



Consolidated Financial Statements

for the years ended 31 March 2000, 2001 and 2002

CHUGOKU MARINE PAINTS, LTD.

Report of Independent Certified Public Accountants

The Board of Directors
Chugoku Marine Paints, Ltd.

We have audited the accompanying consolidated balance sheets of Chugoku Marine Paints, Ltd. and its subsidiaries as of 31 March 2001 and 2002, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended 31 March 2002, all expressed in Japanese Yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Chugoku Marine Paints, Ltd. and its subsidiaries as of 31 March 2001 and 2002, and the consolidated results of their operations and cash flows for each of the three years in the period ended 31 March 2002 in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis.

As described in Note 2, effective for the year ended 31 March 2002, Chugoku Marine Paints, Ltd. and its subsidiaries have adopted the new Japanese accounting standard for financial instruments which changed the valuation method of other quoted securities.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the readers, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

ChuoAoyama Audit Corporation

Hiroshima, Japan
27 June 2002

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Consolidated Balance Sheets
31 March 2001 and 2002

	Thousands of U.S. Dollars (Note 3)				Thousands of U.S. Dollars (Note 3)		
	Millions of Yen	Millions of Yen	2002		Millions of Yen	Millions of Yen	2002
	2001	2002	2002		2001	2002	2002
ASSETS				LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Assets:				Current Liabilities:			
Cash on hand and in banks	¥ 6,208	¥ 5,622	\$ 42,271	Short-term loans (Note 7)	¥ 19,880	¥ 21,184	\$ 159,278
Trade notes and accounts receivable	17,241	17,767	133,586	Current portion of long-term debt (Note 7)	1,128	2,128	16,000
Less, allowance for doubtful accounts	(359)	(523)	(3,932)	Notes and accounts payable:			
	16,882	17,244	129,654	Trade	10,023	9,047	68,022
Inventories (Note 5)	8,759	10,204	76,722	Other	1,711	2,389	17,962
Deferred income taxes (Note 12)	509	864	6,496		11,734	11,436	85,984
Other current assets	665	1,258	9,458	Income taxes payable (Note 12)	319	451	3,391
Total current assets	33,023	35,192	264,601	Deferred income taxes (Note 12)	89	7	53
				Other current liabilities	1,156	1,603	12,053
Investments and Advances:				Total current liabilities	34,306	36,809	276,759
Investments in securities (Notes 4 and 7)	8,199	5,590	42,030	Long-term Debt (Note 7)	3,979	1,851	13,917
Investments in affiliates	12	12	90	Accrued Severance Indemnities (Note 8)	481	550	4,135
Claims in bankruptcy and reorganization claims	-	108	812	Deferred Income Taxes on Revaluation of Land	2,284	2,285	17,181
Other	35	39	294	Deferred Income Taxes (Note 12)	140	153	1,151
	8,246	5,749	43,226	Other Liabilities	113	100	752
				Total liabilities	41,303	41,748	313,895
Property, Plant and Equipment (Note 6 and 7) :				Minority Interests in Consolidated Subsidiaries	544	875	6,579
Buildings and structures	12,562	13,040	98,045	Contingencies (Note 9)			
Machinery, equipment and vehicles	9,738	10,426	78,391	Shareholders' Equity (Note 11) :			
Tools, furniture and fixtures	2,665	2,815	21,166	Common stock :			
	24,965	26,281	197,602	Authorised:			
Less, accumulated depreciation	(15,911)	(17,058)	(128,256)	31 March 2001-283,304,000 shares			
	9,054	9,223	69,346	31 March 2002-279,774,000 shares			
Land	14,363	14,440	108,572	Issued:			
Construction in progress	18	390	2,932	31 March 2001- 74,742,822 shares	11,626	-	-
	23,435	24,053	180,850	31 March 2002- 71,212,822 shares	-	11,626	87,414
Deferred Income Taxes (Note 12)	277	302	2,271	Additional paid-in capital	9,278	8,397	63,135
Other Assets	1,176	1,152	8,661	Retained earnings	5,786	5,049	37,963
				Net unrealized gain (loss) on securities	-	(125)	(940)
				Foreign currency translation adjustments	(2,380)	(1,119)	(8,414)
					24,310	23,828	179,158
				Common stock in treasury, at cost	-	(3)	(23)
				Total shareholders' equity	24,310	23,825	179,135
	¥ 66,157	¥ 66,448	\$ 499,609		¥ 66,157	¥ 66,448	\$ 499,609

The accompanying notes are an integral part of these statements.

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Income
For the years ended 31 March 2000, 2001 and 2002

