

Gun Ei Chemical Industry Co., Ltd.

Consolidated Financial Statements

Consolidated balance sheets

As of March 31, 2006 and 2007

		Unit : Millions of yen		
		March 31, 2006	March 31, 2007	Increase (Decrease)
Assets				
Current assets				
Cash and deposits		3,028	3,402	374
Notes and accounts receivable-trade		6,313	6,961	648
Short-term investment securities		2,795	1,207	(1,588)
Inventories		2,362	2,423	61
Deferred tax assets		213	167	(46)
Other		1,933	398	(1,535)
Allowance for doubtful accounts		(6)	(5)	1
Total current assets		16,640	14,555	(2,085)
Non-current assets				
Property, plant and equipment				
Buildings and structures		19,091	19,158	
Accumulated depreciation		(11,251)	(11,748)	
Buildings and structures, net		7,839	7,409	(430)
Machinery, equipment and vehicles		22,954	25,063	
Accumulated depreciation		(17,716)	(18,933)	
Machinery, equipment and vehicles, net		5,238	6,130	892
Land		5,276	7,590	2,314
Construction in progress		772	4	(768)
Other		2,114	2,318	
Accumulated depreciation		(1,664)	(1,795)	
Other, net		449	522	73
Total property, plant and equipment		19,577	21,657	2,080
Intangible assets		166	128	(38)
Investments and other assets				
Investment securities		18,694	17,254	(1,440)
Other		1,211	1,085	(126)
Allowance for doubtful accounts		(141)	(139)	2
Total investments and other assets		19,764	18,200	(1,564)
Total non-current assets		39,508	39,986	478
Total assets		56,149	54,541	(1,608)

Unit : Millions of yen			
	March 31, 2006	March 31, 2007	Increase (Decrease)
Liabilities			
Current liabilities			
Notes and accounts payable-trade	2,350	2,959	609
Short-term loans payable	1,670	1,770	100
Current portion of long-term loans payable	1,121	1,563	442
Accounts payable-other	2,804	1,615	(1,189)
Income taxes payable	140	147	7
Provision for bonuses	326	197	(129)
Provision for directors' bonuses	—	10	10
Other	179	180	1
Total current liabilities	8,592	8,445	(147)
Non-current liabilities			
Long-term loans payable	2,215	3,224	1,009
Deferred tax liabilities	935	469	(466)
Provision for retirement benefits	1,072	1,123	51
Provision for directors' retirement benefits	343	5	(338)
Negative goodwill	—	70	70
Other	128	318	190
Total non-current liabilities	4,695	5,211	516
Total liabilities	13,288	13,656	368
Minority interests	742	—	—
Shareholders' equity			
Capital stock	20,305	—	—
Capital surplus	11,774	—	—
Retained earnings	11,114	—	—
Valuation difference on available-for-sale securities	2,366	—	—
Foreign currency translation adjustment	(132)	—	—
Treasury stock	(3,311)	—	—
Total shareholders' equity	42,117	—	—
Total liabilities, minority interests and shareholders' equity	56,149	—	—
Net assets			
Shareholders' equity			
Capital stock	—	5,000	—
Capital surplus	—	26,850	—
Retained earnings	—	10,703	—
Treasury stock	—	(4,324)	—
Total shareholders' equity	—	38,229	—
Valuation and translation adjustments			
Valuation difference on available-for-sale securities	—	1,646	—
Deferred gains or losses on hedges	—	(5)	—
Foreign currency translation adjustment	—	35	—
Total valuation and translation adjustments	—	1,676	—
Minority interests	—	978	—
Total net assets	—	40,884	—
Total liabilities and net assets	—	54,541	—

