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(Securities Code 8014)  
May 30, 2018

**To Shareholders with Voting Rights:**

Kazuo Sakihama  
President, CEO & COO  
Chori Co., Ltd.  
1-7-3, Awajimachi, Chuo-ku, Osaka,  
Japan

**NOTICE OF  
THE 71ST ANNUAL GENERAL MEETING OF SHAREHOLDERS**

Dear Shareholders:

You are cordially invited to attend the 71st Annual General Meeting of Shareholders of Chori Co., Ltd. (the "Company"). The meeting will be held for the purposes as described below.

If you are unable to attend the Annual General Meeting of Shareholders, you can exercise your voting rights either in writing or via the Internet. Please review the information in the Reference Documents for the General Meeting of Shareholders provided later in this Notice and submit your vote by no later than 5:30 p.m. on Thursday, June 14, 2018, with reference to Guidance for Exercising Your Voting Rights described on pages 2 to 4.

- 1. Date and Time:** Friday, June 15, 2018 at 10:00 a.m. Japan time
- 2. Place:** Shinagawa Intercity Hall, located at 2-15-4, Konan, Minato-ku, Tokyo, Japan  
Please refer to the "Location Map of the General Meeting of Shareholders" at the end of this Notice.
- 3. Meeting Agenda:**  
**Matters to be reported:**
  1. The Business Report, Consolidated Financial Statements for the Company's 71st Fiscal Year (April 1, 2017 - March 31, 2018) and results of audits of the Consolidated Financial Statements by the Accounting Auditor and the Audit & Supervisory Committee
  2. Non-Consolidated Financial Statements for the Company's 71st Fiscal Year (April 1, 2017 - March 31, 2018)

**Proposals to be resolved:**

**<Company Proposals (from Proposal No. 1 to Proposal No. 3)>**

- Proposal No. 1:** Election of Seven (7) Directors (Excluding Directors Who Are Audit & Supervisory Committee Members)
- Proposal No. 2:** Election of Three (3) Directors Who Are Audit & Supervisory Committee Members
- Proposal No. 3:** Election of One (1) Substitute Director Who Is an Audit & Supervisory Committee Member

**<Shareholder Proposals (from Proposal No. 4 to Proposal No. 7)>**

- Proposal No. 4:** Revision of the Provisions of Articles with Regard to the Bonus to Directors Paid Only When the Company Achieves the Goal of ROE
- Proposal No. 5:** Revision of the Provisions of Article with Regard to the Dissolution of Cross-Shareholdings
- Proposal No. 6:** Revision of the Provisions of Articles with Regard to the Decision-making Authority for Dividend Policy
- Proposal No. 7:** Appropriation of Surplus

- When attending the meeting, please submit the enclosed Voting Rights Exercise Form at the reception desk of the venue on the day of the meeting for confirmation.
- Any updates to the Reference Documents for the General Meeting of Shareholders, Business Report, Consolidated Financial Statements and Non-Consolidated Financial Statements will be posted on the Company's website (<http://www.chori.co.jp/>).

## Guidance for Exercising Your Voting Rights

Please review the information provided in the Reference Documents for the General Meeting of Shareholders (from page 5 to 19) and exercise your voting rights.

You can exercise your voting rights through any of the three methods set out below.

### Exercising of Voting Rights by attending the General Meeting of Shareholders

Date and Time: Friday, June 15, 2018 at 10:00 a.m. Japan time

Please submit the enclosed Voting Rights Exercise Form at the reception desk of the venue. In addition, attendees are requested to bring the Notice of the 71st Annual General Meeting of Shareholders (this document) with them.

### Exercise of Voting Rights in Writing

Deadline for the exercise of voting rights: Thursday, June 14, 2018 at 5:30 p.m. Japan time

Please indicate your vote for or against the proposals on the enclosed Voting Rights Exercise Form and return it to us by the deadline.

### Exercise of Voting Right via the Internet

Deadline for the exercise of voting rights: Thursday, June 14, 2018 at 5:30 p.m. Japan time

Please access the designated voting website of the Company (<https://soukai.mizuho-tb.co.jp/>) to exercise your voting rights.

For more information, please read the instructions on the following page.

## 1. How to Exercise your Voting Rights via the Internet

- (1) Instead of exercising your voting rights in writing, you can exercise your voting rights on the Company's designated "Website for Exercising Voting Rights" (see URL below). If you want to use this method, please log in the website with your voting rights exercise code and password provided on the right-hand side of the enclosed Voting Rights Exercise Form, and follow the instructions on the screen to enter your vote for or against each of the proposals. For security purposes, you will be prompted to change your password at the first time when you log in the website.

Address of "Website for Exercising Voting Rights": <https://soukai.mizuho-tb.co.jp/>

- (2) The deadline for the exercise of voting rights is at 5:30 p.m. on Thursday, June 14, 2018, and therefore you have to enter your vote before this deadline. Please be advised to exercise your voting rights as early as possible.
- (3) If you exercise your voting rights both in writing and via the Internet, the vote via the Internet will be recognized as the valid one. In addition, if you exercise your voting rights several times, only the final vote will be deemed as the valid one.
- (4) The password provided (including the one you have changed) is valid only for this General Meeting of Shareholders. A new password will be provided for the next Meeting.
- (5) Please understand that shareholder is solely responsible for any expenses incurred to connect to the Internet.

### (Attention)

- The password serves as a tool to verify the voter's identity. The Company will never ask you for your password.
- If you enter the wrong password for a specified number of times in succession, the web page will be locked and become unusable. In this case, you need to follow the instructions on the screen to try again.
- The Company has tested and confirmed the operation of the Website for Exercising Voting Rights, using general internet access devices, but certain types of devices may not be able to access the website.

## 2. Inquiries

For inquiries concerning the exercise of voting rights, please contact the Company's shareholder registration administrator, the Stock Transfer Agency Department, Mizuho Trust & Banking Co., Ltd. (please refer to the details listed below).

- (1) Dedicated contact for inquiries concerning the Website for Exercising Voting Rights, including those for its operation method  
Telephone (toll-free): 0120-768-524 (Weekdays from 9:00 a.m. to 9:00 p.m.)
- (2) Contact for other inquiries for stock-related administrative work  
Telephone (toll-free): 0120-288-324 (Weekdays from 9:00 a.m. to 5:00 p.m.)

## Note to Exercising Your Voting Rights

### 1. Voting Rights Exercise Form without indication of your vote for or against the proposals

If there is no indication of your vote for or against any proposal in Voting Rights Exercise Form, we will deem that you have voted “for” the proposal by the Company and “against” the proposal by shareholders.

### 2. Exercise of Voting Rights by Proxy

When exercising your voting rights by proxy, (1) a letter of attorney signed by the shareholder, the grantor, or with his/her signature and seal and (2) Voting Rights Exercise Form of the shareholder, the grantor, or other documents to confirm the identification of the shareholder, need to be submitted.

A proxy is limited to one shareholder who owns the Company’s Voting Rights as stipulated in the Articles of Incorporation of the Company.

## Reference Documents for the General Meeting of Shareholders

### Proposals and References

Proposal No. 1 Election of Seven (7) Directors (Excluding Directors Who Are Audit & Supervisory Committee Members)

All of seven (7) Directors (excluding Directors who are Audit & Supervisory Committee Members) of the Company will complete their terms of office at the conclusion of this General Meeting of Shareholders. Accordingly, the Company proposes the election of seven (7) Directors (excluding Directors who are Audit & Supervisory Committee Members).

This proposal has been reviewed at the Audit & Supervisory Committee and no objection was raised.

The candidates for Directors (excluding Directors who are Audit & Supervisory Committee Members) are as follows:

No.	Name (Date of birth)	Past experience (positions, responsibilities, and significant concurrent positions)	Number of shares of the Company held
1	Kazuo Sakihama (May 2, 1956)  [Reappointment]	<p>Apr. 1980      Joined the Company</p> <p>Oct. 1996      Supervisor of Section 4, Chemicals Department 1 of the Company</p> <p>Oct. 2001      General Manager of Electronics BU of the Company</p> <p>Aug. 2004      Department Manager of Performance Materials &amp; Devices Department of the Company</p> <p>Sep. 2007      Department Manager of Performance Materials &amp; Devices Department of the Company</p> <p>Apr. 2009      Deputy General Manager of Chori (China) Co., Ltd.</p> <p>Jun. 2010      Executive Officer, Deputy General Manager of Chemicals &amp; Life Science, Machinery, Electronics Operations (China Business) of the Company, Deputy General Manager of Chori (China) Co., Ltd. and General Manager of Chori (Tianjin) Co., Ltd.</p> <p>Apr. 2012      Executive Officer, Deputy General Manager of Chemicals &amp; Life Science, Machinery, Electronics Operations (Performance Chemicals and Industrial Chemicals) of the Company</p> <p>Jun. 2013      Director, Deputy General Manager of Chemicals &amp; Life Science, Machinery, Electronics Operations (Performance Chemicals, Industrial Chemicals, Fine Chemicals and Life Science) of the Company</p> <p>Jun. 2014      Director, General Manager of Chemicals &amp; Life Science, Machinery, Electronics Operations</p> <p>Jan. 2015      President, CEO &amp; COO (to present)</p>	14,483 shares
<p>■ Reasons for nominating the candidate for Director</p> <p>Since joining the Company in 1980, Mr. Kazuo Sakihama has worked mainly in chemicals and machinery businesses. After serving as Deputy General Manager of Chori (China) Co., Ltd., Director, General Manager of Chemicals &amp; Life Science, Machinery, Electronics Operations, and in other positions, he has been the President, CEO &amp; COO since 2015 (current position). He has abundant business experiences in the Company and knowledge in all the areas of management of trading company, global business management, as well as general management and operations. Based on those qualifications, we have continuously nominated him as a candidate for Director.</p>			

No.	Name (Date of birth)	Past experience (positions, responsibilities, and significant concurrent positions)	Number of shares of the Company held
2	Shigemasa Yabu (April 7, 1961)  [Reappointment]	<p>Apr. 1985    Joined the Company</p> <p>Jan. 1999    Comprehensive Planning Office of the Company</p> <p>May 2004    Section Manager of Corporate Planning Department of the Company</p> <p>Jul. 2006    Section Manager of Public Relations Section of General Affairs Department of the Company</p> <p>Jun. 2010    Department Manager of Corporate Accounting Department of the Company</p> <p>Jun. 2012    Department Manager of Corporate Planning Department of the Company</p> <p>Jun. 2013    Executive Officer, General Manager of Corporate Planning Department of Corporate Planning Division of the Company</p> <p>Jun. 2015    Director, General Manager of Corporate Planning Department of Corporate Planning Division, General Manager of Corporate Accounting Department of Corporate Administration Division, and General Manager of Pharmacovigilance &amp; Quality Assurance Office of the Company</p> <p>Jun. 2017    Director, General Manager of Corporate Planning Department of the Company (to present)</p>	11,726 shares
		<p>■ Reasons for nominating the candidate for Director</p> <p>Since joining the Company in 1985, Mr. Shigemasa Yabu has worked mainly in business management, credit control and legal work, and public relations and IR operations. After serving as Executive Officer and General Manager of Corporate Planning Department, and in other positions, he has been the Director, General Manager of Corporate Planning Department and General Manager of Corporate Accounting Department since 2015. He has abundant business experience in the Company and knowledge in all the areas of management of trading company as well as general management and operations. Based on those qualifications, we have continuously nominated him as a candidate for Director.</p>	

No.	Name (Date of birth)	Past experience (positions, responsibilities, and significant concurrent positions)	Number of shares of the Company held
3	Hiroyuki Watanabe (July 4, 1962) [Reappointment]	Apr. 1985      Joined the Company	5,991 shares
		Jul. 1990      Beijing Representative Office and General Manager of Tianjin Representative Office of the Company	
		Apr. 1999      No. 2 Group Leader of Petroleum Materials Department of Chemicals and Merchandise Division of the Company	
		Oct. 2003      Section 1 Manager of Urethane Raw Materials Department of the Company	
		Jun. 2006      Department Manager of Urethane Raw Materials Department of the Company	
		Apr. 2012      Deputy General Manager of Chori (China) Co., Ltd. and General Manager of Chori (Tianjin) Co., Ltd. of the Company	
		Jun. 2012      Officer, Deputy General Manager of Chemicals & Life Science, Machinery, Electronics Operations (China Business), Deputy General Manager of Chori (China) Co., Ltd. and General Manager of Chori (Tianjin) Co., Ltd. of the Company	
		Jun. 2014      Executive Officer, Deputy General Manager of Chemicals & Life Science, Machinery, Electronics Operations (China Business), Deputy General Manager of Chori (China) Co., Ltd., General Manager of Chori (Tianjin) Co., Ltd. and General Manager of Chori (Guangzhou) Trading Co., Ltd. of the Company	
		Jun. 2015      Director, General Manager of Chemicals & Life Science, Machinery, Electronics Operations, General Manager of Business and Planning Department (Chemicals & Machinery) and General Manager of Logistics Department (Chemicals & Machinery) of the Company	
		Jun. 2016      Director, General Manager of Chemicals & Life Science, Machinery, Electronics Operations, General Manager of Business and Planning Department (Chemicals & Machinery) and General Manager of Logistics Department (Chemicals & Machinery) of the Company and Chairman of Chori (Tianjin) Co., Ltd.	
Jul. 2017      Director, General Manager of Chemicals & Life Science, Machinery, Electronics Operations and General Manager of Logistics Department (Chemicals & Machinery) of the Company and Chairman of Chori (Tianjin) Co., Ltd. (to present)			
<p>■ Reasons for nominating the candidate for Director Since joining the Company in 1985, Mr. Hiroyuki Watanabe has worked mainly in chemicals and machinery businesses. After serving as Executive Officer, Deputy General Manager of Chemicals &amp; Life Science, Machinery, Electronics Operations, and in other positions, he has been the Director and General Manager of Chemicals &amp; Life Science, Machinery, Electronics Operations (current position) since 2015. He has abundant business experience in the Company and knowledge in all the areas of management of trading company, global business management, as well as general management and operations. Based on those qualifications, we have continuously nominated him as a candidate for Director.</p>			

