

CHUGOKU MARINE PAINTS, LTD.

**Consolidated Financial Statements
for the years ended March 31, 2019 and 2018**



Independent Auditor's Report

The Board of Directors
CHUGOKU MARINE PAINTS, LTD.

We have audited the accompanying consolidated financial statements of CHUGOKU MARINE PAINTS, LTD. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2019, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CHUGOKU MARINE PAINTS, LTD. and its consolidated subsidiaries as at March 31, 2019, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 5.

Ernst & Young ShinNihon LLC
June 20, 2019

CHUGOKU MARINE PAINTS, LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2019 and 2018

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 5)
	2019	2018	2019
Current assets:			
Cash on hand and in banks (Notes 19 and 21)	¥ 29,209	¥ 33,751	\$ 263,168
Trade notes and accounts receivable (Note 21)	32,127	35,998	289,459
Short-term investment securities (Notes 18 and 21)	205	143	1,847
Inventories (Note 6)	17,360	17,106	156,410
Other current assets	1,505	1,736	13,559
Allowance for doubtful accounts (Note 21)	(849)	(1,482)	(7,649)
Total current assets	<u>79,557</u>	<u>87,252</u>	<u>716,794</u>
Property, plant and equipment:			
Buildings and structures	19,766	20,473	178,088
Machinery, equipment and vehicles	17,244	18,576	155,366
Tools, furniture and fixtures	4,718	4,849	42,508
	<u>41,728</u>	<u>43,898</u>	<u>375,962</u>
Less, accumulated depreciation	(29,383)	(30,216)	(264,736)
	<u>12,345</u>	<u>13,682</u>	<u>111,226</u>
Land	13,130	13,225	118,299
Construction in progress	111	142	1,000
Total property, plant and equipment	<u>25,586</u>	<u>27,049</u>	<u>230,525</u>
Investments and other assets:			
Investment securities (Notes 7, 18 and 21)	5,368	8,005	48,365
Net defined benefit asset (Note 8)	85	84	766
Deferred tax assets (Note 12)	1,224	1,203	11,028
Other assets	<u>2,031</u>	<u>2,176</u>	<u>18,299</u>
Total investments and other assets	<u>8,708</u>	<u>11,468</u>	<u>78,458</u>
Total assets	<u>¥ 113,851</u>	<u>¥ 125,769</u>	<u>\$1,025,777</u>

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

CHUGOKU MARINE PAINTS, LTD. AND SUBSIDIARIES

Consolidated Balance Sheets

March 31, 2019 and 2018

LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 5)
	2019	2018	2019
Current liabilities:			
Short-term borrowings (Notes 7 and 21)	¥ 18,246	¥ 17,814	\$ 164,393
Current portion of long-term debt (Note 7)	1,013	1,714	9,127
Notes and accounts payable:			
Trade (Note 21)	13,219	13,196	119,101
Other	2,455	2,802	22,119
	<u>15,674</u>	<u>15,998</u>	<u>141,220</u>
Income taxes payable	450	315	4,054
Other current liabilities (Note 7)	3,682	3,452	33,174
Total current liabilities	<u>39,065</u>	<u>39,293</u>	<u>351,968</u>
Non-current liabilities:			
Long-term debt (Note 7)	1,723	1,035	15,524
Net defined benefit liability (Note 8)	1,576	1,359	14,199
Deferred tax liabilities on land revaluation	2,231	2,252	20,101
Deferred tax liabilities (Note 12)	57	219	514
Other liabilities (Note 7)	685	516	6,172
Total non-current liabilities	<u>6,272</u>	<u>5,381</u>	<u>56,510</u>
Total liabilities	<u>45,337</u>	<u>44,674</u>	<u>408,478</u>
Net assets (Note 9):			
Shareholders' equity:			
Common stock	11,626	11,626	104,748
Capital surplus	7,793	7,784	70,214
Retained earnings	47,287	50,249	426,047
Treasury stock, at cost	(6,689)	(1,703)	(60,267)
Total shareholders' equity	<u>60,017</u>	<u>67,956</u>	<u>540,742</u>
Accumulated other comprehensive income:			
Net unrealized holding gain on other securities	226	1,825	2,036
Revaluation gain on land	3,814	3,863	34,364
Foreign currency translation adjustments	(519)	1,542	(4,676)
Remeasurements of defined benefit plans (Note 8)	(169)	(64)	(1,523)
Total accumulated other comprehensive income	<u>3,352</u>	<u>7,166</u>	<u>30,201</u>
Non-controlling interests	<u>5,145</u>	<u>5,973</u>	<u>46,356</u>
Total net assets (Note 17)	<u>68,514</u>	<u>81,095</u>	<u>617,299</u>
Commitments and contingent liabilities (Note 16)			
Total liabilities and net assets	<u>¥ 113,851</u>	<u>¥ 125,769</u>	<u>\$1,025,777</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, 2019 and 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 5)
	<u>2019</u>	<u>2018</u>	<u>2019</u>
Net sales	¥ 88,452	¥ 82,981	\$ 796,937
Cost of sales (Note 6)	<u>68,551</u>	<u>59,501</u>	<u>617,633</u>
Gross profit	19,901	23,480	179,304
Selling, general and administrative expenses (Note 10)	<u>20,490</u>	<u>19,718</u>	<u>184,611</u>
Operating (loss) profit	<u>(589)</u>	<u>3,762</u>	<u>(5,307)</u>
Non-operating income (expenses):			
Interest and dividend income	524	495	4,721
Interest expense	(399)	(330)	(3,595)
Foreign currency exchange gain (loss), net	11	(397)	99
Royalty income	74	77	667
Revenue from technical training	90	101	811
Rental income	123	118	1,108
Commission expenses	(146)	—	(1,315)
Other, net	<u>142</u>	<u>87</u>	<u>1,279</u>
Non-operating income, net	<u>419</u>	<u>151</u>	<u>3,775</u>
Ordinary (loss) profit	(170)	3,913	(1,532)
Special gains, net (Notes 11 and 13)	<u>560</u>	<u>4</u>	<u>5,046</u>
Profit before income taxes	<u>390</u>	<u>3,917</u>	<u>3,514</u>
Income taxes (Note 12):			
Current	884	852	7,965
Deferred	<u>425</u>	<u>146</u>	<u>3,829</u>
	1,309	998	11,794
(Loss) profit	<u>(919)</u>	<u>2,919</u>	<u>(8,280)</u>
(Loss) profit attributable to non-controlling interests	<u>(209)</u>	<u>472</u>	<u>(1,883)</u>
(Loss) profit attributable to owners of parent (Note 17)	<u>¥ (710)</u>	<u>¥ 2,447</u>	<u>\$ (6,397)</u>

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

CHUGOKU MARINE PAINTS, LTD. AND SUBSIDIARIES

Consolidated Statements of Comprehensive Income For the years ended March 31, 2019 and 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 5)
	2019	2018	2019
(Loss) profit	¥ (919)	¥ 2,919	\$ (8,280)
Other comprehensive income (Note 22):			
Net unrealized holding loss on other securities	(1,599)	(284)	(14,407)
Foreign currency translation adjustments	(2,331)	1,918	(21,002)
Remeasurements of defined benefit plans	(99)	75	(892)
Total other comprehensive income	(4,029)	1,709	(36,301)
Comprehensive income	¥ (4,948)	¥ 4,628	\$ (44,581)
Total comprehensive income attributable to			
Owners of parent	¥ (4,475)	¥ 3,817	\$ (40,319)
Non-controlling interests	(473)	811	(4,262)

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, 2019 and 2018

For the year ended March 31, 2019

	Millions of Yen					
	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 April 1, 2018	69,069	¥ 11,626	¥ 7,784	¥ 50,249	¥ (1,703)	¥ 67,956
Cash dividends				(2,301)		(2,301)
Loss attributable to owners of parent				(710)		(710)
Acquisition of treasury stock					(5,000)	(5,000)
Disposal of treasury stock			9		14	23
Reversal of revaluation reserve for land				49		49
Net changes in items other than shareholders' equity						
Total changes in items during the year		—	9	(2,962)	(4,986)	(7,939)
Balance as of March 31, 2019	69,069	¥ 11,626	¥ 7,793	¥ 47,287	¥ (6,689)	¥ 60,017

