

Consolidated Financial Statements for the First Half of the Fiscal Year Ending September 30, 2023 [Japan GAAP]

May 10, 2023

Company name: Sanyo Trading Co., Ltd. Listed on: Tokyo Stock Exchange Prime Market
 Stock exchange code: 3176 URL <https://www.sanyo-trading.co.jp/>
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 Filing of quarterly report (scheduled): May 11, 2023
 Start of distribution of dividends (scheduled): June 14, 2023
 Supplementary documents of quarterly financial results: Yes
 Quarterly investors' meeting: Yes (for institutional investors and analysts)

(Amounts have been rounded down to the nearest million yen.)

1. Consolidated Results for the First Half of the Fiscal Year Ending September 30, 2023 (October 1, 2022 to March 31, 2023)

(1) Consolidated Operating Results (First Six Months)

(% = year-on-year change)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | |
|----------------|-------------|------|------------------|--------|-----------------|-------|---|-------|
| 1st half ended | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| March 31, 2023 | 61,918 | 22.5 | 3,790 | 28.7 | 3,751 | 2.3 | 2,517 | (7.0) |
| March 31, 2022 | 50,539 | 11.0 | 2,945 | (19.0) | 3,666 | (8.8) | 2,706 | 1.4 |

(Note) Comprehensive income: 1st half ended March 31, 2023: 2,549 million yen (-21.8% decrease)
 1st half ended March 31, 2022: 3,260 million yen (-1.1% decrease)

| | Profit per share (basic) | | Profit per share (diluted) | |
|----------------|--------------------------|--|----------------------------|--|
| 1st half ended | Yen | | Yen | |
| March 31, 2023 | 87.62 | | 87.04 | |
| March 31, 2022 | 94.31 | | 93.67 | |

(2) Consolidated Financial Position

| | Total assets | | Net assets | | Equity ratio | |
|--------------------|--------------|--|-------------|--|--------------|--|
| As of | Million yen | | Million yen | | % | |
| March 31, 2023 | 65,656 | | 41,170 | | 62.0 | |
| September 30, 2022 | 62,859 | | 39,212 | | 61.7 | |

(Reference) Total equity: As of March 31, 2023: 40,735 million yen
 As of September 30, 2022: 38,760 million yen

2. Dividends

| | Annual dividends per share | | | | |
|-------------------------------|----------------------------|--------|--------|--------|--------|
| | 1Q-end | 2Q-end | 3Q-end | 4Q-end | Annual |
| | Yen | Yen | Yen | Yen | Yen |
| FYE September 2022 | — | 19.00 | — | 21.00 | 40.00 |
| FYE September 2023 | — | 21.00 | | | |
| FYE September 2023 (estimate) | | | — | 21.00 | 42.00 |

(Note) Revisions to the latest dividends forecast: No

3. Forecast of Consolidated Results for the Fiscal Year Ending September 30, 2023 (October 1, 2022 to September 30, 2023)

(% = year-on-year change)

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | | Profit per share (basic) | |
|------------------|-------------|------|------------------|------|-----------------|-----|---|-----|--------------------------|--|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen | |
| Full fiscal year | 128,000 | 15.1 | 6,500 | 22.2 | 6,800 | 7.9 | 4,500 | 4.7 | 156.75 | |

