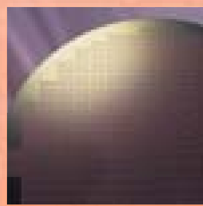
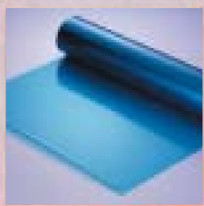




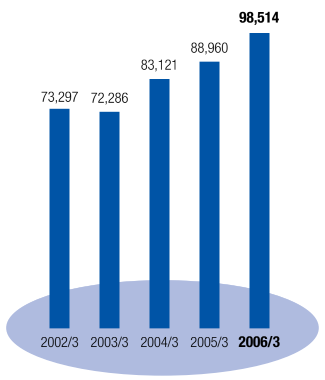
Annual Report 2006
Year Ended March 31, 2006

Pioneering
Future Dimensions

TOKYO OHKA KOGYO CO., LTD.

Consolidated Net Sales

(Millions of Yen)

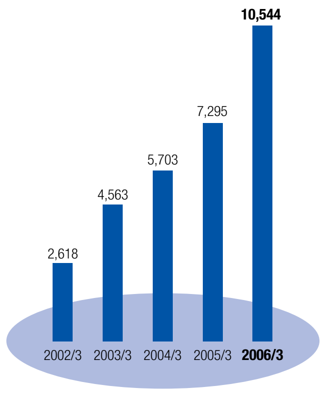


+10.7%

Consolidated net sales up 10.7%, to ¥98,514 million, for the third consecutive year on year increase

Consolidated Operating Income

(Millions of Yen)

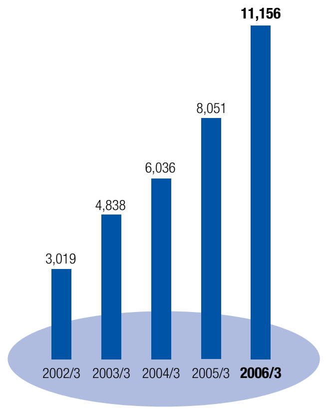


+44.5%

Consolidated operating income up 44.5%, to ¥10,544 million, for the fourth consecutive year on year increase

Consolidated Ordinary Income

(Millions of Yen)

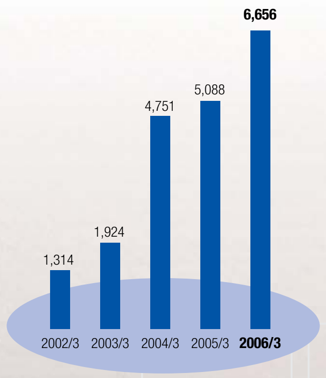


+38.6%

Consolidated ordinary income up 38.6%, to ¥11,156 million, for the fourth consecutive year on year increase

Consolidated Net Income

(Millions of Yen)

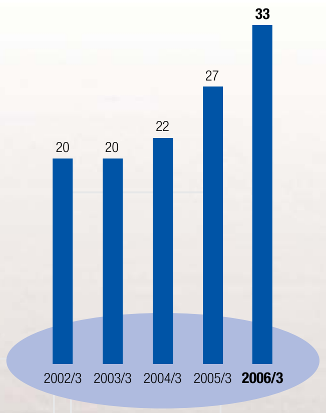


+30.8%

Consolidated net income up 30.8%, to ¥6,656 million, for the fourth consecutive year on year increase

Annual Cash Dividends per Share

(Yen)



+¥6

Annual cash dividends per share up ¥6, to ¥33, for the third consecutive year on year increase (including commemorative dividends)

Contents

Material Business

47.8%

Electronic Functional Materials Division

We offer a diverse range of photoresist*, which is a widely used material that is essential for the microprocesses involved in the manufacture of semiconductors, flat panel displays, semiconductor packaging / *jisso*, printed circuit boards and other electronic products. We also supply materials for forming interlayer insulating film and planarizing insulation film, which are required as advances in semiconductors raise the number of layers of circuitry. TOK contributes to progress in the electronics industry by developing and supplying products that offer higher performance and quality.

* Photoresist: A photosensitive resin that acts and changes chemically when exposed to light.

29.0%

High Purity Chemicals Division

As a comprehensive manufacturer of photoresist, TOK uses its knowledge of this material to supply a wide variety of products associated with the use of photolithography, such as developing solution, stripping solution, rinsing solution, thinner and other chemicals. In addition, TOK manufactures inorganic and organic chemicals used in cosmetics, batteries, food additives and many other applications.

4.7%

Printing Materials Division

Products include photopolymer plates used in letterpress / relief printing for corrugated board, films, beverage cans and other applications, PS plates used in offset printing and other printing / plate making materials. To address environmental issues, TOK is working on the development and refinement of flexographic printing plates. These activities enable the Company to meet customer demands for products that reduce pollution, raise quality and optimize printing efficiency.

Equipment Business

18.4%

Process Equipment Division

This equipment includes photoresist coating and developing machines used to manufacture liquid crystal display (LCD) panels as well as a variety of semiconductor manufacturing equipment. By developing photoresists along with related materials and equipment, the synergetic effects can be generated to the fullest. In this way, TOK can strongly support its customers.

Note: Percentage figures show the share of consolidated sales. The equipment business percentage figure is adjusted for intersegment sales.

Results of Operations

Yoichi Nakamura
President & Chief Executive Officer

The fiscal year ended March 31, 2006 marked the completion of our second "TOK Challenge 21" medium-term plan. During the plan's three years, we made steady progress with regard to many initiatives. Due to these accomplishments, we recorded solid growth in sales of materials in the fields of semiconductors, flat panel displays (FPDs) and semiconductor packaging / *jisso*. Our equipment business also continued to perform well, backed by strong FPD manufacturing equipment orders and sales. Overall, we succeeded in achieving the plan's sales and earnings targets. Furthermore, we have recorded three consecutive years of sales growth and four years of earnings growth.

In the fiscal year under review, consolidated net sales rose 10.7% to ¥98,514 million. Earnings climbed despite the impact of the much higher price of crude oil on the cost of raw materials. Operating income was up 44.5% to ¥10,544 million, ordinary income improved 38.6% to ¥11,156 million and net income increased 30.8% to ¥6,656 million. The operating income ratio was 10.7% and the ordinary income ratio was 11.3%.

The year-end dividend per share was ¥18, which is ¥3 more than in the previous fiscal year. We converted last year's 65th anniversary commemorative dividend of ¥3 to an ordinary dividend and added ¥3 to commemorate the 20th anniversary of our initial public offering. Along with the interim dividend of ¥15, this resulted in a dividend per share of ¥33 applicable to the fiscal year, which is ¥6 more than in the previous fiscal year. TOK has raised the dividend in each of the past three fiscal years.

Review of the Second "TOK Challenge 21" Medium-Term Plan

The central theme of the second "TOK Challenge 21" medium-term plan, which began in April 2003, was to build processes so that TOK could catch up to its record consolidated ordinary income of ¥13,670 million, which was recorded in the fiscal year ended March 1998. Ensuring TOK's survival as a winner in global markets was our objective. To achieve this objective, we took many actions in line with three fundamental strategies: the diversified development of our microprocess technology; the more extensive development of our overseas operations; and the fortification of our foundation for management.

Diversified Development of Microprocess Technology: Initiatives and Accomplishments

Acceleration and enhancement of microprocess technology: "vertical extension"
- Increased sales of materials for sophisticated semiconductor manufacturing processes (KrF and ArF excimer laser photoresists)
- Implemented new ideas for new microscopic processes; developed the solutions business (immersion exposure technology, shrink process)
- Established the Nano Process Development Division

Enhancement and extension of microprocess technology: "horizontal extension"
- Established presence in new business fields and applications, conducted R&D involving new processes and products (LCD manufacturing materials and equipment, semiconductor packaging materials / *jisso* materials)
- Established the New Technology Development Section and the Business Development Section to seek opportunities in new business fields

Collaboration
- Jointly developed a wafer support system (with SANYO Electric Co., Ltd.)
- Jointly developed nano-coating materials (with RIKEN, an independent administrative institution)

Enhancement of R&D activities
- Constructed a new R&D building

Based on our strategy for the diversified development of microprocess technology, we worked on establishing positions of superiority in leading-edge domains in various fields. Advances in the semiconductor manufacturing field to achieve even finer patterns are of particular interest. Progress occurred along two vectors: the "vertical extension," which seeks further advances in microprocesses; and the "horizontal extension," which seeks to extend TOK's expertise in microprocess technology to new business fields and applications.

We fostered the development of products that played a part in our ability to fulfill the medium-term plan's sales and earnings targets. On the vertical extension, we posted remarkable growth in sales of state-of-the-art semiconductor manufacturing materials. On the horizontal extension, LCD manufacturing materials and equipment is now one of our core businesses and semiconductor packaging materials / *jisso* materials are posting steady growth in sales.

In addition, we have developed R&D programs for technologies and products related to immersion exposure technologies. We have developed an exclusive shrink process and are already producing results by offering solutions that match the requirements of each customer. Separately, we are developing and studying methods to achieve the ideal conditions and offer other solutions for processes that use photoresist. We are determined to translate the constant progress in forming finer dimensions in the semiconductor manufacturing field into more business opportunities. That means doing more than merely supplying customers with materials one by one. To succeed, we must be a source of solutions that target specific needs by combining many materials. Consequently, our ability to build a base for this microprocess technology solutions business was one of the most significant accomplishments of the second "TOK Challenge 21." Next, we plan to speed up and broaden our initiatives involving the diversified development of microprocess technology. This is why we are aggressively collaborating with equipment manufacturers, suppliers, universities, research institutes and other partners. Our joint development of the wafer support system and nano-coating materials demonstrates the wisdom of this approach. At the same time, we are making significant investments, notably for a new R&D building that will help devise next-generation technologies and products. Through these activities, we are focusing on distinctive R&D programs that can propel our future growth as a forward-looking company underpinned by the development of innovative technologies. The R&D building is especially noteworthy. We recognized the need for this facility early on, equipping it with many sophisticated systems. For instance, we are the world's first photoresist manufacturer to have its own ArF excimer laser immersion exposure system. Moving rapidly like this gives TOK an enormous advantage in the development of next-generation and subsequent technologies. I firmly believe that these resources are essential to our ability to compete and win in the semiconductor manufacturing market for many years to come.

Regarding the more extensive development of overseas operations, we established subsidiaries in South Korea, China and the Netherlands and raised production capacity at our subsidiary in Taiwan. In all, we have assembled the best possible global supply infrastructure along with a sales system that brings us even closer to our customers. Due to this growth, our sales to foreign customers in the fiscal year under review rose to 59.8% of total sales, surpassing the medium-term plan's target of 58%. Making a big contribution was the large increase in sales in Asia.

Regarding the fortification of our foundation for management, we started using an enterprise resource planning (ERP) system. Our aims are to streamline business processes and raise operating efficiency by reforming our operations and making better use of information systems. In addition, we upgraded our risk management systems. Another key theme is building and enhancing compliance systems. We took steps to make employees more aware of the importance of compliance. We also established the Compliance Standards of Conduct to establish a common set of values and clearly define guidelines for acceptable behavior.

