Annual Report 2019

From April 1,2018 to March 31,2019

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,*
	2019	2018	*2019*
ASSETS			
Current assets:			
Cash and cash equivalents (Notes 2 (c), 6 and 19)	¥13,940	¥15,560	*$125,598*
Trade notes and accounts receivable (Note 19)	6,474	7,125	*58,331*
Short term investment (Note 8)	-	871	-
Inventories (Note 7)	12,767	10,675	*115,026*
Other current assets	1,252	1,288	*11,283*
Allowance for doubtful accounts	(1)	(12)	*(13)*
Total current assets	34,432	35,507	*310,225*
Investments and other assets:			
Investment securities (Notes 8 and 19)	1,521	1,558	*13,708*
Deferred income taxes (Note 4 and 14)	394	406	*3,545*
Other assets	1,291	1,296	*11,633*
Total investments and other assets	3,206	3,260	*28,886*
Property, plant and equipment, at cost: (Notes 10)			
Land	5,801	5,703	*52,267*
Buildings and structures	19,223	19,230	*173,197*
Machinery and equipment	53,166	52,206	*479,011*
Lease assets (Notes 2(g) and 3)	1,155	825	*10,409*
Construction in progress	1,331	796	*11,992*
Total property, plant and equipment	80,676	78,760	*726,876*
Less: accumulated depreciation	(59,883)	(58,212)	*(539,533)*
Property, plant and equipment, net (Notes 10 and 21)	20,793	20,548	*187,343*
Total assets	¥58,431	¥59,315	*$526,454*

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,*
	2019	2018	*2019*
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term borrowings (Notes 10 and 19)	¥2,676	¥1,754	*$24,110*
Current portion of long-term debt (Notes 10 and 19)	7,804	4,111	*70,315*
Current portion of long-term lease obligations (Note 3)	149	70	*1,344*
Trade notes and accounts payable (Note 19)	2,407	2,687	*21,688*
Accounts payable (Note 19)	1,259	1,185	*11,341*
Accrued income taxes (Note 14)	241	178	*2,167*
Accrued employees' bonuses	240	454	*2,161*
Other current liabilities	905	765	*8,157*
Total current liabilities	15,681	11,204	*141,283*
Long-term liabilities:			
Long-term debt (Notes 10 and 19)	9,310	14,581	*83,883*
Long-term lease obligations (Note 3)	718	571	*6,474*
Net defined benefit liability(Note 11)	1,185	1,102	*10,681*
Deferred income taxes (Note 4 and 14)	707	681	*6,366*
Long-term accounts payable (Note 19)	134	166	*1,209*
Asset retirement obligations	26	26	*235*
Other long-term liabilities	103	104	*924*
Total long-term liabilities	12,183	17,231	*109,772*
Total liabilities	27,864	28,435	*251,055*
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, 2019 and 9,049,242 shares at March 31, 2018	19,345	19,345	*174,294*
Additional paid-in capital	7,158	7,158	*64,497*
Retained earnings (Note 16 and 22)	(530)	67	*(4,780)*
Less: treasury stock, at cost: 976,280 shares at March 31, 2019 and 975,251 shares at March 31, 2018, respectively	(1,921)	(1,920)	*(17,313)*
Total shareholders' equity	24,052	24,650	*216,698*
Accumulated other comprehensive income			
Net unrealized holding gains (losses) on available-for-sale securities (Note 8)	329	375	*2,965*
Foreign currency translation adjustments	846	752	*7,617*
Remeasurements of defined benefit plans	263	190	*2,374*
Total accumulated other comprehensive income	1,438	1,317	*12,956*
Non-controlling interests	5,077	4,913	*45,745*
Total net assets	30,567	30,880	*275,399*
Total liabilities and net assets	¥58,431	¥59,315	*$526,454*

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,*
	2019	2018	*2019*
Net sales (Note 21)	¥28,457	¥30,299	*$256,397*
Cost of sales	22,276	23,571	*200,703*
Gross profit	6,181	6,728	*55,694*
Selling, general and administrative Expenses (Note 12)	6,134	6,427	*55,269*
Operating income (Note 21)	47	301	*425*
Other income (expenses):			
Interest and dividend income	102	97	*924*
Interest expenses	(127)	(129)	*(1,149)*
Insurance claim income	256	67	*2,309*
Compensation expenses	(88)	-	*(797)*
Foreign currency exchange gain (loss), net	125	(127)	*1,124*
Gain on contribution of securities to retirement benefit trust	-	249	*-*
Loss (Gain) on sales or disposal of property, plant and equipment, net	(14)	19	*(122)*
Impairment loss (Note 9)	(13)	(77)	*(121)*
Loss on business transfer	(117)	-	*(1,052)*
Loss on product compensation	-	(234)	*-*
Other, net	68	37	*611*
Income before income taxes	239	203	*2,152*
Income taxes (Note 14):			
Current	303	220	*2,727*
Deferred	84	67	*762*
	387	287	*3,489*
Loss	(148)	(84)	*(1,337)*
Income attributable to non-controlling interests	328	214	*2,951*
Loss attributable to owners of parent	¥(476)	¥(298)	*$(4,288)*

