Annual Report

Year Ended March 31, 2011

HARIMA CHEMICALS, INC.

Overview of the Business

The world economy trended towards a recovery during the fiscal year ended March 31, 2011, driven by the economic growth of emerging countries, but during the second half, the pace of the recovery flagged due to factors such as financial concerns in Europe, the slowdown of the U.S. economy and increasing political instability in the Middle East. The Japanese economy, likewise, trended towards slow economic recovery during the fiscal year, supported by the economic growth of emerging countries and the Japanese government's economic stimulus measures. However, during the latter half, ongoing strong yen prompted fears of downturn in corporate results, and personal consumer spending fell due to the governmental economic stimulus measures having taken their full course, and together with high crude oil prices, those factors prevented the recovery from becoming a full-fledged one.

Under such environment, consolidated net sales of the Group for the current fiscal year increased by 7,999 million yen (up 23.9%) year on year to 41,495 million yen.

Operating income increased by 1,573 million yen (up 117.9%) year on year to 2,908 million yen, Net income increased by 385 million yen (up 40.5%) to 1,337 million yen.

In January 2011, the Company acquired rosin business from a U.S. chemicals company through a subsidiary established in the Netherlands as a joint venture between the Company and Mitsubishi Corporation, and began business under the name of Lawter Inc. As a result of this business acquisition, the number of Group sites increased by 11 in 7 countries around the world. In the fiscal year ending March 2012, overseas sales are forecast to account for over 50% of the Group's sales accordingly.

We are striving to maximize the synergy effects of our work with Lawter B.V., in order to further enhance our technical development capabilities to promote development of products with high added-value, and increase the corporate value of the Group.

Status of the Business Segment

(Resin & Tall Oil Products Business Products)

This segment primarily includes manufacture and sale of paint resins, resins for printing inks, and synthetic rubber emulsifiers.

During the current fiscal year, the domestic coating materials industry was on track for a recovery, but sales lagged in some areas, such as building paints, preventing the recovery from becoming full-fledged.

In the print ink industry, conditions remained severe for both commercial printing and newspaper printing, not amounting to full-scale recovery.

In the synthetic rubber industry, production volumes rose compared to the previous fiscal year due to increased automobile-related demand.

Under such circumstance, the Company strove to revise the prices of our products and extend the sales and scope of business such as the acquisition of rosin business and rosin modified phenolic resins business during the previous fiscal year.

Net sales of this segment increased by 3,762 million yen (up 23.7%) year on year to 19,673 million yen, while segment profit increased by 1,238 million yen (up 154.6%) year on year to 2,040 million yen.

(Paper Chemicals)

This segment primarily includes manufacture and sale of products such as strengthening agents to add strength to paper and sizing agents to control the water absorbency of paper.

In the first half of the current fiscal year, the domestic paper manufacturing industry experienced increased demand for beverage packaging due to the fierce heat, but in the second half, production fell and paper and cardboard production grew only slightly compared to the previous fiscal year.

Under such circumstance, the Company strove to improve earnings through measures such as domestic production rationalization and cost reductions, while achieving strong results overseas.

Net sales of this segment increased by 2,001 million yen (up 18.2%) year on year to 12,972 million yen, while segment profit increased by 68 million yen (up 10.4%) year on year to 727 million yen.

(Electronics Materials)

This segment primarily includes miniaturization and performance improvements of electrical components, and manufacture and sale of soldering-related materials that are environmentally suitable.

During the current fiscal year, the domestic electronic equipment industry saw positive growth in shipment of flat-screen televisions, spurred by the "extension of the eco-point system" and also the switchover to terrestrial digital broadcasting that is scheduled to be completed in July 2011. During the first half of the current fiscal year, the number of production in the domestic automotive industry rose and exceeded the previous year's level thanks to the "Eco-Car Subsidy System," but as economic stimulus measures came full circle and the yen continued to rise during the second half, exports decreased, leading to results falling below the previous fiscal year.

Under such circumstance, the Company's profits were squeezed by rising raw materials costs, however, our aluminum brazing paste, developed together with an automotive component manufacturer, and our semiconductor resist resin, developed totally in-house, were employed and used in new fields.

Net sales of this segment increased by 1,102 million yen (up 29.4%) year on year to 4,855 million yen, while segment profit decreased by 1 million yen (down 0.4%) year on year to 308 million yen.

Consolidated Business Performance Trends

(Millions of yen unless otherwise stated)

Category	66th Fiscal Year (Fiscal year ended March 2008)	67th Fiscal Year (Fiscal year ended March 2009)	68th Fiscal Year (Fiscal year ended March 2010)	69th Fiscal Year (Fiscal year ended March 2011)
Net sales	38,553	35,328	33,495	41,495
Ordinary income	1,812	385	1,596	2,765
Net income (loss)	2,607	(414)	952	1,337
Net income (loss) per share (yen)	100.41	(15.94)	36.66	51.53
Total assets	48,696	44,818	45,940	63,983
Net assets	25,574	27,180	28,317	29,313

(Notes) 1. In accordance with the accounting standards, business results of Lawter Inc. are not reflected in the consolidated statements of income for the current fiscal year.

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

Harima Chemicals, Inc. and Subsidiaries

Consolidated Balance Sheets
March 31, 2011 and 2010

ASSETS	Millions of Yen 2011	Millions of Yen 2010	Thousands of U.S. Dollars (Note 1) 2011
CURRENT ASSETS:			
Cash and cash equivalents (Note 17)	¥ 5,958	¥ 3,302	$ 71,653
Notes and accounts receivable (Note 17):			
Trade notes	2,038	1,732	24,505
Trade accounts	14,920	10,573	179,441
Associated companies	156	159	1,870
Allowance for doubtful notes and accounts	(38)	(49)	(459)
Inventories (Note 5)	10,433	5,094	125,476
Deferred tax assets (Note 13)	410	772	4,935
Other current assets	2,441	492	29,365
Total current assets	36,318	22,075	436,786
PROPERTY, PLANT AND EQUIPMENT (Note 6):			
Land (Notes 7 and 8)	10,609	8,630	127,585
Buildings and structures (Notes 7 and 8)	17,134	16,547	206,066
Machinery and equipment	20,166	18,951	242,523
Furniture and fixtures	3,307	3,305	39,768
Lease assets (Note 15)	601	1,215	7,224
Construction in progress	487	64	5,862
Total	52,304	48,712	629,028
Accumulated depreciation	(31,072)	(31,462)	(373,687)
Net property, plant and equipment	21,232	17,250	255,341
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 17)	3,314	4,016	39,857
Investments in and advances to unconsolidated subsidiaries and associated companies	817	828	9,827
Goodwill (Note 3)	126	-	1,514
Other intangible assets	365	553	4,386
Deferred tax assets (Note 13)	302	453	3,632
Other assets (Note 8)	1,522	778	18,310
Allowance for doubtful accounts	(13)	(13)	(162)
Total investments and other assets	6,433	6,615	77,364
TOTAL	¥ 63,983	¥ 45,940	$ 769,491

