Annual Report

Year Ended March 31, 2014

HARIMA CHEMICALS GROUP, INC.

Business Overview

With regard to the world economy during the fiscal year ended March 31, 2014 (hereinafter “the current fiscal year”), the economic downturn in Europe has extended over a long period. Meanwhile, in emerging countries such as China, the economic growth became stagnant. However, in the US, despite a trend towards a quantitative reduction in the monetary easing policy, all in all, gradual signs of recovery continued steadily. At the same time, supported by the economic and financial policy of the Japanese government, the Japanese economy recovered gradually, because the export environment and corporate earnings have shown improvement due to yen depreciation and the rise in stock prices. Further, rush demand before the consumption tax increase at the end of the fiscal year also helped the recovery of the economy.

Regarding the business environment surrounding our group, Lawter, whose major market is Europe, was negatively influenced by the downturn in the European economy. However overseas sales increased on the yen depreciation. Meanwhile, regarding the domestic business, the price of our main raw material which was imported from abroad increased due to yen depreciation. Although, we made efforts to pass on the increase of material costs to the price of our products, the situation in the domestic market remained less-than-optimistic.

As a result of these conditions, the group’s consolidated net sales for the current fiscal year increased by 10,972 million yen (up 17.1%) year-on-year to 75,175 million yen.

Operating income increased by 300 million yen (up 51.9%) year-on-year to 876 million yen.

Ordinary income increased by 1,186 million yen (up 83.4%) year-on-year to 2,608 million yen, with a foreign exchange gain of 1,597 million yen. Net income increased by 64 million yen (up 29.7%) year-on-year to 280 million yen.

Provided below is an overview of business segments corresponding to the company's reporting segments structure which was implemented from October 2012 when we introduced the in-house company system.

Status of Business Segments

(Resin & Tall Oil Products)

During the current fiscal year, domestic production of printing inks was almost at the same level of the previous year due to increased demand for packaging application. Our company released new resins for lithographic ink and also expanded overseas sales in China, Southeast Asia, etc. As a result, the sales of resins for printing inks reached the same level of the previous year.

Domestic paint production volume during the current fiscal year increased slightly. This was due to reasons such as an increase in construction due to the recovery from the Great East Japan Earthquake, growth of imports due to Yen depreciation, and also the rush demand before the consumption tax increase. Under such circumstances, the sales of our main products, resins for building paints, increased steadily.

Moreover, in the domestic automobile market, demand for tires recovered, and exports mainly to India and South East Asia increased due to yen depreciation. Therefore, demand for synthetic rubber remained strong and sales of our synthetic rubber emulsifiers increased.

(Paper Chemicals)

In the current fiscal year, domestic paper and cardboard production volume stopped decreasing and slightly increased compared to the previous year. The main reasons for this were the decrease in imports of coated paper due to yen depreciation and the rush demand before the consumption tax increase. Under such circumstances, our domestic sales increased steadily.

However, sales of our products faced intensifying market competition. Despite our efforts to improve the manufacturing process and to promote sales, profit decreased in this segment despite an increase in sales.

In China, paper and cardboard production volume was almost the same level as that of the previous year as a result of the economic slowdown. Therefore, the production volume of raw paper used in corrugated cardboard continued to decrease for 2 years. Further, sales competition in chemicals tended to intensify because the major paper-manufacturing companies in China have begun in-house production. Nevertheless, sales of our surface sizing agent increased steadily.

At the same time, in the US, we launched a new surface sizing agent product which boosted the sales. As a result, our overseas sales and profits increased.

(Electronics Materials)

The performance of the Electronics device industry to which this segment is related improved from the previous year. This improvement was due to an increase in automobile production volume in the domestic market sales of automobile product parts remaining positive under the influence of a favourable economy in the North American market.

Furthermore, though sales of household electronic appliances continued to be low, in the latter half of the current fiscal year, there were signs of recovery both in car AVC equipment, including a car navigation systems, and the flat television business.

Under such circumstances, our lead free solder paste for motor vehicles and aluminium brazing materials used in heat exchangers sold well not only in our domestic market but also in North America and Europe. At the same time, sales of conductive paste for through-holes used in household electronic appliances also increased.

(Lawter)

The global market for printing inks continued to shrink due to the decreased publication of newspapers and books, which were affected by the rapid spread of digital media. In the European and North American markets, which are the main markets of this segment, though there were signs of recovery in the sales of resins for printing inks, severe conditions have continued as a result of the downturn in the European economy.

However, sales of adhesive resins continued to experience strong demand in Europe, South America, Asia and Oceania.

Consolidated Business Performance Trends

(Millions of yen unless otherwise stated)

Category	69th Fiscal Year (Fiscal year ended March 2011)	70th Fiscal Year (Fiscal year ended March 2012)	71th Fiscal Year (Fiscal year ended March 2013)	72th Fiscal Year (Fiscal year ended March 2014)
Net sales	41,495	71,536	64,203	75,175
Ordinary income	2,766	2,159	1,422	2,608
Net income (loss)	1,337	1,012	216	280
Net income (loss) per share (yen)	51.53	38.99	8.33	10.80
Total assets	63,983	63,429	61,355	70,471
Net assets	29,313	29,581	29,823	31,466

(Notes) 1. Net income (loss) per share is calculated based on the weighted average number of issued shares during the fiscal year after deducting treasury stocks.

HARIMA CHEMICALS GROUP, INC.
and Consolidated Subsidiaries

Consolidated Balance Sheet
March 31, 2014

ASSETS	Millions of Yen 2014	Millions of Yen 2013	Thousands of U.S. Dollars (Note 1) 2014
CURRENT ASSETS:			
Cash and cash equivalents (Note 15)	¥ 6,630	¥ 3,471	$ 64,419
Notes and accounts receivable (Note 15):			
Trade notes	2,525	1,948	24,534
Trade accounts	17,428	15,383	169,335
Associated companies	180	211	1,749
Allowance for doubtful notes and accounts	(107)	(123)	(1,040)
Inventories (Note 4)	11,080	9,256	107,656
Deferred tax assets (Note 12)	386	367	3,750
Other current assets	3,039	2,493	29,529
Total current assets	41,161	33,006	399,932
PROPERTY, PLANT AND EQUIPMENT (Note 5):			
Land (Note 6)	10,175	10,665	98,863
Buildings and structures (Note 6)	18,821	18,443	182,870
Machinery and equipment	23,545	22,163	228,770
Furniture and fixtures	4,118	3,814	40,012
Lease assets (Note 14)	843	621	8,191
Construction in progress	672	559	6,529
Total	58,174	56,265	565,235
Accumulated depreciation	(35,126)	(33,767)	(341,294)
Net property, plant and equipment	23,048	22,498	223,941
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 15)	3,199	2,810	31,082
Investments in and advances to associated companies	852	828	8,278
Goodwill	262	108	2,546
Other intangible assets	-	122	-
Deferred tax assets (Note 12)	337	286	3,274
Other assets	1,627	1,712	15,809
Allowance for doubtful accounts	(15)	(15)	(146)
Total investments and other assets	6,262	5,851	60,843
TOTAL	¥ 70,471	¥ 61,355	$ 684,716

