

CHUGOKU MARINE PAINTS, LTD.

Consolidated Financial Statements

for the years ended March 31, 2011, 2010 and 2009



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 March 31, 2011 and 2010, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended and consolidated statement of comprehensive income for the year ended March 31, 2011, 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.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of CHUGOKU MARINE PAINTS, LTD. and consolidated subsidiaries at March 31, 2011 and 2010, 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 March 31, 2011 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.

Ernst & Young Shinohara LLC

June 28, 2011

CHUGOKU MARINE PAINTS, LTD. AND SUBSIDIARIES

Consolidated Balance Sheets March 31, 2011 and 2010

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	<u>2011</u>	<u>2010</u>	<u>2011</u>
Current Assets:			
Cash on hand and in banks (Notes 17 and 19)	¥ 12,413	¥ 14,767	\$ 149,281
Trade notes and accounts receivable (Note 19)	41,758	35,302	502,203
Less, allowance for doubtful accounts	(789)	(952)	(9,490)
	<u>40,969</u>	<u>34,350</u>	<u>492,713</u>
Short-term investment securities (Notes 16 and 19)	608	399	7,308
Inventories (Note 4)	14,157	12,831	170,259
Deferred tax assets (Note 11)	826	1,024	9,938
Other current assets	<u>1,097</u>	<u>697</u>	<u>13,195</u>
Total current assets	<u>70,070</u>	<u>64,068</u>	<u>842,694</u>
Property, plant and equipment:			
Buildings and structures	14,807	14,296	178,078
Machinery, equipment and vehicles	12,351	11,696	148,536
Tools, furniture and fixtures	<u>3,396</u>	<u>3,360</u>	<u>40,848</u>
	30,554	29,352	367,462
Less, accumulated depreciation	<u>(20,318)</u>	<u>(19,734)</u>	<u>(244,349)</u>
	10,236	9,618	123,113
Land	13,132	13,164	157,929
Construction in progress	<u>116</u>	<u>1,613</u>	<u>1,393</u>
Total property, plant and equipment	<u>23,484</u>	<u>24,395</u>	<u>282,435</u>
Investments and other assets:			
Investment securities (Notes 5, 16 and 19)	4,709	5,824	56,628
Deferred tax assets (Note 11)	454	268	5,460
Other assets (Note 13)	<u>1,588</u>	<u>1,791</u>	<u>19,102</u>
Total investments and other assets	<u>6,751</u>	<u>7,883</u>	<u>81,190</u>
Total assets	<u>¥ 100,305</u>	<u>¥ 96,346</u>	<u>\$1,206,319</u>

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

CHUGOKU MARINE PAINTS, LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2011 and 2010

LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	<u>2011</u>	<u>2010</u>	<u>2011</u>
Current liabilities:			
Short-term borrowings (Notes 6 and 19)	¥ 19,530	¥ 20,660	\$ 234,876
Current portion of long-term debt (Note 6)	1,148	1,820	13,804
Notes and accounts payable:			
Trade (Note 19)	17,369	12,976	208,886
Other	3,097	2,591	37,247
	<u>20,466</u>	<u>15,567</u>	<u>246,133</u>
Income taxes payable (Note 11)	1,226	2,894	14,740
Other current liabilities	2,775	3,184	33,384
Total current liabilities	<u>45,145</u>	<u>44,125</u>	<u>542,937</u>
Non-current liabilities:			
Long-term debt (Note 6)	1,920	1,182	23,094
Accrued retirement benefits (Note 7)	604	597	7,267
Deferred tax liabilities on land revaluation (Note 11)	3,027	3,027	36,402
Deferred tax liabilities (Note 11)	33	181	397
Other liabilities	702	696	8,436
Total non-current liabilities	<u>6,286</u>	<u>5,683</u>	<u>75,596</u>
Total liabilities	<u>51,431</u>	<u>49,808</u>	<u>618,533</u>
Net assets (Note 8):			
Shareholders' equity			
Common stock	11,626	11,626	139,821
Capital surplus	7,784	7,784	93,612
Retained earnings	30,548	25,740	367,380
Treasury stock, at cost	(202)	(195)	(2,420)
Total shareholders' equity	<u>49,756</u>	<u>44,955</u>	<u>598,393</u>
Accumulated other comprehensive income:			
Net unrealized holding gain (loss) on other securities	47	535	575
Revaluation gain on land	3,169	3,169	38,109
Foreign currency translation adjustments	(7,228)	(5,170)	(86,929)
Total accumulated other comprehensive income	<u>(4,012)</u>	<u>(1,466)</u>	<u>(48,245)</u>
Minority interests	<u>3,130</u>	<u>3,049</u>	<u>37,638</u>
Total net assets	<u>48,874</u>	<u>46,538</u>	<u>587,786</u>
Commitments and contingent liabilities (Note 14)			
Total liabilities and net assets	<u>¥ 100,305</u>	<u>¥ 96,346</u>	<u>\$ 1,206,319</u>

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

CHUGOKU MARINE PAINTS, LTD. AND SUBSIDIARIES

Consolidated Statements of Income

For the years ended March 31, 2011, 2010 and 2009

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2011</u>
Net sales	¥ 96,596	¥ 86,810	¥ 103,623	\$1,161,708
Cost of sales (Note 4)	<u>67,752</u>	<u>56,834</u>	<u>74,551</u>	<u>814,814</u>
Gross profit	28,844	29,976	29,072	346,894
Selling, general and administrative expenses (Note 9)	<u>20,021</u>	<u>19,981</u>	<u>20,642</u>	<u>240,779</u>
Operating income	<u>8,823</u>	<u>9,995</u>	<u>8,430</u>	<u>106,115</u>
Non-operating income (expenses):				
Interest and dividend income	239	179	254	2,872
Interest expense	(268)	(351)	(775)	(3,221)
Foreign currency exchange loss, net	(69)	(30)	(431)	(830)
Royalty income	76	74	116	916
Revenue from technical training	138	140	125	1,655
Other, net	<u>175</u>	<u>261</u>	<u>181</u>	<u>2,104</u>
Non-operating income (expenses), net	<u>291</u>	<u>273</u>	<u>(530)</u>	<u>3,496</u>
Ordinary income	9,114	10,268	7,900	109,611
Special gains (losses), net (Note 10)	<u>(86)</u>	<u>(129)</u>	<u>(153)</u>	<u>(1,040)</u>
Income before income taxes and minority interests	<u>9,028</u>	<u>10,139</u>	<u>7,747</u>	<u>108,571</u>
Income taxes (Note 11):				
Current	2,597	4,061	2,116	31,233
Deferred	<u>110</u>	<u>(246)</u>	<u>(119)</u>	<u>1,321</u>
	2,707	3,815	1,997	32,554
Income before minority interests	<u>6,321</u>	<u>—</u>	<u>—</u>	<u>76,017</u>
Minority interests	<u>619</u>	<u>901</u>	<u>718</u>	<u>7,446</u>
Net income (Note 15)	<u>¥ 5,702</u>	<u>¥ 5,423</u>	<u>¥ 5,032</u>	<u>\$ 68,571</u>

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

CHUGOKU MARINE PAINTS, LTD. AND SUBSIDIARIES

Consolidated Statement of Comprehensive Income For the year ended March 31, 2011

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars (Note 3)</u>
	<u>2011</u>	<u>2011</u>
Income before minority interests	¥ 6,321	\$ 76,017
Other comprehensive income (Note 20):		
Net unrealized holding gain (loss) on other securities	(488)	(5,862)
Foreign currency translation adjustments	<u>(2,280)</u>	<u>(27,422)</u>
Total other comprehensive income	<u>(2,768)</u>	<u>(33,284)</u>
Comprehensive income	<u>¥ 3,553</u>	<u>\$ 42,733</u>
Total comprehensive income attributable to (Note 20):		
Shareholders of CHUGOKU MARINE PAINTS, LTD.	¥ 3,156	\$ 37,961
Minority interests	397	4,772

CHUGOKU MARINE PAINTS, LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets For the years ended March 31, 2011, 2010 and 2009