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,*
	2019	2018	*2019*
Loss	¥(148)	¥(84)	*$(1,337)*
Other comprehensive income (Note 15)			
Unrealized holding loss on available-for-sale securities	(3)	(16)	*(25)*
Foreign currency transaction adjustments	75	(20)	*675*
Remeasurements of defined benefit plans	78	216	*704*
Total other comprehensive income, net	150	180	*1,354*
Comprehensive income	¥2	¥96	*$17*
Comprehensive income attributable to:			
Shareholders of DAISHINKU CORP.	¥(355)	¥(214)	*$(3,200)*
Non-controlling interests of consolidated subsidiaries	357	310	*3,217*

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, 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 April 1, 2018	19,345	7,158	67	(1,920)	375	752	190	4,913	30,880
Dividends	-	-	(121)	-	-	-	-	-	(121)
Net income attributable to owners of parent	-	-	(476)	-	-	-	-	-	(476)
Acquisition of treasury stock	-	-	-	(1)	-	-	-	-	(1)
Other changes	-	-	-	-	(46)	94	73	164	285
Balance at March 31, 2019	¥ 19,345	¥ 7,158	¥ (530)	¥ (1,921)	¥ 329	¥ 846	¥ 263	¥ 5,077	¥ 30,567

(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, 2018	*$ 174,294*	*$ 64,497*	*$ 599*	*$ (17,302)*	*$ 3,384*	*$ 6,771*	*$ 1,714*	*$ 44,268*	*$ 278,225*
Dividends	-	-	*(1,091)*	-	-	-	-	-	*(1,091)*
Net income attributable to owners of parent	-	-	*(4,288)*	-	-	-	-	-	*(4,288)*
Acquisition of treasury stock	-	-	-	*(11)*	-	-	-	-	*(11)*
Other changes	-	-	-	-	*(419)*	*846*	*660*	*1,477*	*2,564*
Balance at March 31, 2019	*$ 174,294*	*$ 64,497*	*$ (4,780)*	*$ (17,313)*	*$ 2,965*	*$ 7,617*	*$ 2,374*	*$ 45,745*	*$ 275,399*

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*
	2019	2018	*2019*
OPERATING ACTIVITIES:			
Income before income taxes	¥239	¥203	*$2,152*
Adjustments for:			
Depreciation and amortization	2,802	2,861	*25,245*
Impairment loss on fixed assets	13	77	*121*
Amortization of long-term prepaid expenses	76	76	*686*
Allowance for doubtful accounts, net	(11)	(0)	*(96)*
Increase (decrease) in provision for bonuses	(214)	(8)	*(1,926)*
Increase (decrease) in provision for director's and corporate auditor's bonuses	-	(15)	*-*
Net defined benefit liability	146	(18)	*1,314*
Loss (Gain) on sales or disposal of property, plant and equipment, net	14	(19)	*122*
Interest and dividend income	(102)	(98)	*(924)*
Interest expenses	127	129	*1,149*
Foreign currency exchange gains (losses) , net	(49)	67	*(445)*
Gain on contribution of securities to retirement benefit trust	-	(248)	*-*
Changes in assets and liabilities:			
Increase (decrease) in trade notes and accounts receivable	663	222	*5,972*
Increase (decrease) in inventories	(2,105)	(1,168)	*(18,962)*
Increase (decrease) in trade notes and accounts payable	(266)	(557)	*(2,392)*
Other-net	(77)	18	*(704)*
Sub-total	1,256	1,522	*11,312*
Interest and dividends-received	102	97	*924*
Interest-paid	(126)	(123)	*(1,137)*
Income taxes-paid	(234)	(647)	*(2,104)*
Net cash provided by operating activities	998	849	*8,995*
INVESTING ACTIVITIES:			
Decrease (increase) in time deposits, net	42	(43)	*378*
Decrease (increase) in short-term investment securities, net	824	(580)	*7,428*
Payments for purchase of property, plant and equipment	(2,348)	(3,390)	*(21,160)*
Proceeds from sales of property, plant and equipment	16	43	*142*
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	-	989	*-*
Other-net	(124)	56	*(1,117)*
Net cash used in investing activities	(1,590)	(2,925)	*(14,329)*
FINANCING ACTIVITIES:			
Increase (decrease) in short-term borrowings	917	245	*8,260*
Proceeds from long -term debt	3,050	6,310	*27,480*
Repayments of long-term debt	(4,604)	(5,534)	*(41,482)*
Repayments of finance lease	(103)	(69)	*(930)*
Cash dividends-paid	(121)	(321)	*(1,088)*
Cash dividends paid to non-controlling shareholders	(193)	(127)	*(1,734)*
Other- net	(1)	(3)	*(11)*
Net cash provided by financing activities	(1,055)	501	*(9,505)*
Effect of exchange rate changes on cash and cash equivalents	27	(169)	*245*
Net increase (decrease) in cash and cash equivalents	(1,620)	(1,744)	*(14,594)*
Cash and cash equivalents at beginning of year	15,560	17,304	*140,192*
Cash and cash equivalents at end of year(Note 6)	¥13,940	¥15,560	*$125,598*

