Annual Report 2018

From April 1,2017 to March 31,2018

DAISHINKU CORP.

Financial Section

Consolidated Balance Sheets

DAISHINKU CORP. and Consolidated Subsidiaries

	(Millions of yen)		*(Thousands of U.S. dollars) (note 5)*
	March 31,		*March 31,*
	2018	2017	*2018*
ASSETS			
Current assets:			
Cash and cash equivalents (Notes 2 (c), 6 and 19)	¥15,560	¥17,304	*$146,461*
Trade notes and accounts receivable (Note 19)	7,125	7,381	*67,068*
Short term investment (Note 8)	871	260	*8,200*
Inventories (Note 7)	10,675	9,434	*100,484*
Deferred income taxes (Note 14)	164	307	*1,542*
Other current assets	1,288	2,301	*12,121*
Allowance for doubtful accounts	(12)	(12)	*(114)*
Total current assets	35,671	36,975	*335,762*
Investments and other assets:			
Investment securities (Notes 8 and 19)	1,558	1,717	*14,665*
Deferred income taxes (Note 4 and 14)	336	340	*3,162*
Other assets	1,296	1,386	*12,196*
Total investments and other assets	3,190	3,443	*30,023*
Property, plant and equipment, at cost:(Notes 10)			
Land	5,703	5,705	*53,683*
Buildings and structures	19,230	19,348	*181,001*
Machinery and equipment	52,206	50,043	*491,402*
Lease assets	825	825	*7,768*
Construction in progress	796	1,219	*7,489*
Total property, plant and equipment	78,760	77,140	*741,343*
Less: accumulated depreciation	(58,212)	(56,739)	*(547,934)*
Property, plant and equipment, net (Notes 10 and 21)	20,548	20,401	*193,409*
Total assets	¥59,409	¥60,819	*$559,194*

The accompanying notes are an integral part of these financial statements.

Consolidated Balance Sheets

DAISHINKU CORP. and Consolidated Subsidiaries

	(Millions of yen)		*(Thousands of U.S. dollars) (note 5)*
	March 31,		*March 31,*
	2018	2017	*2018*
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings (Notes 10 and 19)	¥1,754	¥1,525	*$16,509*
Current portion of long-term debt (Notes 10 and 19)	4,111	5,089	*38,696*
Current portion of long-term lease obligations	70	68	*659*
Trade notes and accounts payable (Note 19)	2,687	3,225	*25,295*
Accounts payable (Note 19)	1,185	1,536	*11,153*
Accrued income taxes (Note 14)	178	528	*1,675*
Accrued employees' bonuses	454	461	*4,272*
Reserve for director's and corporate auditor's bonuses (Note 2(j))	-	15	*-*
Other current liabilities	767	780	*7,220*
Total current liabilities	11,206	13,227	*105,479*
Long-term liabilities:			
Long-term debt (Notes 10 and 19)	14,581	12,851	*137,251*
Long-term lease obligations	571	641	*5,371*
Net defined benefit liability(Note 11)	1,102	1,692	*10,370*
Deferred income taxes (Note 14)	773	866	*7,275*
Long-term accounts payable (Note 19)	166	173	*1,562*
Asset retirement obligations	26	25	*241*
Other long-term liabilities	104	107	*981*
Total long-term liabilities	17,323	16,355	*163,051*
Total liabilities	28,529	29,582	*268,530*
Commitments and contingent liabilities (Note 17)			
Net Assets:			
Shareholders' equity			
Common stock:(Note 16)			
Authorized: 26,000,000 shares			
Issued: 9,049,242 shares at March 31, 2018 and 9,049,242 shares at March 31, 2017	19,345	19,345	*182,087*
Additional paid-in capital	7,158	7,158	*67,382*
Retained earnings (Note 4, 16 and 22)	67	688	*625*
Less: treasury stock, at cost: 975,251 shares at March 31, 2018 and 973,573 shares at March 31, 2017, respectively	(1,920)	(1,918)	*(18,076)*
Total shareholders' equity	24,650	25,273	*232,018*
Accumulated other comprehensive income			
Net unrealized holding gains (losses) on available-for-sale securities (Note 8)	375	424	*3,534*
Foreign currency translation adjustments (Note 4)	752	831	*7,074*
Remeasurements of defined benefit plans	190	(22)	*1,791*
Total accumulated other comprehensive income	1,317	1,233	*12,399*
Non-controlling interests	4,913	4,731	*46,247*
Total net assets	30,880	31,237	*290,664*
Total liabilities and net assets	¥59,409	¥60,819	*$559,194*

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income

DAISHINKU CORP. and Consolidated Subsidiaries

	(Millions of yen)		*(Thousands of U.S. dollars) (note 5)*
	For the years ended March 31,		*For the year ended March 31,*
	2018	2017	*2018*
Net sales (Note 3 and 21)	¥30,299	¥30,959	*$285,191*
Cost of sales	23,571	23,450	*221,860*
Gross profit	6,728	7,509	*63,331*
Selling, general and administrative Expenses (Note 12)	6,427	6,114	*60,498*
Operating income (Note 21)	301	1,395	*2,833*
Other income (expenses):			
Interest and dividend income	97	83	*918*
Interest expenses	(129)	(133)	*(1,211)*
Foreign currency exchange loss, net	(127)	(256)	*(1,196)*
Gain on contribution of securities to retirement benefit trust	249	125	*2,340*
Gain (Loss) on sales or disposal of property, plant and equipment, net	19	41	*179*
Impairment loss (Note 9)	(77)	(293)	*(728)*
Loss on abandonment of inventories	-	(219)	*-*
Subsidy income	-	314	*-*
Other, net	(130)	136	*(1,222)*
Income before income taxes	203	1,193	*1,913*
Income taxes (Note 14):			
Current	220	542	*2,070*
Deferred (Note 4)	67	(213)	*634*
	287	329	*2,704*
Income (Loss)	(84)	864	*(791)*
Income attributable to non-controlling interests	214	172	*2,016*
Income (Loss) attributable to owners of parent	¥(298)	¥692	*$(2,807)*

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Comprehensive Income

DAISHINKU CORP. and Consolidated Subsidiaries

	(Millions of yen)		*(Thousands of U.S. dollars) (note 5)*
	For the years ended March 31,		*For the year ended March 31,*
	2018	2017	*2018*
Income (Loss)	¥(84)	¥864	*$(791)*
Other comprehensive income (Note 15)			
Unrealized holding loss on available-for-sale securities	(16)	136	*(150)*
Foreign currency transaction adjustments (Note 4)	(20)	(169)	*(191)*
Remeasurements of defined benefit plans	216	153	*2,035*
Total other comprehensive income, net	180	120	*1,694*
Comprehensive income	¥96	¥984	*$903*
Comprehensive income attributable to:			
Shareholders of DAISHINKU Corporation (Note 4)	¥(214)	¥769	*$(2,013)*
Non-controlling interests of consolidated subsidiaries	310	215	*2,916*

Consolidated Statements of Changes in Net Assets

DAISHINKU CORP. and Consolidated Subsidiaries

(Millions of yen)

