



## **Consolidated Financial Statements**

**for the years ended 31 March 2003, 2004 and 2005**

**CHUGOKU MARINE PAINTS, LTD.**

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Consolidated Balance Sheets  
31 March 2004 and 2005

	Thousands of U.S. Dollars (Note 3)				Thousands of U.S. Dollars (Note 3)		
	Millions of Yen 2004	2005	2005		Millions of Yen 2004	2005	2005
<b>ASSETS</b>				<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current assets:				Current liabilities:			
Cash on hand and in banks	¥ 6,884	¥ 7,943	\$ 73,964	Short-term loans (Note 7)	¥ 20,340	¥ 21,983	\$ 204,702
Trade notes and accounts receivable	19,290	23,933	222,861	Current portion of long-term debt (Note 7)	100	1,630	15,178
Less, allowance for doubtful accounts	-491	-485	-4,516	Notes and accounts payable:			
	18,799	23,448	218,345	Trade	8,671	11,510	107,179
Inventories (Note 5)	9,359	11,910	110,904	Other	2,342	2,424	22,572
Deferred tax assets (Note 12)	694	724	6,742		11,013	13,934	129,751
Other current assets	1,077	1,118	10,410	Income taxes payable (Note 12)	766	1,495	13,921
Total current assets	36,813	45,143	420,365	Deferred tax liabilities (Note 12)	2	0	0
				Other current liabilities	1,768	1,921	17,888
Investments and advances:				Total current liabilities	33,989	40,963	381,440
Investments in securities (Note 4)	6,800	7,279	67,781	Long-term debt (Note 7)	2,725	1,245	11,593
Investments in affiliates	1	-	-	Accrued severance indemnities (Note 8)	604	666	6,202
Claims in bankruptcy and reorganization claims	10	-	-	Retirement benefits to directors and corporate auditors	663	795	7,403
Other	28	-	-	Deferred tax liabilities on revaluation of land	2,226	2,228	20,747
	6,839	7,279	67,781	Deferred tax liabilities (Note 12)	237	419	3,902
				Other liabilities	172	179	1,668
Property, plant and equipment (Note 7) :				Total liabilities	40,616	46,495	432,955
Buildings and structures	13,641	13,728	127,833	Minority interests in consolidated subsidiaries	1,173	1,347	12,543
Machinery, equipment and vehicles	10,738	11,034	102,747	Commitments and contingent liabilities (Note 9)			
Tools, furniture and fixtures	3,006	3,234	30,115	Shareholders' equity (Note 11) :			
	27,385	27,996	260,695	Common stock :			
Less, accumulated depreciation	-18,384	-19,513	-181,702	Authorized:			
	9,001	8,483	78,993	31 March 2004-277,630,000 shares			
Land	14,427	14,451	134,566	31 March 2005-277,630,000 shares			
Construction in progress	26	271	2,524	Issued:			
	23,454	23,205	216,083	31 March 2004- 69,068,822 shares	11,626	-	-
Deferred tax assets (Note 12)	378	401	3,734	31 March 2005- 69,068,822 shares	-	11,626	108,260
Other assets	949	1,140	10,614	Additional paid-in capital	7,784	7,785	72,493
				Retained earnings	8,510	10,660	99,264
				Net unrealized gain on securities	1,062	1,546	14,396
				Foreign currency translation adjustments	-2,297	-2,228	-20,747
					26,685	29,389	273,666
				Common stock in treasury, at cost			
				31 March 2004- 124,954 shares	-41	-	-
				31 March 2005- 161,528 shares	-	-63	-587
				Total shareholders' equity	26,644	29,326	273,079
	¥ 68,433	¥ 77,168	\$ 718,577		¥ 68,433	¥ 77,168	\$ 718,577

The accompanying notes are an integral part of these financial statements.

**CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES**

**Consolidated Statements of Income  
For the years ended 31 March 2003, 2004 and 2005**

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2003	2004	2005	2005
Net sales	¥ 50,213	¥ 55,767	¥ 63,389	\$ 590,269
Cost of sales	32,449	36,547	42,586	396,555
Gross profit	17,764	19,220	20,803	193,714
Selling, general and administrative expenses	14,060	14,743	16,082	149,753
Income from operations	3,704	4,477	4,721	43,961
Other income / (expenses):				
Interest and dividend income	122	127	158	1,471
Interest expense	-379	-325	-322	-2,998
Gain on sales of investment in securities, net	8	225	161	1,499
(Loss) gain on sales of property, plant and equipment, net	-2	5	6	56
Write-downs of investments in securities	-1,057	-	-	-
Loss on equity method	-8	-2	-	-
Foreign currency exchange (loss) gain, net	-60	-163	44	410
Royalty income	43	52	42	391
Revenue from technical training	79	100	87	810
Write-downs of golf membership	-5	-7	-30	-279
Reversal of provision for allowance for doubtful accounts	1	-	-	-
Special depreciation for initial cost of business	-47	-	-	-
Amortization of past service costs	-	-19	-	-
Provision for retirement benefits to directors and corporate auditors	-	-550	-	-
Retirement benefits to directors and corporate auditors	-	-143	-	-
Cancellation fee of patent contract	-	-302	-	-
Loss from product warranty	-	-254	-81	-754
Loss on disposal of finished goods	-	-	-69	-643
Write-downs of finished products	-	-	-62	-577
Legal settlement	-	-	45	419
Legal costs	-	-	-37	-345
Liquidation of a subsidiary	-	-	-20	-186
Other, net	-12	27	140	1,304
	<u>-1,317</u>	<u>-1,229</u>	<u>62</u>	<u>578</u>
Income before income taxes and minority interests	2,387	3,248	4,783	44,539
Income taxes (Note 12) :				
Current	653	822	1,804	16,799
Deferred	-150	-381	22	205
	<u>503</u>	<u>441</u>	<u>1,826</u>	<u>17,004</u>
Income before minority interests	<u>1,884</u>	<u>2,807</u>	<u>2,957</u>	<u>27,535</u>
Minority interests in earnings of consolidated subsidiaries	<u>-219</u>	<u>-269</u>	<u>-253</u>	<u>-2,356</u>
Net income	<u>¥ 1,665</u>	<u>¥ 2,538</u>	<u>¥ 2,704</u>	<u>\$ 25,179</u>
	<u>Yen</u>			<u>U.S. Dollars</u>
Earnings per share				
Basic	¥ 23.66	¥ 36.31	¥ 38.65	\$ 0.36
Diluted	-	-	-	-
Cash dividends per share	6.5	7.5	7.5	0.07
Weighted average number of shares (in thousands)	70,354	68,957	68,929	

