



YUHO REPORT
Annual

Fiscal Year Ended	March 31, 2005
Traded	TSE1
Stock Code	4116



DAINICHISEIKA COLOR & CHEMICALS MFG. CO., LTD.

YUHOREPORT

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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 and the 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 error or omission or for results obtained from the use of this information.

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Company Profile

Financial highlights

Years ended March 31; Millions of yen	2001	2002	2003	2004	2005
Consolidated					
Net sales	135,161	125,331	130,825	134,933	140,759
Ordinary profit	5,097	1,338	5,492	6,917	7,599
Net income	(8,048)	(98)	2,767	3,998	2,761
Shareholders' equity	22,625	21,940	23,680	27,620	29,990
Total assets	156,178	147,291	138,301	140,463	140,817
Shareholders' equity per share (Yen)	270.34	262.19	280.39	322.94	349.50
Net income per share (Yen)	(96.17)	(1.17)	31.74	46.56	31.85
Net income per share, fully diluted (Yen)	-	-	-	-	-
Net cash provided by (used in) operating activities	4,364	6,157	6,481	7,110	4,940
Net cash provided by (used in) investing activities	(3,368)	(2,180)	(490)	(2,260)	427
Net cash provided by (used in) financing activities	(2,289)	(4,769)	(6,586)	(4,428)	(4,591)
Cash and cash equivalents at term-end	12,502	12,082	11,502	11,795	12,689
Employees	3,274	3,402	3,355	3,338	3,298

Peer comparisons

Percent	2001	2002	2003	2004	2005
Net income / net sales	(6.0)	(0.1)	2.1	3.0	2.0
Peers	1.4	1.3	0.8	2.4	3.4
Ordinary profit / net sales	3.8	1.1	4.2	5.1	5.4
Peers	5.1	3.1	3.9	5.1	6.7
Net income / equity	-	-	12.1	15.6	9.6
Peers	3.9	1.1	2.2	3.6	6.2
Net income / assets	(5.2)	(0.1)	2.0	2.8	2.0
Peers	1.2	0.7	0.9	1.9	2.9
Ordinary profit / assets	3.3	0.9	4.0	4.9	5.4
Peers	4.2	2.6	3.3	4.2	5.8
Equity / assets	14.5	14.9	17.1	19.7	21.3
Peers	47.4	49.5	50.3	51.2	51.4

Peers include 42 chemical companies with stock codes from 4100 to 4229.

Common size statements

Years ended March 31; Percent	Consolidated		
	2003	2004	2005
Balance sheet			
Assets	100.0	100.0	100.0
Total current assets	53.5	53.6	55.9
Total tangible fixed assets	33.0	31.9	30.2
Total intangible fixed assets	0.6	0.6	0.6
Total investments and other assets	12.9	13.9	13.3
Total fixed assets	46.5	46.4	44.1
Liabilities, minority interests and shareholders' equity	100.0	100.0	100.0
Total current liabilities	56.5	54.8	52.4
Total long-term liabilities	25.7	25.1	25.9
Total liabilities	82.2	79.9	78.3
Minority interests	0.7	0.4	0.4
Common stock	7.3	7.2	7.1
Capital reserves	5.9	6.0	6.0
Retained earnings	8.8	10.6	12.2
Unrealized gains or losses on other securities	0.4	1.0	0.9
Foreign currency translation adjustments	(2.4)	(2.4)	(2.4)
Treasury stock	(2.9)	(2.7)	(2.5)
Total shareholders' equity	17.1	19.7	21.3
Statement of income			
Net sales	100.0	100.0	100.0
Total cost of sales	82.4	81.6	82.0
Gross profit	17.6	18.4	18.0
Selling, general and administrative expenses	13.1	13.2	12.6
Operating income	4.5	5.2	5.4
Total non-operating income	1.1	1.2	1.1
Total non-operating expenses	1.4	1.3	1.1
Ordinary profit	4.2	5.1	5.4
Extraordinary gains	3.1	0.9	0.8
Extraordinary losses	1.7	0.2	1.6
Income before income taxes	5.6	5.8	4.6
Income, enterprise and other taxes	3.0	2.6	2.4
Minority interest in income of consolidated subsidiaries	0.5	0.2	0.2
Net income	2.1	3.0	2.0

Business Overview

Contents of business

The corporate Group (the Company and its affiliates) comprises the Company (Dainichiseika Color & Chemicals Mfg. Co., Ltd.) and 55 affiliated companies.

The Company has consolidated 25 of its principal subsidiaries. Of the remaining 17 nonconsolidated subsidiaries and 13 affiliates, the Company incorporates the results of four into its consolidated accounts through use of the equity method.

The Company added Yamamoto Ink Mfg. Co., Ltd. to its group of consolidated subsidiaries for the year to March 2005. It also eliminated Advanced Polymer, Inc. from the Group following its sale of the shares of that company. Finally, two consolidated subsidiaries, Dainichi PC Compound Co., Ltd. and Kanto Dainichiseika Kogyo Co., Ltd., merged on July 1, 2004.

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 businesses.

Pigments

Group members participating in this business handle pigments, intermediate products, and other fine chemicals used in the production of inks, paints, rubber, synthetic resins and other such products. 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 and raw materials among themselves.

Colorants and Printing Inks

Group members participating in this business handle colorants used in 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 and raw materials among themselves.

Others

Other businesses include 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 participates with its affiliates in certain of these activities.

Group Information

Group companies

Millions of yen; Thousands of foreign currencies	Common stock	Ownership (Percent)	
			(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.	360	100	-
Nagoya Kako Co., Ltd.	50	100	-
Hiroshima Kako Co., Ltd.	10	100	-
Yamamoto Ink Co., Ltd.	50	96.42	
DAISECO Co., Ltd.	30	64	
Highbridge Co., Ltd.	20	50	-
UKIMA Chemicals & Color Mfg. Co., Ltd.	401	24.86	-
Hi-Tech Chemi Co., Ltd.	300	19.5	-
DSF Co., Ltd.	100	19.5	-
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	-
Nicolor Co., Ltd.	US\$3,624	100	-
Dainichiseika, Inc.	US\$29,935	100	-
Daicolor USA, Inc.	US\$154	100	100
P. T. Hi-Tech Ink Indonesia	IDR5,587,000	100	9
Dainichiseika (HK) Coloring Co., Ltd.	HK\$83,000	90	25
Dongguan Dainichi Chemical Manufacturing Co., Ltd.	HK\$98,000	90	90
Dainichi Color (Thailand), Ltd.	Baht234,000	80	-
Daicolor Philippines, Inc.	PHP156,042	79.26	41.47
Nonconsolidated companies accounted for under the equity method			
Osaka Kako Co., Ltd.	20	19.5	19.5
Affiliated companies accounted for under the equity method			
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 at Company headquarters (Chuo Ward, Tokyo) and Tokyo plant (current manufacturing facility) commenced.
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	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 with 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 facility) 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 facility) 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 USA, Inc.) established. (Operations moved to New Jersey in 1978.)
1972	Kawaguchi plant (current manufacturing facility) 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.

Year	Event
1979	DAISECO Co., Ltd. (a consolidated subsidiary) established.
1984	Daicolor Italy S.R.L. (a consolidated subsidiary) established.
1985	Hokuriku sales office (current branch) established.
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 System Finance (currently a consolidated subsidiary, DSF Co., Ltd.) established.
	Plalloy MTD. B.V. established.
1992	Dainichiseika Chemical (Shenzhen) Factory, Ltd. (a consolidated subsidiary) established.
1993	Katano manufacturing facility 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 facility established.
1997	Dainichiseika (HK) Coloring Co., Ltd. (a consolidated subsidiary) established.
	Daicolor Philippines, Inc. (a consolidated subsidiary) established.
2003	Daicolor Shanghai Mfc Co., Ltd. established.

Risk factors

The following includes forward-looking statements reflecting the opinions of the Company as of the day of submission of the filing with the Financial Services Agency.

(1) Sharp increases in prices of raw material

1) Risk of continued sharp increases in raw material prices

- Growing demand from China and ASEAN, setting the stage for widespread price increases for petrochemical derivatives
- Declining surplus production capacity for crude oil and an increasingly speculative market

2) Impact on the Company's results possible if it is unable to absorb these cost increases through price adjustments or cost-cutting

(2) Risk of non-payment of accounts

1) Risk of customer receivables becoming uncollectible, which would require additional write-offs or allowances for receivables or loans

2) Potential for impact of such write-offs or allowances on the Group's operating results and financial standing

(3) Impairment losses on long-term assets

1) For the year ended March 2005, the Company wrote down assets in accordance with the following standards:

- “Accounting for Impairment of Fixed Assets” (Business Accounting Council, August 9, 2002)
- “Guidance for Accounting Standard for Impairment of Fixed Assets” (Accounting Standards Board of Japan, October 31, 2003)

2) Impact on the Group’s financial performance and balance sheet possible if business conditions require recognition of further impairment-related losses

(4) Retirement benefit liabilities

1) The Company and its domestic subsidiaries (hereinafter, the Group) treat their unfunded retirement benefit liabilities in accordance with generally accepted accounting principles.

2) The Group could, however, be required to do the following:

- Employ different assumptions for retirement systems and for calculation of retirement benefits (discount rates, expected rates of return, etc.)
- Recognize actuarial differences in a deteriorating fund-management environment

3) In such instances, liabilities requiring expensing would increase, negatively affecting the Group’s operating performance.

(5) Regulatory restrictions

1) Risk of further tightening of regulations

- As a chemical manufacturer, the Group is subject to restrictions in Japan and other countries with respect to product liability and environmental management systems.
- The Group expects such restrictions to be strengthened hereafter.

2) Impact on the Group’s financial performance is possible from the higher costs associated with increased constraints and tighter regulations on business.

(6) Natural disasters

- 1) Possibility of damage to the Group's manufacturing facilities by earthquakes and other natural disasters
- 2) Suspension of operations; delays in production and shipment schedules
- 3) Financial impacts
 - Lower sales
 - Extremely large costs of repairing or replacing facilities

(7) Production facilities in China

- 1) The Group's major production facilities for colorants and printing inks are located in Hong Kong and in the South and East China regions. In addition, a multi-purpose plant is now under construction in Shanghai and scheduled for completion in autumn 2005. Potential problems include:
 - Insufficient electric power and other problems associated with delays in the country's infrastructure development
 - Regulatory changes
 - Destabilization of economic foundations
- 2) If these problems occur, the following events could materialize and impact the Group's performance:
 - Manufacturing disruptions
 - Delay in construction schedules of Shanghai plant

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 satisfy widespread demand for colors in fields such as paints, printing inks, resins, fibers and stationeries; 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 to 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 chemists and biochemists

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 2,937 million yen in R&D during the fiscal year. This investment was allowed by business as follows: Pigments, 391 million yen; Colorants and Printing Inks, 2,546 million yen.

Analysis of financial condition and results of operations

Significant accounting policies and estimates

The Group's financial statements are prepared in accordance with generally accepted accounting principles in Japan.