	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Net unrealized holding gains (losses) on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Non-controlling interests	Total Net assets
Balance at April 1, 2016	¥ 19,345	¥ 7,158	¥ (19)	¥ (1,914)	¥ 288	¥ 1,054	¥ (178)	¥ 4,632	¥ 30,366
Cumulative effects of error correction	-	-	136	-	-	(9)	-	-	127
Balance at beginning of the year as restated	19,345	7,158	117	(1,914)	288	1,045	(178)	4,632	30,493
Dividends	-	-	(121)	-	-	-	-	-	(121)
Net income attributable to owners of parent	-	-	692	-	-	-	-	-	692
Acquisition of treasury stock	-	-	-	(4)	-	-	-	-	(4)
Disposal of treasury stock	-	0	-	0	-	-	-	-	0
Other changes	-	-	-	-	136	(214)	156	99	177
Balance at April 1, 2017	19,345	7,158	688	(1,918)	424	831	(22)	4,731	31,237
Dividends	-	-	(323)	-	-	-	-	-	(323)
Net income attributable to owners of parent	-	-	(298)	-	-	-	-	-	(298)
Acquisition of treasury stock	-	-	-	(2)	-	-	-	-	(2)
Other changes	-	-	-	-	(49)	(79)	212	182	266
Balance at March 31, 2018	¥ 19,345	¥ 7,158	¥ 67	¥ (1,920)	¥ 375	¥ 752	¥ 190	¥ 4,913	¥ 30,880

(Thousands of U.S. dollars)
(note 5)

	Common stock	*Additional paid-in capital*	*Retained earnings*	*Treasury stock*	*Net unrealized holding gains (losses) on available-for-sale securities*	*Foreign currency translation adjustment*	*Remeasurements of defined benefit plans*	*Non-controlling interests*	*Total Net assets*
Balance at April 1, 2017	*$ 182,087*	*$ 67,382*	*$ 6,473*	*$ (18,048)*	*$ 3,990*	*$ 7,826*	*$ (211)*	*$ 44,530*	*$ 294,029*
Dividends	*-*	*-*	*(3,041)*	*-*	*-*	*-*	*-*	*-*	*(3,041)*
Net income attributable to owners of parent	*-*	*-*	*(2,807)*	*-*	*-*	*-*	*-*	*-*	*(2,807)*
Acquisition of treasury stock	*-*	*-*	*-*	*(28)*	*-*	*-*	*-*	*-*	*(28)*
Other changes	*-*	*-*	*-*	*-*	*(456)*	*(752)*	*2,002*	*1,717*	*2,511*
Balance at March 31, 2018	*$ 182,087*	*$ 67,382*	*$ 625*	*$ (18,076)*	*$ 3,534*	*$ 7,074*	*$ 1,791*	*$ 46,247*	*$ 290,664*

Consolidated Statements of Cash Flows

DAISHINKU CORP. and Consolidated Subsidiaries

	(Millions of yen)		*(Thousands of U.S. dollars) (note 5)*
	For the years ended March 31,		*For the year ended March 31*
	2018	2017	*2018*
OPERATING ACTIVITIES:			
Income before income taxes	¥203	¥1,193	*$1,913*
Adjustments for:			
Depreciation and amortization	2,861	2,584	*26,926*
Impairment loss on fixed assets	77	293	*728*
Amortization of long-term prepaid expenses	76	73	*717*
Allowance for doubtful accounts, net	(0)	3	*(0)*
Increase (decrease) in provision for bonuses	(8)	(9)	*(73)*
Increase (decrease) in provision for director's and corporate auditor's bonuses	(15)	15	*(141)*
Net defined benefit liability	(18)	4	*(168)*
Loss (Gain) on sales or disposal of property, plant and equipment, net	(19)	(41)	*(179)*
Interest and dividend income	(98)	(83)	*(918)*
Interest expenses	129	133	*1,211*
Foreign currency exchange gains (losses) , net	67	(145)	*633*
Gain on contribution of securities to retirement benefit trust	(248)	(124)	*(2,340)*
Loss on abandonment of inventories	-	219	*-*
Changes in assets and liabilities:			
Increase (decrease) in trade notes and accounts receivable	222	(482)	*2,087*
Increase (decrease) in inventories	(1,168)	(1,220)	*(10,998)*
Increase (decrease) in trade notes and accounts payable	(557)	639	*(5,247)*
Other-net	18	(148)	*172*
Sub-total	1,522	2,904	*14,323*
Interest and dividends-received	97	83	*918*
Interest-paid	(123)	(131)	*(1,155)*
Income taxes-paid	(647)	(271)	*(6,091)*
Net cash provided by operating activities	849	2,585	*7,995*
INVESTING ACTIVITIES:			
Decrease (increase) in time deposits, net	(43)	4	*(402)*
Decrease (increase) in short-term investment securities, net	(580)	(189)	*(5,458)*
Payments for purchase of property, plant and equipment	(3,390)	(4,763)	*(31,913)*
Proceeds from sales of property, plant and equipment	43	108	*403*
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	989	(141)	*9,310*
Other-net	56	(90)	*523*
Net cash used in investing activities	(2,925)	(5,071)	*(27,537)*
FINANCING ACTIVITIES:			
Increase (decrease) in short-term borrowings	245	(274)	*2,305*
Proceeds from long -term debt	6,310	5,664	*59,393*
Repayments of long-term debt	(5,534)	(5,393)	*(52,089)*
Repayments of finance lease	(69)	(74)	*(644)*
Cash dividends-paid	(321)	(121)	*(3,025)*
Cash dividends paid to non-controlling shareholders	(127)	(118)	*(1,194)*
Other- net	(3)	(3)	*(27)*
Net cash provided by financing activities	501	(319)	*4,719*
Effect of exchange rate changes on cash and cash equivalents	(169)	(301)	*(1,592)*
Net increase (decrease) in cash and cash equivalents	(1,744)	(3,106)	*(16,415)*
Cash and cash equivalents at beginning of year	17,304	20,410	*162,876*
Cash and cash equivalents at end of year(Note 6)	¥15,560	¥17,304	*$146,461*

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared based on the accounts maintained by Daishinku Corp. (the "Company") and its consolidated subsidiaries. The Company and its domestic subsidiaries have maintained their accounts and records in accordance with the provisions set forth in the Financial Instruments and Exchange Act, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act. Overseas consolidated subsidiaries maintain their records in conformity with accounting principles and practices generally accepted in their respective countries. In general, no adjustments to the accounts of overseas consolidated subsidiaries have been reflected in the accompanying consolidated financial statements to present them in conformity with Japanese accounting principles and practices followed by the Company as allowed under accounting principles generally accepted in Japan.

Certain items presented in the consolidated financial statements filed with the Director of the Kanto Finance Bureau have been reclassified for the convenience of readers outside Japan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its significant subsidiaries. Investments in certain subsidiaries which are not consolidated and in affiliates are, due to immaterial, accounted for at cost.

Generally, shareholdings in companies of more than 50% fall into the category of subsidiaries and shareholdings in companies of between 20% and 50% fall into the category of affiliates. However, shareholdings of between 40% and 50% may also fall into the category of subsidiaries, if the Company either substantially controls the investee company or has significant influence and relationship with the investees, respectively.

