Report to shareholders

Business Report 2008

April 1, 2008 – March 31, 2009

A Message from our President

The economic environment of the past fiscal year has been one of increasingly challenging business conditions. In the first half of the year, the economy entered a recession, mainly due to increases in the prices of fuel and materials, which were in turn caused by steep increases in the prices of crude oil and other resources. In the second half of the year, there was a sharp decrease in demand, accompanied by large-scale adjustments to production, with the intensifying of the credit and economic crisis worldwide.

Under such difficult conditions, the Hodogaya Chemical Group ("the Group") turned to strengthening its business activities in both its agro-science business by acquiring a pesticide business and the construction materials business which was also involved in acquisitions and mergers. In addition, the group developed alliances with other companies to promote its organic electroluminescence (OLED) materials business and are currently focused on the Asian markets that have potential for long term future growth by implementing a variety of measures such as establishing an office in South Korea.

Moreover, goals are set forth to strengthen the Group's management base and financial structure placing emphasis towards future growth. Specifically, the management base of our logistics business, and reforming our retirement and pension plans, as well as reorganizing our carbon nanotube business and finally eliminating unnecessary facilities and equipment.

Furthermore, we have responded to the sudden changes in our business environment by implementing the emergency precautions needed to reduce fixed costs, which includes scaling back production in response to a decrease in demand as well as temporary layoffs of attendants. Despite our efforts, net sales and profits from operations showed a decline in performance in comparison to the previous year.

Based on our awareness of this difficult business environment, the Group will be accelerating in its business development to continue promoting strengths in our marketing and sales operations, with emphasis in research and development, and quickly implement reforms to our cost structure and other measures which include cautiously cutting costs.

In addition, the entire company will be in collaboration to strengthen internal controls, place importance on compliance and emphasize the environmental and safety activities in an effort to improve the corporate value of the Group as a whole to meet the expectations of our stockholders and all other stakeholders.

I thank our stockholders for their continued support and encouragement and look forward to our future.

Toshikazu Kitano, President
June 2009

TOP INTERVIEW

Question 1: What were the sales results for the fiscal year 2008?

Consolidated sales increased in our agro-science and construction materials businesses, but sales were affected by reductions in domestic demand because of the global business slowdown and the escalating competition from low-priced Asian products. They totaled ¥32.099 billion, down by ¥3.97 billion representing a decrease of 11% from the previous year.

In terms of profit and loss, operating income was positive showing ¥927 million, however, when compared with the previous year operating income showed a significant reduction, down by ¥1.788 billion (65.8%). These results were mainly due to a reduction in the sales quantities because of the recession and increases in fixed costs associated with the introduction of ERP system (an "Enterprise Resource Plan" group-wide integrated computer system for the core business).

In addition, ordinary income was ¥367 million, down by ¥2.094 billion (85.1%), which includes the reductions using the equity method for investments. Furthermore, pre-tax income is comprised of both an extraordinary income gain in the sale of our affiliates' securities and a significantly higher loss in extraordinary expense due to a decrease in the appraised value of our marketable securities investments. This was further affected in reforming the retirement and pension plan. The net income was recorded as a loss in the amount of ¥3.943 billion, representing a decline of ¥5.078 billion from the previous year.

Question 2: What were the sales results by business segment?

Analyzing sales by segment, all segments were affected by reductions in comparison to the previous year. Among the most significant was Specialty Polymers down ¥2.365 billion from the previous year and Fine Chemicals by ¥885 million in the same period. Furthermore, operating income for all segments were profitable, however Fine Chemicals showed the largest decline in profits of ¥1.306 billion, and Specialty Polymers was down by ¥304 million.

The drop in net sales and operating profit in Fine Chemicals was mainly caused by inventory adjustments among customers for our electronic materials business and by the increased competition from low-cost Asian products. A weaker than expected sales for cellular telephones worldwide was another contributor to the drop in sales volume in the OLED materials business.

In addition, our analysis shows that the main cause of the large drop in sales volume affecting our strongest products (PTG and adhesives) for polymer materials business specifically in our Specialty Polymers was due to a reduction of manufacturing demands of our customers which began in the third quarter.

Question 3: What is the breakdown for the extraordinary losses?

The greatest burden was valued at approximately ¥2.5 billion, which was the result of the sudden drop in market prices of investment securities and real prices due to the worsening global financial and economic crisis. In addition, there are two other main contributing factors as described below.

