# *Mitsui High-tec, Inc. and Subsidiaries*

*Consolidated Financial Statements for the Year Ended January 31, 2016, and Independent Auditor's Report*

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of Mitsui High-tec, Inc.:

We have audited the accompanying consolidated balance sheet of Mitsui High-tec, Inc. and its subsidiaries (collectively, the "Group") as of January 31, 2016, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

**Management's Responsibility for the Consolidated Financial Statements**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of January 31, 2016, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

**Emphasis of Matter**

As discussed in Note 17 (3) to the consolidated financial statements, as a result of the "2016 Kumamoto Earthquake" that occurred on April 14, 2016, a part of the factories in Kumamoto owned by the Company and Mitsui Electric Co., Ltd., a consolidated subsidiary of the Company, suffered damage. The Group is investigating loss from the disaster including loss on the assets related to the factories. Our opinion is not modified in respect of this matter.

**Convenience Translation**

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

DELOITTE TOUCHE TOHMATSU LLC
Fukuoka, Japan

April 21, 2016

**Mitsui High-tec, Inc. and Subsidiaries**

**Consolidated Balance Sheet**
**January 31, 2016**

| ASSETS | Millions of Yen 2016 | Millions of Yen 2015 | Thousands of U.S. Dollars (Note 1) 2016 |
|---|---|---|---|
| CURRENT ASSETS: | | | |
| Cash and cash equivalents (Note 13) | ¥ 12,544 | ¥ 13,792 | $ 105,527 |
| Short-term investments (Notes 3 and 13) | 315 | 344 | 2,650 |
| Notes and accounts receivable−trade (Note 13) | 11,507 | 11,767 | 96,803 |
| Allowance for doubtful accounts | (12) | (14) | (101) |
| Inventories (Note 4) | 5,372 | 5,695 | 45,192 |
| Deferred tax assets (Note 9) | 309 | 491 | 2,599 |
| Prepaid expenses and other | 1,227 | 1,029 | 10,323 |
| Total current assets | 31,262 | 33,104 | 262,993 |
| PROPERTY, PLANT AND EQUIPMENT: | | | |
| Land (Note 6) | 6,775 | 6,651 | 56,995 |
| Buildings and structures (Note 6) | 28,241 | 28,342 | 237,579 |
| Machinery and equipment | 46,922 | 46,367 | 394,734 |
| Furniture and fixtures | 20,252 | 19,955 | 170,371 |
| Construction in progress | 1,017 | 1,043 | 8,555 |
| Total | 103,207 | 102,358 | 868,234 |
| Accumulated depreciation | (79,264) | (78,212) | (666,812) |
| Net property, plant and equipment | 23,943 | 24,146 | 201,422 |
| INVESTMENTS AND OTHER ASSETS: | | | |
| Investment securities (Notes 5 and 13) | 1,042 | 1,067 | 8,766 |
| Deferred tax assets (Note 9) | 14 | 20 | 118 |
| Asset for employees' retirement benefits (Note 7) | 55 | 49 | 463 |
| Other assets | 1,101 | 1,086 | 9,261 |
| Total investments and other assets | 2,212 | 2,222 | 18,608 |
| TOTAL | ¥ 57,417 | ¥ 59,472 | $ 483,023 |

| LIABILITIES AND EQUITY | Millions of Yen 2016 | Millions of Yen 2015 | Thousands of U.S. Dollars (Note 1) 2016 |
|---|---|---|---|
| CURRENT LIABILITIES: | | | |
| Accounts payable−trade (Note 13) | ¥ 3,496 | ¥ 3,845 | $ 29,410 |
| Income taxes payable (Note 13) | 117 | 317 | 985 |
| Accrued expenses and other | 3,057 | 3,128 | 25,717 |
| Total current liabilities | 6,670 | 7,290 | 56,112 |
| LONG-TERM LIABILITIES: | | | |
| Liability for employees' retirement benefits (Note 7) | 24 | 790 | 202 |
| Retirement benefits to directors and corporate auditors | 120 | 127 | 1,009 |
| Provision for loss on business liquidation | 710 | 723 | 5,973 |
| Other (Note 9) | 170 | 218 | 1,430 |
| Total long-term liabilities | 1,024 | 1,858 | 8,614 |
| EQUITY (Note 8): | | | |
| Common stock−authorized, 94,595,700 shares; issued, 42,466,865 shares in 2016 and 2015 | 16,404 | 16,404 | 137,999 |
| Capital surplus | 17,252 | 17,252 | 145,133 |
| Retained earnings | 16,942 | 15,186 | 142,526 |
| Treasury stock−at cost, 2,560,918 shares in 2016 and 859,838 shares in 2015 | (1,732) | (469) | (14,570) |
| Accumulated other comprehensive income: | | | |
| Unrealized gain on available-for-sale securities (Note 5) | 381 | 380 | 3,205 |
| Foreign currency translation adjustments | 372 | 1,479 | 3,130 |
| Defined retirement benefit plans (Note 7) | (26) | (25) | (219) |
| Total | 49,593 | 50,207 | 417,204 |
| Minority interests | 130 | 117 | 1,093 |
| Total equity | 49,723 | 50,324 | 418,297 |
| TOTAL | ¥ 57,417 | ¥ 59,472 | $ 483,023 |

See notes to consolidated financial statements.

## Mitsui High-tec, Inc. and Subsidiaries

**Consolidated Statement of Income**
**Year Ended January 31, 2016**

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| NET SALES | ¥ 64,104 | ¥ 65,495 | $ 539,278 |
| COST OF SALES | 55,056 | 55,467 | 463,161 |
| Gross profit | 9,048 | 10,028 | 76,117 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 10) | 7,190 | 6,961 | 60,486 |
| Operating income | 1,858 | 3,067 | 15,631 |
| OTHER INCOME (EXPENSES): | | | |
| Interest and dividend income | 73 | 87 | 614 |
| Interest expense | (1) | (3) | (8) |
| Foreign exchange gain—net | 401 | 702 | 3,373 |
| Subsidy income | 115 | 122 | 968 |
| Loss on sales and disposal of property, plant and equipment | (50) | (156) | (421) |
| Loss on impairment of long-lived assets (Note 11) | (167) | (366) | (1,405) |
| Loss on business liquidation (Note 12) | | (723) | |
| Other—net | 110 | 73 | 925 |
| Other income (expenses)—net | 481 | (264) | 4,046 |
| INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS | 2,339 | 2,803 | 19,677 |
| INCOME TAXES (Note 9): | | | |
| Current | 327 | 488 | 2,751 |
| Deferred | 175 | (264) | 1,472 |
| Total income taxes | 502 | 224 | 4,223 |
| NET INCOME BEFORE MINORITY INTERESTS | 1,837 | 2,579 | 15,454 |
| MINORITY INTERESTS IN NET INCOME | (20) | (26) | (168) |
| NET INCOME | ¥ 1,817 | ¥ 2,553 | $ 15,286 |

| | Yen | | U.S. Dollars |
|---|---|---|---|
| PER SHARE OF COMMON STOCK (Note 2.q): | | | |
| Net income | ¥ 44.33 | ¥ 61.37 | $ 0.37 |
| Cash dividends applicable to the year | 13.0 | 17.0 | 0.11 |

See notes to consolidated financial statements.