No.	Name (Date of birth)	Past experience (positions, responsibilities, and significant concurrent positions)	Number of shares of the Company held
4	Hiroshi Yoshida (February 23, 1968)  [Reappointment]	Apr. 1990    Joined the Company Nov. 2002    No. 1 Group Leader of Hokuriku Raw Materials BU of the Company Jun. 2007    Department Manager of Fiber Raw Materials Department of the Company Jun. 2012    Officer, Deputy General Manager of Textile Material Operations, Department Manager of Synthetic Fiber and Automotive Interiors Department and Department Manager of Performance Fiber and Textile Department of the Company Jun. 2013    Executive Officer, Deputy General Manager of Textile Material Operations (Synthetic Fiber and Automotive Interiors, Performance Fiber and Textile) and Department Manager of Performance Fiber and Textile Department of the Company Jun. 2014    Executive Officer, Deputy General Manager of Textile Material Operations (Synthetic Fiber and Automotive Interiors, Performance Fiber and Textile) and Department Manager of Synthetic Fiber and Automotive Interiors Department of the Company Jun. 2015    Executive Officer, Deputy General Manager of Textile Material Operations (Synthetic Fiber and Automotive Interiors, Performance Fiber and Textile), Department Manager of Synthetic Fiber and Automotive Interiors Department and Branch Manager of Hokuriku Branch of the Company Apr. 2017    Executive Officer, General Manager of Synthetic Fiber Manufacturing Service Operations and Branch Manager of Hokuriku Branch of the Company Jun. 2017    Director, General Manager of Synthetic Fiber Manufacturing Service Operations and General Manager of Logistics Department (Textile) of the Company (to present)	5,291 shares
<p>■ Reasons for nominating the candidate for Director</p> <p>Since joining the Company in 1990, Mr. Hiroshi Yoshida has worked mainly in textile material business. After serving as Executive Officer and Deputy General Manager of Textile Material Operations, and in other positions, he has been the Director, General Manager of Synthetic Fiber Manufacturing Service Operations (current position) since 2017. He has abundant business experience in the Company and knowledge in all the areas of management of trading company, global business management, as well as general management and operations. Based on those qualifications, we have continuously nominated him as a candidate for Director.</p>			



No.	Name (Date of birth)	Past experience (positions, responsibilities, and significant concurrent positions)	Number of shares of the Company held
5	Kazuhiro Tohge (September 5, 1960) [New appointment]	<p>Apr. 1984      Joined TORAY INDUSTRIES, INC.</p> <p>Jun. 2005      Director of Thai Toray Synthetics Co., Ltd.</p> <p>Jun. 2010      Chief in charge of Corporate Marketing Planning Department and Chief in charge of Automotive Material Strategic Planning Department of TORAY INDUSTRIES, INC.</p> <p>May 2012      General Manager of Staple Fiber Business Division of TORAY INDUSTRIES, INC.</p> <p>Jun. 2014      Director of P.T. Toray Industries Indonesia, Vice President of P.T. Indonesia Toray Synthetics and Director of PT. OST FIBRE INDUSTRIES</p> <p>May 2016      General Manager of Industrial &amp; Clothing Textile Division of TORAY INDUSTRIES, INC.</p> <p>Apr. 2018      General Manager of Fibers &amp; Textiles Division of TORAY INDUSTRIES, INC. (to present)</p> <p>■ Reasons for nominating the candidate for Director Since joining TORAY INDUSTRIES, INC. in 1984, Mr. Kazuhiro Tohge has engaged mainly in sales operations related to the fiber and textile business. He has served as Vice President of P.T. Indonesia Toray Synthetics and General Manager of Industrial &amp; Clothing Textile Division of TORAY INDUSTRIES, INC. He has abundant overseas business experience and knowledge in all the areas of management, global business management, as well as general management and operations. Based on those qualifications, we have nominated him as a candidate for Director.</p>	0 shares

No.	Name (Date of birth)	Past experience (positions, responsibilities, and significant concurrent positions)	Number of shares of the Company held
6	Satoko Nakayama (January 14, 1959)  [New appointment]	<p>Apr. 1981    Joined the Company</p> <p>May 1988    System Department of the Company</p> <p>Feb. 2000    Seconded to Chori Com Co., Ltd.</p> <p>Jan. 2007    Section Manager of JSP System of Corporate Accounting Department of the Company and Chori Com Co., Ltd.</p> <p>Jul. 2010    Department Manager of System Department of the Company</p> <p>Jun. 2013    Officer, Department Manager of System Department of the Company</p> <p>Jun. 2014    Executive Officer, General Manager of Human Resources &amp; General Affairs Department and System Department of Corporate Planning Division, General Manager of Operational Efficiency Improvement and Expense Reduction Project and Department Manager of System Department of the Company</p> <p>Jul. 2015    Executive Officer, General Manager of Human Resources &amp; General Affairs Department, General Manager of System Department and General Manager of Operational Efficiency Improvement and Expense Rationalization Project of the Company (to present)</p>	5,568 shares
<p>■ Reasons for nominating the candidate for Director</p> <p>Since joining the Company in 1981, Ms. Satoko Nakayama has engaged mainly in system operations and has served as Executive Officer, General Manager of Human Resources &amp; General Affairs Department, General Manager of System Department and General Manager of Operational Efficiency Improvement and Expense Rationalization Project (current position), and in other positions. She has abundant business experience in the Company and knowledge in all the areas of management of a trading company, as well as general management and operations. Based on those qualifications, we have nominated her as a candidate for Director.</p>			

No.	Name (Date of birth)	Past experience (positions, responsibilities, and significant concurrent positions)	Number of shares of the Company held
7	Ryo Murayama (March 3, 1950)  [New appointment]	<p>Apr. 1973    Joined TORAY INDUSTRIES, INC.</p> <p>Jun. 1998    Director of Luckytex (Thailand) Public Co., Ltd.</p> <p>Jun. 2001    General Manager of Women's &amp; Men's Wear Fabrics Department of TORAY INDUSTRIES, INC.</p> <p>Jun. 2005    General Manager of LCD Materials Division of TORAY INDUSTRIES, INC.</p> <p>Jun. 2008    Vice President (Member of the Board) of TORAY INDUSTRIES, INC.</p> <p>Jun. 2010    Senior Vice President (Member of the Board) of TORAY INDUSTRIES, INC.</p> <p>Jun. 2013    Senior Vice President (Member of the Board &amp; Member of the Executive Committee) of TORAY INDUSTRIES, INC. (to present)</p> <p>■ Reasons for nominating the candidate for Director Since joining TORAY INDUSTRIES, INC. in 1973, Mr. Ryo Murayama has engaged mainly in sales operations related to the fiber and textile business. After serving as Director of Luckytex (Thailand) Public Co., Ltd., General Manager of Women's &amp; Men's Wear Fabrics Department and General Manager of LCD Materials Division of TORAY INDUSTRIES, INC., he has been the Senior Vice President (Member of the Board &amp; Member of the Executive Committee) of TORAY INDUSTRIES, INC. (current position). He has abundant overseas business experience, as well as achievements and knowledge related to all the areas of management. Based on those qualifications, we have nominated him as a candidate for Director.</p>	0 shares

(Note) No material conflict of interest exists between the Company and any of the candidates for Directors.

Proposal No. 2 Election of Three (3) Directors Who Are Audit & Supervisory Committee Members

All of three (3) Directors who are Audit & Supervisory Committee Members of the Company will complete their terms of office at the conclusion of this General Meeting of Shareholders. Accordingly, the Company proposes the election of three (3) Directors who are Audit & Supervisory Committee Members.

The Audit & Supervisory Committee has consented to the submission of the Proposal.

The candidates for Directors who are Audit & Supervisory Committee Members are as follows:

No.	Name (Date of birth)	Past experience (positions, responsibilities, and significant concurrent positions)	Number of shares of the Company held
1	Jun Furuya (April 22, 1959) [New appointment]	<p>Apr. 1991      Joined the Company</p> <p>Jul. 2003      Department Manager of Affiliated Companies Department of the Company</p> <p>May 2004      Department Manager of Corporate Planning Department of the Company</p> <p>May 2005      Department Manager of Corporate Accounting Department of the Company</p> <p>Jan. 2008      Department Manager of General Affairs Department of the Company</p> <p>Jun. 2010      Executive Officer, General Manager of General Affairs Department and General Manager of Logistics Management Department of Corporate Administration Division of the Company</p> <p>Jun. 2012      Executive Officer, General Manager of Corporate Accounting Department of Corporate Administration Division, System Department of Corporate Planning Division and Logistics Management Department of Corporate Administration Division and Department Manager of Corporate Accounting Department of the Company</p> <p>Jun. 2013      Executive Officer, General Manager of Corporate Accounting Department of Corporate Administration Division, System Department of Corporate Planning Division and Logistics Management Department of Corporate Administration Division of the Company</p> <p>Jun. 2014      Director, General Manager of Corporate Accounting Department and Logistics Management Department of Corporate Administration Division and General Manager of Pharmacovigilance &amp; Quality Assurance Office of the Company</p> <p>Jun. 2015      Expertise Officer of the Company and Senior Executive Director of Miyako Kagaku Co., Ltd.</p> <p>Jun. 2017      Director, General Manager of Corporate Accounting Department and General Manager of Pharmacovigilance &amp; Quality Assurance Office of the Company (to present)</p>	7,591 shares
<p>■ Reasons for nominating the candidate for Director</p> <p>Since joining the Company in 1991, Mr. Jun Furuya has worked mainly in business management, credit control and legal work, human resources and general affairs. After serving as Director, General Manager of Corporate Accounting Department and Logistics Management Department, and other positions, he has served as Senior Executive Director of Miyako Kagaku Co., Ltd. and has been the Director, General Manager of Corporate Accounting Department and General Manager of Pharmacovigilance &amp; Quality Assurance Office of the Company (current position) since 2017. He has abundant business experience in the Group and the Company, and knowledge of all the areas of the management of trading company as well as general management and operations. Based on those qualifications, we have nominated him as a candidate for Director.</p>			

No.	Name (Date of birth)	Past experience (positions, responsibilities, and significant concurrent positions)	Number of shares of the Company held
2	Masaaki Sawano (March 2, 1954) [Outside Director] [Independent Officer] [New appointment]	<p>Apr. 1985 Registered as a lawyer</p> <p>Apr. 2006 Executive Governor of Japan Federation of Bar Associations</p> <p>Apr. 2006 Vice-president of Dai-Ichi Tokyo Bar Association</p> <p>May 2012 Chairman of Judicial System Research Board of Japan Federation of Bar Associations</p> <p>Sep. 2012 Outside Audit &amp; Supervisory Board Member of Homemade Cooking Co., Ltd.</p> <p>Apr. 2014 Member of Advisory Council on Fundamental Issues in Corporate Management of Urban Renaissance Agency (to present)</p> <p>Chairman of Rent Council of Urban Renaissance Agency (to present)</p> <p>Jun. 2015 Substitute Audit &amp; Supervisory Board Member of the Company</p> <p>Jun. 2016 Substitute Director who is Audit &amp; Supervisory Committee Member of the Company (to present)</p> <p>Apr. 2017 President of Dai-Ichi Tokyo Bar Association, Vice-president of Japan Federation of Bar Associations</p> <p>Apr. 2018 Member of Business Evaluation Monitoring Committee of Urban Renaissance Agency (to present)</p> <p>■ Reasons for nominating the candidate for Director Although Mr. Masaaki Sawano has not engaged in corporate management other than as Outside Audit &amp; Supervisory Board Member, the Company believes that he will appropriately fulfill his duties as Audit &amp; Supervisory Committee Member, on the grounds that he is deeply familiar with corporate legal work as a lawyer and he has sufficient insight to supervise corporate management. Accordingly, we have nominated him as a candidate for Outside Director.</p>	0 shares

No.	Name (Date of birth)	Past experience (positions, responsibilities, and significant concurrent positions)	Number of shares of the Company held
3	Noriko Morikawa (October 18, 1958)  [Outside Director] [Independent Officer] [New appointment]	<p>Apr. 1981    Joined the Company</p> <p>Jul. 1984    Retired from the Company</p> <p>May 1987    Graduated from Montclair State University (America)</p> <p>Aug. 1988    Joined Daiwa Securities America Inc. (America)</p> <p>Dec. 1989    Completed Financial Accounting of MBA of College of Insurance (America)</p> <p>Sep. 1991    Joined Arthur Andersen LLP</p> <p>Mar. 1995    Joined Motorola, Inc.</p> <p>Jun. 2005    Director, General Manager of Accounting and Finance and General Manager of Domestic Accounting and Finance Division of Motorola, Inc.</p> <p>Jun. 2009    Joined Bosch Corporation</p> <p>Aug. 2010    Executive Vice President and Director of Bosch Corporation (to present)</p> <p>■ Reasons for nominating the candidate for Director Ms. Noriko Morikawa is well versed in finance and accounting and has broad insight based on her abundant achievements as a corporate manager and experience working overseas. Based on those qualifications, the Company has judged that she will appropriately fulfill her duties as Audit &amp; Supervisory Committee Member, and nominated her as a candidate for Outside Director.</p>	0 shares

- (Notes) 1. No material conflict of interest exists between the Company and any of the candidates for Directors who are Audit & Supervisory Committee Members.
2. Mr. Masaaki Sawano and Ms. Noriko Morikawa are candidates for Outside Directors. Both of them satisfy the requirements of an Independent Officer as prescribed by the Tokyo Stock Exchange.
3. The Company intends to enter into an agreement with Mr. Masaaki Sawano and Ms. Noriko Morikawa to limit the liability for damage based on the Articles of Incorporation. Under this agreement, the amount limit of liability for damages shall be the minimum liability amount prescribed in Paragraph 1, Article 427 of the Companies Act only when they conduct their duties in good faith and without gross negligence.

Proposal No. 3 Election of One (1) Substitute Director Who Is an Audit & Supervisory Committee Member

In order to prepare for cases where the number of Directors who are Audit & Supervisory Committee Members falls short of the number stipulated by laws and regulations, the Company proposes the election of one (1) Substitute Director who is Audit & Supervisory Committee Member.

The Audit & Supervisory Committee has consented to the submission of the Proposal.