LIABILITIES AND EQUITY	Millions of Yen 2011	Millions of Yen 2010	Thousands of U.S. Dollars (Note 1) 2011
CURRENT LIABILITIES:			
Short-term bank loans (Notes 8 and 17)	¥ 17,255	¥ 6,554	$ 207,512
Current portion of long-term debt (Notes 8 and 17)	652	698	7,838
Notes and accounts payable (Note 17):			
Trade notes	490	379	5,895
Trade accounts	9,739	4,521	117,129
Associated companies	65	79	781
Construction and other	448	259	5,385
Income taxes payable	411	102	4,946
Deferred tax liabilities (Note 13)	48	-	580
Other current liabilities	1,542	1,063	18,546
Total current liabilities	30,650	13,655	368,612
LONG-TERM LIABILITIES:			
Long-term debt (Notes 8 and 17)	1,168	1,472	14,041
Deferred tax liabilities (Note 13)	229	54	2,756
Long-term deposits received (Note 17)	1,129	1,171	13,575
Liability for retirement benefits (Note 9)	1,191	1,036	14,320
Asset retirement obligations (Note 10)	45	-	539
Other long-term liabilities	258	235	3,113
Total long-term liabilities	4,020	3,968	48,344
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 8, 16 and 18)			
EQUITY (Note 11):			
Common stock, authorized 59,500,000 shares; issued, 26,080,396 shares	10,013	10,013	120,420
Capital surplus	9,744	9,744	117,190
Retained earnings	9,267	8,241	111,451
Treasury stock - at cost: 130,808 shares in 2011 and 127,813 shares in 2010	(62)	(60)	(742)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	182	78	2,191
Deferred gain on derivatives under hedge accounting	-	0	-
Foreign currency translation adjustments	(1,165)	(728)	(14,021)
Total	27,979	27,288	336,489
Minority interests	1,334	1,029	16,046
Total equity	29,313	28,317	352,535
TOTAL	¥ 63,983	¥ 45,940	$ 769,491

See notes to consolidated financial statements.

Harima Chemicals, Inc. and Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
NET SALES	¥ 41,495	¥ 33,495	$ 499,034
COST OF SALES	31,385	25,521	377,444
Gross profit	10,110	7,974	121,590
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 12 and 14)	7,202	6,639	86,614
Operating income	2,908	1,335	34,976
OTHER INCOME (EXPENSES) (Notes 4 and 6):			
Interest and dividend income	99	74	1,195
Interest expense	(230)	(209)	(2,762)
Rental income	132	126	1,592
Foreign exchange gain (loss)	(6)	95	(76)
Equity in earnings of associated companies	13	35	158
Gain on negative goodwill	-	319	-
Fire insurance proceeds	514	-	6,183
Losses from fire disaster	(360)	-	(4,333)
Other - net	(470)	211	(5,662)
Other income (expenses) - net	(308)	651	(3,705)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	2,600	1,986	31,271
INCOME TAXES (Note 13):			
Current	496	92	5,961
Deferred	610	901	7,337
Total income taxes	1,106	993	13,298
NET INCOME BEFORE MINORITY INTERESTS	1,494	993	17,973
MINORITY INTERESTS IN NET INCOME	157	41	1,891
NET INCOME	¥ 1,337	¥ 952	$ 16,082

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.t and 20):			
Net income	¥51.53	¥36.66	$0.62
Cash dividends applicable to the year	14.00	12.00	0.17

See notes to consolidated financial statements.

Harima Chemicals, Inc. and Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended March 31, 2011

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2011	2011
NET INCOME BEFORE MINORITY INTERESTS	¥ 1,494	$ 17,973
OTHER COMPREHENSIVE INCOME (Note 19):		
Unrealized gain on available-for-sale securities	104	1,248
Deferred gain (loss) on derivatives under hedge accounting	0	(3)
Foreign currency translation adjustments	(512)	(6,158)
Share of other comprehensive income in associates	0	0
Total other comprehensive income	(408)	(4,913)
COMPREHENSIVE INCOME (Note 19)	¥ 1,086	$ 13,060
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 19):		
Owners of the parent	¥1,004	$12,075
Minority interests	82	985

See notes to consolidated financial statements.

Harima Chemicals, Inc. and Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended March 31, 2011 and 2010

	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 (Loss) on Available-for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2009	25,956	¥ 10,013	¥ 9,744	¥ 7,600	¥ (59)	¥ (385)	¥ 1	¥ (644)	¥ 26,270	¥ 908	¥ 27,178
Adjustment of retained earnings for newly consolidated subsidiaries											
Net income				952					952		952
Cash dividends, ¥12.00 per share				(311)					(311)		(311)
Purchase of treasury stock	(3)				(1)				(1)		(1)
Net change in the year						463	(1)	(84)	378	121	499
BALANCE, MARCH 31, 2010	25,953	10,013	9,744	8,241	(60)	78	0	(728)	27,288	1,029	28,317
Net income				1,337					1,337		1,337
Cash dividends, ¥12.00 per share				(311)					(311)		(311)
Purchase of treasury stock	(3)				(2)				(2)		(2)
Net change in the year						104	(0)	(437)	(333)	305	(28)
BALANCE, MARCH 31, 2011	25,950	¥ 10,013	¥ 9,744	¥ 9,267	¥ (62)	¥ 182	¥ -	¥ (1,165)	¥ 27,979	¥ 1,334	¥ 29,313

	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	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2010	$ 120,420	$ 117,190	$ 99,114	$ (724)	$ 943	$ 3	$ (8,770)	$ 328,176	$ 12,374	$ 340,550
Net income			16,082					16,082		16,082
Cash dividends, $0.14 per share			(3,745)					(3,745)		(3,745)
Purchase of treasury stock				(18)				(18)		(18)
Net change in the year					1,248	(3)	(5,251)	(4,006)	3,672	(334)
BALANCE, MARCH 31, 2011	$ 120,420	$ 117,190	$ 111,451	$ (742)	$ 2,191	$ -	$ (14,021)	$ 336,489	$ 16,046	$ 352,535

See notes to consolidated financial statements

Harima Chemicals, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 2,600	¥ 1,986	$ 31,271
Adjustments for:			
Income taxes - paid	(170)	(92)	(2,047)
Depreciation and amortization	1,621	1,690	19,491
Loss on impairment of long-lived assets	54	82	648
Foreign exchange gain	(95)	(25)	(1,143)
Gain on sales of property, plant and equipment	(1)	(94)	(12)
Gain on negative goodwill	-	(319)	-
Changes in assets and liabilities, net of effects from newly consolidated subsidiaries:			
Increase in trade notes and accounts receivable	(359)	(1,742)	(4,323)
(Increase) decrease in inventories	(663)	683	(7,975)
Increase (decrease) in trade notes and account payable	1,400	(429)	16,831
Other - net	(174)	524	(2,071)
Total adjustments	1,613	278	19,399
Net cash provided by operating activities	4,213	2,264	50,670
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(1,559)	(1,149)	(18,750)
Proceeds from sales of property, plant and equipment	3	135	33
Purchases of investment securities	(515)	(781)	(6,190)
Proceeds from sales and redemption of investment securities	1,174	885	14,121
Payment for purchase of consolidated subsidiaries, net of cash and cash equivalents acquired	(10,380)	(442)	(124,834)
Payment of acquisition of business	-	(190)	-
Other - net	(79)	(34)	(955)
Net cash used in investing activities	(11,356)	(1,576)	(136,575)
FINANCING ACTIVITIES:			
Net change in short-term bank loans	10,763	(675)	129,443
Proceeds from long-term debt	132	399	1,584
Payments from long-term debt	(670)	(621)	(8,058)
Dividends paid	(311)	(311)	(3,745)
Other - net	75	(148)	902
Net cash provided by (used in) financing activities	9,989	(1,356)	120,126
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(190)	9	(2,283)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,656	(659)	31,938
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,302	3,961	39,715
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 5,958	¥ 3,302	$ 71,653

See notes to consolidated financial statements.