## Mitsui High-tec, Inc. and Subsidiaries

**Consolidated Statement of Comprehensive Income**
**Year Ended January 31, 2016**

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| NET INCOME BEFORE MINORITY INTERESTS | ¥ 1,837 | ¥ 2,579 | $ 15,454 |
| OTHER COMPREHENSIVE (LOSS) INCOME (Note 15): | | | |
| Unrealized gain on available-for-sale securities | 1 | 128 | 8 |
| Foreign currency translation adjustments | (1,107) | 2,091 | (9,313) |
| Defined retirement benefit plans | (1) | | (8) |
| Total other comprehensive (loss) income | (1,107) | 2,219 | (9,313) |
| COMPREHENSIVE INCOME | ¥ 730 | ¥ 4,798 | $ 6,141 |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | | |
| Owners of the parent | ¥ 710 | ¥ 4,773 | $ 5,973 |
| Minority interests | 20 | 25 | 168 |

See notes to consolidated financial statements.

## Mitsui High-tec, Inc. and Subsidiaries

**Consolidated Statement of Changes in Equity**
**Year Ended January 31, 2016**

| | Thousands | Millions of Yen | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Accumulated other comprehensive income | | | | | |
| | Number of Shares of Common Stock Outstanding | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock | Unrealized Gain on Available-for-sale Securities | Foreign Currency Translation Adjustments | Defined Retirement Benefit Plans | Total | Minority Interests | Total Equity |
| BALANCE, FEBRUARY 1, 2014 | 41,608 | ¥ 16,404 | ¥ 17,252 | ¥ 13,340 | ¥ (468) | ¥ 252 | ¥ (612) | | ¥ 46,168 | ¥ 100 | ¥ 46,268 |
| Net income | | | | 2,553 | | | | | 2,553 | | 2,553 |
| Cash dividends, ¥17.0 per share | | | | (707) | | | | | (707) | | (707) |
| Purchase of treasury stock | (1) | | | | (1) | | | | (1) | | (1) |
| Net change in the year | | | | | | 128 | 2,091 | ¥ (25) | 2,194 | 17 | 2,211 |
| BALANCE, JANUARY 31, 2015 (FEBRUARY 1, 2015, as previously reported) | 41,607 | 16,404 | 17,252 | 15,186 | (469) | 380 | 1,479 | (25) | 50,207 | 117 | 50,324 |
| Cumulative effects of accounting change (Note 2.i) | | | | 643 | | | | | 643 | | 643 |
| BALANCE, FEBRUARY 1, 2015 (as restated) | 41,607 | 16,404 | 17,252 | 15,829 | (469) | 380 | 1,479 | (25) | 50,850 | 117 | 50,967 |
| Net income | | | | 1,817 | | | | | 1,817 | | 1,817 |
| Cash dividends, ¥13.0 per share | | | | (704) | | | | | (704) | | (704) |
| Purchase of treasury stock | (1,701) | | | | (1,263) | | | | (1,263) | | (1,263) |
| Net change in the year | | | | | | 1 | (1,107) | ¥ (1) | (1,107) | 13 | (1,094) |
| BALANCE, JANUARY 31, 2016 | 39,906 | ¥ 16,404 | ¥ 17,252 | ¥ 16,942 | ¥ (1,732) | ¥ 381 | ¥ 372 | ¥ (26) | ¥ 49,593 | ¥ 130 | ¥ 49,723 |

| | Thousands of U.S. Dollars (Note 1) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Accumulated other comprehensive income | | | | | |
| | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock | Unrealized Gain on Available-for-sale Securities | Foreign Currency Translation Adjustments | Defined Retirement Benefit Plans | Total | Minority Interests | Total Equity |
| BALANCE, JANUARY 31, 2015 (FEBRUARY 1, 2015, as previously reported) | $ 137,999 | $ 145,133 | $ 127,753 | $ (3,945) | $ 3,197 | $ 12,442 | $ (210) | $ 422,369 | $ 984 | $ 423,353 |
| Cumulative effects of accounting change (Note 2.i) | | | 5,409 | | | | | 5,409 | | 5,409 |
| BALANCE, FEBRUARY 1, 2015 (as restated) | 137,999 | 145,133 | 133,162 | (3,945) | 3,197 | 12,442 | (210) | 427,778 | 984 | 428,762 |
| Net income | | | 15,286 | | | | | 15,286 | | 15,286 |
| Cash dividends, $0.11 per share | | | (5,922) | | | | | (5,922) | | (5,922) |
| Purchase of treasury stock | | | | (10,625) | | | | (10,625) | | (10,625) |
| Net change in the year | | | | | 8 | (9,312) | (9) | (9,313) | 109 | (9,204) |
| BALANCE, JANUARY 31, 2016 | $ 137,999 | $ 145,133 | $ 142,526 | $ (14,570) | $ 3,205 | $ 3,130 | $ (219) | $ 417,204 | $ 1,093 | $ 418,297 |

See notes to consolidated financial statements.