	Millions of Yen					
	Number of shares of common stock issued (Thousands)	Shareholders' equity				Total shareholders' equity
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	
Balance as of March 31, 2008	69,069	¥ 11,626	¥ 7,786	¥ 17,764	¥ (156)	¥ 37,020
Net income			5,032			5,032
Cash dividends			(895)			(895)
Acquisition of treasury stock				(42)		(42)
Disposal of treasury stock			(2)	10		8
Reversal of revaluation gain on land			(690)			(690)
Net changes in items other than shareholders' equity						
Total changes in items during the year		-	(2)	3,447	(32)	3,413
Balance as of March 31, 2009	69,069	¥ 11,626	¥ 7,784	¥ 21,211	¥ (188)	¥ 40,433
Net income			5,423			5,423
Cash dividends			(894)			(894)
Acquisition of treasury stock				(7)		(7)
Disposal of treasury stock			0	0		0
Net changes in items other than shareholders' equity						
Total changes in items during the year		-	0	4,529	(7)	4,522
Balance as of March 31, 2010	69,069	¥ 11,626	¥ 7,784	¥ 25,740	¥ (195)	¥ 44,955
Net income			5,702			5,702
Cash dividends			(894)			(894)
Acquisition of treasury stock				(7)		(7)
Net changes in items other than shareholders' equity						
Total changes in items during the year		-	-	4,808	(7)	4,801
Balance as of March 31, 2011	69,069	¥ 11,626	¥ 7,784	¥ 30,548	¥ (202)	¥ 49,756

	Accumulated other comprehensive income					
	Net unrealized holding gain (loss) on other securities	Revaluation gain on land	Foreign currency translation adjustments	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance as of March 31, 2008	¥ 1,498	¥ 2,526	¥ (2,225)	¥ 1,799	¥ 2,286	¥ 41,105
Net income						5,032
Cash dividends						(895)
Acquisition of treasury stock						(42)
Disposal of treasury stock						8
Reversal of revaluation gain on land						(690)
Net changes in items other than shareholders' equity	(1,513)	643	(3,510)	(4,380)	(124)	(4,504)
Total changes in items during the year	(1,513)	643	(3,510)	(4,380)	(124)	(1,091)
Balance as of March 31, 2009	¥ (15)	¥ 3,169	¥ (5,735)	¥ (2,581)	¥ 2,162	¥ 40,014
Net income						5,423
Cash dividends						(894)
Acquisition of treasury stock						(7)
Disposal of treasury stock						0
Net changes in items other than shareholders' equity	550		565	1,115	887	2,002
Total changes in items during the year	550	-	565	1,115	887	6,524
Balance as of March 31, 2010	¥ 535	¥ 3,169	¥ (5,170)	¥ (1,466)	¥ 3,049	¥ 46,538
Net income						5,702
Cash dividends						(894)
Acquisition of treasury stock						(7)
Net changes in items other than shareholders' equity	(488)		(2,058)	(2,546)	81	(2,465)
Total changes in items during the year	(488)	-	(2,058)	(2,546)	81	2,336
Balance as of March 31, 2011	¥ 47	¥ 3,169	¥ (7,228)	¥ (4,012)	¥ 3,130	¥ 48,874

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

CHUGOKU MARINE PAINTS, LTD. AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets For the years ended March 31, 2011, 2010 and 2009

	Thousands of U.S. Dollars (Note 3)					
	Shareholders' equity					
	Number of shares of common stock issued (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance as of March 31, 2010	69,069	\$ 139,821	\$ 93,612	\$ 309,558	\$ (2,342)	\$ 540,649
Net income				68,571		68,571
Cash dividends				(10,749)		(10,749)
Acquisition of treasury stock					(78)	(78)
Net changes in items other than shareholders' equity						
Total changes in items during the year		—	—	57,822	(78)	57,744
Balance as of March 31, 2011	69,069	\$ 139,821	\$ 93,612	\$367,380	\$ (2,420)	\$598,393
	Accumulated other comprehensive income					
	Net unrealized holding gain (loss) on other securities	Revaluation gain on land	Foreign currency translation adjustments	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance as of March 31, 2010	\$ 6,437	\$ 38,109	\$ (62,182)	\$ (17,636)	\$ 36,677	\$ 559,690
Net income						68,571
Cash dividends						(10,749)
Acquisition of treasury stock						(78)
Net changes in items other than shareholders' equity	(5,862)		(24,747)	(30,609)	961	(29,648)
Total changes in items during the year	(5,862)	—	(24,747)	(30,609)	961	28,096
Balance as of March 31, 2011	\$575	\$ 38,109	\$ (86,929)	\$ (48,245)	\$37,638	\$587,786

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

CHUGOKU MARINE PAINTS, LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows For the years ended March 31, 2011, 2010 and 2009

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2011	2010	2009	2011
Cash flows from operating activities:				
Income before income taxes and minority interests	¥ 9,028	¥ 10,139	¥ 7,747	\$ 108,571
Depreciation and amortization	1,681	1,606	1,556	20,213
(Decrease) increase in allowance for doubtful accounts	(89)	318	49	(1,073)
Increase (decrease) in accrued retirement benefits	17	(72)	12	201
Interest and dividend income	(239)	(179)	(254)	(2,872)
Interest expense	268	351	775	3,221
Foreign currency exchange loss (gain), net	87	(5)	(10)	1,049
Gain on sales of investment securities, net	(112)	(0)	(0)	(1,349)
Write-down of membership	–	7	14	–
Loss on sales of property, plant and equipment, net	31	14	23	377
(Decrease) increase in trade notes and accounts receivable	(8,683)	2,826	(3,083)	(104,430)
(Decrease) increase in inventories	(2,184)	3,502	(310)	(26,265)
Increase (decrease) in trade notes and accounts payable	5,158	(656)	111	62,029
(Decrease) increase in outstanding discounted notes	–	(2,517)	193	–
Other, net	742	1,119	433	8,940
Subtotal	5,705	16,453	7,256	68,612
Interest and dividend income received	238	179	254	2,864
Interest expense paid	(272)	(360)	(783)	(3,278)
Income taxes paid	(4,418)	(1,982)	(2,653)	(53,133)
Net cash provided by operating activities	1,253	14,290	4,074	15,065
Cash flows from investing activities:				
Increase in time deposits	(3,521)	(648)	(32)	(42,340)
Decrease in time deposits	3,120	87	102	37,527
Payments for purchases of investment securities	(22)	(110)	(19)	(263)
Proceeds from sales of investment securities	230	2	3	2,768
Net (decrease) increase in short-term investment securities	(249)	–	–	(2,998)
Payments for purchases of property, plant and equipment	(1,342)	(2,176)	(3,009)	(16,135)
Proceeds from sales of property, plant and equipment	8	44	1,647	101
Other, net	7	(4)	(326)	71
Net cash used in investing activities	¥(1,769)	¥ (2,805)	¥ (1,634)	\$ (21,269)

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

CHUGOKU MARINE PAINTS, LTD. AND SUBSIDIARIES

Consolidated Statements of Cash Flows For the years ended March 31, 2011, 2010 and 2009

	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2011</u>
Cash flows from financing activities:				
(Decrease) increase in short-term borrowings, net	¥ (472)	¥ (4,504)	¥ 423	\$ (5,672)
Increase in long-term debt	1,900	–	100	22,850
Repayment of long-term debt	(1,834)	(150)	(133)	(22,054)
Payments for purchases of treasury stock	(7)	(8)	(42)	(78)
Proceeds from sales of treasury stock	–	0	8	–
Cash dividends	(894)	(892)	(893)	(10,749)
Other, net	(364)	(237)	(174)	(4,393)
Net cash used in financing activities	<u>(1,671)</u>	<u>(5,791)</u>	<u>(711)</u>	<u>(20,096)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(535)</u>	<u>261</u>	<u>(995)</u>	<u>(6,436)</u>
Net (decrease) increase in cash and cash equivalents	<u>(2,722)</u>	<u>5,955</u>	<u>734</u>	<u>(32,736)</u>
Cash and cash equivalents at beginning of the year	<u>14,547</u>	<u>8,592</u>	<u>7,858</u>	<u>174,952</u>
Cash and cash equivalents at end of the year (Note 17)	<u>¥ 11,825</u>	<u>¥ 14,547</u>	<u>¥ 8,592</u>	<u>\$ 142,216</u>

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

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

1. Summary of Significant Accounting Policies

a. Basis of presentation

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 Financial Instruments and Exchange Law of Japan.

Japanese accounting standards does not require retroactive adjustments on the financial statements but require to disclose the amounts of impact on net income where the Company adopted the new accounting standards. Such impacts are disclosed in Note 2.

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.

b. Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Companies. As of March 31, 2011 and 2010, the Company consolidated 25 and 25 subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

Any difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets (goodwill) is treated as an asset, and amortized on a straight-line basis over a period of five years.

The fiscal year-ends of consolidated subsidiaries are December 31, except for Kobe Paints, Ltd., whose year-end is March 31. For consolidation purposes, the Company uses financial statements with a year end of December 31 of these subsidiaries except for Kobe Paints, Ltd. with necessary consolidation adjustments made to reflect any significant transactions which occurred between January 1 and March 31.

