

CHUGOKU MARINE PAINTS, LTD.

**Consolidated Financial Statements
for the years ended March 31, 2020 and 2019**



Independent Auditor's Report

The Board of Directors
CHUGOKU MARINE PAINTS, LTD.

Opinion

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, 2020, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors 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 such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Ernst & Young ShinNihon LLC
Tokyo, Japan

June 25, 2020

Kazuhiro Ishiguro
Designated Engagement Partner
Certified Public Accountant

Takashi Inayoshi
Designated Engagement Partner
Certified Public Accountant

Financial Information

1. Basis for preparation of the consolidated financial statements

The consolidated financial statements of CHUGOKU MARINE PAINTS, LTD. (the “Company”) are prepared in accordance with the “Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements” (Ministry of Finance Order No. 28 of 1976).

2. Audit certification

The consolidated financial statements for the fiscal year from April 1, 2019 to March 31, 2020 were audited by Ernst & Young ShinNihon LLC in accordance with Article 193-2, paragraph (1) of the Financial Instruments and Exchange Act.

3. Special efforts to ensure the appropriateness of consolidated financial statements

The Company takes remarkable efforts to ensure fair presentation of consolidated financial statements. To be specific, the Company has joined the Financial Accounting Standards Foundation and regularly attends training seminars held by audit firms in order to establish a system that enables to properly understand details of accounting standards and other rules.

(1) Consolidated Financial Statements

(i) Consolidated Balance Sheet

(Millions of yen)

| | As of March 31, 2019 | As of March 31, 2020 |
|--|----------------------|----------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 29,209 | 26,669 |
| Notes and accounts receivable - trade | *5 32,126 | 30,817 |
| Securities | 204 | 236 |
| Merchandise and finished goods | 10,132 | 9,678 |
| Work in process | 528 | 533 |
| Raw materials and supplies | 6,699 | 6,886 |
| Other | 1,504 | 1,305 |
| Allowance for doubtful accounts | (849) | (850) |
| Total current assets | 79,556 | 75,276 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures | 19,766 | 18,096 |
| Accumulated depreciation | (12,300) | (12,570) |
| Buildings and structures, net | 7,466 | 5,525 |
| Machinery, equipment and vehicles | 17,198 | 16,901 |
| Accumulated depreciation | (12,910) | (13,422) |
| Machinery, equipment and vehicles, net | 4,287 | 3,479 |
| Tools, furniture and fixtures | 4,717 | 4,724 |
| Accumulated depreciation | (4,138) | (4,213) |
| Tools, furniture and fixtures, net | 579 | 511 |
| Land | *3 13,130 | *3 13,093 |
| Leased assets | 44 | 2,181 |
| Accumulated depreciation | (33) | (460) |
| Leased assets, net | 11 | 1,720 |
| Construction in progress | 110 | 473 |
| Total property, plant and equipment | 25,586 | 24,803 |
| Intangible assets | 1,341 | 513 |
| Investments and other assets | | |
| Investment securities | *1 5,368 | *1 3,920 |
| Retirement benefit asset | 84 | 95 |
| Deferred tax assets | 1,224 | 1,034 |
| Other | 2,122 | 1,779 |
| Allowance for doubtful accounts | (1,432) | (1,355) |
| Total investments and other assets | 7,366 | 5,474 |
| Total non-current assets | 34,294 | 30,792 |
| Total assets | 113,851 | 106,069 |

(Millions of yen)

| | As of March 31, 2019 | | As of March 31, 2020 | |
|---|----------------------|---------|----------------------|---------|
| Liabilities | | | | |
| Current liabilities | | | | |
| Notes and accounts payable - trade | *5 | 13,219 | | 11,264 |
| Short-term borrowings | | 18,246 | | 17,322 |
| Current portion of long-term borrowings | *1 | 1,012 | | 10 |
| Lease obligations | | 4 | | 167 |
| Accounts payable - other | | 2,454 | | 2,319 |
| Accrued expenses | | 2,769 | | 2,517 |
| Income taxes payable | | 449 | | 590 |
| Provision for bonuses | | 130 | | 137 |
| Provision for product warranties | | 334 | | 267 |
| Other | | 444 | | 650 |
| Total current liabilities | | 39,065 | | 35,248 |
| Non-current liabilities | | | | |
| Long-term borrowings | | 1,722 | *1 | 2,712 |
| Lease obligations | | 8 | | 606 |
| Long-term accounts payable - other | | 119 | | 121 |
| Deferred tax liabilities | | 57 | | 114 |
| Deferred tax liabilities for land revaluation | *3 | 2,230 | *3 | 2,223 |
| Retirement benefit liability | | 1,576 | | 1,587 |
| Other | | 557 | | 469 |
| Total non-current liabilities | | 6,271 | | 7,835 |
| Total liabilities | | 45,337 | | 43,083 |
| Net assets | | | | |
| Shareholders' equity | | | | |
| Share capital | | 11,626 | | 11,626 |
| Capital surplus | | 7,793 | | 7,788 |
| Retained earnings | | 47,286 | | 45,190 |
| Treasury shares | | (6,688) | | (9,019) |
| Total shareholders' equity | | 60,017 | | 55,585 |
| Accumulated other comprehensive income | | | | |
| Valuation difference on available-for-sale securities | | 225 | | 174 |
| Revaluation reserve for land | *3 | 3,814 | *3 | 3,798 |
| Foreign currency translation adjustment | | (519) | | (1,241) |
| Remeasurements of defined benefit plans | | (168) | | (149) |
| Total accumulated other comprehensive income | | 3,352 | | 2,583 |
| Non-controlling interests | | 5,144 | | 4,817 |
| Total net assets | | 68,514 | | 62,986 |
| Total liabilities and net assets | | 113,851 | | 106,069 |

(ii) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income
Consolidated Statement of Income

(Millions of yen)

| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|---|-------------------------------------|-------------------------------------|
| Net sales | 88,452 | 87,729 |
| Cost of sales | *1, *3 68,551 | *1, *3 63,714 |
| Gross profit | 19,900 | 24,015 |
| Selling, general and administrative expenses | *2, *3 20,489 | *2, *3 20,516 |
| Operating profit (loss) | (588) | 3,498 |
| Non-operating income | | |
| Interest income | 346 | 318 |
| Dividend income | 177 | 151 |
| Royalty income | 73 | 79 |
| Technical advisory fee income | 89 | 103 |
| Foreign exchange gains | 11 | 129 |
| Rental income from real estate | 123 | 110 |
| Other | 252 | 229 |
| Total non-operating income | 1,073 | 1,122 |
| Non-operating expenses | | |
| Interest expenses | 398 | 406 |
| Commission expenses | 145 | 33 |
| Other | 110 | 116 |
| Total non-operating expenses | 655 | 556 |
| Ordinary profit (loss) | (170) | 4,065 |
| Extraordinary income | | |
| Gain on sales of non-current assets | *4 18 | *4 14 |
| Gain on sales of investment securities | 680 | 82 |
| Gain on sales of memberships | 4 | – |
| Total extraordinary income | 702 | 96 |
| Extraordinary losses | | |
| Loss on sales of non-current assets | *5 0 | – |
| Impairment loss | *6 122 | *6 1,626 |
| Loss on sales of investment securities | – | 24 |
| Loss on valuation of investment securities | – | 1,167 |
| Loss on valuation of membership | 18 | – |
| Total extraordinary losses | 142 | 2,818 |
| Profit before income taxes | 390 | 1,343 |
| Income taxes - current | 884 | 935 |
| Income taxes - deferred | 425 | 162 |
| Total income taxes | 1,309 | 1,097 |
| Profit (loss) | (919) | 245 |
| Profit (loss) attributable to non-controlling interests | (209) | 317 |
| Loss attributable to owners of parent | (710) | (71) |

Consolidated Statement of Comprehensive Income

(Millions of yen)

| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|--|-------------------------------------|-------------------------------------|
| Profit (loss) | (919) | 245 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (1,599) | (50) |
| Foreign currency translation adjustment | (2,330) | (658) |
| Remeasurements of defined benefit plans, net of tax | (98) | 19 |
| Total other comprehensive income | * | * |
| (4,029) | (4,029) | (689) |
| Comprehensive income | (4,948) | (443) |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | (4,475) | (824) |
| Comprehensive income attributable to non-controlling interests | (473) | 381 |

(iii) Consolidated Statement of Changes in Equity

Fiscal year ended March 31, 2019

(Millions of yen)

| | Shareholders' equity | | | | |
|--|----------------------|-----------------|-------------------|-----------------|----------------------------|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of period | 11,626 | 7,783 | 50,248 | (1,703) | 67,955 |
| Changes during period | | | | | |
| Dividends of surplus | | | (2,300) | | (2,300) |
| Loss attributable to owners of parent | | | (710) | | (710) |
| Purchase of treasury shares | | | | (5,000) | (5,000) |
| Disposal of treasury shares | | 9 | | 14 | 23 |
| Reversal of revaluation reserve for land | | | 48 | | 48 |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes during period | - | 9 | (2,961) | (4,985) | (7,938) |
| Balance at end of period | 11,626 | 7,793 | 47,286 | (6,688) | 60,017 |

| | Accumulated other comprehensive income | | | | | Non-controlling interests | Total net assets |
|--|---|------------------------------|---|---|--|---------------------------|------------------|
| | Valuation difference on available-for-sale securities | Revaluation reserve for land | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | | |
| Balance at beginning of period | 1,824 | 3,863 | 1,541 | (63) | 7,166 | 5,973 | 81,094 |
| Changes during period | | | | | | | |
| Dividends of surplus | | | | | | | (2,300) |
| Loss attributable to owners of parent | | | | | | | (710) |
| Purchase of treasury shares | | | | | | | (5,000) |
| Disposal of treasury shares | | | | | | | 23 |
| Reversal of revaluation reserve for land | | | | | | | 48 |
| Net changes in items other than shareholders' equity | (1,599) | (48) | (2,060) | (105) | (3,814) | (828) | (4,642) |
| Total changes during period | (1,599) | (48) | (2,060) | (105) | (3,814) | (828) | (12,580) |
| Balance at end of period | 225 | 3,814 | (519) | (168) | 3,352 | 5,144 | 68,514 |

