

# Consolidated Balance Sheets

Nippon Kayaku Co., Ltd. and Consolidated Subsidiaries  
Years Ended May 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2001	2000	2001
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents.....	¥ 27,826	¥ 23,968	\$ 231,401
Time deposits (Note 6).....	3,207	2,336	26,669
Marketable securities (Note 4).....	1,498	5,692	12,457
Receivables:			
Trade .....	41,645	42,402	346,320
Less allowance for doubtful receivables.....	(197)	(250)	(1,638)
Inventories (Note 3) .....	22,262	21,194	185,130
Deferred income taxes (Note 7).....	1,390	747	11,559
Other current assets .....	2,211	1,452	18,386
<b>Total current assets</b> .....	<b>99,845</b>	<b>97,544</b>	<b>830,311</b>
<b>Property, plant and equipment (Notes 5 and 6):</b> .....	<b>162,666</b>	157,589	<b>1,352,731</b>
Less accumulated depreciation .....	<b>(105,482)</b>	(100,098)	<b>(877,189)</b>
<b>Property, plant and equipment, net</b> .....	<b>57,183</b>	57,490	<b>475,534</b>
<b>Investments and other assets:</b>			
Investment securities (Notes 4 and 6) .....	15,030	13,996	124,989
Deferred income taxes (Note 7).....	2,235	1,145	18,586
Other assets .....	5,587	4,336	46,461
<b>Total investments and other assets</b> .....	<b>22,853</b>	19,478	<b>190,045</b>
<b>Total assets</b> .....	<b>¥179,882</b>	¥174,512	<b>\$1,495,900</b>

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2001	2000	2001
<b>Liabilities and shareholders' equity</b>			
<b>Current liabilities:</b>			
Short-term bank loans (Note 6).....	¥ 2,981	¥ 1,954	\$ 24,790
Current portion of long-term debt (Note 6).....	3,596	1,636	29,904
Payables:			
Trade (Note 6) .....	17,145	14,676	142,577
Unconsolidated subsidiaries and affiliates.....	1,264	1,164	10,511
Construction .....	2,420	2,656	20,124
Other.....	4,404	9,784	36,623
Accrued expenses .....	3,379	2,553	28,099
Accrued income taxes .....	3,997	2,094	33,239
Other current liabilities .....	682	520	5,671
<b>Total current liabilities</b> .....	<b>39,872</b>	<b>37,042</b>	<b>331,575</b>
<b>Non-current liabilities:</b>			
Long-term debt, less current portion (Note 6).....	12,169	15,278	101,197
Accrued retirement benefits (Note 8).....	8,570	8,301	71,268
Other non-current liabilities (Note 6).....	19,534	19,561	162,444
Deferred income taxes (Note 7).....	897	820	7,459
<b>Total non-current liabilities</b> .....	<b>41,172</b>	<b>43,962</b>	<b>342,386</b>
<b>Minority interests</b> .....	<b>4,507</b>	<b>2,942</b>	<b>37,480</b>
<b>Shareholders' equity (Notes 11 and 15):</b>			
Common stock, ¥50 par value:			
Authorized - 700,000,000 shares			
Issued - 182,503,570 shares in 2001 and 2000 .....	14,932	14,932	124,174
Additional paid-in capital .....	17,257	17,257	143,509
Retained earnings.....	61,841	58,500	514,270
Translation adjustments.....	322	(100)	2,677
Less treasury stock, at cost .....	(23)	(24)	(191)
<b>Total shareholders' equity</b> .....	<b>94,331</b>	<b>90,565</b>	<b>784,457</b>
<b>Contingent liabilities (Note 10)</b>			
<b>Total liabilities and shareholders' equity</b> .....	<b>¥179,882</b>	<b>¥174,512</b>	<b>\$1,495,900</b>

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Income and Retained Earnings

