

# Notes to Consolidated Financial Statements

Nippon Kayaku Co., Ltd. and Consolidated Subsidiaries  
May 31, 2007 and 2006

## Note 1

### Basis of Consolidated Financial Statements

#### a. Basis of Preparation

The books and records of Nippon Kayaku Co., Ltd. (the "Company") and its consolidated domestic subsidiaries are maintained in the manner and form required or permitted under the Corporate Law 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 of the Company and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the 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.

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 consolidated 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's presentation.

#### b. Basis of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries controlled directly or indirectly by the Company (the "Companies"). Investment in 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 method of accounting.

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

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. However, the goodwill generated in the United States consolidated subsidiary is no longer amortized by the United States accounting standard, and the impairment testing is made annually.

#### c. Foreign Currency Translation

The revenue and expense accounts of the foreign subsidiaries are translated at the average exchange rates prevailing during the year.

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.

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.

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

#### d. Cash Equivalents

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

**Note 1**

**Basis of Consolidated Financial Statements**  
*(continued)*

**e. Securities**

Securities are classified into three categories: trading, held-to-maturity or other securities. Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

**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 by the declining-balance method, except that the straight-line method is applied to the buildings which were acquired after April 1, 1998 based on the estimated useful lives of the respective assets. Moreover, the method of depreciation based on the revised Corporation Tax Law is applied for acquisitions after April 1, 2007.

**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. Retirement Benefits**

The lump-sum payment plans and the tax-qualified pension plans were integrated into the defined benefit pension plan on June 1, 2006.

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.

Accrued employees' retirement benefits are provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet dates, as adjusted for unrecognized actuarial gain or loss, and unrecognized past service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees. Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over periods of 10 years which are shorter than the average remaining years of service of the eligible employees. Past service cost is amortized primarily by the straight-line method over periods of 10 years which are shorter than the average remaining years of service of the eligible employees.

**j. Derivative Financial Instruments**

The Company has entered into derivative transactions in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates. Derivatives are carried at fair value with changes in unrealized gains or losses charged or credited to operations. Receivables and payables hedged by qualified derivatives are translated at the corresponding foreign exchange contract rates.

**Note 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 ¥121.69 = U.S.\$1, the approximate rate of exchange on May 31, 2007, 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.

**Note 3**

**Accounting Changes**

The method of depreciation of fixed assets "Property, plant and equipment" acquired after April 1, 2007 has been changed to the method of depreciation based on the revised Corporation Tax Law of Japan in 2007 fiscal year. The effect of the change to the 2007 profit and loss was immaterial.

**Note 4**

**Inventories**

Inventories at May 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Merchandise	¥ 3,583	¥ 3,595	\$ 29,443
Finished products	9,874	10,452	81,140
Semi-finished products and work in process	6,771	6,230	55,641
Raw materials and supplies	5,951	6,370	48,902
	¥26,180	¥26,649	\$215,136

**Note 5**

**Marketable and Investment Securities**

Information regarding marketable securities classified as other securities as of May 31, 2007 and 2006 were as follows:

Marketable other securities

	May 31, 2007					
	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock	¥5,801	¥14,460	¥8,658	\$47,670	\$118,826	\$71,147
Debt securities	—	—	—	—	—	—
Other	1,905	1,908	3	15,654	15,679	24
Subtotal	7,707	16,369	8,661	63,333	134,513	71,172
Securities whose acquisition cost exceeds their carrying value:						
Stock	1,023	870	(152)	8,406	7,149	(1,249)
Debt securities	—	—	—	—	—	—
Other	1,059	1,055	(3)	8,702	8,669	(24)
Subtotal	2,082	1,926	(156)	17,109	15,827	(1,281)
Total	¥9,790	¥18,295	¥8,505	\$80,450	\$150,341	\$69,890

	May 31, 2006		
	Millions of yen		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥2,867	¥11,555	¥8,688
Debt securities	—	—	—
Other	1,803	1,804	0
Subtotal	4,670	13,359	8,688
Securities whose acquisition cost exceeds their carrying value:			
Stock	1,070	1,051	(18)
Debt securities	—	—	—
Other	1,459	1,449	(9)
Subtotal	2,530	2,501	(28)
Total	¥7,200	¥15,861	¥8,660

Sales of securities classified as other securities amounted to ¥539 million (\$4,429 thousand) as of May 31, 2007 with the aggregate gain of ¥191 million (\$1,569 thousand) and the aggregate loss of ¥0 million (\$0 thousand) for the year ended May 31, 2007.