As of March 31, 2011 and 2010, 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

March 31, 2011, 2010 and 2009

c. Foreign currency translation

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 denominated in foreign currencies of the Company and its domestic consolidated subsidiaries 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 years in which they are made or incurred, except for those arising from forward foreign exchange contracts.

d. 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 investment securities 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.

e. Inventories

Inventories are mainly stated at cost determined by the moving-average method. Balance sheet amounts are calculated based on the method of reducing the book value in accordance with any decline in profitability.

f. Short-term investment securities and investment 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/loss) 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.

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

g. Property, plant and equipment and depreciation (except leased assets)

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 April 1, 1998 which are depreciated by the straight-line method.

The range of estimated useful lives is summarized as follows:

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

h. Intangible assets (except leased 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).

i. Leases

Noncancellable lease transactions that transfer substantially all risks and rewards associated with the ownership of assets are accounted for as finance leases. All other lease transactions are accounted for as operating leases and relating payments are charged to income as incurred.

Leased assets capitalized as a finance lease are initially accounted for at their acquisition costs and depreciated over the respective lease term by the straight-line method with a zero residual value. Finance lease transactions that do not deem to transfer ownership of the leased property to the Companies whose term commences on or before March 31, 2008 are accounted for in a method similar to an operating lease.

j. 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.

k. Accrued product warranty costs

Accrued 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.

l. 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.

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

m. Accrued retirement benefits

The Companies, excluding certain overseas subsidiaries, provide for accrued retirement benefits 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 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 retirement benefits in the accompanying consolidated balance sheets included retirement benefits to advisors, counselors and directors amounting to ¥20 million (\$243 thousand) and ¥19 million as of March 31, 2011 and 2010, respectively.

n. 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.

o. 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.

p. Derivative financial instruments

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 subsidiaries utilize forward foreign exchange contracts to reduce the risk arising from exchange rate fluctuations in foreign-currency-denominated receivables and payables. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding contract rates when the criteria are met. Certain subsidiaries also utilize interest rate swap contracts to reduce the risk arising from interest rate fluctuations in short-term borrowings and long-term debt. Deferred hedge accounting is adopted for interest rate swap contracts which qualify as hedges.

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

At inception, date of the forward foreign exchange contracts are fixed at the same amount and at the same maturing as the hedged items in accordance with the Company's risk management objective and policy for undertaking the hedge. As certain subsidiaries deem the hedging relationship regarding exchange rate fluctuations to be highly effective, the evaluation of hedge effectiveness at the fiscal year-end is not performed. Hedge effectiveness regarding interest rate swap contracts is not assessed at the fiscal year-end if the substantial terms and conditions of the interest rate swap contracts and short-term borrowings and long-term debts are the same.

q. Impairment on fixed assets

In accordance with the accounting standard for impairment of fixed assets, the Companies 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 Companies 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.

r. 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.

Diluted earnings per share for the years ended March 31, 2011, 2010 and 2009 have not been presented, as the Company had no potentially dilutive shares of common stock.

Cash dividends per share are applicable to the respective years and include dividends to be paid on or after the effective date. Dividends are charged to retained earnings in the year in which they are paid.

Net assets per share are computed based on the net assets reduced by minority interests and the number of common stock outstanding at the year end.

s. Shareholders' equity

The Corporation Law of Japan (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 to 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.

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

2. Accounting Changes

a. Lease transactions:

On March 30, 2007, the Accounting Standards Board of Japan (“ASBJ”) revised ASBJ Statement No. 13, “Accounting Standard for Lease Transactions” and ASBJ Guidance No. 16, “Guidance on Accounting Standard for Lease Transactions,” which revised the accounting standard for lease transactions issued on June 17, 1993. The revised accounting standard for lease transactions, which requires that all finance lease transactions be capitalized, was effective for fiscal years beginning on or after April 1, 2008.

Effective April 1, 2008, the Company adopted this revised standard for lease transactions entered into on and after that date and depreciates capitalized leased assets on the straight-line method over the respective lease terms with a zero residual value.

For finance lease transactions entered into before April 1, 2008, all leased assets were capitalized at the outstanding future lease payments as of March 31, 2008 as the acquisition cost. The imputed interest expenses portion was included in the acquisition cost because the balance of the outstanding future lease payments was immaterial as of March 31, 2008.

The adoption of this revised standard had no effect on “Operating income”, “Ordinary income” and “Income before taxes and minority interests” for the year ended March 31, 2009.

b. Practical solution on unification of accounting policies applied to foreign subsidiaries for the consolidated financial statements:

Effective the year ended March 31, 2009, the Company adopted the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (PITF No. 18, issued on May 17, 2006). This change had immaterial impact on “Operating income”, “Ordinary income” and “Income before income taxes and minority interests” for the year ended March 31, 2009.

c. Useful lives of property, plant and equipment:

Effective the year ended March 31, 2009, pursuant to an amendment to the Corporation Tax Law of Japan, the Company and its domestic consolidated subsidiaries reviewed the useful lives of machinery and equipment and their classification of assets. As a result, “Operating income”, “Ordinary income” and “Income before taxes and minority interests” decreased by ¥19 million, respectively for the year ended March 31, 2009, compared with the amounts under the previous method.

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

d. Measurement of inventories:

Effective the year ended March 31, 2009, the Company adopted “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, issued on July 5, 2006). As a result, “Operating income”, “Ordinary income” and “Income before income taxes and minority interests” decreased by ¥33 million, respectively, for the year ended March 31, 2009, compared with the amounts under the previous method.

e. Accrued retirement benefits:

Effective the year ended March 31, 2010, the Company adopted “Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)” (ASBJ Statement No. 19, issued on July 31, 2008). There were no impacts on “Operating income”, “Ordinary income” and “Income before income taxes and minority interests” for the year ended March 31, 2010.

f. Recognition of revenue and costs on construction contracts:

The Company previously applied the completed-contract method for recognizing revenues associated with construction contracts.

Effective the year ended March 31, 2010, the Company adopted the “Accounting Standard for Construction Contracts” (ASBJ Statement No. 15, December 27, 2007) and the “Guidance on Accounting Standard for Construction Contracts” (ASBJ Guidance No. 18, December 27, 2007). As a result, the percentage-of-completion method (cost-comparison method using primarily estimate of construction progress) is applied for construction contracts which started in the year ended March 31, 2010 and if the progress of the construction by March 31, 2010 is deemed certain to be achieved, and the completed-contract method is applied to other construction contracts. There were no impacts on “Net sales”, “Operating income”, “Ordinary income” and “Income before income taxes and minority interests” for the year ended March 31, 2010.

g. Asset retirement obligations:

Effective the year ended March 31, 2011, the Company adopted the “Accounting Standard for Asset Retirement Obligations” (ASBJ statement No. 18, March 31, 2008) and the “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No. 21, March 31, 2008).

As a result of this change, “Operating income” and “Ordinary income” decreased by ¥11 million (\$138 thousand) and “Income before income taxes and minority interests” decreased by ¥40 million (\$483 thousand) for the year ended March 31, 2011.

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

h. Income before minority interests:

Effective the year ended March 31, 2011, the Company adopted the “Regulation for Terminology, Forms and Preparation of Financial Statements” (Cabinet Office Ordinance No. 5, March 24, 2009), based on the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, December 26, 2008). As a result, “Income before minority interests” is presented in the accompanying Consolidated Statements of Income and Consolidated Statement of Comprehensive Income.

i. Presentation of comprehensive income:

Effective the year ended March 31, 2011, the Company adopted the “Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No. 25, June 30, 2010). “Accumulated other comprehensive income” and “Total accumulated other comprehensive income” as of March 31, 2010, 2009 and 2008 represent the amounts of “Valuation, translation adjustments and others” and “Total valuation, translation adjustments and others.” In accordance with this new standard, Consolidated Statement of Comprehensive Income for the years ended March 31, 2010 and 2009 are not presented. The comparative information for the year ended March 31, 2010 is disclosed in Note 20.

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥83.15 = U.S. \$1.00, the rate of exchange prevailing as of March 31, 2011, has been used in the 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. Inventories

Inventories as of March 31, 2011 and 2010 comprised of the following:

<u>As of March 31</u>	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Merchandise and finished goods	¥ 7,974	¥ 7,798	\$ 95,896
Raw materials and supplies	5,793	4,622	69,670
Work in process	390	411	4,693
Total	¥ 14,157	¥ 12,831	\$ 170,259

Loss on valuation of inventories due to decline in profitability amounted to ¥(61) million (\$ (731) thousand), ¥(35) million and ¥169 million, respectively, were included in cost of sales for the years ended March 31, 2011, 2010 and 2009.

5. Investment and Other Assets

The Companies have no investments in unconsolidated subsidiaries and affiliates as of March 31, 2011 and 2010.

