

Five-Year Summary (Consolidated)

Nippon Kayaku Co., Ltd. and Consolidated Subsidiaries
Years ended May 31

	Millions of yen				
	2000	1999	1998	1997	1996
Results for the year					
Net sales	¥121,302	¥121,483	¥126,445	¥122,406	¥116,171
Cost of sales	73,525	75,068	76,897	75,478	71,172
Selling, general and administrative expenses	33,705	34,267	35,108	34,878	34,766
Operating income	14,071	12,147	14,439	12,048	10,233
Income before income taxes and minority interests	10,132	12,057	13,071	11,314	9,578
Net income	4,807	6,714	5,886	9,954	4,627
Amounts per share (in yen)					
Net income	¥ 26.34	¥ 36.79	¥ 32.25	¥ 54.54	¥ 25.35
Cash dividend applicable to the year	11.00	11.00	10.00	10.00	9.00
Shareholders' equity	496.90	476.65	449.86	427.89	382.63
Year-end financial position					
Current assets	¥ 97,554	¥ 94,283	¥100,586	¥ 92,129	¥ 77,560
Current liabilities	37,042	37,750	58,220	52,203	45,569
Working capital	60,512	56,533	42,366	39,926	31,991
Property, plant and equipment	57,490	45,712	45,766	43,562	45,105
Total assets	174,613	170,678	166,600	156,276	142,422
Total shareholders' equity	90,666	86,989	82,101	78,090	69,831
Year-end statistics					
Number of shares outstanding (in thousands)	182,503	182,503	182,503	182,503	182,503
Number of shareholders	29,742	27,582	28,221	27,664	28,680
Number of employees	3,164	-	-	-	-
Financial ratios					
Current ratio (times)	2.6	2.5	1.7	1.8	1.7
Equity ratio (%)	51.9	51.0	49.3	50.0	49.0
ROE (%)	5.3	7.7	7.2	12.7	6.6
ROA (%)	2.8	3.9	3.5	6.4	3.2
Net sales by business segment					
Pharmaceuticals Business	¥ 49,335	¥ 54,427	¥ 56,082	¥ 53,172	¥ 50,724
Fine Chemicals Business	68,404	65,655	69,272	68,145	64,339
Inflators Business	4,802	3,308	-	-	-
Catalysis Business	811	1,134	-	-	-
Functional Products Business	27,163	24,031	-	-	-
Color Chemicals Business	14,187	13,393	-	-	-
Agro & Fine Chemicals Business	14,896	17,262	-	-	-
Explosives Business	6,543	6,524	-	-	-
Other Business	3,562	1,400	1,090	1,087	1,106

Financial Review (Consolidated)

Explanation of Business Performance

Net Sales

During the year, as a result of various government economic measures, the Japanese economy began to show signs of improvement in segments of the public investment and housing investment markets. However, due to a featureless private capital investment market and stagnation of individual consumption, a full-fledged economic recovery is not yet under way.

Amidst these economic conditions, the net sales for the year ending May 2000 for Nippon Kayaku Co., Ltd. and consolidated subsidiaries was 121,302 million yen, 181 million (0.1%) less than the previous year. There was a revision of pharmaceutical prices in April of this year, and further drastic reforms of the healthcare system are still being debated. The pharmaceutical industry faces a trend toward ever-stricter control of the cost of medication. In Japan and abroad, global pharmaceutical companies continue to merge, and companies are betting their survival on their business plans. In this environment, the net sales of our Pharmaceuticals Group decreased by 5,092 million (9.4%) to 49,335 million yen.

There was some good news for the Fine Chemicals Group in that the rally of the SE Asian markets spurred a recovery of exports. On the other hand, the dull tone of Japanese demand and prices made for a tough business environment from beginning to end. However, the net sales of the Fine Chemicals Group was 68,404 million yen, an increase of 2,749 million (4.2%) over the previous year.

The net sales of other business segments increased by 2,161 million (154.3%) to 3,562 million yen.

Cost of Sales

The cost of sales was down 1,543 million yen (2.1%) from the previous year, decreasing to 73,525 million yen. The percentage distribution with respect to net sales improved by 1.2 points to 60.6%. Sales, general, and administrative expenses dropped to 33,705 million yen, a decrease of 562 million yen (1.6%) from the previous year. The main cause of this decrease was a reduction in labor costs which accompanied a reduction in personnel.