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2000	2001	2002	2002
Net sales	¥ 41,890	¥ 45,822	¥ 48,950	\$ 368,045
Cost of sales	27,059	30,597	31,923	240,022
Gross profit	14,831	15,225	17,027	128,023
Selling, general and administrative expenses	12,677	13,117	14,134	106,271
Income from operations	2,154	2,108	2,893	21,752
Other income/(expenses):				
Interest and dividend income	222	197	134	1,008
Interest expense	(633)	(679)	(583)	(4,383)
Gain on sales of short-term investments and investment in securities, net	26	13	47	353
Gain (loss) on sales of property, plant and equipment, net	359	(42)	75	564
Write-downs of short-term investments and investments in securities	(389)	(2,063)	(2,662)	(20,015)
Equity in earnings (losses) of affiliates	1	5	(1)	(8)
Foreign currency exchange (loss) gain, net	(14)	(68)	103	774
Royalty income	50	35	34	256
Past service costs for pension plan	(126)	-	-	-
Provision for allowance for doubtful accounts	-	(512)	-	-
Reversal of provision for allowance for doubtful accounts	-	-	14	105
Write-downs of membership rights	-	(213)	(26)	(196)
Other, net	(182)	33	(44)	(330)
	<u>(686)</u>	<u>(3,294)</u>	<u>(2,909)</u>	<u>(21,872)</u>
Income (loss) before income taxes and minority interests	1,468	(1,186)	(16)	(120)
Income taxes (Note 12) :				
Current	367	425	596	4,481
Deferred	(135)	(186)	(455)	(3,421)
	232	239	141	1,060
Income (loss) before minority interests	1,236	(1,425)	(157)	(1,180)
Minority interests in earnings of consolidated subsidiaries	(95)	(130)	(281)	(2,113)
Net income (loss)	<u>¥ 1,141</u>	<u>¥ (1,555)</u>	<u>¥ (438)</u>	<u>\$ (3,293)</u>
			Yen	U.S. Dollars (Note 3)
Per share amounts :				
Net (loss) income:				
Basic	¥ 14.39	¥ (20.28)	¥ (5.93)	\$ (0.04)
Diluted	-	-	-	-
Cash dividends declared	6.5	4.0	5.0	0.04
Weighted average number of shares (in thousands)	79,304	76,672	73,742	

The accompanying notes are an integral part of these statements.

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Shareholders' Equity
For the years ended 31 March 2000, 2001 and 2002

(Number of shares of common stock - thousand)	Millions of Yen					
	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gain (loss) on securities	Foreign currency translation adjustments	Common stock in treasury , at cost
Balance, 31 March 1999 (79,439)	¥ 11,626	¥ 10,160	¥ 3,940	¥ -	¥ (1,674)	¥ -
Net income	-	-	1,141	-	-	-
Cash dividends	-	-	(516)	-	-	-
Cumulative effect of adopting deferred tax accounting at 1 April, 1999	-	-	440	-	-	-
Unrealised gain on revaluation of land	-	-	3,213	-	-	-
Retirement of treasury stock (839)	-	-	(186)	-	-	-
Retained earnings of subsidiaries liquidated	-	-	(89)	-	-	-
Foreign currency translation adjustments	-	-	-	-	(1,538)	-
Balance, 31 March 2000 (78,600)	11,626	10,160	7,943	-	(3,212)	-
Net loss	-	-	(1,555)	-	-	-
Cash dividends	-	-	(511)	-	-	-
Unrealised gain on revaluation of land	-	-	27	-	-	-
Retirement of treasury stock (3,857)	-	(882)	-	-	-	-
Retained earnings of subsidiaries liquidated	-	-	(118)	-	-	-
Foreign currency translation adjustments	-	-	-	-	832	-
Balance, 31 March 2001 (74,743)	11,626	9,278	5,786	-	(2,380)	-
Net loss	-	-	(438)	-	-	-
Cash dividends	-	-	(299)	-	-	-
Net unrealised loss on securities	-	-	-	(125)	-	-
Retirement of treasury stock (3,530)	-	(881)	-	-	-	-
Retained earnings of subsidiaries liquidated	-	-	-	-	-	-
Foreign currency translation adjustments	-	-	-	-	1,261	-
Common stock in treasury, at cost	-	-	-	-	-	(3)
Balance, 31 March 2002 (71,213)	¥ 11,626	¥ 8,397	¥ 5,049	¥ (125)	¥ (1,119)	¥ (3)

	Thousands of U.S. Dollars (Note 3)					
	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gain (loss) on securities	Foreign currency translation adjustments	Common stock in treasury , at cost
Balance, 31 March 2001	\$ 87,414	\$ 69,759	\$ 43,504	\$ -	\$ (17,895)	\$ -
Net loss	-	-	(3,293)	-	-	-
Cash dividends	-	-	(2,248)	-	-	-
Unrealised gain on revaluation of land	-	-	-	-	-	-
Net unrealised loss on securities	-	-	-	(940)	-	-
Retirement of treasury stock	-	(6,624)	-	-	-	-
Retained earnings of subsidiaries liquidated	-	-	-	-	-	-
Foreign currency translation adjustments	-	-	-	-	9,481	-
Common stock in treasury, at cost	-	-	-	-	-	(23)
Balance, 31 March 2002	\$ 87,414	\$ 63,135	\$ 37,963	\$ (940)	\$ (8,414)	\$ (23)

The accompanying notes are an integral part of these statements.