All significant intercompany accounts and transactions and unrealized inter-company profits are eliminated upon consolidation.

TIANJIN KDS CORP., HARMONY ELECTRONICS CORP., HARMONY ELECTRONICS (Shen Zhen) Co., Ltd., HARMONY ELECTRONICS (Thailand) Co., Ltd., SHANGHAI DAISHINKU INTERNATIONAL TRADING Co., Ltd. and DAISHINKU (THAILAND) Co., Ltd. use a fiscal year ending December 31. DAISHINKU（H.K）Ltd., DAISHINKU（AMERICA）CORP., DAISHINKU (SINGAPORE) PTE. Ltd., DAISHINKU（DEUTSCHLAND）GmbH.,　PT KDS INDONESIA and KYUSYU DAISHINKU CORP use a fiscal year ending March 31.

TIANJIN KDS CORP., HARMONY ELECTRONICS CORP., HARMONY ELECTRONICS (Shen Zhen) Co., Ltd. , HARMONY ELECTRONICS (Thailand) Co., Ltd., SHANGHAI DAISHINKU INTERNATIONAL TRADING Co., Ltd. and DAISHINKU (THAILAND) Co., Ltd. have performed a hard close as of March 31, 2018.

(b) TRANSLATION OF FOREIGN CURRENCIES

All monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in net profit or loss for the period when incurred.

Assets and liabilities of the overseas consolidated subsidiaries are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. The shareholders' equity at the beginning of the year is translated into Japanese yen at the historical rates. Differences in yen amounts arising from the use of different rates are presented as "Foreign currency translation adjustments" in the net assets and included in non-controlling interests in the net assets.

(c) CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the consolidated financial statements are composed of cash in hand, bank deposits that may be withdrawn on demand and highly liquid investments purchased with initial maturities of three months or less and which present a low risk of fluctuation in value.

(d) INVENTORIES

Inventories are mainly stated at cost determined by the average method. (The write-downs of inventories due to decreased profitability shall be recognized as cost of sales, in the case that the net selling value falls below the acquisition cost at the end of period, in the same manner as if these inventories were stated at the lower of cost or market.)

(e) SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

All securities held by the Company and its consolidated subsidiaries are classified into Available-for-sale securities.

Available-for-sale securities with readily determinable fair values are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate item in the valuation and translation adjustments in the net assets at a net-of-tax amount.

Available-for-sale securities without readily determinable fair values are stated at cost, except as stated in the paragraph below.

When the market price of available-for-sale securities falls below 50% of the price of the securities at the time of acquisition, a realized loss is recognized with the new cost basis being the current market price. If the market price falls 30% or more but less than 50%, a judgment is made about the likelihood of a recovery in price and decision is taken whether to write down to fair value.

(f) PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION (EXCEPT FOR LEASED ASSETS UNDER FINANCE LEASES)

Property, plant and equipment are stated at cost. Depreciation is principally computed by the declining-balance method (excluding buildings acquired on or after April 1, 1998 and structures and facilities attached to buildings acquired on or after April 1, 2016, for which the straight-line method are applied), except that the foreign consolidated subsidiaries mainly compute depreciation by the straight-line method.

The principal estimated useful lives used for computing depreciation are as follows:

Building and structures	3 to 60 years
Machinery and equipment	2 to 17 years

The cost of maintenance, repairs and minor renewals is charged to income when incurred; major renewals and betterments are capitalized.

(g) FINANCE LEASES

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases. Leases that do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

For lease assets in finance lease transactions that do not transfer ownership, the straight-line method is employed, depreciating these assets down to their remaining guaranteed amount over the lease period, which is used as the service life.

(h) ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for doubtful accounts is computed based on historical write-off experience from a certain reference period plus estimated uncollectible amounts based on the analysis of individual accounts.

(i) ACCRUED EMPLOYEES' BONUSES

Accrued employees' bonuses are provided for the estimated amounts which the Company is obligated to pay to employees after the fiscal year-end, based on services provided during the current period.

(j) RESERVE FOR DIRECTOR'S AND CORPORATE AUDITOR'S BONUSES

Reserve for director's and corporate auditor's bonuses are provided for the estimated amounts which the Company is obligated to pay to director and corporate auditor after the fiscal year-end, based on services provided during the current period.

(k) RETIREMENT BENEFITS AND PENSION PLAN

The provision for retirement benefits represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets at the balance sheet date. Unrecognized prior service costs are amortized based on the straight-line method over a period of ten years beginning at the date of adoption of the plan amendment. Unrecognized actuarial gains and losses are amortized based on the straight-line method over a period of ten years starting from the beginning of the subsequent year.

(l) RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are charged to income when incurred.

(m) INCOME TAXES

The provision for income taxes is computed based on income before income taxes and non-controlling interests 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.

(n) DERIVATIVES AND HEDGING ACTIVITIES

Derivative instruments are recognized as either assets or liabilities at their respective fair values at the date of contract, and gains and losses arising from changes in fair value are recognized in earnings in the corresponding fiscal period. If certain hedging criteria are met, such gains and losses are deferred and accounted for as assets or liabilities.

For interest rate swaps, if certain hedging criteria are met, interest rate swaps are not recognized at their fair values as an alternative method under Japanese accounting standards. The amounts received or paid for such interest rate swap arrangements are charged or credited to income as incurred.

(o) DISTRBUTION OF RETAINED EARNINGS

Under the Corporation Law of Japan (the “Law”), the distribution of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period. The accounts for that period do not, therefore, reflect such distributions. Refer to Note 22.

(p) ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

“Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29 of March 30, 2018)

“Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30 of March 30, 2018)

(1) Overview

The International Accounting Standard Board (“IASB”) and the Financial Accounting Standard Board (“FASB”) jointly developed comprehensive accounting standard for revenue recognition and the Revenue from Contracts with Customers was issued in May 2014 (IFRS No. 15 by IASB, and Topic 606 by FASB). IFRS No. 15 was applied for annual reporting periods beginning on or after January 1, 2018, Topic 606 was also applied from annual reporting periods beginning December 15, 2017. Based on such a situation, the ASBJ developed the comprehensive accounting standard for revenue recognition and the implementation guidance and issued them together.

On the ASBJ’s basic policy for development of accounting standard for revenue recognition, the basic principles of IFRS No. 15 were incorporated into the ASBJ Statement No. 29 as starting points, the Statement was set out, from the viewpoint of comparability among financial statements which is one of merits for consistency with IFRS No. 15. If there are any items which should be considered in current practices in Japan, alternative treatments would be added to the extent of not losing the comparability.

(2) Planned Date for Application

These revisions will be applied from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of Application of Accounting Standard

We are still evaluating the effect these revisions will have on the consolidated financial statement.

3. CHANGE IN ACCOUNTING POLICY

(Changes in accounting policies accompanying revision of accounting standards)

1. International Financial Reporting Standards (“IFRS”) No. 9 Financial Instruments

   IFRS No. 9 Financial Instruments can be applied to the fiscal year commencing on after January 1, 2018, certain foreign subsidiary has applied from this fiscal year. The effect in the consolidated financial statements as a result of the adoption of this accounting standards is no impact in this consolidated fiscal year.

