

(Revised)

CHUGOKU MARINE PAINTS, LTD.

Consolidated Financial Statements for the years ended March 31, 2021 and 2020



Notice: This document is an excerpt translation of the original Japanese document - Amendment Report on Annual Securities Report (“Yukashoken Hokokusho no Teisei Hokokusho ”), submitted on December 27, 2021 and is only for reference purposes. In the event of any discrepancy between this translated document and the original Japanese document, the latter shall prevail.

(1) Consolidated Financial Statements

(i) Consolidated Balance Sheet

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
Assets		
Current assets		
Cash and deposits	26,669	24,683
Notes and accounts receivable - trade	30,591	27,937
Electronically recorded monetary claims - operating	225	1,822
Securities	236	333
Merchandise and finished goods	<u>9,683</u>	<u>9,695</u>
Work in process	533	430
Raw materials and supplies	6,886	6,704
Other	1,305	1,285
Allowance for doubtful accounts	<u>(850)</u>	<u>(754)</u>
Total current assets	<u>75,281</u>	<u>72,138</u>
Non-current assets		
Property, plant and equipment		
Buildings and structures	18,096	18,033
Accumulated depreciation	<u>(12,570)</u>	<u>(12,987)</u>
Buildings and structures, net	<u>5,525</u>	<u>5,046</u>
Machinery, equipment and vehicles	16,901	17,108
Accumulated depreciation	<u>(13,422)</u>	<u>(13,541)</u>
Machinery, equipment and vehicles, net	<u>3,479</u>	<u>3,566</u>
Tools, furniture and fixtures	4,724	4,803
Accumulated depreciation	<u>(4,213)</u>	<u>(4,295)</u>
Tools, furniture and fixtures, net	<u>511</u>	<u>508</u>
Land	*3 13,093	*3 13,061
Leased assets	2,181	2,268
Accumulated depreciation	<u>(460)</u>	<u>(643)</u>
Leased assets, net	<u>1,720</u>	<u>1,624</u>
Construction in progress	473	642
Total property, plant and equipment	<u>24,803</u>	<u>24,449</u>
Intangible assets	513	397
Investments and other assets		
Investment securities	*1 3,920	*1 7,211
Retirement benefit asset	95	109
Deferred tax assets	1,034	423
Other	1,779	1,771
Allowance for doubtful accounts	<u>(1,355)</u>	<u>(1,330)</u>
Total investments and other assets	<u>5,474</u>	<u>8,185</u>
Total non-current assets	<u>30,792</u>	<u>33,032</u>
Total assets	<u>106,074</u>	<u>105,170</u>

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	11,264	9,357
Electronically recorded obligations - operating	–	1,248
Short-term borrowings	17,322	16,400
Current portion of long-term borrowings	10	*1 2,710
Lease obligations	167	150
Accounts payable - other	2,319	2,363
Accrued expenses	<u>2,550</u>	<u>2,265</u>
Income taxes payable	590	945
Provision for bonuses	137	106
Provision for product warranties	267	208
Other	650	464
Total current liabilities	<u>35,280</u>	<u>36,219</u>
Non-current liabilities		
Long-term borrowings	*1 2,712	2
Lease obligations	606	550
Long-term accounts payable - other	121	121
Deferred tax liabilities	114	1,465
Deferred tax liabilities for land revaluation	*3 2,223	*3 2,223
Retirement benefit liability	<u>2,324</u>	<u>1,738</u>
Other	469	533
Total non-current liabilities	<u>8,571</u>	<u>6,634</u>
Total liabilities	<u>43,852</u>	<u>42,854</u>
Net assets		
Shareholders' equity		
Share capital	11,626	11,626
Capital surplus	7,788	7,788
Retained earnings	<u>44,490</u>	<u>45,801</u>
Treasury shares	(9,019)	(12,642)
Total shareholders' equity	<u>54,885</u>	<u>52,573</u>
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	174	2,555
Revaluation reserve for land	*3 3,798	*3 3,798
Foreign currency translation adjustment	(1,136)	(1,625)
Remeasurements of defined benefit plans	(256)	76
Total accumulated other comprehensive income	<u>2,579</u>	<u>4,804</u>
Non-controlling interests	4,756	4,938
Total net assets	<u>62,221</u>	<u>62,315</u>
Total liabilities and net assets	<u>106,074</u>	<u>105,170</u>

