Always Innovating With The Customer

A Total Packaging Solutions Company

Annual Report 2004

Fuji Seal Group

P R O F I L E

In the 107 years since incorporation, the Fuji Seal Group has become the No.1 company in the ever-changing packaging industry by developing innovative packaging, including shrink labels, to vividly convey the value of our customers' products.

Following the business philosophy of "Each day, with a renewed commitment, we create new value through wrapping", we aspire to grow with our customers by solving problems and undertaking challenges in response to changes in the market and their needs.

Our growth and success are tied to the growth and success of our customers.

A total packaging solutions company, the Fuji Seal Group provides integrated systems to the global market to meet diverse needs from product planning to production line improvement.

C O N T E N T S

Consolidated Financial Highlights

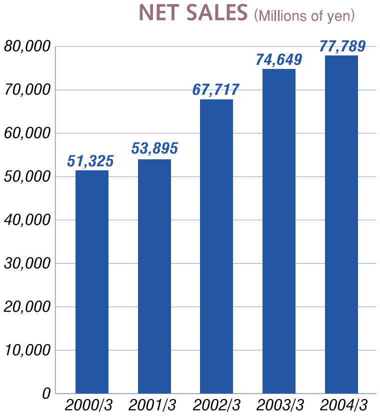
FUJI SEAL, INC. and Subsidiaries
Years Ended March 31

	Millions of yen, except where noted					Thousands of U.S. dollars, except where noted
	2000/3	2001/3	2002/3	2003/3	**2004/3**	**2004/3**
For the year:						
Net sales	¥ 51,325	¥ 53,895	¥ 67,717	¥ 74,649	**¥ 77,789**	**$ 736,019**
Operating income	5,441	4,422	5,277	6,233	**7,152**	**67,671**
Ordinary income	5,377	4,672	5,227	6,284	**7,277**	**68,856**
Net income	2,861	2,196	2,279	3,637	**4,404**	**41,673**
At the year-end:						
Total assets	38,649	48,116	57,728	61,419	**61,274**	**579,757**
Shareholders' equity	17,126	18,367	21,557	23,948	**34,233**	**323,908**
Number of shares issued (shares)	15,219,000	15,219,000	15,219,000	15,221,032	**24,963,982**	**—**
Per share amounts (in yen and U.S. dollars):						
Shareholders' equity per share	¥ 1,125.34	¥ 1,206.91	¥ 1,416.49	¥ 1,573.40	**¥ 1,371.91**	**$ 12.98**
Net income per share (basic)	188.04	144.34	149.77	239.02	**189.21**	**1.79**
Net income per share (diluted)	—	—	140.92	218.59	**189.06**	**1.79**
Other:						
Return on equity (%)	18.35%	12.38%	11.42%	15.99%	**15.14%**	
Return on assets(%)	14.5%	10.8%	9.9%	10.5%	**11.9%**	
Number of employees (persons)	1,398	1,767	1,909	2,180	**2,130**	

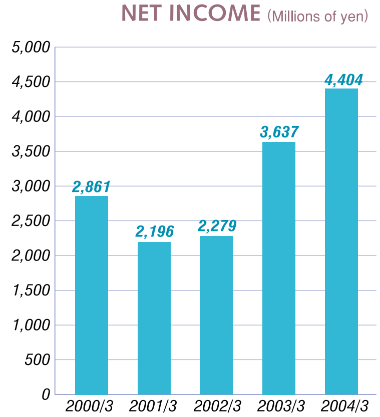
Notes:

1. *Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥105.69=U.S.$1, as of March 31, 2004, has been used in translation.*
2. *Net sales exclude consumption tax.*
3. *On November 19, 1999, the Company split its common stock from 1 to 2. Net income per share for the fiscal year ended March 31, 2000 is calculated based on the average number of shares during the fiscal year, retroactively adjusted for stock splits to the beginning of the year.*
4. *Diluted net income per share for the fiscal years ending March 31, 2000, and March 31, 2001 is not reported since the Company did not have outstanding warrant bonds or convertible bonds.*
5. *Our common stock has been split from 1 to 1.5 effective July 18, 2003. Net income per share in the consolidated basis and net income per share after adjustment of the residual securities are calculated as if the said share split has been effective at the beginning of the fiscal year.*
6. *The number of employees for the fiscal year ended March 31, 2000 increased by 369 compared with the previous fiscal year. Of the total, 332 are employees of American Fuji Seal, Inc., the former Owens-Illinois Labels, Inc. acquired by the Company.*

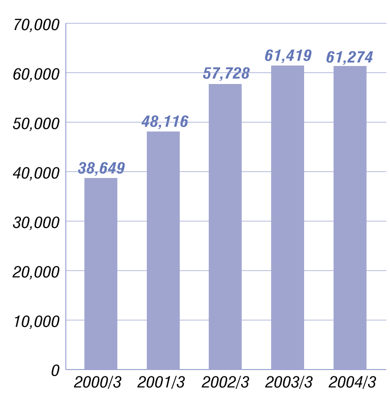
NET SALES (Millions of yen)



NET INCOME (Millions of yen)



TOTAL ASSETS (Millions of yen)



Disclaimer Regarding Forward-Looking Statements:
Any statements in this annual report that are concerned with future industrial performance and information about our customers are based on management assumptions and decisions in light of information currently available. Actual results may differ from these forecasts because of unforeseen internal factors and outside influences on company operations. We hope you will understand that the Company cannot guarantee that these statements will remain valid because of future uncertainties.

The market and customer needs are changing at an ever-increasing pace on a global scale. By responding to changes and increasing customer expectations, the Fuji Seal Group, that "Changes along with changes", continues to grow with the customers.

We successfully posted increases in both income and earnings in our consolidated business results for the fiscal year that ended March 31, 2004, breaking the highest earnings records for three consecutive fiscal years. These results show that we have been able to respond to changing customer needs in our bases in Japan, the United States, Europe and ASEAN. This is our principle of "Think globally, act locally".

I extend my sincere thanks and appreciation to our shareholders, investors, customers, business partners, employees and the supportive local communities where our group companies are located. I am delighted to announce the Fuji Seal Group's fiscal 2003 operational results.

Fiscal 2003 Operational Results

During the consolidated fiscal year under review (from April 1, 2003 to March 31, 2004), consumer demand for product safety and reliability grew further. Accordingly, our customer demands for packaging with safety labeling and protective functions for the contents further intensified. Besides environmental issues, customers are focusing on a facilitated distribution process by means of an effectively managed inventory system, and we are committed to working hand-in-hand with them.

As a result of our efforts, we were able to deliver a strong earnings performance throughout the fiscal year. Net sales were up 4.2% from a year earlier, totaling ¥77,789 million, operating income rose 14.7% to ¥7,152 million, ordinary income increased 15.8% to ¥7,277 million, and net income grew 21.1% to ¥4,404 million.

In the Japanese market, adverse impacts of a cool summer and a warm winter were kept to a minimum by the success of our new product portfolio in the market.

In the North American market, increased opportunities to adopt shrink label for key products of major brands, food and dairy-based drinks in particular, pushed sales into the black.

In Europe, the market itself has expanded along with the expansion of EU. Two years ago, we set up a continental base in France and that has contributed greatly to the growth of our market share in Europe.

Consequently, Fuji Seal Group has not only become the No. 1 player in the Japanese shrink market dominating about 60% share, but with over 20% of the market share in both Europe and the United States, we also emerged as the No. 1 player in the global arena.

Fuji Seal Group's Strategy Toward Growth

The Fuji Seal Group is dedicated to implementing a Medium-Term Management Plan that commenced in fiscal year 2001 with the aim of delivering consolidated net sales of ¥100 billion and ordinary income of ¥10 billion in fiscal year 2005, the final year of the plan. Based on the principle of "Changing along with changes", we provide in-demand products and services, which promptly accommodates the changing market, through our four bases comprising of Japan, the United States, Europe and ASEAN.

Ceaseless efforts have brought us an annual growth rate of 15% since 1970. While at the same time, changes are occurring at increasing speed and customers are raising their demands.

Our mission is to continue to further meet the expectations of the customers. Our strategy to execute this mission is explicit. We collect and analyze packaging trends and market data through interactions with leading companies around the world, and cooperate with customers to manage their needs in individual markets. We grow along with the customers, and this underlies the Fuji Seal Group's strategy toward growth.

Important Strategies and Changes in the Global Market

- Adoption and utilization of accumulated expertise and problem-solving experience of the Group
- Providing facilities and systems in accordance with the business of our customers
- Establishment of a global supply system through an integrated Machinery Division

For more details, please refer to the Special Feature in this annual report.

Transition to a Holding Company

The Fuji Seal Group has always been "Changing along with changes". Nowadays our customers' requirements towards packaging are changing as fast as demands become more specific. As a concrete measure to respond to these needs even more quickly and appropriately, we decided to adopt a holding company structure. Through this new system, we aim to further advance the idea of "Think globally, act locally", in order to speed product development with the ultimate goal of delivering products and services of even higher quality.

Our management and staff are in unison in continuing to enhance corporate value. We look forward to your continued support and cooperation with the Fuji Seal Group.

Ken TAKEDA
President and Chief
Operating Officer
July 2004

S U M M A R Y

Major Developments of the Fuji Seal Group

Effective June 2004, Fuji Seal Group adopted a Committee System with the main objectives of reinforced corporate governance and increased management transparency.
In addition, we will enter into a holding company structure in October 2004 to enable ourselves to make prompt decisions and keep up with the speed of the times, and the rapidly changing market and customer needs.

Commitment to the Environment

As a part of our commitment to the environment, in November 2003, the Fuji Seal Group launched the Eco Label, a biodegradable shrink label.
The Eco Label is a plant-based film composed of polylactic acid (PLA) that eventually dissolves into hydrogen and carbon dioxide. We are conducting continuous research on this product to achieve further cost reduction.
The adoption of shrink labels and overwrap films not only allows the containers to be standardized, but also eliminates the need of printing.
Compared to directly-printed containers, the use of such materials contributes to facilitated design changes, flexible accommodation of lead-time and lot-size fluctuations, as well as inventory reduction.

Major Developments in Corporate Social Responsibility (CSR)

Fuji Seal's stock has been selected as one of the 150 listed companies of the "Morningstar Socially Responsible Investment Index", which is also known as the "MS-SRI".
MS-SRI is Japan's first socially responsible investment index and is based on screening from diverse perspectives of the stakeholders. From the 3,600 companies listed on the stock exchange market in Japan, these companies had passed the criteria set by the MS-SRI. Classified as corporations that coexist with society, these 150 companies create new value for the society and themselves. Fuji Seal has received high evaluation for its commitment to the packaging market, employment and the environment.