2. International Financial Reporting Standards("IFRS")No. 15 Revenue from Contracts with Customers

   IFRS No. 15 Revenue from Contracts with Customers can be applied to the fiscal year commencing on after January 1, 2018, certain foreign subsidiary has applied from this fiscal year. As a result of this change, the impact on the previous operating results and the cumulative effect up to the start of the current consolidated fiscal year has been negligible so it has not been applied retroactively.

4. SUPPLEMENTARY INFORMATION

(Correction of error)

The Company has announced "Notice of Discovery of Error with Consolidated Financial Statements in Past Year for the year ended March 31, 2017" on May 10, 2018. The Company has made necessary corrections on the securities reports, quarterly reports and the consolidated financial statements of past fiscal years. The cumulative effect on this error is reflected in consolidated retained earnings at the beginning of prior fiscal year ended as March 31, 2017.

5. U.S. DOLLAR AMOUNTS

The United States dollar amounts are included solely for convenience and represent translations of Japanese yen amounts, as a matter of arithmetical computation only, at the rate of ¥106= US$1, the exchange rate prevailing on March 31, 2018. This translation should not be construed as a representation that Japanese yen amounts have been, could have been or could be realized or converted into United States dollars at the above or any other rate.

6. CASH AND CASH EQUIVALENTS

A reconciliation of cash and cash equivalents between the consolidated statements of cash flows for the years ended March 31, 2018 and 2017 and the consolidated balance sheets as of March 31, 2018 and 2017 has been omitted since there were no reconciliation items.

7. INVENTORIES

Inventories at March 31, 2018 and 2017 consisted of the following:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2018	2017	*2018*
Finished goods	¥4,332	¥3,145	*$40,777*
Work in process	2,904	3,074	*27,337*
Materials and supplies	3,439	3,215	*32,370*
	¥10,675	¥9,434	*$100,484*

8. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities at March 31, 2018 and 2017 were as follows:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2018	2017	*2018*
Short-term investments			
Time deposits	¥42	¥-	*$397*
Other	829	260	*7,803*
Total	¥871	¥260	*$8,200*
Investment securities:			
Marketable equity securities and investment trust	¥1,345	¥1,568	*$12,660*
Investment in unconsolidated subsidiaries	30	30	*282*
Other	183	119	*1,723*
Total	¥1,558	¥1,717	*$14,665*

Information regarding marketable securities at March 31, 2018 and 2017 were as follows:

	(Millions of yen)			
	March 31,			
	2018			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Equity securities	¥852	¥495	¥(2)	¥1,345
Others	-	-	-	-
Total	¥852	¥495	¥(2)	¥1,345

	(Millions of yen)			
	March 31,			
	2017			
	Cost	Gross unrealized gains	Gross unrealized Losses	Fair value
Equity securities	¥965	¥609	¥(6)	¥1,568
Others	-	-	-	-
Total	¥965	¥609	¥(6)	¥1,568

	(Thousands of U.S. dollars)			
	March 31,			
	2018			
	Cost	*Gross unrealized gains*	*Gross unrealized losses*	*Fair value*
Equity securities	*$8,023*	*$4,663*	*$(26)*	*$12,660*
Others	-	-	-	-
Total	*$8,023*	*$4,663*	*$(26)*	*$12,660*

Unlisted equity securities of ¥213 million ($2,004 thousand) and ¥148 million as of March 31, 2018 and 2017, respectively, that do not have market value and for which it is difficult to determine the fair value are not included in the above table.

9. LOSS ON IMPAIRMENT OF FIXED ASSETS

Location	Use	Classification	(Millions of yen) 2018	*(Thousands of U.S. dollars) 2018*
Central Laboratory Kakogawa City, Hyogo Prefecture	Idle assets	Machinery and equipment	¥10	*$93*
Tokushima Business Place Yoshinogawa City, Tokushima Prefecture	Idle assets	Machinery and equipment	2	*20*
TIANJIN KDS CORP. Tianjin, China	Idle assets	Machinery and equipment etc.	18	*169*
HARMONY ELECTRONICS CORP. Kaohsiung City, Taiwan	Idle assets	Machinery and equipment	38	*359*
HARMONY ELECTRONICS (Shen Zhen) Co., Ltd. Shen Zhen, P.R. China	Idle assets	Buildings and structures	9	*87*
Total			¥77	*$728*

The company and its consolidated subsidiaries categorize business assets by business segmentation and lease property, idle assets, and assets to be disposed are categorized by separately.

The book values of idle assets, which are not expected to be utilized in the future, are written down to the recoverable amount and such written-downs were recorded as impairment loss. The recoverable amount was measured as net selling prices, calculated using the market price in HARMONY ELECTRONICS (Shen Zhen) Co., Ltd., and as zero in others.

Location	Use	Classification	(Millions of yen) 2017
Kanzaki Plant Kanzaki County, Hyogo Prefecture	Idle assets	Construction in progress	¥5
Tottori Business Place Tottori City, Tottori Prefecture	Idle assets	Machinery and equipment	121
Tokushima Business Place Yoshinogawa City, Tokushima Prefecture	Idle assets	Machinery and equipment etc.	86
HARMONY ELECTRONICS CORP. Kaohsiung City, Taiwan	Idle assets	Machinery and equipment	17
HARMONY ELECTRONICS (Suzhou) Co., Ltd. Suzhou, P.R. China	Potential disposal assets	Buildings and structures	64
Total			¥293

The company and its consolidated subsidiaries categorize business assets by business segmentation and lease property, idle assets, and assets to be disposed are categorized by separately.

The book values of idle assets, which are not expected to be utilized in the future, are written down to the recoverable amount and such written-downs were recorded as impairment loss. The recoverable amount was measured as net selling prices, calculated using the market price in Tokushima Business Place, and as zero in others.

The book values of assets to be disposed are written down to the recoverable amounts and such write-downs were recorded as impairment loss. The recoverable amount was measured as net selling prices, calculated using appraisal report by a third-party real-estate appraiser in HARMONY ELECTRONICS (Suzhou) Co., Ltd. .

10. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings consisted principally of bank loans with a weighted average interest rate of 0.9% and 0.9% at March 31, 2018 and 2017, respectively.

Long-term debt at March 31, 2018 and 2017 consisted of the following:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2018	2017	*2018*
Loans principally from banks, due from 2018 to 2022, with weighted average interest of 0.6% and 0.6% at March 31, 2018 and 2017, respectively.	¥18,692	¥17,940	*$175,947*
Less; current portion	(4,111)	(5,089)	*(38,696)*
	¥14,581	¥12,851	*$137,251*

The aggregate annual maturities of long-term debt at March 31, 2018 were as follows:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Year ending March 31,		
2019	¥4,111	*$38,696*
2020	7,097	*66,806*
2021	4,589	*43,195*
2022	2,895	*27,250*
2023 and thereafter	-	-
	¥18,692	*$175,947*

Repayment schedule 5 years subsequent to March 31, 2018 for long-term debt and other debt is as above:

The following assets were pledged as collateral for bonds and loans principally from banks at March 31, 2018 and 2017:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2018	2017	*2018*
Land	¥472	¥467	*$4,440*
Buildings and structures	438	322	*4,123*
	¥910	¥789	*$8,563*

Long-term debt with pledged assets at March 31, 2018 and 2017 were as follows:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2018	2017	*2018*
Current portion of long-term debt	¥76	¥77	*$715*
Long-term debt	38	115	*357*
	¥114	¥192	*$1,072*

11. RETIREMENT BENEFITS TO EMPLOYEES

The Company and consolidated subsidiaries have defined benefit pension plans. The plans comprise funded pension plans and unfunded pension plans. Additionally the Company has defined contribution plans. The Company has instituted retirement benefit trusts since September 2016.