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

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Net sales	87,729	82,442
Cost of sales	*1, *3 <u>63,743</u>	*1, *3 <u>57,111</u>
Gross profit	<u>23,986</u>	<u>25,331</u>
Selling, general and administrative expenses	*2, *3 <u>20,544</u>	*2, *3 <u>18,824</u>
Operating profit	<u>3,441</u>	<u>6,506</u>
Non-operating income		
Interest income	318	147
Dividend income	151	139
Royalty income	79	75
Technical advisory fee income	103	68
Foreign exchange gains	129	–
Rental income from real estate	110	93
Subsidy income	–	103
Other	229	196
Total non-operating income	<u>1,122</u>	<u>824</u>
Non-operating expenses		
Interest expenses	406	364
Foreign exchange losses	–	386
Commission expenses	33	38
Other	116	164
Total non-operating expenses	<u>556</u>	<u>954</u>
Ordinary profit	<u>4,007</u>	<u>6,376</u>
Extraordinary income		
Gain on sale of non-current assets	*4 14	*4 32
Gain on sale of investment securities	82	–
Total extraordinary income	<u>96</u>	<u>32</u>
Extraordinary losses		
Loss on sale of non-current assets	–	*5 0
Impairment losses	*6 1,626	–
Loss on sale of investment securities	24	14
Loss on valuation of investment securities	1,167	25
Loss on valuation of membership	–	1
Provision of allowance for doubtful accounts	–	5
Loss related to COVID-19	–	*7 124
Total extraordinary losses	<u>2,818</u>	<u>172</u>
Profit before income taxes	<u>1,285</u>	<u>6,235</u>
Income taxes - current	935	1,525
Income taxes - deferred	162	855
Total income taxes	<u>1,097</u>	<u>2,380</u>
Profit	<u>188</u>	<u>3,854</u>
Profit attributable to non-controlling interests	<u>312</u>	<u>575</u>
Profit (loss) attributable to owners of parent	<u>(124)</u>	<u>3,279</u>

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Profit	<u>188</u>	<u>3,854</u>
Other comprehensive income		
Valuation difference on available-for-sale securities	(50)	2,380
Foreign currency translation adjustment	(639)	(595)
Remeasurements of defined benefit plans, net of tax	<u>3</u>	<u>332</u>
Total other comprehensive income	* (686)	* <u>2,118</u>
Comprehensive income	<u>(498)</u>	<u>5,973</u>
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	<u>(875)</u>	<u>5,503</u>
Comprehensive income attributable to non-controlling interests	<u>376</u>	<u>469</u>

(iii) Consolidated Statement of Changes in Equity

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	<u>46,639</u>	(6,688)	<u>59,369</u>
Changes during period					
Dividends of surplus			(2,040)		(2,040)
Loss attributable to owners of parent			(124)		(124)
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)	<u>(2,148)</u>	(2,330)	<u>(4,484)</u>
Balance at end of period	11,626	7,788	<u>44,490</u>	(9,019)	<u>54,885</u>

	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	(432)	(261)	<u>3,346</u>	<u>5,087</u>	<u>67,804</u>
Changes during period							
Dividends of surplus							(2,040)
Loss attributable to owners of parent							(124)
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)	(704)	4	(766)	(331)	(1,098)
Total changes during period	(50)	(15)	(704)	4	(766)	(331)	(5,582)
Balance at end of period	174	3,798	(1,136)	(256)	<u>2,579</u>	<u>4,756</u>	<u>62,221</u>

Fiscal year ended March 31, 2021

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	11,626	7,788	44,490	(9,019)	54,885
Changes during period					
Dividends of surplus			(1,967)		(1,967)
Profit attributable to owners of parent			3,279		3,279
Purchase of treasury shares				(3,639)	(3,639)
Disposal of treasury shares		(0)		17	16
Net changes in items other than shareholders' equity					
Total changes during period	-	(0)	1,311	(3,622)	(2,312)
Balance at end of period	11,626	7,788	45,801	(12,642)	52,573

	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	174	3,798	(1,136)	(256)	2,579	4,756	62,221
Changes during period							
Dividends of surplus							(1,967)
Profit attributable to owners of parent							3,279
Purchase of treasury shares							(3,639)
Disposal of treasury shares							16
Net changes in items other than shareholders' equity	2,380	-	(488)	332	2,224	181	2,406
Total changes during period	2,380	-	(488)	332	2,224	181	93
Balance at end of period	2,555	3,798	(1,625)	76	4,804	4,938	62,315