Fiscal year ended March 31, 2020

(Millions of yen)

| | Shareholders' equity | | | | |
|---|----------------------|-----------------|-------------------|-----------------|----------------------------|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of period | 11,626 | 7,793 | 47,286 | (6,688) | 60,017 |
| Changes during period | | | | | |
| Dividends of surplus | | | (2,040) | | (2,040) |
| Loss attributable to owners of parent | | | (71) | | (71) |
| Purchase of treasury shares | | | | (2,344) | (2,344) |
| Disposal of treasury shares | | 2 | | 13 | 16 |
| Changes in subsidiaries' interests by purchase of its treasury shares | | (6) | | | (6) |
| Reversal of revaluation reserve for land | | | 15 | | 15 |
| Net changes in items other than shareholders' equity | | | | | |
| Total changes during period | - | (4) | (2,096) | (2,330) | (4,431) |
| Balance at end of period | 11,626 | 7,788 | 45,190 | (9,019) | 55,585 |

| | Accumulated other comprehensive income | | | | | Non-controlling interests | Total net assets |
|---|---|------------------------------|---|---|--|---------------------------|------------------|
| | Valuation difference on available-for-sale securities | Revaluation reserve for land | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | | |
| Balance at beginning of period | 225 | 3,814 | (519) | (168) | 3,352 | 5,144 | 68,514 |
| Changes during period | | | | | | | |
| Dividends of surplus | | | | | | | (2,040) |
| Loss attributable to owners of parent | | | | | | | (71) |
| Purchase of treasury shares | | | | | | | (2,344) |
| Disposal of treasury shares | | | | | | | 16 |
| Changes in subsidiaries' interests by purchase of its treasury shares | | | | | | | (6) |
| Reversal of revaluation reserve for land | | | | | | | 15 |
| Net changes in items other than shareholders' equity | (50) | (15) | (721) | 19 | (769) | (326) | (1,096) |
| Total changes during period | (50) | (15) | (721) | 19 | (769) | (326) | (5,527) |
| Balance at end of period | 174 | 3,798 | (1,241) | (149) | 2,583 | 4,817 | 62,986 |

(iv) Consolidated Statement of Cash Flows

(Millions of yen)

| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|---|-------------------------------------|-------------------------------------|
| Cash flows from operating activities | | |
| Profit before income taxes | 390 | 1,343 |
| Depreciation | 1,739 | 2,159 |
| Impairment loss | 122 | 1,626 |
| Increase (decrease) in allowance for doubtful accounts | (192) | (16) |
| Increase (decrease) in other provisions | 28 | (44) |
| Decrease (increase) in retirement benefit asset | (1) | (10) |
| Increase (decrease) in retirement benefit liability | 87 | 32 |
| Interest and dividend income | (523) | (469) |
| Interest expenses | 398 | 406 |
| Foreign exchange losses (gains) | 58 | (1) |
| Loss (gain) on sales and retirement of non-current assets | (1) | (5) |
| Loss (gain) on sales of investment securities | (680) | (57) |
| Loss (gain) on valuation of investment securities | – | 1,167 |
| Decrease (increase) in trade receivables | 2,370 | 1,026 |
| Decrease (increase) in inventories | (938) | 44 |
| Decrease/increase in consumption taxes receivable/payable | (158) | 187 |
| Increase (decrease) in trade payables | 431 | (1,808) |
| Other, net | 360 | (215) |
| Subtotal | 3,491 | 5,364 |
| Interest and dividends received | 520 | 486 |
| Interest paid | (399) | (406) |
| Income taxes paid | (477) | (831) |
| Net cash provided by (used in) operating activities | 3,135 | 4,612 |
| Cash flows from investing activities | | |
| Payments into time deposits | (13,856) | (9,924) |
| Proceeds from withdrawal of time deposits | 13,544 | 12,991 |
| Net decrease (increase) in short-term loans receivable | 18 | 17 |
| Purchase of non-current assets | (1,081) | (1,345) |
| Proceeds from sales of non-current assets | 29 | 68 |
| Purchase of investment securities | (15) | (22) |
| Proceeds from sales of investment securities | 1,099 | 365 |
| Other, net | 75 | 86 |
| Net cash provided by (used in) investing activities | (186) | 2,237 |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term borrowings | 898 | (697) |
| Proceeds from long-term borrowings | 1,700 | 500 |
| Repayments of long-term borrowings | (1,713) | (512) |
| Proceeds from sales of treasury shares | 23 | 16 |
| Purchase of treasury shares | (5,000) | (2,344) |
| Purchase of treasury shares of subsidiaries | – | (520) |
| Dividends paid | (2,297) | (2,040) |
| Dividends paid to non-controlling interests | (361) | (189) |
| Other, net | (4) | (161) |
| Net cash provided by (used in) financing activities | (6,754) | (5,950) |

(Millions of yen)

| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|---|-------------------------------------|-------------------------------------|
| Effect of exchange rate change on cash and cash equivalents | (674) | (219) |
| Net increase (decrease) in cash and cash equivalents | (4,480) | 679 |
| Cash and cash equivalents at beginning of period | 25,279 | 20,799 |
| Cash and cash equivalents at end of period | * 20,799 | * 21,479 |

Notes to Consolidated Financial Statements

(Significant Accounting Policies for Preparation of Consolidated Financial Statements)

1. Scope of consolidation

The Company has consolidated all its subsidiaries.

Number of consolidated subsidiaries 23

Names of major consolidated subsidiaries

Ohtake-Meishin Chemical Co., Ltd., Kobe Paints, Ltd.
CHUGOKU MARINE PAINTS (Hong Kong), Ltd.
CHUGOKU MARINE PAINTS (Shanghai), Ltd.
CHUGOKU MARINE PAINTS (Guangdong), Ltd.
CHUGOKU SAMHWA PAINTS, Ltd.
CHUGOKU MARINE PAINTS (Singapore) Pte. Ltd.
CHUGOKU PAINTS (Malaysia) Sdn. Bhd.
TOA-CHUGOKU PAINTS Co., Ltd.
CHUGOKU PAINTS B.V.

As CHUGOKU-TOA PAINTS (Myanmar), Ltd. was newly established in the fiscal year ended March 31, 2020, it has been included in the scope of consolidation.

2. Application of equity method

There are no unconsolidated subsidiaries or associates.

3. Fiscal years, etc. of consolidated subsidiaries

The fiscal year-end of 22 consolidated subsidiaries is December 31, except for Kobe Paints, Ltd. In preparing consolidated financial statements, 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.

4. Accounting policies

(1) Accounting policy for measuring significant assets

(i) Securities

a. Held-to-maturity securities

Stated at amortized cost (straight-line method).

b. Available-for-sale securities

Securities with determinable market value:

Stated at market value based on market price at the fiscal year end (net unrealized gains and losses are reported as a separate component of net assets and the cost of securities sold is calculated based on the moving average method).

Securities without determinable market value:

Stated at cost based on the moving average method.

(ii) Derivatives

Stated at market value.

(iii) Inventories

Mainly stated at cost using the moving average method (balance sheet amounts are written down based on the decreased profitability).

(2) Accounting policy for depreciation of significant assets

(i) Property, plant and equipment (excluding leased assets)

Stated at straight-line method.

(ii) Intangible assets (excluding leased assets)

Stated at straight-line method.

Software for internal use is amortized using the straight-line method over the internally expected useful life (three to ten years).

(iii) Leased assets

Leased assets related to finance lease transactions that do not transfer ownership

Depreciated by the straight-line method over the lease period that is deemed as the useful life, assuming no residual value.

Certain overseas consolidated subsidiaries prepare financial statements in accordance with International Financial Reporting Standards (“IFRS”), and as described in Changes in Accounting Policies, have applied IFRS 16 “Leases” (“IFRS 16”), effective from the fiscal year ended March 31, 2020. Under IFRS 16, a lessee in a lease records, in principle, all leases as assets and liabilities on balance sheet, and right-of-use assets that were recognized on balance sheet are depreciated by the straight-line method.

(3) Accounting policy for significant provisions

(i) Allowance for doubtful accounts

To prepare for losses from bad debts, an estimated uncollectible amount is provided either by making an estimation using the historical rate of credit loss in the case of general receivables, or based on individual consideration of collectibility in the case of specific receivables such as highly doubtful receivables.

(ii) Provision for bonuses

To prepare for payment of bonuses to employees, certain consolidated subsidiaries record the amount attributed to services rendered during the year based on the estimated amount of bonus payment.

(iii) Provision for product warranties

To prepare for warranty costs incurred based on the warranty period of sold products, provision for product warranties is recorded in view of the ratio of actual warranty costs incurred for the year against the annual sales.

(4) Accounting policy for retirement benefits

(i) Method for attributing estimated retirement benefits to periods

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

(ii) Amortization method of actuarial gains and losses

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

(iii) Application of simplified accounting method used by small-sized companies

In calculating retirement benefit liability and retirement benefit expenses, certain consolidated subsidiaries apply a simplified method in which an assumed amount of benefits to be paid for voluntary base retirement at the fiscal year-end is deemed as retirement benefit obligations.