Share-Listing on the First Section of the Tokyo Stock Exchange

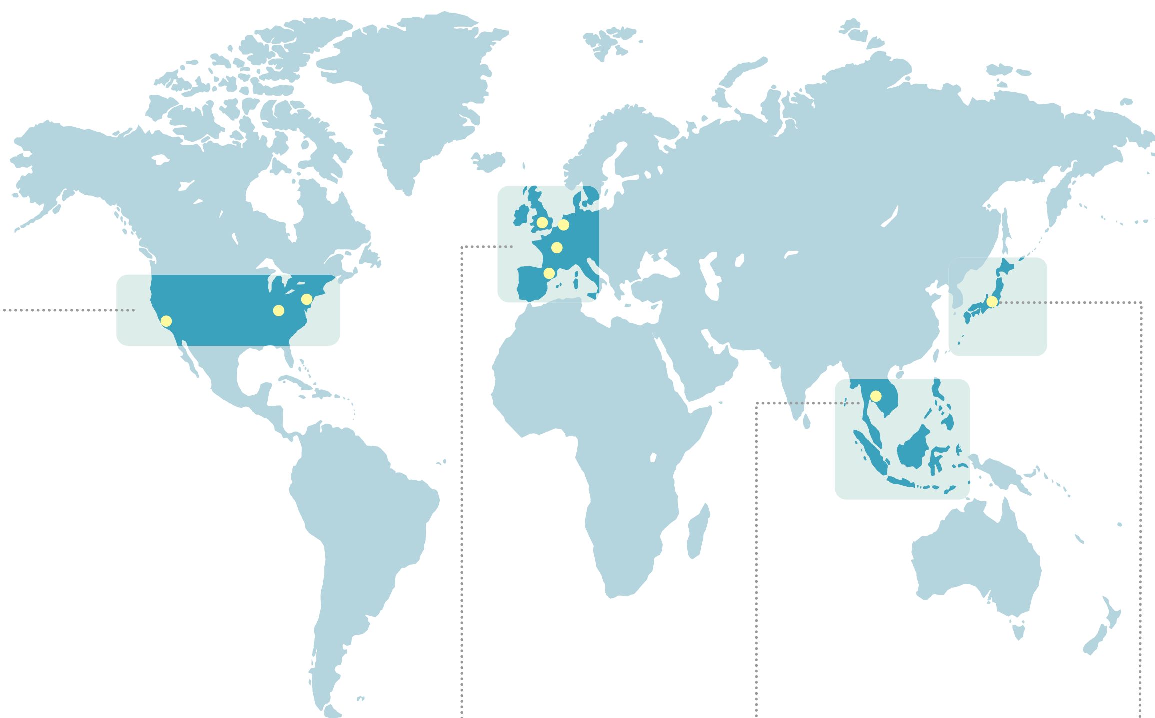
Our shares were listed on the First Section of the Tokyo Stock Exchange on December 25, 2003. Through packaging, we continue to think and undertake challenges with our customers by effectively utilizing the global network in gathering information, planning and development of new products.

Special Feature

Fuji Seal Group's Growth Strategy

Think Globally, Act Locally

With the core philosophy of "Changing along with changes" and a four-pillar structure of Japan, the United States, Europe and ASEAN, the Fuji Seal Group provides products and services promptly in response to changes in markets. We collect and analyze packaging trends and market data through interaction with leading companies worldwide in order to meet customer challenges in individual markets.



U.S.A.
American Fuji Seal, Inc.(NJ)
American Fuji Seal, Inc.(KY)
American Fuji Seal, Inc.(CA)
American Fuji Technical Services, Inc.

Europe
Fuji Seal Europe Ltd.(U.K.)
Fuji Seal Europe B.V.(N.L.)
Fuji Buriot S.A.S.(France)

ASEAN
Fuji Ace Co., Ltd.(Thailand)

Japan
Fuji Seal, INC.
- Fuji Tack, INC.
- Pack Fuji, INC.
- Fuji Astec, INC.
- Fuji Flex, INC.
- Fuji Partners, INC.
- Fuji Logistics, INC.
- Fuji Estate, INC.
- Fuji Technical Services, INC.

Fuji Seal Machine Group
Fuji Seal Europe B.V.
American Fuji Technical Services, Inc.
Fuji Astec, Inc.
Fuji Technical Services, Inc.

Important Strategies in the Global Market

Adoption and utilization of accumulated expertise and problem-solving experience of the Group

IT advancement is accelerating the speed of change.
In Japan, diversity in advertising media such as the Internet and mobile phones have shifted advertising strategy from mass advertisement to direct advertisement. Also, awareness towards environmental problems in the world is creating new packaging demands.
While the foldable Soft Pouch helps reduce wastes, shrink labels helps improve the recyclability of PET bottles. High expectations are being pinned on the possibilities of these packaging materials as an answer to the environmental demands.
By adopting and utilizing our accumulated problem-solving experience and packaging industry expertise, the Fuji Seal Group is focused on pioneering new markets as well as meeting the various needs of our customers.

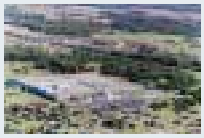
Providing facilities and systems in accordance with the business of our customers

Through utilization of the global network and “systems approach” of labels and label application machinery, the Fuji Seal Group provides global supply systems and latest information on packaging trends, in supporting our major customers to remain competitive in the world market. Also, with focus on sharing and exchanging of accumulated experience and expertise on packaging, we aspire to provide total packaging solutions (hardware and software), which encompass facilities and systems, to play a part in the globalization of our customers.

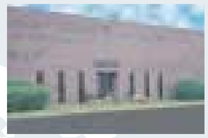
Establishment of a global supply system through an integrated Machinery Division

In July 2004, we set up the Fuji Seal Machine Group—integrating the Machinery Divisions of Japan, the United States and Europe—as a steppingstone to future growth. To respond promptly and flexibly to diverse requirements and demands, we decided to implement the system that does not feature a corporate body. Along with the setup of the global supply system, this system has enabled speedy customer support at the earlier stage with regards to the global projects that involves launching the same product in multiple countries. While aiming to establish a more efficient management system, we also emphasize on the development and utilization of global human resources.
Through standardization and modularization of machinery specifications, components and parts, we will streamline development processes and production which previously were performed respectively in each region, so as to reinforce the ability to provide solutions and bolster cost-competitiveness.


AMERICAN FUJI SEAL (CA)


AMERICAN FUJI SEAL (KY)


AMERICAN FUJI SEAL (NJ)

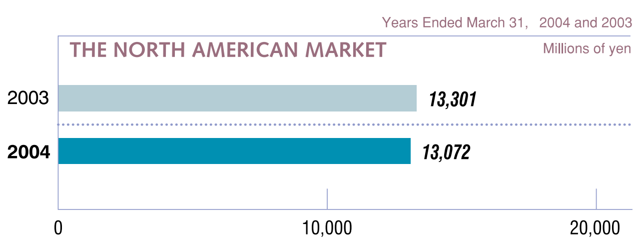

AMERICAN FUJI TECHNICAL SERVICES (NJ)

North American Market

Providing Highly-Functional Packaging Solutions

The North American shrink label market is said to be expanding over 15% annually. Our sales of shrink labels grew 33% from the previous year, exceeding the growth rate of the market. To realize further growth in the cost-oriented North American market, enhancing value through improvement of label functionality and shortening of delivery time is a critical issue.

In North America, where relatively economical paper labels are dominant, the advertising effectiveness of eye-catching containers at point-of-sales has started gaining recognition and a shift to shrink labels is underway. Nowadays, the remarkable sales promotional effect of shrink labels is driving major food and beverage manufacturers to adopt shrink label on their core brands. Simultaneously, application on new items, such as yogurt and soymilk drinks, and the products of other industries, such as hand soap and pet foods, is increasing as well.



Our efforts are also focused on improving the sales of labels and label application machine systems in order to support the smooth launch of our customers' new products and to improve the efficiency of their production lines. In January 2003, we incorporated American Fuji Technical Services, Inc. (AFTS) for the objective of providing label application machinery parts and components as well as maintenance service in the region. Our service, beginning from proposal of machinery to follow-up services, has achieved extremely favorable response from the customers. Along with customers' increasing confidence in shrink labels, new orders for labeling machinery increase as well. Furthermore, in May 2004, we acquired the remaining 15% ownership interest of American Fuji Seal, Inc., a manufacturer and distributor of packaging materials, from the joint investor, making it our wholly-owned subsidiary. This investment will allow us to further expedite decision-making and enhance our ability to provide proposals and services in response to the ever-changing customer needs.

European Market

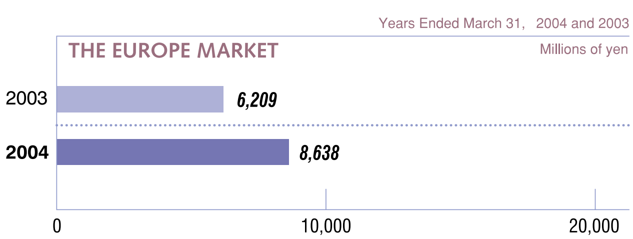
Meeting Sophisticated Needs for Quality with the Establishment of Strategic Continental Base

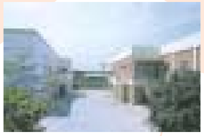
European shrink label market is said to be growing at 20% annually, driven by enlargement of the EU to include particular Eastern European countries. Our shrink labels achieved a significant growth rate of 46%, representing a growth rate much higher than the overall market growth. This is due to the dynamic entry into the Eastern European market of our major customers, who are the world's leading companies. Along with the development of their new production bases and product markets, our shrink labels have been used extensively for packages of various unique shaped food containers and for alcoholic drinks. This achievement serves as evidence that our strategy, the combination of our global information network with investment in machinery and systems in local markets, was successful.

In order to achieve share expansion in the EU region, a huge market where every culture and economy is interlinked, flexibility in responding to each country's needs is necessary. For example, sophisticated label design and high-quality printing technology are important for markets in France and Italy, while rigorous environmental care is essential in Germany.

In pursuit of the ability to provide first-quality service and fine-tuned response to such local needs, we acquired France's Buriot S.A.S. in November 2002, and introduced our expertise and facilities to the company. This investment allowed us to win customer confidence and substantially augment our share in the French market where a competitor company has been dominant. Fuji Buriot S.A.S. has recorded a high growth rate as our key base in the European continent. This establishment of a local production system enables us to steadily develop our business in every process from procurement and production to distribution in the EU market.

In addition, we set up a representative office in Barcelona, Spain in March 2004.