Nippon Kayaku Co., Ltd. and Consolidated Subsidiaries  
Years Ended May 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2001	2000	2001
<b>Net sales</b> .....	<b>¥121,002</b>	¥121,302	<b>\$1,006,253</b>
<b>Cost of sales</b> .....	<b>72,775</b>	73,525	<b>605,197</b>
<b>Gross profit</b> .....	<b>48,227</b>	47,776	<b>401,056</b>
<b>Selling, general and administrative expenses</b> .....	<b>34,950</b>	33,705	<b>290,644</b>
<b>Operating income</b> .....	<b>13,277</b>	14,071	<b>110,411</b>
<b>Other income (expenses):</b>			
Interest and dividend income .....	<b>596</b>	566	<b>4,956</b>
Interest expense .....	<b>(598)</b>	(718)	<b>(4,972)</b>
Other, net .....	<b>(2,600)</b>	(3,786)	<b>(21,621)</b>
	<b>(2,601)</b>	(3,939)	<b>(21,629)</b>
<b>Income before income taxes and minority interests</b> .....	<b>10,675</b>	10,132	<b>88,773</b>
<b>Income taxes (Note 7):</b>			
Current .....	<b>6,562</b>	5,042	<b>54,569</b>
Deferred .....	<b>(1,714)</b>	(433)	<b>(14,253)</b>
<b>Minority interests</b> .....	<b>923</b>	716	<b>7,675</b>
<b>Net income</b> .....	<b>4,903</b>	4,807	<b>40,773</b>
<b>Retained earnings at beginning of year</b> .....	<b>58,500</b>	54,800	<b>486,486</b>
Prior period adjustment for adoption of tax-effect accounting .....	–	1,083	–
Increase resulting from consolidation of additional subsidiaries .....	<b>505</b>	–	<b>4,199</b>
Decrease resulting from a merger of affiliates .....	–	(29)	–
Bonuses to directors .....	<b>(60)</b>	(62)	<b>(498)</b>
Cash dividends paid .....	<b>(2,007)</b>	(2,098)	<b>(16,690)</b>
<b>Retained earnings at end of year</b> .....	<b>¥ 61,841</b>	¥ 58,500	<b>\$ 514,270</b>

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

Nippon Kayaku Co., Ltd. and Consolidated Subsidiaries  
Years Ended May 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2001	2000	2001
Cash flows from operating activities			
<b>Income before income taxes and minority interests</b> .....	<b>¥10,675</b>	¥10,132	<b>\$ 88,773</b>
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Depreciation and amortization .....	7,157	7,176	59,517
Decrease in reserves .....	343	(825)	2,852
Interest and dividend income .....	(596)	(566)	(4,956)
Interest expense .....	598	718	4,972
Equity in earnings of affiliates .....	(37)	(220)	(307)
Loss on disposal of property, plant and equipment .....	286	1,227	2,378
Gain on contribution of securities to employees' retirement benefit trust .....	(3,571)	—	(29,696)
Amortization of net retirement benefit obligation at transition .....	6,203	—	51,584
Gain on sales of property, plant and equipment .....	(875)	(806)	(7,276)
Gain on sales of investment securities .....	(916)	—	(7,617)
Changes in operating assets and liabilities:			
Notes and accounts receivable - trade .....	1,740	7,417	14,469
Inventories .....	(926)	942	(7,700)
Notes and accounts payable - trade .....	1,678	(7,146)	13,954
Payables - other .....	(4,725)	3,181	(39,293)
Accrued consumption taxes .....	(687)	868	(5,713)
Other .....	209	(464)	1,738
Subtotal .....	16,556	21,636	137,679
Interest and dividends received .....	596	564	4,956
Interest paid .....	(603)	(698)	(5,014)
Income taxes paid .....	(4,677)	(4,745)	(38,893)
<b>Net cash provided by operating activities</b> .....	<b>11,872</b>	16,756	<b>98,727</b>
Cash flows from investing activities			
Purchase of marketable securities .....	(498)	(3,203)	(4,141)
Proceeds from sales of marketable securities .....	500	4,617	4,158
Purchase of property, plant and equipment .....	(6,475)	(7,752)	(53,846)
Proceeds from sales of property, plant and equipment .....	916	873	7,617
Acquisition of goodwill and other intangible assets .....	(997)	—	(8,291)
Purchase of investment securities .....	(1,442)	—	(11,991)
Proceeds from sales of investment securities .....	2,399	—	19,950
Other .....	(1,318)	(683)	(10,960)
<b>Net cash used in investing activities</b> .....	<b>(6,915)</b>	(6,148)	<b>(57,505)</b>
Cash flows from financing activities			
Net increase (decrease) short-term debt .....	726	(2,823)	6,037
Proceeds from long-term debt .....	327	287	2,719
Repayment of long-term debt .....	(1,793)	(2,434)	(14,910)
Proceeds from payment by minority shareholders .....	607	—	5,047
Cash dividends paid .....	(2,005)	(2,097)	(16,673)
Other .....	(59)	19	(490)
<b>Net cash used in financing activities</b> .....	<b>(2,197)</b>	(7,048)	<b>(18,270)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b> .....	<b>343</b>	(54)	<b>2,852</b>
<b>Increase in cash and cash equivalents</b> .....	<b>3,102</b>	3,504	<b>25,796</b>
<b>Cash and cash equivalents at beginning of year</b> .....	<b>23,968</b>	20,464	<b>199,318</b>
<b>Increase due to inclusion in consolidation</b> .....	<b>755</b>	—	<b>6,278</b>
<b>Cash and cash equivalents at end of year</b> .....	<b>¥27,826</b>	¥23,968	<b>\$231,401</b>

