

# Annual Report



*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 (Except per share data)					Thousands of U. S. dollars (Except per share data)
	2003	2004	2005	2006	2007	2007
For the year:						
Net sales .....	¥35,430	¥35,589	¥35,354	¥36,835	<b>¥38,733</b>	<b>\$336,809</b>
Net income (loss).....	105	106	508	940	<b>1,612</b>	<b>14,018</b>
At year end:						
Net assets .....	27,915	27,979	29,006	30,006	<b>30,490</b>	<b>265,130</b>
Total assets.....	51,121	49,627	47,441	49,295	<b>49,150</b>	<b>427,391</b>
Per share data (yen and U. S. dollars):						
Net income.....	1.50	1.53	7.12	13.58	<b>23.35</b>	<b>0.203</b>
Cash dividends.....	3.00	3.00	3.00	5.00	<b>7.00</b>	<b>0.061</b>

Note: U. S. dollar amounts are translated from Japanese yen, for convenience only, at the rate of ¥115=\$1, the approximate Tokyo foreign exchange market rate as of September 28, 2007.

## Contents

Financial Highlights	1
A Message from the President	2
Sales by Segment and Outline of Nihon Nohyaku Group	3
Nichino News	6
Consolidated Balance Sheets	8
Consolidated Statements of Income	10
Consolidated Statements of Changes in Net Assets	11
Consolidated Statements of Cash Flows	12
Notes to Consolidated Financial Statements	13
Report of Independent Auditors	21
Corporate Information	22

## 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 given to us. In conjunction with the presentation of this business report for the 108th term, we would like to offer a few words here as an overview.

Our company group has been moving forward with our medium-term management plan, the “Nichino Step Forward Plan 2009” (for advancement and rapid progress) aimed at strengthening our competitive business power and continuing the expansion of our earnings capability, and during this, our first fiscal year, we were able to produce business performance figures which showed increased earnings and profit compared with the previous term.

For our agrochemical business division, the core area of our company group’s business, we made devoted efforts in domestic and overseas markets to expand sales of our own developed technical grade and agrochemical products, and in overseas markets, we made favorable progress in sales, particularly in the Asian region. We also worked to raise our earnings through efforts to improve prime costs including controlling of cost increases and manufacturing costs.

In the domestic market, we registered, launched, and steadily expanded sales of our eagerly-awaited new insecticide for horticultural use, Phoenix water dispersible granules, and we also began sales for this product overseas. In our areas of business for pharmaceutical products, topical antifungal agent Lanocanazole was sold as an over-the counter pharmaceutical product, and its sales expanded together with those for topical antifungal agent Luliconazole, a pharmaceutical product for prescription use. Furthermore, as a result of our research and development over the course of many years, milestone income for this term increased from contracts for our technological know-how, thereby contributing to our earnings.

As a result of our efforts in the above areas of business, our company group’s consolidated figures for this fiscal year amounted to sales figures of 38,732 million yen (a 5.2% increase of 1,897 million yen over the previous term), operating profit of 3,585 million yen (a 46.1% increase of 1,131 million yen over the previous term), and ordinary profit of 3,235 million yen (a 56.3%

increase of 1,165 million yen over the previous term), and with the extraordinary losses from the expenses for termination of toll production associated with the transfer of agrochemical business in fiscal 2003 from Mitsubishi Chemical, the net profit this term was 1,612 million yen (a 71.5% increase of 672 million yen over the previous term). Based on these business results, our term-end dividend will be increased by 2 yen to 4.50 yen, making our dividend for the year amount to 7 yen per share.

In November of 2008, our company will be celebrating the 80<sup>th</sup> anniversary of our establishment. We owe this to the guidance, support, and cooperation we have received from all of you, and on behalf of our directors and all of our staff, I would like to express our deepest thanks. We have incorporated these feelings of gratitude into our catch phrase for our 80<sup>th</sup> year, “Gratitude fuels our strength for the future”, so these feelings of gratitude will be the driving force behind our technological innovations from this point onward, and we will continue with even further efforts as we strive toward our 90<sup>th</sup> anniversary and 100<sup>th</sup> anniversary as a company which serves as a reliable corporation that can be of service to everyone. For the next term we aim to increase the dividend by 2 yen for our 80<sup>th</sup> anniversary to make the dividend for the year amount to 9 yen per share.

In closing, we ask all shareholders for their continued guidance and encouragement.