FUJI ACE (THAILAND)

ASEAN Market

Commencement of Aggressive Sales Activities toward Leading Enterprises in ASEAN market

The shrink label market is also expanding in the ASEAN countries.

In Thailand, where the Fuji Seal Group now has a production and distribution base, we have expanded our presence by differentiating our labels with high-quality printing technology. Fuji Seal Group maintains an annual growth rate of 20% in the region with shrink labels as a core product, particularly in Thailand where we have secured a dominant market share. Moreover, in Indonesia and Malaysia, our shrink labels are beginning to be used by global brand products. Our aggressive approach in the ASEAN markets is underway and we expect future growth of the shrink label market in this region.

In the Japanese market, in response to demands for sophisticated functionality and design, accompanied by the growing use of shrink labels on PET bottles, new labels are in further demand.
The Fuji Seal Group continues to propose packaging solutions to cope with such changing demands.

Shrink Label: Our Core Business

Adoption of shrink labels continues to grow at a high rate that well exceeds the market average. This reflects our highly-evaluated initiatives in the development of shrink labels for beverage containers of diverse shapes and sizes, as well as development of functions and designs of shrink labels which suits the new distribution channels, such as vending machines and convenience stores. The growth also results from proposals based on the cutting-edge technology, and the flexible and speedy production systems of our shrink labels in response to the introduction of innovative containers, namely Bottle Cans or TEC Cans.

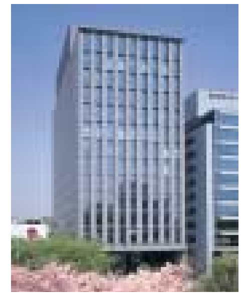
Heat Insulated Shrink Labels for Bottle Cans and TEC Cans

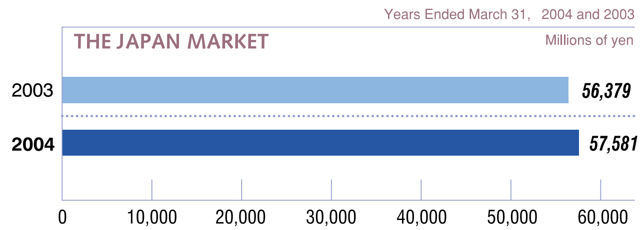
While conventional cans are decreasing in number, Bottle Cans with caps are becoming more and more common. A unique combination of shrink labels and Bottle Cans with caps has led to augmented decorative effects and eye-catchiness. This has generated a new market for shrink labels. The fact that TEC cans with shrink labels can withstand retort sterilization helps customers create new possibilities in product planning. Use of heat insulated shrink labels for these new containers was at first limited to winter, but they are now used throughout the year because of their highly decorative effect and design integrity.

Japanese Market

To Broaden the Customer Base with Highly Functional Labels and Sophisticated Packaging Solutions


Tokyo office


Osaka office



Strategic Products Propelling Further Growth

Besides shrink labels, we are also committed to expanding the market for the “high value-added pressure sensitive label” and the Soft Pouch as strategic products that are expected to boost further growth of our company.
Through “total cost reduction due to the combination of material and container” and “proposal of optimized package solution suited to the distribution channels”, proposals of total packaging solutions that make the most of our Group’s management resources has been made possible.

Our Soft Pouch enjoyed a much higher growth in net sales than that of the market, reflecting the growing opportunity for its adoption in new product categories, including refills of shampoo and conditioner. Fuji Seal Group has a competitive edge through systems approach that allows us to provide total solutions from pouch production to filling and encasing. The Soft Pouch is marked for future growth, as it is an environment-friendly product that generates less waste. Moreover, having global customers as our target, we plan to expand its presence into the overseas markets.

Analysis Of Financial Position And Operating Results

NET SALES

Net sales for the consolidated fiscal year ending March 31, 2004 rose 4.2% compared to the previous fiscal year to ¥77,789 million. By item, the main contributors to higher net sales were shrink label sales, which increased 9.0% to ¥43,323 million, and others including Soft Pouches, which increased 11.8% to ¥7,650 million. A performance overview by region follows.

Japan

Although sales of shrink labels were affected by a cool summer and a warm winter, the addition of insulating function to bottle cans and the strong performance of dairy-based drinks, health drinks and processed foods helped minimize the negative effects of the weather on sales. Pressure sensitive label sales maintained steady growth, but machinery had lower net sales than the prior year. This negative impact resulted from orders for PET-bottled beverage lines that had taken place in the earlier period, and the projected sales of machinery for Soft Pouches unachieved due to the delay in schedule. On the other hand, Soft Pouches performed well on the market, with wide adoption in the toiletry as well as beverage and food industries. As a result, net sales of Soft Pouches grew 2.1% to ¥57,581 million.

North America

Shrink labels recorded higher sales backed by orders from major global companies. These brands employed shrink labels for a number of core products, mainly foods and dairy-based drinks. On the other hand, we reduced the production of unprofitable products in the other label categories. Accordingly, and also partially due to foreign exchange volatility, net sales dropped 1.7% to ¥13,072 million.

Europe

Sales in Europe, which acts as a driving force behind the Group’s overall sales, grew substantially in all categories including packaging for food, dairy-based drinks and toiletries. Fuji Buriot S.A.S. in Particular gained a much greater market share in France. This resulted in an increase of 39.1% to ¥8,638 million of net sales in Europe.

COST OF SALES, SALES AND ADMINISTRATION EXPENSES AND OPERATING INCOME

Cost of sales in fiscal 2003 totaled ¥60,874 million yen. This figure represents a 78.3% ratio to net sales, and a 1.4% increase in ratio of gross profit to net sales from the previous fiscal year. These results are primarily attributable to the improved productivity in North America and Europe, and the streamlining of unprofitable units in North America.

Selling, general and administrative expenses totaled ¥9,762 million, and the ratio to net sales was 12.5%, an increase of 0.6%. Of the total net increase of ¥853 million, approximately ¥400 million was due to the purchase of Fuji Buriot S.A.S., which became our consolidated subsidiary from this fiscal year, including depreciation of its consolidation adjustment account. As a result, overall group operating income grew 14.7% to ¥7,152 million.

NET INCOME

Other income for fiscal year 2003 amounted to ¥491 million. The major part of this was the recognition of approximately ¥278 million of foreign exchange gain derived from collection of a loan made to our subsidiary in the United Kingdom at the time a capital increase was needed.

Other expenses totaled ¥365 million, mainly from advanced redemption costs of convertible bonds, and expenses associated with stock listing on the First Section of Tokyo Stock Exchange.

Additional losses include ¥31 million of reversal of allowance for doubtful accounts as extraordinary income, ¥137 million of extraordinary pension expenses of our American subsidiary, ¥70 million of net loss on sales and disposal of property, plant and equipment, and ¥40 million of loss on appraisal of golf club membership rights.

As a result, compared to fiscal year 2002, net income before income taxes increased 14.8%, to ¥7,065 million, while net income rose 21.1%, to ¥4,404 million. A factor contributing to the improved net income ratio for the fiscal year was the discontinuance of taxation on reserves, which results from our change of status from the family firm category after increasing the amount of issued stock. This was brought about by conversion of convertible bonds to stocks for advanced redemption. Another factor was the higher incomes of our subsidiaries in the United Kingdom and the United States that recorded deferred losses for taxation. Net income per share for the current term stood at ¥189.21.

FINANCIAL POSITION

Total assets at the end of this fiscal year decreased ¥145 million from the end of fiscal 2002 to ¥61,274 million.

Current assets increased ¥838 million to ¥33,672 million, but fixed assets decreased ¥983 million to ¥27,601 million. Property, plant and equipment were ¥23,534 million, a decline of ¥1,008 million due principally to the difference in foreign exchange conversion. Intangible fixed assets declined ¥125 million to ¥1,121 million due mainly to depreciation by consolidated adjustment account settlements.

Investments and other assets increased ¥150 million to ¥2,945 million.

Meanwhile, total liabilities decreased ¥10,354 million to ¥26,204 million, mainly benefiting from the decrease in convertible bonds from advanced redemption.

Total shareholders' equity rose ¥10,285 million to ¥34,233 million and the equity ratio jumped to as high as 55.8%, strengthening our financial base significantly.

CASH FLOWS

Cash and cash equivalents (hereafter "net cash") on a consolidated basis during this consolidated fiscal year increased ¥1,712 million, resulting in a ¥6,689 million balance at the end of the year, 34.4% up from fiscal year 2002. Increase in net income before tax, depreciation and other adjustments more than offset the expenditures such as the purchase of property, plant and equipment and the repayment of loans.

Cash flow and its factors by segment are as follows.

Cash flows from operating activities

Net cash provided by operating activities amounted to ¥6,786 million, up 3.7%, reflecting an increase in net income before tax adjustment, depreciation and other factors.

Cash flows from investing activities

Net cash used in investments was ¥2,375 million, down 61.4% due to the decrease in expenditures for acquisition of property, plant and equipment, which resulted from deferred capital expenditures both in Japan and overseas.

Cash flows from financial activities

Net cash used in financial activities was ¥2,632 million (compared to income of ¥345 million in fiscal 2002), primarily due to expenditures for repayment of short and long term loans.

CAPITAL EXPENDITURES

Fuji Seal Group made capital expenditures of ¥2,742 million to boost production capacity and to improve product quality during fiscal year 2003. Substantial investments were made for shrink label production facilities, with ¥1,033 million in England, ¥148 million for the Tsukuba Factory, and ¥256 million for the Nabari Factory, where ¥152 million was also spent on leased facilities.

RESEARCH AND DEVELOPMENT

Fuji Seal Group's basic policy is to satisfy the market by understanding customer needs, proposing products that meet those needs and developing products together with our customers. To achieve this goal, we are focused on keeping abreast of the latest packaging trends through direct interaction with major customers in Japan and overseas. Based on this information we will develop new products and exploit new packaging markets.

In our research and development activities, sales departments convey customer needs to our R&D Center. The center then takes the lead in the development of new products, technologies and materials in cooperation with the Purchasing Department and affiliates. Research and development costs for the year was ¥1,610 million, up 1.5% from fiscal year 2002, and equivalent to 2.0% of net sales.

As of the end of March 2004, the Fuji Seal Group consisted of Fuji Seal, Inc., 14 consolidated subsidiaries and an affiliate company (equity method-applied company). With key customers in a variety of fields encompassing foods, beverages and household goods, our business includes production and sales of shrink labels and capseals, fabrication and sales of wide-ranging packaging materials, as well as production and sales of automatic packaging machinery and other packaging-related systems.

Our local production bases are located in Japan, United States, Europe and ASEAN. Through direct interactions with customers, we are committed to gathering information of functional and up-to-date packaging, developing new products and pioneering new packaging markets, and also providing global packaging information for our Japanese customers.