First, there was the reform of our retirement and pension plan. This was implemented in preparation for discontinuing the current Tax Qualified Pension Plan in March 2012. The results of this recognized an extraordinary loss in the amount of ¥800 million for which it is expected to further reduce our obligations by approximately ¥200 million each year over the next 4 year period. And finally, we eliminated unnecessary fixed assets resulting in an additional loss of approximately ¥200 million. We believe that recording these extraordinary losses has greatly improved our financial standing.

Question 4: The business environment is extremely tough, but what measures are you taking as you move forward from this fiscal year into the future?

In addition to the major factors in the extraordinary losses described above, we have restructured and improved the financial standing of Hodogaya Logistics Co. Ltd. (HLC), which had excess real estate and debt expenses beyond the scale of its operations. HLC is now effectively in a better position to concentrate on its principal business.

The next measure was the dissolution of Nano Carbon Technologies Co. Ltd. and formation of an improved new division named, "Carbon Nanotube Development Promotion Department" which began operation on April 1st, 2009. Through continuous extensive research and development together with experience and knowledge, we are prepared to expand and meet higher levels of expectations in the future of this marketplace.

Although the economic conditions for the future are far from clear, in retrospect, the final measurement affecting to further improve our financial position resulted in reducing our deferred tax liabilities with the idea of keeping our financial affairs sound.

The forecasted predictions are seamlessly likely for resurgence of deflation to occur and continued fluctuation in the corporate paradigm constantly shifting due to this economic environment as we move forward. It can also be expected that we will be reassessing our plan and adapting to the global changes of our market as we emphasize mainly on our business strengths to meet the volatility of such market conditions.

We have moved to implement the following positive and strategic measures not only to survive, but also to grow as a company that leads in our "Market Niche, creating original high performance, high-value added materials".

(1) Emphasize on strengthening our sales and marketing activities in a "High Performance and High Value Creation Company"

The importance in sustaining a high performance and high value creation company is to introduce our new sales and marketing approach using our "Trilateral Business Plan". This begins with the solidarity of our current foundation and emphasizes on both our communication and networking connectivity. Our intention is to interact effectively in initiating collaboration between our core-business sections of manufacturing, sales, and research and development. Our primary focus is to understand our customer's requirements, to strengthen and build relationships of mutual trust, and to organize proactive discussions to develop new products with high value more timely, accurately, and effectively to reach the best solutions possible.

(2) Emphasis on Research and Development

We are particularly highly selective in our commitment to strategically plan with emphasis in allocating our corporate funds and choosing the right resources to rapidly commercialize new products such as functional dyes, functional polymers and in the area of electronic materials business where we have adapted the use of our "Trilateral Business Plan". For example, OLED materials business has accelerated by the development of new products in hole transport materials where we have taken an initiative on the development and expansion.

Other projects demanding attention are commercialization of hair color dyes, and carbon nanotubes, which are materials that are also expected to see future growth and market expansion. We are vigorously implementing our plans to increase personnel and funds for research and development in these areas as well.

(3) Effects of Cost Restructuring

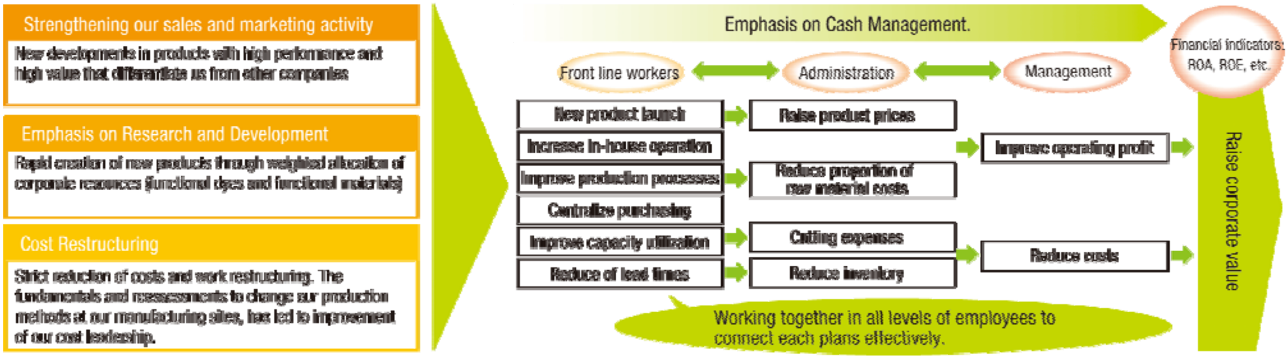
We are actively working on reducing our costs of raw materials and strictly eliminating any unnecessary costs and streamlining non-recurring expenditures along with making efforts to expand in-house operation to work more efficiently. Furthermore, we are making fundamental reassessments of our production methods and upgrading production equipment at our manufacturing sites with the goal of assuring cost leadership. In other words, we are emphasizing on cost structures driven by our competitive efforts to continue by weighing cost while maintaining positive outcomes accompanied by cost utilization that stimulates our investments.