In sum, I believe that the second "TOK Challenge 21" led to significant accomplishments at TOK with respect to everything from operating results to qualitative aspects of our performance. We now have a platform that is capable of aiming to surpass our previous earnings record.

* Enterprise resource planning (ERP) system: A system that performs the integrated management of core tasks, rather than manages individual departments. This makes it possible to use a company's resources more effectively and raise operating efficiency.

Consolidated Financial Highlights

(Millions of Yen / %)

	2003/3 Actual	2006/3 Second Medium-Term Plan Targets	**2006/3 Actual**	Comparison with Targets
Net sales	72,286	93,800	**98,514**	105.0%
Operating income	4,563	9,100	**10,544**	115.8%
Ordinary income	4,838	9,200	**11,156**	121.2%
Net income	1,924	5,000	**6,656**	133.1%
Ordinary income ratio	6.7%	9.8%	**11.3%**	+1.5%
Ratio of sales to foreign customers	48.5%	58.0%	**59.8%**	+1.8%

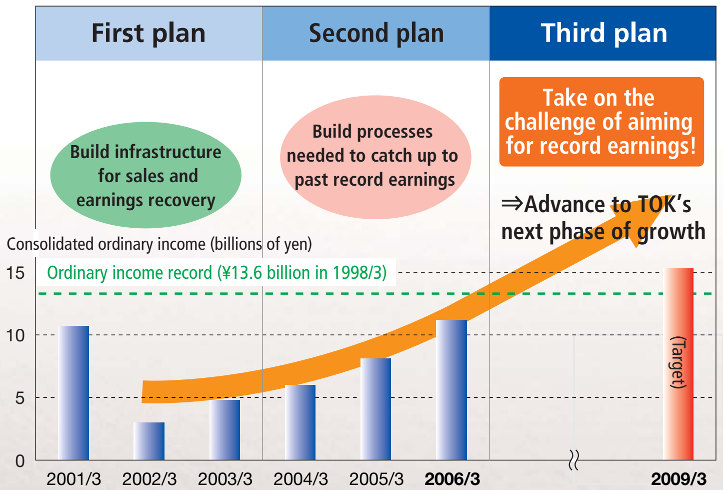
Key Elements of the Third "TOK Challenge 21" Medium-Term Plan

Accomplishments of the just-ended plan gave us a sound base for launching our next plan, the third "TOK Challenge 21," in April 2006. Guiding our activities will be a commitment to becoming a company that can be consistently profitable. We will take on the challenges of customer satisfaction, technological progress and human resources development while promoting our corporate social responsibility (CSR) activities. The overriding goal is to advance to a new stage of constant growth in corporate value. Achieving this growth will require progress on three fronts. The first is, of course, sales and earnings. But we must seamlessly combine financial growth with advances in CSR and in building a powerful TOK brand that is synonymous with state-of-the-art microprocess technology.

The third "TOK Challenge 21" medium-term plan has three fundamental strategies based on four management vision statements that define the type of company we aim to become.

We are positioning the next three years as the time to take on the challenge of raising earnings to a new all-time high. We view this as a transitional phase when TOK moves closer to entering a new phase of growth. In the fiscal year ending March 2009, the plan's final year, our targets are consolidated net sales of ¥120,000 million and consolidated ordinary income of ¥15,300 million.

Positioning of the Third "TOK Challenge 21" Medium-Term Plan



Fundamental Vision of the Third "TOK Challenge 21" Medium-Term Plan

Management Vision Statements

- A company with a strong commitment to CSR
- A company with a high share of the global fine chemicals market and many highly profitable products
- A company that is highly profitable and financially sound
- A company backed by powerful brands that is able to earn the trust and satisfaction of stakeholders

Fundamental Strategies

- Progress in microprocess technology
- Establishment of the TOK brand on a global scale
- A stronger operating framework and reform of the corporate culture

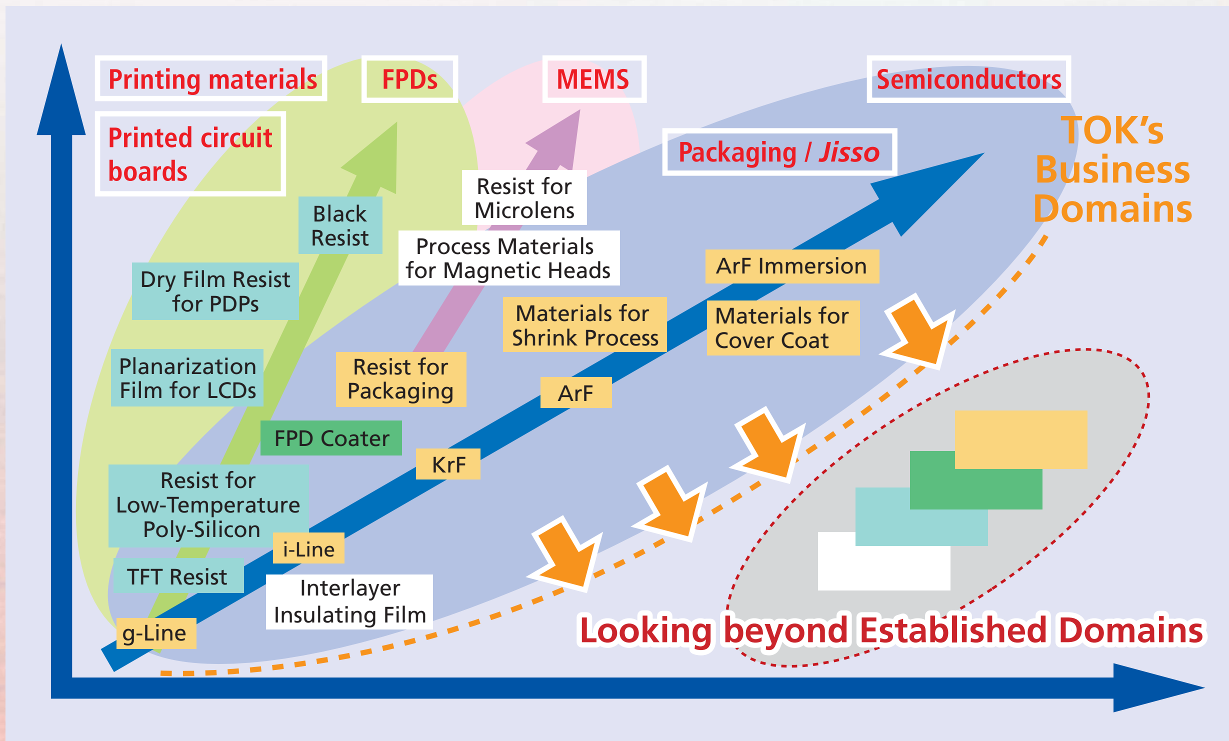
Fundamental Strategy—Progress in Microprocess Technology

Photopolymer and other types of microprocess technology represent a core competence of TOK that has been developed over many years. This expertise is also a major source of our corporate value. The third "TOK Challenge 21" medium-term plan will focus on the same themes as the prior plans. We aim to preserve our superiority in existing business fields while conducting R&D that can enlarge the scope of microprocess technology by targeting market "seeds" and "needs." During the second plan, we focused on the diversified development of microprocess technology in order to deepen ("vertical extension") and broaden ("horizontal extension") our microprocess technology. These themes will be further refined during the third plan. On the vertical extension, we intend to offer customers advances in microprocessing through the provision of combinations of technologies rather than stand-alone products. On the horizontal extension, our goal is to go beyond the mere transfer of established technologies to other fields. Instead, our fundamental strategy is to drive progress in microprocess technology by applying established technologies and even adopting entirely new perspectives for these technologies. By taking this stance, we will channel resources to growing businesses. I am confident this will allow TOK to create business domains that are outside the bounds of its current activities.

We have already taken many actions concerning the diversified development of our microprocess technology, mainly in electronics. Now, we will place greater emphasis on relationships among different technologies while retaining our focus on the electronics industry.

Our plan is to use the progress in microprocess technology to obtain the seeds that can support sustained growth. We intend to produce these seeds by emphasizing "splintering" and "mutations" involving development, applications and functions of technologies. This will enable TOK to look beyond its current technological domains, thereby creating new business domains that can become core businesses of the future. Basically, this means TOK will no longer be restricted to electronics. Establishing positions in new fields and domains, even niche sectors, where TOK can capture the leading global market share is our goal. We will do this by accurately identifying market seeds and needs while further refining our microprocess technology. Through this process, we intend to develop businesses that can be passed on to future generations.

Progress in Microprocess Technology



Fundamental Strategy—Establishment of the TOK Brand on a Global Scale

We view the establishment of the TOK brand on a global scale as a vital driver of maximizing our growth potential. Accomplishing this is essential to using the progress in microprocess technology to increase corporate value. Never before have the speed and timing of developing technologies been more important. To win, we must be the first to respond to emerging market needs and to act from a broad-based perspective. Therefore, we cannot continuously increase our corporate value unless we succeed at building TOK's brand equity worldwide.

What does this entail? We want TOK to be the obvious first choice of customers around the world over all our competitors. That means making customers' expectations as high as possible with regard to our ability to offer microprocess technology solutions. Building brand equity backed by the absolute trust of users is vital to raising expectations. We are determined to earn this level of trust in three ways: leveraging our semiconductor photoresist expertise, which ranks among the world's best, to enter other existing market sectors; aiming for the greatest possible customer satisfaction; and expanding our overseas network.

Microprocess technology that utilizes photolithography is used to make many kinds of products. But the semiconductor industry is by far the most challenging, requiring technologies that can form dimensions not over 100nm wide. R&D programs in this field involving leading-edge technologies are essential to progress in microprocess technology. But these programs also pose the greatest difficulties. Because of this, achievements that contribute to progress in semiconductors tend to earn a company an excellent reputation for its overall capabilities, including R&D, quality control, sales, financial soundness and many other items. This is why TOK positions technologies and products for the semiconductor industry as its flagship. We will continue to conduct strategic R&D activities in this field. We will also take on challenges in the most difficult fields. Through the resulting accomplishments, we intend to reinforce our position as the market leader. New technologies will also be used in applications other than semiconductors. I believe that this pursuit of clear superiority regarding microprocess technology will contribute directly to making the TOK brand more powerful.

TOK will make full use of its knowledge involving microprocess technology. As a company driven by the development of technologies, we will aim for the highest possible customer satisfaction in every respect: product quality, technical support, prices, delivery and many other items. We will also take full advantage of the capabilities of the global infrastructure that was established during the second "TOK Challenge 21." Concurrently, all TOK Group companies will work more closely together, with TOK itself at the nucleus, in order to boost efficiency. By taking these steps, we will further expand our overseas network, thereby making another contribution to increasing TOK's global brand equity.

