

Annual Report

2006



NIHON

NOHYAKU

*Established in 1928, Nihon Nohyaku Co., Ltd. has grown in tandem with the advance of agricultural technology in Japan. Boasting strong capabilities in fine chemicals, the Company is one of Japan's leading agrochemical manufactures. The quality of its in-house-developed agrochemicals has earned Nihon Nohyaku a strong reputation in Japan and a rising profile overseas.*

*In all its activities, Nihon Nohyaku is guided by a commitment to be academically oriented and technology driven, to emphasize quality over quantity, to protect the environment, and to contribute to the health and welfare of people worldwide.*

# Financial Highlights

Nihon Nohyaku Co., Ltd. and Consolidated Subsidiaries

For the years ended September 30

|   | .Millions of yen<br>(Except per share data) |         |         |         |                | Thousands of U. S. dollars<br>(Except per share data) |
|---|---|---------|---------|---------|----------------|---|
|   | 2002  | 2003    | 2004    | 2005    | 2006           | 2006  |
| For the year:                           |   |         |         |         |                |   |
| Net sales .....                         | ¥29,882                                     | ¥35,430 | ¥35,589 | ¥35,354 | <b>¥36,835</b> | <b>\$312,161</b>                                      |
| Net income (loss).....                  | 93  | 105     | 106     | 508     | <b>940</b>     | <b>7,966</b>  |
| At year end:                            |   |         |         |         |                |   |
| Shareholders' equity .....              | 27,762                                      | 27,915  | 27,979  | 29,006  | <b>30,006</b>  | <b>254,288</b>  |
| Total assets .....                      | 46,221                                      | 51,121  | 49,627  | 47,441  | <b>49,295</b>  | <b>417,754</b>  |
| Per share data (yen and U. S. dollars): |   |         |         |         |                |   |
| Net income .....                        | 1.33  | 1.50    | 1.53    | 7.12    | <b>13.58</b>   | <b>0.115</b>  |
| Cash dividends.....                     | 3.00  | 3.00    | 3.00    | 3.00    | <b>5.00</b>    | <b>0.042</b>  |

Note: U. S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥118=\$1, the approximate Tokyo foreign exchange market rate as of September 29, 2006.

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## A message from the president

We extend our wishes for health and prosperity to all of our shareholders and take this opportunity to offer thanks for the support shown to us. In conjunction with the presentation of this business report for the 107th term, we would like to offer a few words here as an overview.

In fiscal 2006, our company group worked to expand the sales of highly profitable items such as our own technical grade and our own developed products, and with efforts to reduce costs and expenditures, we worked to increase business competitiveness and aimed for improved earnings.

For our agrochemical sales division, the core of our company group's "chemical products business", we made our best efforts in domestic and international markets to expand sales of our own developed agrochemical products, including newly launched products as well as technical grade, and also worked to improve earnings through reductions in manufacturing costs and product prime costs. In addition, with the contribution of new antifungal product sales, increased sales of home and gardening chemical products, and the expansion of our organic intermediates business, our areas of business other than that for agrochemicals have been growing to become important contributors to our earnings.

In our "landscaping business" in which we engage in tree planting and landscape gardening work and our "service business" in which we manage sports facilities, conduct analyses, etc, we made active progress in our sales activities in various areas, and we worked to increase business results and profits through further expense reductions and lowered costs.

As a result of our efforts in the above areas of business, our company group achieved sales for this term of 36,835 million yen (a 4.2% increase of 1,481 million yen over the previous term), operating profit of 2,453 million yen (an 82.2% increase of 1,106 million yen over the previous term), ordinary profit of 2,070 million yen (a 112.4% increase of 1,095 million yen over the previous term), and after-tax profit this term of 940 million yen (an 84.9% increase of 431 million yen over the previous term).

In our company group's efforts to earn the trust of all of our shareholders as well as the general public, we are working to enrich our corporate governance through the strengthening of sensible and timely decision making and functions for proper management checks based on compliance with regulations and company ethics. In order to have efficient business operations and clarified responsibilities for execution of business, we are introducing an operating officer system, conducting highly transparent business management, and moving forward with compliance activities, the building of an internal regulation system, and proper disclosure.

As a company group dealing in chemical products, we take responsibility in our society and strengthen our commitment to safety in all manufacturing plants and to ensuring the quality of manufactured products. We take responsibility in all of our steps from chemical substance development to manufacturing to disposal, and in doing so, we make careful efforts to make improvements in the environment, health, and safety. Our handling of these activities as well as our results are published in our "Environment Report" and also included on our homepage. As we look toward the goal of a continued secure environment with plentiful food for our daily lives, we work diligently to fulfill our mission to society.

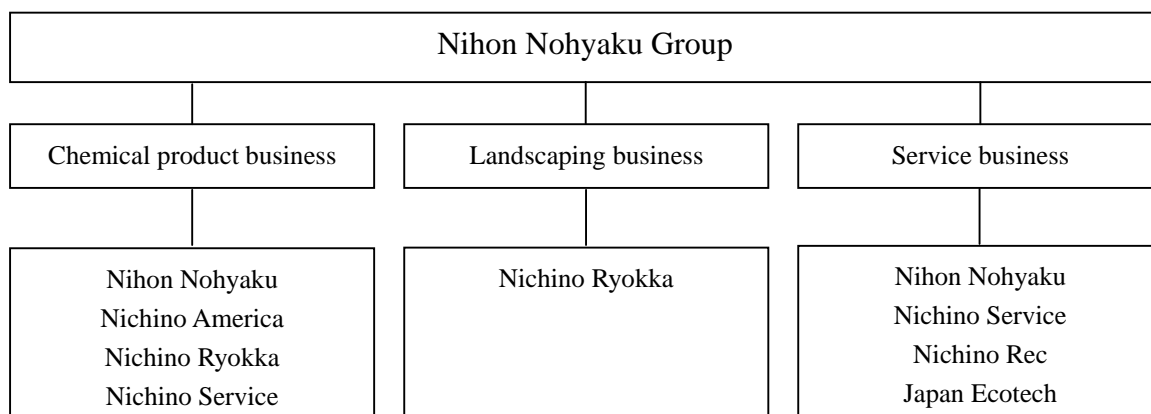
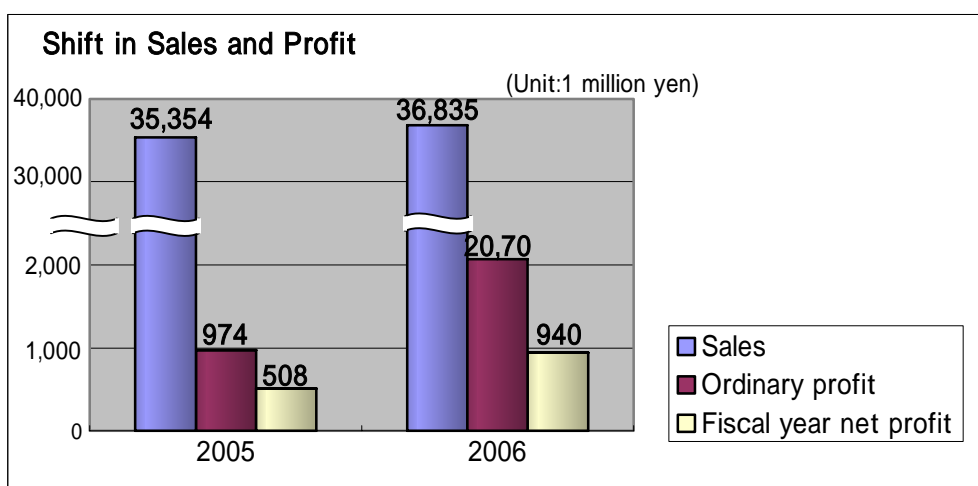
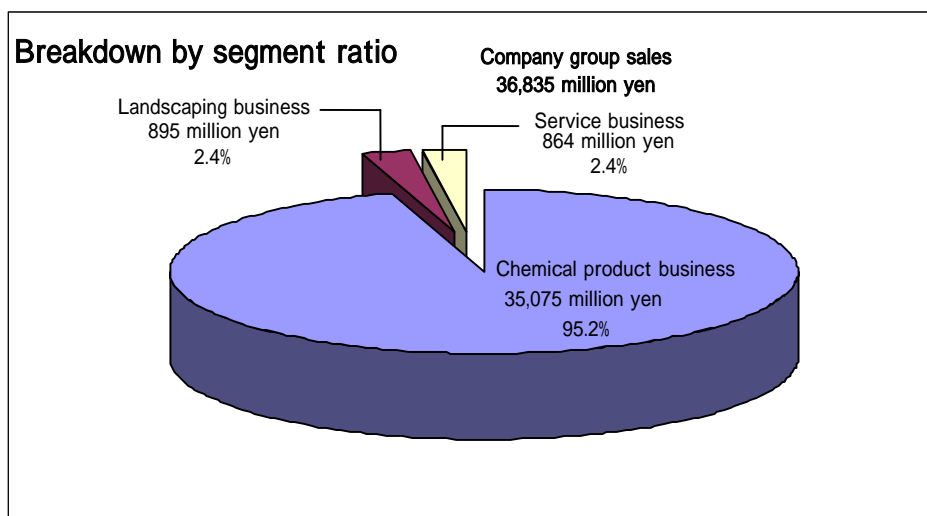
In closing, we kindly ask our shareholders for their continued support and encouragement.