(Note) Revisions to the latest consolidated earnings forecast: No

* Notes

- (1) Changes in important subsidiaries during the period: None
(changes in specified subsidiaries accompanying changes in the scope of consolidation)
New – (Company name) , Excluding – (Company name)
Notes on changes in important subsidiaries during the first six-month period
- (2) Application of special accounting methods to the preparation of quarterly financial statements: Yes
(Note) For details, please refer to “2. Quarterly Consolidated Financial Statements and Major Notes (4) Notes to Quarterly Consolidated Financial Statements (Application of accounting processes specific to the preparation of quarterly consolidated financial statements)” on page 10 of the attached material.
- (3) Changes in accounting principles and accounting estimates, and restatement of prior period financial statements after error corrections
- | | |
|--|------|
| (i) Changes in accordance with revisions to accounting and other standards: | None |
| (ii) Changes in items other than (i): | None |
| (iii) Changes in accounting estimates: | None |
| (iv) Restatement of prior period financial statements after error corrections: | None |
- Notes on changes in accounting policies
- (4) Number of shares issued and outstanding (common stock)
- | | |
|--|-------------------|
| (i) Number of shares issued and outstanding as of the fiscal period end (including treasury stock) | |
| As of March 31, 2023: | 29,007,708 shares |
| As of September 30, 2022: | 29,007,708 shares |
| (ii) Number of treasury stock as of the fiscal period end | |
| As of March 31, 2023: | 237,361 shares |
| As of September 30, 2022: | 284,120 shares |
| (iii) Average number of shares during the period (first six months) | |
| H1, FYE ending Sep. 2023: | 28,731,503 shares |
| H1, FYE ended Sep. 2022: | 28,694,236 shares |
- Notes on the number of shares issued and outstanding

* These quarterly consolidated financial statements are not subject to quarterly review procedures by certified public accountants or an auditing firm.

* A Cautionary Note on Forward-Looking Statements

The earnings forecasts presented in this document are based upon currently available information and assumptions deemed rational and the Company does not guarantee their achievement. A variety of factors could cause actual results to differ materially from forecasts. For details about the assumptions in the earnings forecasts, notes on the use of the earnings forecasts, and other matters, please refer to 1. Qualitative Information on Quarterly Results (3) Explanation of Consolidated Earnings Forecasts and Other Future Predictions on page 3 of the attached report.

○ Table of Contents of Attached Report

| | |
|--|----|
| 1. Qualitative Information on Quarterly Results | 2 |
| (1) Explanation of Operating Results | 2 |
| (2) Explanation of Financial Position | 3 |
| (3) Explanation of Consolidated Earnings Forecasts and Other Future Predictions | 3 |
| 2. Quarterly Consolidated Financial Statements and Major Notes..... | 4 |
| (1) Quarterly Consolidated Balance Sheets..... | 4 |
| (2) Quarterly Consolidated Statements of Income and Comprehensive Income | 6 |
| (3) Quarterly Consolidated Statement of Cash Flow | 8 |
| (4) Notes to Quarterly Consolidated Financial Statements | 10 |
| (Notes related to the going concern assumption)..... | 10 |
| (Notes on significant fluctuations in shareholders' equity)..... | 10 |
| (Application of accounting processes specific to the preparation of quarterly consolidated financial statements) | 10 |
| (Segment information, etc.)..... | 10 |
| (Revenue recognition)..... | 12 |

1. Qualitative Information on Quarterly Results

(1) Explanation of Operating Results

During the first six months (October 1, 2022 to March 31, 2023) of the consolidated fiscal year ending September 30, 2023, the Japanese economy moved toward a normalization of social activity with a government policy of relaxing COVID-19 regulations. Even so, the environment remained uncertain, largely reflecting the tightening of monetary policy in many countries due to global inflation, the prolonged Russian invasion of Ukraine, the delay in the recovery of the Chinese economy, and fluctuations in exchange rates. The Company's businesses were also affected by a range of factors such as increased purchase prices due to surging raw material prices and supply shortages, and rising prices of imported inventories linked to the depreciation of the yen. On the other hand, as indicated in its slogan, "Challenging ourselves for the BEST solution," the Company accelerated its future-oriented initiatives, including the launch of environmentally conscious new products and investments in technologies and businesses in decarbonization-related fields.

Under such conditions, consolidated results for the first six months under review were net sales of ¥61,918 million (up 22.5% year on year), operating profit of ¥3,790 million (up 28.7% year on year), ordinary profit of ¥3,751 million (up 2.3% year on year), and profit attributable to owners of parent of ¥2,517 million (down 7.0% year on year).

The operating results for each business segment are described below.