**Note 6****Depreciation**

Depreciation of property, plant and equipment were ¥7,888 million (\$64,820 thousand) and ¥6,756 million for the years ended May 31, 2007 and 2006, respectively.

**Note 7****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, 2007 and 2006 were approximately 3.41% and 3.17%, respectively.

The interest rates applicable to the long-term borrowings (except for current portion) at May 31, 2007 and 2006 average approximately 1.98% and 2.61%, respectively.

Long-term debt at May 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Collateralized loans from banks, insurance companies, government agencies and other financial institutions, due through 2015	¥ 1,616	¥ 1,806	\$ 13,279
Loans without collateral	15,405	8,314	126,592
	17,021	10,120	139,871
Less current portion	(4,987)	(2,944)	(40,981)
	¥12,033	¥ 7,175	\$ 98,882

The aggregate annual maturities of long-term debt subsequent to May 31, 2007 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending May 31, 2008	¥ 4,987	\$ 40,981
2009	4,170	34,267
2010	2,878	23,650
2011 and thereafter	4,985	40,964
	¥17,021	\$139,871

Assets pledged as collateral for long-term debt, other non-current liabilities and payables-trade at May 31, 2007 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Investment securities	¥ 201	\$ 1,651
Property, plant and equipment, at net book value	10,249	84,222
	¥10,450	\$85,873

**Note 8****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 rate of 40.69% in 2007 and 2006. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

There was no significant difference between the normal effective statutory income tax rate and the effective income tax rate reflected in the accompanying consolidated statements of income for the year ended May 31, 2007 and 2006.

The significant components of deferred tax assets and liabilities as of May 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Accrued retirement benefits	¥ 2,288	¥ 2,294	\$ 18,801
Accrued bonuses	1,255	1,352	10,313
Accrued enterprise tax	483	178	3,969
Allowance for sales rebate	167	141	1,372
Tax loss carried forward	2,822	1,971	23,190
Other	1,452	1,200	11,931
Total deferred tax assets	8,469	7,140	69,594
Valuation allowance	(3,075)	(2,169)	(25,269)
	5,393	4,971	44,317
Deferred tax liabilities:			
Adjustment of acquisition costs of fixed assets	(3,178)	(2,505)	(26,115)
Special reserve for adjustment of acquisition costs of fixed assets	—	(1,006)	—
Unrealized holding gains on other securities	(3,461)	(3,572)	(28,441)
Adjustments on book value relating to land of consolidated subsidiaries	(706)	(706)	(5,801)
Goodwill and other intangible assets	(382)	(420)	(3,139)
Other	(364)	(392)	(2,991)
Total deferred tax liabilities	(8,092)	(8,602)	(66,496)
Net deferred tax assets (liabilities)	¥(2,698)	¥(3,630)	\$(22,171)

**Note 9****Stock Options**

Information relating to fiscal year ended May 31, 2007 (from June 1, 2006 to May 31, 2007) are as follows:

## (1) Overview, volume and changes

## [1] Overview

Company Name	MOXTEK Inc.
Date of resolution	February 10, 2004
Persons granted	2 directors of the Company, 12 executives of the Company, 2 others
Number of stock options granted by class of stock (NOTE)	Common stock 100,000
Date of grant	February 10, 2004
Vesting conditions	Continuous service from the date of grant (February 10, 2004) to the right fixation day (February 10, 2004), or, not exceeding 30 days after termination.
Service period	No service period is specified
Exercise period	From February 10, 2004 to February 9, 2009

Note: The given common stock is a common stock without the right to vote.

Note: The number of options is described after being translated into the number of shares.