## Mitsui High-tec, Inc. and Subsidiaries

**Consolidated Statement of Cash Flows**
**Year Ended January 31, 2016**

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| OPERATING ACTIVITIES: | | | |
| Income before income taxes and minority interests | ¥ 2,339 | ¥ 2,803 | $ 19,677 |
| Adjustments for: | | | |
| Income taxes—paid | (518) | (523) | (4,358) |
| Depreciation and amortization | 4,615 | 4,284 | 38,824 |
| Loss on impairment of long-lived assets | 167 | 366 | 1,405 |
| Foreign exchange loss (gain)—net | (167) | 47 | (1,405) |
| Gain on sale of property, plant and equipment | (10) | (3) | (84) |
| Loss on sale and disposal of property, plant and equipment | 50 | 156 | 421 |
| Loss on business liquidation | | 723 | |
| Changes in assets and liabilities: | | | |
| Decrease (increase) in notes and accounts receivable—trade | 6 | (1,618) | 50 |
| Decrease (increase) in inventories | 200 | (748) | 1,683 |
| Increase (decrease) in accounts payable—trade | (247) | 274 | (2,078) |
| Decrease in liability for employees' retirement benefits | (7) | (36) | (59) |
| Increase (decrease) in retirement benefits to directors and corporate auditors | (123) | 17 | (1,035) |
| Other—net | (258) | 801 | (2,170) |
| Total adjustments | 3,708 | 3,740 | 31,194 |
| Net cash provided by operating activities | 6,047 | 6,543 | 50,871 |
| INVESTING ACTIVITIES: | | | |
| Purchases of property, plant, equipment and intangible assets | (5,162) | (6,181) | (43,426) |
| Proceeds from sale of property, plant and equipment | 7 | 37 | 59 |
| Proceeds from long-term deposits—net | 4 | 527 | 34 |
| Other—net | (26) | (8) | (219) |
| Net cash used in investing activities | (5,177) | (5,625) | (43,552) |
| FORWARD | ¥ 870 | ¥ 918 | $ 7,319 |



(Continued)

## Mitsui High-tec, Inc. and Subsidiaries

**Consolidated Statement of Cash Flows**
**Year Ended January 31, 2016**

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| FORWARD | ¥ 870 | ¥ 918 | $ 7,319 |
| FINANCING ACTIVITIES: | | | |
| Repayments of long-term debt | | (625) | |
| Purchase of treasury stock | (1,263) | (1) | (10,625) |
| Dividends paid | (704) | (707) | (5,922) |
| Other－net | (7) | (8) | (59) |
| Net cash used in financing activities | (1,974) | (1,341) | (16,606) |
| FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS | (144) | 474 | (1,212) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (1,248) | 51 | (10,499) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 13,792 | 13,741 | 116,026 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | ¥ 12,544 | ¥ 13,792 | $ 105,527 |

See notes to consolidated financial statements.



(Concluded)

## 1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards (“IFRS”).

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2015 consolidated financial statements to conform to the classifications used in 2016.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Mitsui High-tec, Inc. (the “Company”) is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥118.87 to U.S. $1, the approximate rate of exchange at January 31, 2016. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***a. Consolidation*** ― The consolidated financial statements as of January 31, 2016, include the accounts of the Company and its 15 (same in 2015) subsidiaries (collectively, the “Group”). Under the control concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

The excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is amortized over a period within 20 years. However, such excess has not been incurred.

All significant intercompany balances, transactions, and unrealized profits included in inventories and fixed assets resulting from transactions within the Group have been eliminated.

***b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements*** ― In May 2006, the Accounting Standards Board of Japan (the “ASBJ”) issued ASBJ Practical Issues Task Force (“PITF”) No. 18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements.” PITF No. 18 prescribes that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either IFRS or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification ― “FASB ASC”) tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting; and (e) exclusion of minority interests from net income, if contained in net income.

c. ***Cash Equivalents*** — Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits and certificates of deposit, all of which mature or become due within three months of the date of acquisition.

d. ***Inventories*** — Inventories are stated at the lower of cost, substantially determined by the specific-cost method, or net selling value except for certain products, raw materials and supplies which are stated at the lower of cost, determined by the moving-average method, or net selling value.

e. ***Investment Securities*** — Investment securities are classified and accounted for, depending on management's intent. Available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method.

For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

f. ***Depreciation*** — Depreciation of property, plant and equipment is primarily computed by the declining-balance method over the estimated useful lives of the assets, except for the buildings that were acquired by the Company and its domestic subsidiaries after April 1, 1998, which are computed by the straight-line method. The range of useful lives is principally from 31 to 47 years for buildings, and from 5 to 10 years for machinery and equipment.

Depreciation of intangible assets included in other assets is computed by the straight-line method over the estimated useful lives (5 years).

g. ***Long-lived Assets*** — The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

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

i. ***Retirement and Pension Plan*** — The Company and its domestic subsidiaries have contributory funded defined pension plans and the Company also has a defined contribution pension plan. Some subsidiaries of the Company have lump-sum payment plans. The liability for employees' retirement benefits is accounted for based on projected benefit obligations and plan assets at the balance sheet date.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

(a) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for employee's retirement benefits) or asset (asset for employee's retirement benefits).

(b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period are treated as reclassification adjustments (See Note 15).

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, all with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective January 31, 2015, and for (c) above, effective February 1, 2015.

With respect to (c) above, the Company changed the method of attributing the expected benefit to periods from a straight-line basis to a benefit formula basis, and the method of determining the discount rate from using the period which approximates the expected average remaining service period to using a single weighted average discount rate reflecting the estimated timing and amount of benefit payment. The Company recorded the effect of (c) above as of February 1, 2015, in retained earnings. As a result, liability for employee's retirement benefits as of February 1, 2015, decreased by ¥643 million ($5,409 thousand), and retained earnings as of February 1, 2015, increased by the same amount. Further the effects of (c) above on operating income, income before income taxes and minority interests and basic net income per share for the year ended January 31, 2016, were not be material.

Retirement benefits to directors and corporate auditors are provided at the amount which would be required if all directors and corporate auditors retired at the balance sheet date. The provisions for the retirement benefits are not funded. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

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

***k.*** ***Provision for Loss on Business Liquidation*** － In order to reserve for loss on business liquidation, an estimated amount of loss on liquidation as of fiscal year end is recorded.

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

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

***n. Foreign Currency Transactions*** ― All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

***o. Foreign Currency Financial Statements*** ― The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the annual average exchange rate.

***p. Derivatives and Hedging Activities*** ― The Company uses foreign exchange forward contracts to manage its exposures to fluctuations in foreign exchange risks. The Company does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income and b) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until each maturity of the hedged transactions. The effectiveness of hedging instruments is determined based on the correlation of price fluctuations and cash flows between hedging instruments and hedged items for the period from the beginning of the hedge to the time of evaluation.

Foreign currency forward contracts are utilized to hedge foreign exchange exposures for export sales. Receivables denominated in foreign currencies, for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations, are translated at the contracted rate if the forward contracts qualify for hedge accounting.

***q. Per Share Information*** ― Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding during the year.

Diluted net income per share is not disclosed, because it is anti-dilutive.