Ultimately, we want customers to firmly link the TOK brand with expertise in microprocess technology. Earning this level of support and trust will give TOK a sound foundation for long-term growth and prosperity.

Fundamental Strategy—A Stronger Operating Framework and Reform of the Corporate Culture

Under the new plan, we will work on further improving the management framework that was established during the second plan. Our objective is to advance from "optimization of parts to optimization of the whole."

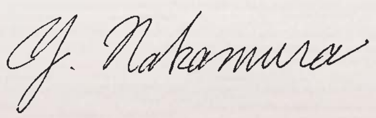
In the years ahead, the public will place much different demands on companies. Management must reflect the increasingly global scale of operations. More emphasis on CSR is needed to meet the demands of a diverse array of stakeholders (please refer to our *Environmental and Social Report* for more information). Companies must also build effective internal control systems. Even as we meet these demands, we will work on using our ERP system and other IT systems to make our operations more streamlined and efficient. By taking all these actions, we are determined to make our management systems stronger in every way.

We have a clear goal for our corporate culture: Accept the challenge of fostering people and organizations that always have a sense of crisis and big dreams, that are never satisfied with the status quo and that can respond with ease to shifts in the operating environment. Furthermore, everyone in the TOK Group constantly plays a part in CSR as well as in enhancing the TOK brand. Our people also perform their jobs with pride and ambitious goals. We also want employees to further upgrade factory operations by always remembering the most basic, and valuable points about manufacturing. Passing on TOK's unique corporate culture, the product of our long history and collective experiences, to future generations is everyone's responsibility. But we need the courage to drastically reform this culture when it becomes obsolete due to social change. Only in this way can we adapt with flexibility to rapid shifts in the operating environment. TOK must retain and reinforce this type of corporate culture.

Becoming a Company That Is Dependable and Meets Expectations

The many accomplishments of the second "TOK Challenge 21"medium-term plan give us an excellent start toward achieving the goals of the third plan. We are determined to set a new earnings record. Another goal is becoming a company that can raise its corporate value and sustain growth. With this in mind, we will work on making TOK a brand that is highly trusted worldwide. The best way to achieve this is to direct our R&D resources to leading-edge fields of technology, with a particular focus on microprocess technology. Other priorities are further enhancing customer satisfaction and making CSR an even more important element of our activities. By adhering to this stance, I pledge to remain intently focused on the task of making TOK an innovative and prosperous company that can continue to earn the trust of stakeholders.

October 2006

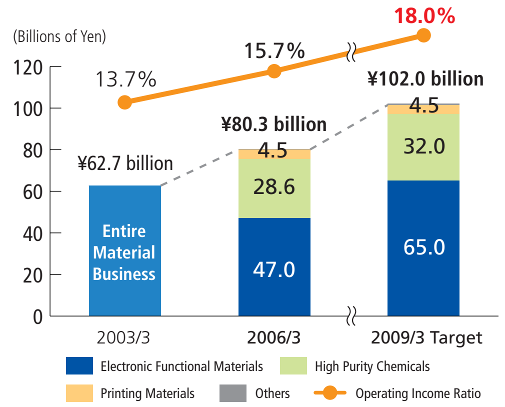


Yoichi Nakamura
President & Chief Executive Officer

■Material Business

TOK will concentrate on advances in leading-edge domains, particularly with regard to electronic functional materials. The objective is to fuel growth by contributing to progress in microprocess technology and firmly linking the TOK brand to this progress.

Targets for the Material Business (Consolidated)

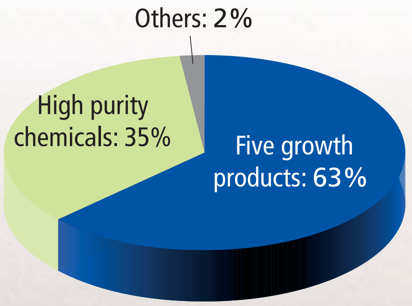


Sales from Growth Products

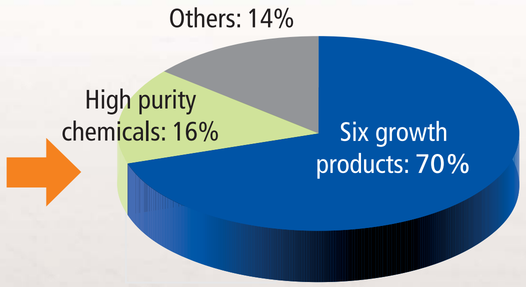
Sales growth during the second "TOK Challenge 21"—Three-year period ended March 2006
Sales were ¥17.6 billion higher than in the fiscal year ended March 2003.

Sales growth targets for the third "TOK Challenge 21"—Three-year period ending in March 2009
Sales are projected to be ¥21.6 billion higher than in the fiscal year ended March 2006.

Breakdown of ¥17.6 Billion Increase



Breakdown of ¥21.6 Billion Targeted Increase

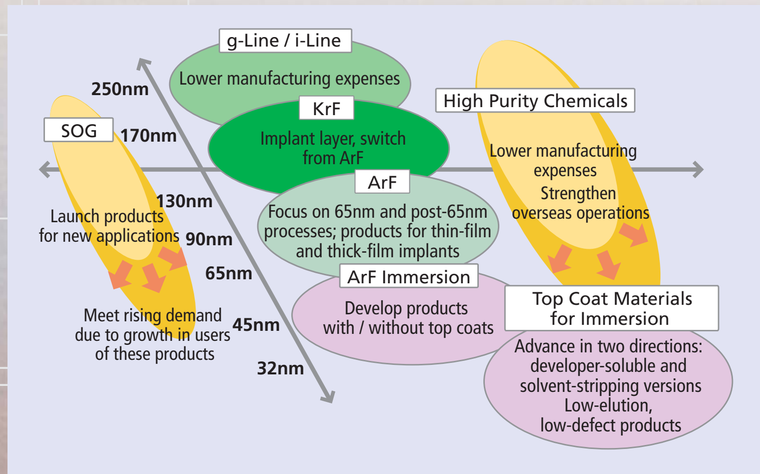


Six growth products: Five growth products of the second "TOK Challenge 21" and one more product

KrF excimer laser photoresist, ArF excimer laser photoresist, TFT Array photoresist, black resist for color filter and PDP materials + Semiconductor packaging materials / *jisso* materials

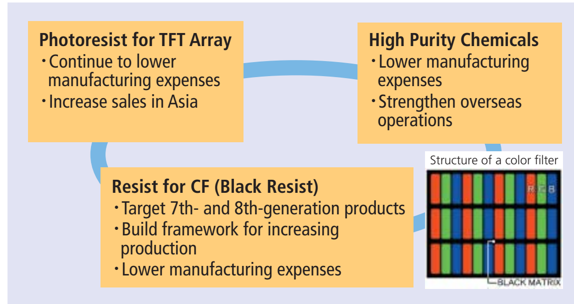
●Action Plan for Electronic Materials

- Work faster on developing photoresist for ArF excimer laser immersion exposure and other materials for this technology. Recognizing the potential of immersion exposure, TOK installed an immersion exposure scanner (an exposure system) at its new R&D building well ahead of competitors. TOK intends to use its superior position to be the pacesetter in the immersion exposure technology.
- Expand the product lineup and further raise market share in leading-edge market sectors involving KrF and post-KrF excimer laser processes.



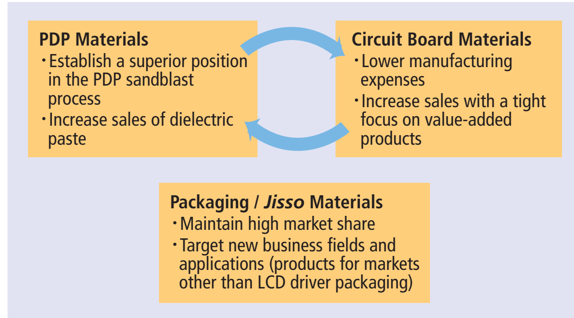
●Action Plan for Liquid Crystal Display Materials

- Develop products faster and offer more competitive prices.
- Establish reliable production and supply infrastructure in Japan and other countries.



●Action Plan for PDP Packaging Materials

- Identify market needs to expand the lineup of plasma display manufacturing materials.
- Use applications and advances involving many technologies to enter new fields associated with semiconductor packaging materials / *jisso* materials.



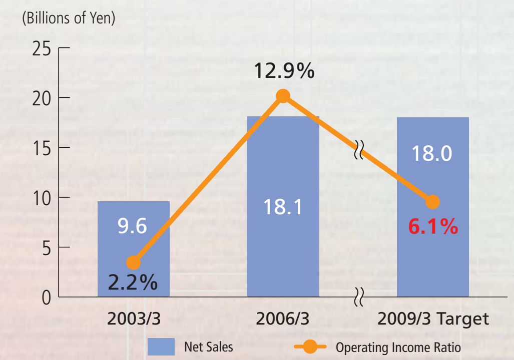
●Action Plan for Printing Materials

- Consistently generate earnings through rigorous cost management and other measures.
- Reinforce the product lineup.

■Equipment Business

TOK will improve profitability by positioning LCD panel manufacturing equipment as the core business. In addition, TOK will create new applications for its microprocess technologies.

Targets for the Equipment Business (Consolidated)



●Action Plan for Coaters for Liquid Crystal Display Color Filters

- Become more profitable by cutting costs.
- Quickly develop equipment for 8th-generation and subsequent LCDs.

●Execute M&E (Materials and Equipment) Strategy

- Create a "post-coater business" that can benefit from synergies with TOK's material business.
- Examples: Develop a wafer support system for processes used to make thinner wafers.
  Use established technologies for new applications.

Corporate Governance

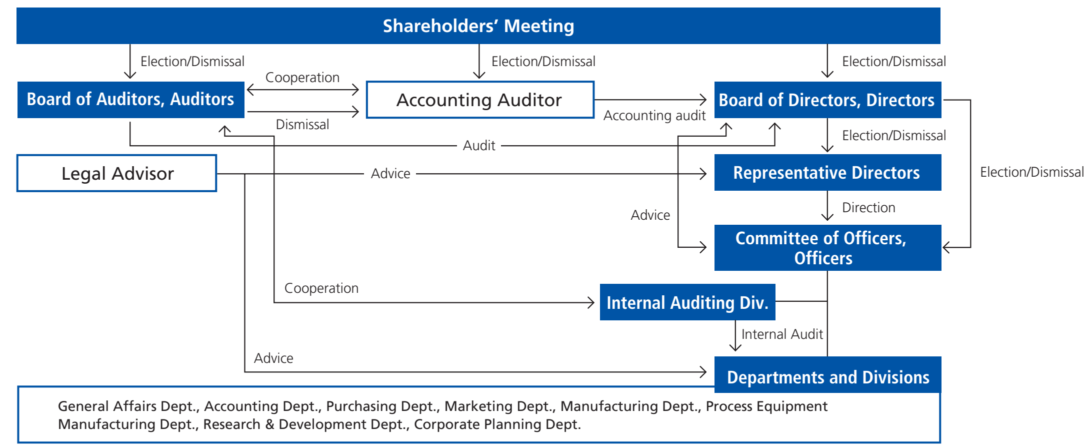
TOK positions the enhancement of corporate governance as one of the most important management issues: the means to maintain a sound and transparent management and to enhance its operational efficiency by speeding up the decision-making process in order to meet the expectations of its stakeholders and fully live up to the trust they have placed in the TOK Group.

