Annual Report

Year Ended March 31, 2020

HARIMA CHEMICALS GROUP, INC.

Business Overview

As for the world economy during the current fiscal year, economy in the US continued recovering, also in Europe which recovered gently. But Chinese economy showed growing signs of slowdown. Meanwhile, though Japanese economy has recovered gently, because consumption tax increased from October 1, 2019, Japanese economy has dropped again. Furthermore, from January 2020, the global economy and the Japanese economy are facing severe conditions due to the effects of the COVID 19.

In the fiscal year 2019 which was the first year of our new 3-year medium-term management plan “NEW HARIMA 2021”, our group has challenged to make new growth in our business.

About the oversea business of our group, the results of our subsidiaries in China remained stable. On the other hand, sales volume decreased in Europe and North America, which decreased along with sales and earnings than the previous fiscal year. Domestic business decreased in the sales and earnings as well.

As a result of these conditions, the group’s consolidated net sales for the current fiscal year decreased by 6,789 million Yen (down 8.6%) year-on-year to 71,799 million Yen. Operating income decreased by 914 million Yen (down19.6%) to 3,752million. Ordinary income decreased by 1,228 million Yen (down 25.5%) to 3,589 million Yen.

Due to additional accounting (additional corporate tax adjustment -1,239 million Yen which was income) of deferred tax asset in the consolidated subsidiaries in the previous fiscal year, net income attributable to Harima Chemicals Group, INC. in this fiscal year was 2,217 million Yen, decreased by 1,913 million Yen (down 46.3%).

Status of Business Segments

(Resin & Tall Oil Products)

In the printing ink industry and the paint industry, the production volume both decreased than the previous fiscal year. As a result of the decrease in sales volume of printing ink resin, slump in sales of paint resin which was affected by natural disasters and consumption tax hike, the total sales of this segment decreased than the previous fiscal year. Also, the operating income of this segment decreased with the decrease in sales and the price increase in main raw materials.

(Paper Chemicals)

In the domestic paper industry, demand for paperboard and information printing papers declined. As a result, the total production volume decreased. At the same time, about overseas market, demand for paper and paperboard in China increased, but which decreased in the US.

Consequently, China subsidiaries still kept a good business performance but the sales of domestic and the US subsidiaries decreased. Total sales and income of this segment also decreased than the previous fiscal year.

(Electronics Materials)

Production volume in automobile industry, which is mainly related to this segment, decreased in domestic market because consumption tax has increased. In Europe, automobile production volume increased slightly because of last-minute demand before environmental regulations but which decreased in North America market due to the reduced demand. On the other hand, under the effect of US-China trade conflicts and economic slowdown in China, production volume in China market decreased significantly.

In this segment, sales of soldering materials increased, but sales of brazing materials for automobile heat exchangers, functional resin for semiconductors and conductive paste decreased greatly. Especially in China market, sales volume decreased under the influence of the COVID 19.

Consequently, the total sales and income both decreased than the previous fiscal year.

(Lawter)

Lawter segment, developing business in 7 countries around the world, which main business is manufacturing and sales of adhesive resin and printing ink resin. Because demand for adhesive resin increased steadily and the sales in Europe and South America kept a good performance, sales volume increased than the previous fiscal year.

Due to the demand for printing inks was sluggish on the background of digitization of information, sales of the printing ink resin showed signs of slowdown and sales volume decreased than the previous fiscal year.

However, though the sales volume and the total sales decreased, operating income of this segment increased, because we changed our production structure and reduced the manufacturing cost.

Consolidated Business Performance Trends

(Millions of Yen unless otherwise stated)

Category	75th Fiscal Year (Fiscal year ended March 2017)	76th Fiscal Year (Fiscal year ended March 2018)	77th Fiscal Year (Fiscal year ended March 2019)	78th Fiscal Year (Fiscal year ended March 2020)
Net sales	71,384	73,310	78,589	71,799
Ordinary income	3,931	4,008	4,818	3,589
Net income attributable to Harima Chemicals Group, INC.	2,421	2,725	4,131	2,217
Net income per share (Yen)	93.31	105.03	159.02	87.67
Total assets	67,134	69,637	72,870	71,395
Net assets	33,813	36,097	37,811	37,745

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

2. We applied ASBJ Statement No.28, “Partial Amendments to Accounting Standard for Tax Effect Accounting” issued on Febryary16,2018 form the beginning on the 77th Fiscal year.
The information from the 75th Fiscal year to the 76th Fiscal year was changed into new data which allows retroactive application of the new statement above.

HARIMA CHEMICALS GROUP, INC.
and Subsidiaries

Consolidated Balance Sheet
March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2020	2019	2020
CURRENT ASSETS:			
Cash and cash equivalents (Note 15)	¥ 3,911	¥ 3,289	$ 35,937
Notes and accounts receivable (Note 15):			
Trade notes	2,442	2,864	22,439
Trade accounts	14,964	18,438	137,499
Associated companies	168	224	1,544
Other	943	932	8,665
Allowance for doubtful receivables	(91)	(102)	(836)
Inventories (Note 4)	12,938	11,558	118,883
Other current assets	1,208	949	11,100
Total current assets	36,483	38,152	335,231
PROPERTY, PLANT AND EQUIPMENT (Note 5):			
Land (Note 6)	8,516	8,530	78,250
Buildings and structures (Note 6)	18,784	18,453	172,599
Machinery and equipment	27,494	26,679	252,633
Lease assets (Note 14)	739	760	6,790
Construction in progress	1,258	456	11,559
Other assets	5,138	4,770	47,212
Total	61,929	59,648	569,043
Accumulated depreciation	(38,814)	(37,611)	(356,648)
Net property, plant and equipment	23,115	22,037	212,395
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 15)	3,363	3,832	30,901
Investments in associated companies	5,532	5,765	50,832
Deferred tax assets (Note 12)	1,328	1,414	12,203
Other assets	1,577	1,674	14,489
Allowance for doubtful accounts	(3)	(3)	(28)
Total investments and other assets	11,797	12,682	108,397
TOTAL	¥ 71,395	¥ 72,871	$ 656,023