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Nippon Kayaku Co., Ltd. and Consolidated Subsidiaries  
May 31, 2001 and 2000

## 1. Basis of Consolidated Financial Statements

### a. Basis of Preparation

The books and records of Nippon Kayaku Co., Ltd. (the "Company") and its domestic subsidiaries are maintained in the manner and form required or permitted under the Commercial Code of Japan and Japanese accounting practices. The books and records of overseas consolidated subsidiaries are maintained in conformity with the accounting principles and relevant legal requirements of their countries of domicile.

The accompanying consolidated financial statements have been prepared from the accounts maintained by the Company in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

As permitted by the Securities and Exchange Law of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying financial statements (both in yen and in dollars) do not necessarily agree with the sums of the individual amounts.

Certain amounts previously reported have been reclassified to conform to the current year classifications.

### b. Basis of Consolidation

Until the year ended May 31, 1999, the consolidated financial statements included the accounts of the Company and its significant subsidiaries, and investments in significant affiliates (owned 20% to 50%) were accounted for by the equity method.

In accordance with the revised accounting standards, which became effective April 1, 2000, for consolidation, the accompanying consolidated financial statements for the years ended May 31, 2001 and 2000 include the accounts of the Company and its significant companies controlled directly or indirectly by the Company, and companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis.

All significant intercompany balances and transactions have been eliminated in consolidation.

Consolidated net income includes the Company's equity in the current net income of such companies, after the elimination of unrealized intercompany profits.

Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are generally stated at cost.

The differences at the dates of acquisition between the cost and underlying net equity of the consolidated subsidiaries and companies accounted for by the equity method are being amortized by the straight-line method over a period of five years.

In consolidated statements of shareholders' equity, legal reserve have been included in retained earnings.

### c. Foreign Currency Translation

The accounts of foreign consolidated subsidiaries, except for the components of shareholders' equity, are translated into yen at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates. Translation differences arising from the translation of the financial statements of the foreign consolidated subsidiaries are presented as translation adjustments.

In accordance with a new accounting standard for foreign currency translation which became effective June 1, 2000, the Company has presented translation adjustments as a component of shareholders' equity and minority interests (instead of as a component of assets or liabilities) in its consolidated financial statements for the year ended May 31, 2001, and has restated the previously reported consolidated financial statements for the year ended May 31, 2000. However, the adoption of this new standard had no material impact on the consolidated statement of income for the year ended May 2001.

Monetary assets and liabilities denominated in foreign currencies of the Company and its domestic consolidated subsidiaries are translated into yen at the current rates except for those hedged by forward foreign exchange contracts, which are translated at the contracted rates.

All revenues and expenses are translated at the current rates.

Gains and losses arising from exchange differences are credited or charged to income in the year in which they are incurred.

The revised accounting standard for foreign currency translation has been applied effective the year ended May 31, 2001. The effect of the adoption of this revised standard on the consolidated financial statements was immaterial.

### d. Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

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**e. Securities**

Until the year ended May 31, 2000, marketable securities had been valued principally at the lower of cost or market, cost being determined by the moving average method, and investment securities other than marketable securities had been stated at cost determined by the moving average method.