- (5) Standards for the yen conversion of significant assets and liabilities denominated in foreign currencies

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rates at the fiscal year end. The foreign exchange gains and losses from translation are recognized as profit and loss.

Assets and liabilities of overseas consolidated subsidiaries are translated into Japanese yen at the spot exchange rates at the fiscal year end, and revenues and expenses of overseas consolidated subsidiaries are translated into Japanese yen at the average exchange rates. Translation adjustments are included in foreign currency translation adjustment and non-controlling interests in net assets on the consolidated balance sheet.

- (6) Significant hedge accounting method

- (i) Hedge accounting method

Certain consolidated subsidiaries translate monetary receivables and payables denominated in foreign currencies hedged by forward foreign exchange rate at the foreign exchange rates stipulated in the contract (*furiate-shori*).

- (ii) Hedging instruments and hedged items

| Hedging instrument | Hedged item |
|----------------------------|---|
| Forward exchange contracts | Monetary receivables and payables denominated in foreign currencies |

- (iii) Hedging policy

Forward exchange contracts

Forward exchange contracts are used to the extent necessary to avoid risk of fluctuations in foreign exchange rates on monetary receivables and payables denominated in foreign currencies.

- (iv) Method of assessing the hedge effectiveness

At inception, forward exchange contracts at the same amount and the same maturing as the hedged items are allocated to the respective hedged items in accordance with the Company's risk management. Because the correlative relations with subsequent fluctuations in foreign exchange rates have been fully ensured, assessment of the hedge effectiveness at the fiscal year end is omitted.

- (7) Method and period for amortization of goodwill

Goodwill is amortized over five years on a straight-line basis.

- (8) Scope of cash and cash equivalents in consolidated statement of cash flows

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments that are readily convertible to known amounts of cash and subject to insignificant risk of change in value and due within three months from the date of acquisition.

- (9) Other significant information for the basis of preparation of consolidated financial statements

Accounting method for consumption taxes, etc.

Tax exclusion method is used for accounting for consumption taxes, etc.

(Changes in Accounting Policies)

Application of IFRS 16 “Leases”

The Company’s overseas consolidated subsidiaries using IFRS have applied IFRS 16 effective from the fiscal year ended March 31, 2020. This standard requires lessees to recognize right-of-use assets and lease liabilities for, in principle, all leases on the balance sheet.

As a result, in the consolidated balance sheet as of March 31, 2020, “Leased assets, net” increased by ¥1,701 million, “Lease obligations” under “Current liabilities” increased by ¥164 million, and “Lease obligations” under “Non-current liabilities” increased by ¥589 million. “Intangible assets” decreased by ¥800 million, and “Other” under “Investments and other assets” decreased by ¥156 million. The impact of applying this standard on profit or loss for the fiscal year ended March 31, 2020 is immaterial.

(New Accounting Standards Not Yet Applied)

- “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 29, revised on March 31, 2020)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, revised on March 31, 2020)
- “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, revised on March 31, 2020)

(1) Overview

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

The ASBJ established the accounting standard on revenue recognition by following the basic policies in developing it. The basic policies were: firstly, incorporating the core principle of IFRS 15 as the starting point from the perspective of facilitating comparability among financial statements, which is one of the benefits of ensuring consistency with IFRS 15; secondly, adding alternative treatments, but to the extent not impairing comparability, where consideration should be given to the practice having been used in Japan.

(2) Scheduled date of application

The standard and guidances will be applied at the beginning of the fiscal year ending on March 31, 2022.

(3) Effects of application of the accounting standard, etc.

The impact of the application of the Accounting Standard for Revenue Recognition and others on the consolidated financial statements is currently under evaluation.

- “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, issued on July 4, 2019)
- “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, revised on July 4, 2019)
- “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, revised on July 4, 2019)
- “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, issued on July 4, 2019)
- “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, revised on March 31, 2020)

(1) Overview

In light of the situation in which the IASB and the FASB have established detailed guidance on fair value measurement with almost the same content (IFRS 13 “Fair Value Measurement” in IFRS, and Accounting Standards Codification Topic 820 “Fair Value Measurement” in the US GAAP), the ASBJ worked to ensure consistency of the Japanese GAAP with international accounting standards mainly for guidance and disclosures on fair value of financial instruments and issued “Accounting Standard for Fair Value Measurement” and others.

The ASBJ’s basic policy for the development of the accounting standard for fair value measurement is to incorporate basically all the provisions of IFRS 13 from the perspective of increasing comparability of financial statements among companies in Japan and overseas by using the unified measurement method, and to establish other treatments of individual items to the extent that consideration is given to practices, etc. that have been conducted to date in Japan and comparability among financial statements is not impaired largely.

(2) Scheduled date of application

The standards and guidances will be applied at the beginning of the fiscal year ending on March 31, 2022.

(3) Effects of application of the accounting standard, etc.

The impact of the application of the Accounting Standard for Fair Value Measurement and others on the consolidated financial statements is currently under evaluation.

- “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, issued on March 31, 2020)

(1) Overview

With regard to “sources of estimation uncertainty,” which is required to be disclosed in paragraph 125 of International Accounting Standard (IAS) 1 “Presentation of Financial Statements” (“IAS 1”) issued by the IASB in 2003, as the ASBJ received requests to consider also requiring disclosure of these sources as information that is highly useful to financial statement users, as note information in the Japanese GAAP, the ASBJ developed and issued the Accounting Standard for Disclosure of Accounting Estimates.

The ASBJ’s basic policy for the development of this standard is to present the principle (disclosure purpose), instead of enhancing individual notes, and let entities determine specific information to be disclosed according to the disclosure purpose, and to refer to the provision of paragraph 125 of IAS 1 in the development.

(2) Scheduled date of application

The standard will be applied at the end of the fiscal year ending on March 31, 2021.

- “Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections” (ASBJ Statement No. 24, revised on March 31, 2020)

(1) Overview

Following the recommendation to consider enhancing note information on “principles and procedures for accounting treatment used in the case where provisions of relevant accounting standards, etc. are not clear,” the ASBJ made necessary revisions and issued the revised standard as the Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections.

In striving to enhance note information on “principles and procedures for accounting treatment used in the case where provisions of relevant accounting standards, etc. are not clear,” the provision of annotations on corporate accounting principles (note 1 to 2) shall be taken over so that traditional practices in the case where provisions of relevant accounting standards, etc. are clear are not affected.

(2) Scheduled date of application

The standard will be applied at the end of the fiscal year ending on March 31, 2021.

(Additional Information)

Accounting estimates related to the impacts of the growing spread of infections of the novel coronavirus disease (COVID-19)

In the fiscal year ended March 31, 2020, the impact of the spread of COVID-19 on the performance of the Company and its consolidated subsidiaries (the "Group") was insignificant. However, in the next fiscal year, as for marine paints, core products of the Group, the Group expects demand of products for repair ships to decline to a certain extent as a result of the slowdown in marine transportation due to the stagnation of economic activity and the postponement of the repair schedule, etc. despite the impact on sales of paints for new ships being insignificant because the orders for a majority of those projects were received in 2019 or before.

Amid these conditions, it is extremely difficult to estimate the impact of COVID-19 on the Group's performance as there is no unanimous opinion regarding the future spread of COVID-19 or when it will end. However, the Group has made accounting estimates, including test of impairment on non-current assets and determination of recoverability of deferred tax assets, based on the assumption that the situation will return to a certain degree of normal in the next fiscal year.

However, there are many uncertainties regarding the impacts of the growing spread of COVID-19, which may affect the Group's financial position and operating results for the following fiscal year if the assumption differs from the actual results.

(Consolidated Balance Sheet)

*1. Pledged assets and secured liabilities

Assets pledged as collateral are as follows:

| | (Millions of yen) | |
|-----------------------|----------------------|----------------------|
| | As of March 31, 2019 | As of March 31, 2020 |
| Investment securities | 846 | 676 |

Liabilities secured by such collateral are as follows:

| | (Millions of yen) | |
|---|----------------------|----------------------|
| | As of March 31, 2019 | As of March 31, 2020 |
| Current portion of long-term borrowings | 500 | - |
| Long-term borrowings | - | 500 |

2. Guarantee obligations

Guarantees provided to a specified agent for the collection of accounts receivable are as follows:

Debt guarantees

| | (Millions of yen) | |
|---------------------------------------|----------------------|----------------------|
| | As of March 31, 2019 | As of March 31, 2020 |
| Mitsubishi Shoji Chemical Corporation | 885 | 840 |

*3. Revaluation of land

The land for business use owned by the Company was revaluated under the “Act on Revaluation of Land” (Act No. 34 of March 31, 1998) and the “Act for Partial Revision of the Act on Revaluation of Land” (amended on March 31, 1999). As for the revaluation method, the value is determined by the method where the revaluation is calculated by making reasonable adjustments to the assessed value of non-current assets stipulated in Article 2, item 3 of the Order for Enforcement of the Act on Revaluation of Land (Cabinet Order No. 119, promulgated on March 31, 1998). Of revaluation difference, the amount equivalent to tax effects is recorded as “Deferred tax liabilities for land revaluation” in non-current liabilities, and the other amount is as “Revaluation reserve for land” in net assets.

