsidiaries received approval from the Minister of Health, Labor and Welfare to return certain obligations relating to employees' welfare pensions to the government (the so-called "agency portion" that had been undertaken on behalf of the government).

### Items related to retirement benefit liabilities

Millions of yen	2002	2003
Retirement benefit liabilities	(45,390)	(28,417)
Pension assets	17,247	2,910
Unaccrued pension benefit liabilities	(28,143)	(25,507)
Provisions required due to changes in accounting standards	-	-
Unrecognized actuarial gains or losses	9,974	10,049
Unrecognized liabilities for past service costs (reduction in amount of obligations)	(652)	-
Net amount shown on consolidated balance sheet	(18,821)	(15,458)
Prepaid pension expenses	-	-
Allowance for retirement benefits	(18,821)	(15,458)

### Items related to retirement benefit expenses

Millions of yen	2002	2003
Current service costs	1,451	1,026
Interest expenses	1,332	792
Expected earnings on pension fund assets	(848)	(124)
Accrual of differences arising due to changes in accounting standards	-	-
Expensing of differences based on actuarial calculations	374	372
Amortization period for past service costs recognized as expenses	(34)	-
Retirement benefit expenses	2,274	2,066
Gains or losses from return to government of obligations related to employees' welfare pensions	-	(3,598)
	2,274	(1,531)

## Assumptions underlying the calculation of retirement benefit liabilities

	<b>2002</b>	<b>2003</b>
Method of allocating prospective retirement benefits to each period	Equal payments basis	Equal payments basis
Discount rate	3.0%	2.5%
Expected rate of return	4.5%	2.5%
Number of years for amortization of past service costs	10 years	-
	(Amortized using the straight-line method over a fixed number of years that is less than the average remaining period of service for employees at the time when the liability accrues)	-
Amortization period for actuarial gains or losses	15 years	15 years
	(Amortized using the straight-line method over a fixed number of years that is less than the average remaining period of service for employees in the consolidated fiscal year in which the gains or losses are accrued, with amortization beginning in the consolidated fiscal year following that in which the gains or losses are accrued)	(Same as 2002)

**Deferred taxes**

<b>Millions of yen</b>	<b>2002</b>	<b>2003</b>
Deferred tax assets	11,970	9,551
Deferred tax liabilities	(1,995)	(2,322)
Deferred tax assets - net	9,975	7,228

<b>Percent</b>	<b>2002</b>	<b>2003</b>
Legal effective tax rate	-	42.05
<Adjustments>		
Expenses not deductible for tax purposes (such as entertainment expenses)	-	2.89
Dividends receivable and other income permanently excluded from taxable income	-	(0.93)
Per capita rate of inhabitant tax	-	0.49
Decrease in deferred tax assets resulting from change in tax rate	-	3.09
Differences in tax rates of overseas subsidiaries	-	(3.00)
Effect of increases in valuation-related provisions	-	7.92
Others	-	0.77
Income tax and others accompanying adoption of tax effect accounting	-	53.28

Notes: Because the Company recognized a loss under income before tax adjustments, this breakdown was omitted in the previous fiscal year.

## Nonconsolidated Statements

*Nonconsolidated statement of income*

Years ended March 31; Millions of yen	2001	2002	2003
<b>Net sales</b>			
Net sales - finished goods	96,426	86,177	90,521
Net sales - merchandise	25,275	20,886	23,322
	121,702	107,064	113,843
<b>Cost of sales</b>			
Inventory of finished goods and semifinished goods, beginning of term	8,685	8,682	8,447
Production costs for the term	58,994	54,522	56,564
Purchase of finished goods for the term	21,707	19,089	19,311
	89,386	82,294	84,323
Inventory of finished goods and semifinished goods, end of term	8,682	8,447	8,358
	80,704	73,847	75,965
Merchandise inventory, beginning of term	196	235	226
Purchase of merchandise for the term	24,858	19,832	22,220
	25,055	20,067	22,446
Merchandise inventory, end of term	235	226	223
	24,819	19,841	22,222
Total cost of sales	105,524	93,689	98,188
Gross profit	16,178	13,375	15,655
<b>Selling, general and administrative expenses</b>			
Packing and shipping expenses	2,126	1,975	2,299
Business entertainment expenses	297	243	247
Provision for allowance for doubtful accounts	4	86	117
Payroll expenses	5,021	4,184	3,958
Reserve provision for bonuses	649	589	537
Employee benefit expenses	1,283	1,137	1,156
Pension benefit expenses	471	706	601
Travel and transportation expenses	404	356	396
Depreciation expenses	165	79	70
Rental expenses	952	993	977
Research and development expenses	-	-	966
Others	1,399	2,413	1,529
	12,775	12,765	12,857
Operating income	3,403	609	2,797

DAINICHISEIKA

Years ended March 31; Millions of yen	2001	2002	2003
<b>Non-operating income</b>			
Interest income	72	69	71
Dividend income	386	380	424
Rental income	932	746	526
Cash discounts on purchases	31	28	27
Others	410	346	401
	1,834	1,572	1,451
<b>Non-operating expenses</b>			
Interest expenses	761	641	562
Loss on sale of notes	-	-	124
Expenses on assets leased to others	611	455	301
Others	395	247	46
	1,768	1,344	1,035
Ordinary profit	3,469	838	3,213
<b>Extraordinary gains</b>			
Gain on sales of fixed assets	0	0	0
Gain on sales of investment securities	15	0	-
Gain on sales of other investments	7	-	-
Gain from establishment of pension plan assets	427	-	-
Gain on reversal of provision for loss on loan guarantees	-	200	200
Gain from liquidation of affiliated company	-	279	-
Gain from return to government of "agency portion" obligations related to employees' welfare pensions	-	-	2,758
Revised profit carried forward from previous term	-	-	130
	450	479	3,088