A new accounting standard for financial instruments, which became effective April 1, 2000, requires that securities be classified into three categories: trading, held-to-maturity or other securities. Under the new standard, trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities and non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

As of June 1, 2000, the Company and its consolidated subsidiaries assessed their intent to hold their investments in securities and classified their investments as "held-to-maturity securities" or "other securities" and accounted for the securities at May 31, 2001 in accordance with the new standard referred to above. As a result of the adoption of this standard in the current year, securities in current assets decreased by ¥3,817 million (\$31,742 thousand) and investment securities increased by ¥3,817 million (\$31,742 thousand).

**f. Inventories**

Inventories are stated at cost determined principally by the average method.

**g. Property, Plant and Equipment**

Property, plant and equipment is stated at cost except that the cost of certain assets has been reduced by certain capital gains in accordance with the Corporation Tax Law of Japan.

Depreciation is mainly computed on the declining-balance method, except that the straight-line method is applied to buildings which were acquired after April 1, 1998 based on the estimated useful lives of the respective assets.

**h. Leases**

Finance lease transactions are primarily accounted for as operating leases except that lease agreements which stipulate transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

**i. Accrued Retirement Benefits**

Until the year ended May 31, 2000, accrued severance indemnities represent 40% of the amount which would be required to be paid if all employees covered by the plan voluntarily terminated their employment at the balance sheet date exclusive of the payments to be made under the pension plans.

In accordance with a new accounting standard for retirement benefits which became effective April 1, 2000, accrued retirement benefits for employees at May 31, 2001 have been provided at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of May 31, 2001, as adjusted for unrecognized net retirement benefit obligation at transition, unrecognized actuarial gain or loss, and unrecognized past service cost. The net retirement benefit obligation at transition was fully charged to income for the year ended May 31, 2001. Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized by the straight-line method over periods of 10 years which are shorter than the average remaining years of service of the eligible employees.

The effect of the adoption of the new standard for retirement benefit was to decrease income before income taxes and minority interests by ¥2,565 million (\$21,330 thousand) for the year ended May 31, 2001.

Directors and statutory auditors of the Company and its domestic consolidated subsidiaries are customarily entitled to lump-sum retirement payments under their respective unfunded retirement plan subject to the stockholders' approval. Provision for the retirement benefits for those officers has been made at estimated amount.

Accrued retirement benefits include ¥906 million (\$7,534 thousand) for directors and statutory auditors of the Company and its domestic consolidated subsidiaries at May 31, 2001.

**j. Derivative Financial Instruments**

The Company has entered into various derivative transactions in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates. In accordance with a new accounting standard for financial instruments which became effective April 1, 2000, derivatives are carried at fair value with changes in unrealized gain or loss charged or credited to operations. Receivables and payables hedged by qualified derivatives are translated at the corresponding foreign exchange contract rates.

**2. U.S. Dollar Amounts**

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan. The rate of ¥120.25 = U.S.\$1, the approximate rate of exchange on May 31, 2001, has been used. The inclusion of such amounts is not intended to imply that the yen amounts have been or could be readily converted, realized or settled in U.S. dollars at that or any other rate.

### 3. Inventories

Inventories at May 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Merchandise .....	¥ 3,057	¥ 2,721	\$ 25,422
Finished products .....	9,030	9,262	75,093
Semi-finished products and work in process .....	6,663	6,384	55,409
Raw materials and supplies .....	3,511	2,826	29,197
	<u>¥22,262</u>	<u>¥21,194</u>	<u>\$185,130</u>

### 4. Marketable and Investment Securities

The book value of current and non-current marketable securities and their related aggregate market values at May 31, 2001 were as follows:

	May 31, 2001	
	Millions of yen	Thousands of U.S. dollars
Carrying value .....	¥11,023	\$ 91,667
Aggregate market value .....	13,600	113,097
Net unrealized gains .....	2,577	21,430

### 5. Depreciation

Depreciation for property, plant and equipment for the years ended May 31, 2001 were ¥6,952 million (\$57,812 thousand).

### 6. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans are unsecured and are generally represented by 60-day notes. The weighted average interest rates for the years ended May 31, 2001 and 2000 were approximately 2.10% and 0.90%, respectively.