	Millions of Yen						
	Accumulated other comprehensive income						
	Net unrealized holding gain on other securities	Revaluation gain on land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance as of April 1, 2018	¥ 1,825	¥ 3,863	¥ 1,542	¥ (64)	¥ 7,166	¥ 5,973	¥ 81,095
Cash dividends							(2,301)
Loss attributable to owners of parent							(710)
Acquisition of treasury stock							(5,000)
Disposal of treasury stock							23
Reversal of revaluation reserve for land							49
Net changes in items other than shareholders' equity	(1,599)	(49)	(2,061)	(105)	(3,814)	(828)	(4,642)
Total changes in items during the year	(1,599)	(49)	(2,061)	(105)	(3,814)	(828)	(12,581)
Balance as of March 31, 2019	¥ 226	¥ 3,814	¥ (519)	¥ (169)	¥ 3,352	¥ 5,145	¥ 68,514

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, 2019 and 2018

	Thousands of U.S. Dollars (Note 5)					
	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 April 1, 2018	69,069	\$ 104,748	\$ 70,133	\$ 452,734	\$ (15,344)	\$ 612,271
Cash dividends				(20,732)		(20,732)
Loss attributable to owners of parent				(6,397)		(6,397)
Acquisition of treasury stock					(45,049)	(45,049)
Disposal of treasury stock			81		126	207
Reversal of revaluation reserve for land				442		442
Net changes in items other than shareholders' equity						
Total changes in items during the year		—	81	(26,687)	(44,923)	(71,529)
Balance as of March 31, 2019	69,069	\$ 104,748	\$ 70,214	\$ 426,047	\$ (60,267)	\$ 540,742

	Thousands of U.S. Dollars (Note 5)						
	Accumulated other comprehensive income						
	Net unrealized holding gain on other securities	Revaluation gain on land	Foreign currency translation adjustments	Remeasure- ments of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance as of April 1, 2018	\$ 16,443	\$ 34,805	\$ 13,893	\$ (577)	\$ 64,564	\$ 53,816	\$ 730,651
Cash dividends							(20,732)
Loss attributable to owners of parent							(6,397)
Acquisition of treasury stock							(45,049)
Disposal of treasury stock							207
Reversal of revaluation reserve for land							442
Net changes in items other than shareholders' equity	(14,407)	(441)	(18,569)	(946)	(34,363)	(7,460)	(41,823)
Total changes in items during the year	(14,407)	(441)	(18,569)	(946)	(34,363)	(7,460)	(113,352)
Balance as of March 31, 2019	\$ 2,036	\$ 34,364	\$ (4,676)	\$ (1,523)	\$ 30,201	\$ 46,356	\$ 617,299

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, 2019 and 2018

For the year ended March 31, 2018

	Millions of Yen					
	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 April 1, 2017	69,069	¥ 11,626	¥ 7,784	¥ 49,046	¥ (1,703)	¥ 66,753
Cash dividends				(1,244)		(1,244)
Profit attributable to owners of parent				2,447		2,447
Acquisition of treasury stock					(0)	(0)
Net changes in items other than shareholders' equity						
Total changes in items during the year		—	—	1,203	(0)	1,203
Balance as of March 31, 2018	69,069	¥ 11,626	¥ 7,784	¥ 50,249	¥ (1,703)	¥ 67,956

	Millions of Yen						
	Accumulated other comprehensive income						
	Net unrealized holding gain on other securities	Revaluation gain on land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance as of April 1, 2017	¥ 2,109	¥ 3,863	¥ (32)	¥ (143)	¥ 5,797	¥ 5,619	¥ 78,169
Cash dividends							(1,244)
Profit attributable to owners of parent							2,447
Acquisition of treasury stock							(0)
Net changes in items other than shareholders' equity	(284)		1,574	79	1,369	354	1,723
Total changes in items during the year	(284)	—	1,574	79	1,369	354	2,926
Balance as of March 31, 2018	¥ 1,825	¥ 3,863	¥ 1,542	¥ (64)	¥ 7,166	¥ 5,973	¥ 81,095

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, 2019 and 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 5)
	2019	2018	2019
Cash flows from operating activities:			
Profit before income taxes	¥ 390	¥ 3,917	\$ 3,514
Depreciation and amortization	1,739	1,801	15,668
Impairment loss	123	—	1,108
Decrease in allowance for doubtful accounts	(193)	(762)	(1,739)
Increase in net defined benefit asset	(1)	(2)	(9)
Increase in net defined benefit liability	87	103	784
Interest and dividend income	(524)	(495)	(4,721)
Interest expense	399	330	3,595
Foreign currency exchange loss, net	59	51	532
(Gain) loss on sales of property, plant and equipment, net	(2)	2	(18)
Gain on sales of investment securities	(680)	—	(6,127)
Decrease (increase) in trade notes and accounts receivable	2,370	(2,374)	21,353
Increase in inventories	(938)	(2,472)	(8,451)
Increase in trade notes and accounts payable	432	1,201	3,892
Other, net	230	(527)	2,072
Subtotal	3,491	773	31,453
Interest and dividend income received	520	483	4,685
Interest expense paid	(399)	(330)	(3,595)
Income taxes paid	(477)	(1,555)	(4,297)
Net cash provided by (used in) operating activities	3,135	(629)	28,246
Cash flows from investing activities:			
Increase in time deposits	(13,857)	(21,007)	(124,849)
Decrease in time deposits	13,544	21,454	122,029
Decrease in short-term loans receivable, net	18	18	162
Payments for purchases of investment securities	(16)	(15)	(144)
Payments for purchases of property, plant and equipment	(1,081)	(1,579)	(9,740)
Proceeds from sales of property, plant and equipment	30	88	270
Proceeds from sales of investment securities	1,099	—	9,902
Other, net	76	(9)	685
Net cash used in investing activities	¥ (187)	¥ (1,050)	\$ (1,685)

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, 2019 and 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 5)
	<u>2019</u>	<u>2018</u>	<u>2019</u>
Cash flows from financing activities:			
Increase in short-term borrowings, net	¥ 899	¥ 308	\$ 8,100
Increase in long-term debt	1,700	50	15,317
Repayment of long-term debt	(1,714)	(39)	(15,443)
Proceeds from sales of treasury stock	23	—	207
Payments for purchases of treasury stock	(5,000)	(0)	(45,049)
Cash dividends	(2,296)	(1,244)	(20,686)
Other, net	<u>(366)</u>	<u>(463)</u>	<u>(3,298)</u>
Net cash used in financing activities	<u>(6,754)</u>	<u>(1,388)</u>	<u>(60,852)</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(674)</u>	<u>(56)</u>	<u>(6,073)</u>
Net decrease in cash and cash equivalents	<u>(4,480)</u>	<u>(3,123)</u>	<u>(40,364)</u>
Cash and cash equivalents at beginning of year	<u>25,280</u>	<u>28,403</u>	<u>227,768</u>
Cash and cash equivalents at end of year (Note 19)	<u>¥ 20,800</u>	<u>¥ 25,280</u>	<u>\$ 187,404</u>

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

CHUGOKU MARINE PAINTS, LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2019 and 2018

1. Summary of Significant Accounting Policies

a. Basis of presentation

The accompanying consolidated financial statements of CHUGOKU MARINE PAINTS, LTD. (the “Company”) and its 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 (IFRS), and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

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, 2019 and 2018, the Company consolidated 22 and 24 subsidiaries, respectively. All significant intercompany accounts and transactions have been eliminated in consolidation.

CHUGOKU SOFT DEVELOPMENT CO., LTD. and CHUGOKU TECHNICAL SUPPORT CO., LTD. were excluded from the scope of consolidation following an absorption-type merger with the Company during the year ended March 31, 2019 in which the Company was the surviving company.

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 their financial statements as of and for the year ended December 31 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, 2019 and 2018, there were no unconsolidated subsidiaries or affiliates accounted for by the equity method.

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 “Non-controlling interests” which are components of net assets.

CHUGOKU MARINE PAINTS, LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2019 and 2018

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 and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits withdrawable on demand, and short-term investment securities with an original maturity of three months or less 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 gains and losses, net of the applicable income taxes, is recognized as a component of net assets and is reflected as "Net unrealized holding gain on other securities." The cost of other securities sold is computed by the moving-average method. Other securities without quoted market prices are stated at cost based on the moving-average method.