Note 9

Stock Options  
(continued)

(1) Overview, volume and changes (continued)

[1] Overview (continued)

Company Name	MOXTEK Inc.
Date of resolution	March 10, 2005
Persons granted	5 executives of the Company, 2 others
Number of stock options granted by class of stock (NOTE)	Common stock 31,000
Date of grant	March 10, 2005
Vesting conditions	Continuous service from the date of grant (March 10, 2005) to the right fixation day (March 10, 2005), or, not exceeding 30 days after termination.
Service period	No service period is specified
Exercise period	From March 10, 2005 to March 9, 2010

Company Name	MOXTEK Inc.
Date of resolution	February 2, 2006
Persons granted	4 executives of the Company, 1 others
Number of stock options granted by class of stock (NOTE)	Common stock 10,000 shares
Date of grant	February 2, 2006
Vesting conditions	Continuous service from the date of grant (February 2, 2006) to the right fixation day (February 2, 2006), or, not exceeding 30 days after termination.
Service period	No service period is specified
Exercise period	From February 2, 2006 to February 1, 2011

Company Name	MOXTEK Inc.
Date of resolution	March 30, 2006
Persons granted	1 director of the Company
Number of stock options granted by class of stock (NOTE)	Common stock 10,000 shares
Date of grant	March 30, 2006
Vesting conditions	Continuous service from the date of grant (March 30, 2006) to the right fixation day (March 30, 2006), or, not exceeding 30 days after termination.
Service period	No service period is specified
Exercise period	From March 30, 2006 to March 29, 2011

Company Name	MOXTEK Inc.
Date of resolution	January 31, 2007
Persons granted	2 directors of the Company
Number of stock options granted by class of stock (NOTE)	Common stock 20,000 shares
Date of grant	January 31, 2007
Vesting conditions	Continuous service from the date of grant (January 31, 2007) to the right fixation day (January 31, 2007), or, not exceeding 30 days after termination.
Service period	No service period is specified
Exercise period	From January 31, 2007 to January 31, 2012

Company Name	MOXTEK Inc.
Date of resolution	February 14, 2007
Persons granted	9 directors of the Company, 10 executives of the Company, 8 others
Number of stock options granted by class of stock (NOTE)	Common stock 80,000 shares
Date of grant	February 14, 2007
Vesting conditions	Continuous service from the date of grant (February 14, 2007) to the right fixation day (February 14, 2007), or, not exceeding 30 days after termination.
Service period	No service period is specified
Exercise period	From February 14, 2007 to February 14, 2012

Note: The given common stock is a common stock without the right to vote.

Note: The number of options is described after being translated into the number of shares.

[2] Volume and changes of stock options

a. Number of stock options

Company Name	MOXTEK Inc.	MOXTEK Inc.	MOXTEK Inc.	MOXTEK Inc.	MOXTEK Inc.	MOXTEK Inc.
Date of resolution	February 10, 2004	March 10, 2005	February 2, 2006	March 30, 2006	January 31, 2007	February 14, 2007
Prior to vesting						
Beginning of period	–	–	–	–	–	–
Granted	–	–	–	–	–	–
Forfeited	–	–	–	–	–	–
Vested	–	–	–	–	–	–
Unvested	–	–	–	–	–	–
After vesting						
Beginning of period	63,050	24,250	10,000	10,000	–	–
Vested	–	–	–	–	20,000	80,000
Exercised	46,700	6,750	–	–	–	–
Forfeited	–	–	–	–	–	–
Outstanding	16,350	17,500	10,000	10,000	20,000	80,000

b. Unit price information

(In U.S. dollar)

Company Name	MOXTEK Inc.	MOXTEK Inc.	MOXTEK Inc.	MOXTEK Inc.	MOXTEK Inc.	MOXTEK Inc.
Date of resolution	February 10, 2004	March 10, 2005	February 2, 2006	March 30, 2006	January 31, 2007	February 14, 2007
Exercise price	4.66	8.70	17.16	17.16	25.13	25.13
Average stock market price at exercise	–	–	–	–	–	–
Fair value unit price at grant date	–	–	–	–	–	–

(2) Estimate method of fair value unit price

A fair evaluation unit price is calculated by origin value about the incentive stock option because a consolidated subsidiary concerned is a non public enterprise.

[1] Method of evaluating the stock that become bases of value calculation: DCF method etc.