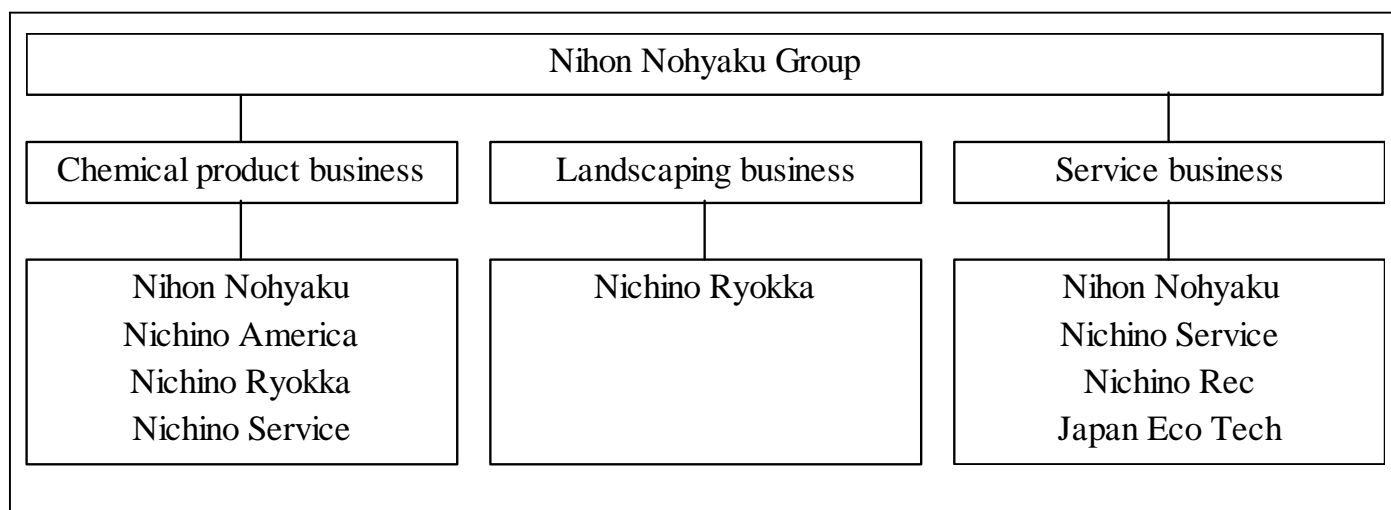
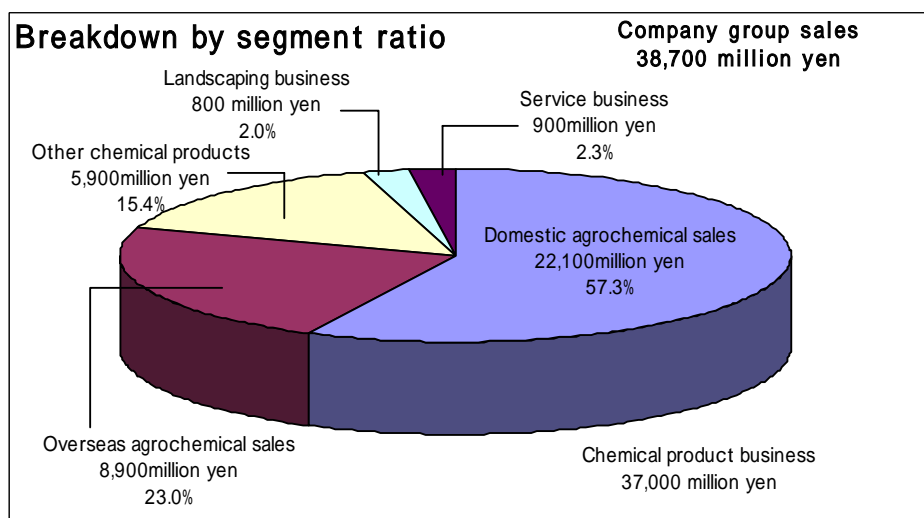
“Gratitude fuels our strength for the future.” December 2007

Logo & catch phrase for  
Nihon Nohyaku’s 80<sup>th</sup> anniversary

President

*Shuichi Chuki*

# 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	Landscaping Business	Service Business
Sales Figures (million yen)	37,075	758	899
Compared with the previous fiscal year (million yen)	1,999	- 136	34
(percentage)	5.7	- 15.2	4.0
Operating profits (million yen)	395	- 20	262
Compared with the previous fiscal year (million yen)	960	- 8	13
(percentage)	32.6	- 77.2	5.5

[Chemical Products Business]

-Domestic agrochemical sales

In the domestic market of this fiscal year, the business environment was difficult, and domestic figures amounted to 319,300 million yen, representing 98.4% of the total for the previous year and a loss of 5,300 million yen (source: Japan Crop Protection Association). Our company launched Phoenix, our eagerly-awaited new insecticide developed by our company for horticultural use, and because of its new mode of action and biological effects, sales greatly exceeded what we had forecasted. In sales of technical grade, we worked to expand sales of products such as Phoenix, paddy rice fungicide V-get, and insecticide Hachi-Hachi for horticultural use. Nevertheless, with the slump in paddy rice herbicides, there was a drop in some of our already-existing products and domestic sales figures for agrochemicals as a whole were almost in line with those of the previous term.

-Overseas agrochemical sales

We achieved further growth in the region of Asia, particularly for products such as insecticide Applaud in India and paddy rice fungicide Fuji-One in China, and sales in North America expanded as well. For overseas sales as a whole, with the effects of a weaker yen also exerting an impact, results exceeded those of the previous term.