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

**Consolidated Statement of Cash Flows
For the years ended 31 March 2000, 2001 and 2002**

	Millions of Yen			Thousands of U.S. Dollars
	2000	2001	2002	(Note3)
Cash Flows from Operating Activities:				
Income (loss) before income taxes and minority interests	¥ 1,468	¥ (1,186)	¥ (16)	\$ (120)
Depreciation and amortization	1,175	1,255	1,275	9,587
(Decrease) increase in allowance for doubtful accounts	(135)	642	175	1,316
Increase in retirement allowance	107	208	66	496
Interest and dividend income	(222)	(197)	(134)	(1,008)
Interest expense	633	679	583	4,383
Foreign currency exchange loss (gain), net	26	(123)	(25)	(188)
Write-downs of short-term investments and investments in securities	389	2,063	2,662	20,015
Write-downs of membership rights	-	213	32	241
(Gain) loss on sales of property, plant and equipment, net	(359)	42	(48)	(361)
(Increase) decrease in trade notes and accounts receivable	(605)	(1,776)	945	7,105
Increase in inventories	(366)	(669)	(884)	(6,647)
Increase (decrease) in trade notes and accounts payable	1,836	662	(1,512)	(11,368)
Other, net	(433)	(213)	222	1,669
Sub total	<u>3,514</u>	<u>1,600</u>	<u>3,341</u>	<u>25,120</u>
Interest and dividend income received	212	204	123	925
Interest expense paid	(577)	(680)	(603)	(4,534)
Income taxes paid	(413)	(356)	(478)	(3,594)
Net cash provided by operating activities	<u>2,736</u>	<u>768</u>	<u>2,383</u>	<u>17,917</u>
Cash Flows from Investing Activities:				
Payments in time depositis	-	-	(550)	(4,135)
Withdrawal of time deposits	245	408	-	-
Proceeds from sales of securities	114	-	-	-
Payments for purchases of investments in securities	(69)	(118)	(181)	(1,361)
Payments for purchases of property, plant and equipment	(1,431)	(1,040)	(1,281)	(9,632)
Proceeds from sales of property, plant and equipment	500	368	145	1,090
Other, net	27	(75)	43	324
Net cash used in investing activities	<u>(614)</u>	<u>(457)</u>	<u>(1,824)</u>	<u>(13,714)</u>
Cash Flows from Financing Activities:				
(Decrease) increase in short-term loans	(641)	1,117	310	2,331
Additions to long-term debt	500	1,000	-	-
Repayment of long-term debt	(1,003)	(2,192)	(1,129)	(8,489)
Contribution from minority shareholders	102	-	-	-
Cash dividends	(516)	(511)	(299)	(2,248)
Payment for purchases of treasury stock	(186)	(883)	(883)	(6,639)
Other, net	(46)	(35)	(13)	(98)
Net cash used in financing activities	<u>(1,790)</u>	<u>(1,504)</u>	<u>(2,014)</u>	<u>(15,143)</u>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(332)	105	309	2,323
Net decrease in cash and cash equivalents	-	(1,088)	(1,146)	(8,617)
Cash and Cash Equivalents of Newly Consolidated Subsidiaries	246	-	-	-
Cash and Cash Equivalents at Beginning of Year	6,849	7,095	6,007	45,166
Cash and Cash Equivalents at End of Year	<u>¥ 7,095</u>	<u>¥ 6,007</u>	<u>¥ 4,861</u>	<u>\$ 36,549</u>

The accompanying notes are an integral part of this statement.

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

1. Basis of Presentation of Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by Chugoku Marine Paints, Ltd. (the “Company”) and its subsidiaries in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

Certain items presented in the consolidated financial statements submitted to the Director of Kanto Finance Bureau in Japan have been reclassified in these accounts for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

2. Summary of Significant Accounting Policies

(1) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all of its subsidiaries (collectively referred to as the “Companies”). All significant inter-company accounts and transactions are eliminated in consolidation.

The Company had 30 and 29 subsidiaries as at 31 March 2001 and 2002, respectively. CMP Green Processing Technology Co., Ltd. was newly consolidated due to its establishment and formerly consolidated subsidiaries, Chugoku Marine Sales, Ltd. and Chugoku Paint Industries Sales, Ltd., were merged into the Company in this fiscal year.

The Company follows the method to value the entire portion of assets and liabilities of consolidated subsidiaries at fair market values at the time of acquiring controls over those companies.

Any difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets is treated as an asset or a liability, whichever is applicable, and amortised over a period of five years on a straight-line basis.

The fiscal year-ends of subsidiaries are 31 December, except for Kobe Paints Co., Ltd., which has its year-end at 31 March. For consolidation purpose, the Company uses financial statements of these subsidiaries as of and for the year ended 31 December with necessary consolidation adjustments to reflect any significant transactions occurred between 31 December and 31 March.

The Company accounts for its 50% or less owned affiliate by equity method. The Company has an affiliate (Chugoku-Jenson & Nicholson Ltd.), which has its fiscal year-end at 31 December. The equity method of accounting has been applied to the financial statements of this affiliate as of and for the year ended 31 December for consolidation purpose.

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Notes to Consolidated Financial Statements

(2) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statement of cash flows are composed of cash on hand, bank deposits withdrawn on demand, and short-term investments with an original maturity of three months or less and which are readily convertible to cash and represent a minor risk of fluctuation in value.

(3) Translation of Foreign Currencies

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date and resulting gains and losses are included in the determination of net income.

Assets and liabilities of foreign consolidated subsidiaries and an affiliate accounted for by the equity method are translated into Japanese yen at the exchange rates in effect at the respective balance sheet dates. Translation adjustments result from the process of translating foreign currency financial statements into Japanese yen. These translation adjustments, which are not included in the determination of net income, are reported separately as a component of shareholders' equity.

(4) Short-term investments and Investments in Securities

The Companies have no trading securities.

Held-to-maturity securities are stated at amortized cost adjusted for the amortization of premiums and the accretion of discounts to maturity.

Other quoted securities are stated at fair value as of the end of the year with unrealized gain and loss, net of applicable deferred tax assets / liabilities and minority interests, not reflected in earnings but directly charged into a separate component of shareholders' equity. Realized gain or loss on sales of such securities is computed using moving-average cost. Other non-quoted securities are stated at cost, which is determined by the moving-average method.

If a decline in fair value below cost of an individual security is judged to be material and other than temporary, the carrying value of the individual security is written down.

(5) Derivatives

All derivatives are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise.

(6) Allowance for doubtful accounts

Allowance for doubtful accounts is provided in preparation for possible risk of uncollectible accounts. It consists of the estimated uncollectible amount with respect to identified doubtful receivables and an amount calculated on the historical bad debt ratio with respect to remaining receivables.

(7) Inventories

Inventories are stated at cost, which is determined by the moving-average method, except for

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Notes to Consolidated Financial Statements

certain subsidiaries that value inventories at the lower of cost or market, cost being determined by the first-in first-out method.