LIABILITIES AND EQUITY	Millions of Yen 2014	Millions of Yen 2013	Thousands of U.S. Dollars (Note 1) 2014
CURRENT LIABILITIES:			
Short-term bank loans (Notes 7 and 15)	¥ 12,715	¥ 8,663	$ 123,543
Current portion of long-term debt (Notes 7 and 15)	1,863	1,800	18,101
Notes and accounts payable (Note 15):			
Trade notes	389	312	3,780
Trade accounts	10,887	7,626	105,781
Associated companies	118	102	1,147
Construction and other	291	400	2,827
Income taxes payable	483	649	4,693
Deferred tax liabilities (Note 12)	89	53	865
Other current liabilities	1,895	2,180	18,412
Total current liabilities	28,730	21,785	279,149
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 15)	6,303	6,667	61,242
Deferred tax liabilities (Note 12)	646	531	6,277
Long-term deposits received (Note 15)	849	935	8,249
Liability for retirement benefits (Note 8)	2,162	1,332	21,007
Asset retirement obligations (Note 9)	47	46	457
Other long-term liabilities	268	236	2,603
Total long-term liabilities	10,275	9,747	99,835
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 7, 14 and 16)			
EQUITY (Note 10):			
Common stock, authorized 59,500,000 shares; issued, 26,080,396 shares in 2014 and 2013	10,013	10,013	97,289
Capital surplus	9,744	9,744	94,675
Retained earnings	9,659	9,742	93,850
Treasury stock - at cost: 131,442 shares in 2014 and 131,247 shares in 2013	(62)	(62)	(602)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	902	510	8,764
Foreign currency translation adjustments	(6)	(1,437)	(58)
Defined retirement benefit plans	(536)	-	(5,208)
Total	29,714	28,510	288,710
Minority interests	1,752	1,313	17,022
Total equity	31,466	29,823	305,732
TOTAL	¥ 70,471	¥ 61,355	$ 684,716

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Consolidated Subsidiaries

Consolidated Statement of Income
Year Ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
NET SALES	¥ 75,175	¥ 64,203	$ 730,421
COST OF SALES	61,353	51,859	596,123
Gross profit	13,822	12,344	134,298
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 11 and 13)	12,946	11,768	125,787
Operating income	876	576	8,511
OTHER INCOME (EXPENSES):			
Interest and dividend income	105	97	1,020
Interest expense	(333)	(370)	(3,236)
Rental income	127	117	1,234
Foreign exchange gain	1,597	933	15,517
Equity in earnings of associated companies	41	23	398
(Loss) gain on sale of property, plant and equipment	(428)	22	(4,159)
Loss on impairment of long-lived assets (Note 5)	(422)	(109)	(4,100)
Other - net	220	144	2,139
Other income - net	907	857	8,813
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	1,783	1,433	17,324
INCOME TAXES (Note 12):			
Current	1,264	1,138	12,281
Deferred	74	124	719
Total income taxes	1,338	1,262	13,000
NET INCOME BEFORE MINORITY INTERESTS	445	171	4,324
MINORITY INTERESTS IN NET INCOME (LOSS)	165	(45)	1,603
NET INCOME	¥ 280	¥ 216	$ 2,721

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.r and 18):			
Net income	¥10.80	¥ 8.33	$0.10
Cash dividends applicable to the year	14.00	14.00	0.14

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
NET INCOME BEFORE MINORITY INTERESTS	¥ 445	¥ 171	$ 4,324
OTHER COMPREHENSIVE INCOME (Note 17):			
Unrealized gain on available-for-sale securities	392	289	3,809
Foreign currency translation adjustments	1,624	226	15,779
Share of other comprehensive income in associates	0	0	0
Total other comprehensive income	2,016	515	19,588
COMPREHENSIVE INCOME (Note 17)	¥ 2,461	¥ 686	$ 23,912
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 17):			
Owners of the parent	¥2,104	¥629	$20,443
Minority interests	357	57	3,469

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended March 31, 2014

	Thousands	Millions of Yen									
						Accumulated Other Comprehensive Income					
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2012	25,949	¥ 10,013	¥ 9,744	¥ 9,890	¥ (62)	¥ 221	¥ (1,561)	¥ -	¥ 28,245	¥ 1,336	¥ 29,581
Net income				216					216		216
Cash dividends, ¥14.00 per share				(364)					(364)		(364)
Purchase of treasury stock	(0)				(0)				(0)		(0)
Net change in the year						289	124	-	413	(23)	390
BALANCE, MARCH 31, 2013	25,949	10,013	9,744	9,742	(62)	510	(1,437)	-	28,510	1,313	29,823
Net income				280					280		280
Cash dividends, ¥14.00 per share				(363)					(363)		(363)
Purchase of treasury stock	(0)				(0)				(0)		(0)
Net change in the year						392	1,431	(536)	1,287	439	1,726
BALANCE, MARCH 31, 2014	25,949	¥ 10,013	¥ 9,744	¥ 9,659	¥ (62)	¥ 902	¥ (6)	¥ (536)	¥ 29,714	¥ 1,752	¥ 31,466

	Thousands of U.S. Dollars (Note 1)									
					Accumulated Other Comprehensive Income					
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2013	$ 97,289	$ 94,675	$ 94,656	$ (602)	$ 4,955	$ (13,962)	$ -	$ 277,011	$ 12,757	$ 289,768
Net income			2,721					2,721		2,721
Cash dividends, $0.14 per share			(3,527)					(3,527)		(3,527)
Purchase of treasury stock				(0)				(0)		(0)
Net change in the year					3,809	13,904	(5,208)	12,505	4,265	16,770
BALANCE, MARCH 31, 2014	$ 97,289	$ 94,675	$ 93,850	$ (602)	$ 8,764	$ (58)	$ (5,208)	$ 288,710	$ 17,022	$ 305,732

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2014

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2014	2013	2014
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 1,783	¥ 1,433	$ 17,324
Adjustments for:			
Income taxes - paid	(1,453)	(1,102)	(14,118)
Depreciation and amortization	2,284	2,195	22,192
Loss on impairment of long-lived assets	422	109	4,100
Foreign exchange gain	(1,687)	(925)	(16,391)
Loss (gain) on sales of property, plant and equipment	428	(22)	4,159
Changes in assets and liabilities:			
(Increase) decrease in trade notes and accounts receivable	(1,180)	1,721	(11,465)
(Increase) decrease in inventories	(627)	1,326	(6,092)
Increase (decrease) in trade notes and account payable	2,188	(927)	21,259
Other - net	(591)	(574)	(5,743)
Total adjustments	(216)	1,801	(2,099)
Net cash provided by operating activities	1,567	3,234	15,225
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(1,785)	(2,508)	(17,344)
Proceeds from sales of property, plant and equipment	301	59	2,925
Purchases of intangible assets	(26)	(55)	(253)
Purchases of investment securities	(190)	(332)	(1,846)
Proceeds from sales and redemption of investment securities	344	654	3,342
Other - net	272	10	2,644
Net cash used in investing activities	(1,084)	(2,172)	(10,532)
FINANCING ACTIVITIES:			
Net change in short-term bank loans	3,385	(864)	32,890
Proceeds from long-term debt	900	-	8,745
Repayments of long-term debt	(1,794)	(1,640)	(17,431)
Dividends paid	(363)	(364)	(3,527)
Other - net	(213)	(248)	(2,070)
Net cash provided by (used in) financing activities	1,915	(3,116)	18,607
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	761	307	7,394
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,159	(1,747)	30,694
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,471	5,218	33,725
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 6,630	¥ 3,471	$ 64,419

See notes to consolidated financial statements.

