

Gun Ei Chemical Industry Co., Ltd.

Consolidated Financial Statements

Consolidated balance sheets

As of September 30, 2006, March 31, 2006 and September 30, 2005

	Unit : Millions of yen		
	September 30, 2005	September 30, 2006	March 31, 2006
Assets			
Current assets			
Cash and deposits	4,599	4,044	3,028
Notes and accounts receivable-trade	6,762	6,838	6,313
Short-term investment securities	2,332	1,607	2,795
Inventories	2,242	2,478	2,362
Deferred tax assets	491	191	213
Other	1,807	1,411	1,933
Allowance for doubtful accounts	(5)	(5)	(6)
Total current assets	18,229	16,566	16,640
Non-current assets			
Property, plant and equipment			
Buildings and structures	18,224	19,399	19,091
Accumulated depreciation	(11,077)	(11,754)	(11,251)
Buildings and structures, net	7,147	7,644	7,839
Machinery, equipment and vehicles	21,233	23,770	22,954
Accumulated depreciation	(17,544)	(18,329)	(17,716)
Machinery, equipment and vehicles, net	3,688	5,440	5,238
Land	5,276	7,804	5,276
Other	4,052	2,784	2,887
Accumulated depreciation	(1,665)	(1,736)	(1,664)
Other, net	2,386	1,048	1,222
Total property, plant and equipment	18,499	21,938	19,577
Intangible assets	96	143	166
Investments and other assets			
Investment securities	17,344	17,847	18,694
Other	1,215	1,161	1,211
Allowance for doubtful accounts	(142)	(139)	(141)
Total investments and other assets	18,417	18,869	19,764
Total non-current assets	37,012	40,950	39,508
Total assets	55,242	57,516	56,149

Unit : Millions of yen			
	September 30, 2005	September 30, 2006	March 31, 2006
Liabilities			
Current liabilities			
Notes and accounts payable-trade	2,620	3,024	2,350
Short-term loans payable	1,753	1,670	1,670
Current portion of long-term loans payable	1,050	1,874	1,121
Accounts payable-other	3,285	2,544	2,804
Provision for bonuses	297	252	326
Other	161	485	319
Total current liabilities	9,167	9,852	8,592
Non-current liabilities			
Long-term loans payable	2,658	3,948	2,215
Deferred tax liabilities	434	313	935
Provision for retirement benefits	942	1,082	1,072
Provision for directors' retirement benefits	329	24	343
Negative goodwill	—	56	—
Other	119	306	128
Total non-current liabilities	4,484	5,732	4,695
Total liabilities	13,652	15,584	13,288
Minority interests	614	—	742
Shareholders' equity			
Capital stock	20,305	—	20,305
Capital surplus	11,774	—	11,774
Retained earnings	10,808	—	11,114
Valuation difference on available-for-sale securities	1,563	—	2,366
Foreign currency translation adjustment	(180)	—	(132)
Treasury stock	(3,295)	—	(3,311)
Total shareholders' equity	40,975	—	42,117
Total liabilities, minority interests and shareholders' equity	55,242	—	56,149
Net assets			
Shareholders' equity			
Capital stock	—	5,000	—
Capital surplus	—	26,849	—
Retained earnings	—	11,180	—
Treasury stock	—	(3,558)	—
Total shareholders' equity	—	39,470	—
Valuation and translation adjustments			
Valuation difference on available-for-sale securities	—	1,702	—
Foreign currency translation adjustment	—	(86)	—
Total valuation and translation adjustments	—	1,615	—
Minority interests	—	846	—
Total net assets	—	41,932	—
Total liabilities and net assets	—	57,516	—

Consolidated Statements of income

For the six months period ended September 30, 2005 and 2006, and the fiscal year ended March 31, 2006

	Unit : Millions of yen		
	April - September 2005	April - September 2006	April 2005 - March 2006
Net sales	11,988	11,071	23,245
Cost of sales	9,006	9,069	17,713
Gross profit	2,982	2,002	5,531
Selling, general and administrative expenses	1,531	1,566	3,084
Operating income	1,451	436	2,447
Non-operating income			
Interest income	78	84	141
Dividends income	19	143	75
Gain on sales of investment securities	—	132	—
Equity in earnings of affiliates	22	15	37
Foreign exchange gains	17	2	34
Amortization of negative goodwill	—	6	—
Other	16	23	37
Total non-operating income	154	407	326
Non-operating expenses			
Interest expenses	21	16	42
Taxes and dues	29	46	48
Other	3	16	11
Total non-operating expenses	55	78	102
Ordinary income	1,550	765	2,672
Extraordinary income			
Gain on sales of investment securities	—	477	—
Other	—	2	—
Total extraordinary income	—	479	—
Extraordinary loss			
Loss on disposal of non-current assets	7	96	33
Impairment loss	—	460	—
Loss on changes in retirement benefit plans	—	—	104
Loss on valuation of membership	0	—	0
Other	—	8	—
Total extraordinary losses	8	564	138
Income before income taxes	1,541	679	2,533
Income taxes-current	38	292	165
Income taxes-deferred	305	(146)	541
Total income taxes	343	146	707
Minority interests in income	67	106	160
Net income	1,130	426	1,666

