Appendix

TOKYO OHKA KOGYO CO., LTD. and Subsidiaries

Fiscal year ended March 31, 2016
(April 1, 2015 — March 31, 2016)

Consolidated financial statements,
Notes to consolidated financial statements

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Balance Sheets
March 31, 2016 and 2015

ASSETS	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2016
CURRENT ASSETS:			
Cash and cash equivalents (Notes 5 and 18)	¥ 37,516	¥ 39,565	$ 334,964
Time deposits (Note 18)	13,360	14,401	119,287
Receivables:			
Trade notes and accounts (Note 18)	17,921	19,422	160,009
Securities (Notes 5, 6 and 18)	2,000	2,000	17,857
Other	303	1,089	2,706
Allowance for doubtful accounts	(37)	(35)	(335)
Inventories (Note 7)	12,999	11,555	116,070
Deferred tax assets (Note 15)	1,497	1,821	13,370
Prepaid expenses and other current assets	1,553	1,232	13,873
Total current assets	87,114	91,054	777,805
PROPERTY, PLANT AND EQUIPMENT (Note 8):			
Land	9,098	9,205	81,232
Buildings and structures	59,019	55,881	526,961
Machinery and equipment	55,226	55,382	493,097
Furniture and fixtures	18,190	16,531	162,412
Leased assets	—	0	—
Construction in progress	3,176	5,420	28,363
Total	144,711	142,423	1,292,069
Accumulated depreciation	(96,798)	(93,051)	(864,273)
Net property, plant and equipment	47,913	49,371	427,796
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 6 and 18)	9,524	10,808	85,044
Investments in and advanced to an unconsolidated subsidiary and associated companies	953	789	8,511
Net defined benefit asset (Note 10)	946	2,964	8,449
Long-term time deposits (Note 18)	18,000	18,000	160,714
Deferred tax assets (Note 15)	1,293	60	11,552
Other assets	1,554	1,815	13,878
Total investments and other assets	32,272	34,437	288,149
TOTAL	¥ 167,300	¥ 174,863	$ 1,493,751

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2016
CURRENT LIABILITIES:			
Payables:			
Trade notes and accounts (Note 18)	¥ 7,787	¥ 9,797	$ 69,531
Construction and other	3,717	3,051	33,196
Income taxes payable	1,310	2,176	11,699
Accrued expenses	3,550	3,633	31,698
Deferred tax liabilities (Note 15)	18	40	168
Other current liabilities (Notes 9 and 18)	745	595	6,656
Total current liabilities	17,130	19,295	152,950
LONG-TERM LIABILITIES:			
Long-term loans payable (Notes 9 and 18)	137	549	1,228
Deferred tax liabilities (Note 15)	2,137	2,036	19,084
Net defined benefit liability (Note 10)	150	134	1,342
Other long-term liabilities	473	848	4,228
Total long-term liabilities	2,899	3,569	25,884
EQUITY (Notes 13 and 21):			
Common stock—authorized, 197,000,000 shares in 2016 authorized, 197,000,000 shares in 2015 issued, 45,100,000 shares in 2016 issued, 46,600,000 shares in 2015	14,640	14,640	130,718
Capital surplus	15,207	15,207	135,784
Retained earnings	110,359	109,500	985,350
Treasury stock—at cost, 1,930,932 shares in 2016 and 1,726,026 shares in 2015	(5,239)	(3,183)	(46,784)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	2,834	3,877	25,304
Foreign currency translation adjustments	4,823	5,813	43,069
Remeasurements of defined benefit plans	(253)	1,590	(2,267)
Total	142,371	147,447	1,271,176
Stock acquisition rights	309	191	2,761
Non-controlling interests	4,589	4,360	40,978
Total equity	147,270	151,999	1,314,916
TOTAL	¥ 167,300	¥ 174,863	$ 1,493,751

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
NET SALES	¥ 89,969	¥ 88,086	$ 803,296
COST OF SALES (Notes 10, 14 and 16)	56,659	55,101	505,890
Gross profit	33,309	32,984	297,405
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 10, 14 and 16)	20,871	19,731	186,350
Operating income	12,438	13,253	111,054
OTHER INCOME (EXPENSES):			
Interest and dividend income	287	229	2,569
Foreign exchange (loss) gain—net	(642)	1,459	(5,735)
Gain (loss) on valuation of derivatives	270	(460)	2,418
Equity in earnings of an associate	219	101	1,961
Loss related to a new factory	—	(496)	—
Operation preparation expense	(339)	—	(3,033)
Loss on impairment of long-lived assets (Note 8)	(752)	(665)	(6,722)
Gain on revision of retirement benefit plan	—	622	—
Other—net	296	258	2,647
Other (expenses) income —net	(660)	1,048	(5,895)
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	11,777	14,301	105,159
INCOME TAXES (Note 15):			
Current	3,031	4,161	27,065
Prior years	18	40	165
Deferred	468	663	4,180
Total income taxes	3,518	4,865	31,411
NET INCOME BEFORE NON-CONTROLLING INTERESTS	8,259	9,435	73,748
NON-CONTROLLING INTERESTS IN NET INCOME	543	617	4,848
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 7,716	¥ 8,818	$ 68,899

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2016 and 2015

	Yen		U.S. dollars
	2016	2015	2016
PER SHARE OF COMMON STOCK (Notes 14 and 21):			
Basic profit	¥ 177.30	¥ 196.61	$ 1.58
Diluted profit	176.17	195.71	1.57
Cash dividends applicable to the year	64.00	60.00	0.57

See notes to consolidated financial statements.

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income
Years Ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
NET INCOME BEFORE NON-CONTROLLING INTERESTS	¥ 8,259	¥ 9,435	$ 73,748
OTHER COMPREHENSIVE INCOME (Note 20):			
Unrealized (loss) gain on available-for-sale securities	(1,043)	1,471	(9,314)
Foreign currency translation adjustments	(1,127)	3,168	(10,068)
Remeasurements of defined benefit plans	(1,844)	210	(16,468)
Share of other comprehensive income in an associate	(55)	72	(496)
Total other comprehensive income	(4,071)	4,921	(36,348)
COMPREHENSIVE INCOME (Note 20)	¥ 4,188	¥ 14,357	$ 37,400
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 20):			
Owners of the parent	¥ 3,838	¥ 13,377	$ 34,275
Non-controlling interests	349	980	3,124

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity
Years Ended March 31, 2016 and 2015