December 2006



President Shukichi Ohuchi

# Sales by Segment and Outline of Nihon Nohyaku Group



## Consolidated subsidiaries

| Company name              | Capital            | Voting rights(%) | Main areas of business   |
|---------------------------|--------------------|------------------|--|
| Nichino Ryokka Co., Ltd.  | 160 million yen    | 100%             | Tree planting, landscape gardening, other landscaping contracting, designing, execution, management, and sales of chemicals for gardening and tree planting. |
| Nichino Rec Co., Ltd.     | 60 million yen     | 100%             | Management of sports facilities(golf practice ranges, tennis courts), etc.   |
| Nichino Service Co., Ltd. | 3,400 million yen  | 100%             | Agrochemical production, receipt and handling of orders, product storage, delivery services, real estate leasing and management, storage business.           |
| Nichino America, Inc.     | 700,000 US dollars | 100%             | Production, development, and sales of agrochemicals in the US.   |
| Japan Ecotech Co., Ltd.   | 20 million yen     | 100%             | Analysis of agrochemical crop residues, safety evaluation of chemical substances, consulting for environmental conservation, etc.                            |

### [Chemical product business]

In domestic agrochemical sales, we have continued to expand sales activity with a focus on our company's own developed products. We worked to expand sales of products such as V-get-Admire granules and V-get-Prince granules (both are combination products for paddy rice nursery treatment from the mother product, V-get, which is a product developed by our company for treatment of blast disease in paddy rice), and we obtained registration and launched newly developed product V-get-Prince Variad L granules and V-get-Dinaman, the industry's first product to simultaneously control rice blast disease and weeds in paddy rice.

In the field of one-shot-application paddy herbicides, we put Kuroobi 1 kilo granules and Kuroobi flowable on the market in response to increasingly diversified regional needs, and in the field of horticulture, we launched Kusa King granules manufactured for sale in home center stores as a non-selective herbicide for amenity use. In addition, we have begun handling Sanlit wettable powder, a fungicide for use on fruit trees, and have launched 6 new chemical products on the market this fiscal year. There has been, however, a slump in the chemical Achieve for use against paddy rice blast disease due to a development of resistance as well as in horticultural fungicides and paddy herbicides, and sales figures for domestic agrochemical sales as a whole fell slightly below those for the previous term.

In sales of technical grade, though figures for some of our main products such as horticultural herbicide Isouron and paddy rice herbicide Indanofan fell below those for the previous term, horticultural insecticides Kotetsu, Hachi-Hachi, and Nomort, ant control product Stealth, and paddy rice blast treatment V-get have expanded steadily, and results as a whole exceeded those of the previous term.

In overseas agrochemical sales, with the plant hopper outbreak in Asia and new market launching in India, insecticide Applaud has been making favorable progress. With the rice blast disease epidemic in Asia, and promotion and expansion of sales in China, rice blast fungicide Fuji-One for use in paddy rice has also expanded steadily, and sales for the paddy rice insecticide Bassa for Vietnam have also grown.

On the other hand, due to the inventory from the previous fiscal year, shipments of miticides Danitron and Pyranica in Western Europe were sluggish.

In Asia, increased sales in China, India, and Vietnam led to results that significantly exceeded those for the previous term, and, as a whole, sales figures were slightly higher than those for the previous year.

In the US, our subsidiary sales company, Nichino America, Inc., achieved increased sales for products such as miticide FujiMite for use on fruit trees, fungicide Artisan for use on peanuts, and defoliant treatment ET for use on cotton, and results for this fiscal year exceeded those for the previous term.

In areas of business other than our chemical products business, though the termite and wood treatment fields were stagnant this year, in the field for home gardening chemicals, as new insecticide/fungicide Benica DX and herbicide Nekosogi Quick Pro for home and gardening use contributed to sales and insecticide/fungicide Attack One also made steady progress, sales figures exceeded those of the previous term.

In the field of organic intermediates, the results for intermediates for electronic materials and pharmaceuticals significantly exceeded those for the previous term, and this area of business is growing to become an important contributor to earnings.

In pharmaceutical and other products, topical antifungal agent Luliconazole, a pharmaceutical product for medical use in its second year of sales, has had significant sales growth, and in April of this year, we obtained approval for the manufacturing of topical antifungal agent Lanoconazole as an over-the-counter pharmaceutical product. In addition, our animal health products and feed additive Nosiheptide, etc. have been making favorable progress.

As a result of our efforts in these areas of business, our chemical products business as a whole achieved sales figures of 35,075 million yen (a 3.3% increase of 1,106 million yen over the previous term), and operating profit totaled 2,944 million yen (a 36.0% increase of 780 million yen over the previous term).

#### [Landscaping business]

As a result of reduced landscaping due to cutback policies in investments in public works, it has been a difficult environment for obtaining work orders for tree planting, landscape gardening, and turfing from our main clients such as national and local government offices. Nevertheless, due to our progress in work orders for large scale public works orders and golf course management, sales exceeded those for the previous term.

As a result, sales from our landscaping business as a whole amounted to 895 million yen (a 47.3% increase of 287 million yen over the previous term), and the operating loss totaled 11 million yen (a 57.2% decrease of 15 million yen from the previous term).

#### [Service business]

In our business involving sports facilities such as golf practice ranges and tennis courts, results fell slightly below those of the previous term as effects of economic recovery were delayed and there was a decrease in number of people using practice ranges.

In our real estate leasing business and product storage and delivery business, results were mainly in line with those of the previous term.

In our analysis business of agrochemical residue in crops, water, and soil, as a result of the implementation of the positive list system, there has been a wide-scale increase in the business of analysis of residues in agricultural food products, and our results exceeded those of the previous term.

As a result, our service business as a whole had sales figures of 864 million yen (an 11.3% increase of 87 million yen over the previous term), and an operating profit of 249 million yen (a 10.6% decrease of 29 million yen from the previous term).