We have established a solid group structure that averts business risks through the previously mentioned business management practices—amelioration of the negative impact of economic trends in a single country, constant awareness and responsiveness to changes in the packaging market, and cooperative innovation with customers.

The Fuji Seal Group will continue to make every effort to strengthen the organization to meet the market requirements of packaging businesses in Japan, United States, Europe and the ASEAN.

1. Financial Position of Overseas Affiliates

(1) Fuji Seal Europe, Ltd. (Kent, U.K.)

Fuji Seal Europe, Ltd., a wholly-owned subsidiary of Fuji Seal, Inc., was incorporated in May 1986 with the objective of producing and distributing packaging materials mainly in Europe.

Fuji Seal Europe, Ltd. established a plant equipped with a comprehensive production line in September 1987. However, it assumed excessive liabilities due to initial debts amounting to a level far higher than planned. In the fiscal year ending December 2000, top management troubles precipitated a series of resignations in the middle management. This led to the failure in meeting the orders and resulted in a single-year loss of £2,979,000.

In 2001, the current president was sent over to execute organizational change and reform the corporate structure. This was followed by a capital increase of £4 million to restore the company's financial basis. Encouraged by the recovery of customer trust, the company succeeded in securing a solid volume order from major customers in the United Kingdom and now, shrink label sales are expanding favorably in Europe.

Fuji Seal Europe restored profitability during 2002, posting a net income of £714,000. In 2003, it achieved a net income of £2,752,000 and eliminated its excessive liabilities.

With a forecast of additional capital expenditures in the expanding European market, on January 16, 2004, we increased its capital by another £10,129,000 in the form of redeemable stock in order to give it an even stronger financial basis.

(2) American Fuji Seal, Inc. (Kentucky, U.S.A.)

We acquired Owens-Illinois Labels, Inc., a major American label manufacturer, for the purpose of producing and selling packaging materials in the United States, and changed its trade name to American Fuji Seal, Inc. in January 2001. To further amplify our efforts, in October 2001, we merged this company with our subsidiary in California, also called American Fuji Seal, Inc. We had established this company by joint investment with Nichimen Corporation in December 1975. Fuji Seal, Inc. had 85% of the shares, but effective May 31, 2004, acquired the remaining 15% of the company's stocks from Pla-Net Corporation, making it our wholly-owned subsidiary. Pla-Net Corporation is a subsidiary of Sojitz Corporation, a company incorporated on April 1, 2004 as a result of the merger of Nichimen Corporation and Nissho Iwai Corporation.

With extended use of shrink labels by major global companies in the United States primarily for food and beverage products, our sales of shrink labels and related machinery were substantially augmented. While then the temporary cost increases due to large-scale investments, including production systems for shrink labels, pushed earnings down into deficit in the fiscal years ending December 2001 and 2002. Higher sales of shrink labels and reinforcement of the management structure, including withdrawal from unprofitable businesses, helped restore profitability, with a net income of $764,000 in 2003.

2. Stock Options

Fuji Seal, Inc. has introduced a stock option system for directors and employees of our company and subsidiaries to further increase motivation for better performance and to retain competent employees. Put more precisely, we issued stock options (subscription warrant) in compliance with the old Japanese Commercial Code, Article 280-19 based on the resolutions of the general shareholders' meeting held on June 29, 2000. We also issued stock options (stock acquisition rights) in compliance with the Japanese Commercial Code, Article 280-20/21 based on the resolution of the general shareholders' meeting held on June 26, 2002.

When these stock options are exercised, our stock value per share may be diluted. In addition, if stocks acquired by the exercise of stock options are sold on the market, fluctuation in supply and demand balance may affect fair stock pricing.

If all of the stock options are exercised, there will be an increase of 252,400 shares (1.0% of the total).

3. Dividend Policies

Under rapidly changing business circumstances, we are committed to focusing on enhancement of corporate value by realizing sustainable growth through continual development of the market, products and their applications. For this purpose, we are dedicated to building a stronger operational presence that is backed by improved internal reserves and will take all factors into account when making decisions on dividends for our shareholders.

An internal reserves fund is to be used for capital expenditures and corporate acquisitions for the benefit of strengthening management structure.

Thorough consideration must be given before implementing capital expenditures and corporate acquisitions. However, if after investment or acquisition, our business plan does not proceed as expected, it may adversely affect our performance.

4. Foreign Exchange Fluctuation Risks

Even though the Fuji Seal Group's presence in businesses such as the production and distribution of shrink labels and packaging-related systems spans from Japan to ASEAN, North America and Europe, inter-region business transactions are limited. Our group policy of manufacturing in the region of sales results in the mitigation of risks of foreign exchange losses. Meanwhile, however, loans to North American and European subsidiaries in local currencies from Japan may generate foreign exchange losses or gains at the time of closing accounts and settlement of transactions.

5. Intellectual Property Rights

We have applied and registered patent rights and rights for new practical use designs for shrink labels and packaging-related systems. Research to prevent infringement on intellectual property rights of third parties and an intense internal check system are in practice. However, if a lawsuit or claim is filed against our company for infringement on intellectual property rights in the future, it may adversely affect our business performance.

As of the day of submitting this report, no infringement of third party intellectual property rights has been filed against us.

6. Oil Price Fluctuation Effects

The raw material for our shrink labels is shrink film produced from oil, the price of which is likely to be influenced by oil price fluctuation. Nevertheless, this film is a specially processed material with high added value, so the overall cost of oil in the raw materials is low. Furthermore, as an industry leader, our order volumes are very large. These factors have kept the material cost at a stable low level for over 30 years with only minor fluctuations.

7. Legal Controls

Fuji Seal, Inc., a manufacturer and distributor of packaging materials including shrink labels, is subject to the Packaging Waste Recycling Law, which promotes the sorting, collection and re-commercialization of container and wrapping wastes. Our manufacturing activities are also subject to legal controls such as the Pollutant Release and Transfer Registry Law (PRTR Control) and Control of Emission of Volatile Organic Compounds Law (VOC Control) because of our use of ink and organic solvent in the manufacturing process. If these legal controls are revised or intensified, it may potentially affect our business activities and results.

Consolidated Balance Sheets

FUJI SEAL, INC. and Subsidiaries
March 31, 2004 and 2003

ASSETS	Thousands of yen 2003	Thousands of yen 2004	Thousands of U.S. dollars (Note 1) 2004
Current assets:			
Cash and cash equivalents	¥ 5,111,892	**¥ 5,689,313**	**$ 53,830**
Notes and accounts receivable:			
Trade	20,011,611	**20,044,666**	**189,655**
Other	436,933	**300,083**	**2,840**
Allowance for doubtful accounts	(171,565)	**(140,531)**	**(1,330)**
	20,276,979	**20,204,218**	**191,165**
Securities	—	**1,000,009**	**9,462**
Inventories (Note 5)	6,541,984	**5,569,857**	**52,700**
Deferred income taxes (Note 13)	386,348	**482,862**	**4,568**
Other current assets	517,126	**726,712**	**6,876**
Total current assets	32,834,329	**33,672,971**	**318,601**
Property, plant and equipment			
Land (Note 6):	3,779,369	**3,753,697**	**35,516**
Buildings and structures (Note 6):	9,818,180	**10,004,641**	**94,660**
Machinery and equipment	29,108,740	**30,491,050**	**288,495**
Construction in progress	2,198,432	**1,515,873**	**14,343**
	44,904,721	**45,765,262**	**433,014**
Less—accumulated depreciation	(20,361,941)	**(22,230,956)**	**(210,341)**
	24,542,780	**23,534,306**	**222,673**
Investments and other assets:			
Investments in securities (Note 3)	719,087	**840,680**	**7,954**
Investments in affiliates	842,268	**914,633**	**8,654**
Computer software costs, net	297,299	**322,867**	**3,055**
Deferred income taxes (Note 13)	233,966	**236,205**	**2,235**
Other	2,174,065	**1,941,074**	**18,366**
Allowance for doubtful accounts	(223,968)	**(188,257)**	**(1,781)**
	4,042,717	**4,067,202**	**38,483**
	¥ 61,419,826	**¥ 61,274,479**	**$ 579,757**

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Thousands of yen 2003	Thousands of yen 2004	Thousands of U.S. dollars (Note 1) 2004
Current liabilities:			
Short-term bank loans (Note 6)	¥ 2,355,936	**¥ 1,163,305**	**$ 11,007**
Current portion of long-term debt (Note 6)	1,203,567	**941,358**	**8,907**
Notes and accounts payable:			
Trade	14,093,143	**13,829,927**	**130,854**
Construction	28,181	**170,018**	**1,609**
Other	2,715,196	**2,541,396**	**24,046**
Accrued income taxes (Note 13)	1,248,930	**1,442,094**	**13,644**
Accrued expenses	1,402,322	**1,192,370**	**11,282**
Other current liabilities	1,450,154	**1,161,582**	**10,989**
Total current liabilities	24,497,429	**22,442,050**	**212,338**
Long-term debt (Note 6)	11,457,503	**3,075,201**	**29,096**
Accrued retirement benefits (Note 7)	574,359	**647,215**	**6,124**
Other liabilities	29,592	**40,177**	**381**
Total liabilities	36,558,883	**26,204,643**	**247,939**
Minority interests	912,730	**835,998**	**7,909**
Shareholders' equity (Note 9):			
Common stock,			
Authorized 25,000,000 shares			
Issued:			
2004—24,963,982 shares	—	**5,805,106**	**54,926**
2003—15,221,032 shares	2,306,848	**—**	**—**
Capital reserve	2,549,752	**6,048,010**	**57,224**
Retained earnings	19,448,675	**23,693,355**	**224,178**
Net unrealized gains on securities	57,180	**110,546**	**1,046**
Foreign currency translation adjustments	(412,371)	**(1,381,830)**	**(13,074)**
	23,950,084	**34,275,187**	**324,299**
Less—treasury stock, at cost:			
2004—10,545 shares	—	**(41,349)**	**(391)**
2003—391 shares	(1,871)	**—**	**—**
	23,948,213	**34,233,838**	**323,908**
	¥ 61,419,826	**¥ 61,274,479**	**$ 579,757**

Consolidated Statements Of Income

FUJI SEAL, INC. and Subsidiaries
Years Ended March 31, 2004 and 2003

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2003	**2004**	**2004**
Net sales	¥ 74,649,835	**¥ 77,789,825**	**$ 736,019**
Cost of sales (Note 11)	59,506,274	**60,874,726**	**575,974**
Gross profit	15,143,561	**16,915,099**	**160,045**
Selling, general and			
administrative expenses (Note 10,11)	8,909,851	**9,762,999**	**92,374**
Operating income	6,233,710	**7,152,100**	**67,671**
Other income (expenses) (Note 12):			
Interest and dividend income	12,717	**20,278**	**192**
Interest expenses	(215,077)	**(250,382)**	**(2,369)**
Foreign exchange gain(loss), net	(51,664)	**113,037**	**1,070**
Equity in earnings of affiliates	80,958	**112,625**	**1,065**
Loss on sales or disposal of property, plant and equipment, net	(135,622)	**(66,955)**	**(634)**
Other, net	227,585	**(14,912)**	**(141)**
Income before income taxes and minority interests	6,152,607	**7,065,791**	**66,854**
Income taxes (Note 13):			
Current	2,620,453	**2,784,786**	**26,349**
Deferred	(39,228)	**(135,274)**	**(1,280)**
	2,581,225	**2,649,512**	**25,069**
Income before minority interests	3,571,382	**4,416,279**	**41,785**
Minority interests in subsidiaries	66,292	**—**	**—**
Minority loss in subsidiaries	—	**(11,899)**	**(112)**
Net income	¥ 3,637,674	**¥ 4,404,380**	**$ 41,673**

	Yen		U.S. dollars (Note 1)
	2003	**2004**	**2004**
Net income per share:			
Basic	¥ 239.02	**¥ 189.21**	**$ 1.79**
Diluted	218.59	**189.06**	**1.79**
Cash dividends per share	15.00	**12.00**	**0.11**

The accompanying notes are an integral part of these statements.