Our subsidiary sales company in the United States, Nichino America, worked on expanding local sales of products such as miticide FujiMite for use on fruit trees, and achieved an increase in profits. Furthermore, in order to further strengthen our expansion in Europe, we established Nichino Europe Co., Ltd. in Cambridge, U.K. on October 1, 2007

-Other chemical product

In the field of pharmaceuticals, topical antifungal agent Lanoconazole has been sold since February 2007 as an over-the-counter pharmaceutical under the product names “Windom” and “Zespart”, and its sales, together with sales of topical antifungal agent Luliconazole, have increased. Also, in the field of intermediates, we worked to expand intermediates for electronic materials, etc. However, in the fields of home horticulture and home environment maintenance products (termite control and wood treatment products), sales fell below those of the previous term.

We had an increase in milestone income from contracts for our technological know-how for newly-developed agrochemicals and animal health products.

[Landscaping and Service Business]

In our tree planting, landscape gardening, and lawn-related work of our landscaping business, due to a decrease in number and size of our orders, sales fell below those of the previous term.

In our sports facilities area of our service business, our results were largely in line with those of the previous term. In our production contract work, our results exceeded those of the previous term, and in our agrochemical residue analysis business, our 100% subsidiary, Nihon Ecotec Co., Ltd., obtained certification as a registered laboratory for the Food and Sanitation Law from the Ministry of Health, Labour and Welfare, and with the increased demand resulting from the introduction of the “positive list” system, our results exceeded those of the previous term.

[Research and Development]

<Agrochemical products>

- Phoenix water dispersible granules (new insecticide for Lepidoptera)

We obtained registration in February 2007 and launched the product onto the market that April. In overseas markets, we moved forward with collaborative development work with Bayer CropScience, and the product has already been registered in 5 countries.

- Axel flowable (new insecticide for Lepidoptera and Coleoptera)

Domestically, we have already applied for registration, and the product is currently under evaluation for registration. In overseas markets, with BASF as a development partner, the product has been registered and sales have begun in 6 countries.

- Colt water dispersible granules (new insecticide for Hemiptera)

We applied for registration in Japan in April of this fiscal year, and we have been working on step by step development overseas as well.

<Veterinary products>

- Promeris (flea and tick remedy for use on pets)

Through Fort Dodge Animal Health, we have pushed forward with the development of insecticide Axel's active ingredient metaflumizone as a flea and tick remedy for pets, and in Europe and the United States we have already obtained registration and begun its sales. Domestically, it is currently under evaluation as Promeris Cat and Promeris Dog.

- Prac-tic (flea and tick remedy for dogs)

With pyriprole as the active ingredient, it is currently in development by Novartis Animal Health as a flea and tick remedy for dogs, and this fiscal year, we obtained registration for it and launched it onto the market in Japan and Europe.

<Pharmaceutical products>

- Luliconazole (topical antifungal agent)

We are actively pushing forward with development overseas. We set September 2006 for development in China (Sumisho Pharma International and Hainan Hailing Pharmaceutical Corporation Ltd.), April of this fiscal year for development in Europe and the United States (Janus Pharmaceuticals), September for Korea (Dream Pharma), and November for India (Sumisho Pharma International/ Ranbxy Laboratories), thereby entering into contracts with several different developers.

# Nichino News

## Steady sales for Phoenix water dispersible granules!

(new insecticide developed by our company for horticultural use)

Since the onset of its sales, sales for our company's eagerly-awaited Phoenix water dispersible granules have been moving forward steadily, and sales results have exceeded what we had forecasted.

In overseas markets, we already obtained registration in countries such as Pakistan and India, and we have planned to launch the product onto the market in several countries in succession.



Phoenix water dispersible granule

## Pharmaceutical lineup!

The history of our company's pharmaceutical products began with our development of Malotilate, a drug to improve liver protein metabolism that first went on sale in 1985 and is still being utilized by physicians today. After Malotilate, our antifungal agents Lanoconazole and Luliconazole were developed from our research on fungicides for the agricultural industry, and these antifungal agents are being sold both as prescription and over-the-counter pharmaceutical products by sales companies in cooperation with us.

Drug to improve liver protein metabolism : Malotilate

Topical antifungal agent

Prescription pharmaceutical product : Lanoconazole

Prescription pharmaceutical product : Luliconazole

Over-the-counter pharmaceutical product : Windom

Over-the-counter pharmaceutical product : Zespart



Lanoconazole(Astat)



Luliconazole



Windom



Zespart

## Development and sales of new animal health products!

The packages shown here are of Promeris Cat and Promeris Dog (flea and tick remedies for pets containing Metaflumizone, the active ingredient of insecticide Axel, an insecticide currently under development), as well as Prac-tic, (flea and tick remedy for dogs with active ingredient Pyriprole). Our company is working to actively expand the development of our animal health products derived from our core technology of our agrochemical business.



