

CHUGOKU MARINE PAINTS, LTD.

**Consolidated Financial Statements
for the years ended March 31, 2023 and 2022**



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 (the Group), which comprise the Consolidated balance sheet as at March 31, 2023, and the consolidated statements of income, comprehensive income, changes inequity, 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, 2023, 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Determination of whether to recognize impairment losses on non-current assets used by Kobe Paints, Ltd.

Description of Key Audit Matter	Auditor's Response
<p>As of March 31, 2023, the Group recorded property, plant and equipment and intangible assets of ¥25,120 million in the consolidated balance sheet, which includes land of ¥1,782 million and manufacturing facilities of ¥180 million being used by Kobe Paints, Ltd. ("Kobe Paints"), a consolidated subsidiary, which manufactures and sells marine paints. As described in (Significant Accounting Estimates) in Notes to Consolidated Financial Statements, during the year ended March 31, 2023, the Group determined that there is an indication that an asset group consisting of land and manufacturing facilities being used by Kobe Paints may be impaired as the market value of the asset group had declined by approximately 50% from the carrying amount. However, the Group did not recognize any impairment losses as the total amount of undiscounted future cash flows arising from operating activities of Kobe Paints exceeded the carrying amount of the asset group. The estimates of future cash flows are based on a business plan prepared by Kobe Paints which is approved by the Company's Board of Directors and estimates for the period beyond that covered by the business plan are determined based on the growth rates which are estimated to the extent of the long-term average market growth rates.</p> <p>As described in (Significant Accounting Estimates) in Notes to Consolidated Financial Statements, the significant assumptions in the estimation of future cash flows are predictions of sales volume and gross profit margin in the business plan and the growth rate after the period covered by the business plan.</p> <p>The above assumptions in the estimation of future cash flows require management judgment and involve uncertainty since</p>	<p>We mainly performed the following audit procedures to evaluate the estimate of total undiscounted future cash flows used in determining whether to recognize impairment losses on the asset group consisting of land and manufacturing facilities being used by Kobe Paints:</p> <ul style="list-style-type: none"> • We compared the estimation period for future cash flows with the remaining useful life of the major assets to assess whether the estimation period is reasonable. • We reviewed the future cash flows to ensure that they are consistent with the business plan approved by the Board of Directors. • We compared past business plans with actual results to assess the effectiveness of the estimation process used by management in formulating business plans. • We made inquiries of management of the Company and Kobe Paints regarding the predictions of sales volume and gross profit margin in the business plan and also reviewed the reports provided to the Board of Directors. • We compared the expected sales volumes with available external data on future projections of marine cargo movement which is relevant to Kobe Paints' key products and performed trend analysis based on historical data. • To evaluate the gross profit margin forecasts, we conducted trend analysis based on past results. • For growth rates after the period covered by the business plan, we compared the growth rates with available external data on future projections of the marine cargo movement which is relevant to Kobe Paints' key products and performed trend analysis based on historical data.

estimates of sales volume in particular are affected by future marine cargo movement and accompanying fluctuations in tonnage. Accordingly, we have determined that the determination of whether to recognize impairment losses on the asset group used by Kobe Paints is a key audit matter.	
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Other Information

The other information comprises the information included in the disclosure document that contains audited consolidated financial statements but does not include the consolidated financial statements and our auditor's report thereon.

We have concluded that the other information does not exist. Accordingly, we have not performed any work related to the other information.

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 consolidated 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.

From the matters communicated with the Corporate Auditor and the Board of Corporate Auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

August 8, 2023

Noriaki Kenmochi
Designated Engagement Partner
Certified Public Accountant

Shinichi Masuda
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, 2022 to March 31, 2023 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, 2022	As of March 31, 2023
Assets		
Current assets		
Cash and deposits	20,096	21,177
Notes and accounts receivable - trade	27,104	31,667
Electronically recorded monetary claims - operating	1,771	2,218
Merchandise and finished goods	11,075	12,864
Work in process	599	630
Raw materials and supplies	8,930	10,781
Other	2,408	2,240
Allowance for doubtful accounts	(492)	(490)
Total current assets	71,495	81,089
Non-current assets		
Property, plant and equipment		
Buildings and structures	19,115	19,605
Accumulated depreciation	(14,048)	(14,652)
Buildings and structures, net	5,066	4,953
Machinery, equipment and vehicles	17,997	18,632
Accumulated depreciation	(14,685)	(15,294)
Machinery, equipment and vehicles, net	3,312	3,337
Tools, furniture and fixtures	5,016	5,240
Accumulated depreciation	(4,409)	(4,648)
Tools, furniture and fixtures, net	607	592
Land	*3 13,068	*3 13,136
Leased assets	2,411	2,702
Accumulated depreciation	(700)	(974)
Leased assets, net	1,711	1,728
Construction in progress	287	1,039
Total property, plant and equipment	24,054	24,788
Intangible assets	359	332
Investments and other assets		
Investment securities	*1 7,731	*1 5,324
Retirement benefit asset	178	275
Deferred tax assets	334	476
Other	1,803	1,864
Allowance for doubtful accounts	(1,339)	(1,402)
Total investments and other assets	8,708	6,537
Total non-current assets	33,123	31,658
Total assets	104,618	112,747

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Liabilities		
Current liabilities		
Notes and accounts payable - trade	10,333	11,428
Electronically recorded obligations - operating	1,393	1,730
Short-term borrowings	16,995	20,437
Current portion of long-term borrowings	2	*1 1,700
Lease liabilities	184	177
Accounts payable - other	2,242	2,676
Accrued expenses	2,290	2,674
Income taxes payable	415	719
Provision for bonuses	102	140
Provision for product warranties	165	157
Other	568	373
Total current liabilities	34,694	42,216
Non-current liabilities		
Long-term borrowings	*1 2,734	1,000
Lease liabilities	581	591
Long-term accounts payable - other	89	16
Deferred tax liabilities	2,007	1,286
Deferred tax liabilities for land revaluation	*3 2,223	*3 2,223
Retirement benefit liability	1,850	1,855
Other	397	427
Total non-current liabilities	9,884	7,401
Total liabilities	44,578	49,617
Net assets		
Shareholders' equity		
Share capital	11,626	11,626
Capital surplus	1,504	-
Retained earnings	44,244	41,536
Treasury shares	(10,006)	(4,918)
Total shareholders' equity	47,367	48,244
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,123	1,868
Revaluation reserve for land	*3 3,798	*3 3,798
Foreign currency translation adjustment	932	4,131
Remeasurements of defined benefit plans	68	133
Total accumulated other comprehensive income	7,923	9,932
Non-controlling interests	4,748	4,953
Total net assets	60,039	63,130
Total liabilities and net assets	104,618	112,747