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2013 consolidated financial statements to conform to the classifications used in 2014.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which HARIMA CHEMICALS GROUP, INC. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥102.92 to $1, the approximate rate of exchange at March 31, 2014. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Consolidation -*** The consolidated financial statements include the accounts of the Company and all its subsidiaries (together, the "Group").

Under the control and influence concepts, those companies in which the Company directly is able to exercise control over operations are fully consolidated.

Investments in associated companies are accounted for by the equity method.

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is being amortized over a period not exceeding 20 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

b. ***Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements*** - In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting; and (e) exclusion of minority interests from net income, if contained in net income.

c. ***Cash Equivalents -*** Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and certificate of deposits, all of which mature or become due within three months of the date of acquisition.

d. ***Inventories -*** Inventories are principally stated at the lower of cost, determined by the moving-average method, or net selling value.

Certain consolidated foreign subsidiaries are stated at the lower of cost, determined by the first-in, first-out method, or net selling value.

e. ***Investment Securities -*** Investment securities are classified and accounted for as follows: Marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

f. ***Property, Plant and Equipment*** - Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is principally computed by the declining-balance method, while the straight-line method is applied to buildings acquired after April 1, 1998, and certain domestic subsidiaries and foreign subsidiaries apply the straight-line method, using rates based on the estimated useful lives of the assets. The range of useful lives is from 5 to 50 years for buildings and from 4 to 17 years for machinery and equipment.

g. ***Long-Lived Assets -*** The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

h. ***Other Assets -*** Amortization of capitalized software costs is computed using the straight-line method over 5 years, the estimated useful life of the assets. Amortization of customer lists costs is computed using the straight-line method over 5 years, the estimated economic life of the assets.

i. ***Retirement Benefits -*** The Company and certain domestic consolidated subsidiaries have a funded defined benefit pension plan, defined contribution pension plan and severance lump-sum payment plan covering substantially all of their employees. Certain foreign subsidiaries have adopted funded defined benefit plans and defined contribution pension plans.

Effective April 1, 2000, the Company adopted a new accounting standard for retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actuarial gains and losses are amortized on a declining-balance basis over 14 years within the average remaining service period. Past service costs are recognized in the period in which they are incurred.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

(a) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments (see Note 2.*t*).

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective March 31, 2014. As a result, liability for retirement benefits of ¥2,162 million ($21,007 thousand) was recorded as of March 31, 2014, and accumulated other comprehensive income for the year ended March 31, 2014, decreased by ¥536 million ($5,208 thousand), and minority interests for the year ended March 31, 2014, decreased by ¥34 million ($330 thousand).

Retirement allowances for directors and Audit & Supervisory Board members are recorded as a liability at the amount that would be required if all directors and Audit & Supervisory Board members retired at each balance sheet date.

j. ***Asset Retirement Obligations*** - In March 2008, the ASBJ issued the accounting standard for asset retirement obligations, ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

k. ***Research and Development Costs -*** Research and development costs are charged to income as incurred.

l. ***Leases -*** In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized by recognizing lease assets and lease obligations in the balance sheet.

The Company applied the revised accounting standard effective April 1, 2008. In addition, the Company accounted for leases that existed at the transition date and do not transfer ownership of the leased property to the lessee as acquisition cost of lease assets measured at the amount of obligation under finance leases less interest expense at the transition date.

All other leases are accounted for as operating leases.

m. ***Bonuses to Directors and Audit & Supervisory Board Members -*** Bonuses to directors and Audit & Supervisory Board members are accrued at the end of the year to which such bonuses are attributable.

n. ***Income Taxes -*** The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

o. ***Foreign Currency Transactions -*** All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

p. ***Foreign Currency Financial Statements -*** The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

q. ***Derivative Financial Instruments -*** The Group uses derivative financial instruments to manage its exposures to fluctuations in interest rates. Interest rate swaps are utilized by the Group to reduce interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income; and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense.

r. ***Per Share Information -*** Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share is not presented as the effect of including potential common shares is anti-dilutive.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years including dividends to be paid after the end of the year.

s. ***Accounting Changes and Error Corrections -*** In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies - When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation - When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates - A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors - When an error in prior-period financial statements is discovered, those statements are restated.

t. ***New Accounting Pronouncements***

Accounting Standard for Retirement Benefits - On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

Major changes are as follows:

(*a*) *Treatment in the balance sheet*

Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, is recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(*b*) *Treatment in the statement of income and the statement of comprehensive income*

The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

(c) *Amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases*

The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard for (a) and (b) above effective March 31, 2014, and expects to apply (c) above from April 1, 2014, and is in the process of measuring the effects of applying the revised accounting standard for (c) above in future applicable periods.

3. INVESTMENT SECURITIES

Investment securities as of March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Non-current:			
Equity securities	¥ 2,916	¥ 2,424	$ 28,332
Trust fund investments and other	283	386	2,750
Total	¥ 3,199	¥ 2,810	$ 31,082

The costs and aggregate fair values of investment securities at March 31, 2014 and 2013, were as follows:

	Millions of Yen			
March 31, 2014	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥1,652	¥1,257	¥(26)	¥2,883
Debt securities	300	-	(17)	283
March 31, 2013				
Securities classified as:				
Available-for-sale:				
Equity securities	¥1,676	¥868	¥153	¥2,391
Debt securities	387	7	8	386

	Thousands of U.S. Dollars			
March 31, 2014	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	$16,051	$12,213	$(253)	$28,011
Debt securities	2,915	-	(165)	2,750

Carrying amounts of available-for-sale securities whose fair value is not readily determinable as of March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Available-for-sale:			
Equity securities	¥33	¥33	$321
Other	0	0	0

The information for available-for-sale securities which were sold during the years ended March 31, 2014 and 2013, was as follows:

	Millions of Yen		
March 31, 2014	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥ 102	¥ 39	¥ -
Debt securities	243	4	-
Total	¥ 345	¥ 43	¥ -
March 31, 2013			
Available-for-sale:			
Equity securities	¥ 13	¥ 2	¥ -
Debt securities	641	9	-
Total	¥ 654	¥ 11	¥ -

	Thousands of U.S. Dollars		
March 31, 2014	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	$ 991	$ 379	$ -
Debt securities	2,361	39	-
Total	$ 3,352	$ 418	$ -

4. INVENTORIES

Inventories at March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Finished products	¥ 5,447	¥ 4,656	$ 52,924
Work in process	352	357	3,420
Raw materials and supplies	5,281	4,243	51,312
Total	¥ 11,080	¥ 9,256	$ 107,656

5. LONG-LIVED ASSETS

The Group recognized an impairment loss of ¥422 million ($4,100 thousand), which is included in the consolidated statement of income, for the year ended March 31, 2014. The impairment loss recognized was mainly for the land used for a golf course and hotel in Japan, and manufacturing facilities in China and Brazil. This impairment loss was recognized since the recoverable value of the assets was lower than the carrying amounts of the assets. The recoverable value of the land used for a golf course and hotel was measured at the selling price based on the appraisal report, and the manufacturing facilities were measured at the net selling price at disposal.