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 (ShenZhen) Co., Ltd., HARMONY ELECTRONICS (DongGuan) 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 (ShenZhen) Co., Ltd. , HARMONY ELECTRONICS (DongGuan) 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, 2019.

(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.

Right-of-use assets will be depreciated systematically over either the estimated useful life of an asset or lease term, whichever is shorter.

(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)

International Financial Reporting Standards No. 16 Leases can be applied to the fiscal year commencing on after January 1, 2019, certain foreign subsidiary has applied from this fiscal year. As a result of this change, an additional ¥297 million ($ 2,676 thousand) in right-of-use assets and ¥297 million ($ 2,676 thousand) in lease liabilities have been recognized in conjunction with the application of IFRS16. Right-of-use assets are included in "Lease assets" and lease liabilities are included in "Current portion of long-term lease obligations" and "Long-term lease obligations". Furthermore, 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. RECLASSIFICATIONS

(Changes accompanying revision of accounting standards)

Upon application of “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Guidance No.28, February 16, 2018 (herein after, “Statement No.28”)) from the beginning of the current fiscal year, the Company and its domestic subsidiary changed the presentation and related notes of deferred tax assets and deferred tax liabilities such that deferred tax assets and deferred tax liabilities are classified as part of “Investments and other assets” and “Long-term liabilities”, respectively. As a result, deferred tax assets previously classified as current assets decreased by ¥163 million and deferred tax assets in “Investments and other assets” increased by ¥70 million in the balance sheet as of the end of the previous fiscal year. Deferred tax liabilities previously classified as “Current liabilities” decreased by ¥2 million and deferred tax liabilities in “Long-term liabilities” decreased by ¥91 million in the balance sheet as of the end of the previous fiscal year. Further, total assets decreased by ¥93 million, respectively, due to offsetting deferred tax assets and deferred tax liabilities of the same entity.

The notes related to tax effect accounting additionally included those described in notes 8 (excluding total amount of valuation reserves) and 9 of “Accounting Standard for Tax Effect Accounting,” which are required in paragraphs 3 to 5 of Statement No. 28. However, this additional information corresponding to the previous fiscal year is not disclosed, in accordance with the transitional treatments prescribed in paragraph 7 of Statement No.28.

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 ¥110= US$1, the exchange rate prevailing on March 31, 2019. 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, 2019 and 2018 and the consolidated balance sheets as of March 31, 2019 and 2018 has been omitted since there were no reconciliation items.

7. INVENTORIES

Inventories at March 31, 2019 and 2018 consisted of the following:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2019	2018	*2019*
Finished goods	¥5,787	¥4,332	*$52,140*
Work in process	3,115	2,904	*28,066*
Materials and supplies	3,865	3,439	*34,820*
	¥12,767	¥10,675	*$115,026*

8. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities at March 31, 2019 and 2018 were as follows:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2019	2018	*2019*
Short-term investments			
Time deposits	¥-	¥42	*$-*
Other	-	829	*-*
Total	¥-	¥871	*$-*
Investment securities:			
Marketable equity securities and investment trust	¥1,222	¥1,345	*$11,012*
Investment in unconsolidated subsidiaries	30	30	*270*
Other	269	183	*2,426*
Total	¥1,521	¥1,558	*$13,708*

