

Business Report 2010

April 1, 2010 – Mar 31, 2011

Message from our President

With a focus on the environment and safety, we are working towards our goals of supplying “Only One/Number One” materials and becoming a high profit generating corporation.

As I write this, our hearts go out to those affected by the recent disaster in northeastern Japan. We pray that the region may be restored as quickly as possible.

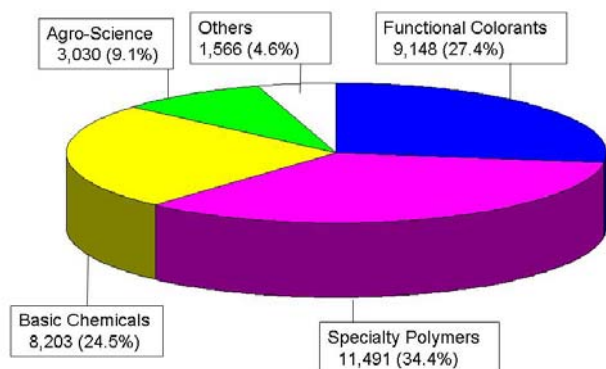
The Hodogaya Chemical Group’s three plants and research center were affected by the disaster, but we dedicated ourselves to recovery, and were able to resume operations in the early part of April.

We apologize for the concern and inconvenience that this caused, and thank you for your understanding.

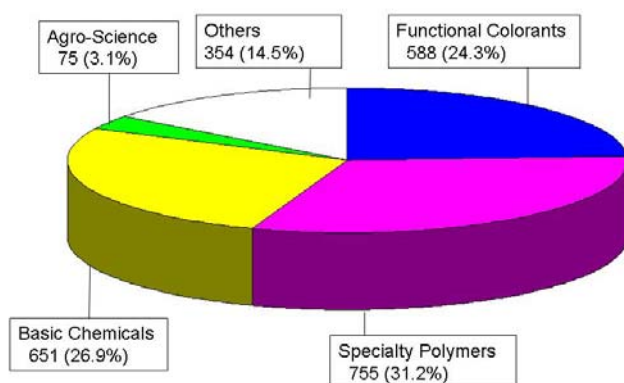
Looking back at the economic climate of this past financial year (FY 2010), we saw corporate profits recover in the first half of the year as the influence of the world economic downturn waned, with recovery in the United States economy and expansion in the economies of Asia and other parts of the developing world. However, the latter half of the year brought a large-scale downturn, as the yen gained strength in the exchange market, oil prices rose due to political instability in the Middle East and Africa, and the effects of the disaster in northeastern Japan were felt.

Under these conditions, we stepped up efforts under our Trilateral Business Plan, coordinating R&D, production and sales, and focused on developing and expanding overseas business by opening offices in Taipei and Dusseldorf, and investing in two Korean companies SFC Co., Ltd. and ecs Co., Ltd.

Net Sales By Business Segment (FY2010) Millions of Yen



Operating Income By Business Segment (FY2010) Millions of Yen



On the domestic front, we worked to strengthen the foundations of stable profitability by taking such measures as restructuring our Agro-science business, etc.

Consolidated sales for the period fell due to soft demand in the Imaging Materials business and intensifying price competition, but thanks to growth in the Dyes and Colors business, the OLED Materials business and the Functional Polymers business, we were able to secure sales of 33,440 million yen, an increase of 1,977 million yen (6.3%) over the previous period.

In terms of profit and loss, though we faced rising raw materials costs and the strengthening yen, increases in sales and the results of cost reduction efforts helped us to achieve operating profits of 2,422 million yen, an increase of 900 million yen (59.2%) from the previous year, and current profits of 1,796 million yen, an increase of 1,062 million yen (144.7%) over the previous year.

Because of the influence of valuation losses in investment securities and losses arising from the disaster in northeastern Japan, net profits were capped at 563 million yen, an increase of 992 million yen over last year's net loss of 429 million yen.