- Date of revaluation: March 31, 2000

| | (Millions of yen) | |
|---|----------------------|----------------------|
| | As of March 31, 2019 | As of March 31, 2020 |
| Difference between the fair value of the revalued land and the book value after the revaluation at the fiscal year end: | (5,915) | (5,858) |

4. Trade notes receivable transferred by endorsement

| | (Millions of yen) | |
|---|----------------------|----------------------|
| | As of March 31, 2019 | As of March 31, 2020 |
| Trade notes receivable transferred by endorsement | 484 | 625 |

*5. Notes maturing at the fiscal year end

Notes maturing at the fiscal year end are accounted for on the clearing dates. Since the last day of the fiscal year ended March 31, 2019 was a holiday of financial institutions, the following notes maturing at the fiscal year end are included in the balances at the previous fiscal year end.

| | (Millions of yen) | |
|--------------------------|----------------------|----------------------|
| | As of March 31, 2019 | As of March 31, 2020 |
| Notes receivable - trade | 195 | - |
| Notes payable - trade | 347 | - |

(Consolidated Statement of Income)

- *1. The book value write-down of inventories held for ordinary sale due to their decreased profitability is as follows:

| | (Millions of yen) | |
|---------------|-------------------------------------|-------------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| Cost of sales | 105 | (171) |

- *2. The main components of selling, general and administrative expenses are as follows:

| | (Millions of yen) | |
|--|-------------------------------------|-------------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| Depreciation | 413 | 626 |
| Provision of allowance for doubtful accounts | (134) | 75 |
| Provision for bonuses | 93 | 52 |
| Provision for product warranties | 84 | 48 |
| Retirement benefit expenses | 369 | 409 |
| Remuneration for directors (and other officers) and employees' salaries, etc. | 6,772 | 6,823 |
| Transportation costs | 3,883 | 4,008 |
| Sales commission | 1,829 | 1,528 |

- *3. Research and development expenses included in general and administrative expenses and manufacturing costs for period are as follows:

| | (Millions of yen) | |
|-------------------------------------|-------------------------------------|-------------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| General and administrative expenses | 753 | 744 |
| Manufacturing costs for period | 1,091 | 1,057 |
| Total | 1,845 | 1,802 |

- *4. The breakdown of gain on sales of non-current assets is as follows:

| | (Millions of yen) | |
|-----------------------------------|-------------------------------------|-------------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| Buildings and structures | 11 | - |
| Machinery, equipment and vehicles | 6 | 7 |
| Tools, furniture and fixtures | 0 | 0 |
| Land | - | 7 |
| Total | 18 | 14 |

- *5. The breakdown of loss on sales of non-current assets is as follows:

| | (Millions of yen) | |
|-----------------------------------|-------------------------------------|-------------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| Machinery, equipment and vehicles | 0 | - |

*6. The breakdown of impairment loss is as follows:

Fiscal year ended March 31, 2019

The Group recognized impairment losses on the following asset groups:

| Location | Use | Type |
|---|--|---|
| Yasu-shi, Shiga Prefecture | Assets planned to be sold (company residence) | Buildings and structures, tools, furniture and fixtures, and land |
| Yoshinogari-cho, Kanzaki-gun, Saga Prefecture | Assets planned to be sold (company residence) | Buildings and structures, and land |

Asset grouping for the Group is made based on a minimum unit that generates cash flows, which is substantially independent from cash flows of other assets or asset groups. The Group groups idle assets that are not used for business according to each individual item.

As the Group made a decision to sell the above assets, the carrying amounts of the above items were reduced to their recoverable amounts, recognizing such reduction as an impairment loss (¥122 million) included in extraordinary loss. The impairment loss consisted of ¥47 million for buildings and structures, ¥0 million for tools, furniture and fixtures, and ¥74 million for land.

Recoverable amounts are measured at net realizable values.

Fiscal year ended March 31, 2020

The Group recognized impairment losses on the following asset groups:

| Location | Use | Type |
|-----------------|-----------------|--|
| Shanghai, China | Business assets | Buildings and structures, machinery, equipment and vehicles, and tools, furniture and fixtures |

Asset grouping for the Group is made based on a minimum unit that generates cash flows, which is substantially independent from cash flows of other assets or asset groups. The Group groups idle assets that are not used for business according to each individual item.

As the profitability of the above assets decreased considerably, the carrying amounts of the above items were reduced to their recoverable amounts, recognizing such reduction as an impairment loss (¥1,626 million) included in extraordinary loss. The impairment loss consisted of ¥1,214 million for buildings and structures, ¥401 million for machinery, equipment and vehicles, and ¥11 million for tools, furniture and fixtures.

Recoverable amounts are measured at net realizable values.

(Consolidated Statement of Comprehensive Income)

* Reclassification adjustments and tax effects relating to other comprehensive income

(Millions of yen)

| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|--|-------------------------------------|-------------------------------------|
| Valuation difference on available-for-sale securities: | | |
| Amount arising during the year | (1,552) | (1,104) |
| Reclassification adjustments | (680) | 1,109 |
| Amount before tax effects | (2,232) | 5 |
| Tax effects | 632 | (56) |
| Valuation difference on available-for-sale securities | (1,599) | (50) |
| Foreign currency translation adjustment: | | |
| Amount arising during the year | (2,330) | (658) |
| Remeasurements of defined benefit plans: | | |
| Amount arising during the year | (171) | 7 |
| Reclassification adjustments | 26 | 20 |
| Amount before tax effects | (144) | 28 |
| Tax effects | 45 | (8) |
| Remeasurements of defined benefit plans | (98) | 19 |
| Total other comprehensive income | (4,029) | (689) |

(Consolidated Statement of Changes in Equity)

Fiscal year ended March 31, 2019

1. Type and total number of issued shares, and type and number of treasury shares

(Thousands of shares)

| | Number of shares as of April 1, 2018 | Increase | Decrease | Number of shares as of March 31, 2019 |
|---------------------------------|---|----------|----------|--|
| Issued shares | | | | |
| Ordinary shares | 69,068 | – | – | 69,068 |
| Total | 69,068 | – | – | 69,068 |
| Treasury shares | | | | |
| Ordinary shares (Notes) 1, 2 | 3,565 | 4,824 | 21 | 8,367 |
| Total | 3,565 | 4,824 | 21 | 8,367 |

- Notes: 1. The increase of 4,824 thousand shares in the number of treasury shares of ordinary shares reflects the acquisition of 4,824 thousand shares of treasury shares in accordance with a resolution of the Board of Directors, and an increase of 0 thousand shares resulting from the purchase of shares less than one unit.
2. The decrease of 21 thousand shares in the number of treasury shares of ordinary shares reflects the disposal of treasury shares used for restricted share-based remuneration.

2. Dividends

(1) Dividends paid

| Resolution | Type of shares | Total amount of dividends (Millions of yen) | Dividends per share (Yen) | Cut-off date | Effective date |
|---|-----------------|---|---------------------------------|-----------------------|---------------------|
| Annual General Meeting of Shareholders on June 21, 2018 | Ordinary shares | 1,244 | 19.00 | March 31, 2018 | June 22, 2018 |
| Board of Directors meeting on October 31, 2018 | Ordinary shares | 1,055 | 17.00 | September 30, 2018 | December 3, 2018 |

(2) Dividends for which cut-off date is in the current fiscal year with effective date in the following fiscal year

| Resolution | Type of shares | Source of dividends | Total amount of dividends (Millions of yen) | Dividends per share (Yen) | Cut-off date | Effective date |
|---|-----------------|---------------------|---|---------------------------|----------------|----------------|
| Annual General Meeting of Shareholders on June 20, 2019 | Ordinary shares | Retained earnings | 1,031 | 17.00 | March 31, 2019 | June 21, 2019 |

Fiscal year ended March 31, 2020

1. Type and total number of issued shares, and type and number of treasury shares

(Thousands of shares)

| | Number of shares as of April 1, 2019 | Increase | Decrease | Number of shares as of March 31, 2020 |
|------------------------------|--------------------------------------|----------|----------|---------------------------------------|
| Issued shares | | | | |
| Ordinary shares | 69,068 | – | – | 69,068 |
| Total | 69,068 | – | – | 69,068 |
| Treasury shares | | | | |
| Ordinary shares (Notes) 1, 2 | 8,367 | 2,501 | 17 | 10,851 |
| Total | 8,367 | 2,501 | 17 | 10,851 |

- Notes: 1. The increase of 2,501 thousand shares in the number of treasury shares of ordinary shares reflects the acquisition of 2,500 thousand shares of treasury shares in accordance with a resolution of the Board of Directors, an increase of 0 thousand shares resulting from the acquisition of restricted share-based remuneration without contribution and an increase of 0 thousand shares resulting from the purchase of shares less than one unit.
2. The decrease of 17 thousand shares in the number of treasury shares of ordinary shares reflects the disposal of treasury shares used for restricted share-based remuneration.

2. Dividends

(1) Dividends paid

| Resolution | Type of shares | Total amount of dividends (Millions of yen) | Dividends per share (Yen) | Cut-off date | Effective date |
|---|-----------------|---|---------------------------|--------------------|------------------|
| Annual General Meeting of Shareholders on June 20, 2019 | Ordinary shares | 1,031 | 17.00 | March 31, 2019 | June 21, 2019 |
| Board of Directors meeting on October 31, 2019 | Ordinary shares | 1,008 | 17.00 | September 30, 2019 | December 3, 2019 |

(2) Dividends for which cut-off date is in the current fiscal year with effective date in the following fiscal year

| Resolution | Type of shares | Source of dividends | Total amount of dividends (Millions of yen) | Dividends per share (Yen) | Cut-off date | Effective date |
|---|-----------------|---------------------|---|---------------------------|----------------|----------------|
| Annual General Meeting of Shareholders on June 25, 2020 | Ordinary shares | Retained earnings | 989 | 17.00 | March 31, 2020 | June 26, 2020 |

(Consolidated Statement of Cash Flows)

- * Reconciliation of ending balance of cash and cash equivalents and account items on the consolidated balance sheet

| | (Millions of yen) | |
|---|-------------------------------------|-------------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| Cash and deposits | 29,209 | 26,669 |
| Time deposits with a maturity of more than three months | (8,614) | (5,426) |
| Securities (MMF, etc.) | 204 | 236 |
| Cash and cash equivalents | 20,799 | 21,479 |

(Leases)

Lessees' accounting

1. Finance lease transactions

Finance lease transactions that do not transfer ownership

(1) Details of leased assets

Property, plant and equipment

Principally, land and other assets used in the paint-related business.