Information regarding marketable securities at March 31, 2019 and 2018 were as follows:

	(Millions of yen)			
	March 31,			
	2019			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Equity securities	¥860	¥417	¥(55)	¥1,222
Others	-	-	-	-
Total	¥860	¥417	¥(55)	¥1,222

	(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

	(Thousands of U.S. dollars)			
	March 31,			
	2019			
	Cost	*Gross unrealized gains*	*Gross unrealized losses*	*Fair value*
Equity securities	*$7,753*	*$3,759*	*$(500)*	*$11,012*
Others	*-*	*-*	*-*	*-*
Total	*$7,753*	*$3,759*	*$(500)*	*$11,012*

Unlisted equity securities of ¥299 million ($2,696 thousand) and ¥213 million as of March 31, 2019 and 2018, 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) 2019	*(Thousands of U.S. dollars) 2019*
HARMONY ELECTRONICS CORP. Kaohsiung City, Taiwan	Idle assets	Machinery and equipment	¥13	*$117*
HARMONY ELECTRONICS (ShenZhen) Co., Ltd. ShenZhen, P.R. China	Idle assets	Buildings and structures	0	*4*
Total			¥13	*$121*

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 (ShenZhen) Co., Ltd., and as zero in others.

Location	Use	Classification	(Millions of yen) 2018
Central Laboratory Kakogawa City, Hyogo Prefecture	Idle assets	Machinery and equipment	¥10
Tokushima Business Place Yoshinogawa City, Tokushima Prefecture	Idle assets	Machinery and equipment	2
TIANJIN KDS CORP. Tianjin, China	Idle assets	Machinery and equipment etc.	18
HARMONY ELECTRONICS CORP. Kaohsiung City, Taiwan	Idle assets	Machinery and equipment	38
HARMONY ELECTRONICS (ShenZhen) Co., Ltd. ShenZhen, P.R. China	Idle assets	Buildings and structures	9
Total			¥77

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 (ShenZhen) Co., Ltd., and as zero in others.

10. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings consisted principally of bank loans with a weighted average interest rate of 1.2% and 0.9% at March 31, 2019 and 2018, respectively.

Long-term debt at March 31, 2019 and 2018 consisted of the following:

	(Millions of yen) March 31, 2019	(Millions of yen) March 31, 2018	*(Thousands of U.S. dollars) March 31, 2019*
Loans principally from banks, due from 2019 to 2025, with weighted average interest of 0.4% and 0.6% at March 31, 2019 and 2018, respectively.	¥17,114	¥18,692	*$154,198*
Less; current portion	(7,804)	(4,111)	*(70,315)*
	¥9,310	¥14,581	*$83,883*

The aggregate annual maturities of long-term debt at March 31, 2019 were as follows:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Year ending March 31,		
2020	¥7,804	*$70,315*
2021	5,215	*46,986*
2022	3,620	*32,618*
2023	425	*3,829*
2024 and thereafter	50	*450*
	¥17,114	*$154,198*

Repayment schedule 5 years subsequent to March 31, 2019 for long-term debt is as above:

The following assets were pledged as collateral for bonds and loans principally from banks at March 31, 2019 and 2018:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2019	2018	*2019*
Land	¥465	¥472	*$4,184*
Buildings and structures	410	438	*3,696*
	¥875	¥910	*$7,880*

Long-term debt with pledged assets at March 31, 2019 and 2018 were as follows:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2019	2018	*2019*
Current portion of long-term debt	¥37	¥76	*$336*
Long-term debt	-	38	*-*
	¥37	¥114	*$336*

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, 2019 and 2018 were as follows;

	(Millions of yen)		*(Thousands of U.S.dollars)*
	March 31,		*March 31,*
	2019	2018	*2019*
Project benefit obligation at beginning of year	¥5,151	¥5,172	*$46,404*
Service cost	207	219	*1,867*
Interest cost	74	65	*667*
Actuarial differences	(149)	(40)	*(1,342)*
Retirement benefits paid	(312)	(200)	*(2,810)*
Other	1	(65)	*10*
Project benefit obligation at ending of year	¥4,972	¥5,151	*$44,796*

Under defined benefit pension plans, the reconciliation of opening and ending balances for pension assets for the year ended March 31, 2019 and 2018 were as follows;