FY2011 Consolidated Forecast			(Millions of Yen)
	FY2010 Results	FY 2011 Forecast	Changes Gains/Losses
Net Sales	33,440	38,000	13.6%
Operating Income	2,422	2,400	△0.9%
Ordinary Income (△=losses)	1,796	1,600	△10.9%
Net Income (△=losses)	563	2,000	255.0%

Regarding dividends for the period, after a comprehensive consideration of performance trends, future business development and unforeseen risk, we set the year-end dividend at 4 yen/share, which, when added to the 4 yen/share mid-year dividend comes to 8 yen/share, the same as last year.

This year was the final year of our mid-range business plan, "Innovation 90". In that plan, we undertook initiatives to increase profitability, and strove to create the growth businesses that will be central to our future. In order to build on the results of these efforts, further fortify our management practices and expand the scale of our business, we have started a new mid-range business plan, "HONKI 2013", which is described below.

Regarding our financial outlook for FY 2011, though the environment will continue to be unforgiving, with financial troubles in Europe, political unrest in the Middle East and Africa, rising resource prices and uncertainty regarding the road to recovery following the disaster in

northeastern Japan, at this time we are anticipating sales of 38,000 million yen, operating profits of 2,400 million yen, current profits of 1,600 million yen, and net profits of 2,000 million yen for the period.

I thank our shareholders for their continuing support.

Toshikazu Kitano, President and CEO

June, 2011

Spotlight on Mid-term Business Plan Status

An Overview of the Previous Mid-term Business Plan, “Innovation 90”

From FY2006 – 2010, we implemented a 5-year mid-term business plan called “Innovation 90”, which was intended to establish a firm foundation for high-profit growth.

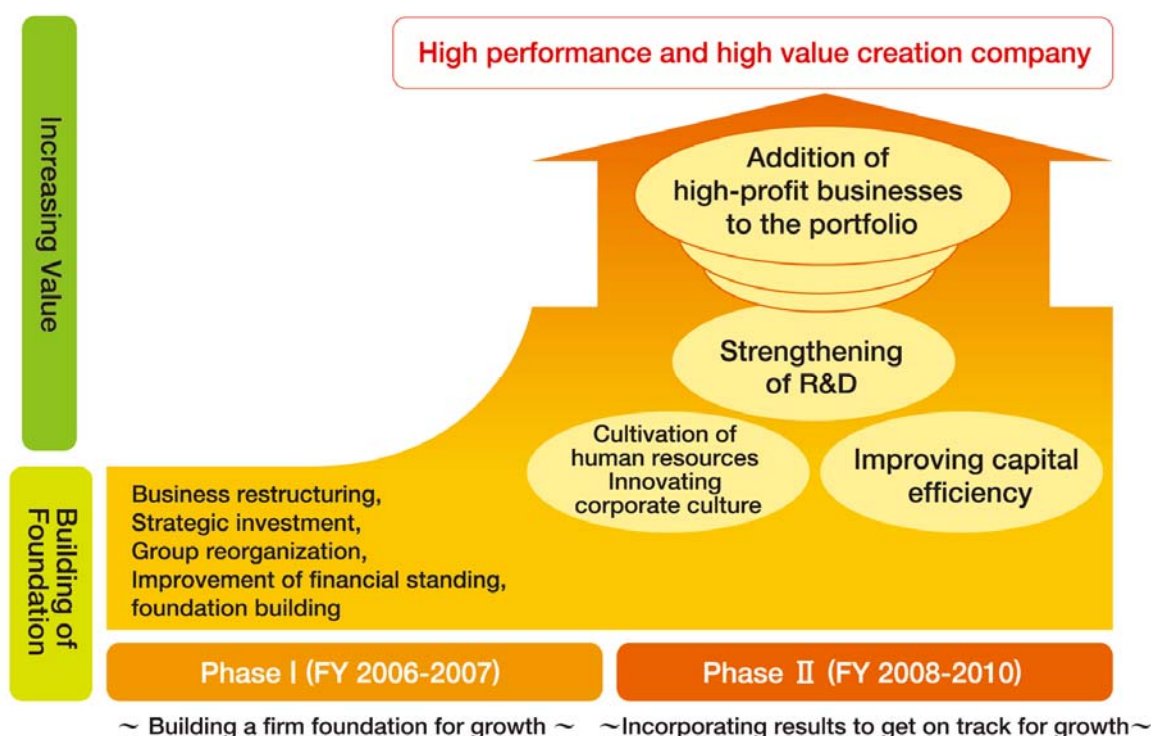
Over the course of Phase I (FY2006 – 2007) and Phase II (FY2008 – 2010) of “Innovation 90”, we tackled the issues of preparing our management base for future growth and integrating our successes in order to get on track for growth. In Phase I, we basically achieved our objectives through business and fiscal restructuring. In particular, we were able to reduce interest-bearing debt from 26,800 million yen to 16,600 million yen by using the proceeds from the transfer of our Nippon Polyurethane Industry Co., Ltd. stock.