(2) Accounting policy for depreciation of leased assets

As described in "4. Accounting policies, (2) Accounting policy for depreciation of significant assets" of Significant Accounting Policies for Preparation of Consolidated Financial Statements.

2. Operating lease transactions

Future minimum lease payments under non-cancelable operating leases

| | (Millions of yen) | |
|---------------------|----------------------|----------------------|
| | As of March 31, 2019 | As of March 31, 2020 |
| Due within one year | 114 | 13 |
| Due after one year | 148 | 4 |
| Total | 262 | 18 |

(Note) IFRS 16 "Leases" has been applied, and the above does not include lease transactions that have been recorded as assets and liabilities on the consolidated balance sheet.

(Financial Instruments)

1. Overview of financial instruments

(1) Policy for financial instruments

The Group mainly operates funds through highly liquid financial assets and finance short-term operating capital with bank loans. Derivative transactions are used to hedge the risks described below, and the Group does not enter into derivatives transactions for speculative purposes.

(2) The nature and risk of financial instruments

Notes and accounts receivable - trade, which are operating receivables, are exposed to customer credit risk. Although trade receivables denominated in foreign currencies that arise in conducting business overseas are exposed to foreign exchange fluctuation risk, the risk is hedged by employing forward exchange contracts to the amount of sales contracts. Securities and investment securities are mainly shares of companies with which the Group has business relationships and exposed to the risk of fluctuations in their market prices.

Notes and accounts payable - trade, which are operating payables, are mostly due within one year. Although some related to the import of raw materials are denominated in foreign currencies and exposed to foreign exchange fluctuation risk, the risk is hedged by employing forward exchange contracts to the amount of purchase contracts. Short-term borrowings are mainly for the purpose of procuring funds for operating funds.

Derivative transactions are forward exchange contracts to hedge against foreign exchange fluctuation risk from operating receivables and payables denominated in foreign currencies. For the hedging instruments and hedged items under the hedge accounting, hedging policy, and the method of assessing the hedge effectiveness, please refer to “4. Accounting policies, (6) Significant hedge accounting method” of Significant Accounting Policies for Preparation of Consolidated Financial Statements prescribed above.

(3) Risk management structure regarding financial instruments

(i) Management of credit risk (customers' default risk, etc.)

For operating receivables, in accordance with the Company's internal rules, Global Marketing & Planning Div. regularly monitors the financial positions of its main customers and manages the due dates and balances of each customer so as to perceive at an early stage and reduce the risk of uncollectable amounts due to declining financial position or other reasons. The Company's consolidated subsidiaries also manage operating receivables in the same manner in accordance with the Company's internal rules.

With regard to derivatives, the Company perceives very little credit risk as it enters into transactions solely with financial institutions with high ratings.

(ii) Management of market risk (fluctuation risks of foreign exchange and interest rates, etc.)

For operating receivables and payables denominated in foreign currencies, the Group uses forward exchange contracts to hedge its exposure to the amount of actual contracts.

The Group regularly reviews the fair value of securities and investment securities as well as the financial position of investees (customer entities), and continuously reviews the holding status in view of market conditions and relationships with customer entities. Execution and management of derivatives for the Group are managed in accordance with the Company's internal rules.

(iii) Management of liquidity risk associated with fund raising (risk of inability to pay on due date)

The Company manages liquidity risk by having Finance Dept. timely develop and update the funding plan based on reports from each of the departments and by maintaining short-term liquidity. The Company's consolidated subsidiaries also manage liquidity risk in the same manner.

(4) Supplementary explanation concerning fair values of financial instruments, etc.

Fair value of financial instruments comprises of values based on market prices and reasonably determined values where market prices are unavailable. As variable factors are incorporated in determining the fair value, the resulting amount may vary depending on the different preconditions employed. The contract or notional amounts of derivative transactions in notes “Derivatives” do not, in themselves, indicate the market risk associated with the derivative transactions.

2. Fair value of financial instruments

The carrying amounts of financial instruments and their fair values, as well as their differences are as follows: Financial instruments whose fair values are deemed extremely difficult to determine are not included. (Refer to (Note) 2.)

As of March 31, 2019

| (Millions of yen) | | | |
|---|-----------------|------------|------------|
| | Carrying amount | Fair value | Difference |
| (1) Cash and deposits | 29,209 | 29,209 | – |
| (2) Notes and accounts receivable - trade | 32,126 | | |
| Allowance for doubtful accounts (*1) | (845) | | |
| | 31,280 | 31,280 | – |
| (3) Securities and investment securities | 4,958 | 4,958 | – |
| Total assets | 65,448 | 65,448 | – |
| (1) Notes and accounts payable - trade | 13,219 | 13,219 | – |
| (2) Short-term borrowings | 18,246 | 18,246 | – |
| Total liabilities | 31,465 | 31,465 | – |
| Derivative transactions (*2) | (0) | (0) | – |

(*1) The deducted amount is allowance for doubtful accounts relating to notes and accounts receivable - trade.

(*2) Assets and liabilities arising from derivative transactions are stated in the net amount. The figures in parentheses indicate net liabilities.

As of March 31, 2020

| (Millions of yen) | | | |
|---|-----------------|------------|------------|
| | Carrying amount | Fair value | Difference |
| (1) Cash and deposits | 26,669 | 26,669 | – |
| (2) Notes and accounts receivable - trade | 30,817 | | |
| Allowance for doubtful accounts (*1) | (847) | | |
| | 29,969 | 29,969 | – |
| (3) Securities and investment securities | 3,542 | 3,542 | – |
| Total assets | 60,182 | 60,182 | – |
| (1) Notes and accounts payable - trade | 11,264 | 11,264 | – |
| (2) Short-term borrowings | 17,322 | 17,322 | – |
| Total liabilities | 28,586 | 28,586 | – |
| Derivative transactions (*2) | 2 | 2 | – |

(*1) The deducted amount is allowance for doubtful accounts relating to notes and accounts receivable - trade.

(*2) Assets and liabilities arising from derivative transactions are stated in the net amount. The figures in parentheses indicate net liabilities.

Notes: 1. Method of determining fair value of financial instruments and matters concerning securities and derivative transactions

Assets

(1) Cash and deposits, (2) Notes and accounts receivable - trade

As these items are settled in a short term and the market value is close to book value, they are presented in book value.

(3) Securities and investment securities

Fair value of these items is stated at the quoted market prices of the stock exchange. Fair value of bonds is stated at the quoted market prices of the stock exchange or the prices provided by counterparty financial institutions. In addition, the book value of MMF and others is deemed as the fair value since it is settled in a short term. Please refer to “Securities” for matters regarding securities by holding purpose.

Liabilities

(1) Notes and accounts payable - trade, (2) Short-term borrowings

As these items are settled in a short term and the market value is close to book value, they are presented in book value.

Derivative transactions

Please refer to notes "Derivatives."

2. Financial instruments whose fair values are deemed extremely difficult to determine

(Millions of yen)

| Categories | As of March 31, 2019 | As of March 31, 2020 |
|----------------------------|----------------------|----------------------|
| Unlisted equity securities | 614 | 614 |

The above financial instruments are not included in "(3) Securities and investment securities" because their market prices are not available and their fair values are deemed extremely difficult to determine.

3. Redemption schedule for monetary receivables and securities with maturity after the consolidated balance sheet date

As of March 31, 2019

(Millions of yen)

| | Due within one year | Due after one year and up to five years | Due after five years and up to ten years | Due after ten years |
|---------------------------------------|---------------------|---|--|---------------------|
| Cash and deposits | 29,188 | – | – | – |
| Notes and accounts receivable - trade | 32,126 | – | – | – |
| Total | 61,315 | – | – | – |

As of March 31, 2020

(Millions of yen)

| | Due within one year | Due after one year and up to five years | Due after five years and up to ten years | Due after ten years |
|---------------------------------------|---------------------|---|--|---------------------|
| Cash and deposits | 26,651 | – | – | – |
| Notes and accounts receivable - trade | 30,817 | – | – | – |
| Total | 57,468 | – | – | – |

4. Redemption schedule for interest-bearing debts after the consolidated balance sheet date

As of March 31, 2019

(Millions of yen)

| | Due within one year | Due after one year and up to two years | Due after two years and up to three years | Due after three years and up to four years | Due after four years and up to five years | Due after five years |
|-----------------------|---------------------|--|---|--|---|----------------------|
| Short-term borrowings | 18,246 | – | – | – | – | – |
| Total | 18,246 | – | – | – | – | – |

As of March 31, 2020

(Millions of yen)

| | Due within one year | Due after one year and up to two years | Due after two years and up to three years | Due after three years and up to four years | Due after four years and up to five years | Due after five years |
|-----------------------|---------------------|--|---|--|---|----------------------|
| Short-term borrowings | 17,322 | – | – | – | – | – |
| Total | 17,322 | – | – | – | – | – |

(Securities)

1. Available-for-sale securities

As of March 31, 2019

(Millions of yen)

| Categories | Carrying amount | Acquisition cost | Difference |
|---|-----------------|------------------|------------|
| Securities whose carrying amount exceeds their acquisition cost | | | |
| Equity securities | 3,209 | 1,975 | 1,234 |
| Subtotal | 3,209 | 1,975 | 1,234 |
| Securities whose carrying amount does not exceed their acquisition cost | | | |
| Equity securities | 1,544 | 2,519 | (975) |
| MMF and others | 204 | 204 | – |
| Subtotal | 1,748 | 2,724 | (975) |
| Total | 4,958 | 4,700 | 258 |

Note: Unlisted equity securities (carrying amount: ¥614 million) are not included in “Available-for-sale securities” in the above table as their market prices are not available and their fair values are deemed extremely difficult to determine.