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

(Millions of yen)

	Fiscal year ended March 31, 2022		Fiscal year ended March 31, 2023	
Net sales	*1	84,295	*1	99,481
Cost of sales	*2, *4	64,631	*2, *4	74,750
Gross profit		19,664		24,730
Selling, general and administrative expenses	*3, *4	18,976	*3, *4	20,843
Operating profit		687		3,887
Non-operating income				
Interest income		84		123
Dividend income		186		346
Royalty income		84		141
Technical advisory fee income		49		53
Foreign exchange gains		68		34
Rental income from real estate		98		99
Other		251		230
Total non-operating income		823		1,030
Non-operating expenses				
Interest expenses		361		425
Commission expenses		13		14
Other		124		126
Total non-operating expenses		498		565
Ordinary profit		1,012		4,351
Extraordinary income				
Gain on sale of non-current assets	*5	2	*5	6
Gain on sale of investment securities		601		1,145
Total extraordinary income		603		1,151
Extraordinary losses				
Loss on sale of non-current assets	*6	0	*6	2
Impairment losses		–	*7	46
Loss related to COVID-19		–	*8	225
Total extraordinary losses		0		274
Profit before income taxes		1,615		5,228
Income taxes - current		788		1,430
Income taxes - deferred		407		(284)
Total income taxes		1,195		1,146
Profit		419		4,082
Profit attributable to non-controlling interests		162		233
Profit attributable to owners of parent		257		3,848

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Profit	419	4,082
Other comprehensive income		
Valuation difference on available-for-sale securities	568	(1,254)
Foreign currency translation adjustment	2,582	3,556
Remeasurements of defined benefit plans, net of tax	(1)	71
Total other comprehensive income	*	*
Total other comprehensive income	3,148	2,372
Comprehensive income	3,568	6,455
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,376	5,858
Comprehensive income attributable to non-controlling interests	191	596

(iii) Consolidated Statement of Changes in Equity

Fiscal year ended March 31, 2022

(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	45,801	(12,642)	52,573
Changes during period					
Dividends of surplus			(1,814)		(1,814)
Profit attributable to owners of parent			257		257
Purchase of treasury shares				(3,683)	(3,683)
Disposal of treasury shares		(1)		36	35
Cancellation of treasury shares		(6,282)		6,282	–
Net changes in items other than shareholders' equity					
Total changes during period	–	(6,283)	(1,557)	2,635	(5,205)
Balance at end of period	11,626	1,504	44,244	(10,006)	47,367

	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	2,555	3,798	(1,625)	76	4,804	4,938	62,315
Changes during period							
Dividends of surplus							(1,814)
Profit attributable to owners of parent							257
Purchase of treasury shares							(3,683)
Disposal of treasury shares							35
Cancellation of treasury shares							–
Net changes in items other than shareholders' equity	567	–	2,558	(7)	3,118	(189)	2,929
Total changes during period	567	–	2,558	(7)	3,118	(189)	(2,275)
Balance at end of period	3,123	3,798	932	68	7,923	4,748	60,039

Fiscal year ended March 31, 2023

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	11,626	1,504	44,244	(10,006)	47,367
Changes during period					
Dividends of surplus			(1,772)		(1,772)
Profit attributable to owners of parent			3,848		3,848
Purchase of treasury shares				(1,261)	(1,261)
Disposal of treasury shares		(0)		61	61
Cancellation of treasury shares		(6,288)		6,288	–
Transfer from retained earnings to capital surplus		4,784	(4,784)		–
Net changes in items other than shareholders' equity					
Total changes during period	–	(1,504)	(2,707)	5,088	876
Balance at end of period	11,626	–	41,536	(4,918)	48,244

	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	3,123	3,798	932	68	7,923	4,748	60,039
Changes during period							
Dividends of surplus							(1,772)
Profit attributable to owners of parent							3,848
Purchase of treasury shares							(1,261)
Disposal of treasury shares							61
Cancellation of treasury shares							–
Transfer from retained earnings to capital surplus							–
Net changes in items other than shareholders' equity	(1,254)	–	3,198	65	2,009	204	2,214
Total changes during period	(1,254)	–	3,198	65	2,009	204	3,090
Balance at end of period	1,868	3,798	4,131	133	9,932	4,953	63,130

(iv) Consolidated Statement of Cash Flows

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Cash flows from operating activities		
Profit before income taxes	1,615	5,228
Depreciation	2,055	1,603
Impairment losses	–	46
Increase (decrease) in allowance for doubtful accounts	(456)	(53)
Increase (decrease) in other provisions	(56)	14
Decrease (increase) in retirement benefit asset	(67)	(87)
Increase (decrease) in retirement benefit liability	(23)	19
Interest and dividend income	(271)	(470)
Interest expenses	361	425
Foreign exchange losses (gains)	(85)	82
Loss (gain) on sale of investment securities	(601)	(1,145)
Loss (gain) on sale and retirement of non-current assets	16	3
Decrease (increase) in trade receivables	2,332	(3,469)
Decrease (increase) in inventories	(2,768)	(2,373)
Increase/decrease in consumption taxes payable/consumption taxes refund receivable	(503)	(268)
Increase (decrease) in trade payables	663	866
Other, net	(739)	472
Subtotal	1,470	893
Interest and dividends received	272	457
Interest paid	(361)	(423)
Income taxes paid	(1,619)	(897)
Net cash provided by (used in) operating activities	(238)	29
Cash flows from investing activities		
Payments into time deposits	(4,085)	(3,094)
Proceeds from withdrawal of time deposits	4,321	3,386
Net decrease (increase) in short-term loans receivable	20	20
Purchase of non-current assets	(1,025)	(1,518)
Proceeds from sale of non-current assets	9	34
Purchase of investment securities	(22)	(28)
Proceeds from sale of investment securities	918	1,734
Other, net	19	(20)
Net cash provided by (used in) investing activities	155	514
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(218)	2,941
Proceeds from long-term borrowings	700	–
Repayments of long-term borrowings	(710)	(2)
Proceeds from sale of treasury shares	–	61
Purchase of treasury shares	(3,683)	(1,261)
Dividends paid	(1,815)	(1,771)
Dividends paid to non-controlling interests	(384)	(402)
Other, net	(206)	(217)
Net cash provided by (used in) financing activities	(6,318)	(654)
Effect of exchange rate change on cash and cash equivalents	1,630	1,175
Net increase (decrease) in cash and cash equivalents	(4,771)	1,065
Cash and cash equivalents at beginning of period	21,920	17,148
Cash and cash equivalents at end of period	* 17,148	* 18,214

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

Other than equity securities, etc. whose market prices are not available

Stated at market value (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).