In Phase II, with thorough control of inventory, and implementation of a cash management system (CMS; a system that consolidates money management and other financial operations), we further reduced that amount to 9,600 million yen, and dramatically improved our financial standing.

The result of improvement of our financial standing through the “Innovation 90”

	FY 2006	FY 2010
Interest-Bearing Debt	267 Billion Yen	96 Billion Yen
D/E Ratio	1.0	0.4
Capital Adequacy Ratio	39.9 %	54.9 %

“Innovation 90” Basic Concept



To 'establish a firm foundation for high-profit growth', we worked to reorganize our Group and improve our business portfolio. In order to move toward a more profitable business structure and establish a foundation for long-term growth, we rebuilt our Yokohama plant, sold our holdings in Hodogaya Ashland Co., Ltd., terminated low-profit products and strengthened our collaborations with other companies.

In terms of core businesses, we took over API Corporation's ODI business (used in release agents for tape, etc., fabric softening agents, and paint and ink additives) in order to strengthen our competitive position and increase customer satisfaction. Additionally, in another key business area, Agro-science, we established a joint venture company, Hodogaya UPL Co., Ltd. with UPL, a major manufacturer of generic agricultural chemicals in India. The combination of the expertise in application and market development that we have cultivated in our agricultural chemicals business with UPL's extensive product lineup and cost-competitiveness creates a strong synergistic effect in our operations.

In Phase II, we 'integrated our successes to get on track for growth' by planning a transition to high profitability. During this time, changes we faced in the business climate (such as the Lehman shock, etc.) and delays in new product development prevented us from achieving our numerical goals (50,000 million yen in sales, operating profits of 13%, and 10% ROE), but we made clear progress in establishing ourselves as a highly profitable corporation as we began to reap the fruits of our Phase I M&A activity, and as the OLED markets began to take hold.

Specifically, in the Agro-science business, as the first step to strengthen the business of Hodogaya UPL, we acquired an Isoxathion soil pesticide business from Mitsui Agro (now Mitsui Chemical Agro, Inc.). In that business sector, we will continue to seek out alliances and M&A opportunities in order to expand business and establish our presence in the industry.

In our OLED business, we acquired a 33.8% share in SFC Co., Ltd., a Korean manufacturer and seller of OLED materials. Fusing our strengths in Charge (hole and electron) Transport Material technology with SFC's strengths in light-emitting material technology, we are increasing the pace of our R&D efforts.

We are also aggressively taking on such issues as improving cost structure and strengthening our sales and R&D capabilities. To improve cost structure, we addressed fluctuating and fixed costs, such as continuing our Phase I efforts to lower raw material prices, and radically reforming our manufacturing methods to improve efficiency.