The accompanying notes are an integral part of these financial statements.

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Consolidated Statements of Shareholders' Equity  
For the years ended 31 March 2003, 2004 and 2005

(Number of shares of common stock - thousand)	Millions of Yen					
	Common stock	Additional paid-in capital	Retained earnings	Net unrealized (loss) gain on securities	Foreign currency translation adjustments	Common stock in treasury, at cost
Balance, 31 March 2002 (71,213)	¥ 11,626	¥ 8,397	¥ 5,049	¥ -125	¥ -1,119	¥ -3
Net income	-	-	1,665	-	-	-
Cash dividends	-	-	-356	-	-	-
Unrealised gain on revaluation of land	-	-	63	-	-	-
Net unrealized loss on securities	-	-	-	-225	-	-
Retirement of treasury stock (2,144)	-	-613	-	-	-	-
Retained earnings of a subsidiary liquidated	-	-	-1	-	-	-
Foreign currency translation adjustments	-	-	-	-	-393	-
Common stock in treasury, at cost	-	-	-	-	-	-26
Balance, 31 March 2003 (69,069)	¥ 11,626	¥ 7,784	¥ 6,420	¥ -350	¥ -1,512	¥ -29
Net income	-	-	2,538	-	-	-
Cash dividends	-	-	-448	-	-	-
Net unrealized gain on securities	-	-	-	1,412	-	-
Foreign currency translation adjustments	-	-	-	-	-785	-
Common stock in treasury, at cost	-	-	-	-	-	-12
Balance, 31 March 2004 (69,069)	¥ 11,626	¥ 7,784	¥ 8,510	¥ 1,062	¥ -2,297	¥ -41
Net income	-	-	2,704	-	-	-
Cash dividends	-	-	-517	-	-	-
Bonuses to directors and corporate auditors	-	-	-34	-	-	-
Net unrealized gain on securities	-	-	-	484	-	-
Gain on sales of treasury stock	-	1	-	-	-	-
Reversal of revaluation of land	-	-	-2	-	-	-
Retained earnings of a subsidiary liquidated	-	-	-1	-	-	-
Foreign currency translation adjustments	-	-	-	-	69	-
Common stock in treasury, at cost	-	-	-	-	-	-22
Balance, 31 March 2005 (69,069)	¥ 11,626	¥ 7,785	¥ 10,660	¥ 1,546	¥ -2,228	¥ -63

	Thousands of U.S. Dollars (Note 3)					
	Common stock	Additional paid-in capital	Retained earnings	Net unrealized (loss) gain on securities	Foreign currency translation adjustments	Common stock in treasury, at cost
Balance, 31 March 2004 (69,069)	\$ 108,260	\$ 72,484	\$ 79,244	\$ 9,889	\$ -21,390	\$ -382
Net income	-	-	25,179	-	-	-
Cash dividends	-	-	-4,814	-	-	-
Bonuses to directors and corporate auditors	-	-	-317	-	-	-
Net unrealized gain on securities	-	-	-	4,507	-	-
Gain on sales of treasury stock	-	9	-	-	-	-
Reversal of revaluation of land	-	-	-19	-	-	-
Retained earnings of a subsidiary liquidated	-	-	-9	-	-	-
Foreign currency translation adjustments	-	-	-	-	643	-
Common stock in treasury, at cost	-	-	-	-	-	-205
Balance, 31 March 2005 (69,069)	\$ 108,260	\$ 72,493	\$ 99,264	\$ 14,396	\$ -20,747	\$ -587

The accompanying notes are an integral part of these financial statements.

**CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES**

**Consolidated Statement of Cash Flows  
For the years ended 31 March 2003, 2004 and 2005**

	Millions of Yen			Thousands of U.S. Dollars (Note3)
	2003	2004	2005	2005
<b>Cash flows from operating activities:</b>				
Income before income taxes and minority interests	¥ 2,387	¥ 3,248	¥ 4,783	\$ 44,539
Depreciation and amortization	1,281	1,229	1,265	11,779
(Decrease) increase in allowance for doubtful accounts	-100	-300	45	419
(Decrease) increase in accrued severance indemnities	-7	67	58	540
Increase in allowance for retirement benefits to directors and corporate officers	-	663	131	1,220
Interest and dividend income	-122	-127	-158	-1,471
Interest expense	379	325	322	2,998
Foreign currency exchange loss, net	0	3	0	0
Gain on sales of investment in securities, net	-8	-225	-161	-1,499
Write-downs of investments in securities	1,057	-	-	-
Write-downs of golf membership	5	7	30	279
Loss on sales of property, plant and equipment, net and so on	21	27	11	102
Special depreciation for initial cost of business in foreign subsidiary	47	-	-	-
Liquidation of a subsidiary	-	-	20	186
(Increase) in trade notes and accounts receivable	-1,070	-333	-3,497	-32,564
Decrease (increase) in inventories	297	-101	-2,518	-23,447
Increase (decrease) in trade notes and accounts payable	158	-78	2,751	25,617
(Decrease) increase in outstanding discounted notes	-	-	-1,158	-10,783
Other, net	489	-786	247	2,300
Sub total	4,814	3,619	2,171	20,215
Interest and dividend income received	118	142	151	1,406
Interest expense paid	-390	-314	-321	-2,989
Income taxes paid	-588	-542	-1,149	-10,699
Net cash provided by operating activities	3,954	2,905	852	7,933
<b>Cash flows from investing activities:</b>				
Deposit for time deposits	-25	-12	-	-
Withdrawal from time deposits	-	-	802	7,468
Payments for purchases of investments in securities	-741	-208	-42	-391
Proceeds from sales of investments in securities	36	789	328	3,054
Payments for purchases of property, plant and equipment	-1,628	-974	-1,190	-11,081
Proceeds from sales of property, plant and equipment	25	27	13	121
Other, net	48	2	38	354
Net cash used in investing activities	-2,285	-376	-51	-475
<b>Cash flows from financing activities:</b>				
(Decrease) increase in short-term loans	-283	375	1,686	15,700
Additions to long-term debt	2,000	-	150	1,397
Repayment of long-term debt	-2,222	-931	-100	-931
Contribution from minority shareholders	127	-	-	-
Payment for purchases of treasury stock	-639	-13	-23	-214
Proceeds from sales of treasury stock	-	-	1	9
Cash dividends	-356	-448	-517	-4,814
Other, net	-149	-77	-134	-1,248
Net cash provided by (used in) financing activities	-1,522	-1,094	1,063	9,899
Effect of exchange rate changes on cash and cash equivalents	-80	-275	-42	-391
Net increase in cash and cash equivalents	67	1,160	1,822	16,966
Cash and cash equivalents at beginning of year	4,861	4,928	6,088	56,691
Cash and cash equivalents at end of year	¥ 4,928	¥ 6,088	¥ 7,910	\$ 73,657

The accompanying notes are an integral part of these financial statements.

# 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 of Chugoku Marine Paints, Ltd. (the “Company”) and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of 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 its subsidiaries (collectively referred to as the “Companies”). As at 31 March 2003, 2004 and 2005, the Company consolidated 28, 28 and 27 subsidiaries, respectively. CMP Atak Boya Sana yi Ve Ticaret A.S. which were under liquidation process in previous fiscal year and CMP HOLDINGS Pte., Ltd. have been liquidated completely in this fiscal year.. All significant inter-company accounts and transactions are eliminated in consolidation.

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 consolidated 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.

Investment in affiliates over which the Company has the ability to exercise significant influences over operating and financial policies of the investees, are accounted for using the equity method. As at 31 March 2003 and 2004, the Company had applied the equity method to one affiliate (Chugoku Jenson & Nicholson Ltd.) of which fiscal year-end is 31 December. As at 31 March 2005, Chugoku Jenson & Nicholson Ltd. is not applied by the equity method due to immaterial impact in terms of net income and retained earnings.

# CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

## 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.

Effective from the year ended 31 March 2005, the Company changed its accounting policy of translation of the statements of income of its foreign consolidated subsidiaries from using the exchange rates in effect at the respective balance sheet dates to using the average exchange rates in effect during the respective fiscal year. In line with more significance of the foreign consolidated subsidiaries, this change was made for more appropriate presentation of these results of operations. As a result of this accounting policy change, it was to increase "net sales", "income from operations" and "income before income taxes and minority interests" by ¥119 million (\$1,108 thousand), ¥65 million (\$605 thousand) and ¥52 million (\$484 thousand), respectively, for the year ended 31 March 2005, as compared with the previous method. The effects of this accounting policy change on segment information are disclosed in Notes 13, "Segment information".

### (4) Investments in securities

The Companies have no trading securities.

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

Other securities for which market value are available are stated at fair value as of the end of the year with unrealized gain and loss, net of applicable deferred income tax assets / liabilities and minority interests, not reflected in income 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 securities for which market values are not available 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 and hedge accounting

# CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

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 unless derivative instruments are used for hedging purposes. Certain foreign subsidiaries utilize a foreign exchange forward contract to reduce risk from exchange rate fluctuation in foreign-currency-denominated account receivables. They adopt the method to state account receivables by the forward exchange contracts rate if the contract meets certain conditions.

At the inception date of the forward exchange contracts, they are allocated to the same amount at the same time as the hedged items in accordance with the Company's risk management objective and policy for undertaking the hedge. They judge that hedging relationship about exchange rate fluctuation thereafter qualifies as high effective, so the evaluation of hedge effectiveness at the fiscal year-end is not performed.

### (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 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.

## CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

### Notes to Consolidated Financial Statements

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 2005 was ¥5,125 million (\$47,723 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 ¥81 million (\$754 thousand) of which tax effect of ¥17 million (\$158 thousand) was included in deferred income taxes on revaluation of land, ¥6 million (\$56 thousand) was included in minority interests in consolidated subsidiaries and the remaining after-tax amount of ¥58 million (\$540 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) 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.

#### (11) Accrued bonuses

Accrued bonuses are included in other current liabilities. Certain subsidiaries provide for accrued bonuses based on the amount estimated to be paid.

#### (12) Accrued severance indemnities

The Companies, excluding certain overseas subsidiaries, provide 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 the straight-line method over 15 years. Actuarial gain or loss is amortized on the straight-line method over 10 years from the next year in which it arises.

Accrued service indemnities in the accompanying consolidated balance sheet included retirement benefits to advisors and counselors amounting to ¥25 million (\$233 thousand) at 31 March 2005.