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

6. Short-Term Borrowings and Long-Term Debt

Short-term borrowings from banks outstanding consisted primarily of six-month notes issued by the Company to banks bearing interest at the weighted-average interest rate of 1.0% and 1.0% as of March 31, 2011 and 2010, respectively. Customarily, these notes are renewed at maturity subject to re-negotiation of the interest rates and other conditions.

Long-term debt as of March 31, 2011 and 2010 consisted of the following:

<u>As of March 31</u>	Millions of Yen		Thousands of
	2011	2010	U.S. Dollars
			2011
Loans from banks and an insurance company			
due on varying dates through 2017	¥ 3,068	¥ 3,002	\$ 36,898
Lease obligations	118	127	1,415
Less, current portion of long-term debt	(1,148)	(1,820)	(13,804)
Less, current portion of lease obligations	(45)	(48)	(543)
Total long-term debt(*1) and long-term lease obligations	<u>¥ 1,993</u>	<u>¥ 1,261</u>	<u>\$ 23,966</u>

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

as of March 31, 2011	1.1%
as of March 31, 2010	2.1%

The maturities of long-term debt (excluding lease obligations) were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Years ending March 31:		
2012	¥ 1,148	\$ 13,804
2013	73	876
2014	45	547
2015	728	8,755
2016 and thereafter	1,074	12,916
Total	<u>¥ 3,068</u>	<u>\$ 36,898</u>

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

The maturities of lease obligations were as follows:

	Millions of Yen		Thousands of U.S. Dollars
Years ending March 31:			
2012	¥ 45	\$	543
2013	34		410
2014	23		270
2015	11		136
2016 and thereafter	5		56
Total	¥ 118	\$	1,415

The Companies' assets pledged as collateral for long-term debt of ¥500 million (\$6,013 thousand) and ¥500 million, including the current portion of long-term debt, as of March 31, 2011 and 2010 were summarized as follows:

<u>As of March 31</u>	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Investment securities	¥ 901	¥ 1,133	\$ 10,836

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

7. Retirement Benefit Plans

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

The Company and certain domestic consolidated subsidiaries revised a portion of their retirement benefits plans to defined benefits pension plan on January 1, 2009, and applied “Accounting for Transfer between Retirement Benefit Plans” (ASBJ Implementation Guidance No. 1). This change had no impact on income for the year ended March 31, 2009.

The funded and accrued status of the Companies’ retirement benefit plans as of March 31, 2011 and 2010 were summarized as follows:

<u>As of March 31</u>	Millions of Yen		Thousands of
	2011	2010	U.S. Dollars
	2011	2010	2011
Projected benefit obligations	¥ 5,139	¥ 5,166	\$ 61,800
Unrecognized net actuarial losses	(394)	(441)	(4,734)
Unrecognized net retirement benefit obligation at transition	(346)	(432)	(4,159)
Plan assets at fair value	(3,795)	(3,828)	(45,640)
Prepaid pension cost	—	132	—
Accrued retirement benefits	¥ 604	¥ 597	\$ 7,267

Certain consolidated subsidiaries adopt simplified method in the calculation of their retirement benefit obligation.

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

Net periodic pension cost related to the retirement benefits for the years ended March 31, 2011, 2010 and 2009 was as follows:

<u>For the years ended March 31</u>	Millions of Yen			Thousands of
	2011	2010	2009	U.S. Dollars
Service cost	¥ 411	¥ 405	¥ 418	\$ 4,938
Interest cost	78	80	86	943
Expected return on plan assets	(51)	(46)	(53)	(619)
Amortization of net actuarial losses	135	135	110	1,618
Amortization of net retirement benefit obligation at transition	86	86	86	1,040
Net periodic pension cost	<u>¥ 659</u>	<u>¥ 660</u>	<u>¥ 647</u>	<u>\$ 7,920</u>

Net periodic pension cost for consolidated subsidiaries adopting the simplified method are included in "Service cost."

Pension benefit obligations are attributed to periods by the straight-line method over the estimated remaining years of service of the eligible employees.

Assumptions used in accounting for the above plans for the years ended March 31, 2011, 2010 and 2009 were as follows:

	2011	2010	2009
Discount rate	1.9%	1.9%	2.1%
Expected rate of return on plan assets	1.5	1.5	1.5

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

8. Net Assets

a. Shares issued and outstanding/Treasury stock

For the year ended March 31, 2011

	Thousands of shares			Number of shares at March 31, 2011
	Number of shares at March 31, 2010	Increase	Decrease	
Shares issued:				
Common stock	69,069	–	–	69,069
Treasury stock:				
Common stock (Note 1)	321	10	–	331

Note:

1. Details of the increase are as follows: (thousands of shares)
- | | |
|--|----|
| Increase due to purchase of shares of less than standard unit: | 10 |
|--|----|

For the year ended March 31, 2010

	Thousands of shares			Number of shares at March 31, 2010
	Number of shares at March 31, 2009	Increase	Decrease	
Shares issued:				
Common stock	69,069	–	–	69,069
Treasury stock:				
Common stock (Notes 1 and 2)	309	12	0	321

Notes:

1. Details of the increase are as follows: (thousands of shares)
- | | |
|--|----|
| Increase due to purchase of shares of less than standard unit: | 12 |
|--|----|
2. Details of the decrease are as follows:
- | | |
|--|---|
| Decrease due to sale of shares of less than standard unit: | 0 |
|--|---|

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

For the year ended March 31, 2009

	Thousands of shares			Number of shares at March 31, 2009
	Number of shares at March 31, 2008	Increase	Decrease	
Shares issued:				
Common stock	69,069	–	–	69,069
Treasury stock:				
Common stock (Notes 1 and 2)	252	74	17	309

Notes:

1. Details of the increase are as follows: (thousands of shares)
 Increase due to purchase of shares of less than standard unit: 74
2. Details of the decrease are as follows:
 Decrease due to sale of shares of less than standard unit: 17

b. Share subscription rights

The Companies have no subscription rights as of March 31, 2011 and 2010.

c. Dividends

(1) Dividends from retained earnings

The following appropriation of retained earnings applicable to the year ended March 31, 2011 was resolved by the board of directors on October 29, 2010:

- (1) Total amount of dividends: ¥ 412 million (\$4,961 thousand)
- (2) Dividends per share: ¥6.00 (\$0.07)
- (3) Cut-off date: September 30, 2010
- (4) Effective date: December 1, 2010

The following appropriation of retained earnings applicable to the year ended March 31, 2010 was approved at an annual general shareholders' meeting held on June 24, 2010:

- (1) Total amount of dividends: ¥ 481 million
- (2) Dividends per share: ¥7.00
- (3) Cut-off date: March 31, 2010
- (4) Effective date: June 25, 2010

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

The following appropriation of retained earnings applicable to the year ended March 31, 2010 was resolved by the board of directors on October 30, 2009:

- (1) Total amount of dividends: ¥ 413 million
- (2) Dividends per share: ¥6.00
- (3) Cut-off date: September 30, 2009
- (4) Effective date: December 1, 2009

The following appropriation of retained earnings applicable to the year ended March 31, 2009 was approved at an annual general shareholders' meeting held on June 25, 2009:

- (1) Total amount of dividends: ¥481 million
- (2) Dividends per share: ¥7.00
- (3) Cut-off date: March 31, 2009
- (4) Effective date: June 26, 2009

The following appropriation of retained earnings applicable to the year ended March 31, 2009 was resolved by the board of directors on October 31, 2008:

- (1) Total amount of dividends: ¥413 million
- (2) Dividends per share: ¥6.00
- (3) Cut-off date: September 30, 2008
- (4) Effective date: December 2, 2008

The following appropriation of retained earnings applicable to the year ended March 31, 2008 was approved at an annual general shareholders' meeting held on June 26, 2008:

- (1) Total amount of dividends: ¥482 million
- (2) Dividends per share: ¥7.00
- (3) Cut-off date: March 31, 2008
- (4) Effective date: June 27, 2008

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

- (2) Dividends whose effective date is after the end of the current fiscal year and whose cut-off date is in the current fiscal year

The following appropriation of retained earnings which has not been reflected in the accompanying consolidated financial statements as of and for the year ended March 31, 2011 was approved at an annual general shareholders' meeting held on June 28, 2011:

- (1) Total amount of dividends: ¥481 million (\$5,787 thousand)
- (2) Source of dividends: Retained earnings
- (3) Dividends per share: ¥7.00 (\$0.08)
- (4) Cut-off date: March 31, 2011
- (5) Effective date: June 29, 2011

The following appropriation of retained earnings which has not been reflected in the accompanying consolidated financial statements as of and for the year ended March 31, 2010 was approved at an annual general shareholders' meeting held on June 24, 2010:

- (1) Total amount of dividends: ¥481 million
- (2) Source of dividends: Retained earnings
- (3) Dividends per share: ¥7.00
- (4) Cut-off date: March 31, 2010
- (5) Effective date: June 25, 2010

The following appropriation of retained earnings which has not been reflected in the accompanying consolidated financial statements as of and for the year ended March 31, 2009 was approved at an annual general shareholders' meeting held on June 25, 2009:

- (1) Total amount of dividends: ¥481 million
- (2) Source of dividends: Retained earnings
- (3) Dividends per share: ¥7.00
- (4) Cut-off date: March 31, 2009
- (5) Effective date: June 26, 2009

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

9. Selling, General and Administrative Expenses

Significant components of “Selling, General and Administrative Expenses” for each of the three years in the period ended March 31, 2011, 2010 and 2009 were as follows:

<u>For the years ended March 31</u>	Millions of Yen			Thousands of U.S. Dollars
	2011	2010	2009	2011
Depreciation	¥ 505	¥ 480	¥ 432	\$ 6,075
Provision of allowance for doubtful accounts	–	393	117	–
Provision for bonuses	63	73	62	753
Retirement benefit expenses	436	454	459	5,247
Directors’ compensations and Employees’ salaries and bonuses	6,249	6,390	6,419	75,158
Transportation expenses	3,665	3,266	3,780	44,079
Sales commission	2,401	2,162	2,009	28,879
Provision for product warranties	–	80	–	–
Other	6,702	6,683	7,364	80,588
Total	¥ 20,021	¥ 19,981	¥ 20,642	\$240,779

Research and development cost included in “Selling, general and administrative expenses” and manufacturing costs for the years ended March 31, 2011, 2010 and 2009 amounted to ¥1,909 million (\$22,955 thousand), ¥1,939 million and ¥1,800 million, respectively.

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

11. 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 March 31, 2011, 2010 and 2009.

Significant components of deferred tax assets and liabilities as of March 31, 2011 and 2010 were as follows:

<u>As of March 31</u>	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Deferred tax assets:			
Accrued retirement benefits	¥ 222	¥ 210	\$ 2,673
Allowance for doubtful accounts	151	164	1,818
Write-downs of investment securities	250	147	3,001
Write-downs of inventory	102	139	1,228
Accrued bonuses	253	264	3,041
Accrued enterprise tax	42	164	500
Long-term accrued amount payable	116	119	1,391
Elimination of unrealized gains	140	177	1,685
Tax loss carryforwards	4	26	42
Others	327	265	3,947
Gross deferred tax assets	1,607	1,675	19,326
Less, valuation allowance	(249)	(145)	(2,996)
Total deferred tax assets	1,358	1,530	16,330
Deferred tax liabilities:			
Net unrealized gain on other securities	(60)	(334)	(726)
Prepaid pension cost	-	(54)	-
Others	(51)	(31)	(603)
Total deferred tax liabilities	(111)	(419)	(1,329)
Net deferred tax assets (liabilities)	¥ 1,247	¥ 1,111	\$ 15,001

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

A reconciliation of the statutory tax rate to the effective tax rates for the years ended March 31, 2011, 2010 and 2009 was as follows:

<u>For the years ended March 31</u>	2011	2010	2009
Statutory tax rate	40.5%	40.5%	40.5%
Increase (decrease) in taxes resulting from:			
Difference in statutory tax rates between parent and subsidiaries	(12.3)	(10.5)	(14.9)
Entertainment and other non-deductible expenses	5.2	3.3	3.2
Dividend income and other non-taxable income	(5.2)	(4.2)	(1.7)
Dividends from retained earnings	12.9	8.4	10.2
Increase (decrease) in valuation allowance of deferred tax assets	1.1	–	(2.5)
Income tax refund	–	–	(2.1)
Special tax credit for research and development, etc.	(1.7)	(1.5)	(1.7)
Foreign tax credit	(5.2)	(1.1)	(2.9)
Others	(5.3)	2.7	(2.3)
Effective tax rates	<u>30.0%</u>	<u>37.6%</u>	<u>25.8%</u>

12. Lease Transactions

The amounts of the outstanding future lease payments for operating lease transactions subsequent to March 31, 2011 and 2010 were as follows:

<u>As of March 31</u>	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Due within one year	¥ 48	¥ 159	\$ 576
Due after one year	35	37	420
Total	<u>¥ 83</u>	<u>¥ 196</u>	<u>\$ 996</u>

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

13. Asset Retirement Obligations

The liability related to the restoration of Tokyo office arising from contractual requirements set forth in the lease agreement is recorded as “Asset retirement obligation.”

Instead of recording the asset retirement obligation as a liability, a portion of the deposit deemed to be finally uncollectible is recognized as expense over 5 years from the commencement of the lease term. The uncollectible amount is reasonably estimated based on the lease agreement.

The amount deemed to be finally uncollectible as of March 31, 2011 was ¥40 million (\$483 thousand).

There was no change in total amount of asset retirement obligations during the year ended March 31, 2011.

14. Commitments and Contingencies

The Company provided guarantees to an intermediary trading company of ¥1,195 million (\$14,373 thousand) and ¥1,203 million for the collection of its accounts receivables from contracted sales agents/distributors as of March 31, 2011 and 2010, respectively.

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

15. Amounts Per Share

Net income per share for the years ended March 31, 2011, 2010 and 2009, and net assets per share as of March 31, 2011 and 2010, were as follows:

<u>As of and for the years ended</u> <u>March 31</u>	Yen			U.S. Dollars
	2011	2010	2009	2011
Net income	¥ 82.94	¥ 78.87	¥ 73.14	\$ 1.00
Net assets	665.49	632.58	550.49	8.00

The bases for calculation of net income per share were as follows:

<u>For the years ended March 31</u>	Thousands of shares		
	2011	2010	2009
The number of shares of common stock used for the calculation of net income per share	68,743	68,753	68,790

<u>For the years ended March 31</u>	Millions of Yen			Thousands of U.S. Dollars
	2011	2010	2009	2011
Net income	¥ 5,702	¥ 5,423	¥ 5,032	\$ 68,571
Net income not attributable to shareholders of common stock	-	-	-	-
Net income attributable to shares of common stock	¥ 5,702	¥ 5,423	¥ 5,032	\$ 68,571

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

The bases for calculation of net assets per share were as follows:

<u>As of March 31</u>	Thousands of shares	
	2011	2010
The number of shares of common stock used for the calculation of net assets per share	68,738	68,748

<u>As of March 31</u>	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Total net assets	¥ 48,874	¥ 46,538	\$ 587,786
Amounts deducted from total net assets:			
Minority interests	3,130	3,049	37,638
Net assets attributable to shares of common stock	¥ 45,744	¥ 43,489	\$ 550,148

16. Securities

Other securities as of March 31, 2011 are summarized as follows:

<u>As of March 31, 2011</u>	Millions of Yen			
	Acquisition cost	Fair value	Gross unrealized gain	Gross unrealized loss
Other Securities:				
With fair value	¥ 4,344	¥ 4,452	¥ 574	¥ (466)
Without fair value	¥ 864			

<u>As of March 31, 2011</u>	Thousands of U.S. Dollars			
	Acquisition cost	Fair value	Gross unrealized gain	Gross unrealized loss
Other Securities:				
With fair value	\$ 52,241	\$ 53,542	\$ 6,902	\$ (5,601)
Without fair value	\$ 10,394			

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

Other securities as of March 31, 2010 were summarized as follows:

<u>As of March 31, 2010</u>	Millions of Yen			
	Acquisition cost	Fair value	Gross unrealized gain	Gross unrealized loss
Other Securities:				
With fair value	¥ 4,090	¥ 4,959	¥ 1,149	¥ (280)
Without fair value	¥ 1,264			

Impairment loss for the years ended March 31, 2011, 2010 and 2009 amounted to ¥258 million (\$3,101 thousand), ¥124 million and ¥7 million, respectively. Total sales of other securities for the years ended March 31, 2011, 2010 and 2009 amounted to ¥230 million (\$2,768 thousand), ¥2 million and ¥3 million, respectively and the related net gain amounted to ¥112 million (\$1,349 thousand), ¥0 million and ¥0 million, respectively.