(i) Chemicals

Sales of rubber-related merchandise were affected by steep rises in the purchase prices of items imported from Europe and the United States and the temporarily weak performance of certain products, although synthetic rubber and compounding agents continued to perform strongly. In chemical-related merchandise, sales remained steady, mainly reflecting the January launch of products which the Company began to handle following the transfer of the business of another company. However, profit remained flat from the previous year due to certain mainstay products being affected by surging purchasing prices due to the weak yen. In life science-related merchandise, the mainstay electronic materials, fragrances and dyes recorded strong performances, while sales of lithium-ion battery-related materials were slow, affected by weakening business confidence in the Chinese economy.

As a result, the Chemicals segment recorded net sales of ¥19,975 million (up 9.8% year on year) and operating profit of ¥1,157 million (down 7.2% year on year).

(ii) Machinery & Industrial Products

Sales of merchandise related to industrial products remained solid. This was attributable to the weakening impact of reductions in production at Japanese-affiliated auto manufacturers, which in turn was chiefly due to shortages of semiconductors and parts. Merchandise related to machinery and the environment performed poorly with the recording of weak sales from projects for main units, despite solid sales of wearing parts related to feed processing machines. Results in the wood biomass-related business were also sluggish due to the posting of weak sales from projects for main units. In merchandise related to scientific equipment, the delivery of orders in large projects and the delivery of main units in quantities that surpassed those expected in March contributed to profitability. Performance was strong in relation to the biotech products carried by Scrum Inc., the shares in which the Company acquired in February 2022, contributing to the year-on-year growth of profit. In merchandise related to resource development handled by Cosmos Shoji Co., Ltd., sales of geothermal development equipment continued to be strong, and the performance of oil and gas-related equipment was also robust. In the ocean development field, growth was achieved related to equipment related to offshore wind power generation. There was a turnaround in the business of functional feed raw materials handled by YPTECH Co., Ltd., enabling a return to profitability as surging prices of raw materials for mainstay items reached a plateau.

As a result, the Machinery & Industrial Products segment recorded net sales of ¥24,103 million (up 43.9% year on year) and operating profit of ¥2,625 million (up 62.8% year on year).

(iii) Overseas Subsidiaries

Sanyo Corporation of America's results were partially affected by a decline in the number of automobiles produced. However, its chemicals merchandise contributed to profitability, aided by strong demand, a decline in transportation costs and other factors. Performance of SANYO TRADING (SHANGHAI) CO., LTD. was poor given sluggish economic conditions in China. At Sanyo Trading Asia Co., Ltd. (Thailand), automobile-related merchandise sales grew due to special demand. However, results remained unchanged year on year due in part to an increase in selling

expenses for other merchandise. Sun Phoenix Mexico S.A. de C.V. performed poorly partly due to foreign exchange losses. At Sanyo Trading India Private Limited, results improved slightly year on year despite the impact of foreign exchange losses. Sanyo Trading (Viet Nam) Co., Ltd.'s results were poor given the impact of an overall industrial decline in Vietnam, despite strong sales of heat-shielding paint, etc.

As a result, the Overseas Subsidiaries segment recorded net sales of ¥17,367 million (up 11.9% year on year) and operating profit of ¥701 million (down 2.5% year on year).

(2) Explanation of Financial Position

(Assets)

Current assets increased ¥1,442 million from the end of the previous fiscal year to ¥56,575 million, chiefly reflecting increases in cash and deposits, trade receivables and inventories.

Non-current assets increased ¥1,355 million from the end of the previous fiscal year, to ¥9,081 million. The main factors were goodwill related to Cosmo Computing System, Inc., which the Company made a consolidated subsidiary through the acquisition of shares in the first three months, as well as an increase in investments and other assets mainly due to the purchase of investment securities and a rise in their market value, in addition to investments.

Total assets at the end of the first six months of the fiscal year under review stood at ¥65,656 million (an increase of ¥2,797 million from the end of the previous fiscal year).