The Group recognized an impairment loss of ¥109 million, which is included in the consolidated statement of income, for the year ended March 31, 2013. The impairment loss was mainly recognized for the buildings and structures and machinery and equipment in the Tokushima plant in Japan. This impairment loss was recognized since the recoverable amounts of the assets were lower than the carrying amounts of the assets. The recoverable amounts of the assets were measured by the net selling price at disposal.

6. INVESTMENT PROPERTY

In November 2008, the ASBJ issued ASBJ Statement No. 20 "Accounting Standard for Investment Property and Related Disclosures" and issued ASBJ Guidance No. 23 "Guidance on Accounting Standard for Investment Property and Related Disclosures."

The Group owns certain rental properties such as office buildings and land. The net of rental income and operating expenses for those rental properties for the fiscal years ended March 31, 2014 and 2013, was ¥110 million ($1,069 thousand) and ¥121 million, respectively.

In addition, the carrying amounts, changes in such balances and market prices of such properties are as follows:

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2013	Decrease	March 31, 2014	March 31, 2014
¥3,408	¥295	¥3,113	¥3,973

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2012	Decrease	March 31, 2013	March 31, 2013
¥3,450	¥42	¥3,408	¥4,298

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
April 1, 2013	Decrease	March 31, 2014	March 31, 2014
$33,113	$2,866	$30,247	$38,603

Notes:

1) Carrying amount recognized in the consolidated balance sheets is net of accumulated depreciation and accumulated impairment losses, if any.

2) Increase during the fiscal year ended March 31, 2014, primarily represents the acquisition of certain properties of ¥45 million ($437 thousand), and decrease primarily represents the change in the purpose of possession of the properties from investment purpose to own use by ¥102 million ($991 thousand), depreciation of ¥48 million ($466 thousand), and impairment loss of ¥190 million ($1,846 thousand). Increase during the fiscal year ended March 31, 2013, primarily represents the acquisition of certain properties of ¥12 million, and decrease primarily represents the depreciation of ¥45 million.

3) Fair value of properties is measured by the Group in accordance with its Real-Estate Appraisal Standard.

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2014 and 2013, consisted of notes to banks and bank overdrafts. The average interest rates applicable to the short-term bank loans as of March 31, 2014 and 2013, were 1.8% and 2.1%, respectively.

Long-term debt at March 31, 2014 and 2013, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Unsecured loans from banks and other financial institutions, due serially to 2017 with interest rates ranging from 1.2% to 4.3% (1.6% to 4.3% in 2013)	¥ 7,160	¥ 7,752	$ 69,568
Obligations under finance leases	1,006	715	9,775
Total	8,166	8,467	79,343
Less current portion	(1,863)	(1,800)	(18,101)
Long-term debt, less current portion	¥ 6,303	¥ 6,667	$ 61,242

Annual maturities of long-term debt at March 31, 2014, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2015	¥ 1,863	$ 18,101
2016	1,780	17,295
2017	1,678	16,304
2018	2,080	20,210
2019	43	418
2020 and thereafter	722	7,015
Total	¥ 8,166	$ 79,343

Certain loans from banks are subject to the following financial covenants:

1) Total equity shall be more than ¥22,000 million ($213,758 thousand) for the first half of the fiscal year ended March 31, 2014, and for the fiscal year ended March 31, 2014, on a consolidated basis.

2) Total equity shall be more than ¥19,900 million ($193,354 thousand) for the first half of the fiscal year ended March 31, 2014, and for the fiscal year ended March 31, 2014, on a nonconsolidated basis. Total equity for the fiscal year ended March 31, 2014, on a nonconsolidated basis is ¥26,349 million ($256,014 thousand).

3) Ordinary income shall not be a loss for the fiscal years ended March 31, 2014 and 2013, both on a consolidated and nonconsolidated basis.

As is customary in Japan, the Company maintains substantial deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

As is customary in Japan, collateral must be provided if requested by the lending banks and certain banks have the right to offset cash deposited with them against any bank loan or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks concerned. The Company has never received any such request.

The outstanding balance of the commitment as of March 31, 2014, was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Total committed line of credit	¥ 10,000	$ 97,163
Executed amount	6,202	60,260
Unexecuted amount	¥ 3,798	$ 36,903

The above agreements are subject to the following financial covenants:

1) Total equity shall be more than ¥22,000 million ($213,758 thousand) for the first half of the fiscal year ended March 31, 2014, and for the fiscal year ended March 31, 2014, on a consolidated basis.

2) Total equity shall be more than ¥19,900 million ($193,354 thousand) for the first half of the fiscal year ended March 31, 2014, and for the fiscal year ended March 31, 2014, on a nonconsolidated basis. Total equity for the fiscal year ended March 31, 2014, on a nonconsolidated basis is ¥26,349 million ($256,014 thousand).

3) Ordinary income shall not be a loss for the fiscal years ended March 31, 2014 and 2013, both on a consolidated and nonconsolidated basis.

8. RETIREMENT AND PENSION PLANS

The Group has severance payment plans for employees, directors and Audit & Supervisory Board members.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment or annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age or by death.

The liability for retirement benefits at March 31, 2014 and 2013, for directors and Audit & Supervisory Board members is ¥493 million ($4,800 thousand) and ¥464 million, respectively, and is included in liability for retirement benefits in the consolidated balance sheets. The retirement benefits for directors and Audit & Supervisory Board members are paid subject to the approval of the shareholders in accordance with the Companies Act of Japan (the "Companies Act").

Year Ended March 31, 2014

(1) The changes in defined benefit obligation for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥ 2,701	$ 26,244
Current service cost	226	2,196
Interest cost	35	340
Actuarial losses	232	2,254
Benefits paid	(63)	(612)
Past service cost	0	0
Balance of value transfers	252	2,449
Exchange translation differences	96	933
Others	(2)	(20)
Balance at end of year	¥ 3,477	$ 33,784

(2) The changes in plan assets for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥ 1,391	$ 13,515
Expected return on plan assets	6	58
Actuarial losses	(20)	(194)
Contributions from the employer	268	2,604
Benefits paid	(63)	(612)
Balance of value transfers	252	2,449
Exchange translation differences	70	680
Others	16	155
Balance at end of year	¥ 1,920	$ 18,655

(3) If simplified method was used, the changes in defined benefit obligation for the year ended March 31, 2014, would be as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥ 103	$ 1,001
Periodic benefit costs	10	97
Benefits paid	(12)	(117)
Exchange translation differences	11	107
Balance at end of year	¥ 112	$ 1,088

(4) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2014

	Millions of Yen	Thousands of U.S. Dollars
Funded defined benefit obligation	¥ 3,477	$ 33,783
Plan assets	(1,920)	(18,655)
	1,557	15,128
Unfunded defined benefit obligation	112	1,088
Net liability arising from defined benefit obligation	¥ 1,669	$ 16,216

	Millions of Yen	Thousands of U.S. Dollars
Liability for retirement benefits	¥ 1,669	$ 16,216
Net liability arising from defined benefit obligation	¥ 1,669	$ 16,216

(5) The components of net periodic benefit costs for the year ended March 31, 2014, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost	¥ 226	$ 2,196
Interest cost	35	340
Expected return on plan assets	(6)	(58)
Recognized actuarial losses	96	933
Periodic benefit cost in simplified method	10	97
Net periodic benefit costs	¥ 361	$ 3,508

(6) Accumulated other comprehensive income on defined retirement benefit plans as of March 31, 2014

	Millions of Yen	Thousands of U.S. Dollars
Unrecognized prior service cost	¥ 0	$ 0
Unrecognized actuarial losses	736	7,151
Total	¥ 736	$ 7,151

(7) Plan assets as of March 31, 2014

a. Components of plan assets

Plan assets consisted of the following:

Debt securities in Japan	10.7%
Equity securities in Japan	8.0
Debt securities in other countries	2.9
Equity securities in other countries	7.9
Cash and time deposits	0.6
Life insurance company general accounts	38.2
Others	31.7
Total	100.0%

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the year ended March 31, 2014, were set forth as follows:

Discount rate	Mainly 1.0%
Expected rate of return on plan assets	Mainly 0.0%

The amount of donation required to the defined contribution plan of the Group was ¥113 million ($1,098 thousand).