# Consolidated Balance Sheets

Nihon Nohyaku Co., Ltd. and Consolidated Subsidiaries

September 30, 2005 and 2006

| ASSETS  | Millions of yen |          | Thousands of          |
|---|-----------------|----------|-----------------------|
|   | 2005            | 2006     | U.S. dollars (Note 3) |
| <b>Current assets:</b>  |                 |          |                       |
| Cash and time deposits .....  | ¥5,470          | ¥7,002   | \$59,339              |
| Marketable securities (Note 4) .....                                    | 500             | -        | -                     |
| Receivables:  |                 |          |                       |
| Trade notes and trade accounts receivable (Note 6) .....                | 11,082          | 12,141   | 102,890               |
| Loans and other accounts.....   | 354             | 245      | 2,076                 |
| Due from unconsolidated subsidiaries and affiliates (Note 5).....       | 384             | 426      | 3,610                 |
| Less - allowance for doubtful receivables (Note 2(9)).....              | (25)            | (30)     | (254)                 |
|   | 11,795          | 12,782   | 108,322               |
| Inventories (Note 7).....   | 6,478           | 7,208    | 61,085                |
| Deferred income taxes (Note 14).....                                    | 563             | 644      | 5,458                 |
| Prepaid expenses.....   | 365             | 302      | 2,559                 |
| Other current assets .....  | 91              | 112      | 949                   |
| <b>Total current assets</b> .....                                       | 25,262          | 28,050   | 237,712               |
| <b>Investments and long-term receivables:</b>                           |                 |          |                       |
| Investment securities (Note 4) .....                                    | 4,281           | 4,891    | 41,449                |
| Long-term receivables .....   | 25              | 23       | 195                   |
| Investments in unconsolidated subsidiaries and affiliates (Note 5)..... | 275             | 297      | 2,517                 |
| Deferred income taxes (Note 14).....                                    | 1,092           | 1,130    | 9,576                 |
| Other investments .....   | 714             | 678      | 5,746                 |
| Less - allowance for doubtful receivables (Note 2(9)) .....             | (44)            | (33)     | (280)                 |
| <b>Total investments and long-term receivables</b> .....                | 6,343           | 6,986    | 59,203                |
| <b>Property, plant and equipment (Note 2(6) (7)) :</b>                  |                 |          |                       |
| Land .....  | 6,153           | 5,464    | 46,305                |
| Buildings and structures .....  | 12,891          | 12,926   | 109,542               |
| Machinery and equipment.....  | 16,642          | 16,648   | 141,085               |
| Construction in progress .....  | -               | 181      | 1,534                 |
|   | 35,686          | 35,219   | 298,466               |
| Less - accumulated depreciation.....                                    | (22,230)        | (22,490) | (190,593)             |
| <b>Net property, plant and equipment</b> .....                          | 13,456          | 12,729   | 107,873               |
| <b>Intangible assets</b> .....  | 2,380           | 1,530    | 12,966                |
| <b>Total assets</b> .....   | ¥47,441         | ¥49,295  | \$417,754             |

See accompanying Notes to Consolidated Financial Statements.

**LIABILITIES AND SHAREHOLDERS' EQUITY**

|  | Millions of yen |                | Thousands of          |
|--|-----------------|----------------|-----------------------|
|  | 2005            | 2006           | U.S. dollars (Note 3) |
| <b>Current liabilities:</b>                                      |                 |                |                       |
| Trade notes and accounts payable (Note 6) .....                  | ¥2,846          | ¥4,884         | \$41,390              |
| Due to unconsolidated subsidiaries and affiliates (Note 5) ..... | 57              | 56             | 475                   |
| Current portion of long-term loans (Note 9).....                 | 2,020           | 1,972          | 16,712                |
| Income taxes payable .....                                       | 128             | 685            | 5,805                 |
| Accrued bonuses to employees .....                               | 384             | 497            | 4,212                 |
| Accrued expenses .....   | 2,209           | 2,668          | 22,610                |
| Other current liabilities (Note 6).....                          | 1,114           | 966            | 8,186                 |
| <b>Total current liabilities</b> .....                           | <b>8,758</b>    | <b>11,728</b>  | <b>99,390</b>         |
| <b>Long-term liabilities:</b>                                    |                 |                |                       |
| Long-term loans, due after one year (Note 9).....                | 4,178           | 2,206          | 18,695                |
| Accrued pension and severance costs (Note 10) .....              | 3,526           | 3,419          | 28,974                |
| Retirement benefits for directors and corporate auditors .....   | 251             | 252            | 2,136                 |
| Other long-term liabilities .....                                | 1,722           | 1,684          | 14,271                |
| <b>Total long-term liabilities</b> .....                         | <b>9,677</b>    | <b>7,561</b>   | <b>64,076</b>         |
| <b>Minority interests in consolidated subsidiaries</b> .....     | -               | -              | -                     |
| <b>Shareholders' equity:</b>                                     |                 |                |                       |
| Common stock, no par value (Note 11),                            |                 |                |                       |
| Authorized: 199,529,000 shares                                   |                 |                |                       |
| Outstanding 2005 - 70,026,782 shares .....                       | 10,940          | -              | -                     |
| Outstanding 2006 - 70,026,782 shares .....                       | -               | 10,940         | 92,712                |
| Additional paid-in capital (Note 11) .....                       | 13,236          | 13,236         | 112,170               |
| Retained earnings (Note 12).....                                 | 3,712           | 4,430          | 37,542                |
| Accumulated other comprehensive income (loss):                   |                 |                |                       |
| Unrealized gains on securities (Note 4) .....                    | 1,306           | 1,589          | 13,466                |
| Foreign currency translation adjustments .....                   | (32)            | (0)            | (0)                   |
| Less - treasury stock, at cost:                                  |                 |                |                       |
| 2005 - 762,522shares .....                                       | (156)           | -              | -                     |
| 2006 - 846,838shares .....                                       | -               | (189)          | (1,602)               |
| <b>Total shareholders' equity</b> .....                          | <b>29,006</b>   | <b>30,006</b>  | <b>254,288</b>        |
| <b>Total liabilities and shareholders' equity</b> .....          | <b>¥47,441</b>  | <b>¥49,295</b> | <b>\$417,754</b>      |

# Consolidated Statements of income

Nihon Nohyaku Co., Ltd. and Consolidated Subsidiaries

For the years ended September 30, 2005 and 2006

|   | Millions of yen |                | Thousands of<br>U.S. dollars (Note 3) |
|---|-----------------|----------------|---------------------------------------|
|   | 2005            | 2006           | 2006                                  |
| <b>Net sales</b> (Note 16) .....  | ¥35,354         | <b>¥36,835</b> | <b>\$312,161</b>                      |
| <b>Cost of sales</b> .....  | 21,195          | <b>21,790</b>  | <b>184,661</b>                        |
| Gross profit .....  | 14,159          | <b>15,045</b>  | <b>127,500</b>                        |
| <b>Selling, general and administrative expenses</b> .....               | 12,812          | <b>12,591</b>  | <b>106,703</b>                        |
| Operating income (Note 16).....   | 1,347           | <b>2,454</b>   | <b>20,797</b>                         |
| <b>Non-operating income (expenses):</b>                                 |                 |                |                                       |
| Interest and dividend income .....                                      | 46              | <b>64</b>      | <b>542</b>                            |
| Interest expenses.....  | (245)           | <b>(207)</b>   | <b>(1,754)</b>                        |
| Equity in earnings of unconsolidated subsidiaries and affiliates .....  | 5               | <b>10</b>      | <b>85</b>                             |
| Gain (loss) on sales of marketable and investment securities - net..... | (24)            | -              | -                                     |
| Evaluation loss on investment securities .....                          | -               | <b>(9)</b>     | <b>(76)</b>                           |
| Loss on disposal of property, plant and equipment - net .....           | (22)            | <b>(41)</b>    | <b>(348)</b>                          |
| Gain on abolition of pension plans .....                                | 180             | -              | -                                     |
| Retirement allowances for directors and corporate auditors .....        | (33)            | -              | -                                     |
| Provision for bad debts.....  | (9)             | -              | -                                     |
| Bond issuing expenses .....   | (18)            | -              | -                                     |
| Impairment of fixed assets (Note 2 (7)) .....                           | -               | <b>(690)</b>   | <b>(5,848)</b>                        |
| Loss on disposal of inventories .....                                   | -               | <b>(210)</b>   | <b>(1,780)</b>                        |
| Other - net .....   | (156)           | <b>(49)</b>    | <b>(415)</b>                          |
|   | <b>(276)</b>    | <b>(1,132)</b> | <b>(9,594)</b>                        |
| <b>Income (loss) before income taxes</b> .....                          | 1,071           | <b>1,322</b>   | <b>11,203</b>                         |
| <b>Income taxes:</b>  |                 |                |                                       |
| Current .....   | 109             | <b>695</b>     | <b>5,890</b>                          |
| Deferred .....  | 454             | <b>(313)</b>   | <b>(2,653)</b>                        |
| Total income taxes .....  | 563             | <b>382</b>     | <b>3,237</b>                          |
| <b>Net income</b> .....   | ¥508            | <b>¥940</b>    | <b>\$7,966</b>                        |