	Thousands	Millions of yen										
						Accumulated other comprehensive income (loss)						
	Number of shares of common stock outstanding	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized (loss) gain on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total	Subscription rights to shares	Non-controlling interests	Total equity
BALANCE, APRIL 1, 2014	44,823	¥ 14,640	¥ 15,207	¥ 103,162	¥ (3,280)	¥ 2,406	¥ 2,936	¥ 1,380	¥ 136,453	¥ 83	¥ 3,425	¥ 139,962
Cumulative effect of changes in accounting policy				129					129			129
Restated balance	44,823	14,640	15,207	103,292	(3,280)	2,406	2,936	1,380	136,583	83	3,425	140,092
Profit attributable to owners of the parent	–	–	–	8,818	–	–	–	–	8,818	–	–	8,818
Cash dividends paid:												
Final for prior year, ¥28.0 per share	–	–	–	(1,260)	–	–	–	–	(1,260)	–	–	(1,260)
Interim for current year, ¥30.0 per share	–	–	–	(1,350)	–	–	–	–	(1,350)	–	–	(1,350)
Purchase of treasury stock	(0)	–	–	–	(2)	–	–	–	(2)	–	–	(2)
Disposal of treasury stock	51	–	–	–	99	–	–	–	99	–	–	99
Retirement of treasury stock	–	–	–	–	–	–	–	–	–	–	–	–
Net change in the year	–	–	–	–	–	1,471	2,877	210	4,558	108	934	5,601
BALANCE, MARCH 31, 2015	44,873	14,640	15,207	109,500	(3,183)	3,877	5,813	1,590	147,447	191	4,360	151,999
Cumulative effect of changes in accounting policy												–
Restated balance	44,873	14,640	15,207	109,500	(3,183)	3,877	5,813	1,590	147,447	191	4,360	151,999
Profit attributable to owners of the parent	–	–	–	7,716	–	–	–	–	7,716	–	–	7,716
Cash dividends paid:												
Final for prior year, ¥30.0 per share	–	–	–	(1,350)	–	–	–	–	(1,350)	–	–	(1,350)
Interim for current year, ¥32.0 per share	–	–	–	(1,384)	–	–	–	–	(1,384)	–	–	(1,384)
Purchase of treasury stock	(1,750)	–	–	–	(6,269)	–	–	–	(6,269)	–	–	(6,269)
Disposal of treasury stock	45	–	–	(0)	89	–	–	–	88	–	–	88
Retirement of treasury stock	–	–	–	(4,123)	4,123	–	–	–	–	–	–	–
Net change in the year	–	–	–	–	–	(1,043)	(990)	(1,844)	(3,877)	118	229	(3,530)
BALANCE, MARCH 31, 2016	43,169	¥ 14,640	¥ 15,207	¥ 110,359	¥ (5,239)	¥ 2,834	¥ 4,823	¥ (253)	¥ 142,371	¥ 309	¥ 4,589	¥ 147,270

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended March 31, 2016 and 2015

	Thousands of U.S. dollars (Note 1)										
					Accumulated other comprehensive income (loss)						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized (loss) gain on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total	Subscription rights to shares	Non-controlling interests	Total equity
BALANCE, MARCH 31, 2015	$ 130,718	$ 135,784	$ 977,686	$ (28,424)	$ 34,619	$ 51,909	$ 14,201	$ 1,316,495	$ 1,707	$ 38,931	$ 1,357,134
Cumulative effect of changes in accounting policy											–
Restated balance	130,718	135,784	977,686	(28,424)	34,619	51,909	14,201	1,316,495	1,707	38,931	1,357,134
Profit attributable to owners of the parent	–	–	68,899	–	–	–	–	68,899	–	–	68,899
Cash dividends paid:											
Final for prior year, $0.27 per share	–	–	(12,054)	–	–	–	–	(12,054)	–	–	(12,054)
Interim for current year, $0.29 per share	–	–	(12,358)	–	–	–	–	(12,358)	–	–	(12,358)
Purchase of treasury stock	–	–	–	(55,973)	–	–	–	(55,973)	–	–	(55,973)
Disposal of treasury stock	–	–	(5)	796	–	–	–	791	–	–	791
Retirement of treasury stock	–	–	(36,817)	36,817	–	–	–	–	–	–	–
Net change in the year	–	–	–	–	(9,314)	(8,840)	(16,468)	(34,624)	1,053	2,047	(31,522)
BALANCE, MARCH 31, 2016	$ 130,718	$ 135,784	$ 985,350	$ (46,784)	$ 25,304	$ 43,069	$ (2,267)	$ 1,271,176	$ 2,761	$ 40,978	$ 1,314,916

See notes to consolidated financial statements.

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
OPERATING ACTIVITIES:			
Income before income taxes and non-controlling interests	¥ 11,777	¥ 14,301	$ 105,159
Adjustments for:			
Income taxes paid	(4,157)	(3,935)	(37,121)
Depreciation and amortization	5,631	4,276	50,277
Provision for doubtful accounts	(18)	(94)	(160)
Foreign exchange loss (gain) —net	934	(1,423)	8,346
Equity in earnings of an associate	(219)	(101)	(1,961)
Loss on impairment of long-lived assets	752	665	6,722
Gain (loss) on valuation of derivatives	(270)	460	(2,418)
Increase in net defined benefit asset	(686)	(1,855)	(6,125)
Increase in net defined benefit liability	16	39	147
Decrease (increase) in trade notes and accounts receivable	1,200	(2,119)	10,720
Increase in inventories	(1,755)	(368)	(15,677)
(Decrease) increase in trade notes and accounts payable	(1,522)	3,121	(13,597)
Decrease in advances from customers	(5)	(692)	(45)
Other—net	224	1,302	2,007
Net cash provided by operating activities	11,902	13,577	106,274
INVESTING ACTIVITIES:			
Deposit for time deposits—net	(12)	(70)	(109)
Purchases of property, plant and equipment	(5,335)	(7,052)	(47,638)
Purchases of intangible assets	(177)	(456)	(1,586)
Payments into long-term time deposits	(14,000)	(13,000)	(125,000)
Withdrawal of long-term time deposits	15,000	13,000	133,928
Purchases of investment securities	(345)	(2,284)	(3,084)
Collection of loans receivable	373	85	3,332
Other—net	111	(419)	999
Net cash used in investing activities	(4,385)	(10,197)	(39,159)
FINANCING ACTIVITIES:			
Repayments of short-term loans payable	(143)	—	(1,279)
Proceeds of long-term loans payable	—	523	—
Repayments of long-term loans payable	(122)	(122)	(1,089)
Dividends paid	(2,729)	(2,605)	(24,368)
Dividends paid for non-controlling interests	(120)	(45)	(1,077)
Disposal of treasury stock	152	148	1,360
Purchases of treasury stock	(6,304)	(2)	(56,285)
Other—net	(1)	(6)	(15)
Net cash used in financing activities	(9,268)	(2,110)	(82,754)

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(298)	1,138	(2,663)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,049)	2,408	(18,302)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	41,565	39,157	371,124
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 5)	¥ 39,516	¥ 41,565	$ 352,821

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.

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 amounts reported in prior years have been reclassified to conform to the current year's presentation.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which TOKYO OHKA KOGYO CO., LTD. (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 ¥112 to $1, the approximate rate of exchange at March 31, 2016. 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.