(4) Emphasizing on Cash Management

The Group is responsible to all stakeholders, and is implementing management practices that emphasize cash flow with the participation of all employees to create greater satisfaction. We are focusing our efforts on improving operating profit and pre-tax income to raise corporate value to positively impact the financial indicators (ROA for example) for the Group as a whole. Specifically, we are setting goals for every individual in management, administration and front-line employees towards constructing and strengthening our "Trilateral Business Plan" consummating our views, and putting them into practice. We will improve our cash flow by steadily accomplishing these goals and restructuring costs bringing together the achievements of all employees.

<u>2009 Business Forecast</u>
<u>Fiscal Year 2009 Outlook</u>

We will aim at improving cash flow and increase operating income and ordinary income. We will put our efforts into strengthening our sales and marketing activity, R&D activity and cost restructuring. Therefore, we are constructing a plan that will lead to success for all of us with each person in management, in administration and on the front lines working towards these specific goals.



CONSOLIDATED FINANCIAL STATEMENT

CONSOLIDATED BALANCE SHEETS

Hodogaya Chemical Co., Ltd and its Consolidated Subsidiaries for the years ending March 31, 2009 and 2008

	MILLIONS OF YEN	
	2009	**2008**
ASSETS		
Current Assets	23,329	22,707
Cash and cash equivalents	4,256	3,989
Notes and accounts receivable	9,830	12,380
Inventories	6,217	4,895
Others	3,025	1,442
Fixed Assets	28,153	42,557
Tangible Fixed Assets	20,126	21,182
Intangible Fixed Assets	1,878	1,449
Investment	6,147	19,925
Total Assets	51,483	65,265
LIABILITIES		
Notes and accounts payable	4,044	5,739
Currents portion of bond	13,144	16,698
Others	7,030	7,043
Total Liabilities	24,218	29,481
SHAREHOLDERS' EQUITY		
Common stock	11,196	11,196
Capital surplus	9,590	9,594
Retained earnings	6,107	13,524
Less: Treasury share at cost, 4,385,756 shares in 2008		(1,531)
Less: Treasury share at cost, 4,922,149 shares in 2009	(1,662)	
	1,947	2,903
Minority interests	42	97
Total Shareholders' equity	27,264	35,783
Total Liabilities and Shareholders' equity	51,483	65,265

CONSOLIDATED STATEMENTS OF INCOME

Hodogaya Chemical Co., Ltd. and its Consolidated Subsidiaries for the years ending March 31, 2009 and 2008

	MILLIONS OF YEN	
	2009	**2008**
Net Sales	32,099	36,070
Cost of sales	23,524	26,134
Selling, general and administrative expenses	7,646	7,219
Operating income	927	2,715
Other income	609	1,173
Other expenses	1,169	1,426
Ordinary income	367	2,462
Extraordinary income	1,356	63
Extraordinary expenses	3,778	1,055
Income before income taxes	(2,055)	1,470
Current	710	293
Deferred	1,230	179
Minority interests	(52)	(138)
Net income	(3,943)	1,135

STOCK

AUTHORIZED NUMBER OF SHARES (AS OF MARCH 31, 2009)

200,000,000

NUMBER OF COMMON SHARES ISSUED (AS OF MARCH 31, 2009)

84,137,261

NUMBER OF SHAREHOLDERS

10,618

MAIN SHAREHOLDERS (TOP 10 COMPANIES)

Shareholder	Number of Shares Held (in thousands)	Percentage of Shares Held (%)
Tosoh Corporation	28,049	33.34
Hodogaya Chemical Co., Ltd.	4,922	-
Mizuho Corporate Bank, Ltd.	2,987	3.55
The Norinchukin Bank	2,274	2.70
Japan Trastee Service Bank, Ltd.(4G)	2,265	2.69
Meiji Yasuda Life Insurance Company	1,645	1.96
Mitsui Sumitomo Insurance Co., Ltd	1,414	1.68
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,201	1.43
The Toho Bank, Ltd.	1,183	1.41
The Yamaguchi Bank, Ltd	1,000	1.19
Asahi Mutual Life Insurance Company	1,000	1.19