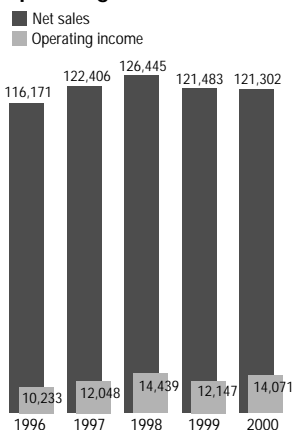
Operating Income and Income Before Income Taxes and Minority Interests

Operating income was 14,071 million yen, an increase of 1,924 million (15.8%) over the previous year. The ratio of operating income to net sales improved 1.6 points to 11.5%. Interest and dividend income were 566 million yen, an increase of 137 million (31.9%), but other expenditures were 4,504 million yen, 3,984 million (766.2%) more than the previous year. The majority, 2,095 million yen, of these other expenditures were costs associated with restructuring. Minority interest was 716 million yen. As a result of the above, income before income taxes and minority interests decreased by 1,925 million (16.0%) to 10,132 million yen.

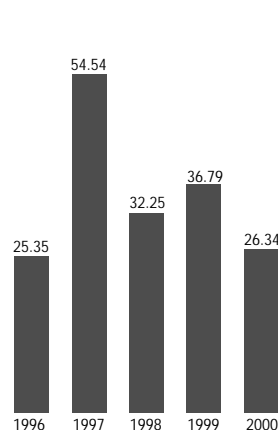
Net Income

Net income was 4,807 million yen, down by 1,907 million (28.4%) from the previous year. The ratio of net income to net sales declined by 1.5 points to 4.0%. Net income per share was 26.34 yen.

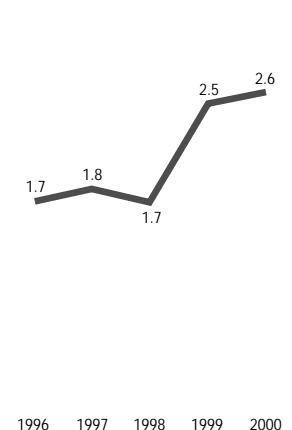
Net Sales (million yen)/
Operating Income (million yen)



Net Income per Share (yen)



Current Ratio (times)



Financial Conditions

Current Assets

Cash and cash equivalents totaled 23,968 million yen, an increase of 3,504 million (17.1%) over the previous year. There was a total of 2,336 million yen in time deposits, an increase of 1,253 million (115.7%). Marketable securities totaled 5,692 million yen, a decrease of 1,862 million (24.7%). Inventories were 21,194 million yen, an increase of 618 million (3.0%). As a result, total current assets were 97,544 million yen, an increase of 3,261 million (3.5%).

Property, Plant, and Equipment

Property, plant, and equipment declined by 192 million yen (0.3%) to 57,490 million yen as a result of accumulated depreciation. Investment and other assets increased to 19,478 million yen, an increase of 767 million yen (4.1%).

Liabilities

Current liabilities totaled 37,042 million yen, down 708 million yen (1.9%) from the previous year. The main reason for the decrease was a reduction in short-term bank loans, payables, and accrued expenses. The total of non-current liabilities was 43,962 million yen, a decrease of 1,104 million (2.4%) which was primarily due to the reduction in long-term debt.

Shareholders' equity

Shareholders' equity increased by 3,677 million yen (4.2%) to 90,666 million yen. As a result of this, and also of the reduction in liabilities, the equity ratio increased 0.9 points to 51.9%.

Cash Flow

Cash Flow From Operating Activities

The 10,132 million yen in income before income taxes and 7,176 million yen in depreciation and amortization contributed to net cash from operation activities reaching a total income of 16,756 million yen.

Cash Flow From Investment Activities

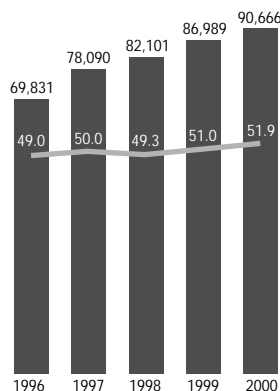
During the year, 7,752 million yen was expended on the purchase of property, plant, and equipment; however, proceeds from the sale of real estate and other property, plant, and equipment were 873 million yen. Thus, net cash used in investment activities became 6,148 million yen.