Promeris Cat



Promeris Dog



Prac-tic

# Consolidated Balance Sheets

Nihon Nohyaku Co., Ltd. and Consolidated Subsidiaries

September 30, 2006 and 2007

ASSETS	Millions of yen		Thousands of
	2006	2007	U.S. dollars (Note 3)
			2007
<b>Current assets:</b>			
Cash and time deposits .....	¥7,002	¥5,084	\$44,209
Marketable securities (Note 4) .....	-	-	-
Receivables:			
Trade notes and trade accounts receivable (Note 6) .....	12,141	12,999	113,035
Loans and other accounts.....	245	293	2,548
Due from unconsolidated subsidiaries and affiliates (Note 5).....	426	403	3,504
Less - allowance for doubtful receivables (Note 2(9)).....	(30)	(6)	(52)
	12,782	13,689	119,035
Inventories (Note 7).....	7,208	8,316	72,313
Deferred income taxes (Note 15).....	644	894	7,774
Prepaid expenses.....	302	586	5,095
Other current assets .....	112	132	1,148
<b>Total current assets</b> .....	28,050	28,701	249,574
<b>Investments and long-term receivables:</b>			
Investment securities (Note 4) .....	4,891	4,050	35,217
Long-term receivables .....	23	22	191
Investments in unconsolidated subsidiaries and affiliates (Note 4) (Note 5) .....	297	317	2,756
Deferred income taxes (Note 15).....	1,130	1,249	10,861
Other investments .....	678	675	5,870
Less - allowance for doubtful receivables (Note 2(9)) .....	(33)	(25)	(217)
<b>Total investments and long-term receivables</b> .....	6,986	6,288	54,678
<b>Property, plant and equipment (Note 2(6) (7)) :</b>			
Land .....	5,464	5,358	46,591
Buildings and structures .....	12,926	12,785	111,174
Machinery and equipment.....	16,648	16,827	146,322
Construction in progress .....	181	436	3,791
	35,219	35,406	307,878
Less - accumulated depreciation.....	(22,490)	(22,423)	(194,982)
<b>Net property, plant and equipment</b> .....	12,729	12,983	112,896
<b>Intangible assets</b> .....	1,530	1,178	10,243
<b>Total assets</b> .....	¥49,295	¥49,150	\$427,391

See accompanying Notes to Consolidated Financial Statements.

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	Millions of yen		Thousands of
	2006	2007	U.S. dollars (Note 3)
<b>Current liabilities:</b>			
Trade notes and accounts payable (Note 6) .....	¥4,884	¥4,281	\$37,226
Short-term loans (Note 9) .....	-	750	6,522
Current portion of long-term loans (Note 9).....	1,972	889	7,730
Income taxes payable .....	685	766	6,661
Accrued bonuses to employees .....	497	560	4,870
Accrued expenses .....	2,668	2,879	25,035
Due to unconsolidated subsidiaries and affiliates (Note 5).....	56	62	539
Other current liabilities (Note 6) .....	966	2,158	18,765
<b>Total current liabilities</b> .....	<b>11,728</b>	<b>12,345</b>	<b>107,348</b>
<b>Long-term liabilities:</b>			
Long-term loans, due after one year (Note 9).....	2,206	1,317	11,452
Accrued pension and severance costs (Note 10) .....	3,419	3,152	27,409
Retirement benefits for directors and corporate auditors .....	252	255	2,217
Other long-term liabilities .....	1,684	1,591	13,835
<b>Total long-term liabilities</b> .....	<b>7,561</b>	<b>6,315</b>	<b>54,913</b>
<b>Contingent liabilities (Note 11)</b>			
<b>Minority interests in consolidated subsidiaries</b> .....	-	-	-
<b>Net assets:</b>			
<b>Shareholders' equity</b>			
Common stock, no par value (Note 12), Authorized: 199,529,000 shares			
Outstanding 2006 - 70,026,782 shares .....	10,940	-	-
Outstanding 2007 - 70,026,782 shares .....	-	10,940	95,130
Capital surplus (Note 12) .....	13,236	13,236	115,096
Retained earnings (Note 13).....	4,430	5,524	48,035
Less - treasury stock, at cost:			
2006 - 846,838 shares, 2007 - 1,059,215 shares.....	(189)	(294)	(2,557)
<b>Total shareholders' equity</b> .....	<b>28,417</b>	<b>29,406</b>	<b>255,704</b>
<b>Accumulated other comprehensive income (loss):</b>			
Unrealized gains on securities (Note 4) .....	1,589	1,103	9,591
Foreign currency translation adjustments .....	(0)	(19)	(165)
<b>Total accumulated other comprehensive income (loss)</b> .....	<b>1,589</b>	<b>1,084</b>	<b>9,426</b>
<b>Total net assets</b> .....	<b>30,006</b>	<b>30,490</b>	<b>265,130</b>
<b>Total liabilities and net assets</b> .....	<b>¥49,295</b>	<b>¥49,150</b>	<b>\$427,391</b>