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

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

Property, plant and equipment are depreciated by the straight-line method.

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 Act of Japan, except for computer software for internal use which is amortized on a straight-line basis over its estimated useful lives (three to ten years).

CHUGOKU MARINE PAINTS, LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2019 and 2018

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 expense as incurred.

Leased assets capitalized as finance leases 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.

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 consolidated subsidiaries provide for accrued bonuses for employees based on the amount attributed to services rendered during the year and estimated to be paid.

m. Retirement benefits

(i) Method for attributing expected retirement benefits to periods

In the calculation of retirement benefit obligations, the expected retirement benefits are attributed to periods up to the end of the current fiscal year based on the benefit formula method.

(ii) Accounting method for actuarial gains and losses

The actuarial gains and losses are amortized from the year following the year in which the gains or losses are recognized by the straight-line method over a certain period (10 years) that is within the average remaining years of service of the eligible employees when the gains or losses occur.

(iii) Application of the simplified method for small-sized enterprises

Certain consolidated subsidiaries apply the simplified method in the calculation of their net defined benefit liability and retirement benefit expenses. Under the simplified method, the benefits payable assuming the voluntary retirement of all eligible employees at the fiscal year-end are deemed as the retirement benefit obligations.

CHUGOKU MARINE PAINTS, LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2019 and 2018

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 profit or loss for the period in which they arise unless derivative instruments are used for hedging purposes. Certain consolidated 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.

At inception, 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.

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.

CHUGOKU MARINE PAINTS, LTD. AND SUBSIDIARIES

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r. Earnings and cash dividends per share

Basic earnings per share of common stock is based on the weighted average number of shares of common stock outstanding during each period.

Diluted earnings per share has not been presented for both the years ended March 31, 2019 and 2018 as the Company had no potentially dilutive shares of common stock as of March 31, 2019 and 2018 and a loss was recorded for the year ended March 31, 2019.

Cash dividends per share is applicable to the respective years and includes 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 is computed based on the net assets reduced by non-controlling interests and the number of shares of common stock outstanding at the year-end.

s. Shareholders' equity

The Companies Act of Japan (the "Act") provides that an amount equal to 10% of the amount of the deduction from surplus as a result of the payment of such dividends of surplus shall be transferred to additional paid-in capital (a component of "Capital surplus") or legal reserve (a component of "Retained earnings") on the dividend date until the sum of additional paid-in capital and legal reserve equals 25% of the common stock account. Such distributions can be made at any time by resolution of the shareholders' meeting or the board of directors if certain conditions are met.

2. Accounting Change

Accounting change difficult to distinguish from change in accounting estimate

Change in depreciation method of property, plant and equipment

Effective from the fiscal year ended March 31, 2019, the Company and certain consolidated subsidiaries have changed their accounting policies for depreciation of property, plant and equipment (except for leased assets) from the declining-balance method to the straight-line method (except for buildings (exclusive of any facilities attached to buildings) acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016, which have been depreciated by the straight-line method).

In the medium-term management plan, "CMP New Century Plan 1" released in May 2018, the Companies plan to restructure and reinforce the overseas production framework and make capital expenditure mainly for maintenance and renewal of existing facilities in Japan. The Companies reviewed depreciation methods along with the change in resource allocation mainly targeting areas overseas and concluded that it is appropriate to unify the depreciation method to the straight-line method. It is more appropriate to use the straight-line method from the viewpoint of economic substance because property, plant and equipment of the Companies can be used for a significant length of time in general throughout periods from technical establishment of production facilities to development of products. In addition, unification of the depreciation method to the straight-line method contributes to further promotion of the Company's global expansion by allowing better comparison of performance and costs among the Companies, and eventually decision making for resource allocation as well as becoming better able to easily compare the Companies' performance and costs with multi-national companies with global footprints.

CHUGOKU MARINE PAINTS, LTD. AND SUBSIDIARIES

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As a result of this change, operating loss and ordinary loss decreased by ¥149 million (\$1,342 thousand) and profit before income taxes increased by ¥149 million (\$1,342 thousand) for the year ended March 31, 2019 compared with the respective amounts under the previous method.

3. Accounting Standards Issued but Not Yet Effective

The Company and domestic subsidiaries

Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan (ASBJ) Statement No. 29, issued on March 30, 2018)

Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, issued on March 30, 2018)

(1) Outline

The International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB) jointly developed a comprehensive accounting standard for revenue recognition and issued “Revenue from Contracts with Customers” (IFRS 15 issued by the IASB and Topic 606 issued by the FASB) in May 2014. Considering that IFRS 15 has become applicable from fiscal years beginning on or after January 1, 2018 and Topic 606 from fiscal years beginning after December 15, 2017, the ASBJ developed a comprehensive accounting standard for revenue recognition and issued it together with implementation guidance.

The ASBJ’s basic policy in developing the accounting standard for revenue recognition was to establish accounting standards in accordance with the basic principles of IFRS 15 as a starting point from the viewpoint of comparability of financial statements, which is one of the benefits of maintaining consistency with IFRS 15, and to add alternative treatments to the extent that comparability is not impaired in cases where previous practices and others in Japan should be considered.

(2) Date of adoption

The standard and guidance will be adopted from the beginning of the fiscal year ending March 31, 2022.

(3) Effect of adoption

The Company is currently assessing the effect of adopting the standard and guidance on the consolidated financial statements.

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Overseas subsidiaries

Leases (IFRS 16)

(1) Outline

IFRS 16 requires a lessee to recognize assets and corresponding liabilities for principally all lease transactions.

(2) Date of adoption

IFRS 16 will be adopted from the beginning of the fiscal year ending March 31, 2020.

(3) Effect of adoption

The Company is currently assessing the effect of adopting IFRS 16 on the consolidated financial statements.

4. Changes in Presentation Method

Changes due to adoption of “Partial Amendments to Accounting Standard for Tax Effect Accounting”

Upon application of the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, revised on February 16, 2018 (hereinafter, “Statement No. 28”)) from the beginning of the fiscal year ended March 31, 2019, the Company and its subsidiaries changed the presentation and related notes of deferred tax assets and deferred tax liabilities, such that deferred tax assets and deferred tax liabilities are classified as part of investments and other assets and non-current liabilities, respectively.

As a result, deferred tax assets in current assets decreased by ¥798 million, deferred tax assets in investments and other assets increased by ¥520 million and deferred tax liabilities in non-current liabilities decreased by ¥278 million as of March 31, 2018.

Total assets decreased by ¥278 million due to offsetting deferred tax assets and deferred tax liabilities of the same taxable entity.

Certain information is added to Note 12., Income Taxes, as described in note 8 (excluding total amount of valuation allowance) and note 9 of explanatory notes to the “Accounting Standard for Tax Effect Accounting” as prescribed in Paragraphs 3 through 5 of the Statement No. 28. However, information for the year ended March 31, 2018 is not presented in accordance with the transitional treatment prescribed in Paragraph 7 of Statement No. 28.

CHUGOKU MARINE PAINTS, LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2019 and 2018

5. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥110.99 = U.S. \$1.00, the rate of exchange prevailing as of March 31, 2019, 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.

6. Inventories

Inventories as of March 31, 2019 and 2018 comprised of the following:

<u>As of March 31</u>	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Merchandise and finished goods	¥ 10,133	¥ 9,893	\$ 91,296
Raw materials and supplies	6,699	6,760	60,357
Work in process	528	453	4,757
Total	<u>¥ 17,360</u>	<u>¥ 17,106</u>	<u>\$ 156,410</u>

Cost of sales for the years ended March 31, 2019 and 2018 includes a loss on valuation of inventories of ¥105 million (\$946 thousand) and ¥39 million, respectively.

7. 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 2.0% as of March 31, 2019 and 2018. Customarily, these notes are renewed at maturity subject to re-negotiation of the interest rates and other conditions.