(iv) Consolidated Statement of Cash Flows

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Cash flows from operating activities		
Profit before income taxes	1,285	6,235
Depreciation	2,159	1,989
Impairment losses	1,626	–
Increase (decrease) in allowance for doubtful accounts	(16)	(135)
Increase (decrease) in other provisions	(44)	(89)
Decrease (increase) in retirement benefit asset	(10)	(13)
Increase (decrease) in retirement benefit liability	90	(120)
Interest and dividend income	(469)	(287)
Interest expenses	406	364
Foreign exchange losses (gains)	(1)	14
Loss (gain) on sale and retirement of non-current assets	(5)	(29)
Loss (gain) on sale of investment securities	(57)	14
Loss (gain) on valuation of investment securities	1,167	25
Decrease (increase) in trade receivables	1,026	1,121
Decrease (increase) in inventories	43	243
Decrease/increase in consumption taxes receivable/payable	187	(332)
Increase (decrease) in trade payables	(1,808)	(650)
Other, net	(214)	(153)
Subtotal	5,364	8,199
Interest and dividends received	486	299
Interest paid	(406)	(364)
Income taxes paid	(831)	(1,005)
Net cash provided by (used in) operating activities	4,612	7,129
Cash flows from investing activities		
Payments into time deposits	(9,924)	(8,476)
Proceeds from withdrawal of time deposits	12,991	10,664
Net decrease (increase) in short-term loans receivable	17	25
Purchase of non-current assets	(1,345)	(1,348)
Proceeds from sale of non-current assets	68	43
Purchase of investment securities	(22)	(17)
Proceeds from sale of investment securities	365	33
Other, net	86	(56)
Net cash provided by (used in) investing activities	2,237	867
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(697)	(932)
Proceeds from long-term borrowings	500	–
Repayments of long-term borrowings	(512)	(10)
Proceeds from sale of treasury shares	16	16
Purchase of treasury shares	(2,344)	(3,639)
Purchase of treasury shares of subsidiaries	(520)	–
Dividends paid	(2,040)	(1,965)
Dividends paid to non-controlling interests	(189)	(292)
Other, net	(161)	(186)
Net cash provided by (used in) financing activities	(5,950)	(7,009)
Effect of exchange rate change on cash and cash equivalents	(219)	(545)

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Net increase (decrease) in cash and cash equivalents	679	440
Cash and cash equivalents at beginning of period	20,799	21,479
Cash and cash equivalents at end of period	* 21,479	* 21,920

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.

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 have applied IFRS 16 “Leases” (“IFRS 16”). 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

<u>Hedging instrument</u>	<u>Hedged item</u>
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.

(Significant Accounting Estimates)

1. Impairment losses on non-current assets

(1) Amounts recorded on the consolidated financial statements for the fiscal year ended March 31, 2021

Impairment losses: ¥ – million

non-current assets: ¥2,005 million

As for the asset group consisting of land and manufacturing facilities used by Kobe Paints, Ltd., a consolidated subsidiary engaged in manufacturing and selling marine paints (carrying amount: ¥2,005 million), an indicator of impairment due to declines in market prices was identified. However, since the total amount of undiscounted future cash flows arising from operating activities exceeded the carrying amount of the asset group, no impairment losses were recorded in the fiscal year ended March 31, 2021.

(2) Information on details of significant accounting estimates for identified items

(i) Method of calculation

Assets are grouped as a minimum unit that generates substantially independent cash flows. For an asset group of which future cash flows have decreased considerably, the carrying amount of non-current assets is reduced and the decrease is recognized as an impairment loss.

(ii) Major assumptions

Major assumptions used to calculate future cash flows arising from operating activities of Kobe Paints, Ltd. are predictions of sales volume and gross profit margin, and growth rate after period covered by a business plan. Sales volume and gross profit margin are estimated based on the repair cycle of relevant vessels and past performance, respectively, whereas growth rate is determined in consideration of long-term growth rate of the vessel repair market.

(iii) Effects on the consolidated financial statements for the next fiscal year

Because the major assumptions are highly uncertain and affected by future economic conditions and the company's business conditions, an impairment loss might be recognized in the next fiscal year if revision of the assumptions is required.

2. Recoverability of deferred tax assets

(1) Amounts recorded on the consolidated financial statements for the fiscal year ended March 31, 2021

Deferred tax assets: ¥423 million (before offsetting with deferred tax liabilities: ¥1,148 million)

For details of deferred tax assets, refer to the note "Tax Effect Accounting."