Analysis of results of operations (year-on-year percentage changes)

- 1) Sales: up 4.3% to 140,759 million yen due to continued growth in the colorants and printing inks division:
 - In the domestic market, growth in sales of colorants for functional resins used in digital home electronics and motor vehicles
 - Overseas, increased demand for colorants for use by the home appliance, office equipment and motor vehicle industries

2) Cost of sales; SG&A expenses

- A 0.4 point deterioration in the cost of sales ratio due to sharply increasing oil prices and their knock-on effects on the cost of petrochemical derivatives
- On the other hand, a 0.6 point improvement in the ratio of SG&A expenses to sales:
 - Increases in freight and transportation costs (of 125 million yen) and corporate enterprise taxes (of 151 million yen), the latter the result of the introduction of “pro forma standard taxation” (*gaikei hyojun kazei*)
 - Offset by larger decreases in pension benefit expenses (of 145 million yen), provision of allowance for doubtful accounts (62 million yen) and other expenses

3) Operating income: up 8.4% to 7,656 million yen due to:

- A 1.9% increase in gross profit (of 476 million yen)
- A 0.7% decrease in SG&A expenses (of 118 million yen)

4) Non-operating income and expenses; ordinary profit: up 9.9% to 7,599 million yen

- A 0.3 point improvement, to 5.4%, in the ratio of ordinary profit to sales
 - A 6.6% decline in non-operating income: strong performances by affiliates, resulting in an increase in gains from equity investments in nonconsolidated companies (of 42 million yen), offset by a decline in gains from the security portfolio (of 236 million yen decrease)
 - But a larger 11.0% decline in non-operating expenses: a decline in interest expenses (of 78 million yen) and a steep decline in foreign exchange losses (of 145 million yen)

- A 0.4 point improvement, to 5.4%, in the ratio of ordinary profit to assets

5) Extraordinary gains and losses: losses of 1,105 million yen due to:

- Impairment-related losses of 1,174 million: in Japan, early application of impairment-accounting standards to the assets of consolidated subsidiaries; in America, recognition of impairment losses on fixed assets
- Business-restructuring losses of 722 million yen in the pigments and colorants and printing inks divisions
- Partially offset by gains on sales of investment securities (367 million yen) and gains on sales of fixed assets, primarily of land (589 million yen)

6) Net income: down 30.9% to 1,236 million yen (cf. a 16.8% decline in income before tax adjustments)

Analysis of financial condition (year-on-year percentage changes)

Current assets: Increased by 4.6% to 78,699 million yen

- A 2,527 million yen increase in notes and accounts receivable due to increased sales of colorants and printing inks in Japan and Asia
- An 894 million yen increase in cash and deposits due to sales of land

Fixed assets: Decreased by 4.7% to 62,117 million yen

- A 2,350 million yen decline in tangible fixed assets due to impairment losses of 1,174 million yen on fixed assets and sales of land
- A 1,269 million yen decline in long-term loans due to termination of Company-financed housing loans to employees and their replacement with bank-financed housing loans

Current liabilities: Decreased by 4.3% to 73,721 million yen

- A 2,743 million yen increase in notes and accounts payable due to increased procurements of raw materials incidental to growing sales
- A 5,245 million yen decrease in short-term borrowings and the current portion of long-term debt—reflecting identification of reduction of interest-bearing debt as one of management’s goals and a management yardstick

Long-term liabilities: Increased by 3.5% to 36,478 million yen due to a decline in the amount transferred to the “current portion of long-term debt” account (amount transferred 2,013 million yen less than in the previous year)

Interest-bearing debt: Declined by 4.8% to 65,882 million yen, due to:

- Repayment of interest-bearing debt (including discounted notes) from operating cash flow and cash flow from investment activities
- Resulting 2.4 point improvement in the rate of dependence on interest-bearing debt to 45.2%

Definitions: Interest-bearing debt = loans payable + corporate bonds + finance lease obligations + notes discounted

Dependence on interest-bearing debt = interest-bearing debt / (liabilities, minority interests and shareholders’ equity + notes discounted)

Shareholders' equity: Increased by 8.6% to 29,990 million yen

- Increase in retained earnings from recognition of net income
- Resulting 1.6 point improvement in equity ratio to 21.3%

Factors exerting a significant impact on operating results

(See “Risk factors” section above.)

Cash flow (comparisons, year-on-year)

Net cash provided by operating activities: 4,940 million yen, a decline of 2,170 million yen

- Large increase in income tax and others in first half of year (a 1,968 million yen increase to 3,681 million yen)
- Resulting 1.8 point deterioration in the ratio of operating cash flow to sales to 3.5%, and a 1.4 point deterioration in the interest coverage ratio to 4.3%.

Definitions: Ratio of operating cash flow to sales = cash flow provided by operating activities / net sales

Interest coverage ratio = cash flow provided by operating activities / interest expenses paid

Net cash provided by investing activities: 427 million yen

- Payments: 2,672 million yen in capital investments, primarily by the Company
- Resulting 20.8 point increase in the ratio of capital investment to operating cash flow (to 54.1%)—but reflecting continuing investment by the Company in the future
- Proceeds: 3,922 million yen from:
 - Sales of land and other fixed assets
 - Sales of securities as part of termination of cross-shareholdings with financial institutions
 - Collection of loans outstanding

Definitions: Ratio of capital investments to operating cash flow = payments for acquisition of tangible fixed assets / cash flow provided by operating activities

Net cash used in financing activities (to repay interest-bearing debt, cash dividends, etc.): 4,591 million yen, an increase of 163 million

- While repayments of interest-bearing debt resulted in improvement in the dependence ratio (see discussion above), debt redemption lengthened to 13.3 years, a deterioration of 3.6 years

- The ratio of dividends to operating cash flow increased by 3.1 points to 10.1%, reflecting continued efforts by the Company to return profits to shareholders

Definitions: Years of debt redemption = interest-bearing debt / cash flow provided by operating activities

Ratio of dividends to operating cash flow = amount paid out as dividends / cash flow provided by operating activities

Financial policy

1) Goals

- Engaging in R&D and making capital investments in accordance with a philosophy of “Selection and Concentration”:
 - To become a recognized global manufacturer and seller of high-tech products and colorants
 - To become an “excellent 21st-century company” capable of developing and selling environmentally responsive, high-performance products
- Currently, the Group is financing investments mainly through:
 - Operating cash flow
 - Loans from financial institutions
 - Corporate bonds

2) Management and financial policies

- Reducing dependence on interest-bearing debt, thus minimizing financing costs (and making the Group less vulnerable to damage during times of rising interest rates)
- Successfully reducing dependence on debt will improve the balance sheet and the balance of financial income—and enable the Group to generate the capital required to grow and to raise capital in a stable manner.

3) Action plan

- In April 2002, set goal of reducing interest-bearing debt by 10 billion yen in five years (by the end of the year to March 2008).
- In the three-year period ended March 2005, reduced interest-bearing debt by 13 billion yen, beating original target by two years.

(Note)

The forecasts for cash flow are based on information that is available on the day of submission of the filing with the Financial Services Agency. In projecting cash flows, the Company makes assumptions regarding a

number of uncertainties that could impact future operating results. Hence, actual cash flows could differ from the above forecasts for a variety of reasons.

Corporate governance

The Company views the task of improving corporate governance as an important means of enhancing trust among its shareholders and other stakeholders and of contributing to society.

Measures adopted with respect to corporate governance

- 1) 10-member Board of Directors (all internal, as of March 31, 2005)
 - Responsible for decision-making with respect to all important matters related to Group management
 - To expedite decision-making and clarify responsibilities for operations, the Company has gradually reduced the size of the Board over the past several years.
 - Internally, the Company has implemented a system of corporate executive officers.
- 2) Management Strategy Meeting
 - Structured along the lines of the Board of Directors; meeting monthly
 - Composed of members ranked higher than senior managing director
 - Members discuss and decide matters related to overall Group management and submit proposals to the Board of Directors.
- 3) Specialist Management Meeting: weekly meetings of directors and general managers, held to discuss important issues not dealt with by the Board of Directors
- 4) Statutory auditors: comprising four members (of which two are external, as of March 31, 2005)
 - Establishes auditing policies in accordance with laws and ordinances and with the Articles of Incorporation.
 - Issues auditors' opinions based on reports by individual auditors.
 - By exchanging information on a regular basis with the financial auditor, endeavors to strengthen the functions of the Board of Statutory Auditors.
- 5) Internal auditing: establishment of Office of Operational Audits (staff of one)

- 6) A financial auditing agreement has been entered into with Yasumori Audit Corporation.
- Partners who audited the Company: Mikio Yokokawa, CPA, and Kimio Murakami, CPA
 - Continuous involvement in auditing of the Company
 - Mr. Yokokawa: 25 accounting periods
 - Mr. Murakami: 8 accounting periods
 - Assistants participating in auditing: 13 CPAs
 - When issues related to management and daily operations requiring legal judgments arise, the Company consults with outside attorneys.
- 7) Environmental management: regulatory compliance thoroughly monitored by:
- Planning Office for Environmental Management
 - Committee on Environmental Hazards and Disaster Prevention

Directors' compensation and fees paid to financial auditor

- Directors' compensation
 - Compensation paid to directors: 354 million yen
 - Compensation paid to statutory auditors: 141 million yen
 - The above amounts include 40 million yen in directors' bonuses and 132 million yen in retirement bonuses.
 - The salaries paid to directors who are also employees of the Company (13 million yen) are not included in the foregoing figures for compensation.
- Yasumori Audit Corporation
 - Professional fees of 34 million yen
 - Based on Article 2-1 of the Certified Public Accountants Law (Law No. 103, 1948)

Relationships between the Company and its outside directors and statutory auditors, including relationships based on personal ties, shareholdings, business relationships, etc.

- Hideo Nagase, external statutory auditor, is Chairman and Representative Director of Nagase & Co., Ltd., with which the Company engages regularly in business transactions.

Directors and auditors

Title	Position	Name
President	Chairman of the Board	Osamu Takahashi
Vice President	Composite Printing Systems	Minoru Yamamoto
Senior Managing Director	Prepared Color & Chemicals Group	Mineo Tosa
Senior Managing Director	General Affairs & Personnel	Shigemitsu Yamazaki
Senior Managing Director	Assistant to the President Corporate Administration Department	Koji Takahashi
Managing Director	Composite Printing Systems - Off-set	Keisuke Yamamoto
Managing Director	Technical Research Center & Technology Commercialization Office	Michiei Nakamura
Director	Finance, Sales and Manufacturing Director, Business Headquarters Office	Kazuhiko Arai
Director	Western Japan sales	Yoshihisa Makino
Standing Auditor		Hiroshi Murakami
Standing Auditor		Hisatsugu Kaiho
Auditor		Kazuo Fujikake
Auditor		Hideo Nagase

Employees

Consolidated	2005
Business segment	Number
Pigments	548
Colorants and printing inks	2,538
Corporate staff	212
	3,298
Parent	Total or average
Number	1,451
Average age	43.1
Average years of service	21.0
Average annual salary (Yen)	7,489,394

Union

As of March 31, 2005, the Company's labor union had 1,023 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	2003	2004	2005
Net cash provided by (used in) operating activities			
Net income (loss) before taxes and other adjustments	7,329	7,806	6,493
Depreciation	3,072	2,993	2,793
Impairment losses	-	-	1,174
Business-restructuring losses	-	-	722
Increase (decrease) in allowance for doubtful accounts	554	(799)	(157)
Increase (decrease) in reserve for bonuses	(330)	14	12
Increase (decrease) in retirement benefits	209	287	(460)
Increase (decrease) in reserve for losses on guaranteed liabilities	(200)	-	-
Interest and dividend income	(267)	(194)	(198)
Interest expenses	1,360	1,196	1,117
Equity in earnings of nonconsolidated companies	(126)	(181)	(224)
Dividend income from nonconsolidated companies accounted for under the equity method	88	101	47
Loss (gain) on sales or valuation of marketable securities and gains from securities portfolio	114	(250)	(14)
Loss (gain) on sales or disposal of tangible fixed assets	283	40	(461)
Loss (gain) on sales or liquidation of investment securities	13	(641)	(367)
Loss (gain) on valuation of investment securities and other investments	1,092	36	1
Loss on liquidation of subsidiaries	44	-	-
Loss on valuation of fixed assets	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	(976)	(1,011)	(2,526)
Decrease (increase) in inventories	462	(194)	(571)
Decrease (increase) in accounts receivable - others	585	1	(17)
Increase (decrease) in trade payables	(1,104)	217	2,065
Increase (decrease) in accounts payable - others	(326)	345	588
Others	30	107	(455)
	8,470	9,875	9,562
Interest and dividend income	282	196	198
Interest expenses	(1,322)	(1,248)	(1,139)
Income tax and others	(949)	(1,712)	(3,681)
	6,481	7,110	4,940