## DAINICHISEIKA

Years ended March 31; Millions of yen	2001	2002	2003
<b>Extraordinary losses</b>			
Loss on sales of fixed assets	1	5	124
Loss on disposal of fixed assets	34	66	169
Loss on sales of investment securities	507	16	14
Loss on valuation of investment securities	1,573	961	1,025
Loss on valuation of securities of affiliated companies	3,776	595	43
Loss on liquidation of investment securities	2	-	1
Loss on liquidation of shares of affiliated companies	-	0	-
Loss on liquidation of affiliates	-	-	44
Loss on valuation of other investments	62	12	3
Provision for allowance for doubtful accounts	304	34	558
Losses on doubtful accounts	-	-	19
Reserve provision for losses on guaranteed liabilities	697	613	791
Directors' retirement allowances	-	34	8
Retirement benefit expenses due to changes in accounting standards	12,703	-	-
Loss on compensation for product-warranty claims	67	-	-
	19,730	2,341	2,806
Income before income taxes	(15,811)	(1,023)	3,496
Income, residence and enterprise taxes	1,341	280	460
Deferred taxes	(6,327)	(1,513)	1,452
	(4,986)	(1,233)	1,912
Net income	(10,825)	210	1,583
Unappropriated retained earnings brought forward	2,494	2,369	1,860
Interim dividends	465	372	279
Transfer to legal reserve with respect to interim dividends	46	-	-
Disposition of reserve for retirement allowances	-	34	8
Unappropriated retained earnings at year-end	(8,842)	2,241	3,173

***Nonconsolidated appropriation of retained earnings***

<b>Millions of yen</b>	<b>June 28, 2001</b>	<b>June 27, 2002</b>	<b>June 27, 2003</b>
Unappropriated retained earnings, fiscal year-end	(8,842)	2,241	3,173
Disposition of voluntary reserves			
Reversal of reserve for reduction entry of acquisition costs	0	3	8
Reversal of reserve for dividends	3,770	-	-
Reversal of special reserves	8,000	-	-
	<u>11,770</u>	<u>3</u>	<u>8</u>
	2,927	2,244	3,181
Appropriation of retained earnings			
Legal reserves	51	-	-
Cash dividends	465	372	279
Bonuses to directors and statutory auditors	41	12	27
[Bonuses to statutory auditors]	[6]	[1]	[4]
Voluntary reserves			
Reserve for reduction entry of acquisition costs	-	-	45
	<u>558</u>	<u>384</u>	<u>352</u>
Unappropriated retained earnings carried forward	<u>2,369</u>	<u>1,860</u>	<u>2,829</u>

***Cost of goods sold***

<b>Years ended March 31; Millions of yen</b>	<b>2001</b>	<b>%</b>	<b>2002</b>	<b>%</b>	<b>2003</b>	<b>%</b>
Cost of raw materials	37,216	62.9	33,905	61.9	36,393	64.1
Labor costs	9,184	15.5	9,627	17.6	8,808	15.5
Expenses	12,776	21.6	11,227	20.5	11,591	20.4
(Subcontracted processing expenses)	(7,691)	(13.0)	(6,279)	(11.5)	(6,936)	(12.2)
(Depreciation expenses)	(1,546)	(2.6)	(1,575)	(2.9)	(1,378)	(2.4)
(Other manufacturing expenses)	<u>(3,539)</u>	<u>(6.0)</u>	<u>(3,372)</u>	<u>(6.1)</u>	<u>(3,276)</u>	<u>(5.8)</u>
Total manufacturing overhead	59,178	100.0	54,759	100.0	56,794	100.0
Work-in-process inventory, beginning of term	<u>212</u>		<u>181</u>		<u>196</u>	
	59,390		54,940		56,991	
Work-in-process inventory, end of term	181		196		214	
Transfers to other accounts	<u>215</u>		<u>221</u>		<u>212</u>	
Production and semifinished goods costs for the term	<u>58,994</u>		<u>54,522</u>		<u>56,564</u>	

***Nonconsolidated balance sheet: assets***

<b>Years ended March 31; Millions of yen</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>Current assets</b>			
Cash and time deposits	8,374	9,033	6,680
Notes receivable, trade	9,619	8,203	7,208
Accounts receivable, trade	33,072	26,519	28,564
Marketable securities	2,400	1,250	-
Treasury stock	0	-	-
Merchandise	235	226	223
Finished products	7,339	7,052	7,008
Semifinished goods	1,343	1,395	1,349
Raw materials	2,431	2,187	2,057
Work in process	181	196	214
Supplies	179	178	171
Accounts receivable, other	13	46	92
Prepaid expenses	305	259	236
Short-term loans	1,478	1,890	1,605
Deferred tax assets	521	1,405	646
Others	479	1,012	288
Less allowance for doubtful accounts	(178)	(139)	(136)
	67,796	60,717	56,212
<b>Fixed assets</b>			
<b>Tangible fixed assets</b>			
Buildings	18,046	18,245	18,633
Accumulated depreciation	10,961	11,485	11,828
	7,084	6,760	6,805
Structures	3,797	3,775	3,825
Accumulated depreciation	2,884	2,943	2,971
	912	832	854
Machinery and equipment	30,184	30,528	28,863
Accumulated depreciation	25,826	26,106	25,133
	4,357	4,421	3,730
Vehicles and delivery equipment	898	894	873
Accumulated depreciation	749	765	770
	148	129	103
Tools, furniture and fixtures	6,141	6,235	6,058
Accumulated depreciation	5,125	5,275	5,176
	1,016	960	882

DAINICHISEIKA

Years ended March 31; Millions of yen	2001	2002	2003
Land	8,923	9,035	9,120
Construction in progress	102	73	79
	22,545	22,212	21,575
<b>Intangible fixed assets</b>			
Leaseholdings	163	163	163
Software	3	1	2
Others	58	55	52
	224	219	218
<b>Investments and other assets</b>			
Investment securities	5,616	4,402	4,235
Capital stock of affiliated companies	8,245	7,682	7,943
Other equity investments in affiliated companies	1,281	1,582	1,582
Long-term loans	0	0	-
Long-term loans to employees	1,061	956	800
Long-term loans to affiliated companies	53	150	4,157
Cash value of insurance for officers	-	1,256	1,410
Long-term accounts receivable	907	1,015	980
Rights to assets in liquidation or reorganization	85	287	110
Long-term prepaid expenses	94	92	86
Lease deposits	1,269	1,269	-
Deferred tax assets	5,507	6,313	5,216
Others	1,587	462	1,385
Less allowance for doubtful accounts	(972)	(1,104)	(2,173)
	24,739	24,369	25,734
Total fixed assets	47,510	46,801	47,528
<b>Total assets</b>	115,306	107,518	103,740