(8) Property, Plant and Equipment and Depreciation

The Company and its domestic subsidiaries provide for depreciation of “buildings and structures”, “machinery, equipment and vehicles” and “tools, furniture and fixtures” on the declining-balance method at rates based on their estimated useful lives prescribed by the Japanese tax laws, except for buildings (excluding building improvement) acquired on or after 1 April 1998 which are depreciated by the straight-line method. Overseas subsidiaries provide for depreciation of property, plant and equipment over their estimated useful lives primarily on the straight-line method.

The range of useful lives is summarised as follows:

Buildings and structures	7 - 50 years
Machinery equipment and vehicles	4 - 17 years
Tools, furniture and fixtures	2 - 10 years

Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

Effective 31 March 2000, the Company revalued its land used for operations in accordance with the Law Concerning the Revaluation of Land (the Law No. 34 promulgated on 31 March 1998 which was partially amended on 31 March 1999). The revaluation was made based on the value used for property tax levy with reasonable adjustments in accordance with the Article 2-3 of the enforcement ordinance of the Law No. 34.

The tax effect of the revaluation difference is recorded as deferred income taxes on revaluation of land (non-current liability) and the remaining after-tax amount is credited to retained earnings. The fair value of the revalued land at 31 March 2002 was ¥1,379 million (\$10,368 thousand) lower than the carrying amount of land after revaluation.

Two overseas subsidiaries revalued their lands in accordance with local regulations and accounting standards. The revaluation resulted in the revaluation gain of ¥79 million (\$594 thousand) of which tax effect of ¥10 million (\$75 thousand) was included in deferred income taxes on revaluation of land, ¥9 million (\$66 thousand) was included in minority interests in consolidated subsidiaries and the remaining after-tax amount of ¥60 million (\$454 thousand) was credited to retained earnings.

(9) Intangible Assets

Intangible assets, included in other assets, are amortized on a straight-line basis over the period regulated by the Japanese tax laws, except for computer software for internal use which is amortized on a straight-line basis over the estimated useful lives (three to five years).

(10) Deferred Assets

Deferred Assets are amortized over the five-year period on a straight-line basis.

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Notes to Consolidated Financial Statements

(11) Leases

Finance leases other than those, which are deemed to transfer the ownership of the leased assets to lessees, are accounted for by the method similar to that applicable to ordinary operating leases.

(12) Accrued Bonuses

Certain subsidiaries provide for accrued bonuses based on the amount estimated to be paid.

(13) Retirement benefit Plans

The Companies, excluding certain overseas subsidiaries, provides for accrued severance indemnities in preparation for payments of retirement benefits to employees at an amount of projected benefit obligation attributed to the services rendered by the end of year reduced by pension plan assets at fair value at the end of year.

The Company has adopted a funded defined benefit plan covering all of its employees. Subsidiaries, excluding certain overseas subsidiaries, have adopted funded and/or unfunded defined benefit plans. In addition, the Companies may occasionally pay supplementary benefits to retired employees.

The net transition obligation of ¥1,297 million at date of the adoption is amortized on a straight-line basis over 15 years. Actuarial gain or loss is amortized on a straight-line basis over 10 years from the next year in which it arises.

(14) Product Warranty Costs

Provision for estimated warranty costs is recorded based on the ratio of actual warranty costs incurred for the year against related annual sales amounts.

(15) Income Taxes

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitant taxes and enterprise tax.

Deferred income taxes are determined using the asset and liability approach, whereby deferred tax assets and liabilities are recognized in respect of temporary difference between the tax basis of assets and liabilities and those as reported in the financial statements.

(16) Consumption Taxes

The consumption taxes paid and withheld on purchase and sales of goods and services are not included in the amounts of respective cost, expense or revenue in the accompanying consolidated statements of income. Net balance of consumption taxes withheld and paid is included in "other current assets" or "other current liabilities" in the consolidated balance sheets.

(17) Net Income and Cash Dividends Per Share

Basic net income per share of common stock is based on the weighted average number of

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Notes to Consolidated Financial Statements

shares of common stock outstanding during each period. The diluted net income per share for the years ended 31 March 2000, 2001 and 2002 was not presented, as the Company had no dilutive potential common shares.

Cash dividends per share include those declared by the Companies in the respective periods. Dividends are charged to retained earnings in the year in which they are paid.

(18) Accounting Changes

Effective 1 April 2001, the Companies adopted the new accounting standard for financial instruments and changed valuation method of other quoted securities from cost determined by the moving-average method to fair value. As a result, net unrealized loss on securities amounting to ¥125 million (\$940 thousand) is recorded in shareholders' equity, investments in securities decrease ¥119 million (\$895 thousand), deferred tax liabilities and minority interests increase ¥2 million (\$15 thousand) and ¥4 million (\$30 thousand), respectively.

3. United States Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥133 = U.S.\$1, the rate of exchange at 29 March 2002, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen has been or could be readily converted, realized or settled in U.S. dollars at this rate or any other rate.

4. Investments in Debt and Equity Securities

Held-to-maturity debt securities at 31 March 2001, which have readily determinable fair value, are summarized as follows:

	<u>Millions of Yen</u>	
	<u>Carrying value</u>	<u>Fair value</u>
Securities with unrealised holding gain	¥ 8	¥ 8
Securities with unrealised holding loss	3	3
	<u>¥ 11</u>	<u>¥ 11</u>

All investments in debt securities at 31 March 2001 are due after one year through five years.