Amounts of less than one million yen have been rounded off. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation— The consolidated financial statements include the accounts of the Company and its eight significant subsidiaries (together, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investment in one associated company is accounted for by the equity method. Investments in the remaining one unconsolidated subsidiary and another associated company are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

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. Cash Equivalents— Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less that are readily convertible into cash and exposed to insignificant risk of changes in value.

c. Allowance for Doubtful Accounts— The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

d. Inventories— Merchandise, work in process, raw materials and supplies are stated at the lower of cost, determined by the first-in, first-out method, or net selling value. Finished products are stated at the lower of cost, determined by the average method, or net selling value. Inventories of manufacturing equipment are stated at the lower of cost, determined by the specific identification method, or net selling value, which are included in raw materials, work in process and finished products.

e. ***Investment Securities***— Investment securities are classified and accounted for, depending on management's intent, as follows: (i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at cost and (ii) available-for-sale securities, other than (i), 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.

f. ***Property, Plant and Equipment***— Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment, except for lease assets, of the Company and its consolidated domestic subsidiaries is computed by the straight-line method. The range of useful lives is principally from 10 to 50 years for buildings and structures, and from 3 to 8 years for machinery and equipment, and furniture and fixtures.

g. ***Long-Lived Assets***— The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss 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.

h. ***Other Assets*—** Intangible assets are stated at cost less accumulated amortization, which is calculated by the straight-line method principally over 5 years.

i. ***Retirement Benefits***

Retirement benefits to employees (including officers)— The Company and its certain consolidated subsidiaries have funded defined benefit pension plans and lump-sum retirement payment plans.

The companies principally accounted for the retirement benefit obligations based on the projected benefit obligations and plan assets at each balance sheet date.

Prior service cost is amortized by the straight-line method over 10 years. Actuarial gains and losses are amortized by the straight-line method over 10 years from the next period in which they arise.

The Company and certain consolidated subsidiaries terminated their unfunded retirement allowance plan for officers on June 26, 2008. Accordingly, allowance is provided in the amount payable to the eligible officers as of the termination date of the plans for the payment upon their retirement.

Retirement benefits to directors and corporate auditors— Retirement benefits to directors and corporate auditors are provided to state the liability at the amount that would be required if all of them retired at the balance sheet date.

The Company and certain consolidated subsidiaries terminated their unfunded retirement allowance plans for directors and corporate auditors on June 26, 2008. Accordingly, allowance is provided in the amount payable to the eligible directors and corporate auditors as of the termination date of the plans for the payment upon their retirement.

j. ***Asset Retirement Obligations***— The Group recognizes assets retirement obligation for buildings and sub stations in the domestic offices in accordance with the relevant laws. The amount of the asset retirement obligations is calculated with the estimated usable years of eight to 50 years from the acquisition and the discount rate ranging from 0.4% to 2.3%.

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

l. ***Leases*** — Leased assets under the finance lease arrangements where the ownership is not transferred to lessees at the end of lease terms are capitalized to recognize lease assets and lease obligations in the balance sheet, except for leases which existed at April 1, 2008 and do not transfer ownership of the leased property to the lessee which are accounted for as operating lease transactions.

All other leases are accounted for as operating leases.

m. ***Bonuses to Directors and Corporate Auditors***— Bonuses to directors and corporate auditors are accrued at the year-end to which such bonuses are attributable.

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

o. ***Foreign Currency Transactions***— All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates as of 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.

p. ***Foreign Currency Financial Statements***— The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate during the period. Differences arising from such translation were recorded in "Foreign currency translation adjustments" and "Non-controlling interests" in Equity.

q. ***Derivative and Hedging Activities***— The Group uses derivative financial instruments to manage its exposures to the fluctuation in foreign currency exchange. Foreign currency forward contracts are utilized by the Group to hedge foreign exchange risk. The Group does not enter into derivatives for trading or speculative purposes.

Trade receivables and payables denominated in foreign currencies for which foreign currency forward contracts are used to hedge foreign exchange risk are translated at the contracted rate if the forward contracts qualify for hedge accounting.

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

Diluted net income per share reflects the potential dilution that could occur if securities with dilutive effects were exercised. Diluted net income per share of common stock assumes full exercise of outstanding warrants at the beginning of the year.

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

3. CHANGES IN ACCOUNTING POLICIES

(Adoption of accounting standard for business combinations)

Effective April 1, 2015, the Company adopted the Accounting Standard for Business Combinations (ASBJ Statement No. 21, September 13, 2013, hereinafter, “Business Combinations Standard”), Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, September 13, 2013, hereinafter, “Consolidated Financial Statements Standard”) and the Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013, hereinafter, “Business Divestitures Standard”) and other related pronouncements. Accordingly, the Company’s accounting policies have been changed, whereby the differences arising from changes in the Company’s equity in a subsidiary over which the Company retains control is recorded as capital surplus and acquisition-related costs are expensed in the consolidated fiscal year of incurrence. In addition, for business combinations to be executed on or after April 1, 2015, the accounting treatment has been changed, whereby adjustments to the provisional amount arising from the finalization of the tentative accounting treatment relating to the allocation of acquisition cost are recognized in the consolidated financial statements for the consolidated fiscal year to which the date of business combination belongs. Furthermore, the Company has changed the presentation of net income and other related items, and the presentation of “minority interests” to “non-controlling interests.” Certain amounts in the consolidated financial statements for the fiscal year ended March 31, 2015 have been reclassified to reflect these changes in presentation.

The Business Combinations Standard and other related pronouncements were applied prospectively from April 1, 2015 in accordance with transitional treatments stipulated in Paragraph 58-2(4) of the Business Combinations Standard, Paragraph 44-5(4) of the Consolidated Financial Statements Standard and Paragraph 57-4(4) of the Business Divestitures Standard.

There was no impact of these changes on the consolidated financial statements.

4. ACCOUNTING PRONOUNCEMENTS NOT YET APPLIED

Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016)

(1) Outline

The accounting treatment for recoverability of deferred tax assets basically continues to follow the framework of the “Auditing Treatment on determining the recoverability of deferred tax assets” (JICPA Audit Committee Report No. 66), which classifies entities into five categories and estimates the amount of deferred tax assets to be recorded according to these categories, with certain revisions made to the following items, based on a review.

・Accounting treatment of companies that do not satisfy any requirement for Category 1 through Category 5

・Requirements for Category 2 and Category 3

・Accounting treatment for unscheduled future deductible temporary differences of companies that fall under Category 2

・Accounting treatment for reasonably estimated period for taxable income before temporary differences of companies that fall under Category 3

・Accounting treatment for companies that satisfy the requirements for Category 4 and also fall under Category 2 or Category 3

(2) Scheduled date of application

The Company will apply the implementation guidance effective April 1, 2016.

(3) Impact of application of the accounting pronouncements

The Company is currently evaluating the amount of impact from application of “Implementation Guidance on Recoverability of Deferred Tax Assets” on the consolidated financial statements.