To strengthen our sales and R&D efforts, we established a Trilateral Business Plan emphasizing collaboration between our R&D, manufacturing and sales divisions in order to better grasp customer needs. As a result, in our core Imaging Materials and Functional Polymers businesses,

we had several projects that joined customer needs to specific proposals. We will continue to make efforts to strengthen and improve this Trilateral Business Plan so that we can more accurately grasp customer needs and bring more ideas to market.



Our New Mid-term Business Plan, “HONKI 2013”

**HODOGAYA as Only one, Number one with our Key technology and Imagination
(HONKI in Japanese means Serious or Earnest.)**

Our new mid-term business plan, “HONKI 2013”, is intended to prepare us for future growth so that we can realize our vision of who we want to be as we approach our 100th anniversary in 2016, namely, the “Only One/Number One in Global and Niche Markets”.

In “HONKI 2013”, we will take measures to build on our successes in each of three areas: core businesses, growth businesses, and cultivation businesses. In addition, we will work to create the new businesses and products that will be the growth engine of the next generation.

Core Businesses

With respect to core businesses, we will continue to increase profitability through such measures as cost reduction, enhancing manufacturing capacity, and new application development, etc.

In the Agro-science business, we plan to increase both market share and applications for new herbicide products. In the area of pesticides and fungicides, we will also increase profitability by cutting raw materials costs and expanding the range of applications.

In the area of hydrogen peroxide and its derivatives, we plan to increase demand by expanding applications in such sectors as veterinary medicine and medical device cleaning, in addition to the traditional applications in paper pulp bleaching and semiconductor cleaning. Regarding production, we will work to increase profitability by taking such measures as switching raw materials to reduce costs.

Growth Businesses

We aim to reap the results of our efforts in growth business areas (OLED Materials, Imaging Materials, Hair Color) by 2013, the final year of the “HONKI 2013” initiative.

OLED Materials

As a result of our R&D efforts to date, we hope to bring Hole Transport Materials (HTM) and Electron Transport Materials (ETM), both components of OLED displays, to market in 2011.

In May of this year, after establishing a local sales affiliate in Korea, we completed the additional acquisition of SFC Co., Ltd. stock, making it a consolidated subsidiary and further adding to the robustness of our organization. With these steps, we will work to aggressively develop business and strengthen customer relations in Asia and other areas, and establish a firm position in the rapidly growing display market.

Imaging Materials

We intend to increase profitability by expanding sales of environmentally friendly CCA (Charge

Control Agents for toner), which does not contain heavy metals, and CTM (Charge Transport Materials) for low energy consumption applications. In 2011, we plan to utilize our colorant technology capabilities to bring a new inkjet dye to market.

Hair Color

We will work to popularize existing blue, red and other products in domestic and overseas markets. In addition, our Dusseldorf, Germany office will promote development in the European market, emphasizing the safety of the products. We will also focus our R&D efforts to the quick development of yellow products, to expand our product lineup.

Cultivation Businesses

Regarding businesses designated for cultivation (OLED Materials, Imaging Materials, Polyol Materials, and Carbon Nanotubes), we expect to realize concrete results in the years between the end of our "HONKI 2013" initiative (FY 2014) and FY 2016, our 100th anniversary.

OLED Materials

We are accelerating R&D efforts in the lighting field, where demand for low energy consumption materials is expected to increase.

Imaging Materials

We are working to establish ourselves as a comprehensive manufacturer/supplier of electro photography-related materials by expanding business to areas peripheral to our current toner material products.

Additionally, we are accelerating development of colorless CCA materials for color toner, and have set early market entry as one of our objectives.