	(Millions of yen)		*(Thousands of U.S.dollars)*
	March 31,		*March 31,*
	2019	2018	*2019*
Plan assets at beginning of year	¥4,049	¥3,480	*$36,478*
Expected return on plan assets	49	46	*444*
Actuarial differences	(64)	145	*(578)*
Contribution paid by the business proprietor	22	209	*199*
Contribution of securities to retirement benefit trust	-	314	*-*
Retirement benefits paid	(268)	(144)	*(2,410)*
Other	(1)	(1)	*(18)*
Plan assets at ending of year	¥3,787	¥4,049	*$34,115*

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2019 and 2018 for the Company's and the consolidated subsidiaries' defined benefit pension plan;

	(Millions of yen)		*(Thousands of U.S.dollars)*
	March 31,		*March 31,*
	2019	2018	*2019*
Funded retirement benefit obligations	¥4,144	¥4,382	*$37,339*
Plan assets at fair value	(3,787)	(4,049)	*(34,115)*
	357	333	*3,224*
Unfunded retirement benefit obligations	828	769	*7,457*
Net defined benefit liability in the balance sheet	¥1,185	¥1,102	*$10,681*
Net defined benefit liability	1,185	1,102	*10,681*
Net defined benefit liability in the balance sheet	¥1,185	¥1,102	*$10,681*

The components of retirement benefit expenses for the year ended March 31, 2019 and 2018 were as follows;

	(Millions of yen)		*(Thousands of U.S.dollars)*
	March 31,		*March 31,*
	2019	2018	*2019*
Service cost	¥207	¥219	*$1,867*
Interest cost	74	65	*666*
Expected return on plan assets	(49)	(47)	*(444)*
Amortization of actuarial differences	6	35	*58*
Retirement benefit expenses	¥238	¥272	*$2,147*

Remeasurements of defined benefit plans, before income-tax effect, at March 31, 2019 and 2018 consisted of;

	(Millions of yen)		*(Thousands of U.S.dollars)*
	March 31,		*March 31,*
	2019	2018	*2019*
Actuarial differences	¥(84)	¥(226)	*$(759)*

Amortization of remeasurements of defined benefit plans, before income-tax effect, at March 31, 2019 and 2018 consisted of;

	(Millions of yen)		*(Thousands of U.S.dollars)*
	March 31,		*March 31,*
	2019	2018	*2019*
Unrecognized actuarial gain/loss	¥(238)	¥(153)	*$(2,142)*

The major categories of plan assets as of March 31, 2019 and 2018 were as follows;

	March 31, 2019	March 31, 2018
Bonds	37 %	33 %
Stocks	39	38
General accounts controlled by insurance companies	16	15
Other	8	14
Total	100 %	100 %

The above includes contribution of securities to retirement benefit trust by 10% and 18% at March 31, 2019 and 2018.

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, 2019 and 2018 were as follows;

	March 31, 2019	March 31, 2018
Discount rate	0.3 %	0.3 %
Expected rate of return on plan assets	1.3	1.5

Total contributions paid by the Company and its consolidated subsidiaries to the defined contribution pension plans amounted to ¥ 57 million ($516 thousand) and ¥58 million for the year ended March 31, 2019 and 2018 respectively.

12. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are included in selling, general and administrative expenses for the years ended March 31, 2019 and 2018 amounted to ¥1,716 million ($15,464 thousand) and ¥1,826 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, 2019 and 2018 were as follows:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2019	2018	*2019*
Due within one year	¥48	¥130	*$431*
Due after one year	49	78	*444*
Future lease payments	¥97	¥208	*$875*

Future lease payments for non-cancelable operating leases as a lessor at March 31, 2019 and 2018 were as follows:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2019	2018	*2019*
Due within one year	¥3	¥3	*$27*
Due after one year	11	14	*100*
Future lease payments	¥14	¥17	*$127*

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 30.6% and 30.8% for the years ended March 31, 2019 and 2018.

Reconciliation between the Japanese statutory income tax rate and the effective tax rate for the year ended March 31, 2019 and 2018 were as follows.