1. BASIS OF PRESENTING 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 application and disclosure requirements of International Financial Reporting Standards.

Under Japanese GAAP, a consolidated statement of comprehensive income is required from the fiscal year ended March 31, 2011 and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheet and the consolidated statement of changes in equity. Information with respect to other comprehensive income for the year ended March 31, 2010 is disclosed in Note 19. In addition, "net income before minority interests" is disclosed in the consolidated statement of income from the year ended March 31, 2011.

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.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Harima Chemicals, 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 ¥83.15 to $1, the approximate rate of exchange at March 31, 2011. 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 or influence concept, 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 an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized over a period not exceeding 20 years.

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

b. ***Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements*** - In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements". PITF No. 18 prescribes: (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: 1) amortization of goodwill; 2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; 3) expensing capitalized development costs of R&D; 4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; 5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and 6) exclusion of minority interests from net income, if contained.

c. ***Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method -*** In March 2008, the ASBJ issued ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments". The new standard 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 adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States 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: (1) amortization of goodwill; (2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; (3) expensing capitalized development costs of R&D; (4) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; (5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to the financial statements have been incorporated; and (6) exclusion of minority interests from net income, if contained. This standard was applicable to equity method of accounting for fiscal years beginning on or after April 1, 2010.

The Company applied this accounting standard effective April 1, 2010.

d. ***Business Combination -*** In October 2003, the Business Accounting Council (the "BAC") issued a Statement of Opinion, "Accounting for Business Combinations", and in December 2005, the ASBJ issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures". The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations". Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling of interests method of accounting is no longer allowed. (2) The current accounting standard accounts for the research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development (IPR&D) acquired in the business combination is capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the 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 allocation. This standard was applicable to business combinations undertaken on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

Business combination for the fiscal year ended March 31, 2011, was as follows:

The Company acquired 90% of the outstanding shares of Hexion Specialty Chemicals Netherlands 1 B.V. on January 31, 2011 and accounted for it by the purchase method of accounting. The related goodwill is systematically amortized over 3 years.

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

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

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

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.

Non-marketable 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 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, 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 would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

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

k. ***Retirement Benefits -*** The Company and domestic subsidiaries have a funded defined benefit pension plan, defined contribution pension plan and severance lump-sum payment plan covering substantially all of its employees.

The Company has adopted an accounting standard for employees' retirement benefits and accounted for the asset for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

Retirement allowances for directors and corporate auditors are recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at each balance sheet date.

l. ***Asset Retirement Obligations*** - In March 2008, the ASBJ published the accounting standard for asset retirement obligations, ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations". Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of 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 increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard was effective for fiscal years beginning on or after April 1, 2010.

The Company applied this accounting standard effective April 1, 2010. The effect of this change was to decrease operating income by ¥2 million ($30 thousand) and income before income taxes and minority interests by ¥32 million ($388 thousand).

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

n. ***Leases -*** In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions", which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

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

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

All other leases are accounted for as operating leases.

o. ***Bonuses to Directors and Corporate Auditors -*** Bonuses to directors and corporate auditors are accrued at the year end 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 statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

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 statements of income 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 were 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 Financial Instruments -*** The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions 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 income statement and (2) for derivatives used for hedging purposes, if 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.

Long-term debt denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations are translated at the contracted rate if the forward contracts qualify for hedge accounting.

The 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 are recognized and included in interest expenses or income.

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

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

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

u. New Accounting Pronouncements

Accounting Changes and Error Corrections - In December 2009, ASBJ issued ASBJ Statement No. 24 "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24 "Guidance on Accounting Standard for Accounting Changes and Error Corrections". Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies - When a new accounting policy is applied with revision of accounting standards, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions. (2) Changes in Presentations - When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates - A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior Period Errors - When an error in prior period financial statements is discovered, those statements are restated. This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

3. BUSINESS COMBINATION

(a) Business combination of Hexion Specialty Chemicals Netherlands 1 B.V.

The Company acquired 90% of the share capital of Hexion Specialty Chemicals Netherlands 1 B.V. on January 31, 2011. Hexion Specialty Chemicals Netherlands 1 B.V. and 18 other subsidiaries develop, manufacture, and sell Rosin modified phenolic resins for printing inks business, Resins for adhesives business, Synthetic rubber emulsifiers business. The purpose of the business combination is this acquisition will contribute to further continued expansion of Resin & Tall Oil Products business and expand our presence around the world by achieving geographical synergy.

Hexion Specialty Chemicals Netherlands 1 B.V. and 18 other subsidiaries were newly consolidated by the acquisition. But only the balance sheets of the acquired companies are consolidated, and statement of income is not consolidated in this fiscal year, because of end of purchase.

The Company accounted for this business combination by the purchase method of accounting.

The acquisition cost was ¥11,497 million ($138,266 thousand) in cash in accordance with the acquired dated January 31, 2011. Additionally, acquisition related costs were ¥293 million ($3,529 thousand).

The total cost of acquisition has been allocated to the assets acquired and the liabilities assumed based on their respective fair values. Goodwill recorded in connection with the acquisition totaled ¥126 million ($1,514 thousand), and will be amortized over 3 years.

The estimated fair values of the assets acquired and the liabilities assumed at the acquisition date are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 12,320	$ 148,168
Fixed assets	4,585	55,142
Goodwill	126	1,514
Total assets acquired	¥ 17,031	$ 204,824
Current liabilities	(4,639)	(55,791)
Long-term liabilities	(473)	(5,684)
Total liabilities assumed	¥ (5,112)	$ (61,475)
Minority interests	(129)	(1,554)
Cost of acquisition	¥ 11,790	$ 141,795

Pro forma results of operations have not been presented because the effects of these business combinations, individually and in the aggregate, were not practicable to our consolidated results of operations.

(b) Business combination of Nippon Filler Metals, Ltd.

The Company acquired 100% of the share capital of Nippon Filler Metals, Ltd. on October 30, 2010. Nippon Filler Metals, Ltd. manufacture and sell solder and soldering-related products. The purpose of the business combination is this acquisition will contribute to Expansion of solder business and further enhancement of product development capabilities. The results of operations for Nippon Filler Metals, Ltd. are included in the Company's consolidated financial statements of income period from October 1, 2009 through March 31, 2010.

The Company accounted for this business combination by the purchase method of accounting.

The acquisition cost was ¥175 million in cash.

The total cost of acquisition has been allocated to the assets acquired and the liabilities assumed based on their respective fair values. Goodwill recorded in connection with the acquisition totaled ¥19 million, and will be charged to income when incurred.

