

**CHUGOKU MARINE PAINTS, LTD.**

**Consolidated Financial Statements**

**for the years ended 31 March 2006, 2007 and 2008**



## Report of Independent Auditors

The Board of Directors  
CHUGOKU MARINE PAINTS, LTD.

We have audited the accompanying consolidated balance sheets of CHUGOKU MARINE PAINTS, LTD. and consolidated subsidiaries as of 31 March 2007 and 2008, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. The consolidated financial statements of CHUGOKU MARINE PAINTS, LTD. and consolidated subsidiaries for the year ended 2006 were audited by other auditors whose report dated 24 August 2006, expressed an unqualified opinion on those financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CHUGOKU MARINE PAINTS, LTD. and consolidated subsidiaries at 31 March 2007 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended 31 March 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

June 26, 2008



ERNST & YOUNG SHINNIHON

**CHUGOKU MARINE PAINTS, LTD. AND SUBDIARIES**

**Consolidated Balance Sheets**  
**31 March 2007 and 2008**

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 3)	LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2007	2008	2008		2007	2008	2008
Current Asset:				Current liabilities:			
Cash on hand and in banks (Note 16)	¥ 8,132	¥ 7,976	\$ 79,606	Short-term loans (Note 6)	¥ 27,876	¥ 25,886	\$ 258,369
Trade notes and accounts receivable:	36,198	36,538	364,691	Current portion of long-term debt (Note 6)	130	630	6,288
Less, allowance for doubtful receivables	(631)	(701)	(6,994)	Notes and accounts payable:			
	35,567	35,837	357,697	Trade	16,873	15,866	158,360
Inventories	18,259	17,719	176,858	Other	3,542	3,288	32,819
Deferred tax assets (Note 13)	862	736	7,344		20,415	19,154	191,179
Other current assets	2,173	1,299	12,961	Income taxes payable (Note 13)	1,090	1,480	14,770
				Deferred tax liabilities (Note 13)	9	4	43
				Other current liabilities	2,503	2,568	25,630
Total current assets	64,993	63,567	634,466				
				Total current liabilities	52,023	49,722	496,279
Property, plant and equipment:				Non-current liabilities:			
Buildings and structures	16,374	15,844	158,136	Long-term debt (Note 6)	3,185	2,555	25,501
Machinery, equipment and vehicles	12,576	12,527	125,037	Accrued severance indemnities (Note 7)	745	692	6,902
Tools, furniture and fixtures	3,363	3,305	32,987	Deferred tax liabilities on land revaluation (Notes 12 and 13)	3,041	3,040	30,387
	32,313	31,676	316,160	Deferred tax liabilities (Note 13)	1,604	794	7,925
Less, accumulated depreciation	(21,181)	(20,922)	(208,827)	Other liabilities	620	639	6,373
	11,132	10,754	107,333				
Land	14,592	14,538	145,110	Total non-current liabilities	9,195	7,724	77,088
Construction in progress	314	279	2,783	Total liabilities	61,218	57,446	573,367
				Commitments and contingent liabilities (Note 8 )			
Property, plant and equipment	26,038	25,571	255,226	Net assets:			
				Shareholders' equity (Note 10)			
Investments and other assets:				Common stock,			
Investments in securities (Notes 4 and 6)	9,101	7,291	72,770	Authorized: 277,630,000 shares;			
Deferred tax assets (Note 13)	450	370	3,693	Issued 69,068,822 shares at 31 March 2007 and 2008	11,626	11,626	116,040
Other assets	1,477	1,752	17,483	Capital surplus	7,785	7,786	77,710
				Retained earnings	13,754	17,764	177,309
				Common stock in treasury, at cost:			
Total investments and other assets	11,028	9,413	93,947	31 March 2007-212,942 shares	(101)	(156)	(1,559)
				31 March 2008-252,059 shares			
				Total shareholders' equity	33,064	37,020	369,500
				Valuation, translation adjustments and other			
				Revaluation gain on land (Note 12)	2,524	2,526	25,212
				Net unrealized holding gain on other securities	2,730	1,498	14,947
				Foreign currency translation adjustments	258	(2,225)	(22,207)
				Total valuation, translation adjustments and other	5,512	1,799	17,952
				Minority interests	2,265	2,286	22,820
				Total net assets	40,481	41,105	410,272
Total assets	¥ 102,059	¥ 98,551	\$ 983,639	Total liabilities and net assets	¥ 102,059	¥ 98,551	\$ 983,639

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

## CHUGOKU MARINE PAINTS, LTD. AND SUBDIARIES

### Consolidated Statements of Income For the years ended 31 March 2006, 2007 and 2008

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2006	2007	2008	2008
Net sales	¥ 67,846	¥ 88,197	¥ 104,799	\$1,046,000
Cost of sales	47,914	62,542	76,062	759,179
Gross profit	19,932	25,655	28,737	286,821
Selling, general and administrative expenses	16,300	18,397	20,605	205,654
Operating income	3,632	7,258	8,132	81,167
Other income (expenses):				
Interest and dividend income	228	263	272	2,717
Interest expense	(500)	(742)	(1,159)	(11,573)
Gain on sales of investments in securities, net	849		174	1,740
Gain (loss) on sales of property, plant and equipment, net	27	6	(11)	(110)
Loss on impairment of fixed assets (Note 14)	(21)	(11)		
Foreign currency exchange gain (loss) – net	287	81	(162)	(1,621)
Royalty income	51	72	110	1,101
Revenue from technical training	109	125	157	1,567
Write-downs of golf club memberships	(5)	-	-	-
Net provision for product warranties	(211)	-	39	392
Compensation for relocation	-	-	424	4,230
Other - net	(102)	63	60	595
Other income - net	712	(143)	(96)	(962)
Income before income taxes and minority interests	4,344	7,115	8,036	80,205
Income taxes (Note 13):				
Current	1,339	1,760	2,141	21,369
Deferred	155	75	190	1,899
	1,494	1,835	2,331	23,268
Minority interests in earnings of consolidated subsidiaries	(217)	(427)	(587)	(5,856)
Net income	¥ 2,633	¥ 4,853	¥5,118	\$ 51,081
Earnings per share :	Yen			U.S. Dollars
Net income	¥38.21	¥70.47	¥74.35	\$ 0.74
Cash dividends applicable to the year	7.50	10.00	13.00	0.13
Weighted average number of shares (in thousands)	68,893	68,870	68,832	

