

Notes to Consolidated Financial Statements

Nippon Kayaku Co., Ltd. and Consolidated Subsidiaries
May 31, 2009 and 2008

Note 1

Basis of Consolidated Financial Statements

a. Basis of Presentation

The accompanying consolidated financial statements of Nippon Kayaku Co., Ltd. (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 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. Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

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 using the straight-line method over five to ten years.

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.

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 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 principally at the acquisition cost, using the average method. (The figures shown in the balance sheet have been calculated in accordance with the write-down approach based on decline in profitability.)

Note 1

Basis of Consolidated Financial Statements
(continued)

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.

Estimates of the useful lives of the machinery and equipment of the Company and its consolidated subsidiaries in Japan have been revised in conjunction with the 2008 revision to the Corporation Tax Act and changes have been made starting from the current consolidated fiscal year. As a result of this change, operating income and income before income taxes and minority interests have increased by ¥331 million (\$3,430 thousand), respectively, for the current consolidated fiscal year. The effect on segment information is referred at the said section.

h. Leases

Leased property under finance leases which do not transfer ownership of the leased property are depreciated by the straight-line method over the lease terms assuming no residual value.

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 by the eligible employees. Actuarial gain and loss are amortized in the following years 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 by 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 by 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 income. 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 ¥96.48 = \$1, the approximate rate of exchange on May 31, 2009, 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

a. Changes in Valuation Methods of Inventories

Previously, inventories held for sale in the ordinary course of business were stated at the acquisition cost, with cost being determined by the average method. However, effective June 1, 2008, the Company has adopted the "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9 of July 5, 2006) and accordingly such inventories are now mainly stated at cost, with cost being determined by the average method (the figures shown in the balance sheet have been calculated in accordance with the write-down approach based on decline in profitability). As a result of this change, gross profit and operating income have decreased by ¥142 million (\$1,471 thousand) and income before income taxes and minority interests has decreased by ¥647 million (\$6,706 thousand) for the current consolidated fiscal year. The effect on segment information is referred at the said section.

b. Practical solution on unification of accounting policies applied to foreign subsidiaries for consolidated financial statements

Beginning the current consolidated fiscal year, the Company has adopted the Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (Practical Issues Task Force No. 18, May 17, 2006) and has revised the consolidated financial statements accordingly.

As a result of this change, retained earnings as of the beginning of the year has decreased by ¥190 million (\$1,969 thousand), operating income and income before income taxes and minority interests decreased by ¥146 million (\$1,513 thousand), respectively, for the current consolidated fiscal year. The effect on segment information is referred at the said section.

c. Accounting Standards for Lease Transactions

Previously finance lease transactions that do not transfer the ownership to the lessee had been accounted for in the same manner as ordinary operating lease transactions. However, beginning the current consolidated fiscal year, the Accounting Standards for Lease Transactions (ASBJ Statement No. 13, originally issued by the Corporate Accounting Council on June 17, 1993, and revised by ASBJ on March 30, 2007) and the Guidance on the Accounting Standard for Lease Transactions (ASBJ Guidance No. 16, originally issued by the Japanese Institute of Certified Public Accountants on January 18, 1994 and revised by ASBJ on March 30, 2007) were adopted and the accounting treatment for such finance lease transactions has been changed to methods similar to ordinary buying and selling transactions. The finance lease transactions, which do not transfer the ownership to the lessee, and which started before the initial year of the new accounting rule's adoption continue to be accounted for similar to rental transactions. There was no effect as a result of this change.

Note 4

Inventories

Inventories at May 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Merchandise.....	¥ 3,033	¥ 2,723	\$ 31,436
Finished products.....	7,210	8,727	74,730
Semi-finished products and work in process.....	6,343	6,536	65,744
Raw materials and supplies.....	6,917	6,515	71,693
	¥23,504	¥24,503	\$243,615

Note 5

Marketable and Investment Securities

Information regarding marketable securities classified as other securities as of May 31, 2009 and 2008 was as follows:

Marketable other securities

	May 31, 2009					
	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	¥2,715	¥5,019	¥2,303	\$ 28,140	\$ 52,021	\$23,870
Debt securities.....	-	-	-	-	-	-
Other	-	-	-	-	-	-
Subtotal	2,715	5,019	2,303	28,140	52,021	23,870
Securities whose acquisition cost exceeds their carrying value:						
Stock	7,016	4,807	(2,208)	72,719	49,823	(22,885)
Debt securities.....	-	-	-	-	-	-
Other	-	-	-	-	-	-
Subtotal	7,016	4,807	(2,208)	72,719	49,823	(22,885)
Total	¥9,732	¥9,826	¥ 94	\$100,870	\$101,844	\$ 974

Note 5**Marketable and Investment Securities**
(continued)

	May 31, 2008		
	Millions of yen		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost :			
Stock	¥5,917	¥10,891	¥4,974
Debt securities.....	-	-	-
Other	506	507	0
Subtotal.....	6,423	11,399	4,975
Securities whose acquisition cost exceeds their carrying value:			
Stock	2,581	2,326	(254)
Debt securities.....	-	-	-
Other	-	-	-
Subtotal.....	2,581	2,326	(254)
Total.....	¥9,004	¥13,725	¥4,720

Sales of securities classified as other securities amounted to ¥525 million (\$5,441 thousand) with the aggregate gain of ¥2 million (\$20 thousand) for the year ended May 31, 2009.

