

Consolidated Financial Results for the Six Months Ended September 30, 2021 [Japanese GAAP]



October 26, 2021

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 Stock exchange listing: Tokyo Stock Exchange
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 Schedule of quarterly financial results briefing session: Scheduled

(Amounts less than one million yen are rounded down)

1. Consolidated Financial Results for the Six Months Ended September 30, 2021 (from April 1, 2021 to September 30, 2021)

(1) Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended September 30, 2021	25,266	7.9	3,795	45.5	4,116	45.9	2,943	52.9
September 30, 2020	23,408	(8.9)	2,609	(26.9)	2,822	(22.2)	1,924	(24.1)

(Note) Comprehensive income: Six months ended September 30, 2021: ¥2,941 million [(6.1) %]
 Six months ended September 30, 2020: ¥3,133 million [70.2 %]

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2021	53.45	—
September 30, 2020	34.39	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2021	105,798	77,551	72.5
As of March 31, 2021	107,344	76,566	70.5

(Reference) Equity: As of September 30, 2021: ¥76,711 million
 As of March 31, 2021: ¥75,718 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
Year ended March 31, 2021	Yen -	Yen 12.00	Yen -	Yen 12.00	Yen 24.00
Year ending March 31, 2022	-	12.00			
Year ending March 31, 2022 (Forecast)			-	12.00	24.00

(Note) Revisions to the cash dividends forecasts most recently announced: None

3. Forecast of Consolidated Financial Results for the Year Ending March 31, 2022 (from April 1, 2021 to March 31, 2022)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	51,500	3.9	8,000	8.1	8,300	3.8	6,000	4.2	107.79

(Note) Revisions to the financial results forecast most recently announced: None

* Notes:

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Accounting policies adopted specially for the preparation of quarterly consolidated financial statements: Yes

(3) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: Yes

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(4) Total number of issued shares (ordinary shares)

1) Total number of issued shares at the end of the period (including treasury shares):

September 30, 2021: 54,832,263 shares

March 31, 2021: 55,877,263 shares

2) Total number of treasury shares at the end of the period:

September 30, 2021: 205,638 shares

March 31, 2021: 212,603 shares

3) Average number of shares during the period:

Six months ended September 30, 2021: 55,069,507 shares

Six months ended September 30, 2020: 55,971,000 shares

* These quarterly financial results are outside the scope of quarterly review by certified public accountants or audit firms

* Explanation regarding the appropriate use of financial results forecasts and other special items

Forward-looking statements such as operating results forecasts and other projections contained in this report are based on information currently available to the Company and certain assumptions deemed reasonable. Actual results may differ significantly from these forecasts due to a wide range of factors. For the assumptions underlying the operating results forecasts and cautionary notes concerning their use, please refer to “(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information” under “1. Qualitative Information on Quarterly Financial Results for the Period under Review” on page 3 of the attached documents to the quarterly financial statements.

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1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Explanation of Operating Results

The Japanese economy during the six months ended September 30, 2021 showed signs of slow recovery due to the repeated issuance of the state of emergency declaration which led to subdued individual consumption. However, it is expected to recover faster after the lifting of the declaration and restrictions on activities on and after September 30. As for overseas economies, although the U.S. economy continued to recover steadily, demand grew at a slower pace recently because of the greater inflation pressure driven by supply constraints mainly in semiconductors and higher resources prices. In China, there were new risks related to issues of excessive debt and power shortage, and the situation remained unpredictable.

Under these circumstances, for the six months ended September 30, 2021 (from April 1, 2021 to September 30, 2021), the Group posted net sales of ¥25,266 million (up 7.9% year-on-year), operating profit of ¥3,795 million (up 45.5% year-on-year), ordinary profit of ¥4,116 million (up 45.9% year-on-year) and profit attributable to owners of parent of ¥2,943 million (up 52.9% year-on-year), all of which increased from the previous year's results. In addition, when compared with periods before the novel coronavirus disease (COVID-19) pandemic, net sales recorded the second-highest number following that at the corresponding period of the year before last, and in terms of profits, profit attributable to owners of parent was at a high level as profit hit a record high.