Equity securities, etc. whose market prices are not available

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 that adopt International Financial Reporting Standards (“IFRS”) 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 services 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) Accounting policy for significant revenues and expenses

The Company and its consolidated subsidiaries (the “Group”) are mainly engaged in manufacturing and selling paints. As for sales of products, the Group considers that at the time of delivery of products, customers obtain control of the products and performance obligations are satisfied, and recognizes revenue at the time of delivering the relevant products. As for domestic sales of products, applying the alternative treatment provided for in paragraph 98 of the “Implementation Guidance on Accounting Standard for Revenue Recognition,” the Group recognizes revenue at the time of shipment, if the period from the shipment to the transfer of control of the product to the customer is a normal period.

In addition, as for “buy-sell back transactions” in which the Group manufactures products from raw materials, etc. purchased from a customer and sells the products to the same customer, revenue is

recognized at the net amount calculated by deducting the purchase price of raw materials, etc. from consideration.

(6) 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.

(7) 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.

(8) Method and period for amortization of goodwill

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

(9) 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.

(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, 2023

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Impairment losses	–	–
Non-current assets	1,972	1,963

As for the asset group consisting of land (¥1,782 million) and manufacturing facilities (¥180 million) used by Kobe Paints, Ltd., a consolidated subsidiary engaged in manufacturing and selling marine paints, 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, 2023.

(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, 2023

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Deferred tax assets	334	476

Deferred tax assets before offsetting with deferred tax liabilities were ¥604 million in the fiscal year ended March 31, 2022 and ¥919 million in the fiscal year ended March 31, 2023.

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.

(Additional Information)

Impact of the novel coronavirus disease (COVID-19), etc.

In the fiscal year ended March 31, 2023, the impact of COVID-19 on the performance of the Group was limited. For the fiscal year ending March 31, 2024, although the unclear situation is expected to continue regarding when COVID-19 crisis will end, the Group has made accounting estimates, including test of impairment on non-current assets, based on the assumption that there will be no significant impact on the Group.

These accounting estimates are best estimates at present. However, there are many uncertainties regarding the impact of COVID-19, and if further increases in prices of raw materials, disruption in supply chains, etc. are caused by a further deterioration of the situation in Ukraine, the outcome of the above assumptions may change and this could affect the Group's operating results and financial position.

(Consolidated Balance Sheet)

*1. Pledged assets and secured liabilities

Assets pledged as collateral are as follows:

	(Millions of yen)	
	As of March 31, 2022	As of March 31, 2023
Investment securities	972	939

Liabilities secured by such collateral are as follows:

	(Millions of yen)	
	As of March 31, 2022	As of March 31, 2023
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, 2022	As of March 31, 2023
Mitsubishi Shoji Chemical Corporation	777	653

*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, 2022	As of March 31, 2023
Difference between the fair value of the revalued land and the book value after the revaluation at the fiscal year end:	(5,700)	(5,700)

4. Trade notes receivable transferred by endorsement

	(Millions of yen)	
	As of March 31, 2022	As of March 31, 2023
Trade notes receivable transferred by endorsement	591	547

(Consolidated Statement of Income)

*1. Revenue from contracts with customers

Revenue from contracts with customers is not stated separately from other revenues and is included in net sales. The amount of revenue from contracts with customers has been provided in “Notes to Consolidated Financial Statements, (Revenue Recognition), 1. Information on disaggregation of revenue from contracts with customers.”

*2. 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, 2022	Fiscal year ended March 31, 2023
Cost of sales	36	134

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

	(Millions of yen)	
	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Depreciation	604	643
Provision of allowance for doubtful accounts	(115)	(9)
Provision for bonuses	31	62
Provision for product warranties	(17)	(14)
Retirement benefit expenses	334	404
Remuneration for directors (and other officers) and employees' salaries, etc.	6,974	7,426
Transportation costs	3,897	4,558
Sales commission	978	1,073

- *4. 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, 2022	Fiscal year ended March 31, 2023
General and administrative expenses	514	517
Manufacturing costs for period	1,047	1,056
Total	1,561	1,573

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

	(Millions of yen)	
	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Machinery, equipment and vehicles	1	5
Tools, furniture and fixtures	0	0
Total	2	6

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

	(Millions of yen)	
	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Buildings and structures	-	0
Machinery, equipment and vehicles	0	0
Tools, furniture and fixtures	0	2
Total	0	2

- *7. Impairment losses

Fiscal year ended March 31, 2022

Not applicable.

Fiscal year ended March 31, 2023

The Group recognized impairment losses on the following asset groups:

Location	Use	Type
Shanghai, China	Business assets	Machinery, equipment and vehicles, and tools, furniture and fixtures

Asset grouping is made based on a minimum unit that generates cash flows that are substantially independent from cash flows of other assets or asset groups. Idle assets that are not used for business are grouped 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 (¥46 million) included in extraordinary losses. The impairment losses consisted of ¥41 million for machinery, equipment and vehicles, and ¥5 million for tools, furniture and fixtures.

Recoverable amounts are measured at net realizable values.

- *8. Loss related to COVID-19

Fiscal year ended March 31, 2022

Not applicable.