Years ended March 31; Millions of yen	2003	2004	2005
Net cash provided by (used in) investing activities			
Increase in time deposits	(375)	(183)	(232)
Proceeds from decrease in time deposits	468	232	232
Payments for purchase of marketable securities	(505)	(23)	(32)
Proceeds from sales and redemption of marketable securities	1,762	47	291
Payments for acquisition of tangible fixed assets	(3,328)	(2,367)	(2,672)
Proceeds from sales of tangible fixed assets	250	128	1,674
Payments for investment securities	(708)	(1,336)	(613)
Proceeds from sales of investment securities	209	1,093	525
Payments for additional acquisition of subsidiary shares	-	(344)	-
Proceeds from sale of subsidiary stock	-	-	206
Payments for loans	(2,877)	(397)	(333)
Proceeds from collection of loans	4,150	863	1,722
Others	463	27	(340)
	(490)	(2,260)	427
Net cash provided by (used in) financing activities			
Proceeds from increase in short-term borrowings	74,296	53,613	16,240
Payments of short-term borrowings	(78,281)	(57,692)	(19,675)
Proceeds from increase in long-term debt	9,224	5,955	8,405
Payments of long-term debt	(10,319)	(7,285)	(8,946)
Proceeds from issuing of bonds	400	700	-
Payments for redemption of bonds	(1,000)	-	-
Acquisition and sales of treasury stock	(213)	825	(53)
Payments of finance lease obligations	-	-	(21)
Dividend payments	(585)	(496)	(500)
Dividend payments for minority interests	(107)	(47)	(42)
	(6,586)	(4,428)	(4,591)
Effect of exchange rate changes on cash and cash equivalents	(84)	(142)	(27)
Net increase (decrease) in cash and cash equivalents	(679)	279	747
Cash and cash equivalents at beginning of term	12,082	11,502	11,795
Cash and cash equivalents accompanying new consolidation	98	13	146
Cash and cash equivalents at end of term	11,502	11,795	12,689

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

Years ended March 31; Millions of yen	2003	2004	2005
Cash and deposits	11,643	11,887	12,781
Time deposits, etc., of 3 months or longer	(140)	(91)	(91)
Cash and cash equivalents	11,502	11,795	12,689

Capital expenditures

The Company invested 2,709 million yen in capital projects during the year, mainly to increase capacity in Japan and in the fast-growing Asian region.

- 1) Pigment business: increased investments in IT-related equipment at the Company's Tokai manufacturing facility.
- 2) Colorants and printing inks business: in Japan, increased manufacturing capacity at the Company's Tokyo manufacturing facility; overseas, increased manufacturing capacity at Dainichi Color (Thailand), Ltd., Dongguan Dainichi Chemical Manufacturing Co., Ltd., and P. T. High-Tech Inc. Indonesia.

Capital expenditure and disposal plans

Millions of yen	Budgeted amount	Expenditures to date	Date commenced	Date completed
Major equipment installations				
Tokai manufacturing facility				
Manufacturing equipment for chemical compounds	452	49	2005/5	2006/3
Tokyo manufacturing facility				
Manufacturing equipment for chemical compounds	306	29	2005/5	2006/10
Dongguan Dainichi Chemical Manufacturing Co., Ltd.				
Manufacturing equipment for colorants	329	131	2005/4	2005/6
Dainichi Color (Thailand), Ltd.				
Manufacturing equipment for colorants	157	24	2004/11	2005/8

Dividend policy

The Company's basic policy concerning 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 its operating foundation and building internal reserves.

Based on consideration of a wide range of factors, including financial results achieved for the year, the Company will increase its dividend to compensate shareholders for their support. Accordingly, the Company will raise its year-end dividend by 1 yen per share to 4 yen, bringing the total dividend for the year to 7 yen per share.

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

Operations

Consolidated statement of income

Years ended March 31; Millions of yen	2003	2004	2005
Sales	130,825	134,933	140,759
Cost of sales	107,811	110,061	115,410
Gross profit	23,013	24,871	25,348
Selling, general and administrative expenses	17,134	17,809	17,691
Operating income	5,879	7,061	7,656
Non-operating income			
Interest income	176	95	85
Dividend income	90	99	112
Rental income	315	351	351
Gains from equity investments in nonconsolidated companies	126	181	224
Gains from securities portfolio	-	250	-
Amortization of consolidation adjustments	-	-	180
Others	709	629	548
	1,418	1,608	1,502
Non-operating expenses			
Interest expenses	1,360	1,196	1,117
Loss on valuation of marketable securities	121	-	-
Expenses for rental assets	103	103	93
Foreign exchange losses	-	215	70
Others	219	237	278
	1,805	1,752	1,559
Ordinary profit	5,492	6,917	7,599
Extraordinary gains			
Gain on sales of fixed assets	33	23	589
Gain on sales of investment securities	-	720	367
Gain on reversal of provision for loss on loan guarantees	200	-	-
Gain from return to government of "agency portion" obligations related to employees' welfare pensions	3,598	-	-
Revised profit carried forward from previous term	130	-	-
Gain on reversal of allowance for doubtful accounts	-	419	94
Others	36	0	5
	3,997	1,163	1,056

Years ended March 31; Millions of yen	2003	2004	2005
Extraordinary losses			
Loss on sales of fixed assets	125	1	10
Loss on disposal of fixed assets	190	62	116
Loss on sales of investment securities	11	78	-
Loss on valuation of investment securities	1,049	10	1
Valuation loss on shares in affiliates	39	25	-
Loss from liquidation of subsidiaries	44	-	-
Loss on valuation of other investments	3	-	0
Provision for allowance for doubtful accounts	326	73	1
Special retirement allowances for directors	-	-	132
Impairment losses	-	-	1,174
Business-restructuring losses	-	-	722
Loss on valuation of fixed assets	287	-	-
Others	81	22	3
	2,161	274	2,162
Income before tax adjustments	7,329	7,806	6,493
Income, inhabitants and enterprise taxes	1,428	3,276	2,868
Deferred taxes	2,477	209	478
	3,905	3,485	3,346
Minority interest in income of consolidated subsidiaries	655	322	385
Net income	2,767	3,998	2,761

Consolidated statement of retained earnings

Years ended March 31; Millions of yen	2003	2004	2005
Capital reserves			
Capital reserves, beginning of term	8,137	8,137	8,480
Increase in capital reserves			
Gain on sales of treasury stock	-	343	-
	-	343	-
Decrease in capital reserves			
Loss on disposal of treasury stock	-	-	15
	-	-	15
Capital reserves, end of term	8,137	8,480	8,465
Retained earnings			
Retained earnings, beginning of term	11,424	12,234	14,907
Increase in retained earnings			
Increase in surplus earned from merger between consolidated and nonconsolidated subsidiaries	482	-	-
Increase in retained earnings due to increase in number of consolidated subsidiaries	-	-	0
Net income	2,767	3,998	2,761
	3,250	3,998	2,762
Reduction in retained earnings			
Reduction in retained earnings due to increase in number of consolidated subsidiaries	1,841	801	-
Dividends	585	496	500
Directors' bonuses	12	27	40
	2,439	1,325	541
Balance at year-end	12,234	14,907	17,129

Results of operations

Fiscal year ended March 31, 2005

Economic factors affecting operations

- 1) In Japan, a generally steady economic recovery, though with some threats to its sustainability in the second half
 - In the first half, growth in exports and higher levels of production leading to:
 - Recovery in corporate profits
 - Continued expansion of private capital investment, and
 - A moderate increase in personal consumption
 - In the second half, signs of exports losing steam and concerns about pressures on corporate margins from oil-related increases in raw material costs
- 2) Overseas, steady economic growth, particularly in the United States, China and Thailand, despite monetary tightening in China and sharply higher oil prices

Key responses by the Company

- 1) Efforts to improve manufacturing efficiency and to lower costs of manufactured goods through rationalization and comprehensive cost-cutting measures
- 2) Efforts to increase product prices in response to higher raw materials costs
- 3) Introduction of more environmentally responsive, high-performance products, and a focus on expanding sales of such products

Financial highlights (year-on-year percentage changes)

- 1) Net sales: up 4.3% to 140,759 million yen
 - Pigments: down 0.3% to 23,365 million yen
 - Colorants and printing inks: up 5.6% to 104,630 million yen
 - Others: up 3.0% to 12,763 million yen
- 2) Operating income and ordinary profit: up 8.4% to 7,656 million yen and up 9.9% to 7,599 million yen, respectively, due to:
 - Effects of higher revenues
 - Lower expenses throughout the Company, including reductions in fixed costs

3) Net income: down 30.9% to 2,761 million yen, reflecting efforts to strengthen financial position through recognition of the following extraordinary losses:

- Impairment losses and
- Business-restructuring losses

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

1) Japan: Sales, up 3.8% to 116,980 million yen; operating income, up 19.3% to 6,623 million yen

- Continued growth in sales of high-performance colorants for the consumer electronics and automobile and motorcycle industries
- Declines in selling expenses

2) Asia: Sales, up 13.2% to 19,545 million yen; operating income, down 15.7% to 1,000 million yen

- Strong sales of high-value-added products to the OA and the automobile and motorcycle industries
- Higher costs of basic raw materials, inflated by steep increases in oil prices

3) Other regions: Sales, down 3.8% to 8,775 million yen; operating income, down 90.0% to 32 million yen

- In Europe and America, caught between lower sales prices on the one hand and higher raw materials costs and a stronger Euro on the other
- Some strength in products sold to manufacturers of building materials, reflecting strong housing starts

Fiscal year ended March 31, 2004

Economic factors affecting operations

1) Improvement in domestic economy, but falling short of a full-fledged recovery

- Gains in exports and private capital investment
- Improvement in corporate profits and stock market recovery
- But weak employment and sluggish personal income growth, dampening consumer spending

2) Rapid economic recovery in Asia, particularly in China and Thailand

- Spurred by end of SARS epidemic and by economic recovery in the United States
- Increase in demand for IT goods and home electronics products

Key responses by the Company

1) Dual focus in sales activities

- Cultivation of new demand in high-tech areas
- Satisfying customer needs through environmentally responsive, high-performance products

2) Reductions in manufacturing costs

- Through worldwide procurement of raw materials—utilizing the informational and organization resources of the Group
- Through wide-ranging cuts in expenses

Financial analysis (year-on-year percentage changes)

1) Net sales: up 3.1%

- Pigments business: down 4.1% to 23,438 million yen
- Colorants and printing inks business: up 2.5% to 99,105 million yen
- Others: up 27.7% to 12,389 million yen

2) Operating income and ordinary profit: up 20.1% and up 25.9%, respectively

- Effect of higher revenues
- Gains from securities portfolio

3) Net income: up 44.4%, also reflecting reductions in minority interests

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

1) Japan: sales, up 4.1% to 112,750 million yen; operating income, down 2.5% to 5,551 million yen

- Strong sales of high-performance colorants for plastics to the consumer electronics industry
- Significant contribution from business of procuring and selling products from other manufacturers
- Offset, however, by higher sales-related expenses

2) Asia: Sales, up 1.9% to 17,264 million yen; operating income, up 32.6% to 1,188 million yen

- Higher unit sales of colorants to manufacturers of office automation equipment, home electronics and automobiles, offsetting price declines triggered by stiff competition
- Improved profit margins due to higher production volumes

3) Other regions: Sales, down 9.3% to 9,124 million yen; operating income, up 322 million yen (compared to an operating loss in the previous term)

- Weakness in consumer spending in early part of term and continued pricing pressures, with resulting difficult operating environments in Europe and the United States
- Adoption of measures to restructure businesses in these markets
- Efforts to expand sales of aqueous ink, etc.