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Shareholders' Equity

Nihon Nohyaku Co., Ltd. and Consolidated Subsidiaries

For the years ended September 30, 2005 and 2006

|   | Millions of yen                                       |                 |  |                                   |               |                   |                                  |
|---|---|-----------------|--|-----------------------------------|---------------|-------------------|----------------------------------|
|   | Number of<br>Shares of<br>Common stock<br>(Thousands) | Common<br>stock | Additional<br>paid-in capital<br>(Note 10) | Retained<br>earnings<br>(Note 11) | Other         | Treasury<br>stock | Total<br>shareholders'<br>equity |
| Balance at September 30, 2004 .....                   | 70,026  | ¥10,940         | ¥13,236                                    | ¥3,412                            | ¥522          | ¥ (131)           | ¥ 27,979                         |
| Net income for the year ended September 30, 2005..... |   |                 |  | 508                               |               |                   | 508                              |
| Year-end cash dividends (¥3.00 per share) .....       |   |                 |  | (208)                             |               |                   | (208)                            |
| Other comprehensive income (loss):                    |   |                 |  |                                   |               |                   |                                  |
| Unrealized gains on securities (Note 4) .....         |   |                 |  |                                   | 744           |                   | 744                              |
| Foreign currency translation adjustments .....        |   |                 |  |                                   | 8             |                   | 8                                |
| Increase of treasury stock during the year .....      |   |                 |  |                                   |               | (25)              | (25)                             |
| <b>Balance at September 30, 2005.....</b>             | <b>70,026</b>   | <b>10,940</b>   | <b>13,236</b>                              | <b>3,712</b>                      | <b>1,274</b>  | <b>(156)</b>      | <b>29,006</b>                    |
| Net income for the year ended September 30, 2006..... |   |                 |  | 940                               |               |                   | 940                              |
| Year-end cash dividends (¥3.00 per share) .....       |   |                 |  | (207)                             |               |                   | (207)                            |
| Bonuses to directors .....                            |   |                 |  | (15)                              |               |                   | (15)                             |
| Other comprehensive income (loss):                    |   |                 |  |                                   |               |                   |                                  |
| Unrealized gains on securities (Note 4) .....         |   |                 |  |                                   | 283           |                   | 283                              |
| Foreign currency translation adjustments .....        |   |                 |  |                                   | 32            |                   | 32                               |
| Increase of treasury stock during the year .....      |   |                 |  |                                   |               | (33)              | (33)                             |
| <b>Balance at September 30, 2006.....</b>             | <b>70,026</b>   | <b>¥10,940</b>  | <b>¥13,236</b>                             | <b>¥4,430</b>                     | <b>¥1,589</b> | <b>¥ (189)</b>    | <b>¥30,006</b>                   |

|   | Thousands of U. S. dollars (Note 3)                   |                 |  |                                   |                 |                   |                                  |
|---|---|-----------------|--|-----------------------------------|-----------------|-------------------|----------------------------------|
|   | Number of<br>Shares of<br>Common stock<br>(Thousands) | Common<br>stock | Additional<br>paid-in capital<br>(Note 11) | Retained<br>earnings<br>(Note 12) | other           | Treasury<br>stock | Total<br>shareholders'<br>equity |
| <b>Balance at September 30, 2005.....</b>             | <b>70,026</b>   | <b>\$92,712</b> | <b>\$112,170</b>                           | <b>\$31,457</b>                   | <b>\$10,797</b> | <b>\$ (1,322)</b> | <b>\$245,814</b>                 |
| Net income for the year ended September 30, 2006..... |   |                 |  | 7,966                             |                 |                   | 7,966                            |
| Year-end cash dividends (\$0.025 per share) .....     |   |                 |  | (1,754)                           |                 |                   | (1,754)                          |
| Bonuses to directors .....                            |   |                 |  | (127)                             |                 |                   | (127)                            |
| Other comprehensive income (loss):                    |   |                 |  |                                   |                 |                   |                                  |
| Unrealized gains on securities (Note 4) .....         |   |                 |  |                                   | 2,398           |                   | 2,398                            |
| Foreign currency translation adjustments .....        |   |                 |  |                                   | 271             |                   | 271                              |
| Increase of treasury stock during the year .....      |   |                 |  |                                   |                 | (280)             | (280)                            |
| <b>Balance at September 30, 2006.....</b>             | <b>70,026</b>   | <b>\$92,712</b> | <b>\$112,170</b>                           | <b>\$37,542</b>                   | <b>\$13,466</b> | <b>\$ (1,602)</b> | <b>\$254,288</b>                 |

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Cash Flows

Nihon Nohyaku Co., Ltd. and Consolidated Subsidiaries

For the years ended September 30, 2005 and 2006

|  | Millions of yen |         | Thousands of<br>U.S.dollars (Note 3) |
|--|-----------------|---------|--------------------------------------|
|  | 2005            | 2006    | 2006                                 |
| <b>Cash flows from operating activities:</b>   |                 |         |                                      |
| Net income .....   | ¥508            | ¥940    | \$7,966                              |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities |                 |         |                                      |
| Depreciation and amortization.....   | 1,656           | 1,602   | 13,576                               |
| Accrual pension and severance costs, less payments.....                                    | (190)           | (107)   | (907)                                |
| Gain on abolition of pension plans.....  | (180)           | -       | -                                    |
| Payments on abolition of pension plans.....  | (939)           | (247)   | (2,093)                              |
| Accrual retirement benefits for directors and corporate auditors .....                     | 38              | 1       | 9                                    |
| Increase (decrease) in allowance for doubtful accounts and other accounts - net.....       | (15)            | 125     | 1,059                                |
| Evaluation loss on investment securities.....  | -               | 10      | 85                                   |
| Impairment of fixed assets.....  | -               | 690     | 5,848                                |
| Loss on sales and disposals of property, plant and equipment - net .....                   | 22              | 26      | 220                                  |
| Equity in net income of unconsolidated subsidiaries and affiliates.....                    | (5)             | (10)    | (85)                                 |
| Deferred income taxes .....  | 454             | (313)   | (2,653)                              |
| Changes in assets and liabilities:   |                 |         |                                      |
| Decrease (increase) in notes and accounts receivable.....                                  | 1,496           | (1,061) | (8,991)                              |
| (Increase) decrease in inventories.....  | 92              | (703)   | (5,958)                              |
| Decrease in other current assets.....  | 37              | 160     | 1,356                                |
| Increase (decrease) in notes and accounts payable.....                                     | (876)           | 2,012   | 17,051                               |
| Increase in other current liabilities.....   | 276             | 1,097   | 9,297                                |
| Other .....  | 41              | (57)    | (483)                                |
| Net cash provided by operating activities.....   | 2,415           | 4,165   | 35,297                               |
| <b>Cash flows from investing activities:</b>   |                 |         |                                      |
| Payments for purchase of fixed assets .....  | (243)           | (578)   | (4,898)                              |
| Proceeds from sales of fixed assets.....   | 42              | 13      | 110                                  |
| Payments for purchase of investment securities.....  | (1)             | (151)   | (1,280)                              |
| Payments for purchase of intangible assets .....   | (101)           | (151)   | (1,280)                              |
| Deposit in time deposit maturities over three months-net .....                             | (367)           | (500)   | (4,237)                              |
| Proceeds from sales of investment securities .....   | 38              | 519     | 4,398                                |
| Payments for advance.....  | (135)           | (125)   | (1,059)                              |
| Proceeds from collections of advance.....  | 136             | 126     | 1,068                                |
| Other .....  | 67              | 22      | 186                                  |
| Net cash used in investing activities .....  | (564)           | (825)   | (6,992)                              |
| <b>Cash flows from financing activities:</b>   |                 |         |                                      |
| Proceeds from issuance of bond .....   | 800             | -       | -                                    |
| Repayments of long-term debt.....  | (2,140)         | (2,000) | (16,949)                             |
| Repayment of bond .....  | -               | (75)    | (636)                                |
| Payments for purchase of treasury stock .....  | (25)            | (33)    | (280)                                |
| Dividends paid.....  | (208)           | (207)   | (1,754)                              |
| Net cash used in financing activities.....   | (1,573)         | (2,315) | (19,619)                             |
| <b>Effect of exchange rate changes on cash and cash equivalents.....</b>                   | -               | 7       | 59                                   |
| <b>Net increase in cash and cash equivalents .....</b>                                     | 278             | 1,032   | 8,745                                |
| <b>Cash and cash equivalents at beginning of year.....</b>                                 | 4,146           | 4,424   | 37,492                               |
| <b>Cash and cash equivalents at end of year .....</b>                                      | ¥4,424          | ¥5,456  | \$46,237                             |
| <b>Supplemental data:</b>  |                 |         |                                      |
| Cash paid during the year for - Income taxes .....   | ¥ 69            | ¥139    | \$1,178                              |
| Interest .....   | 211             | 207     | 1,754                                |
| Cash received during the year for interest and dividends.....                              | 52              | 70      | 593                                  |
| Cash and cash equivalents, end of year (Note 2(3))   |                 |         |                                      |
| Cash and time deposit excluded maturities of over three month.....                         | ¥4,424          | ¥5,456  | \$46,237                             |

See accompanying Notes to Consolidated Financial Statements.