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

**CHUGOKU MARINE PAINTS, LTD. AND SUBDIARIES**
**Consolidated Statements of Changes in Net Assets  
For the years ended 31 March 2006, 2007 and 2008**

	Millions of Yen											
	Shareholders' equity						Valuation, translation adjustments and other					
	Number of shares of common stock issued (Thousands)	Common stock	Capital surplus	Retained earnings	Common stock in treasury, at cost	Total shareholders' equity	Revaluation gain on land	Net unrealized holding gain on other securities	Foreign currency translation adjustments	Total valuation, translation adjustment and other	Minority interest	Total net assets
Balance at March 31, 2005	69,069	¥11,626	¥7,785	¥7,355	¥(63)	¥26,703	¥3,306	¥1,546	¥(2,228)	¥2,623	¥1,347	¥30,673
Net income				2,633		2,633						2,633
Cash dividends				(517)		(517)						(517)
Bonuses to directors and corporate auditors				(40)		(40)						(40)
Acquisition of treasury stock				0		0						0
Disposition of treasury stock					(18)	(18)						(18)
Net changes in items other than shareholders' equity							(782)	1,171	1,382	1,771	359	2,130
Total changes in items during the year		-	0	2,076	(18)	2,058	(782)	1,171	1,382	1,771	359	4,189
Balance at March 31, 2006	69,069	¥11,626	¥7,785	¥9,418	¥(81)	¥28,748	¥2,523	¥2,717	¥(846)	¥4,394	¥1,706	¥34,848
Net income				4,853		4,853						4,853
Cash dividends				(516)		(516)						(516)
Acquisition of treasury stock					(21)	(21)						(21)
Disposition of treasury stock			0		1	1						1
Other				(1)		(1)						(1)
Net changes in items other than shareholders' equity							1	13	1,104	1,118	559	1,677
Total changes in items during the year			0	4,336	(20)	4,316	1	13	1,104	1,118	559	5,993
Balance at March 31, 2007	69,069	¥11,626	¥7,785	¥13,754	¥(101)	¥33,064	¥2,524	¥2,730	¥258	¥5,512	¥2,265	¥40,841
Net income				5,118		5,118						5,118
Cash dividends				(1,102)		(1,102)						(1,101)
Acquisition of treasury stock					(55)	(55)						(55)
Disposal of treasury stock			1		0	1						1
Reversal of revaluation gain on land				(6)		(6)						(6)
Net changes in items other than shareholders' equity							2	(1,232)	(2,483)	(3,713)	21	(3,693)
Total changes in items during the year			1	4,010	(55)	3,956	2	(1,232)	(2,483)	(3,713)	21	263
Balance at March 31, 2008	69,069	¥11,626	¥7,786	¥17,764	¥(156)	¥37,020	¥2,526	¥1,498	¥(2,225)	¥1,799	¥2,286	¥41,105

	Thousands of U.S. Dollars (Note 3)											
	Shareholders' equity						Valuation, translation adjustments and other					
	Number of shares of common stock issued (Thousands)	Common stock	Capital surplus	Retained earnings	Common stock in treasury, at cost	Total shareholders' equity	Revaluation gain on land	Net unrealized holding gain on other securities	Foreign currency translation adjustments	Total valuation, translation adjustment and other	Minority Interest	Total net assets
Balance at March 31, 2007	69,069	\$116,040	\$77,705	\$137,278	\$(1,010)	\$330,013	\$25,192	\$27,252	\$2,572	\$55,016	\$22,606	\$407,635
Net income				51,081		51,081						51,081
Cash dividends				(10,994)		(10,994)						(10,994)
Acquisition of treasury stock					(553)	(553)						(553)
Disposal of treasury stock			5		4	9						9
Reversal of revaluation gain on land				(56)		(56)						(56)
Net changes in items other than shareholders' equity							20	(12,305)	(24,779)	(37,064)	214	(36,850)
Total changes in items during the year			5	40,031	(549)	39,487	20	(12,305)	(24,779)	(37,064)	214	2,637
Balance at March 31, 2008	69,069	\$116,040	\$77,710	\$177,309	\$(1,559)	\$369,500	\$25,212	\$14,947	\$(22,207)	\$17,952	\$22,820	\$410,272

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

**CHUGOKU MARINE PAINTS, LTD. AND SUBDIARIES**
**Consolidated Statements of Cash Flows**  
**For the years ended 31 March 2006, 2007 and 2008**