5. CASH AND CASH EQUIVALENTS

The balances of cash and deposits reflected in the consolidated balance sheets at March 31, 2016 and 2015 are reconciled to the balances of cash and cash equivalents as presented in the consolidated statements of cash flows for the years then ended as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash and deposits	¥ 37,516	¥ 39,565	$ 334,964
Securities	2,000	2,000	17,857
Cash and cash equivalents	¥ 39,516	¥ 41,565	$ 352,821

6. INVESTMENT SECURITIES

Investment securities as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Current:			
Negotiable certificate of deposits	¥ 2,000	¥ 2,000	$ 17,857
Total	¥ 2,000	¥ 2,000	$ 17,857
Non-current:			
Marketable equity securities	¥ 9,390	¥ 10,766	$ 83,845
Total	¥ 9,390	¥ 10,766	$ 83,845

The costs and aggregate fair values of investment securities at March 31, 2016 and 2015 were as follows:

	Millions of yen			
March 31, 2016	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Held to maturity	¥ 2,000	¥ —	¥ —	¥ 2,000
Available-for-sale	¥ 5,418	¥ 3,972	¥ —	¥ 9,390

	Millions of yen			
March 31, 2015	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Held to maturity	¥ 2,000	¥ —	¥ —	¥ 2,000
Available-for-sale	¥ 5,307	¥ 5,459	¥ —	¥ 10,766

	Thousands of U.S. dollars			
March 31, 2016	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Held to maturity	$ 17,857	$ —	$ —	$ 17,857
Available-for-sale	$ 48,376	$ 35,469	$ —	$ 83,845

The difference between the sum of the above fair values of the available-for-sale securities and cost of the held-to-maturity securities, and the amounts shown in the accompanying consolidated balance sheets consists of nonmarketable securities whose fair values are not readily determinable.

Available-for-sale securities sold during the year ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Amount sold	¥ 83	¥ ―	$ 745
Total gains	50	―	447
Total losses	―	―	―

7. INVENTORIES

Inventories at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Merchandise and finished products	¥ 5,515	¥ 5,342	$ 49,244
Work in process	3,041	2,508	27,158
Raw materials and supplies	4,442	3,704	39,667
Total	¥ 12,999	¥ 11,555	$ 116,070

8. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2016 and 2015, and recognized impairment losses of ¥752 million ($6,722 thousand) and ¥665 million, respectively for the following assets. The carrying amount of those assets was written down to the recoverable amount.

For the year ended March 31, 2016

Use	Type of assets	Location (Prefecture/Country)	Amount: Millions of yen	Amount: Thousands of U.S. dollars
Business assets for Equipment business	Machinery and equipment, Furniture and fixtures, intangible assets	Kanagawa	¥ 699	$ 6,245
Idle assets	Buildings and structures	Fukushima	48	433
Manufacturing facilities	Machinery and equipment	U.S.A.	4	43
Total			¥ 752	$ 6,722

For the year ended March 31, 2015

Use	Type of assets	Location (Prefecture/Country)	Amount Millions of yen
Idle assets	Buildings and structures, Machinery and equipment, Furniture and fixtures	Kanagawa	¥ 222
Idle assets	Buildings and structures, Furniture and fixtures	Kumamoto	126
Idle assets	Buildings and structures, Furniture and fixtures, Land	Kumamoto	76
Idle assets	Buildings and structures	Kumamoto	12
Idle assets	Buildings and structures, Machinery and equipment, Furniture and fixtures	U.S.A.	227
Total			¥ 665

For the purpose of evaluating and measuring impairment, assets used for business are considered to constitute a group by each business unit. Idle properties are individually evaluated.

The recoverable amount of land and buildings was measured by their net selling price estimated based on an appraisal value. The recoverable amount of the other assets was measured at their value in use based on reminder price.

9. SHORT-TERM LOANS PAYABLE AND LONG-TERM LOANS PAYABLE

Short-term loans payable, included in "Other current liabilities" in the consolidated balance sheets, at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unsecured loan from a bank, with average interest rate of 1.4% and 1.2% for the years ended March 31, 2016 and 2015, respectively	¥ 397	¥ 264	$ 3,546
Total	¥ 397	¥ 264	$ 3,546

Long-term loans payable at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unsecured loan from a bank, with average interest rate of 1.8% and 1.5% for the years ended March 31, 2016 and 2015, respectively	¥ 137	¥ 549	$ 1,228
Total	¥ 137	¥ 549	$ 1,228

The aggregate annual maturities of long-term loans payable during the next five years are summarized below:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2017	¥ 137	$ 1,228
2018	—	—
2019	—	—
2020	—	—
2021 and beyond	—	—

10. RETIREMENT AND PENSION PLANS

The Company and its certain consolidated subsidiaries have funded defined benefit pension plans and lump-sum retirement payment plans.
The defined benefit corporate pension plans provide lump-sum payment or pension based on salary and service period.
The lump-sum retirement payment plans provide lump-sum payment as retirement benefit based on factors such as service period.
The details of the plans are as follows:

1. Defined benefit pension plans

(1) Retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Beginning balance	¥ 13,891	¥ 15,786	$ 124,028
Effect of transfer to defined contribution pension plan	—	(2,236)	—
Cumulative effect due to changes in accounting policy	—	(200)	—
Beginning balance reflecting changes in accounting policy	13,891	13,348	124,028
Service cost	547	530	4,889
Interest cost	193	198	1,731
Actuarial differences incurred during the year	1,825	183	16,301
Payment of retirement benefit	(445)	(370)	(3,978)
Ending balance	¥ 16,012	¥ 13,891	$ 142,972

Note: Certain consolidated subsidiaries apply a simplified method to calculate retirement benefit obligations.

(2) Pension assets

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Beginning balance	¥ 11,575	¥ 11,487	$ 103,349
Effect of transfer to defined contribution pension plan	—	(1,453)	—
Beginning balance reflecting defined contribution pension plan	11,575	10,034	103,349
Expected return on plan assets	463	326	4,133
Actuarial differences incurred during the year	(709)	878	(6,332)
Contributions from employer	652	642	5,827
Payment of retirement benefit	(382)	(306)	(3,411)
Ending balance	¥ 11,599	¥ 11,575	$ 103,565

(3) Employee retirement benefit trust

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Beginning balance	¥ 5,145	¥ 5,101	$ 45,945
Expected return on plan assets	25	25	229
Actuarial differences incurred during the year	37	18	338
Ending balance	¥ 5,209	¥ 5,145	$ 46,513

(4) Reconciliation between ending balance of retirement benefit obligations and pension assets and net defined benefit liability and net defined benefit asset recorded on the consolidated balance sheet

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Retirement benefit obligations under the funded plan	¥ 15,900	¥ 13,790	$ 141,965
Pension assets	(11,599)	(11,575)	(103,565)
Employee retirement benefit trust	(5,209)	(5,145)	(46,513)
	(908)	(2,930)	(8,113)
Retirement benefit obligations under the unfunded plan	112	100	1,006
Net liabilities or assets recorded on the consolidated balance sheet	(795)	(2,829)	(7,106)
Net defined benefit liabilities	150	134	1,342
Net defined benefit assets	(946)	(2,964)	(8,449)
Net liabilities or assets recorded on the consolidated balance sheet	¥ (795)	¥ (2,829)	$ (7,106)

(5) Net periodic benefit cost and its components

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Service cost	¥ 547	¥ 530	$ 4,889
Interest cost	193	198	1,731
Expected return on plan assets	(488)	(351)	(4,363)
Amortized actuarial differences	49	91	442
Amortized prior service cost	(256)	(343)	(2,289)
Net periodic benefit cost of defined benefit plan	46	126	411
Gain on revision of retirement benefit plan	¥ —	¥ 622	$ —

Note: Net periodic benefit cost of consolidated subsidiaries applying the simplified method is recorded as "Service cost."