As of March 31, 2020

(Millions of yen)

| Categories | Carrying amount | Acquisition cost | Difference |
|---|-----------------|------------------|------------|
| Securities whose carrying amount exceeds their acquisition cost | | | |
| Equity securities | 1,593 | 1,117 | 475 |
| Subtotal | 1,593 | 1,117 | 475 |
| Securities whose carrying amount does not exceed their acquisition cost | | | |
| Equity securities | 1,712 | 1,924 | (212) |
| MMF and others | 236 | 236 | – |
| Subtotal | 1,949 | 2,161 | (212) |
| Total | 3,542 | 3,279 | 263 |

Note: Unlisted equity securities (carrying amount: ¥614 million) are not included in “Available-for-sale securities” in the above table as their market prices are not available and their fair values are deemed extremely difficult to determine.

2. Available-for-sale securities sold

Fiscal year ended March 31, 2019

(Millions of yen)

| Type | Proceeds | Total gain on sale | Total loss on sale |
|-------------------|----------|--------------------|--------------------|
| Equity securities | 1,099 | 680 | – |
| Total | 1,099 | 680 | – |

Fiscal year ended March 31, 2020

(Millions of yen)

| Type | Proceeds | Total gain on sale | Total loss on sale |
|-------------------|----------|--------------------|--------------------|
| Equity securities | 365 | 82 | 24 |
| Total | 365 | 82 | 24 |

3. Impairment loss recognized on securities

For the fiscal year ended March 31, 2020, an impairment loss of ¥1,167 million was recognized on securities (¥1,167 million for equity available-for-sale securities).

When the fair value of securities at the fiscal year end declines by 50% or more of their acquisition cost, those securities are written down to the fair value. When the fair value declines by approximately 30% to 50% of the acquisition cost, an impairment loss is recognized at the amount deemed necessary considering the recoverability in fair value.

In addition, for equity securities whose fair values are deemed extremely difficult to determine, when the real value of those equity securities declines by 50% or more from the acquisition cost due to a deterioration in the issuer's financial position, and impairment loss is recognized unless the recoverability is supported by reasonable grounds.

(Derivatives)

1. Derivative transactions for which hedge accounting is not applied

(1) Currency-related transactions

As of March 31, 2019

| (Millions of yen) | | | | | |
|-------------------|----------------------------|------------------------------|-------------------------|------------|------------------------|
| Categories | Type of transaction | Contract or notional amounts | Maturing after one year | Fair value | Unrealized gain (loss) |
| OTC transactions | Forward exchange contracts | | | | |
| | Sell: | | | | |
| | USD selling/JPY buying | 77 | - | 0 | 0 |
| | USD selling/Euro buying | 277 | - | (1) | (1) |
| | Buy: | | | | |
| | USD buying/JPY selling | 25 | - | (0) | (0) |
| | USD buying/Euro selling | 112 | - | 1 | 1 |
| | JPY buying/Euro selling | 34 | - | 0 | 0 |
| | GBP buying/Euro selling | 106 | - | (0) | (0) |
| | Total | 633 | - | (0) | (0) |

Note: Method of calculating fair value

Fair values are calculated based on the prices provided by counterparty financial institutions.

As of March 31, 2020

(Millions of yen)

| Categories | Type of transaction | Contract or notional amounts | Maturing after one year | Fair value | Unrealized gain (loss) |
|------------------|----------------------------|------------------------------|-------------------------|------------|------------------------|
| OTC transactions | Forward exchange contracts | | | | |
| | Sell: | | | | |
| | USD selling/JPY buying | 42 | – | (0) | (0) |
| | USD selling/Euro buying | 110 | – | 1 | 1 |
| | Buy: | | | | |
| | USD buying/JPY selling | 11 | – | 0 | 0 |
| | JPY buying/Euro selling | 71 | – | (0) | (0) |
| | GBP buying/Euro selling | 104 | – | 2 | 2 |
| | Total | 339 | – | 2 | 2 |

Note: Methods of calculating fair value

Fair values are calculated based on the prices provided by counterparty financial institutions.

(2) Interest-rate-related transactions

Not applicable.

2. Derivative transactions for which hedge accounting is applied

Not applicable.

(Retirement Benefits)

1. Overview of retirement benefit plan adopted by the Company

The Group, excluding certain overseas consolidated subsidiaries, has defined benefit plans such as corporate defined benefit pension plans and lump-sum payment plans. Certain consolidated subsidiaries have defined contribution plans. In some cases, the Group pays additional severance benefits to retiring employees.

Under the corporate defined benefit pension plans and the lump-sum retirement payment plans for certain consolidated subsidiaries, retirement benefit liability and retirement benefit expenses are calculated using the simplified method.

2. Defined benefit plan

(1) Reconciliation of retirement benefit obligations at beginning of period and at end of period (excluding plans to which the simplified method was applied)

| | (Millions of yen) | |
|--|-------------------------------------|-------------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| Retirement benefit obligation at beginning of period | 4,858 | 5,007 |
| Service cost | 299 | 313 |
| Interest cost | 26 | 19 |
| Actuarial gains and losses | 158 | (146) |
| Past service cost | - | (4) |
| Retirement benefits paid | (299) | (308) |
| Other | (34) | 3 |
| Retirement benefit obligation at end of period | 5,007 | 4,885 |

(2) Reconciliation of plan assets at beginning of period and at end of period (excluding plans to which the simplified method was applied)

| | (Millions of yen) | |
|------------------------------------|-------------------------------------|-------------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| Plan assets at beginning of period | 4,194 | 4,203 |
| Expected return on plan assets | 62 | 62 |
| Actuarial gains and losses | (12) | (138) |
| Contributions from employer | 259 | 257 |
| Retirement benefits paid | (298) | (300) |
| Other | (1) | 0 |
| Plan assets at end of period | 4,203 | 4,085 |

(3) Reconciliation of retirement benefit liabilities for plans to which the simplified method was applied at beginning of period and at end of period

| | (Millions of yen) | |
|---|-------------------------------------|-------------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| Retirement benefit liability at beginning of period | 611 | 687 |
| Retirement benefit expenses | 209 | 235 |
| Retirement benefits paid | (59) | (123) |
| Contribution to plans | (91) | (110) |
| Other | 18 | 3 |
| Retirement benefit liability at end of period | 687 | 692 |

(4) Reconciliation between retirement benefit obligations and plan assets at end of period, and retirement benefit liability and retirement benefit asset recognized on the consolidated balance sheet

(Millions of yen)

| | As of March 31, 2019 | As of March 31, 2020 |
|---|----------------------|----------------------|
| Retirement benefit obligation for funded plans | 5,853 | 5,738 |
| Plan assets | (5,050) | (4,972) |
| | 802 | 765 |
| Retirement benefit obligation for unfunded plans | 688 | 726 |
| Net balance of liability and asset recognized on the consolidated balance sheet | 1,491 | 1,491 |
| Retirement benefit liability | 1,576 | 1,587 |
| Retirement benefit asset | (84) | (95) |
| Net balance of liability and asset recognized on the consolidated balance sheet | 1,491 | 1,491 |

Note: Figures include those for plans to which the simplified method was applied.

(5) Retirement benefit expenses and their breakdown

(Millions of yen)

| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|---|-------------------------------------|-------------------------------------|
| Service cost | 299 | 313 |
| Interest cost | 26 | 19 |
| Expected return on plan assets | (62) | (62) |
| Amortization of actuarial gains and losses | 26 | 20 |
| Amortization of past service cost | – | (4) |
| Retirement benefit expenses applying simplified method | 209 | 235 |
| Retirement benefit expenses under defined benefit plans | 499 | 521 |

(6) Remeasurements of defined benefit plans

(Millions of yen)

| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|----------------------------|-------------------------------------|-------------------------------------|
| Actuarial gains and losses | 143 | (28) |
| Total | 143 | (28) |

(7) Accumulated remeasurements of defined benefit plans

The breakdown of items recognized in accumulated remeasurements of defined benefit plans (before tax effect) on the consolidated balance sheet is as follows:

(Millions of yen)

| | As of March 31, 2019 | As of March 31, 2020 |
|---|----------------------|----------------------|
| Unrecognized actuarial gains and losses | 249 | 221 |
| Total | 249 | 221 |

(8) Plan assets

(i) Breakdown of plan assets

Percentage of each main category to total plan assets is as follows:

| | As of March 31, 2019 | As of March 31, 2020 |
|------------------|----------------------|----------------------|
| Bonds | 13 | 16 |
| Securities | 13 | 10 |
| General accounts | 62 | 64 |
| Other | 12 | 10 |
| Total | 100 | 100 |

(ii) Determination of expected long-term rate of return on plan assets

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

(9) Actuarial assumptions

Major bases for actuarial calculation

| | As of March 31, 2019 | As of March 31, 2020 |
|-----------------------------------|----------------------|----------------------|
| Discount rate | 0.2 | 0.2 |
| Long-term expected rate of return | 1.5 | 1.5 |
| Expected rate of salary increase | 3.1 | 3.1 |

3. Defined contribution plan

The required contribution to the defined contribution plan for certain consolidated subsidiaries amounted to ¥78 million and ¥85 million as of March 31, 2019 and 2020, respectively.

