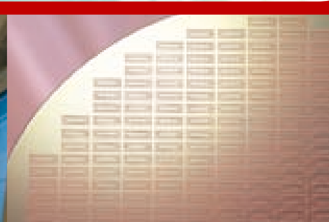
TOKYO OHKA KOGYO CO., LTD.

Pioneering Future Dimensions


ANNUAL REPORT 2004 Year Ended March 31, 2004

TOK at a Glance

TOK is a technology-developing firm. Our current spectrum of product fields derives from steady expansion of our business domains covering six categories: photoresists, printing materials, process equipment, chemicals, specialty chemicals and others, with applications ranging from semiconductor production to printed circuit board / package module production, display production, printing / plate making, and high-purity chemicals.

Dedicated to microprocess technology, we are running the frontier of this field. Our microprocess product lineup is grounded in high-purification engineering and centers around photopolymer technology. We are making ongoing efforts to extend application of microprocess technology to new fields and processes and are also taking active approaches to expand our business portfolio through microprocess. Based on the new technologies and methodologies resulting from energetic development of products and markets, we have built a solid position for ourselves in the Japanese market and now play a key role in the global market.

	Semiconductor Production	Printed Circuit Board / Package Module Production	Display Production
Photoresists 38.6%	ArF Excimer Laser Photoresist KrF Excimer Laser Photoresist Electron Beam Photoresist i-Line Photoresist g-Line Photoresist Isoprene-Based Photoresist	Dry Film Resist Photo Solder Resist Photoresist for Bump Process Photoresist for Wafer Level CSP Photoresist for COF/Tape CSP/TAB Photoresist for Lead Frame Photoresist for Plating Process	Photoresist for TFT Photoresist for STN/TN Pigment-Dispersed Photoresist for Color Filter Photoresist for PDP Dry Film Resist for PDP Barrier Rib Process Photoresist for FED Photoresist for Organic EL Display Photoresist for CRT
Printing Materials 7.9%			
Chemicals 27.8%	Photoresist Developing Solution Stripping Solution Rinsing Solution Thinner Diluted Solution Bottom Anti-Reflective Coating Top Anti-Reflective Coating Adhesion Promoting Agent	Photoresist Developing Solution Stripping Solution Rinsing Solution Thinner Diluted Solution Defoaming Agent Stopout Liquid	Photoresist Developing Solution Stripping Solution Rinsing Solution Thinner Diluted Solution Adhesion Promoting Agent Planarization Film for LCD Electric Layer Sheet for PDP
Specialty Chemicals 5.7%	Shrink Assist Film for Enhanced Resolution Interlayer Insulation Source Planarizing Insulation Source Dopants Diffusion Source High Purity Aqueous Solution		Planarization Film for LCD Dielectric Layer Sheet for PDP Under-Coat/Over-Coat Agent for LCD Seal Adhesive Agent for Fluorescent Materials for CRT Photo-Phosphor Paste Photo-Vehicle
Process Equipment 19.5%	Plasma Dry Etching Machine Plasma Dry Ashing Machine SOD Spin Coater System Photoresist Spin Coater Automatic Chemical Supply System UV Hardening Machine Hot Plate Baking Machine Baking Furnace	Highly Thick Film Forming Spin Coater Super Highly Thick Film Forming Non-Spin Coater High Speed Photoresist Developing Machine Descum Ashing Machine Ashing Machine Vacuum UV Hardening Machine	Non-Spin Coater System “Spinless” for TFT/Color Filter Process Non-Spin Coater “Spinless”/ Developer System for TFT/Color Filter Process Spin Coater System “Coat & Spin” for TFT/Color Filter Process Spin Coater “Coat & Spin”/Developer System for TFT/Color Filter Process Developer System Hot Plate Baking System

Note: The above percentage represents the division’s share to consolidated net sales for the year ended March 31, 2004.

C o n t e n t s

Printing / Plate Making	High Purity Chemicals
Photopolymer Plate for Flexographic Printing Photopolymer Plate for Letterpress Printing Photopolymer Plate for Molding Application Photopolymer Plate for Foil-Stamping Pre-Sensitized Plate for Offset Printing Photo Sensitive Material for Screen Printing	
Plate Developing Solution	Potassium Hydroxide Sodium Hydroxide Potassium Carbonate Sodium Carbonate Inorganic Incombustible Heat Transfer Agent Benzyl Alcohol Benzyl Acetate Cinnamic Acid SV Acetone SV Methanol
Plate Making Equipment for Flexo Plate	

A Message from the President

Yoichi Nakamura,
President & Chief Executive Officer

We hereby announce that as of June 29, 2004, Haruhiko Uchida, formerly President & Officer, has become the Chairman of the Board and Yoichi Nakamura, formerly Director & Officer, has been appointed the President & Chief Executive Officer. The Tokyo Ohka Kogyo (TOK) Group will gather its forces under the new management led by Chief Executive Officer Nakamura to further develop its business into the future. We also stand resolved to fulfill our social responsibilities as a good corporate citizen through a tireless effort to uphold corporate ethics and active pursuit of environmental preservation. In doing so, we hope our shareholders will provide us with continued support and understanding.

Ensuring Trend Towards Profit Recovery

In the fiscal year ended March 31, 2004, growing signs of brightness appeared in the business climate in which the TOK Group operates, giving rise to an optimistic outlook for future recovery. In the global electronics industry, where our products are in greatest demand, sales of cellular telephones proceeded at a brisk pace, while sales of digital consumer electronics represented by flat panel televisions and digital cameras also expanded. As greater demand for these final products has continued to boost the flat panel display (FPD) market and as the semiconductor market remained on track for a turnaround, capital investments in Japan and abroad have been on the rise.

Encouraged by this environment, the TOK Group saw sales grow in the material business, while the equipment business demonstrated an even more outstanding performance, resulting in favorable consolidated earnings where net sales rose by 15.0% to ¥83,121 million and operating income rose by 25.0% to ¥5,703 million. In particular, we were able to accomplish growth in operating income for the second consecutive year, confirming the trend of profit recovery. Net income amounted to ¥4,751 million, 2.47 times that of the previous fiscal year, due in part to the additional effect of having reported a gain on exemption from the future pension obligation of the governmental program.

Based on our judgment that we have succeeded in putting our corporate performance on a steady course of recovery, we have increased year-end dividends for the fiscal year ended March 31, 2004 by ¥2.00 per share to express our gratitude for the ongoing support we receive from our shareholders. As a result, adding the interim dividends that have already been paid, annual dividends totaled ¥22.00, up ¥2.00 from the previous fiscal year.

Expanded Growth Potential

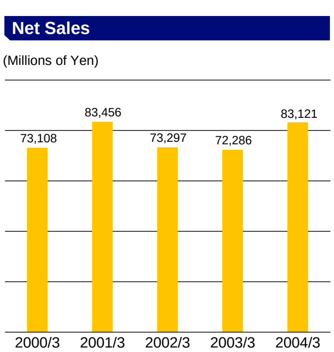
In the fiscal year ended March 31, 2004, we accomplished annual growth in operating income and net income for the second consecutive year. However, it was also a year in which we made considerable progress that goes beyond these figures in terms of expanding our growth potential. The first of these was progress made in the business strategies and various business plans pursued under our second “TOK Challenge 21” medium-term plan (hereafter referred to as the second medium-term plan) launched in the fiscal year under review. The second was progress made in the establishment of processes and systems required for effectively carrying out the business strategies and various business plans. Major decisions and implementation undertaken during the fiscal year under review with regard to the establishment of processes and systems for Group management are as follows:

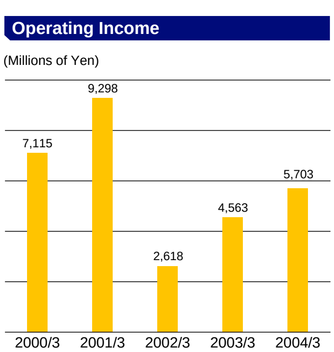
- Introduction of the scheme of officers (June 2003)
- Structural reform of the Process Equipment Manufacturing Department (September 2003)
  Restructuring aimed at accelerating decision making and improving operational efficiency
  - ▶Created the Design Division and the Engineering and Control Division
- Structural reform of the Marketing Department (October 2003)
  Restructuring aimed at strengthening marketing activities
  - ▶Abolished the Display Material Marketing Division and the Image-Forming Products Marketing Division; created the LCD Material Marketing Division, the PDP Packaging Material Marketing Division and the Printing Material Marketing Division. Created the Distribution Control Center within the Marketing Department in November 2003
- Structural reform of the Research & Development Department (October 2003)
  Restructuring aimed at enhancing development speed by right-sizing the organization
  - ▶Created the Advanced Material Development Division 3, establishing a four-division structure for R&D composed of three Advanced Material Development Divisions and the Specialty Development Division
- Creation and expansion of bases for overseas market development
  - ▶Created user support and marketing base in Seoul, Korea (October 2003)
  - ▶Decided to expand production capacity for high-purity chemical agents used mainly in photolithography processes and to create the Tainan Sales Office at consolidated subsidiary TOK Taiwan Co., Ltd. (October 2003)
  - ▶Integrated user support and marketing bases on the European Continent (October 2003)
  - ▶Decided to create joint venture for semiconductor and LCD manufacturing materials in China (March 2004)

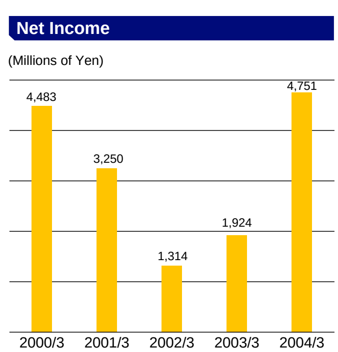
Progress Report on Second “TOK Challenge 21” Medium-Term Plan

The second medium-term plan was launched in April 2003 targeting net sales of ¥93,800 million and operating income of ¥9,100 million in the fiscal year ending March 31, 2006. In the first year of the plan, we were able to accomplish results that slightly exceeded initial projections, securing net sales of ¥83,121 million and operating income of ¥5,703 million.