The candidate for Substitute Director who is Audit & Supervisory Committee Member is as follows:

Name (Date of birth)	Past experience (positions, responsibilities, and significant concurrent positions)	Number of shares of the Company held
<p>Kenichi Araya (July 23, 1957)</p> <p>[Outside Director] [Independent Officer] [New appointment]</p>	<p>Apr. 1985 Registered as a lawyer</p> <p>Jun. 2000 Outside Audit &amp; Supervisory Board Member of Cleanup Corporation (to present)</p> <p>Apr. 2007 Auditor of Dai-Ichi Tokyo Bar Association</p> <p>Apr. 2008 Member of Mediation Committee of Tokyo Family Court (to present)</p> <p>Apr. 2009 Vice-president of Dai-Ichi Tokyo Bar Association</p> <p>Jun. 2011 Outside Audit &amp; Supervisory Board Member of The Nisshin OilliO Group, Ltd. (to present)</p>	<p>0 shares</p>
<p>■ Reasons for nominating the candidate for Substitute Director</p> <p>Although Mr. Kenichi Araya has not engaged in corporate management other than as Outside Audit &amp; Supervisory Board Member, the Company believes that he will appropriately fulfill his duties as Audit &amp; Supervisory Committee Member of the Company, on the grounds that he has abundant experience and broad insight as a lawyer. Accordingly, the Company proposes his election as Substitute Outside Director.</p>		

- (Notes)
1. No material conflict of interest exists between the Company and the candidate for Substitute Director.
  2. Mr. Kenichi Araya is a candidate for Substitute Outside Director. He satisfies the requirements of an Independent Officer as prescribed by the Tokyo Stock Exchange.
  3. The Company intends to enter into an agreement with Mr. Kenichi Araya to limit the liability for damage based on the Articles of Incorporation. Under this agreement, the amount limit of liability for damages shall be the minimum liability amount prescribed in Paragraph 1, Article 427 of the Companies Act only when he conducts his duties in good faith and without gross negligence.

<Proposals by Shareholders (from Proposal No. 4 to Proposal No. 7)>

Proposals No. 4, No. 5, No. 6, and No. 7 are made by two shareholders (the “Proposing Shareholders”).

Proposal No. 4 Revision of the Provisions of Articles with Regard to the Bonus to Directors Paid Only When the Company Achieves the Goal of ROE

1. Detail of the shareholder proposal

The following Paragraph 2 shall be newly added under Article 24 of the current Articles of Incorporation.

(2) The remuneration paid to directors of CHORI (excluding Audit & Supervisory Committee Members and Outside Directors; the same shall apply hereinafter) consists of monthly salary and annual bonus. We require the bonus of each year from the 72<sup>th</sup> to the 74<sup>th</sup> fiscal period shall be paid only when its ROE (the ratio of net income attributable to owners of the parent divided by the amount of net assets after deducting the amount of subscription rights to shares provided for in Paragraph 1, Article 43-3 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements and the amount of non-controlling interests provided for in Item 12, Article 2 of said Ordinance, and the denominator shall be the average value of the beginning and the end of the current fiscal year) of the previous fiscal year achieves higher than or equal to 10%.

2. Reason for the shareholder proposal

CHORI released, on 25<sup>th</sup> April, 2017, its Mid-term Business Plan for three years which targeted its goal of ROE to be higher than or equal to 10%. Based on the outlook of net profit in this fiscal year CHORI released and net worth on 31<sup>st</sup> March 2017 and 31<sup>st</sup> December 2017, ROE at the end of March 2018 will be approximately 9.30%, which obviously goes below 10%.

Although ROE of CHORI used to exceed over 20% before, it continues to decline year by year. Such decline should not be allowed. Therefore, we require the bonus should not be paid to directors unless the company achieves its targeted goal of ROE which is higher than or equal to 10%.

For the reference, total amount of bonus paid to directors during the previous fiscal year was JPY 35 million, while total amount of remuneration to directors JPY 182 million.

(Note from the Company) The above are the exact copy of the proposal details and the reason for the shareholder proposal described in the proposal document submitted from the Proposing Shareholders.

○ Opinion of the Board of Directors

The Board of Directors of the Company is against this proposal.

The remuneration paid to Executive Directors of the Company consists of monthly basic remuneration, annual bonus and stock-based remuneration with restriction on transfer. The level of basic remuneration is determined based on the significance of the roles and the position fulfilled by each officer and considering the balance between salary for officers and salary for employees. The level of bonus is determined by taking into account the consolidated business performance and the performance results of the business of which each officer is in charge. The level of stock-based remuneration with restriction of transfer is determined based on the significance of roles and the position fulfilled by each officer, with restriction on transfer being lifted depending on the degree of achievement of business performance targets to provide an incentive for achieving targets. The amounts of basic remuneration, bonus and stock-based remuneration with restriction on transfer are determined at the Board of Directors' meeting, taking into account the opinions of the Audit & Supervisory Committee.

Based on the above policy, the level of bonus is determined by taking into account the consolidated business performance and the performance results of the business of which each officer is in charge. In regard to determination of the amount of bonus for Directors based on the consolidated business performance, the Company is endeavoring to increase the corporate value by setting net sales (¥330.0 billion), ordinary income (¥8.5 billion), net income (¥5.5 billion), ROA based on ordinary income (7.5%) and ROE based on net income (10% or higher) as important management indicators in the medium-term management plan “Chori Innovation Plan 2019” (figures shown in parentheses are numerical targets for fiscal 2019). We determine the amount of bonus comprehensively based not only on ROE but also on absolute amounts of profit.

As described above, the Company believes that it is more appropriate to determine the level of bonus comprehensively based not only on ROE but also on absolute amounts of profit by taking into account the opinions of the Audit & Supervisory Committee.

Accordingly, the Board of Directors is against this proposal to partially amend the Articles of Incorporation.



## Proposal No. 5 Revision of the Provisions of Article with Regard to the Dissolution of Cross-Shareholdings

### 1. Detail of the shareholder proposal

The following Chapter and Article shall be newly added to the current Articles of Incorporation.

When the proposal in the below 3 “Revision of the Provisions of Articles with Regard to the Decision-making Authority for Dividend Policy” is passed, Article 43 shall be renumbered to Article 42 instead.

#### CHAPTER VIII. CROSS-SHAREHOLDINGS

##### Article 43 (Dissolution of Cross-Shareholdings)

The Company shall sell all the listed shares which it holds, as of the effective date of the revision of the provision of articles, for reasons other than pure investment purposes immediately during 72<sup>nd</sup> to 74<sup>th</sup> fiscal period.

### 2. Reason for the shareholder proposal

Corporate Governance Code (hereinafter referred to as the “Code”), which is one of the regulations at Tokyo Stock Exchange, will be revised in a couple of months. The revised Code stipulates that the policy with regard to the decrease of cross-shareholdings (cases where listed companies hold the share of other listed companies for reasons other than pure investment purposes, for example, to strengthen business relationships) should be disclosed in Rule 1-4, and wording “the decrease of cross-shareholdings” will be clearly stated. The revision of the provision of article above is to dissolve cross-shareholdings within three years to meet the newly revised Code.

As of the end of March 2017, CHORI holds the listed shares of 35 companies as “Cross-Shareholdings”, which reach 4.0 billion yen in total. Therefore, CHORI shall dispose all the listed shares which it holds as Cross-Shareholdings as quick as possible and shall utilize the proceeds to maximize shareholders value.

(Note from the Company) The above are the exact copy of the proposal details and the reason for the shareholder proposal described in the proposal document submitted from the Proposing Shareholders. “The proposal in the below 3” indicates Proposal No. 6.

### ○ Opinion of the Board of Directors

The Board of Directors of the Company is against this proposal.

The Company and its subsidiaries may acquire and hold the stocks of other listed companies (hereinafter, the “Cross-Shareholdings”) to keep, to expand, and to grow their business sustainably. In such cases, the Company determines the acquisition of such stocks at the meeting of the Board of Directors or other meetings, evaluating the financial conditions of investees and the profitability of investments. As for Cross-Shareholdings held by the Company, the Board of Directors verifies on a yearly basis the economic rationale thereof including the significance of acquisition/holding thereof and the profitability of the investments on an individual share basis. If the Board of Directors determines that the Cross-Shareholdings are economically irrational, such Cross-Shareholdings are promptly sold or reduced.

As for the exercise of voting rights pertaining to Cross-Shareholdings held by the Company, the Company appropriately exercises voting rights from the perspective of whether the enhancement of corporate value can be expected, respecting the management policy of invested companies.

The Board of Directors believes that partially amending the Articles of Incorporation and immediately selling the Cross-Shareholdings during the 72<sup>nd</sup> to 74<sup>th</sup> fiscal period is not consistent with the policy of the Company with regard to the holding of Cross-Shareholdings, which may interfere with the maintenance and growth of the business of the Company and damage the corporate value of the Company.

Accordingly, the Board of Directors is against this proposal to partially amend the Articles of Incorporation.

## Proposal No. 6 Revision of the Provisions of Articles with Regard to the Decision-making Authority for Dividend Policy

### 1. Detail of the shareholder proposal

The Article 40 of the current Articles of Incorporation shall be deleted. Accordingly, Article 41 shall be renumbered to Article 40, and Article 42 shall be renumbered to Article 41 in the current Articles of Incorporation. Further, this proposal (Revision of the Provisions of Articles with Regard to the Decision-making Authority for Dividend Policy) shall be resolved prior to the next proposal (Appropriation of Surplus), and it shall be effective when it would be approved and passed in the General Meeting of Shareholders.

## 2. Reason for the shareholder proposal

The board is required to determine the amount of dividend based on its fair judgment properly reflecting the shareholders' interests as long as the board has such authority. However, CHORI's dividend payout ratio had been around 20% for several years and will also be at low level of about 25% in this fiscal year, on the basis of the decision of the board, in spite of the fluctuation of net profit and huge cash and deposits on its balance sheet. Such decisions by the board are far from properly reflecting shareholders' interests.

(Note from the Company) The above are the exact copy of the proposal details and the reason for the shareholder proposal described in the proposal document submitted from the Proposing Shareholders.

### ○ Opinion of the Board of Directors

The Board of Directors of the Company is against this proposal.

The decision-making body for dividends of surplus, etc. of the Company is the Board of Directors based on Paragraph 1, Article 459 of the Companies Act, except as otherwise provided in laws and regulations, in order to enable flexible capital policy. We currently consider it necessary to ensure the flexibility of the capital policy.

Further, the Board of Directors of the Company sets it as its basic policy to implement performance-linked dividend payment corresponding to net income attributable to owners of the parent of the year and determines appropriate amount of dividends, from the viewpoint of the flexible return to our shareholders and the stability of management and finance affairs.

The Company changed the consolidated dividend ratio to 25% or more in its dividend policy from the fiscal year ended March 31, 2018, thereby further enhancing the distribution of dividends to our shareholders. In addition, the Company paid a 70th anniversary commemorative dividend of ¥10 per share for the year-end dividend for the fiscal year ended March 31, 2018.

Therefore, the Company believes a partial amendment of Articles of Incorporation in this proposal unnecessary.

## Proposal No. 7 Appropriation of Surplus

### 1. Detail of the shareholder proposal

#### (1) Kind of dividend property

Cash

#### (2) Matters concerning allocation and the total amount of dividend property

Contingent on the approval and passage of the proposal in the above 3 (Revision of the Provisions of Articles with Regard to the Decision-making Authority for Dividend Policy), we require that the dividend per share for this fiscal year is increased to the excess amount of the consolidated net profit per share to 23 yen (round down to the nearest integer) as the dividend of surplus at the end of the 71st fiscal year.

In this case, the total amount of dividends is calculated by multiplying the dividend amount per the one common stock described above by the number of shares subject to dividend payment as of March 31, 2018.

#### (3) Effective date of dividends of surplus

The day after the date of Chori's Annual General Meeting of Shareholders to be held in June 2018.

### 2. Reason for the shareholder proposal

According to its Consolidated Financial Statements for the Nine Months Ended December 31, 2017, CHORI owes only about 3.9 billion yen of interest-bearing debts although it keeps about 10.5 billion yen of cash and deposits. Moreover, since CHORI kept about 9.0 billion yen of investment securities, including Cross-Shareholdings, as of March 31<sup>st</sup>, 2017, it has already sufficiently enough cash and cash equivalent in its balance sheet.

Consolidated net assets of CHORI as of the end of December 2017 was about 50.6 billion yen (about 2,063 yen per share) and the forecast of consolidated net profit of this fiscal year is 4.5 billion yen (183.34 yen per share). Based on the forecast of dividend per share, 46 yen, dividend payout ratio would be 25.1%. Considering CHORI's large capital on its balance sheet and the forecast of net profit of this fiscal year, the above mentioned dividend is far from satisfactory for shareholders. As a result that CHORI has kept low dividend, ROE in this fiscal year, ended on 31<sup>st</sup> March 2018, will be approximately 9.30% although it used to exceed over 20% before. Based on the net profit of this fiscal year CHORI forecasted and net worth on 31<sup>st</sup> December 2017, net worth of CHORI has been increased by 227.6% from 31<sup>st</sup> March 2005 to 31<sup>st</sup> March 2018. On the other hand, the increase of net profit in the same period is only 60.1%, which is far below the increase of net asset above.

CHORI does not need a huge reserve on its balance sheet and should return surplus funds to shareholders. Moreover, the further increase of net assets will lead only to the decrease of ROE. CHORI shall significantly increase the dividend to shareholders from its surplus since the return to shareholders from surplus cash leads to increase shareholders value and share price.

Besides, since the proposed amount of increased dividend is expected to be within the current net profit, it will not damage the state of cash and deposits on its balance sheet.

(Note from the Company) The above are the exact copy of the proposal details and the reason for the shareholder proposal described in the proposal document submitted from the Proposing Shareholders. “The proposal in the above 3” indicates Proposal No. 6.

○ Opinion of the Board of Directors

The Board of Directors of the Company is against this proposal.

The Company recognizes that the distribution of profits to shareholders is an important management issue, and holds a basic policy to implement performance-linked dividend payment corresponding to net income attributable to owners of parent of the year, from the viewpoint of ensuring flexible return of profits and stability of management and financial affairs. Under this basic policy, for the amount of dividends, the Company has intended to achieve 25% or more of the consolidated dividend ratio from the fiscal year ended March 31, 2018. As a result, the Company has recorded continuous dividend increases for the fifth consecutive year. In addition, the Company paid a 70th anniversary commemorative dividend of ¥10 per share for the year-end dividend for the fiscal year ended March 31, 2018.

Further, it is necessary to secure internal reserves to apply to business investment aimed at maintaining stable financial structure and improvement in business profitability, in order for our sustainable growth. Also in the medium-term management plan “Chori Innovation Plan 2019,” the Company considers the strengthening of the business model based on business investment as an important policy. In the future, the Company will proactively make investments in growth strategies while fully identifying risks.

The Company believes that securing internal reserves for stable and continued return of profit to shareholders for the future and investment in growth strategies will improve our medium- to long-term corporate value and contribute to the interests of our shareholders.

Accordingly, the Board of Directors is against this proposal requiring that the dividend per share be increased to the excess amount of the consolidated net income per share to ¥23.