Year Ended March 31, 2013

The liability for employees' retirement benefits at March 31, 2013, consisted of the following:

	Millions of Yen
Projected benefit obligation	¥ 2,805
Fair value of plan assets	(1,391)
Unrecognized actuarial loss	(546)
Net liability	¥ 868

The components of net periodic retirement benefit costs for the year ended March 31, 2013, were as follows:

	Millions of Yen
Service cost	¥ 288
Interest cost	49
Recognized actuarial loss	55
Net periodic retirement benefit costs	392
Payments to defined contribution pension plan and other	122
Total	¥ 514

Assumptions used for the year ended March 31, 2013 are set forth as follows:

Discount rate	1.0%
Expected rate of return on plan assets	0.0%
Allocation method of the retirement benefits expected to be paid at the retirement date	Straight-line method based on years of service
Amortization period of prior service cost	1 year
Recognition period of actuarial gain or loss	14 years

9. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Balance at beginning of year	¥46	¥45	$447
Reconciliation associated with passage of time	1	1	10
Balance at end of year	47	46	457

10. EQUITY

Japanese companies are subject to the Companies Act. The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Companies Act, stock acquisition rights are now presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2014 and 2013, principally consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Employees' salaries and bonuses	¥3,148	¥2,473	$30,587
Net periodic retirement benefit	182	167	1,768
Transport	2,823	2,318	27,429
Depreciation	578	566	5,616
Rental	51	155	496
Research and development	1,965	1,764	19,092
Amortization of goodwill	134	89	1,302

12. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 38.0% for the years ended March 31, 2014 and 2013.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2014 and 2013, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Deferred tax assets:			
Tax loss carryforwards	¥ 1,781	¥ 1,458	$ 17,305
Impairment loss on long-lived assets	1,445	1,360	14,040
Loss on revaluation of investment securities	209	248	2,031
Retirement benefits to directors and Audit & Supervisory Board members	176	166	1,710
Property, plant and equipment	97	97	942
Unrealized loss on available-for-sale securities	18	58	175
Other	1,179	694	11,455
Less valuation allowance	(4,353)	(3,645)	(42,295)
Total	¥ 552	¥ 436	$ 5,363
Deferred tax liabilities:			
Reserve for deferred gains on sales of property, plant and equipment	¥ 74	¥ 79	$ 719
Unrealized gain on available-for-sale securities	301	194	2,925
Undistributed earnings of foreign subsidiaries	121	-	1,176
Other	68	94	661
Total	¥ 564	¥ 367	$ 5,481
Net deferred tax (liabilities) assets	¥ (12)	¥ 69	$ (118)

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2014, with corresponding figures for 2013, is as follows:

	2014	2013
Normal effective statutory tax rate	38.0%	38.0%
Expenses not deductible for income tax purposes	9.3	12.0
Inhabitants' per capita levy	1.7	2.0
Difference of income tax rates applicable to income in certain foreign countries	1.4	5.7
Increase in valuation allowance	28.0	38.9
Tax credit	(4.8)	(9.3)
Adjustment of deferred tax assets and liabilities at the end of period due to change in tax rates	0.9	-
Other - net	0.5	0.8
Actual effective tax rate	75.0%	88.1%

New tax reform laws enacted in 2014 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2014, from approximately 38.0% to 35.6%. The effects of this change on deferred tax assets in the consolidated balance sheet and income taxes - deferred in the consolidated statement of income are immaterial.

13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,965 million ($19,092 thousand) and ¥1,764 million for the years ended March 31, 2014 and 2013, respectively.

14. LEASES

The Group leases certain buildings and structures, machinery and equipment and other assets.

Total lease expenses included for the years ended March 31, 2014 and 2013, were ¥221 million ($2,147 thousand) and ¥157 million, respectively.

The minimum rental commitments under noncancelable operating leases at March 31, 2014, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 5	$ 48
Due after one year	47	457
Total	¥ 52	$ 505

15. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group uses financial instruments, mainly bank loans based on its capital financing plan. Short-term bank loans are used to fund the Group's ongoing operations. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) Nature and Extent of Risks Arising from Financial Instruments

Receivables such as trade notes and trade accounts are exposed to customer credit risk. Payment terms of payables, such as trade notes and trade accounts, are primarily less than one year. Payment in foreign currencies is exposed to the market risk of fluctuation in foreign currency exchange rates. Investment securities are exposed to the risk of market price fluctuations. Short-term bank loans and long-term debt are related to ongoing operations and working capital. Although a part of such bank loans are exposed to market risks from changes in variable interest rates, those risks are mitigated by using derivatives of interest rate swaps. Long-term deposits received are mainly related to entry deposits for a golf course and are exposed to liquidity risk.

(3) Risk Management for Financial Instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment term and balances of major customers by each business administration department to identify the default risk of customers at an early stage.

The counterparties to the Group's derivative contracts are limited to major international financial institutions to reduce credit risk.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2014.

Market risk management (foreign exchange risk and interest rate risk)

Interest-rate swaps are used to manage exposure to market risks from changes in interest rates of loans payable.

Investment securities are managed by monitoring market values and the financial position of issuers on a regular basis.

Derivative transactions entered into by the Group have been made in accordance with internal policies that regulate the authorization and credit limit amount.

Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on their maturity dates. The Group manages its liquidity risk by holding adequate volumes of liquid assets at the level of one month's sales volume, along with adequate financial planning by the corporate treasury department.

(4) Fair Value of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead.