Segment information

Geographical segment information

Millions of yen	Japan	Asia	Others	Total	Eliminations	Consolidated
2005						
Sales						
External customers	113,081	19,455	8,222	140,759	-	140,759
Inter-area	3,898	90	553	4,542	(4,542)	-
	116,980	19,545	8,775	145,301	(4,542)	140,759
Operating expenses	110,356	18,544	8,743	137,644	(4,542)	133,102
Operating income	6,623	1,000	32	7,656	-	7,656
Identifiable assets	130,510	11,493	6,667	148,671	(7,854)	140,817
2004						
Sales						
External customers	108,778	17,192	8,962	134,933	-	134,933
Inter-area	3,971	71	161	4,205	(4,205)	-
	112,750	17,264	9,124	139,139	(4,205)	134,933
Operating expenses	107,198	16,076	8,801	132,077	(4,205)	127,871
Operating income	5,551	1,188	322	7,061	-	7,061
Identifiable assets	126,819	9,734	7,708	144,262	(3,798)	140,463

Overseas sales

Millions of yen	2004		2005	
	Overseas sales	% of net sales	Overseas sales	% of net sales
Asia	20,831	15.5	22,960	16.3
Others	9,758	7.2	8,746	6.2
	30,589	22.7	31,707	22.5
Consolidated sales	134,933		140,759	

Issues requiring action***Economic outlook***

- 1) Gradual economic recovery in Japan, supported by improvements in corporate profitability, continued growth in private capital investment and a recovery in private consumption
- 2) At the same time, a sense of caution about the business environment because of the possibility of an aborted recovery in Japan depending on trends in oil prices and in overseas economies

Key issues

- 1) Meeting two major challenges under conditions of continued deflation
 - Restructuring of operations
 - Adapting business to the needs of environmental management
- 2) Positioning the Company for the future
 - Reforming structure of profitability with “speed and efficiency”
 - Establishing a stable position as a leading manufacturer of high-tech products and colorant chemicals by continuing to innovate in the following areas:
 - Color applications
 - Polymer applications
 - Biochemistry
 - IT and electronics
 - Multimedia

Production and sales

Production

Tons	2005	
	Amount	Year-on-year comparison (%)
Pigments	22,769	96.5
Colorants and printing inks	298,961	105.7
	321,730	105.0

Procurement

Millions of yen	2005	
	Amount	Year-on-year comparison (%)
Pigments	1,708	102.4
Colorants and printing inks	2,937	108.6
Others	11,906	112.0
	16,552	110.3

Sales by product

Millions of yen	2005	
	Amount	Year-on-year comparison (%)
Pigments	23,365	99.7
Colorants and printing inks	104,630	105.6
Others	12,763	103.0
	140,759	104.3

Selling, general and administrative expenses

Years ended March 31; Millions of yen	2003	2004	2005
Freight and transportation	2,978	3,031	3,156
Provision of allowance for doubtful accounts	160	121	59
Employees' salaries	5,649	5,838	5,806
Provision for employees' bonuses	635	660	647
Pension benefit expenses	696	851	705
Others	7,014	7,306	7,315
	17,134	17,809	17,691

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	2003	2004	2005
Machinery and delivery equipment			
Acquisition cost	1,514	2,235	2,390
Accumulated depreciation	592	779	1,050
Net leased property	922	1,455	1,340
Tools, furniture and fixtures			
Acquisition cost	548	511	405
Accumulated depreciation	278	261	222
Net leased property	269	250	183
Others (intangible fixed assets)			
Acquisition cost	64	64	66
Accumulated depreciation	43	29	25
Net leased property	20	34	41
Total			
Acquisition cost	2,127	2,811	2,863
Accumulated depreciation	915	1,070	1,298
Net leased property	1,212	1,740	1,565
Future minimum lease payments (including interest portion)			
Due within one year	342	423	428
Due after one year	914	1,355	1,182
	1,256	1,779	1,611
Lease payments	436	491	505
Pro forma depreciation expenses (assuming straight-line method)	398	448	456
Pro forma interest expenses	42	56	56
Operating leases			
Due within one year	14	20	19
Due after one year	39	30	50
	54	51	70

Capital Structure

Consolidated balance sheet

Assets

Years ended March 31; Millions of yen	2003	2004	2005
Current assets			
Cash and deposits	11,643	11,887	12,781
Notes and accounts receivable, trade	40,111	41,019	43,547
Marketable securities	276	501	257
Inventories	19,013	19,342	20,026
Deferred tax assets	1,327	1,451	1,347
Others	1,918	1,241	890
Less allowance for doubtful accounts	(319)	(190)	(150)
	73,970	75,254	78,699
Fixed assets			
Tangible fixed assets			
Buildings and structures	32,240	32,776	31,513
Accumulated depreciation	18,769	19,861	19,896
	13,470	12,915	11,616
Machinery, equipment and vehicles	43,101	43,796	43,979
Accumulated depreciation	36,044	36,842	37,280
	7,057	6,953	6,699
Tools, furniture and fixtures	8,019	8,242	8,590
Accumulated depreciation	6,812	7,016	7,112
	1,206	1,225	1,478
Land	23,727	23,717	22,321
Construction in progress	167	48	393
	45,629	44,861	42,510
Intangible fixed assets			
Intangible fixed assets	822	788	799
Investments and other assets			
Investment securities	6,691	8,038	8,074
Investments in subsidiaries other than joint stock corporations	1,067	2,040	2,425
Long-term loans	2,993	3,101	1,831
Deferred tax assets	6,000	5,037	4,697
Others	4,317	3,871	3,842
Less allowance for doubtful accounts	(3,192)	(2,530)	(2,063)
	17,878	19,559	18,807
Total fixed assets	64,331	65,209	62,117
Total assets	138,301	140,463	140,817

Liabilities and shareholders' equity

Years ended March 31; Millions of yen	2003	2004	2005
Current liabilities			
Notes and accounts payable, trade	21,301	22,023	24,766
Short-term borrowings	42,768	38,650	35,418
Current portion of long-term debt	7,359	7,347	5,333
Accrued corporate and inhabitants taxes	1,003	2,562	1,749
Deferred tax liabilities	11	6	7
Reserve for bonuses to employees	2,092	2,108	2,104
Others	3,629	4,311	4,341
	<hr/>	<hr/>	<hr/>
	78,165	77,008	73,721
Long-term liabilities			
Corporate bonds	400	1,100	1,100
Long-term debt	18,650	17,084	18,796
Deferred tax liabilities	87	63	54
Employees' retirement benefits	15,458	15,747	15,312
Others	878	1,261	1,214
	<hr/>	<hr/>	<hr/>
	35,474	35,256	36,478
	<hr/>	<hr/>	<hr/>
	113,640	112,265	110,199
Minority interests	981	578	627
Shareholders' equity			
Common stock	10,039	10,039	10,039
Capital reserves	8,137	8,480	8,465
Retained earnings	12,234	14,907	17,129
Unrealized gains or losses on other securities	546	1,399	1,305
Foreign currency translation adjustments	(3,306)	(3,444)	(3,347)
Treasury stock	(3,970)	(3,763)	(3,602)
	<hr/>	<hr/>	<hr/>
Total shareholders' equity	23,680	27,620	29,990
	<hr/>	<hr/>	<hr/>
Total liabilities, minority interests and shareholders' equity	138,301	140,463	140,817

Market value of securities

Marketable securities for trading purposes

2004		2005	
Millions of yen			
Book value	Unrealized gain or loss recognized at year-end	Book value	Unrealized gain or loss recognized at year-end
501	310	257	(21)

Other quoted securities

Millions of yen	2004			2005		
	Cost of acquisition	Book value	Unrealized gain (loss)	Cost of acquisition	Book value	Unrealized gain (loss)
Securities for which the value on the consolidated balance sheet exceeds purchase cost						
Shares	2,515	4,909	2,393	2,488	4,730	2,241
Others	2	3	1	2	3	0
	2,517	4,912	2,395	2,490	4,733	2,242
Securities for which the value on the consolidated balance sheet does not exceed purchase cost						
Shares	357	334	(22)	318	291	(26)
Others	81	78	(2)	5	4	(0)
	438	413	(25)	323	296	(27)
	2,956	5,326	2,369	2,814	5,029	2,215

The Company provided for permanent diminution in the value of "Other quoted securities-shares" in the amount of 9 million yen in the consolidated fiscal year 2004. 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 the acquisition cost. 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 Related to Transactions in Securities and Derivatives."

Other marketable securities sold during the years ended March 31, 2004 and 2005

2004			2005		
Millions of yen					
Amount sold	Total gain on sales	Total loss on sales	Amount sold	Total gain on sales	Total loss on sales
1,093	720	78	525	333	-

Major investment securities without market prices

Millions of yen	2004	2005
Bonds held to maturity		
Corporate bonds	5	8
Others	1	-
Other securities		
Unlisted stocks	1,027	1,126

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

Millions of yen	2004				2005			
	Up to 1 year	Longer than 1 and up to 5 years	Longer than 5 and up to 10 years	Longer than 10 years	Up to 1 year	Longer than 1 and up to 5 years	Longer than 5 and up to 10 years	Longer than 10 years
Bonds								
Corporate bonds	-	5	-	-	-	8	-	-
Others	1	-	-	-	-	-	-	-
Others								
Securities investment trusts	-	3	-	-	-	3	-	-
	1	8	-	-	-	11	-	-

Fixed assets

Major facilities

Millions of yen	Buildings and structures	Machinery, equipment and vehicles	Tools, furniture and fixtures	Land		Total	Number of employees
	Book value	Book value	Book value	Book value	Square meters		
Parent							
Tokyo manufacturing facility	1,865	1,387	564	504	30,691	4,321	376
Kawaguchi manufacturing facility	443	210	77	1,346	22,629	2,077	140
Tokai manufacturing facility	1,782	1,800	82	471	175,503	4,136	279
Osaka manufacturing facility	229	229	77	853	20,082	1,389	150
Shiga manufacturing facility	237	105	9	620	20,077	973	9
Headquarter (Tokyo)	1,218	11	301	2,965	5,142	4,497	342
West Japan branch	141	2	1	349	2,520	495	105
Chubu branch	58	8	0	93	1,302	161	50
Domestic subsidiaries							
UKIMA Chemicals & Color Mfg.	1,096	295	110	7,582	33,175	9,087	191
Others	1,932	756	113	3,184	96,598	5,996	487
Overseas subsidiaries	1,240	1,737	84	194	108,289	3,267	913

Debt

Bonds

Millions of yen	Date issued	Balance at beginning of term	Balance at end of term	Interest rate	Maturity
Unsecured corporate bonds	3/24/03	400	400	0.60%	3/24/08
Unsecured corporate bonds	9/10/03	200	200	0.79%	9/10/08
Unsecured corporate bonds	3/31/04	500	500	0.67%	3/31/08
	-	1,100	1,100	-	-

Borrowings

Millions of yen	Balance at beginning of term	Balance at end of term	Average rate	Maturity
Short-term borrowings	38,650	35,418	1.2%	-
Current portion of long-term debt	7,347	5,333	1.7%	-
Long-term debt (except current portion of long-term debt)	17,084	18,796	1.6%	2006 to 2011
Other interest-bearing liabilities				
Finance lease obligations (up to 1 year)	-	40	2.9%	
Finance lease obligations (longer than 1 year)	-	122	2.7%	2006 to 2009
	63,082	59,711	-	-

Assets provided as collateral

Millions of yen	2004	2005
Assets provided as collateral		
Buildings and structures	5,218	4,976
Machinery, equipment and vehicles	3,367	3,378
Tools, furniture and fixtures	624	724
Land	7,099	7,010
Marketable securities	2,615	1,134
	18,925	17,223
Liabilities for which collateral provided		
Claim for recovery based on guarantee agreement on unsecured bonds	410	407
Long-term debt	13,889	12,541
	14,299	12,949

Guarantees

Millions of yen	2004	2005
REGLUS Co., Ltd.	367	Loans for employees arranged with outside institutions 878
Dainichi Pla Board Co., Ltd.	217	MT Corporation 760
Presstek, Inc.	198	REGLUS Co., Ltd. 335
13 other companies	783	15 other companies 1,003
	1,567	2,978

Retirement benefits

Summary of retirement benefit system

The Company and its domestic consolidated subsidiaries offer employees the following defined benefit pension plans: a qualified corporate pension fund system, a qualified retirement pension system and a lump-sum retirement benefit system. In addition to these defined retirement benefit plans, certain overseas subsidiaries have established defined contribution annuity plans. The Company has also established a retirement benefit investment trust.