(Liabilities)

Current liabilities increased ¥674 million from the end of the previous fiscal year, to ¥22,687 million, primarily due to rises in short-term borrowings and provision for bonuses, more than offsetting a decrease through the payment of trade payables.

Non-current liabilities increased ¥164 million from the end of the previous fiscal year, to ¥1,798 million, due to an increase in deferred tax liabilities caused by rises in the market values of investment securities.

Liabilities at the end of the first six months of the fiscal year under review came to ¥24,485 million (an increase of ¥838 million from the end of the previous fiscal year).

(Net assets)

Valuation difference on available-for-sale securities increased due to a rise in the market value of investment securities, as well as an increase in shareholders' equity with the posting of profit attributable to owners of parent.

Net assets at the end of the first six months of the fiscal year under review stood at ¥41,170 million (an increase of ¥1,958 million from the end of the previous fiscal year).

(Consolidated cash flows)

Cash and cash equivalents at the end of the first six months of the fiscal year under review increased ¥499 million from the end of the previous fiscal year, to ¥6,218 million.

(i) Cash flow from operating activities

Net cash provided by operating activities was ¥1,189 million (up ¥2,408 million year on year). This was mainly attributable to declines in trade receivables and contract assets and a decrease in advance payments to suppliers.

(ii) Cash flows from investing activities

Net cash used in investing activities came to ¥1,166 million (up ¥402 million year on year). This was attributable primarily to expenses for the acquisition of shares of Cosmo Computing System, Inc. (consolidated subsidiary).

(iii) Cash flows from financing activities

Net cash provided by financing activities was ¥548 million (up ¥179 million year on year). This was chiefly attributable to additional borrowings from financial institutions, offsetting the payment of dividends by the Company.

(3) Explanation of Consolidated Earnings Forecasts and Other Future Predictions

The consolidated results forecasts for the fiscal year ending September 30, 2023 are unchanged from those announced on November 8, 2022.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

(Thousand yen)

| | Fiscal 2022 (As of September 30, 2022) | First half of Fiscal 2023 (As of March 31, 2023) |
|--|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 5,879,997 | 6,370,800 |
| Notes and accounts receivable - trade, and contract assets | 21,968,319 | 22,499,921 |
| Electronically recorded monetary claims - operating | 2,040,364 | 2,375,106 |
| Merchandise and finished goods | 23,067,033 | 23,063,262 |
| Work in process | 1,114 | 34,259 |
| Raw materials and supplies | 57,256 | 158,234 |
| Other | 2,178,789 | 2,159,017 |
| Allowance for doubtful accounts | (59,788) | (85,514) |
| Total current assets | 55,133,087 | 56,575,087 |
| Non-current assets | | |
| Property, plant and equipment | 3,340,011 | 3,295,637 |
| Intangible assets | | |
| Goodwill | 342,767 | 696,192 |
| Other | 201,701 | 173,564 |
| Total intangible assets | 544,468 | 869,757 |
| Investments and other assets | | |
| Investment securities | 2,701,376 | 3,246,429 |
| Other | 1,170,707 | 1,700,231 |
| Allowance for doubtful accounts | (30,142) | (30,453) |
| Total investments and other assets | 3,841,940 | 4,916,207 |
| Total non-current assets | 7,726,420 | 9,081,602 |
| Total assets | 62,859,507 | 65,656,689 |

(Thousand yen)