Under defined benefit pension plans, the reconciliation of opening and ending balances for project benefit obligation for the year ended March 31, 2018 and 2017 were as follows;

	(Millions of yen)		*(Thousands of U.S.dollars)*
	March 31,		*March 31,*
	2018	2017	*2018*
Project benefit obligation at beginning of year	¥5,172	¥5,116	*$48,677*
Service cost	219	216	*2,057*
Interest cost	65	66	*617*
Actuarial differences	(40)	63	*(378)*
Retirement benefits paid	(200)	(300)	*(1,886)*
Other	(65)	11	*(608)*
Project benefit obligation at ending of year	¥5,151	¥5,172	*$48,479*

Under defined benefit pension plans, the reconciliation of opening and ending balances for pension assets for the year ended March 31, 2018 and 2017 were as follows;

	(Millions of yen)		*(Thousands of U.S.dollars)*
	March 31,		*March 31,*
	2018	2017	*2018*
Plan assets at beginning of year	¥3,480	¥3,001	*$32,752*
Expected return on plan assets	46	45	*438*
Actuarial differences	145	164	*1,366*
Contribution paid by the business proprietor	209	218	*1,965*
Contribution of securities to retirement benefit trust	314	280	*2,952*
Retirement benefits paid	(144)	(234)	*(1,352)*
Other	(1)	6	*(12)*
Plan assets at ending of year	¥4,049	¥3,480	*$38,109*

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2018 and 2017 for the Company's and the consolidated subsidiaries' defined benefit pension plan;

	(Millions of yen)		*(Thousands of U.S.dollars)*
	March 31,		*March 31,*
	2018	2017	*2018*
Funded retirement benefit obligations	¥4,382	¥4,368	*$41,244*
Plan assets at fair value	(4,049)	(3,480)	*(38,109)*
	333	888	*3,135*
Unfunded retirement benefit obligations	769	804	*7,235*
Net defined benefit liability in the balance sheet	¥1,102	¥1,692	*$10,370*
Net defined benefit liability	1,102	1,692	*10,370*
Net defined benefit liability in the balance sheet	¥1,102	¥1,692	*$10,370*

The components of retirement benefit expenses for the year ended March 31, 2018 and 2017 were as follows;

	(Millions of yen)		*(Thousands of U.S.dollars)*
	March 31,		*March 31,*
	2018	2017	*2018*
Service cost	¥219	¥216	*$2,057*
Interest cost	65	66	*617*
Expected return on plan assets	(47)	(45)	*(438)*
Amortization of actuarial differences	35	36	*328*
Other	-	3	*-*
Retirement benefit expenses	¥272	¥276	*$2,564*

Remeasurements of defined benefit plans, before income-tax effect, at March 31, 2018 and 2017 consisted of;

	(Millions of yen)		*(Thousands of U.S.dollars)*
	March 31,		*March 31,*
	2018	2017	*2018*
Actuarial differences	¥(226)	¥(138)	*$(2,128)*

Amortization of remeasurements of defined benefit plans, before income-tax effect, at March 31, 2018 and 2017 consisted of;

	(Millions of yen)		*(Thousands of U.S.dollars)*
	March 31,		*March 31,*
	2018	2017	*2018*
Unrecognized actuarial gain/loss	¥(153)	¥73	*$(1,445)*

The major categories of plan assets as of March 31, 2018 and 2017 were as follows;

	March 31,	
	2018	2017
Bonds	33 %	36 %
Stocks	38	42
General accounts controlled by insurance companies	15	17
Other	14	5
Total	100 %	100 %

The above includes contribution of securities to retirement benefit trust by 18% and 10% at March 31, 2018 and 2017.

The expected return on plan assets has been estimated considering the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

The assumptions used in accounting for the above retirement benefit plans for the year ended March 31, 2018 and 2017 were as follows;

	March 31,	
	2018	2017
Discount rate	0.3 %	0.3 %
Expected rate of return on plan assets	1.5	1.5

Total contributions paid by the Company and its consolidated subsidiaries to the defined contribution pension plans amounted to ¥ 58 million ($544 thousand) and ¥57 million for the year ended March 31, 2018 and 2017 respectively.

12. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are included in selling, general and administrative expenses for the years ended March 31, 2018 and 2017 amounted to ¥1,826 million ($17,184 thousand) and ¥1,739 million respectively.

13. LEASES

Finance leases other than those deemed to transfer the ownership of leased property to the lessee mainly consist of production equipment for application product of crystal.

Future lease payments for non-cancelable operating leases as a lessee at March 31, 2018 and 2017 were as follows:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2018	2017	*2018*
Due within one year	¥130	¥49	*$1,229*
Due after one year	78	29	*731*
Future lease payments	¥208	¥78	*$1,960*

Future lease payments for non-cancelable operating leases as a lessor at March 31, 2018 and 2017 were as follows:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2018	2017	*2018*
Due within one year	¥3	¥3	*$28*
Due after one year	14	17	*133*
Future lease payments	¥17	¥20	*$161*

14. INCOME TAXES

Income taxes applicable to the Company and its domestic subsidiaries include (1) corporation tax, (2) enterprise tax and (3) inhabitants tax which, in the aggregate, result in an effective tax rate approximately equal to 30.8% and 30.8% for the years ended March 31, 2018 and 2017.

Reconciliation between the Japanese statutory income tax rate and the effective tax rate for the year ended March 31, 2018 and 2017 were as follows.

	2018	2017
Japanese statutory tax rate	30.8 %	30.8 %
Valuation allowances	(1.9)	(19.8)
Expenses not deductible for tax purposes	56.4	14.3
Per capital inhabitant tax	8.2	1.4
Deficit of consolidated subsidiaries	28.1	-
Undistributed profit of foreign subsidiaries	(86.7)	2.7
Income of foreign subsidiaries taxed at lower than statutory tax rates	(23.1)	1.1
Unrecognized deferred tax on unrealized intercompany profits	58.5	-
Consolidation adjustments of gain on sales of subsidiary company's share	28.4	-
Reduction of ending deferred tax balance due to change in statue tax rate of foreign consolidated subsidiaries	20.2	-
Others	22.5	(2.9)
Effective income tax rate	141.4 %	27.6 %

(Revision of deferred tax assets and deferred tax liabilities due to change in income tax rate)

1. As a federal tax reform bill was enacted on December 22, 2017 in the United States, the corporate income tax rate will change from the consolidated fiscal year beginning on or after January 1, 2018. Accordingly, the effective statutory tax rates used in calculating deferred tax assets and deferred tax liabilities of the Company’s subsidiary in the United States change primarily from 37.9% to 23.7%. As a result of these changes, deferred tax assets (net of deferred tax liabilities) has been negligible so it has not been applied retroactively.
2. As a corporate income tax reform bill was enacted on January 18, 2018 in Republic of China (R.O.C.), the corporate income tax rate will

change from the consolidated fiscal year beginning on or after January 1, 2018. Accordingly, the effective statutory tax rates used in calculating deferred tax assets and deferred tax liabilities of the Company's subsidiary in Taiwan change primarily from 17.0% to 20.0%. This has resulted in an increase in the amount of deferred tax liabilities (net of deferred tax assets) by ¥35 million ($329 thousand) and an increase in income tax adjustment by ¥35 million ($334 thousand).