(6) Remeasurements of defined benefit plans (Other comprehensive income)

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Prior service cost	¥ (256)	¥ (672)	$ (2,289)
Actuarial differences	(2,447)	884	(21,853)
Total	¥ (2,703)	¥ 212	$ (24,142)

(7) Remeasurements of defined benefit plans (Accumulated other comprehensive income)

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrecognized prior service cost	¥ 1,987	¥ 2,243	$ 17,741
Unrecognized actuarial differences	(2,351)	95	(20,998)
Total	¥ (364)	¥ 2,339	$ (3,257)

(8) Plan assets and employee retirement benefit trust

(a) Components of plan assets

	2016	2015
Debt securities	47%	38%
Equity securities	26%	37%
Other	27%	25%
Total	100%	100%

(b) Components of employee retirement benefit trust

	2016	2015
Debt securities	98%	99%
Other	2%	1%
Total	100%	100%

(c) Long-term rate of return

Long-term rate of return on plan assets and employee retirement benefit trust is determined based on the current and expected allocation of plan assets and employee retirement benefit trust and current and expected long-term rate of return of various assets composing plan assets and employee retirement benefit trust.

(9) Basis for calculation of actuarial differences

	2016	2015
Discount rate	Mainly 0.53%	Mainly 1.50%
Long-term expected rate of return		
Defined benefit corporate pension plan	4.00%	3.25%
Employee retirement benefit trust	0.50%	0.50%

2. Defined contribution plans

Contributions to defined contribution pension plans by the Company and its consolidated subsidiaries

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
	¥ 161	¥ 154	$ 1,446

3. Other

Assets of ¥410 million ($3,669 thousand) will be transferred to defined contribution pension plan over four years as a result of partial transfer of funded defined benefit plan to defined contribution pension plan. The remaining balance to be transferred as of March 31, 2016 of ¥201 million ($1,794 thousand) is included in other payables and long-term other payables (in “Other long-term liabilities” in Long-term liabilities).

11. EMPLOYEE STOCK OWNERSHIP PLAN TRUST

Pursuant to the resolution by the meeting of the Board of Directors held on January 11, 2012, the Company has introduced an employee incentive plan, “Employee Stock Ownership Plan (ESOP) Trust (“Plan”)” for the purpose of enhancing benefit programs for the employees who will support future growth of the Company as well as increasing employees’ incentive to work and awareness of management participation through granting incentive to raise stock price and improving corporate value for the medium and long-term perspective.

(1) Outline

Under the Plan, the Company will establish a trust (“Trust”) for certain employees who participate in the “Tokyo Ohka Employee Stock Ownership Plan (“Company’s ESOP”)” and meet certain requirements as its beneficiaries. The Trust will acquire the total number of the Company’s shares expected to be acquired by the Company’s ESOP over five years in advance, and subsequently sell these shares to the Company’s ESOP on a certain date of every month.

Acquisition and sales of the Company's shares are accounted for under the assumption that the Company and the Trust are the same entity.
Accordingly, assets, including the Company's shares owned by the Trust, and liabilities, and profits and loss of the Trust are included in the Company's consolidated balance sheet, consolidated statement of income and consolidated statement of changes in equity.

(2) Accounting treatments for transactions to issue own shares to employees through trust
The Company continues to account for the Company's ESOP which was established prior to April 1, 2014 under the previous method, pursuant to Article 20 of "Practical Treatment for Transactions to Issue Own Shares to Employees through Trusts" (ASBJ Practical Issue Task Force No.30, March 26, 2015).

(3) The Company's shares held by ESOP trust
Carrying amount of the Company's shares held by Trust is ¥163 million ($1,457 thousand) and ¥247 million as of March 31, 2016 and 2015, respectively, and is included in treasury stock. Also, the number of the Company's shares held by Trust as of March 31, 2016 and 2015 is 84 thousand shares and 127 thousand shares, respectively.

12. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations during the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at beginning of year	¥ 87	¥ 88	$ 783
Adjustments associated with passage of time	1	1	9
Others	―	(2)	―
Balance at end of year	¥ 88	¥ 87	$ 792

13. 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) 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 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.

The accompanying consolidated financial statements do not include any provision for the semiannual dividend of ¥32 ($0.28) per share approved at the general shareholders' meeting held on June 28, 2016, aggregating ¥1,384 million ($12,358 thousand) in respect of the year ended March 31, 2016.

14. STOCK OPTIONS

(1) Share-based compensation expenses which were accounted for as cost of sales and selling, general and administrative expenses

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cost of sales	¥ 24	¥ 22	$ 221
Selling, general and administrative expenses	97	85	873

(2) Outline, number and changes of stock options

(a) Outline of stock options

Stock options outstanding as of March 31, 2016 were as follows:

Stock option	2015 Stock option	2014 Stock option	2013 Stock option
Category and number of eligible person	1 representative director of the Company 5 directors of the Company 8 executive officers of the Company	1 representative director of the Company 5 directors of the Company 7 executive officers of the Company	2 representative directors of the Company 4 directors of the Company 7 executive officers of the Company 200 employees of the Company
Number of options granted	Common stock: 21,900 shares	Common stock: 31,500 shares	Common stock: 484,000 shares
Date of Grant	August 4, 2015	August 5, 2014	January 10, 2013
Service period	Not specified	Not specified	From January 10, 2013 to May 31, 2016
Exercise period	From August 5, 2015 to August 4, 2045	From August 6, 2014 to August 5, 2044	From June 1, 2016 to May 31, 2019

(b) Number and price of stock options

Movement in stock options during the fiscal year ended March 31, 2016 was as follows:

	Number of shares		
	2015	2014	2013
Unvested stock options:			
As of March 31, 2015	—	—	478,500
Granted	21,900	—	—
Forfeited	—	—	4,000
Vested	21,900	—	—
Unvested options as of March 31, 2016	—	—	474,500
Vested stock options:			
As of March 31, 2015	—	31,500	—
Vested	21,900	—	—
Exercised	—	2,000	—
Forfeited	—	—	—
Unexercised options as of March 31, 2016	21,900	29,500	—
	Yen		
Exercise price	¥ 1	¥ 1	¥ 1,759
Average share price at the time of exercise	¥ —	¥ 2,601	¥ —
Fair value per share at grant date	¥ 3,192	¥ 2,292	¥ 417
	U.S. dollars		
Exercise price	$ 0.01	$ 0.01	$ 15.71
Average share price at the time of exercise	$ —	$ 23.22	$ —
Fair value per share at grant date	$ 28.50	$ 20.46	$ 3.72

(3) Method of estimating the fair value of stock options vested

The fair value price is estimated using the Black-Scholes option pricing model with the following assumptions:

	2015
Volatility of stock price	26.495%
Estimated remaining outstanding period	5.5 years
Estimated dividend per share	¥ 60 ($ 0.54)
Risk-free interest rate	0.112%

(4) Method of estimating number of stock options vested

Only the actual number of forfeited stock options is reflected because it is difficult to reasonably estimate the number of future forfeitures.