***Nonconsolidated balance sheet: liabilities and shareholders' equity***

<b>Years ended March 31; Millions of yen</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>Current liabilities</b>			
Notes payable, trade	3,327	3,368	2,263
Accounts payable, trade	24,611	19,063	18,196
Short-term borrowings	20,638	20,138	17,918
Current portion of long-term debt	6,959	5,674	4,650
Accounts payable, other	1,920	1,691	1,486
Accrued expenses	194	174	130
Accrued consumption taxes	172	206	231
Accrued corporate and residence taxes	436	332	347
Advances from customers	24	88	20
Deposits received	117	152	132
Accrued bonuses to employees	1,701	1,682	1,467
Notes payable, construction	272	118	73
Others	85	77	72
	60,461	52,767	46,989
<b>Long-term liabilities</b>			
Long-term debt	10,740	11,098	14,323
Employees' retirement benefits	14,326	14,422	11,722
Reserve for losses on guaranteed liabilities	697	1,110	1,088
Others	135	92	96
	25,900	26,724	27,231
Total liabilities	86,361	79,491	74,221
<b>Shareholders' equity</b>			
Capital stock	10,039	10,039	-
Capital reserves	8,137	8,137	-
Legal reserves	2,173	2,224	-
Retained earnings			
Reserve for officers' retirement benefits	638	604	-
Reserve for reduction entry of acquisition costs	1,952	1,951	-
Reserve for dividends	3,770	-	-
Special reserves	10,870	2,870	-
Total voluntary reserves	17,230	5,425	-
Unappropriated retained earnings	(8,842)	2,241	-
	8,387	7,667	-
Unrealized gains or losses on other securities	206	(36)	-
Treasury stock	-	(4)	-
Total shareholders' equity	28,945	28,027	-

DAINICHISEIKA

Years ended March 31; Millions of yen	2001	2002	2003
Common stock	-	-	10,039
Capital reserves			
Additional paid-in capital	-	-	8,137
	-	-	8,137
Retained earnings			
Legal income reserves	-	-	2,224
Voluntary reserves - total			
Reserve for retirement allowances	-	-	595
Reserve for asset reduction entries	-	-	1,948
Special reserve	-	-	2,870
Unappropriated retained earnings, fiscal year end	-	-	3,173
	-	-	10,811
Unrealized gains or losses on other securities	-	-	549
Treasury stock	-	-	(18)
Total shareholders' equity	-	-	29,519
<b>Total liabilities and shareholders' equity</b>	<b>115,306</b>	<b>107,518</b>	<b>103,740</b>

### *Trade credit*

#### Notes receivable — trade

Millions of yen	2003
Kimura Fine Tsusho Co., Ltd.	526
Yamamoto Ink Co., Ltd.	355
Meiwa Packs Co., Ltd.	272
New Fine Chemical Co., Ltd.	236
Chuwa Kagaku Yakuhin Co., Ltd.	192
Others	5,626
	7,208
April 2003	742
May 2003	855
June 2003	2,597
July 2003	2,160
August 2003	801
September 2003 and later	50
	7,208

## Accounts receivable — trade

Millions of yen	2003
DSF Co., Ltd.	1,893
Japan Poli Chem Co., Ltd.	1,249
Oyodo Dainichiseika Kogyo Co., Ltd.	779
INCTEC INC.	772
Polyplastics Co., Ltd.	620
Others	23,248
	<u>28,564</u>

## Turnover of accounts receivable

Millions of yen	2003
Beginning balance	26,519
Increase	119,093
Collected	117,048
Ending balance	28,564
Turnover	80.3%
Average months for collection	2.77

## Notes payable — trade

Millions of yen	2003
Shoei Chemical Inc.	309
Process Shizai Co., Ltd.	158
SK Eki Seizou Co., Ltd.	133
Kishimoto Sangyo Co., Ltd.	98
New Fine Chemical Co., Ltd.	87
Others	1,475
	<u>2,263</u>
April 2003	639
May 2003	654
June 2003	505
July 2003	462
August 2003	1
September 2003 and later	-
	<u>2,263</u>

## Accounts payable — trade

Millions of yen	2003
Hi-Tech Chemi Co., Ltd.	1,636
Japan Poli Chem Co., Ltd.	1,188
Nagase & Co., Ltd.	778
UKIMA Chemicals & Color Mfg. Co., Ltd.	662
KOMORI Corporation	561
Others	13,369
	<u>18,196</u>

*Marketable and investment securities*

Millions of yen		
<b>Stocks</b>		
	<b>Number of shares</b>	<b>Book value</b>
<b>Investment securities</b>		
Other securities		
Sumitomo Mitsui Financial Group, Inc. (8316)	588	124
UFJ Holdings, Inc. (8307)	833	98
Mitsubishi Tokyo Financial Group, Inc. (8306)	412	185
Taisei Lamick Co., Ltd. (4994)	200,000	764
Taiyo Ink Manufacturing (4626)	58,200	193
Nissha Printing (7915)	165,653	136
Nippon Paint (4612)	401,356	114
Mitsubishi Pencil (7976)	352,473	249
Half Century More	2,000	100
LONA INDUSTRIES LTD.	618,925	104
Others (146 shares)	8,234,993	2,158
	<u>10,035,434</u>	<u>4,230</u>
<b>Bonds</b>	<b>Total face value</b>	<b>Book value</b>
<b>Investment securities</b>		
Bonds being held to maturity		
KITANIHON Printing	5	5
	<u>5</u>	<u>5</u>

*Tangible fixed assets*

Millions of yen	Beginning of term	Increase	Decrease	End of term	Depreciation		End of term, net
					Accumulated	Current	
<b>Tangible fixed assets</b>							
Buildings	18,245	629	241	18,633	11,828	533	6,805
Structures	3,775	142	92	3,825	2,971	99	854
Machinery and equipment	30,528	351	2,015	28,863	25,133	827	3,730
Vehicles and delivery equipment	894	17	38	873	770	40	103
Tools, furniture and fixtures	6,235	147	325	6,058	5,176	196	882
Land	9,035	271	186	9,120	-	-	9,120
Construction in progress	73	298	291	79	-	-	79
	68,788	1,858	3,191	67,456	45,880	1,697	21,575
<b>Intangible fixed assets</b>							
Leaseholdings	-	-	-	163	-	-	163
Software	-	-	-	3	0	1	2
Other intangible fixed assets	-	-	-	77	24	2	52
	-	-	-	243	24	4	218
Long-term prepaid expenses	147	2	1	148	61	8	86