The components of the deferred tax assets and deferred tax liabilities at March 31, 2018 and 2017 were as follows：

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2018	2017	*2018*
Deferred tax assets:			
Write-down of property, plant and equipment	¥793	¥782	*$7,464*
Net defined benefit liability	367	489	*3,458*
Write-down of inventories	223	224	*2,102*
Contribution of securities to retirement benefit trust	182	86	*1,710*
Other	499	623	*4,696*
Gross deferred tax assets	2,064	2,204	*19,430*
Less: valuation allowance	(1,555)	(1,557)	*(14,640)*
Total deferred tax assets	¥509	¥647	*$4,790*
Deferred tax liabilities:			
Temporary difference of investment in subsidiaries	(214)	(390)	*(2,016)*
Net unrealized holding gains(losses) on available-for- sale securities	(150)	(180)	*(1,415)*
Gain on contribution of securities to retirement benefit trust	(76)	(38)	*(716)*
Other	(344)	(259)	*(3,233)*
Gross deferred tax liabilities	(784)	(867)	*(7,380)*
Net deferred tax assets (liabilities)	¥(275)	¥(220)	*$(2,590)*

15. COMPREHENSIVE INCOME

Other comprehensive income for the year ended March 31, 2018 and 2017 consisted of the following:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31		*March 31*
	2018	2017	*2018*
Net unrealized holding gain on securities			
Gains (Losses) arising during the year	¥234	¥241	*$2,200*
Reclassification adjustments to profit or loss	(279)	(46)	*(2,625)*
Amount before income tax effect	(45)	195	*(425)*
Income tax effect	29	(59)	*275*
Total	(16)	136	*(150)*
Translation adjustments			
Gains (Losses) arising during the year	(20)	(169)	*(191)*
Remeasurements of defined benefit plans			
Gains (Losses) arising during the year	191	102	*1,800*
Reclassification adjustments to profit or loss	35	36	*328*
Amount before income tax effect	226	138	*2,128*
Income tax effect	(10)	15	*(93)*
Total	216	153	*2,035*
Total other comprehensive income	¥180	¥120	*$1,694*

16. NET ASSETS

The Japanese Companies Act ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code").

Under the Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital.

Under the Law, in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, additional paid-in capital and legal earnings reserve may be transferred to retained earnings by the resolution of the shareholders meeting as long as the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock. Under the law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and remained earnings, respectively, which are potentially available for dividends.

Movements in common stock and treasury stock for the year ended March 31, 2018 was as follows:

	Thousands of shares			
	April 1, 2017	Increase in the year	Decrease in the year	March 31, 2018
Shares outstanding				
Common stock	9,049	-	-	9,049
Total	9,049	-	-	9,049
Treasury stock				
Common stock	974	1	-	975
Total	974	1	-	975

17. COMMITMENTS AND CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2018 and 2017 were as follows:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2018	2017	*2018*
Trade notes endorsed	¥85	¥83	*$803*

18. NET INCOME PER SHARE

Amounts per share at March 31, 2018 and 2017 and were as follows:

	(Yen)		*(U.S. dollars)*
	March 31,		*March 31,*
	2018	2017	*2018*
Net assets	¥3,216.10	¥3,282.27	*$30.27*
Net income (loss)	(36.93)	85.64	*(0.35)*
Cash dividends applicable to the year	20.00	-	*0.19*

Diluted net income per share for the years ended March 31, 2018 and 2017 has not been disclosed because no potential for dilution exited at March 31, 2018 and 2017. Amounts per share of net assets are computed based on the number of shares of common stock outstanding at the year end. Basic net income per share is computed based on the net income attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective fiscal years.

Effective October 1, 2016, the Company consolidated its common shares at the ratio of five shares to one share. Accordingly, the net assets per share and earnings per share have been calculated as if the said share consolidation was conducted at the beginning of the previous fiscal year. Dividends prior to the share consolidation are ¥1 per share and dividends after the share consolidation are ¥ 25 per share. Based on this, the annual dividend for the fiscal year ended March 2017 is shown as "—".

19. FAIR VALUES OF FINANCIAL INSTRUMENTS

For financial instruments, amounts recorded on the consolidated balance sheet and fair values as of March 31, 2018 and 2017, and the differences between the two were as follows. It should be noted that financial instruments for which it is considered extremely difficult to assets fair values are not included in the following table.

	March 31, 2018					
	(Millions of yen)			*(Thousands of U.S. dollars)*		
	Amounts on consolidated balance sheet	Fair Value	Difference	*Amounts on consolidated balance sheet*	*Fair Value*	*Difference*
(1)Cash and cash equivalent	¥15,560	¥15,560	-	*$146,461*	*$146,461*	-
(2)Trade notes and accounts receivable	7,125	7,125	-	*67,068*	*67,068*	-
(3)Investment securities	2,174	2,174	-	*20,464*	*20,464*	-
Assets total	24,859	24,859	-	*233,993*	*233,993*	-
(1)Trade notes and accounts payable	2,687	2,687	-	*25,295*	*25,295*	-
(2)Short-term borrowings	1,754	1,754	-	*16,509*	*16,509*	-
(3) Accounts payable	1,185	1,185	-	*11,153*	*11,153*	-
(4)Long-term debt	18,692	18,688	(4)	*175,947*	*175,911*	*(36)*
Liabilities total	24,318	24,314	(4)	*228,904*	*228,868*	*(36)*
Derivative transactions(*)	1	1	-	*5*	*5*	-

	March 31, 2017		
	(Millions of yen)		
	Amounts on consolidated balance sheet	Fair Value	Difference
(1)Cash and cash equivalent	¥17,304	¥17,304	-
(2)Trade notes and accounts receivable	7,381	7,381	-
(3)Investment securities	1,828	1,828	-
Assets total	26,513	26,513	-
(1)Trade notes and accounts payable	3,225	3,225	-
(2)Short-term borrowings	1,525	1,525	-
(3) Accounts payable	1,536	1,536	-
(4)Long-term debt	17,940	17,968	28
Liabilities total	24,226	24,254	28
Derivative transactions(*)	2	2	-

*Derivative assets and (liabilities) are on a net basis.