[2] Amount of total of origin value at the end of the fiscal year: – yen

[3] Amount of total of origin value on the right of incentive stock option to which right was exercised at the end of the fiscal year: Not applicable

Note 10

Retirement Benefit Plans

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of May 31, 2007 and 2006 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Retirement benefit obligation	¥(25,380)	¥(25,579)	\$(208,562)
Plan assets at fair value	25,992	24,700	213,591
Unfunded retirement benefit obligation	611	(878)	5,020
Unrecognized actuarial gain or loss	(2,282)	(331)	(18,752)
Unrecognized past service cost	(1,910)	(1,351)	(15,695)
Net retirement benefit obligation	(3,581)	(2,561)	(29,427)
Prepaid pension cost	322	5,463	2,646
Accrued retirement benefits	¥ (3,904)	¥ (8,025)	\$ (32,081)

**Note 10****Retirement Benefit Plans***(continued)*

The components of retirement benefit expenses for the year ended May 31, 2007 and 2006 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service cost	¥1,318	¥1,428	\$10,830
Interest cost	495	492	4,067
Expected return on plan assets	(336)	(187)	(2,761)
Amortization of actuarial gain or loss	204	662	1,676
Amortization of past service cost	(291)	(206)	(2,391)
Total	¥1,389	¥2,189	\$11,414

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

	May 31,	
	2007	2006
Discount rates	2.0% – 2.1%	2.0% – 2.1%
Expected rates of return on plan assets	1.0% – 2.1%	1.0% – 2.1%
Period for amortization of prior service liability	10 years	10 years
Period for recognition of actuarial gain or loss	10 years	10 years

Accrued retirement benefits included ¥76 million (\$624 thousand) for directors and corporate auditors of the Company and its domestic consolidated subsidiaries at May 31, 2007.

**Note 11****Research and Development Expenses**

Research and development expenses amounted to ¥10,897 million (\$89,547 thousand) and ¥10,419 million for the years ended May 31, 2007 and 2006, respectively.

**Note 12****Contingent Liabilities**

Contingent liabilities of the companies at May 31, 2007 were as follows:

	Millions of yen	Thousands of U.S. dollars
	¥	\$
Notes receivable discounted	178	1,462
Guarantees of loans of employees	2,189	17,988
Guarantees of loans of non-consolidated subsidiary	300	2,465

**Note 13****Amounts per Share**

	Yen		Thousands of U.S. dollars
	2007	2006	2007
For the year ended May 31:			
Net income:			
Primary	¥ 36.37	¥ 52.92	\$0.29
Diluted	36.11	—	0.29
Cash dividends	20.00	20.00	0.16
At May 31:			
Net assets	646.78	634.51	5.31

**Note 14**  
**Derivatives**

- (1) 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 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.

**Note 15**  
**Leases**

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥354 million (\$2,909 thousand) and ¥385 million for the years ended May 31, 2007 and 2006, respectively.

Future minimum lease payments (including the interest portion) subsequent to May 31, 2007 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, 2008	¥263	\$2,161
2009 and thereafter	306	2,514
	¥570	\$4,684

Lease income relating to finance leases accounted for as operating leases amounted to ¥51 million (\$419 thousand) and ¥51 million for the years ended May 31, 2007 and 2006, respectively.

**Note 16**  
**Segment Information**

The Companies operate principally in four industry segments: functional chemicals, pharmaceuticals, fine chemicals and other businesses. The functional business involves the production and sales of inflators, functional materials, catalysts and electric materials. The fine chemical business involves the production and sales of agro, color chemicals and explosives. Other businesses comprises real estate leasing business.

Industry segment information for the Companies as of or for the years ended May 31, 2007 and 2006 is summarized as follows:

	2007						
	Millions of yen						
	Functional chemicals business	Pharmaceuticals business	Fine chemicals business	Other businesses	Total	Eliminations	Consolidated
I. Sales and operating income:							
Sales to third parties	¥78,925	¥41,700	¥24,538	¥ 2,960	¥148,124	–	¥148,124
Intersegment	116	1	293	6	418	¥ (418)	–
Total	79,042	41,702	24,831	2,967	148,542	(418)	148,124
Operating expenses	70,734	34,227	22,990	1,374	129,326	5,261	134,588
Operating income	¥ 8,307	¥ 7,475	¥ 1,840	¥ 1,592	¥ 19,215	¥ (5,679)	¥ 13,536
II. Asset depreciation and capital expenditures:							
Total assets	¥89,852	¥40,075	¥27,067	¥16,550	¥173,545	¥33,535	¥207,081
Depreciation and amortization	4,575	1,818	1,149	608	8,152	577	8,730
Loss on impairment of fixed assets	819	–	–	–	819	–	819
Capital expenditures	11,883	1,213	1,417	101	14,615	422	15,038

Note 16

Segment Information  
(continued)

	2007						
	Thousands of U.S. dollars						
	Functional chemicals business	Pharmaceuticals business	Fine chemicals business	Other businesses	Total	Eliminations	Consolidated
I. Sales and operating income:							
Sales to third parties	\$648,574	\$342,674	\$201,643	\$ 24,324	\$1,217,224	–	\$1,217,224
Intersegment	953	8	2,407	49	3,434	\$ (3,434)	–
Total	649,535	342,690	204,051	24,381	1,220,659	(3,434)	1,217,224
Operating expenses	581,263	281,263	188,922	11,290	1,062,749	43,232	1,105,990
Operating income	\$ 68,263	\$ 61,426	\$ 15,120	\$ 13,082	\$ 157,901	\$ (46,667)	\$ 111,233
II. Asset depreciation and capital expenditures:							
Total assets	\$738,367	\$329,320	\$222,425	\$136,001	\$1,426,123	\$275,577	\$1,701,709
Depreciation and amortization	37,595	14,939	9,442	4,996	66,989	4,741	71,739
Loss on impairment of fixed assets	6,730	–	–	–	6,730	–	6,730
Capital expenditures	97,649	9,967	11,644	829	120,100	3,467	123,576

	2006						
	Millions of yen						
	Functional chemicals business	Pharmaceuticals business	Fine chemicals business	Other businesses	Total	Eliminations	Consolidated
I. Sales and operating income:							
Sales to third parties	¥73,133	¥39,774	¥24,028	¥ 3,089	¥140,026	–	¥140,026
Intersegment	86	8	64	8	167	¥ (167)	–
Total	73,219	39,783	24,093	3,097	140,194	(167)	140,026
Operating expenses	63,042	34,283	22,208	1,571	121,106	5,700	126,806
Operating income	¥10,177	¥ 5,499	¥ 1,884	¥ 1,526	¥ 19,087	¥ (5,867)	¥ 13,219
II. Asset depreciation and capital expenditures:							
Total assets	¥83,041	¥39,667	¥28,500	¥16,992	¥168,202	¥37,106	¥205,308
Depreciation and amortization	3,689	1,614	1,175	661	7,141	567	7,708
Loss on impairment of fixed assets	–	–	–	–	–	192	192
Capital expenditures	9,334	2,230	1,324	33	12,923	878	13,802

Overseas sales, which include export sales of the Company and its consolidated subsidiaries, totaled ¥50,168 million (\$412,260 thousand) and ¥42,280 million, or 33.8% and 30.2% of the consolidated net sales for the years ended May 31, 2007 and 2006, respectively.

Note 17

Subsequent Events

(1) The following appropriations of retained earnings of the Company were approved at a meeting of the shareholders held on August 30, 2007:

	Millions of yen	Thousands of U.S. dollars
2007 year-end cash dividends (¥10 = \$0.082 per share)	¥1,816	\$14,923

(2) The Company and Asahi Kasei Chemicals Corporation concluded the basic agreement that agreed to integration, and the reorganization of manufacturing, sales, and the research and development business that lay an industrial gunpowder business that each enterprise group was doing to the joint venture company by the cooperation of both investments dated June 5, 2007. The system of the product supply of stabler and the high quality is constructed, and the business base of industrial gunpowder that is indispensable Basic Industry material to the infrastructure maintenance of our country is strengthened by this integration in the industrial gunpowder industry that exists for the long-term and structurally in the severe environment because of the investment in public works reduction, etc. Details of the method of integration and reorganization, etc. are assumed to provide in the joint master agreement that is scheduled to be settled on, and to concluded in the future.