Consolidated Statements of Capital surplus and Retained earnings

For the six months period ended September 30, 2005 and the fiscal year ended March 31,2006

	Unit : Millions of yen	
	April - September 2005	April 2005 - March 2006
<u>Capital surplus</u>		
Balance at beginning of period	11,773	11,773
Gain on disposal of treasury stock	0	0
Total increase	0	0
Balance at end of period	11,774	11,774
<u>Retained earnings</u>		
Balance at beginning of period	10,038	10,038
Net income	1,130	1,666
Total increase	1,130	1,666
Dividends from surplus	306	536
Bonuses to directors and corporate auditors	52	52
Total decrease	359	589
Balance at end of period	10,808	11,114

Consolidated Statements of Changes in Net Assets

For the six months period ended September 30, 2006

(Unit : Millions of yen)

	Shareholders' equity					Valuation and translation adjustments		Minority interests
	Capital stock	Capital surplus	Retained earnings	Treasury stock	[Total]	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	
Balance as of March 31, 2006	20,305	11,774	11,114	(3,311)	39,882	2,366	(132)	742
Changes of items during the period								
Dividends from surplus		(229)	(306)		(536)			
Bonuses to directors and corporate auditors			(55)		(55)			
Net income			426		426			
Purchase of treasury stock				(247)	(247)			
Disposal of treasury stock		0		0	0			
Transfer to other capital reserve surplus from capital stock	(15,305)	15,305			—			
Net changes of items other than shareholders' equity						(664)	45	103
Total changes of items during the period	(15,305)	15,075	65	(247)	(411)	(664)	45	103
Balance as of September 30, 2006	5,000	26,849	11,180	(3,558)	39,470	1,702	(86)	846

Consolidated Statements of Cash Flows

For the six months period ended September 30, 2005 and 2006, and the fiscal year ended March 31, 2006

	Unit : Millions of yen		
	April - September 2005	April - September 2006	April 2005 - March 2006
Net cash provided by (used in) operating activities			
Income before income taxes	1,541	679	2,533
Depreciation and amortization	508	887	1,213
Impairment loss	—	460	—
Amortization of negative goodwill	—	(6)	—
Loss (gain) on sales of investment securities	—	(602)	—
Increase (decrease) in provision for retirement benefits	35	2	165
Increase (decrease) in provision for directors' retirement benefits	14	(322)	28
Interest and dividends income	(97)	(228)	(217)
Interest expenses	21	16	42
Decrease (increase) in notes and accounts receivable-trade	(191)	(100)	280
Decrease (increase) in inventories	(303)	76	(406)
Increase (decrease) in notes and accounts payable-trade	17	398	(259)
Other, net	(284)	349	(124)
Subtotal	1,263	1,610	3,257
Interest and dividends income received	146	268	250
Interest expenses paid	(20)	(13)	(41)
Income taxes paid	(29)	(96)	(93)
Net cash provided by (used in) operating activities	1,360	1,769	3,372
Net cash provided by (used in) investing activities			
Proceeds from redemption of securities	3,400	1,900	4,020
Purchase of property, plant and equipment	(1,712)	(4,079)	(4,058)
Purchase of investment securities	(3,329)	(2,351)	(4,604)
Proceeds from sales and redemption of investment securities	400	1,832	600
Purchase of investments in subsidiaries resulting in change in scope of consolidation	—	(131)	—
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	—	(16)	—
Net decrease (increase) in time deposits	110	50	189
Other, net	(37)	45	(114)
Net cash provided by (used in) investing activities	(1,169)	(2,750)	(3,966)
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term loans payable	633	—	550
Proceeds from long-term loans payable	133	3,000	277
Repayment of long-term loans payable	(527)	(526)	(1,052)
Net decrease (increase) in treasury stock	(12)	(245)	(26)
Cash dividends paid	(305)	(533)	(532)
Other, net	(14)	(17)	(15)
Net cash provided by (used in) financing activities	(93)	1,676	(800)
Effect of exchange rate change on cash and cash equivalents	—	25	20
Net increase (decrease) in cash and cash equivalents	97	721	(1,373)
Cash and cash equivalents at beginning of period	5,844	4,470	5,844
Cash and cash equivalents at end of period	5,941	5,192	4,470