Cash Flow From Financing Activities

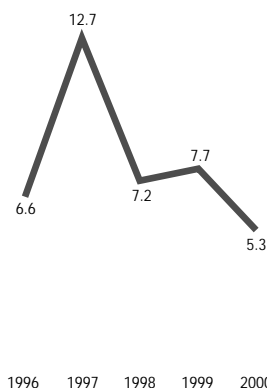
Cash flow from financing activities showed a total expenditure of 7,048 million yen, as part of an effort to reduce interest-bearing liabilities.

As a result, cash and cash equivalents increased from the previous consolidated fiscal year by 3,504 million to reach 23,968 million yen. Because the "Consolidated Statements of Cash Flows" is created from this consolidated fiscal year, analysis has not been done to compare the cash flows from operating activities, investing activities, and financing activities with those of the previous year.

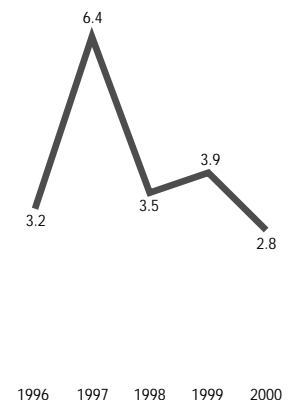
Shareholders' Equity (million yen) /
Equity Ratio (%)



Return on Shareholders' Equity (ROE) (%)



Return on Assets (ROA) (%)



Consolidated Balance Sheets

Nippon Kayaku Co., Ltd. and Consolidated Subsidiaries
Years ended May 31, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2000	1999	2000
Assets			
Current assets:			
Cash and cash equivalents	¥ 23,968	¥ 20,464	\$ 225,263
Time deposits	2,336	1,083	21,954
Marketable securities (Note 4).....	5,692	7,554	53,496
Receivables:			
Trade	42,402	44,034	398,515
Less allowance for doubtful receivables	(250)	(293)	(2,349)
Inventories (Note 3).....	21,194	20,576	199,191
Deferred income taxes (Note 7).....	747	-	7,020
Other current assets	1,452	864	13,646
Total current assets	97,544	94,283	916,766
Property, plant and equipment (Notes 5 and 6):	157,589	153,672	1,481,099
Less accumulated depreciation	(100,098)	(95,989)	(940,770)
Property, plant and equipment, net	57,490	57,682	540,319
Investments and other assets:			
Investment securities (Note 4)	13,996	14,922	131,541
Deferred income taxes (Note 7).....	1,145	-	10,761
Other assets	4,336	3,789	40,751
Total investments and other assets	19,478	18,711	183,063
Translation adjustment	100	-	939
Total assets	¥174,613	¥170,678	\$1,641,099

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2000	1999	2000
Liabilities and shareholders' equity			
Current liabilities:			
Short-term bank loans (Note 6).....	¥ 1,954	¥ 3,992	\$ 18,364
Current portion of long-term debt (Note 6)	1,636	1,076	15,375
Payables:			
Trade	14,676	11,750	137,932
Unconsolidated subsidiaries and affiliates.....	1,164	5,340	10,939
Construction.....	2,656	5,177	24,962
Other	9,784	2,790	91,954
Accrued expenses	2,553	5,468	23,994
Accrued income taxes	2,094	1,761	19,680
Other current liabilities	445	391	4,182
Deferred income taxes (Note 7).....	74	-	695
Total current liabilities	37,042	37,750	348,139
Non-current liabilities:			
Long-term debt, less current portion (Note 6)	15,278	16,397	143,590
Accrued severance indemnities (Note 8)	8,301	9,282	78,016
Other non-current liabilities	19,561	19,387	183,843
Deferred income taxes (Note 7).....	820	-	7,706
Total non-current liabilities	43,962	45,066	413,176
Translation adjustments	-	107	-
Minority interests	2,942	763	27,650
Shareholders' equity (Notes 11 and 15):			
Common stock, ¥50 par value:			
Authorized - 700,000,000 shares			
Issued - 182,503,570 shares in 2000 and 1999	14,932	14,932	140,338
Additional paid-in capital.....	17,257	17,257	162,189
Retained earnings	58,500	54,800	549,812
Less treasury stock, at cost	(24)	(1)	(225)
Total shareholders' equity	90,666	86,989	852,124
Contingent liabilities (Note 10)			
Total liabilities and shareholders' equity	¥174,613	¥170,678	\$1,641,099