*Reserves*

Millions of yen	Beginning of term	Increase	Decrease	End of term
Allowance for doubtful accounts	1,243	1,263	197	2,309
Accrued bonuses to employees	1,682	1,467	1,682	1,467
Reserve for losses on guaranteed liabilities	1,110	791	813	1,088

## Accounting Policies

### Summary of accounting policies: Consolidated

<b>Basis of presentation</b>	Japanese GAAP
<b>Marketable securities and investments in securities</b>	Trading securities: market value method (calculated primarily using the moving average cost method) Bonds held to maturity: cost amortization method (straight-line) Other securities: Quoted securities: market value method, based on market prices, etc., on the day of closing of consolidated accounts (The Company debits or credits valuation differences entirely to shareholders' equity, calculating the cost of shares sold using the moving average method.) Unquoted securities: valued at cost using the moving average method
<b>Derivatives</b>	Market value method
<b>Monetary trusts for investment purposes</b>	Market value method
<b>Inventories</b>	Valued at cost, computed on a periodic average basis
<b>Depreciation</b>	Tangible fixed assets: declining balance method and straight-line method Intangible fixed assets: straight-line method Software for internal use is amortized on a straight-line basis (based on length of internal useful life).
<b>Allowance for doubtful accounts</b>	To provide for doubtful accounts that arise in relation to trade receivables, loans, etc., the Company and its consolidated subsidiaries in Japan recognize allowances for nonspecific receivables on the basis of a statutory deduction ratio. For problematic and other specified receivables, allowances are recognized on the basis of analyses of individual accounts. The Company's overseas subsidiaries recognize allowances for specified receivables primarily on the basis of estimated uncollectible amounts.
<b>Reserve for bonuses</b>	Accrual of 100% of the amount deductible for income tax purposes
<b>Reserve for retirement benefits</b>	To provide for employees' retirement benefits, the Company recognizes an amount based on retirement benefit liabilities and estimated pension assets as of the end of the consolidated fiscal year to March 2003.
<b>Significant hedge accounting methods</b>	Hedging instruments, and risks hedged: Hedging instruments: foreign exchange forward contracts and interest rate swaps Risks hedged: foreign currency-denominated monetary claims and obligations and provisional foreign currency-denominated transactions and borrowings Hedging policy: The Company enters into hedging transactions in accordance with internal regulations that regulate authority regarding derivative transactions and which place limits on amounts that may be transacted. Method of evaluating the effectiveness of hedging: In principle, the Company evaluates the effectiveness of transactions to hedge cash-flow fluctuation risks caused by interest rate fluctuations on floating-rate borrowings by performing a ratio analysis of the total of the interest rate fluctuation amount on the underlying borrowing and the interest rate fluctuation amount on the interest rate swap transaction. This evaluation is carried out at least once every six months, including at the fiscal year-end. However, the Company does not evaluate the effectiveness of interest rate swaps that meet conditions set for exceptional treatment (tokurei shori).
<b>Opinion of independent auditors</b>	Auditors: Yasumori Audit Corporation Opinion: unqualified

## Summary of accounting policies: Nonconsolidated

<b>Basis of presentation</b>	Japanese GAAP
<b>Marketable securities and investments in securities</b>	<p>Bonds held to maturity: cost amortization method (straight line)</p> <p>Shares in subsidiaries and affiliated companies: valued at cost using the moving average method</p> <p>Other securities:</p> <p>Quoted securities: market value method, based on market prices, etc., on the day of closing of consolidated accounts (The Company debits or credits valuation differences entirely to shareholders' equity, calculating the cost of shares sold using the moving average method.)</p> <p>Unquoted securities: valued at cost using the moving average method</p>
<b>Derivatives</b>	Market value method
<b>Inventories</b>	Valued at cost, computed on a periodic average basis
<b>Depreciation</b>	<p>Tangible fixed assets: declining balance method and straight-line method</p> <p>Intangible fixed assets: straight-line method</p> <p>Software for internal use is amortized on a straight-line basis (based on length of internal useful life).</p>
<b>Allowance for doubtful accounts</b>	<p>To provide for doubtful accounts that arise in relation to trade receivables, loans, etc., the Company and its consolidated subsidiaries in Japan recognize allowances for nonspecific receivables on the basis of a statutory deduction ratio.</p> <p>For problematic and other specified receivables, allowances are recognized on the basis of analyses of individual accounts.</p> <p>The Company's overseas subsidiaries recognize allowances for specified receivables primarily on the basis of estimated uncollectible amounts.</p>
<b>Reserve for bonuses</b>	Accrual of 100% of the amount deductible for income tax purposes
<b>Reserve for retirement benefits</b>	To provide for employees' retirement benefits, the Company recognizes an amount based on retirement benefit liabilities and estimated pension assets as of the end of the consolidated fiscal year to March 2003.
<b>Reserve for guarantees of obligations</b>	In order to reserve for losses arising from the performance of guarantees of obligations, the required amount is estimated and reserved, taking into consideration the detailed financial condition of each guaranteed party.
<b>Significant hedge accounting methods</b>	<p>Hedging instruments, and risks hedged:</p> <p>Hedging instruments: foreign exchange forward contracts and interest rate swaps</p> <p>Risks hedged: foreign currency-denominated monetary claims and obligations, and provisional foreign currency-denominated transactions and borrowings</p> <p>Hedging policy: The Company enters into hedging transactions in accordance with internal regulations that regulate authority regarding derivative transactions and which place limits on the amounts that may be transacted.</p> <p>Method of evaluating the effectiveness of hedging: In principle, the Company evaluates the effectiveness of transactions to hedge cash-flow fluctuation risks caused by interest rate fluctuations on floating-rate borrowings by performing a ratio analysis of the total of the interest rate fluctuation amount on the underlying borrowing and the interest rate fluctuation amount on the interest rate swap transaction.</p> <p>This evaluation is carried out at least once every six months, including at the fiscal year-end.</p> <p>However, the Company does not evaluate the effectiveness of interest rate swaps that meet conditions set for exceptional treatment (tokurei shori).</p>
<b>Opinion of independent auditors</b>	<p>Auditors: Yasumori Audit Corporation</p> <p>Opinion: unqualified</p>