Note 6**Depreciation**

Depreciation of property, plant and equipment was ¥10,295 million (\$106,706 thousand) and ¥10,007 million for the years ended May 31, 2009 and 2008, 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, 2009 and 2008 were approximately 1.49% and 4.29%, respectively.

The approximate interest rates applicable to the long-term borrowings (except for current portion) at May 31, 2009 and 2008 were average 1.54% and 1.75%, respectively.

Long-term debt at May 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Collateralized loans from banks, insurance companies, government agencies and other financial institutions, due through 2015	¥ 1,235	¥ 1,426	\$ 12,800
Loans without collateral.....	20,068	15,602	208,001
	21,303	17,028	220,802
Less current portion	(5,335)	(5,301)	(55,296)
	¥15,968	¥11,727	\$165,505

The aggregate annual maturities of long-term debt subsequent to May 31, 2009 are as follows:

	Millions of yen	Thousands of U.S. dollars
	Year ending May 31,	
2010	¥ 5,335	\$ 55,296
2011	5,746	59,556
2012	4,599	47,667
2013 and thereafter	5,623	58,281
	¥21,303	\$220,802

Assets pledged as collateral for long-term debt, other non-current liabilities and payables-trade at May 31, 2009 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	Investment securities.....	¥ 70
Property, plant and equipment, at net book value	7,347	76,150
	¥7,417	\$76,876

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 a statutory tax rate of 40.69% in 2009 and 2008. 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. The effective tax rate reflected in the consolidated statements of income for the year ended May 31, 2009 differ from the statutory tax rate for the following reasons:

	2009
Effective statutory tax rate	40.69%
Effect of:	
Expenses not deductible for income tax purposes	2.85
Dividend income deductible for income tax purposes.....	(4.88)
Tax deductions for research and development expenses.....	(9.09)
Taxation on per capita basis.....	1.34
Intercompany dividends	7.24
Tax effect from sales of investments in affiliates	3.88
Amortization of goodwill.....	2.29
Increase in valuation allowance.....	9.52
Other, net	(2.40)
Subtotal.....	10.75
Effective tax rate.....	51.44%

The significant components of deferred tax assets and liabilities as of May 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Deferred tax assets:			
Accrued retirement benefits	¥2,046	¥ 2,169	\$21,206
Accrued bonuses	1,035	1,148	10,727
Accrued enterprise tax	303	189	3,140
Allowance for sales rebate	167	151	1,730
Goodwill	299	-	3,099
Loss on revaluation of investment securities in subsidiaries and affiliates.....	845	-	8,758
Loss on revaluation of inventories	272	-	2,819
Tax loss carried forward.....	3,534	2,750	36,629
Other	1,613	1,637	16,708
Total deferred tax assets	10,118	8,044	104,819
Valuation allowance.....	(3,983)	(3,082)	(41,283)
	6,135	4,966	63,588
Deferred tax liabilities:			
Adjustment of acquisition costs of fixed assets.....	(3,590)	(3,557)	(37,209)
Special reserve for adjustment of acquisition costs of fixed assets.....	(173)	(444)	(1,793)
Unrealized holding gains on other securities	(80)	(1,965)	(829)
Adjustments on book value relating to land of consolidated subsidiaries	(706)	(706)	(7,317)
Goodwill and other intangible assets	(238)	(275)	(2,466)
Depreciation	(275)	-	(2,850)
Other	(202)	(254)	(2,093)
Total deferred tax liabilities.....	(5,267)	(7,204)	(54,591)
Net deferred tax assets (liabilities).....	¥ 867	¥(2,238)	\$ 8,986

Note 9**Stock Options**

Stock option expense that was included in "Selling, general and administrative expenses" on the consolidated statement of income for the year ended May 31, 2009 amounted to ¥19 million (\$196 thousand).