Long-term debt and lease obligations as of March 31, 2019 and 2018 consisted of the following:

<u>As of March 31</u>	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Loans from banks and an insurance company	¥ 2,735	¥ 2,749	\$ 24,642
Lease obligations	13	9	117
Less, current portion of long-term debt	(1,013)	(1,714)	(9,127)
Less, current portion of lease obligations	(4)	(4)	(36)
Total long-term debt (*1) and lease obligations	<u>¥ 1,731</u>	<u>¥ 1,040</u>	<u>\$ 15,596</u>

CHUGOKU MARINE PAINTS, LTD. AND SUBSIDIARIES

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March 31, 2019 and 2018

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

As of March 31, 2019:	0.9%
As of March 31, 2018:	0.9

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

	Millions of Yen	Thousands of U.S. Dollars
Years ending March 31:		
2020	¥ 1,013	\$ 9,127
2021	10	90
2022	1,710	15,407
2023	2	18
2024 and thereafter	—	—
Total	<u>¥ 2,735</u>	<u>\$ 24,642</u>

The maturities of lease obligations were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Years ending March 31:		
2020	¥ 4	\$ 36
2021	3	27
2022	2	18
2023	2	18
2024 and thereafter	2	18
Total	<u>¥ 13</u>	<u>\$ 117</u>

The Companies' assets pledged as collateral for current portion of long-term debt of ¥500 million (\$4,505 thousand) as of March 31, 2019 and long-term debt of ¥500 million as of March 31, 2018, were summarized as follows:

<u>As of March 31</u>	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Investment securities	¥ 846	¥ 1,202	\$ 7,622

CHUGOKU MARINE PAINTS, LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2019 and 2018

8. Retirement Benefit Plans

a. Overview of retirement benefit plan adopted by the Company

The Companies, excluding certain overseas consolidated subsidiaries, have defined benefit plans such as corporate defined benefit pension plans and/or lump-sum payment plans covering all of its employees. Certain consolidated subsidiaries, on the other hand, have defined contribution pension plans. In addition, the Companies may occasionally pay supplementary benefits to retiring employees.

Certain consolidated subsidiaries adopt the simplified method in the calculation of net defined benefit liability and retirement benefit expenses for their corporate defined benefit pension plans and/or lump-sum payment plans.

b. Defined benefit plan

- (1) The changes in the retirement benefit obligations during the years ended March 31, 2019 and 2018 (except for plans to which the simplified method is applied)

<u>For the years ended March 31</u>	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Projected benefit obligations at April 1	¥ 4,858	¥ 4,696	\$ 43,770
Service cost	299	299	2,694
Interest cost	27	27	243
Actuarial gains and losses	158	18	1,424
Retirement benefits paid	(300)	(180)	(2,703)
Other	(35)	(2)	(316)
Projected benefit obligations at March 31	¥ 5,007	¥ 4,858	\$ 45,112

- (2) The changes in plan assets during the years ended March 31, 2019 and 2018 (except for plans to which the simplified method is applied)

<u>For the years ended March 31</u>	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Plan assets at April 1	¥ 4,195	¥ 3,953	\$ 37,796
Expected return on plan assets	63	59	567
Actuarial gains and losses	(13)	54	(117)
Contribution by the Company	259	304	2,334
Retirement benefits paid	(298)	(177)	(2,685)
Other	(2)	2	(18)
Plan assets at March 31	¥ 4,204	¥ 4,195	\$ 37,877

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Notes to Consolidated Financial Statements

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- (3) The changes in net defined benefit liabilities for plans to which the simplified method is applied during the years ended March 31, 2019 and 2018

<u>For the years ended March 31</u>	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Net defined benefit liability at April 1	¥ 612	¥ 532	\$ 5,514
Retirement benefit expenses	210	159	1,892
Retirement benefits paid	(60)	(29)	(541)
Contribution to plans	(92)	(63)	(829)
Other	18	13	162
Net defined benefit liability at March 31	<u>¥ 688</u>	<u>¥ 612</u>	<u>\$ 6,198</u>

- (4) Reconciliation between retirement benefit obligations and plan assets at end of year and “Net defined benefit liability” and “Net defined benefit asset” for retirement recognized on the consolidated balance sheets

<u>As of March 31</u>	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Projected benefit obligation for funded plans	¥ 5,853	¥ 5,751	\$ 52,735
Plan assets	(5,050)	(5,093)	(45,500)
	803	658	7,235
Projected benefit obligation for unfunded plans	688	617	6,198
Net balance of liability and asset recognized on the consolidated balance sheets	<u>1,491</u>	<u>1,275</u>	<u>13,433</u>
Net defined benefit liability	1,576	1,359	14,199
Net defined benefit asset	(85)	(84)	(766)
Net balance of liability and asset recognized on the consolidated balance sheets	<u>¥ 1,491</u>	<u>¥ 1,275</u>	<u>\$ 13,433</u>

CHUGOKU MARINE PAINTS, LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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(5) The components of retirement benefit expenses

<u>For the years ended March 31</u>	Millions of Yen		Thousands of
	2019	2018	U.S. Dollars
Service cost	¥ 299	¥ 299	\$ 2,694
Interest cost	27	27	243
Expected return on plan assets	(63)	(59)	(567)
Amortization of actuarial gains and losses	27	72	243
Retirement benefit expenses applying the simplified method	210	159	1,892
Retirement benefit expenses under defined benefit plans	<u>¥ 500</u>	<u>¥ 498</u>	<u>\$ 4,505</u>

(6) Remeasurements of defined benefit plans

<u>For the years ended March 31</u>	Millions of Yen		Thousands of
	2019	2018	U.S. Dollars
Actuarial gains and losses	¥ 144	¥ (109)	\$ 1,297
Total	<u>¥ 144</u>	<u>¥ (109)</u>	<u>\$ 1,297</u>

(7) Accumulated remeasurements of defined benefit plans

The components of accumulated remeasurements of defined benefit plans (before tax) are as follows:

<u>As of March 31</u>	Millions of Yen		Thousands of
	2019	2018	U.S. Dollars
Unrecognized actuarial gains and losses	¥ 249	¥ 105	\$ 2,243
Total	<u>¥ 249</u>	<u>¥ 105</u>	<u>\$ 2,243</u>

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(8) Plan assets

(a) Percentage of major categories to total plan assets is as follows:

<u>As of March 31</u>	<u>2019</u>	<u>2018</u>
Bonds	13%	13%
Stocks	13	14
General accounts	62	62
Other	12	11
Total	<u>100%</u>	<u>100%</u>

(b) Determination of expected rate of return on plan assets

In determining the expected rate of return on plan assets, the Company takes into consideration the current and future plan asset allocation as well as the current and expected rate of return on various asset categories comprising plan assets.

(9) Assumptions used in accounting for the above plan

	<u>2019</u>	<u>2018</u>
Discount rate	0.2%	0.4%
Expected rate of return on plan assets	1.5	1.5
Assumed rate of increase in future compensation levels	3.1	3.1

c. Defined contribution plan

The required contribution of certain consolidated subsidiaries to their defined contribution plans amounts to ¥78 million (\$703 thousand) and ¥79 million as of March 31, 2019 and 2018, respectively.

CHUGOKU MARINE PAINTS, LTD. AND SUBSIDIARIES

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March 31, 2019 and 2018

9. Net Assets

a. Shares issued and outstanding/ Treasury stock

For the year ended March 31, 2019

	Thousands of shares			
	Number of shares at April 1, 2018	Increase	Decrease	Number of shares at March 31, 2019
Shares issued:				
Common stock	69,069	–	–	69,069
Treasury stock:				
Common stock (Note)	3,565	4,824	21	8,368

Notes:

1. Details of the increase are as follows: (Thousands of shares)

Increase due to purchase of treasury stock by resolution of the board of directors:	4,824
Increase due to purchase of shares less than standard unit:	0
2. Details of the decrease are as follows:

Decrease due to disposal of shares as restricted stock compensation:	21
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For the year ended March 31, 2018

	Thousands of shares			
	Number of shares at April 1, 2017	Increase	Decrease	Number of shares at March 31, 2018
Shares issued:				
Common stock	69,069	–	–	69,069
Treasury stock:				
Common stock (Note)	3,565	0	–	3,565

Note: Increase of common stock in treasury by 0 thousands of shares is due to purchase of shares less than standard unit.

b. Share subscription rights

The Companies have no subscription rights as of March 31, 2019 and 2018.