## Share-related Information

## Shares in issue

<b>Class of shares</b>	Common
<b>Registered or bearer</b>	Registered
<b>Number of shares authorized</b>	250,000,000
<b>Issued</b>	
As of March 31, 2003	93,065,554
As of June 27, 2003	93,065,554
<b>Stock exchange listings or registration</b>	Tokyo Stock Exchange, First Section
<b>Comments</b>	-

## Changes in common stock and number of shares outstanding

Millions of yen Shares Date	Shares outstanding		Common stock		Additional paid-in capital		Remark
	Increase or decrease	Balance	Increase or decrease	Balance	Increase or decrease	Balance	
1997/4/1-1998/3/31	279	93,065	120	10,039	120	8,137	Exercise of warrants

## Shareholders by type of investor

Type of investor	Number of shareholders	Shares Thousands	% owned
National and local government agencies	-	-	-
Financial institutions	53	39,812	43.03
Securities companies	27	1,967	2.13
Business and other corporations	233	24,623	26.61
Nonresidents	32	717	0.77
Nonresidents (individuals)	2	5	0.00
Individuals and others	4,011	25,414	27.46
	4,356	92,533	100.00
Shares less than one unit	-	532,554	-

## Largest shareholders

<b>Name</b>	<b>Thousands of shares owned</b>	<b>% of shares outstanding</b>
UKIMA Chemicals & Color Mfg.	5,887	6.32
Sompo Japan Insurance	5,665	6.08
Sumitomo Mitsui Banking	4,412	4.74
Mitsui Mutual Life Insurance	4,088	4.39
UFJ Bank	3,806	4.08
Employees' shareholders association	3,493	3.75
Mizuho Corporate Bank	2,903	3.11
Mizuho Trust & Banking	2,750	2.95
Hi-Tech Chemi	2,735	2.93
Aozora Bank	1,903	2.04
	37,642	40.44

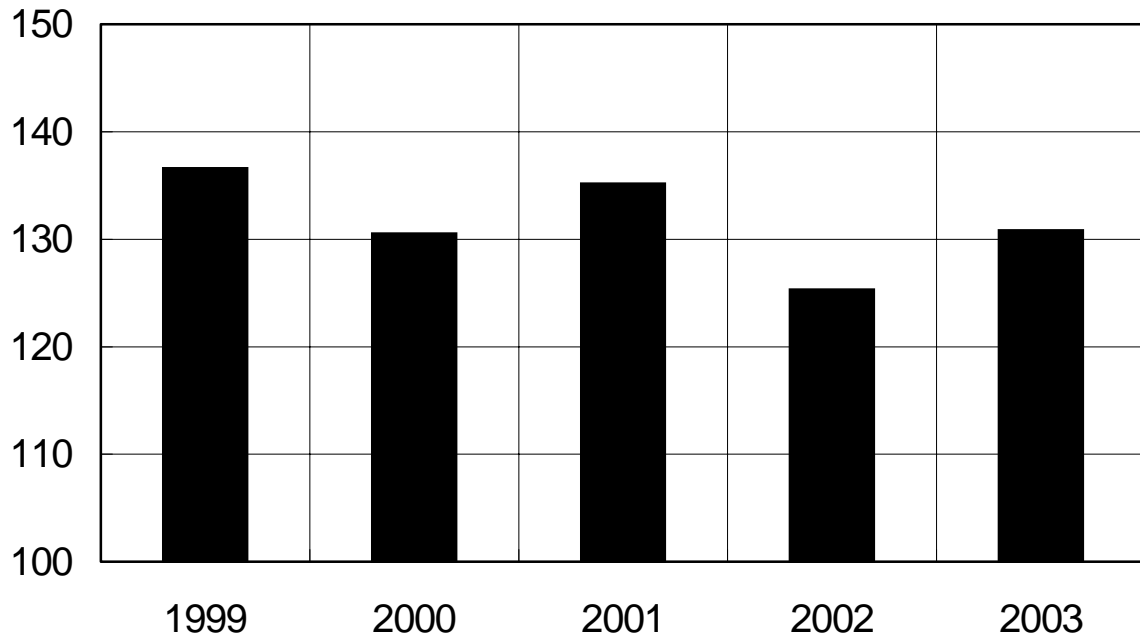
## Share information

<b>Fiscal year-end</b>	March 31
<b>Ex-rights date</b>	March 31
<b>Ex-rights date for interim dividend</b>	September 30
<b>Closing of shareholder register</b>	-
<b>Annual general meeting of shareholders</b>	June
<b>Trading unit</b>	1,000 shares
<b>Types of share certificates</b>	1, 10, 50, 100, 500, 1,000, and 5,000 shares Stock certificates for fractional shares of less than 100
<b>Transfer agent</b>	Mizuho Trust & Banking, 1-2-1, Yaesu, Chuo-ku, Tokyo, Japan
<b>Publication of record</b>	<i>Nihon Keizai Shimbun</i>