Assets

(1) Cash and cash equivalents and (2) Trade notes and accounts receivable

All of these are settled within a short time, and their fair value and book value are nearly equal. Thus, the book value is listed as fair value in the table above. Additionally, foreign exchange forward contracts are accounted for as part of accounts receivable. Therefore, the fair value of the contracts are included in the fair value of underlying account receivable.

(3) Investment securities

The fair value of equity securities equals quoted market price, if available. Information on securities by category is described in Note 8.

Liabilities

(1) Trade notes and accounts payable, (2) Short-term borrowings and (3) Accounts payable

The book value is used as the fair value for these items, as their fair values approximate their book values due to the short maturity of these instruments.

(4) Long-term debt

The fair value of accounts payable and long-term borrowings are based on the present value of the total amount including principal and interest, discounted by the expected interest rate to be applied if similar new loans with a similar remaining period were entered into. Variable interest rate for long-term borrowings is hedged by interest rate swap contract and accounted for as debt with interest rate. The fair value of long-term borrowings with variable interest is reasonably based on the present value of the total of principal, interest and net cash flow of interest rate swap contract discounted by reasonably estimated interest rate to be applied if similar new loans with a similar remaining period were entered into.

20. DERIVATIVE TRANSACTIONS

1. Derivative transactions that do not adopt hedge accounting

(1) Currency-related derivatives

	(Millions of yen) March 31, 2018			
	Contract amounts			
Off-market transactions	Total	Due after one year	Fair value	Realized gain (losses)
Currency options:				
Selling call US dollar	¥554	¥-	¥(1)	¥(1)
Buying put US dollar	554	-	4	4
Currency swaps:				
Receive Japanese yen / Pay US dollar	204	204	(5)	(5)
Forward foreign exchange contracts:				
Selling US dollar	882	-	6	6
Selling Thailand Baht	234	-	(3)	(3)
Total	¥2,428	¥204	¥1	¥1

	(Thousands of U.S. dollars) March 31, 2018			
	Contract amounts			
Off-market transactions	*Total*	*Due after one year*	*Fair value*	*Realized gain (losses)*
Currency options:				
Selling call US dollar	*$5,215*	*$-*	*$(14)*	*$(14)*
Buying put US dollar	*5,215*	*-*	*37*	*37*
Currency swaps:				
Receive Japanese yen / Pay US dollar	*1,918*	*1,918*	*(50)*	*(50)*
Forward foreign exchange contracts:				
Selling US dollar	*8,300*	*-*	*56*	*56*
Selling Thailand Baht	*2,206*	*-*	*(24)*	*(24)*
Total	*$22,854*	*$1,918*	*$5*	*$5*

Off-market transactions	(Millions of yen) March 31, 2017 Contract amounts Total	Due after one year	Fair value	Realized gain (losses)
Currency options:				
Selling call US dollar	¥228	¥-	¥(2)	¥(2)
Buying put US dollar	228	-	4	4
Currency swaps:				
Receive Japanese yen / Pay US dollar	204	204	6	6
Forward foreign exchange contracts:				
Selling US dollar	1,924	-	(3)	(3)
Selling Japanese yen	40	-	(1)	(1)
Buying US dollar	60	-	(2)	(2)
Total	¥2,684	¥204	¥2	¥2

Fair value is based on information provided by financial institutions at the end of the fiscal year.

2. Derivative transactions that adopt hedge accounting

(1) Currency-related derivatives

Hedge accounting method	Type	Main hedge item	(Millions of yen) March 31, 2018 Contract amounts Total	Due after one year	Fair values
Allocation method for forward foreign exchange contract	Selling US dollar	Account receivable	¥557	¥-	*1
Total			¥557	¥-	

Hedge accounting method	*Type*	*Main hedge item*	*(Thousands of U.S. dollars) March 31, 2018 Contract amounts Total*	*Due after one year*	*Fair values*
Allocation method for forward foreign exchange contract	*Selling US dollar*	*Account receivable*	*$5,241*	*$-*	**1*
Total			*$5,241*	*$-*	

Hedge accounting method	Type	Main hedge item	(Millions of yen) March 31, 2017 Contract amounts Total	Due after one year	Fair values
Allocation method for forward foreign exchange contract	Selling US dollar	Account receivable	¥2,606	¥-	*1
Total			¥2,606	¥-	

*1. Foreign exchange forward contracts are accounted for as part of accounts receivable. Therefore, the fair value of the contracts are included in the fair value of underlying account receivable.

(2) Interest rate-related derivatives

			(Millions of yen)		
			March 31, 2018		
			Contract amounts		
Hedge accounting method	Type	Main hedge item	Total	Due after one year	Fair values
Interest rate swaps	Receive variable / Pay fixed	Long-term debt	¥80	¥40	*1
Total			¥80	¥40	

			(Thousands of U.S. dollars)		
			March 31, 2018		
			Contract amounts		
Hedge accounting method	*Type*	*Main hedge item*	*Total*	*Due after one year*	*Fair values*
Interest rate swaps	*Receive variable / Pay fixed*	*Long-term debt*	*$753*	*$377*	**1*
Total			*$753*	*$377*	

			(Millions of yen)		
			March 31, 2017		
			Contract amounts		
Hedge accounting method	Type	Main hedge item	Total	Due after one year	Fair values
Interest rate swaps	Receive variable / Pay fixed	Long-term debt	¥120	¥40	*1
Total			¥120	¥40	

*1. Since these interest rate swaps that are subject to special treatment accounted for with long-term debt, which are hedged items, their fair value is included in the fair value of said long-term debt.

21. SEGMENT INFORMATION

(1) Overview of reportable segments

Segments used for financial reporting are the Company's constituent units for which separate financial information is available and for which the Board of Directors performs periodic studies for the purpose of determining the allocation of resources and evaluating performance.

The Company undertakes production and sales activities in the quartz crystal. Within Japan, these operations are mainly handled by the Company. Overseas, operations are handled by DAISHINKU (AMERICA) CORP. in America, DAISHINKU (DEUTSULAND) GmbH in Europe, DAISHINKU (HK) LTD. and TIANJIN KDS CORP. in China, HARMONY ELECTRONICS CORP. and its subsidiaries in Taiwan, and DAISHINKU (THAILAND) Co., Ltd. and PT. KDS INDONESIA in Asia. These affiliates each operate as autonomous business units, forming comprehensive strategies in each region and developing business activities for the products and services they undertake.

Accordingly, the Company's basic production and sales structure comprises the six regional reportable segments of Japan, North America, Europe, China, Taiwan, and Asia.

(2) Calculation methods for net sales, profits/losses, assets, liabilities, and other items for each reportable segment

The accounting methods by reportable business segment herein are almost the same as the description of the "summary of significant accounting policies (Note 2)". Income by reportable business segment is stated on an operating income basis. Intersegment net sales and transfers are based on the values of transactions undertaken between third parties.

(3) Information about sales, profit (loss), assets, liabilities and other items is as follows.