# Notes to Consolidated Financial Statements

Nihon Nohyaku Co., Ltd. Consolidated Subsidiaries

## **Note 1** Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements are prepared from the consolidated financial statements issued for domestic reporting purposes in accordance with the provisions set forth in the Japanese Securities and Exchange Law.

Nihon Nohyaku Co., Ltd. (the Company), and its subsidiaries in Japan maintain their records and prepare their financial statements in accordance with accounting principles maintain their records and prepare their financial statements in conformity with accounting principles generally accepted in the countries of their

domiciles.

In preparing the consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued in Japan in order to present them in a form which is more familiar to readers outside Japan. In addition, certain notes to consolidated financial statements which are not required for domestic reporting purposes are included herein for the reader's convenience.

## **Note 2** Summary of Significant Accounting Policies

### **(1) Principles of consolidation**

The consolidated financial statements include the accounts of Nihon Nohyaku Co., Ltd. and those of its 100%-owned subsidiary companies (together, the Companies).

All inter-company transactions and accounts are eliminated.

Investments in which the Company has significant influence or ownership of 20% or more but less than or equal to 50% are accounted for under the equity method. Under the equity method, investments are stated at cost plus/minus the Company's equity in undistributed earnings or losses. Consolidated net income includes the Company's equity in current earnings or losses of such companies, after elimination of unrealized inter-company profits. If the value of an investment has declined and is judged to be other than temporary, the investment is written down to its fair value.

### **(2) Translation of foreign currencies**

All asset and liability accounts and all income and expense accounts of foreign subsidiaries and affiliates are translated into Japanese yen at approximate year-end current rates. The resulting translation adjustments are accumulated as a component of comprehensive income (loss).

Foreign currency receivables and payables are translated at appropriate year-end current rates and the resulting translation gains or losses are taken into income currently.

### **(3) Cash and cash equivalents**

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less, which are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

### **(4) Marketable and investment securities**

Debt securities and equity securities designated as available-for-sale, whose fair values are readily determinable, are carried at fair value with unrealized gains or losses included as a component of other comprehensive income, net of applicable taxes. Debt securities that are expected to be held-to-maturity are carried at amortized cost. Individual securities classified as either available-for-sale or held-to-maturity are reduced to net realized value by a charge to income for other than temporary declines in fair value. Realized gains and losses are determined on the moving average cost method and are reflected in income.

### **(5) Inventories**

Inventories of the Company and foreign subsidiary are valued at

cost, not in excess of market, cost being determined on the average cost basis. Inventories of Japanese subsidiaries are valued at the average cost except work-in process construction which is stated at job order cost individually.

### **(6) Property, plant and equipment and depreciation**

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is computed by the straight-line method for the Company and foreign subsidiary and by the declining-balance method for domestic subsidiaries. The straight-line method is applied to buildings acquired after April 1, 1998 for Japanese subsidiaries.

Depreciation is computed at rates based on estimated useful lives as described by tax regulations for the Company and Japanese subsidiaries and on estimated useful lives. Significant renewals and additions are capitalized at cost. Maintenance and repairs, and minor renewals and betterments are charged to income as incurred.

### **(7) Impairment of fixed assets**

The "Accounting standard for Impairment of Fixed Assets" was issued on August 9, 2002 by Business Accounting Council.

This standard requires an entity to review its' long-lived assets for impairment changes wherever events or changes in circumstances indicate the carrying amount of an assets or asset group may not be recoverable. An impairment loss shall be recognized by reducing carrying amount of assets or asset group to the recoverable amount to be measured as the higher of net selling price and value in use. The Companies applied this new standard for the fiscal year ended September 30, 2006. As a result, the Companies recorded impairment loss of ¥690 million (US\$5,848 thousand) which decreased income before income taxes by amount of ¥690 million (US\$5,848 thousand) compared with before the change.

### **(8) Derivative instruments and hedging activities**

The Company has certain financial instruments including financial assets and liabilities incurred in the normal course of business. Such financial instruments are exposed to market risk arising from the changes of foreign currency exchange rates and interest rates. In applying a consistent risk management strategy for the purpose of reducing such risk, the Company uses derivative financial instruments, which include foreign exchange forward contracts, foreign currency option contracts, and interest rate and currency swap agreements. The Company does not use derivative financial instruments for trading or speculative purposes. Foreign exchange

forward contracts and foreign currency option contracts are utilized to limit the exposure affected by changes in foreign currency exchange rates on cash flows.

These instruments are executed with creditworthy financial institutions.

**(9) Allowance for doubtful accounts receivable**

Allowance for doubtful accounts receivable is provided for in an amount sufficient to cover possible losses on collection. It consists of the estimated a collectible amount with respect to identified doubtful accounts receivable and an amount calculated on the actual percentage of past three years with respect to remaining accounts receivable.

**(10) Accrued bonuses to employee**

The companies follow the general Japanese custom that companies pay bonuses to employees in June or July and December. Accrued bonus liability to employees at the balance sheet date is the estimated amounts to be paid in December to be charged to current income.

**(11) Retirement benefits for directors and corporate auditors**

Allowance for retirement benefits for directors and corporate auditors (“Officers”) of the Company and all domestic subsidiaries is provided based on the Companies’ pertinent rules and is calculated as the estimated amount which would be payable if all officers were to retire at the balance sheet date. Any amounts payable to Officers upon retirement are subject to approval at the annual stockholders’ meeting.

**(12) Bonuses to directors and corporate auditors**

Effective October 1, 2005, the Companies changed the method of accounting for bonuses to directors and corporate auditors (“Officers”) from appropriation of retained earnings to expenses on accrual basis. The Companies provided bonuses to Officers of ¥20 million (US\$169 thousand) for the year ended September 30, 2006. The effect of this change was to decrease income before income taxes by ¥20 million (US\$169 thousand).

**(12) Research and development costs**

Research and development costs are expensed as incurred.

**(13) Income taxes**

The Companies are subject to a number of different taxes based on income, such as corporate income tax, inhabitant tax and enterprise tax. These taxes are charged to current income on an accrual bases.

The ordinary relationship between income tax expenses and pretax accounting income is distorted by a number of items, including various tax credits and certain expenses not deductible for income tax purposes. The deferred income taxes are arisen from temporary differences in the above-mentioned items.

The provision for income taxes is computed based on the pre tax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities.

**Note 3 U.S. Dollar Amounts**

U.S. dollar amounts presented in the financial statements are included solely for the convenience of the reader and have been translated, as a matter of arithmetical computation only, at the rate of ¥118 = US\$1, the approximate current rate at September 29,

2006 (September 30, 2006 is Saturday, so Tokyo exchange market was closed) . These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into U.S. dollars.