Performance in Graphs

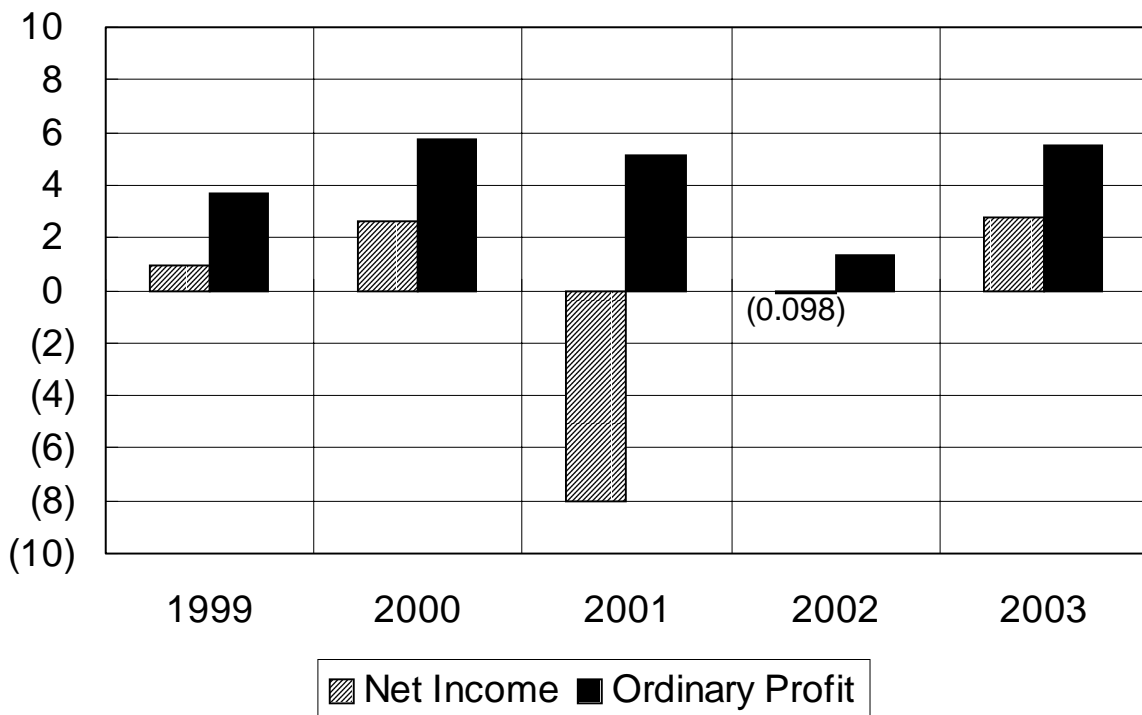
**Net Sales**

Yen billions

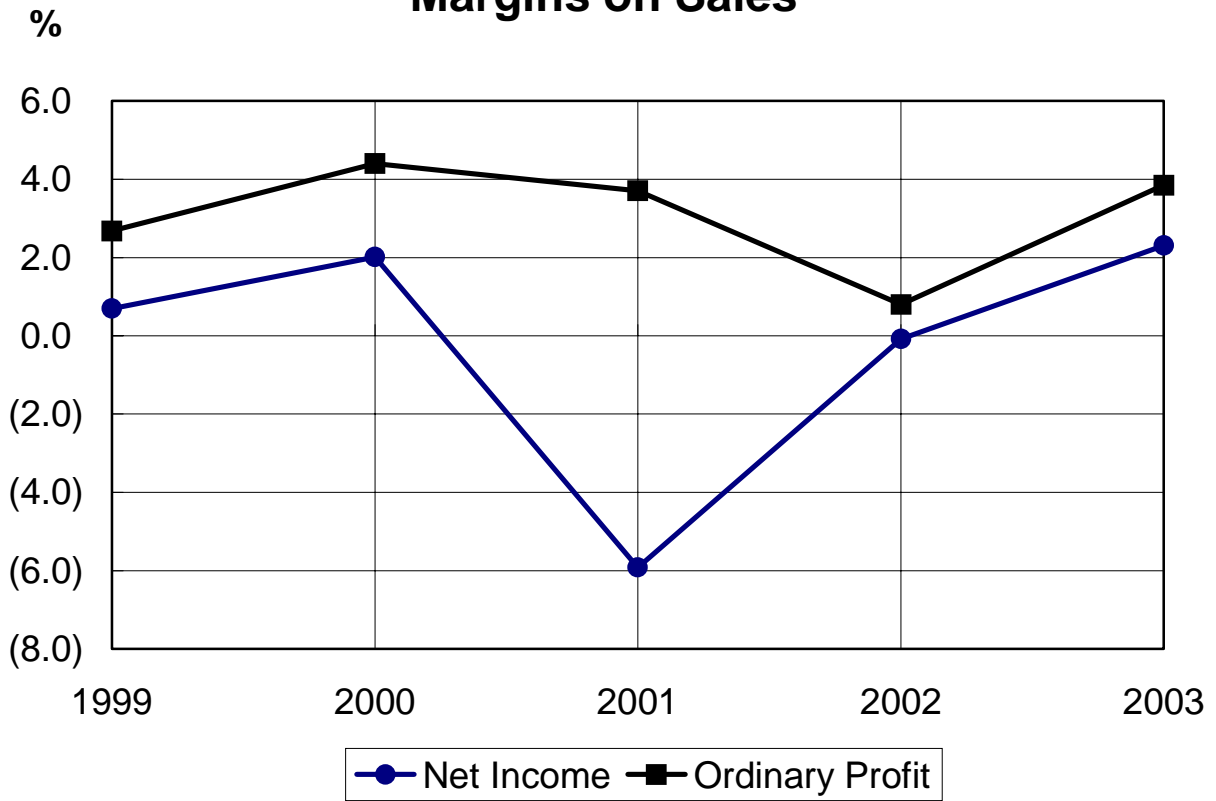


**Ordinary Income and Net Profit**

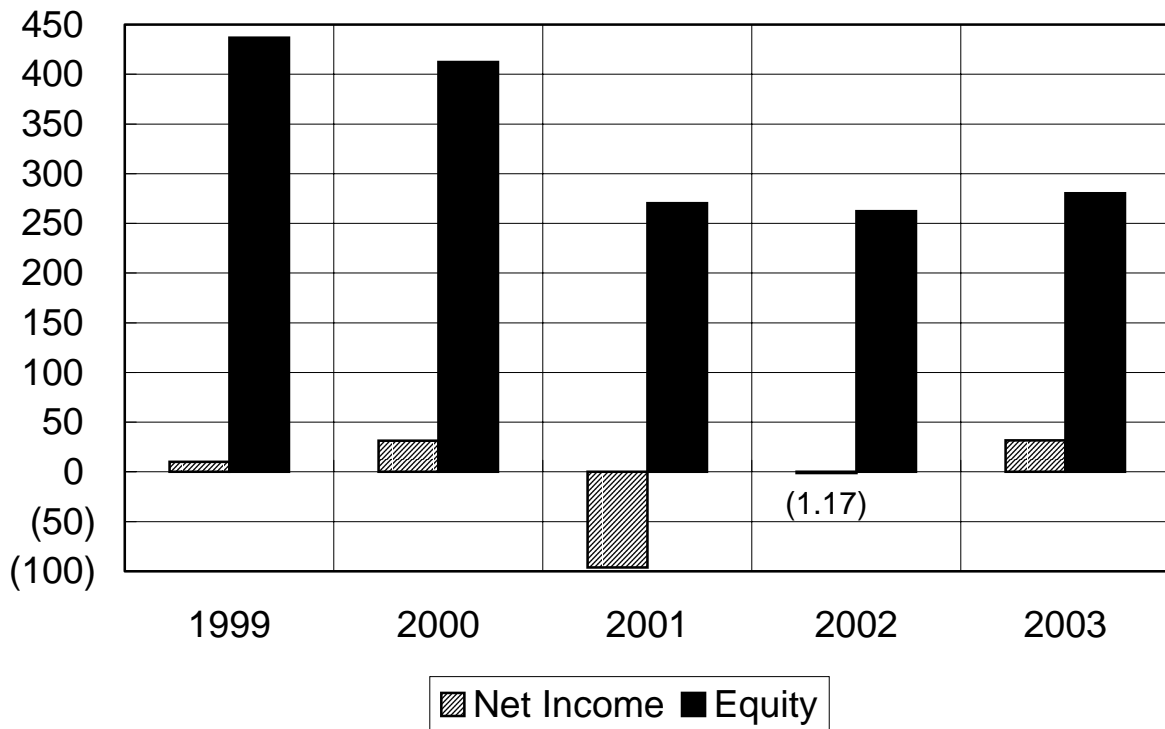
