

Notes to Consolidated Financial Statements

Nippon Kayaku Co., Ltd. and Consolidated Subsidiaries
May 31, 2008 and 2007

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 generally accepted 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 Financial Instruments 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 Financial Instruments 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 generally accepted accounting principles, 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.

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

Note 1
Basis of
Consolidated
Financial Statements
(continued)

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 are 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.

The Company and certain domestic subsidiaries had depreciated their property, plant and equipment up to their residual value, 5% of acquisition cost, as permitted under the former Corporation Tax Law. Upon the revision to the Corporation Tax Law enacted on April 1, 2007, the Company and those domestic subsidiaries depreciate such 5% portion of property, plant and equipment acquired on or before March 31, 2007 on a straight-line basis over 5 years starting in the year following the year in which the carrying value of property, plant and equipment has reached 5% of the acquisition cost.

The effect of this change in accounting treatment was to decrease operating income and income before income taxes and minority interests for the year ended May 31, 2008 by ¥454 million (\$4,531 thousand). The effects on segment information are described in Note 15.

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

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 ¥100.19 = \$1, the approximate rate of exchange on May 31, 2008, 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

Inventories

Inventories at May 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Merchandise.....	¥ 2,723	¥ 3,583	\$ 27,178
Finished products.....	8,727	9,874	87,104
Semi-finished products and work in process.....	6,536	6,771	65,236
Raw materials and supplies.....	6,515	5,951	65,026
	¥24,503	¥26,180	\$244,565

Note 4

Marketable and Investment Securities

Information regarding marketable securities classified as other securities as of May 31, 2008 and 2007 was as follows:

Marketable other securities

	May 31, 2008					
	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.....	¥5,917	¥10,891	¥4,974	\$59,057	\$108,703	\$49,645
Debt securities.....	-	-	-	-	-	-
Other.....	506	507	0	5,050	5,060	0
Subtotal.....	6,423	11,399	4,975	64,108	113,773	49,655
Securities whose acquisition cost exceeds their carrying value:						
Stock.....	2,581	2,326	(254)	25,761	23,215	(2,535)
Debt securities.....	-	-	-	-	-	-
Other.....	-	-	-	-	-	-
Subtotal.....	2,581	2,326	(254)	25,761	23,215	(2,535)
Total.....	¥9,004	¥13,725	¥4,720	\$89,869	\$136,989	\$47,110

	May 31, 2007		
	Millions of yen		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost :			
Stock.....	¥5,801	¥14,460	¥8,658
Debt securities.....	-	-	-
Other.....	1,905	1,908	3
Subtotal.....	7,707	16,369	8,661
Securities whose acquisition cost exceeds their carrying value:			
Stock.....	1,023	870	(152)
Debt securities.....	-	-	-
Other.....	1,059	1,055	(3)
Subtotal.....	2,082	1,926	(156)
Total.....	¥9,790	¥18,295	¥8,505

Sales of securities classified as other securities amounted to ¥535 million (\$5,339 thousand) as of May 31, 2008 with the aggregate gain of ¥439 million (\$4,381 thousand) and the aggregate loss of ¥0 million (\$0 thousand) for the year ended May 31, 2008.

Note 5
Depreciation

Depreciation of property, plant and equipment were ¥10,007 million (\$99,880 thousand) and ¥7,888 million for the years ended May 31, 2008 and 2007, respectively.

Note 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, 2008 and 2007 were approximately 4.29% and 3.41%, respectively.

The interest rates applicable to the long-term borrowings (except for current portion) at May 31, 2008 and 2007 average approximately 1.75% and 1.98%, respectively.

Long-term debt at May 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Collateralized loans from banks, insurance companies, government agencies and other financial institutions, due through 2015	¥ 1,426	¥ 1,616	\$ 14,232
Loans without collateral	15,602	15,405	155,724
	17,028	17,021	169,957
Less current portion.....	(5,301)	(4,987)	(52,909)
	¥11,727	¥12,033	\$117,047

The aggregate annual maturities of long-term debt subsequent to May 31, 2008 are as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending May 31,		
2009	¥ 5,301	\$ 52,909
2010	3,840	38,327
2011	3,708	37,009
2012 and thereafter	4,179	41,710
	¥17,028	\$169,957

Assets pledged as collateral for long-term debt, other non-current liabilities and payables-trade at May 31, 2008 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Investment securities	¥ 99	\$ 988
Property, plant and equipment, at net book value	9,803	97,844
	¥9,902	\$98,832

Note 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 rate of 40.69% in 2008 and 2007. 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, 2008 and 2007.