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, 2000 and 1999

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2000	1999	2000
Net sales	¥121,302	¥121,483	\$1,140,056
Cost of sales	73,525	75,068	691,024
Gross profit	47,776	46,415	449,022
Selling, general and administrative expenses	33,705	34,267	316,776
Operating income	14,071	12,147	132,246
Other income (expenses):			
Interest and dividend income	566	429	5,319
Interest expense	(718)	(592)	(6,748)
Other, net (Note 12)	(3,786)	72	(35,582)
	(3,939)	(90)	(37,020)
Income before income taxes and minority interests	10,132	12,057	95,225
Income taxes (Note 7):			
Current	5,042	5,342	47,387
Deferred	(433)	-	(4,069)
Minority interests	716	0	6,729
Net income	4,807	6,714	45,178
Retained earnings at beginning of year	54,800	49,912	515,037
Prior period adjustment for adoption of tax-effect accounting	1,083	-	10,178
Increase resulting from adopting the equity accounting method for an additional affiliate	-	332	-
Decrease resulting from consolidation of three additional subsidiaries	-	(43)	-
Decrease resulting from a merger of affiliates	(29)	-	(272)
Bonuses to directors	(62)	(61)	(582)
Cash dividends paid	(2,098)	(2,053)	(19,718)
Retained earnings at end of year	¥ 58,500	¥ 54,800	\$ 549,812

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

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

	Millions of yen	Thousands of U.S. dollars (Note 2)
	2000	2000
Cash flows from operating activities		
Income before income taxes and minority interests	¥10,132	\$ 95,225
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,176	67,443
Decrease in reserves	(825)	(7,753)
Interest and dividend income	(566)	(5,319)
Interest expense	718	6,748
Equity in earnings of affiliates	(220)	(2,067)
Loss on disposal of property, plant and equipment	1,227	11,531
Gain on sales of property, plant and equipment	(806)	(7,575)
Changes in operating assets and liabilities:		
Notes and accounts receivable - trade	7,417	69,708
Inventories	942	8,853
Notes and accounts payable - trade	(7,146)	(67,161)
Payables - other	3,181	29,896
Accrued consumption taxes	868	8,157
Other	(464)	(4,360)
Subtotal	21,636	203,345
Interest and dividends received	564	5,300
Interest paid	(698)	(6,560)
Income taxes paid	(4,745)	(44,595)
Net cash provided by operating activities	16,756	157,481
Cash flows from investing activities		
Purchase of marketable securities	(3,203)	(30,103)
Proceeds from sales of marketable securities	4,617	43,392
Purchase of property, plant and equipment	(7,752)	(72,857)
Proceeds from sales of property, plant and equipment	873	8,204
Other	(683)	(6,419)
Net cash used in investing activities	(6,148)	(57,781)
Cash flows from financing activities		
Net increase (decrease) short-term debt	(2,823)	(26,531)
Proceeds from long-term debt	287	2,697
Repayment of long-term debt	(2,434)	(22,875)
Cash dividends paid	(2,097)	(19,708)
Other	19	178
Net cash used in financing activities	(7,048)	(66,240)
Effect of exchange rate changes on cash and cash equivalents	(54)	(507)
Increase in cash and cash equivalents	3,504	32,932
Cash and cash equivalents at beginning of year	20,464	192,330
Cash and cash equivalents at end of year	¥23,968	\$225,263

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nippon Kayaku Co., Ltd. and Consolidated Subsidiaries
May 31, 2000 and 1999

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.

Effective the year ended May 31, 2000, the Company was required to prepare a consolidated statement of cash flows as part of its consolidated financial statements for the first time under the Securities and Exchange Law of Japan. Accordingly, the Company has prepared a consolidated statement of cash flows for the year ended May 31, 2000 only in accordance with Accounting Standards for Consolidated Statements of Cash Flows.

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 for consolidation, the accompanying consolidated financial statements for the year ended May 31, 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.