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

***r.*** ***Accounting Changes and Error Corrections*** ― In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.

***s.*** ***New Accounting Pronouncements***

***Accounting Standards for Business Combinations and Consolidated Financial Statements*** ― In September 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements." Major accounting changes are as follows:

(a) Transactions with noncontrolling interest ― A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of minority interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the current accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the minority interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference shall be accounted for as capital surplus as long as the parent retains control over its subsidiary.

(b) Presentation of the consolidated balance sheet ― In the consolidated balance sheet, "minority interest" under the current accounting standard will be changed to "noncontrolling interest" under the revised accounting standard.

(c) Presentation of the consolidated statement of income ― In the consolidated statement of income, "income before minority interest" under the current accounting standard will be changed to "net income" under the revised accounting standard, and "net income" under the current accounting standard will be changed to "net income attributable to owners of the parent" under the revised accounting standard.

(d) Provisional accounting treatments for a business combination ― If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. Under the current accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.

(e) Acquisition-related costs ― Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the current accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs are effective for the beginning of annual periods beginning on or after February 1, 2016. Earlier application is permitted from the beginning of annual periods beginning on or after April 1, 2014, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income. In the case of earlier application, all accounting standards and guidance above, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, should be applied simultaneously.

Either retrospective or prospective application of the revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs is permitted. In retrospective application of the revised standards and guidance, the accumulated effects of retrospective adjustments for all (a) transactions with noncontrolling interest and (e) acquisition-related costs which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application. In prospective application, the new standards and guidance shall be applied prospectively from the beginning of the year of the first-time application.

The revised accounting standards and guidance for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for (d) provisional accounting treatments for a business combination are effective for a business combination which occurs on or after the beginning of annual periods beginning on or after February 1, 2016. Earlier application is permitted for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2014.

The Company expects to apply the revised accounting standards and guidance for (a), (b), (c) and (e) above from February 1, 2016, and for (d) above for a business combination which will occur on or after February 1, 2016, and is undecided the effects of applying the revised accounting standards and guidance in future applicable periods.

***Tax Effect Accounting*** — On December 28, 2015, the ASBJ issued ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," which included certain revisions of the previous accounting and auditing guidance issued by the Japanese Institute of Certified Public Accountants. While the new guidance continues to follow the basic framework of the previous guidance, it provides new guidance for the application of judgment in assessing the recoverability of deferred tax assets.

The previous guidance provided a basic framework which included certain specific restrictions on recognizing deferred tax assets depending on the company's classification in respect of its profitability, taxable profit and temporary differences, etc.

The new guidance does not change such basic framework but, in limited cases, allows companies to recognize deferred tax assets even for a deductible temporary difference for which it was specifically prohibited to recognize a deferred tax asset under the previous guidance, if the company can justify, with reasonable grounds, that it is probable that the deductible temporary difference will be utilized against future taxable profit in some future period.

The new guidance is effective for the beginning of annual periods beginning on or after April 1, 2016. Earlier application is permitted for annual periods ending on or after March 31, 2016. The new guidance shall not be applied retrospectively and any adjustments from the application of the new guidance at the beginning of the reporting period shall be reflected within retained earnings or accumulated other comprehensive income at the beginning of the reporting period.

The Company expects to apply the new guidance on recoverability of deferred tax assets effective February 1, 2017, and is in the process of measuring the effects of applying the new guidance in future applicable periods.

## 3. SHORT-TERM INVESTMENTS

Short-term investments as of January 31, 2016 and 2015, consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Time deposits which mature over three months from the date of acquisition | ¥ 315 | ¥ 344 | $ 2,650 |

## 4. INVENTORIES

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

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Merchandise | ¥ 373 | ¥ 476 | $ 3,138 |
| Finished products | 2,092 | 2,175 | 17,599 |
| Work in process | 1,614 | 1,696 | 13,578 |
| Raw materials and supplies | 1,249 | 1,321 | 10,507 |
| Goods in transit | 44 | 27 | 370 |
| Total | ¥ 5,372 | ¥ 5,695 | $ 45,192 |

## 5. INVESTMENT SECURITIES

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

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Non-current: | | | |
| Marketable equity securities | ¥ 1,003 | ¥ 1,028 | $ 8,438 |
| Nonmarketable equity securities | 39 | 39 | 328 |
| Total | ¥ 1,042 | ¥ 1,067 | $ 8,766 |

The costs and aggregate fair values of marketable equity securities at January 31, 2016 and 2015, were as follows:

| | Millions of Yen | | | |
|---|---|---|---|---|
| January 31, 2016 | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | ¥ 441 | ¥ 562 | | ¥ 1,003 |
| January 31, 2015 | | | | |
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | ¥ 441 | ¥ 587 | | ¥ 1,028 |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| January 31, 2016 | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | $ 3,710 | $ 4,728 | | $ 8,438 |

## 6. INVESTMENT PROPERTY

In November 28, 2008, the ASBJ issued ASBJ Statement No. 20, “Accounting Standard for Investment Property and Related Disclosures,” and issued ASBJ Guidance No. 23, “Guidance on Accounting Standard for Investment Property and Related Disclosures.”

The Group holds some idle assets in Kumamoto and other areas.

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

| Millions of Yen | | | |
|---|---|---|---|
| Carrying amount | | | Fair value |
| February 1, 2015 | Increase/Decrease | January 31, 2016 | January 31, 2016 |
| ¥ 909 | | ¥ 909 | ¥ 978 |

| Millions of Yen | | | |
|---|---|---|---|
| Carrying amount | | | Fair value |
| February 1, 2014 | Increase/Decrease | January 31, 2015 | January 31, 2015 |
| ¥ 909 | | ¥ 909 | ¥ 978 |

| Thousands of U.S. Dollars | | | |
|---|---|---|---|
| Carrying amount | | | Fair value |
| February 1, 2015 | Increase/Decrease | January 31, 2016 | January 31, 2016 |
| $ 7,647 | | $ 7,647 | $ 8,227 |

Notes:
1) Carrying amount recognized in the consolidated balance sheet is net of accumulated depreciation and accumulated impairment losses, if any.
2) Fair value of properties is based on a real estate appraisal by an external real estate appraiser.

## 7. RETIREMENT AND PENSION PLANS

The Company and its domestic subsidiaries have contributory funded defined pension plans and the Company also has a defined contribution pension plan. Some subsidiaries of the Company have lump-sum payment plans.