We made steady progress in marketing and R&D activities based on the strategies and action plans formulated under the second medium-term plan. In the area of semiconductor manufacturing, the start-







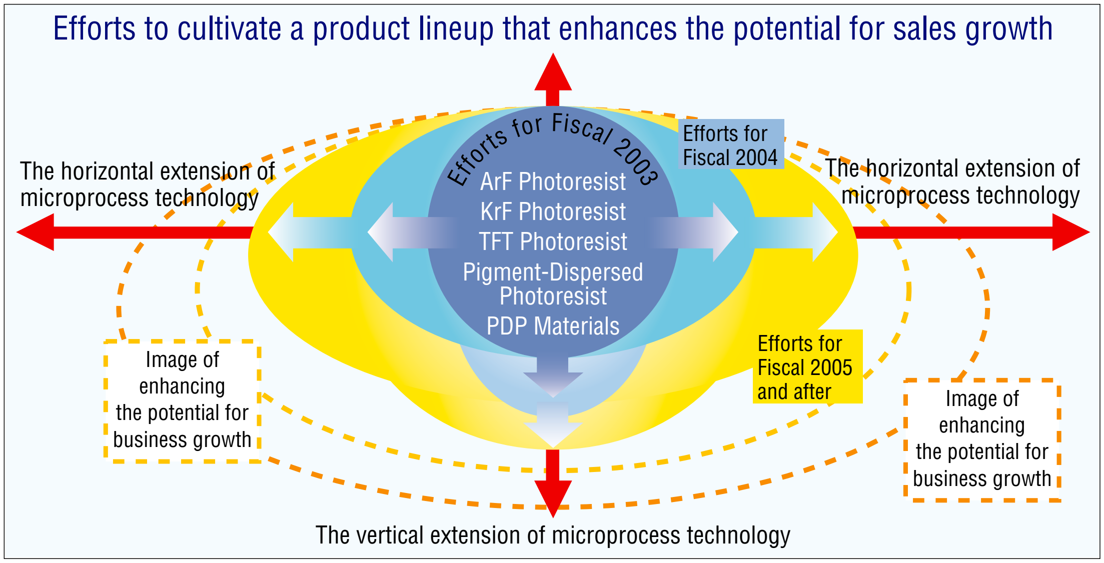
up of a market for ArF excimer laser photoresists—the most advanced materials for semiconductor manufacturing—has taken longer than our initial projections, due in part to the expanded application of exposure technology using KrF excimer lasers to even finer processing. We nevertheless proceeded to develop new technologies and products that will lead us to future sales growth and expansion of market share and received favorable responses from semiconductor manufacturers. As for the horizontal extension of microprocess technology exemplified by manufacturing technology for thin-film transistor (TFT)-LCDs and plasma display panels (PDPs), we made significant progress by responding with agility to the mounting demand for new materials generated by the brisk FPD market. As a consequence, we are beginning to gradually reap the benefits of our past efforts at promoting diversified development of microprocess technology in both horizontal and vertical directions.

TOK expects its product lineup in the most advanced areas—led by ArF excimer laser photoresists, KrF excimer laser photoresists, TFT-LCD photoresists, color filter pigment-dispersed photoresists including those for forming black matrix and PDP manufacturing materials—to become the driving force of sales growth in the second year of the second medium-term plan and beyond. We will continue to bolster our efforts to cultivate these products as a lineup that will expand our sales and enhance the potential for such sales growth.

In addition, we are developing an information system incorporating enterprise resource planning (ERP) to realize operational innovation and higher operational efficiency, which will in turn fortify our management foundation. We have made smooth progress in developing the system, which will become operational in the fiscal year ending March 31, 2005 as initially scheduled.

Future Approaches

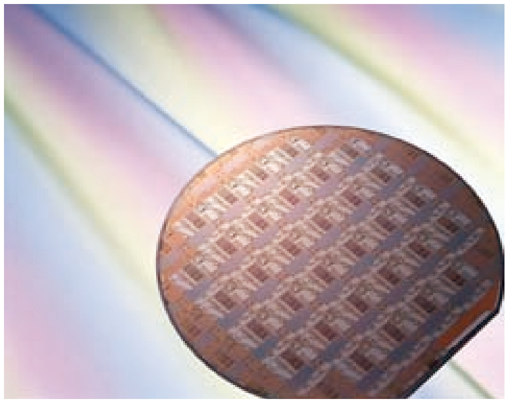
Looking to the future, concerns over the international situation and trends in the foreign exchange market leave little room for optimism in the global economic outlook. And while the business climate for the TOK Group can be expected to recover, it still leaves no room for complacency. Under this uncertain outlook, the TOK Group will strive to achieve medium- to long-term development not only by solidifying its management foundation to further increase profit by developing new technologies and products, establishing and strengthening its global business foundation, enhancing its quality control system and promoting improvements in its production system, but also by fulfilling its social responsibilities as a corporate citizen.



Fiscal 2003:Year ended March 2003 Fiscal 2004:Year ended March 2004 Fiscal 2005:Year ending March 2005

An Interview with the President

TOK continues to grow as an R&D-oriented company at the cutting edge of technology by upholding its management principles of "continue efforts to enhance technology," "raise the quality levels of products," "contribute to society" and "promote free-spiritedness." This annual report features an interview with President & Chief Executive Officer Nakamura, who was appointed in June 2004, centering on the direction and principles of R&D that hold the key to future success.



Q When you were Department Manager of the Research & Development Department, you managed the R&D operations, but you were also involved in various other operations as well. Please tell us about your career.

A Prior to being appointed as Department Manager of the Research & Development Department, I was on the frontlines of our overseas marketing activities as President of U.S. subsidiary OHKA AMERICA, INC. (OAI). We established our first overseas plant in 1992 at OAI. In fact, I was personally involved in launching the operation as the first General Manager of the plant. Also, I was responsible for internal management, including personnel affairs—the recruitment of OAI staff at Oregon—as well as other operations.

I spent the first ten years after joining the Company as an engineer involved in the development of photoresists used in semiconductor manufacturing. In 1984, we launched our first full-scale mass production plant for photoresists, and I was engaged in operations as a Manager of the Manufacturing Technology Section. Looking back on my career, I consider myself a launcher. I feel I have gained valuable experience.

Apart from these positions, I have also experienced quality assurance operations as General Manager of the Quality Assurance Division and manufacturing operations as Department Manager of the Electronic Material Department. Not being tied to the R&D area has enabled me to focus on R&D operations from perspectives as diverse as that of the manufacturing site, overseas operations, quality control and marketing.

Q Please explain your R&D philosophy.

A The term "R&D" illustrates the inseparable link that exists between "research" and "development," both of which I think are equally important. Our primary emphasis is on allocating management resources to development operations. However, we should avoid placing excessive emphasis on immediate results and efficiency that allow development operations to dominate our business. That is because, by striking the right balance between research and development based on careful consideration of our R&D staff numbers and the scope and characteristics of our business, our research operations will expand the foundation of our development operations and open up prospects that will yield even greater results in the future. My ideal is to create unrivaled new technologies that bring about fundamental changes to the industry.

In terms of the stance required of engineers who are engaged in R&D, tinkering with hypotheses and simulations is no good. My credo lies in the importance of using your own hands—in other words, engineers should actually create products. However excellent an idea of a technology is, it is useless without practical applications. The realization of the idea is the result of consistent efforts—a process of trial and error—that take place at the site of manufacturing and practical use. By actually creating products, we can make new discoveries and accumulate experience that cannot be gained through computer simulation.

TOK creates new technologies and products based on market needs and provides these tech-

nologies to its customers. Our customers in turn utilize our technology to develop products such as high-performance CPU and high-definition flat panel displays to create new markets. We pursue R&D to contribute to the new products and markets developed by our existing and potential customers, which we think leads to cultivation of our new business domains and markets.

The key for TOK's contribution to new product development by customers lies in superior technological capability that combines quality control capability, such as ensuring the stability of quality, with product development capability.

Q Contributing to customers' new product development requires superior technological capabilities. In your view, what are TOK's standards for superior technological capability?

A One of the key factors is the speedy and timely creation of new processes and products with the performance and functionality that satisfy our customers. Needless to say, it is also important to develop environment-friendly technologies, products and production processes.

However, I believe that is not enough. Stabilizing product quality is also becoming ever more important. This is because practical use of processes and products becomes more difficult when the service conditions get closer to theoretical limitations and when the market requires more sophisticated products and more advanced technologies. In such a situation, I think that "quality control capability" makes a significant contribution. Many of the customers I have come into contact with are increasingly demanding from us not only product development capability but also a stable supply of technology and products that is easy to handle.

Therefore, the key for TOK's contribution to new product development by customers lies in superior technological capability that combines quality control capability, such as ensuring the stability of quality, with product development capability. In fact, TOK has received high acclaim from customers both in Japan and abroad for its quality control based on close collaboration among various divisions.

TOK must remain as a company that takes

its source of growth from its superior technological capability. We will continue running by maintaining our superior technological capability in the advanced areas of all fields requiring sophisticated microprocess technology.

Q Please elaborate on quality control capability.

A Quality control capability is often thought of as technology related to quality assurance, inspection and manufacturing. While these technologies are undoubtedly important, they are not enough for quality control. Rather, it is the ability to maximize on the total capability of the Company derived from a combination of various technologies. Today, as the requirements for quality are becoming increasingly more sophisticated and stringent, a collaborative effort between many divisions from the development stage is important to stabilize the quality of our products. To ensure sophisticated and stable quality, I believe we should also collaborate closely with our customers while maximizing the Companywide technological capability.

Development and marketing capability certainly constitutes the driving force in developing relationships with customers, while high levels of quality and technical service capability that offers solutions for quality problems faced by customers constitutes the driving force in forging and deepening relationships of trust with customers.

Q TOK's business domain lies in the advanced areas of all fields requiring sophisticated microprocess technology. Which fields are you focusing on?

A There is a diverse array of microprocess technology. Considering our expertise accumulated over the years and future potential, we will continue to expand applications for microprocess technology based on photolithography centered on photopolymer materials. As for technology trends, we will most closely follow developments in microprocess technology for semiconductor production, among other fields. Although microprocess technology has made progress in various fields, the semiconductor production field is currently the technological driving force behind these advances and is expected to remain so into the foreseeable future. From a historical perspective, microprocess technology based on photolithography (photoresist) has in fact continued to advance to this day by making full use of a variety of technologies, despite persistent concerns that it will reach the limits of progress.

The important thing is to provide a highly sensitive response to the latest tides and trends in technology.