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Notes to Consolidated Financial Statements

March 31, 2019 and 2018

c. Dividends

(1) Dividends from retained earnings

The following appropriation of retained earnings applicable to the year ended March 31, 2019 was resolved by the board of directors on October 31, 2018:

- (a) Total amount of dividends: ¥1,056 million (\$9,515 thousand)
- (b) Dividends per share: ¥17.00 (\$0.15)
- (c) Cut-off date: September 30, 2018
- (d) Effective date: December 3, 2018

The following appropriation of retained earnings applicable to the year ended March 31, 2019 was approved at an annual general shareholders' meeting held on June 21, 2018:

- (a) Total amount of dividends: ¥1,245 million (\$11,217 thousand)
- (b) Dividends per share: ¥19.00 (\$0.17)
- (c) Cut-off date: March 31, 2018
- (d) Effective date: June 22, 2018

The following appropriation of retained earnings applicable to the year ended March 31, 2018 was resolved by the board of directors on October 31, 2017:

- (a) Total amount of dividends: ¥589 million
- (b) Dividends per share: ¥9.00
- (c) Cut-off date: September 30, 2017
- (d) Effective date: December 1, 2017

The following appropriation of retained earnings applicable to the year ended March 31, 2018 was approved at an annual general shareholders' meeting held on June 22, 2017:

- (a) Total amount of dividends: ¥655 million
- (b) Dividends per share: ¥10.00
- (c) Cut-off date: March 31, 2017
- (d) Effective date: June 23, 2017

Note: Dividends per share include a commemorative dividend of ¥2 per share for the 100th Founding Anniversary.

CHUGOKU MARINE PAINTS, LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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- (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, 2019 was approved at an annual general shareholders' meeting held on June 20, 2019:

- (a) Total amount of dividends: ¥1,032 million (\$9,298 thousand)
- (b) Source of dividends: Retained earnings
- (c) Dividends per share: ¥17.00 (\$0.15)
- (d) Cut-off date: March 31, 2019
- (e) Effective date: June 21, 2019

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, 2018 was approved at an annual general shareholders' meeting held on June 21, 2018:

- (a) Total amount of dividends: ¥1,245 million
- (b) Source of dividends: Retained earnings
- (c) Dividends per share: ¥19.00
- (d) Cut-off date: March 31, 2018
- (e) Effective date: June 22, 2018

CHUGOKU MARINE PAINTS, LTD. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

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10. Selling, General and Administrative Expenses

Significant components of “Selling, general and administrative expenses” for the years ended March 31, 2019 and 2018 were as follows:

<u>For the years ended March 31</u>	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Depreciation	¥ 414	¥ 402	\$ 3,730
Provision of allowance for doubtful accounts	(135)	(704)	(1,216)
Provision for bonuses	93	110	838
Provision for product warranties	84	(13)	757
Retirement benefit expenses	370	382	3,334
Directors’ compensations and employees’ salaries and bonuses	6,772	6,816	61,014
Transportation expenses	3,884	3,756	34,994
Sales commission	1,830	1,483	16,488
Other	7,178	7,486	64,672
Total	<u>¥ 20,490</u>	<u>¥ 19,718</u>	<u>\$ 184,611</u>

Research and development cost included in general and administrative expenses and manufacturing costs for the years ended March 31, 2019 and 2018 amounted to ¥1,845 million (\$16,623 thousand) and ¥1,840 million, respectively.

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Notes to Consolidated Financial Statements

March 31, 2019 and 2018

11. Special Gains, net

Components of “Special gains, net” for the years ended March 31, 2019 and 2018 were as follows:

<u>For the years ended March 31</u>	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Special gains:			
Gain on sales of property, plant and equipment	¥ 18	¥ 13	\$ 162
Gain on sales of investment securities	680	–	6,127
Gain on sales of golf club membership	4	–	36
	<u>702</u>	<u>13</u>	<u>6,325</u>
Special losses:			
Loss on sales of property, plant and equipment	1	9	9
Impairment loss	123	–	1,108
Loss on valuation of golf club membership	18	–	162
	<u>142</u>	<u>9</u>	<u>1,279</u>
Total	<u>¥ 560</u>	<u>¥ 4</u>	<u>\$ 5,046</u>

Gain on sales of property, plant and equipment for the years ended March 31, 2019 and 2018 primarily resulted from the sales of “Buildings and structures,” “Machinery, equipment and vehicles” and “Tools, furniture and fixtures” amounted ¥18 million (\$162 thousand) and ¥13 million, respectively.

Loss on sales of property, plant and equipment for the years ended March 31, 2019 and 2018 primarily resulted from the sales of “Buildings and structures,” “Machinery, equipment and vehicles” and “Tools, furniture and fixtures” amounted ¥1 million (\$9 thousand) and ¥9 million, respectively.

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12. Income Taxes

The Companies are subject to several taxes based on income which, in the aggregate, resulted in statutory tax rates of approximately 30.5% and 30.7% for the years ended March 31, 2019 and 2018, respectively.

Significant components of deferred tax assets and liabilities as of March 31, 2019 and 2018 were as follows:

<u>As of March 31</u>	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Deferred tax assets:			
Net defined benefit liability	¥ 459	¥ 418	\$ 4,135
Tax loss carryforwards (Note 3)	583	251	5,253
Allowance for doubtful accounts	461	546	4,153
Loss on valuation of investment securities	380	380	3,424
Loss on valuation of inventories	163	134	1,469
Accrued bonuses	180	177	1,622
Accrued enterprise tax	32	19	288
Long-term accrued amount payable	19	19	171
Elimination of unrealized gains	64	90	577
Other	475	356	4,279
Gross deferred tax assets	<u>2,816</u>	<u>2,390</u>	<u>25,371</u>
Less: valuation allowance for tax loss carryforwards (Note 3)	(536)	–	(4,829)
Less: valuation allowance for temporary differences	<u>(931)</u>	<u>–</u>	<u>(8,388)</u>
Total valuation allowance (Note 2)	<u>(1,467)</u>	<u>(637)</u>	<u>(13,217)</u>
Total deferred tax assets	<u>1,349</u>	<u>1,753</u>	<u>12,154</u>
Deferred tax liabilities:			
Net unrealized holding gain on other securities	(36)	(669)	(324)
Net defined benefit asset	(25)	(23)	(225)
Other	<u>(121)</u>	<u>(77)</u>	<u>(1,091)</u>
Total deferred tax liabilities	<u>(182)</u>	<u>(769)</u>	<u>(1,640)</u>
Net deferred tax assets (Note 1)	<u>¥ 1,167</u>	<u>¥ 984</u>	<u>\$ 10,514</u>

Notes:

- Deferred tax assets were not recognized for revaluation gain on land.
- Total valuation allowance increased by ¥830 million (\$7,478 thousand) at March 31, 2019 mainly due to recognition of valuation allowance for temporary differences including allowance for doubtful accounts and others of ¥389 million (\$3,505 thousand) (multiplied by the statutory tax rate) and tax loss carryforwards of ¥445 million (\$4,009 thousand)

CHUGOKU MARINE PAINTS, LTD. AND SUBSIDIARIES

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(multiplied by the statutory tax rate), based on estimated taxable income of subsidiaries of the Company.

3. The expiration of tax loss carryforwards and the resulting net deferred tax assets as of March 31, 2019 was as follows:

		Millions of Yen					
		2019					
	One year or less	After one year through two years	After two years through three years	After three years through four years	After four years through five years	After five years	Total
Tax loss carryforwards (*1)	¥ -	¥ -	¥ -	¥ 27	¥ 130	¥ 426	¥ 583
Valuation allowance	-	-	-	(27)	(130)	(379)	(536)
Net deferred tax assets	¥ -	¥ -	¥ -	¥ -	¥ -	¥ 47	¥ (*2) 47

		Thousands of U.S. Dollars					
		2019					
	One year or less	After one year through two years	After two years through three years	After three years through four years	After four years through five years	After five years	Total
Tax loss carryforwards (*1)	\$ -	\$ -	\$ -	\$ 243	\$ 1,171	\$ 3,839	\$ 5,253
Valuation allowance	-	-	-	(243)	(1,171)	(3,415)	(4,829)
Net deferred tax assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 424	\$ (*2) 424

*1. Tax loss carryforwards were calculated using the statutory tax rate.

*2. Net deferred tax assets on tax loss carryforwards were recognized since CHUGOKU SAMHWA PAINTS, Ltd., a consolidated subsidiary of the Company, recorded loss before income taxes for the year ended December 31, 2018. The net deferred tax assets on tax loss carryforwards are determined to be recoverable considering the expected future taxable income, etc.