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

(1) The changes in defined benefit obligation for the years ended January 31, 2016 and 2015, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Balance at beginning of year (as previously reported) | ¥ 5,560 | ¥ 5,346 | $ 46,774 |
| Cumulative effect of accounting change | (643) | | (5,409) |
| Balance at beginning of year (as restated) | 4,917 | 5,346 | 41,365 |
| Current service cost | 325 | 248 | 2,734 |
| Interest cost | 25 | 80 | 210 |
| Actuarial gains | (16) | (51) | (135) |
| Benefits paid | (112) | (67) | (942) |
| Others | (2) | 4 | (17) |
| Balance at end of year | ¥ 5,137 | ¥ 5,560 | $ 43,215 |

(2) The changes in plan assets for the years ended January 31, 2016 and 2015, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Balance at beginning of year | ¥ 4,772 | ¥ 4,328 | $ 40,145 |
| Expected return on plan assets | 96 | 92 | 807 |
| Actuarial (gains) losses | (21) | 64 | (177) |
| Contributions from the employer | 373 | 359 | 3,138 |
| Benefits paid | (106) | (67) | (892) |
| Others | (1) | (4) | (8) |
| Balance at end of year | ¥ 5,113 | ¥ 4,772 | $ 43,013 |

(3) Movement in net defined benefit asset applying the simplified method

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Balance at beginning of year | ¥ 46 | ¥ 45 | $ 387 |
| Net periodic retirement benefit costs | (3) | (6) | (25) |
| Contributions from the employer | 12 | 7 | 101 |
| Balance at end of year | ¥ 55 | ¥ 46 | $ 463 |

(4) Reconciliation between the liability (asset) recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Funded defined benefit obligation | ¥ 5,175 | ¥ 5,593 | $ 43,535 |
| Plan assets | (5,216) | (4,864) | (43,880) |
| | (41) | 729 | (345) |
| Unfunded defined benefit obligation | 10 | 12 | 84 |
| Net liability (asset) arising from defined benefit obligation | ¥ (31) | ¥ 741 | $ (261) |

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Liability for employees' retirement benefits | ¥ 24 | ¥ 790 | $ 202 |
| Asset for employees' retirement benefits | (55) | (49) | (463) |
| Net liability (asset) arising from defined benefit obligation | ¥ (31) | ¥ 741 | $ (261) |

(5) The components of net periodic benefit costs for the years ended January 31, 2016 and 2015, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Service cost | ¥ 325 | ¥ 248 | $ 2,734 |
| Interest cost | 25 | 80 | 210 |
| Expected return on plan assets | (96) | (92) | (807) |
| Recognized actuarial losses | 19 | 46 | 160 |
| Others | (12) | (24) | (101) |
| Net periodic retirement benefit costs calculated under the simplified method | 3 | 6 | 25 |
| Net periodic benefit costs | ¥ 264 | ¥ 264 | $ 2,221 |

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended January 31, 2016 and 2015

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Actuarial losses | ¥ 13 | | $ 109 |
| Total | ¥ 13 | | $ 109 |

(7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of January 31, 2016 and 2015

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Unrecognized actuarial losses | ¥ (27) | ¥ (40) | $ (227) |
| Total | ¥ (27) | ¥ (40) | $ (227) |

(8) Plan assets

*a. Components of plan assets*

Plan assets as of January 31, 2016 and 2015, consisted of the following:

| | 2016 | 2015 |
|---|---|---|
| Debt investments | 6.4% | 6.8% |
| Equity investments | 9.1 | 9.3 |
| General account | 82.7 | 82.3 |
| Others | 1.8 | 1.6 |
| Total | 100.0% | 100.0% |

*b. Method of determining the expected rate of return on plan assets*

The expected rate of return on plan assets is determined considering the current and target asset allocations and the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(9) Assumptions used for the years ended January 31, 2016 and 2015, are set forth as follows:

| | 2016 | 2015 |
|---|---|---|
| Discount rate | Mainly 0.5% | Mainly 1.5% |
| Expected rate of return on plan assets | Mainly 2.0% | Mainly 2.0% |

## 8. EQUITY

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

*a. Dividends*

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. Additionally, for companies that meet certain criteria such as (1) having a board of directors, (2) having independent auditors, (3) having an audit & supervisory board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the board of directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company it does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the board of directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

*b. Increases/decreases and transfer of common stock, reserve and surplus*

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the amount of common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

*c. Treasury stock and treasury stock acquisition rights*

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

## 9. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective tax rates of approximately 35.3% and 37.7% for the years ended January 31, 2016 and 2015, respectively.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at January 31, 2016 and 2015, are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Deferred tax assets: | | | |
| Tax loss carryforwards | ¥ 2,695 | ¥ 3,320 | $ 22,672 |
| Loss on impairment of long-lived assets | 1,557 | 1,616 | 13,098 |
| Provision for loss on business liquidation | 227 | 255 | 1,910 |
| Unrealized profits included in inventories and fixed assets | 91 | 103 | 766 |
| Liability for employee's retirement benefits | 5 | 267 | 42 |
| Other | 149 | 230 | 1,253 |
| Less valuation allowance | (4,336) | (5,207) | (36,477) |
| Total | 388 | 584 | 3,264 |
| Deferred tax liabilities: | | | |
| Net unrealized gain on available-for-sale securities | (180) | (207) | (1,514) |
| Other | (55) | (59) | (463) |
| Total | (235) | (266) | (1,977) |
| Net deferred tax assets | ¥ 153 | ¥ 318 | $ 1,287 |

The amounts of the net deferred tax assets (liabilities) are shown in the following accounts in the consolidated balance sheets as of January 31, 2016 and 2015:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Deferred tax assets — current assets | ¥ 309 | ¥ 491 | $ 2,599 |
| Deferred tax assets — investments and other assets | 14 | 20 | 118 |
| Other (deferred tax liabilities) — long-term liabilities | (170) | (193) | (1,430) |

A reconciliation between the statutory tax rates and the effective tax rates reflected in the accompanying consolidated statements of income for the years ended January 31, 2016 and 2015, is as follows:

| | 2016 | 2015 |
|---|---|---|
| Statutory tax rate | 35.3% | 37.7% |
| Expenses not deductible for income tax purposes | 1.0 | 1.4 |
| Exempt income for income tax purposes | (0.4) | (0.3) |
| Change in valuation allowance | (14.8) | (26.2) |
| Foreign corporation tax | 2.4 | 2.5 |
| Influence by the tax rate change | (1.9) | |
| Lower income tax rates applicable in certain foreign countries | (1.3) | (4.5) |
| Effect of tax deduction | (1.1) | (3.5) |
| Other－net | 2.2 | 0.9 |
| Effective tax rate | 21.4% | 8.0% |

A new tax reform law, “Partial Amendment of the Income Tax Act, etc.” (Act No. 9, 2015) enacted on March 31, 2015, in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after February 1, 2016, from 35.3% to 32.8% and to 32.0% for the fiscal year beginning on or after February 1 2017. The effect of this change is not material.