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2006	2007	2008	2008
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 4,344	¥ 7,115	¥ 8,036	\$ 80,205
Depreciation and amortization	1,226	1,229	1,458	14,557
Loss on impairment of fixed assets	21	11		
Increase (decrease) in allowance for doubtful accounts	(243)	65	111	1,103
Increase (decrease) in accrued severance indemnities	35	27	(34)	(340)
Increase (decrease) in allowance for retirement benefits to directors and corporate auditors	104	(899)		
Interest and dividend income	(228)	(263)	(272)	(2,717)
Interest expense	500	742	1,159	11,573
Foreign currency exchange loss, net	4	3	13	125
Gain on sales of investments in securities, net	(849)		(174)	(1,740)
Write-down of golf club membership	5		6	56
Loss on sales of property, plant and equipment, net	9	78	34	338
(Increase) decrease in trade notes and accounts receivable	1,615	(10,320)	(4,600)	(45,911)
Increase in inventories	(387)	(4,575)	(976)	(9,739)
Increase (decrease) in trade notes and accounts payable	(931)	4,873	297	2,965
Increase (decrease) in outstanding discounted notes	(17)	(442)	776	7,745
Other – net	(32)	495	653	6,525
Subtotal	5,176	(1,861)	6,487	64,745
Interest and dividend income received	200	246	330	3,296
Interest expense paid	(502)	(744)	(1,153)	(11,510)
Receipt of compensation for relocation			911	9,092
Income taxes paid	(2,221)	(1,343)	(1,728)	(17,247)
Net cash provided by (used in) operating activities	2,653	(3,702)	4,847	48,376
Cash flows from investing activities:				
Increase in time deposits	(9)	(328)		
Decrease in time deposits			228	2,281
Payments for purchases of investments in securities	(20)	(98)	(307)	(3,063)
Proceeds from sales of investments in securities	1,123		206	2,057
Payments for purchases of property, plant and equipment	(2,045)	(2,631)	(2,572)	(25,673)
Proceeds from sales of property, plant and equipment	75	46	53	527
Other-net	20	56	(229)	(2,290)
Net cash used in investing activities	(856)	(2,955)	(2,621)	(26,161)
Cash flows from financing activities:				
Increase (decrease) in short-term loans	(448)	5,101	42	414
Increase in long-term debt	2,200	500		
Repayment of long-term debt	(1,630)	(630)	(130)	(1,298)
Payments for purchases of treasury stock	(19)	(21)	(55)	(553)
Proceeds from sales of treasury stock	1	1	1	9
Cash dividends	(517)	(517)	(1,100)	(10,975)
Other – net	(40)	(65)	(177)	(1,766)
Net cash provided by (used in) financing activities	(454)	4,369	(1,419)	(14,169)
Effect of exchange rate changes on cash and cash equivalents	393	394	(711)	(7,092)
Net increase (decrease) in cash and cash equivalents	1,737	(1,894)	96	954
Cash and cash equivalents at beginning of year	7,910	9,647	7,753	77,381
Increase of cash and cash equivalents resulting from a merger			10	100
Cash and cash equivalents at beginning of year (Note 16)	¥9,647	¥7,753	¥7,858	\$78,435

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

# CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

31 March 2008

### 1. Basis of presentation of consolidated financial statements

The accompanying consolidated financial statements of CHUGOKU MARINE PAINTS, LTD. (the “Company”) and consolidated subsidiaries (collectively, the “Companies”) have been prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Japanese Financial Instruments and Exchange Law.

The consolidated financial statements of the Company and consolidated subsidiaries for the year ended 31 March 2006 were audited by other auditors whose reports dated 24 August 2006 expressed an unqualified opinion on those financial statements.

Certain amounts from prior years have been reclassified to conform to the current year’s presentation.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the Company’s consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

### 2. Summary of significant accounting policies

#### (1) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Companies. As at 31 March 2006, 2007 and 2008, the Company consolidated 27 subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

The Company revalues assets and liabilities of consolidated subsidiaries at fair market value at the respective dates of acquisition of control.

Any difference between the cost of investment in a subsidiary and the amount of underlying equity in net assets (goodwill or negative goodwill) 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 purposes, the Company uses financial statements with a year end of 31 December of these subsidiaries except for Kobe Paints Co., Ltd. with necessary consolidation adjustments made to reflect any significant transactions which occurred between 1 January and 31 March.

As at 31 March 2007 and 2008, there were no unconsolidated subsidiaries or affiliates accounted for by the equity method.

# CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

31 March 2008

(2) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits withdrawable 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

The Company translates the revenue and expense accounts of the overseas consolidated subsidiaries at the average rates of exchange in effect during the year. The balance sheet accounts, except for the components of shareholders' equity, are translated into yen at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates. Differences arising from translation where two exchange rates have been used are presented under "Foreign currency translation adjustments" and "Minority interests" which are components of net assets.

Current and non-current monetary assets and liabilities denominated in foreign currencies of the Company and its domestic consolidated subsidiaries are translated into yen at the exchange rates in effect at the balance sheet date, except for those hedged by forward foreign exchange contracts which are translated at the contracted rates. All revenues and expenses are translated at the average rates of exchange during the year. Gains and losses arising from foreign exchange translation differences are credited or charged to income in the year in which they are made or incurred, except for those arising from forward foreign exchange contracts.

(4) Investments in securities

Held-to-maturity bonds are either amortized or accumulated to face value. Other securities with quoted market prices are carried at market value. The difference between the acquisition cost and the carrying value of other securities, including unrealized gain and loss, net of the applicable income taxes, is recognized as a component of net assets and is reflected as "Net unrealized holding gain on other securities". The cost of other securities sold is computed by the moving average method. Other securities without quoted market prices are stated at cost based on the moving-average method.

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

(5) Derivatives and hedge accounting

All derivatives are stated at fair value, with changes in fair value included in net income or loss for the period in which they arise unless derivative instruments are used for hedging purposes. Certain overseas subsidiaries utilize forward foreign exchange contracts to reduce the risk arising from exchange rate fluctuation in foreign-currency-denominated receivables and payables. They translate receivables and payables hedged by forward foreign exchange contracts at the corresponding forward foreign exchange contract rates if the contracts meet certain conditions.

# CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

31 March 2008

At the inception date of the forward exchange contracts, the forward foreign exchange contracts 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. As certain overseas subsidiaries deem the hedging relationship regarding exchange rate fluctuation to be highly effective, the evaluation of hedge effectiveness at the fiscal year-end is not performed.

(6) Allowance for doubtful accounts

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

(7) Inventories

Inventories are stated at cost 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

Property, plant and equipment are stated on the basis of cost. The Company calculates depreciation principally by the declining-balance method based on the estimated useful lives of the respective assets, except for buildings (exclusive of any structures attached to the buildings) acquired on or after 1 April 1998 which are depreciated by the straight-line method.

The range of estimated 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

Effective the year ended 31 March 2008, pursuant to an amendment to the Corporation Tax Law, the Company and its domestic consolidated subsidiaries have adopted the depreciation method stipulated by the amended Corporation Tax Law for the property, plant and equipment acquired on or after 1 April 2007. As a result, operating income and income before income taxes and minority interests decreased by ¥27 million (\$269 thousand), respectively, compared with the amounts under the previous method. In addition, the residual values (5% of the acquisition cost) of the property, plant and equipment acquired on or before 31 March 2007 which were fully depreciated based on the Corporation Tax Law before the amendment are depreciated equally over five years starting from the year ended 31 March 2008. As a result, operating income and income before income taxes and minority interests decreased by ¥60 million (\$599 thousand), respectively, compared with the amounts under the previous method.