(2) Information on details of significant accounting estimates for identified items

(i) Method of calculation

Deferred tax assets are recognized to the extent that the recovery is deemed certain, based on consideration of future recoverability. Recoverability is judged based on future information currently available such as forecast of taxable income of the Company and subsidiaries, tax law and tax rates.

(ii) Major assumption

The major assumption used to formulate the business plan, which is the basis of estimates of taxable income, is sales volume.

(iii) Effects on the consolidated financial statements for the next fiscal year

Because the major assumption is highly uncertain and affected by future economic conditions and the company's business conditions, the amount of deferred tax assets recorded in the next fiscal year might be significantly affected if revision of the assumptions is required.

(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 26, 2021)
- “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 has not been determined.

(Changes in Presentation)

Consolidated balance sheet

“Electronically recorded monetary claims - operating,” which was included in “notes and accounts receivable - trade” as of March 31, 2020, is separately presented as of March 31, 2021 because its monetary significance increased. To reflect this change in presentation, the consolidated financial statements for the fiscal year ended March 31, 2020 have been reclassified.

As a result, ¥30,817 million that was presented as “notes and accounts receivable - trade” in the consolidated balance sheet as of March 31, 2020 has been reclassified as “notes and accounts receivable - trade” of ¥30,591 million and “electronically recorded monetary claims - operating” of ¥225 million.

Application of “Accounting Standard for Disclosure of Accounting Estimates”

The “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, issued on March 31, 2020) has been applied to the consolidated financial statements from the end of the fiscal year ended March 31, 2021, and the note on significant accounting estimates has been provided in the consolidated financial statements.

However, in this note, information on the fiscal year ended March 31, 2020 has not been provided in accordance with the transitional treatment provided for in the proviso to paragraph 11 of this accounting standard.

(Additional Information)

Impact of the novel coronavirus disease (COVID-19)

In the fiscal year ended March 31, 2021, the impact of the spread of COVID-19 on the performance of the Company and its consolidated subsidiaries (the “Group”) was limited. On the other hand, in the next fiscal year, while sales of paints for repair ships among marine paints, core products of the Group, are projected to be strong, the Group expects a decrease in sales as a whole in anticipation of a decline in shipbuilding delivery for paints for new ships.

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, based on the assumption that the situation will recover gradually in and after the next fiscal year.

Yet, there are many uncertainties regarding the impact of the growing spread of COVID-19, and the assumptions may differ from 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, 2020	As of March 31, 2021
Investment securities	676	1,015

Liabilities secured by such collateral are as follows:

	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
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, 2020	As of March 31, 2021
Mitsubishi Shoji Chemical Corporation	840	837

*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, 2020	As of March 31, 2021
Difference between the fair value of the revalued land and the book value after the revaluation at the fiscal year end:	(5,858)	(5,699)

4. Trade notes receivable transferred by endorsement

	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Trade notes receivable transferred by endorsement	625	576

(Consolidated Statement of Income)

- *1. The book value write-down of inventories held for ordinary sale due to their decreased profitability (a figure in parentheses represents reversal) is as follows:

	(Millions of yen)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Cost of sales	(171)	87

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

	(Millions of yen)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Depreciation	626	667
Provision of allowance for doubtful accounts	75	73
Provision for bonuses	52	43
Provision for product warranties	48	(37)
Retirement benefit expenses	<u>448</u>	<u>288</u>
Remuneration for directors (and other officers) and employees' salaries, etc.	<u>6,813</u>	<u>6,951</u>
Transportation costs	4,008	3,770
Sales commission	1,528	1,055

- *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, 2020	Fiscal year ended March 31, 2021
General and administrative expenses	744	708
Manufacturing costs for period	<u>1,058</u>	<u>960</u>
Total	<u>1,803</u>	<u>1,669</u>

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

	(Millions of yen)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Machinery, equipment and vehicles	7	7
Tools, furniture and fixtures	0	0
Land	7	23
Total	14	32

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

	(Millions of yen)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Machinery, equipment and vehicles	-	0
Tools, furniture and fixtures	-	0
Total	-	0

*6. Impairment losses

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 impairment losses (¥1,626 million) included in extraordinary losses. The impairment losses 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.

Fiscal year ended March 31, 2021

Not applicable.

*7. Loss related to COVID-19

Fiscal year ended March 31, 2020

Not applicable.

Fiscal year ended March 31, 2021

As requested by national governments, etc. due to the spread of COVID-19, some overseas subsidiaries suspended operation of plants. Accordingly, fixed costs during this period were recorded as loss related to COVID-19 in extraordinary losses.