A new tax reform law, “Partial Amendment of the Income Tax Act, etc.” (Act No. 15 of 2016) enacted on March 31, 2016, in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after February 1, 2017.

As a result, the normal effective statutory tax rate will be changed to 30.7% for the fiscal year beginning on February 1, 2017, and to 30.4% for the fiscal year beginning on or after February 1, 2019. The effect of this change would not be material.

## 10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income for the years ended January 31, 2016 and 2015, were ¥586 million ($4,930 thousand) and ¥429 million, respectively.

## 11. LOSS ON IMPAIRMENT OF LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of January 31, 2016. As a result, the Group recognized impairment losses totaling ¥167 million ($1,405 thousand) for the IC leadframes (Stamped Leadframe division) in Mitsui High-tec (Tianjin) Co., Ltd. and the Electrical Parts and the IC leadframes (Stamped Leadframe division) in Mitsui High-tec (Guang Dong) Co., Ltd.

Comparatively, the Company has recorded impairment losses totaling ¥366 million for the IC assembly in the Company which the board of directors of the Company decided to liquidate for the year ended January 31, 2015. Due to continuous operating losses at these units, the carrying amounts of property, plant and equipment were written down to the recoverable amounts.

The recoverable amounts of business assets were measured at their values in use and the discount rate used for computation of the present values of future cash flows were 4.8% and 5.2% for the years ended January 31, 2016 and 2015, respectively.

## 12. LOSS ON BUSINESS LIQUIDATION

The Company recorded loss on business liquidation of ¥723 million for assembly of IC packages which the board of directors of the Company decided to liquidate, for the year ended January 31, 2015. The loss on business liquidation consisted of mainly estimated loss related to production transfer of IC assembly products.

## 13. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group policy for financial instruments

The Group finances its operations mainly by bank loans, based on its capital investment plan. Cash surpluses, if any, are invested in low-risk financial assets. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) Nature and extent of risks arising from financial instruments and risk management for financial instruments

Receivables such as trade notes and trade accounts are exposed to customer credit risk. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of customers to identify the default risk of customers.

Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the position is hedged by using forward foreign currency contracts.

Investment securities, mainly equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations. Investment securities are managed by monitoring market values and financial position of issuers on a regular basis.

Payment terms of payables, such as trade accounts, are approximately less than one month. Although a bank loan is exposed to market risks from changes in variable interest rates, this risk is managed by monitoring market risks on a regular basis.

Derivatives include forward foreign currency contracts, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables. Please see Note 14 for more details about derivatives.

(3) Fair values of financial instruments. Fair values of financial instruments are based on quoted prices in active markets

(a) Fair value of financial instruments

| | Millions of yen | | |
|---|---|---|---|
| January 31, 2016 | Carrying amount | Fair value | Unrealized gain/loss |
| Cash and cash equivalents | ¥ 12,544 | ¥ 12,544 | |
| Short-term investments | 315 | 315 | |
| Notes and accounts receivable－trade | 11,507 | 11,507 | |
| Investment securities | 1,003 | 1,003 | |
| Total | ¥ 25,369 | ¥ 25,369 | |
| | | | |
| Accounts payable－trade | ¥ 3,496 | ¥ 3,496 | |
| Income taxes payable | 117 | 117 | |
| Total | ¥ 3,613 | ¥ 3,613 | |

| | Millions of yen | | |
|---|---|---|---|
| January 31, 2015 | Carrying amount | Fair value | Unrealized gain/loss |
| Cash and cash equivalents | ¥ 13,792 | ¥ 13,792 | |
| Short-term investments | 344 | 344 | |
| Notes and accounts receivable－trade | 11,767 | 11,767 | |
| Investment securities | 1,028 | 1,028 | |
| Total | ¥ 26,931 | ¥ 26,931 | |
| | | | |
| Accounts payable－trade | ¥ 3,845 | ¥ 3,845 | |
| Income taxes payable | 317 | 317 | |
| Total | ¥ 4,162 | ¥ 4,162 | |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| January 31, 2016 | Carrying amount | Fair value | Unrealized gain/loss |
| Cash and cash equivalents | $ 105,527 | $ 105,527 | |
| Short-term investments | 2,650 | 2,650 | |
| Notes and accounts receivable－trade | 96,803 | 96,803 | |
| Investment securities | 8,438 | 8,438 | |
| Total | $ 213,418 | $ 213,418 | |
| | | | |
| Accounts payable－trade | $ 29,410 | $ 29,410 | |
| Income taxes payable | 985 | 985 | |
| Total | $ 30,395 | $ 30,395 | |

*Cash, cash equivalents and short-term investments*

The carrying values of cash, cash equivalents and short-term investments approximate fair value because of their short maturities.

*Investment securities*

The fair values of investment securities are measured at the quoted market price of the stock exchange for equity instruments.  Fair value information for investment securities by classification is included in Note 5.

*Notes and accounts receivable —trade, accounts payables —trade and income taxes payable*

The carrying values of notes and accounts receivable—trade, accounts payable—trade and income taxes payable approximate fair value because of their short maturities.

Among accounts receivable—trade, the receivables with foreign exchange forward contracts that meet certain criteria are combined with foreign exchange forward contracts to determine the fair value.  For other receivables, the carrying value is deemed as the fair value since it is scheduled to be settled in a short period of time.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Investments in equity instruments that do not have a quoted market price in an active market | ¥ 39 | ¥ 39 | $ 328 |

(4)  Maturity analysis for financial assets with contractual maturities

| | Millions of Yen | |
|---|---|---|
| January 31, 2016 | Due in one year or less | Due after one year |
| Cash and cash equivalents | ¥ 12,544 | |
| Short-term investments | 315 | |
| Notes and accounts receivable—trade | 11,507 | |
| Total | ¥ 24,366 | |

| | Millions of Yen | |
|---|---|---|
| January 31, 2015 | Due in one year or less | Due after one year |
| Cash and cash equivalents | ¥ 13,792 | |
| Short-term investments | 344 | |
| Notes and accounts receivable—trade | 11,767 | |
| Total | ¥ 25,903 | |

| January 31, 2016 | Thousands of U.S. Dollars Due in one year or less | Due after one year |
|---|---|---|
| Cash and cash equivalents | $ 105,527 | |
| Short-term investments | 2,650 | |
| Notes and accounts receivable—trade | 96,803 | |
| Total | $ 204,980 | |

## 14. DERIVATIVES

The Company uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange rates. Foreign exchange forward contracts are utilized by the Company to reduce foreign currency exchange risks. Subsidiaries do not enter into derivative transactions.