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

# CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

31 March 2008

(9) Loss on impairment of fixed assets

In accordance with the accounting standard for impairment of fixed assets, the Company and its domestic consolidated subsidiaries periodically review their fixed assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company and its domestic consolidated subsidiaries recognize an impairment loss in their statement of income if certain indicators of asset impairment exist and if the book value of an asset exceeds the undiscounted sum of its future cash flows. The standard states that impairment losses should be measured as the excess of the book value over the higher of (1) the fair market value of the asset, net of disposition costs, or (2) the present value of future cash flows arising from ongoing utilization of the asset and from its disposal after use. The standard covers land, factories, buildings and other forms of property, plant and equipment as well as intangible assets. Fixed assets are to be grouped at the lowest levels for which there are identifiable cash flows which are independent of the cash flows from other groups of assets.

(10) Intangible assets

Intangible assets, included in other assets, are amortized on a straight-line basis over the period stipulated in the Corporation Tax Law of Japan, except for computer software for internal use which is amortized on a straight-line basis over its estimated useful lives (three to five years).

(11) Leases

Non-cancellable leases are primarily accounted for as operating leases (regardless of whether such leases are classified as operating or finance leases), except that leases which stipulate the transfer of ownership of the leased property to the lessee are accounted for as finance leases.

(12) Accrued bonuses

Accrued bonuses are included in other current liabilities. Certain subsidiaries provide for accrued bonuses for employees based on the amount estimated to be paid. The Companies record the directors' and corporate auditors' bonuses under selling, general and administrative expenses when incurred.

(13) 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 based on the projected benefit obligation attributed to services rendered during the year reduced by pension plan assets at fair value at the end of the 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.

# CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

31 March 2008

The net retirement benefit obligation at transition of ¥1,296 million at the date of adoption is amortized by the straight-line method over a period of 15 years. Actuarial gain or loss is amortized by the straight-line method over a period of 10 years from the year following the year in which it arises.

Accrued severance indemnities in the accompanying consolidated balance sheets included retirement benefits to advisors, counselors and directors amounting to ¥31 million and ¥40 million (\$263 thousand) at 31 March 2007 and 2008, respectively.

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

The Company had provided a reserve for directors' and corporate auditors' retirement benefits at 100% of the estimated amounts payable at the end of the fiscal year in accordance with the Company's bylaws. However, the Company abolished the retirement benefits to the directors and corporate auditors pursuant to resolutions approved at a meeting of the board of directors and corporate auditors held on 25 April 2006 and at an annual general shareholders' meeting held on 29 June 2006, for the discontinuance of payments of the retirement benefits to the directors and corporate auditors. Consequently, accrued retirement benefits to the directors and corporate auditors were fully reversed and the amount corresponding to the accrued retirement benefits recorded for the period by 29 June 2006 were included in "Other current liabilities" and "Other liabilities" in the accompanying consolidated balance sheets at 31 March 2007 and 2008.

### (15) 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 the related annual sales amount.

### (16) Income taxes

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

Deferred income taxes are determined using the asset and liability method, whereby deferred tax assets and liabilities are recognized in respect of temporary differences between the tax bases of the assets and liabilities and the amounts reported in the financial statements.

### (17) Consumption taxes

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

# CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

31 March 2008

### (18) 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 payments of dividends to shareholders of common stock to be recognized as appropriations 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.

Diluted earnings per share for the years ended 31 March 2006, 2007 and 2008 have not been presented, as the Company had no potentially dilutive shares of common stock.

Cash dividends per share presented in the accompanying consolidated statements of income are applicable to the respective years and include dividends to be paid subsequent to the end of the year. Dividends are charged to retained earnings in the year in which they are paid.

### 3. United States dollar amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥100.19 = U.S. \$1.00, the rate of exchange prevailing at 31 March 2008, 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 or any other rate.

### 4. Investments in securities

Other securities and held-to-maturity bonds at 31 March 2007 are summarized as follows:

	Millions of Yen			
	Acquisition cost	Fair value	Gross unrealized gain	Gross unrealized loss
Other Securities:				
Market value available	¥ 3,694	¥ 8,085	¥ 4,424	¥ (33)
Market value not available	1,013	1,013		
Total other securities	<u>¥ 4,707</u>	<u>¥ 9,098</u>	<u>¥ 4,424</u>	<u>¥ (33)</u>
Held-to-maturity bonds:				
Market value available	¥ 3	¥ 3	¥ 0	¥
Market value not available				
Total held-to-maturity Bonds	<u>¥ 3</u>	<u>¥ 3</u>	<u>¥ 0</u>	<u>¥</u>

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

**Notes to Consolidated Financial Statements**

**31 March 2008**

The redemption schedule for other securities with maturity dates and held-to-maturity bonds at 31 March 2007 is as follows:

	Millions of Yen	
	Other securities	Held-to-maturity securities
Due within 1 year	¥	¥
Due after 1 to 5 years		3
Due after 5 to 10 years		
	<u>¥</u>	<u>¥ 3</u>

Other securities and held-to-maturity bonds at 31 March 2008 are summarized as follows:

	Millions of Yen			
	Acquisition cost	Fair value	Gross unrealized gain	Gross unrealized loss
<b>Other Securities:</b>				
Market value available	¥ 3,787	¥ 6,119	¥ 2,415	¥ (83)
Market value not available	1,172	1,172		
Total other securities	<u>¥ 4,959</u>	<u>¥ 7,291</u>	<u>¥ 2,415</u>	<u>¥ (83)</u>
<b>Held-to-maturity bonds:</b>				
Market value available	¥ 3	¥ 3	¥ 0	¥
Market value not available				
Total held-to-maturity bonds	<u>¥ 3</u>	<u>¥ 3</u>	<u>¥ 0</u>	<u>¥</u>

	Thousands of U.S. Dollars			
	Acquisition cost	Fair value	Gross unrealized gain	Gross unrealized loss
<b>Other Securities:</b>				
Market value available	\$ 37,798	\$ 61,072	\$ 24,106	\$ (832)
Market value not available	11,698	11,698		
Total other securities	<u>\$ 49,496</u>	<u>\$ 72,770</u>	<u>\$ 24,106</u>	<u>\$ (832)</u>
<b>Held-to-maturity bonds:</b>				
Market value available	\$ 29	\$ 29	\$ 0	\$
Market value not available				
Total held-to-maturity bonds	<u>\$ 29</u>	<u>\$ 29</u>	<u>\$ 0</u>	<u>\$</u>

# CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

31 March 2008

The redemption schedule for other securities with maturity dates and held-to-maturity bonds at 31 March 2008 is as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Other securities	Held-to-maturity bonds	Other securities	Held-to-maturity bonds
Due within 1 year	¥	¥ 3	\$	\$ 29
	<u>¥</u>	<u>¥ 3</u>	<u>\$</u>	<u>\$ 29</u>

The Companies have not recorded an impairment loss for the years ended 31 March 2006, 2007 and 2008. Total sales of other securities for the years ended 31 March 2006 and 2008 amounted to ¥1,123 million and ¥206 million (\$2,057 thousand), respectively and the related net gain amounted to ¥849 million and ¥174 million (\$1,740 thousand), respectively. There was no sale of other securities during the year ended 31 March 2007.

### 5. 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**

31 March 2008

(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 2007 and 2008 is as follows:

Millions of Yen						
2007			2008			
	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total	Machinery, equipment and vehicles	Tools, furniture and fixtures	Total
Acquisition cost	¥ 23	¥ 63	¥ 86	¥ 29	¥	¥ 29
Accumulated depreciation	12	59	71	12		12
Net book value	¥ 11	¥ 4	¥ 15	¥ 17	¥	¥ 17

Thousands of U.S. Dollars		
Acquisition cost	\$ 291	\$ 291
Accumulated depreciation	121	121
Net book value	\$ 170	\$ 170

The *pro forma* acquisition cost information is calculated at an amount including the imputed interest expense portion as the balance of outstanding future lease payments was 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 subsequent to 31 March 2006, 2007 and 2008 is as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2006	2007	2008	2008
Due within one year	¥ 18	¥ 8	¥ 6	\$ 57
Due after one year	10	7	11	113
Total	¥ 28	¥ 15	¥ 17	\$ 170

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

# CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

31 March 2008

- c) Total lease payments for the years ended 31 March 2006, 2007 and 2008 were ¥19 million, ¥19 million and ¥4 million (\$41 thousand), respectively. Depreciation expense which has not been reflected in the accompanying consolidated statements of income, computed by the straight-line method over the respective lease terms with a nil residual value, would have been the same as the lease payments for the years ended 31 March 2006, 2007 and 2008.

### Operating leases

The amounts of outstanding future lease payments for operating lease transactions subsequent to 31 March 2006, 2007 and 2008 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2006	2007	2008	2008
Due within one year	¥ 77	¥ 106	¥ 93	\$ 935
Due after one year	310	275	250	2,493
<b>Total</b>	<b>¥ 387</b>	<b>¥ 381</b>	<b>¥ 343</b>	<b>\$ 3,428</b>

## 6. Short-term loans and long-term debt

Short-term loans from banks outstanding consisted primarily of six-month notes issued by the Company to banks bearing interest at the weighted average interest rate of 3.4% at 31 March 2007 and 2008. Customarily, these notes are renewed at maturity subject to re-negotiation of the interest rates and other factors.

Long-term debt at 31 March 2007 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Loans from banks and an insurance company due on varying dates through 2011 (*1)	¥ 3,315	¥ 3,185	\$ 31,789
Less, portion due within one year	(130)	(630)	(6,288)
	<b>¥ 3,185</b>	<b>¥ 2,555</b>	<b>\$ 25,501</b>

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

at 31 March 2007.....1.8 %  
at 31 March 2008.....2.1 %

# CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

31 March 2008

The aggregate annual maturities of long-term debt at 31 March 2008 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Years ending 31 March:		
2010	¥ 130	\$ 1,297
2011	1,800	17,966
2012	600	5,989
2013 and thereafter	25	249
Total	<u>¥ 2,555</u>	<u>\$ 25,501</u>

The Companies' assets amounting to ¥500 million (\$4,991 thousand) pledged as collateral for long-term debt, including the current portion of long-term debt, at 31 March 2008 are summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Investments in securities	<u>¥ 884</u>	<u>\$ 8,823</u>

### 7. Accrued severance indemnities

The funded and accrued status of the Companies' retirement benefit plans at 31 March 2007 and 2008 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Projected benefit obligations	¥ 5,720	¥ 5,201	\$ 51,912
Unrecognized net actuarial losses	(107)	(436)	(4,356)
Unrecognized net retirement benefit obligation at transition	(692)	(605)	(6,040)
Plan assets at fair value	(4,586)	(3,890)	(38,830)
Prepaid pension cost	410	422	4,216
Accrued severance indemnities	<u>¥ 745</u>	<u>¥ 692</u>	<u>\$ 6,902</u>

# CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

31 March 2008

Net periodic pension cost related to the retirement benefits for the years ended 31 March 2006, 2007 and 2008 was as follows:

	Millions of Yen			Thousands of
	2006	2007	2008	U.S. Dollars
Service cost	¥ 435	¥ 525	¥ 459	\$ 4,579
Interest cost	107	101	94	936
Expected return on plan assets	(56)	(61)	(62)	(615)
Amortization of net actuarial losses	114	82	70	695
Amortization of net retirement benefit obligation at transition	86	86	86	863
Net periodic pension cost	<u>¥ 687</u>	<u>¥ 733</u>	<u>¥ 647</u>	<u>\$ 6,458</u>

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

Assumptions used in accounting for the defined benefit plans for the years ended 31 March 2006, 2007 and 2008 are summarized as follows:

	2006	2007	2008
Discount rate	2.1%	2.1%	2.1%
Expected rate of return on plan assets	1.5%	1.5%	1.5%

### 8. Commitments and contingent liabilities

The Companies were contingently liable for outstanding discounted notes of ¥1,547 million and ¥2,324 million (\$23,192 thousand) at 31 March 2007 and 2008, respectively.

The Company provided guarantees to an intermediary trading company of ¥1,216 million and ¥1,205 million (\$12,023 thousand) for the collection of its accounts receivable from contracted sales agents/distributors at 31 March 2007 and 2008, respectively.

# CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

31 March 2008

### 9. Derivative financial instruments

#### (1) Status of transactions

##### a) Nature and purpose of transactions

The Companies enter into forward foreign exchange contracts to reduce the risk arising from exchange rate fluctuation in sales to and purchases from other countries denominated in foreign currencies conducted in the ordinary course of operations.

##### b) Policy for utilization of transactions

The Companies utilize foreign-currency-related derivative financial instruments within limits not exceeding the amounts of receivables and payables denominated in foreign currencies and contracted sales or purchase amounts and do not use them for speculative purposes.

##### c) Transaction risk

Counterparties, with whom 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 the counterparties.

##### d) Risk management

Derivative transactions are executed and managed centrally by the Financing Group of the Tokyo Administration Department based on the concept of segregation of duties.

##### e) Other

The contract or notional amount shown in the “Summary of transactions” below is not indicative of the quantity of market risk.

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

**Notes to Consolidated Financial Statements**

**31 March 2008**

(2) Summary of transactions

The contract or notional amount and fair value of, and valuation gain or loss on, outstanding derivative positions at 31 March 2007 and 2008 are summarized as follows:

	Millions of Yen					
	2007			2008		
	Contract or notional amount	Fair value	Valuation gain (loss)	Contract or notional amount	Fair Value	Valuation Gain (loss)
Forward foreign exchange contracts:						
Short-term:						
Sell USD and buy JPY	¥ 335	¥ 342	¥ (7)	¥ 404	¥ 408	¥ (4)
Sell USD and buy EUR	336	326	10			
Sell SGD and buy EUR	77	78	(1)			
Sell JPY and buy EUR	88	85	3			
Sell GBP and buy EUR	56	58	(2)			
Long-term:						
Buy USD and sell EUR	269	272	3	85	85	0
Buy JPY and sell EUR				102	100	(2)
Buy GBP and sell EUR				60	57	(3)
Buy USD and sell MYR	97	98	1			
Total			¥ 2			¥ (9)

	Thousands of U.S. Dollars					
Forward foreign exchange contracts:						
Short-term:						
Sell USD and buy JPY				\$ 4,034	\$ 4,077	\$ (43)
Long-term:						
Buy USD and sell EUR				849	848	(1)
Buy JPY and sell EUR				1,019	1,001	(18)
Buy GBP and sell EUR				599	565	(34)
Total						\$ (96)

The fair value has been quoted from financial institutions with which the Companies enter into forward foreign exchange contracts.

Derivative financial instruments which qualify for hedge accounting are excluded from the above disclosure in accordance with “Accounting Standard for Foreign Currency Transactions and Financial Statements”.

# CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

31 March 2008

### 10. Shareholders' equity

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on 1 May 2006. The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the board of directors if certain conditions are met. Under the Law, upon the issuance and sale of new shares of common stock, the entire amount of the proceeds is required to be accounted for as common stock, but a company, by resolution of the board of directors, may account for an amount not exceeding one-half of the proceeds of the sale of new shares as additional paid-in capital included in capital surplus.

### 11. Cash dividends

#### (1) Dividends from retained earnings

The following appropriation of retained earnings applicable to the year ended 31 March 2008 was approved at a shareholders' meeting held on 28 June 2007:

- (1) Total amount of dividends: ¥689 million
- (2) Source of dividends: Retained earnings
- (3) Dividends per share: ¥10.00
- (4) Record date: 31 March 2007
- (5) Effective date: 29 June 2007

The following appropriation of retained earnings applicable to the year ended 31 March 2008 was resolved by the board of directors on 31 October 2007:

- (1) Total amount of dividends: ¥413 million
- (2) Source of dividends: Retained earnings
- (3) Dividends per share: ¥6.00
- (4) Record date: 30 September 2007
- (5) Effective date: 4 December 2007

#### (2) Dividends whose effective date is after the end of the current fiscal year and whose record date is in the current fiscal year

The following appropriation of retained earnings which has not been reflected in the accompanying consolidated financial statements for the year ended 31 March 2008 was approved at a shareholders' meeting held on 26 June 2008:

# CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

31 March 2008

- (1) Total amount of dividends: ¥482 million
- (2) Source of dividends: Retained earnings
- (3) Dividends per share: ¥7.00
- (4) Record date: 31 March 2008
- (5) Effective date: 27 June 2008

### 12. Revaluation of land

Effective 31 March 2000, the Company revalued its land used for operations in accordance with the Law Concerning the Revaluation of Land (Law No. 34 promulgated on 31 March 1998 which was partially amended on 31 March 1999).

The tax effect of the revaluation difference is recorded as “Deferred tax liabilities on revaluation of land” under non-current liabilities and the revaluation gain, net of taxes, is reported as a component of valuation, translation adjustments and other under net assets. The fair value of the revalued land at 31 March 2007 and 2008 was lower than the carrying amount of such land after revaluation by ¥5,954 million and ¥5,772 million (\$57,611 thousand), respectively.

Two overseas subsidiaries revalued their land in accordance with the applicable local regulations and accounting standards. The revaluations resulted in gain and the related tax effects of ¥17 million and ¥18 million (\$176 thousand) were included in “Deferred tax liabilities on revaluation of land” under non-current liabilities, and ¥7 million and ¥7 million (\$74 thousand) were included in “Minority interests” and the remaining after-tax amounts of ¥47 million and ¥47 million (\$472 thousand) were included in “Revaluation gain on land” under net assets at 31 March 2007 and 2008, respectively.

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

**Notes to Consolidated Financial Statements**

31 March 2008

**13. Income taxes**

The Companies are subject to several taxes based on income, which in the aggregate, resulted in a statutory tax rate of approximately 40.5% for the years ended 31 March 2006, 2007 and 2008.