Summary of Corporate Governance Units

As a company with corporate auditors, TOK uses the corporate auditor system. Actions will be taken to upgrade audits performed by corporate auditors by using the greater authority of these auditors provided for in amendments to the Japanese Commercial Code. In addition, TOK is using the benefits of reforms to its Board of Directors and the 2003 adoption of the scheme of officers to strengthen all governance functions and further clarify accountability. TOK believes that actions like these aimed at strengthening management systems are the best means of improving its corporate governance.

At the annual shareholders' meeting held on June 29, 2006, shareholders approved a resolution to reduce the term of directors from two years to one for the purposes of clarifying the accountability of directors for performance in each fiscal year and responding swiftly to shifts in the operating environment. In addition, shareholders at this meeting elected an outside director for the purposes of enhancing the transparency of the Board of Directors and strengthening the directors' supervisory function.

Corporate Governance System (As of June 29, 2006)



Board of Directors and Directors

Only the chairman of the board and president, both of whom are representative directors, are allowed to concurrently have executive positions at the Company. This revision creates a board made up solely of representative directors and directors, thus creating a structure ideally suited to performing the fundamental roles of the Board of Directors: making decisions concerning management policies and supervising the management of business operations.

As of March 31, 2006, the eight-member Board of Directors holds regular monthly meetings. The board decides on important matters relating to the execution of operations and supervises the functions of the representative directors and the individual directors. In addition, extraordinary meetings are held as required.

Following the annual shareholders' meeting held on June 29, 2006, the Board of Directors had seven members, including one outside director. At the board meeting immediately after the shareholders' meeting, two directors were newly elected as representative directors in addition to the current representative director and president.

Committee of Officers and Officers

While taking steps to strengthen the Board of Directors' functions in management decision making and supervision, TOK is also reinforcing business execution functions. For this purpose, a multi-level organization, comprising the president and chief executive officer, senior executive officers, executive officers and officers, has been established. Furthermore, TOK established the Committee of Officers, which is made up of all officers.

As of March 31, 2006, the Committee of Officers, comprising 15 officers, holds regular monthly meetings in order to issue instructions and orders regarding decisions made by the Board of Directors, to share information on the activities of each officer and to make decisions on important management issues that do not require referral to the Board of Directors. In addition, extraordinary meetings are held as required.

As of June 29, 2006, there were 14 officers, consisting of the president and chief executive officer, senior executive officers, executive officers and officers.

Board of Auditors and Auditors

As of March 31, 2006, the Board of Auditors comprised four auditors, three of whom were outside auditors. The Board of Auditors holds regular monthly meetings at which it receives reports from auditors and discusses and makes decisions on important audit issues. In addition, extraordinary meetings are held as required.

Following the annual shareholders' meeting held on June 29, 2006, there were three auditors, including two outside auditors.

Internal Auditing Division

The Internal Auditing Division is a part of the Company's internal organization for compliance. It has full-time staff and reports directly to the president. It conducts such periodic audits as deemed necessary, in cooperation with the auditors, in order to ensure full compliance with the law and Company regulations, and also provides guidance and advice on the implementation of measures to improve compliance.

Major Compliance Efforts

On October 6, 2004, we formulated the TOK Group Compliance Standards of Conduct as a tool for enhancing awareness of the importance of compliance, clearly defining our shared values and code of conduct. The TOK Group Compliance Standards of Conduct became effective on April 1, 2005. Moreover, the TOK Group has established an internal reporting system to ensure that the Company gathers information on and responds quickly and effectively to any possible violation of laws and regulations and the standards of conduct. In order to assure confidentiality, the Company has provided two options for reporting: an internal route of the Compliance Hot Line and an external route of reporting directly to the Company's legal counsel. In addition, TOK has a clear policy of preventing dismissals and other negative consequences for individuals who submit reports of compliance and other violations, except in cases where reports are dishonest and inappropriate.

Further, TOK has the Compliance Committee, which is chaired by the Company's president and is responsible for responding to violations of laws, regulations, standards of conduct and other rules. In the event of a violation of this nature, the Compliance Committee conducts an investigation to determine the facts and causes of the incident. Proper disciplinary actions are then taken as required. In addition, the committee determines measures to prevent a reoccurrence of the incident and puts these measures in place throughout the Company.

Environmental Conservation Activities

All members of the chemical industry have the potential of having an enormous impact on the environment due to the nature of the chemicals that they produce and handle. At the same time, ours is a vital industry that greatly contributes to making our lives more comfortable and convenient.

In the spirit of the Responsible Care program, we conduct our operations based on the following precept: doing our best for safety, health and the environment by assuming responsibility for our actions across the entire product life cycle, from development through disposal.

Furthermore, we are currently conducting environmental management for the goal of achieving zero emissions, with the view to creating a recycle-based society diametrical to the existing social structure that has been centered on mass production, consumption and disposal.

During the fiscal year under review, TOK issued the *Environmental and Social Report*, which provides more information about the Company's environmental and community activities.

TOK always gives priority to protecting the global environment while achieving sustainable corporate and social development. With this in mind, the Company plans to further upgrade its environmental management programs.

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries
For the years ended March 31, 2001, 2002, 2003, 2004, 2005 and 2006

	Millions of Yen						Thousands of U.S. Dollars
	2001	2002	2003	2004	2005	**2006**	**2006**
FOR THE YEAR:							
Net sales	¥ 83,456	¥ 73,297	¥ 72,286	¥ 83,121	¥ 88,960	**¥ 98,514**	**$ 842,005**
Material business	68,986	54,903	62,721	66,927	71,617	**80,338**	**686,657**
Equipment business	14,700	18,559	9,644	16,263	17,461	**18,252**	**156,005**
Operating income	9,298	2,618	4,563	5,703	7,295	**10,544**	**90,128**
Income before income taxes and minority interests	5,497	2,601	3,885	8,372	8,070	**11,324**	**96,787**
Net income	3,250	1,314	1,924	4,751	5,088	**6,656**	**56,894**
Investment in plants and equipment	3,522	7,670	8,019	4,131	3,631	**6,962**	**59,509**
Depreciation and amortization	4,808	5,031	5,232	5,810	5,595	**5,502**	**47,029**
R&D expenditures	6,160	5,803	6,028	6,744	5,800	**5,683**	**48,581**
PER SHARE DATA (Yen / U.S. Dollars):							
Net income (basic)	¥ 64.24	¥ 26.28	¥ 39.12	¥ 98.69	¥ 109.16	**¥ 142.34**	**$ 1.21**
Cash dividends applicable to the year	20.00	20.00	20.00	22.00	27.00	**33.00**	**0.28**
Total shareholders' equity	2,242.68	2,271.09	2,290.90	2,401.31	2,492.60	**2,650.51**	**22.65**
AT THE YEAR-END:							
Total assets	¥146,735	¥135,582	¥141,402	¥146,376	¥154,309	**¥165,681**	**$ 1,416,082**
Total long-term liabilities	6,767	7,416	7,954	6,564	7,086	**2,222**	**18,994**
Total shareholders' equity	113,479	113,126	111,241	111,301	115,564	**123,915**	**1,059,105**
RATIOS:							
Ratio of R&D expenditures to net sales (%)	7.4	7.9	8.3	8.1	6.5	**5.8**	
Ratio of operating income to net sales (%)	11.1	3.6	6.3	6.9	8.2	**10.7**	
Return on equity (%)	2.9	1.2	1.7	4.3	4.5	**5.6**	
Equity ratio (%)	77.3	83.4	78.7	76.0	74.9	**74.8**	

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥117 to US$1, the approximate Tokyo foreign exchange market rate as of March 31, 2006.
2. Net sales by business segment includes intersegment sales.

Results of Operations

Net Sales

In the fiscal year ended March 31, 2006, consolidated net sales rose ¥9,553 million, or 10.7%, from the previous fiscal year to ¥98,514 million. This increase is attributable to the growth in semiconductor production that accompanied higher demand for personal computers, cellular phones and digital consumer electronics as well as the strong market for flat panel displays (FPDs) arising from growing demand for flat-screen televisions. Net sales in the first half increased ¥1,623 million, or 3.5%, from the previous fiscal year to ¥47,457 million, while net sales in the second half increased ¥7,930 million, or 18.4%, to ¥51,056 million.

Segment Analysis

* Not adjusted for intersegment sales

Results by Business Segment

In the fiscal year under review, sales in the material business increased a solid ¥8,721 million, or 12.2%, from the previous fiscal year to ¥80,338 million. In the equipment business, sales increased ¥791 million, or 4.5%, to ¥18,252 million, surpassing the previous fiscal year's result.

Material Business

In order to appropriately present the true nature of the Company's businesses in a changing market, along with reviewing the division classification of products, the breakdown for business divisions and the names of the Company's business divisions have been changed. The material business mainly consists of the electronic functional materials division, the high purity chemicals division and the printing materials division. Comparisons with the previous fiscal year's results were made using the division classification after the aforementioned changes.

Electronic Functional Materials Division

In the electronic functional materials division, sales increased ¥6,206 million, or 15.2%, to ¥47,097 million thanks to continued strong sales growth in photoresists for FPDs and growth in photoresists used in semiconductors.

Sales of photoresists used in semiconductors were higher than in the previous fiscal year due to increased semiconductor output. This is because sales of photoresists used with excimer lasers increased sharply, mainly in the East Asian region, due to an aggressive marketing effort coupled with real market expansion arising from progress in microprocess technology.

Sales of photoresists used in semiconductor packaging also increased, propelled by concerted marketing efforts at home and abroad.

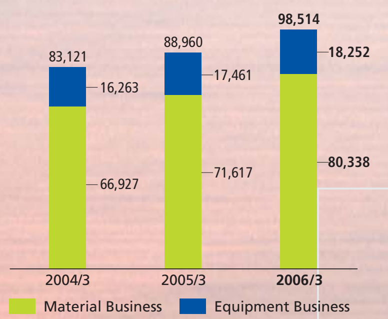
Sales of photoresists for FPDs posted steady growth. Although photoresists used in plasma displays fell on hard times due to the changing demand environment, demand for photoresists used in liquid crystal displays (LCDs) increased sharply as LCD televisions became more prevalent.

On the other hand, while domestic demand for coating sources for film formation has been trending downwards, overseas sales were brisk, and therefore overall sales remained at the same level as the previous fiscal year.