Items related to retirement benefit liabilities

Millions of yen	2004	2005
Retirement benefit liabilities	(27,894)	(26,287)
Pension assets	5,191	5,990
Unaccrued pension benefit liabilities	(22,702)	(20,297)
Unrecognized actuarial gains or losses	6,955	5,938
Unrecognized liabilities for past service costs (reduction in amount of obligations)	-	(954)
Net amount shown on consolidated balance sheet	(15,747)	(15,312)
Prepaid pension expenses	-	-
Allowance for retirement benefits	(15,747)	(15,312)

Items related to retirement benefit expenses

Millions of yen	2004	2005
Current service costs	1,128	1,078
Interest expenses	705	692
Expected earnings on pension fund assets	(42)	(76)
Expensing of differences based on actuarial calculations	707	548
Amortization period for past service costs recognized as expenses	-	(50)
Retirement benefit expenses	2,499	2,191

Assumptions underlying the calculation of retirement benefit liabilities

	2004	2004
Method of allocating prospective retirement benefits to each period	Equal payments basis	Equal payments basis
Discount rate	2.5%	2.3%
Expected rate of return	2.0%	2.0%
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 (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 fiscal year in which the gains or losses are accrued, with amortization beginning in the fiscal year following that in which the gains or losses are accrued)	15 years (Same as 2004)

Deferred taxes

Millions of yen	2004	2005
Deferred tax assets	9,402	8,996
Deferred tax liabilities	(2,982)	(3,012)
Deferred tax assets - net	6,419	5,983
Percent	2004	2005
Legal effective tax rate	42.05	40.69
<Adjustment>		
Expenses not deductible for tax purposes (such as entertainment expenses)	3.06	4.40
Dividends receivable and other income permanently excluded from taxable income	(0.89)	(1.28)
Per capita rate of inhabitants tax	0.48	-
Special tax credits for testing and research expenses	(3.44)	(5.31)
Differences in tax rates of overseas subsidiaries	(3.55)	(2.05)
Effect of consolidation elimination of dividends received	2.46	2.63
Amortization of consolidation adjustments	-	(1.13)
Profit from application of equity method	-	(1.40)
Effect of increases in valuation-related provisions	2.69	12.95
Accumulated profit of subsidiaries	-	1.72
Others	1.79	0.31
Income tax and others accompanying adoption of tax effect accounting	44.65	51.53

Nonconsolidated Statements

Nonconsolidated statement of income

Years ended March 31; Millions of yen	2003	2004	2005
Net sales			
Net sales - finished goods	90,521	92,458	95,160
Net sales - merchandise	23,322	24,464	26,389
	113,843	116,923	121,549
Cost of sales			
Inventory of finished goods and semi-finished goods, beginning of term	8,447	8,358	8,577
Production costs for the term	56,564	57,833	59,299
Purchase of finished goods for the term	19,311	19,684	20,524
	84,323	85,876	88,401
Inventory of finished goods and semi-finished goods, end of term	8,358	8,577	9,076
	75,965	77,298	79,325
Merchandise inventory, beginning of term	226	223	225
Purchase of merchandise for the term	22,220	23,384	25,467
	22,446	23,607	25,693
Merchandise inventory, end of term	223	225	390
	22,222	23,381	25,303
Total cost of sales	98,188	100,680	104,628
Gross profit	15,655	16,243	16,921
Selling, general and administrative expenses			
Packing and shipping expenses	2,299	2,318	2,401
Business entertainment expenses	247	256	256
Provision for allowance for doubtful accounts	117	122	0
Payroll expenses	3,958	4,015	3,886
Reserve provision for bonuses	537	540	517
Employee benefit expenses	1,156	1,217	1,122
Pension benefit expenses	601	729	598
Travel and transportation expenses	396	397	415
Depreciation expenses	70	69	78
Rental expenses	977	1,029	1,093
Research and development expenses	966	1,050	1,097
Others	1,529	1,543	1,581
	12,857	13,290	13,050
Operating income	2,797	2,952	3,870

Years ended March 31; Millions of yen	2003	2004	2005
Non-operating income			
Interest income	71	75	70
Dividend income	424	390	354
Rental income	526	497	482
Cash discounts on purchases	27	26	28
Others	401	388	291
	1,451	1,377	1,227
Non-operating expenses			
Interest expenses	562	517	503
Loss on sales of notes	124	113	114
Expenses for assets leased to others	301	269	250
Others	46	67	103
	1,035	968	972
Ordinary profit	3,213	3,362	4,125
Extraordinary gains			
Gain on sales of fixed assets	0	-	430
Gain on sales of investment securities	-	699	333
Gain on sales of shares in affiliates	-	-	181
Gain on reversals of allowance for doubtful accounts	-	7	-
Gain on reversals of provision for loss on loan guarantees	200	122	42
Gain from return to government of "agency portion" obligations related to employees' welfare pensions	2,758	-	-
Revised profit carried forward from previous term	130	-	10
Others	-	0	41
	3,088	829	1,039

Years ended March 31; Millions of yen	2003	2004	2005
Extraordinary losses			
Loss on sales of fixed assets	124	0	0
Loss on disposal of fixed assets	169	44	102
Impairment losses	-	-	311
Loss on sales of investment securities	14	78	-
Loss on valuation of investment securities	1,025	10	-
Loss on valuation of securities of affiliated companies	43	-	48
Loss on liquidation of investment securities	1	-	-
Loss on liquidation of affiliates	44	-	-
Loss on valuation of other investments	3	-	-
Provision for allowance for doubtful accounts	558	791	531
Losses on doubtful accounts	19	-	-
Reserve provision for losses on guaranteed liabilities	791	144	174
Provision for reserve for losses on liquidation of subsidiaries	-	-	1,618
Directors' retirement allowances	8	-	132
Others	-	3	3
	2,806	1,072	2,921
Income before income taxes	3,496	3,118	2,244
Income, inhabitants and enterprise taxes	460	2,033	1,610
Deferred taxes	1,452	(574)	(379)
	1,912	1,459	1,230
Net income	1,583	1,659	1,013
Unappropriated retained earnings brought forward	1,860	2,829	2,889
Interim dividends	279	278	278
Disposition of reserve for retirement allowances	8	-	132
Unappropriated retained earnings at year-end	3,173	4,209	3,756

Nonconsolidated appropriation of retained earnings

Millions of yen	June 27, 2003	June 29, 2004	June 29, 2005
Unappropriated retained earnings, fiscal year-end	3,173	4,209	3,756
Disposition of voluntary reserves			
Reversal of reserve for reduction entry of acquisition costs	8	-	13
	8	-	13
	3,181	4,209	3,770
Appropriation of retained earnings			
Cash dividends	279	278	371
Bonuses to directors and statutory auditors	27	40	34
Voluntary reserves			
Reserve for reduction entry of acquisition costs	45	-	-
Special reserves	-	1,000	500
	352	1,319	906
Unappropriated retained earnings carried forward	2,829	2,889	2,863

Cost of goods sold

Years ended March 31; Millions of yen	2003	%	2004	%	2005	%
Cost of raw materials	36,393	64.1	37,260	64.2	38,746	65.0
Labor costs	8,808	15.5	9,134	15.7	8,981	15.1
Expenses	11,591	20.4	11,681	20.1	11,851	19.9
(Subcontracted processing expenses)	(6,936)	(12.2)	(7,200)	(12.4)	(7,362)	(12.4)
(Depreciation expenses)	(1,378)	(2.4)	(1,275)	(2.2)	(1,328)	(2.2)
(Other manufacturing expenses)	(3,276)	(5.8)	(3,205)	(5.5)	(3,161)	(5.3)
Total manufacturing overhead	56,794	100.0	58,077	100.0	59,579	100.0
Work-in-process inventory, beginning of term	196		214		219	
	56,991		58,291		59,798	
Work-in-process inventory, end of term	214		219		248	
Transfers to other accounts	212		238		251	
Production and semi-finished goods costs for term	56,564		57,833		59,299	

Nonconsolidated balance sheet**Assets**

Years ended March 31; Millions of yen	2003	2004	2005
Current assets			
Cash and time deposits	6,680	6,319	5,950
Notes receivable, trade	7,208	7,116	6,656
Accounts receivable, trade	28,564	30,418	32,559
Merchandise	223	225	390
Finished products	7,008	7,204	7,634
Semi-finished goods	1,349	1,373	1,441
Raw materials	2,057	2,212	2,162
Work in process	214	219	248
Supplies	171	161	178
Advance to supplier	92	284	0
Prepaid expenses	236	233	220
Short-term loans	1,605	1,451	1,453
Deferred tax assets	646	911	914
Others	288	176	164
Less allowance for doubtful accounts	(136)	(126)	(575)
	56,212	58,184	59,399
Fixed assets			
Tangible fixed assets			
Buildings	18,633	19,003	18,984
Accumulated depreciation	11,828	12,290	12,638
	6,805	6,713	6,346
Structures	3,825	3,900	3,809
Accumulated depreciation	2,971	3,069	3,064
	854	830	745
Machinery and equipment	28,863	29,287	29,412
Accumulated depreciation	25,133	25,468	25,626
	3,730	3,819	3,785
Vehicles and delivery equipment	873	866	621
Accumulated depreciation	770	750	562
	103	115	59
Tools, furniture and fixtures	6,058	6,210	6,464
Accumulated depreciation	5,176	5,305	5,350
	882	905	1,113
Land	9,120	9,121	8,733
Construction in progress	79	43	81
	21,575	21,548	20,865