## **Business Report**

(April 1, 2017 - March 31, 2018)

### **1. Overview of the Company Group**

#### **1. Business Progress and Results**

During the fiscal year ended March 31, 2018 (hereinafter, the “current fiscal year”), the Japanese economy stayed on a moderate recovery path against the backdrop of the expansion in corporate earnings and increase in capital investments, as well as the improved employment environment and income, while full-fledged recovery in personal consumption is yet to see. The world economy also saw a steady expansion overall both in developing and developed countries although the situation still remains unpredictable due to uncertainties arising from the status of the US financial and trade policies and increased international tensions around the Middle East and East Asia.

Under these circumstances, the Group announced its medium-term management plan “Chori Innovation Plan 2019” on April 25, 2017 and has since steadily implemented the policies thereof. As a result, thanks to the expanded overseas revenues and enlarged group companies through the promotion of further globalization, net sales for the current fiscal year increased 15.1% year on year to ¥311,705 million, operating income increased 12.1% year on year to ¥7,226 million and ordinary income increased 7.6% year on year to ¥7,499 million, while net income attributable to owners of the parent decreased 1.0% year on year to ¥4,730 million, all achieving target figures for the first year of the medium-term plan.

In the fibers, textiles and garments business, net sales increased 2.1% year on year to ¥113,349 million and segment income (ordinary income) increased 1.5% year on year to ¥3,480 million thanks to strong sales in the fields of raw materials for synthetics and hygienic and construction materials.

In the chemicals business, net sales increased 16.5% year on year to ¥142,269 million and segment income (ordinary income) rose 24.2% year on year to ¥3,132 million thanks to the continued strong sales in the organic Chemicals products and inorganic fine chemicals fields.

In the machinery business, net sales increased 48.6% year on year to ¥56,009 million and segment income (ordinary income) rose 129.8% year on year to ¥169 million due to robust shipments to the Central and South America in the vehicle chassis business, as well as progress in the development of new markets in Africa and Southeast Asia.

## Net sales, Operating income, and Ordinary Income by Business Segment

Fiscal years		Fiscal 2017		Fiscal 2018 (Current fiscal year)		Year-on-year comparison	
Business segment	Account	Amount	Composition ratio	Amount	Composition ratio	Increase (decrease)	Increase (decrease) ratio
		Millions of Japanese Yen	%	Millions of Japanese Yen	%	Millions of Japanese Yen	%
Fibers, textiles and garments	Net sales	110,992	41.0	113,349	36.4	2,357	2.1
	Operating income	3,541	—	3,451	—	(89)	(2.5)
	Ordinary income	3,429	—	3,480	—	51	1.5
Chemicals	Net sales	122,139	45.1	142,269	45.6	20,129	16.5
	Operating income	2,464	—	3,034	—	569	23.1
	Ordinary income	2,522	—	3,132	—	609	24.2
Machinery	Net sales	37,696	13.9	56,009	18.0	18,312	48.6
	Operating income	44	—	228	—	183	412.7
	Ordinary income	73	—	169	—	95	129.8
Others	Net sales	80	0.0	77	0.0	(3)	(4.4)
	Operating income	18	—	8	—	(9)	(52.3)
	Ordinary income	21	—	34	—	13	61.0
Total	Net sales	270,908	100.0	311,705	100.0	40,796	15.1
	Operating income	6,448	—	7,226	—	777	12.1
	Ordinary income	6,967	—	7,499	—	532	7.6

(Notes) 1. Net sales represent net sales from external customers.

2. Operating income and ordinary income represent amounts after consolidation adjustments and eliminations. Operating income and ordinary income in the total column include company-wide adjustments and consolidation eliminations.

3. From the current fiscal year, segment income was changed to ordinary income from income before income taxes.

4. From the current fiscal year, the environmental merchandise-related business, which was formerly included in the “machinery business,” was transferred to be included in the “chemicals business.”

5. Figures for Fiscal 2017 reflect above notes 3 and 4.

## 2. Fund Procurement

The Company has been promoting the liquidation of notes receivable-trade during the current fiscal year aimed at the diversification and lower levels of interest in fund procurement. The Company concluded a commitment line contract with a total amount of ¥10,000 million with three financial institutions centered on Mizuho Bank, Ltd. as an arranger for the purpose of stabilizing fund procurement.

## 3. Issues to be Addressed

The Group has established the “Chori Innovation Plan 2019” medium-term management plan, (disclosed on April 25, 2017) with fiscal 2019 as the final year. We will strive to become a corporate group that continues to evolve and change on a global scale, built on outstanding capabilities and expertise, and to further increase corporate value, by steadily implementing our “Chori Innovation Plan 2019” medium-term management plan.

### 1) Consolidated management

We will strengthen our consolidated management structure by “promoting consolidated operations by each business department,” “accelerating further globalization,” and “strengthening our IT infrastructures and improving operational efficiency.”

### 2) New development, business investment and M&A

Through the pursuit of business investment and M&A, we will promote a business model based on business investment, while striving to expand our business scope and transform our profit structure.

### 3) Corporate governance

We will strive to further strengthen corporate governance through “strengthening of internal control system,” “global risk management,” “reinforcement of CSR and IR,” and “improvement in dividend policy.”

### 4) Human resources

We will enhance our human resource through “developing globally specialized personnel,” “mobilization of employees in the Group,” and “working-style reforms.”

## 4. Trends in Assets and Income

(Millions of Japanese Yen)

Fiscal year Item	Fiscal 2015	Fiscal 2016	Fiscal 2017	Fiscal 2018 (Current fiscal year)
Net sales	248,396	291,578	270,908	311,705
Operating income	5,552	5,369	6,448	7,226
Ordinary income	5,966	5,518	6,967	7,499
Net income attributable to owners of the parent	4,153	4,297	4,780	4,730
Net income per share (Yen)	169.40	175.31	195.00	192.74
Total assets	84,289	98,736	97,983	119,118
Total equity	41,473	42,882	46,343	51,153
Equity per share (Yen)	1,688.74	1,746.27	1,887.37	2,079.84

(Note) Net income per share is calculated in accordance with the ASBJ Statement No.2, “Accounting Standard for Earnings Per Share (revised on June 30, 2010 by ASBJ).”

## 5. Parent Company and Major Subsidiaries

### 1) Relationship with parent company

The Company's parent company, TORAY INDUSTRIES, INC., holds the Company's common stock of 12,967 thousand shares (voting right ratio of 52.88%).

The Company's transactions with the parent company for the current fiscal year amounted to ¥3,718 million in net sales and ¥8,272 million in net purchase.

### 2) Status of major subsidiaries

Company name	Capital	Voting right ratio (%)	Principal business
Chori Machinery Co., Ltd.	¥100 million	100.00	Sale of transportation equipment, etc.
Miyako Kagaku Co., Ltd.	¥296 million	100.00	Purchase and sale of raw materials and products, etc. of chemicals, synthetic resins, pharmaceuticals, food, electronic components, etc.
Kozakura Shokai Co., Ltd.	¥60 million	100.00	Sale of Chemicals products (lubricating oil additives, fuel oil additives, etc.)
PTI JAPAN LTD	¥499 million	100.00	Import and sales of chemicals, construction materials and industrial products
Asada U Corporation	¥20 million	100.00	Sale of vehicle interior materials and packaging materials
Tokyo Shirayurikai Co., Ltd.	¥30 million	100.00	Planning, production and sales of ladies' apparel
Business Anchor Corporation	¥10 million	100.00	Office outsourcing services
Chori America, Inc.	US\$4,000 thousand	100.00	Sales in the United States, export and import, and overseas transactions of various products
Chori (China) Co., Ltd.	CNY55,314 thousand	100.00	Sales in China, export and import, and overseas transactions of various products
Thai Chori Co., Ltd.	THB202,000 thousand	98.94	Sales in Thailand, export and import, and overseas transactions of various products
Chori Co., (Hong Kong) Ltd.	HK\$20,000 thousand	100.00	Sales in Hong Kong and its neighboring countries, export and import, and overseas transactions of various products
Chori Singapore Pte. Ltd.	S\$4,000 thousand	100.00	Export and import and overseas transactions of various products
Chori Europe GmbH	€1,375 thousand	100.00	Sales in European countries, export and import, and overseas transactions of various products
Chori (Dalian) Trading Co., Ltd.	CNY8,112 thousand	100.00	Sales in China, export and import, and overseas transactions of various products
PT. Chori Indonesia	US\$750 thousand	100.00	Sales in Indonesia, export and import, and overseas transactions of various products

### 3) Specified wholly-owned subsidiaries as of the balance sheet date

There are no subsidiaries that fall under specified wholly-owned subsidiaries.

## 6. Major Businesses

The Group engages in domestic sales, export and import of various products, which are classified into four business segments: fibers, textiles and garments, chemicals, machinery, and others as follows.

Business segment	Handling items
Fibers, textiles and garments	Raw cotton and thread for Chemicals and synthetic fibers and other natural fibers, textiles, knitting and products made of Chemicals and synthetic fibers, and other natural fibers, as well as industrial materials
Chemicals	Organic chemicals, inorganic chemicals, fine chemicals, pharmaceutical raw materials, additives for food and feed, natural minerals, and additives for lubricating oils and fuel oils
Machinery	Vehicle chassis, machines, and related materials
Others	Office outsourcing services

## 7. Major Offices and Plants

### a) Major offices of the Company

Osaka Head Office (Chuo-ku, Osaka), Tokyo Head Office (Minato-ku, Tokyo), Hokuriku Branch (Kanazawa-shi, Ishikawa)

### b) Offices of principal subsidiaries

Domestic subsidiaries : Chori Machinery Co. Ltd. (Minato-ku, Tokyo), Miyako Kagaku Co., Ltd. (Chiyoda-ku, Tokyo), Kozakura Shokai Co., Ltd. (Minato-ku, Tokyo), PTI JAPAN (Minato-ku, Tokyo), Asada U Corporation (Nagoya-shi, Aichi), Tokyo Shirayurikai Co., Ltd. (Taito-ku, Tokyo), Business Anchor Corporation (Chuo-ku, Osaka)

Overseas subsidiaries : Chori America, Inc. (United States), Chori (China) Co., Ltd. (China), Thai Chori Co., Ltd. (Thailand), Chori Co., (Hong Kong) Ltd. (China), Chori Singapore Pte. Ltd. (Singapore), Chori Europe GmbH (Germany), Chori (Dalian) Trading Co., Ltd. (China), PT. Chori Indonesia (Indonesia)

## 8. Employees

Status of employees of the Chori Group

Business segment	Number of employees		Year-on-year comparison
Fibers, textiles and garments	446	< 274 >	17
Chemicals	318	< 38 >	32
Machinery	11	< 3 >	(5)
Others	67	< 11 >	3
Companywide (common)	149	< 18 >	5
Total	991	< 344 >	52

(Notes) 1. The number of employees represents the number of persons in employment.

2. The number in < > in the column of the number of employees represents the average number of temporary staff for the current fiscal year.



The status of employees of the Company is as follows.

Number of employees	Year-on-year comparison	Average age (years old)	Average years of service
323	(23)	39.0	13.8

(Note) The number of employees represents the number of persons in employment. However, employees hired locally at overseas branches and representative offices are not included.

## 9. Major Lenders

There are no loans that need special mention as loans payable at the end of the current fiscal year belong to consolidated subsidiaries.

(Note) The Company has concluded a commitment line contract with a total amount of ¥10,000 million with a syndicate of three financial institutions. There was no outstanding loan balance under such contract as of the end of the current fiscal year.

## 2. Status of Shares

**1. Total Number of Shares Authorized to be Issued** 55,000,000 shares

**2. Total Number of Shares Outstanding** 25,303,478 shares

**3. Number of Shareholders** 4,774 persons

**4. Number of Shares of One Unit** 100 shares

## 5. Major Shareholders

Shareholder name	Number of shares held (shares)	Percentage of shares held (%)
TORAY INDUSTRIES, INC.	12,967,310	52.80
BBH FIDELITY PURITAN: FIDELITY SERIES INTRINSIC OPPORTUNITIES FUND	1,566,400	6.38
INTERTRUST TRUSTEES (CAYMAN) LIMITED SOLELY IN ITS CAPACITY AS TRUSTEE OF JAPAN-UP	700,000	2.85
Wacoal Corporation	548,890	2.24
BBH FOR FIDELITY LOW-PRICED STOCK FUND (PRINCIPAL ALL SECTOR SUBPORTFOLIO)	433,400	1.76
Japan Trustee Services Bank, Ltd. (Trust Account)	402,800	1.64
The Master Trust Bank of Japan, Ltd. (Trust Account)	365,800	1.49
HSBC BANK PLCA/C MARATHON FUSION JAPAN PARTNERSHIP LP	296,000	1.21
Government of Norway	259,892	1.06
State Street Bank and Trust Client Omnibus Account OM02 505002	249,300	1.02

- (Notes)
1. Treasury stocks of the Company of 745,608 shares are excluded from the above table of Major Shareholders.
  2. The Company's treasury stocks (745,608 shares) were excluded in the calculation of the percentage of shares held.

### 3. Company Officers

#### 1. Directors (as of March 31, 2018)

Position	Name	Responsibilities and significant concurrent positions
President, CEO & COO	Kazuo Sakihama	
Executive Director	Toshihiko Ando	General Manager of Promoting Textile & Garment Business Globalization
Director	Jun Furuya	General Manager of Corporate Accounting Department
Director	Shigemasa Yabu	General Manager of Corporate Planning Department
Director	Hiroyuki Watanabe	General Manager of Chemicals & Life Science, Machinery, Electronics Operations
Director	Hiroshi Yoshida	General Manager of Synthetic Fiber Manufacturing Service Operations
Director	Toru Fukasawa	Senior Vice President (Member of the Board) of TORAY INDUSTRIES, INC., Outside Director of Atsugi, Co., Ltd., Director (part-time) of Japan Vylene Company, Ltd., Director (part-time) of Soda Aromatic Co., Ltd., Director (part-time) of Toray International, Inc., Director (part-time) of Toray Engineering Co., Ltd. and Director (part-time) of DU PONT-TORAY CO., LTD.
Director (Full-time Audit & Supervisory Committee Member)	Masashi Aoyama	
Director (Audit & Supervisory Committee Member)	Kazuhiko Shimokobe	Outside Director of Japan Display Inc., Outside Auditor of Frontier Management Inc. and Outside Auditor of Industrial Growth Platform, Inc.
Director (Audit & Supervisory Committee Member)	Michihiro Nara	Outside Director (Audit & Supervisory Committee Member) of SEIKO EPSON CORPORATION, Outside Director of Oji Holdings Corporation, Outside Director of Nihon Tokushu Toryo Co., Ltd.