17. Supplementary Cash Flow Information

Cash and cash equivalents as of March 31, 2011, 2010 and 2009 consisted of the following:

<u>As of March 31</u>	Millions of Yen			Thousands of U.S. Dollars
	2011	2010	2009	2011
Cash on hand and in banks	¥ 12,413	¥ 14,767	¥ 8,625	\$ 149,281
Less, time deposits with deposit term of over three months	(952)	(619)	(33)	(11,451)
Short-term investment securities (MMF)	364	399	—	4,386
Cash and cash equivalents	<u>¥ 11,825</u>	<u>¥ 14,547</u>	<u>8,592</u>	<u>\$ 142,216</u>

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

18. Derivative Transactions

(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 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

March 31, 2011, 2010 and 2009

(2) Summary of transactions

The contract or notional amount, fair value of, and valuation gain or loss on outstanding derivative positions as of March 31, 2011 and 2010 were summarized as follows:

(a) Currency-related transactions

	Millions of Yen					
	2011			2010		
	Contract or notional amount	Fair value	Valuation gain (loss)	Contract or notional amount	Fair value	Valuation gain (loss)
Foreign exchange forward contracts:						
Short-term:						
Sell USD and buy JPY	¥ 356	¥ 4	¥ 4	¥ 338	¥ (11)	¥ (11)
Buy USD and sell JPY	10	(0)	(0)	—	—	—
Buy SGD and sell EUR	46	(1)	(1)	—	—	—
Buy JPY and sell EUR	48	(2)	(2)	—	—	—
Buy GBP and sell EUR	—	—	—	15	(0)	(0)
Total			¥ 1			¥ (11)

	Thousands of U.S. Dollars		
	2011		
	Contract or notional amount	Fair value	Valuation gain (loss)
Foreign exchange forward contracts:			
Short-term:			
Sell USD and buy JPY	\$ 4,277	\$ 45	\$ 45
Buy USD and sell JPY	122	(1)	(1)
Buy SGD and sell EUR	556	(12)	(12)
Buy JPY and sell EUR	581	(16)	(16)
Buy GBP and sell EUR	—	—	—
Total			\$ 16

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

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

(b) Interest- related transactions

	Millions of Yen			
	2011			
	Contract or notional amount	Maturing after one year	Fair value	Valuation loss
Interest rate swaps: Receive floating and pay fixed	¥ 407	¥ -	¥ (4)	¥ (4)

	Thousands of U.S. Dollars			
	2011			
	Contract or notional amount	Maturing after one year	Fair value	Valuation loss
Interest rate swaps: Receive floating and pay fixed	\$ 4,900	\$ -	\$ (46)	\$ (46)

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

There were no derivative transactions for which hedge accounting was applied as of March 31, 2011 and 2010.

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

19. Financial Instruments

Effective from the year ended March 31, 2010, the Companies adopted “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, March 10, 2008) and Guidance on Disclosure about Fair Value of Financial Instruments (ASBJ Guidance No. 19, March 10, 2008).

The Companies operate funds through highly liquid financial instruments and finance short-term operating capital with bank loans. Derivative transactions are only utilized to hedge the following risks, and it is our policy not to enter into derivative transactions for speculative purpose.

Operating receivables such as “Trade notes and accounts receivable” are exposed to credit risk. Operating receivables from overseas dominated in foreign currencies are exposed to foreign currency fluctuation risk. The Companies utilize foreign currency forward contracts within the actual orders to hedge the risk. Short-term investment securities and investment securities are mainly consists of securities of companies with business relationship and are exposed to market fluctuation risk. Operating payables such as “Trade notes and accounts payable” are due within one year. Some of the operating payables relating to imports of raw materials are dominated in foreign currencies and are exposed to foreign currency fluctuation risk. The Companies utilize foreign currency forward contracts within the actual orders to hedge the risk. Short-term loans are mainly used for the purpose of financing operating capital. The Companies utilize foreign exchange forward contracts to hedge fluctuation risk of foreign currency on operating receivable and payable and also utilize interest rate swap contracts to hedge the risk arising from interest rate fluctuations in short-term borrowings and long-term debt. Please see the Note 1. p, Derivative financial instruments for hedge accounting.

Risk management of financial instruments is summarized as follows:

(a) Credit risk (risk of default by the counter parties) management

In accordance with the Companies’ internal rules, the sale planning department monitor the major customers’ credit conditions periodically and manage the due date and balance per each customer. The Companies keep track of the adverse financial conditions of our customers in the early stage to mitigate the bad debt. Our consolidated subsidiaries follow the company’s internal rules and manage by using the same manner. Regarding the derivative transaction, the Companies only deals with highly rated financial institution and thus, there is little credit risk.

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

(b) Market risk (risk of fluctuations in foreign currency and interests rate) management

Regarding the operating receivables and operating payables dominated in foreign currencies, some of the consolidated subsidiaries utilize foreign currency forward contracts within the actual orders to hedge foreign currency fluctuation risk. Regarding short-term borrowings and long-term debt, some of the consolidated subsidiaries utilize interest rate swap contracts to hedge the risk arising from interest rate fluctuations. Regarding short-term investment securities, the Companies regularly review the fair value and issuers' financial condition, and readjust Companies' portfolio according to the market condition and the business relationship with the counterparties on an ongoing basis. Orders and management of derivative transactions for some of the consolidated subsidiaries are managed by using the same manner of the Company's internal rules.

(c) Liquidity risk management (risk of default at the due dates)

The treasury department prepares and updates the cash management plan periodically based on the reports from each department.

The Companies manage the liquidity risk by maintaining the necessary on-hand liquidity. Consolidated subsidiaries are managed by using the same manner.

As well as the values based on market prices, fair values of financial instruments include values, which are reasonably calculated in case that market prices are not available. As the calculation of those values includes certain assumptions, those values may vary in case different assumptions are applied. The contract amount described in Note 18. Derivative Transactions does not indicate market risk related to derivative transactions.

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

Carrying value on the consolidated balance sheet, fair value and difference of financial instruments as of March 31, 2011 and 2010 were as follows:

<u>As of March 31</u>	Millions of Yen					
	2011			2010		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Cash on hand and in banks	¥ 12,413	¥ 12,413	–	¥ 14,767	¥ 14,767	–
Trade notes and accounts receivable	41,758	41,758	–	35,302	35,302	–
Short-term investment securities and investment securities	4,452	4,452	–	4,959	4,959	–
Total assets	<u>¥ 58,623</u>	<u>¥ 58,623</u>	<u>–</u>	<u>¥ 55,028</u>	<u>¥ 55,028</u>	<u>–</u>
Notes and accounts payable	¥ 17,369	¥ 17,369	–	¥ 12,976	¥ 12,976	–
Short-term borrowings	19,530	19,530	–	20,660	20,660	–
Total liabilities	<u>¥ 36,899</u>	<u>¥ 36,899</u>	<u>–</u>	<u>¥ 33,636</u>	<u>¥ 33,636</u>	<u>–</u>
Derivatives (*)	¥ (3)	¥ (3)	–	¥ (11)	¥ (11)	–

	Thousands of U.S. Dollars		
	2011		
	Carrying value	Fair value	Difference
Cash on hand and in banks	\$ 149,281	\$ 149,281	–
Trade notes and accounts receivable	502,203	502,203	–
Short-term investment securities and investment securities	53,542	53,542	–
Total assets	<u>\$ 705,026</u>	<u>\$ 705,026</u>	<u>–</u>
Notes and accounts payable	\$ 208,886	\$ 208,886	–
Short-term borrowings	234,876	234,876	–
Total liabilities	<u>\$ 443,762</u>	<u>\$ 443,762</u>	<u>–</u>
Derivatives (*)	\$ (30)	\$ (30)	–

(*) Derivative assets and liabilities are presented at net basis.

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

Carrying value of financial instruments whose fair value was deemed extremely difficult to determine which were not included in the above tables as of March 31, 2011 and 2010 were as follows:

	Millions of Yen		Thousand of U.S.
	2011	2010	Dollars
Unlisted securities	¥ 864	¥ 1,264	\$ 10,394

Valuation method of fair value of financial instruments and information about securities and derivative transactions is summarized as follows:

Cash on hand and in banks

The carrying value is deemed as the fair value since it is scheduled to be settled in a short period of time.

Trade notes and accounts receivable

The carrying value is deemed as the fair value since it is scheduled to be settled in a short period of time.

Short-term investment securities

Fair value of stocks is based on the price on stock exchanges and that of bonds is based on the price on bond markets or the price presented by the counter party financial institutions. Please see Note 16. Securities for the notes regarding the securities by classification.

Notes and accounts payable

The carrying value is deemed as the fair value since it is scheduled to be settled in a short period of time.

Short-term borrowings

The carrying value is deemed as the fair value since it is scheduled to be settled in a short period of time.

Derivative transactions

Please refer to Note 18. Derivative Transactions.