(Consolidated Statement of Comprehensive Income)

* Reclassification adjustments and tax effects relating to other comprehensive income

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
(Millions of yen)		
Valuation difference on available-for-sale securities:		
Amount arising during the year	(1,104)	3,306
Reclassification adjustments	1,109	40
Amount before tax effects	5	3,347
Tax effects	(56)	(966)
Valuation difference on available-for-sale securities	(50)	2,380
Foreign currency translation adjustment:		
Amount arising during the year	(639)	(595)
Remeasurements of defined benefit plans:		
Amount arising during the year	(20)	428
Reclassification adjustments	32	35
Amount before tax effects	12	463
Tax effects	(8)	(130)
Remeasurements of defined benefit plans	3	332
Total other comprehensive income	(686)	2,118

(Consolidated Statement of Changes in Equity)

Fiscal year ended March 31, 2020

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

Fiscal year ended March 31, 2021

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, 2020	Increase	Decrease	Number of shares as of March 31, 2021
Issued shares				
Ordinary shares	69,068	–	–	69,068
Total	69,068	–	–	69,068
Treasury shares				
Ordinary shares (Notes) 1, 2	10,851	3,597	20	14,428
Total	10,851	3,597	20	14,428

- Notes: 1. The increase of 3,597 thousand shares in the number of treasury shares of ordinary shares reflects the acquisition of 3,597 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 acquisition of restricted shares without contribution.
2. The decrease of 20 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 25, 2020	Ordinary shares	989	17.00	March 31, 2020	June 26, 2020
Board of Directors meeting on October 30, 2020	Ordinary shares	978	17.00	September 30, 2020	December 2, 2020

(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 24, 2021	Ordinary shares	Retained earnings	928	17.00	March 31, 2021	June 25, 2021

(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, 2020	Fiscal year ended March 31, 2021
Cash and deposits	26,669	24,683
Time deposits with a maturity of more than three months	(5,426)	(3,096)
Securities (MMF, etc.)	236	333
Cash and cash equivalents	21,479	21,920

(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, 2020	As of March 31, 2021
Due within one year	13	6
Due after one year	4	4
Total	18	10

(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 and electronically recorded monetary claims - operating, 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 and electronically recorded obligations - operating, 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, 2020

(Millions of yen)

	Carrying amount	Fair value	Difference
(1) Cash and deposits	26,669	26,669	–
(2) Notes and accounts receivable - trade	30,591		
(3) Electronically recorded monetary claims - operating	225		
Allowance for doubtful accounts (*1)	(847)		
	29,969	29,969	–
(4) 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) Electronically recorded obligations - operating	–	–	–
(3) 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 and electronically recorded monetary claims - operating.

(*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, 2021

(Millions of yen)

	Carrying amount	Fair value	Difference
(1) Cash and deposits	24,683	24,683	–
(2) Notes and accounts receivable - trade	27,937		
(3) Electronically recorded monetary claims - operating	1,822		
Allowance for doubtful accounts (*1)	(751)		
	29,008	29,008	–
(4) Securities and investment securities	6,930	6,930	–
Total assets	60,621	60,621	–
(1) Notes and accounts payable - trade	9,357	9,357	–
(2) Electronically recorded obligations - operating	1,248	1,248	–
(3) Short-term borrowings	16,400	16,400	–
Total liabilities	27,005	27,005	–
Derivative transactions (*2)	6	6	–

- (*1) The deducted amount is allowance for doubtful accounts relating to notes and accounts receivable - trade and electronically recorded monetary claims - operating.
- (*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, and (3) Electronically recorded monetary claims - operating

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

(4) 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) Electronically recorded obligations - operating, and (3) 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, 2020	As of March 31, 2021
Unlisted equity securities	614	614

The above financial instruments are not included in "(4) 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, 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	30,591	—	—	—
Electronically recorded monetary claims - operating	225	—	—	—
Total	57,468	—	—	—

As of March 31, 2021

(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	24,662	—	—	—
Notes and accounts receivable - trade	27,937	—	—	—
Electronically recorded monetary claims - operating	1,822	—	—	—
Total	54,422	—	—	—

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

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	–	–	–	–	–

As of March 31, 2021

(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	16,400	–	–	–	–	–
Total	16,400	–	–	–	–	–

(Securities)

1. Available-for-sale securities

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.