The significant components of deferred tax assets and liabilities as of May 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Accrued retirement benefits	¥ 2,169	¥ 2,288	\$ 21,648
Accrued bonuses.....	1,148	1,255	11,458
Accrued enterprise tax	189	483	1,886
Allowance for sales rebate.....	151	167	1,507
Tax loss carried forward	2,750	2,822	27,447
Other	1,637	1,452	16,338
Total deferred tax assets.....	8,044	8,469	80,287
Valuation allowance.....	(3,082)	(3,075)	(30,761)
	4,966	5,393	49,565
Deferred tax liabilities:			
Adjustment of acquisition costs of fixed assets.....	(3,557)	(3,178)	(35,502)
Special reserve for adjustment of acquisition costs of fixed assets	(444)	–	(4,431)
Unrealized holding gains on other securities	(1,965)	(3,461)	(19,612)
Adjustments on book value relating to land of consolidated subsidiaries	(706)	(706)	(7,046)
Goodwill and other intangible assets.....	(275)	(382)	(2,744)
Other	(254)	(364)	(2,535)
Total deferred tax liabilities.....	(7,204)	(8,092)	(71,903)
Net deferred tax assets (liabilities)	¥(2,238)	¥(2,698)	\$(22,337)

Note 8
Stock Options

Information relating to fiscal year ended May 31, 2008 (From June 1, 2007 to May 31, 2008) is 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 (Notes)	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

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 (Notes)	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 (Notes)	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 (Notes)	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 (Notes)	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 (Notes)	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

Company Name	MOXTEK Inc.
Date of resolution	April 5, 2007
Persons granted	1 other
Number of stock options granted by class of stock (Notes)	Common stock 5,000 shares
Date of grant	April 5, 2007
Vesting conditions	Continuous service from the date of grant (April 5, 2007) to the right fixation day (April 5, 2007), or, not exceeding 30 days after termination.
Service period	No service period is specified
Exercise period	From April 5, 2007 to April 4, 2012

Company Name	MOXTEK Inc.
Date of resolution	December 2, 2007
Persons granted	1 executive of the Company
Number of stock options granted by class of stock (Notes)	Common stock 1,500 shares
Date of grant	December 2, 2007
Vesting conditions	Continuous service from the date of grant (December 2, 2007) to the right fixation day (December 2, 2007), or, not exceeding 30 days after termination.
Service period	No service period is specified
Exercise period	From December 2, 2007 to December 1, 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.*

Note 8
Stock Options
(continued)

[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.	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	April 5, 2007	December 2, 2007
Prior to vesting								
Beginning of period	-	-	-	-	-	-	-	-
Granted	-	-	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-	-	-
Vested	-	-	-	-	-	-	-	-
Unvested	-	-	-	-	-	-	-	-
After vesting								
Beginning of period	16,350	17,500	10,000	10,000	20,000	80,000	-	-
Vested	-	-	-	-	-	-	5,000	1,500
Exercised	-	1,850	-	-	-	3,385	-	-
Forfeited	-	535	-	10,000	10,000	5,380	-	-
Outstanding	16,350	15,115	10,000	0	10,000	71,235	5,000	1,500

b. Unit price information

(In U.S. dollar)

Company Name	MOXTEK Inc.	MOXTEK Inc.	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	April 5, 2007	December 2, 2007
Exercise price	4.66	8.70	17.16	17.16	25.13	25.13	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 the right was exercised at the end of the fiscal year: Not applicable