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

Redemption schedule for monetary asset as of March 31, 2011 and 2010 is as follows:

Millions of Yen				
2011				
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash on hand and in banks	¥ 12,394	–	–	–
Trade notes and accounts receivable	41,758	–	–	–
Other	540	–	–	–
Total	¥ 54,692	–	–	–

Millions of Yen				
2010				
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash on hand and in banks	¥ 14,754	–	–	–
Trade notes and accounts receivable	35,302	–	–	–
Total	¥ 50,056	–	–	–

Thousands of U.S. Dollars				
2011				
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash on hand and in banks	\$ 149,060	–	–	–
Trade notes and accounts receivable	502,203	–	–	–
Other	6,494	–	–	–
Total	\$ 657,757	–	–	–

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

20. Other Comprehensive Income

Other comprehensive income for the year ended March 31, 2010 consists of the following:

	<u>Millions of Yen</u>	
	<u>2010</u>	
Other comprehensive income:		
Net unrealized holding gain (loss) on other securities	¥	550
Foreign currency translation adjustments		<u>735</u>
Total other comprehensive income	¥	<u><u>1,285</u></u>

Total comprehensive income for the year ended March 31, 2010 comprises the following:

	<u>Millions of Yen</u>	
	<u>2010</u>	
Total comprehensive income attributable to:		
Shareholders of the Company	¥	6,538
Minority interests		<u>1,071</u>
Total comprehensive income	¥	<u><u>7,609</u></u>

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

21. Segment Information

For the years ended March 31, 2011 and 2010

Effective the year ended March 31, 2011, the Company adopted the “Accounting Standard for Disclosures about Segments of an Enterprise and Related information” (ASBJ Statement No. 17, March 27, 2009) and “Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Guidance No. 20, March 21, 2008).

1. Outline of reportable segment

The Companies’ reportable segments are those for which discrete financial information is available and regularly evaluated by the Company’s Board of Directors in order to make decisions about resource allocations and assess performance.

The Companies are mainly engaged in manufacturing and sales of paints, which are organized by geographical area based on comprehensive strategy for lines of business by each area, although each subsidiary is independently operated. As a result, the Companies have five reportable segments, (1) Japan (the Company), (2) China (CHUGOKU MARINE PAINTS (Shanghai), Ltd., and CHUGOKU MARINE PAINTS (Guang Dong), Ltd.), (3) Korea (CHUGOKU SAMHWA PAINTS, Ltd.), (4) South East Asia (CHUGOKU MARINE PAINTS (Singapore) Pte., Ltd., and CHUGOKU PAINTS (Malaysia) Sdn. Bhd.) and (5) Europe and U.S. (CHUGOKU PAINTS B.V.) , respectively. “Japan” engages in the real estate management business in addition to manufacturing and selling of paints.

2. Method of calculating net sales, income (loss), assets and other items by reportable segments

Accounting policies applied to the financial result of the reportable segment are consistent with those described in Note 1. Summary of Significant Accounting Policies. Reportable segment income corresponds to operation income. Intersegment transactions are based on the prevailing market price.

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

3. Net sales, income (loss), assets and other items by reportable segment

For the year ended March 31, 2011

	Millions of Yen					
	Reportable segment					Total
	Japan	China	Korea	South East Asia	Europe/ U.S.	
Net sales:						
External sales	¥ 40,821	¥ 31,229	¥ 8,544	¥ 7,395	¥ 8,607	¥ 96,596
Intersegment sales or transfers	4,659	4,757	241	2,975	564	13,196
Total	45,480	35,986	8,785	10,370	9,171	109,792
Segment income (loss)	¥ 3,690	¥ 2,466	¥ 625	¥ 989	¥ (1,126)	¥ 6,644
Segment assets	¥ 61,206	¥ 32,922	¥ 4,985	¥ 10,567	¥ 6,292	¥ 115,972
Other items:						
Depreciation and amortization	¥ 766	¥ 424	¥ 94	¥ 150	¥ 50	¥ 1,484
Amortization of goodwill	22	—	—	—	1	23
Increase in property, plant and equipment and intangible assets	628	457	163	128	52	1,428

For the year ended March 31, 2010

	Millions of Yen					
	Reportable segment					Total
	Japan	China	Korea	South East Asia	Europe/ U.S.	
Net sales:						
External sales	¥ 41,352	¥ 20,361	¥ 10,377	¥ 6,303	¥ 8,417	¥ 86,810
Intersegment sales or transfers	4,646	3,971	236	3,109	558	12,520
Total	45,998	24,332	10,613	9,412	8,975	99,330
Segment income (loss)	¥ 5,104	¥ 1,440	¥ 1,674	¥ 982	¥ (865)	¥ 8,335
Segment assets	¥ 61,916	¥ 26,657	¥ 6,849	¥ 9,466	¥ 5,880	¥ 110,768
Other items:						
Depreciation and amortization	¥ 803	¥ 367	¥ 62	¥ 150	¥ 57	¥ 1,439
Amortization of goodwill	22	—	—	—	1	23
Increase in property, plant and equipment and intangible assets	759	1,054	89	68	8	1,978

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

For the year ended March 31, 2011

	Thousands of U.S. Dollars					Total
	Reportable segment					
	Japan	China	Korea	South East Asia	Europe/ U.S.	
Net sales:						
External sales	\$ 490,935	\$ 375,579	\$ 102,751	\$ 88,931	\$ 103,512	\$1,161,708
Intersegment sales or transfers	56,025	57,203	2,900	35,788	6,786	158,702
Total	<u>546,960</u>	<u>432,782</u>	<u>105,651</u>	<u>124,719</u>	<u>110,298</u>	<u>1,320,410</u>
Segment income (loss)	<u>\$ 44,383</u>	<u>\$ 29,658</u>	<u>\$ 7,515</u>	<u>\$ 11,894</u>	<u>\$ (13,541)</u>	<u>\$ 79,909</u>
Segment assets	<u>\$ 736,089</u>	<u>\$ 395,939</u>	<u>\$ 59,951</u>	<u>\$ 127,090</u>	<u>\$ 75,667</u>	<u>\$1,394,736</u>
Other items:						
Depreciation and amortization	\$ 9,217	\$ 5,099	\$ 1,131	\$ 1,803	\$ 596	\$ 17,846
Amortization of goodwill	261	-	-	-	13	274
Increase in property, plant and equipment and intangible assets	7,556	5,501	1,963	1,535	624	17,179

4. Reconciliation between the total amounts of reportable segments and consolidated amounts

(a) Segment income (loss)

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
	The total of the segment income (loss)	¥ 6,644	¥ 8,335
Elimination of intersegment transaction	3,686	3,109	44,325
Other corporate expenses	(1,507)	(1,449)	(18,119)
Operating income on consolidated statements of income	<u>¥ 8,823</u>	<u>9,995</u>	<u>\$ 106,115</u>

Note: "Other corporate expenses" are mainly general and administrative expenses which are not allocated to each reportable segment.

(b) Segment assets

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
	The total of the segment assets	¥ 115,972	¥ 110,768
Elimination of intersegment transaction	(21,866)	(20,648)	(262,965)
Other corporate assets	6,199	6,226	74,548
Total assets on consolidated balance sheets	<u>¥ 100,305</u>	<u>¥ 96,346</u>	<u>\$ 1,206,319</u>

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

Note: “Other corporate assets” are mainly cash on hand and in banks and investment securities which are not allocated to each reportable segment.

(c) Other items

	Millions of Yen		
	2011		
	Reportable Segments total	Adjustments	Consolidated
Depreciation and amortization	¥ 1,484	¥ 197	¥ 1,681
Amortization of goodwill	23	(1)	22
Increase in property, plant and equipment and intangible assets	1,428	77	1,505

	Millions of Yen		
	2010		
	Reportable Segments total	Adjustments	Consolidated
Depreciation and amortization	¥ 1,439	¥ 167	¥ 1,606
Amortization of goodwill	23	(1)	22
Increase in property, plant and equipment and intangible assets	1,978	84	2,062

	Thousands of U.S. Dollars		
	2011		
	Reportable Segments total	Adjustments	Consolidated
Depreciation and amortization	\$ 17,846	\$ 2,367	\$ 20,213
Amortization of goodwill	274	(13)	261
Increase in property, plant and equipment and intangible assets	17,179	922	18,101

Note: “Adjustments” for “Increase in property, plant and equipment and intangible assets” are mainly intangible assets which are not allocated to each reportable segment.

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

(Related information)

1. Information about products and services

	Millions of Yen					Thousands of U.S. Dollars				
	Paint for ships	Paint for industrial use	Paint for containers	Others	Total	Paint for ships	Paint for industrial use	Paint for containers	Others	Total
External sales	¥ 72,933	¥ 11,199	¥ 12,084	¥ 380	¥ 96,596	\$877,132	\$134,688	\$145,328	\$ 4,560	\$1,161,708

2. Information about geographic segment

(a) Net sales

Information about net sales by geographic areas is omitted since same information is disclosed in the information of reportable segment.