Even so, we can not deny the possibility that existing technology will finally reach its limits—not only in the field of semiconductor production—leading to the development of alternative technology. Then again, there is a steady ongo-

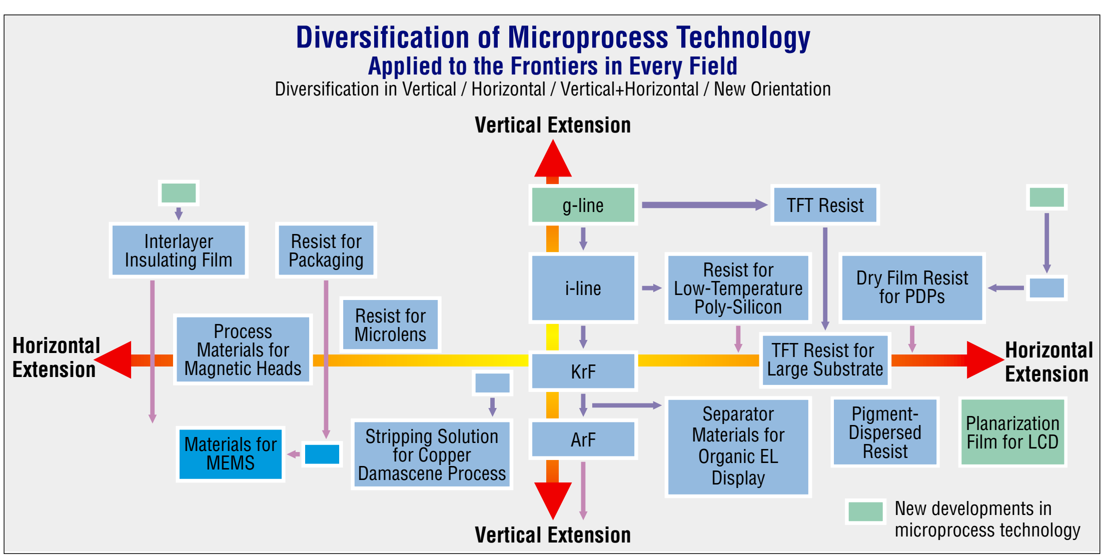
ing move toward miniaturization and higher integration across a wide range of products including various types of sensors, such as pressure sensors and acceleration sensors, magnetic heads for Hard Disk Drives and inkjet printer heads. Such trends continue and require further development of microprocess technology. From an even broader perspective, these represent limited examples. There must be other fields that need use of microprocess technology based on photolithography (photoresist) originally developed in a different field.

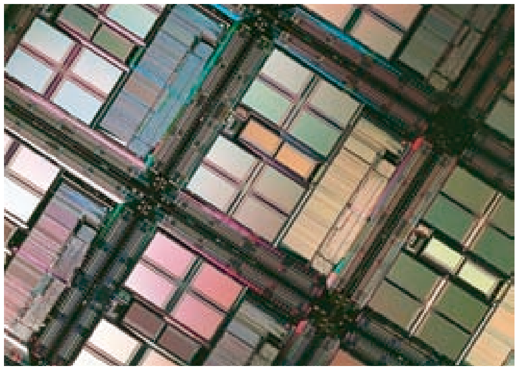
The important thing is to provide a highly sensitive response to the latest tides and trends in technology. TOK strives to hold its information antennas up high through close communication with customers, collaboration with universities and other research institutions and active participation in academic conferences such as SPIE (The International Society for Optical

Engineering) and technology development consortiums.

Q What is the crux of R&D management that enables a sensitive response to the tides and trends of technology in a way that you have emphasized?

A Apart from the ideal weighting between research operations and development operations, the primary concern of R&D management lies in managing the development operations. The greatest point is to achieve optimal utilization of management resources, including technologies developed in the past, against limitations posed by engineering staff, R&D equipment and facilities and funding. Next comes speed, followed by motivation, which is another important aspect that requires management. In other words, they can be described as managing the development theme, organization and individual engineers.





Q **What does management of the development theme involve?**

A It is ultimately about eliminating suboptimization from development operations activities and achieving total optimization. In more concrete terms, staff engineers often have a strong desire to meet the development requirements sought by customers. However, if we become preoccupied by simply providing a 100% response to the detailed requests of customers, it will end in self-satisfaction on the part of the engineer and we risk falling into a case of suboptimization.

Management of the development theme involves determining the essence of the customer requests and providing accurate solutions to create a state of total optimization, which will benefit both customers and the Company in the final analysis.

Q **Please explain your efforts at management related to the organization and individual engineers.**

A In October 2003, we established the Advanced Material Development Division 3 to create four-division system in the Research & Development Department. The aim is to facilitate faster decision making through streamlining the organization, which became oversized along with the increase in the number of development projects. At the same time, we have revised the allocation of development themes within the organizational structure to achieve higher efficiency in allocating human resources. These efforts are beginning to show solid effects such as raising the speed of development, which in some cases has enabled us to anticipate customer needs.

With regard to individual engineers, we have introduced a personnel system under which careers can be developed based on both performance and individual aspirations to maintain high motivation. In particular, the basic strengths of our development operations depend on individual ability and motivation to a considerable extent, and we will continue to introduce measures to bolster this aspect as necessary.

Q **In the semiconductor industry, development is under way on next-generation exposure technology as a new light source such as F_2 excimer lasers, and currently the spotlight is on immersion exposure technology. Please explain this technology and TOK's involvement in its development.**

A Immersion exposure technology is a high-resolution exposure technology that takes advantage of the fact that liquid has a higher refractive index than air, and involves exposure by filling the space between the photoresist and the lens with liquid. At the moment, the greatest attention lies in its application to exposure technology that uses argon-fluoride (ArF) excimer lasers—a most advanced technology in the mass-production stage of semiconductors—as the light source, where purified water will be used as the liquid to realize high resolutions in the order of microscopic levels below 65nm. Originally, this area of microprocess was to be realized by applying F_2 excimer lasers, but difficulties encountered during the practical application stage have led us to consider the adoption of immersion exposure technology. While being a newly introduced

technology, the risks and obstacles involved in practical application are lower than F_2 excimer lasers because the immersion principle has long been utilized and exposure technology with ArF excimer lasers is more advanced in practical application than F_2 excimer lasers. The immersion exposure technology with ArF excimer lasers also offers the advantage of leveraging technological assets, such as photomasks and photoresists, and is now viewed as the frontrunner of next-generation technology. In the field of immersion exposure, TOK has aggressively participated in technological development from the feasibility study and is about to attain results.

Specifically, TOK has already conducted joint experiments with equipment manufacturers, universities and consortiums and succeeded in the formation of patterns with line width and spacing width between 50nm and 45nm. While we still need to verify the process in its entirety, so far no serious problems have been found in developing practical applications for photoresists at the constitutive testing stage in which experiments are conducted on individual technologies required for semiconductor production. As the first step in adopting immersion technology, TOK currently recommends the concurrent use of cover-coating materials that protect photoresists from liquid and enhance optical character in order to reduce potential risk to semiconductor manufacturers. We are simultaneously engaged in R&D on processes and materials that do not require cover-coating materials in an effort to eventually make the technology easier to handle for semiconductor manufacturers.

Management of the development theme involves determining the essence of the customer requests and providing accurate solutions to create a state of total optimization, which will benefit both customers and TOK in the final analysis.

Corporate Social Responsibility

Since our establishment in 1940, we at TOK have upheld our management principles of "continue efforts to enhance technology," "raise the quality levels of products," "contribute to society" and "promote free-spiritedness." Our basic management policy is to contribute to social development and progress through our corporate activities, while paying due consideration to our relationships with the various stakeholders, including shareholders, business associates, employees, business partners and local communities in which we operate businesses. By also upholding "environmentally conscious management" as an important measure of our management, we aim to fulfill corporate social responsibility (CSR) in order to continue sustainable development with our stakeholders as a good corporate citizen. Therefore, we recognize stronger and fuller corporate governance as an important management issue, striving to raise our awareness of compliance issues and to bolster our governance systems.

Corporate Governance

1. Our Basic Approach to Corporate Governance

TOK is constantly aspiring to become a company that provides many products with a high share of the global market for the fine chemicals field, boasts solid profits and sound finances, enjoys the strong trust and satisfaction of stakeholders and has an excellent awareness of compliance. We are convinced that realizing these aims will enable us to benefit not only our shareholders but our many other stakeholders as well. To realize these ideals, we will enhance our corporate governance as one of our highest priorities to promote transparency and soundness of management as well as efficiency realized through rapid decision making and other measures.

2. Corporate Governance Activities at TOK

Corporate governance systems (from June 29, 2004)

As a matter of principle, board of directors meetings are held once a month to make decisions on important issues related to business execution and to supervise the business execution of representative directors and directors.

On June 27, 2003, following our 73rd Annual Shareholders' Meeting, we introduced a scheme of officers to our management structure. The decision was made to cultivate a strong awareness on the part of each director regarding the functional separation between "management decision making and supervising" and "business execution," as well as to strengthen each function and clarify each directors' respective responsibilities. It was also aimed at creating an opportunity for proactively appointing individuals who have business execution capabilities or professional expertise.

At our 74th Annual Shareholders' Meeting held on June 29, 2004, all nine directors terminated their term, and eight of whom were reelected. At the board of directors' meeting held afterwards, to ensure the effectiveness of our governance system reform mainly through the introduction of the scheme of officers, we took this opportunity to further enhance our governance structure by reducing the number of directors to an appropriate level and flattening the board of directors into a two-tiered structure comprising representative directors and directors, thereby eliminating other positions that were formerly attached to directors, with the exception of the Chairman of the Board and President, who serve as representative directors. By doing so, we reformed our board of directors to a system better suited to its primary functions of management decision making and supervising.

We also revised our scheme of officers to bolster its business execution functions by creating the hierarchical posts of Chief Executive Officer, Executive Officer and Officer, after making a total consideration of their areas of responsibility and capabilities.

According to these changes, we decided to replace the Management Committee composed of directors above the level of managing directors and department managers that had met each month to discuss and decide basic management policies and strategies with a Committee of Officers composed of all officers. The aim of this committee is to receive directions and orders that are decided by the board of directors, share information on business operations among officers and make decisions on important issues that do not require a decision by the board of directors and on other matters.

On the other hand, TOK has been applying a scheme of auditors. We believe the most effective means of enhancing our corporate governance would be to ensure the appropriate functioning of our existing scheme of auditors and to strengthen our management by integrating the above-mentioned reform of our board of directors and introduction of the scheme of officers.

The four auditors—three of whom are outside corporate auditors—not only participate in board of directors' meetings and other important meetings but receive reports of business operations from directors, other officers and employees to audit directors' business execution. In addition, as part of our efforts at internal control, the Internal Auditing Division, which is under the direct control of the President, undertakes necessary regular internal auditing in collaboration with the auditors; conducts investigations on the status of compliance with laws and internal regulations; and offers guidance.

Furthermore, we have signed legal counsel contracts with several law firms that provide us with legal advice. Our accounts are audited by an accounting auditor from a fair and independent standpoint at the midterm and fiscal year ends.

Shigeru Hirata, one of our outside corporate auditors, also serves as Senior Managing Director at Meiji Yasuda Life Insurance Company, a major shareholder with whom we sign insurance contracts on a regular basis. However, there is no direct relationship of interest between TOK and auditor Hirata himself. There are no conflicts of interest in terms of personal, capital, business or other relationships between TOK and the other two outside corporate auditors.

Environmental Management

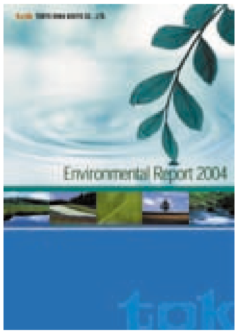
While our operations as a member of the chemical industry generates manifold benefits for everyday life, we are aware that they might also have a significant impact on the environment unless we properly control chemical substances. Therefore, in the spirit of responsible care we will do our best to pursue environmental management that will lead to a sustainable society through a conscious effort to ensure safety and to preserve health and the environment throughout the entire product life cycle from development to disposal, based on the principles of self-determination and self-responsibility.