Significant components of deferred tax assets and liabilities at 31 March 2007 and 2008 were as follows:

	Millions of Yen		Thousands of
	2007	2008	U.S. Dollars
Deferred tax assets:			
Excess provision for accrued severance			
Indemnities	¥ 244	¥ 232	\$ 2,312
Accrued directors' and corporate auditors' retirement benefits	226	140	1,400
Write-downs of investments in securities	161	167	1,664
Write-downs of golf membership and excess provision for allowance for doubtful accounts	36	36	359
Accrued bonuses	263	268	2,674
Accrued enterprise tax	78	101	1,012
Foreign tax credit	21	18	176
Tax loss carryforwards	100	85	850
Others	651	488	4,872
Gross deferred tax assets	<u>1,780</u>	<u>1,535</u>	<u>15,318</u>
Less, valuation allowance	<u>(166)</u>	<u>(171)</u>	<u>(1,707)</u>
Total deferred tax assets	<u>1,614</u>	<u>1,364</u>	<u>13,611</u>
Deferred tax liabilities:			
Net unrealized gain on securities	(1,661)	(834)	(8,327)
Prepaid pension cost	(166)	(171)	(1,707)
Others	(67)	(51)	(507)
Total deferred tax liabilities	<u>(1,853)</u>	<u>(1,056)</u>	<u>(10,542)</u>
Net deferred tax assets (liabilities)	<u>¥ (234)</u>	<u>¥ 308</u>	<u>\$ 3,069</u>

# CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

31 March 2008

A reconciliation of the statutory tax rate to the effective tax rates for the years ended 31 March 2006, 2007 and 2008 is as follows:

	2006	2007	2008
Statutory tax rate	40.5%	40.5%	40.5%
Increase (decrease) in taxes resulting from:			
Difference in statutory tax rates between parent and subsidiaries	(16.3)	(27.0)	(26.9)
Entertainment and other non-deductible expenses	1.7	3.4	3.0
Dividend income and other non-taxable amounts	(2.4)	(1.8)	(1.5)
Dividends from retained earnings	17.8	14.6	20.4
Decrease in valuation allowance of deferred tax assets	0.1	0.2	0.2
Income tax refund	(3.9)	-	(1.9)
Prior year's income taxes	-	-	2.2
Special tax credit for research and development, etc.	(2.9)	(0.1)	(1.8)
Foreign tax credit	(2.6)	(4.2)	(4.2)
Others	2.4	0.2	(1.0)
Effective tax rates	34.4%	25.8%	29.0%

#### 14. Loss on impairment of fixed assets

The Companies review their fixed assets for impairment by grouping their operating assets by management accounting unit and grouping their rental assets and idle assets by individual unit. The Companies recognized the following loss on impairment of fixed assets for the year ended 31 March 2007:

<u>Use</u>	<u>Item</u>	<u>Location</u>
Idle properties	Machinery, etc.	Hiroshima

The above asset is a private electricity generator. This generator was utilized during the previous fiscal year, but its use was halted because of an increase in the costs of operation and maintenance during the year. As a result, this generator was deemed to be obsolete and a recovery of its fair value to book value was not deemed probable. Consequently, the Companies recognized loss on impairment of fixed assets.

The components of the loss on impairment recognized in the accompanying consolidated statement of income for the years ended 31 March 2007 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Property, plant and equipment	¥ 11	¥	\$

# CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

## Notes to Consolidated Financial Statements

31 March 2008

### 15. Segment information

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

The Company classifies its business into two segments: “Paints” (selling paints, contract painting works and painting technical assistance) and “Other”. This segmentation is based on similarities in terms of the type, nature and selling methods of the products and the like. Geographical segments are based on geographical proximity.

Major products of each business segment are summarized as follows:

<u>Business 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 services, building security services

CHUGOKU MARINE PAINTS, LTD. AND CONSOLIDATED SUBSIDIARIES

Notes to Consolidated Financial Statements  
31 March 2008

Summarized financial information concerning the business and geographic segments in which the Companies operated for the years ended 31 March 2006, 2007 and 2008 is presented in the following tables:

Business segments

	Millions of Yen									
	2006					2007				
	Paints	Other	Total	Eliminations or corporate	Consolidated	Paints	Other	Total	Eliminations or corporate	Consolidated
Net sales										
External sales	¥67,166	¥680	¥67,846	¥	¥67,846	¥87,534	¥633	¥88,197	¥	¥88,197
Intersegment sales or transfers		396	396	(396)			396	396	(396)	
Total	67,166	1,076	68,242	(396)	67,846	87,534	1,059	88,593	(396)	88,197
Operating expenses (a)	62,750	689	63,439	775	64,214	79,482	694	80,176	763	80,939
Operating income	¥4,416	¥387	¥4,803	¥(1,171)	¥3,632	¥8,052	¥365	¥8,417	¥(1,159)	¥7,258
Total assets (b)	¥69,992	¥6,388	¥76,380	¥7,336	¥83,716	¥90,461	¥6,354	¥96,815	¥5,243	¥102,059
Depreciation and amortization	1,135	57	1,192	1,192	1,226	1,137	64	1,201	32	1,233
Capital expenditure	2,028	17	2,045	2,045	2,050	2,582	13	2,595	77	2,672
	2008									
	Millions of Yen					Thousands of U.S. Dollars				
	Paints	Other	Total	Eliminations or corporate	Consolidated	Paints	Other	Total	Eliminations or corporate	Consolidated
Net sales										
External sales	¥104,208	¥591	¥104,799	¥	¥104,799	\$1,040,107	\$5,893	\$1,046,000	\$	\$1,046,000
Intersegment sales or transfers		397	397	(397)			3,963	3,963	(3,963)	
Total	104,208	988	105,196	(397)	104,799	1,040,107	9,856	1,049,963	(3,963)	1,046,000
Operating expenses (a)	95,014	650	95,664	1,003	96,667	948,339	6,486	954,825	10,008	964,833
Operating income	¥9,194	¥338	¥9,532	¥(1,400)	¥8,132	\$91,768	\$3,370	\$95,138	\$(13,971)	\$81,167
Total assets (b)	¥86,599	¥6,316	¥92,915	¥5,636	¥98,551	\$864,347	\$63,044	\$927,391	\$56,248	\$983,639
Depreciation and amortization	1,359	54	1,413	45	1,458	13,568	538	14,106	451	14,557
Capital expenditure	2,352	12	2,364	238	2,602	23,472	126	23,598	2,373	25,971

(a) Expenses which are not attributable to any business segments represent primarily expenses incurred at the Company's administration department and included in "Elimination or Corporate" column. Such expenses amounted to ¥1,172 million, ¥1,159 million and ¥1,400 million (\$13,971 thousand) for the years ended 31 March 2006, 2007 and 2008, 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. The balances of those assets were ¥7,379 million, ¥5,281 million and ¥5,653 million (\$56,248 thousand) at 31 March 2006, 2007 and 2008, respectively.