Fair Value of Financial Instruments

Carrying amounts, fair values and the differences between carrying amounts and fair values as of March 31, 2014 and 2013, are as follows. The accounts for which fair value is deemed to be extremely difficult to calculate are not included in the following:

	Millions of Yen		
March 31, 2014	Carrying Amount	Fair Value	Unrealized Gain/(Loss)
Cash and cash equivalents	¥ 6,630	¥ 6,630	¥ -
Notes and accounts receivable	20,133	20,133	-
Investment securities	3,166	3,166	-
Total	¥ 29,929	¥ 29,929	¥ -
Notes and accounts payable	¥ 11,685	¥ 11,685	¥ -
Short-term bank loans	12,715	12,715	-
Current portion of long-term debt (excluding obligations under finance leases)	1,796	1,796	-
Long-term debt (excluding obligations under finance leases)	5,364	5,355	9
Long-term deposits received	849	769	80
Total	¥ 32,409	¥ 32,320	¥ 89

	Millions of Yen		
March 31, 2013	Carrying Amount	Fair Value	Unrealized Gain/(Loss)
Cash and cash equivalents	¥ 3,471	¥ 3,471	¥ -
Notes and accounts receivable	17,542	17,542	-
Investment securities	2,777	2,777	-
Total	¥ 23,790	¥ 23,790	¥ -
Notes and accounts payable	¥ 8,440	¥ 8,440	¥ -
Short-term bank loans	8,663	8,663	-
Current portion of long-term debt (excluding obligations under finance leases)	1,737	1,737	-
Long-term debt (excluding obligations under finance leases)	6,015	6,020	(5)
Long-term deposits received	935	818	117
Total	¥ 25,790	¥ 25,678	¥ 112

March 31, 2014	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain/(Loss)
Cash and cash equivalents	$ 64,419	$ 64,419	$ -
Notes and accounts receivable	195,618	195,618	-
Investment securities	30,761	30,761	-
Total	$ 290,798	$ 290,798	$ -
Notes and accounts payable	$ 113,535	$ 113,535	$ -
Short-term bank loans	123,543	123,543	-
Current portion of long-term debt (excluding obligations under finance leases)	17,450	17,450	-
Long-term debt (excluding obligations under finance leases)	52,118	52,031	87
Long-term deposits received	8,249	7,472	777
Total	$ 314,895	$ 314,031	$ 864

Cash and Cash Equivalents and Notes and Accounts Receivable

The carrying values of cash and cash equivalents and notes and accounts receivable approximate fair value because of their short maturities.

Investment Securities

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. The fair value information for investment securities by classification is included in Note 3.

Notes and Accounts Payable, Short-Term Bank Loans and Current Portion of Long-Term Debt

The carrying values of notes and accounts payable, short-term bank loans and current portion of long-term debt approximate fair value because of their short maturities.

Long-Term Debt

The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate for the fiscal year ended March 31, 2014.

Long-Term Deposits Received

The fair values of long-term deposits received are determined by discounting the future cash flows estimable from the past refund experience and by the estimated interest rate reflecting assumed refund period and credit risk.

Derivatives

The fair value information for derivatives is included in Note 16.

(5) Maturity Analysis for Financial Assets with Contractual Maturities

	Millions of Yen			
March 31, 2014	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	¥ 6,630	¥ -	¥ -	¥ -
Notes and accounts receivable	20,133	-	-	-
Investment securities		-	-	-
Available-for-sale securities with contractual maturities	-	-	-	283
Total	¥ 26,763	¥ -	¥ -	¥ 283

	Millions of Yen			
March 31, 2013	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	¥ 3,471	¥ -	¥ -	¥ -
Notes and accounts receivable	17,542	-	-	-
Investment securities				
Available-for-sale securities with contractual maturities	-	-	-	386
Total	¥ 21,013	¥ -	¥ -	¥ 386

	Thousands of U.S. Dollars			
March 31, 2014	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	$ 64,419	$ -	$ -	$ -
Notes and accounts receivable	195,618	-	-	-
Investment securities				
Available-for-sale securities with contractual maturities	-	-	-	2,750
Total	$ 260,037	$ -	$ -	$ 2,750

16. DERIVATIVES

The Group also enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

All derivative transactions are entered into to hedge interest exposures incorporated within the Group's business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of the hedged liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

Derivative Transactions to Which Hedge Accounting Is Applied

At March 31, 2014	Hedged Item	Millions of Yen Contract Amount	 Contract Amount Due after One Year	 Fair Value
Interest rate swaps: (fixed rate payment, floating rate receipt)	Short-term bank loans	¥400	¥ -	¥ -

At March 31, 2013	Hedged Item	Millions of Yen Contract Amount	 Contract Amount Due after One Year	 Fair Value
Interest rate swaps: (fixed rate payment, floating rate receipt)	Short-term bank loans	¥400	¥ -	¥ -

At March 31, 2014	Hedged Item	Thousands of U.S. Dollars Contract Amount	 Contract Amount Due after One Year	 Fair Value
Interest rate swaps: (fixed rate payment, floating rate receipt)	Short-term bank loans	$3,887	$ -	$ -

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

The contract amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

The above interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differentials paid or received under the swap agreements are recognized and included in interest expense or income. In addition, the fair value of such interest rate swaps is included in that of the hedged items (short-term bank loans).

17. COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2014 and 2013, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2014	2013	2014
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥ 544	¥ 385	$ 5,286
Reclassification adjustments to profit or loss	(43)	(11)	(418)
Amount before income tax effect	501	374	4,868
Income tax effect	(109)	(85)	(1,059)
Total	¥ 392	¥ 289	$ 3,809
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 1,624	¥ 293	$ 15,779
Reclassification adjustments to profit or loss	-	(67)	-
Amount before income tax effect	1,624	226	15,779
Total	¥ 1,624	¥ 226	$ 15,779
Share of other comprehensive income in associates - Gains arising during the year	¥ 0	¥ 0	$ 0
Total	¥ 0	¥ 0	$ 0
Total other comprehensive income	¥ 2,016	¥ 515	$ 19,588

18. NET INCOME PER SHARE

Details of the basic net income per share ("EPS") for the years ended March 31, 2014 and 2013, were as follows:

	Millions of Yen	Thousands of Shares	Yen	Dollars
	Net Income	Weighted-Average Shares	EPS	
For the year ended March 31, 2014:				
Basic EPS				
Net income available to common shareholders	¥280	25,949	¥10.80	$0.10
For the year ended March 31, 2013:				
Basic EPS				
Net income available to common shareholders	¥216	25,949	¥8.33	

Diluted net income per share is not disclosed because there are no outstanding potentially dilutive securities.

19. RELATED PARTY DISCLOSURES

(1) The transactions between the Company and related parties

Transactions between the Company and related parties for the years ended March 31, 2014 and 2013, were as follows:

Fiscal year ended March 31, 2014

Type of Related Parties	Name	Address	Capital Amount (Millions of Yen)	Description of Business	Percentage of Equity Ownership in the Company	Nature of Transactions	Amount (Millions of Yen)	Amount (Thousands of U.S. Dollars)
Owned by certain directors of the Company and their relatives	Hasegawa Kosan Co., Ltd.	Kakogawa-shi, Hyogo, Japan	¥40	Insurance agent	(Owned) Direct 17.56	Payment of insurance	¥ 18	$ 175
						Other current assets, end of year	13	126
						Other assets, end of year	26	253

Note: Hasegawa Kosan Co., Ltd. is wholly held by Yoshihiro Hasegawa, who is the representative director of the Company, and his close relatives.