The Company utilizes these instruments only to hedge foreign currency exposures incorporated within its business and does not enter into derivatives for trading or speculative purposes.

Because the counterparties to those derivatives are limited to major international or domestic financial institutions, the Company does not anticipate any losses arising from credit risk.

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

***Derivative transactions to which hedge accounting is applied***

| | Millions of Yen | | | |
|---|---|---|---|---|
| At January 31, 2016 | Hedged Item | Contract Amount | Contract Amount due after One Year | Fair Value |
| Foreign currency forward contracts: | | | | |
| Selling U.S.$ | Receivables | ¥ 2,793 | | |

| | Millions of Yen | | | |
|---|---|---|---|---|
| At January 31, 2015 | Hedged Item | Contract Amount | Contract Amount due after One Year | Fair Value |
| Foreign currency forward contracts: | | | | |
| Selling U.S.$ | Receivables | ¥ 2,844 | | |

| At January 31, 2016 | Hedged Item | Contract Amount | Contract Amount due after One Year | Fair Value |
|---|---|---|---|---|
| | Thousands of U.S. Dollars | | | |
| Foreign currency forward contracts: | | | | |
| Selling U.S.$ | Receivables | $ 23,496 | | |

The fair values of derivative transactions are included in the fair values of accounts receivable－trade as the hedged item.

## 15. OTHER COMPREHENSIVE (LOSS) INCOME

The components of other comprehensive (loss) income for the years ended January 31, 2016 and 2015, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2016 | 2015 | 2016 |
| Unrealized gain on available-for-sale securities: | | | |
| Gains arising during the year | ¥ (26) | ¥ 198 | $ (219) |
| Reclassification adjustments to profit or loss | | | |
| Amount before income tax effect | (26) | 198 | (219) |
| Income tax effect | 27 | (70) | 227 |
| Total | ¥ 1 | ¥ 128 | $ 8 |
| Foreign currency translation adjustments: | | | |
| Adjustments arising during the year | ¥ (1,107) | ¥ 2,091 | $ (9,313) |
| Defined retirement benefit plans | | | |
| Adjustments arising during the year | ¥ (6) | | $ (50) |
| Reclassification adjustments to profit or loss | 19 | | 160 |
| Amount before income tax effect | 13 | | 110 |
| Income tax effect | (14) | | (118) |
| Total | ¥ (1) | | $ (8) |
| Total other comprehensive (loss) income | ¥ (1,107) | ¥ 2,219 | $ (9,313) |

## 16. SEGMENT INFORMATION

Under ASBJ Statement No. 17, “Accounting Standard for Segment Information Disclosures” and ASBJ Guidance No. 20, “Guidance on Accounting Standard for Segment Information Disclosures,” an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

1. Description of reportable segments

   The Group’s reportable segments are those for which separate financial information is available and regular evaluation by the Company’s management is being performed in order to decide how resources are allocated among the Group. Therefore, the Group consists of Tooling, Electronic Parts, Electrical Parts and Machinery.

   “Tooling” consists of stamping for motor cores and IC leadframes, and other precision tooling and parts.
   “Electronic Parts” consists of IC leadframes and assembly of IC packages.
   “Electrical Parts” consists of motor cores.
   “Machinery” consists of surface grinders and jig grinders.

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

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

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

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2016 | | | | | | |
| | Reportable segment | | | | | | |
| | Tooling | Electronic Parts | Electrical Parts | Machinery | Total | Reconciliations | Consolidated |
| Sales: | | | | | | | |
| Sales to external customers | ¥ 4,037 | ¥ 38,453 | ¥ 20,533 | ¥ 1,081 | ¥ 64,104 | | ¥ 64,104 |
| Intersegment sales or transfers | 2,778 | 2 | | 293 | 3,073 | ¥ (3,073) | |
| Total | ¥ 6,815 | ¥ 38,455 | ¥ 20,533 | ¥ 1,374 | ¥ 67,177 | ¥ (3,073) | ¥ 64,104 |
| Segment profit | ¥ 589 | ¥ 1,973 | ¥ 1,181 | ¥ 55 | ¥ 3,798 | ¥ (1,940) | ¥ 1,858 |
| Segment assets | 5,861 | 28,783 | 12,910 | 644 | 48,198 | 9,219 | 57,417 |
| Other: | | | | | | | |
| Depreciation | 403 | 2,693 | 1,369 | 20 | 4,485 | 130 | 4,615 |
| Increase in property, plant and equipment and intangible assets | 318 | 2,756 | 1,910 | 29 | 5,013 | 155 | 5,168 |
| Impairment losses of assets | 3 | 94 | 70 | | 167 | | 167 |

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2015 | | | | | | |
| | Reportable segment | | | | | | |
| | Tooling | Electronic Parts | Electrical Parts | Machinery | Total | Reconciliations | Consolidated |
| Sales: | | | | | | | |
| Sales to external customers | ¥ 4,379 | ¥ 37,824 | ¥ 22,388 | ¥ 904 | ¥ 65,495 | | ¥ 65,495 |
| Intersegment sales or transfers | 2,822 | 2 | | 303 | 3,127 | ¥ (3,127) | |
| Total | ¥ 7,201 | ¥ 37,826 | ¥ 22,388 | ¥ 1,207 | ¥ 68,622 | ¥ (3,127) | ¥ 65,495 |
| Segment profit | ¥ 508 | ¥ 1,961 | ¥ 2,489 | ¥ 17 | ¥ 4,975 | ¥ (1,908) | ¥ 3,067 |
| Segment assets | 6,163 | 29,167 | 12,624 | 618 | 48,572 | 10,900 | 59,472 |
| Other: | | | | | | | |
| Depreciation | 444 | 2,431 | 1,141 | 12 | 4,028 | 256 | 4,284 |
| Increase in property, plant and equipment and intangible assets | 514 | 3,418 | 1,910 | 48 | 5,890 | 119 | 6,009 |
| Impairment losses of assets | | 366 | | | 366 | | 366 |