Investments in certain significant affiliates are accounted for by the equity method. 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. Cash Equivalents

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

d. Marketable Securities

Marketable securities are stated at the lower of cost or market determined by the moving average methods.

e. Inventories

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

f. 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.

g. 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.

h. Accrued Severance Indemnities and Pension Costs

Employees of the Company and its domestic subsidiaries are generally entitled, on termination of their employment, to lump-sum severance payments determined by reference to their basic rate of pay, length of service and the conditions under which the termination occurs. 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 plan outlined below.

In addition to the severance indemnities plan, the Company has a pension plan for its employees. Costs with respect to the pension plan are funded as accrued in an amount determined actuarially. Prior service cost is being expensed and funded over a period of approximately 14 years.

i. Income Taxes

Effective June 1, 1999, the Company changed its method of accounting for income taxes to adopt tax-effect accounting. Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse. Until the year ended May 31, 1999, income taxes were recorded as to current taxes only. The effect of this adoption was to increase deferred tax assets by ¥1,893 million, deferred tax liability ¥895 million, net income by ¥456 million, and retained earnings by ¥1,540 million for the year ended May 31, 2000.

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 ¥106.40 = U.S.\$1, the approximate rate of exchange on May 31, 2000, 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, 2000 and 1999 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2000	1999	2000
Merchandise	¥ 2,721	¥ 2,718	\$ 25,573
Finished products.....	9,262	8,592	87,048
Semi-finished products and work in process	6,384	6,429	60,000
Raw materials and supplies	2,826	2,836	26,560
	<u>¥21,194</u>	<u>¥20,576</u>	<u>\$199,191</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, 2000 were as follows:

	May 31, 2000	
	Millions of yen	Thousands of U.S. dollars
Current:		
Carrying value	¥ 6,414	\$ 60,281
Aggregate market value	6,902	64,868
Net unrealized gains	488	4,586
Non-current:		
Carrying value	¥ 7,132	\$ 67,030
Aggregate market value	14,912	140,150
Net unrealized gains	7,780	73,120

5. Depreciation

Depreciation for property, plant and equipment for the years ended May 31, 2000 were ¥7,021 million (\$65,986 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, 2000 were approximately 0.90%.

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

	May 31, 2000	
	Millions of yen	Thousands of U.S. dollars
Bonds without collateral:		
1.95% bonds due 2003	¥ 3,000	\$ 28,195
2.47% bonds due 2005	3,000	28,195
Collateralized loans from banks, insurance companies, government agencies and other financial institutions, due through 2018, at rates ranging from 1.505% to 6.6%	5,843	54,915
Loans without collateral.....	5,071	47,659
	<u>16,914</u>	<u>158,966</u>
Less current portion.....	(1,636)	(15,375)
	<u>¥15,278</u>	<u>\$143,590</u>

The aggregate annual maturities of long-term debt subsequent to May 31, 2000 are as follows:

Year ending May 31,	Millions of yen	Thousands of U.S. dollars
2001	¥ 1,636	\$ 15,375
2002	3,344	31,428
2003	1,400	13,157
2004 and thereafter.....	4,534	42,612
	<u>¥10,914</u>	<u>\$102,575</u>

Assets pledged as collateral for long-term debt at May 31, 2000 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, at net book value	¥4,480	\$42,105

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 approximately 42% in 2000 and 48% in 1999. 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, 2000 differed from the statutory tax rate for the following reasons:

	2000
Statutory tax rate	41.88%
Effect of:	
Expenses not deductible for income tax purposes	3.80
Inhabitants' tax based on individuals	0.99
Other, net	(1.19)
Effective tax rate	<u>45.48%</u>

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

	2000	
	Millions of yen	Thousands of U.S. dollars
Deferred tax assets:		
Reserve for employees' retirement allowances	¥ 856	\$ 8,045
Reserve for directors' retirement allowances	341	3,204
Write down on investment securities	216	2,030
Accrued enterprise tax	156	1,466
Allowance for sales rebate	133	1,250
Other	957	8,994
Total deferred tax assets	<u>2,659</u>	<u>24,990</u>
Valuation allowance	<u>(25)</u>	<u>(234)</u>
	<u>2,634</u>	<u>24,755</u>
Deferred tax liabilities:		
Adjustment of acquisition costs of fixed assets	(765)	(7,189)
Adjustments for book value relating to land of consolidated subsidiaries	(706)	(6,635)
Other	(165)	(1,550)
Total deferred tax liabilities	<u>(1,636)</u>	<u>(15,375)</u>
Net deferred tax assets	<u>¥ 997</u>	<u>\$ (9,370)</u>

8. Severance Indemnities and Pension Costs

Accrued severance indemnities include a reserve for retirement benefits to directors, amounted to ¥828 million (\$7,781 thousand) and ¥925 million at May 31, 2000 and 1999, respectively.