Fiscal year ended March 31, 2013

Type of Related Parties	Name	Address	Capital Amount (Millions of Yen)	Description of Business	Percentage of Equity Ownership in the Company	Nature of Transactions	Amount (Millions of Yen)
Owned by certain directors of the Company and their relatives	Hasegawa Kosan Co., Ltd.	Kakogawa-shi, Hyogo, Japan	¥40	Insurance agent	(Owned) Direct 17.56	Payment of insurance	¥ 13
						Other current assets, end of year	23
	Harima Food, Inc.	Kakogawa-shi, Hyogo, Japan	30	Food manufacturing	-	Sales of food	10

Note: Hasegawa Kosan Co., Ltd. is wholly held by Yoshihiro Hasegawa, who is the representative director of the Company, and his close relatives.
Harima Food, Inc. is a wholly owned subsidiary of Hasegawa Kosan Co., Ltd.

(2) The transactions between the Group and related parties

Transactions between the Group and related parties for the year ended March 31, 2014 were as follows:

Fiscal year ended March 31, 2014

Type of Related Parties	Name	Address	Capital Amount (Millions of Yen)	Description of Business	Percentage of Equity Ownership in the Company	Nature of Transactions	Amount (Millions of Yen)	Amount (Thousands of U.S. Dollars)
Owned by certain directors of the Company and their relatives	Harima Food, Inc.	Kakogawa-shi, Hyogo, Japan	¥30	Food manufacturing	-	Lease payments	¥ 0	$ 0
						Minimum rental commitments	52	505
						Other current assets, end of year	0	0

Note: Harima Food, Inc. is a wholly owned subsidiary of Hasegawa Kosan Co., Ltd.

20. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2014, was approved at the Company's Board of Directors' meeting held on May 20, 2014:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥7.00 ($0.07) per share	¥182	$1,768

21. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of Reportable Segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group.

"Resin & Tall Oil Products" manufactures and sells paint resin, resins for print inks, tall oil products and synthetic rubber emulsifiers. "Paper Chemicals" manufactures and sells paper-strengthening agents, sizing agents and surface-coating agents. "Electronics Materials" manufactures and sells electronics materials. "Lawter" manufactures and sells resins for print inks and adhesives.

(2) Methods of Measurement for the Amounts of Sales, Profit, Assets, Liabilities and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

(3) Information about Sales, Profit and Other Items is as follows.

	Millions of Yen								
	2014								
	Reportable Segment								
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	¥ 21,228	¥ 14,833	¥ 5,231	¥ 32,236	¥ 73,528	¥ 1,642	¥ 75,170	¥ 5	¥ 75,175
Intersegment sales or transfers	218	628	-	225	1,071	131	1,202	(1,202)	-
Total	¥ 21,446	¥ 15,461	¥ 5,231	¥ 32,461	¥ 74,599	¥ 1,773	¥ 76,372	¥ (1,197)	¥ 75,175
Segment profit (loss)	¥386	¥681	¥408	¥(307)	¥1,168	¥141	¥1,309	¥1,298	¥2,607
Other:									
Depreciation	667	604	155	534	1,960	190	2,150	-	2,150
Net result of interest income and interest expense	(42)	-	(14)	(21)	(77)	(17)	(94)	(192)	(286)

Notes: "Other" comprises business segments not attributable to a reportable segment and includes mainly real estate management, etc.

Reconciliations of segment profit (loss) include reconciliation gain of inventories of ¥323 million ($3,138 thousand), company-wide expenses of ¥557 million ($5,412 thousand) and foreign exchange gain of ¥1,217 million ($11,825 thousand), which are not attributable to any reportable segment.

Segment profits (losses) are adjusted for certain other income and expenses within operating income in the consolidated statement of income.

Assets are not allocated to reportable segments as they are not used for the determination of the allocation of management resources and how to assess performance of the Company.

	Millions of Yen								
	2013								
	Reportable Segment								
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	¥ 20,543	¥ 12,419	¥ 4,367	¥ 25,297	¥ 62,626	¥ 1,597	¥ 64,223	¥ (20)	¥ 64,203
Intersegment sales or transfers	277	571	0	246	1,094	148	1,242	(1,242)	-
Total	¥ 20,820	¥ 12,990	¥ 4,367	¥ 25,543	¥ 63,720	¥ 1,745	¥ 65,465	¥ (1,262)	¥ 64,203
Segment profit (loss)	¥172	¥817	¥155	¥(877)	¥ 267	¥ 86	¥ 353	¥1,068	¥1,421
Other:									
Depreciation	687	551	188	489	1,915	191	2,106	-	2,106
Net result of interest income and interest expense	(49)	(17)	(15)	(18)	(99)	(20)	(119)	(207)	(326)

Notes: "Other" comprises business segments not attributable to a reportable segment and includes mainly real estate management, etc.

Reconciliations of segment profit (loss) include reconciliation loss of inventories of ¥60 million, company-wide expenses of ¥91 million and foreign exchange gain of ¥888 million, which are not attributable to any reportable segment.

Segment profits (losses) are adjusted for certain other income and expenses within operating income in the consolidated statement of income.

Assets are not allocated to reportable segments as they are not used for the determination of the allocation of management resources and how to assess performance of the Company.

	Thousands of U.S. Dollars								
	2014								
	Reportable Segment								
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	$ 206,257	$ 144,121	$ 50,826	$ 313,214	$ 714,418	$ 15,954	$ 730,372	$ 49	$ 730,421
Intersegment sales or transfers	2,118	6,102	-	2,186	10,406	1,273	11,679	(11,679)	-
Total	$ 208,375	$ 150,223	$ 50,826	$ 315,400	$ 724,824	$ 17,227	$ 742,051	$ (11,630)	$ 730,421
Segment profit (loss)	$3,750	$6,617	$3,964	$(2,983)	$11,348	$1,370	$12,718	$12,612	$25,330
Other:									
Depreciation	6,481	5,869	1,506	5,188	19,044	1,846	20,890	-	20,890
Net result of interest income and interest expense	(408)	-	(136)	(204)	(748)	(165)	(913)	(1,866)	(2,779)

[Related information]

1. Information about geographical areas

Net sales to customers and property, plant and equipment by region for the years ended March 31, 2014 and 2013, were as follows:

(1) Net sales

Millions of Yen					
2014					
Japan	South and North America	Asia	Europe	Other	Total
¥31,750	¥15,528	¥10,462	¥14,007	¥3,428	¥75,175

Millions of Yen					
2013					
Japan	South and North America	Asia	Europe	Other	Total
¥30,184	¥12,386	¥7,842	¥11,258	¥2,533	¥64,203

Thousands of U.S. Dollars					
2014					
Japan	South and North America	Asia	Europe	Other	Total
$308,492	$150,874	$101,652	$136,096	$33,307	$730,421

Note: Sales are classified by country or region based on a customer's location.

(2) Net property, plant and equipment

Millions of Yen					
2014					
Japan	South and North America	Asia	Europe	Other	Total
¥14,279	¥2,720	¥2,003	¥2,890	¥1,156	¥23,048

Millions of Yen					
2013					
Japan	South and North America	Asia	Europe	Other	Total
¥15,194	¥2,317	¥1,823	¥2,273	¥891	¥22,498

Thousands of U.S. Dollars					
2014					
Japan	South and North America	Asia	Europe	Other	Total
$138,739	$26,428	$19,462	$28,080	$11,232	$223,941

2. Information by principal customers

Information is not provided because there are no customers who account for more than 10% of total consolidated net sales.