Held-to-maturity debt securities at 31 March 2002, which have readily determinable fair value, are summarized as follows:

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	<u>Millions of Yen</u>		<u>Thousands of U.S.</u>	
	<u>Carrying value</u>	<u>Fair value</u>	<u>Carrying value</u>	<u>Fair value</u>
Securities with unrealized holding gain	¥ 9	¥ 9	\$ 68	\$ 68
Securities with unrealized holding loss	<u>2</u>	<u>2</u>	<u>15</u>	<u>15</u>
	<u>¥ 11</u>	<u>¥ 11</u>	<u>\$ 83</u>	<u>\$ 83</u>

All held-to-maturity debt securities at 31 March 2002 are due after one year through ten years.

Other quoted securities at 31 March 2002 are summarized as follows:

	<u>Millions of Yen</u>			<u>Thousands of U.S. Dollars</u>		
	<u>Acquisition cost</u>	<u>Carrying value</u>	<u>Gross unrealised gain (loss)</u>	<u>Acquisition cost</u>	<u>Carrying value</u>	<u>Gross unrealised gain (loss)</u>
Securities with unrealised holding gain	¥ 767	¥ 1,040	¥ 273	\$ 5,767	\$ 7,820	\$ 2,053
Securities with unrealised holding loss	<u>4,471</u>	<u>4,078</u>	<u>△ 392</u>	<u>33,613</u>	<u>30,666</u>	<u>-2,947</u>
	<u>¥ 5,238</u>	<u>¥ 5,118</u>	<u>¥ △119</u>	<u>\$ 39,380</u>	<u>\$ 38,486</u>	<u>\$ △894</u>

The Company wrote down the carrying value of several other quoted securities amounting to ¥2,648million (\$20 thousand) current year because decline in their fair value below cost was judged to be material and other than temporary.

Total sales of other quoted securities for the year ended March 31, 2002 amounted to ¥62million (\$466 thousand) and the related gains amounted to ¥47 million (\$353 thousand).

Other non-quoted securities at 31 March 2002, which have no readily determinable fair value, are summarized as follows:

	<u>Million of Yen</u>	<u>Thousands of U.S. Dollars</u>
Other securities:		
Non-listed equity securities	<u>¥ 473</u>	<u>\$ 3,556</u>

There are no other securities with due date.

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

5. Inventories

Inventories at 31 March 2001 and 2002 were comprised of the followings:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Finished products	¥ 5,070	¥ 5,925	\$ 44,549
Semi-finished products	277	353	2,654
Raw materials	2,855	3,172	23,850
Work in process	470	678	5,098
Supplies	87	76	571
	¥ 8,759	¥ 10,204	\$ 76,722

6. Leases

Pro forma information for property held under finance leases other than those, which are deemed to transfer the ownership of the leased assets to lessees, and other relevant information are summarized below.

(1) Lease transactions as lessee

Finance leases

a) Pro forma information relating to acquisition cost, accumulated depreciation and net book value on an “as if capitalized” basis at 31 March 2001 and 2002 is as follows:

	Millions of Yen					
	2001			2002		
	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
Acquisition cost	¥ 57	¥ 539	¥ 596	¥ 44	¥ 386	¥ 430
Accumulated depreciation	37	300	337	36	243	279
Net book value	¥ 20	¥ 239	¥ 259	¥ 8	¥ 143	¥ 151

	Thousands of U.S. Dollars		
Acquisition cost	\$ 331	\$ 2,902	\$ 3,233
Accumulated depreciation	271	1,827	2,098
Net book value	\$ 60	\$ 1,075	\$ 1,135

The pro forma acquisition cost information is calculated at the amount including interest expense portion, as the balance of outstanding future lease payments is immaterial to the year-end balance of property, plant and equipment.

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Notes to Consolidated Financial Statements

- b) Pro forma information relating to outstanding future lease payments on an “as if capitalised” basis at 31 March 2001 and 2002 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Due within one year	¥ 105	¥ 63	\$ 474
Due after one year	154	88	661
	¥ 259	¥ 151	\$ 1,135

The pro forma information for the outstanding future lease payments is calculated at the amount including interest expense portion, as the balance of outstanding future lease payments is immaterial to the year-end balance of property, plant and equipment.

- c) Total lease payments for the years ended 31 March 2000, 2001 and 2002 were ¥131 million, ¥181 million and ¥103 million (\$774 thousand), respectively. Depreciation expenses, which are not reflected in the accompanying consolidated statements of income, computed by the straight-line method over the lease term with no residual value, would have been the same as the lease payments for the years ended 31 March 2000, 2001 and 2002.

Operating leases

The amounts of outstanding future lease payments for operating lease transactions at 31 March 2001 and 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Due within one year	¥ 58	¥ 74	\$ 556
Due after one year	540	593	4,459
Total	¥ 598	¥ 667	\$ 5,015

- (2) Lease transactions as lesser

Lease payments received and depreciation expense for the years ended 31 March 2000, 2001 and 2002 are as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2000	2001	2002	2002
Lease payments received	¥ 10	¥ 8	¥ -	\$ -
Depreciation expense	10	8	-	-

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

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7. Short-term Loans and Long-term Debt

Short-term loans from banks outstanding at 31 March 2001 and 2002 are primarily represented by 6-month notes issued by the Company to banks, bearing interest at the weighted average interest rate of 3.0% at 31 March 2001 and 1.4 % at 31 March 2002. Customarily, these notes are renewed at maturity subject to re-negotiation of interest rates and other factors.

