

Interim Business Report

for the 128th Term 2012.4.1–2012.9.30

To Our Shareholders

First of all, thank you for your continued patronage and support. It is our pleasure to present our report for the 128th interim period, covering the period from 1st April 2012 to 30th September, 2012.

Looking at the global economy during this period, no concrete solutions emerged in Europe for the destabilizing factors such as the financial crisis, and there was little anticipation of recovery in the Western economies. Furthermore, economic growth in China was not as robust as in recent years and in other Asian countries and overall, the global economy was characterized by a general sluggishness. Looking at our domestic economy, there was some basis for a slow recovery due to demand stimulated by recovery from the Great East Japan Earthquake and the eco-car subsidy system however trade figures remained in the red due to the continued high yen and resulting impairment of our competitiveness in overseas markets. Furthermore, territorial disputes worsened Japan's relationships with China and South Korea, forcing corporations to revise their production plans in those countries, creating a feeling of economic stagnation.

The business environment for metal surface modification faced by our Parker Group is one in which our key customers in the automotive industry continued to face a historically high yen, causing further shifts of production overseas by automotive and parts manufacturers and continued demands for ever higher quality and lower costs. In the steel industry also, there was strong competition from overseas competitors and the business environment was quite severe.

Amidst such a tough economic environment, our Parker Group sought to actively expand our overseas business by strengthening our supply of new technology and broadening our customer base in order to make steady progress in capturing new business opportunities overseas, as well as focusing on research and development activities to create innovative new technologies for the future. We also made efforts to strengthen ties within our Group and promote business reorganization, as well as improving efficiency of raw materials procurement and implementing a variety of cost reduction measures. As a result, our business achievements for this period were as follows.

Net sales were 44,402 million yen (up 16.9% on the corresponding period for the previous year) and operating income was 6,624 million yen (up 30.8% ditto). Ordinary income was 7,416 million yen (up 26.1% ditto) and interim net profit was 3,962 million yen (up 24.7% ditto).

The overview by each business segment is as follows.

(Chemicals Business)

Net sales were 19,184 million yen (up 9.4% on the corresponding period for the previous year) and operating income was 4,977 million yen (up 20.0% ditto). Sales of metal surface treatment chemicals were steady however from summer onwards domestic and overseas demand fell slowly and it is difficult to anticipate the prospects for the future. Also, Dae Han Parkerizing had become a consolidated subsidiary, increasing sales by 723 million yen and operating income by 158 million yen.

(Equipment Business)

Net sales were 7,361 million yen (up 62.6% on the corresponding period for the previous year) and operating income was 277 million yen (up 272.0% ditto). Orders for pre-treatment equipment for the automotive industry, mainly for overseas were steady, and while figures for operating income were in the red in the first half of the period, they recovered to black and the end result was a significant increase in income.

(Jobbing Business)

Nets sales were 16,218 million yen (up 10.0% on the corresponding period for the previous year) and operating income was 3,413 million yen (up 24.8% ditto). While income and profits increased on the corresponding period for the previous year, this division is significantly affected by automotive production and the overseas transfer of production as well as the slow growth of output domestically and overseas by our customers in the auto industry led to slow growth for the latter half of this period.

(Other Business)

Net sales were 1,637 million yen (up 37.9% on the corresponding period for the previous year) and operating income was 196 million yen (up 85.1% ditto). Income in our building maintenance business increased and profitability improved somewhat in the transportation/logistics business leading to an increase in income and profits.

Regarding the interim dividend for this period, a resolution was passed by the Board of Directors on 5th November to pay a dividend of ten yen per share to be paid on the 10th of December, 2012.

Regarding the outlook for the second half of the financial year, not only is the domestic economy tending to slump, there are no signs of improvement in the overseas economies and we anticipate a worsening of the economy. Furthermore, it is anticipated that domestic automotive sales will slow due to overall stagnation of consumption and the cessation of the eco-car subsidy system, and in addition the hollowing out of domestic industry will continue as manufacturers shift production overseas due to the continued high yen.

Against such a severe economic backdrop, the Parker Group, under its motto of “back to the basics”, will pursue the development of surface modification technologies which cannot be beaten in terms of its innovation and originality as well as actively promoting equipment investment overseas in order to strengthen our business in the ever expanding overseas markets. We will put our utmost effort into strengthening the structure of our organization and increasing profitability.