Operating results by segment are as follows.

1) Chemicals operations

(Inorganic chemicals)

Sales of insoluble sulfur, a material for radial tires, have largely surpassed those of the previous fiscal year, which was affected by the spread of COVID-19, backed by a rapid recovery in demand for automobiles and tires since the second half of the previous fiscal year. Sales of carbon disulfide for rayon and cellophane, and sodium sulfate for bath agents and detergents increased year on year due to a rebound from the COVID-19 pandemic.

(Organic chemicals)

Regarding chlorinated isocyanuric acid for disinfectants, sales of agents for swimming pools recovered in domestic market, thanks to the partial resumption of swimming lessons at schools. Sales of agents for plumbing systems (sanitary devices) remained strong with increased demand for sterilization and cleaning as a result of rising awareness of hygiene at homes. Sales remained strong in the U.S. market, backed by the growing home swimming pool market due to a recovery in economic conditions and stay-at-home demand.

(Fine chemicals)

Regarding Glicoat-SMD, a heat-resistant soluble OSP (Organic Solderability Preservative) for printed wiring boards, sales remained solid, against a backdrop of the growth of electronics markets worldwide. Sales of advanced & specialty chemicals such as epoxy resin curing agent (imidazoles) and resin modifier (glycoluril derivatives) increased year on year, backed by a recovery in demand for use in electronic components and automobiles.

As a result, net sales for the chemicals operations segment were ¥16,407 million (up 14.8% year-on-year), and segment profit was ¥3,614 million (up 69.6% year-on-year), both surpassing the previous year's results.

2) Housing Materials operations

Although the number of new housing starts showed signs of a slight recovery, sales of interior, exterior finishes and paving materials and exterior products remained sluggish, as governments and private companies deferred or had a wait-and-see attitude for their projects or capital investment, against a backdrop of weak domestic demand and uncertainty about the future under the state of emergency declaration. Profitability also declined due to soaring prices of raw materials including aluminum ingots.

As a result, net sales for the housing materials operations segment were ¥8,199 million (down 5.9% year-on-year), and segment profit was ¥1,058 million (down 20.9% year-on-year), both falling below the previous year's results.

Reference information

[Overseas net sales]

	Six months ended September 30, 2020 (from April 1, 2020 to September 30, 2020)		Six months ended September 30, 2021 (from April 1, 2021 to September 30, 2021)	
	Net sales (Million yen)	Overseas net sales to consolidated net sales (%)	Net sales (Million yen)	Overseas net sales to consolidated net sales (%)
Asia	3,094	13.2	3,798	15.0
North America	3,279	14.0	3,746	14.8
Other regions	907	3.9	1,009	4.0
Total	7,281	31.1	8,554	33.9
Consolidated net sales	23,408		25,266	

(2) Explanation of Financial Position

(Status of assets, liabilities and net assets)

Total assets decreased by ¥1,546 million from the end of the previous fiscal year to ¥105,798 million. Major increases were ¥987 million in machinery, equipment and vehicles and ¥473 million in investment securities, and major decreases were ¥1,254 million in notes and accounts receivable – trade and ¥1,230 million in cash and deposits.

Liabilities decreased by ¥2,531 million from the end of the previous fiscal year to ¥28,246 million. Major decreases were ¥1,559 million in retirement benefit liability and ¥759 million in notes and accounts payable – trade.

Net assets increased by ¥985 million from the end of the previous fiscal year to ¥77,551 million. A major increase was ¥990 million in retained earnings.

As a result, equity ratio rose to 72.5%, from 70.5% at the end of the previous fiscal year.

(Status of Cash Flows)

Cash flows provided by operating activities totaled ¥2,275 million (a decrease of ¥817 million year-on-year). Major cash inflows were profit before income taxes of ¥4,135 million, decrease in trade receivables of ¥1,632 million and depreciation of ¥942 million, while major cash outflows were contribution to employees' retirement benefits trust of ¥1,500 million and income taxes paid of ¥1,415 million.