The interest rates applicable to the long-term borrowings (except for current portion) at May 31, 2001 and 2000 average approximately 2.85% and 2.40%, respectively.

Long-term debt at May 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Bonds without collateral:			
1.95% bonds due 2003 .....	¥ 3,000	¥ 3,000	\$ 24,948
2.47% bonds due 2005 .....	3,000	3,000	24,948
Collateralized loans from banks, insurance companies, government agencies and other financial institutions, due through 2030 .....	4,962	5,843	41,264
Loans without collateral .....	4,803	5,071	39,941
	<u>15,765</u>	<u>16,914</u>	<u>131,101</u>
Less current portion .....	(3,596)	(1,636)	(29,904)
	<u>¥12,169</u>	<u>¥15,278</u>	<u>\$101,197</u>

The aggregate annual maturities of long-term debt subsequent to May 31, 2001 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending May 31,		
2002 .....	¥ 3,596	\$ 29,904
2003 .....	1,537	12,781
2004 .....	4,383	36,449
2005 and thereafter .....	6,249	51,966
	<u>¥15,765</u>	<u>\$131,101</u>

Assets pledged as collateral for long-term debt, other non-current liabilities and payables-trade at May 31, 2001 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Time deposits .....	¥ 80	\$ 665
Investment securities .....	98	814
Property, plant and equipment, at net book value .....	15,642	130,079
	<u>¥15,820</u>	<u>\$131,559</u>

## 7. Income Taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes based on income which, in the aggregate, resulted in statutory tax rates of 41.88% in 2001 and 2000. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The effective tax rate reflected in the accompanying consolidated statement of income for the year ended May 31, 2001 and 2000 differed from the statutory tax rate for the following reasons:

	2001	2000
Statutory tax rate .....	41.88%	41.88%
Effect of:		
Expenses not deductible for income tax purposes .....	2.21	3.80
Dividend income deductible for income tax purposes.....	(1.71)	-
Inhabitants' tax based on individuals .....	0.98	0.99
Amortization of consolidation adjustments.....	0.48	-
Other, net.....	1.58	(1.19)
Effective tax rate.....	<u>45.42%</u>	<u>45.48%</u>

The significant components of deferred tax assets and liabilities as of May 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2001	2000	2001
Deferred tax assets:			
Accrued retirement benefits .....	¥ 2,487	¥ 1,197	\$ 20,681
Accrued bonuses .....	568	-	4,723
Write down on investment securities.....	72	216	598
Accrued enterprise tax .....	338	156	2,810
Allowance for sales rebate .....	190	133	1,580
Other .....	704	957	5,854
Total deferred tax assets .....	<u>4,361</u>	<u>2,659</u>	<u>36,266</u>
Valuation allowance.....	(65)	(25)	(540)
	<u>4,295</u>	<u>2,634</u>	<u>35,717</u>
Deferred tax liabilities:			
Adjustment of acquisition costs of fixed assets.....	(829)	(765)	(6,893)
Adjustments for book value relating to land of consolidated subsidiaries..	(706)	(706)	(5,871)
Other .....	(31)	(165)	(257)
Total deferred tax liabilities .....	<u>(1,567)</u>	<u>(1,636)</u>	<u>(13,031)</u>
Net deferred tax assets.....	<u>¥ 2,728</u>	<u>¥ 997</u>	<u>\$ 22,686</u>

## 8. Retirement Benefit Plans

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., welfare pension fund plans, tax-qualified pension plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs. Certain foreign subsidiaries have defined contribution plans.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheet as of May 31, 2001 for the Company's and the consolidated subsidiaries' defined benefit plans:

	May 31, 2001	
	Millions of yen	Thousands of U.S. dollars
Retirement benefit obligation.....	¥(22,558)	\$(187,592)
Plan assets at fair value .....	12,754	106,062
Unfunded retirement benefit obligation .....	(9,804)	(81,530)
Unrecognized actuarial gain or loss .....	2,511	20,881
Net retirement benefit obligation .....	<u>(7,292)</u>	<u>(60,640)</u>
Prepaid pension cost.....	372	3,093
Accrued retirement benefits .....	<u>¥ (7,664)</u>	<u>\$ (63,733)</u>

