

Interim Business Report 2009

April 1 – September 30, 2009

A Message from our President

At this, the mid-point of our fiscal year, the economic climate is showing some modest signs of recovery: demand from Asia and other overseas regions has improved, and the manufacturing sector is beginning to see the positive effects of government stimulus efforts and inventory adjustments.

In the first two quarters of the year, the Hodogaya Chemical Group (the “Group”) also saw modest improvements in its business climate. However, this can not yet be called a strong recovery, and we expect harsh conditions to continue for the foreseeable future.

By reducing manufacturing costs, reducing inventory and taking such measures as eliminating unnecessary or non-urgent fixed costs, our Group was able to realize a gradual improvement in results over the first and second quarters. However, a year-to-year comparison of the same period shows that we still face difficult circumstances.

On the other hand, we are making good progress in our efforts to maximize our Group’s strengths: new product and market development in our Imaging Materials and OLED Materials business units are proceeding at a rapid pace.

In Imaging Materials, we have devoted particular effort to ascertaining and meeting the needs of our clients by marshalling the resources not only of our sales force, but of our R&D and manufacturing divisions as well. We plan to expand this approach to Specialty Polymers and other business units.

Further, by cutting costs and improving manufacturing efficiency now, we are laying the foundation for improved profitability in the full-fledged economic recovery of the future.

As we move forward, we will continue to focus on swiftly and consistently strengthening our sales and R&D capabilities, and on reforming our cost structure.

In this rapidly changing environment, corporate value will be increased not only by developing businesses that make the most of our unique strengths, but through unflagging attention to environmental issues, safety and compliance as well.

I thank our shareholders for their continuing support.

Toshikazu Kitano, President and CEO

December, 2009

TOP INTERVIEW

Question 1

Results for the last fiscal year (ending March, 2009) were much lower than those of the previous year (ending March, 2008) because of the negative effects of the economic and financial crises. How are the results for the first half of this year, and the prospects for the remainder of the year?

This year, while we don't expect huge increases, we do believe that we will see some recovery. Specifically, we are gradually recovering from the effects of last year's fourth quarter losses, and though income and profits for the period are down on a year-to-year comparison basis, we have posted 64 million yen in operating profits.

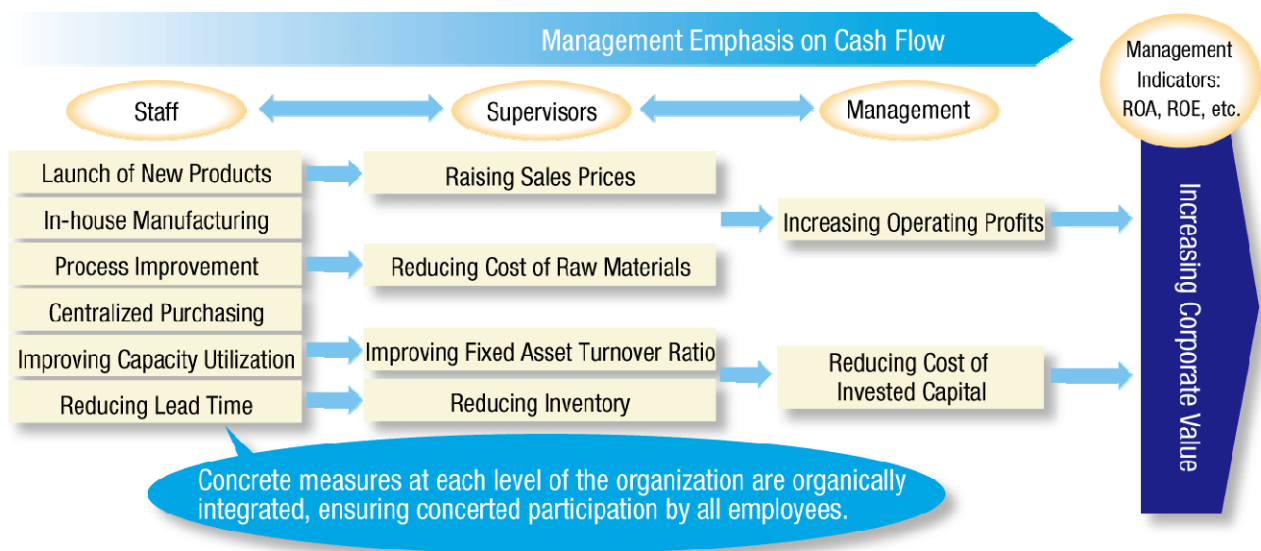
Though the second quarter showed signs of recovery as compared to the first quarter, we expect harsh business conditions to continue in the second half of the year. Accordingly, to achieve our full-year performance targets, we are implementing three principal initiatives: (1) strengthening sales capabilities, (2) strengthening R&D capabilities, and (3) reforming cost structure.