Consolidated Statements Of Shareholders' Equity

FUJI SEAL, INC. and Subsidiaries
Years Ended March 31, 2004 and 2003

		Thousands of yen					
	Number of shares issued (thousands)	Common stock	Capital reserve	Retained earnings	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock
Balance as of March 31, 2002	15,219	2,301,850	2,544,000	16,392,902	59,829	259,143	(226)
Net income for the year	—	—	—	3,637,674	—	—	—
Cash dividends	—	—	—	(182,627)	—	—	—
Decrease in net unrealized holding gains on securities	—	—	—	—	(2,649)	—	—
Decrease in foreign currency translation adjustments	—	—	—	—	—	(671,514)	—
Increase in treasury stock	—	—	—	—	—	—	(1,645)
Conversion of convertible bonds	2	4,998	4,998	—	—	—	—
Increase by merger	—	—	754	—	—	—	—
Minimum pension liability adjustment	—	—	—	(399,274)	—	—	—
Balance as of March 31, 2003	15,221	¥ 2,306,848	¥ 2,549,752	¥ 19,448,675	¥ 57,180	¥ (412,371)	¥ (1,871)
Net income for the year	—	—	—	4,404,380	—	—	—
Cash dividends	—	—	—	(228,310)	—	—	—
Increrase in net unrealized holding gains on securities	—	—	—	—	53,366	—	—
Decrease in foreign currency translation adjustments	—	—	—	—	—	(969,459)	—
Decrease in treasury stock	—	—	—	—	—	—	(39,478)
1.5 for 1 stock split	7,610	—	—	—	—	—	—
Conversion of convertible bonds	2,130	3,492,928	3,492,928	—	—	—	—
Exercise of stock acquisition rights	3	5,330	5,330	—	—	—	—
Increase in minimum pension liability adjustment	—	—	—	68,610	—	—	—
Balance as of March 31, 2004	**24,964**	**¥ 5,805,106**	**¥ 6,048,010**	**¥ 23,693,355**	**¥ 110,546**	**¥ (1,381,830)**	**¥ (41,349)**

	Thousands of U.S. dollars (Note 1)					
	Common stock	Capital reserve	Retained earnings	Net unrealized gains on securities	Foreign currency translation adjustments	Treasury stock
Balance as of March 31, 2003	$ 21,827	$ 24,125	$ 184,016	$ 541	$ (3,902)	$ (18)
Net income for the year	—	—	41,673	—	—	—
Cash dividends	—	—	(2,160)	—	—	—
Increrase in net unrealized holding gains on securities	—	—	—	505	—	—
Decrease in foreign currency translation adjustments	—	—	—	—	(9,172)	—
Decrease in treasury stock	—	—	—	—	—	(373)
Conversion of convertible bonds	33,049	33,049	—	—	—	—
Exercise of stock acquisition rights	50	50	—	—	—	—
Increase in minimum pension liability adjustment	—	—	649	—	—	—
Balance as of March 31, 2004	**$ 54,926**	**$ 57,224**	**$ 224,178**	**$ 1,046**	**$ (13,074)**	**$ (391)**

The accompanying notes are an integral part of these statements.

Consolidated Statements Of Cash Flows

FUJI SEAL, INC. and Subsidiaries
Years Ended March 31, 2004 and 2003

	Thousands of yen		Thousands of U.S. dollars (Note 1)
	2003	**2004**	**2004**
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 6,152,607	**¥ 7,065,791**	**$ 66,854**
Adjustments for:			
Depreciation	2,743,488	**2,925,722**	**27,682**
Provision for doubtful accounts	677	**(94,820)**	**(897)**
Provision for accrued retirement benefits, net	(302,916)	**150,305**	**1,422**
Interest and dividend income	(12,717)	**(20,278)**	**(192)**
Interest expenses	215,077	**250,382**	**2,369**
Equity in earnings of affiliates	(80,958)	**(112,625)**	**(1,066)**
Loss on sales or disposal of property, plant and equipment, net	135,622	**66,955**	**634**
Decrease (Increase) in notes and accounts receivable	414,906	**(202,000)**	**(1,911)**
Decrease (Increase) in inventories	(201,572)	**766,519**	**7,253**
Increase (Decrease) in notes and accounts payable	578,016	**(566,423)**	**(5,359)**
Other	(119,863)	**(615,181)**	**(5,822)**
Subtotal	9,522,367	**9,614,347**	**90,967**
Interest and dividend income received	12,746	**19,934**	**189**
Interest expenses paid	(214,223)	**(251,672)**	**(2,381)**
Income taxes paid	(2,773,780)	**(2,596,060)**	**(24,563)**
Net cash provided by operating activities	6,547,110	**6,786,549**	**64,212**
Cash flows from investing activities:			
Payments for purchase of property, plant and equipment	(5,565,110)	**(2,157,035)**	**(20,409)**
Proceeds from sales of property, plant and equipment	62,082	**21,439**	**203**
Payments for purchase of investments in securities	(155,499)	**(32,107)**	**(304)**
Payments for acquisition of shares of new consolidated subsidiaries, net	18,231	**—**	**—**
Payments for loans receivable	(25,438)	**(12,700)**	**(120)**
Collections of loans receivable	22,818	**26,245**	**248**
Other	(516,675)	**(220,875)**	**(2,090)**
Net cash used in investing activities	(6,159,591)	**(2,375,033)**	**(22,472)**
Cash flows from financing activities:			
Increase in short-term bank loans, net	758,148	**(888,462)**	**(8,406)**
Proceeds from issuance of long-term debt	1,744,670	**—**	**—**
Repayment of long-term debt	(1,972,769)	**(1,482,719)**	**(14,029)**
Cash dividends paid	(182,627)	**(228,310)**	**(2,160)**
Other	(1,648)	**(32,962)**	**(312)**
Net cash provided by financing activities	345,774	**(2,632,453)**	**(24,907)**
Effect of exchange rate changes on cash and cash equivalents	(114,095)	**(66,081)**	**(625)**
Net increase in cash and cash equivalents	619,198	**1,712,982**	**16,208**
Cash and cash equivalents at beginning of year	4,303,066	**4,976,340**	**47,084**
Effect of the increase in scope of consolidated subsidiaries and mergers	54,076	**—**	**—**
Cash and cash equivalents at end of year	¥ 4,976,340	**¥ 6,689,322**	**$ 63,292**

The accompanying notes are an integral part of these statements.

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of FUJI SEAL, INC. (the "Company") and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥105.69=U.S.$1, as of March 31, 2004, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at the rate or any other rate.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 14 subsidiaries for the year ended March 31, 2004 and 2003.

All significant inter-company accounts and transactions are eliminated in consolidation.

The consolidated subsidiaries are as listed below:

2003		**2004**	
Name	Year end	Name	Year end
Fuji Tack, Inc.	March 31	Fuji Tack, Inc.	March 31
Pack Fuji, Inc.	March 31	Pack Fuji, Inc.	March 31
Fuji Astec, Inc.	March 31	Fuji Astec, Inc.	March 31
Fuji Technical Service, Inc.	March 31	Fuji Technical Services, Inc.	March 31
Fuji Logistics, Inc.	March 31	Fuji Logistics, Inc.	March 31
Fuji Partners, Inc.(former Suzuki Corporation)	March 31	Fuji Partners, Inc.	March 31
Fuji Flex, Inc.	March 31	Fuji Flex, Inc.	March 31
Fuji Estate, Inc.	December 31	Fuji Estate, Inc.	March 31
American Fuji Seal, Inc.	December 31	American Fuji Seal, Inc.	December 31
Fuji Seal Europe Ltd.	December 31	Fuji Seal Europe Ltd.	December 31
Fuji Seal Europe B.V.	December 31	Fuji Seal Europe B.V.	December 31
Fuji Seal Europe S.A.	December 31	Fuji Seal Europe S.A.S.	December 31
Fuji Buriot S.A.	December 31	Fuji Buriot S.A.S.	December 31
American Fuji Technical Services, Inc.	December 31	American Fuji Technical Services, Inc.	December 31

The companies newly consolidated from the year ended March 31, 2003 were as follows:

Fuji Flex, Inc. and American Fuji Technical Service Inc., newly established
Fuji Seal Europe S.A. and Fuji Buriot S.A., of which stock was acquired by the Company
Fuji Estate, Inc., a subsidiary of Toumei, Inc. which merged into the Company

Fuji Alpha was liquidated during the year ended March 31, 2003 and excluded from consolidation as at March 31, 2003. Its net income for the period was included in consolidation until the liquidation procedure was completed.

On January 1, 2004, Fuji Seal Europe S.A. and Fuji Buriot S.A. changed the type of business organization in accordance with the local government laws, and have been renamed as Fuji Seal Europe S.A.S. and Fuji Buriot S.A.S., respectively.

On acquisition of a subsidiary, all of the subsidiary's assets and liabilities that exist at the date of acquisition are recorded at their fair value.

Investments in the affiliate, Fuji Ace Co., Ltd., are accounted by the equity method.

The difference arising from the cost of the investments in subsidiaries and affiliates over the equity in their net assets at fair value are charged to income over 5 years.