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
LIABILITIES AND EQUITY	2020	2019	2020
CURRENT LIABILITIES:			
Short-term bank loans (Notes 7 and 15)	¥ 12,384	¥ 13,423	$ 113,792
Current portion of long-term debt (Notes 7 and 15)	1,400	1,688	12,864
Notes and accounts payable (Note 15):			
Trade notes	869	358	7,985
Trade accounts	7,799	8,545	71,662
Associated companies	195	116	1,792
Construction and other	1,497	1,516	13,755
Income taxes payable (Note 12)	495	674	4,548
Other current liabilities	1,929	2,209	17,726
Total current liabilities	26,568	28,529	244,124
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7, 14, 15, and 16)	4,121	3,345	37,866
Deferred tax liabilities (Note 12)	625	844	5,743
Long-term deposits received (Note 15)	583	684	5,357
Liability for retirement benefits (Note 8)	1,484	1,402	13,636
Asset retirement obligations (Note 9)	49	49	450
Other long-term liabilities	219	207	2,013
Total long-term liabilities	7,081	6,531	65,065
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 2020 and 2019	10,013	10,013	92,006
Capital surplus	9,768	9,768	89,755
Retained earnings	18,201	16,950	167,242
Treasury stock – at cost: 974,643 shares in 2020 and 428,851 shares in 2019	(1,028)	(422)	(9,446)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	872	1,234	8,012
Foreign currency translation adjustments	(2,440)	(2,020)	(22,420)
Defined retirement benefit plans	(250)	(166)	(2,297)
Total	35,136	35,357	322,852
Noncontrolling interests	2,610	2,454	23,982
Total equity	37,746	37,811	346,834
TOTAL	¥ 71,395	¥ 72,871	$ 656,023

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Subsidiaries

Consolidated Statement of Income
Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
NET SALES	¥71,799	¥78,589	$ 659,735
COST OF SALES	53,843	59,461	494,744
Gross profit	17,956	19,128	164,991
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 11 and 13)	14,203	14,461	130,506
Operating income	3,753	4,667	34,485
OTHER INCOME (EXPENSES):			
Interest and dividend income	147	263	1,351
Interest expense	(292)	(275)	(2,683)
Rental income	39	117	358
Commission paid	(9)	(16)	(83)
Foreign exchange (loss) gain	(112)	208	(1,029)
Gain on sale of property, plant and equipment	9	10	83
Loss on impairment of long-lived assets (Note 5)	(76)	(270)	(698)
Loss on disposal of property, plant and equipment	(26)	(74)	(239)
Gain on sale of investment securities	6		55
Equity in losses of associated companies	(40)	(13)	(368)
Other – net	115	(133)	1,057
Other income (expenses) – net	(239)	(183)	(2,196)
INCOME BEFORE INCOME TAXES	3,514	4,484	32,289
INCOME TAXES (Note 12):			
Current	838	1,201	7,700
Deferred	49	(1,240)	450
Total income taxes	887	(39)	8,150
NET INCOME	2,627	4,523	24,139
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(409)	(392)	(3,759)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 2,218	¥ 4,131	$ 20,380

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.t and 18):			
Net income	¥87.67	¥159.02	$0.81
Cash dividends applicable to the year	38.00	36.00	0.35

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
NET INCOME	¥2,627	¥ 4,523	$ 24,139
OTHER COMPREHENSIVE INCOME (LOSS) (Note 17):			
Unrealized loss on available-for-sale securities	(363)	(445)	(3,335)
Foreign currency translation adjustments	(485)	(1,043)	(4,457)
Defined retirement benefit plans	(85)	8	(781)
Share of other comprehensive loss in associated companies	(0)	(0)	(0)
Total other comprehensive income (loss)	(933)	(1,480)	(8,573)
COMPREHENSIVE INCOME (Note 17)	¥1,694	¥ 3,043	$ 15,566
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 17):			
Owners of the parent	¥1,351	¥2,784	$12,414
Noncontrolling interests	343	259	3,152

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended March 31, 2020

	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	Noncontrolling Interests	Total Equity
BALANCE, APRIL 1, 2018	26,025	¥10,013	¥9,767	¥13,573	¥ (26)	¥1,679	¥(1,110)	¥(173)	¥33,723	¥2,375	¥36,098
Net income attributable to owners of the parent				4,131					4,131		4,131
Cash dividends, ¥29.00 per share				(754)					(754)		(754)
Purchase of treasury stock	(373)				(396)				(396)		(396)
Change in ownership interest in subsidiaries			1						1		1
Net change in the year						(445)	(910)	7	(1,348)	79	(1,269)
BALANCE, MARCH 31, 2019	25,652	10,013	9,768	16,950	(422)	1,234	(2,020)	(166)	35,357	2,454	37,811
Net income attributable to owners of the parent				2,218					2,218		2,218
Cash dividends, ¥38.00 per share				(967)					(967)		(967)
Purchase of treasury stock	(546)				(606)				(606)		(606)
Change in ownership interest in subsidiaries			(0)						(0)		(0)
Net change in the year						(362)	(420)	(84)	(866)	156	(710)
BALANCE, MARCH 31, 2020	25,106	¥10,013	¥9,768	¥18,201	¥(1,028)	¥ 872	¥(2,440)	¥(250)	¥35,136	¥2,610	¥37,746

	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	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2019	$92,006	$89,755	$155,747	$(3,878)	$11,339	$(18,561)	$(1,525)	$324,883	$22,549	$347,432
Net income attributable to owners of the parent			20,380					20,380		20,380
Cash dividends, $0.35 per share			(8,885)					(8,885)		(8,885)
Purchase of treasury stock				(5,568)				(5,568)		(5,568)
Change in ownership interest in subsidiaries		(0)						(0)		(0)
Net change in the year					(3,327)	(3,859)	(772)	(7,958)	1,433	(6,525)
BALANCE, MARCH 31, 2020	$92,006	$89,755	$167,242	$(9,446)	$ 8,012	$(22,420)	$(2,297)	$322,852	$23,982	$346,834