## 8. Retirement Benefit Plans (continued)

The components of retirement benefit expenses for the year ended May 31, 2001 are outlined as follows:

	May 31, 2001	
	Millions of yen	Thousands of U.S. dollars
Service cost.....	¥1,492	\$12,407
Interest cost.....	633	5,264
Expected return on plan assets.....	(214)	(1,779)
Amortization of net retirement benefit obligation at transition .....	6,203	51,584
Total .....	¥8,114	\$67,476

The assumptions used in accounting for the above plans were as follows:

	May 31, 2001
Discount rates .....	3.0% - 3.1%
Expected return on plan assets.....	3.1% - 3.25%

## 9. Research and Development Expenditures

Research and development expenditures for the years ended May 31, 2001 amounted to ¥8,319 million (\$69,180 thousand) and were based upon a new accounting standard for research and development costs.

## 10. Contingent Liabilities

Contingent liabilities at May 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
Notes receivable discounted .....	¥4,869	\$40,490
Guarantees of loan of subsidiaries and affiliates.....	48	399
Guarantees of loan of employees .....	2,679	22,278

## 11. Amounts per Share

Amounts per share are summarized as follows:

	yen		U.S. dollars
	2001	2000	2001
For the years ended May 31:			
Net income:			
Primary .....	¥ 26.87	¥ 26.34	\$0.22
Cash dividends.....	11.00	11.00	0.09
At May 31:			
Net assets .....	¥516.97	¥496.90	4.29

Net income per share is computed based on the weighted average number of shares of common stock outstanding during each year. Cash dividends per share represent the dividends paid during respective years.

Net assets per share are computed based on the number of outstanding shares of common stock at the year end.

## 12. Derivatives

- (1) The Company and its certain consolidated subsidiaries (the "Companies") utilize forward foreign exchange contracts solely in order to hedge against the risk of fluctuations in foreign currency exchange rates and to stabilize their future cash flows relating to debts denominated in foreign currencies relating to their operations.
- (2) The Companies have entered into various derivative transactions solely in order to hedge against certain risks in compliance with their internal policies. The Companies have not and do not utilize derivatives for speculative trading purposes.
- (3) The Companies are exposed to the risk of credit loss in the event of nonperformance by the counterparties to these derivative transactions, but consider the risk of any such loss to be minimal because the Companies enter into derivative transactions only with financial institutions which have high credit ratings.
- (4) The Companies enter into, monitor and manage their derivative positions based on their own internal policies.

### 13. Leases

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥354 million (\$2,943 thousand) and ¥394 million for the years ended May 31, 2001 and 2000, respectively.

Future minimum lease payments (including the interest portion) subsequent to May 31, 2001 relating to finance lease transactions accounted for as operating leases are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending May 31,		
2002 .....	¥362	\$3,010
2003 and thereafter .....	507	4,216
	<u>¥870</u>	<u>\$7,234</u>

Lease income relating to finance leases accounted for as operating leases amounted to ¥51 million (\$424 thousand) and ¥57 million for the years ended May 31, 2001 and 2000, respectively.

### 14. Segment Information

The Company and its consolidated subsidiaries operate principally in three industry segments: pharmaceuticals, fine chemicals and other businesses. The fine chemical business involves the production and sale of dyestuffs, agrochemicals, explosives and catalysts, and other sophisticated chemical products. Other businesses comprise a driving school and real estate leasing business.

Industry segment information for the Company and its consolidated subsidiaries for the years ended May 31, 2001 and 2000 is summarized as follows:

	2001					
	Millions of yen					
	Pharmaceutical business	Fine chemical business	Other businesses	Total	Eliminations	Consolidated
I. Sales and operating income:						
Sales to third parties .....	¥44,257	¥73,294	¥ 3,450	¥121,002	-	¥121,002
Interarea sales and transfers .....	5	3	4	13	¥ (13)	-
Total .....	44,263	73,297	3,455	121,016	(13)	121,002
Operating expenses .....	34,755	64,651	2,640	102,047	5,677	107,725
Operating income .....	¥ 9,508	¥ 8,646	¥ 814	¥ 18,968	¥ (5,691)	¥ 13,277
II. Asset depreciation and capital expenditures:						
Total assets .....	¥40,592	¥81,153	¥20,105	¥141,851	¥38,031	¥179,882
Depreciation and amortization .....	2,003	3,839	1,170	7,013	144	7,157
Capital expenditures .....	674	6,480	105	7,260	12	7,273
	2001					
	Thousands of U.S. dollars					
	Pharmaceutical business	Fine chemical business	Other businesses	Total	Eliminations	Consolidated
I. Sales and operating income:						
Sales to third parties .....	\$368,041	\$609,513	\$ 28,690	\$1,006,253	-	\$1,006,253
Interarea sales and transfers .....	41	24	33	108	\$ (108)	-
Total .....	368,091	609,538	28,731	1,006,370	(108)	1,006,253
Operating expenses .....	289,022	537,638	21,954	848,623	47,209	895,841
Operating income .....	\$ 79,068	\$ 71,900	\$ 6,769	\$ 157,738	\$ (47,326)	\$ 110,411
II. Asset depreciation and capital expenditures:						
Total assets .....	\$337,563	\$674,869	\$167,193	\$1,179,634	\$316,266	\$1,495,900
Depreciation and amortization .....	16,656	31,925	9,729	58,320	1,197	59,517
Capital expenditures .....	5,604	53,887	873	60,374	99	60,482

**14. Segment Information (continued)**

	2000					
	Millions of yen					
	Pharmaceutical business	Fine chemical business	Other businesses	Total	Eliminations	Consolidated
I. Sales and operating income:						
Sales to third parties .....	¥49,335	¥68,404	¥ 3,562	¥121,302	-	¥121,302
Interarea sales and transfers .....	12	2	0	15	¥ (15)	-
Total .....	49,348	68,407	3,562	121,317	(15)	121,302
Operating expenses .....	36,838	60,563	3,873	101,275	5,955	107,230
Operating income .....	¥12,509	¥ 7,844	¥ (310)	¥ 20,042	¥ (5,971)	¥ 14,071
II. Asset depreciation and capital expenditures:						
Total assets .....	¥43,885	¥73,194	¥20,870	¥137,950	¥36,662	¥174,613
Depreciation and amortization .....	2,097	3,512	1,385	6,995	181	7,176
Capital expenditures .....	1,909	3,317	137	5,364	123	5,487

Overseas sales, which include export sales of the Company and its consolidated subsidiaries, totaled ¥17,991 million (\$149,613 thousand) and ¥17,202 million, or 14.9% and 14.2% of the consolidated net sales for the years ended May 31, 2001 and 2000, respectively.

**15. Subsequent Event**

The following appropriations of retained earnings of the Company were approved at a meeting of the shareholders held on August 30, 2001:

	Millions of yen	Thousands of U.S. dollars
Transfer to legal reserve .....	-	-
2000 year-end cash dividends (¥5.50 = \$0.045 per share) .....	¥1,003	\$8,340
Bonuses to directors .....	50	415

# Independent Auditors' Report



## Certified Public Accountants

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The Board of Directors  
Nippon Kayaku Co., Ltd.

We have audited the consolidated balance sheets of Nippon Kayaku Co., Ltd. and consolidated subsidiaries as of May 31, 2001 and 2000, and the related consolidated statements of income and retained earnings and statements of cash flows for each of the years then ended, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above, expressed in Japanese yen, present fairly the consolidated financial position of Nippon Kayaku Co., Ltd. and consolidated subsidiaries at May 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period.

As described in Note 1 to the consolidated financial statements, Nippon Kayaku Co., Ltd. and consolidated subsidiaries have adopted new accounting standards for consolidation and tax-effect accounting in the preparation of their consolidated financial statements effective the year ended May 31, 2000, and for employees' retirement benefits, financial instruments and foreign currency translations effective the year ended May 31, 2001.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the years ended May 31, 2001 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

August 30, 2001

A handwritten signature in black ink that reads "Shin Nihon &amp; Co." in a cursive, flowing script.

*See Note 1 to the consolidated financial statements which explains the basis of preparing the consolidated financial statements of Nippon Kayaku Co., Ltd. and consolidated subsidiaries under Japanese accounting principles and practices.*