The financial statements of consolidated subsidiaries, whose fiscal year-ends are December 31, are included in consolidated financial statements on the basis of their respective fiscal years after making appropriate adjustments for material transactions during the periods from their respective year-ends to the date of the accompanying consolidated financial statements.

(b) Translation of Foreign Currency

Revenue and expense items arising from transactions denominated in foreign currencies are translated into Japanese yen at the rates effective in general at the respective transaction dates.

Assets and liabilities denominated in foreign currencies are translated into Japanese yen at the current exchange rates prevailing at the balance sheet date.

The resulting translation gains or losses are charged or credited to income for the years.

The foreign currency financial statements of overseas subsidiaries are translated into Japanese yen for consolidation purposes under the method prescribed by the Business Accounting Deliberation Council. Balance sheet accounts, other than shareholders' equity translated at the historical rates, revenue and expense items are translated at current rates. Differences arising from translation are stated under the section entitled "Foreign currency translation adjustments" in shareholders' equity.

(c) Cash and Cash Equivalents

Cash and cash equivalents are composed of cash-in-hand, deposits held at call with bank and all highly liquid investments with maturities of one year or less when purchased which present insignificant risk of change in value.

(d) Investments in Securities

Following the Financial Accounting Standards for Financial Instruments issued by the Business Accounting Deliberation Council, the management determines the appropriate classification of securities, and all securities other than investments in affiliates are classified as "Other securities" which represent securities other than trading securities and held-to-maturity securities. Marketable "Other securities" are stated at market value. Adjustments to market value, net of tax effect, are recorded as an increase or decrease in shareholders' equity. Such unrealized gain on "Other securities" in shareholders' equity are not available for distribution as dividends and bonuses to directors and corporate auditors under the Commercial Code. Cost of their sales is determined by the moving average method. "Other securities" not marketable are stated at cost, for which cost is being determined by the moving average method.

(e) Hedging activities

The Company enters into interest rate swap agreement, hedging instruments, to convert variable interest rates on the principal amount of certain debts, positions hedged, to fixed interest rates. The Company adopted the exceptional treatment in respect of accounting for the swap agreements prescribed under the new Financial Accounting Standards for Financial Instruments. In addition the Company made forward foreign exchange contracts, hedging instruments, in the year ended March 31, 2004. When forward foreign exchange contract meet certain conditions, monetary assets and liabilities covered by these contracts are translated using contract rates.

(f) Inventories

The Company's finished goods and work in process are stated at cost, cost being determined by the moving average method. The subsidiaries' finished goods and work in process are valued under the retail method. Raw materials and supplies are mainly valued under the last invoice cost method in accordance with accounting principles generally accepted in Japan.

(g) Property, Plant and Equipment

Depreciation of property, plant and equipment other than buildings acquired by the Company and its domestic subsidiaries on or after April 1, 1998 is mainly computed using the declining balance method. Buildings acquired on or after April 1, 1998 are depreciated based on the straight line method. The range of useful lives is principally from 3 to 50 years for buildings and structures and from 2 to 13 years for machinery and equipment.

(h) Accounting for Leases

Where the finance leases do not transfer ownership of the leased property to the lessee during the lease terms or on their terminations, the leased property is not capitalized and the relating lease expenses are charged to income in the period incurred in accordance with accounting principles generally accepted in Japan.

(i) Capitalized Computer Software Costs

Capitalized computer software costs comprise costs of software used in the Company and its consolidated subsidiaries' business. Amortization of capitalized computer software costs is computed on the straight line method over the estimated useful life of the software, 5 years.

(j) Other Assets

Other in investments and other assets includes deferred charge. Amortization of deferred charge is computed on the straight line method.

(k) Allowance for Doubtful Accounts

The Company and its domestic subsidiaries provide their allowance for doubtful accounts at the average percentage of bad debt loss on actual defaults suffered during certain past periods, together with an amount necessary to cover possible uncollectible amounts based on management's judgment.

(l) Accrued Bonuses

Accrued employees' bonuses included in accrued expenses are calculated based on the amount estimated to be paid.

(m) Accrued Retirement Benefits

The Company and its domestic subsidiaries accrued retirement benefits of employees based on the amount of projected benefit obligation minus pension plan assets at fair value. The actuarial differences are amortized on a straight-line basis over a period of 10 years from the following fiscal year.

The accrued retirement benefits include retirement allowance for the directors and corporate auditors, which are the estimated amount that would be paid at the balance sheet date in accordance with the internal regulations if all directors and corporate auditors retired at that date. Amounts payable to directors and corporate auditors on retirement are subject to the approval of shareholders.

(n) Income Taxes

Accrued income taxes are provided at the amount currently payable.

The Company and its consolidated subsidiaries adopt the interperiod income tax allocation accounting, using the assets and liabilities method in which deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts in the consolidated financial statements.

(o) Net Income and Dividend Per Share

Basic net income per share is computed based on the weighted average number of shares of common stock outstanding during each year. The average number of share used in the computation was 23,278,122 and 15,219,138 for the year ended March 31, 2004 and 2003, respectively.

Diluted net income per share assumes full conversion of outstanding convertible bonds at the beginning of the year (or at the time of issuance, if after the beginning of the year) with an applicable adjustment for related net-of-tax interest expense.

18,325 shares of issuable common stock through exercise of stock option outstanding were added as incremental effect, while 27,400 shares of warrant in connection with stock option were not included, in the averaged number of share on computation of diluted net income per share for the year ended March 31, 2004.

1,420,732 shares of convertible bonds outstanding were added as incremental effect, while 60,000 shares of warrant in connection with stock option and 1,500 of stock acquisition rights were not included, in the averaged number of share on computation of diluted net income per share for the year ended March 31, 2003.

Effective from the year ended March 31, 2003, the Company and its subsidiaries have adopted the new Accounting Standard for Earnings per Share and Implementation Guidance on Accounting Standard for Earnings per Share. There was no effect of the adoption of new standard for the year ended March 31, 2003.

The Company distributed a 1.5-for-1 stock split on July 18, 2003. Net income per share assuming that such a stock split was made at the beginning of the year ended March 31, 2004 are as follows:

Basic	¥ 159.35 ($1.51)
Diluted	¥ 145.73 ($1.38)

Cash dividends per share represent interim dividends paid and annual dividends declared as applicable to the respective years.

(p) Appropriation of Retained Earnings

Under the Japanese Commercial Code and the Articles of Incorporation of the Company, a proposal by the Board of Directors for the appropriation of retained earnings (principally the payment of annual cash dividends) should be approved by a shareholders' meeting which must be held within three months after the end of each financial year. The appropriation of retained earnings reflected in the accompanying consolidated financial statements for each financial year represents the appropriation which was approved by the shareholders' meeting and disposed of during that year but which related to the immediately preceding financial year.

The payment of bonuses to directors and corporate auditors is made from retained earnings instead of being charged to income for the year and constitutes a part of the appropriation referred to the above.

(q) Accounting standard for impairment of fixed assets

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets". The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The standard shall be effective for fiscal years beginning April 1, 2005. However, an earlier adoption is permitted for fiscal years beginning April 1, 2004 and for fiscal years ending between March 31, 2004 and March 30, 2005.

The Companies did not adopt the accounting standard during the year ended March 31, 2004. The effect of the adoption has not been realized.

3. Investments in securities

"Other securities" as of March 31, 2004 and 2003 are analyzed as follows:

	Thousands of Yen						Thousands of U.S. Dollars		
	2003			2004			2004		
	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference	Book value	Acquisition cost	Difference
Market value available									
Securities whose book value exceeds their acquisition cost									
Equity securities	¥ 309,871	¥ 194,227	¥ 115,644	**¥ 531,108**	**¥ 343,971**	**¥ 187,137**	**$ 5,625**	**$ 3,255**	**$ 1,770**
Bonds and debentures									
Public bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Corporate bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other securities	—	—	—	**—**	**—**	**—**	**—**	**—**	
	309,871	194,227	115,644	**531,108**	**343,971**	**187,137**	**5,625**	**3,255**	**1,770**
Securities whose book value does not exceed their acquisition cost									
Equity securities	105,166	124,498	(19,332)	**5,522**	**6,460**	**(938)**	**52**	**61**	**(9)**
Bonds and debentures									
Public bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Corporate bonds	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
Other securities	—	—	—	**—**	**—**	**—**	**—**	**—**	**—**
	105,166	124,498	(19,332)	**5,522**	**6,460**	**(938)**	**52**	**61**	**(9)**
	¥ 415,037	¥ 318,725	¥ 96,312	**¥ 536,630**	**¥ 350,431**	**¥ 186,199**	**$ 5,077**	**$ 3,316**	**$ 1,761**
Market value not available									
Equity securities	304,050			**304,050**			**2,877**		
Other Securities	—			**1,000,009**			**9,462**		
Total	¥ 719,087			**¥ 1,840,689**			**$ 17,416**		

"Other securities" sold during the year ended March 31, 2004 and 2003 are as follows:

Thousands of yen						Thousands of U.S. dollars		
2003			2004			2004		
Proceeds of sales	Gain on sales	Loss on sales	Proceeds of sales	Gain on sales	Loss on sales	Proceeds of sales	Gain on sales	Loss on sales
¥ 817	¥ 143	—	**¥ 972**	**¥ 571**	**—**	**$ 9**	**$ 5**	**—**

4. Derivative and Hedging Activities

The Company enters into interest rate swap agreements, hedging instruments, to convert variable interest rates on the principal amount of certain debts, positions hedged, to fixed interest rates. The purpose of the hedging activities is to reduce certain exposures to rapid interest rate fluctuations having impact upon net income. The Company's management believes that there is no credit risk since the swaps are executed with creditworthy financial institutions. In addition the Company made forward foreign exchange contracts, hedging instruments, in the year ended March 31, 2004. These contracts are designed to hedge certain exposures to foreign exchange rate fluctuations on monetary assets and liabilities denominated in foreign currencies, positions hedged, and manage stabilization of income. The Company does not hold or issue any financial instruments for trading purposes. Fair value information is not required to be disclosed in accordance with the Financial Accounting Standards for Financial Instruments since the Company applies deferred hedge accounting.

5. Inventories

Inventories as of March 31, 2004 and 2003 comprised of the following:

	Thousands of yen		Thousands of U.S. dollars
	2003	2004	2004
Finished goods	¥ 3,782,112	**¥ 2,592,153**	**$ 24,526**
Work in process	1,186,229	**1,288,037**	**12,187**
Raw materials and supplies	1,573,643	**1,689,667**	**15,987**
	¥ 6,541,984	**¥ 5,569,857**	**$ 52,700**

6. Short-term bank loans and Long-term debt

The annual average interest rate applicable to short-term bank loans as of March 31, 2004 and 2003 were 2.8% and 2.5%.