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
OPERATING ACTIVITIES:			
Income before income taxes	¥ 3,514	¥ 4,484	$ 32,289
Adjustments for:			
Income taxes – paid	(1,024)	(960)	(9,409)
Depreciation and amortization	2,258	2,031	20,748
Loss on impairment of long-lived assets	76	270	698
Foreign exchange loss (gain)	101	(227)	928
Loss on sales of property, plant and equipment	(9)	(10)	(83)
(Gain) loss on sales of investment securities	(6)	0	(55)
Changes in assets and liabilities:			
Decrease (increase) in trade notes and accounts receivable	3,767	(1,606)	34,614
Increase in inventories	(1,492)	(197)	(13,709)
(Decrease) increase in trade notes and accounts payable	(89)	311	(818)
Other – net	(909)	83	(8,353)
Total adjustments	2,673	(305)	24,561
Net cash provided by operating activities	6,187	4,179	56,850
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(3,484)	(2,529)	(32,013)
Proceeds from sales of property, plant and equipment	36	68	331
Purchases of intangible assets	(177)	(50)	(1,626)
Purchases of investment securities	(4)	(2,595)	(37)
Proceeds from sales of investment securities	37	100	340
Other – net	129	(29)	1,185
Net cash used in investing activities	(3,463)	(5,035)	(31,820)
FINANCING ACTIVITIES:			
(Decrease) increase in short-term bank loans – net	(754)	2,941	(6,928)
Proceeds from long-term debt	2,198	1,706	20,197
Repayments of long-term debt	(1,594)	(2,682)	(14,647)
Dividends paid	(967)	(755)	(8,885)
Other – net	(928)	(629)	(8,528)
Net cash (used in) provided by financing activities	(2,045)	581	(18,791)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(57)	(96)	(523)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	622	(371)	5,716
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,289	3,660	30,221
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 3,911	¥ 3,289	$ 35,937

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 conformity 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 2019 consolidated financial statements to conform to the classifications used in 2020.

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 ¥108.83 to $1, the approximate rate of exchange at March 31, 2020. 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 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*** – Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should 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 (Financial Accounting Standards Board Accounting Standards Codification) 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 recorded in equity through other comprehensive income; (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) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

c. ***Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method*** – ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted 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 recorded in equity through other comprehensive income; (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) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign associate elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

d. ***Business Combinations*** – Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

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

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

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

g. ***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.

h. ***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 building improvements and structures acquired on or after April 1, 2016. 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.

i. ***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 value at disposition.

j. ***Software*** – Amortization of capitalized software costs is computed using the straight-line method over five years, the estimated useful life of the assets.

k. ***Retirement and Pension Plans*** – The Company and certain domestic subsidiaries have funded defined benefit pension plans, defined contribution pension plans, and severance lump-sum payment plans covering substantially all of their employees. Certain foreign subsidiaries have adopted funded defined benefit plans and defined contribution pension plans.

The Company accounts 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 benefit formula basis. 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 are recognized in profit or loss over 14 years, no longer than the expected average remaining service period of the employees. Prior service costs are recognized in the period in which they are incurred.

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

l. ***Asset Retirement Obligations*** – An asset retirement obligation is recorded for 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.

m. ***Research and Development Costs*** – Research and development costs are charged to income as incurred.

n. ***Leases*** – Finance lease transactions are capitalized by recognizing leased assets and leased obligations in the balance sheet.

All other leases are accounted for as operating leases.

o. ***Bonuses to Directors*** – Bonuses to directors are accrued at the end of the year to which such bonuses are attributable.

p. ***Income Taxes*** – The provision for income taxes is computed based on the pretax income included in the consolidated statement of operations. 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 basis of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences. The Group files a tax return under the consolidated corporate-tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

q. ***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 operations to the extent that they are not hedged by forward exchange contracts.

r. ***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.

s. ***Derivative and Hedging Activities*** – 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 operations; 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.

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

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

u. ***New Accounting Pronouncements***

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29 revised on March 31, 2020)

- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30 revised on March 31, 2020)

(a) Overview

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

(b) Scheduled date of adoption

The Company expects to apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021.

(c) Impact of the adoption of accounting standard and implementation guidance

The Company is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

- Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30 on July 4, 2019)

- Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31 on July 4, 2019)

- Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9 revised on July 4, 2019)

- Accounting Standard for Financial Instruments (ASBJ Statement No. 10 revised on July 4, 2019)

- Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19 revised on March 31, 2020)

(a) Overview

In order to enhance comparability of financial statements among domestic and overseas companies, ASBJ developed an "Accounting Standard for Fair Value Measurement" and issued a new standard together with its implementation guidance. The sections revised by the new accounting standards and implementation guidance are as follows:

・ Financial instruments defined by "Accounting Standard for Financial Instruments"

・ Measurement methods of inventories held for trading purposes defined by "Accounting Standard for Measurement of Inventories"

(b) Scheduled date of adoption

The Company expects to apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021.

(c) Impact of the adoption of accounting standard and implementation guidance

The Company is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

- Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections (ASBJ Statement No. 24 revised on March 31, 2020)

(a) Overview

This revised accounting standard requires disclosure of the accounting principles and procedures adopted where there are no clear rules or guidance offered elsewhere in the relevant accounting standards.

(b) Scheduled date of adoption

The Company expects to apply the accounting standard for annual period ending on March 31, 2021.

- Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31 on March 31, 2020)

(a) Overview

This accounting standard requires disclosure of more detailed information regarding accounting estimates that have potentially significant effect on the next fiscal year's financial statements.

(b) Scheduled date of adoption

The Company expects to apply the accounting standard for annual period ending on March 31, 2021.

v. Additional Information – Regarding the impact of the COVID-19

Due to the spread of the COVID-19, some of the production facilities of foreign subsidiaries in countries such as China, Malaysia and the Czech Republic suffered temporary shutdown of business, which resulted in a deterioration in operation after the end of January 2020. The Group's consolidated financial statements for the fiscal year ended March 31, 2020 have been prepared using the financial statements as of December 31, 2019 for foreign subsidiaries. Therefore, it is expected that the Group's business performance will deteriorate from the first quarter of the fiscal year ending March 31, 2021. At this point, we are restarting operations sequentially and we anticipate that the Group's business performance will gradually recover to the previous year's level. The Group makes accounting estimates for impairment of fixed assets and recoverability of deferred tax assets based on the assumptions above. As a result, we believe that COVID-19 will not have a significant impact on the accounting estimates. However, it is still uncertain when the COVID-19 pandemic will end, and loss may occur in the future if the effect is prolonged.