If this business combination had been completed as of April 1, 2009, the beginning of the current fiscal year, the unaudited condensed pro forma consolidated financial statement of income for the year ended March 31, 2010 would be as follows:

	Millions of Yen
Sales	¥ 451
Operating income	9
Net income	2

(c) Business combination of Hitachi Kasei Polymer Company Ltd. (Tokushima Plant)

The Company acquired Rosin modified phenolic resins business of Hitachi Kasei Polymer Company Ltd. (Tokushima Plant) on December 30, 2010. The purpose of the business combination is this acquisition will contribute to further expansion and reinforcement of rosin modified phenolic resins business for printing inks.

The Company accounted for this business combination by the purchase method of accounting.

The acquisition cost was ¥190 million in cash.

The total cost of acquisition has been allocated to the assets acquired and the liabilities assumed based on their respective fair values. Goodwill recorded in connection with the acquisition totaled ¥278 million, and will be charged to income when incurred.

(d) Business combination of Xinyi Rihong Plastic Chemical Co., Ltd.

The Company acquired 80% of the share capital of Xinyi Rihong Plastic Chemical Co., Ltd. on December 30, 2010. Xinyi Rihong Plastic Chemical Co., Ltd. manufacture and sell resins for inks and adhesives. The purpose of the business combination is this acquisition will contribute to further expansion and reinforcement of rosin modified phenolic resins business for printing inks.

Xinyi Rihong Plastic Chemical Co., Ltd. was newly consolidated by the acquisition. But only the balance sheets of the acquired company are consolidated, and statement of income is not consolidated in this fiscal year, because of end of purchase.

The Company accounted for this business combination by the purchase method of accounting.

The acquisition cost was ¥324 million in cash.

The total cost of acquisition has been allocated to the assets acquired and the liabilities assumed based on their respective fair values. Goodwill recorded in connection with the acquisition totaled ¥18 million, and will be charged to income when incurred.

(e) Business combination of Xinyi Zhonglin Rosin Co., Ltd.

The Company acquired 81% of the share capital of Xinyi Zhonglin Rosin Co., Ltd. on December 30, 2010. Xinyi Zhonglin Rosin Co., Ltd. manufacture and sell gum rosin and turpentine. The purpose of the business combination is this acquisition will contribute to further expansion and reinforcement of rosin modified phenolic resins business for printing inks.

Xinyi Zhonglin Rosin Co., Ltd. was newly consolidated by the acquisition. But only the balance sheets of the acquired company are consolidated, and statement of income is not consolidated in this fiscal year, because of end of purchase.

The Company accounted for this business combination by the purchase method of accounting.

The acquisition cost was ¥133 million in cash.

The total cost of acquisition has been allocated to the assets acquired and the liabilities assumed based on their respective fair values. Goodwill recorded in connection with the acquisition totaled ¥4 million, and will be charged to income when incurred.

4. INVESTMENT SECURITIES

Investment securities as of March 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Non-current:			
Equity securities	¥ 2,081	¥ 2,323	$ 25,030
Trust fund investments and other	1,233	1,693	14,827
Total	¥ 3,314	¥ 4,016	$ 39,857

The costs and aggregate fair values of investment securities at March 31, 2011 and 2010 were as follows:

	Millions of Yen			
March 31, 2011	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 1,688	¥ 579	¥ 220	¥ 2,047
Debt securities	1,292	0	59	1,233

	Millions of Yen			
March 31, 2010	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 1,973	¥ 579	¥ 263	¥ 2,289
Debt securities	1,801	11	126	1,686

	Thousands of U.S. Dollars			
March 31, 2011	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	$ 20,298	$ 6,962	$ 2,638	$ 24,622
Debt securities	15,537	1	716	14,822

Carrying amounts of available-for-sale securities whose fair value is not readily determinable as of March 31, 2011 and 2010 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Available-for-sale:			
Equity securities	¥ 34	¥ 34	$ 408
Other	0	7	5

The information for available-for-sale securities which were sold during the years ended March 31, 2011 and 2010 was as follows:

	Millions of Yen		
March 31, 2011	Proceeds	Realized Gains	Realized Loss
Available-for-sale:			
Equity securities	¥ 164	¥ 52	¥ 6
Debt securities	1,003	13	19
Total	¥ 1,167	¥ 65	¥ 25

	Millions of Yen		
March 31, 2010	Proceeds	Realized Gains	Realized Loss
Available-for-sale:			
Equity securities	¥ 1	¥ 0	¥ -
Debt securities	478	5	4
Total	¥ 479	¥ 5	¥ 4

	Thousands of U.S. Dollars		
March 31, 2011	Proceeds	Realized Gains	Realized Loss
Available-for-sale:			
Equity securities	$ 1,978	$ 625	$ 75
Debt securities	12,061	159	230
Total	$ 14,039	$ 784	$ 305

The impairment losses on available-for-sale equity securities for the years ended March 31, 2011 and 2010 were ¥182 million ($2,184 thousand) and ¥93 million, respectively are included in other expenses other - net in the consolidated statements of income.

5. INVENTORIES

Inventories at March 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Finished products	¥ 4,372	¥ 1,620	$ 52,581
Work in process	222	205	2,673
Raw materials and supplies	5,839	3,269	70,222
Total	¥ 10,433	¥ 5,094	$ 125,476

6. LONG-LIVED ASSETS

The Group recognized impairment losses of ¥54 million ($648 thousand), which is included in other expense other - net in the consolidated statements of income, for the year ended March 31, 2011. The impairment loss is mainly recognized for the buildings and structures and machinery and equipment of plant in China due to recoverable amount of the assets were lower than the carrying amounts of the assets. The recoverable amount of the assets were measured at its market value. Also the Group recognized the impairment loss for the machinery and equipment not in use in the plant in Czech Republic to the net selling price at disposition.

The Group recognized impairment losses of ¥82 million, which is included in other expense other - net in the consolidated statements of income, for the year ended March 31, 2010. The impairment loss is mainly recognized for the buildings and structures, lease assets and land in golf course and hotel in Okayama, Japan due to recoverable amount of the assets were lower than the carrying amounts of the assets. The recoverable amount of the assets were measured at its selling price based on the report of appraiser. Also the Group recognized the impairment loss for the machinery and equipment not in use in Kakogawa plant in Japan to the net selling price at disposition.

7. INVESTMENT PROPERTY

In November, 2008, the ASBJ issued ASBJ Statement No. 20 "Accounting Standard for Investment Property and Related Disclosures" and issued ASBJ Guidance No. 23 "Guidance on Accounting Standard for Investment Property and Related Disclosures". This accounting standard and the guidance were applicable to investment property and related disclosures at the end of the fiscal years ending on or after March 31, 2010. The Group applied the accounting standard and guidance effective March 31, 2010.

The Group owns certain rental properties such as office buildings and land. The net of rental income and operating expenses for those rental properties was ¥129 million ($1,546 thousand) for the fiscal year ended March 31, 2011.