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

	Thousands of yen		Thousands of U.S. dollars
	2003	2004	2004
Domestic unsecured convertible bonds, due 2006 at a rate of 0%	¥ 6,990,000	¥ —	$ —
Bank loans, due 2004-2009			
Secured	1,013,509	**773,204**	**7,315**
Unsecured	4,657,561	**3,243,355**	**30,688**
	12,661,070	**4,016,559**	**38,003**
Less, current portion	1,203,567	**941,358**	**8,907**
	¥ 11,457,503	**¥ 3,075,201**	**$ 29,096**

For the year ended March 31 2004 convertible bond outstanding, due 2006, was redeemed through the call option contract exercised by the Company. Being repaid on January 31, 2004, ¥4,000 thousand of convertible bond was not converted.

Aggregate annual maturities of long-term debt subsequent to March 31, 2004 were as follows:

Year ending March 31	Thousands of yen	Thousands of U.S. dollars
2005	¥ 941,358	$ 8,907
2006	888,921	8,410
2007	798,962	7,560
2008	777,818	7,359
2009 and thereafter	609,480	5,767
	¥ 4,016,559	$ 38,003

The annual average interest rates applicable to long-term bank loans as of March 31, 2004 and 2003 were 4.0% and 4.4%, respectively.

Assets pledged as collateral for long-term debt, including the current portion of long-term debt, as of March 31, 2004 and 2003 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2003	2004	2004
Land	¥ 1,767,146	**¥ 961,730**	**$ 9,100**
Buildings and structures	1,667,144	**1,454,723**	**13,764**

7. Accrued Retirement Benefits

Employees of the Company and its domestic subsidiaries with more than three years of service are entitled to receive lump-sum indemnities upon termination in accordance with their internal regulations. The amount of the benefits is determined based upon current basic rate of pay, length of service and cause of retirement. The Company and certain domestic subsidiaries have non-contributory pension plans covering a portion of their indemnities under their internal regulation for employees. Certain overseas subsidiaries have defined benefit pension schemes.

The following provided a reconciliation of projected benefit obligation to net liability for employees' retirement benefits recognized on the accompanying consolidated balance sheet as of March 31, 2004 and 2003.

	Thousands of yen		Thousands of U.S. dollars
	2003	2004	2004
Projected benefit obligation	¥ (2,950,133)	**¥ (2,774,353)**	**$ (26,250)**
Fair value of plan assets	1,956,736	**2,023,270**	**19,144**
Funded status	(993,397)	**(751,083)**	**(7,106)**
Unrecognized actuarial loss	918,043	**530,047**	**5,015**
	¥(75,354)	**¥ (221,036)**	**$ (2,091)**
Minimum pension liability adjustments	(469,735)	**(389,017)**	**(3,681)**
Accrued retirement benefits for employees	(545,089)	**(610,053)**	**(5,772)**
Retirement allowance for directors and corporate auditors	(29,270)	**(37,162)**	**(312)**
Accrued retirement benefits	¥ (574,359)	**¥ (647,215)**	**$ (6,124)**

The projected benefit obligations of certain subsidiaries are calculated using the simplified method, which may be applied by small companies, in conformity with the accounting standards for retirement benefits in Japan.

Minimum pension liability adjustments was recognized by an overseas consolidated subsidiary in accordance with US accounting standard.

Components of net periodic benefit cost for the year ended March 31, 2004 and 2003 are summarized as follows:

	Thousands of yen		Thousands of U.S. dollars
	2003	**2004**	**2004**
Service cost	¥ 136,763	**¥ 163,711**	**$ 1,549**
Interest cost	127,262	**132,629**	**1,255**
Expected return on plan assets	(135,877)	**(121,476)**	**(1,149)**
Amortization of actuarial differences	19,932	**30,840**	**292**
Settlement charges	—	**137,131**	**1,297**
Net periodic benefit cost	¥ 148,080	**¥ 342,835**	**$ 3,244**

Settlement charges were recognized on the accompanying consolidated statements of income by an overseas subsidiary in accordance with US accounting for the year ended March 31, 2004, since the retirement of the subsidiary's employees resulted in the minimum number of its employees qualified on its pension scheme being unfulfilled and it caused the subsidiary to suspend its pension scheme.

Weighted average assumptions:	Japan		Overseas	
	2003	**2004**	2003	**2004**
Discount rate	2.0 %	**2.0 %**	6.75 %	**6.25 %**
Expected rate of return on plan assets	1.0 %	**1.0 %**	8.75 %	**8.50 %**

Projected benefit obligation is attributed to periods based on years of service. Actuarial differences are amortized over 10 years.

8. Lease

(1) Where the financing leases do not transfer ownership of the leased property to the lessee during the lease terms or on their terminations, the leased property is not capitalized and the relating lease expenses are charged to income in the period incurred, as per the statements issued by the Business Accounting Deliberation Council.

Lease expenses for the years ended March 31, 2004 and 2003 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2003	**2004**	**2004**
Lease expenses	¥ 145,019	**¥ 129,995**	**$ 1,230**

Future lease payments, including interest, as of March 31, 2004 and 2003 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2003	**2004**	**2004**
Due within one year	¥ 115,972	**¥ 91,628**	**$ 867**
Due after one year	117,593	**97,783**	**925**
Total	¥ 233,565	**¥ 189,411**	**$ 1,792**

Additional information, requested by the Business Accounting Deliberation Council, to be disclosed as not included in the profit and loss accounts or balance sheets is as follows:

Notional acquisition cost and accumulated depreciation:

	Thousands of yen		Thousands of U.S. dollars
	2003	**2004**	**2004**
Notional acquisition cost:			
Machinery and equipment	¥ 550,506	**¥ 486,253**	**$ 4,601**
Other	127,756	**98,107**	**928**
Less—accumulated depreciation	444,696	**394,949**	**3,737**
	¥ 233,566	**¥ 189,411**	**$ 1,792**

Notional depreciation expenses for the years ended March 31, 2004 and 2003 were ¥129,995 thousand ($1,230 thousand) and ¥145,019 thousand, respectively.

Notional acquisition cost means the cost which is characterized as the total lease payment, including interest due to the immateriality of the leased property. Notional depreciation expenses are calculated by the straight-line method assuming that there is no scrap value over the term of the lease based on notional acquisition cost.

(2) Future lease payments under non-cancelable operating leases as of March 31, 2004 and 2003 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2003	**2004**	**2004**
Due within one year	¥ 133,409	**¥ 147,147**	**$ 1,392**
Due after one year	98,523	**470,329**	**4,450**
Total	¥ 231,932	**¥ 617,476**	**$ 5,842**

9. Shareholders' Equity

The Japanese Commercial Code provided that at least 50% of the issue price of new shares, should be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital. An amount equal to at least 10% of cash dividends and other appropriations of retained earnings paid out with respect to each financial period was set aside in a legal reserve until the total amount of additional paid in capital and earned reserve (collectively, "legal reserves") equals 25% of stated capital. In addition, under the Commercial Code, legal reserves may be available for dividends to the extent that legal reserves do not fall below 25% of stated capital, and the Company is allowed to repurchase its own shares to the extent that the aggregate cost of treasury shares does not exceed the maximum amount available for dividends.

Legal reserves may be transferred to stated capital by a resolution of the board of directors or used to reduce a deficit with the approval of a shareholders' meeting.

The earned reserve of the Company and its consolidated subsidiaries are included in the retained earnings and are not shown separately in the accompanying consolidated Balance sheets.

10. Selling, General and Administrative Expenses

Selling, general and administrative expenses in the accompanying consolidated statements of income mainly consisted of the following:

	Thousands of yen		Thousands of U.S. dollars
	2003	**2004**	**2004**
Employees' salaries and bonuses	¥ 2,977,317	**¥ 3,319,815**	**$ 31,411**
Freight charges	980,959	**977,548**	**9,249**

11. Research and Development

Research and development expenditures charged to income were ¥1,610,9881 thousand ($15,242 thousand) and ¥1,585,935 thousand for the years ended March 31, 2004 and 2003, respectively.

12. Other income (expenses)

"Other, net" in other income (expenses) in the accompanying consolidated statements of income included ¥137,131 thousand ($ 1,297 thousand) of settlement charges recognized by an overseas subsidiary in accordance with the US accounting standard for the year ended March 31, 2004.

13. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income, which resulted in statutory tax rate of approximately 41.99% in the aggregate as of March 31, 2004 and 2003.

Due to amendment of Japanese Local Taxes Law announced on March 31, 2003, effective from the year ended March 31, 2005, a statutory tax rate is to be reduced from 41.99% to 40.63%. Such rate is used to calculate the future expected tax effects of temporary differences, which are expected to realize on and after April 1, 2004. The effect of the change in the tax rate was to decrease deferred tax assets by ¥16,272 thousand ($ 154 thousand) and ¥3,050 thousand as of March 31, 2004 and 2003, and to increase income taxes by ¥16,272 thousand ($ 154 thousand) and ¥4,644 thousand for the year then ended March 31, 2004 and 2003, respectively.

Foreign subsidiaries are subject to income tax laws of the countries where they operate.

The effective tax rate in the consolidated statements of income for the years ended March 31, 2004 and 2003 differed from the statutory tax rate for the following reasons:

	2003	**2004**
Statutory tax rate	41.99%	**41.99%**
Accumulated earning tax	4.22	**—**
Local inhabitants' taxes lived per	—	**0.51**
Expenses not deductible for income tax purposes, entertainment expense and others	0.27	**0.23**
Loss on liquidation of subsidiaries	(5.47)	**—**
Credit for experimental and research expenses	—	**(0.55)**
Aggregated net losses of the consolidated subsidiaries	4.18	**—**
Tax loss carry forwards	—	**(4.61)**
Other	(3.24)	**(0.07)**
Effective tax rate in the consolidated statements of income	41.95%	**37.50%**

The components of the Company and its subsidiaries' deferred tax assets and liabilities as of March 31, 2004 and 2003 were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2003	**2004**	**2004**
Deferred tax assets:			
Allowance for doubtful accounts	¥ 75,308	**¥ 53,468**	**$ 506**
Accrued Bonuses	227,904	**292,339**	**2,766**
Enterprise tax	89,767	**135,277**	**1,280**
Accrued retirement benefits	48,171	**53,993**	**511**
Other	345,712	**387,091**	**3,662**
Total gross deferred tax assets	786,862	**922,168**	**8,725**
Deferred tax liabilities:			
Reserve for special depreciation	(47,327)	**(31,511)**	**(298)**
Unrealized gains on "Other securities"	(41,942)	**(75,217)**	**(712)**
Other	(77,279)	**(96,373)**	**(912)**
Total gross deferred tax liabilities	(166,548)	**(203,101)**	**(1,922)**
Net deferred tax assets	¥ 620,314	**¥ 719,067**	**$ 6,803**

14. Segment Information

Information about operations in industry segments, geographic segments and sales to foreign customers of the Company and its subsidiaries for the years ended March 31, 2004 and 2003 is as follows:

(1) Industry Segments

The Company's management believes that the Company and its subsidiaries operate in a single industry and there is no separated segment.