Effective from year ended 31 March 2004, the Company changed its accounting policy for

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### Notes to Consolidated Financial Statements

retirement benefits to advisors and counselors, because their retirement rule was established. Previously, retirement benefits to advisors and counselors were not accrued and charged to income when paid. Under the new policy, retirement benefits to advisors and counselors of the Company is provided based on the Company's pertinent rule and is calculated as the estimated amount which would be payable to all advisors and counselors were to retire at the balance sheet date. This change was made to reflect periodic income and expenses more appropriately as well as to determine the financial position more conservative.

As at 31 March 2004, the cumulative effect of ¥19 million at the beginning was charged as other expenses. The provision of ¥3 million incurred during the current year ended 31 March 2004 was charged as selling, general and administrative expenses.

As a result of this accounting change, income from operations decreased by ¥3 million and income before taxes and minority interests decreased by ¥23 million compared with what would have been recorded under the previous accounting method.

#### (13) Retirement benefits to directors and corporate auditors

Retirement benefits to directors and corporate auditors of the Company is provided based on the Company's pertinent rule and is calculated as the estimated amount which would be payable to all directors and corporate auditors of the Company were to retire at the balance sheet date.

Effective from year ended March 31, 2004, the Company changed its accounting policy for retirement benefits for directors and corporate auditors, because their retirement rule was established. Previously, retirement benefits to directors and corporate auditors were recognized after the approval at the shareholders' meeting and charged to income when paid. Under the new policy, retirement benefits to directors and corporate auditors of the Company is provided based on the Company's pertinent rule and is calculated as the estimated amount which would be payable to all directors and corporate auditors of the Company were to retire at the balance sheet date. This change was made to reflect periodic income and expenses more appropriately as well as to determine the financial position more conservative.

As at 31 March 2004, the cumulative effect of ¥550 million at the beginning was charged as other expenses. The provision of ¥113 million incurred during the current year ended 31 March 2004 was charged as selling, general and administrative expenses.

As a result of this accounting change, income from operations decreased by ¥113 million and income before taxes and minority interests decreased by ¥663 million compared with what would have been recorded under the previous accounting method.

#### (14) Product warranty costs

Product warranty costs are included in other current liabilities. 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,

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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) Earnings and cash dividends per share

Basic earnings per share of common stock are based on the weighted average number of shares of common stock outstanding during each period. Net income is adjusted by deducting bonuses paid to directors and corporate auditors as well as the payment of dividends to shareholders of preferred stocks to be recognized as an appropriation of retained earnings, from net income shown in the consolidated statements of income, and the calculation of earnings per share is made on that adjusted net income basis.

The diluted earnings per share for the years ended 31 March 2003, 2004 and 2005 were 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 standard for impairment of fixed assets

On 9 August 2002, the business Accounting Council in Japan issued "Accounting Standard for Impairment of fixed Assets". The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The standard shall be effective for fiscal years beginning 1 April 2005. However, an earlier adoption is permitted for fiscal years beginning 1 April 2004 and for fiscal years ending between 31 March 2004 and 30 March 2005.

The Company has not yet applied this new standard nor has determined the effect of applying it on the Company's consolidated financial statements.

#### (19) Reclassification of accounts

Prior year amounts have been reclassified to conform with the current year's presentation.

# CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

### 3. United States dollar amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥107.39 = U.S. \$1.00, the rate of exchange at 31 March 2005, 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.

**CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**4. Investments in securities**

Other securities and held-to-maturity securities at 31 March 2004 are summarized as follows:

	Millions of Yen			
	Acquisition cost	Fair value	Gross unrealized gain	Gross unrealized loss
Other Securities:				
Market value available	¥ 4,067	¥ 5,852	¥ 1,969	¥ (184)
Market value not available	944	944	-	-
Total other securities	¥ 5,011	¥ 6,796	¥ 1,969	¥ (184)
Held-to-maturity securities				
Market value available	¥ 5	¥ 5	¥ 0	¥ -

Other securities with maturity and held-to-maturity securities at 31 March 2004 are summarized as follows:

	Millions of Yen	
	Other securities	Held-to-maturity securities
Due within 1 year	¥ -	¥ 2
Due after 1 to 5 years	-	3
Due after 5 to 10 years	-	-
	¥ -	¥ 5

**CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

Other securities and held-to-maturity securities at 31 March 2005 are summarized as follows:

	Millions of Yen			
	Acquisition cost	Fair value	Gross unrealized gain	Gross unrealized loss
<b>Other Securities:</b>				
Market value available	¥ 3,919	¥ 6,306	¥ 2,446	¥ (59)
Market value not available	943	943	-	-
Total other securities	<u>¥ 4,862</u>	<u>¥ 7,249</u>	<u>¥ 2,446</u>	<u>¥ (59)</u>
<b>Held-to-maturity securities</b>				
Market value available	¥ 3	¥ 3	¥ 0	¥ -
Market value not available	27	27	-	-
Total Held-to-maturity securities	<u>¥ 30</u>	<u>¥ 30</u>	<u>¥ 0</u>	<u>¥ -</u>

	Thousands of U.S. Dollars (Note 3)			
	Acquisition cost	Fair value	Gross unrealized gain	Gross unrealized loss
<b>Other Securities:</b>				
Market value available	\$ 36,493	\$ 58,721	\$ 22,777	\$ (549)
Market value not available	8,781	8,781	-	-
Total other securities	<u>\$ 45,274</u>	<u>\$ 67,502</u>	<u>\$ 22,777</u>	<u>\$ (549)</u>
<b>Held-to-maturity securities</b>				
Market value available	\$ 28	\$ 28	\$ 0	\$ -
Market value not available	251	251	-	-
Total Held-to-maturity securities	<u>\$ 279</u>	<u>\$ 279</u>	<u>\$ 0</u>	<u>\$ -</u>

# CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

Other securities with maturity and held-to-maturity securities at 31 March 2005 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)	
	Other securities	Held-to-maturity securities	Other securities	Held-to-maturity securities
Due within 1 year	¥ -	¥ 27	\$ -	\$ 251
Due after 1 to 5 years	-	3	-	28
Due after 5 to 10 years	-	-	-	-
	¥ -	¥ 30	\$ -	\$ 279

The Companies have not recorded the impairment loss for the year ended 31 March 2004 and 2005. Total sales of other securities for the year ended 31 March 2004 and 2005 amount to ¥558 million and ¥328 million (\$3,054 thousand) and the related net gain amount to ¥225 million and ¥161 million (\$1,499 thousand), respectively.