	(Millions of yen)								
	Japan	North-America	Europe	China	Taiwan	Asia	Total	Adjustment	Consolidated amount
Year ended March 31,2018									
Sales:									
Sales to outside customers	¥ 7,378	¥ 1,730	¥ 2,946	¥ 9,160	¥ 6,891	¥ 2,194	¥ 30,299	¥ -	¥ 30,299
Inter-segment sales	16,514	47	3	1,855	3,562	6,699	28,680	(28,680)	-
Total	23,892	1,777	2,949	11,015	10,453	8,893	58,979	(28,680)	30,299
Segment profit (loss)	¥ (140)	¥ 24	¥ 45	¥ (476)	¥ 677	¥ 116	¥ 246	¥ 55	¥ 301
Segment assets	37,752	795	888	6,714	14,758	6,423	67,330	(7,921)	59,409
Others:									
Depreciation	1,156	0	2	104	734	698	2,694	(29)	2,665
Impairment loss	12	-	-	18	47	-	77	-	77
Increase in tangible and intangible fixed assets	1,175	(0)	1	30	1,010	904	3,120	(24)	3,096

	(Thousands of U.S. dollars)								
	Japan	*North-America*	*Europe*	*China*	*Taiwan*	*Asia*	*Total*	*Adjustment*	*Consolidated amount*
Year ended March 31,2018									
Sales:									
Sales to outside customers	*$ 69,448*	*$ 16,281*	*$ 27,731*	*$ 86,218*	*$ 64,862*	*$ 20,651*	*$ 285,191*	*$ -*	*$ 285,191*
Inter-segment sales	*155,443*	*439*	*31*	*17,462*	*33,527*	*63,051*	*269,953*	*(269,953)*	*-*
Total	*224,891*	*16,720*	*27,762*	*103,680*	*98,389*	*83,702*	*555,144*	*(269,953)*	*285,191*
Segment profit (loss)	*$ (1,318)*	*$ 230*	*$ 420*	*$ (4,483)*	*$ 6,373*	*$ 1,091*	*$ 2,313*	*$ 520*	*$ 2,833*
Segment assets	*355,347*	*7,485*	*8,360*	*63,196*	*138,918*	*60,455*	*633,761*	*(74,567)*	*559,194*
Others:									
Depreciation	*10,876*	*5*	*15*	*981*	*6,909*	*6,568*	*25,354*	*(267)*	*25,087*
Impairment loss	*113*	*-*	*-*	*169*	*446*	*-*	*728*	*-*	*728*
Increase in tangible and intangible fixed assets	*11,058*	*(0)*	*11*	*280*	*9,510*	*8,510*	*29,369*	*(223)*	*29,146*

	(Millions of yen)								
	Japan	North-America	Europe	China	Taiwan	Asia	Total	Adjustment	Consolidated amount
Year ended March 31,2017									
Sales:									
Sales to outside customers	¥ 7,105	¥ 1,653	¥ 2,572	¥ 10,227	¥ 7,295	¥ 2,107	¥ 30,959	¥ -	¥ 30,959
Inter-segment sales	19,189	54	3	2,040	2,921	5,574	29,781	(29,781)	-
Total	26,294	1,707	2,575	12,267	10,216	7,681	60,740	(29,781)	30,959
Segment profit (loss)	¥ 1,107	¥ 15	¥ 76	¥ (378)	¥ 672	¥ 107	¥ 1,599	¥ (204)	¥ 1,395
Segment assets	39,017	789	886	7,262	15,117	6,624	69,695	(8,876)	60,819
Others:									
Depreciation	1,158	2	2	98	699	462	2,421	(18)	2,403
Impairment loss	244	-	-	-	81	-	325	(32)	293
Increase in tangible and intangible fixed assets	1,687	0	1	117	761	1,178	3,744	(73)	3,671

Note: 1. (1) Adjustments on segment profit (loss) are eliminations of transactions in intersegment transactions and other adjustments.

(2) Adjustments on segment assets are eliminations of receivables and payables in intersegment debtors and creditors, and other adjustments.

(3) Adjustment on depreciation is eliminations of transactions in intersegment transactions.

2. Segment profit (loss) is reconciled to operating income on the consolidated statements of income.

3. Major countries and regions located in areas outside of Japan, China and Taiwan are as follows:

(1) North-America: The United States

(2) Europe: Germany

(3) Asia: Indonesia, Singapore, Thailand

(Related information)

(1) Information by products and services

Sales to external customers of individual products and services accounted for more than 90% of net sales reported on the Consolidated Statements of Income. The Company, therefore, has not provided information by product and service.

(2) Information by region

a. Sales

	Millions of Yen				*Thousands of U.S. dollars*	
Nets sales		2018		2017		*2018*
Japan	¥	5,782	¥	5,151	*$*	*54,426*
North-America		1,734		1,653		*16,321*
Europe		2,946		2,572		*27,731*
China		9,143		10,255		*86,054*
Taiwan		6,888		7,319		*64,834*
Asia		3,806		4,009		*35,825*
Total	¥	30,299	¥	30,959	*$*	*285,191*

Note: Net sales are classified by country and region based on customer location.

b. Tangible assets

	Millions of Yen				*Thousands of U.S. dollars*	
		2018		2017		*2018*
Japan	¥	11,585	¥	11,843	*$*	*109,048*
North-America		0		1		*3*
Europe		3		3		*26*
China		1,291		1,322		*12,149*
Taiwan		5,165		4,791		*48,611*
Indonesia		2,481		2,423		*23,355*
Asia		23		18		*217*
Total	¥	20,548	¥	20,401	*$*	*193,409*

(Loss on impairment of fixed assets by each reportable segment)

	Millions of Yen		Thousands of U.S. dollars
	2018	2017	*2018*
Japan	¥ 12	¥ 244	*$ 113*
North-America	-	-	-
Europe	-	-	-
China	18	-	*169*
Taiwan	47	81	*446*
Asia	-	-	-
Adjustment	-	(32)	-
Total	¥ 77	¥ 293	*$ 728*

(Amortization and remaining balance of goodwill by each reportable segment)

As there is no goodwill, the disclosure of information on goodwill has been omitted.

(Negative goodwill by each reportable segment)

As there is no negative goodwill, the disclosure of information on negative goodwill has been omitted.

22. SUBSEQUENT EVENTS

(Reversal of reserve for director's and corporate auditor's bonuses)

The Company decided not to pay director's and corporate auditor's bonuses at the board meeting on May 15, 2017. Accordingly, the Company recorded as non-operating income for reversal of reserve for director's and corporate auditor's bonuses at the year ending March 31, 2018.

(Cash Dividends)

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2018, was approved at a meeting of the shareholders of the Company held on June 28, 2018:

	(Millions of yen)	*(Thousands of U.S dollars)*
Cash dividends (¥1=U.S.$0.01 per share)	¥ 40	*$ 380*

SCS

Independent Auditor's Report

To the Board of Directors of DAISHINKU Corporation.

We have audited the accompanying consolidated financial statements of DAISHINKU Corporation ("the Company") and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2018 and 2017, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as at March 31, 2018 and 2017, and their consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The United States dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 are presented solely for the convenience. Our audit also included the translation of Japanese yen amounts into United States dollar amounts and, in our opinion, such translation has been made on the basis described in Note 5 to the consolidated financial statements.

SCS Global LLC

Tokyo, Japan
June 28, 2018