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

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2010	Increase	March 31, 2011	March 31, 2011
¥3,453	¥13	¥3,466	¥4,422

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2009	Decrease	March 31, 2010	March 31, 2010
¥3,573	¥(120)	¥3,453	¥3,615

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
April 1, 2010	Increase	March 31, 2011	March 31, 2011
$41,533	$156	$41,689	$53,185

Notes:

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

2) Increase during the fiscal year ended March 31, 2011 primarily represents the acquisition of certain properties of ¥64 million ($768 thousand), and decrease primarily represents the depreciation and amortization of ¥48 million ($574 thousand). Increase during the fiscal year ended March 31, 2010 primarily represents the acquisition of certain properties of ¥20 million, and decrease primarily represents the depreciation and amortization of ¥64 million and the recognition of impairment loss of ¥64 million.

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

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

Short-term bank loans at March 31, 2011 and 2010 consisted of notes to banks and bank overdrafts. The average interest rates applicable to the short-term bank loans as of March 31, 2011 and 2010 were 1.4% and 2.1%, respectively.

Long-term debt at March 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Loans from banks and other financial institutions, due serially to 2016 with interest rates ranging from 0.9% to 6.7% (2011) and from 1.0% to 6.7% (2010):			
Collateralized	¥ 8	¥ 23	$ 100
Unsecured	1,163	1,781	13,975
Obligations under finance leases	649	366	7,804
Total	1,820	2,170	21,879
Less current portion	(652)	(698)	(7,838)
Long-term debt, less current portion	¥ 1,168	¥ 1,472	$ 14,041

Annual maturities of long-term debt, at March 31, 2011, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2012	¥ 652	$ 7,838
2013	268	3,217
2014	181	2,176
2015	120	1,446
2016	78	931
2017 and thereafter	521	6,271
Total	¥ 1,820	$ 21,879

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥418 million ($5,025 thousand) and the above collateralized current portion of long-term debt of ¥8 million ($100 thousand) at March 31, 2011 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥ 41	$ 494
Buildings and structures	94	1,131
Other assets	40	484
Total	¥ 175	$ 2,109

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

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Company has never been requested to provide any additional collateral.

9. RETIREMENT AND PENSION PLANS

The Company has severance payment plans for employees, directors and corporate auditors.

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

The liability for retirement benefits at March 31, 2011 and 2010 for directors and corporate auditors is ¥418 million ($5,028 thousand) and ¥371 million, respectively is included in Liability for retirement benefits in the Consolidated Balance Sheet. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

The liability for employees' retirement benefits at March 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Projected benefit obligation	¥ 2,465	¥ 2,432	$ 29,641
Fair value of plan assets	(1,276)	(1,290)	(15,345)
Unrecognized actuarial loss	(416)	(476)	(5,005)
Net liability	¥ 773	¥ 666	$ 9,291

The components of net periodic retirement benefit costs for the years ended March 31, 2011 and 2010 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Service cost	¥ 229	¥ 223	$ 2,753
Interest cost	47	49	562
Expected return on plan assets	-	-	-
Recognized actuarial loss	72	113	871
Net periodic retirement benefit costs	348	385	4,186
Gain on revision of retirement benefit plan	-	(106)	-
Premium payments to defined contribution pension plan and other	87	85	1,040
Total	¥ 435	¥ 364	$ 5,226

Assumptions used for the years ended March 31, 2011 and 2010 are set forth as follows:

	2011	2010
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	0.0%	0.0%
Allocation method of the retirement benefits expected to be paid at the retirement date	Straight-line method based on years of service	Straight-line method based on years of service
Recognition period of actuarial gain or loss	14 years	14 years

10. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the year ended March 31, 2011 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at beginning of year	¥ 44	$ 532
Reconciliation associated with passage of time	1	7
Balance at end of year	45	539

11. EQUITY

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

(a) Dividends

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

The Companies Act permits companies to distribute dividends-in-kind (non-cash 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 total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

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

12. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the fiscal years ended March 31, 2011 and 2010 principally consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Employees' salaries and bonuses	¥ 1,554	¥ 1,445	$ 18,686
Net periodic retirement benefit costs	164	177	1,967
Transport cost	1,361	1,101	16,370
Depreciation cost	363	388	4,363
Research and development	1,447	1,308	17,397

13. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.6% for the years ended March 31, 2011 and 2010.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2011 and 2010 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Deferred tax assets:			
Tax loss carryforwards	¥ 1,222	¥ 1,258	$ 14,699
Impairment loss on long-lived assets	1,570	1,596	18,880
Loss on revaluation of investment securities	293	356	3,529
Retirement benefits to directors and corporate auditors	170	151	2,044
Property, plant and equipment	97	97	1,165
Unrealized loss on available-for-sale securities	112	157	1,349
Other	538	368	6,463
Less valuation allowance	(3,274)	(2,613)	(39,378)
Total	¥ 728	¥ 1,370	$ 8,751
Deferred tax liabilities:			
Reserve for deferred gains on sales of property, plant and equipment	¥ 98	¥ 104	$ 1,180
Unrealized gain on available-for-sale securities	108	-	1,294
Other	87	95	1,046
Total	¥ 293	¥ 199	$ 3,520
Net deferred tax assets	¥ 435	¥ 1,171	$ 5,231

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income for the year ended March 31, 2010 is as follows:

	2010
Normal effective statutory tax rate	40.6 %
Expenses not deductible for income tax purposes	1.9
Inhabitants' per capita levy	1.7
Tax credit for research and development expenses	(0.1)
Equity in earnings of associated companies	(0.6)
Net change in valuation allowance	7.7
Other - net	(1.2)
Actual effective tax rate	50.0 %

As the difference between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2011 is not more than 5% of the normal effective statutory tax rate, a reconciliation has not been disclosed as permitted under Japanese GAAP.

14. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,447 million ($17,397 thousand) and ¥1,308 million for the years ended March 31, 2011 and 2010, respectively.

15. LEASES

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

Total rental expenses including lease payments for the years ended March 31, 2011 and 2010 were ¥146 million ($1,753 thousand) and ¥175 million, respectively.

16. COMMITMENTS AND CONTINGENT LIABILITIES

The Company executed a ¥5,000 million ($60,132 thousand) committed borrowing facility with a domestic bank during the fiscal year ended March 31, 2011.

As of March 31, 2011, the Company transferred its trade accounts receivable of ¥1,172 million ($14,093 thousand) to a factoring company.

17. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

On March 10, 2008, the ASBJ revised ASBJ Statement No. 10 "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No. 19 "Guidance on Accounting Standard for Financial Instruments and Related Disclosures". This accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010 with early adoption permitted from the beginning of the fiscal years ending before March 31, 2010. The Group applied the revised accounting standard and the new guidance effective March 31, 2010.

(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 its ongoing operations. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

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

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

(3) Risk Management for Financial Instruments

Credit risk management

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

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

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2011.

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

Foreign currency trade payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged principally by forward foreign currency contracts. In addition, when foreign currency trade payables are expected from forecasted transaction, forward foreign currency contract may be used under the limited contract term of one year.

Interest rate swaps are used to manage exposure to market risks from changes in interest rates of loan payables.

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

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

Liquidity risk management

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

(4) Fair Value of Financial Instruments

Fair values of financial instruments are based on quoted price in active markets. If quoted price is not available, other rational valuation techniques are used instead.