As of March 31, 2021

(Millions of yen)

Categories	Carrying amount	Acquisition cost	Difference
Securities whose carrying amount exceeds their acquisition cost			
Equity securities	6,452	2,803	3,649
Subtotal	6,452	2,803	3,649
Securities whose carrying amount does not exceed their acquisition cost			
Equity securities	143	181	(37)
MMF and others	333	333	–
Subtotal	477	515	(37)
Total	6,930	3,318	3,611

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, 2020

(Millions of yen)

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

Fiscal year ended March 31, 2021

(Millions of yen)

Type	Proceeds	Total gain on sale	Total loss on sale
Equity securities	33	–	14
Total	33	–	14

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).

For the fiscal year ended March 31, 2021, an impairment loss of ¥25 million was recognized on securities (¥25 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, 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: Method of calculating fair value

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

As of March 31, 2021

(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/Euro buying	424	–	7	7
	GBP selling/Euro buying	66	–	(2)	(2)
	JPY selling/Euro buying	25	–	0	0
	Buy:				
	USD buying/JPY selling	9	–	(0)	(0)
	JPY buying/Euro selling	100	–	(0)	(0)
	GBP buying/Euro selling	150	–	1	1
	Total	775	–	6	6

Note: Method 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.

The Company will change the retirement benefit plan from a final salary plan to a point-based plan as of July 1, 2021. In line with this, past service cost arose in the fiscal year ended March 31, 2021. In addition, the calculation method of retirement benefit liability and retirement benefit expenses of certain retirement benefit plans was changed from the simplified method to the principle 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, 2020	Fiscal year ended March 31, 2021
Retirement benefit obligation at beginning of period	<u>5,688</u>	<u>5,621</u>
Service cost	<u>361</u>	<u>360</u>
Interest cost	<u>41</u>	<u>43</u>
Actuarial gains and losses	<u>(115)</u>	<u>(193)</u>
Past service cost	<u>(4)</u>	<u>(248)</u>
Retirement benefits paid	<u>(332)</u>	<u>(269)</u>
Transfer due to change from the simplified method to the principle method	–	228
Other	<u>(17)</u>	<u>1</u>
Retirement benefit obligation at end of period	<u>5,621</u>	<u>5,544</u>

(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, 2020	Fiscal year ended March 31, 2021
Plan assets at beginning of period	4,203	4,085
Expected return on plan assets	62	61
Actuarial gains and losses	(138)	233
Contributions from employer	257	257
Retirement benefits paid	(300)	(231)
Other	0	0
Plan assets at end of period	4,085	4,407

(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, 2020	Fiscal year ended March 31, 2021
Retirement benefit liability at beginning of period	687	692
Retirement benefit expenses	235	191
Retirement benefits paid	(123)	(52)
Contribution to plans	(110)	(116)
Transfer due to change from the simplified method to the principle method	-	(228)
Other	3	5
Retirement benefit liability at end of period	692	491

(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, 2020	As of March 31, 2021
Retirement benefit obligation for funded plans	5,738	5,695
Plan assets	(4,972)	(5,391)
	765	303
Retirement benefit obligation for unfunded plans	<u>1,463</u>	<u>1,324</u>
Net balance of liability and asset recognized on the consolidated balance sheet	<u>2,228</u>	<u>1,628</u>
Retirement benefit liability	<u>2,324</u>	<u>1,738</u>
Retirement benefit asset	(95)	(109)
Net balance of liability and asset recognized on the consolidated balance sheet	<u>2,228</u>	<u>1,628</u>

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, 2020	Fiscal year ended March 31, 2021
Service cost	<u>361</u>	<u>360</u>
Interest cost	<u>41</u>	<u>43</u>
Expected return on plan assets	(62)	(61)
Amortization of actuarial gains and losses	<u>32</u>	<u>35</u>
Amortization of past service cost	(4)	(248)
Retirement benefit expenses applying simplified method	235	191
Retirement benefit expenses under defined benefit plans	<u>603</u>	<u>320</u>

(6) Remeasurements of defined benefit plans

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Actuarial gains and losses	(12)	(463)
Total	(12)	(463)

(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, 2020	As of March 31, 2021
Unrecognized actuarial gains and losses	338	(125)
Total	338	(125)

(8) Plan assets

(i) Breakdown of plan assets

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

(%)

	As of March 31, 2020	As of March 31, 2021
Bonds	16	16
Securities	10	11
General accounts	64	61
Other	10	12
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, 2020	As of March 31, 2021
Discount rate	0.2~3.2	0.4~3.2
Long-term expected rate of return	1.5	1.5
Expected rate of salary increase	3.1~4.5	2.2~4.5

3. Defined contribution plan

The required contribution to the defined contribution plan for certain consolidated subsidiaries amounted to ¥85 million and ¥89 million as of March 31, 2020 and 2021, respectively.