Fiscal year ended March 31, 2023

Due to the lockdowns imposed in Shanghai to prevent the spread of COVID-19, the consolidated subsidiary in Shanghai suspended operation of its plant. 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

	(Millions of yen)	
	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Valuation difference on available-for-sale securities:		
Amount arising during the year	1,346	(632)
Reclassification adjustments	(601)	(1,145)
Amount before tax effects	744	(1,777)
Tax effects	(176)	523
Valuation difference on available-for-sale securities	568	(1,254)
Foreign currency translation adjustment:		
Amount arising during the year	2,582	3,556
Remeasurements of defined benefit plans:		
Amount arising during the year	(16)	103
Reclassification adjustments	(5)	(13)
Amount before tax effects	(22)	90
Tax effects	20	(19)
Remeasurements of defined benefit plans	(1)	71
Total other comprehensive income	3,148	2,372

(Consolidated Statement of Changes in Equity)

Fiscal year ended March 31, 2022

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, 2021	Increase	Decrease	Number of shares as of March 31, 2022
Issued shares				
Ordinary shares (Note) 1	69,068	–	7,068	62,000
Total	69,068	–	7,068	62,000
Treasury shares				
Ordinary shares (Notes) 2, 3	14,428	3,924	7,110	11,242
Total	14,428	3,924	7,110	11,242

- Notes:
1. The decrease of 7,068 thousand shares in the total number of issued shares of ordinary shares reflects the cancellation of treasury shares.
 2. The increase of 3,924 thousand shares in the number of treasury shares of ordinary shares reflects the acquisition of 3,917 thousand shares of treasury shares in accordance with a resolution of the Board of Directors, an increase of 6 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.
 3. The decrease of 7,110 thousand shares in the number of treasury shares of ordinary shares reflects a decrease of 7,068 thousand shares resulting from the cancellation of treasury shares, and a decrease of 41 thousand shares resulting from 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 24, 2021	Ordinary shares	928	17.00	March 31, 2021	June 25, 2021
Board of Directors meeting on October 29, 2021	Ordinary shares	885	17.00	September 30, 2021	December 2, 2021

(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 23, 2022	Ordinary shares	Retained earnings	913	18.00	March 31, 2022	June 24, 2022

Fiscal year ended March 31, 2023

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, 2022	Increase	Decrease	Number of shares as of March 31, 2023
Issued shares				
Ordinary shares (Note) 1	62,000	–	7,000	55,000
Total	62,000	–	7,000	55,000
Treasury shares				
Ordinary shares (Notes) 2, 3	11,242	1,271	7,068	5,446
Total	11,242	1,271	7,068	5,446

- Notes:
1. The decrease of 7,000 thousand shares in the total number of issued shares of ordinary shares reflects the cancellation of treasury shares.
 2. The increase of 1,271 thousand shares in the number of treasury shares of ordinary shares reflects the acquisition of 1,269 thousand shares of treasury shares in accordance with a resolution of the Board of Directors, an increase of 1 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.
 3. The decrease of 7,068 thousand shares in the number of treasury shares of ordinary shares reflects a decrease of 7,000 thousand shares resulting from the cancellation of treasury shares, a decrease of 25 thousand shares resulting from the disposal of treasury shares used for restricted share-based remuneration, and a decrease of 43 thousand shares resulting from the disposal of treasury shares used for restricted share-based incentives for the employee stock ownership association.

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 23, 2022	Ordinary shares	913	18.00	March 31, 2022	June 24, 2022
Board of Directors meeting on October 31, 2022	Ordinary shares	858	17.00	September 30, 2022	December 2, 2022

(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 22, 2023	Ordinary shares	Retained earnings	891	18.00	March 31, 2023	June 23, 2023

(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, 2022	Fiscal year ended March 31, 2023
Cash and deposits	20,096	21,177
Time deposits with a maturity of more than three months	(2,947)	(2,962)
Cash and cash equivalents	17,148	18,214

(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, 2022	As of March 31, 2023
Due within one year	5	6
Due after one year	4	6
Total	10	13

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 operating 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, (7) 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:

As of March 31, 2022

	(Millions of yen)		
	Carrying amount	Fair value	Difference
(1) Notes and accounts receivable - trade	27,104	27,104	–
(2) Electronically recorded monetary claims - operating	1,771	1,771	–
Allowance for doubtful accounts (*2)	(487)	(487)	–
	28,388	28,388	–
(3) Securities and investment securities	7,117	7,117	–
Total assets	35,505	35,505	–
(1) Notes and accounts payable - trade	10,333	10,333	–
(2) Electronically recorded obligations - operating	1,393	1,393	–
(3) Short-term borrowings	16,995	16,995	–
Total liabilities	28,722	28,722	–
Derivative transactions (*4)	20	20	–

(*1) Information about “cash and deposits” is omitted, because part of them is cash, and deposits are settled in a short term and their fair value is thus close to the carrying amount.

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

(*3) Equity securities, etc. whose market prices are not available are not included in “(3) Securities and investment securities.” The carrying amounts of the financial instruments are as follows:

(Millions of yen)	
Categories	As of March 31, 2022
Unlisted equity securities	614

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

As of March 31, 2023

(Millions of yen)

	Carrying amount	Fair value	Difference
(1) Notes and accounts receivable - trade	31,667	31,667	–
(2) Electronically recorded monetary claims - operating	2,218	2,218	–
Allowance for doubtful accounts (*2)	(485)	(485)	–
	33,399	33,399	–
(3) Securities and investment securities	4,709	4,709	–
Total assets	38,109	38,109	–
(1) Notes and accounts payable - trade	11,428	11,428	–
(2) Electronically recorded obligations - operating	1,730	1,730	–
(3) Short-term borrowings	20,437	20,437	–
Total liabilities	33,596	33,596	–
Derivative transactions (*4)	12	12	–

(*1) Information about “cash and deposits” is omitted, because part of them is cash, and deposits are settled in a short term and their fair value is thus close to the carrying amount.

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

(*3) Equity securities, etc. whose market prices are not available are not included in “(3) Securities and investment securities.” The carrying amounts of the financial instruments are as follows:

(Millions of yen)

Categories	As of March 31, 2023
Unlisted equity securities	614

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

Notes: 1. Redemption schedule for monetary receivables and securities with maturity after the consolidated balance sheet date

As of March 31, 2022

(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	20,078	–	–	–
Notes and accounts receivable - trade	27,104	–	–	–
Electronically recorded monetary claims - operating	1,771	–	–	–
Total	48,954	–	–	–

As of March 31, 2023

(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	21,157	–	–	–
Notes and accounts receivable - trade	31,667	–	–	–
Electronically recorded monetary claims - operating	2,218	–	–	–
Total	55,043	–	–	–

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

As of March 31, 2022

(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	16,995	–	–	–	–	–
Total	16,995	–	–	–	–	–

As of March 31, 2023

(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	20,437	–	–	–	–	–
Total	20,437	–	–	–	–	–

3. Breakdown by level of fair values of financial instruments, etc.

Fair values of financial instruments are classified into the following three levels according to the observability and significance of inputs for fair value measurement.