Long-term debt at 31 March 2001 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Loans from banks and an insurance company			
Due 2002 to 2009 with mortgage and collateral at interest rates indicated below (*1)	¥ 5,107	¥ 3,979	\$ 29,917
Less, portion due within one year	(1,128)	(2,128)	(16,000)
	¥ 3,979	¥ 1,851	\$ 13,917

(*1) The weighted average interest rate on loans from banks and an insurance company is as follows:

at 31 March 2001.....2.3 %

at 31 March 2002.....2.3 %

The aggregate annual maturities of long-term debt at 31 March 2002 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Years ending 31 March:		
2004	¥ 836	\$ 6,285
2005	5	38
2006	1,003	7,541
2007	5	38
2008 and thereafter	2	15
	¥ 1,851	\$ 13,917

The Companies' assets pledged as collateral for long-term debt at 31 March 2002 are summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Property, plant and equipment at net book value:		
Land	¥ 3,792	\$ 28,511
Other	1,332	10,015
	5,124	38,526
Investments in securities	3,464	26,045
	¥ 8,588	\$ 64,571

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Notes to Consolidated Financial Statements

8. Retirement Benefit Plan

The funded status of the Companies at 31 March 2002 are summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Projected benefit obligation	¥ 6,303	\$ 47,391
Unrecognised net actuarial losses	(1,080)	(8,120)
Unrecognised net transition obligation	(1,124)	(8,451)
Plan assets at fair value	(3,549)	(26,685)
Accrued severance indemnities	¥ 550	\$ 4,135

Pension and severance costs of the Companies included the following components for the year ended 31 March 2002:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥ 437	\$ 3,286
Interest cost	168	1,263
Expected return on plan assets	(115)	(865)
Amortization of net actuarial losses	31	233
Amortization of net transition obligation	86	647
	¥ 607	\$ 4,564

Pension benefits are attributed to periods of employee service based on years of service by the straight-line method.

Assumptions used in the accounting for the defined benefit plans for the year ended 31 March 2002 are as follows:

Discount rate	2.1%
Long-term rate of return on plan assets	3.5%

9. Contingencies

The Companies were contingently liable for outstanding discounted notes of ¥3,959 million (\$29,767 thousand) and endorsed notes of ¥15 million (\$113 thousand) at 31 March 2002.

At 31 March 2002, the Company provided guarantees to an intermediary trading company for ¥1,022 million (\$7,684 thousand) to assure the collection of its accounts receivable from contracted sales agents/distributors.

10. Derivative financial instruments

(1) Status of transaction

a) Nature and purpose of transactions

The Companies utilize a foreign exchange forward contract to reduce risk from exchange rate fluctuation in Import/Export denominated in U.S. Dollars conducted through ordinary course of operations.

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

b) Policy to use transactions

The Companies utilize interest-related derivative financial instruments within the limit not exceeding the borrowings, and do not use them for speculative transactions or highly leveraged transactions.

The Companies also utilize foreign-currency-related derivative financial instruments within the limit not exceeding accounts receivable and payable denominated in foreign currency and contracted sales or purchase amounts, and do not use them for speculative transactions.

c) Risks in transactions

Interest-related derivative financial instruments are exposed to risk from market rate fluctuation. Counter parties are highly creditworthy domestic banks and, therefore, the Companies do not expect losses due to non-performance of counter parties.

d) Risk management

Derivative transactions are executed and managed centrally by the Financing Group of the Tokyo Administration Department based on the segregation of duty concept. Significant amount of borrowings and related interest rate swap agreements are subject to resolution of the Board of Directors meeting.

e) Other

The contract or notional amount shown in the "Fair value etc. of transaction" below is not indicative of the quantity of market risk.

(2) Fair value etc. of transactions

Contract or notional amount, fair value and valuation gain or loss of derivative financial instruments at 31 March 2001 and 2002 are summarized as follows:

	Millions of Yen					
	2001			2002		
	Contract or notional amount	Fair value	Valuation gain (loss)	Contract or notional amount	Fair value	Valuation gain (loss)
Foreign currency exchange forward contracts:						
To sell U.S. Dollars	¥ 467	¥ 471	¥ (4)	¥ 730	¥ 717	¥ 13
To buy Singapore Dollars	10	10	-	-	-	-
To buy Japanese yen	15	15	-	15	15	-
				Thousands of U.S. Dollars		
Foreign currency exchange forward contracts:						
To sell U.S. Dollars				\$ 5,489	\$ 5,391	\$ 98
To buy Japanese yen				113	113	-

The fair value is quoted from financial institutions with which the Companies make foreign currency exchange forward contracts.

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11. Shareholders' Equity

Under the Commercial Code of Japan (the "Code"), the entire amount of the issue price of new shares issued is required to be capitalized as stated capital, although the Company may, by resolution of the Board of Directors, capitalize an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital.

The Code requires a domestic company to appropriate as a legal reserve an amount equal to at least 10% of the amount paid out by it as appropriation of retained earnings (including any payment by way of annual dividends and bonuses to Directors and Statutory Auditors) for the period or equal to 10% of any interim dividend until the sum of the legal reserve and the additional paid-in capital equals 25% of its stated capital. The legal reserve and additional paid-in capital may be transferred to stated capital through suitable director actions or used to reduce a deficit through suitable stockholder actions.

Under the Code, the appropriation of retained earnings (including year-end cash dividend payment) proposed by the Board of Directors should be approved at shareholders' meeting, which must be held within three months after the end of each fiscal year. The appropriation of retained earnings reflected in the accompanying consolidated financial statements represents the results of such appropriations applicable to the immediately preceding fiscal year but which are approved at the shareholders' meeting and disposed of during the current year.

As is customary practice in Japan, the payment of bonuses to directors and corporate auditors is made out of retained earnings instead of being charged to income for the year and constitutes a part of the appropriations cited above.

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

12. Income Taxes

The Companies are subject to a number of different taxes based on income, which in aggregate, result in statutory income tax rates of approximately 41.7% for the years ended 31 March 2001 and 2002.