15. 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 32.8% and 35.3% for the years ended March 31, 2016 and 2015, respectively. Foreign subsidiaries are subject to 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, 2016 and 2015, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Current assets:			
Deferred tax assets:			
Accrued bonuses for employees	¥ 518	¥ 589	$ 4,632
Unrealized gains on finished goods	569	668	5,089
Loss on valuation of inventories	95	170	853
Other	369	454	3,298
Less valuation allowance	(5)	(2)	(48)
Total	1,548	1,880	13,824
Deferred tax liabilities—other	(50)	(58)	(454)
Total	(50)	(58)	(454)
Net deferred tax assets	¥ 1,497	¥ 1,821	$ 13,370
Non-current assets:			
Deferred tax assets:			
Net defined benefit liability and asset	1,371	809	12,245
Tax loss carryforwards	122	113	1,096
Loss on devaluation of investment securities	322	304	2,879
Subsidy income	39	82	353
Allowance for doubtful accounts	73	66	658
Loss on impairment of long-lived assets	596	427	5,323
Other	984	898	8,791
Less valuation allowance	(729)	(641)	(6,512)
Total	2,781	2,061	24,835
Deferred tax liabilities:			
Reserve for advanced depreciation	(257)	(285)	(2,295)
Unrealized gain on available-for-sale securities	(1,138)	(1,582)	(10,164)
Other	(92)	(132)	(823)
Total	(1,487)	(2,000)	(13,282)
Net deferred tax assets	¥ 1,293	¥ 60	$ 11,552
Current liabilities—Deferred tax liabilities	¥ (18)	¥ (40)	$ (168)
Non-current liabilities:			
Deferred tax liabilities:			
Undistributed earnings of foreign subsidiaries	¥(1,435)	¥(1,352)	$ (12,815)
Accelerated depreciation	(270)	(302)	(2,418)
Other	(670)	(627)	(5,983)
Total	(2,376)	(2,281)	(21,218)
Deferred tax assets—other	238	245	2,133
Net deferred tax liabilities	¥(2,137)	¥(2,036)	$ (19,084)

Reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2016 and 2015 is as follows:

	2016	2015
Normal effective statutory tax rate	32.8%	35.3%
Adjustments:		
Non-taxable dividend income	(4.0)	(0.5)
Different income tax rates applicable to income in certain foreign countries	(0.2)	(1.5)
Dividends from consolidated foreign subsidiaries eliminated for consolidation purposes	4.1	0.3
Tax credit for research and development costs	(5.2)	(5.0)
Effect of tax reform promulgated on March 31, 2016 and 2015, respectively	1.1	1.6
Other—net	1.3	3.8
Actual effective tax rate	29.9%	34.0%

At March 31, 2016, the Company and certain subsidiaries have tax loss carryforwards aggregating approximately ¥52 million ($466 thousand) which are available to be offset against taxable income of the Company and such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2017	—	—
2018	—	—
2019	36	323
2020	4	40
2021	—	—
2022 and thereafter	11	101
Total	¥ 52	$ 466

“Act for Partial Amendment of the Income Tax Law (Law No. 15/2016)” and “Act for Partial Amendment of the Local Tax Law (Law No. 13/2016) were enacted in the Diet Session on March 29, 2016, and the statutory income tax rate will be reduced from years beginning on or after April 1, 2016. As a result, the normal effective statutory tax rate used to calculate deferred tax assets and liabilities will be changed from 32.8% to 30.6% for a temporary difference which is expected to be reversed during the period from the fiscal year beginning on April 1, 2016 and 2017, respectively, and to 30.4% for a temporary difference which is expected to be reversed during the period from the fiscal year beginning on or after April 1, 2018.

As a result of this change, deferred tax assets, deferred tax liabilities, remeasurements of defined benefit plans decreased by ¥17 million ($154 thousand), ¥13 million ($116 thousand) and ¥5 million ($52 thousand), respectively, and income tax –deferred and unrealized gain on available-for-sale securities increased by ¥131 million ($1,172 thousand) and ¥132 million ($1,185 thousand), respectively, as of and for the year ended March, 2016.

16. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Selling, general and administrative expenses	¥ 6,900	¥ 6,763	$ 61,611
Cost of sales	114	140	1,025
Total	¥ 7,015	¥ 6,903	$ 62,637

17. LEASES

The Group leases certain buildings and structures, machinery, computer hardware, software and other assets.

The minimum rental commitments under non-cancelable operating leases at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Due within one year	¥ 299	¥ 107	$ 2,678
Due after one year	1,250	569	11,161
Total	¥ 1,550	¥ 676	$ 13,839

18. FINANCIAL INSTRUMENTS

(1) *Group Policy for Financial Instruments*

The Group invests cash surpluses in low risk financial assets. Such surpluses are generated from the Group's own 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 accounts are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the position, net of payables in foreign currencies, is hedged by using foreign currency forward contracts. Securities are negotiable certificate of deposit which is expected to be settled with short term and investment securities, mainly equity instruments of customers and suppliers of the Group are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and accounts, are less than one year.

Derivatives mainly include foreign currency forward contracts, which are used to manage exposure to market risks from changes in foreign exchange rates of receivables and payables. Please see Note 19 for more detail about derivatives.

(3) *Risk Management for Financial Instruments*

Credit risk management

The Group manages its credit risk from receivables in accordance with internal guidelines, which include monitoring of payment terms and balances of major customers by the credit administration department to identify the default risk of customers in the early stages. With respect to held-to-maturity securities, the Group manages its exposure to credit risk by limiting its holdings to high credit rating bonds. With respect to derivatives, the Group manages its exposure to credit risk by limiting its counterparties to major and creditworthy international financial institutions.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2016.

Market risk management (foreign exchange risk)

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk, which is managed monthly by currency, is hedged principally by foreign currency forward contracts. In addition, foreign currency forward contracts may be used at the maximum of expected amounts of foreign currency trade receivables and payables.

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

(4) *Fair Values of Financial Instruments*

Fair values of financial instruments are based on quoted price in active markets. When quoted price is not available, other values calculated using reasonable valuation techniques are used. Please see Note 19 for the detail of fair value for derivatives.