(Notes) 1. Changes in Directors for the current fiscal year

Appointments: At the 70th Annual General Meeting of Shareholders held on June 15, 2017, Messrs. Jun Furuya, Hiroshi Yoshida and Toru Fukasawa were newly elected and appointed as Director.

Retirements: At the conclusion of the 70th Annual General Meeting of Shareholders held on June 15, 2017, Messrs. Masayuki Hatsuya, Nagao Iseda and Shogo Masuda retired from the office of Director.

- Directors, Mr. Kazuhiko Shimokobe and Mr. Michihiro Nara, are Outside Directors as provided in Item 15, Article 2 of the Companies Act.
- Directors, Mr. Kazuhiko Shimokobe and Mr. Michihiro Nara, are registered as Independent Officer with the Tokyo Stock Exchange.
- Deeming that audits by a full-time member are essential to ensure the effectiveness of Audit & Supervisory Committee activities, the Company has elected a Full-time Audit & Supervisory Committee Member.
- A Director (Full-time Audit & Supervisory Committee Member), Mr. Masashi Aoyama, has considerable knowledge of the practice and scheme of the Company's business activities through the longtime engagement in the sales of chemicals business of the Company and the experience of serving as Department Manager of Logistics Department (Chemicals & Machinery) of the Company as well.
- An Outside Director (Audit & Supervisory Committee Member), Mr. Kazuhiko Shimokobe, has extensive experience and broad insight acquired in his career as a lawyer.
- An Outside Director (Audit & Supervisory Committee Member), Mr. Michihiro Nara, is deeply familiar with corporate legal work as a lawyer and has sufficient insight to supervise corporate management.
- The Company has introduced the Executive Officer System to promptly and appropriately respond to changes in the business environment, to speed up decision-making related to business executions, as well as to enhance management efficiency.

The following are 10 Executive Officers. (as of March 31, 2018)

Title	Name	Major positions and responsibilities
President and Executive Officer	Kazuo Sakihama	CEO & COO
Executive Officer	Toshihiko Ando	General Manager of Promoting Textile & Garment Business Globalization, Executive Chief Representative for China, Chairman of Chori (China) Co., Ltd. and Chairman of Chori (Shanghai) Co., Ltd.
Executive Officer	Jun Furuya	General Manager of Corporate Accounting Department and General Manager of Pharmacovigilance & Quality Assurance Office
Executive Officer	Shigemasa Yabu	General Manager of Corporate Planning Department
Executive Officer	Hiroyuki Watanabe	General Manager of Chemicals & Life Science, Machinery, Electronics Operations, General Manager of Logistics Department (Chemicals & Machinery) and Chairman of Chori (Tianjin) Co., Ltd.
Executive Officer	Hiroshi Yoshida	General Manager of Synthetic Fiber Manufacturing Service Operations and General Manager of Logistics Department (Textile)
Executive Officer	Akira Marui	General Manager of Apparel & Sports Wear Operations, Deputy General Manager of Logistics Department (Textile), President, CEO & COO of Chori MODA Co., Ltd. and Chairman of Chori (Dalian) Trading Co., Ltd.
Executive Officer	Satoko Nakayama	General Manager of Human Resources & General Affairs Department, General Manager of System Department and General Manager of Operational Efficiency Improvement and Expense Rationalization Project
Executive Officer	Noriyasu Goda	General Manager of Technical Material and Garment Operations and Deputy General Manager of Logistics Department (Textile)
Executive Officer	Yoshihiro Teratani	President & CEO of Miyako Kagaku Co., Ltd.

## 2. Summary of the Limited Liability Agreement

The Company has entered into an agreement with its Directors (excluding Executive Directors, etc.) to limit their liability for damages due to their negligence of duties, pursuant to the provisions of Paragraph 1, Article 427 of the Companies Act. Under the agreement, amount limit of liability for damages shall be the minimum liability amount prescribed by laws and regulations.

## 3. Compensation to Directors

Category	Number of paid persons	Total amount paid
Director (excluding Directors who are Audit & Supervisory Committee Members)	8	¥192 million
Director (Audit & Supervisory Committee Members)	3	¥38 million

- (Notes)
- The amount paid for Directors does not include the portion of employee's salary for Directors who concurrently serve as employees.
  - The number of paid persons above does not include two Directors (excluding Directors who are Audit & Supervisory Committee Members) serving without compensation.
  - The total amount paid includes Directors' bonus of ¥39 million for the current fiscal year (for six Directors (excluding Directors who are Audit & Supervisory Committee Members)).
  - At the 69th Annual General Meeting of Shareholders held on June 15, 2016, it was approved that the total amount of compensation shall be ¥300 million or less per year for Directors (excluding Audit & Supervisory Committee Members), not including the portion of employee's salary for Directors who concurrently serve as employees, and ¥100 million or less for Directors (Audit & Supervisory Committee Members). Also, at the 70th Annual General

Meeting of Shareholders held on June 15, 2017, it was approved that the Company pays Directors (excluding Directors who are Audit & Supervisory Board Committee Members and non-executive Directors) the annual amount of ¥100 million or less (excluding the portion of employee's salary for Directors who concurrently serve as employees) as compensation for granting restricted stock, separately from the aforementioned compensation.

5. The amount of compensation to Directors (excluding Audit & Supervisory Committee Members) includes ¥16 million as compensation in the form of granting restricted stock.

#### 4. Outside Officers

- 1) Significant concurrent positions of Outside Officers held in other companies and relationship between the Company and such companies

A Director (Audit & Supervisory Committee Member) of the Company, Mr. Kazuhiko Shimokobe, concurrently serves as an Outside Director of Japan Display Inc., an Outside Auditor at Frontier Management Inc. and an Outside Auditor at Industrial Growth Platform, Inc. There are no special relationships between the Company and these companies.

A Director (Audit & Supervisory Committee Member) of the Company, Mr. Michihiro Nara, concurrently serves as an Outside Director (Audit & Supervisory Committee Member) at SEIKO EPSON CORPORATION, an Outside Director at Oji Holdings Corporation, and an Outside Director at Nihon Tokushu Toryo Co., Ltd. There are no special relationships between the Company and these companies.

- 2) Main activities

In fiscal 2018, both Director Mr. Shimokobe and Director Mr. Nara attended 15 times out of 15 Board of Directors meetings, and they provided opinions and advice based on their abundant experience and broad perspective as lawyers.

In fiscal 2018, both Director Mr. Shimokobe and Director Mr. Nara attended 15 times out of 15 Audit & Supervisory Committee meetings. They exchanged opinions on audit results and discussed important matters related to audits.

- 3) Total amount of compensations, etc. of the Company's Outside Officers

Number of persons	Amount of compensations, etc.	Compensations, etc. received from parent company or subsidiaries, etc. of said parent company
2	¥20 million	—

## **4. Accounting Auditor**

### **1. Accounting Auditor's Name**

Deloitte Touche Tohmatsu LLC

### **2. Summary of the Limited Liability Agreement**

Not applicable

### **3. Accounting Auditor's Compensation, etc. for the Current Fiscal Year**

1) Accounting Auditor's compensation, etc., for the current fiscal year	¥80 million
2) Total amount of compensation paid by the Company or its subsidiaries	¥88 million

- (Notes)
1. The Audit & Supervisory Committee carries out the necessary verification to determine whether the Accounting Auditor's audit plan, performance of accounting audit duties, and grounds for calculation of compensation estimates are appropriate in light of the content and scale of the Company's business, and consequently makes a decision on consent with regard to the amount of compensation for the Accounting Auditor pursuant to Article 399, Paragraph 1 of the Companies Act.
  2. The Company's overseas subsidiaries are audited by certified public accountants (or audit corporations) other than the Company's Accounting Auditor.
  3. Under the audit agreement between the Company and its Accounting Auditor, the amount of compensation, etc. for audits pursuant to the Companies Act and audits pursuant to the Financial Instruments and Exchange Act are not strictly separated, and cannot be virtually separated. Consequently, the amount of compensation, etc. for the current fiscal year reflects total amount of compensation for these audits.

### **4. Description of Non-Audit Services**

Agreed procedures relating to the filing of tax returns for overseas bases.

### **5. Policy Regarding Determination of Termination or Nonrenewal of Appointment of Accounting Auditors**

The Audit & Supervisory Committee shall decide on a proposal concerning the termination or nonrenewal of the Accounting Auditor's appointment in the event that the Audit & Supervisory Committee determines that it is necessary to do so because the execution of duties by the Accounting Auditor is hindered or for other reasons, and, based on that decision, the Board of Directors shall submit the proposal to the General Meeting of Shareholders.

In cases where the Accounting Auditor falls under any one of the items of Paragraph 1, Article 340 of the Companies Act, the Audit & Supervisory Committee shall terminate the Accounting Auditor's appointment upon consent of all Audit & Supervisory Committee Members. Under these circumstances, an Audit & Supervisory Committee Member selected by the Audit & Supervisory Committee shall report the termination of the Accounting Auditor and the reasons for the termination at the first General Meeting of Shareholders following the termination of the appointment.

## **5. Company's Systems and Policies**

### **1. System to Ensure Proper Execution of Business and Operating Status of That System**

1. System to Ensure that the Directors and Employees of the Group Execute their Duties in Compliance with Laws and Regulations and the Articles of Incorporation
  - Rules concerning compliance systems such as the Guidelines for Corporate Behavior shall be established to set compliance with laws and regulations and social ethics as a code of conduct of our business.
  - The Company shall acknowledge its corporate social responsibilities and sever and eliminate relations with antisocial forces and groups that threaten social order and security.
  - In order to make all of Directors, Executive Officers and employees of the Group fully aware of the initiatives for compliance, Corporate Divisions shall collaborate to hold compliance training and other training programs.
  - The Legal Compliance Committee with the President as a chairman shall be established to discuss important matters regarding compliance of the Group and report the results to the Board of Directors and the Executive Committee as necessary.
  - Directors and Executive Officers who are in charge of business operations are responsible for analyzing compliance matters unique to each operation of the Group and shall develop specific measures for them.
  - Internal control system to ensure the reliability of financial reporting, based on the Internal Control Rules, shall be established and operated accordingly.
  - The Internal Auditing Department shall conduct audits on the status of compliance of the Group based on the Internal Audit Rules, and its activities will be reported to the Board of Directors and the Audit & Supervisory Committee on a regular basis.
  - A Contact System, where employees can provide information directly to the Legal Compliance Committee, the lawyer in charge at the law firm with which the Company has concluded advisory agreement, the labor union and the Audit & Supervisory Committee, shall be set up, and prevention of disadvantageous treatment on the grounds of the provision of such information shall be ensured.
  - For violations of laws and regulations, the Articles of Incorporation, and internal regulations and rules, specific punishment shall be determined by the Board of Directors and the Executive Committee through discussion at the Disciplinary Committee.

(Operating Status of the System)

The Group has established rules such as the Guidelines for Corporate Behavior and developed a system aimed at promoting compliance with laws and regulations and social ethics in order to establish internal controls concerning compliance and to carry out supervision.

Furthermore, in order to make all Group Directors, Executive Officers and employees fully aware of compliance, compliance training and other educational programs are carried out on a regular basis.

2. System for Storage and Management of Information related to the Execution of Duties of the Company's Directors
  - The storage and management of the minutes of meetings, approval request documents, financial information and other important documents and information related to decision-making on business shall be prescribed in the Document Management Rules and other internal rules. Each of the said documents shall be recorded and stored in the form of paper or electromagnetic media (hereinafter the "documentations").
  - Such documentations shall be kept accessible by Directors and Executive Officers whenever necessary.
  - The Company shall clearly assign personnel who are responsible for the management of documentations recorded and stored by electromagnetic means in order to thoroughly control such documentations and take measures for the prevention of unauthorized access from outside the Group.

(Operating Status of the System)

The Document Management Rules and other internal rules regarding storage and management of the minutes of meetings, approval request documents, financial information and other important documents and information related to decision-making on business have been established. Recorded and stored documents are kept accessible by Directors and Executive Officers whenever necessary.

3. Rules or any other Systems of the Group for Management of Risk of Loss
  - The Company shall identify potential risks in business activities of the Group, make efforts to reduce the level of such risks and prevent the occurrence of risk events, as well as develop a system



- to promptly respond and take appropriate actions in case of the occurrence of risk events.
- The Credit Management Rules, the Rules for Information Security Management, the Rules for Protection and Management of Personal Information and other rules shall be established in respective department in charge and be fully understood by all through trainings and the preparation and distribution of manuals. Those rules shall be continuously reviewed and revised.
- Corporate Divisions and Business Administration Sections shall collaborate in monitoring the status of the Group's risks and responding to risks.
- For newly identified risks, departments shall be promptly assigned to be responsible for said risk management and appropriate measures shall be taken.

(Operating Status of the System)

With regard to the Group's monitoring of risk status and risk response, the Credit Management Rules, the Rules for Information Security Management, the Rules for Protection and Management of Personal Information and other rules have been established, and training and preparation and distribution of manuals are carried out regularly.

4. System to Ensure the Efficient Execution of Duties by the Company's Directors (excluding Directors who are Audit & Supervisory Committee Members)
  - The Authority Rules shall be established as rules for decision-making, in which decision authorities held by each position, such as the Board of Directors and the President, shall be clearly stated.
  - The Executive Committee comprising Executive Officers shall be set up as a deliberation body that facilitates decisions by the President for efficient execution of duties.
  - The Board of Directors shall consist of Directors, including Directors who are Audit & Supervisory Committee Members, and divide business execution duties to each Director and Executive Officer, and such Executive Directors and Executive Officers shall manage and supervise their relevant departments and subsidiaries in accordance with the Rules for Division of Duties.
  - The Group's goals that shall be shared among all Executive Directors, Executive Officers, and employees shall be developed, and each department and subsidiary shall set up respective operational targets and budgets to meet said goals and conduct performance management on a timely basis.
  - The Board of Directors and the Executive Committee shall analyze monthly performance and take measures for improvement.
  - The operational and clerical efficiency improvement and expense rationalization project shall be established to promote the vitalization and efficiency of any business operation.

(Operating Status of the System)

The Executive Committee comprising Executive Officers has been set up as a deliberation body that facilitates decisions by the President for efficient execution of duties, and holds monthly meetings. In addition, the Board of Directors and the Executive Committee analyze monthly performance and formulate measures for improvement.