[Loss on impairment of long-lived assets by reportable segment]

Loss on impairment of long-lived assets by reportable segment for the years ended March 31, 2014 and 2013, was as follows:

	Millions of Yen							
	2014							
	Reportable Segment							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Long-lived assets	¥172	¥60	¥ -	¥ -	¥232	¥190	¥ -	¥422

	Millions of Yen							
	2013							
	Reportable Segment							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Long-lived assets	¥102	¥ -	¥ -	¥ -	¥102	¥7	¥ -	¥109

	Thousands of U.S. Dollars							
	2014							
	Reportable Segment							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Long-lived assets	$1,671	$583	$ -	$ -	$2,254	$1,846	$ -	$4,100

[Amortization of goodwill and amount of goodwill by reportable segment]

The amortization of goodwill and amount of goodwill by reportable segment for the years ended March 31, 2014 and 2013, were as follows:

	Millions of Yen							
	2014							
	Reportable Segment							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Amortization of goodwill	¥7	¥ -	¥ -	¥126	¥133	¥1	¥ -	¥134
Amount of goodwill	-	-	-	258	258	4	-	262

	Millions of Yen							
	2013							
	Reportable Segment							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Amortization of goodwill	¥ -	¥ -	¥ -	¥ 88	¥ 88	¥1	¥ -	¥ 89
Amount of goodwill	-	-	-	103	103	5	-	108

	Thousands of U.S. Dollars							
	2014							
	Reportable Segment							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Amortization of goodwill	$68	$ -	$ -	$1,224	$1,292	$10	$ -	$1,302
Amount of goodwill	-	-	-	2,507	2,507	39	-	2,546

* * * * * *

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of HARIMA CHEMICALS GROUP, INC.:

We have audited the accompanying consolidated balance sheet of HARIMA CHEMICALS GROUP, INC. and its subsidiaries as of March 31, 2014, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility 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 misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of HARIMA CHEMICALS GROUP, INC. and its subsidiaries as of March 31, 2014, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 27, 2014

Member of
Deloitte Touche Tohmatsu Limited

Corporate Overview (as of March 31, 2014)

Founded	November 18, 1947
Capital Stock	10,012.95 million yen
Head Office	3-8-4 Nihonbashi, Chuo-ku, Tokyo
Osaka Head Office	4-4-7 Imabashi, Chuo-ku, Osaka
Tokyo Head Office	3-8-4 Nihonbashi, Chuo-ku, Tokyo
Laboratories	Central Research Laboratory, Tsukuba Research Laboratory
Plants	Kakogawa Plant, Tokyo Plant, Fuji Plant, Ibaraki Plant, Hokkaido Plant, Sendai Plant, and Shikoku Plant
Sales Offices	Tokyo Sales Office, Osaka Sales Office, Nagoya Sales Office, Kyushu Sales Office, Fuji Sales Office, Hokkaido Sales Office, Sendai Sales Office, and Shikoku Sales Office
Number of Employees	56 (Consolidated: 1,520)
Number of Group Companies	37
Business Activities	Manufacture and sale of Resin & Tall Oil Products, Paper Chemicals, Electronics Materials, etc.
Website	http://www.harima.co.jp/en/index.html

Principal Subsidiaries

Company name	Capital stock	Percentage of equity participation (%)	Main business
Harima Chemicals, Inc.	5,000,000 thousand yen	100	Manufacture and sale of Resin & Tall Oil Products, Paper Chemicals, Electronics Materials, etc.
Harima Trading, Inc.	48,000 thousand yen	100	Real estate management, etc.
Seven Rivers, Inc.	14,000 thousand yen	100	Manufacture and sale of industrial detergents, etc.
Harima M.I.D., Inc.	300,000 thousand yen	75	Manufacture and sale of tall oil products
Harima Kasei Polymer Co., Ltd.	10,000 thousand yen	100	Manufacture and sale of resins for printing inks, etc.
Nippon Filler Metals, Ltd.	45,000 thousand yen	100	Manufacture and sale of electronic materials
HARIMA USA, Inc.	3,350 thousand U.S. dollars	100	Control of U.S. operations
Harima do Brasil Industria Quimica Ltda.	8,356 thousand Brasil real	99.39	Manufacture and sale of rosin and its derivatives
Harimatec Hangzhou Co., Ltd.	8,690 thousand Chinese yuan	85	Manufacture and sale of electronic materials
Harimatec Malaysia Sdn. Bhd.	1,356 thousand Malaysian ringgit	85	Manufacture and sale of electronic materials
Hangzhou Hanghua-Harima Paper Chemicals Co., Ltd.	52,296 thousand Chinese yuan	56.07	Manufacture and sale of papermaking chemicals
Nanning Harima Chemicals Co., Ltd.	48,234 thousand Chinese yuan	95	Manufacture and sale of rosin and its derivatives
Harimatec Czech, s.r.o.	7,000 thousand Czech koruna	100	Manufacture and sale of electronic materials
Xinyi Rihong Plastic Chemical Co., Ltd.	27,390 thousand Chinese yuan	100	Manufacture and sale of rosin and its derivatives
Xinyi Zhonglin Rosin Co., Ltd.	12,000 thousand yuan	100	Manufacture and sale of rosin and its derivatives
Lawter B.V.	76,300 thousand euro	97.68	Control of Lawter Group’s operations
Harima Chemicals (Shanghai) Co., Ltd	12,652 thousand Chinese yuan	100	Support of Chinese business

Directors and Corporate Auditors (as of March 31, 2014)

President	Yoshihiro Hasegawa
Senior Executive Director	Nobuo Makino
Executive Director	Masanao Kono
Executive Director	Teruo Kaneshiro
Executive Director	Masashi Inaba
Director	Satoru Iwasa
Director	Yorishige Matsuba
Director	Yasuhiro Mizutani
Director	Yoshinobu Matsuda
Director	Mitsunori Kiyono
Director	Fumiaki Tsuchida
Director	Ichiro Taninaka
Standing Corporate Auditor	Jyoichiro Tanaka
Corporate Auditor*	Tatsuya Michigami
Corporate Auditor*	Hidenori Hiramatsu

* denotes Outside Corporate Auditors.

Status of Shares (as of March 31, 2014)

(1) Total number of shares authorised to be issued 59,500,000

(2) Total number of shares outstanding 26,080,396
(including 131,442shares of treasury stocks)

(3) Number of shareholders 3,001

(4) Major shareholders

	Status of shareholding	
	Number of shares held (Thousands of shares)	Ratio of number of shares held against total number of shares outstanding (%)
Hasegawakosan Co., Ltd.	4,558	17.56
Yoshihiro Hasegawa	1,738	6.69
Sumitomo Mitsui Banking Corporation	1,094	4.21
Harima Chemicals Mutual Prosperity Association	958	3.69
Shorai Foundation for Science and Technology	805	3.10
Hyogo Prefectual Credit Federation of Agricultural Cooperatives	728	2.80
THE MINATO BANK, LTD	692	2.66
Shorai, Ltd.	687	2.64
Keihansin Kougyou Corporation	672	2.58
Bank of Tokyo-Mitsubishi UFJ	476	1.83

(Notes) 1. In “Number of shares held,” figures less than one thousand are rounded down.
2. Ratio of number of shares held against total number of shares outstanding is determined based on the total number of shares outstanding minus the number of treasury stocks (131,442 shares), which amounts to 25,948,954 shares. The numbers shown are rounded down to two decimal places.