Years ended March 31; Millions of yen	2003	2004	2005
Intangible fixed assets			
Leaseholdings	163	163	163
Software	2	14	33
Others	52	49	46
	218	227	243
Investments and other assets			
Investment securities	4,235	6,142	6,004
Capital stock of affiliated companies	7,943	7,913	7,846
Equity investments	-	73	74
Other equity investments of affiliated companies	1,582	2,236	2,334
Long-term loans to employees	800	711	3
Long-term loans to affiliated companies	4,157	4,446	5,916
Cash value of insurance for officers	1,410	1,580	1,778
Long-term accounts receivable	980	972	1,103
Rights to assets in liquidation or reorganization	110	103	42
Long-term prepaid expenses	86	87	97
Deferred tax assets	5,216	4,952	5,396
Others	1,385	1,171	1,237
Less allowance for doubtful accounts	(2,173)	(2,708)	(1,578)
	25,734	27,683	30,257
Total fixed assets	47,528	49,459	51,366
Total assets	103,740	107,644	110,766

Liabilities and shareholders' equity

Years ended March 31; Millions of yen	2003	2004	2005
Current liabilities			
Notes payable, trade	2,263	2,376	2,234
Accounts payable, trade	18,196	18,922	20,894
Short-term borrowings	17,918	16,638	16,953
Current portion of long-term debt	4,650	6,129	4,059
Accounts payable, other	1,486	1,737	1,787
Accrued expenses	130	311	329
Accrued consumption taxes	231	173	199
Accrued corporate and inhabitants taxes	347	1,863	1,010
Advances from customers	20	313	18
Deposits received	132	136	136
Reserve for bonuses to employees	1,467	1,513	1,522
Notes payable, construction	73	262	259
Others	72	72	70
	46,989	50,449	49,473
Long-term liabilities			
Long-term debt	14,323	12,694	13,950
Employees' retirement benefits	11,722	11,882	11,399
Reserve for losses on guaranteed liabilities	1,088	1,110	1,242
Allowance for losses on liquidation of subsidiaries	-	-	2,774
Others	96	86	206
	27,231	25,774	29,572
Total liabilities	74,221	76,224	79,046
Shareholders' equity			
Common stock	10,039	10,039	10,039
Capital reserves			
Additional paid-in capital	8,137	8,137	8,137
	8,137	8,137	8,137
Retained earnings			
Legal income reserves	2,224	2,224	2,224
Voluntary reserves - total			
Reserve for retirement allowances	595	595	463
Reserve for asset reduction entries	1,948	1,985	1,985
Special reserve	2,870	2,870	3,870
Unappropriated retained earnings, fiscal year-end	3,173	4,209	3,756
	10,811	11,884	12,299
Unrealized gains or losses on other securities	549	1,384	1,286
Treasury stock	(18)	(27)	(42)
Total shareholders' equity	29,519	31,419	31,720
Total liabilities and shareholders' equity	103,740	107,644	110,766

Trade credits**Notes receivable — trade**

Millions of yen	2005
Kimura Fine Tsusho Co., Ltd.	652
Yamamoto Ink Co., Ltd.	425
New Fine Chemical Co., Ltd.	228
Meiwa Packs Co., Ltd.	210
Chuwa Kagaku Yakuhin Co., Ltd.	199
Others	4,938
	<u>6,656</u>
April 2005	476
May 2005	656
June 2005	2,521
July 2005	2,020
August 2005	752
September 2005 and later	228
	<u>6,656</u>

Accounts receivable — trade

Millions of yen	2005
DSF Co., Ltd.	2,228
Japan Polypropylene Corporation	1,277
INCTEC INC.	995
IBJ Leasing Company, Limited	798
Polyplastics Co., Ltd.	702
Others	26,557
	<u>32,559</u>

Turnover of accounts receivable

Millions of yen	2005
Beginning balance	30,418
Increase	127,168
Collected	125,028
Ending balance	32,559
Turnover	79.3%
Average months for collection	2.97

Notes payable — trade

Millions of yen	2005
Shoei Chemical Inc.	412
Komori Corporation	194
SK Eki Seizou Co., Ltd.	125
New Fine Chemical Co., Ltd.	99
Kimura Fine Tsusho Co., Ltd.	79
Others	1,323
	<u>2,234</u>
April 2005	611
May 2005	578
June 2005	463
July 2005	580
August 2005	-
September 2005 and later	-
	<u>2,234</u>

Accounts payable — trade

Millions of yen	2005
Hi-Tech Chemi Co., Ltd.	1,799
Japan Polypropylene Corporation	1,175
UKIMA Chemicals & Color Mfg. Co., Ltd.	940
Nagase & Co., Ltd.	917
Komori Corporation	764
Others	15,296
	<u>20,894</u>

Marketable and investment securities

Millions of yen

Stocks

	<u>Number of shares</u>	<u>Book value</u>
Investment securities		
Other securities		
Sumitomo Mitsui Financial Group, Inc. (8316)	590	428
Mizuho Financial Group, Inc. (8411)	401	203
Mitsubishi Tokyo Financial Group, Inc. (8306)	200	186
Mizuho Trust & Banking (8404)	850,327	173
Achilles Corporation (5142)	555,000	114
WE'LL CORPORATION	40,000	256
Kansai Paint (4613)	257,868	171
Daiichi Kasei (4235)	274,140	113
Taisei Lamick Co., Ltd. (4994)	191,500	507
Tokyo Printing Ink Mfg. (4635)	300,300	112
Nissha Printing (7915)	165,653	284
Nihon Tokushu Toryo (4619)	319,615	216
Nippon Paint (4612)	401,356	159
Mitsui Mutual Life Insurance	4,000	200
Mitsubishi Pencil (7976)	362,750	405
LONA INDUSTRIES LTD.	618,925	101
Others (132 shares)	5,225,035	2,364
	<u>9,567,660</u>	<u>5,999</u>
Bonds		
	<u>Total face value</u>	<u>Book value</u>
Investment securities		
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	
Tangible fixed assets							
Buildings	19,003	165	184	18,984	12,638	495	6,346
Structures	3,900	22	113	3,809	3,064	93	745
Machinery and equipment	29,287	771	646	29,412	25,626	756	3,785
Vehicles and delivery equipment	866	29	274	621	562	29	59
Tools, furniture and fixtures	6,210	494	240	6,464	5,350	272	1,113
Land	9,121	-	387	8,733	-	-	8,733
Construction in progress	43	562	524	81	-	-	81
	68,433	2,046	2,371	68,107	47,242	1,647	20,865
Intangible fixed assets							
Leaseholdings	-	-	-	163	-	-	163
Software	-	-	-	41	8	7	33
Other intangible fixed assets	-	-	-	74	27	2	46
	-	-	-	279	35	9	243
Long-term prepaid expenses	151	21	0	171	74	10	97

Reserves

Millions of yen	Beginning of term	Increase	Decrease	End of term
Allowance for doubtful accounts	2,834	601	1,283	2,153
Reserve for bonuses to employees	1,513	1,522	1,513	1,522
Reserve for losses on guaranteed liabilities	1,110	174	42	1,242
Reserve for losses on liquidation of subsidiaries	-	2,774	-	2,774

Accounting Policies

Summary of accounting policies: Consolidated

Basis of presentation	Japanese GAAP
Marketable securities and investments in securities	<p>Trading securities: market value method (calculated primarily using the moving-average cost method)</p> <p>Bonds held to maturity: cost amortization method (straight-line)</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>
Derivatives	Market value method
Monetary trusts for investment purposes	Market value method
Inventories	Valued at cost, computed on a periodic average basis
Depreciation	<p>Tangible fixed assets: declining-balance method and straight-line method</p> <p>Intangible fixed assets: straight-line method</p> <p>Software for sale is amortized on a straight-line basis (based on expected useful life within the firm of 3 years).</p> <p>Software for internal use is amortized on a straight-line basis (based on the length of the internal useful life of 5 years).</p>
Allowance for doubtful accounts	<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 historical bad loss ratio.</p> <p>For problematic and other specified receivables, allowances are recognized on the basis of analyses of individual accounts.</p> <p>By contrast, the Company's overseas subsidiaries recognize allowances for specified receivables primarily on the basis of estimated uncollectible amounts.</p>
Reserve for bonuses	Recognition of expense for current term, based on estimated bonus expense for the bonus period
Reserve for retirement benefits	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 2005.
Significant hedge accounting methods	<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 which regulate authority regarding derivative transactions and which place limits on 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 established for exceptional treatment (tokurei shori).</p>
Opinion of independent auditors	<p>Auditors: Yasumori Audit Corporation</p> <p>Opinion: unqualified</p>

Summary of accounting policies: Nonconsolidated

Basis of presentation	Japanese GAAP
Marketable securities and investments in securities	<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 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>
Derivatives	Market value method
Inventories	Valued at cost, computed on a periodic average basis
Depreciation	<p>Tangible fixed assets: declining-balance method and straight-line method</p> <p>Intangible fixed assets: straight-line method</p> <p>Software for sale is amortized on a straight-line basis (based on expected useful life within the firm).</p> <p>Software for internal use is amortized on a straight-line basis (based on the length of the internal useful life of 5 years).</p>
Allowance for doubtful accounts	<p>To provide for doubtful accounts that arise in relation to trade receivables, loans, etc., the Company recognizes allowances for nonspecific receivables on the basis of a historical bad loss ratio.</p> <p>For problematic and other specified receivables, allowances are recognized on the basis of analyses of individual accounts.</p> <p>By contrast, the Company's overseas subsidiaries recognize allowances for specified receivables primarily on the basis of estimated uncollectible amounts.</p>
Reserve for bonuses	Recognition of expense for current term, based on estimated bonus expense for the bonus period
Reserve for retirement benefits	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 fiscal year to March 2005.
Reserve for guarantees of obligations	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.
Significant hedge accounting methods	<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, provisional foreign currency-denominated transactions and borrowings</p> <p>Hedging policy: The Company enters into hedging transactions in accordance with internal regulations which 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 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 established for exceptional treatment (tokurei shori).</p>
Opinion of independent auditors	<p>Auditors: Yasumori Audit Corporation</p> <p>Opinion: unqualified</p>

Share-related Information

Shares in issue

Class of shares	Common
Registered or bearer	Registered
Number of shares authorized	250,000,000
Issued	
As of March 31, 2005	93,065,554
As of June 29, 2005	93,065,554
Stock exchange listings	Tokyo Stock Exchange, First Section
Comments	-

Changes in common stock and number of shares outstanding

Date	Shares outstanding Thousand shares		Common stock Millions of yen		Additional paid-in capital Millions of yen		Remarks
	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	42,082	45.45
Securities companies	25	1,483	1.60
Business and other corporations	216	23,165	25.02
Non-residents (other than individuals)	44	2,789	3.01
Non-residents (individuals)	2	5	0.01
Individuals and others	3,305	23,058	24.91
	3,645	92,582	100.00
Shares less than one unit (share)	-	483,554	-

Largest shareholders

Name	Thousands of shares owned	Held in trust accounts	% of shares outstanding
Japan Trustee Services Bank (Trust Account)	6,592	5,955	7.08
UKIMA Chemicals & Color Mfg.	5,887		6.32
Sumitomo Mitsui Banking	4,412		4.74
Sompo Japan Insurance	3,465		3.72
Mitsui Mutual Life Insurance	3,273		3.51
The Master Trust Bank of Japan, Ltd (Trust Account)	3,217	2,439	3.45
Employees' shareholders association	2,985		3.20
Mizuho Corporate Bank	2,903		3.11
Mizuho Trust & Banking	2,750		2.95
Hi-Tech Chemi Co., Ltd.	2,735		2.93
	38,219		41.06