Level 1 fair value: Fair value measured using quoted prices formed in an active market for the asset or liability that is subject to the measurement, among observable inputs for fair value measurement

Level 2 fair value: Fair value measured using inputs for fair value measurement other than Level 1 inputs, among observable inputs for fair value measurement

Level 3 fair value: Fair value measured using unobservable inputs for fair value measurement

If multiple inputs that have a significant impact are used for fair value measurement, the fair value is classified to the lowest priority level of fair value measurement in which each of the inputs belongs.

(1) Financial instruments recorded at fair value in the consolidated balance sheet

As of March 31, 2022

(Millions of yen)

Categories	Fair value			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Available-for-sale securities				
Equity securities	7,117	–	–	7,117
Total assets	7,117	–	–	7,117
Derivative transactions (*)				
Currency-related transactions	–	20	–	20
Total derivative transactions	–	20	–	20

(*) Derivative transactions recorded in other assets and liabilities are presented together.

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

As of March 31, 2023

(Millions of yen)

Categories	Fair value			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Available-for-sale securities				
Equity securities	4,709	–	–	4,709
Total assets	4,709	–	–	4,709
Derivative transactions (*)				
Currency-related transactions	–	12	–	12
Total derivative transactions	–	12	–	12

(*) Derivative transactions recorded in other assets and liabilities are presented together.

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

(2) Financial instruments other than financial instruments recorded at fair value in the consolidated balance sheet

As of March 31, 2022

(Millions of yen)

Categories	Fair value			
	Level 1	Level 2	Level 3	Total
Notes and accounts receivable - trade	–	27,104	–	27,104
Electronically recorded monetary claims - operating	–	1,771	–	1,771
Allowance for doubtful accounts (*)	–	(487)	–	(487)
Total assets	–	28,388	–	28,388
Notes and accounts payable - trade	–	10,333	–	10,333
Electronically recorded obligations - operating	–	1,393	–	1,393
Short-term borrowings	–	16,995	–	16,995
Total liabilities	–	28,722	–	28,722

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

As of March 31, 2023

(Millions of yen)

Categories	Fair value			
	Level 1	Level 2	Level 3	Total
Notes and accounts receivable - trade	–	31,667	–	31,667
Electronically recorded monetary claims - operating	–	2,218	–	2,218
Allowance for doubtful accounts (*)	–	(485)	–	(485)
Total assets	–	33,399	–	33,399
Notes and accounts payable - trade	–	11,428	–	11,428
Electronically recorded obligations - operating	–	1,730	–	1,730
Short-term borrowings	–	20,437	–	20,437
Total liabilities	–	33,596	–	33,596

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

Note: Explanation of valuation techniques used to measure fair value and inputs for fair value measurement

Securities and investment securities

Listed equity securities are valued using quoted prices. Since listed equity securities are traded in active markets, their fair values are classified as Level 1 fair value.

Derivative transactions

Fair values of forward exchange contracts are measured using observable inputs such as exchange rates, and classified as Level 2 fair value.

Notes and accounts receivable - trade, and electronically recorded monetary claims - operating

As these items are settled in a short term and their fair values are close to the carrying amounts, they are presented in the carrying amount, and the fair values are classified as Level 2 fair value.

Notes and accounts payable - trade, electronically recorded obligations - operating, and short-term borrowings

As these items are settled in a short term and their fair values are close to the carrying amounts, they are presented in the carrying amount, and the fair values are classified as Level 2 fair value.

(Securities)

1. Available-for-sale securities

As of March 31, 2022

(Millions of yen)

Categories	Carrying amount	Acquisition cost	Difference
Securities whose carrying amount exceeds their acquisition cost			
Equity securities	7,002	2,543	4,459
Subtotal	7,002	2,543	4,459
Securities whose carrying amount does not exceed their acquisition cost			
Equity securities	114	147	(32)
Subtotal	114	147	(32)
Total	7,117	2,690	4,426

Note: Unlisted equity securities whose market prices are not available (carrying amount: ¥614 million) are not included in "Available-for-sale securities" in the above table.

As of March 31, 2023

(Millions of yen)

Categories	Carrying amount	Acquisition cost	Difference
Securities whose carrying amount exceeds their acquisition cost			
Equity securities	4,658	2,060	2,597
Subtotal	4,658	2,060	2,597
Securities whose carrying amount does not exceed their acquisition cost			
Equity securities	51	70	(19)
Subtotal	51	70	(19)
Total	4,709	2,131	2,578

Note: Unlisted equity securities whose market prices are not available (carrying amount: ¥614 million) are not included in "Available-for-sale securities" in the above table.

2. Available-for-sale securities sold

Fiscal year ended March 31, 2022

(Millions of yen)

Type	Proceeds	Total gain on sale	Total loss on sale
Equity securities	918	601	—
Total	918	601	—

Fiscal year ended March 31, 2023

(Millions of yen)

Type	Proceeds	Total gain on sale	Total loss on sale
Equity securities	1,734	1,145	—
Total	1,734	1,145	—

3. Impairment loss recognized on securities

Not applicable.