# Consolidated Statements of income

Nihon Nohyaku Co., Ltd. and Consolidated Subsidiaries

For the years ended September 30, 2006 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2006	2007	2007
<b>Net sales</b> (Note 17) .....	¥36,835	<b>¥38,733</b>	<b>\$336,809</b>
<b>Cost of sales</b> .....	21,790	<b>22,918</b>	<b>199,287</b>
Gross profit .....	15,045	<b>15,815</b>	<b>137,522</b>
<b>Selling, general and administrative expenses</b> .....	12,591	<b>12,229</b>	<b>106,339</b>
Operating income (Note 17).....	2,454	<b>3,586</b>	<b>31,183</b>
<b>Non-operating income (expenses):</b>			
Interest and dividend income .....	64	<b>94</b>	<b>817</b>
Interest expenses.....	(207)	<b>(206)</b>	<b>(1,791)</b>
Equity in earnings of unconsolidated subsidiaries and affiliates .....	10	<b>20</b>	<b>174</b>
Evaluation loss on investment securities .....	(9)	<b>(25)</b>	<b>(217)</b>
Gain (loss) on disposal of property, plant and equipment - net.....	(41)	<b>94</b>	<b>817</b>
Loss on cancellation of production on commission.....	-	<b>(726)</b>	<b>(6,313)</b>
Impairment of fixed assets (Note 2 (7)) .....	(690)	-	-
Loss on disposal of inventories .....	(210)	<b>(256)</b>	<b>(2,226)</b>
Other - net .....	(49)	<b>9</b>	<b>78</b>
	<b>(1,132)</b>	<b>(996)</b>	<b>(8,661)</b>
<b>Income (loss) before income taxes</b> .....	1,322	<b>2,590</b>	<b>22,522</b>
<b>Income taxes:</b>			
Current .....	695	<b>1,018</b>	<b>8,852</b>
Deferred .....	(313)	<b>(40)</b>	<b>(348)</b>
Total income taxes .....	382	<b>978</b>	<b>8,504</b>
<b>Net income</b> .....	¥940	<b>¥1,612</b>	<b>\$14,018</b>

See accompanying Notes to Consolidated Financial Statements.

# Consolidated Statements of Changes in Net Assets

Nihon Nohyaku Co., Ltd. and Consolidated Subsidiaries

For the years ended September 30, 2006 and 2007

	Millions of yen						
	Number of Shares of Common stock (Thousands)	Common stock	Additional paid-in capital (Note 12)	Retained earnings (Note 13)	Other	Treasury stock	Total shareholders' equity
Balance at September 30, 2005 .....	70,026	10,940	13,236	3,712	1,274	(156)	29,006
Net income for the year ended September 30, 2006.....				940			940
Year-end cash dividends paid (¥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>
Net income for the year ended September 30, 2007.....				1,612			1,612
Year-end cash dividends (¥5.00 per share) .....				(346)			(346)
Interim cash dividends paid (¥2.50 per share) .....				(172)			(172)
Other comprehensive income (loss):							
Unrealized gains on securities (Note 4) .....					(486)		(486)
Foreign currency translation adjustments .....					(19)		(19)
Increase of treasury stock during the year .....						(105)	(105)
<b>Balance at September 30, 2007.....</b>	<b>70,026</b>	<b>¥10,940</b>	<b>¥13,236</b>	<b>¥5,524</b>	<b>¥1,084</b>	<b>¥ (294)</b>	<b>¥30,490</b>

	Thousands of U. S. dollars (Note 3)						
	Number of Shares of Common stock (Thousands)	Common stock	Additional paid-in capital (Note 12)	Retained earnings (Note 13)	other	Treasury stock	Total shareholders' equity
Balance at September 30, 2006.....	70,026	\$95,130	\$115,096	\$38,522	\$13,817	\$ (1,644)	\$260,921
Net income for the year ended September 30, 2007.....				14,018			14,018
Year-end cash dividends paid (\$0.043 per share) .....				(3,009)			(3,009)
Interim cash dividends paid (\$0.022 per share) .....				(1,496)			(1,496)
Other comprehensive income (loss):							
Unrealized gains on securities (Note 4) .....					(4,226)		(4,226)
Foreign currency translation adjustments .....					(165)		(165)
Increase of treasury stock during the year .....						(913)	(913)
<b>Balance at September 30, 2007.....</b>	<b>70,026</b>	<b>\$95,130</b>	<b>\$115,096</b>	<b>\$48,035</b>	<b>\$9,426</b>	<b>\$ (2,557)</b>	<b>\$265,130</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, 2006 and 2007