(Tax Effect Accounting)

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

	As of March 31, 2020	As of March 31, 2021
(Millions of yen)		
Deferred tax assets		
Retirement benefit liability	738	571
Tax loss carried forward (Note) 2	862	691
Allowance for doubtful accounts	423	408
Impairment losses	413	398
Loss on valuation of investment securities	322	323
Loss on valuation of inventories	113	129
Accrued bonuses and provisions	186	193
Provision for product warranties	93	55
Accrued enterprise tax	27	39
Elimination of unrealized gains	75	106
Other	311	335
Gross deferred tax assets	<u>3,566</u>	<u>3,253</u>
Valuation allowance for tax loss carried forward (Note) 2	(735)	(619)
Valuation allowance for total amount of deductible temporary differences	<u>(1,523)</u>	<u>(1,485)</u>
Valuation allowance subtotal	<u>(2,258)</u>	<u>(2,105)</u>
Total deferred tax assets	<u>1,307</u>	<u>1,148</u>
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(92)	(1,060)
Retirement benefit asset	(169)	(155)
Retained profit of overseas subsidiaries	-	(753)
Other	(125)	(220)
Total deferred tax liabilities	<u>(387)</u>	<u>(2,189)</u>
Net deferred tax assets (liabilities) (Note) 1	<u>920</u>	<u>(1,041)</u>

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

(Note) 2. Tax loss carried forward and deferred tax assets by carry-forward period are as follows:

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.

As of March 31, 2021

(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)	–	–	30	310	–	350	691
Valuation allowance	–	–	(30)	(310)	–	(278)	(619)
Deferred tax assets	–	–	–	–	–	72	(*2) 72

(*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, 2020	As of March 31, 2021
Statutory tax rate	30.5	30.5
Reconciliation:		
Difference in tax rates between consolidated subsidiaries and the Company	<u>(12.2)</u>	(5.5)
Non-deductible expenses for income tax purposes (e.g. entertainment expenses)	<u>15.2</u>	1.1
Non-taxable income for income tax purposes (e.g. dividend income)	<u>(35.9)</u>	(27.9)
Inhabitant tax on per capita basis and others	<u>3.0</u>	0.5
Retained profit of overseas subsidiaries	–	<u>12.1</u>
Elimination of dividends received	<u>29.7</u>	<u>28.8</u>
Foreign tax credit	<u>(3.9)</u>	(0.6)
Special tax credit for research and development cost and others	<u>(1.7)</u>	<u>(2.0)</u>
Increase (decrease) in valuation allowance for deferred tax assets	<u>53.0</u>	<u>(1.4)</u>
Loss carried forward	<u>1.8</u>	–
Other	<u>5.9</u>	<u>2.6</u>
Effective tax rate after application of tax effect accounting	<u>85.4</u>	<u>38.2</u>

(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, 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	(1,134)	111	1,721	(883)	1,488
Segment assets	59,742	29,243	6,027	16,827	12,602	124,443
Other items						
Depreciation	677	807	59	237	300	2,083
Impairment losses	–	1,626	–	–	–	1,626
Increase in property, plant and equipment and intangible assets	404	200	107	1,181	356	2,250

Fiscal year ended March 31, 2021

(Millions of yen)

	Japan	China	South Korea	Southeast Asia	Europe and the US	Total
Net sales						
External sales	32,775	16,147	6,884	11,633	15,001	82,442
Intersegment sales or transfers	3,474	6,206	2,282	3,190	894	16,048
Total	36,249	22,354	9,166	14,824	15,896	98,491
Segment profit	2,218	<u>391</u>	318	1,858	313	<u>5,099</u>
Segment assets	55,793	<u>27,683</u>	6,265	16,656	12,607	<u>119,006</u>
Other items						
Depreciation	644	555	75	258	370	1,905
Increase in property, plant and equipment and intangible assets	503	302	144	339	140	1,430

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, 2020	Fiscal year ended March 31, 2021
Total reportable segments	<u>1,488</u>	<u>5,099</u>
Elimination of intersegment transactions	3,042	2,463
Corporate expenses (Note)	(1,090)	(1,056)
Operating profit on the consolidated financial statements	<u>3,441</u>	<u>6,506</u>

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

(Millions of yen)

Assets	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Total reportable segments	<u>124,443</u>	<u>119,006</u>
Elimination of intersegment transactions	(23,740)	(22,148)
Corporate assets (Note)	5,372	8,311
Total assets on the consolidated financial statements	<u>106,074</u>	<u>105,170</u>

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, 2020	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Depreciation	2,083	1,905	75	84	2,159	1,989
Impairment losses	1,626	–	–	–	1,626	–
Increase in property, plant and equipment and intangible assets	2,250	1,430	70	47	2,320	1,478

Related information

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.