### 5. Inventories

Inventories at 31 March 2004 and 2005 were comprised of the followings:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2005	2005
Finished products	¥ 5,614	¥ 6,707	\$ 62,454
Semi-finished products	241	224	2,086
Raw materials	3,089	4,502	41,922
Work in process	353	384	3,576
Supplies	62	93	866
	¥ 9,359	¥ 11,910	\$ 110,904

### 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.

**CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

(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 2004 and 2005 is as follows:

Millions of Yen						
	2004			2005		
	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
Acquisition cost	¥ 30	¥ 296	¥ 326	¥ 32	¥ 64	¥ 96
Accumulated depreciation	13	215	228	14	34	48
Net book value	¥ 17	¥ 81	¥ 98	¥ 18	¥ 30	¥ 48

	Thousands of U.S. Dollars (Note 3)		
Acquisition cost	\$ 298	\$ 596	\$ 894
Accumulated depreciation	130	317	447
Net book value	\$ 168	\$ 279	\$ 447

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.

- b) Pro forma information relating to outstanding future lease payments on an “as if capitalised” basis at 31 March 2004 and 2005 is as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2005	2005
Due within one year	¥ 57	¥ 19	\$ 177
Due after one year	41	29	270
Total	¥ 98	¥ 48	\$ 447

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 2003, 2004 and 2005 were ¥69 million, ¥66 million and ¥58 million (\$540 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 2003, 2004 and 2005.

# CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

### Operating leases

The amounts of outstanding future lease payments for operating lease transactions at 31 March 2004 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2005	2005
Due within one year	¥ 84	¥ 83	\$ 773
Due after one year	349	313	2,914
Total	¥ 433	¥ 396	\$ 3,687

### **7. Short-term loans and long-term debt**

Short-term loans from banks outstanding at 31 March 2004 and 2005 are primarily represented by 6-month notes issued by the Company to banks, bearing interest at the weighted average interest rate of 1.2% and 1.5% at 31 March 2004 and 2005, respectively. Customarily, these notes are renewed at maturity subject to re-negotiation of interest rates and other factors.

Long-term debt at 31 March 2004 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2005	2005
Loans from banks and an insurance company			
Due on varying dates through 2012			
at interest rates indicated below (*1)	¥ 2,825	¥ 2,875	\$ 26,771
Less, portion due within one year	(100)	(1,630)	(15,178)
	¥ 2,725	¥ 1,245	\$ 11,593

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

at 31 March 2004.....	1.6 %
at 31 March 2005.....	1.4 %

# CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

The aggregate annual maturities of long-term debt at 31 March 2005 are as follows:

	Millions of Yen	Thousands of U.S. Dollars	(Note 3)
Years ending 31 March:			
2007	¥ 630	\$ 5,866	
2008	130	1,211	
2009	130	1,211	
2010	130	1,211	
2011 and thereafter	225	2,094	
Total	¥ 1,245	\$ 11,593	

The Companies' assets pledged as collateral for long-term debt, including the current portion of long-term debt, at 31 March 2005 are summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars	(Note 3)
Property, plant and equipment at net book value:			
Land	¥ 3,788	\$ 35,273	
Other	853	7,943	
	4,641	43,216	
Investments in securities	1,194	11,119	
Total	¥ 5,835	\$ 54,335	

### 8. Accrued severance indemnities

The funded status of the Companies at 31 March 2004 and 2005 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2005	(Note 3) 2005
Projected benefit obligations	¥ 6,318	¥ 6,235	\$ 58,059
Unrecognized net actuarial losses	(889)	(746)	(6,946)
Unrecognized net transition obligation	(951)	(865)	(8,055)
Plan assets at fair value	(3,976)	(4,173)	(38,858)
Prepaid pension cost	102	215	2,002
Accrued severance indemnities	¥ 604	¥ 666	\$ 6,202

# CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

The net pension expenses related to the retirement benefits for the years ended 31 March 2003, 2004 and 2005 are as follows:

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2003	2004	2005	2005
Service cost	¥ 459	¥ 411	¥ 435	\$ 4,051
Interest cost	114	113	110	1,024
Expected return on plan assets	(47)	(48)	(53)	(493)
Amortization of past service cost	-	19	-	-
Amortization of net actuarial losses	111	135	117	1,089
Amortization of net transition obligation	86	86	86	801
Net pension expenses	¥ 723	¥ 716	¥ 695	\$ 6,472

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 2003, 2004 and 2005 are as follows:

	2003	2004	2005
Discount rate	2.1%	2.1%	2.1%
Long-term rate of return on plan assets	1.5%	1.5%	1.5%

### 9. Commitments and contingent liabilities

The Companies were contingently liable for outstanding discounted notes of ¥2,006 million (\$18,680 thousand) and endorsed notes of ¥57 million (\$531 thousand) at 31 March 2005.

At 31 March 2005, the Company provided guarantees to an intermediary trading company for ¥1,000 million (\$9,312 thousand) to assure the collection of its accounts receivable from contracted sales agents/distributors.

# CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

### 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 foreign currencies conducted through ordinary course of operations.

##### b) Policy to use transactions

The Companies 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

Counter parties, which the Companies enter into derivative financial instrument agreements, 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.

##### 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.

# CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

(2) Fair value etc. of transactions

Contract or notional amount, fair value and valuation gain or loss of derivative financial instruments at 31 March 2004 and 2005 are summarized as follows:

	Millions of Yen					
	2004			2005		
	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	¥ 204	¥ 197	¥ 7	¥ 215	¥ 215	¥ (0)
To buy U.S. Dollars	366	345	(21)	459	424	(35)
To buy SIN Dollars	64	62	(2)	-	-	-
To buy Japanese Yen	61	60	(1)	61	61	(0)
To buy Great Britain Pound	-	-	-	51	50	(1)
Total	¥ 695	¥ 664	¥ (17)	¥ 786	¥ 750	¥ (36)

	Thousands of U.S. Dollars (Note 3)		
Foreign currency exchange forward contracts:			
To sell U.S. Dollars	\$ 2,002	\$ 2,002	\$ (0)
To buy U.S. Dollars	4,274	3,948	(326)
To buy SIN Dollars	-	-	-
To buy Japanese Yen	568	568	(0)
To buy Great Britain Pound	475	466	(9)
Total	\$ 7,319	\$ 6,984	\$ (335)

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

Derivative financial instruments to allocate foreign currency receivables and payables for hedging are excluded from the above disclosure in accordance with “Accounting Standards for Foreign Currency Transactions and Financial Statements”.

# CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

### 11. Shareholders' equity

Under the Japanese Commercial Code (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 dividend 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 which are 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 net income for the year and constitutes a part of the appropriations cited above.

### 12. Income taxes

The Companies are subject to several taxes based on income, which in the aggregate, result in statutory income tax rate of approximately 41.7% and 40.5% for the years ended 31 March 2004 and 2005, respectively.

For the year ended 31 March 2005, the value added and capital based component of the enterprise tax amounting to ¥72 million (\$670 thousand) were treated as selling, general and administrative expenses in accordance with Practical Guidance Report No. 12, "Practical Treatment for Presentation of External Standards Taxation of the Enterprise Taxes in the Statements of Income", issued by the Accounting Standards Board of Japan on 13 February 2004. As a result of this treatment, selling, general and administrative expenses increased by ¥72 million (\$670 thousand), income from operations and income before income taxes and minority interests decreased by equivalent amount, as compared with the previous treatment. The effects of this treatment on segment information are disclosed in Note 13, "Segment Information".

**CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

Significant components of deferred tax assets and liabilities at 31 March 2004 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2005	2005
Deferred tax assets:			
Excess provision for accrued severance			
Indemnities	¥ 191	¥ 221	\$ 2,058
Allowance for retirement benefits to directors and corporate auditors	269	322	2,998
Write-down of investments in securities	274	232	2,160
Write-down of golf membership and excess provision for allowance for doubtful accounts	134	140	1,304
Accrued bonuses	246	258	2,402
Accrued enterprise tax	-	113	1,052
Foreign tax credit	153	48	447
Tax loss carryforwards	150	107	996
Others	370	423	3,940
	<u>1,787</u>	<u>1,864</u>	<u>17,357</u>
Less, valuation allowance	<u>(93)</u>	<u>(156)</u>	<u>(1,452)</u>
Total deferred tax assets	<u>1,694</u>	<u>1,708</u>	<u>15,905</u>
Deferred tax liabilities:			
Net unrealized gain on securities	(723)	(842)	(7,841)
Accelerated depreciation on fixed assets	(78)	(63)	(587)
Prepaid pension cost	(42)	(87)	(810)
Others	(18)	(10)	(93)
	<u>(861)</u>	<u>(1,002)</u>	<u>(9,331)</u>
Total deferred tax liabilities	<u>(861)</u>	<u>(1,002)</u>	<u>(9,331)</u>
Net deferred tax assets	<u>¥ 833</u>	<u>¥ 706</u>	<u>\$ 6,574</u>

Reconciliation of the statutory tax rate to the effective income tax rate for the year ended 31 March 2004 and 2005 are as follows:

	2004	2005
Statutory income tax rate	41.7 %	40.5 %
Increase (decrease) in taxes resulting from:		
Difference in statutory income tax rate between parent and subsidiaries	(27.2)	(19.8)
Entertainment and other non-deductible expenses	3.6	1.8
Dividend income and other not taxable	(2.6)	(1.5)
Dividend of retained earnings	21.0	16.3
Decrease of valuation allowance of deferred tax assets	(23.4)	0.6
Others	0.5	0.3
Effective tax rate	<u>13.6 %</u>	<u>38.2 %</u>

## CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

### Notes to Consolidated Financial Statements

On 31 March 2003, the Japanese National Diet approved various changes to the calculation of the statutory local enterprise tax for companies with capital in excess of ¥100 million, effective 1 April 2004. Under the amended legislation, the enterprise tax will be the sum of the following tax components; a) an income based component, b) a value added component and c) a capital based component, although there was only an “income tax based component” before the amendment. Concurrently, the basic tax rate for the “income based component” has reduced from 9.6% to 7.2%. As a result of this amendment, the tax rate to be applied to deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities, that are expected to reverse in the year beginning 1 April 2004 or later, decreased from 41.7% to 40.5% as at 31 March 2003. For temporary differences that are expected to reverse in the year ending 31 March 2004, a tax rate of 41.7% has continued to be used at that date. This resulted in immaterial effect to deferred income tax liabilities at 31 March 2003 and net income for the year ended 31 March 2003, compared with that would have been recognized if the tax rate of 41.7% had been fully applied to all temporary differences. And also deferred income tax liabilities on revaluation of land decrease and unrealized gain on revaluation of land increase by ¥65 million, respectively, at 31 March 2003.

# CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

### 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:

<u>Industry segment</u>	<u>Major products</u>
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

Summarized financial information concerning the industry segments and geographic areas in which the Companies operated at 31 March 2003, 2004 and 2005 for the three years then ended is shown in the following tables:

Industry Segments

	Millions of Yen									
	2003					2004				
	Paints	Other	Total	Elimination or Corporate	Consolidated	Paints	Other	Total	Elimination or Corporate	Consolidated
Net sales:										
External sales	¥ 49,537	¥ 676	¥ 50,213	-	¥ 50,213	¥ 55,084	¥ 683	¥ 55,767	-	¥ 55,767
Intersegment sales or transfer	-	391	391	¥ -391	-	-	408	408	¥ -408	-
Total	49,537	1,067	50,604	-391	50,213	55,084	1,091	56,175	-408	55,767
Operating expenses (a)	45,369	623	45,992	517	46,509	49,906	717	50,623	667	51,290
Income from operations	¥ 4,168	¥ 444	¥ 4,612	¥ -908	¥ 3,704	¥ 5,178	¥ 374	¥ 5,552	¥ -1,075	¥ 4,477
Assets (b)	¥ 51,730	¥ 8,777	¥ 60,507	¥ 5,402	¥ 65,909	¥ 52,086	¥ 8,738	¥ 60,824	¥ 7,609	¥ 68,433
Depreciation and amortization	1,091	106	1,197	84	1,281	1,081	94	1,175	54	1,229
Capital expenditure	1,521	13	1,534	24	1,558	1,105	51	1,156	14	1,170
	2005									
	Millions of Yen					Thousands of U.S. Dollars (Note 3)				
Net sales:										
External sales	¥ 62,749	¥ 640	¥ 63,389	-	¥ 63,389	\$ 584,310	\$ 5,959	\$ 590,269	-	\$ 590,269
Intersegment sales or transfer	-	383	383	¥ -383	-	-	3,566	3,566	\$ -3,566	-
Total	62,749	1,023	63,772	-383	63,389	584,310	9,525	593,835	-3,566	590,269
Operating expenses (a)	57,330	605	57,935	733	58,668	533,849	5,633	539,482	6,826	546,308
Income from operations	¥ 5,419	¥ 418	¥ 5,837	¥ -1,116	¥ 4,721	\$ 50,461	\$ 3,892	\$ 54,353	\$ -10,392	\$ 43,961
Assets (b)	¥ 61,123	¥ 8,463	¥ 69,586	¥ 7,582	¥ 77,168	\$ 569,168	\$ 78,807	\$ 647,975	\$ 70,602	\$ 718,577
Depreciation and amortization	1,148	63	1,211	54	1,265	10,690	586	11,276	503	11,779
Capital expenditure	962	9	971	33	1,004	8,958	84	9,042	307	9,349

(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 ¥907 million, ¥1,075 million and ¥1,116 million (US\$10,392 thousand) for the years ended 31 March 2003, 2004 and 2005, respectively.

(b) Corporate assets, which are included in "Elimination or Corporate" column, are comprised primarily of cash, investments in securities held by the Company and other assets held at its administration department. Balances of those assets were ¥5,498 million, ¥7,704 million and ¥7,672 million (US\$71,441 thousand) at 31 March 2003, 2004 and 2005, respectively.

(c) The Companies changed amortization method of the initial cost of business in the deferred assets for the year ended 31 March 2003. By this accounting policy change, income from operations increased by ¥18 million and assets decreased by ¥30 million, respectively, in the "Paints" industry segment, as compared with the previous method.

(d) As described in Note 2, the Company changed its accounting method of "retirement benefits to advisors and counselors" and "retirements benefits to directors and corporate auditors" for the year ended 31 March 2004. By these accounting policy changes, operating expenses increased by ¥116 million, in the "Elimination or Corporate", as compared with the previous method.

(e) As described in Note 2, the Company changed its accounting method of translation of the statements of income of its foreign consolidated subsidiaries to using the average exchange rates in effect during the respective fiscal year for the year ended 31 March 2005. By this accounting policy change, external sales and income from operations increased by ¥119 million (\$1,108 thousand) and ¥65 million (\$605 thousand), respectively, in the "Paints" industry segment, as compared with the previous method. There was no impact of this accounting policy change to the "Other" industry segment.

(f) As described in Note 12, the Company adopted "Practical Treatment for Presentation of External Standards Taxation of the Enterprise Taxes in the Statement of Income" for the year ended 31 March 2005. By this treatment, operating expenses increased by ¥72 million (\$670 thousand) and income from operations decreased by equivalent amount in the "Paints" industry segment, as compared with the previous treatment. There was no impact of this treatment to the "Other" industry segment.

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

Geographic Segments

	Millions of Yen											
	2003						2004					
	Domestic	Asia (c)	Other (d)	Total	Elimination or Corporate	Consolidated	Domestic	Asia (c)	Other (d)	Total	Elimination or Corporate	Consolidated
Net sales:												
External sales	¥ 29,651	¥ 15,135	¥ 5,427	¥ 50,213	-	¥ 50,213	¥ 31,845	¥ 18,224	¥ 5,698	¥ 55,767	-	¥ 55,767
Intersegment sales or transfer	3,232	2,534	287	6,053	¥ -6,053	-	4,160	3,034	346	7,540	¥ -7,540	-
Total	32,883	17,669	5,714	56,266	-6,053	50,213	36,005	21,258	6,044	63,307	-7,540	55,767
Operating expenses (a)	30,290	16,213	5,859	52,362	-5,853	46,509	32,958	19,334	6,488	58,780	-7,490	51,290
Income from operations	¥ 2,593	¥ 1,456	¥ -145	¥ 3,904	¥ -200	¥ 3,704	¥ 3,047	¥ 1,924	¥ -444	¥ 4,527	¥ -50	¥ 4,477
Assets (b)	¥ 49,643	¥ 21,152	¥ 5,760	¥ 76,555	¥ -10,646	¥ 65,909	¥ 49,722	¥ 20,684	¥ 6,519	¥ 76,925	¥ -8,492	¥ 68,433