	2019	2018
Japanese statutory tax rate	30.6 %	30.8 %
Valuation allowances	78.5	(1.9)
Expenses not deductible for tax purposes	4.4	56.4
Per capital inhabitant tax	7.0	8.2
Deficit of consolidated subsidiaries	12.4	28.1
Undistributed profit of foreign subsidiaries	4.3	(86.7)
Income of foreign subsidiaries taxed at lower than statutory tax rates	(21.8)	(23.1)
Unrecognized deferred tax on unrealized intercompany profits	4.2	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
Withholding tax on dividend from consolidated subsidiaries	4.7	9.5
Income taxes for prior periods	-	8.8
Previous term difference	33.1	(3.8)
Others	4.7	8.0
Effective income tax rate	162.1 %	141.4 %

The components of the deferred tax assets and deferred tax liabilities at March 31, 2019 and 2018 were as follows：

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2019	2018	*2019*
Deferred tax assets:			
Write-down of property, plant and equipment	¥797	¥793	*$7,179*
Net defined benefit liability	411	367	*3,703*
Tax losses carried forward	269	71	*2,429*
Write-down of inventories	207	223	*1,862*
Contribution of securities to retirement benefit trust	182	182	*1,637*
Other	334	428	*3,013*
Gross deferred tax assets	2,200	2,064	*19,823*
Valuation allowance for tax losses carried forward (*2)	(270)	-	*(2,429)*
Valuation allowance for future subtraction temporary difference (*1)	(1,472)	-	*(13,267)*
Less: valuation allowance	(1,742)	(1,555)	*(15,696)*
Total deferred tax assets	¥458	¥509	*$4,127*
Deferred tax liabilities:			
Temporary difference of investment in subsidiaries	(217)	(214)	*(1,958)*
Net unrealized holding gains(losses) on available-for- sale securities	(110)	(150)	*(994)*
Gain on contribution of securities to retirement benefit trust	(76)	(76)	*(685)*
Other	(368)	(344)	*(3,311)*
Gross deferred tax liabilities	(771)	(784)	*(6,948)*
Net deferred tax assets (liabilities)	¥(313)	¥(275)	*$(2,821)*

(*1) The increase in valuation allowance of ¥186 million ($1,682 thousand) resulted mainly from increase in tax losses carry forward at parent company.

(*2) Tax losses carried forward and the aggregate annual maturities of deferred tax assets at March 31, 2019 were as follows:

	(Millions of yen)		
	March 31,		
	2019		
	Tax losses carried forward	Valuation allowance	Deferred tax assets
Year ending March 31,			
2020	¥18	¥(18)	¥-
2021	4	(4)	-
2022	18	(18)	-
2023	2	(2)	-
2024	-	-	-
2025 and thereafter	228	(228)	-
	¥270	¥(270)	¥-

	(Thousands of U.S. dollars)		
	March 31,		
	2019		
	Tax losses carried forward	*Valuation allowance*	*Deferred tax assets*
Year ending March 31,			
2020	*$159*	*$(159)*	*$-*
2021	*32*	*(32)*	*-*
2022	*167*	*(167)*	*-*
2023	*15*	*(15)*	*-*
2024	*-*	*-*	*-*
2025 and thereafter	*2,056*	*(2,056)*	*-*
	$2,429	*$(2,429)*	*$-*

15. COMPREHENSIVE INCOME

Other comprehensive income for the year ended March 31, 2019 and 2018 consisted of the following:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31		*March 31*
	2019	2018	*2019*
Net unrealized holding gains (losses) on available-for-sale securities			
Gains (Losses) arising during the year	¥(42)	¥234	*$(378)*
Reclassification adjustments to profit or loss	(1)	(279)	*(8)*
Amount before income tax effect	(43)	(45)	*(386)*
Income tax effect	40	29	*361*
Total	(3)	(16)	*(25)*
Foreign currency translation adjustment			
Gains (Losses) arising during the year	75	(20)	*675*
Remeasurements of defined benefit plans			
Gains (Losses) arising during the year	78	191	*701*
Reclassification adjustments to profit or loss	6	35	*58*
Amount before income tax effect	84	226	*759*
Income tax effect	(6)	(10)	*(55)*
Total	78	216	*704*
Total other comprehensive income	¥150	¥180	*$1,354*

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, 2019 was as follows:

	Thousands of shares			
	April 1, 2018	Increase in the year	Decrease in the year	March 31, 2019
Shares outstanding				
Common stock	9,049	-	-	9,049
Total	9,049	-	-	9,049
Treasury stock				
Common stock	975	1	-	976
Total	975	1	-	976

17. COMMITMENTS AND CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2019 and 2018 were as follows:

	(Millions of yen)		*(Thousands of U.S. dollars)*
	March 31,		*March 31,*
	2019	2018	*2019*
Trade notes endorsed	¥75	¥85	*$680*

18. NET INCOME PER SHARE

Amounts per share at March 31, 2019 and 2018 and were as follows:

	(Yen)		*(U.S. dollars)*
	March 31,		*March 31,*
	2019	2018	*2019*
Net assets	¥3,157.37	¥3,216.10	*$28.45*
Net income (loss)	(58.95)	(36.93)	*(0.53)*
Cash dividends applicable to the year	15.00	20.00	*0.14*

Diluted net income per share for the years ended March 31, 2019 and 2018 has not been disclosed because no potential for dilution exited at March 31, 2019 and 2018. 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.