The primary products manufactured and marketed by TOK are photoresists and chemicals used in the photolithography process and printing materials, produced by using and processing raw materials such as synthetic resins, organic solvents, photosensitive materials and inorganic chemicals. Within the domain of our business, general industrial waste of resin origin and industrial waste subject to special control of flammable waste oil are substances that may cause a significant impact on the environment, and we therefore actively seek to reduce such waste, develop a recycling-oriented system and manage chemical substances. In the fiscal year ended March 31, 2004, we have completed obtaining ISO14001 certification at our headquarters, marketing offices and all plants in Japan.

We have set up three Environmental Management Promotion Committees under which an Environmental Committee is organized for pursuing related measures in an efficient manner at each site, thus ensuring that all employees take part in our environmental preservation efforts. In addition, we have been striving to improve energy efficiency in CO_2 emissions through measures such as the installation of cogeneration systems. Among our other measures, we have also developed and marketed environment-friendly products, such as the flexographic printing system "ECOFIT System" and coating equipment "Spinless," in order to actively respond to needs on the users' side to reduce waste and volume of chemical usage as well as restrain electricity usage.

We will contribute to social development through the creation of new and advanced technologies and products and aim to achieve harmony with nature and society in our corporate activities towards a sustainable society.

In our annual Environmental Report, we will continue to serve our stakeholders by providing information, including our stance on the environment, initiatives, targets and achievements.



Environmental Report 2004

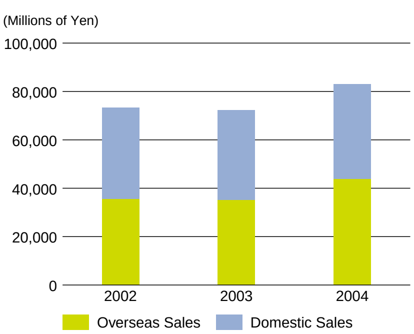
Five-Year Summary

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries
For the years ended March 31, 2000, 2001, 2002, 2003 and 2004

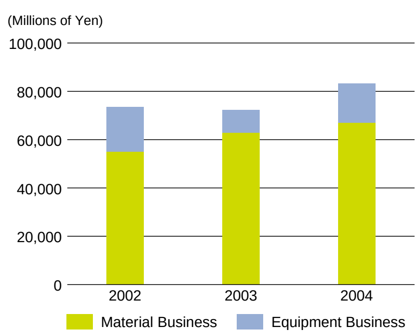
	Millions of Yen					Thousands of U.S. Dollars
	2000	2001	2002	2003	**2004**	**2004**
FOR THE YEAR:						
Net sales	¥ 73,108	¥ 83,456	¥ 73,297	¥ 72,286	**¥ 83,121**	**$ 791,634**
Material business	65,253	68,986	54,903	62,721	**66,927**	**637,405**
Equipment business	7,855	14,700	18,559	9,644	**16,263**	**154,890**
Operating income	7,115	9,298	2,618	4,563	**5,703**	**54,314**
Income before income taxes and minority interests	7,710	5,497	2,601	3,885	**8,372**	**79,738**
Net income	4,483	3,250	1,314	1,924	**4,751**	**45,250**
Investment in plants and equipments	2,754	3,522	7,670	8,019	**4,131**	**39,343**
Depreciation and amortization	5,326	4,808	5,031	5,232	**5,810**	**55,340**
R&D expenditures	5,752	6,160	5,803	6,028	**6,744**	**64,234**
PER SHARE DATA (Yen / U.S. Dollars):						
Net income (basic)	¥ 88.60	¥ 64.24	¥ 26.28	¥ 39.12	**¥ 98.69**	**$ 0.93**
Cash dividends applicable to the year	23.00	20.00	20.00	20.00	**22.00**	**0.20**
Total shareholders' equity	2,188.97	2,242.68	2,271.09	2,290.90	**2,401.31**	**22.86**
AT THE YEAR-END:						
Total assets	¥130,390	¥146,735	¥135,582	¥141,402	**¥146,376**	**$1,394,057**
Total long-term liabilities	1,379	6,767	7,416	7,954	**6,564**	**62,514**
Total shareholders' equity	110,762	113,479	113,126	111,241	**111,301**	**1,060,014**
RATIOS:						
Ratio of R&D expenditures to net sales (%)	7.9	7.4	7.9	8.3	**8.1**	
Ratio of operating income to net sales (%)	9.7	11.1	3.6	6.3	**6.9**	
Return on equity (%)	4.1	2.9	1.2	1.7	**4.3**	
Equity ratio (%)	84.9	77.3	83.4	78.7	**76.0**	

Notes: 1. U.S. Dollar amounts have been translated from yen, for convenience only, at the rate of ¥105=US $1, the approximate Tokyo foreign exchange market rate as of March 31, 2004.
2. Net sales by business segment includes intersegment sales.

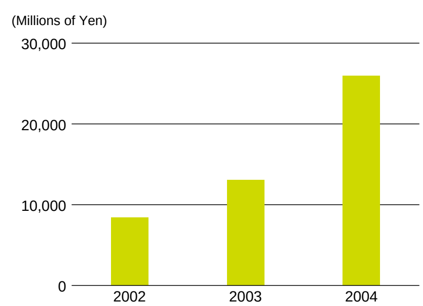
Net Sales



Net Sales by Business Segment



Order Backlog of Equipment Business



Management's Discussion and Analysis

During the fiscal year ended March 31, 2004, despite the unstable situation in the Middle East and the outbreak of the Severe Acute Respiratory Syndrome (SARS), the global economy demonstrated a steady recovery led by the United States and East Asia. Signs of recovery were also seen in the Japanese economy despite stagnant personal consumption, as exports increased and private capital investment revived. The business environment has also begun to show gradual improvement, giving rise to an optimistic outlook for the future recovery.

Results of Operations

Net Sales

The Tokyo Ohka Kogyo (TOK) Group recorded consolidated net sales of ¥83,121 million, an increase of ¥10,835 million or 15.0% from the previous fiscal year. Brisk sales in cellular telephones and an expansion in the market for digital consumer electronics sustained a turnaround in the semiconductor market and encouraged active business in the flat panel display (FPD) market, in turn leading to steady growth in sales in both the material business and equipment business segments. In Japan and the Asian region in particular, sales of liquid-crystal display (LCD) manufacturing materials and equipment showed unexpectedly strong growth due to the vigorous pace in thin-film transistor (TFT)-LCD production and robust capital investment. Significant growth in the Asian region lifted overseas net sales by ¥8,696 million or 24.8% from the previous fiscal year to ¥43,782 million and raised the ratio of overseas sales to consolidated net sales by 4.2 percentage points to 52.7%.

Segment Analysis

Business Segment

Sales of the material business segment exceeded that of the previous fiscal year in both domestic and overseas markets, rising by ¥4,205 million or 6.7% to ¥66,927 million. Sales in the equipment business segment also rose, up ¥6,618 million or 68.6% to ¥16,263 million, as we saw considerable growth in the sales of "Spinless," a coating equipment for manufacturing LCDs in the Asian market.

Material Business

Photoresists Division

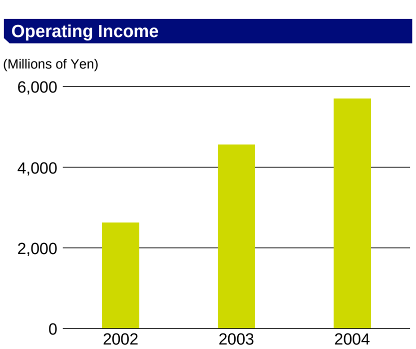
Sales in the photoresists division increased by ¥3,066 million, or 10.6%, to ¥32,112 million. By industrial application, the division is mainly divided into photoresists for semiconductors, FPDs and printed circuit boards. In the fiscal year ended March 31, 2004, sales of semiconductor photoresists exceeded those of the previous fiscal year, while we saw outstanding growth in the sales of FPD photoresists, which was a primary factor that contributed to raising sales for the entire division.

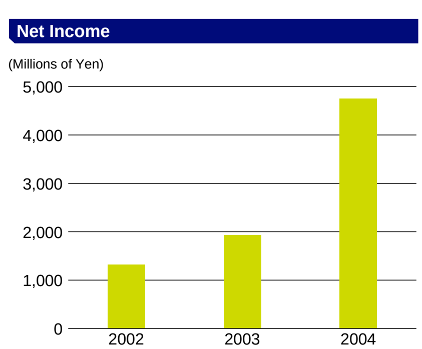
The subsegments of semiconductor photoresists are categorized into three groups according to exposure light source: g-line photoresists, i-line photoresists and advanced photoresists used in KrF and ArF excimer lasers. While some products suffered from a reduction in the volume used by customers, we were able to achieve a steady performance led by photoresists for excimer lasers, as growth in memory chips and other products led to an expansion in the semiconductor market.

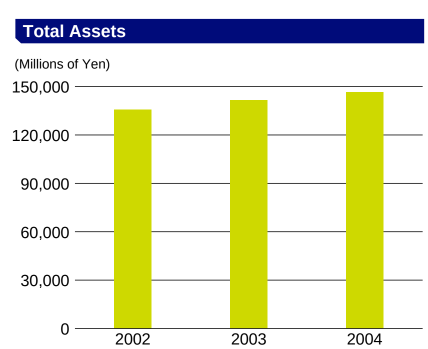
The subsegments of FPD photoresists consist of photoresists for LCDs and photoresists for plasma display panels (PDPs). With regard to LCD photoresists, production of LCD panels remained at high levels due to expanded demand for use in cellular telephones and flat panel televisions, resulting in strong sales in our mainstay TFT photoresists and other related products. During the fiscal year under review, in particular pigment-dispersed photoresists for LCD color filters began to enjoy new demand. Sales of PDP photoresists also increased significantly, despite sluggish demand at the onset. Photoresists for printed circuit boards meanwhile were subjected to an adverse consequence amid heated competition and the accompanying decline in prices both in Japan and abroad.

Printing Materials Division

In the printing materials division, sales increased by ¥641 million or 10.8% to ¥6,577 million. Sales of offset printing materials and photopolymer plates for general printing were subdued compared with the previous fiscal year. Photopolymer plates for flexographic







printing, while ending in a lackluster performance in Japan due to stagnant demand, nevertheless exhibited considerable growth in the European and North American markets where there was strong demand, demonstrating a steady increase in overall sales.

Chemicals Division

In the chemicals division, sales rose ¥589 million or 2.6% to ¥23,098 million. Sales of inorganic and organic chemicals fell below previous fiscal year's levels as the user industry suffered slack demand in the Japanese market. In the area of high-purity chemical agents used in manufacturing semiconductors and LCDs such as photoresist developer and stripping solution, although some products had the negative effects of declining prices that accompanied intensified competition, we nevertheless managed to raise sales from the previous fiscal year mainly in the Asian market as a result of a full-fledged sales effort in Japan and abroad.