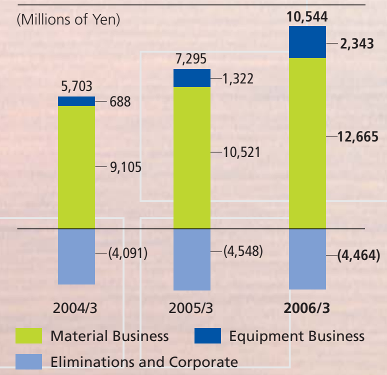
High Purity Chemicals Division

In the high purity chemicals division, sales rose ¥3,406 million, or 13.5%, from the previous fiscal year to ¥28,611 million. Sales of inorganic and organic chemicals increased against the backdrop of a tighter domestic market. Sales of high purity chemicals used mainly in the photolithographic process also increased compared with a year earlier thanks to higher sales in the East Asian region that accompanied expanded production of semiconductors and LCD panels.

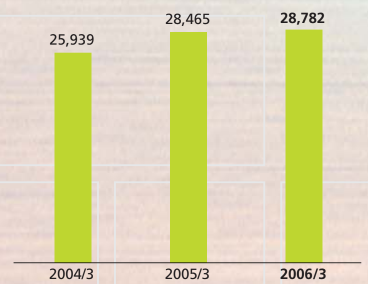
Net Sales by Business Segment
(Millions of Yen)



Operating Income by Business Segment
(Millions of Yen)



Order Backlog of Equipment Business
(Millions of Yen)



Printing Materials Division

Printing materials division sales declined ¥880 million, or 16.1%, from the previous fiscal year to ¥4,583 million. This decrease is because sales of photopolymer plates used in printing fell from the previous fiscal year's level. Although sales of products used in general-purpose printing remained firm in the European region, prices for products used in flexographic printing for the European and North American markets were adjusted, and as a result the market became tougher.

Equipment Business

Process Equipment Division

Sales in the process equipment division increased ¥791 million, or 4.5%, from the previous fiscal year to ¥18,252 million. Although sales of semiconductor manufacturing equipment remained weak, as corporate capital expenditures came back to life thanks to increased demand for LCD televisions, the Company successfully encouraged customers to speed up acceptance inspections of LCD panel manufacturing equipment that had already been shipped.

Orders in this division declined 6.9% year on year but, nevertheless, remained brisk at ¥18,492 million, concentrated mainly in LCD manufacturing equipment. Moreover, the fiscal year-end order backlog remained at the high level of ¥28,782 million. The Company has been working to unearth uses for the microfabrication technology that it has accumulated thus far that will allow it to provide both materials and equipment solutions in semiconductor packaging and other areas.

Results by Geographic Region

In the fiscal year under review, sales to foreign customers increased ¥8,356 million, or 16.5%, from the previous fiscal year to ¥58,938 million, continuing to drive overall growth in the Company's consolidated net sales. Sales to foreign customers accounted for 59.8% of total consolidated net sales, up 2.9 percentage points from the previous fiscal year.

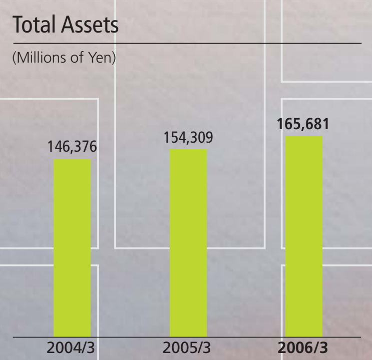
Sales in North America increased ¥695 million, or 9.6%, from the previous fiscal year to ¥7,962 million. Sales of high purity chemicals declined due to lower selling prices and other factors, but sales of photoresists used in semiconductors, mainly advanced materials, increased thanks to the continued brisk demand for semiconductors in the United States. In Europe, sales edged up ¥82 million, or 1.4%, from the previous fiscal year to ¥6,224 million.

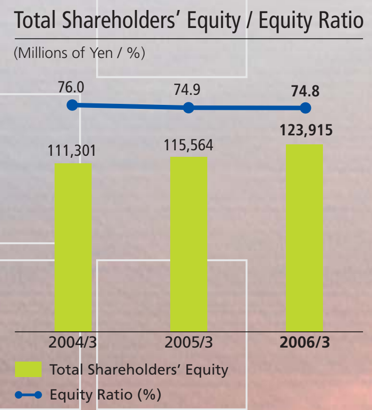
In Asia, the equipment business continued to record strong sales growth and sales in the material business also rose sharply, thus sales increased ¥7,379 million, or 19.9%, to ¥44,396 million. The sharp increase in sales in the material business is attributable to the brisk sales of photoresists used in LCDs and high purity chemicals that accompanied higher demand in the FPD market, led by flat-screen televisions.

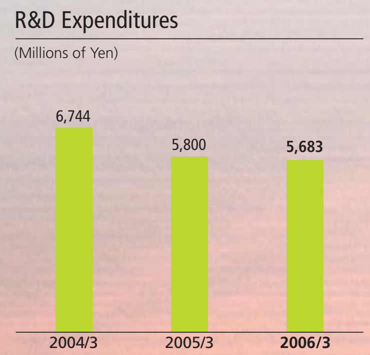
Cost of Sales, SG&A Expenses and Operating Income

The cost of sales rose ¥5,354 million, or 8.9%, from the previous fiscal year to ¥65,684 million in the fiscal year under review. The cost of sales ratio declined 1.1 percentage points to 66.7%. The higher raw materials costs caused by soaring crude oil prices did have an impact, but this was outweighed by higher sales of electronic functional materials, especially advanced products. As a result, gross profit rose ¥4,198 million, or 14.7%, from the previous fiscal year to ¥32,829 million.

Selling, general and administrative (SG&A) expenses increased ¥949 million, or 4.4%, from the previous fiscal year to ¥22,284 million due to the higher direct selling costs—such as storage and transportation expenses—that accompanied the increase in sales. However, operating income increased ¥3,249 million, or 44.5%, from the previous fiscal year to ¥10,544 million due to higher gross profit, and the operating income ratio widened 2.5 percentage points compared with the previous fiscal year to 10.7%.







Income before Income Taxes and Minority Interests and Net Income

Income before income taxes and minority interests rose ¥3,253 million, or 40.3%, to ¥11,324 million from the previous fiscal year. Although there was an increase in loss on disposals of inventories and a decline in royalty income, operating income increased and the Company also recorded a foreign exchange gain. As a result, net income for the fiscal year increased ¥1,568 million, or 30.8%, from the previous fiscal year to ¥6,656 million.

Financial Review

Financial Position

Total assets rose ¥11,371 million from the previous fiscal year-end to ¥165,681 million as of March 31, 2006.

Current assets increased ¥2,763 million from the previous fiscal year-end to ¥106,266 million. Although cash and cash equivalents and time deposits declined ¥3,413 million due to the establishment of a retirement benefit trust and the transfer of funds to long-term time deposits, trade notes and accounts receivables rose ¥3,368 million due to higher sales, and inventories increased ¥2,389 million due to greater product inventories in the equipment business.

Fixed assets increased ¥8,607 million from the previous fiscal year-end to ¥59,415 million. Tangible fixed assets increased ¥2,467 million due to increased capital expenditures in facilities, such as the construction of an R&D building, investment securities increased ¥2,408 million due to higher market values for equity holdings and long-term time deposits increased ¥5,000 million due to transfers from cash and cash equivalents.

Total liabilities were up ¥2,318 million from the previous fiscal year-end to ¥39,740 million. Although liability for retirement benefits shrank ¥4,840 million due to the establishment of the retirement benefit trust, trade notes and accounts payables increased ¥1,815 million due to increased production, construction and other rose ¥1,514 million due to higher capital expenditures and income taxes payable increased ¥1,818 million due to higher taxable income.

Minority interests rose ¥702 million due to such factors as an increase in retained earnings at a Taiwan joint venture.

Total shareholders' equity rose ¥8,350 million from the previous fiscal year-end to ¥123,915 million. This increase is largely because net income for the fiscal year was ¥6,656 million and the unrealized gain on available-for-sale securities rose ¥1,503 million.

As a result, the shareholders' equity ratio at the end of the year declined 0.1 percentage points to 74.8%, and shareholders' equity per share amounted to ¥2,650.51.

Cash Flows

In the fiscal year under review, net cash provided by operating activities decreased ¥3,796 million from the previous fiscal year to ¥8,008 million. Despite income before income taxes and minority interests as well as depreciation and amortization, cash flow declined due to a decrease in the provision for retirement benefits resulting from the establishment of the retirement benefit trust associated with the contributory funded pension plans and to the increase in trade notes and accounts receivables.

Net cash used in investing activities increased ¥8,605 million from the previous fiscal year to ¥13,805 million due to higher outflows for long-term time deposits and for purchases of property, plant and equipment that accompanied the construction of the R&D building.

Net cash used in financing activities decreased ¥334 million to ¥595 million. Although dividends paid distributed an increase, there was an inflow from disposals of treasury stock.

As a result of the foregoing activities, cash and cash equivalents declined ¥5,931 million from the previous fiscal year-end to ¥40,820 million as of March 31, 2006.

Outlook for Fiscal Year Ending March 31, 2007

In the fiscal year ending March 31, 2007, the semiconductor and FPD markets are expected to remain firm thanks to growing demand for personal computers and flat-screen televisions, but it will be difficult to be optimistic about the business environment due to intensifying competition and the higher raw materials costs arising from soaring crude oil prices.

These are the circumstances under which the Company will be striving to achieve the goals set forth in the third "TOK Challenge 21" three-year business plan, which commenced in April 2006 (the plan is in effect from the fiscal year ending March 31, 2007 to the fiscal year ending March 31, 2009), as well as to expand earnings and strengthen earning power. Specifically, in the material business the Company will concentrate its resources in growth businesses and it will work to expand sales and further boost earning power in such areas as photoresists for excimer lasers and photoresists for FPDs. In the equipment business, investment in plants and equipment is expected to be brisk thanks to the growing demand for LCD televisions. Therefore, the Company will focus efforts on increasing orders for LCD panel manufacturing equipment and other equipment while striving to boost earning power.