Cash flows used in investing activities totaled ¥626 million (a decrease of ¥417 million year-on-year). A major cash inflow was proceeds from redemption of securities of ¥2,000 million, while major cash outflows were purchase of property, plant and equipment of ¥1,681 million and purchase of investment securities of ¥510 million.

Cash flows used in financing activities totaled ¥1,928 million (a decrease of ¥361 million year-on-year). The major component was purchase of treasury shares of ¥1,290 million.

As a result, cash and cash equivalents totaled ¥36,977 million (a decrease of ¥230 million from the end of the previous fiscal year).

(3) Explanation of Consolidated Financial Results Forecast and Other Forward-looking Information

The full-year financial results forecast has not been changed from the initial plan (announced on April 27, 2021). Assumptions for the exchange rates of major currencies are ¥105 to U.S. dollar and ¥128 to Euro.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheets

(Million yen)

	As of March 31, 2021	As of September 30, 2021
Assets		
Current assets		
Cash and deposits	25,907	24,677
Notes and accounts receivable – trade	12,637	11,382
Electronically recorded monetary claims - operating	2,678	2,311
Securities	13,999	13,300
Merchandise and finished goods	6,259	6,323
Work in process	46	68
Raw materials and supplies	3,024	3,355
Other	471	564
Allowance for doubtful accounts	(1)	(0)
Total current assets	65,024	61,981
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	5,040	5,231
Machinery, equipment and vehicles, net	3,176	4,164
Land	8,857	8,857
Construction in progress	3,771	3,639
Other, net	646	571
Total property, plant and equipment	21,492	22,464
Intangible assets	165	252
Investments and other assets		
Investment securities	19,705	20,179
Deferred tax assets	324	323
Retirement benefit asset	309	311
Other	325	289
Allowance for doubtful accounts	(3)	(3)
Total investments and other assets	20,662	21,099
Total non-current assets	42,319	43,816
Total assets	107,344	105,798

(Million yen)

	As of March 31, 2021	As of September 30, 2021
Liabilities		
Current liabilities		
Notes and accounts payable – trade	6,602	5,842
Electronically recorded obligations - operating	338	311
Short-term borrowings	2,530	2,530
Current portion of long-term borrowings	74	91
Accrued expenses	1,418	1,392
Income taxes payable	1,389	1,214
Accrued consumption taxes	201	100
Notes payable - facilities	17	1
Electronically recorded obligations-facilities	75	381
Other	3,055	2,855
Total current liabilities	15,702	14,721
Non-current liabilities		
Long-term borrowings	10,957	10,991
Deferred tax liabilities	16	16
Deferred tax liabilities for land revaluation	1,111	1,111
Provision for retirement benefits for directors (and other officers)	77	81
Retirement benefit liability	2,134	574
Asset retirement obligations	379	380
Provision for share awards	32	36
Other	365	332
Total non-current liabilities	15,075	13,524
Total liabilities	30,778	28,246
Net assets		
Shareholders' equity		
Share capital	6,867	6,867
Capital surplus	5,740	5,740
Retained earnings	57,140	58,130
Treasury shares	(236)	(236)
Total shareholders' equity	69,512	70,503
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,789	3,763
Deferred gains or losses on hedges	(27)	(18)
Revaluation reserve for land	2,533	2,533
Foreign currency translation adjustment	(90)	(78)
Remeasurements of defined benefit plans	0	7
Total accumulated other comprehensive income	6,205	6,208
Non-controlling interests	847	839
Total net assets	76,566	77,551
Total liabilities and net assets	107,344	105,798

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Six Months Ended September 30

(Million yen)