| | Fiscal 2022 (As of September 30, 2022) | First half of Fiscal 2023 (As of March 31, 2023) |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable - trade | 12,767,354 | 11,504,126 |
| Short-term borrowings | 5,823,164 | 6,914,774 |
| Current portion of long-term borrowings | 69,960 | 59,940 |
| Income taxes payable | 1,057,555 | 1,343,192 |
| Provisions | 135,716 | 519,109 |
| Other | 2,159,347 | 2,346,577 |
| Total current liabilities | 22,013,097 | 22,687,721 |
| Non-current liabilities | | |
| Long-term borrowings | 177,087 | 164,589 |
| Provisions | 75,478 | 67,685 |
| Retirement benefit liability | 954,926 | 984,386 |
| Other | 426,252 | 581,451 |
| Total non-current liabilities | 1,633,744 | 1,798,112 |
| Total liabilities | 23,646,842 | 24,485,833 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 1,006,587 | 1,006,587 |
| Capital surplus | 397,298 | 413,503 |
| Retained earnings | 35,502,368 | 37,416,624 |
| Treasury shares | (136,678) | (114,206) |
| Total shareholders' equity | 36,769,575 | 38,722,509 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 796,488 | 1,073,950 |
| Foreign currency translation adjustment | 1,193,967 | 938,648 |
| Total accumulated other comprehensive income | 1,990,456 | 2,012,598 |
| Share acquisition rights | 116,566 | 96,603 |
| Non-controlling interests | 336,066 | 339,145 |
| Total net assets | 39,212,665 | 41,170,856 |
| Total liabilities and net assets | 62,859,507 | 65,656,689 |

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly consolidated statement of income
(First six months)

(Thousand yen)

| | First six month period ended March 31, 2022 (from October 1, 2021 to March 31, 2022) | First six month period ended March 31, 2023 (from October 1, 2022 to March 31, 2023) |
|--|---|---|
| Net sales | 50,539,330 | 61,918,233 |
| Cost of sales | 42,236,257 | 51,404,345 |
| Gross profit | 8,303,073 | 10,513,887 |
| Selling, general and administrative expenses | 5,357,965 | 6,723,827 |
| Operating profit | 2,945,107 | 3,790,060 |
| Non-operating income | | |
| Interest income | 8,569 | 4,452 |
| Dividend income | 38,669 | 46,252 |
| Foreign exchange gains | 603,327 | — |
| Other | 88,600 | 79,005 |
| Total non-operating income | 739,166 | 129,710 |
| Non-operating expenses | | |
| Interest expenses | 9,712 | 57,442 |
| Loss on sales of trade receivables | 4,488 | 6,805 |
| Foreign exchange losses | — | 86,383 |
| Other | 3,965 | 17,753 |
| Total non-operating expenses | 18,166 | 168,384 |
| Ordinary profit | 3,666,108 | 3,751,386 |
| Extraordinary income | | |
| Gain on sales of investment securities | — | 220,064 |
| Gain on bargain purchase | 360,832 | — |
| Total extraordinary income | 360,832 | 220,064 |
| Profit before income taxes | 4,026,940 | 3,971,450 |
| Total income taxes | 1,311,002 | 1,443,983 |
| Profit | 2,715,937 | 2,527,466 |
| Profit attributable to non-controlling interests | 9,812 | 10,022 |
| Profit attributable to owners of parent | 2,706,125 | 2,517,444 |

Quarterly consolidated statement of comprehensive income
(First six months)

(Thousand yen)

| | First six month period ended March 31, 2022 (from October 1, 2021 to March 31, 2022) | First six month period ended March 31, 2023 (from October 1, 2022 to March 31, 2023) |
|--|---|---|
| Profit | 2,715,937 | 2,527,466 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (60,788) | 277,509 |
| Foreign currency translation adjustment | 605,654 | (255,317) |
| Total other comprehensive income | 544,865 | 22,192 |
| Comprehensive income | 3,260,802 | 2,549,659 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of the parent | 3,251,229 | 2,539,586 |
| Comprehensive income attributable to non-controlling interests | 9,573 | 10,072 |