3. INVESTMENT SECURITIES

Investment securities as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Non-current:			
Equity securities	¥3,363	¥3,801	$ 30,901
Trust fund investments and other		31	
Total	¥3,363	¥3,832	$ 30,901

The costs and aggregate fair values of investment securities as of March 31, 2020 and 2019, were as follows:

	Millions of Yen			
March 31, 2020	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Marketable available-for-sale:				
Equity securities	¥2,095	¥1,405	¥(159)	¥3,341
Debt securities				
March 31, 2019				
Securities classified as:				
Marketable available-for-sale:				
Equity securities	¥2,091	¥1,708	¥(21)	¥3,778
Debt securities	30	1		31

	Thousands of U.S. Dollars			
March 31, 2020	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Marketable available-for-sale:				
Equity securities	$19,250	$12,910	$(1,461)	$30,699
Debt securities				

Carrying amounts of available-for-sale securities whose fair value is not readily determinable as of March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Nonmarketable available-for-sale:			
Equity securities	¥22	¥23	$202

The information for available-for-sale securities which were sold during the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		
March 31, 2020	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥ 5	¥ 4	¥
Debt securities	32	2	
Total	¥ 37	¥ 6	¥
March 31, 2019			
Available-for-sale:			
Equity securities	¥ 0	¥	¥ 0
Debt securities	100		
Total	¥ 100	¥	¥ 0

	Thousands of U.S. Dollars		
March 31, 2020	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	$ 46	$ 37	$
Debt securities	294	18	
Total	$ 340	$ 55	$

4. INVENTORIES

Inventories as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Finished products	¥ 5,666	¥ 5,671	$ 52,063
Work in process	163	195	1,498
Raw materials and supplies	7,109	5,692	65,322
Total	¥ 12,938	¥ 11,558	$ 118,883

5. LONG-LIVED ASSETS

The Group recorded impairment losses of ¥76 million ($698 thousand) and ¥270 million for the years ended March 31, 2020 and 2019, respectively. The Group recognized a decline in value of a golf course, hotel facilities, and unused real estate in Japan for the year ended March 31, 2019. Also, the Group recognized a decline in value of a golf course and hotel facilities for the year ended March 31, 2020. The 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 assets was measured at the fair value considering a third-party appraisal report for the facility.

6. INVESTMENT PROPERTY

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 years ended March 31, 2020 and 2019, were ¥117 million ($1,075 thousand) and ¥109 million, respectively.

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

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2019	Increase/ Decrease	March 31, 2020	March 31, 2020
¥2,100	¥(91)	¥2,009	¥2,915

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2018	Increase/ Decrease	March 31, 2019	March 31, 2019
¥1,986	¥114	¥2,100	¥2,862

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
April 1, 2019	Increase/ Decrease	March 31, 2020	March 31, 2020
$19,296	$(836)	$18,460	$26,785

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, 2020, primarily represents the capital expenditure for current investment properties of ¥26 million ($239 thousand), and the decrease primarily represents depreciation of ¥26 million ($239 thousand), impairment loss of ¥76 million ($698 thousand), and sale of ¥15 million ($138 thousand). Increase during the fiscal year ended March 31, 2019, primarily represents the capital expenditure for current investment properties of ¥403 million, and the decrease primarily represents depreciation of ¥28 million, impairment loss of ¥260 million, and sale of ¥1 million.

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

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

Short-term bank loans as of March 31, 2020 and 2019, consisted of an outstanding balance of line of credit, notes to banks and bank overdrafts. The average interest rates applicable to the short-term bank loans as of March 31, 2020 and 2019, were 0.8% and 0.9%, respectively. As of March 31, 2020 and 2019, the total committed line of credit was ¥4,000 million ($36,755 thousand) and ¥4,000 million, and unused balance was ¥3,200 million ($29,404 thousand) and ¥3,900 million, respectively.

Long-term debt as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unsecured loans from banks and other financial institutions, due serially to 2024 with interest rates ranging from 0.5% to 3.7% (2020) and from 0.4% to 3.7% (2019)	¥ 4,578	¥ 4,008	$ 42,065
Obligations under finance leases	943	1,025	8,665
Total	5,521	5,033	50,730
Less current portion	(1,400)	(1,688)	(12,864)
Long-term debt, less current portion	¥ 4,121	¥ 3,345	$ 37,866

Annual maturities of long-term debt as of March 31, 2020, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2021	¥1,400	$ 12,864
2022	503	4,622
2023	366	3,363
2024	1,626	14,941
2025	1,163	10,686
2026 and thereafter	463	4,254
Total	¥5,521	$ 50,730

Certain bank loans and the commitment lines of credit are subject to financial covenants, which use total equity and continuous operating income without extraordinary items for the most recent year as credit risk indicators, and require the Group to maintain the financial measures above a certain level. Based on the financial results for the years ended March 31, 2020 and 2019, the covenants were not breached since the Group met the requirements.

8. RETIREMENT AND PENSION PLANS

The Company and some domestic subsidiaries have a defined contribution plan and a defined benefit plan, including a defined corporate pension plan and retirement lump sum plan. Some foreign subsidiaries have defined contribution plans and defined benefit plans. Some domestic subsidiaries apply the simplified method to calculate liabilities for retirement benefits and retirement benefit costs.

In addition, the Company and certain domestic subsidiaries participate in multi-employer pension plans. Since the pension assets attributable to the Company and certain domestic subsidiaries cannot be reliably determined based on their contributions, the plan is accounted for as a defined contribution plan.

Also, the Group has a severance payment plan for directors. The retirement benefits for directors are paid subject to the approval of the shareholders in accordance with the Companies Act of Japan (the "Companies Act"). The liability for retirement benefits for directors as of March 31, 2020 and 2019 was ¥487 million ($4,475 thousand) and ¥447 million, respectively, and included in liability for retirement benefits in the consolidated balance sheet.