Fair Value of Financial Instruments

Carrying amounts, fair values and the differences between carrying mounts and fair values as of March 31, 2011 are as follows. The accounts deemed to be extremely difficult to calculate the fair values are not included in the following:

	Millions of Yen		
March 31, 2011	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 5,958	¥ 5,958	¥ -
Notes and accounts receivable	17,114	17,114	-
Investment securities	3,280	3,280	-
Total	¥ 26,352	¥ 26,352	¥ -
Notes and accounts payable	¥ 10,742	¥ 10,742	¥ -
Short-term bank loans	17,255	17,255	-
Current portion of long-term debt (exclude obligations under finance leases)	615	615	-
Long-term debt (exclude obligations under finance leases)	555	567	(12)
Long-term deposits received	1,129	927	202
Total	¥ 30,296	¥ 30,106	¥ 190

March 31, 2010	Millions of Yen Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 3,302	¥ 3,302	¥ -
Notes and accounts receivable	12,464	12,464	-
Investment securities	3,975	3,975	-
Total	¥ 19,741	¥ 19,741	¥ -
Notes and accounts payable	¥ 5,238	¥ 5,238	¥ -
Short-term bank loans	6,554	6,554	-
Current portion of long-term debt (exclude obligations under finance leases)	660	660	-
Long-term debt (exclude obligations under finance leases)	1,144	1,186	(42)
Long-term deposits received	1,171	958	213
Total	¥ 14,767	¥ 14,596	¥ 171

March 31, 2011	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 71,653	$ 71,653	$ -
Notes and accounts receivable	205,816	205,816	-
Investment securities	39,444	39,444	-
Total	$ 316,913	$ 316,913	$ -
Notes and accounts payable	$ 129,190	$ 129,190	$ -
Short-term bank loans	207,512	207,512	-
Current portion of long-term debt (exclude obligations under finance leases)	7,400	7,400	-
Long-term debt (exclude obligations under finance leases)	6,675	6,817	(142)
Long-term deposits received	13,575	11,146	2,429
Total	$ 364,352	$ 362,065	$ 2,287

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 information of the fair value for the investment securities by classification is included in Note 4.

Notes and accounts payable, Short-term bank loans and Current portion of long-term debt

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

Long-term debt

The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate.

The fair values of floating rate debt that apply interest rate swaps which qualify for hedge accounting and meet specific matching criteria as means for hedging, are determined by discounting the cash flows related to the debt that include interest rate swaps as a unit at the Group's assumed corporate borrowing rate.

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, by the estimated interest rate reflecting assumed refund period and credit risk.

Derivatives

The information of the fair value for derivatives is included in Note 18.

(5) Maturity Analysis for Financial Assets with Contractual Maturities

	Millions of Yen			
March 31, 2011	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	¥ 5,958	¥ -	¥ -	¥ -
Notes and accounts receivable	17,114	-	-	-
Investment securities				
Available-for-sale securities with contractual maturities	-	-	287	945
Total	¥ 23,072	¥ -	¥ 287	¥ 945

	Millions of Yen			
March 31, 2010	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	¥ 3,302	¥ -	¥ -	¥ -
Notes and accounts receivable	12,464	-	-	-
Investment securities				
Available-for-sale securities with contractual maturities	-	13	35	1,590
Total	¥ 15,766	¥ 13	¥ 35	¥ 1,590

March 31, 2011	Thousands of U.S. Dollars 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	$ 71,653	$ -	$ -	$ -
Notes and accounts receivable	205,816	-	-	-
Investment securities				
Available-for-sale securities with contractual maturities	-	-	3,457	11,365
Total	$ 277,469	$ -	$ 3,457	$ 11,365

18. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain liabilities denominated in foreign currencies. 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 and foreign currency exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by an opposite movements in the value of hedged liabilities.

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

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

Derivative transactions to which hedge accounting is applied

At March 31, 2011	Millions of Yen Hedged Item	Contract Amount	Contract Amount due after One Year	Fair Value
Foreign currency forward contracts:				
Buying U.S.$	Payables	¥ -	¥ -	¥ -
Interest rate swaps: (fixed rate payment, floating rate receipt)	Current portion of long-term debt	¥ 2,100	¥ -	¥ -
	Short-term bank loans	400	-	

At March 31, 2010	Hedged Item	Millions of Yen Contract Amount	 Contract Amount due after One Year	 Fair Value
Foreign currency forward contracts:				
Buying U.S.$	Payables	¥ 9	¥ -	¥ 0
Interest rate swaps: (fixed rate payment, floating rate receipt)	Long-term debt	¥ 2,100	¥ 420	¥ -
	Short-term bank loans	400	-	

At March 31, 2011	Hedged Item	Thousands of U.S. Dollars Contract Amount	 Contract Amount due after One Year	 Fair Value
Foreign currency forward contracts:				
Buying U.S.$	Payables	$ -	$ -	$ -
Interest rate swaps: (fixed rate payment, floating rate receipt)	Current portion of long-term debt	$ 25,256	$ -	$ -
	Short-term bank loans	4,811	-	

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

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

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

19. COMPREHENSIVE INCOME

For the year ended March 31, 2010

Total comprehensive income for the year ended March 31, 2010 was the following:

	Millions of Yen
Total comprehensive income attributable to:	
Owners of the parent	¥ 1,329
Minority interests	50
Total comprehensive income	¥ 1,379

Other comprehensive income for the year ended March 31, 2010 consisted of the following:

	Millions of Yen
Other comprehensive income:	
Unrealized gain on available-for-sale securities	¥ 463
Deferred loss on derivatives under hedge accounting	(1)
Foreign currency translation adjustments	(76)
Share of other comprehensive income in associates	-
Total other comprehensive income	¥ 386

20. NET INCOME PER SHARE

Details of the basic net income per share ("EPS") for the years ended March 31, 2011 and 2010 were as follows:

	Millions of Yen	Thousands of Shares	Yen	Dollars
	Net Income	Weighted Average Shares	EPS	
For the year ended March 31, 2011:				
Basic EPS				
Net income available to common shareholders	¥ 1,337	25,950	¥ 51.53	$ 0.62
For the year ended March 31, 2010:				
Basic EPS				
Net income available to common shareholders	¥ 952	25,954	¥ 36.66	

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

21. RELATED PARTY DISCLOSURES

The transactions between the Company and related parties

Transactions of the Company and related parties for the years ended March 31, 2011 and 2010 were as follows:

Fiscal year ended March 31, 2011

Type of Related Parties	Name	Address	Capital Amount (Millions of Yen)	Description of Business	Percentage of Equity Ownership in the Company	Nature of Transactions	Amount (Millions of Yen)	Amount (Thousands of U.S. Dollars)
Owned by certain directors of the company and their relatives.	Hasegawa Kosan Co., Ltd.	Kakogawa-shi, Hyogo, Japan	¥40	Insurance agent	(Owned) Direct 17.64	Payment of insurance	¥85	$1,022

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

Fiscal year ended March 31, 2010

Type of Related Parties	Name	Address	Capital Amount (Millions of Yen)	Description of Business	Percentage of Equity Ownership in the Company	Nature of Transactions	Amount (Millions of Yen)
Owned by certain directors of the company and their relatives.	Hasegawa Kosan Co., Ltd.	Kakogawa-shi, Hyogo, Japan	¥40	Insurance agent	(Owned) Direct 17.64	Payment of insurance	¥ 10
	Harima Food, Inc.	Kakogawa-shi, Hyogo, Japan	30	Food manufacturing	-	Sales of food	17
						Purchase of land	327

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

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

22. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2011 was approved at the Company's Board of Directors' meeting held on May 20, 2011:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥8 ($0.10) per share	¥208	$2,497

23. SEGMENT INFORMATION

For the years ended March 31, 2011 and 2010

In March 2008, the ASBJ revised ASBJ Statement No. 17 "Accounting Standard for Segment Information Disclosures" and issued ASBJ Guidance No. 20 "Guidance on Accounting Standard for Segment Information Disclosures". Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and the guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

The segment information for the year ended March 31, 2010 under the revised accounting standard is also disclosed hereunder as required.