(3) Quarterly Consolidated Statement of Cash Flow

(Thousand yen)

| | First six month period ended March 31, 2022 (from October 1, 2021 to March 31, 2022) | First six month period ended March 31, 2023 (from October 1, 2022 to March 31, 2023) |
|---|---|---|
| Cash flows from operating activities | | |
| Profit before income taxes | 4,026,940 | 3,971,450 |
| Depreciation | 206,768 | 214,914 |
| Amortization of goodwill | 93,278 | 403,536 |
| Increase (decrease) in allowance for doubtful accounts | (635) | 2,540 |
| Increase (decrease) in retirement benefit liability | (36,672) | 29,249 |
| Increase (decrease) in other provisions | 312,199 | 351,098 |
| Interest and dividend income | (47,238) | (50,704) |
| Interest expenses | 9,712 | 57,442 |
| Foreign exchange losses (gains) | (209,619) | 147,177 |
| Loss (gain) on sales of investment securities | – | (219,380) |
| Gain on bargain purchase | (360,832) | – |
| Decrease (increase) in trade receivables and contract assets | (3,848,765) | (886,709) |
| Decrease (increase) in inventories | (16,561) | (319,315) |
| Increase (decrease) in trade payables | 376,055 | (1,145,078) |
| Increase (decrease) in contract liabilities | (20,433) | (112,393) |
| Decrease (increase) in advance payments to suppliers | (504,205) | 102,280 |
| Other | (212,022) | (244,769) |
| Subtotal | (232,033) | 2,301,338 |
| Interest and dividends received | 47,316 | 50,480 |
| Interest paid | (10,681) | (53,372) |
| Income taxes paid | (1,023,716) | (1,108,588) |
| Net cash provided by (used in) operating activities | (1,219,114) | 1,189,858 |
| Cash flows from investing activities | | |
| Payments into time deposits | (96,170) | (103,320) |
| Proceeds from withdrawal of time deposits | 65,200 | 98,400 |
| Purchase of property, plant and equipment | (57,206) | (63,994) |
| Purchase of intangible assets | (1,898) | (60,869) |
| Purchase of investment securities | (6,489) | (143,792) |
| Proceeds from sales of investment securities | – | 259,676 |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation | (1,504,345) | (604,724) |
| Amount paid as contingent consideration for acquisition of shares in subsidiaries | – | (68,058) |
| Other | 31,564 | (479,852) |
| Net cash provided by (used in) investing activities | (1,569,345) | (1,166,536) |

(Thousand yen)

| | First six month period ended March 31, 2022 (from October 1, 2021 to March 31, 2022) | First six month period ended March 31, 2023 (from October 1, 2022 to March 31, 2023) |
|---|---|---|
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term borrowings | 960,103 | 1,191,946 |
| Repayments of long-term borrowings | (20,435) | (22,518) |
| Dividends paid | (573,851) | (603,195) |
| Dividends paid to non-controlling interests | (7,863) | (6,994) |
| Other | 11,105 | (10,456) |
| Net cash provided by (used in) financing activities | 369,058 | 548,782 |
| Effect of exchange rate change on cash and cash equivalents | 240,457 | (85,987) |
| Net increase (decrease) in cash and cash equivalents | (2,178,943) | 486,117 |
| Cash and cash equivalents at beginning of year | 8,663,587 | 5,718,897 |
| Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation | 120,371 | 13,265 |
| Cash and cash equivalents at end of period | 6,605,016 | 6,218,280 |

(4) Notes to Quarterly Consolidated Financial Statements

(Notes related to the going concern assumption)

None

(Notes on significant fluctuations in shareholders' equity)

The Company disposed of 17,200 treasury shares on February 7, 2023 as restricted stock compensation based on a resolution passed at the Board of Directors meeting held on January 16, 2023. Mainly as a result of this disposal, treasury shares decreased ¥22,472 thousand to ¥114,206 thousand at the end of the second quarter of the fiscal year under review.

(Application of accounting processes specific to the preparation of quarterly consolidated financial statements)

Tax expenses are calculated by reasonably estimating the effective tax rate after the application of deferred tax accounting on earnings before income taxes in the consolidated fiscal year including the first six months under review, and multiplying earnings before income taxes by said estimated effective tax rate.

(Segment information, etc.)