	Millions of yen		Thousands of U.S.dollars (Note 3)
	2006	2007	2007
<b>Cash flows from operating activities:</b>			
Net income .....	¥940	1,612	\$14,018
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation and amortization.....	1,602	1,671	14,530
Accrual pension and severance costs, less payments.....	(107)	(268)	(2,331)
Payments on abolition of pension plans.....	(247)	-	-
Accrual retirement benefits for directors and corporate auditors .....	1	4	35
Increase in allowance for doubtful accounts and other accounts - net.....	125	18	157
Evaluation loss on investment securities.....	10	25	217
Impairment of fixed assets.....	690	-	-
Gain on sales and disposals of property, plant and equipment - net .....	26	(117)	(1,017)
Equity in net income of unconsolidated subsidiaries and affiliates.....	(10)	(20)	(174)
Deferred income taxes .....	(313)	(40)	(348)
Changes in assets and liabilities:			
Increase in notes and accounts receivable .....	(1,061)	(856)	(7,443)
Increase in inventories .....	(703)	(1,124)	(9,774)
(Increase) decrease in other current assets .....	160	(349)	(3,035)
(Decrease) increase in notes and accounts payable.....	2,012	(576)	(5,009)
Increase in other current liabilities .....	1,097	1,319	11,470
Other .....	(57)	89	774
Net cash provided by operating activities.....	4,165	1,388	12,070
<b>Cash flows from investing activities:</b>			
Payments for purchase of fixed assets .....	(578)	(1,005)	(8,739)
Proceeds from sales of fixed assets.....	13	293	2,548
Payments for purchase of investment securities.....	(151)	-	-
Payments for purchase of intangible assets .....	(151)	(727)	(6,322)
Deposit in time deposit maturities over three months-net .....	(500)	(510)	(4,435)
Proceeds from sales of investment securities .....	519	-	-
Payments for advance.....	(125)	(120)	(1,043)
Proceeds from collections of advance.....	126	121	1,052
Other .....	22	(23)	(200)
Net cash used in investing activities .....	(825)	(1,971)	(17,139)
<b>Cash flows from financing activities:</b>			
Proceeds from short-term debt-net .....	-	752	6,539
Repayments of long-term debt.....	(2,000)	(1,897)	(16,496)
Repayment of bond.....	(75)	(75)	(652)
Payments for purchase of treasury stock .....	(33)	(105)	(913)
Dividends paid.....	(207)	(518)	(4,504)
Net cash used in financing activities.....	(2,315)	(1,843)	(16,026)
<b>Effect of exchange rate changes on cash and cash equivalents .....</b>	<b>7</b>	<b>(3)</b>	<b>(26)</b>
<b>Net (decrease) increase in cash and cash equivalents.....</b>	<b>1,032</b>	<b>(2,429)</b>	<b>(21,121)</b>
<b>Cash and cash equivalents at beginning of year.....</b>	<b>4,424</b>	<b>5,456</b>	<b>47,443</b>
<b>Cash and cash equivalents at end of year .....</b>	<b>¥5,456</b>	<b>¥3,027</b>	<b>\$26,322</b>
<b>Supplemental data:</b>			
Cash paid during the year for - Income taxes .....	¥ 139	¥937	\$8,148
Interest .....	207	177	1,539
Cash received during the year for interest and dividends.....	70	98	852
Cash and cash equivalents, end of year (Note 2(3))			
Cash and time deposit excluded maturities of over three month.....	¥5,456	¥3,027	\$26,322

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 Financial Products 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 generally accepted in Japan, while its foreign subsidiaries 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**

Foreign currency transactions are translated into Japanese yen at rates in effect at the date they are transacted, and the gains or losses arising on the settlement of the related receivables or payables are reflected in income or expenses. Monetary current assets and current liabilities denominated in foreign currencies are translated into Japanese yen current exchange rate in effect at balance sheet date. Others in foreign currencies are translated at historical exchange rates. In case where forward exchange contracts have been entered into, translations are made at the contracted rates. Gains or losses resulting translation gains are taken into income currently.

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).

### **(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\$6,000 thousand).

### **(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. Allowance for doubtful accounts is provided based on the actual historical default rate of past three years for normal loans, and based on individually estimated assessed amounts for doubtful and default loans.

**(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 ¥25 million (US\$217 thousand) for the year ended September 30, 2007.

**(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 ¥115=US\$1, the approximate current rate at September 28,

2007 (September 29, and 30, 2007 are holidays, 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, 2006				September 30, 2007			
	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	¥2,691	¥32	¥4,221	¥1,538	¥1,883	¥47	¥3,374
Investment fund .....	71	20	-	91	71	24	-	95
Held-to-maturity								
Equity securities .....	878	-	-	878	898	-	-	898
Bond .....	-	-	-	-	-	-	-	-
Total .....	¥2,511	¥2,711	¥32	¥5,190	¥2,507	¥1,907	¥47	¥4,367

	Thousands of U.S. Dollars			
	September 30, 2007			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale:				
Equity securities .....	\$13,374	\$16,374	\$409	\$29,339
Investment fund .....	617	209	-	826
Held-to-maturity				
Equity securities .....	7,808	-	-	7,808
Bond .....	-	-	-	-
Total .....	\$21,799	\$16,583	\$409	\$37,973

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, 2007 was ¥936million (US\$8,139thousand).

**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
	2006	2007	2007
Accounts receivable, trade .....	426	<b>¥403</b>	<b>\$3,504</b>
Accounts receivable, other .....	-	-	-
Accounts payable, trade .....	1	<b>41</b>	<b>357</b>
Accounts payable, other .....	55	<b>21</b>	<b>183</b>
Investments .....	297	<b>317</b>	<b>2,756</b>

Years ended September 30	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Sales .....	¥647	<b>¥568</b>	<b>\$4,939</b>
Other revenue .....	2	<b>0</b>	<b>0</b>
Purchase and operating expenses .....	31	<b>24</b>	<b>209</b>
Interest and dividend income .....	6	<b>5</b>	<b>43</b>

**Note 6 Effect of bank holiday on September 30, 2007**

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, 2007, whose settlement was postponed, were as follows:

Trade notes receivable .....	<b>¥1,168</b>	<b>\$10,157</b>
Trade notes payable .....	<b>134</b>	<b>1,165</b>
Trade notes payable for equipment included in other current liabilities .....	<b>16</b>	<b>139</b>

**Note 7 Inventories**

Inventories comprise the following:

September 30	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Finished goods and merchandise .....	¥4,585	<b>¥5,217</b>	<b>\$45,365</b>
Raw materials and supplies .....	1,884	<b>1,690</b>	<b>14,696</b>
Work in process .....	722	<b>1,391</b>	<b>12,096</b>
Work in process - construction .....	17	<b>18</b>	<b>156</b>
	<b>¥7,208</b>	<b>¥8,316</b>	<b>\$72,313</b>

**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
	2006	2007	2007
Machinery and equipment .....	¥584	<b>¥519</b>	<b>\$4,513</b>
Accumulated amortization .....	(370)	<b>(281)</b>	<b>(2,443)</b>
	<b>¥214</b>	<b>¥238</b>	<b>\$ 2,070</b>

The total future minimum payments as of September 30, 2007 including interest are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Due within one year .....	<b>¥80</b>	<b>¥80</b>	<b>\$696</b>
Due after one year .....	<b>158</b>	<b>158</b>	<b>1,374</b>
Total minimum payments .....	<b>¥238</b>	<b>¥238</b>	<b>\$2,070</b>

**Note 9 Loans**

Long-term loans at September 30, 2006 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Loans, principally from banks, due through September 2010, with 1.55% to 2.24% interest rate per annum at September 30, 2007:			
Secured .....	¥3,446	¥1,549	\$13,470
Unsecured .....	7	7	60
	3,453	1,556	13,530
Unsecured yen bonds, due September 2010, with interest rate of 0.95 % per annum.....	725	650	5,652
	4,178	2,206	19,182
Current portion of long-term loans .....	(1,972)	(889)	(7,730)
Long-term loans, due after one year .....	¥2,206	¥1,317	\$11,452

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
2008 .....	¥889	\$7,730
2009 .....	786	6,835
2010 .....	525	4,565
2011 .....	0	0
2012 .....	6	52
Total .....	¥2,206	\$19,182

Property, plant and equipment of ¥9,460 million (US\$82,261 thousand, less accumulated depreciation) is pledged as collateral for long-term loans of ¥1,549 million (US\$13,470 thousand).

Short-term loans from bank with 6.12% interest rate per annum is ¥750 (US\$6,522 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. 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, 2006 and 2007 are as follows:

Years ended September 30	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Service cost .....	¥243	¥246	\$2,139
Interest cost on projected benefit obligation .....	145	79	687
Expected return on plan assets .....	(22)	(34)	(295)
Recognized actuarial loss .....	(4)	(26)	(226)
Amortization of unrecognized net obligation at transition .....	32	32	278
Amortization of prior service cost .....	2	(1)	(9)
Net periodic benefit cost .....	¥396	¥296	\$2,574

The benefit obligation and plan assets, funded status and composition of amounts recognized in the consolidated balance sheets at September 30, 2006 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Benefit obligation .....	¥4,178	¥4,068	\$35,374
Unrecognized actuarial profit.....	460	502	4,365
Unrecognized net obligation at transition.....	(286)	(254)	(2,209)
Unrecognized prior service cost.....	45	44	383
Fair value of plan assets* .....	(978)	(1,208)	(10,504)
Net amount recognized.....	¥3,419	¥3,152	\$27,409

\* 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, 2006 and 2007 were as follows:

	2006	2007
Discount rate.....	2.0%	2.0%
Expected return on plan assets .....	3.5%	3.5%

### Note 11 Contingent liabilities

The Company has contingent liabilities amounting to ¥652 million (US\$5,670thousand), mainly arising as guaranty of subsidiary company' borrowing at September 30, 2007.

### Note 12 Common stock and capital surplus

Under the Japanese Corporate Law, 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 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.

Additional-paid-in capital amounting to ¥8,236 million (US\$71,617thousand) is included in capital surplus at September 30, 2007

### Note 13 Retained earnings

Retained earnings at September 30, 2006 and 2007 include a legal reserve of ¥1,574 million and ¥1,574 million (US\$13,687 thousand), respectively. The Japanese Corporate Law 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 Corporate Law 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 Corporate Law. Retained earnings at September 30, 2007 do not reflect year-end dividends of ¥310 million (US\$2,696thousand) for the year ended September 30, 2007, which are formally approved at the general shareholders' meeting held on December 18, 2007, and will be payable subsequently.

### Note 14 Research and development costs

Research and development costs charged to operating expenses for the years ended September 30, 2006 and 2007 are ¥3,434 million and ¥3,369million (US\$29,296thousand), respectively.