Consolidated Statements of income

For the fiscal year ended March 31, 2006 and 2007

	Unit : Millions of yen		
	April 2005 - March 2006	April 2006 - March 2007	Increase (Decrease)
Net sales	23,245	22,053	(1,192)
Cost of sales	17,713	18,183	470
Gross profit	5,531	3,870	(1,661)
Selling, general and administrative expenses	3,084	3,094	10
Operating income	2,447	776	(1,671)
Non-operating income			
Interest income	141	191	
Dividends income	75	174	
Gain on sales of investment securities	—	132	
Amortization of negative goodwill	—	6	
Equity in earnings of affiliates	37	28	
Foreign exchange gains	34	6	
Other	37	39	
Total non-operating income	326	579	253
Non-operating expenses			
Interest expenses	42	59	
Taxes and dues	48	52	
Other	11	25	
Total non-operating expenses	102	137	35
Ordinary income	2,672	1,218	(1,454)
Extraordinary income			
Gain on sales of investment securities	—	476	
Other	—	4	
Total extraordinary income	—	481	481
Extraordinary loss			
Loss on disposal of non-current assets	33	138	
Loss on valuation of non-current assets	—	357	
Impairment loss	—	462	
Loss on changes in retirement benefit plans	104	—	
Other	0	18	
Total extraordinary losses	138	977	839
Income before income taxes	2,533	722	(1,811)
Income taxes-current	165	256	
Income taxes-deferred	541	80	
Total income taxes	707	337	(370)
Minority interests in income	160	206	46
Net income	1,666	178	(1,488)

Consolidated Statements of Capital surplus and Retained earnings

For the fiscal year ended March 31, 2006

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

Consolidated Statements of Changes in Net Assets

For the fiscal year ended March 31, 2007

	Shareholders' equity					(Unit : Millions of yen)			Minority interests
	Capital stock	Capital surplus	Retained earnings	Treasury stock	[Total]	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	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)	(534)		(764)				
Bonuses to directors and corporate auditors			(55)		(55)				
Net income			178		178				
Purchase of treasury stock				(1,017)	(1,017)				
Disposal of treasury stock		1		5	6				
Transfer to other capital reserve surplus from capital stock	(15,305)	15,305			—				
Net changes of items other than shareholders' equity						(720)	(5)	167	235
Total changes of items during the period	(15,305)	15,076	(411)	(1,012)	(1,652)	(720)	(5)	167	235
Balance as of March 31, 2007	5,000	26,850	10,703	(4,324)	38,229	1,646	(5)	35	978

Consolidated Statements of Cash Flows

For the fiscal year ended March 31, 2006 and 2007

	Unit : Millions of yen		
	April 2005 - March 2006	April 2006 - March 2007	Increase (Decrease)
Net cash provided by (used in) operating activities			
Income before income taxes	2,533	722	(1,811)
Depreciation and amortization	1,213	1,839	626
Impairment loss	—	462	462
Amortization of negative goodwill	—	(6)	(6)
Increase (decrease) in provision for retirement benefits	165	43	(122)
Increase (decrease) in provision for directors' retirement benefits	28	(341)	(369)
Loss on valuation of non-current assets	—	357	357
Loss (gain) on sales of investment securities	—	(609)	(609)
Interest and dividends income	(217)	(366)	(149)
Interest expenses	42	59	17
Decrease (increase) in notes and accounts receivable-trade	280	(150)	(430)
Decrease (increase) in inventories	(406)	163	569
Increase (decrease) in notes and accounts payable-trade	(259)	324	583
Other, net	(124)	528	652
Subtotal	3,257	3,027	(230)
Interest and dividends income received	250	403	153
Interest expenses paid	(41)	(59)	(18)
Income taxes paid	(93)	(238)	(145)
Net cash provided by (used in) operating activities	3,372	3,132	(240)
Net cash provided by (used in) investing activities			
Proceeds from redemption of securities	4,020	2,800	(1,220)
Purchase of property, plant and equipment	(4,058)	(6,461)	(2,403)
Purchase of investment securities	(4,604)	(2,352)	2,252
Proceeds from sales and redemption of investment securities	600	1,839	1,239
Purchase of investments in subsidiaries resulting in change in scope of consolidation	—	(131)	(131)
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	—	(16)	(16)
Net decrease (increase) in time deposits	189	49	(140)
Other, net	(114)	446	560
Net cash provided by (used in) investing activities	(3,966)	(3,825)	140
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term loans payable	550	100	(450)
Proceeds from long-term loans payable	277	3,000	2,723
Repayment of long-term loans payable	(1,052)	(1,579)	(527)
Net decrease (increase) in treasury stock	(26)	(1,009)	(983)
Cash dividends paid	(532)	(760)	(228)
Cash dividends paid to minority shareholders	(15)	(17)	(2)
Purchase of the stock from minority stockholders	—	(30)	(30)
Net cash provided by (used in) financing activities	(800)	(296)	503
Effect of exchange rate change on cash and cash equivalents	20	69	49
Net increase (decrease) in cash and cash equivalents	(1,373)	(920)	453
Cash and cash equivalents at beginning of period	5,844	4,470	(1,374)
Cash and cash equivalents at end of period	4,470	3,550	(920)