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Reconciliations of the statutory tax rates to the effective tax rates for the years ended March 31, 2019 and 2018 were as follows:

<u>For the years ended March 31</u>	2019	2018
Statutory tax rates	30.5%	30.7%
Increase (decrease) in taxes resulting from:		
Difference in statutory tax rates between parent and consolidated subsidiaries	(8.6)	(7.5)
Entertainment and other non-deductible expenses	59.4	4.4
Dividend income and other non-taxable income	(65.4)	(8.6)
Inhabitant tax on per capita basis and others	8.2	0.8
Consolidation elimination of dividend income	112.8	12.1
Accrued bonuses for directors	–	0.2
Tax credit for investments in production facilities	–	(2.3)
Foreign tax credit	1.3	(0.7)
Special tax credit for research and development cost and others	(18.9)	(1.1)
Increase in valuation allowance of deferred tax assets	94.4	0.3
Tax loss carryforwards	118.3	–
Other	3.5	(2.8)
Effective tax rates	<u>335.5%</u>	<u>25.5%</u>

13. Impairment Loss

The Group recognized losses on impairment of the below asset groups for the year ended March 31, 2019 as follows:

Location	Use	Classification
Yasu, Shiga	Asset held for sale (company housing)	Buildings and structures, tools, furniture and fixtures, land
Yoshinogari, Kanzaki, Saga	Asset held for sale (company housing)	Buildings and structures, land

The Companies principally group their assets into the smallest unit that generates cash flow generally independent from cash flows generated from other assets or asset groups. Idle assets that are not in operation are grouped individually.

During the year ended March 31, 2019, the Companies made a management decision to sell the above assets. As a result, the Companies reduced the related carrying value to a recoverable amount and recognized impairment losses of ¥123 million (\$1,108 thousand) as special losses, which are comprised of ¥48 million (\$432 thousand) on buildings and structures, ¥1 million (\$9 thousand) on tools, furniture and fixtures, and ¥74 million (\$667 thousand) on land.

The recoverable amount is estimated based on the expected net selling value.

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14. Lease Transactions

The amounts of the outstanding future lease payments for noncancellable operating lease transactions subsequent to March 31, 2019 and 2018 were as follows:

<u>As of March 31</u>	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Due within one year	¥ 115	¥ 103	\$ 1,036
Due after one year	148	44	1,334
Total	<u>¥ 263</u>	<u>¥ 147</u>	<u>\$ 2,370</u>

15. 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. The uncollectible amount is reasonably estimated based on the lease agreement.

16. Commitments and Contingencies

The Companies were contingently liable for outstanding endorsed notes of ¥484 million (\$4,361 thousand) and ¥612 million as of March 31, 2019 and 2018, respectively.

The Company provided guarantees to an intermediary trading company of ¥885 million (\$7,974 thousand) and ¥955 million for the collection of its accounts receivable from contracted sales agents/distributors as of March 31, 2019 and 2018, respectively.

17. Amounts per Share

(Loss) profit attributable to owners of parent per share for the years ended March 31, 2019 and 2018 and net assets per share as of March 31, 2019 and 2018 were as follows:

<u>As of and for the years ended March 31</u>	Yen		U.S. Dollars
	2019	2018	2019
(Loss) profit attributable to owners of parent	¥ (11.36)	¥ 37.36	\$ (0.10)
Net assets	1,043.96	1,146.84	9.41

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The bases for calculation of (loss) profit attributable to owners of parent per share were as follows:

<u>For the years ended March 31</u>	Thousands of shares	
	2019	2018
The number of shares of common stock used for the calculation of (loss) profit attributable to owners of parent per share	62,530	65,504

<u>For the years ended March 31</u>	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Loss (profit) attributable to owners of parent	¥ (710)	¥ 2,447	\$ (6,397)
Amount not attributable to shareholders of common stock	—	—	—
Loss (profit) attributable to owners of parent available for distribution to shareholders of common stock	¥ (710)	¥ 2,447	\$ (6,397)

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

<u>As of March 31</u>	Thousands of shares	
	2019	2018
The number of shares of common stock used for the calculation of net assets per share	60,701	65,503

<u>As of March 31</u>	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Total net assets	¥ 68,514	¥ 81,095	\$ 617,299
Amounts deducted from total net assets:			
Non-controlling interests	5,145	5,973	46,356
Net assets attributable to shares of common stock	¥ 63,369	¥ 75,122	\$ 570,943

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18. Securities

There were no held-to-maturity bonds as of March 31, 2019 and 2018.

Other securities as of March 31, 2019 were summarized as follows:

<u>As of March 31, 2019</u>	Millions of Yen			
	Acquisition cost	Fair value	Gross unrealized gain	Gross unrealized loss
Other Securities:				
With fair value	¥ 4,700	¥ 4,958	¥ 1,234	¥ (976)
Without fair value	614			

<u>As of March 31, 2019</u>	Thousands of U.S. Dollars			
	Acquisition cost	Fair value	Gross unrealized gain	Gross unrealized loss
Other Securities:				
With fair value	\$ 42,346	\$ 44,671	\$ 11,118	\$ (8,793)
Without fair value	5,532			

Other securities as of March 31, 2018 were summarized as follows:

<u>As of March 31, 2018</u>	Millions of Yen			
	Acquisition cost	Fair value	Gross unrealized gain	Gross unrealized loss
Other Securities:				
With fair value	¥ 5,002	¥ 7,493	¥ 2,753	¥ (262)
Without fair value	656			

Total sales of other securities and the related gain for the year ended March 31, 2019 amounted to ¥1,099 million (\$9,902 thousand) and ¥680 million (\$6,127 thousand), respectively. There were no sales of other securities for the year ended March 31, 2018.

There were no impairment losses on securities for the years ended March 31, 2019 and 2018.

In the event the fair value of securities declines by 50% or more of the acquisition cost, the securities are written down to their fair value. In the event the fair value declines between 30 and 50%, an impairment loss is recognized in the amount deemed necessary considering the possibility of recovery in fair value.

For equity securities whose fair value is deemed extremely difficult to determine, in the event the value of those equity securities declines by 50% or more from the acquisition cost due to a deterioration in the issuer's financial condition, an impairment loss is recognized unless a recovery in value is supported by reasonable grounds.

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19. Supplementary Cash Flow Information

Cash and cash equivalents as of March 31, 2019 and 2018 consisted of the following:

<u>As of March 31</u>	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Cash on hand and in banks	¥ 29,209	¥ 33,751	\$ 263,168
Less, time deposits with deposit term of over three months	(8,614)	(8,615)	(77,611)
Short-term investment securities (MMF and others)	205	144	1,847
Cash and cash equivalents	<u>¥ 20,800</u>	<u>¥ 25,280</u>	<u>\$ 187,404</u>

20. Derivative Transactions

Summary of transactions

Derivative transactions to which hedge accounting was not applied as of March 31, 2019 and 2018 were as follows:

Currency-related transactions

	Millions of Yen					
	2019			2018		
	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	¥ 78	¥ 1	¥ 1	¥ 105	¥ (0)	¥ (0)
Sell USD and buy EUR	278	(2)	(2)	114	2	2
Buy USD and sell JPY	25	(0)	(0)	62	(0)	(0)
Buy USD and sell EUR	112	1	1	—	—	—
Buy JPY and sell EUR	35	1	1	66	(1)	(1)
Buy GBP and sell EUR	107	(1)	(1)	164	2	2
Total			<u>¥ (0)</u>			<u>¥ 3</u>

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Thousands of U.S. Dollars			
2019			
	Contract or notional amount	Fair value	Valuation gain (loss)
Foreign exchange forward contracts:			
Short-term:			
Sell USD and buy JPY	\$ 703	\$ 9	\$ 9
Sell USD and buy EUR	2,505	(18)	(18)
Buy USD and sell JPY	225	(0)	(0)
Buy USD and sell EUR	1,009	9	9
Buy JPY and sell EUR	315	9	9
Buy GBP and sell EUR	964	(9)	(9)
Total			\$ (0)

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

There were no interest-related transactions as of March 31, 2019 and 2018.

There were no derivative transactions to which hedge accounting was applied as of March 31, 2019 and 2018.

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21. Financial Instruments

The Companies operate funds through highly liquid financial assets 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 purposes.