(*a*) *Fair value of financial instruments*

	Millions of yen		
March 31, 2016	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥ 37,516	¥ 37,516	¥ —
Time deposits	13,360	13,360	—
Receivables—Trade notes and accounts	17,921	17,921	—
Securities and Investment securities:			
Held to maturity	2,000	2,000	—
Available-for-sale securities	9,390	9,390	—
Long-term time deposits	18,000	18,007	7
Total	¥ 98,188	¥ 98,195	¥ 7
Payables—Trade notes and accounts	¥ 7,787	¥ 7,787	¥ —
Short-term loans payable	397	397	—
Long-term loans payable	137	137	(0)
Total	¥ 8,322	¥ 8,322	¥ (0)
Derivative transactions	¥ (209)	¥ (209)	¥ —

March 31, 2015	Millions of yen Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥ 39,565	¥ 39,565	¥ —
Time deposits	14,401	14,401	—
Receivables—Trade notes and accounts	19,422	19,422	—
Securities and Investment securities:			
Held to maturity	2,000	2,000	—
Available-for-sale securities	10,766	10,766	—
Long-term time deposits	18,000	17,997	(2)
Total	¥ 104,156	¥ 104,154	¥ (2)
Payables—Trade notes and accounts	¥ 9,797	¥ 9,797	¥ —
Short-term loans payable	264	264	—
Long-term loans payable	549	549	—
Total	¥ 10,610	¥ 10,610	¥ —
Derivative transactions	¥ (499)	¥ (499)	¥ —

March 31, 2016	Thousands of U.S. dollars Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	$ 334,964	$ 334,964	$ —
Time deposits	119,287	119,287	—
Receivables—Trade notes and accounts	160,009	160,009	—
Securities and Investment securities:			
Held to maturity	17,857	17,857	—
Available-for-sale securities	83,845	83,845	—
Long-term time deposits	160,714	160,784	70
Total	$ 876,679	$ 876,749	$ 70
Payables—Trade notes and accounts	$ 69,531	$ 69,531	$ —
Short-term loans payable	3,546	3,546	—
Long-term loans payable	1,228	1,227	(1)
Total	$ 74,306	$ 74,305	$ (1)
Derivative transactions	$ (1,869)	$ (1,869)	$ —

Cash and Cash Equivalents, and Time Deposits

The carrying values of cash and cash equivalents, and time deposits approximate fair value because of their short maturities.

Receivables—Trade Notes and Accounts

The carrying values of receivables—trade notes and accounts approximate fair value because of their short maturities.

Securities and Investment Securities
The carrying value of securities, approximate fair value because of their short maturities. the fair values of 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 marketable and investment securities by classification is included in Note 6.

Long-Term Time Deposits
Long-term time deposits are measured at fair value using the discounted cash flow on deposits held at banks. The discounted rate used is the deposit interest rate assuming the same period.

Payables—Trade Notes and Accounts
The carrying values of payables—trade notes and accounts approximate fair value because of their short maturities.

Short-Term Loans Payable
The carrying values of short-term loans payables approximate fair value because of their short maturities.

Long-Term Loans payable
Long-term loans payable are measured at fair value using the discounted cash flow on loans. The discounted rate used is the loan interest rate assuming the same period.

Derivatives
The information of the fair value for derivatives is included in Note 19.

(*b*) *Financial instruments whose fair value cannot be reliably determined*

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Investments in equity instruments that do not have a quoted market price in an active market	¥1,087	¥ 830	$9,709

(5) ***Maturity Analysis for Financial Assets and Securities with Contractual Maturities***

	Millions of yen		
March 31, 2016	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years
Cash and cash equivalents	¥ 37,516	¥ —	¥ —
Time deposits	13,360	—	—
Receivables—Trade notes and accounts	17,921	—	—
Securities and Investment securities:			
Held to maturity			
Negotiable certificate of deposit	2,000	—	—
Long-term time deposits	—	18,000	—
Total	¥ 70,797	¥ 18,000	¥ —

March 31, 2015	Millions of yen Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years
Cash and cash equivalents	¥ 39,565	¥ —	¥ —
Time deposits	14,401	—	—
Receivables—Trade notes and accounts	19,422	—	—
Securities and Investment securities:			
Held to maturity			
Negotiable certificate of deposit	2,000	—	—
Long-term time deposits	—	18,000	—
Total	¥ 75,389	¥ 18,000	¥ —

March 31, 2016	Thousands of U.S. dollars Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years
Cash and cash equivalents	$ 334,964	$ —	$ —
Time deposits	119,287	—	—
Receivables—Trade notes and accounts	160,009	—	—
Securities and Investment securities:			
Held to maturity			
Negotiable certificate of deposit	17,857	—	—
Long-term time deposits	—	160,714	—
Total	$ 632,119	$ 160,714	$ —

19. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

All derivative transactions are entered into to hedge foreign currency exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or 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 amounts.

Derivative Transactions to Which Hedge Accounting is not Applied

	Millions of yen							
	2016				2015			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Foreign currency forward contracts:								
Sell:								
NT$	¥ 455	¥ —	¥ 13	¥ 13	¥ 977	¥ 321	¥ (24)	¥ (24)
KRW	4,800	3,000	(222)	(222)	5,400	4,800	(475)	(475)
Total	¥ 5,255	¥ 3,000	¥ (209)	¥ (209)	¥ 6,377	¥ 5,121	¥ (499)	¥ (499)

	Thousands of U.S. dollars			
	2016			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain (loss)
Foreign currency forward contracts:				
Sell:				
NT$	$ 4,066	$ —	$ 119	$ 119
KRW	42,857	26,785	(1,988)	(1,988)
Total	$ 46,923	$26,785	$ (1,869)	$ (1,869)

* The fair value is based on prices provided by financial institutions.

Derivative Transactions to Which Hedge Accounting is Applied

		Millions of yen		
March 31, 2016	Hedged Item	Contract amount	Contract amount due after one year	Fair value
Foreign currency forward contracts:				
Selling U.S.$	Receivables—Trade accounts	¥ 3,946	¥ —	*
Selling EUR	Receivables—Trade accounts	205	—	*
Selling NT$	Receivables—Trade accounts	983	—	*

March 31, 2015	Hedged Item	Millions of yen		
		Contract amount	Contract amount due after one year	Fair value
Foreign currency forward contracts:				
Selling U.S.$	Receivables—Trade accounts	¥ 3,913	¥ —	*
Selling EUR	Receivables—Trade accounts	202	—	*
Selling NT$	Receivables—Trade accounts	501	—	*

March 31, 2016	Hedged Item	Thousands of U.S. dollars		
		Contract amount	Contract amount due after one year	Fair value
Foreign currency forward contracts:				
Selling U.S.$	Receivables—Trade accounts	$ 35,239	$ —	*
Selling EUR	Receivables—Trade accounts	1,836	—	*
Selling NT$	Receivables—Trade accounts	8,778	—	*

* The fair value of such foreign currency forward contracts is included in that of the hedged items (i.e., receivables—trade accounts).