(c) As described in Note 2(8), effective the year ended 31 March 2008, the Company and its domestic consolidated subsidiaries changed their depreciation method for property, plant and equipment acquired on or after 1 April 2007 as stipulated by the amended Corporation Tax Law. As a result, operating expenses of "Domestic" segment increased by ¥27 million and accordingly, operating income decreased by the same amount, compared with the amount under the previous method. In addition, the residual values (5% of the acquisition cost) of the property, plant and equipment acquired on or before 31 March 2007 which were fully depreciated based on the Corporation Tax Law before the amendment are depreciated equally over five years starting from the year ended 31 March 2008. As a result, operating expenses

of “Domestic” segment increased by ¥60 million and accordingly, operating income decreased by the same amount, compared with the amounts under the previous method.

### Geographical segments

	Millions of Yen											
	2006						2007					
	Domestic	Asia (c)	Other (d)	Total	Eliminations or corporate	Consolidated	Domestic	Asia (c)	Other (d)	Total	Eliminations or corporate	Consolidated
Net sales												
External sales	¥34,475	¥26,929	¥6,442	¥67,846	¥	¥67,846	¥35,334	¥43,744	¥9,119	¥88,197	¥	¥88,197
Intersegment sales or transfers	4,894	4,639	491	10,024	(10,024)		6,945	6,554	677	14,177	(14,177)	
Total	39,369	31,568	6,933	77,870	(10,024)	67,846	42,279	50,298	9,796	102,374	(14,177)	88,197
Operating expenses (a)	37,315	29,616	7,455	74,386	(10,172)	64,214	40,898	44,528	10,390	95,816	(14,877)	80,939
Operating income	¥2,054	¥1,952	¥(522)	¥3,484	¥ 148	¥3,632	¥1,381	¥5,770	¥(594)	¥6,558	¥ 700	¥7,258
Total assets (b)	¥57,351	¥29,984	¥6,749	¥94,084	¥7,336	¥83,716	¥62,749	¥46,264	¥9,005	¥118,018	¥(15,959)	¥102,059
	2008											
	Millions of Yen						Thousands of U.S. Dollars					
	Domestic	Asia (c)	Other (d)	Total	Eliminations or corporate	Consolidated	Domestic	Asia (c)	Other (d)	Total	Eliminations or corporate	Consolidated
Net sales												
External sales	¥39,623	¥54,021	¥11,155	¥104,799	¥	¥104,799	\$395,475	\$539,188	\$111,337	\$1,046,000	\$	\$1,046,000
Intersegment sales or transfers	7,211	7,558	960	15,729	(15,729)		71,972	75,436	9,582	156,990	(156,990)	
Total	46,834	61,579	12,115	120,528	(15,729)	104,799	467,447	614,624	120,919	1,202,990	(156,990)	1,046,000
Operating expenses (a)	44,843	55,869	12,404	113,116	(16,449)	96,667	447,581	557,629	123,804	1,129,014	(164,181)	964,833
Operating income	¥1,991	¥5,710	¥(289)	¥7,412	¥ 720	¥8,132	\$19,866	\$6,995	\$(2,885)	\$73,976	\$ 7,191	\$81,167
Total assets (b)	¥61,709	¥43,970	¥8,901	¥114,580	¥(16,029)	¥98,551	\$615,920	\$468,865	\$88,837	\$1,143,622	\$(159,983)	\$983,639

- (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 ¥1,172 million, ¥1,159 million and ¥1,400 million (\$13,971 thousand) for the years ended 31 March 2006, 2007 and 2008, 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 ¥7,379 million, ¥5,281 million and ¥5,635 million (\$56,248 thousand) at 31 March 2006, 2007 and 2008, respectively.
- (c) Primarily included are China, Singapore, Hong Kong, Korea, Taiwan, Thailand, Malaysia and Indonesia.
- (d) Primarily included are the Netherlands, U.S.A. and U.K.
- (e) As described in Note 2(8), effective the year ended 31 March 2008, the Company and its domestic consolidated subsidiaries changed their depreciation method for property, plant and equipment acquired on or after 1 April 2007 as stipulated by the amended Corporation Tax Law. As a result, operating expenses of “Domestic” segment increased by ¥27 million and accordingly, operating income decreased by the same amount, compared with the amount under the previous method. In addition, the residual values (5% of the acquisition cost) of the property, plant and equipment acquired on or before 31 March 2007 which were fully depreciated based on the Corporation Tax Law before the amendment are depreciated equally over five years starting from the year ended 31 March 2008.

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

**Notes to Consolidated Financial Statements**

31 March 2008

Overseas and export sales for the years ended 31 March 2006, 2007 and 2008 are summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2006	2007	2008	2008
Overseas and export sales:				
Asia	¥ 26,918	¥ 43,695	¥ 53,965	\$ 538,627
Other	6,509	9,166	11,223	112,020
	<u>¥ 33,427</u>	<u>¥ 52,861</u>	<u>¥ 65,188</u>	<u>\$ 650,647</u>
Consolidated net sales	¥ ¥67,846	¥ 88,197	¥ 104,799	\$ 1,046,000
Percentage of overseas and exports sales to consolidated net sales:				
Asia	39.7%	49.5%	51.5%	
Other	9.6%	10.4%	10.7%	
	<u>49.3%</u>	<u>59.9%</u>	<u>62.2%</u>	

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

**16. Supplementary cash flow information**

Cash and cash equivalents at 31 March 2007 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2007	2008	2008
Cash on hand and in banks	¥ 8,132	¥ 7,976	\$ 79,606
Less, time deposits with deposit term of over three months	(379)	(118)	(1,171)
Cash and cash equivalents	<u>¥ 7,753</u>	<u>¥ 7,858</u>	<u>\$ 78,435</u>