Note 9
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, 2008 and 2007 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Retirement benefit obligation.....	¥(25,978)	¥(25,380)	\$(259,287)
Plan assets at fair value.....	23,117	25,992	230,731
Unfunded retirement benefit obligation.....	(2,861)	611	(28,555)
Unrecognized actuarial gain or loss.....	94	(2,282)	938
Unrecognized past service cost.....	(1,621)	(1,910)	(16,179)
Net retirement benefit obligation	(4,388)	(3,581)	(43,796)
Prepaid pension cost.....	285	322	2,844
Accrued retirement benefits	¥ (4,674)	¥ (3,904)	\$ (46,651)

The components of retirement benefit expenses for the year ended May 31, 2008 and 2007 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Service cost	¥1,313	¥1,318	\$13,105
Interest cost	532	495	5,309
Expected return on plan assets.....	(423)	(336)	(4,221)
Amortization of actuarial gain or loss	45	204	449
Amortization of past service cost	(284)	(291)	(2,834)
Total	¥1,182	¥1,389	\$11,797

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

	May 31,	
	2008	2007
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 ¥55 million (\$548 thousand) for directors and corporate auditors of the Company and its domestic consolidated subsidiaries at May 31, 2008.

Note 10
Research and Development Expenses

Research and development expenses amounted to ¥10,774 million (\$107,535 thousand) and ¥10,897 million for the years ended May 31, 2008 and 2007, respectively.

Note 11
Contingent Liabilities

Contingent liabilities of the Companies at May 31, 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Notes receivable discounted	¥ 226		\$ 2,255
Guarantees of loans of employees	2,087		20,830

Note 12
Amounts per Share

	Yen		U.S. dollars
	2008	2007	2008
For the year ended May 31:			
Net income:			
Primary	¥ 36.50	¥ 36.37	\$0.36
Diluted	36.32	36.11	0.36
Cash dividends	20.00	20.00	0.19
At May 31:			
Net assets.....	652.54	646.78	6.51

Note 13
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 the 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 14
Leases

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥266 million (\$2,654 thousand) and ¥354 million for the years ended May 31, 2008 and 2007, respectively.

Future minimum lease payments (including the interest portion) subsequent to May 31, 2008 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,		
2009	¥189	\$1,886
2010 and thereafter	255	2,545
	¥444	\$4,431

Lease income relating to finance leases accounted for as operating leases amounted to ¥51 million (\$509 thousand) and ¥51 million for the years ended May 31, 2008 and 2007, respectively.

Note 15
Segment Information

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

Industry segment information for the Companies as of or for the years ended May 31, 2008 and 2007 is summarized as follows:

	2008							Eliminations	Consolidated
	Millions of yen								
	Functional chemicals business	Pharmaceuticals business	Safety systems business	Fine chemicals business	Other businesses	Total			
I. Sales and operating income:									
Sales to third parties.....	¥59,593	¥42,325	¥20,274	¥19,719	¥ 2,989	¥144,901	-	¥144,901	
Intersegments.....	130	5	-	253	6	397	¥ (397)	-	
Total	59,724	42,331	20,274	19,972	2,996	145,299	(397)	144,901	
Operating expenses.....	52,704	34,494	20,094	18,849	1,403	127,545	4,904	132,450	
Operating income.....	¥ 7,019	¥ 7,837	¥ 180	¥ 1,123	¥ 1,592	¥ 17,753	¥ (5,301)	¥ 12,451	
II. Asset depreciation and capital expenditures:									
Total assets.....	¥68,338	¥42,432	¥30,216	¥20,117	¥16,377	¥177,481	¥29,788	¥207,269	
Depreciation and amortization.....	3,457	2,173	2,938	1,039	586	10,195	671	10,867	
Capital expenditures	3,717	3,426	4,973	778	46	12,943	336	13,279	