(Tax Effect Accounting)

1. Significant components of deferred tax assets and deferred tax liabilities

| | As of March 31, 2019 | As of March 31, 2020 |
|--|----------------------|----------------------|
| (Millions of yen) | | |
| Deferred tax assets | | |
| Retirement benefit liability | 458 | 553 |
| Tax loss carried forward (Note) 3 | 583 | 862 |
| Allowance for doubtful accounts | 460 | 423 |
| Impairment loss | 16 | 413 |
| Loss on valuation of investment securities | 380 | 322 |
| Loss on valuation of inventories | 163 | 113 |
| Accrued bonuses and provisions | 179 | 186 |
| Provision for product warranties | 52 | 93 |
| Accrued enterprise tax | 32 | 27 |
| Elimination of unrealized gains | 63 | 75 |
| Other | 424 | 303 |
| Gross deferred tax assets | 2,816 | 3,373 |
| Valuation allowance for tax loss carried forward (Note) 3 | (535) | (735) |
| Valuation allowance for total amount of deductible temporary differences | (930) | (1,330) |
| Valuation allowance subtotal (Note) 2 | (1,465) | (2,065) |
| Total deferred tax assets | 1,349 | 1,307 |
| Deferred tax liabilities | | |
| Valuation difference on available-for-sale securities | (36) | (92) |
| Retirement benefit asset | (24) | (169) |
| Other | (121) | (125) |
| Total deferred tax liabilities | (182) | (387) |
| Net deferred tax assets (liabilities) (Note) 1 | 1,167 | 920 |

(Note) 1. The amount equivalent to deferred tax assets on revaluation reserve for land has not been recorded as deferred tax assets.

(Note) 2. Valuation allowance increased by ¥599 million. This increase is mainly due to additional recognition of valuation allowance for deductible temporary differences related to impairment losses of ¥403 million (multiplied by the statutory tax rate) and losses carried forward of ¥199 million (multiplied by the statutory tax rate), based on estimated taxable income of subsidiaries of the Company.

(Note) 3. Tax loss carried forward and deferred tax assets by carry-forward period are as follows:

As of March 31, 2019

| | (Millions of yen) | | | | | | |
|-------------------------------|---------------------|--|---|--|---|----------------------|---------|
| | Due within one year | Due after one year and up to two years | Due after two years and up to three years | Due after three years and up to four years | Due after four years and up to five years | Due after five years | Total |
| Tax loss carried forward (*1) | - | - | - | 26 | 130 | 426 | 583 |
| Valuation allowance | - | - | - | (26) | (130) | (378) | (535) |
| Deferred tax assets | - | - | - | - | - | 47 | (*2) 47 |

(*1) The tax loss carried forward was calculated by multiplying the statutory tax rate.

(*2) Deferred tax assets on tax loss carried forward were recognized because CHUGOKU SAMHWA PAINTS, Ltd., a consolidated subsidiary of the Company, recorded loss before income taxes for the year ended December 31, 2018. The Company has determined, based on expected future taxable income and other factors, that the deferred tax assets related to the tax loss carried forward are recoverable.

As of March 31, 2020

(Millions of yen)

| | Due within one year | Due after one year and up to two years | Due after two years and up to three years | Due after three years and up to four years | Due after four years and up to five years | Due after five years | Total |
|-------------------------------|---------------------|--|---|--|---|----------------------|----------|
| Tax loss carried forward (*1) | – | – | 25 | 126 | 309 | 400 | 862 |
| Valuation allowance | – | – | (25) | (126) | (309) | (273) | (735) |
| Deferred tax assets | – | – | – | – | – | 126 | (*2) 126 |

(*1) The tax loss carried forward was calculated by multiplying the statutory tax rate.

(*2) Deferred tax assets on tax loss carried forward were recognized mainly because CHUGOKU SAMHWA PAINTS, Ltd., a consolidated subsidiary of the Company, recorded loss before income taxes for the year ended December 31, 2018. The Company has determined, based on expected future taxable income and other factors, that the deferred tax assets related to the tax loss carried forward are partly recoverable.

2. Reconciliation of significant difference between statutory tax rate and effective tax rate after application of tax effect accounting

| | As of March 31, 2019 | As of March 31, 2020 |
|---|----------------------|----------------------|
| Statutory tax rate | 30.5 | 30.5 |
| Reconciliation: | | |
| Difference in tax rates between consolidated subsidiaries and the Company | (8.6) | (11.9) |
| Non-deductible expenses for income tax purposes (e.g. entertainment expenses) | 59.4 | 14.6 |
| Non-taxable income for income tax purposes (e.g. dividend income) | (65.4) | (34.3) |
| Inhabitant tax on per capita basis and others | 8.2 | 2.8 |
| Elimination of dividends received | 112.8 | 28.4 |
| Foreign tax credit | 1.3 | (3.8) |
| Special tax credit for research and development cost and others | (18.9) | (1.6) |
| Increase (decrease) in valuation allowance for deferred tax assets | 94.4 | 54.7 |
| Loss carried forward | 118.3 | 1.7 |
| Other | 3.5 | 0.6 |
| Effective tax rate after application of tax effect accounting | 335.5 | 81.7 |

(Asset Retirement Obligations)

The Group recognized obligations to restore the property to its original condition at the time of leaving it as asset retirement obligations under the real estate leasing agreement for the Tokyo head office.

The Group used the method where the amount of leasehold deposits related to the real estate leasing agreement that are eventually unlikely to be collected is reasonably estimated and the portion of this estimated amount that is borne in the current fiscal year is recorded as expenses, instead of recording such obligations as liabilities.

(Real Estate for Lease, etc.)

Information is omitted because of immateriality of total amount of real estate for lease.

(Segment Information, etc.)

Segment information

1. Description of reportable segments

The Group defines a reportable segment as a component of the Group for which discrete financial information is available and regularly reviewed by the Board of Directors to make decisions about resource allocations and assess its performances.

The Group is mainly engaged in manufacturing and sales of paints. Business operations in Japan are mainly managed by the Company, while for overseas operations, CHUGOKU MARINE PAINTS (Shanghai), Ltd., CHUGOKU MARINE PAINTS (Guangdong), Ltd., CHUGOKU SAMHWA PAINTS, Ltd., CHUGOKU MARINE PAINTS (Singapore) Pte. Ltd., CHUGOKU PAINTS (Malaysia) Sdn. Bhd., CHUGOKU PAINTS B.V., and other local corporations are in charge of each region of China, South Korea, Southeast Asia, and Europe and the US. Each of the Group companies is an independent management unit, but each proposes comprehensive strategy for the products it handles in each region and engages in business activities.

For this reason, the Group consists of regional segments based on the manufacturing and sales systems and has five reportable segments, namely Japan, China, South Korea, Southeast Asia, and Europe and the US. Of reportable segments, “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 for each reportable segment

Accounting policies for reportable business segments are generally consistent with those given in “Significant Accounting Policies for Preparation of Consolidated Financial Statements.”

Segment profit is based on operating profit.

Intersegment sales and transfers are based on the prevailing market price.

3. Information of net sales, profit (loss), assets and other items for each reportable segment

Fiscal year ended March 31, 2019

(Millions of yen)

| | Japan | China | South Korea | Southeast Asia | Europe and the US | Total |
|---|--------|---------|-------------|----------------|-------------------|---------|
| Net sales | | | | | | |
| External sales | 34,636 | 23,337 | 5,898 | 11,502 | 13,076 | 88,452 |
| Intersegment sales or transfers | 3,390 | 6,069 | 1,783 | 3,173 | 945 | 15,362 |
| Total | 38,027 | 29,406 | 7,682 | 14,676 | 14,021 | 103,815 |
| Segment profit (loss) | 179 | (1,322) | (1,282) | 1,148 | (680) | (1,957) |
| Segment assets | 61,883 | 34,686 | 7,281 | 16,728 | 12,468 | 133,048 |
| Other items | | | | | | |
| Depreciation | 605 | 562 | 60 | 183 | 256 | 1,669 |
| Impairment loss | 122 | — | — | — | — | 122 |
| Increase in property, plant and equipment and intangible assets | 549 | 93 | 5 | 85 | 108 | 842 |

Fiscal year ended March 31, 2020

(Millions of yen)

| | Japan | China | South Korea | Southeast Asia | Europe and the US | Total |
|---|--------|---------|-------------|----------------|-------------------|---------|
| Net sales | | | | | | |
| External sales | 35,389 | 18,419 | 7,317 | 12,665 | 13,937 | 87,729 |
| Intersegment sales or transfers | 3,459 | 5,777 | 2,384 | 3,437 | 1,019 | 16,077 |
| Total | 38,849 | 24,196 | 9,701 | 16,102 | 14,957 | 103,807 |
| Segment profit (loss) | 1,673 | (1,076) | 111 | 1,721 | (883) | 1,545 |
| Segment assets | 59,742 | 29,238 | 6,027 | 16,827 | 12,602 | 124,438 |
| Other items | | | | | | |
| Depreciation | 677 | 807 | 59 | 237 | 300 | 2,083 |
| Impairment loss | – | 1,626 | – | – | – | 1,626 |
| Increase in property, plant and equipment and intangible assets | 404 | 200 | 107 | 1,181 | 356 | 2,250 |

4. Reconciliation between reportable segments total and amounts on the consolidated financial statements (difference adjustments)

(Millions of yen)

| Profit (loss) | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|--|----------------------------------|----------------------------------|
| Total of reportable segments | (1,957) | 1,545 |
| Elimination of intersegment transactions | 2,417 | 3,042 |
| Corporate expenses (Note) | (1,049) | (1,090) |
| Operating profit (loss) on the consolidated financial statements | (588) | 3,498 |

Note: Corporate expenses primarily comprise general and administrative expenses not allocable to reportable segments.