	Six months ended September 30, 2020	Six months ended September 30, 2021
Net sales	23,408	25,266
Cost of sales	14,575	14,869
Gross profit	8,833	10,397
Selling, general and administrative expenses		
Transportation and storage costs	2,204	2,584
Advertising expenses	179	204
Salaries	1,101	1,126
Retirement benefit expenses	102	79
Provision for retirement benefits for directors (and other officers)	9	8
Research and development expenses	588	598
Other	2,037	1,998
Total selling, general and administrative expenses	6,224	6,601
Operating profit	2,609	3,795
Non-operating income		
Interest income	19	31
Dividend income	250	284
Foreign exchange gains	–	28
Miscellaneous income	48	41
Total non-operating income	318	385
Non-operating expenses		
Interest expenses	11	12
Sales discounts	62	–
Foreign exchange losses	27	–
Donations	–	50
Miscellaneous losses	3	2
Total non-operating expenses	105	64
Ordinary profit	2,822	4,116
Extraordinary income		
Gain on sale of non-current assets	0	0
Gain on sale of investment securities	4	–
Subsidy income	35	28
Total extraordinary income	39	28
Extraordinary losses		
Loss on retirement of non-current assets	16	9
Total extraordinary losses	16	9
Profit before income taxes	2,845	4,135
Income taxes	930	1,198
Profit	1,915	2,937
Loss attributable to non-controlling interests	(9)	(5)
Profit attributable to owners of parent	1,924	2,943

Quarterly Consolidated Statements of Comprehensive Income

Six Months Ended September 30

(Million yen)

	Six months ended September 30, 2020	Six months ended September 30, 2021
Profit	1,915	2,937
Other comprehensive income		
Valuation difference on available-for-sale securities	1,224	(24)
Deferred gains or losses on hedges	4	9
Foreign currency translation adjustment	(24)	12
Remeasurements of defined benefit plans, net of tax	13	6
Total other comprehensive income	1,218	3
Comprehensive income	3,133	2,941
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,143	2,946
Comprehensive income attributable to non-controlling interests	(10)	(4)

(3) Quarterly Consolidated Statements of Cash Flows

(Million yen)

	Six months ended September 30, 2020	Six months ended September 30, 2021
Cash flows from operating activities		
Profit before income taxes	2,845	4,135
Depreciation	892	942
Increase (decrease) in retirement benefit liability	(29)	(52)
Decrease (increase) in retirement benefit asset	13	1
Contribution to employees' retirement benefits trust	–	(1,500)
Interest and dividend income	(270)	(315)
Interest expenses	11	12
Loss (gain) on sale of investment securities	(4)	–
Subsidy income	(35)	(28)
Loss on retirement of property, plant and equipment	16	9
Loss (gain) on sale of property, plant and equipment	(0)	(0)
Decrease (increase) in trade receivables	2,007	1,632
Decrease (increase) in inventories	818	(412)
Increase (decrease) in trade payables	(1,597)	(785)
Increase (decrease) in accrued consumption taxes	(234)	(318)
Other, net	(301)	37
Subtotal	4,133	3,357
Interest and dividends received	270	317
Interest paid	(12)	(12)
Subsidies received	35	28
Income taxes refund (paid)	(1,333)	(1,415)
Net cash provided by (used in) operating activities	3,093	2,275
Cash flows from investing activities		
Purchase of securities	(2,000)	(300)
Proceeds from redemption of securities	3,500	2,000
Purchase of property, plant and equipment	(1,313)	(1,681)
Proceeds from sale of property, plant and equipment	0	4
Payments for retirement of property, plant and equipment	(15)	(7)
Purchase of investment securities	(2,247)	(510)
Proceeds from sale and redemption of investment securities	5	–
Decrease (increase) in time deposits	1,000	–
Other, net	27	(131)
Net cash provided by (used in) investing activities	(1,043)	(626)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(200)	–
Proceeds from long-term borrowings	900	100
Repayments of long-term borrowings	(667)	(49)
Purchase of treasury shares	(1,605)	(1,290)
Dividends paid	(686)	(669)
Dividends paid to non-controlling interests	(3)	(3)
Other, net	(26)	(15)
Net cash provided by (used in) financing activities	(2,289)	(1,928)
Effect of exchange rate change on cash and cash equivalents	(39)	48
Net increase (decrease) in cash and cash equivalents	(279)	(230)
Cash and cash equivalents at beginning of period	32,607	37,207
Cash and cash equivalents at end of period	32,327	36,977

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Notes in the case of significant changes in shareholders' equity)

(Purchase of treasury shares)

The Company resolved on June 10, 2021 to purchase its treasury shares pursuant to the provisions of the articles of incorporation, as set forth in Article 459, Paragraph 1 of the Companies Act, and purchased 1,045,000 shares of treasury shares, in accordance with Article 370 of the Companies Act and Article 25 of the articles of incorporation of the Company (Written resolution in lieu of resolution at the Board of Directors). As a result, during the six months ended September 30, 2021, treasury shares increased by ¥1,290 million.