[Segment information]

I. First six months of fiscal year ended September 30, 2022 (from October 1, 2021 to March 31, 2022)

1. Information related to net sales and profit (loss) by reportable segment

(Thousand yen)

| | Reportable segments | | | | Other (Note 1) | Total | Adjustment (Note 2) | Quarterly consolidated statement of income (Note 3) |
|---|---------------------|---------------------------------|-----------------------|------------|-------------------|------------|------------------------|--|
| | Chemicals | Machinery & Industrial Products | Overseas Subsidiaries | Total | | | | |
| Net sales | | | | | | | | |
| Sales to external customers | 18,200,441 | 16,748,536 | 15,522,766 | 50,471,744 | 54,104 | 50,525,849 | 13,481 | 50,539,330 |
| Intersegment internal sales and transfers | 2,199,884 | 424,006 | 1,077,606 | 3,701,497 | 30,068 | 3,731,566 | (3,731,566) | — |
| Total | 20,400,326 | 17,172,542 | 16,600,373 | 54,173,242 | 84,173 | 54,257,416 | (3,718,085) | 50,539,330 |
| Segment profit (loss) | 1,246,577 | 1,612,772 | 719,757 | 3,579,108 | (87,848) | 3,491,259 | (546,151) | 2,945,107 |

(Notes) 1. The category "Other" includes the business segments not included in the reportable segments, such as real estate leasing.

2. The adjustment consists of the following items.

- (1) An adjustment of net sales to external customers of ¥13,481 thousand is a foreign currency translation adjustment in relation to management accounting.
- (2) An adjustment of segment profit (loss) of -¥546,151 thousand includes selling, general and administrative expenses that are not allocated to reportable segments of -¥375,011 thousand and a foreign currency translation adjustment of -¥148,621 thousand in relation to management accounting.

3. Segment profit (loss) is reconciled with operating profit in the quarterly consolidated statement of income.

2. Information on impairment loss in non-current assets and goodwill by reportable segment

(Gain on bargain purchase)

Negative goodwill was posted in the Machinery & Industrial Products segment in association with the acquisition of shares of Scrum Inc. to make it a consolidated subsidiary. Negative goodwill of ¥360,832 thousand posted due to this event during the six months under review.

Because the gain on bargain purchase belongs to extraordinary income, it is not included in the above segment profits.

II. First six months of fiscal year ending September 30, 2023 (from October 1, 2022 to March 31, 2023)

1. Information related to net sales and profit (loss) by reportable segment

(Thousand yen)

| | Reportable segments | | | | Other (Note 1) | Total | Adjustment (Note 2) | Quarterly consolidated statement of income (Note 3) |
|---|---------------------|---------------------------------------|--------------------------|------------|-------------------|------------|------------------------|---|
| | Chemicals | Machinery & Industrial Products | Overseas Subsidiaries | Total | | | | |
| Net sales | | | | | | | | |
| Sales to external customers | 19,975,224 | 24,103,999 | 17,367,245 | 61,446,469 | 387,663 | 61,834,132 | 84,101 | 61,918,233 |
| Intersegment internal sales and transfers | 2,336,350 | 464,716 | 1,179,710 | 3,980,776 | 78,243 | 4,059,020 | (4,059,020) | — |
| Total | 22,311,574 | 24,568,715 | 18,546,956 | 65,427,246 | 465,906 | 65,893,153 | (3,974,919) | 61,918,233 |
| Segment profit (loss) | 1,157,289 | 2,625,045 | 701,901 | 4,484,236 | (152,244) | 4,331,991 | (541,931) | 3,790,060 |

(Notes) 1. The category “Other” includes business segments not included in the reportable segments, such as information system and real estate leasing.

2. The adjustment consists of the following items.

- (1) An adjustment of net sales to external customers of ¥84,101 thousand is a foreign currency translation adjustment in relation to management accounting.
- (2) An adjustment of segment profit (loss) of -¥541,931 thousand includes selling, general and administrative expenses that are not allocated to reportable segments of -¥497,652 thousand, a foreign currency translation adjustment of -¥224,082 thousand in relation to management accounting and a - ¥179,803 thousand of other consolidation adjustments.