(Millions of yen)

| Assets | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|---|----------------------------------|----------------------------------|
| Total reportable segments | 133,048 | 124,438 |
| Elimination of intersegment transactions | (25,500) | (23,740) |
| Corporate assets (Note) | 6,303 | 5,372 |
| Total assets on the consolidated financial statements | 113,851 | 106,069 |

Note: Corporate assets primarily comprise cash and deposits and investment securities not allocable to reportable segments.

(Millions of yen)

| Other items | Total reportable segments | | Adjustments | | Amounts on the consolidated financial statements | |
|---|----------------------------------|----------------------------------|----------------------------------|----------------------------------|--|----------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| Depreciation | 1,669 | 2,083 | 69 | 75 | 1,739 | 2,159 |
| Impairment loss | 122 | 1,626 | – | – | 122 | 1,626 |
| Increase in property, plant and equipment and intangible assets | 842 | 2,250 | 69 | 70 | 911 | 2,320 |

Note: Adjustments of increase in property, plant and equipment and intangible assets primarily comprise intangible assets not allocable to reportable segments.

Related information

Fiscal year ended March 31, 2019

1. Information for each product or service

(Millions of yen)

| | Marine paints | Industrial paints | Container paints | Other | Total |
|----------------|---------------|-------------------|------------------|-------|--------|
| External sales | 63,831 | 12,575 | 11,721 | 323 | 88,452 |

2. Information for each region

(1) Net sales

Information about net sales for each region has been omitted as the similar information is disclosed in the segment information.

Of net sales for Europe and the US, those for Netherlands are ¥10,147 million.

(2) Property, plant and equipment

(Millions of yen)

| Japan | China | South Korea | Southeast Asia | Europe and the US | Total |
|--------|-------|-------------|----------------|-------------------|--------|
| 16,350 | 3,996 | 667 | 1,408 | 3,162 | 25,586 |

Note: Of property, plant and equipment for Europe and the US, those for Netherlands are ¥2,996 million.

3. Information for each of main customers

Information for each of main customers has been omitted since there is no external customer who accounts for 10% or more of net sales in the consolidated statement of income.

Fiscal year ended March 31, 2020

1. Information for each product or service

(Millions of yen)

| | Marine paints | Industrial paints | Container paints | Other | Total |
|----------------|---------------|-------------------|------------------|-------|--------|
| External sales | 70,274 | 12,353 | 4,772 | 328 | 87,729 |

2. Information for each region

(1) Net sales

Information about net sales for each region has been omitted as the similar information is disclosed in the segment information.

Of net sales for Europe and the US, those for Netherlands are ¥10,842 million.

(2) Property, plant and equipment

(Millions of yen)

| Japan | China | South Korea | Southeast Asia | Europe and the US | Total |
|--------|-------|-------------|----------------|-------------------|--------|
| 16,143 | 2,298 | 685 | 2,565 | 3,112 | 24,803 |

Note: Of property, plant and equipment for Europe and the US, those for Netherlands are ¥2,955 million.

3. Information for each of main customers

Information for each of main customers has been omitted since there is no external customer who accounts for 10% or more of net sales in the consolidated statement of income.

Information about impairment loss on non-current assets for each reportable segment

Fiscal year ended March 31, 2019

| (Millions of yen) | | | | | | | |
|-------------------|-------|-------|-------------|----------------|-------------------|-------------------------------------|-------|
| | Japan | China | South Korea | Southeast Asia | Europe and the US | Unallocated amounts and elimination | Total |
| Impairment loss | 122 | – | – | – | – | – | 122 |

Fiscal year ended March 31, 2020

| (Millions of yen) | | | | | | | |
|-------------------|-------|-------|-------------|----------------|-------------------|-------------------------------------|-------|
| | Japan | China | South Korea | Southeast Asia | Europe and the US | Unallocated amounts and elimination | Total |
| Impairment loss | – | 1,626 | – | – | – | – | 1,626 |

Information about amortization and unamortized balance of goodwill for each reportable segment

Not applicable.

Information about gain on bargain purchase for each reportable segment

Not applicable.

Related parties

Not applicable.

(Per Share Information)

| | (Yen) | |
|----------------------|-------------------------------------|-------------------------------------|
| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
| Net assets per share | 1,043.96 | 999.17 |
| Basic loss per share | (11.36) | (1.20) |

Notes: 1. Diluted earnings per share is not provided because loss per share was recorded and no potential share exists.

2. The basis used for calculating net assets per share is as follows:

(Millions of yen, unless otherwise noted)

| | As of March 31, 2019 | As of March 31, 2020 |
|---|----------------------|----------------------|
| Total net assets | 68,514 | 62,986 |
| Amounts deducted from total net assets | 5,144 | 4,817 |
| (Of which, non-controlling interests) | (5,144) | (4,817) |
| Net assets attributable to ordinary shares | 63,369 | 58,168 |
| Number of ordinary shares at end of period used to calculate net assets per share (Thousands of shares) | 60,700 | 58,217 |

3. The basis used for calculating basic loss per share is as follows:

(Millions of yen, unless otherwise noted)

| | Fiscal year ended March 31, 2019 | Fiscal year ended March 31, 2020 |
|---|-------------------------------------|-------------------------------------|
| Loss attributable to owners of parent | (710) | (71) |
| Amount not attributable to ordinary shareholders | – | – |
| Loss attributable to owners of the parent on ordinary shares | (710) | (71) |
| Average number of ordinary shares outstanding during the period (Thousands of shares) | 62,529 | 59,460 |

(Significant Subsequent Events)

Reduction in amount of legal capital surplus

At the meeting of the Board of Directors held on May 11, 2020, the Company resolved to submit a proposal to reduce the amount of legal capital surplus to the 123rd Annual General Meeting of Shareholders held on June 25, 2020, and the proposal was approved and resolved at this General Meeting of Shareholders.

1. Purpose of reduction in amount of legal capital surplus

In order to ensure nimble and flexible future capital policies, pursuant to Article 448, paragraph (1) of the Companies Act, it is proposed to reduce the full amount of legal capital surplus and transfer the amount to other capital surplus.

2. Overview of reduction in amount of legal capital surplus

- | | |
|---|----------------|
| (1) Amount of legal capital surplus to be reduced | ¥5,396 million |
| (2) Amount of other capital surplus to be increased | ¥5,396 million |

3. Schedule of reduction in amount of legal capital surplus

- | | |
|---|----------------------------|
| (1) Date of resolution by the Board of Directors meeting: | May 11, 2020 |
| (2) Date of resolution by shareholders' meeting: | June 25, 2020 |
| (3) Initial date of public notice for creditors to make objections: | June 29, 2020 (scheduled) |
| (4) Final due date for creditors to make objections: | July 29, 2020 (scheduled) |
| (5) Effective date: | August 1, 2020 (scheduled) |

(v) Annexed Consolidated Detailed Schedules

Annexed consolidated detailed schedule of corporate bonds

Not applicable.

Annexed consolidated detailed schedule of borrowings

| Categories | Balance at beginning of current period (Millions of yen) | Balance at end of current period (Millions of yen) | Average interest rate (%) | Repayment term |
|--|--|--|---------------------------|-----------------------------------|
| Short-term borrowings | 18,246 | 17,322 | 1.9 | – |
| Current portion of long-term borrowings | 1,012 | 10 | 0.5 | – |
| Current portion of lease obligations | 4 | 167 | 3.2 | – |
| Long-term borrowings (excluding current portion) | 1,722 | 2,712 | 0.8 | From August 2021 to June 2022 |
| Lease obligations (excluding current portion) | 8 | 606 | 3.7 | From January 2021 to October 2047 |
| Other interest-bearing debt | – | – | – | – |
| Total | 20,994 | 20,818 | – | – |

- Notes: 1. The average interest rate represents the weighted-average interest rate over the year-end balance of borrowings.
2. The redemption schedule for long-term borrowings and lease obligations (excluding current portions) within five years after the consolidated balance sheet date is as follows:

(Millions of yen)

| Categories | Due after one year and up to two years | Due after two years and up to three years | Due after three years and up to four years | Due after four years and up to five years |
|----------------------|--|---|--|---|
| Long-term borrowings | 2,710 | 2 | – | – |
| Lease obligations | 122 | 57 | 45 | 20 |

Annexed consolidated detailed schedule of asset retirement obligations

Not applicable.

(2) Other

Quarterly information for the fiscal year ended March 31, 2020

(Millions of yen, unless otherwise noted)

| (Cumulative period) | Three months ended June 30, 2019 | Six months ended September 30, 2019 | Nine months ended December 31, 2019 | Fiscal year ended March 31, 2020 |
|--|----------------------------------|-------------------------------------|-------------------------------------|----------------------------------|
| Net sales | 20,996 | 44,455 | 65,470 | 87,729 |
| Profit before income taxes | 403 | 1,765 | 3,038 | 1,343 |
| Profit (loss) attributable to owners of parent | 55 | 943 | 1,733 | (71) |
| Basic earnings (loss) per share (Yen) | 0.92 | 15.68 | 28.99 | (1.20) |

(Yen)

| (Accounting period) | First quarter | Second quarter | Third quarter | Fourth quarter |
|---------------------------------|---------------|----------------|---------------|----------------|
| Basic earnings (loss) per share | 0.92 | 14.85 | 13.39 | (30.86) |