The assets of the pension fund and unamortized prior service cost at May 31, 2000, the most recent valuation date, were ¥6,968 million (\$65,488 thousand) and ¥5,266 million (\$49,492 thousand), respectively.

9. Research and Development Expenditures

Research and development expenditures for the years ended May 31, 2000 amounted to ¥8,864 million (\$83,308 thousand) and were based upon a new accounting standard for research and development costs.

10. Contingent Liabilities

Contingent liabilities at May 31, 2000 were as follows:

	<u>Millions of yen</u>	<u>Thousands of U.S. dollars</u>
Notes receivable discounted	¥5,713	\$53,693
Debtor's acceptance discounted	11	103
Guarantees of loan of subsidiaries and affiliates	42	394
Guarantees of loan of employees	2,667	25,065

11. Amounts per Share

Amounts per share are summarized as follows:

	<u>yen</u>		<u>U.S. dollars</u>
	<u>2000</u>	<u>1999</u>	<u>2000</u>
For the years ended May 31:			
Net income:			
Primary	¥ 26.34	¥ 36.79	\$0.24
Cash dividends	11.00	11.00	0.10
At May 31:			
Net assets	¥496.90	¥476.65	\$4.67

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. Restructuring Cost

Under a restructuring program implemented in 2000, a special lump-sum compensation has been paid to certain employees who accepted job position transfer to subsidiaries of the Company. Such cost associated to this program was ¥2,095 million.

13. Leases

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥394 million (\$3,703 thousand) and ¥397 million for the years ended May 31, 2000 and 1999, respectively.

Future minimum lease payments (including the interest portion) subsequent to May 31, 2000 relating to finance lease transactions accounted for as operating leases are summarized as follows:

Year ending May 31,	Millions of yen	Thousands of U.S. dollars
2001.....	¥325	\$3,054
2002 and thereafter	546	5,131
	<u>¥871</u>	<u>\$8,186</u>

Lease income relating to finance leases accounted for as operating leases amounted to ¥57 million (\$535 thousand) and ¥59 million for the years ended May 31, 2000 and 1999, 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, 2000 and 1999 is summarized as follows:

	2000					Consolidated
	Millions of yen					
	Pharmaceuti- cal business	Fine chemical business	Other businesses	Total	Eliminations	
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	<u>¥ 12,509</u>	<u>¥ 7,844</u>	<u>¥ (310)</u>	<u>¥ 20,042</u>	<u>¥ (5,971)</u>	<u>¥ 14,071</u>
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

**14. Segment Information
(continued)**

	2000					
	Millions of yen					
	Pharmaceuti- cal business	Fine chemical business	Other businesses	Total	Eliminations	Consolidated
I. Sales and operating income:						
Sales to third parties.....	\$ 463,674	\$ 642,894	\$ 33,477	\$1,140,056	-	\$1,140,056
Interarea sales and transfers.....	112	18	0	140	\$ (140)	-
Total	463,796	642,922	33,477	1,140,197	(140)	1,140,056
Operating expenses	346,221	569,201	36,400	951,832	55,968	1,007,800
Operating income	<u>\$ 117,565</u>	<u>\$ 73,721</u>	<u>\$ (2,913)</u>	<u>\$ 188,364</u>	<u>\$ (56,118)</u>	<u>\$ 132,246</u>
II. Asset depreciation and capital expenditures:						
Total assets.....	\$ 412,453	\$ 687,913	\$196,146	\$1,296,522	\$ 344,567	\$1,641,099
Depreciation and amortization ..	19,708	33,007	13,016	65,742	1,701	67,443
Capital expenditures.....	17,941	31,174	1,287	50,413	1,156	51,569