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 market prices are not available, 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, 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, 2022

(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	11	-	(0)	(0)
	USD selling/Euro buying	1,071	-	(1)	(1)
	TRY selling/Euro buying	244	-	32	32
	Buy:				
	USD buying/JPY selling	11	-	0	0
	SGD buying/Euro selling	169	-	1	1
	JPY buying/Euro selling	125	-	(0)	(0)
	GBP buying/Euro selling	182	-	2	2
TRY buying/Euro selling	99	-	(13)	(13)	
	Total	1,916	-	20	20

As of March 31, 2023

(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	7	–	0	0
	USD selling/Euro buying	279	–	14	14
	JPY selling/Euro buying	74	–	(1)	(1)
	Buy:				
	USD buying/JPY selling	6	–	(0)	(0)
	SGD buying/Euro selling	238	–	0	0
	JPY buying/Euro selling	197	–	4	4
	GBP buying/Euro selling	234	–	(5)	(5)
	Total	1,038	–	12	12

(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, 2022	Fiscal year ended March 31, 2023
Retirement benefit obligation at beginning of period	5,544	5,799
Service cost	350	367
Interest cost	51	64
Actuarial gains and losses	2	(155)
Past service cost	(32)	(22)
Retirement benefits paid	(236)	(361)
Transfer due to change from the simplified method to the principle method	-	169
Amount expensed due to change from the simplified method to the principle method	-	78
Other	119	55
Retirement benefit obligation at end of period	5,799	5,995

(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, 2022	Fiscal year ended March 31, 2023
Plan assets at beginning of period	4,407	4,586
Expected return on plan assets	65	68
Actuarial gains and losses	(4)	(49)
Contributions from employer	289	297
Retirement benefits paid	(174)	(292)
Other	2	0
Plan assets at end of period	4,586	4,612

(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, 2022	Fiscal year ended March 31, 2023
Retirement benefit liability at beginning of period	491	459
Retirement benefit expenses	179	149
Retirement benefits paid	(73)	(78)
Contribution to plans	(148)	(183)
Transfer due to change from the simplified method to the principle method	-	(169)
Other	10	19
Retirement benefit liability at end of period	459	196

(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, 2022	As of March 31, 2023
Retirement benefit obligation for funded plans	5,904	5,887
Plan assets	(5,643)	(5,847)
	260	40
Retirement benefit obligation for unfunded plans	1,411	1,539
Net balance of liability and asset recognized on the consolidated balance sheet	1,671	1,579
Retirement benefit liability	1,850	1,855
Retirement benefit asset	(178)	(275)
Net balance of liability and asset recognized on the consolidated balance sheet	1,671	1,579

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, 2022	Fiscal year ended March 31, 2023
Service cost	350	367
Interest cost	51	64
Expected return on plan assets	(65)	(68)
Amortization of actuarial gains and losses	(6)	(13)
Amortization of past service cost	(32)	(22)
Amount expensed due to change from the simplified method to the principle method	-	78
Retirement benefit expenses applying simplified method	179	149
Retirement benefit expenses under defined benefit plans	477	555

(6) Remeasurements of defined benefit plans

	(Millions of yen)	
	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Actuarial gains and losses	22	(90)
Total	22	(90)

(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, 2022	As of March 31, 2023
Unrecognized actuarial gains and losses	(102)	(192)
Total	(102)	(192)

(8) Plan assets

(i) Breakdown of plan assets

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

	(%)	
	As of March 31, 2022	As of March 31, 2023
Bonds	15	7
Equity securities	11	16
General accounts	61	62
Other	13	15
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, 2022	As of March 31, 2023
Discount rate	0.5-2.8	0.8-2.9
Long-term expected rate of return	1.5	1.5
Expected rate of salary increase	2.2-4.2	2.2-4.1

3. Defined contribution plan

The required contribution to the defined contribution plan for certain consolidated subsidiaries amounted to ¥87 million and ¥100 million as of March 31, 2022 and 2023, respectively.

(Tax Effect Accounting)

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

	As of March 31, 2022	As of March 31, 2023
(Millions of yen)		
Deferred tax assets		
Retirement benefit liability	468	454
Tax loss carried forward (Note) 2	1,170	1,639
Allowance for doubtful accounts	381	192
Impairment losses	379	359
Loss on valuation of investment securities	304	299
Loss on valuation of inventories	148	184
Accrued bonuses and provisions	160	175
Provision for product warranties	46	32
Accrued enterprise tax	1	36
Elimination of unrealized gains	109	180
Other	433	548
Gross deferred tax assets	3,604	4,103
Valuation allowance for tax loss carried forward (Note) 2	(1,131)	(1,569)
Valuation allowance for total amount of deductible temporary differences	(1,868)	(1,614)
Valuation allowance subtotal	(2,999)	(3,183)
Total deferred tax assets	604	919
Deferred tax liabilities		
Valuation difference on available-for-sale securities	(1,307)	(714)
Retirement benefit asset	(29)	(31)
Retained profit of overseas subsidiaries	(747)	(757)
Other	(192)	(224)
Total deferred tax liabilities	(2,277)	(1,729)
Net deferred tax assets (liabilities) (Note) 1	(1,672)	(810)

(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, 2022

	(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)	-	34	353	-	272	510	1,170
Valuation allowance	-	(34)	(353)	-	(272)	(470)	(1,131)
Deferred tax assets	-	-	-	-	-	39	(*2) 39

(*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, 2023

(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)	36	372	–	349	402	479	1,639
Valuation allowance	(36)	(372)	–	(349)	(378)	(433)	(1,569)
Deferred tax assets	–	–	–	–	24	45	(*2) 69

(*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 years ended December 31, 2018 and 2022. 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, 2022	As of March 31, 2023
Statutory tax rate	30.5	30.5
Reconciliation:		
Difference in tax rates between consolidated subsidiaries and the Company	(12.9)	(7.1)
Non-deductible expenses for income tax purposes (e.g. entertainment expenses)	6.6	1.4
Non-taxable income for income tax purposes (e.g. dividend income)	(31.3)	(13.1)
Inhabitant tax on per capita basis and others	2.0	0.6
Retained profit of overseas subsidiaries	(0.4)	0.2
Elimination of dividends received	28.6	12.7
Foreign tax credit	(1.6)	(1.2)
Special tax credit for research and development cost and others	(0.2)	(1.5)
Controlled Foreign Company rules	10.8	–
Increase (decrease) in valuation allowance for deferred tax assets	41.5	(1.1)
Other	0.4	0.5
Effective tax rate after application of tax effect accounting	74.0	21.9

(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.