Specialty Chemicals Division

Sales in the specialty chemicals division increased ¥134 million or 2.9% to ¥4,751 million. Semiconductor manufacturing materials such as coating source used in the formation of interlayer insulation films and planarizing insulation films for semiconductors demonstrated solid performances, reflecting the turnaround in the semiconductor market.

Equipment Business

While sales of semiconductor manufacturing equipment remained sluggish, sales of LCD panel manufacturing equipment doubled from the previous fiscal year, resulting in a good overall performance. Revitalization in capital investment brought about by larger glass substrate for LCD panels provided favorable winds, and our strategy of focusing on LCD panel manufacturing equipment also contributed. Led by "Spinless," coating equipment featuring a new coating process of the Non-spin technology, orders grew by ¥14,889 million or 104.9% to ¥29,083 million. Order backlog at the end of the fiscal year increased to the high level of ¥25,939 million, up ¥12,889 million or 98.8% from the end of the previous fiscal year.

Geographical Segment

As for geographical segment, sales in Japan increased ¥12,012 million or 19.4% to ¥74,053 million. And while sales in North America likewise rose on a local-currency basis, they fell by ¥479 million or 6.5% to ¥6,891 million when converted to yen due to the yen's strength. Sales in Europe rose slightly by ¥74 million or 1.4% to ¥5,592 million, while in Asia, which saw significant growth in sales in the previous fiscal year, production and sales at our subsidiary in Taiwan remained strong in line with revitalized production of semiconductors and LCDs, resulting in an increase of ¥655 million or 12.9% to ¥5,752 million. We expanded the production capacity of our subsidiary in Taiwan to meet mounting demand for high-purity chemical agents used in semiconductor and LCD manufacturing.

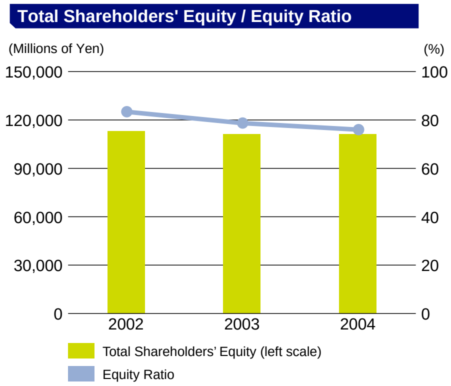
Cost of Sales, SGA, Operating Income

Cost of sales increased by ¥7,391 million or 15.2% to ¥56,149 million. The gross margin rate was 32.4%, a same level from the previous fiscal year, since most of the growth in sales came from the equipment business, which offers lower margins. Selling, general and administrative (SGA) expenses increased ¥2,304 million or 12.1% to ¥21,268 million, due to increases in storage and transportation that accompanied growing sales, as well as increases in depreciation and R&D supplies expenditures. As a result, operating income for the fiscal year under review rose by ¥1,139 million or 25.0% to ¥5,703 million. This in turn led to a 0.6 percentage point improvement in the ratio of operating income to sales to 6.9%.

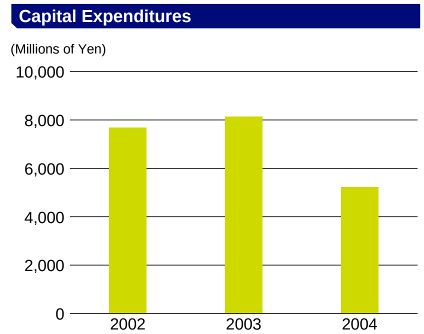
Income before Income Taxes and Minority Interests, Net Income

Income before income taxes and minority interests increased by ¥4,487 million or 115.5% to ¥8,372 million, significantly exceeding level of the previous fiscal year. In addition to the rise in operating income, we obtained approval for exemption from the future obligation by the Ministry of Health, Labour and Welfare and reported a gain on exemption from the future pension obligation of the governmental program in the amount of ¥2,326 million. Minority interests in net income amounted to ¥217 million, due to

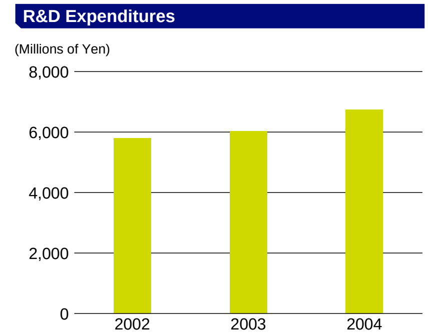
Total Shareholders' Equity / Equity Ratio



Capital Expenditures



R&D Expenditures



the solid performance demonstrated by our 70% owned subsidiary in Taiwan. As a result, net income rose by ¥2,827 million or 146.9% to ¥4,751 million.

Financial Review

Financial Position

As of March 31, 2004, total assets amounted to ¥146,376 million, up ¥4,973 million compared with the end of the previous fiscal year.

Current assets increased ¥5,838 million to ¥94,917 million. This was mainly due to an increase of ¥5,441 million in trade notes and accounts receivables to ¥28,465 million, reflecting robust operating activity that accompanied growing sales, an increase of ¥6,780 million in inventories to ¥22,841 million caused by factors such as rising orders in the equipment business and a decrease in cash and cash equivalents by ¥6,869 million to ¥40,977 million due to capital investment and repurchase of own shares of ¥4,387 million.

Net property, plant and equipment fell ¥1,616 million to ¥41,563 million, as depreciation and amortization exceeded capital investment. We are currently developing our information system by incorporating enterprise resource planning (ERP), and having reported software as assets, intangible fixed assets increased by ¥1,050 million to ¥1,173 million. Investments and other assets increased by ¥751 million to ¥9,895 million, mainly due to the increase in investment securities.

Current liabilities increased by ¥6,128 million to ¥27,702 million. This was primarily due to a ¥2,640 million increase in trade notes and accounts payables to ¥9,738 million and a ¥4,498 million increase in advances from customers to ¥9,961 million, which reflected the rise in equipment business orders.

Long-term liabilities decreased by ¥1,390 million to ¥6,564 million, mainly due to the reduction in liability for retirement benefits that resulted from being granted exemption from the future pension obligation of the governmental program.

Shareholders' equity increased slightly by ¥59 million to ¥111,301 million, as we continued to repurchase own shares in the fiscal year under review. As a result, shareholders' equity ratio fell 2.6 percentage points to 76.0%. Total shareholders' equity per share increased by ¥110.41 to ¥2,401.31 compared with the end of the previous fiscal year.

Cash Flows

Net cash provided by operating activities decreased by ¥6,883 million to ¥4,755 million, despite an increase of ¥4,487 million to ¥8,372 million in income before income taxes and minority interests. This was because increases totaling ¥5,623 million in trade notes and accounts receivables and of ¥6,965 million in inventories exceeded increases amounting to ¥2,661 million in trade notes and accounts payables and of ¥4,498 million in advances from customers. In addition, provision for retirement benefits decreased by ¥1,359 million, and payment of income and other taxes came to ¥2,869 million.

Net cash used in investing activities decreased by ¥2,227 million to ¥6,176 million, mainly due to the decline in capital investment.

Net cash used in financing activities increased by ¥2,223 million to ¥5,315 million, mostly as expenditures for repurchase of own shares increased by ¥2,388 million to ¥4,387 million.

As a result, cash and cash equivalents, end of year totaled ¥40,977 million, down ¥6,869 million from the end of the previous fiscal year.

Capital Expenditures, R&D Expenditures

Capital expenditures totaled ¥5,222 million. This represented a decrease of ¥2,902 million or 35.7% compared with the previous fiscal year, due to our decision to postpone implementation of a portion of our initial plans for investment in plant and equipment until the fiscal year ending March 31, 2005. By business segment, capital expenditures fell by ¥3,230 million to ¥3,606 million in the material business and by ¥616 million to ¥157 million in the equipment business. On the other hand, capital expenditures related to the entire Group, such as the development of information systems, rose by ¥944 million to ¥1,458 million.

R&D expenditures, including investments in R&D equipment, totaled ¥6,744 million. This represented an increase of ¥716 million or 11.9%, reflecting the increase in R&D activities.

Outlook for the Fiscal Year Ending March 31, 2005

In the fiscal year ending March 31, 2005, despite the possibility of a temporary standstill, on an annual basis we foresee steady recovery to continue in the semiconductor market alongside the FPD market. As in the fiscal year ended March 31, 2004, we expect business opportunities directly linked to expanded sales will lie mostly in the FPD-related areas.

From a medium- to long-term perspective, we are nevertheless determined to forge ahead with our R&D and marketing efforts in next-generation exposure technologies and in exposure technologies for the even more distant future, such as photoresists for ArF excimer lasers and immersion technologies. By these efforts, we aim to establish a solid foundation for future growth. Based on such thinking, we will continue aggressive capital investment and R&D expenditures for the fiscal year ending March 31, 2005. We expect fixed costs including depreciation and amortization to rise accordingly but are confident we can absorb the effects of such an increase and generate profit growth by meeting expanded demand in excimer laser photoresists and TFT-LCD photoresists and by capturing new demand for pigment-dispersed photoresists for LCD color filters and PDP photoresists.