Yen billions



### Margins on Sales

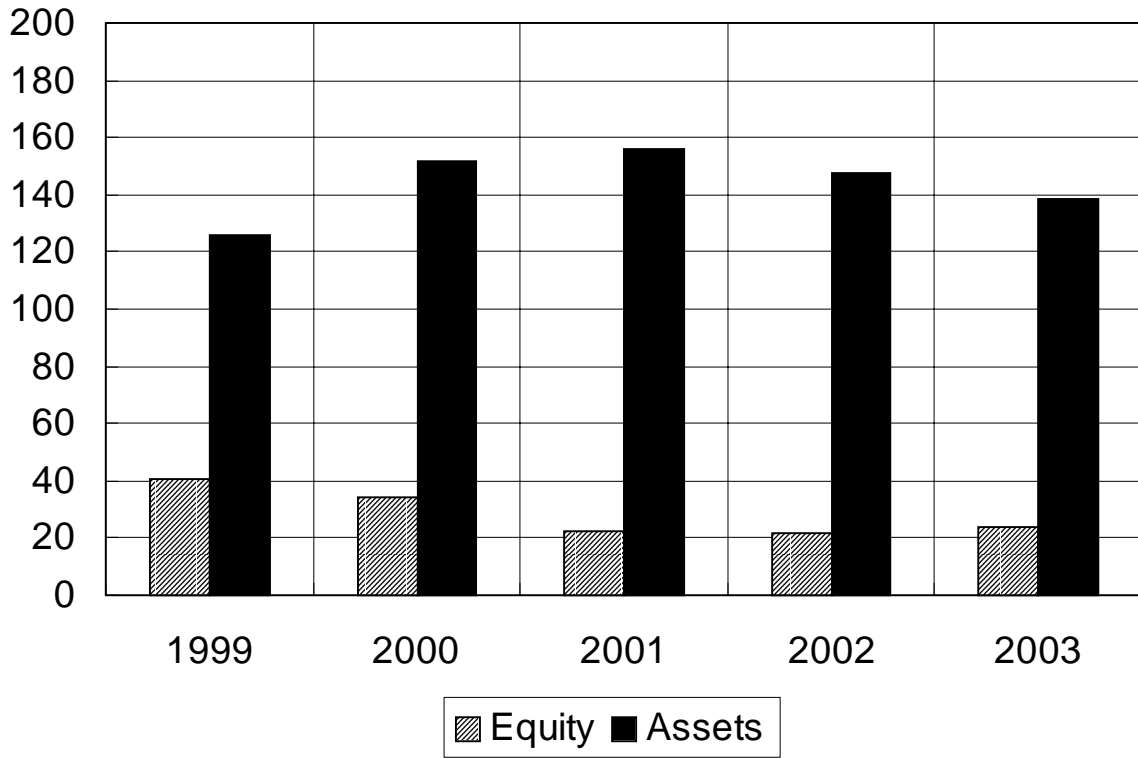


### Per Share



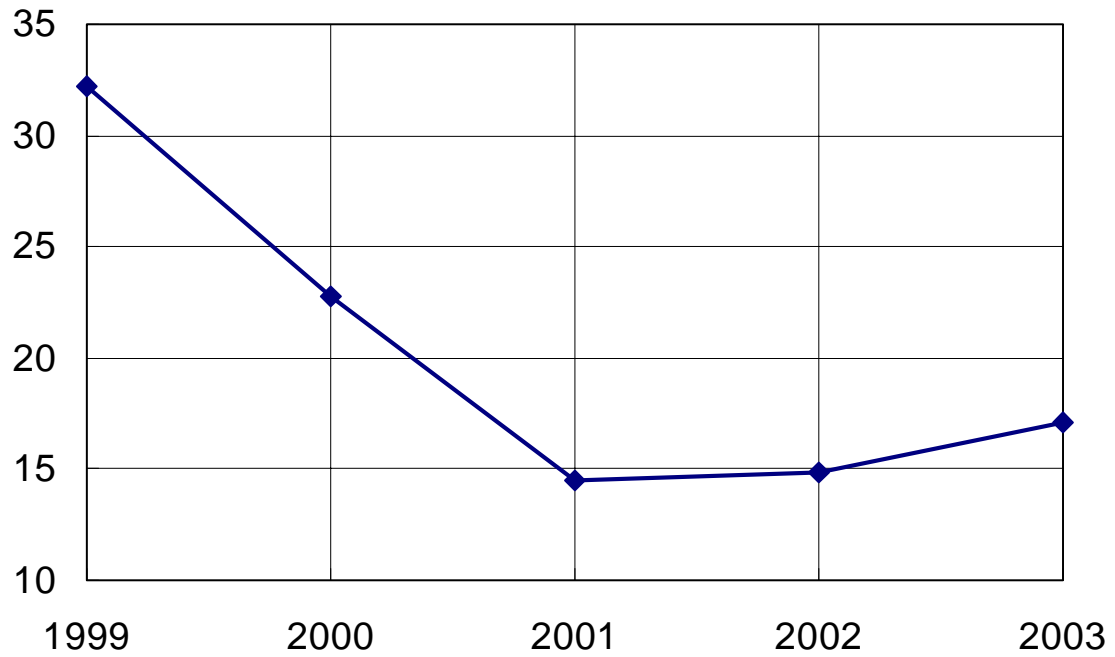
## Equity and Assets

Yen billions

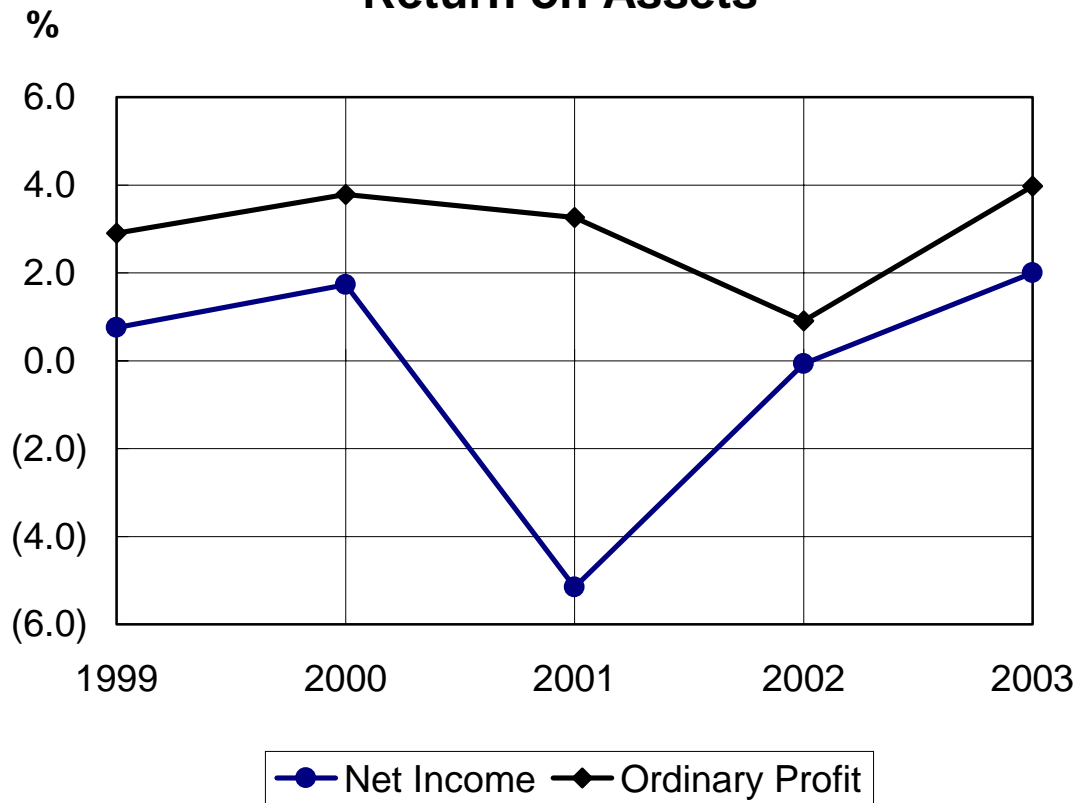