The Companies records net loss before income taxes for the years ended 31 March 2001 and 2002, so reconciliation of the difference between the statutory income tax rates and the effective income tax rates is not required to disclose.

Significant components of deferred tax assets and liabilities at 31 March 2001 and 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Deferred tax assets:			
Excess provision for retirement allowance	¥ 146	¥ 171	\$ 1,286
Write-down of investments in securities	363	117	880
Write-down of membership rights and excess			
Provision for allowance for doubtful accounts	295	289	2,173
Tax loss carryforwards	1,036	1,611	12,113
Other	380	444	3,338
	<u>2,220</u>	<u>2,632</u>	<u>19,790</u>
Less, valuation allowance	(1,381)	(1,422)	(10,692)
Total deferred tax assets	<u>839</u>	<u>1,210</u>	<u>9,098</u>
Deferred tax liabilities:			
Reserve for advanced depreciation	(121)	(119)	(895)
Other	(161)	(85)	(639)
Total deferred tax liabilities	<u>(282)</u>	<u>(204)</u>	<u>(1,534)</u>
Net deferred tax assets	<u>¥ 557</u>	<u>¥ 1,006</u>	<u>\$ 7,564</u>

13. Segment Information

The Companies primarily operate in two industry segments: paint-related business (“Paints”) and other business (“Other”), and three geographic areas “Domestic”, “Asia” and “Other”.

Major products of each industry segment are as follows:

Industry segment	Major products
Paints	Marine paints, Synthetic Resin Paints, Thinner and Other Paints, Contracted Painting Works, Painting Technical Assistance
Other	Rent and Management of Real Estate, Development of Computer Software, Financial Service, Building Security Service

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Summarised financial information concerning the industry segments and geographic areas in which the Companies operated at 31 March 2000, 2001 and 2002 for the three years then ended is shown in the following tables:

Industry Segments

	Millions of Yen									
	2000					2001				
	Paints	Other	Total	Elimination or Corporate	Consolidated	Paints	Other	Total	Elimination or Corporate	Consolidated
Net sales:										
External sales	¥ 41,346	¥ 544	¥ 41,890	-	¥ 41,890	¥ 45,157	¥ 665	¥ 45,822	-	¥ 45,822
Intersegment sales or transfer	-	622	622	¥ (622)	-	1	445	446	¥ (446)	-
Total	41,346	1,166	42,512	(622)	41,890	45,158	1,110	46,268	(446)	45,822
Operating expenses (a)	38,608	700	39,308	428	39,736	42,391	782	43,173	541	43,714
Income (loss) from operations	¥ 2,738	¥ 466	¥ 3,204	¥ (1,050)	¥ 2,154	¥ 2,767	¥ 328	¥ 3,095	¥ (987)	¥ 2,108
Assets (b)	¥ 46,056	¥ 10,173	¥ 56,229	¥ 13,598	¥ 69,827	¥ 47,497	¥ 9,201	¥ 56,698	¥ 9,459	¥ 66,157
Depreciation and amortisation	953	195	1,148	27	1,175	1,009	163	1,172	83	1,255
Capital expenditure	1,351	6	1,357	95	1,452	894	2	896	50	946

	2002									
	Millions of Yen					Thousands of U.S. Dollars				
	Paints	Other	Total	Elimination or Corporate	Consolidated	Paints	Other	Total	Elimination or Corporate	Consolidated
Net sales:										
External sales	¥ 48,309	¥ 641	¥ 48,950	-	¥ 48,950	\$ 363,226	\$ 4,819	\$ 368,045	-	\$ 368,045
Intersegment sales or transfer	-	383	383	¥ (383)	-	0	2,880	2,880	\$ (2,880)	-
Total	48,309	1,024	49,333	(383)	48,950	363,226	7,699	370,925	(2,880)	368,045
Operating expenses (a)	44,709	607	45,316	741	46,057	336,158	4,564	340,722	5,571	346,293
Income (loss) from operations	¥ 3,600	¥ 417	¥ 4,017	¥ (1,124)	¥ 2,893	\$ 27,068	\$ 3,135	\$ 30,203	\$ (8,451)	\$ 21,752
Assets (b)	¥ 51,658	¥ 8,952	¥ 60,610	¥ 5,838	¥ 66,448	\$ 388,406	\$ 67,308	\$ 455,714	\$ 43,895	\$ 499,609
Depreciation and amortisation	1,052	127	1,179	95	1,274	7,910	955	8,865	714	9,579
Capital expenditure	1,260	18	1,278	97	1,375	9,474	135	9,609	729	10,338

(a) Expenses which are not attributable to any industry segments represent primarily expenses incurred at the Company's administration department and included in "Elimination or Corporate" column. Such expenses amounted to ¥1,053million, ¥988 million and ¥1,130 million (\$8,496thousand) for the years ended 31 March 2000, 2001 and 2002, respectively.

(b) Corporate assets, which are included in "Elimination or Corporate" column, are comprised primarily of cash, short-term investments and investments in securities held by the Company and other assets held at its administration department. Balances of those assets were ¥13,623 million, ¥9,524 million and ¥5,908 million (\$44,421 thousand) at 31 March 2000, 2001 and 2002, respectively. Foreign currency translation adjustments are not included in corporate assets at 31 March 2001 and 2002 as they are presented in shareholders' equity at 31 March 2001 and 2002 while they were presented in assets at 31 March 2000 in the consolidated balance sheets.