### Note 15 Income taxes

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

	2006	2007
Statutory tax rate.....	40.7%	40.7%
Increase (reduction) in taxes resulting from:		
Permanent differences unrecognized income tax expenses.....	2.7	1.3
Permanent differences credited to income .....	(1.3)	(0.7)
Taxation on per capital basis .....	2.1	1.0
Other .....	(15.3)	(4.6)
Effective income tax rate.....	28.9%	37.7%

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

	Millions of yen		Thousands of U.S. dollars
	2006	2007	2007
Deferred tax assets:			
Accrued pension and retirement benefit costs .....	¥1,634	<b>¥1,536</b>	<b>\$13,357</b>
Accrued bonus .....	202	<b>228</b>	<b>1,983</b>
Provision for retirement benefits for directors and corporate auditors .....	102	<b>104</b>	<b>904</b>
Accrued expenses.....	329	<b>611</b>	<b>5,313</b>
Evaluation loss of marketable and investment securities .....	288	<b>286</b>	<b>2,487</b>
Impairment of fixed assets .....	281	<b>167</b>	<b>1,452</b>
Operating loss carryforwards for tax purposes .....	3	-	-
Other .....	147	<b>84</b>	<b>730</b>
Gross deferred tax assets .....	2,986	<b>3,016</b>	<b>26,226</b>
Less - valuation allowance for deferred tax assets .....	-	-	-
Deferred tax assets .....	2,986	<b>3,016</b>	<b>26,226</b>
Deferred tax liabilities:			
Gain on securities contribution to employee retirement benefit trust .....	(122)	<b>(116)</b>	<b>(1,009)</b>
Unrealized gains on securities.....	(1,090)	<b>(757)</b>	<b>(6,582)</b>
Gross deferred tax liabilities.....	(1,212)	<b>(873)</b>	<b>(7,591)</b>
Net deferred tax assets .....	¥1,774	<b>¥2,143</b>	<b>\$18,635</b>

#### Note 16 Per share data

	Yen		U.S. dollars
	2006	2007	2007
Net income.....	¥13.58	<b>¥23.35</b>	<b>\$0.203</b>
Cash dividends.....	5.00	<b>7.00</b>	<b>0.061</b>
Shareholders' equity .....	433.74	<b>442.09</b>	<b>3.844</b>

## Note 17 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, 2006					Consolidated total
	Millions of yen					
	Chemicals	Construction	Service	Total	Elimination	
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

	For the year ended September 30, 2007					Consolidated total
	Millions of yen					
	Chemicals	Construction	Service	Total	Elimination	
Net sales and operating income:						
Net sales						
(1) Net sales to outside customers.....	¥37,076	¥758	¥899	¥38,733	¥ -	¥38,733
(2) Inter-segment.....	6	7	776	789	(789)	-
Total.....	37,082	765	1,675	39,522	(789)	38,733
Operating expenses.....	33,176	785	1,413	35,374	(227)	35,147
Operating income (loss).....	¥3,906	¥ (20)	¥262	¥4,148	¥ (562)	¥3,586
Assets, depreciation and capital expenditures:						
Assets.....	¥46,066	¥427	¥2,657	¥49,150	¥ -	¥49,150
Depreciation.....	1,578	1	92	1,671	-	1,671
Capital expenditures.....	1,760	-	4	1,764	-	1,764

	Thousands of U.S.dollars					Consolidated total
	Millions of yen					
	Chemicals	Construction	Service	Total	Elimination	
Net sales and operating income:						
Net sales						
(1) Net sales to outside customers.....	\$322,400	\$6,591	\$7,818	\$336,809	\$ -	\$336,809
(2) Inter-segment.....	52	61	6,748	6,861	(6,861)	-
Total.....	322,452	6,652	14,566	343,670	(6,861)	336,809
Operating expenses.....	288,487	6,826	12,287	307,600	(1,974)	305,626
Operating expenses (loss).....	\$33,965	\$ (174)	\$2,279	\$36,070	\$ (4,887)	\$31,183
Assets, depreciation and capital expenditures:						
Assets.....	\$400,574	\$3,713	\$23,104	\$427,391	\$ -	\$427,391
Depreciation.....	13,722	9	800	14,531	-	14,531
Capital expenditures.....	15,304	-	35	15,339	-	15,339

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

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

	For the year ended September 30, 2007				
	Millions of yen				
	Asia	America	Europe	Other	Total
. Net sales in overseas countries .....	<b>¥4,131</b>	<b>¥3,437</b>	<b>¥967</b>	<b>¥392</b>	<b>¥8,927</b>
. Consolidated net sales.....					<b>38,733</b>
. Percentage of consolidated net sales .....	<b>10.7%</b>	<b>8.9%</b>	<b>2.5%</b>	<b>1.0%</b>	<b>23.1%</b>

	Thousands of U.S. dollars				
	Asia	Americas	Europe	Other	Total
	. Net sales in overseas countries .....	<b>\$35,922</b>	<b>\$29,887</b>	<b>\$8,409</b>	<b>\$3,408</b>
. Consolidated net sales.....					<b>336,809</b>
. Percentage of consolidated net sales .....	<b>10.7%</b>	<b>8.9%</b>	<b>2.5%</b>	<b>1.0%</b>	<b>23.1%</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, 2007 and 2006, and the related consolidated statements of income, changes in net assets 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, 2007and 2006, 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.

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 18, 2007

Kyowa Audit Corporation

# Corporate Information

## [Board of Directors and Corporate Auditors]

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

\*Representative Director  
(As of December 18,2007)

## [Offices, Subsidiaries and etc.]

### 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

Bangkok, Thailand  
Shanghai, China

### 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.  
Nichino Europe Co., Ltd. (Establishment of October 1, 2007)

### General Meeting of Shareholders

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