Share information

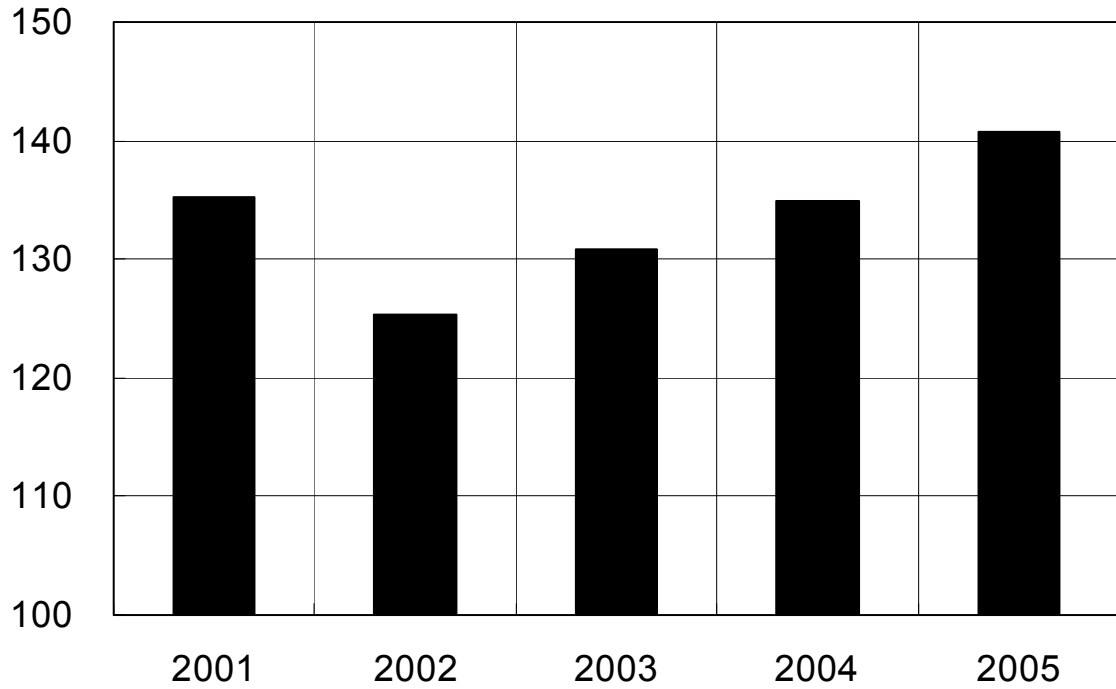
Fiscal year-end	March 31
Ex-rights date	March 31
Ex-rights date for interim dividend	September 30
Annual general meeting of shareholders	June
Trading unit	1,000 shares
Types of share certificates	1, 10, 50, 100, 500, 1,000, and 5,000 shares Stock certificates for fractional shares of less than 100
Transfer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

(Whereas the Company previously published its balance sheets and income statements in the Nihon Keizai Shimbun, it is now making these available on the Company's homepage at: <http://www.daicolor.co.jp/>.)