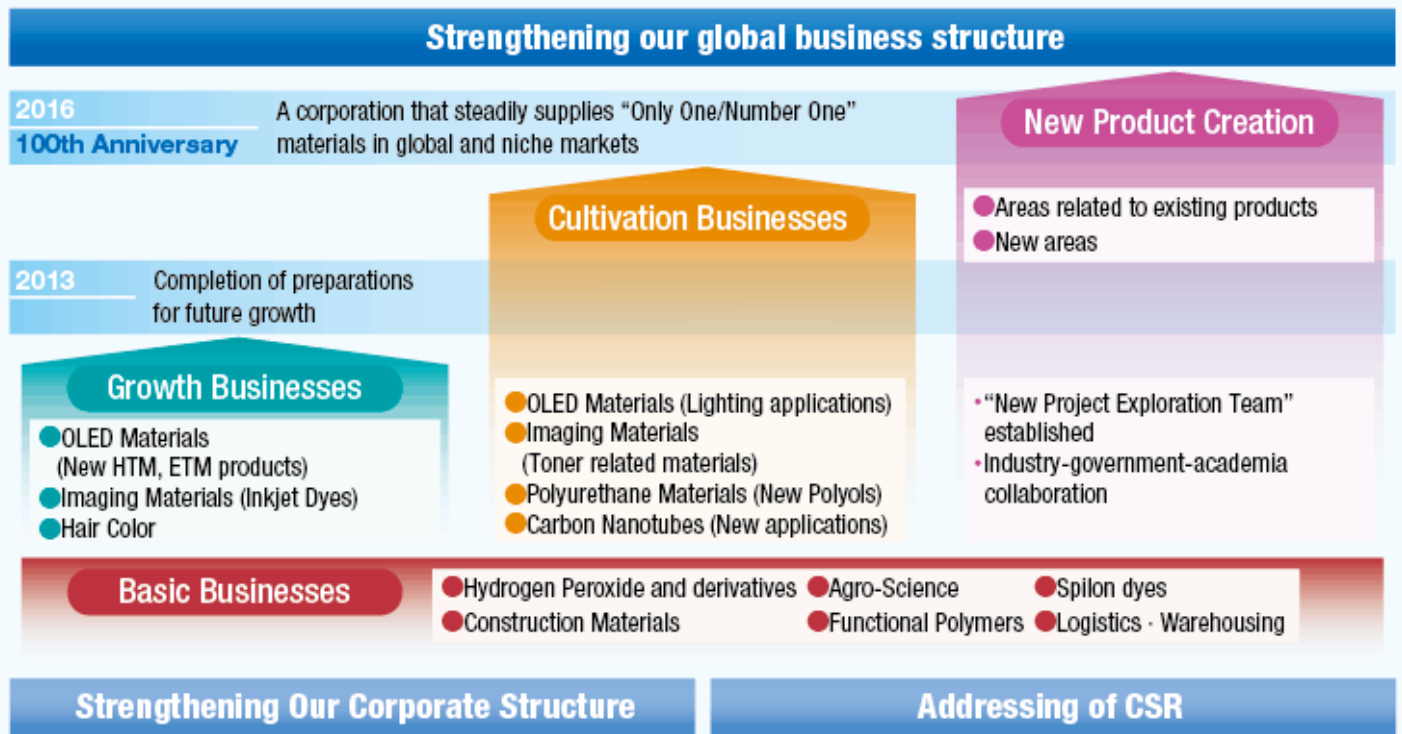
Polyol Materials (An Ingredient of Polyurethane)

We are planning to increase profitability in this area by increasing the ratio of special grade PTG (a type of polyol), which maintains its flexibility and elastic properties even at low temperatures, and by exploring materials that use plant-derived raw materials. As we go forward, we will work to develop new polyols with special properties such as heat resistance or weather resistance in order to better meet our customers' needs.

Carbon Nanotubes

In August of last year we moved our manufacturing facilities to our Koriyama Plant, and moving forward, we will address cost reduction and minimization of processing costs. We will continue to develop new applications and improve safety data to support future sales efforts.

Getting on track for growth as we approach our 100th anniversary



Driving the Creation of New Products

As our basic approach to new product creation, we will accelerate new product development with a particular focus on the environment and energy fields. Building on the issues addressed in “Innovation 90”, for “HONKI 2013” we have established a “New Project Exploration Team”. This team will have dedicated members, and will make use of overseas operations and outside information centers, as well as taking part in industry-government-academia collaborations and joint development efforts.