	1999					
	Thousands of U.S. dollars					
	Pharmaceuti- cal business	Fine chemical business	Other business	Total	Eliminations	Consolidated
I. Sales and operating income:						
Sales to third parties.....	¥54,427	¥65,655	¥1,400	¥121,483	-	¥121,483
Interarea sales and transfers.....	20	15	1	37	¥(37)	-
Total.....	54,448	65,670	1,402	121,521	(37)	121,483
Operating expenses	39,124	62,042	1,799	102,965	6,370	109,335
Operating income	<u>¥15,324</u>	<u>¥ 3,628</u>	<u>¥ (396)</u>	<u>¥ 18,555</u>	<u>¥(6,407)</u>	<u>¥ 12,147</u>
II. Asset depreciation and capital expenditures:						
Total assets.....	¥46,498	¥68,350	¥9,751	¥124,600	¥46,077	¥170,678
Depreciation and amortization	1,998	3,203	598	5,800	191	5,992
Capital expenditures.....	2,249	4,224	954	7,429	7,895	15,324

Overseas sales, which include export sales of the Company and its consolidated subsidiaries, totaled ¥17,202 million (\$161,672 thousand) and ¥15,025 million, or 14.2% and 12.4% of the consolidated net sales for the years ended May 31, 2000 and 1999, respectively.

15. Subsequent Event

- 1) The following appropriations of retained earnings of the Company were approved at a meeting of the shareholders held on August 30, 2000:

	Millions of yen	Thousands of U.S. dollars
Transfer to legal reserve	¥ 25	\$ 234
1999 year-end cash dividends (¥5.50 = \$0.051 per share).....	1,003	9,426
Bonuses to directors	55	516

- 2) On August 23, 2000, the Company and Nichimen Co., Ltd. has established LifeSparc Inc. (paid-in capital \$17.9 million, located in California, U.S.), which is 70% owned subsidiary by the Company. LifeSparc performs sales and production of squibs (igniters) required for inflators (car airbag gas generation devices) and MGG devices (gas generators for seatbelts).

Independent Auditors' Report (Consolidated)

Century Ota Showa & Co.

Certified Public Accountants

Hibiya Kokusai Bldg., 2-2-3, Uchisaiwai-cho Chiyoda-ku,
Tokyo 100-0011 C.P.O. Box 1196, Tokyo 100-8641
Phone: 03-3503-1100 Fax: 03-3503-1197

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, 2000 and 1999, and the related consolidated statements of income and retained earnings for each of the years then ended, all expressed in Japanese yen. We have also audited the consolidated statement of cash flows for the year ended May 31, 2000. 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, 2000 and 1999, and the consolidated results of their operations for the years then ended, in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period. Also, the financial statements present fairly the consolidated results of their cash flows for the year ended May 31, 2000, in conformity with accounting principles and practices generally accepted in Japan.

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 for the year ended May 31, 2000.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the years ended May 31, 2000 and 1999 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, 2000



Corporate Information

Business Name:	Nippon Kayaku Co., Ltd.
Representative:	Teruo Nakamura, President
Foundation:	June 5, 1916
Capital:	14.932 billion yen (as of 31 May, 2000)
Head Office Address:	Tokyo Fujimi Bldg., 11-2, Fujimi 1-chome, Chiyoda-ku, Tokyo 102-8172, Japan Tel +81-3-3237-5044 (Public Relations & Investor Relations Div.) [URL] http://www.nipponkayaku.co.jp/
Number of Employees:	2,143 (as of June, 2000)
Banks of Accounts:	Bank of Tokyo Mitsubishi, Daiichi Kangyo Bank, Joyo Bank
Principal Subsidiaries and Affiliates:	Naigai Nikka Co., Ltd. Nippon Kayaku Food Techno Co., Ltd. Nippon Kayaku Medinet Co., Ltd. Indet Safety Systems a.s. LifeSparc Inc. Kayafloc Co., Ltd. Polatechno Co., Ltd. Zhaoyuan Advanced Chemical Co., Ltd. Wuxi Advanced Chemical Co., Ltd. N-S-Color Techno Co., Ltd. Nippon Kayaku Tokyo Co., Ltd. Nippon Kayaku Fukuyama Co., Ltd. Hokuyou Kayaku Co., Ltd. Kayatech Co., Ltd. Nishiminato Driving School Co., Ltd. Kokura Techno Service Co., Ltd. Wako Toshi Kaihatsu Co., Ltd. Kouwa Sangyo Co., Ltd. Kayaku AKZO Corporation Sanko Kagaku Kogyo Co., Ltd. Nippon Peroxide Co., Ltd.