19. FAIR VALUES OF FINANCIAL INSTRUMENTS

For financial instruments, amounts recorded on the consolidated balance sheet and fair values as of March 31, 2019 and 2018, 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, 2019					
	(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	¥13,940	¥13,940	-	*$125,598*	*$125,598*	-
(2)Trade notes and accounts receivable	6,474	6,474	-	*58,331*	*58,331*	-
(3)Investment securities	1,222	1,222	-	*11,012*	*11,012*	-
Assets total	21,636	21,636	-	*194,941*	*194,941*	-
(1)Trade notes and accounts payable	2,407	2,407	-	*21,688*	*21,688*	-
(2)Short-term borrowings	2,676	2,676	-	*24,110*	*24,110*	-
(3) Accounts payable	1,259	1,259	-	*11,341*	*11,341*	-
(4)Long-term debt	17,114	17,124	10	*154,198*	*154,288*	*90*
Liabilities total	23,456	23,466	10	*211,337*	*211,427*	*90*
Derivative transactions(*)	1	1	-	*11*	*11*	-

	March 31, 2018		
	(Millions of yen)		
	Amounts on consolidated balance sheet	Fair Value	Difference
(1)Cash and cash equivalent	¥15,560	¥15,560	-
(2)Trade notes and accounts receivable	7,125	7,125	-
(3)Investment securities	2,174	2,174	-
Assets total	24,859	24,859	-
(1)Trade notes and accounts payable	2,687	2,687	-
(2)Short-term borrowings	1,754	1,754	-
(3) Accounts payable	1,185	1,185	-
(4)Long-term debt	18,692	18,688	(4)
Liabilities total	24,318	24,314	(4)
Derivative transactions(*)	1	1	-

*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, 2019			
	Contract amounts			Realized gains
Off-market transactions	Total	Due after one year	Fair value	(losses)
Currency options:				
Selling call US dollar	¥331	¥-	¥(1)	¥(1)
Selling put US dollar	111	-	1	1
Buying put US dollar	221	-	(2)	(2)
Currency swaps:				
Receive Japanese yen / Pay US dollar	204	204	9	9
Forward foreign exchange contracts:				
Selling US dollar	438	-	(4)	(4)
Selling Thailand Baht	223	-	(2)	(2)
Total	¥1,528	¥204	¥1	¥1

	(Thousands of U.S. dollars)			
	March 31, 2019			
	Contract amounts			*Realized gains*
Off-market transactions	*Total*	*Due after one year*	*Fair value*	*(losses)*
Currency options:				
Selling call US dollar	*$2,984*	*$-*	*$(5)*	*$(5)*
Selling put US dollar	*997*	*-*	*5*	*5*
Buying put US dollar	*1,992*	*-*	*(20)*	*(20)*
Currency swaps:				
Receive Japanese yen / Pay US dollar	*1,836*	*1,836*	*83*	*83*
Forward foreign exchange contracts:				
Selling US dollar	*3,951*	*-*	*(35)*	*(35)*
Selling Thailand Baht	*2,006*	*-*	*(17)*	*(17)*
Total	*$13,766*	*$1,836*	*$11*	*$11*

	(Millions of yen)			
	March 31, 2018			
	Contract amounts			Realized gains
Off-market transactions	Total	Due after one year	Fair value	(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

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

			(Millions of yen)		
			March 31, 2019		
			Contract amounts		
Hedge accounting method	Type	Main hedge item	Total	Due after one year	Fair values
Allocation method for forward foreign exchange contract	Selling US dollar	Account receivable	¥558	¥-	*1
Total			¥558	¥-	

			(Thousands of U.S. dollars)		
			March 31, 2019		
			Contract amounts		
Hedge accounting method	*Type*	*Main hedge item*	*Total*	*Due after one year*	*Fair values*
Allocation method for forward foreign exchange contract	*Selling US dollar*	*Account receivable*	*$5,031*	*$-*	**1*
Total			*$5,031*	*$-*	

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

*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, 2019		
			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	¥890	¥650	*1
Total			¥890	¥650	

			(Thousands of U.S. dollars)		
			March 31, 2019		
			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*	*$8,019*	*$5,856*	**1*
Total			*$8,019*	*$5,856*	

			(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	

*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 were as follows.