Question 2

Please tell us about your management emphasis on cash flow.

Our Group's main objectives are to satisfy all of its stakeholders. This is the reason that management emphasis on cash flow is so important. However, while this is easy to understand on an intuitive level, it is less easy to implement. For example, simply setting a management target for an indicator such as Return on Assets (ROA) won't unite the Group to work towards that goal. Everyone from the management level through staff members must have the same understanding and share the goal.

To assist in this process, we are integrating management goals and the specific onsite actions that must be taken to help achieve those goals into a chart that will be understandable by all levels of management and staff. Ultimately, we will integrate individual action objectives into the chart, and use it as a tool for increasing our corporate value.



Question 3

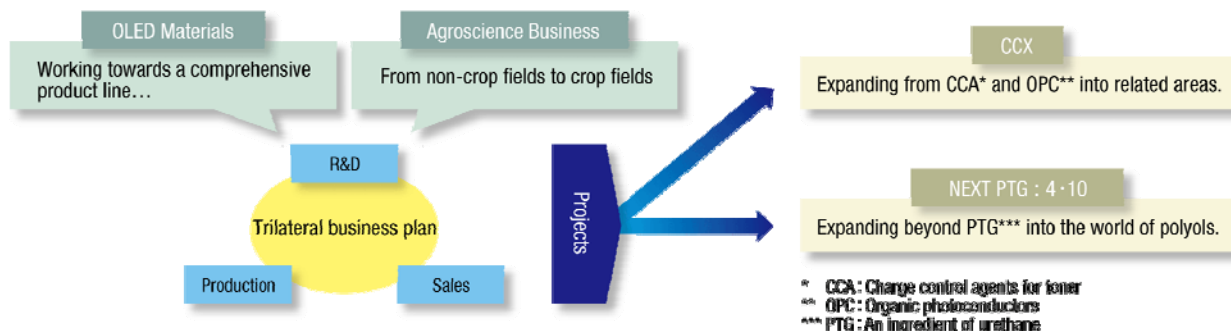
Please tell us how the three initiatives designed to improve ROA ((1) strengthening sales capabilities, (2) strengthening R&D capabilities, and (3) reforming cost structure) are going.

① Strengthening Sales Capabilities

In our last report to the shareholders, we touched upon our trilateral business plan. During the first half of this fiscal year, we have made significant strides with two projects: The first is “Project CCX”. This project began in our core Imaging Materials business unit, and has now progressed to the point where we are actively seeking out client needs and offering specific proposals to meet those needs. The other project, “Project NEXT PTG: 4 · 10” had its start in our Polymer Materials business unit, and is making rapid progress on the basis of our experience with Project CCX.

We are also actively developing new businesses (such as Hodogaya Vandex Construction Products Co.’s basement waterproofing and sealing businesses), expanding sales of existing products (such as Imaging materials, color and dyestuff, agrochemicals, etc.), and developing new applications (such as at Nippon Peroxide, etc.). In addition, Hodogaya Logistics Co. has added export services to its sphere of operations, supplementing its dangerous goods handling business and expanding its customer base.

● **Trilateral business plan expanding cooperation between production, sales and R&D**



② **Strengthening R&D**

The Imaging Materials projects mentioned earlier have led to the development of new products in response to client needs, some of which have reached the evaluation stage. In the field of OLED Materials, where we are working to develop a comprehensive product line, we are diligently working on the development of new hole transport materials (HTM) and on getting our electron transport materials (ETM) to market as quickly as possible.