(b) Property, plant and equipment

	Millions of Yen						Thousands of U.S. Dollars					
	Japan	China	Korea	South East Asia	Europe/ U.S.	Total	Japan	China	Korea	South East Asia	Europe/ U.S.	Total
Property, plant and equipment	¥ 16,555	¥ 4,554	¥ 704	¥ 1,223	¥ 448	¥ 23,484	\$199,093	\$54,775	\$ 8,467	\$ 14,713	\$ 5,387	\$282,435

3. Information about major customers

Information about major customers is omitted since there are no external sales to customers constituting more than 10% of net sales of the consolidated statements of income.

4. Information about amortization of goodwill and unamortized balances by reportable segment

	Millions of Yen				Thousands of U.S. Dollars					
	Reportable segment			Eliminations or corporate	Total	Reportable segment			Eliminations or corporate	Total
	Japan	Europe/ U.S.				Japan	Europe/ U.S.			
Amortization during the year	¥ 22	¥ 1	¥ (1)	¥ 22	\$ 261	\$ 13	\$ (13)	\$ 261		
Unamortized balances	¥ 49	¥ 2	¥ (2)	¥ 49	\$ 588	\$ 20	\$ (20)	\$ 588		

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

For the years ended March 31, 2010 and 2009

The Companies primarily operate in two business 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 among others.

Major products of each business segment are summarized as follows:

Business segment	Major products
Paints	Marine paints, synthetic resin paints, thinner and other paints, contracted painting works, painting technical assistance
Other	Rent and management of real estate, development of computer software, financial services, operation of golf practice range

The Companies also operate in three geographic areas “Domestic,” “Asia” and “Other.”

Geographical segments are based on geographical proximity.

Summarized financial information concerning the business and geographic segments in which the Companies operated for the years ended March 31, 2010 and 2009 was presented in the following tables:

Business segments

	Millions of Yen									
	2010					2009				
	Paints	Other	Total	Eliminations or corporate	Consolidated	Paints	Other	Total	Eliminations or corporate	Consolidated
Net sales										
External sales	¥ 86,412	¥ 398	¥ 86,810	¥ -	¥ 86,810	¥ 103,113	¥ 510	¥ 103,623	¥ -	¥ 103,623
Intersegment sales or transfers	14	391	405	(405)	-	10	397	407	(407)	-
Total	86,426	789	87,215	(405)	86,810	103,123	907	104,030	(407)	103,623
Operating expenses (a)	75,243	534	75,777	1,038	76,815	93,470	630	94,100	1,093	95,193
Operating income	¥ 11,183	¥ 255	¥ 11,438	¥ (1,443)	¥ 9,995	¥ 9,653	¥ 277	¥ 9,930	¥ (1,500)	¥ 8,430
Total assets (b)	¥ 85,415	¥ 4,786	¥ 90,201	¥ 6,145	¥ 96,346	¥ 82,211	¥ 4,698	¥ 86,909	¥ 4,867	¥ 91,776
Depreciation and amortization	1,412	28	1,440	166	1,606	1,386	44	1,430	126	1,556
Capital expenditure	1,976	2	1,978	84	2,062	2,755	10	2,765	280	3,045

- 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 ¥1,449 million and ¥1,500 million for the years ended March 31, 2010 and 2009, respectively.
- Corporate assets, which are included in “Elimination or Corporate” column, are comprised primarily of cash, investment securities held by the Company and other assets held at its administration department. The balances of those assets were ¥6,226 million and ¥4,938 million as of March 31, 2010 and 2009, respectively.
- As described in Note 2 d, the Company adopted “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, issued on 5 July 2006) effective the year ended March 31, 2009. For the year ended March 31, 2009, the change of this accounting policy resulted in decrease of operating income in “Paints” by ¥33 million, compared with the amounts under the previous method.
- As described in Note 2 c, effective the year ended March 31, 2009, pursuant to an amendment to the Corporation Tax Law of Japan, the Company and its domestic consolidated subsidiaries reviewed the useful lives of machinery and equipment and their classification of assets. As a result, for the year ended Mach, 31, 2009, operating income in “Paints” decreased by ¥19 million, compared with the amounts under the previous method.

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

Geographical segments

	Millions of Yen											
	2010						2009					
	Domestic	Asia (c)	Other (d)	Total	Eliminations or corporate	Consolidated	Domestic	Asia (c)	Other (d)	Total	Eliminations or corporate	Consolidated
Net sales												
External sales	¥41,352	¥ 37,041	¥ 8,417	¥ 86,810	¥ -	¥ 86,810	¥43,579	¥ 49,205	¥ 10,839	¥ 103,623	¥ -	¥ 103,623
Intersegment sales or transfers	4,646	5,920	559	11,125	(11,125)	-	6,718	8,382	815	15,915	(15,915)	-
Total	45,998	42,961	8,976	97,935	(11,125)	86,810	50,297	57,587	11,654	119,538	(15,915)	103,623
Operating expenses (a)	40,894	38,724	9,840	89,458	(12,643)	76,815	47,304	52,497	12,005	111,806	(16,613)	95,193
Operating income (loss)	¥ 5,104	¥ 4,237	¥ (864)	¥ 8,477	¥ 1,518	¥ 9,995	¥ 2,993	¥ 5,090	¥ (351)	¥ 7,732	¥ 698	¥ 8,430
Total assets (b)	¥61,916	¥ 42,767	¥ 5,879	¥110,562	¥ (14,216)	¥ 96,346	¥60,296	¥ 41,909	¥ 7,170	¥ 109,375	¥(17,599)	¥ 91,776

- (a) Expenses which are not attributable to any geographical segments represent primarily expenses incurred at the Company's administration department and included in "Elimination or Corporate" column. Such expenses amounted to ¥1,449 million and ¥1,500 million for the years ended March 31, 2010 and 2009, respectively.
- (b) Corporate assets, which are included in "Elimination or Corporate" column, are comprised primarily of cash, investment securities held by the Company and other assets held at its administration department. Balances of those assets were ¥6,226 million and ¥4,938 million as of March 31, 2010 and 2009, 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 d, the Company adopted "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, issued on 5 July 2006) effective the year ended March 31, 2009. For the year ended March 31, 2009, the change of this accounting policy resulted in decrease of operating income in "Domestic" by ¥33 million, compared with the amounts under the previous method.
- (f) As described in Note 2 c, effective the year ended March 31, 2009, pursuant to an amendment to the Corporation Tax Law of Japan, the Company and its domestic consolidated subsidiaries reviewed the useful lives of machinery and equipment and their classification of assets. As a result, for the year ended March 31, 2009, operating income in "Domestic" decreased by ¥19 million, compared with the amounts under the previous method.

Overseas and export sales for the years ended March 31, 2010 and 2009 were summarized as follows:

	Millions of Yen	
	2010	2009
<u>For the years ended March 31</u>		
Overseas and export sales:		
Asia (a)	¥ 36,990	¥ 49,173
Other (b)	8,452	10,895
	<u>¥ 45,442</u>	<u>¥ 60,068</u>
Consolidated net sales	¥ 86,810	¥ 103,623
Percentage of overseas and exports sales to consolidated net sales:		
Asia (a)	42.6%	47.5%
Other (b)	9.7	10.5
	<u>52.3%</u>	<u>58.0%</u>

CHUGOKU MARINE PAINTS, LTD. AND ITS SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011, 2010 and 2009

- (a) Primarily included are China, Singapore, Hong Kong, Korea, Taiwan, Thailand, Malaysia, Indonesia and Oceania.
- (b) Primarily included are the Netherlands, U.S.A., U.K. and Africa.

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

22. Merger of Consolidated Subsidiaries

For the year ended March 31, 2009

(1) Outline of the merger

- a) Companies involved in the merger and principal business activities

CHUGOKU PAINTS B.V.

Paints: Production and sales of paints

FIJNAART HOLDINGS B.V.

Paints: Management control of consolidated subsidiaries in Europe

CHUGOKU COATINGS B.V.

Paints: Inactive Company

- b) Purpose of the merger

This merger aims to enhance the business efficiency of consolidated subsidiaries in Europe.

- c) Date: 18 August 2008

- d) Method of the merger

CHUGOKU PAINTS B.V., as the surviving company, acquired FIJNAART HOLDINGS B.V. and CHUGOKU COATINGS B.V., which were subsequently dissolved.

(2) Summary of accounting procedures

The merger is accounted for as an under common control transaction, based on “Accounting Standard for Business Combinations” (Issued by the Business Accounting Council in Japan on October 30, 2003).