5. System to Ensure the Proper Operations of the Company Group, comprising the Group as well as its Parent Company
  - The Subsidiaries and Affiliates Management Rules and the Overseas Branches Management Rules shall be established for the purpose of ensuring consistency in operations and efficient business execution while respecting the autonomy of management of subsidiaries.
  - Executive Directors, Executive Officers, and each Department Manager shall develop and operate system to ensure appropriateness of business execution at subsidiaries associated with business area which they are in charge of.
  - In order to ensure the appropriateness of business execution at subsidiaries, a system shall be established under which the Company's prior approval shall be given and discussion held for important management matters based on relevant rules. In addition, a system shall be established for reporting performance regularly, or as necessary when important matters arise.
  - The audit team assigned by the President shall conduct internal audits based on the Internal Auditing Rules regarding the legitimacy, propriety, and efficiency of business execution at each of subsidiaries. The result will be reported to relevant departments and said departments will provide support and advice for guidance and implementation of measures for improvement as needed.
  - Information exchange with the Affiliated Companies Division of TORAY INDUSTRIES, INC., the Company's parent company, shall be carried out on a regular basis to understand issues on legal compliance and issues from the viewpoint of the efficiency.

(Operating Status of the System)

With regard to the management of subsidiaries, the Subsidiaries and Affiliates Management Rules and the Overseas Branches Management Rules have been established to ensure proper business execution at subsidiaries, and a system has been established for prior approval and consultation with the

Company regarding important management matters.

Furthermore, based on the Internal Auditing Rules, the audit team conducts internal audits and regularly conducts audits regarding the legitimacy, propriety, and efficiency of business execution at each subsidiary.

6. Matters regarding Employees who Assist the Duties of the Audit & Supervisory Committee, and the Independence of such Employees as well as Matters regarding Ensuring of Effectiveness of Instructions to such Employees

- Dedicated staff shall be assigned to assist the duties of the Audit & Supervisory Committee. In addition, the Internal Auditing Department shall assist the Audit & Supervisory Committee.
- Dedicated staff of the Audit & Supervisory Committee and employees of the Internal Auditing Department who are requested to assist the duties necessary for auditing shall perform such duties as instructed by Audit & Supervisory Committee Members and shall not be directed or ordered by Directors (excluding Directors who are Audit & Supervisory Committee Members), Executive Officers, or the Department Manager of the Internal Auditing Department.
- The Audit & Supervisory Committee shall be consulted in advance concerning the personnel change and evaluation of such dedicated staff and employees.

(Operating Status of the System)

Dedicated staff who are independent of the executive departments are assigned to assist the duties of the Audit & Supervisory Committee. In addition, the Internal Auditing Department assists duties necessary for auditing.

7. System to Report to the Company's Audit & Supervisory Committee by the Group's Directors (excluding Directors who are Audit & Supervisory Committee Members) and Employees, other Reporting System to the Audit & Supervisory Committee and System to Ensure that the Persons who Reported do not Receive Disadvantageous Treatment on the Grounds of such Reporting

- Executive Directors, Executive Officers, and employees of the Group shall report matters concerning the execution of duties upon requests from the Audit & Supervisory Committee.
- System shall be established for Audit & Supervisory Committee Members to attend the Board of Directors meetings and other important meetings to understand material decision-making process as well as the status of execution of business.
- System shall be developed so that material matters concerning the performance status of internal auditing and risk management as well as important items concerning compliance will be reported to the Audit & Supervisory Committee in a timely manner, and it shall be ensured that the persons reporting such matters do not receive disadvantageous treatment on the grounds of such reporting to the Audit & Supervisory Committee.

(Operating Status of the System)

Each Audit & Supervisory Committee Member attends the Executive Committee and other important meetings, in addition to meetings of the Board of Directors, to confirm the status of business execution and status of compliance by the Directors, etc., and conducts exchanges of information with the Accounting Auditor and others, thereby strengthening and enhancing the management monitoring function.

8. Matters regarding Policy on Expenses Incurred for Execution of Duties of the Audit & Supervisory Committee and Other Systems to Ensure that Audits by the Audit & Supervisory Committee are Effective

- Based on the audit policies and plans prescribed by the Audit & Supervisory Committee, Audit & Supervisory Committee Members shall conduct individual meetings with each Director (excluding Directors who are Audit & Supervisory Committee Members), Executive Officer, and important employee, and set up regular opportunities to exchange information with the President.
- System shall be ensured so that the Audit & Supervisory Committee can appoint, as needed, lawyers, certified public accountants, and other experts such as external advisers to seek advice on performing audits.
- When the Audit & Supervisory Committee requests advance payment or reimbursement of the necessary expenses for executing its duties, such expenses or debts shall be promptly paid or reimbursed.

(Operating Status of the System)

Based on the audit policies and plans prescribed by the Audit & Supervisory Committee, Audit & Supervisory Committee Members conduct individual meetings with each Director, Executive Officer, and important employee, and regularly exchange information with them.

## **2. Basic Policy regarding the Company's control**

No specific provisions are prescribed on this matter.

## **3. Items Concerning Transactions with the Parent Company and Others**

The Company has transactions with its parent company, TORAY INDUSTRIES, INC., including for the purchase and sale of fibers and chemicals, etc., but the terms of these transactions are decided by negotiation with reference to market price, etc. In addition, the Company engages in transactions with TORAY INDUSTRIES, INC. to borrow or deposit funds, but these transactions are based on the TORAY Group's Cash Management System, and are at reasonable interest rates taking into consideration market interest rates.

The Company's Board of Directors understands the details of the above transactions, and because the final decision-making is carried out independently of the parent company, the Board of Directors deems that there is no harm to the Company's interests.

## **4. A Policy concerning the Decision on the Distribution of Surplus**

The Company recognizes that the distribution of profits to shareholders is an important management issue, and sets it as its basic policy to pay dividends twice a year, an interim dividend and a year-end dividend, which are performance-linked dividends corresponding to net income attributable to owners of the parent of the year, from the viewpoint of ensuring the flexible return of profits and the stability of management and financial affairs. The decision-making body for these dividends is not the General Meeting of Shareholders, but the Board of Directors, based on Paragraph 1, Article 459 of the Companies Act, except as otherwise provided in laws and regulations.

In addition, for the amount of dividends for the current fiscal year, the Company has determined to target 25% or more of the consolidated dividend ratio, considering business environment and other matters comprehensively while maintaining sufficient investment funds for business growth. Furthermore, in the current fiscal year, the Company plans to pay a commemorative dividend celebrating the 70th anniversary of the Company. As a result, the Company intends to pay a year-end dividend of ¥36 per share (ordinary dividend of ¥26 and commemorative dividend of ¥10). Consequently, the total dividend for the current fiscal year will be ¥59 per share, including an interim dividend of ¥23 per share.

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(Remarks)

Figures shown in millions of Japanese yen in this Report are rounded down to the nearest million.

## CONSOLIDATED BALANCE SHEET

As of March 31, 2018

ASSETS	
Item	Amounts
	Millions of Japanese Yen
<b>Assets</b>	
<b>Current assets</b>	¥98,814
Cash and deposits	15,244
Deposit paid to parent company	500
Notes and accounts receivable-trade	63,817
Merchandise and finished goods	13,468
Work in process	47
Raw materials and supplies	7
Goods in transit	867
Deferred tax assets	336
Other current assets	4,540
Allowance for doubtful accounts	(15)
<b>Fixed assets</b>	20,303
<b>Tangible fixed assets</b>	2,817
Buildings and structures	1,967
Accumulated depreciation	(1,199)
Machinery, equipment and vehicles	1,447
Accumulated depreciation	(951)
Furniture and fixtures	660
Accumulated depreciation	(506)
Land	1,367
Leased assets	122
Accumulated depreciation	(90)
<b>Intangible fixed assets</b>	3,453
Goodwill	3,198
Other	255
<b>Investments and other assets</b>	14,032
Investment securities	11,568
Long-term loans receivable	227
Deferred tax assets	243
Other assets	2,516
Allowance for doubtful accounts	(523)
<b>Total assets</b>	¥119,118

<b>LIABILITIES AND EQUITY</b>	
<b>Item</b>	<b>Amounts</b>
	Millions of Japanese Yen
<b>Liabilities</b>	
<b>Current liabilities</b>	¥63,516
Notes and accounts payable-trade	53,212
Short-term loans payable	3,220
Accrued income taxes	1,263
Accrued employee bonuses	802
Allowance for losses from liquidation of subsidiaries and affiliates	42
Other current liabilities	4,976
<b>Noncurrent liabilities</b>	4,447
Corporate bonds payable	1,264
Long-term loans payable	126
Deferred tax liabilities	960
Liabilities for retirement benefits	2,053
Other	43
<b>Total liabilities</b>	67,964
<b>Equity</b>	
<b>Shareholders' equity</b>	49,044
Capital stock	6,800
Capital surplus	1,747
Retained earnings	41,241
Treasury stock	(744)
<b>Accumulated other comprehensive income</b>	2,031
Unrealized gain on available-for-sale securities	1,642
Deferred gain on derivatives under hedge accounting	63
Foreign currency translation adjustments	357
Defined retirement benefit plans	(31)
<b>Noncontrolling interests</b>	77
<b>Total equity</b>	51,153
<b>Total liabilities and equity</b>	¥119,118

## CONSOLIDATED STATEMENT OF INCOME

Year Ended March 31, 2018

Item	Amounts	
	Millions of Japanese Yen	
Net sales		¥311,705
Cost of sales		285,304
Gross profit		26,400
Selling, general and administrative expenses		<u>19,174</u>
Operating income		7,226
Nonoperating income		
Interest income	42	
Dividend income	192	
Equity in earnings of affiliates	254	
Gain on adjustment of liability accounts	99	
Miscellaneous income	<u>252</u>	841
Nonoperating expenses		
Interest expense	93	
Loss on sales of notes receivable	117	
Sales discounts	56	
Foreign exchange losses	271	
Miscellaneous expenses	<u>29</u>	<u>568</u>
Ordinary income		7,499
Extraordinary income		
Gain on liquidation of subsidiaries and affiliates	82	
Gain on sales of fixed assets	13	
Gain on sales of investment securities	5	
Other	<u>1</u>	103
Extraordinary losses		
Loss on valuation of investment securities	193	
Loss on valuation of golf club membership	7	
Loss on disposals of fixed assets	7	
Loss on sales of shares of subsidiaries and affiliates	<u>0</u>	<u>209</u>
Income before income taxes		7,393
Income taxes		
Current	2,559	
Deferred	<u>100</u>	<u>2,659</u>
Net income:		4,733
Net income attributable to noncontrolling interests		<u>2</u>
Net income attributable to owners of the parent		¥4,730

**(Reference)**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

Year Ended March 31, 2018

Item	Amounts
	Millions of Japanese Yen
Net income	¥4,733
Other comprehensive income	
Unrealized gain on available-for-sale securities	962
Deferred gain on derivatives under hedge accounting	(159)
Foreign currency translation adjustments	192
Defined retirement benefit plans	11
Share of other comprehensive income in affiliates	91
Total other comprehensive income	1,099
Comprehensive income	5,833
Total comprehensive income attributable to:	
Owners of parent	5,829
Noncontrolling interests	4

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year Ended March 31, 2018

(Millions of Japanese Yen)

	Shareholders' equity					Accumulated other comprehensive income					Non-controlling interests	Total equity
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Shareholders' equity	Unrealized gain on available-for-sale securities	Deferred gain on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Accumulated other comprehensive income		
Balance as of April 1, 2017	¥6,800	¥1,700	¥37,622	¥ (786)	¥45,335	¥679	¥ 222	¥74	¥ (43)	¥933	¥73	¥46,343
Changes of items during the period												
Dividends from earnings			(1,104)		(1,104)							(1,104)
Net income attributable to owners of parent			4,730		4,730							4,730
Purchases of treasury stock				(0)	(0)							(0)
Disposals of treasury stock		47		42	90							90
Others			(7)		(7)							(7)
Net changes of items other than shareholders' equity during the period					—	962	(159)	282	11	1,098	3	1,101
Total changes of items during the period	—	47	3,619	42	3,708	962	(159)	282	11	1,098	3	4,810
Balance as of March 31, 2018	¥6,800	¥1,747	¥41,241	¥ (744)	¥49,044	¥1,642	¥63	¥357	¥ (31)	¥2,031	¥77	¥51,153



## Notes to the Consolidated Financial Statements

Amounts less than one million yen were rounded down in the consolidated financial statements.

### Significant Items Forming the Basis of Preparation for the Consolidated Financial Statements

#### 1. Scope of Consolidation

##### (1) Consolidated Subsidiaries

- |  |  |
|--|--|
| a) Number of consolidated subsidiaries | 29   |
| b) Names of significant subsidiaries   | Chori Machinery Co., Ltd., Miyako Kagaku Co., Ltd.,<br>Kozakura Shokai Co., Ltd., PTI JAPAN LTD., Asada U Corporation,<br>Tokyo Shirayurikai Co., Ltd., Business Anchor Corporation,<br>Chori America, Inc., and Chori (China) Co., Ltd. |

##### (2) Unconsolidated Subsidiaries

- |  |   |
|--|---|
| a) Name of major unconsolidated subsidiary               | Chori Iran Co., Ltd.  |
| b) Reasons for exclusion from the scope of consolidation | Total assets, sales, net income/loss and retained earnings (the amounts corresponding to equity shares) of the unconsolidated subsidiary were excluded from the scope of consolidation as they would not have a material effect on the consolidated financial statements. |

#### 2. Application of Equity Method

Unconsolidated subsidiaries and affiliates accounted for by the equity method

- |   |                  |
|---|------------------|
| a) Number of unconsolidated subsidiaries and affiliates | 9                |
| b) Name of major company                                | MEGACHEM LIMITED |

#### 3. Changes of Scope of Consolidation and Application of Equity Method

##### (1) Consolidation

The Company included the following in the scope of consolidation: one company due to a corporate split, one newly established subsidiary, two companies due to stock acquisitions, and one company due to its increased materiality. The Company excluded the following from the scope of consolidation: two companies due to liquidations and one company due to the sale of its shares.

##### (2) Equity Method

None.

#### 4. Matters related to Accounting Policies

##### (1) Valuation Standards and Methods for Significant Assets

###### a) Securities

Available-for-sale securities

With market value: Fair value based on market value on the balance sheet date (unrealized gains and losses are included in the equity section of the balance sheet, and costs of securities sold are generally calculated using the moving-average method).

Without market value: Valued at cost, generally by the moving-average method.

###### b) Derivatives are stated at fair value.

###### c) Inventories are stated at cost, generally by the monthly average method.

(Carrying costs on the consolidated balance sheet are written down based on the decreased profitability of such assets.)