(Revenue Recognition)

1. Information on disaggregation of revenue from contracts with customers

Fiscal year ended March 31, 2022

(Millions of yen)

	Reportable segments					
	Japan	China	South Korea	Southeast Asia	Europe and the US	Total
Marine paints	24,829	11,087	7,299	6,931	15,975	66,123
Industrial paints	5,694	1,237	182	4,347	380	11,842
Container paints	–	5,355	–	509	135	6,001
Other	329	–	–	–	–	329
Revenue from contracts with customers	30,853	17,680	7,481	11,788	16,491	84,295
Other income	–	–	–	–	–	–
External sales	30,853	17,680	7,481	11,788	16,491	84,295

Fiscal year ended March 31, 2023

(Millions of yen)

	Reportable segments					
	Japan	China	South Korea	Southeast Asia	Europe and the US	Total
Marine paints	31,085	14,118	7,750	9,161	21,834	83,951
Industrial paints	5,727	1,126	225	5,318	431	12,828
Container paints	–	1,013	–	1,155	190	2,359
Other	341	–	–	–	–	341
Revenue from contracts with customers	37,153	16,259	7,976	15,636	22,456	99,481
Other income	–	–	–	–	–	–
External sales	37,153	16,259	7,976	15,636	22,456	99,481

2. Information that forms the basis for understanding revenue from contracts with customers

Information that forms the basis for understanding revenue is as described in “(Significant Accounting Policies for Preparation of Consolidated Financial Statements), 4. Accounting policies, (5) Accounting policy for significant revenues and expenses.”

3. Information on the relation between the satisfaction of performance obligations based on contracts with customers and cash flows arising from these contracts, and amount and timing of revenue expected to be recognized in and after the next fiscal year from contracts with customers that existed at the end of the current fiscal year

Balances of contract assets and contract liabilities, etc.

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Receivables arising from contracts with customers (opening balance)	29,759	28,876
Receivables arising from contracts with customers (closing balance)	28,876	33,885
Contract liabilities (opening balance)	43	179
Contract liabilities (closing balance)	179	111

Receivables arising from contracts with customers are notes and accounts receivable - trade, and electronically recorded monetary claims - operating.

Contract liabilities are related to advances received from customers in sales of paints to new customers, etc. Contract liabilities are reversed in line with recognition of revenue based on satisfaction of performance obligations upon shipment or delivery of products.

Of the amount of revenue recognized in the fiscal year ended March 31, 2022, the amount included in the opening balance of contract liabilities is ¥40 million.

Of the amount of revenue recognized in the fiscal year ended March 31, 2023, the amount included in the opening balance of contract liabilities is ¥159 million.

(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, 2022

(Millions of yen)

	Japan	China	South Korea	Southeast Asia	Europe and the US	Total
Net sales						
External sales	30,853	17,680	7,481	11,788	16,491	84,295
Intersegment sales or transfers	4,025	7,957	2,803	3,519	872	19,178
Total	34,879	25,638	10,285	15,308	17,364	103,474
Segment profit (loss)	(1,086)	(624)	(685)	1,619	274	(502)
Segment assets	60,584	26,033	5,781	17,825	13,953	124,178
Other items						
Depreciation	602	688	101	269	330	1,992
Increase in property, plant and equipment and intangible assets	381	234	60	181	308	1,166

Fiscal year ended March 31, 2023

(Millions of yen)

	Japan	China	South Korea	Southeast Asia	Europe and the US	Total
Net sales						
External sales	37,153	16,259	7,976	15,636	22,456	99,481
Intersegment sales or transfers	5,402	7,554	4,127	5,607	1,296	23,988
Total	42,555	23,813	12,103	21,244	23,752	123,469
Segment profit (loss)	(418)	340	(137)	2,179	663	2,627
Segment assets	61,449	26,667	6,704	20,780	18,835	134,437
Other items						
Depreciation	597	189	110	294	349	1,541
Impairment losses	–	46	–	–	–	46
Increase in property, plant and equipment and intangible assets	476	97	106	169	847	1,696

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, 2022	Fiscal year ended March 31, 2023
Total reportable segments	(502)	2,627
Elimination of intersegment transactions	2,259	2,366
Corporate expenses (Note)	(1,069)	(1,106)
Operating profit on the consolidated financial statements	687	3,887

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

(Millions of yen)

Assets	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Total reportable segments	124,178	134,437
Elimination of intersegment transactions	(23,625)	(26,526)
Corporate assets (Note)	4,064	4,836
Total assets on the consolidated financial statements	104,618	112,747

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, 2022	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Depreciation	1,992	1,541	63	61	2,055	1,603
Impairment losses	–	46	–	–	–	46
Increase in property, plant and equipment and intangible assets	1,166	1,696	86	6	1,252	1,703

Related information

Fiscal year ended March 31, 2022

1. Information for respective products or services

(Millions of yen)

	Marine paints	Industrial paints	Container paints	Other	Total
External sales	66,123	11,842	6,001	329	84,295

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 ¥13,383 million.

(2) Property, plant and equipment

(Millions of yen)

Japan	China	South Korea	Southeast Asia	Europe and the US	Total
15,898	1,986	736	2,363	3,070	24,054

Note: Of property, plant and equipment for Europe and the US, those for Netherlands are ¥2,880 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, 2023

1. Information for respective products or services

(Millions of yen)

	Marine paints	Industrial paints	Container paints	Other	Total
External sales	83,951	12,828	2,359	341	99,481

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 ¥18,773 million.

(2) Property, plant and equipment

(Millions of yen)

Japan	China	South Korea	Southeast Asia	Europe and the US	Total
15,736	1,980	793	2,427	3,850	24,788

Note: Of property, plant and equipment for Europe and the US, those for Netherlands are ¥3,559 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, 2022

Not applicable.

Fiscal year ended March 31, 2023

(Millions of yen)

	Japan	China	South Korea	Southeast Asia	Europe and the US	Unallocated amounts and elimination	Total
Impairment losses	–	46	–	–	–	–	46

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

Fiscal year ended March 31, 2022

Transactions with related parties

Transactions between the company submitting the consolidated financial statements and related parties

Officers and major shareholders (only if they are individuals) of the company submitting the consolidated financial statements, etc.

Type	Name	Location	Share capital or investments in capital	Nature of business or occupation	Holding (held) ratio of voting rights, etc.	Relation-ship	Transaction	Transaction amount (Millions of yen)	Account	Balance at end of period (Millions of yen)
Officer	Masataka Uetake	-	-	Representative Director, Chairman	(Held) Directly 0.49%	-	Disposal of treasury shares in association with in-kind contribution of monetary remuneration claims (Note)	11	-	-

Note: This is due to in-kind contribution of monetary remuneration claims in connection with the restricted share-based remuneration plan.