(2) Geographic Segments

The foreign operations of the Company and its subsidiaries for the years ended March 31, 2004 and 2003 are summarized as follows:

	Thousands of yen 2003				
	Japan	North America	Europe	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 56,145,714	¥ 13,254,230	¥ 5,249,891	¥ —	¥ 74,649,835
Inter segment	233,890	46,826	959,318	(1,240,034)	—
Total sales	56,379,604	13,301,056	6,209,209	(1,240,034)	74,649,835
Operating expenses	50,331,503	13,664,999	5,669,112	(1,249,489)	68,416,125
Operating income	¥ 6,048,101	¥ (363,943)	¥ 540,097	¥ 9,455	¥ 6,233,710
Assets	¥ 55,183,323	¥ 13,763,342	¥ 5,246,446	¥ (12,773,285)	¥ 61,419,826

	Japan	North America	Europe	Eliminations/ Corporate	Consolidated
	Thousands of yen				
	2004				
Sales to customers	**¥ 57,184,313**	**¥ 12,954,753**	**¥ 7,650,759**	**¥ —**	**¥ 77,789,825**
Inter segment	**397,284**	**117,692**	**988,207**	**(1,503,183)**	**—**
Total sales	**57,581,597**	**13,072,445**	**8,638,966**	**(1,503,183)**	**77,789,825**
Operating expenses	**51,635,362**	**12,699,884**	**7,805,103**	**(1,502,624)**	**70,637,725**
Operating income	**¥ 5,946,235**	**¥ 372,561**	**¥ 833,863**	**¥ (559)**	**¥ 7,153,100**
Assets	**¥ 57,215,770**	**¥ 11,257,646**	**¥ 6,869,659**	**¥ (14,068,596)**	**¥ 61,274,479**

	Japan	North America	Europe	Eliminations/ Corporate	Consolidated
	Thousands of U.S. dollars				
	2004				
Sales to customers	**$ 541,057**	**$ 122,573**	**$ 72,389**	**$ —**	**$ 736,019**
Inter segment	**3,759**	**1,114**	**9,350**	**(14,223)**	**—**
Total sales	**544,816**	**123,687**	**81,739**	**(14,223)**	**736,019**
Operating expenses	**488,555**	**120,162**	**73,849**	**(14,218)**	**668,348**
Operating income	**$ 56,261**	**$ 3,525**	**$ 7,890**	**$ (5)**	**$ 67,671**
Assets	**$ 541,355**	**$ 106,516**	**$ 64,998**	**$ (133,112)**	**$ 579,757**

Corporate assets included in “Eliminations/Corporate” amount to ¥103,029 thousand ($857 thousand) and ¥8,094 thousand as of March 31, 2004 and 2003, respectively. The major component of corporate assets is investments in securities.

(3) Sales to Foreign Customers

Sales to foreign customers for the years ended March 31, 2004 and 2003 were as follows:

Sales to:	Thousands of yen 2003	Thousands of yen 2004	Thousands of U.S. dollars 2004
North America	¥ 13,254,353	**¥ 12,956,628**	**$ 122,591**
Europe	5,250,179	**7,650,759**	**72,389**
Others	808,365	**882,305**	**8,347**
	¥ 19,312,897	**¥ 21,489,692**	**$ 203,327**

15. Supplemental Disclosure of Cash Flow Information

Major non-cash investing and financing activities for the years ended March 31, 2004 and 2003 are as follows:

	Thousands of yen 2003	Thousands of yen 2004	Thousands of U.S. dollars 2004
Increase in assets by consolidation on acquisition of the stock	¥ 602,537	**¥ —**	**$ —**
Increase in liabilities by consolidation on acquisition of the stock	972,623	**—**	**—**
Increase in common sock due to conversion of bonds	4,998	**3,492,927**	**33,049**
Increase in additional paid-in capital due to conversion of bonds	4,998	**3,492,927**	**33,049**
Assets acquired in merger	240,142	**—**	**—**
Liabilities assumed in merger	239,389	**—**	**—**

16. Subsequent Event

The following appropriation of the Company’s retained earnings in respect of the year ended March 31, 2004 was proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on June 25, 2004:

Appropriations	Thousands of yen	Thousands of US dollars
Cash dividends (¥15 per share)	¥ 228,310	$ 1,899
Transfer to reserve for special depreciation	5,500	46
Transfer to general reserve	2,000,000	16,639
Total appropriations	¥ 2,233,810	$ 18,584

Report Of Independent Accountants

To the Board of Directors
and Shareholders of FUJI SEAL, INC.

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

We conducted our audits in accordance with auditing standards generally accepted in Japan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 FUJI SEAL, INC. and its subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Osaka, Japan
June 25, 2004

Consolidated Five-Year Summary

FUJI SEAL, INC. and Subsidiaries
Years Ended March 31

	Millions of yen, except where noted					Thousands of U.S. dollars, except where noted
	2000/3	2001/3	2002/3	2003/3	**2004/3**	**2004/3**
For the year:						
Net sales	¥ 51,325	¥ 53,895	¥ 67,717	¥ 74,649	**¥ 77,789**	**$ 736,019**
Operating income	5,441	4,422	5,277	6,233	**7,152**	**67,671**
Ordinary income	5,377	4,672	5,227	6,284	**7,277**	**68,856**
Net income	2,861	2,196	2,279	3,637	**4,404**	**41,673**
At the year-end:						
Total assets	38,649	48,116	57,728	61,419	**61,274**	**579,757**
Shareholders' equity	17,126	18,367	21,557	23,948	**34,233**	**323,908**
Number of shares issued (shares)	15,219,000	15,219,000	15,219,000	15,221,032	**24,963,982**	**—**
Per share amounts (in yen and U.S. dollars):						
Shareholders' equity per share	¥ 1,125.34	¥ 1,206.91	¥ 1,416.49	¥ 1,573.40	**¥ 1,371.91**	**$ 12.98**
Net income per share (basic)	188.04	144.34	149.77	239.02	**189.21**	**1.79**
Net income per share (diluted)	—	—	140.92	218.59	**189.06**	**1.79**
Other:						
Shareholders' equity ratio (%)	44.31%	38.17%	37.34%	38.99%	**55.87%**	
Return on equity (%)	18.35%	12.38%	11.42%	15.99%	**15.14%**	
Return on assets(%)	14.5%	10.8%	9.9%	10.5%	**11.9%**	
Price-earnings ratio (PER) (times)	31.91	27.92	27.11	18.87	**23.20**	
Cash flow from operating activities	5,689	1,936	3,559	6,547	**6,786**	**64,212**
Cash flow from investing activities	(2,401)	(9,928)	(3,319)	(6,159)	**(2,375)**	**(22,472)**
Cash flow from financing activities	(866)	7,260	874	345	**(2,632)**	**(24,907)**
Cash and cash equivalents at end of year	3,818	3,117	4,303	4,976	**6,689**	**63,292**
Number of employees (persons)	1,398	1,767	1,909	2,180	**2,130**	

Notes:

1. *Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥105.69=U.S.$1, as of March 31, 2004, has been used in translation.*
2. *Net sales exclude consumption tax.*
3. *On November 19, 1999, the Company split its common stock from 1 to 2. Net income per share for the fiscal year ended March 31, 2000 is calculated based on the average number of shares during the fiscal year, retroactively adjusted for stock splits to the beginning of the year.*
4. *Diluted net income per share for the fiscal years ending March 31, 2000, and March 31, 2001 is not reported since the Company did not have outstanding warrant bonds or convertible bonds.*
5. *Our common stock has been split from 1 to 1.5 effective July 18, 2003. Net income per share in the consolidated basis and net income per share after adjust ment of the residual securities are calculated as if the said share split has been effective at the beginning of the fiscal year.*
6. *The number of employees for the fiscal year ended March 31, 2000 increased by 369 compared with the previous fiscal year. Of the total, 332 are employees of American Fuji Seal, Inc., the former Owens-Illinois Labels, Inc. acquired by the Company.*

Board Of Directors

Outside Directors	Nobuyuki Takakusaki
	Kiyoshi Tsuboi
	Masahito Kakegawa
Director	Masaaki Fujio
Director, President & COO	Ken Takeda
Directors, Operating Officers	Hiroo Okazaki
	Shuichi Shibuya
	Sukehiro Shiomi
	Shigeko Okazaki
	Takato Sonoda
Operating Officers	Marien Venner
	Kazuyoshi Kuwahata

Company Data

Corporate Name:	Fuji Seal, Inc.
Tokyo Head Office:	1-9, 1-chome, Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan Tel: +81-3-5208-5902
Osaka Head Office:	1-6, 4-chome, Miyahara, Yodogawa-ku, Osaka 532-0003, Japan Tel: +81-6-6350-1080
Established:	October 18, 1958
Listed on Stock Exchange:	October 28, 1997
Capital:	¥5,805 million (as of March 31, 2004)
Consolidated Net Sales:	¥77,789 million (for the year ended March 31, 2004)
Fiscal Year-End:	March 31
Plants:	Osaka (Osaka City)
	Nabari (Nabari City, Mie Prefecture)
	Tsukuba (Ami-machi, Inashiki-gun, Ibaraki Prefecture)
	Yuki (Yuki City, Ibaraki Prefecture)
	Togane (Togane City, Chiba Prefecture)
Sales Offices:	Tokyo Head Office / Osaka Head Office
	Nagoya Sales Office / Kyushu Sales Office / Sapporo Sales Office
Number of Employees:	2,130 (as of March 31, 2004)
Fuji Seal Group:	Fuji Seal, Inc. and 14 consolidated subsidiaries:
	Fuji Tack, Inc. / Pack Fuji, Inc. / Fuji Astec, Inc. / Fuji Technical Services, Inc.
	Fuji Logistic, Inc. / Fuji Partners, Inc. / Fuji Flex, Inc. / Fuji Estate, Inc.
	American Fuji Seal, Inc. / Fuji Seal Europe Ltd. / Fuji Seal Europe B.V.
	Fuji Seal Europe S.A.S. / Fuji Buriot S.A.S.
	American Fuji Technical Services, Inc.
	One Equity-Method Affiliate: Fuji Ace Co., Ltd.

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