##### (2) Depreciation Methods for Significant Assets

###### a) Tangible fixed assets are generally depreciated using the declining-balance method over their estimated useful lives.

Buildings (including equipment attached to buildings) are generally depreciated using the straight-line method.

The useful lives of major assets are summarized as follows.

Buildings and structures 3-50 years

Machinery, equipment and vehicles 2-15 years

###### b) Intangible fixed assets are amortized using the straight-line method.

Software for internal use is generally amortized using the straight-line method over their estimated useful lives (five years or less).

(3) Accounting Standards for Allowances

a) Allowance for Doubtful Accounts

To provide for losses due to bad debt expense, the allowance for doubtful accounts is recorded at amounts considered to be appropriate based upon past credit loss experience for general receivables with specific consideration for certain receivables deemed doubtful of collection.

b) Accrued Employee Bonuses

Accrued employee bonuses are provided for based on estimated amounts attributable to services rendered by employees for the current fiscal year, which are paid in the following fiscal year.

c) Allowance for Losses from Liquidation of Subsidiaries and Affiliates

To provide for losses arising from the liquidation of subsidiaries and affiliates, the estimated loss amounts to be borne by the Company exceeding equity investments in and loans receivables from subsidiaries and affiliates, etc. are recorded.

(4) Standards for Translation of Foreign Currency Denominated Assets and Liabilities into Japanese Yen

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing on the balance sheet date. The resulting translation gains or losses are included in the determination of net income. Assets, liabilities, revenue and expenses of overseas subsidiaries are translated into Japanese yen based on spot exchange rates at their respective fiscal closing dates. Differences arising from such translations are included in both "Foreign currency translation adjustments" and "Noncontrolling interests" in the equity section of the balance sheet.

(5) Significant Hedge Accounting Methods

a) Hedge Accounting Methods

In principle, the Company uses deferred hedging. Forward exchange contracts qualifying for hedge accounting are translated at the contracted rates.

b) Hedging Instruments and Hedged Items

Hedging Instruments

Forward exchange contracts

Related Hedged Items

Receivables, payables, and forecasted transactions denominated in foreign currencies

c) Hedging Policies

The Company and certain consolidated subsidiaries use derivatives to mitigate the risk of foreign exchange fluctuations in accordance with internal management rules.

d) Methods of Assessing Hedging Effectiveness

Forward exchange contracts are entered into for the same currencies and the same periods in accordance with hedging policies, and as their correlations related to subsequent fluctuations in market exchange rates are already determined, assessments of the effectiveness of the forward exchange contracts as of the balance sheet date are omitted.

(6) Amortization of Goodwill

Goodwill is generally amortized ratably over five years, but is written off in its entirety in the year of occurrence when such amounts are not significant.

(7) Other Significant Items for Preparation of the Consolidated Financial Statements

a) Accounting Methods for Retirement Benefits

i) Method of attributing projected retirement benefits to periods

To calculate retirement benefit obligations, projected retirement benefits attributable through the end of the current fiscal year are determined by the benefit formula method.

ii) Method of amortizing net actuarial gains and losses for retirement benefits

Net actuarial gains and losses are amortized ratably using the straight-line method over a fixed period (12 years) not longer than the average remaining service years of employees for the fiscal year in which the differences occurred, beginning with the following fiscal year.

b) Accounting Methods for Consumption Tax

Consumption taxes are excluded from items in the consolidated statement of income.

**Other**

**Notes to the Consolidated Balance Sheet**

1. Assets Pledged as Collateral and Secured Liabilities

(1) Assets pledged as collateral	Millions of Japanese Yen
Cash and deposits	¥802
Buildings	290
Land	560
Investment securities	1,219
<b>Total</b>	<b>2,872</b>
(2) Secured liabilities	
Notes and accounts payable-trade	8,065

2. Contingent Liabilities

Discounted export notes	¥2,820
Endorsed notes receivable	896
Repurchase obligations for notes receivable sold	1,167

3. Treatment of Notes Maturing on the Fiscal Year End Date

Notes maturing on the fiscal year end date were treated for accounting purposes as being settled on their clearance dates.

As the fiscal year end date was a bank holiday, the following notes which matured on the fiscal year end date were included in the following accounts:

	Millions of Japanese Yen
Notes receivable-trade	¥352
Notes payable-trade	941

## Notes to the Consolidated Statement of Changes in Equity

### 1. Numbers and Types of Shares Issued and Treasury Stock

(Shares)

Types of stock	As of April 1, 2017	Increase	Decrease	As of March 31, 2018
Shares issued				
Common stock	25,303,478	—	—	25,303,478
Total	25,303,478	—	—	25,303,478
Treasury stock				
Common stock	788,175	439	43,006	745,608
Total	788,175	439	43,006	745,608

(Summary of reasons for changes)

1. The increase in the number of common stock shares of treasury stock is due to an increase of 439 shares from purchases of fractional shares.
2. The decrease in the number of common stock shares of treasury stock is due to a decrease of 93 shares from sales of fractional shares and a decrease of 42,913 shares from disposals of treasury stock as part of the restricted stock compensation plan.

### 2. Dividends

#### (1) Amount of dividends paid

Resolution	Type of stock	Total amount of dividends (Millions of Japanese Yen)	Dividends per share (Japanese Yen)	Record date	Effective date
Board of Directors Meeting (May 17, 2017)	Common stock	¥539	¥22.00	March 31, 2017	June 16, 2017
Board of Directors Meeting (October 24, 2017)	Common stock	564	23.00	September 30, 2017	December 1, 2017

(2) Dividends for which the record date is in the fiscal year ended March 31, 2018 and the effective date is in the following fiscal year.

Resolution	Type of stock	Dividend source	Total amount of dividends (Millions of Japanese Yen)	Dividends per share (Japanese Yen)	Record date	Effective date
Board of Directors Meeting (April 25, 2018)	Common stock	Retained earnings	¥884	¥36.00	March 31, 2018	May 31, 2018

(Note) Dividends per share include the Company's 70th anniversary commemorative dividend of ¥10.

## Financial Instruments

### 1. Matters Concerning Financial Instruments

The Group restricts its investment of funds to short-term deposits, etc. and procures funds through loans from financial institutions.

Risk reduction of customer credit risks related to notes and accounts receivable-trade are handled in accordance with internal management rules.

Investment securities primarily consist of stock, and the market values of listed shares are checked quarterly.

The usage of loans payable, etc. is for working capital purposes. Derivatives are utilized based on actual demand and in accordance with internal management rules.

### 2. Matters Concerning the Market Value of Financial Instruments

Carrying values on the consolidated balance sheet, market values and the differences as of March 31, 2018 (current consolidated closing date) are as follows.

(Millions of Japanese Yen)

	Carrying value on the consolidated balance sheet (*)	Market value (*)	Difference
(1) Cash and deposits	¥15,244	¥15,244	-
(2) Deposit paid to parent company	500	500	-
(3) Notes and accounts receivable-trade	63,817	63,817	-
(4) Investment securities			
Shares of unconsolidated subsidiaries and affiliates	1,130	1,230	¥100
Available-for-sale securities	8,514	8,514	-
(5) Notes and accounts payable-trade	[53,212]	[53,212]	-
(6) Short-term loans payable	[3,220]	[3,220]	-
(7) Accrued income taxes	[1,263]	[1,263]	-
(8) Corporate bonds payable	[1,264]	[1,264]	-
(9) Derivatives	93	93	-

(\*) Amounts recorded as a liability are shown as [ ].

(Note 1) Calculation methods for the market value of financial instruments and matters concerning marketable securities and derivative transactions.

(1) Cash and deposits, (2) Deposit paid to parent company, (3) Notes and accounts receivable-trade

As these items are settled on a short-term basis with market values closely approximating book values, the subject book values were recognized.

(4) Investment securities

Market value of shares refers to quoted prices per stock exchanges.

(5) Notes and accounts payable-trade, (6) Short-term loans payable, (7) Accrued income taxes

As these items are settled on a short-term basis with market values closely approximating book values, the subject book values were recognized.

(8) Bonds payable

As these items are based on floating interest rates and reflect market interest rates within a short period, with market values closely approximating book values, the subject book values were recognized.

(9) Derivative transactions

a) Items for which hedge accounting is not applied: The contracted amounts or principal-equivalent amounts set forth in contracts, market values, unrealized gain or loss, and method of calculating market values for each type of transaction item as of the fiscal year end were as follows.

Currency related (the calculation method for market value is based on market forward exchange rates.)

(Millions of Japanese Yen)

Category	Type of derivative financial instrument	Contracted amount		Market value	Unrealized gain or loss
			Portion longer than 1 year		
Transactions other than market transactions	Foreign currency forward contracts				
	Selling				
	U.S. Dollar	¥160	—	¥0	¥0
	Yuan	6	—	(0)	(0)
	Buying				
	U.S. Dollar	224	—	(1)	(1)
	Baht	369	—	2	2
Total		¥760	—	¥1	¥1

b) Items for which hedge accounting is applied: The contracted amounts or principal-equivalent amounts set forth in contracts for each hedge accounting method as of the consolidated fiscal year end were as follows.

(Millions of Japanese Yen)

Hedge accounting method	Type of derivative financial instrument	Hedged item	Contracted amount	Contracted amounts longer than 1 year	Market value (*1)
Forward contracts qualifying for hedge accounting translated at contract rates	Foreign currency forward contracts	Accounts receivable			
	Selling U.S. Dollar		¥6,391	—	(*2)
	Yuan	73	—		
	Foreign currency forward contracts	Accounts payable			
Buying U.S. Dollar	8,847		—	(*2)	
Yuan	8		—		
	Yen	7	—		
Forward contracts qualifying for hedge accounting for which gains and losses are deferred	Foreign currency forward contracts	Accounts receivable			
	Selling U.S. Dollar		3,456	—	156
	Yen	29	—	0	
	Foreign currency forward contracts	Accounts payable			
Buying U.S. Dollar	12,507		—	(65)	
Yuan	184		—	0	

(\*1) Calculations of market value were based on prices presented by financial institutions with which the Company has transactions.

(\*2) The foreign currency forward contracts qualifying for hedge accounting translated at contract rates were accounted for together with the underlying receivables and payables, and their market values are included in the market values of such receivables and payables.

(Note 2) Nonlisted shares, etc. (recorded as ¥1,923 million in the consolidated balance sheet) having no market price and estimable future cash flows were recognized as being difficult to determine market value for, and were not included in “(4) Investment securities.”

## Per Share Information

	Japanese Yen
(1) Equity per share	2,079.84
(2) Net income per share	192.74

## Other Notes

(Business Combination through Acquisition)

### 1. Overview of the Business Combination

#### (1) Name of the Acquired Company and Description of its Business

Name of the acquired company: Kozakura Shokai Co., Ltd. (“Kozakura Shokai”)

Description of its business: Sales of various chemical products (including lubricating oil additives and fuel oil additives, etc.)

#### (2) Reasons for the Business Combination

Founded in 1949, Kozakura Shokai is a chemical products sales company with a seventy-year history, dealing mainly in lubricating oil additives. With its wide-ranging and meticulous service offerings developed over the years, it has established a solid position in the lubricating oil additives market centered on domestic customers.

The Company believes the acquisition of Kozakura Shokai as its subsidiary will generate synergistic effects with the organic chemical related merchandise of its chemical products business, through cooperative business with and further development of the products handled by Kozakura Shokai.

The acquisition of Kozakura Shokai is also expected to contribute to the Group’s consolidated business results due to its stable business performance and ultimately to enhancing the corporate value of the Group.

#### (3) Date of the Business Combination

March 29, 2018 (the deemed acquisition date is December 31, 2017).

#### (4) Legal Form of the Business Combination

Stock acquisition in exchange for cash consideration

#### (5) Name of the Acquired Company after the Business Combination

Kozakura Shokai Co., Ltd.

#### (6) Percentage of Voting Rights Acquired

100%

#### (7) Basis for Acquiring Company

The Company acquired shares of Kozakura Shokai in exchange for cash consideration

### 2. Period of Financial Results of the Acquired Company included in the Consolidated Financial Statements

Only the balance sheet accounts of the acquired company were included in the Company’s consolidated financial statements as of March 31, 2018. No income statement accounts of the acquired company were consolidated.

### 3. Acquisition Price and Acquisition Cost of the Acquired Company

Acquisition price	Common stock of the acquired company	¥2,100 million
Acquisition cost		¥2,100 million

### 4. Major Acquisition Related Costs

Advisory fees, etc. ¥27 million

### 5. Basis of Goodwill and Amortization

#### (1) Amount of Goodwill Recorded

¥1,315 million

#### (2) Basis of Recorded Goodwill

Goodwill was primarily determined based on expected future excess earnings related to future business development.

#### (3) Amortization Method and Period

Straight-line method over five years

### 6. Assets Transferred and Liabilities Assumed on the Date of the Business Combination

Current assets	¥6,912 million
Fixed assets	971 million
Total assets	¥7,884 million
Current liabilities	¥5,728 million
Noncurrent liabilities	1,370 million
Total liabilities	¥7,099 million

(Transaction under Common Control, etc.)

As part of the Group's overall business restructuring, it was resolved at the Board of Directors meeting held on February 22, 2017, to divest the transportation equipment business in the form of a corporate split, with the newly established company Chori Machinery Co., Ltd., as the successor to this business. This corporate stock split was executed as of April 3, 2017.

1. Summary of the Transaction

(1) Name and Description of Divested Business

Name of the business: Transportation equipment business

Description of the business: Sales of transportation equipment

(2) Date of the Business Combination

April 3, 2017

(3) Legal Form of the Business Combination

A simple incorporation-type company split, in which the Company was the divesting company while the newly established Chori Machinery Co., Ltd. was the successor company

(4) Name of the Company after the Business Combination

Chori Machinery Co., Ltd.

(5) Other Matters related to the Summary of the Transaction

This corporate split was decided upon to enhance management discretion in the transportation business, and to speed up decision-making with an aim toward business expansion.

2. Accounting Treatment Applied

The aforementioned company split was accounted for as transaction under common control, in accordance with the "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21 issued on September 13, 2013), and the "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 issued on September 13, 2013).

**Notes to Significant Subsequent Events**

Not applicable.