In our Agroscience business, we are working to expand our product lineup through development spanning a wide range of applications, from non-crop fields to crop fields. In the field of carbon nanotubes, we are preparing for future expansion in applied areas by moving our facilities from Akishima in Tokyo to our Koriyama plant.

We are also working on a number of projects that we hope will contribute to our Group’s future growth. For example, new hair color products are now being evaluated and registered for commercialization in the near future.

③ **Reforming Our Cost Structure**

We are pursuing the reformation of our cost structure from both the variable and fixed cost angles.

To address variable costs, we have reevaluated each business area’s manufacturing conditions and processes. By improving efficiency and fuel conversion, etc., we have not only reduced costs, but enhanced environmental awareness as well. We have also moved the production of some previously outsourced materials in-house, primarily in our Imaging Materials business unit.

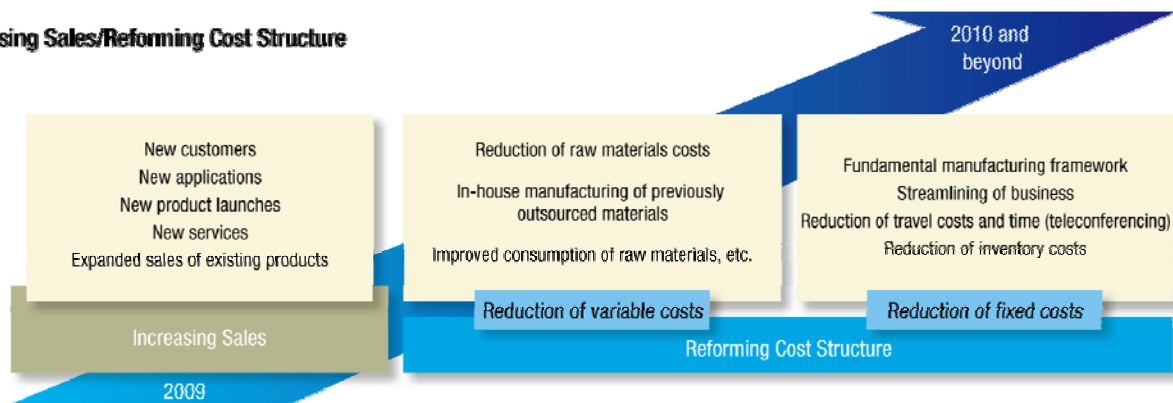
Moving forward, we will continue to scrutinize our operations closely, looking for opportunities such as reduction of raw materials costs and reduction of packaging to rein in expenses.

In terms of fixed costs, we have been able to decrease our inventory levels to pre-financial crisis times, and we will try to bring it down even further. Further, in our ongoing effort to

eliminate non-urgent or unnecessary costs, we installed a teleconference system last July that we hope will increase operating efficiency and facilitate communications.

In addition to these continuing efforts, we believe that a fundamental reexamination of our manufacturing methods, an upgrading of our manufacturing facilities, and other such measures will help us secure a position of cost leadership.

● Increasing Sales/Reforming Cost Structure



Overview By Business Segment

Fine Chemicals

In the Agro-science business unit, a rich product line and the introduction of new pesticides contributed to its growth. The OLED Materials business unit saw declines as a result of decreased demand for our clients' products due to worldwide economic conditions, as well as increased competition with other products and technologies. The Dyes and Colors sector declined as recovery of demand for aluminum coloring, stationery and paper pulp dyes remained weak. The Imaging Materials business declined due to lagging demand for office equipment. The Fine Chemicals business declined as a result of decreased demand in the pharmaceutical sector, reductions in automobile production, and inventory backlogs in electronics materials. Sales in this segment as a whole were 5,745 million yen, down 802 million yen (12.3%) from last year.

Imaging Materials	CCA (charge control agents), a critical component of toner. Materials for the OPC (organic photoconductors) drums that are central to copiers and laser printers.
OLED Materials	Hole transport materials and other principal components of organic EL displays and lights.
Color and Dyestuff	Dyes for coloring aluminum, high-end stationery products and various inks.
Food Additives and Hair Coloring Agents	Colorants for processed foods and cosmetics, etc.
Specialty Chemicals	Intermediates for pharmaceuticals, agricultural chemicals, polymers, electronics materials, etc.
Agro-science	Herbicides, pesticides and growth control agents for crop fields, golf courses, green areas, etc.