(Millions of yen)

	Japan	North-America	Europe	China	Taiwan	Asia	Total	Adjustment	Consolidated amount
Year ended March 31,2019									
Sales:									
Sales to outside customers	¥ 6,658	¥ 1,811	¥ 2,751	¥ 8,396	¥ 6,759	¥ 2,082	¥ 28,457	¥ -	¥ 28,457
Inter-segment sales	14,920	29	4	1,809	2,975	5,843	25,580	(25,580)	-
Total	21,578	1,840	2,755	10,205	9,734	7,925	54,037	(25,580)	28,457
Segment profit (loss)	¥ (591)	¥ 28	¥ 56	¥ (76)	¥ 840	¥ (207)	¥ 50	¥ (3)	¥ 47
Segment assets	36,497	847	1,180	7,128	15,019	6,459	67,130	(8,699)	58,431
Others:									
Depreciation	1,119	0	1	102	762	644	2,628	(38)	2,590
Impairment loss	-	-	-	-	13	-	13	-	13
Increase in tangible and intangible fixed assets	1,347	1	0	26	1,623	121	3,118	(101)	3,017

(Thousands of U.S. dollars)

	Japan	*North-America*	*Europe*	*China*	*Taiwan*	*Asia*	*Total*	*Adjustment*	*Consolidated amount*
Year ended March 31,2019									
Sales:									
Sales to outside customers	*$ 59,985*	*$ 16,320*	*$ 24,787*	*$ 75,643*	*$ 60,903*	*$ 18,759*	*$ 256,397*	*$ -*	*$ 256,397*
Inter-segment sales	*134,429*	*261*	*33*	*16,299*	*26,800*	*52,644*	*230,466*	*(230,466)*	*-*
Total	*194,414*	*16,581*	*24,820*	*91,942*	*87,703*	*71,403*	*486,863*	*(230,466)*	*256,397*
Segment profit (loss)	*$ (5,327)*	*$ 253*	*$ 504*	*$ (680)*	*$ 7,567*	*$ (1,868)*	*$ 449*	*$ (24)*	*$ 425*
Segment assets	*328,835*	*7,631*	*10,630*	*64,226*	*135,320*	*58,191*	*604,833*	*(78,379)*	*526,454*
Others:									
Depreciation	*10,084*	*2*	*11*	*916*	*6,862*	*5,806*	*23,681*	*(345)*	*23,336*
Impairment loss	*-*	*-*	*-*	*-*	*121*	*-*	*121*	*-*	*121*
Increase in tangible and intangible fixed assets	*12,138*	*5*	*4*	*230*	*14,623*	*1,091*	*28,091*	*(907)*	*27,184*

(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	37,751	795	888	6,714	14,666	6,423	67,237	(7,922)	59,315
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

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		2019		2018		*2019*
Japan	¥	5,174	¥	5,782	*$*	*46,617*
North-America		1,868		1,734		*16,833*
Europe		2,751		2,946		*24,787*
China		8,399		9,143		*75,672*
Taiwan		6,828		6,888		*61,522*
Asia		3,437		3,806		*30,966*
Total	¥	28,457	¥	30,299	*$*	*256,397*

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

b. Tangible assets

	Millions of yen				*Thousands of U.S. dollars*	
		2019		2018		*2019*
Japan	¥	11,540	¥	11,585	*$*	*103,972*
North-America		0		0		*4*
Europe		2		3		*18*
China		1,177		1,291		*10,609*
Taiwan		5,977		5,165		*53,847*
Indonesia		2,079		2,481		*18,732*
Asia		18		23		*161*
Total	¥	20,793	¥	20,548	*$*	*187,343*

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	*2019*
Japan	¥ -	¥ 12	*$ -*
North-America	-	-	*-*
Europe	-	-	*-*
China	-	18	*-*
Taiwan	13	47	*121*
Asia	-	-	*-*
Adjustment	-	-	*-*
Total	¥ 13	¥ 77	*$ 121*

(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

(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, 2019, was approved at a meeting of the shareholders of the Company held on June 27, 2019:

	(Millions of yen)	*(Thousands of U.S dollars)*
Cash dividends (¥1=U.S.$0.01 per share)	¥ 40	*$ 364*

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 sheet as at March 31, 2019 and 2018, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material 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 audit. We conducted our audit 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, 2019 and 2018, and their consolidated financial performance and their cash flows for the year 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, 2019 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 27,2019