**Note 4 Marketable and Investment Securities**

The aggregate cost, gross unrealized gains and losses and fair value pertaining to available-for-sale securities and held-to-maturity securities of marketable and investment securities are as follows:

|                         | Millions of yen    |                        |                         |            |                    |                        |                         |            |
|-------------------------|--------------------|------------------------|-------------------------|------------|--------------------|------------------------|-------------------------|------------|
|                         | September 30, 2005 |                        |                         |            | September 30, 2006 |                        |                         |            |
|                         | Cost               | Gross unrealized gains | Gross unrealized losses | Fair value | Cost               | Gross unrealized gains | Gross unrealized losses | Fair value |
| Available-for-sale:     |                    |                        |                         |            |                    |                        |                         |            |
| Equity securities ..... | ¥1,562             | ¥2,221                 | ¥30                     | ¥3,753     | ¥1,562             | ¥2,691                 | ¥32                     | ¥4,221     |
| Investment fund .....   | 71                 | 16                     | 6                       | 81         | 71                 | 20                     | -                       | 91         |
| Held-to-maturity        |                    |                        |                         |            |                    |                        |                         |            |
| Bond .....              | 500                | -                      | -                       | 500        | -                  | -                      | -                       | -          |
| Total .....             | ¥2,133             | ¥2,237                 | ¥36                     | ¥4,334     | ¥1,633             | ¥2,711                 | ¥32                     | ¥4,312     |

|                         | Thousands of U.S. Dollars |                        |                         |            |
|-------------------------|---------------------------|------------------------|-------------------------|------------|
|                         | September 30, 2006        |                        |                         |            |
|                         | Cost                      | Gross unrealized gains | Gross unrealized losses | Fair value |
| Available-for-sale:     |                           |                        |                         |            |
| Equity securities ..... | \$13,237                  | \$22,805               | \$271                   | \$35,771   |
| Investment fund .....   | 602                       | 169                    | -                       | 771        |
| Held-to-maturity        |                           |                        |                         |            |
| Bond .....              | -                         | -                      | -                       | -          |
| Total .....             | \$13,839                  | \$22,974               | \$271                   | \$36,542   |

In September 2002, the Company contributed certain marketable equity securities to an employee retirement benefit trust, with no cash proceeds thereon. The fair value of these securities as of September 30, 2006 was ¥895 million (US\$7,585 thousand).

**Note 5 Account Balances and Transactions with Affiliates**

Account balances and transactions with affiliates are presented below:

| September 30                     | Millions of yen |      | Thousands of U.S. dollars |
|----------------------------------|-----------------|------|---------------------------|
|                                  | 2005            | 2006 | 2006                      |
| Accounts receivable, trade ..... | ¥384            | ¥426 | \$3,610                   |
| Accounts receivable, other ..... | -               | -    | -                         |
| Accounts payable, trade .....    | -               | 1    | 8                         |
| Accounts payable, other .....    | 57              | 55   | 466                       |
| Investments .....                | 275             | 297  | 2,517                     |

| Years ended September 30              | Millions of yen |      | Thousands of U.S. dollars |
|---------------------------------------|-----------------|------|---------------------------|
|                                       | 2005            | 2006 | 2006                      |
| Sales .....                           | ¥678            | ¥647 | \$5,483                   |
| Other revenue .....                   | 0               | 2    | 17                        |
| Purchase and operating expenses ..... | 20              | 31   | 263                       |
| Interest and dividend income .....    | 6               | 6    | 51                        |

**Note 6 Effect of bank holiday on September 30, 2006**

In case the balance sheet date is a bank holiday, notes maturing on the balance sheet date were settled on the following business day and accounted for accordingly. Accounts outstanding as at September 30, 2006, whose settlement was postponed, were as follows:

|   |        |          |
|---|--------|----------|
| Trade notes receivable .....            | ¥1,246 | \$10,559 |
| Trade notes payable .....               | 148    | 1,254    |
| Trade notes payable for equipment ..... | 19     | 161      |

**Note 7 Inventories**

Inventories comprise the following:

| September 30                         | Millions of yen |        | Thousands of U.S. dollars |
|--------------------------------------|-----------------|--------|---------------------------|
|                                      | 2005            | 2006   | 2006                      |
| Finished goods and merchandise ..... | ¥4,803          | ¥4,585 | \$38,856                  |
| Raw materials and supplies .....     | 742             | 1,884  | 15,966                    |
| Work in process .....                | 922             | 722    | 6,119                     |
| Work in process - construction ..... | 11              | 17     | 144                       |
|                                      | ¥6,478          | ¥7,208 | \$61,085                  |

**Note 8 Lease Assets**

The Company and its consolidated subsidiaries lease machinery and equipment, under financial leases which are not deemed to transfer the ownership of lease assets to the Companies.

Lease assets are as follows:

|                                | Millions of yen |       | Thousands of U.S. dollars |
|--------------------------------|-----------------|-------|---------------------------|
|                                | 2005            | 2006  | 2006                      |
| Machinery and equipment .....  | ¥683            | ¥584  | \$4,949                   |
| Accumulated amortization ..... | (460)           | (370) | (3,136)                   |
|                                | ¥223            | ¥214  | \$ 1,813                  |

The total future minimum payments as of September 30, 2006 including interest are as follows:

|                              | Millions of yen |      | Thousands of U.S. dollars |
|------------------------------|-----------------|------|---------------------------|
|                              | 2005            | 2006 | 2006                      |
| Due within one year .....    | ¥68             |      | \$576                     |
| Due after one year .....     | 146             |      | 1,237                     |
| Total minimum payments ..... | ¥214            |      | \$1,813                   |

**Note 9 Long-Term Loans**

Long-term loans at September 30, 2005 and 2006 are as follows:

|   | Millions of yen |         | Thousands of U.S. dollars |
|---|-----------------|---------|---------------------------|
|   | 2005            | 2006    | 2006                      |
| Loans, principally from banks, due through September 2010, with 1.96% to 2.08% interest rate per annum at September 30, 2006: |                 |         |                           |
| Secured .....   | ¥5,372          | ¥3,446  | \$29,204                  |
| Unsecured .....   | 26              | 7       | 59                        |
|   | 5,398           | 3,453   | 29,263                    |
| Unsecured yen bonds, due September 2010, with interest rate of 0.95 % per annum.....  | 800             | 725     | 6,144                     |
|   | 6,198           | 4,178   | 35,407                    |
| Current portion of long-term loans .....  | (2,020)         | (1,972) | (16,712)                  |
| Long-term loans, due after one year .....   | ¥4,178          | ¥2,206  | \$18,695                  |

The annual maturities of long-term loans outstanding at September 20, 2006 are as follows:

| Year ending September 30..... | Millions of yen | Thousands of U.S. dollars |
|-------------------------------|-----------------|---------------------------|
| 2007 .....                    | ¥1,972          | \$16,712                  |
| 2008 .....                    | 889             | 7,534                     |
| 2009 .....                    | 786             | 6,661                     |
| 2010 .....                    | 100             | 847                       |
| 2011 .....                    | 431             | 3,653                     |
| Total .....                   | ¥4,178          | \$35,407                  |

Property, plant and equipment of ¥9,411 million (US\$79,754 thousand, less accumulated depreciation) is pledged as collateral for long-term loans of ¥3,446 million (US\$29,204 thousand).

**Note 10 Severance and Pension Plans**

Upon terminating employment, employees of the Company and Japanese subsidiaries are entitled to lump-sum indemnities or pension payments as described below. For employees voluntarily retiring, under normal circumstances, minimum payment is an amount based on current rates of pay and length of service. In calculating minimum payment for employees involuntarily retiring, including employees retiring due to meeting mandatory retirement age requirements, the Companies may grant additional benefits.

With respect to directors' and corporate auditors' resignations,

lump-sum severance indemnities are paid subject to the approval of the Companies' shareholders and not covered with the pension plan.

On April 30, 2006, the Company arranged contributory funded defined benefit pension plans to cover 50% of the indemnities under the existing regulations to employees. However domestic subsidiaries have no benefit pension plans, 100 % of indemnities is covered by severance payments by them.

The components of net pension and severance costs for the years ended September 30, 2005 and 2006 are as follows:

| Years ended September 30  | Millions of yen |      | Thousands of U.S. dollars |
|---|-----------------|------|---------------------------|
|   | 2005            | 2006 | 2006                      |
| Service cost .....  | ¥248            | ¥243 | \$2,059                   |
| Interest cost on projected benefit obligation .....             | 252             | 145  | 1,229                     |
| Expected return on plan assets .....                            | (51)            | (22) | (186)                     |
| Recognized actuarial loss .....                                 | 30              | (4)  | (34)                      |
| Amortization of unrecognized net obligation at transition ..... | 49              | 32   | 271                       |
| Amortization of prior service cost .....                        | 15              | 2    | 17                        |
| Net periodic benefit cost .....                                 | ¥543            | ¥396 | \$3,356                   |

The benefit obligation and plan assets, funded status and composition of amounts recognized in the consolidated balance sheets at September 30, 2005 and 2006 are as follows:

|  | Millions of yen |        | Thousands of U.S. dollars |
|--|-----------------|--------|---------------------------|
|  | 2005            | 2006   | 2006                      |
| Benefit obligation .....                       | ¥4,346          | ¥4,178 | \$35,407                  |
| Unrecognized actuarial profit.....             | 152             | 460    | 3,898                     |
| Unrecognized net obligation at transition..... | (318)           | (286)  | (2,424)                   |
| Unrecognized prior service cost.....           | (33)            | 45     | 381                       |
| Fair value of plan assets* .....               | (621)           | (978)  | (8,288)                   |
| Net amount recognized.....                     | ¥3,526          | ¥3,419 | \$28,974                  |

\* The Company contributed certain marketable equity securities to an employee retirement benefit trust, which is included in plan assets (Note 4).