Fiscal year ended March 31, 2023

Not applicable.

(Per Share Information)

	(Yen)	
	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Net assets per share	1,089.33	1,174.01
Basic earnings per share	4.92	76.69

Notes: 1. Diluted earnings per share is not provided because 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, 2022	As of March 31, 2023
Total net assets	60,039	63,130
Amounts deducted from total net assets	4,748	4,953
(Of which, non-controlling interests)	(4,748)	(4,953)
Net assets attributable to ordinary shares	55,291	58,176
Number of ordinary shares at end of period used to calculate net assets per share (Thousands of shares)	50,757	49,553

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

(Millions of yen, unless otherwise noted)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Profit attributable to owners of parent	257	3,848
Amount not attributable to ordinary shareholders	–	–
Profit attributable to owners of parent on ordinary shares	257	3,848
Average number of ordinary shares outstanding during the period (Thousands of shares)	52,290	50,186

(Significant Subsequent Events)

The Company has resolved, at a meeting of the Board of Directors held on July 31, 2023, to transfer non-current assets held by its consolidated subsidiary as described below.

1. Overview of the consolidated subsidiary

Name	CHUGOKU MARINE PAINTS (Shanghai), Ltd. (“CMP Shanghai”)
Location	4677, Jiasong Road (North), Jiading, Shanghai, China
Job title and name of representative	Nobuhisa Mimura, Chairman
Description of business	Manufacturing and selling paints
Share capital	RMB 532 million

2. Reason for transfer

Of the two factories owned by CMP Shanghai, Shanghai Factory No.2 mainly manufactured container paints. However, since 2022, production volume has declined sharply and the utilization rate has dropped due to a slump in demand and the suppression of orders caused by intensifying price competition. Amid such conditions, Shanghai Angong Economic Development Co., Ltd. (“Angong”), which is a local government enterprise and a shareholder of CMP Shanghai, has requested a sale of the land and buildings of the factory. In accordance with the request and in consideration of future demand trends for container paints and production efficiency, CMP Shanghai proceeded with an examination toward the sale of the factory and optimizing the production capacity and, through discussions with Angong, has reached an agreement on the approximate transfer price and other terms. The transfer price has been determined based on the appraisal values from two third-party organizations, one requested by CMP Shanghai and one requested by Angong.

With respect to the portion of production carried out at the factory, the Group has an organization in place that can cover that amount of production through production at other factories within the Group, outsourced manufacturing at external companies and other measures. Furthermore, the policy going forward is to have CMP Shanghai continue to supply products in accordance with demand and maintain the business operations.

3. Details of assets to be transferred

Details and location of assets	Transfer price (Millions of yen)	Gain on transfer (Millions of yen)
Shanghai Factory No.2 (*) Right to use land (46,751 m ²), right to own building (23,282 m ²) 3021 and 3031, Jiaan Road, Jiading, Shanghai, China	Approx. 3,000	Approx. 2,500

* Operations at the factory were stopped in June 2023.

4. Overview of the counterparty

(1) Name	Shanghai Angong Economic Development Co., Ltd.	
(2) Location	14th floor, Antingyuan Building, 185, Moyu Road, Anting, Jiading, Shanghai, China	
(3) Job title and name of representative	Xú Liyàn, Executive Chairman	
(4) Description of business	Industrial investment, asset management, consulting services, etc.	
(5) Share capital	RMB 61 million	
(6) Date of establishment	July 8, 1989	
(7) Major shareholders and ownership ratios	Shanghai Anting Industrial Development Co., Ltd. (100%)	
(8) Relationship between the Company and said company (As of July 31, 2023)	Capital relationship	Although this is not applicable to the Company, Angong owns a stake of 8% in CMP Shanghai. The Group plans to acquire the entire equity interest of CMP Shanghai held by Angong by December 2023, and make CMP Shanghai a wholly owned subsidiary of the Company.
	Personnel relationship	Although this is not applicable to the Company, two members, including the representative of Angong, serve concurrently as officers of CMP Shanghai.
	Business relationship	There are no special matters to be noted.
	Related party relationship	There are no special matters to be noted.

5. Timetable for transfer

(1) Date of resolution at the meeting of the Board of Directors	July 31, 2023
(2) Date of conclusion of the agreement	Beginning of August 2023 (scheduled)
(3) Property handover date	By December 31, 2023

6. Impact on operating performance

As a result of this transfer of non-current assets, the Company expects to record gain on sale of non-current assets of approximately ¥2,500 million as extraordinary income in its consolidated financial results for the fourth quarter of the fiscal year ending March 31, 2024.

(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	16,995	20,437	1.7	–
Current portion of long-term borrowings	2	1,700	0.7	–
Current portion of lease liabilities	184	177	2.7	–
Long-term borrowings (excluding current portion)	2,734	1,000	0.8	March 2025
Lease liabilities (excluding current portion)	581	591	1.4	From January 2024 to October 2047
Other interest-bearing debt	–	–	–	–
Total	20,498	23,905	–	–

- 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 liabilities (excluding current portions) within five years after the consolidated balance sheet date is as follows:

Categories	(Millions of yen)			
	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	1,000	–	–	–
Lease liabilities	111	63	43	31

Annexed consolidated detailed schedule of asset retirement obligations

Because the amount of asset retirement obligations at the beginning and end of the fiscal year ended March 31, 2023 was 1% or less of the total amount of liabilities and net assets at the beginning and end of the fiscal year ended March 31, 2023, information is omitted pursuant to the provisions of Article 92-2 of the “Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements.”

(2) Other

Quarterly information for the fiscal year ended March 31, 2023

(Cumulative period)	(Millions of yen, unless otherwise noted)			
	Three months ended June 30, 2022	Six months ended September 30, 2022	Nine months ended December 31, 2022	Fiscal year ended March 31, 2023
Net sales	21,245	44,468	70,981	99,481
Profit (loss) before income taxes	(181)	761	3,456	5,228
Profit (loss) attributable to owners of parent	(461)	(31)	2,076	3,848
Basic earnings (loss) per share (Yen)	(9.12)	(0.62)	41.23	76.69

(Accounting period)	(Yen)			
	First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings (loss) per share	(9.12)	8.51	42.05	35.76