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Balance Sheets

March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2004**	2003	**2004**
CURRENT ASSETS:			
Cash and cash equivalents	**¥ 40,977**	¥ 47,846	**$ 390,257**
Time deposits	**68**	211	**649**
Receivables:			
Trade notes	**4,974**	4,960	**47,379**
Trade accounts	**23,490**	18,062	**223,717**
Other	**372**	120	**3,551**
Allowance for doubtful receivables	**(119)**	(294)	**(1,140)**
Inventories (Note 4)	**22,841**	16,060	**217,534**
Deferred tax assets (Note 8)	**1,208**	1,125	**11,510**
Prepaid expenses and other current assets	**1,103**	986	**10,513**
Total current assets	**94,917**	89,078	**903,972**
PROPERTY, PLANT AND EQUIPMENT:			
Land	**9,311**	9,372	**88,684**
Buildings and structures	**51,849**	49,773	**493,808**
Machinery and equipment	**38,447**	37,910	**366,167**
Furniture and fixtures	**12,446**	11,713	**118,535**
Construction in progress	**546**	2,654	**5,203**
Total	**112,602**	111,424	**1,072,400**
Accumulated depreciation	**(71,038)**	(68,244)	**(676,556)**
Net property, plant and equipment	**41,563**	43,179	**395,843**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	**5,134**	3,691	**48,896**
Investments in an unconsolidated subsidiary and an associated company	**7**	7	**71**
Deferred tax assets (Note 8)	**1,790**	3,063	**17,055**
Other assets	**2,962**	2,381	**28,218**
Total investments and other assets	**9,895**	9,143	**94,241**
TOTAL	**¥146,376**	¥141,402	**$1,394,057**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2004	2003	Thousands of U.S. Dollars (Note 1) 2004
CURRENT LIABILITIES:			
Payables:			
Trade notes	**¥ 1,959**	¥ 1,410	**$ 18,662**
Trade accounts	**7,778**	5,688	**74,085**
Construction and other	**2,871**	3,969	**27,347**
Income taxes payable	**1,295**	1,590	**12,334**
Accrued expenses	**3,456**	3,106	**32,922**
Advances from customers	**9,961**	5,463	**94,874**
Deferred tax liabilities (Note 8)	**24**	65	**236**
Other current liabilities (Note 5)	**353**	279	**3,367**
Total current liabilities	**27,702**	21,573	**263,829**
LONG-TERM LIABILITIES:			
Long-term debt (Note 5)	**9**	10	**92**
Liability for retirement benefits (Note 6)	**6,229**	7,586	**59,332**
Deferred tax liabilities (Note 8)	**297**	292	**2,831**
Other long-term liabilities	**27**	64	**258**
Total long-term liabilities	**6,564**	7,954	**62,514**
MINORITY INTERESTS	**808**	632	**7,698**
SHAREHOLDERS' EQUITY (Notes 7 and 13):			
Common stock—authorized, 200,000,000 shares; issued, 50,600,000 shares in 2004 and 2003	**14,640**	14,640	**139,432**
Capital surplus	**15,208**	15,207	**144,843**
Retained earnings	**87,867**	84,074	**836,834**
Unrealized gain on available-for-sale securities	**1,887**	790	**17,974**
Foreign currency translation adjustments	**(468)**	(10)	**(4,462)**
Total	**119,135**	114,702	**1,134,622**
Treasury stock—at cost, 4,267,184 shares in 2004 and 2,041,848 shares in 2003	**(7,833)**	(3,460)	**(74,608)**
Total shareholders' equity	**111,301**	111,241	**1,060,014**
TOTAL	**¥146,376**	¥141,402	**$1,394,057**

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Income

Years Ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	**2004**
NET SALES	**¥83,121**	¥72,286	**$791,634**
COST OF SALES (Note 9)	**56,149**	48,758	**534,759**
Gross profit	**26,971**	23,528	**256,875**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 9)	**21,268**	18,964	**202,560**
Operating income	**5,703**	4,563	**54,314**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**79**	104	**761**
Interest expense	**(18)**	(21)	**(172)**
Foreign exchange loss—net	**(116)**	(157)	**(1,108)**
Royalty income	**240**	133	**2,287**
Loss on sales and disposals of property, plant and equipment—net	**(287)**	(159)	**(2,739)**
Loss on disposals of inventories	**(47)**	(109)	**(456)**
Loss on devaluation of investment securities		(680)	
Start-up cost of new plants		(121)	
Gain on exemption from the future pension obligation of the governmental program	**2,326**		**22,159**
Other—net	**492**	333	**4,692**
Other income (expenses)—net	**2,669**	(677)	**25,423**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**8,372**	3,885	**79,738**
INCOME TAXES (Note 8):			
Current	**2,581**	2,169	**24,589**
Deferred	**822**	(415)	**7,831**
Total income taxes	**3,404**	1,754	**32,420**
MINORITY INTERESTS IN NET INCOME	**(217)**	(207)	**(2,067)**
NET INCOME	**¥ 4,751**	¥ 1,924	**$ 45,250**

	Yen		U.S. Dollars
	2004	2003	**2004**
PER SHARE OF COMMON STOCK (Notes 2.o and 12):			
Basic net income	**¥ 98.69**	¥ 39.12	**$ 0.93**
Diluted net income	**98.67**		**0.93**
Cash dividends applicable to the year	**22.00**	20.00	**0.20**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years Ended March 31, 2004 and 2003

	Thousands	Millions of Yen					
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, APRIL 1, 2002	49,811	¥14,640	¥15,207	¥83,146	¥1,217	¥377	¥(1,463)
Net income				1,924			
Cash dividends paid:							
Final for prior year, ¥10.0 per share				(498)			
Interim for current year, ¥10.0 per share				(498)			
Repurchase of treasury stock	(1,253)						(1,996)
Net decrease in unrealized gain on available-for-sale securities					(427)		
Net decrease in foreign currency translation adjustments						(388)	
BALANCE, MARCH 31, 2003	48,558	14,640	15,207	84,074	790	(10)	(3,460)
Net income				4,751			
Cash dividends paid:							
Final for prior year, ¥10.0 per share				(485)			
Interim for current year, ¥10.0 per share				(472)			
Repurchase of treasury stock	(2,233)						(4,387)
Disposal of treasury stock	7						13
Net increase in unrealized gain on available-for-sale securities					1,096		
Net decrease in foreign currency translation adjustments						(457)	
BALANCE, MARCH 31, 2004	**46,332**	**¥14,640**	**¥15,208**	**¥87,867**	**¥1,887**	**¥(468)**	**¥(7,833)**

	Thousands of U.S. Dollars (Note 1)					
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Treasury Stock
BALANCE, MARCH 31, 2003	$139,432	$144,837	$800,707	$ 7,527	$ (104)	$(32,954)
Net income			45,250			
Cash dividends paid:						
Final for prior year, $0.09 per share			(4,624)			
Interim for current year, $0.09 per share			(4,498)			
Repurchase of treasury stock						(41,786)
Disposal of treasury stock		6				132
Net increase in unrealized gain on available-for-sale securities				10,446		
Net decrease in foreign currency translation adjustments					(4,358)	
BALANCE, MARCH 31, 2004	**$139,432**	**$144,843**	**$836,834**	**$17,974**	**$(4,462)**	**$(74,608)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2004	2003	**2004**
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥ 8,372**	¥ 3,885	**$ 79,738**
Adjustments for:			
Income taxes paid	**(2,869)**	(836)	**(27,327)**
Income taxes refunded		2,025	
Depreciation and amortization	**5,810**	5,232	**55,340**
Provision for doubtful receivables	**(174)**	(41)	**(1,658)**
Provision for retirement benefits	**(1,359)**	484	**(12,948)**
Loss on sales and disposals of property, plant and equipment—net	**287**	159	**2,739**
Loss on devaluation of investment securities		680	
Changes in assets and liabilities:			
Increase in trade notes and accounts receivables	**(5,623)**	(2,466)	**(53,554)**
Increase in inventories	**(6,965)**	(2,795)	**(66,335)**
Increase in trade notes and accounts payables	**2,661**	1,149	**25,346**
Increase in advances from customers	**4,498**	4,141	**42,842**
Other—net	**115**	19	**1,104**
Net cash provided by operating activities	**4,755**	11,638	**45,286**
INVESTING ACTIVITIES:			
Decrease (increase) in time deposits—net	**142**	(166)	**1,357**
Purchases of property, plant and equipment	**(5,267)**	(7,973)	**(50,168)**
Other—net	**(1,051)**	(264)	**(10,016)**
Net cash used in investing activities	**(6,176)**	(8,404)	**(58,827)**
FINANCING ACTIVITIES:			
Repayments of long-term debt	**(1)**	(9)	**(15)**
Dividends paid	**(954)**	(993)	**(9,087)**
Repurchases of treasury stock	**(4,387)**	(1,999)	**(41,786)**
Other—net	**28**	(89)	**269**
Net cash used in financing activities	**(5,315)**	(3,091)	**(50,620)**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**(132)**	(41)	**(1,265)**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(6,869)**	100	**(65,426)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**47,846**	47,746	**455,683**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥40,977**	¥47,846	**$390,257**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended March 31, 2004 and 2003

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications and rearrangements have been made in the 2003 financial statements to conform to classifications and presentations used in 2004.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which TOKYO OHKA KOGYO CO., LTD. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥105 to $1, the approximate rate of exchange at March 31, 2004. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Amounts of less than one million yen have been rounded off. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation— The consolidated financial statements include the accounts of the Company and its eight significant subsidiaries (together, the "Group").

Under the control concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

Investments in an unconsolidated subsidiary and an associated company are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of the Company's investments in consolidated subsidiaries, over the underlying equity at the respective dates of acquisition, is being amortized over a period of 5 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Cash Equivalents— Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits which mature within three months of the date of acquisition.

c. Inventories— Merchandise, work in process, and raw materials and supplies are stated at cost determined by the first-in, first-out method. Finished products are stated at cost determined by the average method. Inventories of semiconductor manufacturing equipment are stated at cost determined by the specific identification method, which are included in raw materials, work in process and finished products.

d. Investment Securities— All investment securities are classified as available-for-sale securities depending on management's intent. Marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined by the moving-average method.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. Property, Plant and Equipment— Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed by the declining-balance method at rates based on the estimated useful lives of the assets, while the straight-line method is applied to buildings of the Company acquired after April 1, 1998 and to the consolidated foreign subsidiaries. The range of useful lives is principally from 3 to 50 years for buildings and structures, and from 3 to 8 years for machinery and equipment, and furniture and fixtures.

f. Other Assets— Intangible assets are stated at cost less accumulated amortization, which is calculated by the straight-line method principally over 5 years.

g. Retirement and Pension Plans

Retirement benefits to employees (including offices)—The Company and its certain consolidated subsidiaries have contributory funded pension plans and unfunded retirement benefit plans as defined benefit plans.

The Companies principally accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at each balance sheet date, while retirement benefits to officers are provided to state the liability at the amount that would be required if all of them retired at the balance sheet date.

Prior service cost is amortized by the straight-line method over 10 years. Actuarial gains and losses are amortized by the straight-line method over 10 years from the next period in which they arise, respectively.

Retirement benefits to directors and corporate auditors—Retirement benefits to directors and corporate auditors are provided to state the liability at the amount that would be required if all of them retired at the balance sheet date.

h. Research and Development Costs— Research and development costs are charged to income as incurred.

i. Leases— Leases are mainly accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

j. Income Taxes— The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

k. Appropriations of Retained Earnings— Appropriations of retained earnings at each year end are reflected in the financial statements for the following year upon shareholders' approval.

l. Foreign Currency Transactions— All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates as of each balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by foreign currency forward contracts.

m. Foreign Currency Financial Statements— The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rates as of each balance sheet date except for shareholders' equity, which is translated at the historical rates.

Differences arising from such translation are shown as "Foreign currency translation adjustments" in a separate component of shareholders' equity.

Revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rates as of each balance sheet date.

n. Derivative Financial Instruments— The Group uses derivative financial instruments to manage its exposures to the fluctuation in foreign currency exchange. Foreign currency forward contracts are utilized by the Group to hedge foreign currency exchange risk. The Group does not enter into the derivative for trading or speculative purposes.

Trade receivables and payables denominated in foreign currencies for which foreign currency forward contracts are used to hedge foreign currency exchange risk are translated at the contracted rates if the forward contracts qualify for hedge accounting.

o. Per Share Information— Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised. Diluted net income per share assumes full exercise of outstanding warrants at the beginning of the year.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

p. New Accounting Pronouncements— In August 2002, the Business Accounting Council issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASB") issued ASB Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The Company is currently in the process of assessing the effect of adoption of these pronouncements.