1. Description of reportable segments

   The Group's reportable segments are those for which separately financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. Therefore, the Group consists of "Resin & Tall Oil Products", "Paper Chemicals" and "Electronics Materials". "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.

2. Methods of measurement for the amounts of sales, profit, assets, liabilities and other items for each reportable segment

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

3. Information about sales, profit and other items is as follows.

	Millions of Yen							
	2011							
	Reportable Segment							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Total	Other	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	¥ 19,673	¥ 12,972	¥ 4,855	¥ 37,500	¥ 4,021	¥ 41,521	¥ (26)	¥ 41,495
Intersegment sales or transfers	207	-	-	207	38	245	(245)	-
Total	19,880	12,972	4,855	37,707	4,059	41,766	(271)	41,495
Segment profit	2,040	727	308	3,075	5	3,080	(314)	2,766
Other:								
Depreciation	663	565	246	1,474	156	1,630	(13)	1,617
Net result of interest income and interest expense	¥ (71)	¥ (15)	¥ (15)	¥ (101)	¥ (84)	¥ (185)	¥ -	¥ (185)

Notes: "Other" division is business segment not attributable to reportable segment and include mainly real estate management, etc.

Reconciliations of segment profit include reconciliations of inventories ¥36 million ($437 thousand) and company-wide income and expenses that are not attributable to reportable segment ¥309 million ($3,713 thousand), etc.

Segment profits are adjusted to certain other income and expenses from operating income on consolidated statements of income.

Assets are not allocated into reportable segments how to determine the allocation of management resources and how to assess performance of the Company.

	Millions of Yen							
	2010							
	Reportable Segment							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Total	Other	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	¥ 15,910	¥ 10,970	¥ 3,753	¥ 30,633	¥ 2,870	¥ 33,503	¥ (8)	¥ 33,495
Intersegment sales or transfers	201	3	-	204	112	316	(316)	-
Total	16,111	10,973	3,753	30,837	2,982	33,819	(324)	33,495
Segment profit (loss)	801	658	310	1,769	(122)	1,647	(50)	1,597
Other:								
Depreciation	602	635	266	1,503	164	1,667	10	1,677
Amortization of goodwill	-	-	-	-	3	3	10	13
Net result of interest income and interest expense	(34)	(13)	(19)	(66)	(109)	(175)	-	(175)
Equity in earnings of associated companies	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -	¥ 35	¥ 35

Notes: "Other" division is business segment not attributable to reportable segment and include mainly real estate management, etc.

Reconciliations of segment profit include reconciliations of inventories ¥150 million and company-wide income and expenses that are not attributable to reportable segment ¥172 million, etc.

Segment profits are adjusted to certain other income and expenses from operating income on consolidated statements of income.

Assets are not allocated into reportable segments how to determine the allocation of management resources and how to assess performance of the Company.

	Thousands of U.S. Dollars							
	2011							
	Reportable Segment							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Total	Other	Total	Reconciliations	Consolidated
Sales:								
Sales to external customers	$ 236,591	$ 156,008	$ 58,393	$ 450,992	$ 48,359	$ 499,351	$ (317)	$ 499,034
Intersegment sales or transfers	2,488	-	-	2,488	457	2,945	(2,945)	-
Total	239,079	156,008	58,393	453,480	48,816	502,296	(3,262)	499,034
Segment profit	24,529	8,741	3,708	36,978	58	37,036	(3,774)	33,262
Other:								
Depreciation	7,977	6,793	2,956	17,726	1,882	19,608	(162)	19,446
Net result of interest income and interest expense	$ (851)	$ (181)	$ (180)	$ (1,212)	$ (1,019)	$ (2,231)	$ -	$ (2,231)

[Related information]

1. Information about finished products and services

   This information is omitted because it is the same as is recorded for segment information.

2. Information about geographical areas

   Net sales to customers and property, plant and equipment by regions for the year ended March 31, 2011 was as follows:

   (1) Net sales

Millions of Yen				
Japan	South and North America	Asia	Other	Total
¥32,079	¥4,797	¥4,346	¥273	¥41,495

Thousands of U.S. Dollars				
Japan	South and North America	Asia	Other	Total
$385,798	$57,691	$52,263	$3,282	$499,034

Note: Sales are classified into countries or regions based on customer's locations.

   (2) Net property, plant and equipment

Millions of Yen					
Japan	South and North America	Asia	Europe	Other	Total
¥14,883	¥1,697	¥1,780	¥2,158	¥714	¥21,232

Thousands of U.S. Dollars					
Japan	South and North America	Asia	Europe	Other	Total
$178,986	$20,413	$21,406	$25,953	$8,583	$255,341

   (3) Information by principle customers

   There are no indication because within the net sales from external customers, there are no customers that covers more than 10% of whole 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 year ended March 31, 2011 were as follow:

	Millions of Yen						
	Reportable Segment						
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Total	Other	Eliminations/ Corporate	Consolidated
Long-lived assets	¥ -	¥ -	¥54	¥54	¥ -	¥ -	¥54

	Thousands of U.S. Dollars						
	Reportable Segment						
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Total	Other	Eliminations/ Corporate	Consolidated
Long-lived assets	$ -	$ -	$648	$648	$ -	$ -	$648

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

The amortization of goodwill and amount of goodwill by reportable segment for the year ended March 31, 2011 were as follow:

	Millions of Yen						
	Reportable Segment						
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Total	Other	Eliminations/ Corporate	Consolidated
Amortization of goodwill	¥ -	¥ -	¥ -	¥ -	¥ -	¥4	¥ 4
Amount of goodwill	126	-	-	126	-	-	126

	Thousands of U.S. Dollars						
	Reportable Segment						
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Total	Other	Eliminations/ Corporate	Consolidated
Amortization of goodwill	$ -	$ -	$ -	$ -	$ -	$44	$ 44
Amount of goodwill	1,514	-	-	1,514	-	-	1,514

For the year ended March 31, 2010

The Company operates in the following industries:

"Resin & Tall Oil Products Business" manufactures and sells paint resin, resins for print inks, tall oil products and synthetic rubber emulsifiers.

"Paper Chemicals Business" manufactures and sells paper strengthening agents, sizing agents and surface coating agents.