<1> Defined Benefit Plan

(1) The changes in defined benefit obligation for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥2,953	¥2,945	$27,134
Service cost	174	173	1,599
Interest cost	27	26	248
Actuarial losses (gains)	62	(0)	570
Benefits paid	(182)	(161)	(1,672)
Foreign currency translation differences	(21)	(36)	(193)
Others	6	6	55
Balance at end of year	¥3,019	¥2,953	$27,741

(2) The changes in plan assets for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥2,146	¥2,091	$19,719
Expected return on plan assets	62	60	570
Actuarial losses	(73)	(30)	(671)
Contributions from the employer	228	212	2,095
Benefits paid	(182)	(161)	(1,672)
Foreign currency translation differences	(19)	(32)	(175)
Others	6	6	55
Balance at end of year	¥2,168	¥2,146	$19,921

(3) The changes in defined benefit obligation under the simplified method for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥147	¥150	$1,351
Periodic benefit costs	2	4	18
Benefits paid	(1)	(3)	(9)
Foreign currency translation differences	(2)	(4)	(19)
Balance at end of year	¥146	¥147	$1,341

(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, 2020 and 2019, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Funded defined benefit obligation	¥ 3,019	¥ 2,953	$ 27,741
Plan assets	(2,168)	(2,146)	(19,921)
Total	851	807	7,820
Unfunded defined benefit obligation	146	147	1,341
Net liability arising from defined benefit obligation	¥ 997	¥ 954	$ 9,161

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Liability for retirement benefits	¥997	¥954	$9,161
Net liability arising from defined benefit obligation	¥997	¥954	$9,161

(5) The components of net periodic benefit costs for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Service cost	¥174	¥173	$1,599
Interest cost	27	26	248
Expected return on plan assets	(62)	(60)	(570)
Recognized actuarial losses	30	30	276
Recognized prior service cost	4	4	37
Periodic benefit cost in simplified method	2	4	18
Net periodic benefit costs	¥175	¥177	$1,608

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Prior service cost	¥ 4	¥ 4	$ 37
Actuarial gains	(105)	(0)	(964)
Others	2	3	17
Total	¥ (99)	¥ 7	$ (910)

(7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrecognized prior service cost	¥ 44	¥ 50	$ 404
Unrecognized actuarial losses	307	202	2,821
Total	¥351	¥252	$3,225

(8) Plan assets as of March 31, 2020 and 2019

a. *Components of plan assets*

Plan assets consisted of the following:

	2020	2019
Debt securities in Japan	8.3%	8.7%
Equity securities in Japan	6.1	6.9
Debt securities in other countries	3.5	3.3
Equity securities in other countries	6.0	6.9
Cash and time deposits	1.0	0.9
Insurance asset (general account)	68.2	65.8
Others	6.9	7.5
Total	100.0%	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.

(9) Assumptions used for the years ended March 31, 2020 and 2019, were set forth as follows:

	2020	2019
Discount rate	Mainly 0.7%	Mainly 0.7%
Expected rate of return on plan assets	Mainly 3.0%	Mainly 3.0%

<2> Defined Contribution Plan

The amount of contributions required for the defined contribution plan of the Group for the years ended March 31, 2020 and 2019, was ¥225 million ($2,067 thousand) and ¥221 million, respectively.

<3> Multi-Employer Pension Plan

As of March 28, 2018, Osaka Yakugyo Kosei Pension Fund had dissolved, and the Company and certain domestic subsidiaries joined Osaka Yakugyo Kigyo Pension Fund, a new multi-employer plan. This disclosure uses the most recently available information.

The contributions to the multi-employer plan, which are accounted for using the same method as a defined contribution plan, were ¥85 million ($781 thousand) and ¥84 million for the years ended March 31, 2020 and 2019, respectively.

(1) The funded status of the multi-employer plan as of March 31, 2019 and 2018, was as follows:

Osaka Yakugyo Kigyo Pension Fund

There is no available information about 2018.

	Millions of Yen	Thousands of U.S. Dollars
	2019	2019
Plan assets	¥ 38,528	$ 354,020
Actuarial liabilities of pension plan	68,843	632,574
Net balance	¥ (30,315)	$ (278,554)

(2) The contribution ratio of the Group in Osaka Yakugyo Kigyo Pension Fund for the year ended March 31, 2019, was 2.1%.

(3) Supplementary explanation

The net balance in (1) above is mainly caused by past service cost of ¥33,225 million ($305,293 thousand) for 2019, and a deficiency brought forward of ¥2,910 million ($26,739 thousand) for 2019. Past service cost under the plan is amortized on a straight-line basis over 24 years, and the special contributions of ¥37 million ($340 thousand) for 2019, which are utilized for such amortization, were expensed in the consolidated statement of income of the Group.

The ratios in (2) above do not represent the actual actuarial liability ratio of the Group.

9. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥49	¥49	$450
Reconciliation associated with passage of time		0	
Balance at end of year	49	49	450

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. Additionally, 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 being prescribed as one year rather than the normal two-year 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. With respect to the third condition above, the Board of Directors of companies with (a) board committees (namely, appointment committee, compensation committee, and audit committee) or (b) an audit and supervisory committee (as implemented under the Companies Act effective May 1, 2015) may also declare dividends at any time because such companies, by nature, meet the criteria under the Companies Act. The Company is organized as a company with an audit and supervisory committee, effective June 25, 2015. The Company meets all the above criteria and, accordingly, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

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 within equity 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 a 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, 2020 and 2019, principally consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Employees' salaries and bonuses	¥3,600	¥3,709	$33,079
Net periodic retirement benefit	215	258	1,976
Transport	3,465	3,464	31,839
Depreciation	298	248	2,738
Rental	243	247	2,233
Research and development	2,635	2,595	24,212

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 30.6% and 30.6% for the years ended March 31, 2020 and 2019, respectively. Foreign subsidiaries are subject to the income taxes of the countries in which they operate.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Deferred tax assets:			
Tax loss carryforwards	¥ 1,717	¥ 1,800	$ 15,777
Impairment loss on long-lived assets	1,468	1,482	13,489
Loss on revaluation of investment securities	113	114	1,038
Retirement benefits to directors	149	137	1,369
Unrealized gain on property, plant and equipment	97	97	891
Others	896	865	8,234
Total of tax loss carryforwards and temporary differences	4,440	4,495	40,798
Less valuation allowance for tax loss carryforwards	(576)	(588)	(5,293)
Less valuation allowance for temporary differences	(1,692)	(1,710)	(15,547)
Total valuation allowance	(2,268)	(2,298)	(20,840)
Deferred tax assets	¥ 2,172	¥ 2,197	$ 19,958
Deferred tax liabilities:			
Reserve for deferred gains on sales of property, plant and equipment	¥ (49)	¥ (50)	$ (450)
Unrealized gain on available-for-sale securities	(364)	(443)	(3,345)
Undistributed earnings of foreign subsidiaries	(318)	(278)	(2,922)
Depreciation of foreign subsidiaries	(466)	(476)	(4,282)
Intangible fixed assets of foreign subsidiaries	(62)	(71)	(570)
Others	(210)	(309)	(1,929)
Deferred tax liabilities	¥(1,469)	¥(1,627)	$(13,498)
Net deferred tax assets	¥ 703	¥ 570	$ 6,460