Performance in Graphs

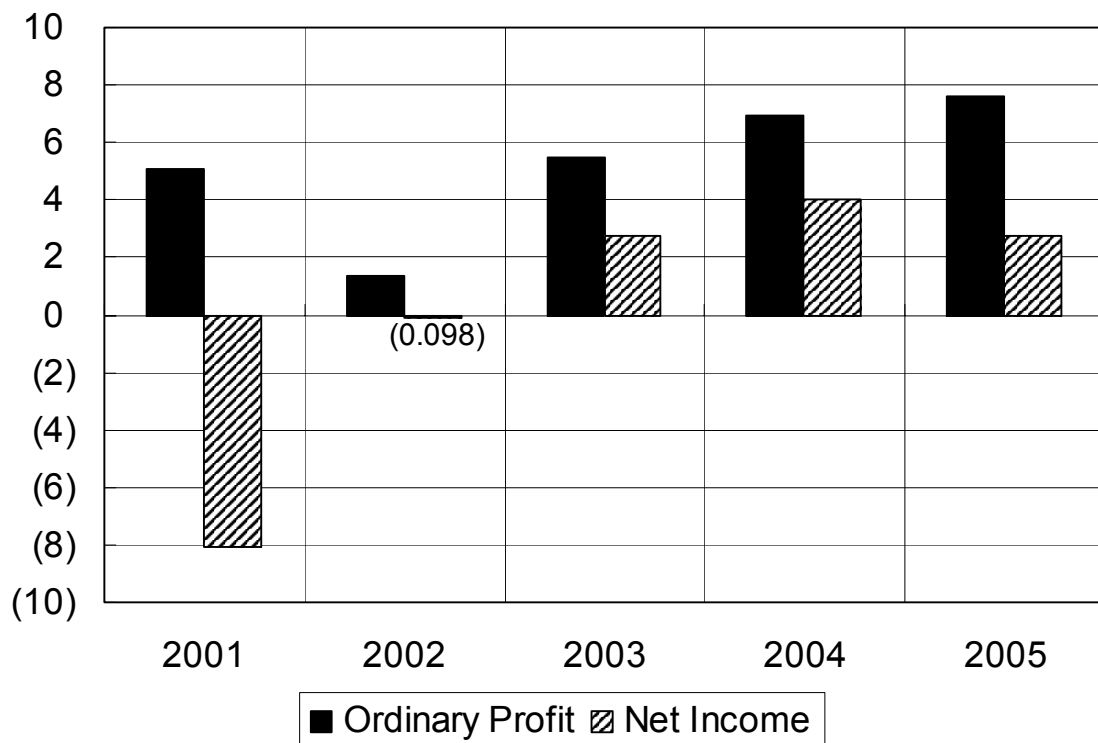
Net Sales

Billion yen

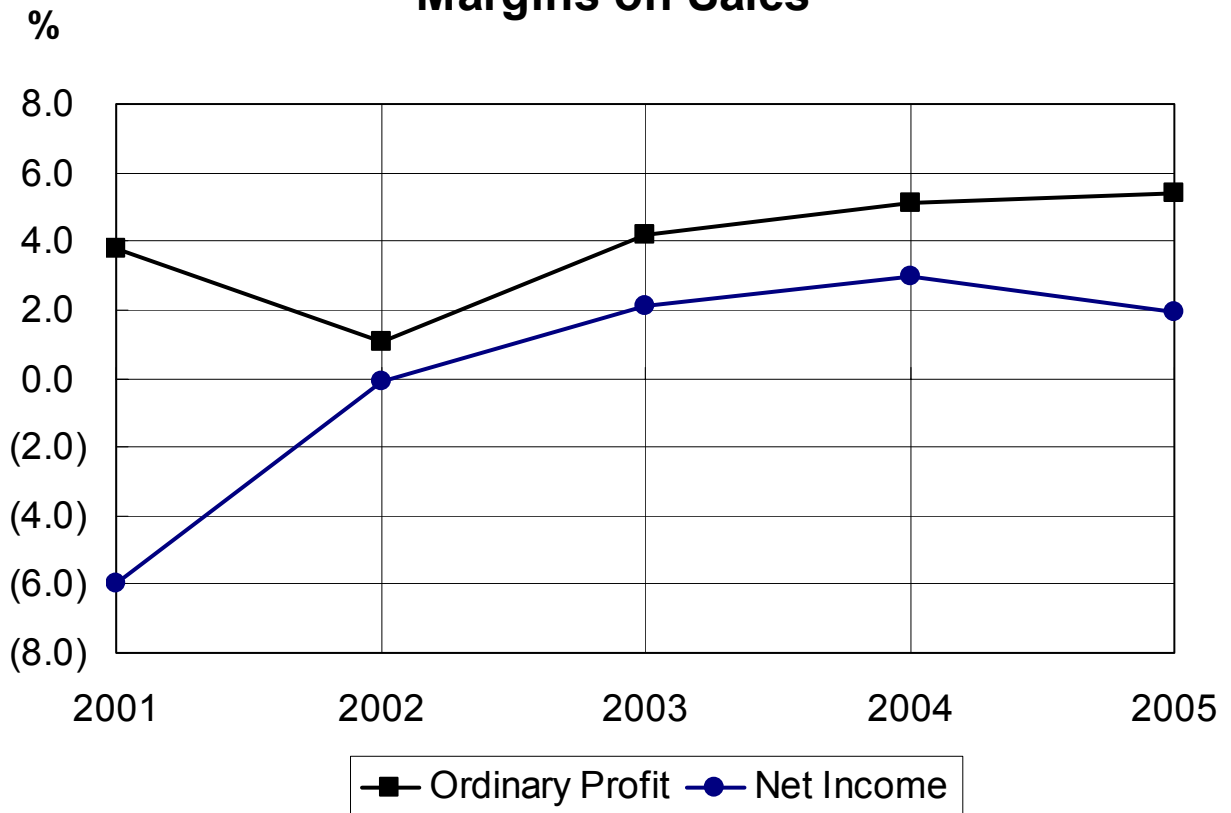


Ordinary Profit and Net Income

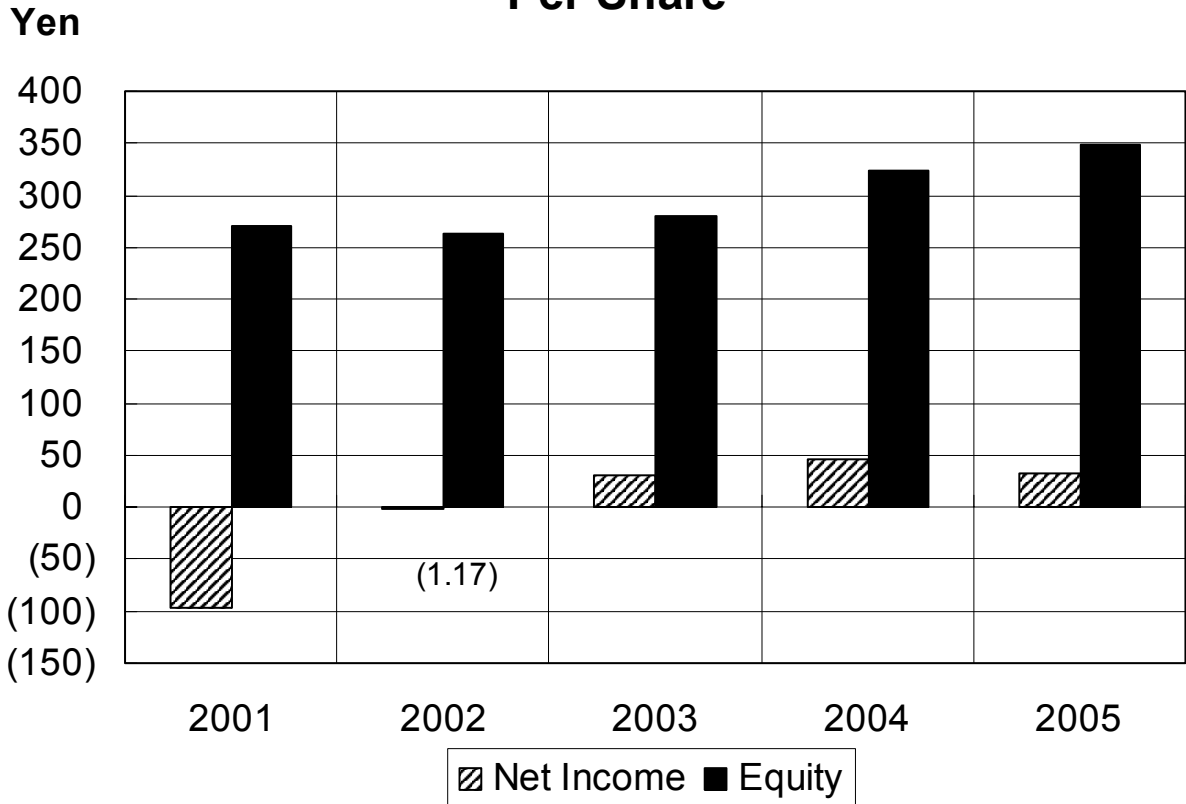
Billion yen



Margins on Sales

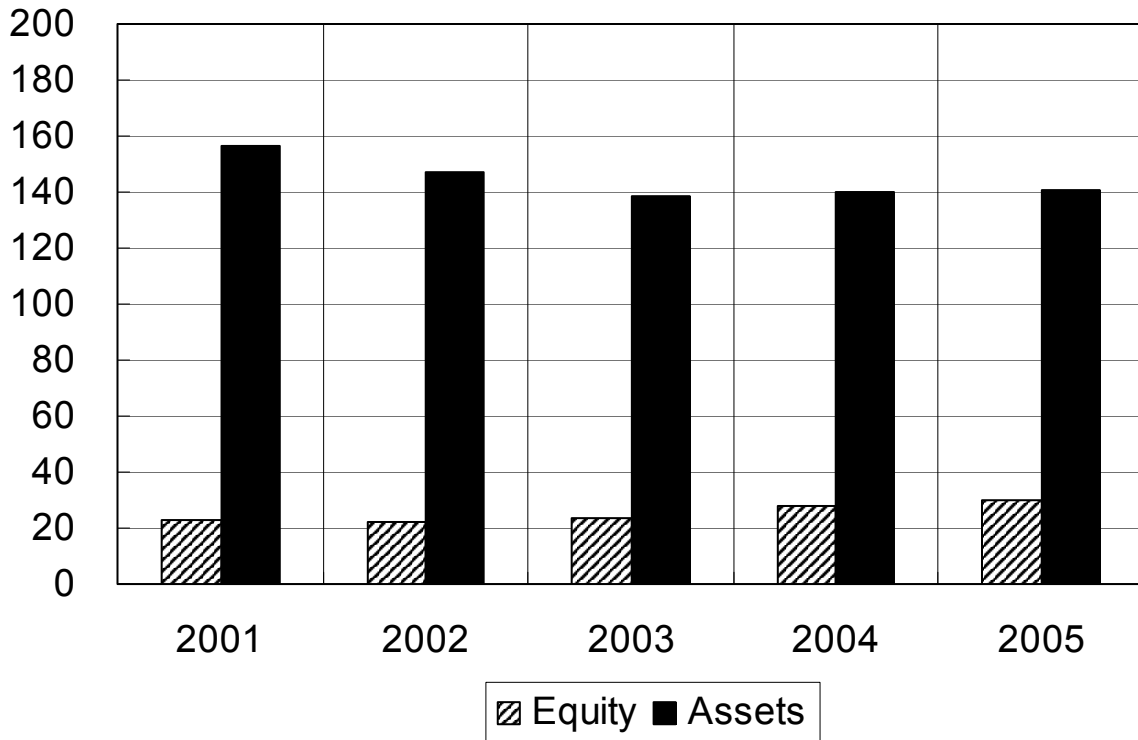


Per Share



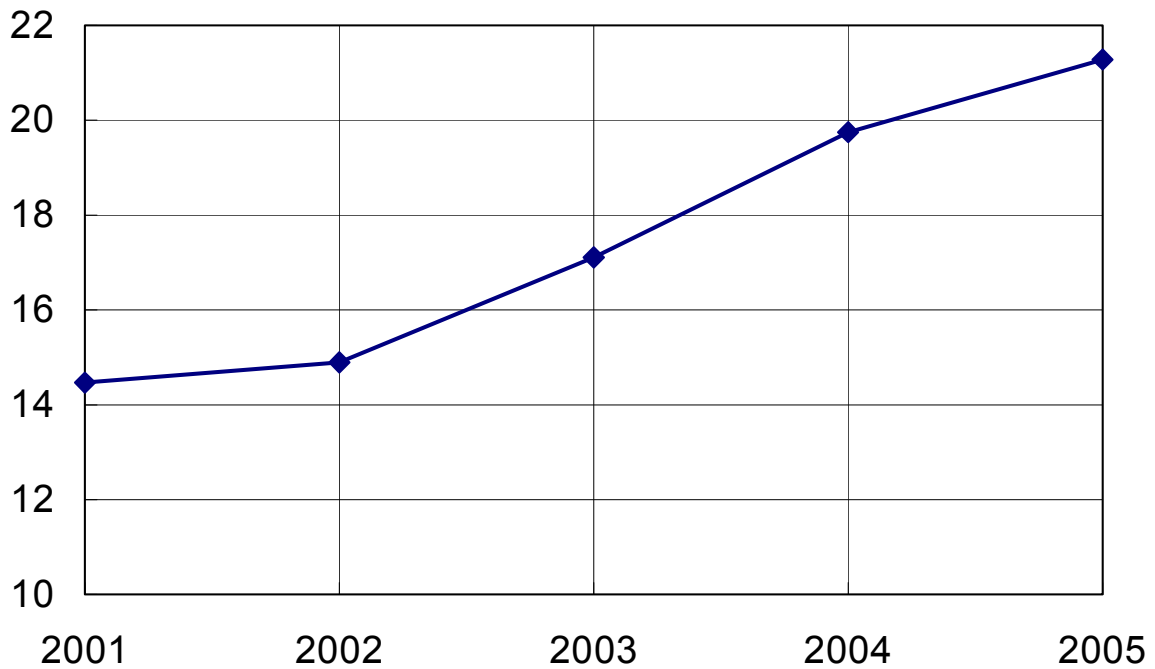
Equity and Assets

Billion yen

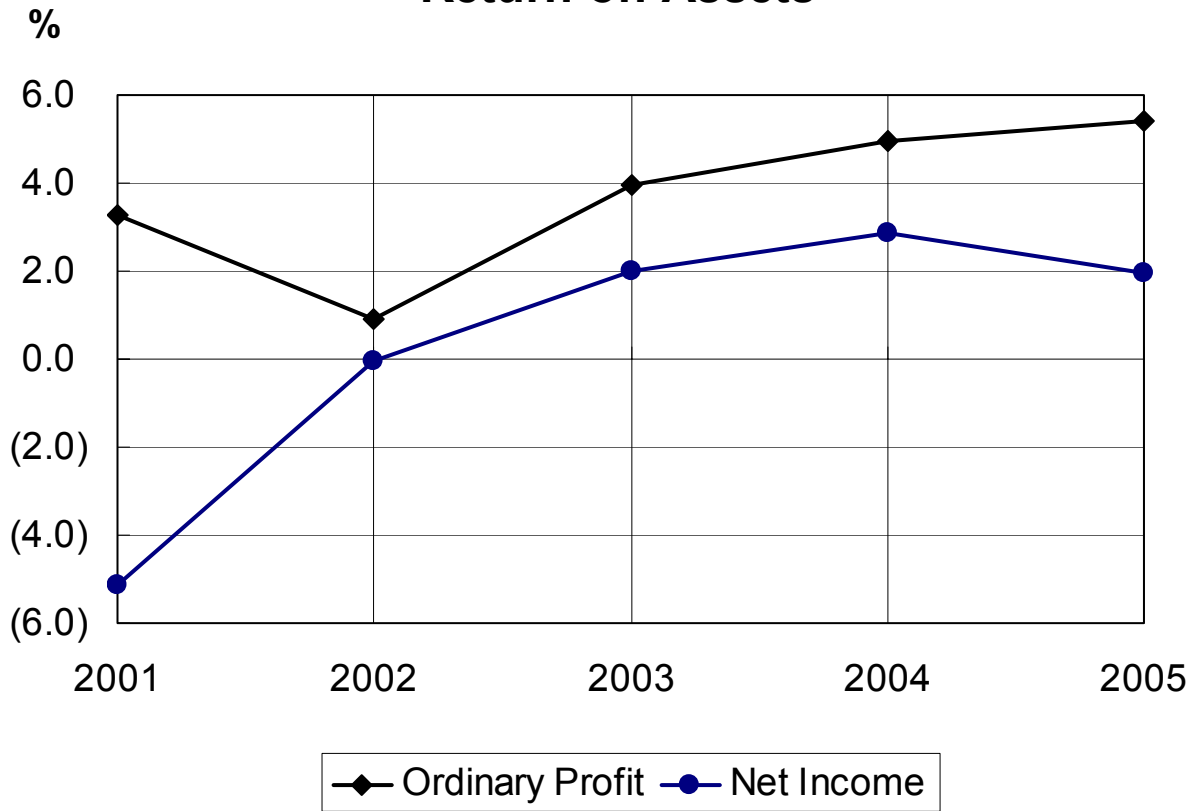


Equity / Assets

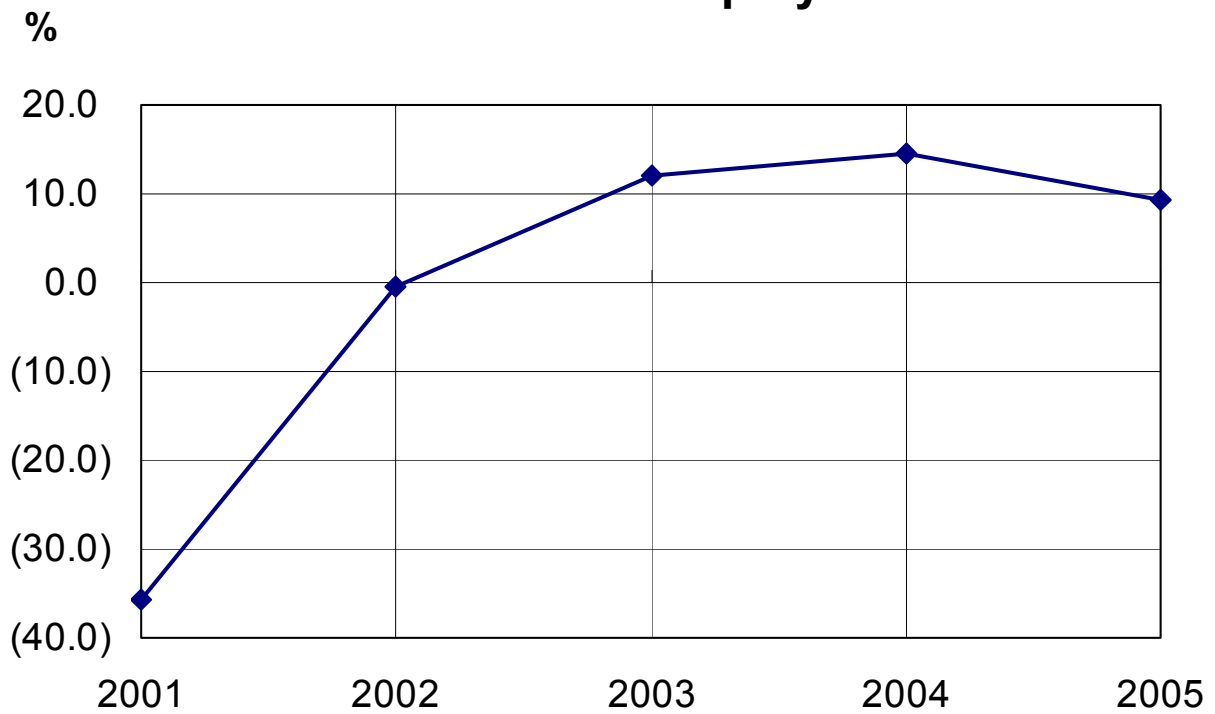
%



Return on Assets



Return on Equity



Contact

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1-7-6, Nihonbashi-Bakuro-cho, Chuo-ku,

Tokyo 103-8383, Japan

Telephone: 81-3-3662-7111

Facsimile: 81-3-5695-1420

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