3. Segment profit (loss) is reconciled with operating profit in the quarterly consolidated statement of income.

2. Information on impairment loss in non-current assets and goodwill by reportable segment

(Significant changes in amount of goodwill)

During the first quarter, the Company made Cosmo Computing System, Inc. into a consolidated subsidiary through the acquisition of shares, resulting in the recording of goodwill of ¥438,082 thousand in the Other segment. During the second quarter of the fiscal year under review, the Company made an additional payment for a contingent consideration regarding an acquisition in conjunction with the acquisition of all of the stock of Scrum Inc. implemented in the previous fiscal year. The payment resulted in the recording of goodwill of ¥26,106 thousand in the Machinery & Industrial Products segment.

(Revenue recognition)

A breakdown of revenue generated from contracts with customers

First six months of fiscal year ended March 31, 2022 (from October 1, 2021 to March 31, 2022)

(Thousand yen)

| | Reportable segments | | | | Other (Note 1) | Adjustment (Note 2) | Total |
|---------------------------------------|---------------------|---------------------------------------|--------------------------|------------|-------------------|------------------------|------------|
| | Chemicals | Machinery & Industrial Products | Overseas Subsidiaries | Total | | | |
| Japan | 15,229,118 | 14,506,186 | 70,384 | 29,805,688 | 54,104 | – | 29,859,792 |
| Asia | 2,395,491 | 593,359 | 8,214,514 | 11,203,364 | – | – | 11,203,364 |
| North America | 429,952 | 669,342 | 6,593,792 | 7,693,086 | – | – | 7,693,086 |
| Other | 145,879 | 979,647 | 644,075 | 1,769,601 | – | – | 1,769,601 |
| Revenue from contracts with customers | 18,200,441 | 16,748,536 | 15,522,766 | 50,471,744 | 54,104 | – | 50,525,848 |
| Other revenue | – | – | – | – | – | 13,481 | 13,481 |
| Sales to external customers | 18,200,441 | 16,748,536 | 15,522,766 | 50,471,744 | 54,104 | 13,481 | 50,539,330 |

(Notes) 1. The category “Other” includes the business segments not included in the reportable segments, such as real estate leasing.

2. The adjustment amount is a foreign currency translation adjustment in relation to management accounting.

3. Revenue from contracts with customers is classified by country or region based on the locations of customers.

First six months of fiscal year ending September 30, 2023 (from October 1, 2022 to March 31, 2023)

(Thousand yen)

| | Reportable segments | | | | Other (Note 1) | Adjustment (Note 2) | Total |
|---------------------------------------|---------------------|---------------------------------------|--------------------------|------------|-------------------|------------------------|------------|
| | Chemicals | Machinery & Industrial Products | Overseas Subsidiaries | Total | | | |
| Japan | 17,094,142 | 22,279,916 | 64,585 | 39,438,644 | 387,663 | – | 39,826,307 |
| Asia | 2,251,519 | 545,134 | 8,103,122 | 10,899,775 | – | – | 10,899,775 |
| North America | 380,252 | 866,178 | 8,390,254 | 9,636,684 | – | – | 9,636,684 |
| Other | 249,309 | 412,769 | 809,282 | 1,471,360 | – | – | 1,471,360 |
| Revenue from contracts with customers | 19,975,224 | 24,103,999 | 17,367,245 | 61,446,469 | 387,663 | – | 61,834,132 |
| Other revenue | – | – | – | – | – | 84,101 | 84,101 |
| Sales to external customers | 19,975,224 | 24,103,999 | 17,367,245 | 61,446,469 | 387,663 | 84,101 | 61,918,233 |

(Notes) 1. The category “Other” includes business segments not included in reportable segments, such as information systems and real estate leasing.

2. The adjustment amount is a foreign currency translation adjustment in relation to management accounting.

3. Revenue from contracts with customers is classified by country or region based on the locations of customers.