## NONCONSOLIDATED BALANCE SHEET

As of March 31, 2018

ASSETS	
Item	Amounts
	Millions of Japanese Yen
<b>Assets</b>	
<b>Current assets</b>	¥53,754
Cash and deposits	2,518
Deposit paid to parent company	500
Notes receivable-trade	10,303
Accounts receivable-trade	27,725
Merchandise and finished goods	9,901
Goods in transit	296
Advance payments	428
Prepaid expenses	17
Deferred tax assets	329
Short-term loans receivable	1
Other current assets	1,741
Allowance for doubtful accounts	(8)
<b>Fixed assets</b>	24,113
<b>Tangible fixed assets</b>	616
Buildings	208
Structures	0
Machinery and equipment	316
Vehicles	0
Furniture and fixtures	89
<b>Intangible fixed assets</b>	115
Software	96
Other	18
<b>Investments and other assets</b>	23,381
Investment securities	4,674
Shares of subsidiaries and affiliates	15,419
Investments in equity	328
Investments in equity of subsidiaries and affiliates	2,124
Long-term loans receivable	111
Long-term loans receivable from subsidiaries and affiliates	30
Deferred tax assets	187
Other assets	868
Allowance for doubtful accounts	(362)
<b>Total assets</b>	¥77,867

<b>LIABILITIES AND EQUITY</b>	
<b>Item</b>	<b>Amounts</b>
	Millions of Japanese Yen
<b>Liabilities</b>	
<b>Current liabilities</b>	¥32,815
Notes payable-trade	5,269
Accounts payable-trade	20,942
Accounts payable-other	1,009
Accrued expenses	112
Accrued income taxes	819
Advances received	255
Deposits received	3,756
Accrued employee bonuses	608
Allowance for losses from liquidation of subsidiaries and affiliates	42
<b>Noncurrent liabilities</b>	1,877
Liability for retirement benefits	1,875
Other	2
<b>Total liabilities</b>	34,693
<b>Equity</b>	
<b>Shareholders' equity</b>	42,257
Capital stock	6,800
Capital surplus	1,747
Legal capital surplus	1,700
Other capital surplus	47
Retained earnings	34,454
Other retained earnings	34,454
Retained earnings brought forward	34,454
Treasury stock	(744)
<b>Valuation and translation adjustments</b>	917
Unrealized gain on available-for-sale securities	854
Deferred gain on derivatives under hedge accounting	62
<b>Total equity</b>	43,174
<b>Total liabilities and equity</b>	77,867

## NONCONSOLIDATED STATEMENT OF INCOME

Year Ended March 31, 2018

Item	Amounts	
	Millions of Japanese Yen	
Net sales		¥165,054
Cost of sales		149,765
Gross profit		15,288
Selling, general and administrative expenses		<u>10,262</u>
Operating income		5,026
Nonoperating income		
Interest income	27	
Dividend income	928	
Reversal of allowance for doubtful accounts	4	
Gain on adjustment of liability accounts	98	
Miscellaneous income	<u>202</u>	1,261
Nonoperating expenses		
Interest expense	45	
Loss on sales of notes receivable	85	
Sales discounts	44	
Foreign exchange losses	121	
Miscellaneous expenses	<u>35</u>	<u>333</u>
Ordinary income		5,953
Extraordinary income		
Gain on sales of shares of subsidiaries and affiliates	78	
Gain on liquidation of subsidiaries and affiliates	53	
Gain on sales of investment securities	4	
Other	<u>0</u>	137
Extraordinary losses		
Loss on valuation of investment securities	193	
Loss on disposals of fixed assets	4	
Other	<u>0</u>	<u>197</u>
Income before income taxes		5,892
Income taxes		
Current	1,666	
Deferred	<u>29</u>	<u>1,695</u>
Net income		¥4,197

# NONCONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year Ended March 31, 2018

(Millions of Japanese Yen)

	Shareholders' equity								Valuation and translation adjustments			Total equity
	Capital stock	Capital surplus			Retained earnings		Treasury stock	Shareholders' equity	Unrealized gain on available-for-sale securities	Deferred gain on derivatives under hedge accounting	Valuation and translation adjustments	
		Legal capital surplus	Other capital surplus	Capital surplus	Other retained earnings	Total retained earnings						
Balance as of April 1, 2017	¥6,800	¥1,700	¥0	¥1,700	¥31,361	¥31,361	¥ (786)	¥39,074	427	¥222	¥650	¥39,725
Changes of items during the period												
Dividends from earnings					(1,104)	(1,104)		(1,104)				(1,104)
Net income					4,197	4,197		4,197				4,197
Purchases of treasury stock							(0)	(0)				(0)
Disposals of treasury stock			47	47			42	90				90
Net changes of items other than shareholders' equity during the period								—	426	(160)	266	266
Total changes of items during the period	—	—	47	47	3,093	3,093	42	3,182	426	(160)	266	3,449
Balance as of March 31, 2018	¥6,800	¥1,700	¥47	¥1,747	¥34,454	¥34,454	¥ (744)	¥42,257	¥854	¥62	¥917	¥43,174

## Notes to the Nonconsolidated Financial Statements

Amounts less than one million yen have been rounded down in the nonconsolidated financial statements.

### Significant Accounting Policies

#### 1. Valuation Standards and Methods for Assets

(1) Securities

Stocks of subsidiaries and affiliates: Valued at cost by the moving-average method

Available-for-sale securities:

With market value: Fair value based on market value on the balance sheet date

(Unrealized gains and losses are included in the equity section of the balance sheet, and cost of securities sold is calculated using the moving-average method.)

Without market value: Valued at cost by the moving-average method

(2) Derivatives are stated at fair value.

(3) Inventories are valued at cost, determined by the monthly average method.

(Carrying costs on the balance sheet were written down based on the decreased profitability of such assets.)

#### 2. Depreciation Methods for Fixed Assets

(1) Depreciation of tangible fixed assets is generally computed using the declining-balance method over the estimated useful lives of the assets.

However, depreciation of buildings (including equipment attached to buildings) is computed using the straight-line method.

The ranges of useful lives for assets are summarized as follows.

Buildings, structures            3-37 years

Machinery and equipment    2-11 years

(2) Amortization of intangible fixed assets is computed using the straight-line method.

Software for internal use is amortized using the straight-line method over estimated useful lives (five years or less).

#### 3. Standards for Translation of Foreign Currency Denominated Assets and Liabilities into Japanese Yen

All monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing on the balance sheet date. The resulting translation gains or losses are included in the determination of net income.

#### 4. Accounting Standards for Allowances

(1) Allowance for Doubtful Accounts

To provide for losses due to bad debt expense, the allowance for doubtful accounts is recorded at amounts considered to be appropriate based upon past credit loss experience for general receivables with specific consideration for certain receivables deemed doubtful of collection.

(2) Accrued Employee Bonuses

Accrued employee bonuses are provided for based on estimated amounts attributable to services rendered by employees for the current fiscal year, which are paid in the following fiscal year.

(3) Allowance for Losses from Liquidation of Subsidiaries and Affiliates

To provide for losses arising from the liquidation of subsidiaries and affiliates, the estimated loss amounts to be borne by the Company exceeding equity investments in and loans receivables from subsidiaries and affiliates, etc. are recorded.

(4) Allowance for Retirement Benefits

Allowance for retirement benefits are provided for based on the projected retirement benefit obligations as of the end of the current fiscal year.

a) Method of Attributing Projected Retirement Benefits to Periods

To calculate retirement benefit obligations, projected retirement benefits attributable through the end of the current fiscal year are determined by the benefit formula method.

b) Method of Amortizing Net Actuarial Gains and Losses for Retirement Benefits

Net actuarial gains and losses are amortized ratably using the straight-line method over a fixed period (12 years) not longer than the average remaining service years of employees for the fiscal year in which the differences occurred, beginning with the following fiscal year.

## 5. Hedge Accounting Methods

### (1) Methods of Hedge Accounting

In principle, the Company uses deferred hedging. Forward exchange contracts qualifying for hedge accounting are translated at the contracted rates.

### (2) Hedging Instruments and Hedged Items

#### Hedging Instruments

Forward exchange contracts

#### Related Hedged Items

Receivables, payables, and forecasted transactions denominated in foreign currencies

### (3) Hedging Policies

The Company uses derivatives to mitigate the risk of foreign exchange fluctuations in accordance with internal management rules.

### (4) Methods of Assessing Hedging Effectiveness

Forward exchange contracts are entered into for the same currencies and the same periods in accordance with hedging policies, and as their correlations related to subsequent fluctuations in the market exchange rates are already determined, assessments of the effectiveness of the forward exchange contracts as of the balance sheet date are omitted.

## 6. Other Significant Items Forming the Basis of Preparation for the Nonconsolidated Financial Statements

### (1) Accounting Methods for Retirement Benefits

The accounting method for unrecognized net actuarial gains and losses related to the retirement benefits is different from the method used in the consolidated financial statements.

### (2) Accounting Methods for Consumption Tax

Consumption taxes are excluded from items in the nonconsolidated statement of income.

**Other****Notes to the Nonconsolidated Balance Sheet**

Millions of Japanese Yen

1. Accumulated Depreciation of Tangible Fixed Assets	¥1,019
2. Monetary Receivables from and Payable to Subsidiaries and Affiliates	
Monetary receivables from and payable to subsidiaries and affiliates, other than those separately presented, are set out below.	
Short-term monetary receivables	¥3,635
Long-term monetary receivables	31
Short-term monetary payable	5,594
3. Contingent Liabilities	
Discounted export notes	¥245
Repurchase obligations for notes receivable sold	1,167
4. Treatment of Notes Maturing on the Balance Sheet Date	
Notes maturing on the balance sheet date were treated for accounting purposes as being settled on their clearance dates.	
As the balance sheet date was a bank holiday, the following notes which matured on the balance sheet date were included in the following accounts:	
Notes receivable-trade	¥200
Notes payable-trade	467

**Notes to the Nonconsolidated Statement of Income**

Millions of Japanese Yen

Transactions with Subsidiaries and Affiliates	Net sales	¥16,033
	Amount of purchase	17,970
	Nonoperating transactions	648

**Notes to the Nonconsolidated Statement of Changes in Equity**

Numbers and Types of Treasury Stock

(Shares)

Types of stock	As of April 1, 2017	Increase	Decrease	As of March 31, 2018
Common stock	788,175	439	43,006	745,608
Total	788,175	439	43,006	745,608

(Summary of reasons for changes)

1. The increase in the number of common stock shares of treasury stock is due to an increase of 439 shares from the purchase of fractional shares.
2. The decrease in the number of common stock shares of treasury stock is due to a decrease of 93 shares from sales of fractional shares and a decrease of 42,913 shares from disposals of treasury stock as part of the restricted stock compensation plan.

**Notes to Tax Effect Accounting**

## Breakdown of Major Factors for Deferred Tax Assets and Deferred Tax Liabilities

(Millions of Japanese Yen)

Deferred tax assets	
Loss on valuation of goods	¥54
Impairment loss on investment securities	41
Impairment loss on stocks of subsidiaries and affiliates	203
Loss on valuation of golf club membership	6
Allowance for doubtful accounts	113
Accrued employee bonuses	185
Allowance for losses from liquidation of subsidiaries and affiliates	12
Accrued enterprise tax	49
Liability for retirement benefits	573
Other	409
Subtotal deferred tax assets	1,650
Valuation allowances	(693)
Total deferred tax assets	956
Deferred tax liabilities	
Deferred gain on derivatives under hedge accounting	(27)
Unrealized gain on available-for-sale securities	(411)
Total deferred tax liabilities	(439)
Net deferred tax assets	¥516



## Notes to Transactions with Related Parties

Parent Company, Major Corporate Shareholders, etc.

Company type	Company name or person's name	Location	Capital stock or equity investments (Millions of Japanese yen)	Description of business or occupation	Percentage of ownership (or owned) of voting rights, etc. (%)	Relation with the related party	Details of transactions	Amount of transactions (Millions of Japanese Yen)	Account	Balance at the end of fiscal year (Millions of Japanese Yen)
Parent company	TORAY INDUSTRIES, INC.	Chuo-ku, Tokyo	¥147,873	Manufacture, processing and sale and purchase of fibers, chemicals, etc.	(Owned) Directly: 52.88 Indirectly: —	Sale and purchase of fibers, chemicals, etc.; concurrently serving as director	Sales of fibers, chemicals, etc.	¥3,718	Accounts receivable-trade	¥999
							Purchase of fibers, chemicals, etc.	8,272	Accounts payable-trade	2,249
							Borrowing of funds	3,200	—	—
							Deposit of funds	3,300	Deposit paid to parent company	500

Terms and conditions of transactions and policies for their determination

- (Notes)
1. Terms and conditions concerning sales and purchase of fibers, chemicals, etc. are determined through negotiation based on market prices, etc.
  2. Consumption taxes are not included in the amount of transactions but are included in the balances at fiscal year-end (excluding deposit paid to parent company).
  3. The borrowing of funds and deposit of funds are made through the Toray Group's Cash Management System. Interest rates on these transactions are determined at reasonable levels after due consideration of market interest rates. In addition, since the borrowing of funds and deposit of funds are made on a daily basis, the amounts for both transactions are reported at their maximum amounts.

Subsidiaries and Affiliates, Etc.

Company type	Company name or person's name	Location	Capital stock or equity investments	Description of business or occupation	Percentage of ownership (or owned) of voting rights, etc. (%)	Relation with the related party	Details of transactions	Amount of transactions (Millions of Japanese Yen)	Account	Balance at the end of fiscal year (Millions of Japanese Yen)
Subsidiary	Chori (China) Co., Ltd.	Shanghai (China)	55,314 thousand yuan	Sales in China, export and import, and overseas transactions of various products	(Ownership) Directly: 100.00 Indirectly: —	Sale and purchase of fibers, chemicals, etc.; concurrently serving as officers	Sales of fibers, chemicals, etc.	¥3,902	Accounts receivable-trade	¥594
Subsidiary	Chori Machinery Co., Ltd.	Minato-ku, Tokyo	¥100 million	Sales of transportation equipment, etc.	(Ownership) Directly: 100.00 Indirectly: —	Sales and purchases of transportation equipment, etc.	Custody of funds	2,804	Deposits payable	2,001

Terms and conditions of transactions and policies for their determination

- (Notes)
1. Terms and conditions concerning sales of fibers, chemicals, etc. are determined through negotiation based on market prices, etc.
  2. Consumption taxes are not included in the amount of transactions and balances at fiscal year end.
  3. Deposits payable are held in accordance with funding needs, with interest rates applied based on market interest rates. Since the transactions occur on a daily basis, the highest balance amount is shown as the transaction amount.

## Per Share Information

Japanese Yen

- (1) Equity per share ¥1,758.07
- (2) Net income per share 171.02

## Notes to Significant Subsequent Events

Not applicable.