3. INVESTMENT SECURITIES

Investment securities as of March 31, 2004 and 2003 consisted of equity securities.

The carrying amounts and aggregate fair values of investment securities at March 31, 2004 and 2003 were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2004				
Securities classified as available-for-sale equity securities	¥1,719	¥2,763		¥4,483
March 31, 2003				
Securities classified as available-for-sale equity securities	1,719	1,352	¥30	3,041

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2004				
Securities classified as available-for-sale equity securities	$16,377	$26,323		$42,700

The difference between the above fair values and the amounts shown in the accompanying consolidated balance sheets consists of non-marketable securities whose fair values are not readily determinable.

Proceeds from sales of available-for-sale securities for the year ended March 31, 2003 were ¥18 million. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥0 million for the year ended March 31, 2003.

4. INVENTORIES

Inventories at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Merchandise	**¥ 802**	¥ 745	**$ 7,642**
Finished products	**14,374**	9,432	**136,901**
Work in process	**4,413**	2,803	**42,031**
Raw materials and supplies	**3,250**	3,079	**30,959**
Total	**¥22,841**	¥16,060	**$217,534**

5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

The amounts of short-term borrowings and current portion of long-term debt are included in "Other current liabilities" of consolidated balance sheets.

Short-term borrowings at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Unsecured loans from minority shareholder, with interest rates of 2.90% (2004) and 3.91% (2003)	**¥ 26**	¥ 25	**$ 254**
Bank overdrafts, with interest rates of 3.10% (2004) and 3.60% (2003)	**220**	156	**2,103**
Total	**¥247**	¥181	**$2,358**

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

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Unsecured loans from a financial institution for employees' housing loans, with interest rates of 4.44% (2004) and 4.47% (2003)	**¥10**	¥12	**$102**
Less current portion	**(1)**	(1)	**(10)**
Long-term debt, less current portion	**¥ 9**	¥10	**$ 92**

Annual maturities of long-term debt at March 31, 2004 for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2005	¥ 1	$ 10
2006	1	10
2007		9
2008		8
2009		8
2010 and thereafter	5	55
Total	¥10	$102

6. RETIREMENT AND PENSION PLANS

The Company and its certain consolidated subsidiaries have contributory funded pension plans and unfunded retirement benefit plans as defined benefit plans for employees. The Company has severance payment plans for directors and corporate auditors.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on their rate of pay at the time of termination, their average pay during employment, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee.

In accordance with the Defined Benefit Pension Plan Law enacted in April 2002, the Company applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government upon approval. The Company obtained approval for exemption from the future obligation by the Ministry of Health, Labour and Welfare on December 1, 2003 and recognized a gain on exemption from the future pension obligation of the governmental program in the amount of ¥2,326 million ($22,159 thousand) for the year ended March 31, 2004. The substitutional portion of the plan assets which will be transferred to the government in the subsequent year is measured to be approximately ¥2,768 million ($26,368 thousand) as at March 31, 2004.

The liability for employees' retirement benefits at March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Projected benefit obligation	**¥13,147**	¥18,541	**$125,216**
Fair value of plan assets	**(4,762)**	(5,949)	**(45,360)**
Unrecognized prior service cost	**7**	580	**67**
Unrecognized actuarial loss	**(2,797)**	(6,265)	**(26,643)**
Net liability	**¥ 5,594**	¥ 6,906	**$ 53,280**

The components of net periodic benefit costs for the years ended March 31, 2004 and 2003 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Service cost	**¥ 988**	¥ 902	**$ 9,413**
Interest cost	**363**	412	**3,462**
Expected return on plan assets	**(102)**	(189)	**(979)**
Amortization of prior service cost	**(43)**	(65)	**(416)**
Recognized actuarial loss	**606**	363	**5,773**
Net periodic benefit costs	**1,811**	1,423	**17,253**
Gain on exemption from the future pension obligation of the governmental program	**(2,326)**		**(22,159)**
Total	**¥ (515)**	¥1,423	**$ (4,905)**

Assumptions used for the years ended March 31, 2004 and 2003 are set forth as follows:

	2004	2003
Discount rate	**2.25%**	2.25%
Expected rate of return on plan assets	**2.00%**	3.00%
Amortization period of prior service cost	**10 years**	10 years
Recognition period of actuarial gain / loss	**10 years**	10 years

The liabilities for retirement benefits at March 31, 2004 and 2003 for directors and corporate auditors are ¥635 million ($6,052 thousand) and ¥679 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

7. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting. The Company was authorized to repurchase up to 3,000 thousand shares of the Company's common stock (aggregate amount of ¥7,000 million) at the general shareholders meeting held on June 27, 2003, and the Company repurchased 2,232 thousand shares (aggregate amount of ¥4,385 million ($41,765 thousand)).

The amount of retained earnings available for dividends under the Code was ¥74,117 million ($705,879 thousand) as of March 31, 2004, based on the amount recorded in the parent company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

Stock Option Plan— In July 2001, the Company granted stock options to 15 directors and 123 employees of the Company after approval by shareholders on June 28, 2001. The stock options are granted to acquire 788 thousand treasury shares of the Company at an exercise price of ¥1,872 per share, which will be exercisable from July 1, 2003 to June 30, 2008.

8. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41.6% for the years ended March 31, 2004 and 2003. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

On March 31, 2003, a tax reform law concerning enterprise tax was enacted in Japan which changed the normal effective statutory tax rate from 41.6% to 40.3%, effective for years beginning on or after April 1, 2004. The deferred tax assets and liabilities which will realize on or after April 1, 2004 are measured at the effective tax rate of 40.3% and 40.2% as at March 31, 2004 and 2003, respectively. The effect of change from 40.2% to 40.3% was not significant for the year ended March 31, 2004. The effect of change from 41.6% to 40.2% was to decrease deferred tax assets—non-current by ¥104 million, decrease tax liability—non-current by ¥15 million, increase income taxes—deferred by ¥107 million and increase unrealized gain on available-for-sale securities by ¥18 million in the consolidated financial statements for the year ended March 31, 2003.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2004 and 2003 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Current assets—Deferred tax assets:			
Excess of tax allowance for provision of doubtful accounts	**¥ 48**	¥ 120	**$ 460**
Accrued expense for bonuses to employees	**554**	457	**5,280**
Unrealized gains on inventories	**213**	174	**2,036**
Other	**392**	372	**3,733**
Total	**¥1,208**	¥1,125	**$11,510**
Non-current assets:			
Deferred tax assets:			
Liability for retirement benefits	**¥2,473**	¥3,004	**$23,553**
Property and equipment	**273**	399	**2,603**
Investment securities	**286**	284	**2,731**
Other	**130**	35	**1,244**
Less valuation allowance	**(383)**		**(3,649)**
Total	**¥2,780**	¥3,723	**$26,482**
Deferred tax liabilities:			
Property and equipment	**¥ 113**	¥ 128	**$ 1,078**
Unrealized gain on available-for-sale securities	**876**	531	**8,348**
Total	**989**	660	**9,426**
Net deferred tax assets	**1,790**	3,063	**17,055**
Current liabilities—Deferred tax liabilities	**¥ 24**	¥ 65	**$ 236**
Non-current liabilities—Deferred tax liabilities:			
Property and equipment	**¥ 131**	¥ 146	**$ 1,253**
Undistributed earnings of foreign subsidiaries	**165**	146	**1,578**
Total	**¥ 297**	¥ 292	**$ 2,831**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2003 is as follows:

	2003
Normal effective statutory tax rate	41.6%
Expenses not deductible for income tax purposes	0.8
Revenue deductible for income tax purpose	(0.4)
Lower income tax rates applicable to income in certain foreign countries	(1.4)
Effect of tax rate reduction	2.8
Other—net	1.7
Actual effective tax rate	45.1%

A reconciliation for the year ended March 31, 2004 is omitted, because the difference between the normal effective statutory tax rate and the actual effective tax rate is not significant.

9. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Selling, general and administrative expenses	**¥6,646**	¥5,672	**$63,300**
Cost of sales	**98**	355	**934**
Total	**¥6,744**	¥6,028	**$64,234**

10. LEASES

The Group leases certain buildings and structures, machinery, computer hardware, software and other assets.

Total lease payments under finance leases for the years ended March 31, 2004 and 2003 were ¥315 million ($3,005 thousand) and ¥457 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2004 and 2003 was as follows:

Acquisition cost and accumulated depreciation:

	Millions of Yen			
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Total
March 31, 2004				
Acquisition cost	**¥92**	**¥517**	**¥790**	**¥1,399**
Accumulated depreciation	**75**	**398**	**653**	**1,127**
Net leased property	**¥16**	**¥118**	**¥137**	**¥ 272**

	Thousands of U.S. Dollars			
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Total
March 31, 2004				
Acquisition cost	**$876**	**$4,924**	**$7,530**	**$13,331**
Accumulated depreciation	**715**	**3,797**	**6,225**	**10,738**
Net leased property	**$160**	**$1,126**	**$1,305**	**$ 2,592**

	Millions of Yen			
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Total
March 31, 2003				
Acquisition cost	¥99	¥527	¥1,016	¥1,643
Accumulated depreciation	61	324	688	1,073
Net leased property	¥38	¥203	¥ 328	¥ 569

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Due within one year	**¥230**	¥320	**$2,190**
Due after one year	**42**	249	**401**
Total	**¥272**	¥569	**$2,592**

The amounts of acquisition cost, depreciation and obligations under finance leases include the imputed interest expense portion. Depreciation expense which was not reflected in the consolidated statements of income, computed by straight-line method was ¥315 million ($3,005 thousand) and ¥457 million for the years ended March 31, 2004 and 2003, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	**2004**
Due within one year	**¥55**	¥38	**$529**
Due after one year	**23**		**220**
Total	**¥78**	¥38	**$749**

11. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge foreign currency exchange risk associated with certain assets and liabilities denominated in foreign currencies.

All derivative transactions are entered into to hedge foreign currency exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amounts.

There is no disclosure of market value information because all foreign currency forward contracts qualify for hedge accounting at March 31, 2004 and 2003.

12. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the year ended March 31, 2004 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2004	Net Income	Weighted-average Shares	EPS	
Basic EPS:				
Net income	¥4,751			
Bonuses to directors and corporate auditors	42			
Net income available to common shareholders	4,709	47,716	¥98.69	$0.93
Effect of dilutive securities—Stock options		8		
Diluted EPS—Net income for computation	¥4,709	47,724	¥98.67	$0.93

Diluted net income per share for the year ended March 31, 2003 is not disclosed because it is anti-dilutive.

13. SUBSEQUENT EVENTS

At the general shareholders meeting held on June 29, 2004, the Company's shareholders approved the following appropriation of retained earnings and the purchase of treasury stock:

a. Appropriations of Retained Earnings

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥12 ($0.11) per share	¥555	$5,295
Bonuses to directors and corporate auditors	42	400
Total	¥597	$5,695

b. Purchase of Treasury Stock

Pursuant to the revision of the Code, the Company revised its articles of incorporation as the Company could repurchase its common stock as treasury stock by resolution of the Board of Directors.