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Balance Sheets

March 31, 2006 and 2005

ASSETS	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
CURRENT ASSETS:			
Cash and cash equivalents	**¥ 40,820**	¥ 46,752	**$ 348,892**
Time deposits	**3,288**	770	**28,105**
Receivables:			
Trade notes	**4,598**	4,309	**39,299**
Trade accounts	**24,822**	21,741	**212,157**
Other	**278**	313	**2,376**
Allowance for doubtful receivables	**(134)**	(100)	**(1,149)**
Inventories (Note 4)	**29,556**	27,166	**252,618**
Deferred tax assets (Note 8)	**2,035**	1,405	**17,396**
Prepaid expenses and other current assets	**1,001**	1,143	**8,560**
Total current assets	**106,266**	103,502	**908,257**
PROPERTY, PLANT AND EQUIPMENT:			
Land	**9,422**	9,336	**80,531**
Buildings and structures	**54,311**	51,685	**464,200**
Machinery and equipment	**40,018**	38,540	**342,039**
Furniture and fixtures	**14,045**	13,584	**120,050**
Construction in progress	**2,796**	1,004	**23,904**
Total	**120,595**	114,152	**1,030,726**
Accumulated depreciation	**(77,942)**	(73,967)	**(666,178)**
Net property, plant and equipment	**42,652**	40,185	**364,548**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Note 3)	**8,058**	5,649	**68,872**
Investments in an unconsolidated subsidiary and associated companies	**140**	7	**1,205**
Long-term time deposits	**5,000**		**42,735**
Deferred tax assets (Note 8)	**703**	1,631	**6,008**
Other assets	**2,861**	3,333	**24,455**
Total investments and other assets	**16,763**	10,622	**143,275**
TOTAL	**¥165,681**	¥154,309	**$1,416,082**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
CURRENT LIABILITIES:			
Payables:			
Trade notes	**¥ 44**	¥ 136	**$ 384**
Trade accounts	**11,418**	9,511	**97,591**
Construction and other	**5,173**	3,657	**44,220**
Income taxes payable	**3,224**	1,405	**27,559**
Accrued expenses	**4,462**	3,377	**38,142**
Advances from customers	**12,604**	11,848	**107,727**
Deferred tax liabilities (Note 8)	**196**	28	**1,680**
Other current liabilities (Note 5)	**393**	370	**3,364**
Total current liabilities	**37,518**	30,336	**320,671**
LONG-TERM LIABILITIES:			
Long-term debt (Note 5)	**5**	8	**46**
Liability for retirement benefits (Note 6)	**1,749**	6,590	**14,956**
Deferred tax liabilities (Note 8)	**432**	458	**3,696**
Other long-term liabilities	**34**	28	**294**
Total long-term liabilities	**2,222**	7,086	**18,994**
MINORITY INTERESTS	**2,025**	1,322	**17,310**
SHAREHOLDERS' EQUITY (Notes 7 and 14):			
Common stock—authorized, 197,000,000 shares in 2006 and 200,000,000 shares in 2005; issued, 47,600,000 shares in 2006 and 50,600,000 shares in 2005	**14,640**	14,640	**125,132**
Capital surplus	**15,223**	15,209	**130,113**
Retained earnings	**91,529**	91,802	**782,300**
Unrealized gain on available-for-sale securities	**3,660**	2,156	**31,283**
Foreign currency translation adjustments	**445**	(442)	**3,806**
Treasury stock—at cost, 861,153 shares in 2006 and 4,248,992 shares in 2005	**(1,583)**	(7,800)	**(13,530)**
Total shareholders' equity	**123,915**	115,564	**1,059,105**
TOTAL	**¥165,681**	¥154,309	**$1,416,082**

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Income

Years Ended March 31, 2006 and 2005

	Millions of Yen 2006	Millions of Yen 2005	Thousands of U.S. Dollars (Note 1) 2006
NET SALES	**¥98,514**	¥88,960	**$842,005**
COST OF SALES (Note 9)	**65,684**	60,330	**561,409**
Gross profit	**32,829**	28,630	**280,595**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 9)	**22,284**	21,335	**190,467**
Operating income	**10,544**	7,295	**90,128**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**117**	84	**1,000**
Interest expense	**(12)**	(11)	**(103)**
Foreign exchange gain—net	**320**	102	**2,740**
Royalty income	**133**	324	**1,138**
Gain on refund of custom duty		241	
Indemnity received	**400**		**3,418**
Loss on disposals of property, plant and equipment	**(202)**	(247)	**(1,734)**
Loss on disposals of inventories	**(131)**	(71)	**(1,126)**
Other—net	**155**	353	**1.325**
Other income—net	**779**	775	**6,659**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**11,324**	8,070	**96,787**
INCOME TAXES (Note 8):			
Current	**4,643**	2,759	**39,692**
Deferred	**(444)**	(115)	**(3,796)**
Total income taxes	**4,199**	2,643	**35,895**
MINORITY INTERESTS IN NET INCOME	**(467)**	(339)	**(3,997)**
NET INCOME	**¥ 6,656**	¥ 5,088	**$ 56,894**

	Yen 2006	Yen 2005	U.S. Dollars 2006
PER SHARE OF COMMON STOCK (Notes 2.p and 13):			
Basic net income	**¥142.34**	¥109.16	**$ 1.21**
Diluted net income	**141.87**	109.00	**1.21**
Cash dividends applicable to the year	**33.00**	27.00	**0.28**

See notes to consolidated financial statements.

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Shareholders' Equity

Years Ended March 31, 2006 and 2005

	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, 2004	¥46,332	¥14,640	¥15,208	¥87,867	¥1,887	¥(468)	¥(7,833)
Net income				5,088			
Cash dividends paid:							
Final for prior year, ¥12.0 per share				(555)			
Interim for current year, ¥12.0 per share				(556)			
Bonuses to directors and corporate auditors				(42)			
Repurchase of treasury stock	(1)						(3)
Disposal of treasury stock	20						36
Net increase in unrealized gain on available-for-sale securities					269		
Net increase in foreign currency translation adjustments						26	
BALANCE, MARCH 31, 2005	46,351	14,640	15,209	91,802	2,156	(442)	(7,800)
Net income				6,656			
Cash dividends paid:							
Final for prior year, ¥15.0 per share				(695)			
Interim for current year, ¥15.0 per share				(696)			
Bonuses to directors and corporate auditors				(30)			
Repurchase of treasury stock	(2)						(6)
Disposal of treasury stock	390		13				716
Retirement of treasury stock				(5,508)			5,508
Net increase in unrealized gain on available-for-sale securities					1,503		
Net increase in foreign currency translation adjustments						887	
BALANCE, MARCH 31, 2006	**¥46,738**	**¥14,640**	**¥15,223**	**¥91,529**	**¥3,660**	**¥ 445**	**¥(1,583)**

	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, 2005	$125,132	$129,993	$784,633	$18,430	$(3,781)	$(66,673)
Net income			56,894			
Cash dividends paid:						
Final for prior year, $0.12 per share			(5,942)			
Interim for current year, $0.12 per share			(5,951)			
Bonuses to directors and corporate auditors			(256)			
Repurchase of treasury stock						(56)
Disposal of treasury stock		119				6,121
Retirement of treasury stock			(47,077)			47,077
Net increase in unrealized gain on available-for-sale securities				12,853		
Net increase in foreign currency translation adjustments					7,588	
BALANCE, MARCH 31, 2006	**$125,132**	**$130,113**	**$782,300**	**$31,283**	**$ 3,806**	**$(13,530)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	**2006**
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥11,324**	¥ 8,070	**$ 96,787**
Adjustments for:			
Income taxes paid	**(2,952)**	(2,887)	**(25,235)**
Depreciation and amortization	**5,502**	5,595	**47,029**
Provision for doubtful receivables	**33**	(23)	**284**
Provision for retirement benefits	**(4,840)**	357	**(41,368)**
Loss on disposals of property, plant and equipment	**202**	247	**1,734**
Bonuses to directors and corporate auditors	**(30)**	(42)	**(256)**
Changes in assets and liabilities:			
(Increase) decrease in trade notes and accounts receivables	**(2,961)**	2,498	**(25,312)**
Increase in inventories	**(2,204)**	(4,297)	**(18,837)**
Increase (decrease) in trade notes and accounts payables	**1,704**	(115)	**14,571**
Increase in advances from customers	**755**	1,886	**6,459**
Other—net	**1,473**	514	**12,595**
Net cash provided by operating activities	**8,008**	11,805	**68,452**
INVESTING ACTIVITIES:			
Increase in time deposits—net	**(2,499)**	(700)	**(21,365)**
Purchases of property, plant and equipment	**(5,558)**	(3,226)	**(47,509)**
Increase in long-term time deposits	**(5,000)**		**(42,735)**
Other—net	**(747)**	(1,273)	**(6,388)**
Net cash used in investing activities	**(13,805)**	(5,200)	**(117,998)**
FINANCING ACTIVITIES:			
Repayments of long-term debt	**(1)**	(1)	**(15)**
Issuance of common stock to minority shareholder	**194**	190	**1,659**
Dividends paid	**(1,393)**	(1,109)	**(11,906)**
Disposals of treasury stock	**730**		**6,241**
Other—net	**(125)**	(8)	**(1,068)**
Net cash used in financing activities	**(595)**	(929)	**(5,089)**
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	**460**	99	**3,935**
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(5,931)**	5,775	**(50,699)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**46,752**	40,977	**399,591**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥40,820**	¥46,752	**$348,892**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Years Ended March 31, 2006 and 2005

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 2005 financial statements to conform to the classifications used in 2006.

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 ¥117 to $1, the approximate rate of exchange at March 31, 2006. 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 as of March 31, 2006 include the accounts of the Company and its 11 significant (10 in 2005) subsidiaries (together, the "Group"). Investment in one (zero in 2005) associated company is accounted for by equity method.

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method. A foreign subsidiary was newly consolidated due to new establishment in 2006, and the equity method was newly applied to an associated company due to new establishment in 2006.

Investments in the remaining unconsolidated subsidiary and 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 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. Long-lived Assets—In August 2002, the Business Accounting Council ("BAC") issued a Statement of Opinion, "Accounting for

Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan ("ASBJ") issued ASBJ Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements were 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 Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate 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 adoption of the new accounting standard for impairment of fixed assets has no impact on the Company's financial statements.

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

h. Retirement and Pension Plans

Retirement benefits to employees (including officers)—
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.

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

j. 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.

k. 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.

l. 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.

m. 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.

n.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.

o. 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.

p. 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.

q. New Accounting Pronouncements

Business combination and business separation—
In October 2003, the BAC issued a Statement of Opinion, "Accounting for Business Combinations," and on December 27, 2005 the ASBJ issued "Accounting Standard for Business Separations" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Separations." These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

(a)the consideration for the business combination consists solely of common shares with voting rights,

(b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and

(c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

Stock options—
On December 27, 2005, the ASBJ issued "Accounting Standard for Stock Options" and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

Bonuses to directors and corporate auditors—
Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors," which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

3. INVESTMENT SECURITIES

Investment securities as of March 31, 2006 and 2005 consisted of equity securities.

The carrying amounts and aggregate fair values of investment securities at March 31, 2006 and 2005 were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2006				
Securities classified as available-for-sale equity securities	**¥2,368**	**¥5,658**		**¥8,026**
March 31, 2005				
Securities classified as available-for-sale equity securities	2,368	3,279		5,648

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2006				

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.

4. INVENTORIES

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Merchandise	**¥ 1,041**	¥ 926	**$ 8,900**
Finished products	**19,478**	16,381	**166,486**
Work in process	**5,628**	6,104	**48,111**
Raw materials and supplies	**3,407**	3,754	**29,121**
Total	**¥29,556**	¥27,166	**$252,618**

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, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Unsecured loans from minority shareholder, with interest rates of 2.90% (2006) and 2.90% (2005)	**¥ 27**	¥ 28	**$ 239**
Bank overdrafts, with interest rates of 3.00% (2006) and 3.00% (2005)	**215**	230	**1,841**
Total	**¥243**	¥258	**$2,080**

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

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Unsecured loans from a financial institution for employees' housing loans, with interest rates of 3.69% (2006) and 3.99% (2005)	**¥ 5**	¥ 9	**$ 49**
Less current portion			**(3)**
Long-term debt, less current portion	**¥ 5**	¥ 8	**$ 46**

Annual maturities of long-term debt at March 31, 2006 for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2007		$ 3
2008		3
2009		3
2010		3
2011		3
2012 and thereafter	¥ 3	33

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.