"Electronics Materials Business" manufactures and sells electronics materials.

"Other" manages mainly real estate, etc.

Information about industry segments, geographical segments and sales to foreign customers of the Group for the year ended March 31, 2010 is as follows:

(1) Industry Segments

a. Sales and Operating Income

	Millions of Yen						
	Resin & Tall Oil Products Business	Paper Chemicals Business	Electronics Materials Business	Other	Total	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 18,219	¥ 11,336	¥ 3,701	¥ 239	¥ 33,495	¥ -	¥ 33,495
Intersegment sales	-	-	-	-	-	-	-
Total sales	18,219	11,336	3,701	239	33,495	-	33,495
Operating expenses	16,209	10,514	3,312	294	30,329	1,831	32,160
Operating income (loss)	¥ 2,010	¥ 822	¥ 389	¥ (55)	¥ 3,166	¥ (1,831)	¥ 1,335

b. Total Assets, Depreciation, Impairment Loss and Capital Expenditures

	Millions of Yen						
	Resin & Tall Oil Products Business	Paper Chemicals Business	Electronics Materials Business	Other	Total	Eliminations/ Corporate	Consolidated
Total assets	¥ 19,202	¥ 12,890	¥ 4,069	¥ 4,144	¥ 40,305	¥ 5,635	¥ 45,940
Depreciation	537	664	252	89	1,542	135	1,677
Impairment loss	9	9	-	64	82	-	82
Capital expenditures	689	302	37	356	1,384	156	1,540

(2) Geographical Segments

The geographical segments of the Company and its subsidiaries for the year ended March 31, 2010 are summarized as follows:

	Millions of Yen						
	Japan	South and North America	Asia	Other	Total	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 27,839	¥ 3,675	¥ 1,881	¥ 100	¥ 33,495	¥ -	¥ 33,495
Intersegment sales	535	114	720	-	1,369	(1,369)	-
Total sales	28,374	3,789	2,601	100	34,864	(1,369)	33,495
Operating expenses	25,438	3,809	2,326	130	31,703	457	32,160
Operating income (loss)	¥ 2,936	¥ (20)	¥ 275	¥ (30)	¥ 3,161	¥ (1,826)	¥ 1,335
Total assets	¥ 33,285	¥ 3,266	¥ 4,177	¥ 325	¥ 41,053	¥ 4,887	¥ 45,940

(3) Sales to Foreign Customers

Sales to foreign customers for the year ended March 31, 2010 are summarized as follows:

	Millions of Yen			
	South and North America	Asia	Other	Total
Sales to foreign customers	¥3,709	¥2,508	¥133	¥6,350

* * * * * *

Deloitte

Deloitte Touche Tohmatsu LLC
Yodoyabashi Mitsui Building
4-1-1, Imabashi, Chuo-ku
Osaka 541-0042
Japan

Tel: +81 (6) 4560 6000
Fax: +81 (6) 4560 6001
www.deloitte.com/jp

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Harima Chemicals, Inc.:

We have audited the accompanying consolidated balance sheets of Harima Chemicals, Inc. and subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income, for the years then ended, the consolidated statement of comprehensive income for the year ended March 31, 2011, and the related consolidated statements of changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Harima Chemicals, Inc. and subsidiaries as of March 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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

Deloitte Touche Tohmatsu LLC

June 28, 2011

Member of
Deloitte Touche Tohmatsu Limited

Corporate Overview (As of March 31, 2011)

Founded	November 18, 1947
Capital Stock	10,012.95 million yen
Head Office	671-4, Mizuashi, Noguchi-cho, Kakogawa-shi, Hyogo, Japan
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, Shikoku Plant
Sales Offices	Tokyo Sales Office, Osaka Sales Office, Nagoya Sales Office, Kyushu Sales Office, Fuji Sales Office, Hokkaido Sales Office, Sendai Sales Office, Shikoku Sales Office
Number of Employees	417 (Consolidated: 1,582)
Number of Group Companies	37
Business Activities	Manufacture and sale of Resin & Tall Oil Products , Paper Chemicals , Electronics Materials, etc.
Website	http://www.harima.co.jp/en/index.html

Principal Subsidiaries

Company name	Capital stock	Percentage of equity participation (%)	Main business
Harima Trading, Inc.	48,000 thousand yen	100	Real estate management, etc.
Seven Rivers, Inc.	14,000 thousand yen	100	Manufacture and sale of industrial detergents, etc.
Harima M.I.D., Inc.	300,000 thousand yen	75	Manufacture and sale of tall oil products
Harima Kasei Polymer Co., Ltd.	10,000 thousand yen	100	Manufacture and sale of resins for printing inks, etc.
Nippon Filler Metals, Ltd.	45,000 thousand yen	100	Manufacture and sale of electronic materials
HARIMA USA, Inc.	3,350 thousand US Dollars	100	Control of US operations
Harima do Brasil Industria Quimica Ltda.	400 thousand Brasil real	87.2	Manufacture and sale of rosin and its derivatives
Harimatec Hangzhou Co., Ltd.	8,690 thousand Chinese yuan	85	Manufacture and sale of electronic materials
Harimatec Malaysia Sdn. Bhd.	1,356 thousand Malaysian ringgit	85	Manufacture and sale of electronic materials
Hangzhou Hanghua-Harima Paper Chemicals Co., Ltd.	52,296 thousand Chinese yuan	56.07	Manufacture and sale of papermaking chemicals
Nanning Harima Chemicals Co., Ltd.	48,234 thousand Chinese yuan	95	Manufacture and sale of rosin and its derivatives
Harimatec Czech, s.r.o.	7,000 Czech koruna	100	Manufacture and sale of electronic materials
Xinyi Rihong Plastic Chemical Co., Ltd.	27,390 thousand Chinese yuan	80	Manufacture and sale of rosin and its derivatives
Xinyi Zhonglin Rosin Co., Ltd.	12,000 thousand yuan	81	Manufacture and sale of rosin and its derivatives
Lawter B.V.	17,600 thousand Euro	90	Control of Lawter Group’s operations

Directors and Corporate Auditors (As of June 28, 2011)

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

* denotes Outside Corporate Auditors.

Status of Shares (As of March 31, 2011)

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

(2) Total number of shares outstanding 26,080,396
(including 130,808 shares of treasury stocks)

(3) Number of shareholders 2,649

(4) Major shareholders

	Status of shareholding	
	Number of shares held (Thousands of shares)	Ratio of number of shares held against total number of shares outstanding (%)
Hasegawakosan Co., Ltd.	4,558	17.56
Yoshihiro Hasegawa	1,334	5.14
Sumitomo Mitsui Banking Corporation	1,094	4.21
Shorai Foundation for Science and Technology	805	3.10
Harima Chemicals Mutual Prosperity Association	804	3.10
THE MINATO BANK, LTD.	692	2.66
Shorai, Ltd.	687	2.64
Keihansin Kougyou Corporation	672	2.58
Japan Trustee Services Bank, Ltd. (Account in trust)	622	2.39
The Master Trust Bank of Japan, Ltd. (Account in trust)	527	2.03

(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 (130,808 shares), which amounts to 25,949,588 shares. The number shown is rounded down to two decimal places.