The expiration of tax loss carryforwards, the related valuation allowances, and the resulting net deferred tax assets as of March 31, 2020 and 2019, were as follows:

	Millions of Yen						
March 31, 2020	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	¥ 2	¥	¥	¥	¥ 8	¥1,707	¥1,717
Less valuation allowances for tax loss carryforwards	(1)					(575)	(576)
Net deferred tax assets relating to tax loss carryforwards	1				8	1,132	1,141
March 31, 2019							
Deferred tax assets relating to tax loss carryforwards	¥ 34	¥ 1	¥	¥	¥ 6	¥1,759	¥1,800
Less valuation allowances for tax loss carryforwards	(21)	(1)				(566)	(588)
Net deferred tax assets relating to tax loss carryforwards	13				6	1,193	1,212

	Thousands of U.S. Dollars						
March 31, 2020	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	$18	$	$	$	$74	$ 15,685	$15,777
Less valuation allowances for tax loss carryforwards	(9)					(5,284)	(5,293)
Net deferred tax assets relating to tax loss carryforwards	9				74	10,401	10,484

Net deferred tax assets relating to tax loss carryforwards were ¥1,141 million ($10,484 thousand) and ¥1,212 million for the years ended March 31, 2020 and 2019, respectively. They were mainly recorded at Lawter BVBA as a result of future taxable income consideration.

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of operations for the years ended March 31, 2020 and 2019, were as follows:

	2020	2019
Normal effective statutory tax rate	30.6%	30.6%
Expenses not deductible for income tax purposes	0.1	3.6
Inhabitant tax on per capita basis	0.9	0.7
Difference of income tax rates applicable to income in certain foreign countries	(8.2)	(5.9)
Decrease in valuation allowance	(0.5)	(27.5)
Tax credit	(1.2)	(1.8)
Adjustment of deferred tax assets and liabilities at end of period due to change in tax rates		0.0
Undistributed earnings of foreign subsidiaries	1.2	0.6
Other – net	2.4	(1.2)
Actual effective tax rate	25.3%	(0.9)%

13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥2,635 million ($24,212 thousand) and ¥2,595 million for the years ended March 31, 2020 and 2019, 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, 2020 and 2019, were ¥315 million ($2,894 thousand) and ¥309 million, respectively.

The future minimum lease payments commitment under noncancelable operating leases as of March 31, 2020, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 177	$ 1,626
Due after one year	995	9,143
Total	¥1,172	$ 10,769

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 not used 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 interest rate swaps. Long-term deposits received are mainly related to deposits for membership at 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 based on internal guidelines, which include monitoring of payment terms 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, 2020.

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 is 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 volume 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.

(a) Fair value of financial instruments

Carrying amounts, fair values, and the differences between carrying amounts and fair values as of March 31, 2020 and 2019, were as follows. The accounts for which fair value cannot be reasonably determined are not included in the following:

March 31, 2020	Millions of Yen Carrying Amount	 Fair Value	 Unrealized Gain (Loss)
Cash and cash equivalents	¥ 3,911	¥ 3,911	¥
Notes and accounts receivable	18,517	18,517	
Investment securities	3,341	3,341	
Total	¥ 25,769	¥ 25,769	¥
Notes and accounts payable	¥(10,360)	¥(10,360)	
Short-term bank loans	(12,384)	(12,384)	
Long-term debt	(5,521)	(5,538)	¥(17)
Long-term deposits received	(583)	(549)	34
Total	¥(28,848)	¥(28,831)	¥ 17

March 31, 2019	Millions of Yen Carrying Amount	 Fair Value	 Unrealized Gain (Loss)
Cash and cash equivalents	¥ 3,289	¥ 3,289	¥
Notes and accounts receivable	22,458	22,458	
Investment securities	3,809	3,809	
Total	¥ 29,556	¥ 29,556	¥
Notes and accounts payable	¥(10,535)	¥(10,535)	
Short-term bank loans	(13,423)	(13,423)	
Long-term debt	(5,033)	(5,054)	¥(21)
Long-term deposits received	(684)	(639)	45
Total	¥(29,675)	¥(29,651)	¥ 24

March 31, 2020	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	$ 35,937	$ 35,937	$
Notes and accounts receivable	170,147	170,147	
Investment securities	30,699	30,699	
Total	$ 236,783	$ 236,783	$
Notes and accounts payable	$ (95,194)	$ (95,194)	
Short-term bank loans	(113,792)	(113,792)	
Long-term debt	(50,730)	(50,887)	$ (157)
Long-term deposits received	(5,357)	(5,045)	312
Total	$ (265,073)	$ (264,918)	$ 155

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 future cash flows related to the debt at the Group's assumed corporate borrowing rate for the fiscal year ended March 31, 2020.