Operating receivables such as “Trade notes and accounts receivable” are exposed to credit risk. Operating receivables denominated in foreign currencies from overseas operations are exposed to foreign currency risk. The Companies utilize foreign exchange forward contracts within the actual orders to hedge the risk. “Short-term investment securities” and “Investment securities” mainly consist of securities of companies with a business relationship and are exposed to market fluctuation risk.

Operating payables such as “Trade notes and accounts payable” are mainly due within one year. Some of the operating payables relating to imports of raw materials are denominated in foreign currencies and exposed to foreign currency risk. The Companies utilize foreign exchange forward contracts within the actual orders to hedge the risk. “Short-term borrowings” are mainly used for the purpose of financing operating capital.

The Companies utilize foreign exchange forward contracts to hedge foreign currency risk on operating receivables and payables denominated in foreign currencies. Please see Note 1. p. Derivative financial instruments, for hedge accounting.

Risk management on financial instruments is summarized as follows:

(1) Management of credit risk (risk of default by the counter parties)

In accordance with the Company’s internal rules, the Global Marketing & Planning Div. of the Company monitors the major customers’ credit conditions periodically and manages the due date and balance per each customer. The Company keeps track of the adverse financial conditions of the customers in the early stage to mitigate the bad debt. The consolidated subsidiaries follow the Company’s internal rules and manage the risk in the same manner. Regarding the derivative transactions, the Companies only deal with highly rated financial institutions and thus, there is little credit risk.

(2) Management of market risk (risk of fluctuations in foreign exchange)

The Companies utilize foreign exchange forward contracts within the actual orders to hedge foreign currency risk on the operating receivables and payables denominated in foreign currencies.

Regarding the “Short-term investment securities” and “Investment securities,” the Companies regularly review the fair value and issuers’ financial conditions and readjust the Companies’ portfolio according to the market condition and the business relationship with the counterparties on an ongoing basis. Execution and management of derivative transactions for the Companies are managed in accordance with the Company’s internal rules.

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(3) Management of liquidity risk on financing (risk of default at the due dates)

The treasury department of the Company timely prepares and updates the cash management plan based on the report from each department. The Company manages the liquidity risk by maintaining the on-hand liquidity. The consolidated subsidiaries manage the risk in accordance with the Company's internal rules.

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 variable factors, those values may vary in case different assumptions are applied. The contract or notional amount described in Note 20., Derivative Transactions, does not indicate market risk related to the derivative transactions.

The carrying value on the consolidated balance sheets, fair value and their difference of financial instruments as of March 31, 2019 and 2018 was as follows:

<u>As of March 31</u>	Millions of Yen					
	2019			2018		
	Carrying value	Fair value	Difference	Carrying value	Fair value	Difference
Cash on hand and in banks	¥ 29,209	¥ 29,209	–	¥ 33,751	¥ 33,751	–
Trade notes and accounts receivable	32,127			35,998		
Allowance for doubtful accounts (*1)	(846)			(1,479)		
	<u>31,281</u>	<u>31,281</u>	<u>–</u>	<u>34,519</u>	<u>34,519</u>	<u>–</u>
Short-term investment securities and investment securities	4,958	4,958	–	7,493	7,493	–
Total assets	<u>¥ 65,448</u>	<u>¥ 65,448</u>	<u>–</u>	<u>¥ 75,763</u>	<u>¥ 75,763</u>	<u>–</u>
Short-term borrowings	¥ 18,246	¥ 18,246	–	¥ 17,814	¥ 17,814	–
Trade notes and accounts payable	13,219	13,219	–	13,196	13,196	–
Total liabilities	<u>¥ 31,465</u>	<u>¥ 31,465</u>	<u>–</u>	<u>¥ 31,010</u>	<u>¥ 31,010</u>	<u>–</u>
Derivatives (*2)	¥ (0)	¥ (0)	–	¥ 3	¥ 3	–

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<u>As of March 31</u>	Thousands of U.S. Dollars		
	2019		
	Carrying value	Fair value	Difference
Cash on hand and in banks	\$ 263,168	\$ 263,168	-
Trade notes and accounts receivable	289,459		
Allowance for doubtful accounts (*1)	(7,623)		
	<u>281,836</u>	<u>281,836</u>	-
Short-term investment securities and investment securities	44,671	44,671	-
Total assets	<u>\$ 589,675</u>	<u>\$ 589,675</u>	-
Short-term borrowings	\$ 164,393	\$ 164,393	-
Trade notes and accounts payable	119,101	119,101	-
Total liabilities	<u>\$ 283,494</u>	<u>\$ 283,494</u>	-
Derivatives (*2)	\$ (0)	\$ (0)	-

(*1) Allowance for doubtful accounts relating to trade notes and accounts receivable is deducted.

(*2) Derivative assets and liabilities are presented on a net basis.

Carrying value of financial instruments whose fair value was deemed extremely difficult to determine, which was not included in the above tables, as of March 31, 2019 and 2018 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unlisted equity securities	¥ 614	¥ 656	\$ 5,532

Valuation method of fair value of financial instruments and information about securities and derivative transactions are 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.

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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 and Investment securities

The 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 counterparty financial institutions. The carrying value of MMF and others are deemed as the fair value since it is scheduled to be settled in a short period of time. Please see Note 18., Securities, for the notes regarding the securities by classification.

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.

Trade 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.

Derivative transactions

Please see Note 20., Derivative Transactions.

Redemption schedule for monetary assets as of March 31, 2019 and 2018 was as follows:

	Millions of Yen			
	2019			
	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	¥ 29,189	–	–	–
Trade notes and accounts receivable	32,127	–	–	–
Total	¥ 61,316	–	–	–

	Thousands of U.S. Dollars			
	2019			
	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	\$ 262,987	–	–	–
Trade notes and accounts receivable	289,459	–	–	–
Total	\$ 552,446	–	–	–

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	Millions of Yen			
	2018			
	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	¥ 33,729	-	-	-
Trade notes and accounts receivable	35,998	-	-	-
Total	¥ 69,727	-	-	-

22. Other Comprehensive Income

Reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2019 and 2018 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Net unrealized holding loss on other securities:			
Amount arising during the year	¥ (1,552)	¥ (394)	\$ (13,983)
Reclassification adjustments	(680)	-	(6,127)
Amount before tax effect	(2,232)	(394)	(20,110)
Tax effect	633	110	5,703
Net unrealized holding loss on other securities	(1,599)	(284)	(14,407)
Foreign currency translation adjustments:			
Amount arising during the year	(2,331)	1,918	(21,002)
Remeasurements of defined benefit plans:			
Amount arising during the year	(171)	37	(1,540)
Reclassification adjustments	26	72	234
Amount before tax effect	(145)	109	(1,306)
Tax effect	46	(34)	414
Net remeasurements of defined benefit plans	(99)	75	(892)
Total other comprehensive income	¥ (4,029)	¥ 1,709	\$ (36,301)

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23. Segment Information

(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 their performances.

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 sales of paints, and other reportable segments engage in manufacturing and sales of paints.

(2) Method of calculating net sales, profit (loss), assets and other items by reportable segment

Accounting policies of the reportable segments are consistent with those described in Note 1., Summary of Significant Accounting Policies. Reportable segment profit corresponds to operating profit. Intersegment sales and transfers are based on the prevailing market price.

Change in depreciation method of property, plant and equipment

As described in Note 2., Accounting Change, "Accounting change difficult to distinguish from change in accounting estimate," the Company and certain consolidated subsidiaries have changed their accounting policies for depreciation of property, plant and equipment (except for leased assets) from the declining-balance method to the straight-line method (except for buildings (exclusive of any facilities attached to buildings) acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016, which have been depreciated by the straight-line method).

As a result of this change, segment profit of Japan and South East Asia increased by ¥137 million (\$1,234 thousand) and ¥1 million (\$9 thousand), respectively, and other corporate expenses, which are not allocated to each reportable segment, decreased by ¥11 million (\$99 thousand) for the year ended March 31, 2019.