## Equity / Assets

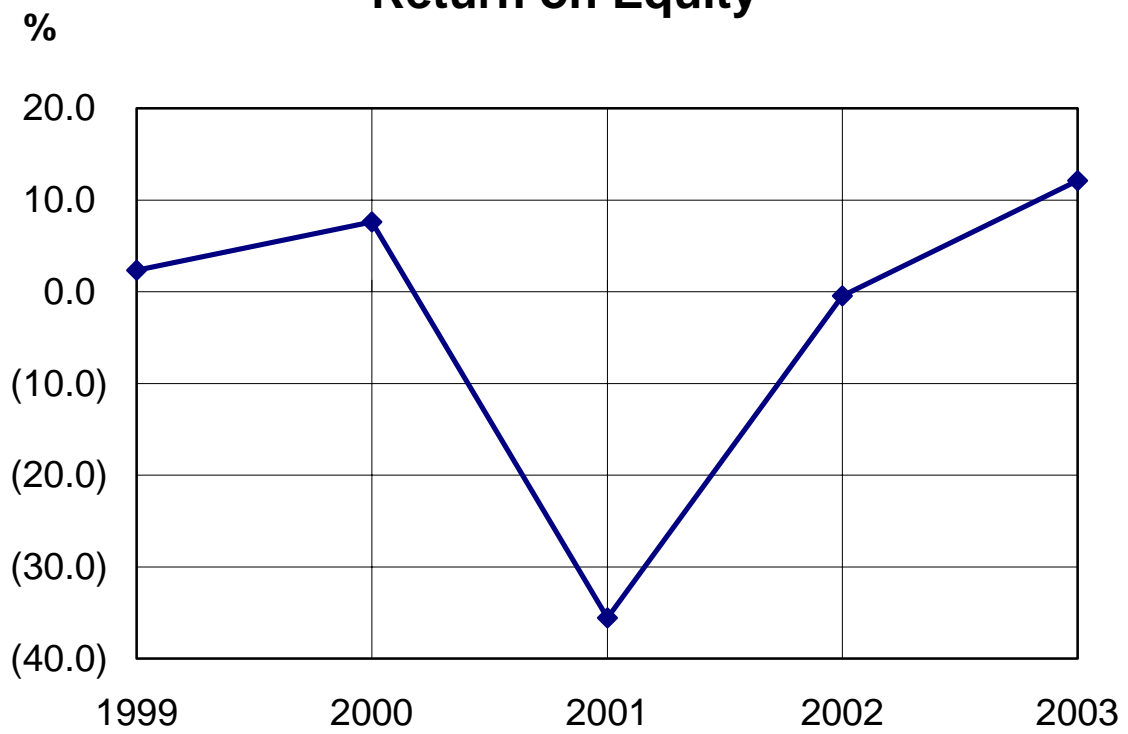
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### Return on Assets



### Return on Equity



## **Contact**

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