Business Objectives for FY 2013

Our performance objectives for FY 2013 are 50,000 million yen in sales and operating profits of 5,000 million yen. In order to achieve our goal of “completing preparations for future expansion” in the final year of “HONKI 2013”, we must realize consistent results in the basic and growth business sectors, and work at R&D in the cultivation business sector with a greater sense of urgency. With regard to new product creation, we will actively consider expansion into new fields as a means of creating a foundation for additional growth.

Topics

Additional Acquisition of SFC Co., Ltd. Stock and the Establishment of a Local Sales Affiliate in Korea

In September 2010, we acquired a 33.8% share of SFC Co., Ltd., a Korean manufacturer and seller of OLED materials, and began working on joint development efforts in the areas of R&D and sales. As the display industry grows, the market for OLED materials is also expanding, and lighting applications are beginning to emerge as well. This being the case, we decided on the additional acquisition of SFC stock in order to hold a dominant position in terms of development, manufacturing and sales in Korea, our principal OLED market, and in order to strengthen our collaboration in terms of R&D, purchasing and manufacturing. (As of May 27, 2011, we hold a 64.6% share in SFC.)

In May of this year, we converted our Korean office, which had been established in 2008 to strengthen customer relations and gather information, into a local sales affiliate. In this way, we will be strengthening and expanding our ties to the local market.

Establishment of Hodogaya Agrotech Co., Ltd.

Effective April 1, 2011, we split our joint venture with Sumitomo Chemical Co., Ltd., Nihon Green and Garden (Nihon G&G), and established Hodogaya Agrotech Co., Ltd. The new company, which is 80% owned by Hodogaya Chemical, and 20% by Sumitomo Chemical, has taken over Nihon G&G's horticulture, forestry and railroad herbicides and agro-materials businesses. With the establishment of Hodogaya Agrotech, our group has designated the agricultural chemicals segment as a basic business, and plans to strengthen our future business foundation by developing synergies with other businesses.

Following the split, Nihon G&G became a wholly owned subsidiary of Sumitomo Chemical, and continues to supply golf course herbicides and agro-materials. We will continue to work with Sumitomo Chemical to develop and expand business in the non-agricultural land business sector through product R&D and sales activity.

Hodogaya Trivia: Dyes and color

The colorants that make up the colors that brighten our world can be divided into natural colorants, derived from plants and vegetables, and synthetic colorants, created by chemical synthesis. With a product range that includes natural colorants for pickled foods such as kimchi, cakes and other snacks as well as dyestuffs for ballpoint pens and highlighters, and aluminum coloring dyes for digital cameras, cell phones and digital audio players, Hodogaya Chemical is brightening our lives with its safe, high-quality coloring materials.

Overview By Business Segment

Functional Colorants

In the Imaging Materials business, the main office equipment materials sector held strong through the first quarter, but from the second quarter, weakened demand and intensifying exchange rate problems and price competition contributed to losses for the full year. The Dyes and Colors business showed gains as aluminum coloring dyes and stationery dyes stayed strong, while demand for textile dyes recovered. The OLED materials business grew as demand for displays for mobile devices increased. Sales in this segment came to 9,148 million yen, an increase of 949 million yen from the previous year.

Imaging Materials	CCA (Charge Control Agents), a critical component of toner. Materials for the OPC (Organic Photo Conductors) drums that are central to copiers and laser printers.
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.
OLED Materials	Hole Transport Materials and other principal components of organic EL displays and lights.

Functional Polymers

The Functional Polymers business grew, with demand for PTG (an ingredient of polyurethane) expanding, and exports of adhesives to Asia doing well. Although demand in the pharmaceuticals sector was sluggish, the Specialty Chemicals business grew thanks to strength in the polymer-related sector. In the Construction Materials business, there was some recovery in demand for urethane-based waterproofing materials, but because of continuing intense price competition, overall results were flat compared with the previous year. The Waterproofing business saw a decrease overall as large construction projects declined and customers delayed projects. Sales in this segment came to 11,491 million yen, an increase of 527 million yen from the previous year.