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

For the year ended March 31, 2019

	Millions of Yen					
	Reportable segment					
	Japan	China	Korea	South East Asia	Europe/ U.S.	Total
Net sales:						
External sales	¥ 34,636	¥ 23,338	¥ 5,899	¥ 11,502	¥ 13,077	¥ 88,452
Intersegment sales or transfers	3,391	6,069	1,784	3,174	945	15,363
Total	¥ 38,027	¥ 29,407	¥ 7,683	¥ 14,676	¥ 14,022	¥ 103,815
Segment profit (loss)	¥ 179	¥ (1,323)	¥ (1,282)	¥ 1,149	¥ (680)	¥ (1,957)
Segment assets	¥ 61,883	¥ 34,687	¥ 7,281	¥ 16,729	¥ 12,469	¥ 133,049
Other items:						
Depreciation and amortization	¥ 606	¥ 563	¥ 60	¥ 184	¥ 257	¥ 1,670
Impairment loss	123	–	–	–	–	123
Increase in property, plant and equipment and intangible assets	550	93	5	85	109	842

	Thousands of U.S. Dollars					
	Reportable segment					
	Japan	China	Korea	South East Asia	Europe/ U.S.	Total
Net sales:						
External sales	\$ 312,064	\$ 210,271	\$ 53,149	\$ 103,631	\$ 117,822	\$ 796,937
Intersegment sales or transfers	30,552	54,681	16,074	28,597	8,514	138,418
Total	\$ 342,616	\$ 264,952	\$ 69,223	\$ 132,228	\$ 126,336	\$ 935,355
Segment profit (loss)	\$ 1,613	\$ (11,920)	\$ (11,550)	\$ 10,352	\$ (6,127)	\$ (17,632)
Segment assets	\$ 557,555	\$ 312,524	\$ 65,601	\$ 150,725	\$ 112,343	\$ 1,198,748
Other items:						
Depreciation and amortization	\$ 5,460	\$ 5,072	\$ 541	\$ 1,658	\$ 2,315	\$ 15,046
Impairment loss	1,108	–	–	–	–	1,108
Increase in property, plant and equipment and intangible assets	4,955	838	45	766	982	7,586

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For the year ended March 31, 2018

	Millions of Yen					
	Reportable segment					Total
	Japan	China	Korea	South East Asia	Europe/ U.S.	
Net sales:						
External sales	¥ 34,296	¥ 20,030	¥ 5,778	¥ 10,910	¥ 11,967	¥ 82,981
Intersegment sales or transfers	3,438	5,075	476	3,213	838	13,040
Total	¥ 37,734	¥ 25,105	¥ 6,254	¥ 14,123	¥ 12,805	¥ 96,021
Segment profit (loss)	¥ 771	¥ 538	¥ 10	¥ 1,488	¥ (519)	¥ 2,288
Segment assets	¥ 63,478	¥ 37,384	¥ 7,635	¥ 16,722	¥ 12,026	¥ 137,245
Other items:						
Depreciation and amortization	¥ 711	¥ 564	¥ 66	¥ 206	¥ 181	¥ 1,728
Amortization of goodwill	—	—	—	—	28	28
Increase in property, plant and equipment and intangible assets	760	102	18	94	429	1,403

(4) Reconciliation between the total amounts of reportable segments and consolidated amounts

(a) Segment profit (loss)

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Total of the segment (loss) profit	¥ (1,957)	¥ 2,288	\$ (17,632)
Elimination of intersegment transaction	2,417	2,427	21,776
Other corporate expenses	(1,049)	(953)	(9,451)
Operating (loss) profit on consolidated statements of income	¥ (589)	¥ 3,762	\$ (5,307)

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

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(b) Segment assets

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Total of the segment assets	¥ 133,049	¥ 137,245	\$ 1,198,748
Elimination of intersegment transaction	(25,501)	(24,146)	(229,760)
Other corporate assets	6,303	12,670	56,789
Total assets on consolidated balance sheets	¥ 113,851	¥ 125,769	\$ 1,025,777

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		
	2019		
	Reportable segments total	Adjustments	Consolidated
Depreciation and amortization	¥ 1,670	¥ 69	¥ 1,739
Impairment loss	123	–	123
Increase in property, plant and equipment and intangible assets	842	69	911

	Thousands of U.S. Dollars		
	2019		
	Reportable segments total	Adjustments	Consolidated
Depreciation and amortization	\$ 15,046	\$ 622	\$ 15,668
Impairment loss	1,108	–	1,108
Increase in property, plant and equipment and intangible assets	7,586	622	8,208

	Millions of Yen		
	2018		
	Reportable segments total	Adjustments	Consolidated
Depreciation and amortization	¥ 1,728	¥ 73	¥ 1,801
Amortization of goodwill	28	–	28
Increase in property, plant and equipment and intangible assets	1,403	93	1,496

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

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(Related information)

(1) Information by product and service

	Millions of Yen					Millions of Yen				
	2019					2018				
	Paint for ships	Paint for industrial use	Paint for containers	Other	Total	Paint for ships	Paint for industrial use	Paint for containers	Other	Total
External sales	¥ 63,832	¥ 12,576	¥ 11,721	¥ 323	¥ 88,452	¥ 60,055	¥ 12,340	¥ 10,255	¥ 331	¥ 82,981

	Thousands of U.S. Dollars				
	2019				
	Paint for ships	Paint for industrial use	Paint for containers	Other	Total
External sales	\$ 575,115	\$ 113,308	\$ 105,604	\$ 2,910	\$ 796,937

(2) Information by geographic area

(a) Net sales

Information about net sales by geographic area is omitted since the same information is disclosed in the information of reportable segment. Net sales for Europe/U.S. include ¥10,147 million (\$91,423 thousand) and ¥9,401 million for Netherlands for the years ended March 31, 2019 and 2018, respectively.

(b) Property, plant and equipment

	Millions of Yen						Millions of Yen					
	2019						2018					
	Japan	China	Korea	South East Asia	Europe/U.S.	Total	Japan	China	Korea	South East Asia	Europe/U.S.	Total
Property, plant and equipment	¥ 16,351	¥ 3,997	¥ 667	¥ 1,409	¥ 3,162	¥ 25,586	¥ 16,511	¥ 4,718	¥ 771	¥ 1,527	¥ 3,522	¥ 27,049

	Thousands of U.S. Dollars					
	2019					
	Japan	China	Korea	South East Asia	Europe/U.S.	Total
Property, plant and equipment	\$ 147,320	\$ 36,012	\$ 6,009	\$ 12,695	\$ 28,489	\$ 230,525

Note: Property, plant and equipment for Europe/U.S. include ¥2,996 million (\$26,993 thousand) and ¥3,343 million for Netherlands as of March 31, 2019 and 2018, respectively.

(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.

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(Information about impairment loss on fixed assets by reportable segment)

Millions of Yen							
2019							
Reportable segment							
	Japan	China	Korea	South East Asia	Europe/ U.S.	Elimination or corporate	Total
Impairment loss	¥ 123	—	—	—	—	—	¥ 123

Thousands of U.S. Dollars							
2019							
Reportable segment							
	Japan	China	Korea	South East Asia	Europe/ U.S.	Elimination or corporate	Total
Impairment loss	\$ 1,108	—	—	—	—	—	\$ 1,108

There was no impairment loss on fixed assets for the year ended March 31, 2018.

(Information about amortization of goodwill and unamortized balances by reportable segment)

There were no amortization of goodwill and unamortized balance for the year ended March 31, 2019.

Millions of Yen							
2018							
Reportable segment							
	Japan	China	Korea	South East Asia	Europe/ U.S.	Elimination or corporate	Total
Amortization during the year	—	—	—	—	¥ 28	—	¥ 28
Unamortized balances	—	—	—	—	—	—	—

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24. Subsequent Events

At the meeting of board of directors held on May 9, 2019, the Company resolved to acquire its own shares pursuant to the provisions of Article 156 of the Companies Act of Japan, which has been reinterpreted and applied in accordance with the provisions of Article 165, Paragraph 3 of the same Act.

(1) Reason for acquisition of treasury stock

To improve shareholder returns and capital efficiency and to execute a flexible capital policy to respond to the business environment

(2) Type of shares to be acquired

Common stock

(3) Total number of shares to be acquired

2,500,000 shares (upper limit)

(4) Total amount of acquisition

¥2,500 million (\$22,525 thousand) (upper limit)

(5) Period of acquisition

From May 10, 2019 through May 8, 2020

(6) Method of acquisition

On the open market through the Tokyo Stock Exchange