Head Office and Domestic Offices

Head Office:	Tokyo Fujimi Bldg., 11-2, Fujimi 1-chome, Chiyoda-ku, Tokyo 102-8172, Japan
Domestic Offices	
Tokyo Branch:	Mejiro Nakano Bldg., 17-22, Takada 2-chome, Toshima-ku, Tokyo 171-0033, Japan
Osaka Branch:	Yuraku Bldg., 5-14, Minami-honmachi 3-chome, Chuo-ku, Osaka 541-0054, Japan
Fukuoka Branch:	Nishitetsu-gion Bldg., 1-1, Gokusho-machi, Hakata-ku, Fukuoka 812-0037, Japan
Sapporo Branch:	Dunlop SK Bldg., 4-16, 10-chome, Ohdorinishi, Chuo-ku, Sapporo 060-0042, Japan
Nagoya Branch:	Nagoya Bldg., 6-18, Meieki 4-chome, Nakamura-ku, Nagoya 450-0002, Japan

Major Products

Pharmaceuticals Division:	Anti-tumor agents, neurological agents, circulatory system agents, digestive system agents, metabolic agents, antibiotics, anti-inflammatory analgesic agents, pharmaceutical intermediates, food additives, veterinary pharmaceuticals, animal feedstuffs and feedstuff additives, diagnostics
Inflators Division:	Airbag inflators, micro gas generators for seatbelt pretensioners
Catalysts Division:	Catalysts for the production of acrylic acid and methacrylic acid, plant licensing business
Functional Products Division:	Special epoxy resins, epoxy resin curers, combustion retardants for synthetic resins, UV- curing type resins, acrylic polymers, optical films
Color Chemicals Division:	Disperse dyes, cationic dyes, acidic dyes, reactive dyes, direct dyes, sulphur dyes, fluorescent dyes, dye supplements, dye blenders, special dyes for non-textile applications, coloring agents for color inkjet printers
Agro & Fine Chemicals Division:	Insecticides, herbicides, fungicides, acaricide, biological pesticides, soil disinfectant, animal repellents, fine chemicals intermediates
Explosives Division:	Industrial explosives, black powder, electric detonators, concrete crushers, hazard evaluation, pyrotechnics
Other Business:	FLOWSEALER (repair material for waterproofing in building construction)

Plants

Takasaki Plant:	239, Iwahana-machi, Takasaki 370-1208, Japan
Tokyo Plant:	31-12, Shimo 3-chome, Kita-ku, Tokyo 115-8588, Japan
Fukuyama Plant:	126, Minooki-cho, Fukuyama 721-8567, Japan
Kashima Plant:	6, Sunayama, Hasaki-cho, Kashima 314-0255, Japan
Asa Plant:	2300, Sanyo-cho, Asa 757-8686, Japan
Himeji Plant:	3903-39, Toyotomi, Toyotomi-cho, Himeji 679-2123, Japan

Laboratories

Pharmaceuticals Group Research & Development Division:	31-12, Shimo 3-chome, Kita-ku, Tokyo 115-8588, Japan
Inflators Technical Center:	3903-39, Toyotomi, Toyotomi-cho, Himeji 679-2123, Japan
Catalysts Research Center:	2300, Sanyo-cho, Asa 757-8686, Japan
Functional Products Research Laboratories:	26-8, Shimo 3-chome, Kita-ku, Tokyo 115-0042, Japan
Color Chemicals Research Laboratories:	43-19, Shimo 3-chome, Kita-ku, Tokyo 115-8588, Japan
Agro & Fine Chemicals Research Laboratories:	225-1, Koshikiya Horigome, Ageo 362-0064, Japan
Explosives Research Laboratories:	2300, Sanyo-cho, Asa 757-8686, Japan
Film Technology Laboratories:	48-9, Shimo 4-chome, Kita-ku, Tokyo 115-0042, Japan