The stock options outstanding as of May 31, 2009 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 (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

Company Name	MOXTEK Inc.
Date of resolution	May 28, 2008
Persons granted	2 directors of the Company, 16 executives of the Company, 9 others
Number of stock options granted by class of stock (Notes)	Common stock 97,500 shares
Date of grant	May 28, 2008
Vesting conditions	Continuous service from the date of grant (May 28, 2008) to the right fixation day (May 28, 2008), or, not exceeding 30 days after termination.
Service period	No service period is specified
Exercise period	From May 28, 2008 to May 27, 2018

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)

[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	January 31, 2007	February 14, 2007	April 5, 2007	December 2, 2007	May 28, 2008
Prior to vesting								
Beginning of period	-	-	-	-	-	-	-	-
Granted	-	-	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-	-	-
Vested	-	-	-	-	-	-	-	-
Unvested	-	-	-	-	-	-	-	-
After vesting								
Beginning of period	16,350	15,115	10,000	10,000	71,235	5,000	1,500	-
Vested	-	-	-	-	-	-	-	97,500
Exercised	16,350	3,160	3,000	-	11,235	-	-	-
Forfeited	-	6,550	1,200	-	7,000	-	-	4,000
Outstanding	-	5,405	5,800	10,000	53,000	5,000	1,500	93,500

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	January 31, 2007	February 14, 2007	April 5, 2007	December 2, 2007	May 28, 2008
Exercise price	4.66	8.70	17.16	25.13	25.13	25.13	25.13	14.00
Average stock market price at exercise	-	-	-	-	-	-	-	-
Fair value unit price at grant date	-	-	-	-	-	-	-	-

(2) Assumptions used in estimating the fair value of stock options above were as follows:

Fiscal year 2009 stock options

Method of estimation	Black-Scholes model
Volatility *1	43.0%
Expected remaining period	3 years and 4 months
Expected dividend *2	-
Risk-free interest rate *3	2.55%

*1 The regulation of the average has been used for three years of a similar type of business.

*2 Probable dividend per share for each year

*3 Interest rate for the United States government bond

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, 2009 and 2008 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Retirement benefit obligation	¥(26,186)	¥ (25,978)	\$ (271,413)
Plan assets at fair value.....	19,280	23,117	199,834
Unfunded retirement benefit obligation.....	(6,906)	(2,861)	(71,579)
Unrecognized actuarial gain or loss	3,434	94	35,592
Unrecognized past service cost	(1,329)	(1,621)	(13,774)
Net retirement benefit obligation	(4,800)	(4,388)	(49,751)
Prepaid pension cost	238	285	2,466
Accrued retirement benefits.....	¥ (5,039)	¥ (4,674)	\$ (52,228)

The components of retirement benefit expenses for the year ended May 31, 2009 and 2008 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Service cost.....	¥1,301	¥1,313	\$13,484
Interest cost.....	521	532	5,400
Expected return on plan assets	(435)	(423)	(4,508)
Amortization of actuarial gain or loss	288	45	2,985
Amortization of past service cost	(280)	(284)	(2,902)
Total	¥1,395	¥1,182	\$14,458

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

	May 31,	
	2009	2008
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 ¥45 million (\$466 thousand) for directors and corporate auditors of the Company and its domestic consolidated subsidiaries at May 31, 2009.

Note 11

Research and Development Expenses

Research and development expenses amounted to ¥10,478 million (\$108,602 thousand) and ¥10,774 million for the years ended May 31, 2009 and 2008, respectively.

Note 12

Contingent Liabilities

Contingent liabilities of the Companies at May 31, 2009 were as follows:

	Millions of yen	Thousands of U.S. dollars
	¥	\$
Notes receivable discounted	228	2,363
Guarantees of loans of employees.....	1,892	19,610

Note 13

Amounts per Share

	Yen		U.S. dollars
	2009	2008	2009
For the year ended May 31:			
Net income:			
Primary.....	¥ 20.48	¥ 36.50	\$0.21
Diluted	20.45	36.32	0.21
Cash dividends	20.00	20.00	0.20
At May 31:			
Net assets	629.12	652.54	6.52

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 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 15
Leases

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥189 million (\$1,958 thousand) and ¥266 million for the years ended May 31, 2009 and 2008, respectively.

Future minimum lease payments (including the interest portion) subsequent to May 31, 2009 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,		
2010.....	¥129	\$1,337
2011 and thereafter	126	1,305
	¥255	\$2,643

Lease income relating to finance leases accounted for as operating leases amounted to ¥51 million (\$528 thousand) and ¥51 million for the years ended May 31, 2009 and 2008, respectively.