The Company applied for transfer of the substitutional portion of past pension obligations to the government and obtained approval by the Ministry of Health, Labour and Welfare on January 1, 2005. The Company thereafter transferred the substitutional portion of the pension obligations and related assets to the government on May 19, 2005.

On September 29, 2005, the Company contributed ¥5,000 million ($42,735 thousand) to the employee retirement benefit trust for the Company's contributory pension plans. The securities held in this trust are qualified as plan assets.

The liability for employees' retirement benefits at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Projected benefit obligation	**¥12,768**	¥12,139	**$109,132**
Fair value of plan assets	**(7,176)**	(5,291)	**(61,341)**
Employee retirement benefit trust	**(4,926)**		**(42,102)**
Unrecognized prior service cost	**1,211**	1,350	**10,354**
Unrecognized actuarial loss	**(663)**	(2,123)	**(5,670)**
Net liability	**¥ 1,213**	¥ 6,075	**$ 10,372**

The components of net periodic benefit costs for the years ended March 31, 2006 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Service cost	**¥ 699**	¥ 777	**$ 5,979**
Interest cost	**263**	282	**2,255**
Expected return on plan assets	**(118)**	(95)	**(1,011)**
Amortization of prior service cost	**(138)**	(35)	**(1,185)**
Recognized actuarial loss	**333**	364	**2,846**
Temporary retirement benefit	**20**		**177**

Net periodic benefit costs	**¥1,060**	¥1,293	**$ 9,062**

Assumptions used for the years ended March 31, 2006 and 2005 are set forth as follows:

	2006	2005
Discount rate	**2.25%**	2.25%
Expected rate of return on plan assets:		
Contributory pension plan	**2.00%**	2.00%

The liabilities for retirement benefits at March 31, 2006 and 2005 for directors and corporate auditors are ¥536 million ($4,584 thousand) and ¥515 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

7. SHAREHOLDERS' EQUITY

Through May 1, 2006, Japanese companies are subject to the Commercial Code of Japan (the "Code") .

The Code requires that all shares of common stock be issued 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 are required to be presented as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. 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 Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥82,713 million ($706,953 thousand) as of March 31, 2006, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the end of 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.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

a. Dividends—Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.
The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.
Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases / Decreases and Transfer of Common Stock, Reserve and Surplus—The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights— The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006

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 rates of approximately 40.3% for the years ended March 31, 2006 and 2005. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2006 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Current assets—Deferred tax assets:			
Accrued expense for bonuses to employees	**¥ 619**	¥ 596	**$ 5,294**
Accrued enterprise tax	**244**	134	**2,090**
Unrealized gains on inventories	**298**	277	**2,549**
Loss on valuation of inventories	**332**	272	**2,845**
Other	**545**	124	**4,665**
Less valuation allowance	**(5)**		**(48)**
Total	**¥2,035**	¥1,405	**$17,396**
Non-current assets:			
Deferred tax assets:			
Liability for retirement benefits	**¥2,694**	¥2,621	**$23,029**
Property and equipment	**96**	186	**823**
Investment securities	**286**	286	**2,450**
Other	**304**	246	**2,604**
Less valuation allowance	**(530)**	(486)	**(4,532)**
Total	**2,851**	2,854	**24,375**
Deferred tax liabilities:			
Property and equipment	**89**	99	**762**
Unrealized gain on available-for-sale securities	**1,998**	1,122	**17,077**
Other	**61**		**527**
Total	**2,148**	1,222	**18,366**
Net deferred tax assets	**¥ 703**	¥1,631	**$ 6,008**
Current liabilities—Deferred tax liabilities	**¥ 196**	¥ 28	**$ 1,680**
Non-current liabilities—Deferred tax liabilities:			
Property and equipment	**¥ 95**	¥ 135	**$ 815**
Undistributed earnings of foreign subsidiaries	**337**	322	**2,881**
Total	**¥ 432**	¥ 458	**$ 3,696**

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the years ended March 31, 2006 and 2005 is as follows:

	2006	2005
Normal effective statutory tax rate	**40.3%**	40.3%
Non-deductible expenses	**0.3**	0.4
Non-taxable revenue	**(0.1)**	(0.2)
Lower income tax rates applicable to income in certain foreign countries	**(0.3)**	(0.4)
Tax credit for research and development costs	**(4.6)**	(4.5)
Tax credit for information and telecommunication equipments		(3.2)
Valuation allowance	**1.2**	
Other—net	**0.3**	0.4
Actual effective tax rate	**37.1%**	32.8%

9. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Selling, general and administrative expenses	**¥5,549**	¥5,723	**$47,434**
Cost of sales	**134**	76	**1,146**

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, 2006 and 2005 were ¥24 million ($210 thousand) and ¥236 million, respectively.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations 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, 2006 and 2005 was as follows:

Acquisition cost and accumulated depreciation:

	Millions of Yen			
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Total
March 31, 2006				
Acquisition cost	**¥233**	**¥41**	**¥44**	**¥319**
Accumulated depreciation	**3**	**22**	**25**	**52**
Net leased property	**¥229**	**¥18**	**¥18**	**¥ 266**

	Thousands of U.S. Dollars			
	Buildings and Structures	Machinery and Equipment	Furniture and Fixtures	Total
March 31, 2006				
Acquisition cost	**$1,996**	**$352**	**$378**	**$2,727**
Accumulated depreciation	**33**	**192**	**221**	**447**
Net leased property	**$1,963**	**$159**	**$156**	**$2,279**

	Millions of Yen		
	Machinery and Equipment	Furniture and Fixtures	Total
March 31, 2005			
Acquisition cost	¥50	¥83	¥134
Accumulated depreciation	16	54	70

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Due within one year	**¥ 35**	¥23	**$ 300**
Due after one year	**231**	40	**1,979**

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 ¥24 million ($210 thousand) and ¥236 million for the years ended March 31, 2006 and 2005, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Due within one year	**¥109**	¥111	**$ 933**
Due after one year	**311**	338	**2,666**
Total	**¥421**	¥449	**$3,599**

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, 2006 and 2005.

12. RELATED PARTY TRANSACTIONS

Major transactions of the Company with directors and a corporate auditor for the year ended March 31, 2006 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2006	**2006**
Exercise of stock option	**¥104**	**$889**

13. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2006 and 2005 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted-average Shares	EPS	
Year Ended March 31, 2006				
Basic EPS:				
Net income	**¥6,656**			
Bonuses to directors and corporate auditors	**33**			
Net income available to common shareholders	**6,622**	**46,525**	**¥142.34**	**$1.21**
Effect of dilutive securities—Stock options		**155**		
Diluted EPS—Net income for computation	**¥6,622**	**46,680**	**¥141.87**	**$1.21**
Year Ended March 31, 2005				
Basic EPS:				
Net income	¥5,088			
Bonuses to directors and corporate auditors	30			
Net income available to common shareholders	5,058	46,337	¥109.16	
Effect of dilutive securities—Stock options		70		
Diluted EPS—Net income for computation	¥5,058	46,407	¥109.00	

14. SUBSEQUENT EVENT

At the general shareholders meeting held on June 29, 2006, the Company's shareholders approved the following appropriation of retained earnings:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥18 ($0.15) per share	¥841	$7,190
Bonuses to directors and corporate auditors	33	288
Total	¥875	$7,479

15. 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, 2006 and 2005 is as follows:

	Millions of Yen				
	2006				
	Material Business	Equipment Business	Total	Eliminations and Corporate	Consolidated
Sales to customers	¥80,338	¥18,175	¥ 98,514		¥ 98,514
Intersegment sales		77	77	¥ (77)	
Total sales	80,338	18,252	98,591	(77)	98,514
Operating expenses	67,673	15,909	83,582	4,387	87,969
Operating income	¥12,665	¥ 2,343	¥ 15,009	¥ (4,464)	¥ 10,544
Assets	¥79,553	¥28,411	¥107,964	¥57,716	¥165,681
Depreciation and amortization	4,452	361	4,814	688	5,502
Capital expenditures	6,943	264	7,207	251	7,458

	Thousands of U.S. Dollars				
	2006				
	Material Business	Equipment Business	Total	Eliminations and Corporate	Consolidated
Sales to customers	$686,657	$155,347	$824,005		$ 842,005
Intersegment sales		658	658	$ (658)	
Total sales	686,657	156,005	842,663	(658)	842,005
Operating expenses	578,404	135,975	714,380	37,496	751,876
Operating income	$108,253	$ 20,030	$128,283	$ (38,155)	$ 90,128
Assets	$679,948	$242,829	$922,777	$493,304	$1,416,082
Depreciation and amortization	38,054	3,093	41,148	5,880	47,029
Capital expenditures	59,343	2,261	61,604	2,147	63,751

	Millions of Yen				
	2005				
	Material Business	Equipment Business	Total	Eliminations and Corporate	Consolidated
Sales to customers	¥71,617	¥17,343	¥88,960		¥ 88,960
Intersegment sales		117	117	¥ (117)	
Total sales	71,617	17,461	89,078	(117)	88,960
Operating expenses	61,095	16,138	77,234	4,431	81,665
Operating income	¥10,521	¥ 1,322	¥11,844	¥ (4,548)	¥ 7,295
Assets	¥70,685	¥25,129	¥95,814	¥58,494	¥154,309
Depreciation and amortization	4,825	352	5,177	417	5,595
Capital expenditures	3,311	332	3,644	1,115	4,759

(2) Geographical Segments

Information about geographical segments for the years ended March 31, 2006 and 2005 is as follows:

	Millions of Yen						
	2006						
	Japan	North America	Europe	Asia	Total	Eliminations and Corporate	Consolidated
Sales to customers	¥ 73,282	¥7,236	¥5,787	¥12,207	¥ 98,514		¥ 98,514
Interarea transfer	10,155	597	17	181	10,951	¥ (10,951)	
Total sales	83,438	7,833	5,805	12,388	109,466	(10,951)	98,514
Operating expenses	74,258	7,497	5,831	10,350	97,937	(9,967)	87,969
Operating income (loss)	¥ 9,180	¥ 336	¥ (26)	¥ 2,038	¥ 11,529	¥ (984)	¥ 10,544
Assets	¥106,080	¥7,345	¥4,970	¥8,886	¥127,283	¥ 38,398	¥165,681