Assumptions used as of September 30, 2005 and 2006 were as follows:

|                                      | 2005 | 2006 |
|--------------------------------------|------|------|
| Discount rate.....                   | 3.5% | 2.0% |
| Expected return on plan assets ..... | 3.5% | 3.5% |

### Note 11 Common Stock and Additional Paid-in Capital

Under the Japanese Commercial Code, the entire amount of new stock issue price is required to be accounted for as common stock, although an amount not exceeding one-half of the issue prices could be accounted for as capital surplus, additional paid-in-capital by resolution of the Board of Directors. Additional paid-in-capital and other legal reserve could be distributed, by resolution of Board of Directors, in the form of free shares to shareholders.

On October 1, 2001, an amendment (the Amendment) to the Japanese Commercial Code became effective. The Amendment eliminates the stated par value of outstanding shares of Nihon Nohyaku Co., Ltd which results in all outstanding shares having no par value as of October 1, 2001. The Amendment also provides that share issuance after September 20, 2001 will be of shares with no par value. Before the Amendment, the Company's shares had a par value of ¥50 per share.

### Note 12 Retained Earnings

Retained earnings at September 30, 2005 and 2006 include a legal reserve of ¥1,574 million and ¥1,574 million (US\$13,339 thousand), respectively. The Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends from retained earnings paid by the Company and its Japanese subsidiaries be appropriated as a legal reserve. No further appropriations are required when the total amount of the additional paid-in capital and the legal reserve equals 25% of their respective stated capital. The Japanese Commercial Code also provides that to the extent which the sum of the additional paid-in -capital and

the legal reserve exceeds 25% of the stated capital, the amount of the excess, if any, is available for appropriations by the resolution of the shareholders in principle.

The amount of retained earnings available for dividends is determined in accordance with the Japanese Commercial Code. Retained earnings at September 30, 2006 do not reflect year-end dividends of ¥346 million (US\$2,932thousand) for the year ended September 30, 2006, which are formally approved at the general shareholders' meeting held on December 20, 2006, and will be payable subsequently.

**Note 13 Research and Development Costs**

Research and development costs charged to operating expenses for the years ended September 30, 2005 and 2006 are ¥3,292 million and ¥3,434 million (US\$29,102 thousand), respectively.

**Note 14 Income taxes**

Reconciliation of the differences between the statutory tax rate and the effective income tax rate is as follows:

|   | 2005         | 2006                |
|---|--------------|---------------------|
| Statutory tax rate.....                                     | 40.7%        | <b>40.7%</b>        |
| Increase (reduction) in taxes resulting from:               |              |                     |
| Permanent differences unrecognized income tax expenses..... | 3.5          | <b>2.7</b>          |
| Permanent differences credited to income.....               | (1.4)        | <b>(1.3)</b>        |
| Taxation on per capital basis.....                          | 10.2         | <b>2.1</b>          |
| Other.....  | (0.5)        | <b>(15.3)</b>       |
| Effective income tax rate.....                              | <u>52.5%</u> | <u><b>28.9%</b></u> |

The significant components of deferred tax assets and liabilities are as follows:

|   | Millions of yen |                       | Thousands of U.S. dollars |
|---|-----------------|-----------------------|---------------------------|
|   | 2005            | 2006                  | 2006                      |
| Deferred tax assets:  |                 |                       |                           |
| Accrued pension and retirement benefit costs.....                           | ¥1,687          | <b>¥1,634</b>         | <b>\$13,848</b>           |
| Accrued bonus.....  | 156             | <b>202</b>            | <b>1,712</b>              |
| Provision for retirement benefits for directors and corporate auditors..... | 102             | <b>102</b>            | <b>864</b>                |
| Accrued expenses.....   | 254             | <b>329</b>            | <b>2,788</b>              |
| Evaluation loss of marketable and investment securities.....                | 293             | <b>288</b>            | <b>2,441</b>              |
| Impairment of fixed assets.....   | -               | <b>281</b>            | <b>2,381</b>              |
| Operating loss carryforwards for tax purposes.....                          | 56              | <b>3</b>              | <b>25</b>                 |
| Other.....  | 130             | <b>147</b>            | <b>1,246</b>              |
| Gross deferred tax assets.....  | <u>2,678</u>    | <u><b>2,986</b></u>   | <u><b>25,305</b></u>      |
| Less - valuation allowance for deferred tax assets.....                     | -               | -                     | -                         |
| Deferred tax assets.....  | <u>2,678</u>    | <u><b>2,986</b></u>   | <u><b>25,305</b></u>      |
| Deferred tax liabilities:   |                 |                       |                           |
| Gain on securities contribution to employee retirement benefit trust.....   | (127)           | <b>(122)</b>          | <b>(1,034)</b>            |
| Unrealized gains on securities.....   | (896)           | <b>(1,090)</b>        | <b>(9,237)</b>            |
| Gross deferred tax liabilities.....   | <u>(1,023)</u>  | <u><b>(1,212)</b></u> | <u><b>(10,271)</b></u>    |
| Net deferred tax assets.....  | <u>¥1,655</u>   | <u><b>¥1,774</b></u>  | <u><b>\$15,034</b></u>    |

Operating loss carryforwards for tax purposes of the Company at September 30, 2006 amounting to ¥3 million (US\$25 thousand) is available as an offset against next year taxable income.

**Note 15 Per Share Data**

|                           | Yen           |                      | U.S. dollars        |
|---------------------------|---------------|----------------------|---------------------|
|                           | 2005          | 2006                 | 2006                |
| Net income.....           | ¥7.12         | <b>¥13.58</b>        | <b>\$0.115</b>      |
| Cash dividends.....       | 3.00          | <b>5.00</b>          | <b>0.042</b>        |
| Shareholders' equity..... | <u>418.76</u> | <u><b>433.74</b></u> | <u><b>3.676</b></u> |

## Note 16 Segment Information

### (1) Business segments

The Companies operate principally in the following business segments:  
 Chemicals: Agrochemical products, medical products, and other non-agrochemical products  
 Construction: Landscape gardening of golf clubs and parks, sales of lawn

turf and related products

Service: Rent of real estate, warehousing and management of sport facilities such as tennis court, golf training center

|  | For the year ended September 30, 2005 |              |         |         |             | Consolidated total |
|--|---------------------------------------|--------------|---------|---------|-------------|--------------------|
|  | Chemicals                             | Construction | Service | Total   | Elimination |                    |
| Millions of yen                                |                                       |              |         |         |             |                    |
| Net sales and operating income:                |                                       |              |         |         |             |                    |
| Net sales                                      |                                       |              |         |         |             |                    |
| (1) Net sales to outside customers.....        | ¥33,970                               | ¥607         | ¥777    | ¥35,354 | ¥ -         | ¥35,354            |
| (2) Inter-segment.....                         | 6                                     | 6            | 883     | 895     | (895)       | -                  |
| Total.....                                     | 33,976                                | 613          | 1,660   | 36,249  | (895)       | 35,354             |
| Operating expenses.....                        | 31,811                                | 640          | 1,381   | 33,832  | 175         | 34,007             |
| Operating income (loss).....                   | ¥2,165                                | ¥ (27)       | ¥279    | ¥2,417  | ¥ (1,070)   | ¥1,347             |
| Assets, depreciation and capital expenditures: |                                       |              |         |         |             |                    |
| Assets.....                                    | ¥43,875                               | ¥440         | ¥3,126  | ¥47,441 | ¥ -         | ¥47,441            |
| Depreciation.....                              | 1,552                                 | 0            | 104     | 1,656   | -           | 1,656              |
| Capital expenditures.....                      | 320                                   | 0            | 5       | 325     | -           | 325                |