14. SEGMENT INFORMATION

(1) Business Segments

The Group operates in the following industries:

Material business consists of photoresists and related materials, printing materials and specialty chemicals.
Equipment business consists of semiconductor manufacturing equipment and LCD manufacturing equipment.

Information about business segments for the years ended March 31, 2004 and 2003 is as follows:

	Millions of Yen				
	2004				
	Material Business	Equipment Business	Total	Eliminations and Corporate	Consolidated
Sales to customers	**¥66,927**	**¥16,194**	**¥83,121**		**¥ 83,121**
Intersegment sales		**69**	**69**	**¥ (69)**	
Total sales	**66,927**	**16,263**	**83,191**	**(69)**	**83,121**
Operating expenses	**57,821**	**15,574**	**73,396**	**4,022**	**77,418**
Operating income	**¥ 9,105**	**¥ 688**	**¥ 9,794**	**¥ (4,091)**	**¥ 5,703**
Assets	**¥70,216**	**¥23,034**	**¥93,251**	**¥53,124**	**¥146,376**
Depreciation and amortization	**4,506**	**446**	**4,953**	**857**	**5,810**
Capital expenditures	**3,606**	**157**	**3,764**	**1,458**	**5,222**

	Thousands of U.S. Dollars				
	2004				
	Material Business	Equipment Business	Total	Eliminations and Corporate	Consolidated
Sales to customers	**$637,405**	**$154,228**	**$791,634**		**$ 791,634**
Intersegment sales		**661**	**661**	**$ (661)**	
Total sales	**637,405**	**154,890**	**792,296**	**(661)**	**791,634**
Operating expenses	**550,682**	**148,330**	**699,013**	**38,306**	**737,319**
Operating income	**$ 86,723**	**$ 6,559**	**$ 93,282**	**$ (38,967)**	**$ 54,314**
Assets	**$668,731**	**$219,375**	**$888,106**	**$505,951**	**$1,394,057**
Depreciation and amortization	**42,922**	**4,255**	**47,178**	**8,162**	**55,340**
Capital expenditures	**34,349**	**1,497**	**35,847**	**13,889**	**49,737**

	Millions of Yen				
	2003				
	Material Business	Equipment Business	Total	Eliminations and Corporate	Consolidated
Sales to customers	¥62,721	¥ 9,564	¥72,286		¥ 72,286
Intersegment sales		80	80	¥ (80)	
Total sales	62,721	9,644	72,366	(80)	72,286
Operating expenses	54,124	9,435	63,560	4,162	67,722
Operating income	¥ 8,597	¥ 208	¥ 8,806	¥(4,242)	¥ 4,563
Assets	¥63,349	¥14,714	¥78,064	¥63,338	¥141,402
Depreciation and amortization	4,071	395	4,466	765	5,232
Capital expenditures	6,836	773	7,610	514	8,124

(2) Geographical Segments

Information about geographical segments for the years ended March 31, 2004 and 2003 is as follows:

	Millions of Yen						
	2004						
	Japan	North America	Europe	Asia	Total	Eliminations and Corporate	Consolidated
Sales to customers	**¥65,598**	**¥6,221**	**¥5,592**	**¥5,708**	**¥ 83,121**		**¥ 83,121**
Interarea transfer	**8,454**	**670**		**43**	**9,168**	**¥(9,168)**	
Total sales	**74,053**	**6,891**	**5,592**	**5,752**	**92,290**	**(9,168)**	**83,121**
Operating expenses	**68,776**	**6,157**	**5,588**	**4,836**	**85,358**	**(7,940)**	**77,418**
Operating income	**¥ 5,277**	**¥ 734**	**¥ 3**	**¥ 916**	**¥ 6,931**	**¥(1,228)**	**¥ 5,703**
Assets	**¥98,295**	**¥5,761**	**¥4,589**	**¥3,423**	**¥112,070**	**¥34,305**	**¥146,376**

	Thousands of U.S. Dollars						
	2004						
	Japan	North America	Europe	Asia	Total	Eliminations and Corporate	Consolidated
Sales to customers	**$624,748**	**$59,253**	**$53,262**	**$54,370**	**$ 791,634**		**$ 791,634**
Interarea transfer	**80,523**	**6,383**		**413**	**87,320**	**$(87,320)**	
Total sales	**705,271**	**65,637**	**53,262**	**54,783**	**878,954**	**(87,320)**	**791,634**
Operating expenses	**655,013**	**58,642**	**53,225**	**46,059**	**812,940**	**(75,620)**	**737,319**
Operating income	**$ 50,257**	**$ 6,995**	**$ 37**	**$ 8,724**	**$ 66,014**	**$(11,699)**	**$ 54,314**
Assets	**$936,151**	**$54,872**	**$43,707**	**$32,605**	**$1,067,337**	**$326,720**	**$1,394,057**

	Millions of Yen						
	2003						
	Japan	North America	Europe	Asia	Total	Eliminations and Corporate	Consolidated
Sales to customers	¥54,963	¥6,708	¥5,517	¥5,096	¥ 72,286		¥ 72,286
Interarea transfer	7,077	663			7,740	¥(7,740)	
Total sales	62,041	7,371	5,517	5,096	80,027	(7,740)	72,286
Operating expenses	57,928	7,033	5,200	4,239	74,402	(6,679)	67,722
Operating income	¥ 4,112	¥ 337	¥ 317	¥ 856	¥ 5,624	¥(1,061)	¥ 4,563
Assets	¥88,239	¥5,278	¥4,605	¥2,473	¥100,597	¥40,805	¥141,402

(3) Sales to Foreign Customer

Information about sales to foreign customers of the Group for the years ended March 31, 2004 and 2003 is as follows:

	Millions of Yen				
	2004				
	North America	Europe	Asia	Other Areas	Total
Sales to foreign customers (A)	**¥7,803**	**¥5,180**	**¥30,762**	**¥34**	**¥43,782**
Consolidated sales (B)					**83,121**
(A) / (B)	**9.4%**	**6.2%**	**37.0%**	**0.1%**	**52.7%**

	Thousands of U.S. Dollars				
	2004				
	North America	Europe	Asia	Other Areas	Total
Sales to foreign customers (A)	**$74,322**	**$49,341**	**$292,979**	**$331**	**$416,975**
Consolidated sales (B)					**791,634**
(A) / (B)	**9.4%**	**6.2%**	**37.0%**	**0.1%**	**52.7%**

	Millions of Yen				
	2003				
	North America	Europe	Asia	Other Areas	Total
Sales to foreign customers (A)	¥8,417	¥5,029	¥21,638		¥35,086
Consolidated sales (B)					72,286
(A) / (B)	11.6%	7.0%	29.9%		48.5%

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
TOKYO OHKA KOGYO CO., LTD.:

We have audited the accompanying consolidated balance sheets of TOKYO OHKA KOGYO CO., LTD. and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TOKYO OHKA KOGYO CO., LTD. and consolidated subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2004

Member of
Deloitte Touche Tohmatsu

Corporate Data (As of March 31, 2004)

Corporate Name:	TOKYO OHKA KOGYO CO., LTD.	
Established:	1940	
Corporate Headquarters:	150 Nakamaruko, Nakahara-ku, Kawasaki, Kanagawa 211-0012, JAPAN	
Number of Employees:	1,467	
Common Stock:	Authorized:	200,000,000 shares
	Issued:	50,600,000 shares
Paid-in Capital:	¥14,640 million	
Number of Shareholders:	13,617	
Stock Listing:	Tokyo	
Investor Relations Contact:	Public Relations Division 150 Nakamaruko, Nakahara-ku, Kawasaki, Kanagawa 211-0012, JAPAN TEL. +81-44-435-3000 FAX. +81-44-435-3020	

Board of Directors, Corporate Auditors and Officers (As of June 29, 2004)

Board of Directors

Chairman of the Board	Haruhiko Uchida	
President & Chief Executive Officer	Yoichi Nakamura	
Directors & Executive Officers	Toshimi Aoyama	Department Manager, Process Equipment Manufacturing Dept.
	Takashi Komine	Department Manager, Marketing Dept.
	Koichi Kaihatsu	Department Manager, General Affairs Dept.
	Yukiyasu Henmi	Department Manager, Accounting Dept.
Directors	Muneo Nakayama	
	Akira Furuya	

Corporate Auditors

Standing Statutory Auditors	Motoyasu Sugiyama	
	Yoshio Kitani	
Auditors	Shigeru Hirata	(Senior Managing Director, Meiji Yasuda Life Insurance Company)
	Fujio Higaki	(Senior Managing Director, Ryoshintoshikaihatsu Co., Ltd.)

Officers

Officers	Yutaka Miyagi	Deputy Department Manager, Process Equipment Manufacturing Dept.
	Hiroyuki Tohda	Deputy Department Manager, Marketing Dept.
	Akinori Horikoshi	General Manager, Corporate Planning Div.
	Hitoshi Furuya	Department Manager, Purchasing Dept. and General Manager, Purchasing Div.
	Katsuyuki Ohta	Deputy Department Manager, Manufacturing Dept. and Department Manager, Image-Forming Products Dept.
	Hiroshi Asaba	Deputy Department Manager, Manufacturing Dept. and Department Manager, Electronic Material Dept.
	Kobun Iwasaki	Deputy Department Manager, Marketing Dept. and General Manager, Electronic Material Marketing Div. 2
	Hidekatsu Kohara	ERP Project Leader
	Kenji Tazawa	Managing Director of OHKA EUROPE LTD.
	Hiroji Komano	Deputy Department Manager, Research and Development Dept.

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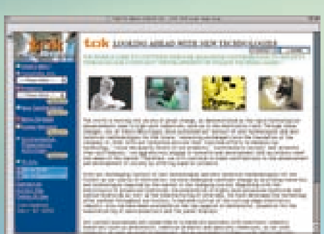
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Forward-Looking Statements

This annual report contains forward-looking statements based on management's current expectations, estimates and projections. All statements that address expectations or projections about the future, including statements about the Company's strategy for growth, product development, market position, expected expenditures and financial results, are forward-looking statements may be identified by words like "expects," "anticipates," "plans," "intends," "projects," "indicates," "believes" and similar expressions. These statements are not guarantees of future performance and involve a number of risks, uncertainties and assumptions. Many factors could cause results to differ materially from those stated. These factors include, but are not limited to, changes in the laws, regulations, policies and economic conditions, including inflation, deflation, interest and foreign currency exchange rates, of countries in which the Company does business; competitive pressures; successful integration of structural changes, including restructuring plans, acquisitions, divestitures and alliances; and cost of raw materials, research and development of new products, including regulatory approval and market acceptance.

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Printed in Japan 041201.8NIR.AUMZ