	Thousands of U.S. Dollars						
	2006						
	Japan	North America	Europe	Asia	Total	Eliminations and Corporate	Consolidated
Sales to customers	$626,347	$61,850	$49,468	$104,339	$ 842,005		$ 842,005
Interarea transfer	86,801	5,103	150	1,549	93,604	$ (93,604)	
Total sales	713,148	66,954	49,618	105,888	935,609	(93,604)	842,005
Operating expenses	634,684	64,077	49,844	88,464	837,070	(85,193)	751,876
Operating income (loss)	$ 78,464	$ 2,876	$ (226)	$ 17,423	$ 98,538	$ (8,410)	$ 90,128
Assets	$906,672	$62,780	$42,482	$ 75,954	$1,087,890	$328,191	$1,416,082

	Millions of Yen						
	2005						
	Japan	North America	Europe	Asia	Total	Eliminations and Corporate	Consolidated
Sales to customers	¥68,675	¥6,036	¥5,879	¥8,368	¥ 88,960		¥ 88,960
Interarea transfer	8,205	584		105	8,894	¥ (8,894)	
Total sales	76,880	6,621	5,879	8,473	97,855	(8,894)	88,960
Operating expenses	70,577	6,083	5,860	6,981	89,502	(7,837)	81,665
Operating income	¥ 6,303	¥ 537	¥ 19	¥1,492	¥ 8,353	¥ (1,057)	¥ 7,295
Assets	¥98,547	¥6,087	¥4,545	¥5,264	¥114,444	¥39,864	¥154,309

(3) Sales to Foreign Customer

Information about sales to foreign customers of the Group for the years ended March 31, 2006 and 2005 is as follows:

	Millions of Yen				
	2006				
	North America	Europe	Asia	Other Areas	Total
Sales to foreign customers (A)	**¥7,962**	**¥6,224**	**¥44,396**	**¥355**	**¥58,938**
Consolidated sales (B)					**98,514**
(A) / (B)	**8.1%**	**6.3%**	**45.1%**	**0.3%**	**59.8%**

	Thousands of U.S. Dollars				
	2006				
	North America	Europe	Asia	Other Areas	Total
Sales to foreign customers (A)	**$68,052**	**$53,196**	**$379,460**	**$3,039**	**$503,749**
Consolidated sales (B)					**842,005**
(A) / (B)	**8.1%**	**6.3%**	**45.1%**	**0.3%**	**59.8%**

	Millions of Yen				
	2005				
	North America	Europe	Asia	Other Areas	Total
Sales to foreign customers (A)	¥7,266	¥6,141	¥37,017	¥156	¥50,582
Consolidated sales (B)					88,960
(A) / (B)	8.2%	6.9%	41.6%	0.2%	56.9%

Deloitte.

Deloitte Touche Tohmatsu
MS Shibaura Building
4-13-23, Shibaura
Minato-ku, Tokyo 108-8530
Japan

Tel: +81(3)3457 7321
Fax: +81(3)3457 1694
www.deloitte.com/jp

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, 2006 and 2005, 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, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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, 2006

Member of
Deloitte Touche Tohmatsu

Corporate Data

(As of March 31, 2006)

Corporate Name: TOKYO OHKA KOGYO CO., LTD.
Established: October 25, 1940
Corporate Headquarters: 150 Nakamaruko, Nakahara-ku, Kawasaki, Kanagawa 211-0012, JAPAN
Number of Employees: 1,484 (Non-Consolidated)
Paid-in Capital: ¥14,640 million
Number of Shareholders: 9,641
Homepage: http://www.tok.co.jp/
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 October 1, 2006)

Board of Directors

Representative Director, President
Chief Executive Officer
Yoichi Nakamura

Representative Director
Senior Executive Officer
Takashi Komine
Department Manager, Research and Development Dept.

Representative Director
Senior Executive Officer
Koichi Kaihatsu
Department Manager, General Affairs Dept.

Director
Executive Officer
Yukiyasu Henmi
Department Manager, General Accounting Dept. and General Manager, Financial Affairs Div.

Director
Officer
Hiroyuki Tohda
Department Manager, Manufacturing Dept. and Department Manager, Image-Forming Products Dept.

Director
Officer
Kobun Iwasaki
Department Manager, Marketing Dept.

Director
Jiro Makino
(President, Makino Milling Machine Co., Ltd.)

Corporate Auditors

Standing Statutory Auditor
Yoshio Kitani

Auditor
Fujio Higaki
(President, Ryoshinholdings Co., Ltd.)

Auditor
Yukio Hayama

Officers

Executive Officer
Akinori Horikoshi
Department Manager, Corporate Planning Dept. and General Manager, Planning Div.

Officer
Hitoshi Furuya
Department Manager, Purchasing Dept.

Officer
Hidekatsu Kohara
Department Manager, Process Equipment Manufacturing Dept.

Officer
Yutaka Miyagi
Deputy Department Manager, Process Equipment Manufacturing Dept.

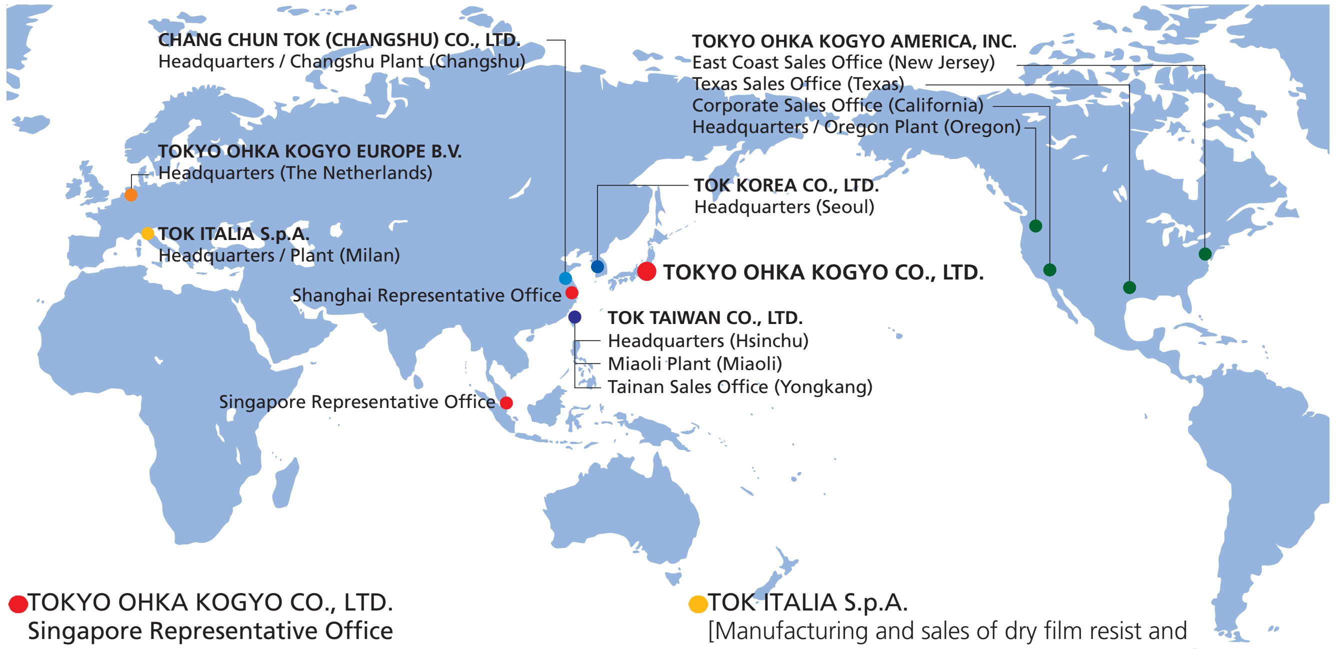
Officer
Katsuyuki Ohta
Deputy Department Manager, Marketing Dept. and General Manager, Sales Administration Div.

Officer
Hiroshi Asaba
Deputy Department Manager, Manufacturing Dept. and Department Manager, Electronic Material Dept.

Officer
Kenji Tazawa
Managing Director of TOKYO OHKA KOGYO EUROPE B.V.

Officer
Hiroji Komano
Deputy Department Manager, Research and Development Dept. and General Manager, New Technology Development Sec.

Note: Mr. Jiro Makino is an outside director.
Mr. Fujio Higaki and Mr. Yukio Hayama are outside auditors.



TOKYO OHKA KOGYO CO., LTD.
Singapore Representative Office
8 Shenton Way, #14-01A, Temasek Tower, SINGAPORE
TEL. +65-62261485 FAX. +65-62261893
Shanghai Representative Office
1511, China Merchants Tower, 161 Lu Jia Zui East Road, Pu Dong Xin Qu, Shanghai 200120, CHINA
TEL. +86-21-5840-8800 FAX. +86-21-5840-8884

TOKYO OHKA KOGYO AMERICA, INC.
[Manufacturing and sales of photoresists and photolithography-related high purity chemicals]
Headquarters / Oregon Plant
4600 N.W. Shute Road, Hillsboro, Oregon 97124, U.S.A.
TEL. +1-503-693-7711 FAX. +1-503-693-2070

Corporate Sales Office
190 Topaz Street, Milpitas, California 95035, U.S.A.
TEL. +1-408-956-9901 FAX. +1-408-956-9995

TOKYO OHKA KOGYO EUROPE B.V.
[Sales of photoresists, photolithography-related high purity chemicals, printing materials and other products]
Headquarters
Databankweg 12, 3821AL Amersfoort,
THE NETHERLANDS
TEL. +31-33-4543522 FAX. +31-33-4519646

TOK ITALIA S.p.A.
[Manufacturing and sales of dry film resist and photolithography-related high purity chemicals]
Headquarters / Plant
Via Camillo Chiesa, 30, 20010 Pogliano M.SE (MI), ITALY
TEL. +39-02-93559006 FAX. +39-02-93559007

TOK TAIWAN CO., LTD.
[Manufacturing and sales of photolithography-related high purity chemicals and sales of photoresists and process equipment]
Headquarters
10F., No. 675, Sec.1, Jingguo Road, Hsinchu City 300, TAIWAN
TEL. +886-3-5345953 FAX. +886-3-5350178

TOK KOREA CO., LTD.
[Sales of photoresists and photolithography-related high purity chemicals]
Headquarters
15F., DukHeung Bldg., 1328-10, Seocho-dong, Seocho-gu, Seoul 137-858, KOREA
TEL. +82-2-588-5035 FAX. +82-2-588-5036

CHANG CHUN TOK (CHANGSHU) CO., LTD.
[Manufacturing and sales of photolithography-related high purity chemicals]
Headquarters / Changshu Plant
Changchun Road, Riverside Industrial Park, Changshu Economic Development Zone, Jiangsu Province 215537, CHINA
TEL. +86-512-5264-8000 FAX. +86-512-5264-9000

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 and 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.

150 Nakamaruko, Nakahara-ku, Kawasaki,
Kanagawa 211-0012, JAPAN
TEL. +81-44-435-3000 FAX. +81-44-435-3020
http://www.tok.co.jp/

tok TOKYO OHKA KOGYO CO., LTD.

R100 PRINTED WITH SOY INK™

This report is printed on 100% recycled paper and is printed using an ink based on soy bean oil.
Printed in Japan 061201.5NIR.AUMZ