Fiscal year ended March 31, 2021

1. Information for each product or service

(Millions of yen)

	Marine paints	Industrial paints	Container paints	Other	Total
External sales	68,681	11,369	2,049	342	82,442

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 ¥11,887 million.

(2) Property, plant and equipment

(Millions of yen)

Japan	China	South Korea	Southeast Asia	Europe and the US	Total
16,052	2,081	761	2,575	2,978	24,449

Note: Of property, plant and equipment for Europe and the US, those for Netherlands are ¥2,828 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 losses on non-current assets for each reportable segment

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 losses	-	1,626	-	-	-	-	1,626

Fiscal year ended March 31, 2021

Not applicable.

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, 2020	Fiscal year ended March 31, 2021
Net assets per share	<u>987.09</u>	<u>1,050.10</u>
Basic earnings (loss) per share	<u>(2.09)</u>	<u>57.69</u>

Notes: 1. Diluted earnings per share for the fiscal year ended March 31, 2021 is not provided because no potential share exists. Diluted earnings per share for the fiscal year ended March 31, 2020 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, 2020	As of March 31, 2021
Total net assets	<u>62,221</u>	<u>62,315</u>
Amounts deducted from total net assets	<u>4,756</u>	<u>4,938</u>
(Of which, non-controlling interests)	<u>(4,756)</u>	<u>(4,938)</u>
Net assets attributable to ordinary shares	<u>57,465</u>	<u>57,377</u>
Number of ordinary shares at end of period used to calculate net assets per share (Thousands of shares)	58,217	54,639

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

(Millions of yen, unless otherwise noted)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Profit (loss) attributable to owners of parent	<u>(124)</u>	<u>3,279</u>
Amount not attributable to ordinary shareholders	–	–
Profit (loss) attributable to owners of the parent on ordinary shares	<u>(124)</u>	<u>3,279</u>
Average number of ordinary shares outstanding during the period (Thousands of shares)	59,460	56,837

(Significant Subsequent Events)

Purchase of treasury shares

At the meeting of Board of Directors held on May 11, 2021, the Company resolved to acquire its own shares pursuant to the provisions of Article 156 of the Companies Act of Japan, which has been reinterpreted and applied in accordance with the provisions of Article 165, paragraph (3) of the same Act.

1. Reason for acquisition of treasury shares

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

2. Type of shares to be acquired

Ordinary shares

3. Total number of shares to be acquired

4,200,000 shares (upper limit)

4. Total amount of acquisition

¥4,060 million (upper limit)

5. Period of acquisition

From May 12, 2021 through May 11, 2022

6. Method of acquisition

On the open market through the Tokyo Stock Exchange (including ToSTNeT-3)

(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	17,322	16,400	1.7	–
Current portion of long-term borrowings	10	2,710	0.8	–
Current portion of lease obligations	167	150	2.6	–
Long-term borrowings (excluding current portion)	2,712	2	0.5	From April 2022 to June 2022
Lease obligations (excluding current portion)	606	550	2.1	From January 2022 to October 2047
Other interest-bearing debt	–	–	–	–
Total	20,818	19,813	–	–

- 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	–	–	–
Lease obligations	90	69	36	30

Annexed consolidated detailed schedule of asset retirement obligations

Not applicable.

(2) Other

Quarterly information for the fiscal year ended March 31, 2021

(Millions of yen, unless otherwise noted)

(Cumulative period)	Three months ended June 30, 2020	Six months ended September 30, 2020	Nine months ended December 31, 2020	Fiscal year ended March 31, 2021
Net sales	19,405	39,857	61,260	82,442
Profit before income taxes	<u>1,716</u>	<u>3,279</u>	<u>5,162</u>	<u>6,235</u>
Profit attributable to owners of parent	<u>1,023</u>	<u>2,107</u>	<u>3,408</u>	<u>3,279</u>
Basic earnings per share (Yen)	<u>17.57</u>	<u>36.29</u>	<u>59.28</u>	<u>57.69</u>

(Yen)

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings (loss) per share	<u>17.57</u>	<u>18.71</u>	<u>23.03</u>	<u>(2.36)</u>