(Cancellation of treasury shares)

The Company resolved on June 10, 2021 to cancel its treasury shares pursuant to the provisions in Article 178 of the Companies Act, and cancelled 1,045,000 shares of treasury shares, in accordance with Article 370 of the Companies Act and Article 25 of the articles of incorporation of the Company (Written resolution in lieu of resolution at the Board of Directors). As a result, during the six months ended September 30, 2021, retained earnings and treasury shares decreased by ¥1,283 million and ¥1,283 million, respectively.

(Accounting policies adopted specially for the preparation of quarterly consolidated financial statements)

(Calculation of tax expenses)

The Company makes a reasonable estimate of the effective tax rate after the application of tax effect accounting to profit before income taxes for the current fiscal year, including the second quarter under review, and multiply profit before income taxes for the quarter by the estimated effective tax rate.

Income taxes – deferred is included in income taxes.

(Changes in accounting policies)

(Adoption of Accounting Standard for Revenue Recognition, etc.)

The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020, hereinafter referred to as “Revenue Recognition Accounting Standard”) from the beginning of the first quarter to recognize revenue when control of promised goods or services is transferred to a customer in the estimated amount to be received in exchange for those goods or services.

The application of the Revenue Recognition Accounting Standard follows the transitional measures set forth in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard, but has no impact on the beginning balance of retained earnings.

In addition, the adoption of the Revenue Recognition Accounting Standard has no impact on profit and loss.

In accordance with the transitional measures set forth in Paragraph 89-2 of the Revenue Recognition Accounting Standard, the Company made no reclassification of the previous fiscal year's results to conform to the new presentation method. Moreover, in accordance with the transitional measures set forth in Paragraph 28-15 of the “Accounting Standard for Quarterly Financial Reporting” (ASBJ Statement No. 12, March 31, 2020), the Company did not provide information on composition of revenue from contracts with customers for the six months ended September 30, 2020.

(Adoption of Accounting Standard for Fair Value Measurement, etc.)

The Company has applied the “Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019, hereinafter referred to as “Fair Value Measurement Accounting Standard”) from the beginning of the

first quarter. In accordance with the transitional measures set forth in Paragraph 19 of the Fair Value Measurement Accounting Standard and Paragraph 44-2 of the “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019), the Company applies the new accounting policies set forth in the Fair Value Measurement Accounting Standard into the future. This application has no impact on the quarterly consolidated financial statements.

(Additional information)

(Establishment of Retirement Benefit Trust)

During the six months ended September 30, 2021, the Company established a Retirement Benefit Trust for further improving the soundness of the retirement benefit system and contributed ¥1,500 million in cash and deposits. As a result, retirement benefit liability decreased by the same amount.

(Segment information, etc.)

I. For the six months ended September 30, 2020 (from April 1, 2020 to September 30, 2020)

Information on net sales and profit (loss) by reportable segment

(Million yen)

	Reportable segment			Other (Note) 1	Total	Adjustment (Note) 2	Amount recorded in quarterly consolidated statement of income (Note) 3
	Chemicals operations	Housing Materials operations	Total				
Net sales							
Net sales to outside customers	14,297	8,711	23,009	399	23,408	—	23,408
Inter-segment net sales or transfers	0	1	1	153	154	(154)	—
Total	14,297	8,712	23,010	552	23,563	(154)	23,408
Segment profit	2,131	1,337	3,468	54	3,523	(913)	2,609

(Notes) 1. The “Other” category represents business segments not included in the reportable segments, and includes the IT systems operations and food operations.

2. The adjustment for segment profit of ¥(913) million includes inter-segment eliminations of ¥0 million and corporate expenses in the amount of ¥(914) million not allocated to each reportable segment. The relevant corporate expenses are mainly general and administrative expenses not allocated to the reportable segments.