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.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Investments in equity instruments that do not have a quoted market price in an active market	¥22	¥23	$202

(5) Maturity Analysis for Financial Assets with Contractual Maturities

	Millions of Yen			
March 31, 2020	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	¥ 3,911	¥	¥	¥
Notes and accounts receivable	18,517			
Total	¥22,428	¥	¥	¥

	Millions of Yen			
March 31, 2019	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	¥ 3,289	¥	¥	¥
Notes and accounts receivable	22,458			
Total	¥25,747	¥	¥	¥

	Thousands of U.S. Dollars			
March 31, 2020	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	$ 35,937	$	$	$
Notes and accounts receivable	170,147			
Total	$ 206,084	$	$	$

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 generally 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 Not Applied

March 31, 2020

Not applicable

March 31, 2019

Not applicable

17. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unrealized loss on available-for-sale securities:			
Gains arising during the year	¥(448)	¥ (595)	$ (4,116)
Reclassification adjustments to profit or loss	6	(0)	55
Amount before income tax effect	(442)	(595)	(4,061)
Income tax effect	79	150	726
Total	¥(363)	¥ (445)	$ (3,335)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥(485)	¥(1,043)	$ (4,457)
Reclassification adjustments to profit or loss			
Amount before income tax effect	(485)	(1,043)	(4,457)
Income tax effect			
Total	¥(485)	¥(1,043)	$ (4,457)
Defined retirement benefit plans:			
Adjustments arising during the year	¥(133)	¥ (27)	$ (1,222)
Reclassification adjustments to profit or loss	34	34	312
Amount before income tax effect	(99)	7	(910)
Income tax effect	14	1	129
Total	¥ (85)	¥ 8	$ (781)
Share of other comprehensive loss in associated companies – Losses arising during the year	¥ (0)	¥ (0)	$ (0)
Total	¥ (0)	¥ (0)	$ (0)
Total other comprehensive income (loss)	¥(933)	¥(1,480)	$ (8,573)

18. NET INCOME PER SHARE

Details of the basic net income per share ("EPS") for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen	Thousands of Shares	Yen	Dollars
	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
For the year ended March 31, 2020:				
Basic EPS				
Net income available to common shareholders	¥2,218	25,294	¥ 87.67	$0.81
For the year ended March 31, 2019:				
Basic EPS				
Net income available to common shareholders	¥4,131	25,980	¥159.02	

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, 2020 and 2019, were as follows:

Fiscal year ended March 31, 2020

Not applicable

Fiscal year ended March 31, 2019

Not applicable

(2) Transactions between Subsidiaries and Related Parties

Transactions between subsidiaries and related parties for the years ended March 31, 2020 and 2019, were as follows:

Fiscal year ended March 31, 2020

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	¥ 5	$ 46
						Other current assets, end of year	0	0
						Minimum rental commitments	21	193

Note: Harima Food, Inc. is a wholly owned subsidiary of Hasegawa Kosan Co., Ltd.
Lease payments are determined based on fair value (used to calculate property taxes).

Fiscal year ended March 31, 2019

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	Harima Food, Inc.	Kakogawa-shi, Hyogo, Japan	¥30	Food manufacturing	-	Lease payments	¥ 5
						Other current assets, end of year	0
						Minimum rental commitments	26

Note: Harima Food, Inc. is a wholly owned subsidiary of Hasegawa Kosan Co., Ltd.
Lease payments are determined based on fair value (used to calculate property taxes).

20. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2020, was approved at the Company's Board of Directors' meeting held on May 20, 2020:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥19.00 ($0.17) per share	¥477	$4,383

21. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," 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 for which 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 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, 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								
	2020								
	Reportable Segments								
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	¥18,189	¥18,928	¥5,298	¥27,655	¥70,070	¥1,726	¥71,796	¥ 3	¥71,799
Intersegment sales or transfers	209	48		38	295	181	476	(476)	
Total	¥18,398	¥18,976	¥5,298	¥27,693	¥70,365	¥1,907	¥72,272	¥(473)	¥71,799
Segment profit	¥419	¥1,839	¥158	¥1,655	¥4,071	¥140	¥4,211	¥(458)	¥3,753
Other:									
Depreciation	766	745	164	451	2,126	132	2,258		2,258
Net result of interest income and interest expense	(5)	(6)	(1)	(156)	(168)	(3)	(171)	(69)	(240)
Equity in earnings (losses) of associated companies				(51)	(51)		(51)	11	(40)

Notes: "Other" comprises business segments not attributable to a reportable segment and is mainly comprised of real estate management.
Reconciliations of segment profit include reconciliation gain of inventories of ¥104 million ($956 thousand) and company-wide expenses of ¥579 million ($5,320 thousand), which are not attributable to any reportable segment. Assets are not allocated to reportable segments as they are not used to determine allocation of management resources or for assessment of performance of the Company.

	Millions of Yen								
	2019								
	Reportable Segments								
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	¥20,309	¥19,950	¥5,737	¥30,980	¥76,976	¥1,580	¥78,556	¥ 33	¥78,589
Intersegment sales or transfers	210	120		148	478	118	596	(596)	
Total	¥20,519	¥20,070	¥5,737	¥31,128	¥77,454	¥1,698	¥79,152	¥(563)	¥78,589
Segment profit (loss)	¥1,376	¥1,882	¥421	¥1,503	¥5,182	¥ (49)	¥5,133	¥(466)	¥4,667
Other:									
Depreciation	676	665	147	428	1,916	115	2,031		2,031
Net result of interest income and interest expense	(9)	(6)	(1)	(142)	(158)	(4)	(162)	(66)	(228)
Equity in earnings (losses) of associated companies				(32)	(32)		(32)	19	(13)

Notes: "Other" comprises business segments not attributable to a reportable segment and is mainly comprised of real estate management.
Reconciliations of segment profit (loss) include reconciliation gain of inventories of ¥91 million and company-wide expenses of ¥620 million, which are not attributable to any reportable segment. Assets are not allocated to reportable segments as they are not used to determine allocation of management resources or for assessment of performance of the Company.

	Thousands of U.S. Dollars								
	2020								
	Reportable Segments								
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	$ 167,132	$ 173,923	$ 48,681	$ 254,112	$ 643,848	$ 15,859	$ 659,707	$ 28	$ 659,735
Intersegment sales or transfers	1,920	441		349	2,710	1,664	4,374	(4,374)	
Total	$ 169,052	$ 174,364	$ 48,681	$ 254,461	$ 646,558	$ 17,523	$ 664,081	$(4,376)	$ 659,735
Segment profit	$3,850	$16,898	$1,452	$15,207	$37,407	$1,286	$38,693	$(4,208)	$34,485
Other:									
Depreciation	7,039	6,846	1,507	4,144	19,536	1,212	20,748		20,748
Net result of interest income and interest expense	(46)	(55)	(9)	(1,433)	(1,543)	(28)	(1,571)	(634)	(2,205)
Equity in earnings (losses) of associated companies				(469)	(469)		(469)	101	(368)

[Related information]

1. Information about geographical areas

Net sales to customers and property, plant and equipment by region for the years ended March 31, 2020 and 2019, were as follows:

(1) Net sales

Millions of Yen							
2020							
	South and North America		Asia				
Japan	United States	Other	China	Other	Europe	Other	Total
¥31,193	¥10,083	¥3,910	¥9,391	¥1,682	¥12,560	¥2,980	¥71,799

Millions of Yen							
2019							
	South and North America		Asia				
Japan	United States	Other	China	Other	Europe	Other	Total
¥32,542	¥11,188	¥4,105	¥9,707	¥2,905	¥15,052	¥3,090	¥78,589

Thousands of U.S. Dollars							
2020							
	South and North America		Asia				
Japan	United States	Other	China	Other	Europe	Other	Total
$286,621	$92,649	$35,928	$86,291	$15,455	$115,409	$27,382	$659,735

Notes:

1) Sales are classified by country or region based on the location of customers.