| | Thousands of U.S. Dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2016 | | | | | | |
| | Reportable segment | | | | | | |
| | Tooling | Electronic Parts | Electrical Parts | Machinery | Total | Reconciliations | Consolidated |
| Sales: | | | | | | | |
| Sales to external customers | $ 33,961 | $ 323,488 | $ 172,735 | $ 9,094 | $ 539,278 | | $ 539,278 |
| Intersegment sales or transfers | 23,370 | 17 | | 2,465 | 25,852 | $ (25,852) | |
| Total | $ 57,331 | $ 323,505 | $ 172,735 | $ 11,559 | $ 565,130 | $ (25,852) | $ 539,278 |
| Segment profit | $ 4,955 | $ 16,598 | $ 9,935 | $ 463 | $ 31,951 | $ (16,320) | $ 15,631 |
| Segment assets | 49,306 | 242,138 | 108,606 | 5,418 | 405,468 | 77,555 | 483,023 |
| Other: | | | | | | | |
| Depreciation | 3,390 | 22,655 | 11,517 | 168 | 37,730 | 1,094 | 38,824 |
| Increase in property, plant and equipment and intangible assets | 2,675 | 23,185 | 16,068 | 244 | 42,172 | 1,304 | 43,476 |
| Impairment losses of assets | 25 | 791 | 589 | | 1,405 | | 1,405 |

Notes: 1. The amounts of “Reconciliations” for the year ended January 31, 2016, are as follows:
(1) The amount of “Reconciliations” for segment profit is ¥1,940 million ($16,320 thousand). This amount mainly includes general and administrative expenses, which are not allocable to the reportable segments.
(2) The amount of “Reconciliations” for segment assets comprises elimination of intersegment transactions of ¥12,848 million ($108,085 thousand) and corporate assets of ¥22,067 million ($185,640 thousand).
(3) The amount of “Reconciliations” for depreciation of ¥130 million ($1,094 thousand) consists of depreciation of corporate assets.
(4) The “Reconciliations” of increase in property, plant and equipment and intangible assets comprise an increase of corporate assets.
Segment profit in reportable segments corresponds to operating income.

2. The amounts of “Reconciliations” for the year ended January 31, 2015, are as follows:
(1) The amount of “Reconciliations” for segment profit is ¥1,908 million. This amount mainly includes general and administrative expenses, which are not allocable to the reportable segments.
(2) The amount of “Reconciliations” for segment assets comprises elimination of intersegment transactions of ¥13,347 million and corporate assets of ¥24,247 million.
(3) The amount of “Reconciliations” for depreciation of ¥256 million consists of depreciation of corporate assets.
(4) The “Reconciliations” of increase in property, plant and equipment and intangible assets comprise an increase of corporate assets.
Segment profit in reportable segments corresponds to operating income.

4. Related information

1. Information about geographical areas

(1) Sales

| Millions of Yen | | | |
|---|---|---|---|
| 2016 | | | |
| Japan | China | Other | Total |
| ¥ 26,192 | ¥ 14,134 | ¥ 23,778 | ¥ 64,104 |

| Millions of Yen | | | |
|---|---|---|---|
| 2015 | | | |
| Japan | China | Other | Total |
| ¥ 28,454 | ¥ 13,694 | ¥ 23,347 | ¥ 65,495 |

| Thousands of U.S. Dollars | | | |
|---|---|---|---|
| 2016 | | | |
| Japan | China | Other | Total |
| $ 220,341 | $ 118,903 | $ 200,034 | $ 539,278 |

Note: Sales are classified by country or region based on the location of customers.

(2) Property, plant and equipment

| Millions of Yen | | | |
|---|---|---|---|
| 2016 | | | |
| Japan | China | Asia | Total |
| ¥ 17,224 | ¥ 3,451 | ¥ 3,268 | ¥ 23,943 |

| Millions of Yen | | | |
|---|---|---|---|
| 2015 | | | |
| Japan | China | Asia | Total |
| ¥ 16,749 | ¥ 4,035 | ¥ 3,362 | ¥ 24,146 |

| Thousands of U.S. Dollars | | | |
|---|---|---|---|
| 2016 | | | |
| Japan | China | Asia | Total |
| $ 144,898 | $ 29,032 | $ 27,492 | $ 201,422 |

2. Information about major customers

| Name of customer | Millions of Yen 2016 Sales | | Related segment name |
|---|---|---|---|
| TOYOTA MOTOR CORPORATION | ¥ | 10,845 | Electrical Parts |

| Name of customer | Millions of Yen 2015 Sales | | Related segment name |
|---|---|---|---|
| TOYOTA MOTOR CORPORATION | ¥ | 11,563 | Electrical Parts |

| Name of customer | Thousands of U.S. Dollars 2016 Sales | | Related segment name |
|---|---|---|---|
| TOYOTA MOTOR CORPORATION | $ | 91,234 | Electrical Parts |

## 17. SUBSEQUENT EVENTS

(1) Appropriation of Retained Earnings

At the general shareholders meeting held on April 20, 2016, the Company's shareholders approved the following appropriation of retained earnings as of January 31, 2016:

| | Millions of Yen | | Thousands of U.S. Dollars | |
|---|---|---|---|---|
| Year-end cash dividends, ¥6 ($0.05) per share | ¥ | 239 | $ | 2,011 |

(2) Acquisition of Treasury Stock

At the Board of Directors' meeting held on March 10, 2016, the Company decided to acquire its own shares to execute a flexible capitalization strategy in response to changes in the management environment, pursuant to the Companies Act.

(a) Type of shares: Common stock
(b) Number of shares: Up to 1,200,000 shares (3.01% of currently outstanding common stock (excluding treasury stock))
(c) Total purchase price: Up to ¥600 million ($5,048 thousand)
(d) Period of acquisition: From March 11, 2016 to May 20, 2016
(e) Method of acquisition: Market purchases on the Tokyo Stock Exchange

As a result, the Company acquired 903,500 of its own shares at an aggregate cost of ¥600 million ($5,048 thousand) in the period from March 11, 2016 to April 11, 2016.

(3) The 2016 Kumamoto Earthquake

As a result of the "2016 Kumamoto Earthquake" that occurred on April 14, 2016, a part of the factories in Kumamoto owned by the Company and Mitsui Electric Co., Ltd., a consolidated subsidiary of the Company, suffered damage. They have stopped operations of the factories at present.

The Group is investigating loss from the disaster including loss on the assets related to the factories. The effect on the consolidated results of the factories' operations for following fiscal years is undetermined at present.

No personnel were harmed as a result of the disaster and the Group is working to resume operations as soon as possible.

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