3. Segment profit is adjusted with operating profit on the quarterly consolidated statement of income.

II. For the six months ended September 30, 2021 (from April 1, 2021 to September 30, 2021)

Information on net sales and profit (loss) by reportable segment and information on composition of revenue

(Million yen)

	Reportable segment			Other (Note) 1	Total	Adjustment (Note) 2	Amount recorded in quarterly consolidated statement of income (Note) 3
	Chemicals operations	Housing Materials operations	Total				
Net sales							
Inorganic chemicals	5,877	—	5,877	—	5,877	—	5,877
Organic chemicals	5,991	—	5,991	—	5,991	—	5,991
Fine chemicals	4,538	—	4,538	—	4,538	—	4,538
Interior, exterior finishes and paving materials	—	672	672	—	672	—	672
Exterior products	—	7,527	7,527	—	7,527	—	7,527
Other	—	—	—	658	658	—	658
Revenue from contracts with customers	16,407	8,199	24,607	658	25,266	—	25,266
Net sales to outside customers	16,407	8,199	24,607	658	25,266	—	25,266
Inter-segment net sales or transfers	0	1	1	147	149	(149)	—
Total	16,408	8,201	24,609	806	25,416	(149)	25,266
Segment profit	3,614	1,058	4,672	75	4,748	(952)	3,795

(Notes) 1. The “Other” category represents business segments not included in the reportable segments, and includes the IT systems operations and food operations.

2. The adjustment for segment profit of ¥(952) million includes inter-segment eliminations of ¥0 million and corporate expenses in the amount of ¥(952) million not allocated to each reportable segment. The relevant corporate expenses are mainly general and administrative expenses not allocated to the reportable segments.

3. Segment profit is adjusted with operating profit on the quarterly consolidated statement of income.

(Significant subsequent events)

(Transition to a holding company structure through company split)

At the meeting of the Board of Directors held on October 26, 2021, the Company resolved to start preparations for the transition to a holding company structure through absorption-type company split effective January 1, 2023 (scheduled) subject to related proposals being approved at the general meeting of shareholders as well as permission and approval by relevant government agencies, as necessary (hereinafter referred to as “Absorption-type Split”).

1. Background and purpose of the transition to a holding company structure

With its corporate philosophy “Dokusouryoku (creativity),” the Group established its long-term vision “Challenge 1000” to become a company that makes a proposal one step ahead with Dokusouryoku (creativity) by 2030. In other words, as a company that solves social challenges with creative ideas and leads in global progress, the Group aims for “Yonpou Yoshi” meaning to provide value to each group of stakeholders: customers, employees, shareholders, and society.

In addition, the Group has set financial goals of net sales of ¥100.0 billion, operating profit of ¥15.0 billion, and ROE at 10% or higher to be achieved when it fulfills the vision, and strives to make growth investments aggressively to shift to “proactive management.”

On the other hand, the business environment surrounding the Group has changed faster year after year partly due to impact from COVID-19, and the Group needs to steadily solve a multitude of management issues, including adapting to a new business environment in the post-COVID-19 era and the era of coexisting with COVID-19, creating new products and services that are acceptable in the growing global market, preparing for geopolitical risks such as the U.S.-China conflict, and decarbonization efforts to achieve carbon neutrality by 2050.

Under such circumstances, in order to achieve its long-term vision, “Challenge 1000,” the Group judged that it needed to enhance the Group management structure and make decisions more swiftly, and decided to transition to a holding company structure in January 2023 (scheduled).

The Group has two core operations: Chemicals and Housing Materials operations. Under its long-term vision, “Challenge 1000,” it sets a goal for the Chemicals operations to “continue to develop and advance for the sake of the world” and a goal for the Housing Materials operations to “design a new lifestyle in the future and contribute to the community development around the world for everyone’s happiness.” The Company will spin off the Chemicals, the Housing Material and the head office’s back-office operations to make them its wholly-owned subsidiaries.

The Group will be reborn as a company having a new management structure to celebrate its 75th anniversary of incorporation on October 10, 2022, and will strive to achieve the long-term vision, “Challenge 1000” to ensure its leap toward a 100-year company in the next 25 years.