2008								
Thousands of U.S. dollars								
	Functional chemicals business	Pharmaceuticals business	Safety systems business	Fine chemicals business	Other businesses	Total	Eliminations	Consolidated
I. Sales and operating income:								
Sales to third parties.....	\$594,799	\$422,447	\$202,355	\$196,816	\$ 29,833	\$1,446,262	-	\$1,446,262
Intersegments.....	1,297	49	-	2,525	59	3,962	\$ (3,962)	-
Total	596,107	422,507	202,355	199,341	29,903	1,450,234	(3,962)	1,446,262
Operating expenses.....	526,040	344,285	200,558	188,132	14,003	1,273,031	48,947	1,321,988
Operating income.....	\$ 70,056	\$ 78,221	\$ 1,796	\$ 11,208	\$ 15,889	\$ 177,193	\$ (52,909)	\$ 124,273
II. Asset depreciation and capital expenditures:								
Total assets.....	\$682,084	\$423,515	\$301,586	\$200,788	\$163,459	\$1,771,444	\$297,315	\$2,068,759
Depreciation and amortization.....	34,504	21,688	29,324	10,370	5,848	101,756	6,697	108,463
Capital expenditures	37,099	34,195	49,635	7,765	459	129,184	3,353	132,538

2007								
Millions of yen								
	Functional chemicals business	Pharmaceuticals business	Safety systems business	Fine chemicals business	Other businesses	Total	Eliminations	Consolidated
I. Sales and operating income:								
Sales to third parties.....	¥61,942	¥41,700	¥16,982	¥24,538	¥ 2,960	¥148,124	-	¥148,124
Intersegments.....	122	1	-	293	6	424	¥ (424)	-
Total	62,065	41,702	16,982	24,831	2,967	148,548	(424)	148,124
Operating expenses.....	53,641	34,227	17,099	22,990	1,374	129,332	5,255	134,588
Operating income.....	¥ 8,424	¥ 7,475	¥ (116)	¥ 1,840	¥ 1,592	¥ 19,215	¥ (5,679)	¥ 13,536
II. Asset depreciation and capital expenditures:								
Total assets.....	¥64,388	¥40,075	¥25,464	¥27,067	¥16,550	¥173,545	¥33,535	¥207,081
Depreciation and amortization.....	2,685	1,818	1,890	1,149	608	8,152	577	8,730
Loss on impairment of fixed assets.....	-	-	819	-	-	819	-	819
Capital expenditures	7,196	1,213	4,686	1,417	101	14,615	422	15,038

The Company and certain domestic subsidiaries had depreciated their property, plant and equipment up to their residual value, 5% of acquisition cost, as permitted under the former Corporation Tax Law. Upon the revision to the Corporation Tax Law enacted on April 1, 2007, the Company and those domestic subsidiaries depreciate such 5% portion of property, plant and equipment acquired on or before March 31, 2007 on a straight-line basis over 5 years starting in the following year in which the carrying value of property, plant and equipment has reached 5% of the acquisition cost.

The effect of this change in accounting treatment was to decrease operating income for the year ended May 31, 2008 in functional chemicals by ¥166 million (\$1,656 thousand), in pharmaceuticals by ¥153 million (\$1,527 thousand), in safety systems by ¥19 million (\$189 thousand), in fine chemicals by ¥85 million (\$848 thousand) and in other business by ¥7 million (\$69 thousand).

Overseas sales, which include export sales of the Company and its consolidated subsidiaries, totaled ¥52,261 million (\$521,618 thousand) and ¥50,168 million, or 36.1% and 33.8% of the consolidated net sales for the years ended May 31, 2008 and 2007, respectively.

Note 16
Business
Combinations

The Company conducted organizational restructuring as follows;

(1) Merger

[1] Outline

On October 23, 2007, the Company's board of directors concluded the merger agreement with Kayatech Co., Ltd., a subsidiary of the Company.

[2] Legal form

The surviving corporation: the Company

The dissolved corporation: Kayatech Co., Ltd.

(2) Division

[1] Outline

On October 25, 2007, the Company concluded a common-ownership absorptive division agreement in industrial explosive business with Asahi Kasei Chemicals Corp. and Kayaku Japan Co., Ltd., a subsidiary of the Company.

[2] Legal form

The division corporations: the Company and Asahi Kasei Chemicals Corp.

The succeeding corporation: Kayaku Japan Co., Ltd.

(3) Effective date

Those business combinations above went into effect on January 2, 2008.

Note 17
Subsequent Events

The following appropriations of retained earnings of the Company were approved at a meeting of the shareholders held on August 28, 2008:

	Millions of yen	Thousands of U.S. dollars
2008 year-end cash dividends (¥10 = \$0.099 per share)	¥1,816	\$18,125