20. COMPREHENSIVE INCOME

Reclassification adjustments and tax effects regarding other comprehensive income for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrealized gain on available-for-sale securities:			
Recognized during the year	¥ (1,437)	¥ 1,888	$ (12,831)
Reclassification adjustments	(50)	—	(447)
Before tax effects adjustment	(1,487)	1,888	(13,278)
Tax effects	444	(416)	3,964
Unrealized gain on available-for-sale securities	(1,043)	1,471	(9,314)
Foreign currency translation adjustments:			
Recognized during the year	(1,127)	3,168	(10,068)
Reclassification adjustments	—	—	—
Foreign currency translation adjustments	(1,127)	3,168	(10,068)
Remeasurements of defined benefit plans:			
Recognized during the year	(2,497)	713	(22,300)
Reclassification adjustments	(206)	(501)	(1,841)
Before tax effects adjustment	(2,703)	212	(24,142)
Tax effects	859	(2)	7,673
Remeasurements of defined benefit plans	(1,844)	210	(16,468)
Share of other comprehensive income in companies accounted for by the equity method:			
Recognized during the year	(55)	72	(496)
Total other comprehensive income	¥ (4,071)	¥ 4,921	$ (36,348)

21. NET INCOME PER SHARE

Basic net income per share ("EPS") for the years ended March 31, 2016 and 2015 is as follows:

	Yen		U.S. dollars
	2016	2015	2016
Basic EPS	¥ 177.30	¥ 196.61	$ 1.58
Diluted EPS	176.17	195.71	1.57

Basis for the calculation of basic and diluted net income per share is as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Profit attributable to owners of the parent	¥ 7,716	¥ 8,818	$ 68,899

	Thousands of shares	
	2016	2015
Earnings per share:		
Weighted-average number of shares*	43,523	44,850
Diluted earnings per share:		
Increase in number of common stock	276	206
(Of those, new share subscription rights)	276	206

* Weighted-average shares for the years ended March 31, 2016 and 2015 excluded the Company's shares held by the Employee Stock Ownership Plan Trust.

22. SEGMENT INFORMATION

For the Years Ended March 31, 2016 and 2015

(1) Description of reportable segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide resources allocation within the Group and to evaluate performance. Therefore, the Group consists of the Material Business and Equipment Business. The Material Business consists of photoresists and related materials and specialty chemicals. The Equipment Business consists of semiconductor manufacturing equipment and LCD manufacturing equipment.

(2) Methods of measurement for the amounts of sales, profit (loss), 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 (loss), assets and other items is as follows:

	Millions of yen				
	2016				
	Reportable segment				
	Material business	Equipment business	Total	Reconciliations	Consolidated
Sales:					
Sales to customers	¥ 87,280	¥ 2,689	¥ 89,969	¥ —	¥ 89,969
Intersegment sales or transfers	—	59	59	(59)	—
Total sales	¥ 87,280	¥ 2,748	¥ 90,028	¥ (59)	¥ 89,969
Segment income (loss)	¥ 16,203	¥ (423)	¥ 15,780	¥ (3,342)	¥ 12,438
Segment assets	90,734	3,738	94,472	72,827	167,300
Other:					
Depreciation	5,220	169	5,389	241	5,631
Increase in property, plant and equipment and intangible assets	5,652	235	5,888	242	6,130

Note: Reconciliations to

— Segment income (loss) amounting to ¥(3,342) million ($(29,839) thousand) includes common costs of ¥(3,342) million ($(29,839) thousand), which are not allocated to reportable segments.

— Segment assets amounting to ¥72,827 million ($650,245 thousand) include working capital (the Company's cash, deposits, and long-term time deposits) and investment securities of ¥65,649 million ($586,152 thousand), which are not allocated to reportable segments.

— Increase in property, plant and equipment and intangible assets of ¥242 million ($2,165 thousand) is related to common assets.

	Millions of yen				
	2015				
	Reportable segment				
	Material business	Equipment business	Total	Reconciliations	Consolidated
Sales:					
Sales to customers	¥ 84,611	¥ 3,475	¥ 88,086	¥ —	¥ 88,086
Intersegment sales or transfers	—	105	105	(105)	—
Total sales	¥ 84,611	¥ 3,581	¥ 88,192	¥ (105)	¥ 88,086
Segment income (loss)	¥ 16,355	¥ 20	¥ 16,376	¥ (3,122)	¥ 13,253
Segment assets	92,440	3,694	96,134	78,728	174,863
Other:					
Depreciation	3,894	167	4,061	215	4,276
Increase in property, plant and equipment and intangible assets	7,276	342	7,618	105	7,723

Note: Reconciliations to

—Segment income (loss) amounting to ¥(3,122) million includes common costs of ¥(3,122) million, which are not allocated to reportable segments.

—Segment assets amounting to ¥78,728 million include working capital (the Company's cash, deposits, and long-term time deposits) and investment securities of ¥69,822 million, which are not allocated to reportable segments.

— Increase in property, plant and equipment and intangible assets of ¥105 million is related to common assets.

	Thousands of U.S. dollars				
	2016				
	Reportable segment				
	Material business	Equipment business	Total	Reconciliations	Consolidated
Sales:					
Sales to customers	$ 779,287	$ 24,009	$ 803,296	$ —	$ 803,296
Intersegment sales or transfers	—	532	532	(532)	—
Total sales	$ 779,287	$ 24,542	$ 803,829	$ (532)	$ 803,296
Segment income (loss)	$ 144,671	$ (3,777)	$ 140,894	$ (29,839)	$ 111,054
Segment assets	810,130	33,375	843,506	650,245	1,493,751
Other:					
Depreciation	46,608	1,514	48,122	2,154	50,277
Increase in property, plant and equipment and intangible assets	50,472	2,100	52,572	2,165	54,738

Related Information

For the Years Ended March 31, 2016 and 2015

(1) *Information about geographical areas*

(a) Sales

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Japan	¥ 20,712	¥ 21,481	$ 184,932
Taiwan	32,509	29,928	290,265
Korea	11,513	14,430	102,794
U.S.A.	11,945	10,478	106,657
Other areas	13,288	11,767	118,646
Total	¥ 89,969	¥ 88,086	$ 803,296

Note: Sales are classified in countries or regions based on location of customers.

(b) Property, Plant and Equipment

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Japan	¥ 24,271	¥ 22,372	$ 216,713
Taiwan	5,267	5,204	47,028
Korea	15,277	18,376	136,402
U.S.A.	2,972	3,220	26,539
Other areas	124	198	1,112
Total	¥ 47,913	¥ 49,371	$ 427,796

(2) *Information about major customers*

For the Years Ended March 31, 2016 and 2015

		Sales amount		
Name of customers	Relevant segment	Millions of yen		Thousands of U.S. dollars
		2016	2015	2016
Taiwan Semiconductor Manufacturing Company, Ltd.	Material Business	¥ 17,762	¥ 16,220	$ 158,597

CAUTIONARY STATEMENT

The Company's financial statements in English have not been audited by independent auditors. However, the original Japanese financial statements on which they are based have been audited by independent auditors.