Specialty Chemicals	Intermediates for pharmaceuticals, agricultural chemicals, polymers, electronics materials, etc.
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

Though customers continued production adjustments in the paper pulp sector of the Hydrogen Peroxide business, there was enough recovery in demand in the semiconductor and other industrial sectors to bring sales to the same level as the previous year. Demand for sodium percarbonate for detergents was steady, resulting in sales at the previous year's levels. Other industrial chemicals businesses grew, buoyed by strong demand in Asia. Sales in this segment came to 8,203 million yen, an increase of 241 million yen from the previous 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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Agro-Science

In the Agro-science business, demand in the horticultural herbicide and pesticide sectors showed signs of recovery in the second quarter, but bad weather in the spring and decreased use of materials in connection with cost-lowering initiatives led to flat results compared with the previous year. Sales in this segment came to 3,030 million yen, an increase of 640 million yen from the previous year.

Agro-science	Herbicides, pesticides and growth control agents for crop fields, golf courses, green areas, etc.
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※Segment classifications were changed in March, 2011.

CONSOLIDATED FINANCIAL STATEMENT
CONSOLIDATED BALANCE SHEETS

Hodogaya Chemical Co., Ltd and its Consolidated Subsidiaries for March 31, 2011 and March 31, 2010.

	MILLIONS OF YEN	
	2011	2010
	Mar 31	Mar 31
ASSETS		
Current Assets	22,002	24,506
Cash and cash equivalents	5,977	6,123
Notes and accounts receivable	10,919	10,840
Inventories	3,835	4,334
Others	1,269	3,207
Fixed Assets	26,222	26,078
Tangible Fixed Assets	19,450	19,225
Intangible Fixed Assets	1,033	1,395
Investment	5,784	5,457
Total Assets	48,225	50,585
LIABILITIES		
Notes and accounts payable	4,329	4,306
Currents portion of bond	9,650	12,651
Others	7,267	6,823
Total Liabilities	21,254	23,781
SHAREHOLDERS' EQUITY		
Common stock	11,196	11,196
Capital surplus	9,590	9,590
Retained earnings	4,933	5,044
Less: Treasury share at cost, 5,018,455 shares in Mar 31,2010		(1,688)
Less: Treasury share at cost, 5,033,782 shares in Mar 31,2011	(1,692)	
Valuation and Translation Adjustments	2,472	2,347
Minority interests	471	311
Total Shareholders' equity	26,971	26,803
Total Liabilities and Shareholders' equity	48,225	50,585

FIRST-HALF CONSOLIDATED STATEMENTS OF INCOME

Hodogaya Chemical Co., Ltd. and its Consolidated Subsidiaries for Apr.1-Mar.31, 2011 and Apr.1-Mar.31, 2010.

	MILLIONS OF YEN	
	2011	2010
	Apr.1-Mar.31	Apr.1-Mar.31
Net Sales	33,440	31,463
Cost of sales	23,044	22,354
Selling, general and administrative expenses	7,974	7,587
Operating income	2,422	1,521
Other income	312	316
Other expenses	938	1,103
Ordinary income	1,796	734
Extraordinary income	175	22
Extraordinary expenses	1,283	1,134
Income before income taxes	688	(377)
Current	421	405
Deferred	(303)	(366)
Minority interests	7	13
Net income	563	(429*)

STOCK (AS OF MARCH 31, 2011)

AUTHORIZED NUMBER OF SHARES

200,000,000

NUMBER OF COMMON SHARES ISSUED

84,137,261

NUMBER OF SHAREHOLDERS

9,063

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.	5,030	5.98
Japan Trustee Services Bank, Ltd.	3,609	4.29
Mizuho Corporate Bank, Ltd.	2,987	3.55
The Master Trust Bank of Japan, Ltd.	2,704	3.21
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