Functional Polymers

The Construction Materials business grew, thanks to urethane waterproofing material price corrections, increased sales for renovations, and increased orders for cement waterproofing materials in the public works sector. The Polymer Materials business unit saw increases in its PTG (urethane ingredient) business, but lost money overall due to lagging demand and fewer orders for curing agents and release agents. Overall sales in this segment were 4,127 million yen, down 617 million yen (13.0%) from last year.

Specialty Polymers	Materials for clothing, automobiles, industrial components, leisure products, etc.
Construction Materials	Urethane waterproofing materials (for building and parking structure roofs, etc.) Cementitious waterproofing materials (for sewage facilities, water treatment plants, underground pits, etc.)

Basic Chemicals

Because clients in the paper pulp and semiconductor industries lowered their own production levels, hydrogen peroxide sales were down. Sodium percarbonate sales increased due to growth in the detergent sector customer base. Overall sales for this segment were 4,047 million yen, down 370 million yen (8.4%) from last year.

Basic Chemicals (Hydrogen peroxide)	Bleaching agent for paper pulp, fibers and clothing, etc. Pollution treatment and other forms of environmental cleanup.
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CONSOLIDATED FINANCIAL STATEMENT

CONSOLIDATED BALANCE SHEETS

Hodogaya Chemical Co., Ltd and its Consolidated Subsidiaries for September 30 and March 31, 2009.

	MILLIONS OF YEN	
	2009 Sep 30	2009 Mar 31
ASSETS		
Current Assets	23,796	23,329
Cash and cash equivalents	6,361	4,256
Notes and accounts receivable	9,649	9,830
Inventories	4,976	6,217
Others	2,808	3,025
Fixed Assets	27,691	28,153
Tangible Fixed Assets	19,718	20,126
Intangible Fixed Assets	1,665	1,878
Investment	6,307	6,147
Total Assets	51,487	51,483
LIABILITIES		
Notes and accounts payable	3,537	4,044
Currents portion of bond	14,168	13,144
Others	6,910	7,030
Total Liabilities	24,615	24,218
SHAREHOLDERS' EQUITY		
Common stock	11,196	11,196
Capital surplus	9,590	9,590
Retained earnings	5,094	6,107
Less: Treasury share at cost, 4,922,149 shares in Mar 31,2009		(1,662)
Less: Treasury share at cost, 4,933,663 shares in Sep 30,2009	(1,664)	
Valuation and Translation Adjustments	2,376	1,947
Minority interests	236	42
Total Shareholders' equity	26,872	27,264
Total Liabilities and Shareholders' equity	51,487	51,483

FIRST-HALF CONSOLIDATED STATEMENTS OF INCOME

Hodogaya Chemical Co., Ltd. and its Consolidated Subsidiaries for Apr.1-Sep.30,2009 and Apr.1-Sep.30,2008

	MILLIONS OF YEN	
	2009	2008
	Apr.1-Sep.30	Apr.1-Sep.30
Net Sales	14,868	16,807
Cost of sales	10,997	12,536
Selling, general and administrative expenses	3,806	3,768
Operating income	64	503
Other income	173	489
Other expenses	554	589
Ordinary income	(316)	403
Extraordinary income	-	1,355
Extraordinary expenses	290	70
Income before income taxes	(606)	1,689
Current	111	2,200
Minority interests	(21)	(26)
Net income	(696)	(484)

STOCK

AUTHORIZED NUMBER OF SHARES

200,000,000

NUMBER OF COMMON SHARES ISSUED (AS OF SEPTEMBER 30, 2009)

84,137,261

NUMBER OF SHAREHOLDERS (AS OF SEPTEMBER 30, 2009)

10,264

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.	4,933	5.86
Mizuho Corporate Bank, Ltd.	2,987	3.55
The Norinchukin Bank	2,274	2.70
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