(1) Enhancement of the business operation structure

By transferring authority to each operating company boldly, the Group will enable each operating company to make decisions more swiftly, vertically integrate manufacturing, sales and development functions, become a more unified and seamless organization, and implement consistent strategies.

(2) Governance structure and redefinition of the head office’s role

The Group will make the holding company concentrate on group management, and assume governance over operating companies, decision making regarding strategic investments, and promotion of company-wide management strategies such as M&As to achieve “Challenge 1000,” in order to clarify the corporate governance structure further. The head office’s back-office operations will be split off as a shared services company to eliminate duplicate operations among group companies for optimization.

(3) Strengthening the development of management talents

In order to strengthen management capabilities sustainably, operating companies will promote the development of human resources who have the potential to be senior management as part of their autonomous operations.

2. Overview of company split

(1) Method of company split

Through an absorption-type company split in which the Company will be the splitting company and newly established three split preparation companies will be the succeeding company, the Company will transition to a holding company structure while maintaining its listing status.

(2) Schedule of company split

The Board of Directors meeting to approve the establishment of split preparation companies	October 26, 2021
Establishment of split preparation companies	Early January 2022 (scheduled)
The Board of Directors meeting to approve the absorption-type company split agreement	Late April 2022 (scheduled)
Execution of the absorption-type company split agreement	Late April 2022 (scheduled)
Annual general meeting of shareholders to approve the absorption-type company split agreement	Late June 2022 (scheduled)
Effective date of the absorption-type company split	January 1, 2023 (scheduled)

3. Overview of the Split Preparation Companies to be established in line with the transition to a holding company structure

(Chemicals operations)

(1) Name	SHIKOKU CHEMICALS CORPORATION CHEMICALS OPERATIONS SPLIT PREPARATION CORPORATION
(2) Location	8-537-1, Doki-cho-higashi, Marugame, Kagawa
(3) Representative	Representative Director, Naoto Tanaka
(4) Business description	Manufacturing, processing and sales of industrial chemicals, pharmaceutical products, quasi-pharmaceutical products, chemical fertilizers and agricultural chemicals
(5) Capital	¥10 million
(6) Date of establishment	January 2022 (scheduled)
(7) Number of issued shares	1,000 shares
(8) Fiscal year-end	December 31 (to be determined)
(9) Major shareholder and shareholding ratio	SHIKOKU CHEMICALS CORPORATION: 100%

(Housing Material operations)

(1) Name	SHIKOKU CHEMICALS CORPORATION HOUSING MATERIAL OPERATIONS SPLIT PREPARATION CORPORATION
(2) Location	8-537-1, Doki-cho-higashi, Marugame, Kagawa
(3) Representative	Representative Director, Naoto Tanaka
(4) Business description	Manufacturing, processing and sales of construction and civil engineering materials and products for housing and stores; Designing and construction of related facilities
(5) Capital	¥10 million
(6) Date of establishment	January 2022 (scheduled)
(7) Number of issued shares	1,000 shares
(8) Fiscal year-end	December 31 (to be determined)
(9) Major shareholder and shareholding ratio	SHIKOKU CHEMICALS CORPORATION: 100%

(Shared services)

(1) Name	SHIKOKU CHEMICALS CORPORATION SHARED SERVICES SPLIT PREPARATION CORPORATION
(2) Location	8-537-1, Doki-cho-higashi, Marugame, Kagawa
(3) Representative	Representative Director, Naoto Tanaka
(4) Business description	Support operations for accounting, finance, human resources, legal affairs, tax practices, labor affairs, compliance, internal control, and asset management
(5) Capital	¥10 million
(6) Date of establishment	January 2022 (scheduled)
(7) Number of issued shares	1,000 shares
(8) Fiscal year-end	December 31 (to be determined)
(9) Major shareholder and shareholding ratio	SHIKOKU CHEMICALS CORPORATION: 100%

4. Other

Since the Split Preparation Companies that will succeed to businesses through the absorption-type company split are the Company's wholly-owned subsidiaries, there will be minor impacts on its consolidated financial results. Details of the company split and other information will be announced as soon as a decision is made.