Note 16
Segment Information

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

Industry segment information for the Companies as of or for the years ended May 31, 2009 and 2008 is summarized as follows:

	2009						Consolidated
	Millions of yen						
	Functional chemicals business	Pharmaceuticals business	Safety systems business	Other businesses	Total	Eliminations	
I. Sales and operating income:							
Sales to third parties.....	¥62,679	¥45,770	¥15,195	¥10,708	¥134,353	-	¥134,353
Intersegments.....	64	28	-	24	117	¥ (117)	-
Total	62,744	45,798	15,195	10,732	134,470	(117)	134,353
Operating expenses.....	58,334	36,443	16,859	8,587	120,225	4,760	124,985
Operating income.....	¥ 4,409	¥ 9,355	¥ (1,664)	¥ 2,145	¥ 14,245	¥ (4,877)	¥ 9,367
II. Asset depreciation and capital expenditures:							
Total assets.....	¥69,925	¥43,770	¥25,399	¥22,811	¥161,907	¥42,091	¥203,998
Depreciation and amortization.....	4,218	2,558	2,630	904	10,312	430	10,742
Capital expenditures	3,774	1,978	3,723	257	9,734	374	10,108

	2009						Consolidated
	Thousands of U.S. dollars						
	Functional chemicals business	Pharmaceuticals business	Safety systems business	Other businesses	Total	Eliminations	
I. Sales and operating income:							
Sales to third parties.....	\$ 649,657	\$ 474,398	\$ 157,493	\$ 110,986	\$ 1,392,547	-	\$ 1,392,547
Intersegments.....	663	290	-	248	1,212	\$ (1,212)	-
Total	650,331	474,689	157,493	111,235	1,393,760	(1,212)	1,392,547
Operating expenses.....	604,622	377,725	174,740	89,002	1,246,113	49,336	1,295,449
Operating income.....	\$ 45,698	\$ 96,963	\$ (17,247)	\$ 22,232	\$ 147,647	\$ (50,549)	\$ 97,087

II. Asset depreciation and capital expenditures:							
Total assets.....	\$ 724,761	\$ 453,669	\$ 263,256	\$ 236,432	\$ 1,678,140	\$ 436,266	\$ 2,114,407
Depreciation and amortization.....	43,718	26,513	27,259	9,369	106,882	4,456	111,339
Capital expenditures	39,116	20,501	38,588	2,663	100,891	3,876	104,767

	2008						Consolidated
	Millions of yen						
	Functional chemicals business	Pharmaceuticals business	Safety systems business	Other businesses	Total	Eliminations	
I. Sales and operating income:							
Sales to third parties.....	¥ 69,362	¥ 42,325	¥ 20,274	¥ 12,939	¥ 144,901	-	¥ 144,901
Intersegments.....	114	5	-	10	131	¥ (131)	-
Total	69,476	42,331	20,274	12,950	145,033	(131)	144,901
Operating expenses.....	61,713	34,494	20,094	11,103	127,405	5,045	132,450
Operating income.....	¥ 7,762	¥ 7,837	¥ 180	¥ 1,847	¥ 17,627	¥ (5,176)	¥ 12,451

II. Asset depreciation and capital expenditures:							
Total assets.....	¥ 79,171	¥ 42,432	¥ 30,216	¥ 23,906	¥ 175,726	¥ 31,542	¥ 207,269
Depreciation and amortization.....	3,904	2,173	2,938	1,178	10,195	671	10,867
Capital expenditures	4,021	3,426	4,973	521	12,943	336	13,279

a. Changes in Valuation Methods of Inventories

Previously, inventories held for sale in the ordinary course of business were stated at the acquisition cost, with cost being determined by the average method. However, starting from the current consolidated fiscal year, the Company has adopted the "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9 of July 5, 2006) and accordingly such inventories are now mainly stated at cost, with cost being determined by the average method (the figures shown in the balance sheet have been calculated in accordance with the write-down approach based on decline in profitability). As a result of this change, compared with the previous method, operating income decreased by ¥166 million (\$1,720 thousand) in "Functional chemicals business", operating income increased by ¥28 million (\$290 thousand) in "Other businesses". The effects of this change on "Pharmaceuticals business" and "Safety systems business" were minimal.

b. Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

Starting from the current consolidated fiscal year, the Company has adopted the Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (Practical Issues Task Force No. 18, May 17, 2006) and has revised the consolidated financial statements accordingly. As a result of this change, compared with the previous method, operating income decreased by ¥146 million (\$1,513 thousand) in "Functional chemicals business".

Note 16

Segment Information
(continued)

c. Changes in Useful Lives of Property, Plant and Equipment

Estimates of the useful lives of the machinery and equipment of the Company and its consolidated subsidiaries in Japan have been revised in conjunction with the 2008 revision to the Corporation Tax Act and changes have been made starting from the current consolidated fiscal year. As a result of this change, compared with the previous method, operating income decreased by ¥66 million (\$684 thousand) in "Functional chemicals business," operating income increased by ¥120 million (\$1,243 thousand) in "Pharmaceuticals business," operating loss decreased by ¥257 million (\$2,663 thousand) in "Safety systems business" and operating loss decreased by ¥19 million (\$196 thousand) in "Eliminations." The effect of this change on "Other businesses" was minimal.

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, 2009:

	Millions of yen	Thousands of U.S. dollars
2009 year-end cash dividends (¥10 = \$0.103 per share).....	¥1,816	\$19,169