|  | For the year ended September 30, 2006 |              |         |         |             | Consolidated total |
|--|---------------------------------------|--------------|---------|---------|-------------|--------------------|
|  | Chemicals                             | Construction | Service | Total   | Elimination |                    |
| Millions of yen                                |                                       |              |         |         |             |                    |
| Net sales and operating income:                |                                       |              |         |         |             |                    |
| Net sales                                      |                                       |              |         |         |             |                    |
| (1) Net sales to outside customers.....        | ¥35,076                               | ¥895         | ¥864    | ¥36,835 | ¥ -         | ¥36,835            |
| (2) Inter-segment.....                         | 6                                     | 1            | 786     | 793     | (793)       | -                  |
| Total.....                                     | 35,082                                | 896          | 1,650   | 37,628  | (793)       | 36,835             |
| Operating expenses.....                        | 32,137                                | 907          | 1,401   | 34,445  | (64)        | 34,381             |
| Operating income (loss).....                   | ¥2,945                                | ¥ (11)       | ¥249    | ¥3,183  | ¥ (729)     | ¥2,454             |
| Assets, depreciation and capital expenditures: |                                       |              |         |         |             |                    |
| Assets.....                                    | ¥46,100                               | ¥492         | ¥2,703  | ¥49,295 | ¥ -         | ¥49,295            |
| Depreciation.....                              | 1,502                                 | 0            | 100     | 1,602   | -           | 1,602              |
| Capital expenditures.....                      | 780                                   | -            | 7       | 787     | -           | 787                |

|  | Thousands of U.S.dollars |              |          |           |             | Consolidated total |
|--|--------------------------|--------------|----------|-----------|-------------|--------------------|
|  | Chemicals                | Construction | Service  | Total     | Elimination |                    |
| Net sales and operating income:                |                          |              |          |           |             |                    |
| Net sales                                      |                          |              |          |           |             |                    |
| (1) Net sales to outside customers.....        | \$297,254                | \$7,585      | \$7,322  | \$312,161 | \$ -        | \$312,161          |
| (2) Inter-segment.....                         | 51                       | 8            | 6,661    | 6,720     | (6,720)     | -                  |
| Total.....                                     | 297,305                  | 7,593        | 13,983   | 318,881   | (6,720)     | 312,161            |
| Operating expenses.....                        | 272,347                  | 7,686        | 11,873   | 291,906   | 542         | 291,364            |
| Operating expenses (loss).....                 | \$24,958                 | \$ (93)      | \$2,110  | \$26,975  | \$ (6,178)  | \$20,797           |
| Assets, depreciation and capital expenditures: |                          |              |          |           |             |                    |
| Assets.....                                    | \$390,678                | \$4,169      | \$22,907 | \$417,754 | \$ -        | \$417,754          |
| Depreciation.....                              | 12,729                   | 0            | 847      | 13,576    | -           | 13,576             |
| Capital expenditures.....                      | 6,610                    | 0            | 59       | 6,669     | -           | 6,669              |

**(2) Net sales in overseas countries**

|  | For the year ended September 30, 2005 |          |        |       |        |
|--|---------------------------------------|----------|--------|-------|--------|
|  | Millions of yen                       |          |        |       |        |
|  | Asia                                  | Americas | Europe | Other | Total  |
| . Net sales in overseas countries .....      | ¥2,527                                | ¥2,930   | ¥1,632 | ¥325  | ¥7,414 |
| . Consolidated net sales.....                |                                       |          |        |       | 35,354 |
| . Percentage of consolidated net sales ..... | 7.2%                                  | 8.3%     | 4.6%   | 0.9%  | 21.0%  |

|  | For the year ended September 30, 2006 |               |               |             |               |
|--|---------------------------------------|---------------|---------------|-------------|---------------|
|  | Millions of yen                       |               |               |             |               |
|  | Asia                                  | Americas      | Europe        | Other       | Total         |
| . Net sales in overseas countries .....      | <b>¥3,487</b>                         | <b>¥3,262</b> | <b>¥1,228</b> | <b>¥276</b> | <b>¥8,253</b> |
| . Consolidated net sales.....                |                                       |               |               |             | <b>36,835</b> |
| . Percentage of consolidated net sales ..... | <b>9.5%</b>                           | <b>8.9%</b>   | <b>3.3%</b>   | <b>0.7%</b> | <b>22.4%</b>  |

|  | Thousands of U.S. dollars               |                 |                 |                 |                |
|--|---|-----------------|-----------------|-----------------|----------------|
|  | Asia                                    | Americas        | Europe          | Other           | Total          |
|  | . Net sales in overseas countries ..... | <b>\$29,551</b> | <b>\$27,644</b> | <b>\$10,407</b> | <b>\$2,339</b> |
| . Consolidated net sales.....                |   |                 |                 |                 | <b>312,161</b> |
| . Percentage of consolidated net sales ..... | <b>9.5%</b>                             | <b>8.9%</b>     | <b>3.3%</b>     | <b>0.7%</b>     | <b>22.4%</b>   |

# Report of Independent Auditors

KYOWA AUDIT CORPORATION  
CERTIFIED PUBLIC ACCOUNTANTS (JAPAN)

**OFFICE:**

MIYAKO BUILDING,  
3-1-8 NIHONBASHI MUROMACHI  
CHUO-KU, TOKYO 103-0022  
TEL:(03)3241-5956  
FAX:(03)3246-0068

**The Board of Directors and Shareholders  
Nihon Nohyaku Co., Ltd.**

We have audited the consolidated balance sheets of Nihon Nohyaku Co., Ltd. (the Company) as of September 30, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, all expressed in Japanese yen. These financial statements are the responsibilities of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits of these statements in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Nihon Nohyaku Co.,Ltd. and its subsidiaries at September 30, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan, applied on a consistent basis, except for the change, which we concur, in the method of accounting made in the year ended September 30, 2006, as described in Note 2 (7) and (12) of the notes to consolidated financial statements.

We have also reviewed the translation of the financial statements mentioned above into United States dollars on the basis described in Note 3. In our opinion, such statements have been translated on such basis.

Tokyo, Japan  
December 20, 2006

Kyowa Audit Corporation



# Board of Directors and Corporate Auditors

|  |   |                           |  |
|--|---|---------------------------|--|
| <b>President</b>                                       | Shukichi Ohuchi*  | <b>Executive Officers</b> | Yousuke Tomoi<br>Hiroyuki Nakashima<br>Shin Sakuma<br>Hideji Hosoda<br>Masanori Yoshida<br>Kazuhisa Goh<br>Sumitaka Kose |
| <b>Director,<br/>Senior Managing Executive Officer</b> | Masahiro Aimi   |                           |  |
| <b>Directors,<br/>Managing Executive Officer</b>       | Eiji Kikyo<br>Toshinobu Ito<br>Hiroshi Hamaguchi<br>Youichi Kouyama |                           |  |
| <b>Directors, Executive Officer</b>                    | Kaoru Hirose<br>Takamichi konno<br>Kouichi Mano                     |                           |  |
| <b>Director</b>  | Hiroyuki Nakajima   |                           |  |
| <b>Corporate Auditors</b>                              | Sadao Urabe<br>Akira Iida<br>Manabu Tanaka                          |                           |  |

\*Representative Director  
(As a December 20,2006)

## Corporate and Stock Information

### Head Office

2-5, Nihonbashi 1-chome, Chuo-ku,  
Tokyo 103-8236, Japan  
Tel : (03)3274-3374  
Fax: (03)3281-5462

### Branches

Sapporo, Sendai, Tokyo, Osaka, Fukuoka

### Overseas Offices

London, U.K.  
Bangkok, Thailand  
Shanghai, China

### Factories

Fukushima, Kashima, Osaka, Saga

### Research Laboratories

Kawachinagano (Osaka)

### Nurseries

Yotsukaido (Chiba), Naganuma(Hokkaido)

### Subsidiaries

Nichino Ryokka Co., Ltd  
Nichino Rec Co., Ltd  
Japan Ecotech Co., Ltd  
Nichino Service Co., Ltd  
Nichino America, Inc.

### General Meeting of Shareholders

The ordinary general meeting of the Company's shareholders is usually held in December each year in Tokyo.