We look forward to the unerring support of our shareholders.

President & C.O.O.
Kazuichi SATOMI

Consolidated Balance Sheet

| | September 30 | March 31 |
|-------------------------------------|----------------|----------------|
| | 2012 | 2012 |
| | (JPY Million) | |
| Assets | | |
| Current assets | 74,259 | 64,679 |
| Cash and deposits | 27,593 | 23,632 |
| Notes and accounts receivable-trade | 29,354 | 27,431 |
| Short-term investment securities | 2,261 | 2,164 |
| Merchandise and finished goods | 1,807 | 1,781 |
| Work in process | 4,853 | 2,018 |
| Raw materials and supplies | 3,846 | 3,664 |
| Others | 4,660 | 4,124 |
| Allowance for doubtful accounts | △117 | △137 |
| Fixed assets | 63,974 | 65,837 |
| Tangible assets | 35,937 | 35,311 |
| Buildings and fixtures, net | 12,045 | 12,004 |
| Land | 14,972 | 14,554 |
| Others, net | 8,918 | 8,751 |
| Intangible assets | 2,411 | 1,846 |
| Investments and other assets | 25,625 | 28,679 |
| Investment in securities | 16,003 | 18,503 |
| Others | 9,776 | 10,334 |
| Allowance for doubtful accounts | △154 | △158 |
| Total assets | 138,233 | 130,517 |

Liabilities

| | | |
|--------------------------------------------|---------------|---------------|
| Current liabilities | 33,072 | 28,042 |
| Notes and accounts payable-trade | 14,817 | 12,861 |
| Short-term loans payable | 2,736 | 2,731 |
| Current portion of long-term loans payable | 448 | 560 |
| Corporate Income taxes payable | 2,381 | 2,202 |
| Provision for bonuses | 2,323 | 2,281 |
| Others | 10,365 | 7,406 |
| Fixed liabilities | 15,026 | 15,201 |
| Long-term loans payable | 2,886 | 3,223 |
| Provision for retirement benefits | 9,898 | 9,876 |
| Others | 2,241 | 2,101 |
| Total liabilities | 48,098 | 43,243 |

Net assets

| | | |
|-------------------------------------------------------|----------------|----------------|
| Shareholders' equity | 79,029 | 75,676 |
| Paid-in capital | 4,560 | 4,560 |
| Capital surplus | 3,913 | 3,913 |
| Retained earnings | 74,179 | 70,824 |
| Treasury stock | △3,623 | △3,622 |
| Accumulated other comprehensive profit | △3,050 | △2,030 |
| Valuation difference on available-for-sale securities | 1,938 | 3,056 |
| Deferred gains or losses on hedges | 3 | △34 |
| Foreign currency translation adjustment | △4,992 | △5,052 |
| Minority interests | 14,156 | 13,628 |
| Total net assets | 90,135 | 87,273 |
| Total liabilities and net assets | 138,233 | 130,517 |

Consolidated Statements of income

| | Six months ended September 30 | |
|----------------------------------------------------------|-------------------------------|---------------|
| | 2012 | 2011 |
| | (JPY Million) | |
| Net sales | 44,402 | 37,999 |
| Cost of sales | 27,989 | 23,389 |
| Gross profit | 16,412 | 14,609 |
| Selling, general and administrative expenses | 9,788 | 9,545 |
| Operating income | 6,624 | 5,064 |
| Non-operating profit | 1,007 | 1,002 |
| Interest income | 70 | 53 |
| Dividends income | 170 | 164 |
| Rent income | 163 | 153 |
| Equity in earnings of affiliates | 298 | 386 |
| Other | 304 | 244 |
| Non-operating expenses | 214 | 187 |
| Interest expenses | 39 | 46 |
| Foreign exchange losses | 78 | 54 |
| Loss on valuation of derivatives | - | 44 |
| Other | 96 | 41 |
| Ordinary income | 7,416 | 5,879 |
| Extraordinary income | 93 | 22 |
| Extraordinary loss | 138 | 112 |
| Income before income taxes and minority interests | 7,371 | 5,789 |
| Income taxes | 2,683 | 2,056 |
| Income before minority interests | 4,688 | 3,732 |
| Minority interests in income | 726 | 556 |
| Net profit for the period | 3,962 | 3,176 |