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Geographic Segments

	Millions of Yen											
	2000						2001					
	Domestic	Asia (c)	Other (d)	Total	Elimination or Corporate	Consolidated	Domestic	Asia (c)	Other (d)	Total	Elimination or Corporate	Consolidated
Net sales:												
External sales	¥ 28,507	¥ 9,749	¥ 3,634	¥ 41,890	-	¥ 41,890	¥ 29,485	¥ 12,471	¥ 3,866	¥ 45,822	-	¥ 45,822
Intersegment sales or transfer	1,116	1,786	238	3,140	¥ (3,140)	-	1,402	1,575	458	3,435	¥ (3,435)	-
Total	29,623	11,535	3,872	45,030	(3,140)	41,890	30,887	14,046	4,324	49,257	(3,435)	45,822
Operating expenses (a)	27,213	10,613	3,960	41,786	(2,050)	39,736	28,931	13,343	4,325	46,599	(2,885)	43,714
Income (loss) from operations	¥ 2,410	¥ 922	¥ (88)	¥ 3,244	¥ (1,090)	¥ 2,154	¥ 1,956	¥ 703	¥ (1)	¥ 2,658	¥ (550)	¥ 2,108
Assets (b)	¥ 47,885	¥ 17,418	¥ 4,849	¥ 70,152	¥ (325)	¥ 69,827	¥ 49,121	¥ 17,462	¥ 4,064	¥ 70,647	¥ (4,490)	¥ 66,157
	2002											
	Millions of Yen						Thousands of U.S. Dollars					
Net sales:												
External sales	¥ 29,142	¥ 14,397	¥ 5,411	¥ 48,950	-	¥ 48,950	\$ 219,113	\$ 108,248	\$ 40,684	\$ 368,045	-	\$ 368,045
Intersegment sales or transfer	2,096	2,607	633	5,336	¥ (5,336)	-	15,759	19,602	4,759	40,120	\$ (40,120)	-
Total	31,238	17,004	6,044	54,286	(5,336)	48,950	234,872	127,850	45,443	408,165	(40,120)	368,045
Operating expenses (a)	28,779	15,933	6,052	50,764	(4,707)	46,057	216,383	119,797	45,504	381,684	(35,391)	346,293
Income (loss) from operations	¥ 2,459	¥ 1,071	¥ (8)	¥ 3,522	¥ (629)	¥ 2,893	\$ 18,489	\$ 8,053	\$ (61)	\$ 26,481	\$ (4,729)	\$ 21,752
Assets (b)	¥ 50,655	¥ 19,342	¥ 5,845	¥ 75,842	¥ (9,394)	¥ 66,448	\$ 380,865	\$ 145,429	\$ 43,947	\$ 570,241	\$ (70,632)	\$ 499,609

(a) Expenses which are not attributable to any geographic segments represent primarily expenses incurred at the Company's administration department and included in "Elimination or Corporate" column. Such expenses amounted to ¥1,053 million, ¥988 million and ¥1,130 million (\$8,496 thousand) for the years ended 31 March 2000, 2001 and 2002, respectively.

(b) Corporate assets, which are included in "Elimination or Corporate" column, are comprised primarily of cash, short-term investments and investments in securities held by the Company and other assets held at its administration department. Balances of those assets were ¥13,623 million, ¥9,524 million and ¥5,908 million (\$44,421 thousand) at 31 March 2000, 2001 and 2002, respectively. Foreign currency translation adjustments are not included in corporate assets at 31 March 2001 and 2002, as they are presented in shareholders' equity at 31 March 2001 and 2002, while they were presented in assets at 31 March 2000 in the consolidated balance sheets.

(c) Primarily included are China, Singapore, Hong Kong, Korea, Taiwan, Thailand, Malaysia, Indonesia and Oceania.

(d) Primarily included are Netherlands and U.S.A.

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Effective 1 April 2000, the Companies adopted the new Japanese accounting standard for retirement benefits and changed its method of providing accrued severance indemnities. The effects of this change on income from operations presented in the industry segment and geographic segment information are as follows:

	Millions of Yen						
	Industry segment			Geographic segment			
	Paints	Other	Total	Domestic	Asia	Other	Total
Increase in pension and severance costs	¥ 196	-	¥ 196	¥ 196	-	-	¥ 196
Income from operations which would have been reported if the previous standard had been applied consistently	2,940	¥ 351	3,291	2,152	¥ 703	¥ (1)	2,854

Overseas and export sales for the years ended 31 March 2000, 2001 and 2002 are summarized as follows:

	Millions of Yen			Thousands U.S. Dollars
	2000	2001	2002	2002
Overseas and export sales:				
Asia	¥ 9,940	¥ 12,528	¥ 14,403	\$ 108,293
Other	3,592	3,863	5,411	40,684
	¥ 13,532	¥ 16,391	¥ 19,814	\$ 148,977
Consolidated net sales	¥ 41,890	¥ 45,822	¥ 48,950	\$ 368,045

Percentage of overseas and export sales to consolidated net sales:

Asia	23.7%	27.3%	29.4%
Other	8.6	8.4	11.1
	32.3%	35.8%	40.5%

Overseas and export sales represent the total amount of export sales of the Company and domestic subsidiaries and sales of the overseas subsidiaries.

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14. Supplementary Cash Flow Information

Cash and cash equivalents at 31 March 2001 and 2002 consisted of the following:

	Millions of Yen		Thousands of
	2001	2002	U.S. Dollars
Cash on hand and in banks	¥ 6,208	¥ 5,622	\$ 42,271
Less, time deposits with deposit term of over three months	(201)	(761)	(5,722)
Cash and cash equivalents	¥ 6,007	¥ 4,861	\$ 36,549

15. Reclassification

Certain reclassifications of previously reported amounts have been made to the consolidated balance sheet at 31 March 2000 and the consolidated statements of income and cash flows for the year then ended to conform to the current year presentation. Such reclassifications have no effect on net assets, net income and cash flows.