2) Change in method of presentation

Net sales in "United States," which was previously presented in "South and North America" as of March 31, 2019, as well as net sales in "China," which was previously presented in "Asia" as of March 31, 2019, are separately presented as of March 31, 2020 due to increased materiality. 1. Information about geographical areas (1) Net sales as of March 31, 2019, has been reclassified to reflect the change in the method of presentation. As a result, net sales of ¥15,293 million, which was previously presented in "South and North America," is now presented as ¥11,188 million in "United States" and ¥4,105 million in "South and North America, — Other" as of March 31, 2019. Further, net sales of ¥12,612 million, which was previously presented in "Asia," is presented as ¥9,707 million in "China" and ¥2,905 million in "Asia, — Other" as of March 31, 2019.

(2) Net property, plant and equipment

Millions of Yen							
2020							
	South and North America		Asia				
Japan	United States	Other	China	Other	Europe	Other	Total
¥13,061	¥4,272	¥124	¥2,109	¥10	¥2,292	¥1,247	¥23,115

Millions of Yen							
2019							
	South and North America		Asia				
Japan	United States	Other	China	Other	Europe	Other	Total
¥12,521	¥3,590	¥145	¥2,272	¥8	¥2,397	¥1,104	¥22,037

Thousands of U.S. Dollars							
2020							
	South and North America		Asia				
Japan	United States	Other	China	Other	Europe	Other	Total
$120,013	$39,254	$1,139	$19,379	$92	$21,060	$11,458	$212,395

Note:

Change in method of presentation

Net property, plant and equipment in "United States," which was previously presented in "South and North America" as of March 31, 2019, as well as net property, plant and equipment in "China," which was previously presented in "Asia" as of March 31, 2019, are separately presented as of March 31, 2020, due to increased materiality. 1. Information about geographical areas (2) Net property, plant and equipment as of March 31, 2019, has been reclassified to reflect the change in the method of presentation. As a result, net property, plant and equipment of ¥3,735 million, which was previously presented in "South and North America," is now presented as ¥3,590 million in "United States" and ¥145 million in "South and North America, — Other" as of March 31, 2019. Further, net property, plant and equipment of ¥2,280 million, which was previously presented in "Asia," is presented as ¥2,272 million in "China" and ¥8 million in "Asia, — Other" as of March 31, 2019.

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, 2020 and 2019, was as follows:

	Millions of Yen							
	2020							
	Reportable Segments							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Loss on impairment	¥	¥	¥	¥	¥	¥76	¥	¥76

	Millions of Yen							
	2019							
	Reportable Segments							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Loss on impairment	¥	¥10	¥	¥	¥10	¥260	¥	¥270

	Thousands of U.S. Dollars							
	2020							
	Reportable Segments							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Loss on impairment	$	$	$	$	$	$698	$	$698

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Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of HARIMA CHEMICALS GROUP, INC. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020, and its consolidated financial performance and its consolidated 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgement. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

June 25, 2020

Corporate Overview (as of March 31, 2020)

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, Fuji Sales Office, Hokkaido Sales Office, Sendai Sales Office, and Shikoku Sales Office
Number of Employees	85 (Consolidated: 1,466)
Number of Group Companies	34
Business Activities	Manufacture and sale of Resin & Tall Oil Products, Paper Chemicals, Electronics Materials, etc.
Website	www.harima.co.jp

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
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	Raw material procurement, Business support in the U.S. Holding company of U.S. group
Harima do Brasil Industria Quimica Ltda.	42,589 thousand Brasil real	99.88	Manufacture and sale of rosin and its derivatives
Harimatec Hangzhou Co., Ltd.	8,690 thousand Chinese yuan	100	Manufacture and sale of electronic materials
Harimatec Malaysia Sdn. Bhd.	1,357 thousand Malaysian ringgit	100	Manufacture and sale of electronic materials
Hangzhou Hanghua Harima 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
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, 2020)

President	Yoshihiro Hasegawa
Senior Executive Managing Director	Teruo Kaneshiro
Executive Director	Ichiro Taninaka
Executive Director	Tsutomu Nishioka
Managing Director	Shunichiro Taoka
Managing Director	Ryohei Kataoka
Managing Director	Eiketsu Ro
Audit＆Supervisory Committee Member	Hideo Yamada
Audit＆Supervisory Committee Member *	Tatsuya Michigami
Audit＆Supervisory Committee Member *	Tsuneo Takahashi

* denotes Outside Corporate Auditors.

Status of Shares (as of March 31, 2020)

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

(2) Total number of shares outstanding 26,080,396 (including 974,643 shares of treasury stocks)

(3) Number of shareholders 2,779

(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.	5,826	23.20
Harima Chemicals Mutual Prosperity Association	1,290	5.13
Shorai, Ltd.	1,273	5.07
Sumitomo Mitsui Banking Corporation	1,094	4.35
Shorai Foundation for Science and Technology	965	3.84
Japan Master-Trust Trust bank	827	3.29
Hyogo Prefectural Credit Federation of Agricultural Cooperatives	728	2.90
The Minato Bank, Ltd	692	2.75
Keihansin Kougyou Corporation	672	2.67
Bank of Mitsubishi UFJ, Ltd.	476	1.89

(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 (974,643 shares), which amounts to 25,105,753 shares. The numbers shown are rounded down to two decimal places.