  

	2005											
	Millions of Yen						Thousands of U.S. Dollars (Note 3)					
	Domestic	Asia (c)	Other (d)	Total	Elimination or Corporate	Consolidated	Domestic	Asia (c)	Other (d)	Total	Elimination or Corporate	Consolidated
Net sales:												
External sales	¥ 33,172	¥ 23,327	¥ 6,890	¥ 63,389	-	¥ 63,389	\$ 308,893	\$ 217,218	\$ 64,158	\$ 590,269	-	\$ 590,269
Intersegment sales or transfer	5,104	4,489	362	9,955	¥ -9,955	-	47,528	41,801	3,371	92,700	\$ -92,700	-
Total	38,276	27,816	7,252	73,344	-9,955	63,389	356,421	259,019	67,529	682,969	-92,700	590,269
Operating expenses (a)	35,487	25,427	7,441	68,355	-9,687	58,668	330,450	236,773	69,289	636,512	-90,204	546,308
Income from operations	¥ 2,789	¥ 2,389	¥ -189	¥ 4,989	¥ -268	¥ 4,721	\$ 25,971	\$ 22,246	\$ -1,760	\$ 46,457	\$ -2,496	\$ 43,961
Assets (b)	¥ 53,824	¥ 25,537	¥ 7,028	¥ 86,389	¥ -9,221	¥ 77,168	\$ 501,201	\$ 237,797	\$ 65,444	\$ 804,442	\$ -85,865	\$ 718,577

(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 ¥907 million, ¥1,075 million and ¥1,116 million (US\$10,392 thousand) for the years ended 31 March 2003, 2004 and 2005, respectively.

(b) Corporate assets, which are included in "Elimination or Corporate" column, are comprised primarily of cash, investments in securities held by the Company and other assets held at its administration department. Balances of those assets were ¥5,498 million, ¥7,704 million and ¥7,672 million (US\$71,441 thousand) at 31 March 2003, 2004 and 2005, respectively.

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

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

(e) The Companies changed amortization method of the initial cost of business in the deferred assets for the year ended 31 March 2003. By this accounting policy change, income from operations increased by ¥18 million and assets decreased by ¥30 million, respectively, in the "Asia" geographic segment, as compared with the previous method.

(f) As described in Note 2, the Company changed its accounting method of "retirement benefits to advisors and counselors" and "retirements benefits to directors and corporate auditors" for the year ended 31 March 2004. By these accounting policy changes, operating expenses increased by ¥116 million, in the "Elimination or Corporate", as compared with the previous method.

(g) As described in Note 2, the Company changed its accounting method of translation of the statements of income of its foreign consolidated subsidiaries to using the average exchange rates in effect during the respective fiscal year for the year ended 31 March 2005. By this accounting policy change, external sales in the "Asia" and "Other" geographic segment increased by ¥430 million (\$4,004 thousand) and decreased by ¥311 million (\$2,896 thousand), respectively, and income from operations in the "Asia" and "Other" geographic segment increased by ¥67 million (\$624 thousand) and ¥10 million (\$93 thousand), respectively, as compared with the previous method. There was no impact of this accounting policy change to the "Domestic" geographic segment.

(h) As described in Note 12, the Company adopted "Practical Treatment for Presentation of External Standards Taxation of the Enterprise Taxes in the Statement of Income" for the year ended 31 March 2005. By this treatment, operating expenses increased by ¥72 million (\$670 thousand) and income from operations decreased by equivalent amount in the "Domestic" geographic segment, as compared with the previous treatment. There was no impact of this treatment to the "Asia" and "Other" geographic segment.

# CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

Overseas and export sales for the years ended 31 March 2003, 2004 and 2005 are summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2003	2004	2005	2005
Overseas and export sales:				
Asia	¥ 15,169	¥ 18,238	¥ 23,295	\$ 216,920
Other	5,406	5,688	6,958	64,792
	<u>¥ 20,575</u>	<u>¥ 23,926</u>	<u>¥ 30,253</u>	<u>\$ 281,712</u>
Consolidated net sales	¥ 50,213	¥ 55,767	¥ 63,389	\$ 590,269
Percentage of overseas and exports sales to consolidated net sales:	<u>2003</u>	<u>2004</u>	<u>2005</u>	
Asia	30.2%	32.7%	36.7%	
Other	10.8%	10.2%	11.0%	
	<u>41.0%</u>	<u>42.9%</u>	<u>47.7%</u>	

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

As described in Note 2, the Company changed its accounting method of translation of the statements of income of its foreign consolidated subsidiaries to using the average exchange rates in effect during the respective fiscal year for the year ended 31 March 2005. By this accounting policy change, overseas and export sales increased by ¥432 million (\$4,023 thousand) in the “Asia” and decreased by ¥313 million (\$2,915 thousand) in the “Other” for the year ended 31 March 2005, as compared with the previous method.

#### 14. Supplementary cash flow information

Cash and cash equivalents at 31 March 2004 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2004	2005	2005
Cash on hand and in banks	¥ 6,884	¥ 7,943	\$ 73,964
Less, time deposits with deposit term of over three months	(796)	(33)	(307)
Cash and cash equivalents	<u>¥ 6,088</u>	<u>¥ 7,910</u>	<u>\$ 73,657</u>