

*Mitsui High-tec, Inc. and  
Subsidiaries*

*Consolidated Financial Statements for the  
Year Ended January 31, 2018,  
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, 2018, 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, 2018, 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.

### **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 23, 2018

**Mitsui High-tec, Inc. and Subsidiaries**
**Consolidated Balance Sheet  
Year Ended January 31, 2018**

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)	LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018		2018	2017	2018
<b>CURRENT ASSETS:</b>				<b>CURRENT LIABILITIES:</b>			
Cash and cash equivalents (Note 14)	¥ 13,988	¥ 13,528	\$ 128,578	Current portion of long-term debt (Notes 7 and 14)	¥ 1,388	¥ 856	\$ 12,758
Short-term investments (Notes 3 and 14)	350	111	3,217	Accounts payable - trade (Note 14)	4,670	4,073	42,927
Notes and accounts receivable - trade (Note 14)	14,531	12,401	133,569	Income taxes payable (Note 14)	456	272	4,191
Allowance for doubtful accounts	(14)	(14)	(129)	Accrued expenses and other	4,352	3,537	40,004
Inventories (Note 4)	6,770	5,898	62,230				
Deferred tax assets (Note 10)	202	223	1,857	Total current liabilities	10,866	8,738	99,880
Prepaid expenses and other	1,713	1,587	15,746				
Total current assets	37,540	33,734	345,068	<b>LONG-TERM LIABILITIES:</b>			
<b>PROPERTY, PLANT AND EQUIPMENT:</b>				Long-term debt (Notes 7 and 14)	10,606	3,994	97,491
Land (Note 6)	7,374	6,191	67,782	Liability for employees' retirement benefits (Note 8)	38	13	349
Buildings and structures (Note 6)	31,140	28,131	286,239	Retirement benefits to directors and corporate auditors	160	140	1,471
Machinery and equipment	49,937	46,362	459,022	Provision for loss on business liquidation	135	273	1,241
Furniture and fixtures	21,717	20,774	199,623	Other (Note 10)		139	
Construction in progress	1,577	3,425	14,496	Total long-term liabilities	10,939	4,559	100,552
Total	111,745	104,883	1,027,162	<b>EQUITY (Note 9):</b>			
Accumulated depreciation	(79,844)	(78,093)	(733,927)	Common stock - authorized, 94,595,700 shares; issued, 42,466,865 shares in 2018 and 2017	16,404	16,404	150,786
Net property, plant and equipment	31,901	26,790	293,235	Capital surplus	17,252	17,252	158,581
<b>INVESTMENTS AND OTHER ASSETS:</b>				Retained earnings	19,840	18,358	182,370
Investment securities (Notes 5 and 14)	1,062	893	9,762	Treasury stock - at cost, 4,101,874 shares in 2018 and 3,815,825 shares in 2017	(3,076)	(2,574)	(28,275)
Deferred tax assets (Note 10)	380	49	3,493	Accumulated other comprehensive income:			
Assets for employees' retirement benefits (Note 8)	257	251	2,362	Unrealized gain on available-for-sale securities	418	305	3,842
Other assets	1,159	1,094	10,654	Foreign currency translation adjustments	(493)	(451)	(4,531)
Total investments and other assets	2,858	2,287	26,271	Defined retirement benefit plans	(30)	69	(276)
				Total	50,315	49,363	462,497
<b>TOTAL</b>	<b>¥ 72,299</b>	<b>¥ 62,811</b>	<b>\$ 664,574</b>	Noncontrolling interests	179	151	1,645
				Total equity	50,494	49,514	464,142
				<b>TOTAL</b>	<b>¥ 72,299</b>	<b>¥ 62,811</b>	<b>\$ 664,574</b>

See notes to consolidated financial statements.

## Mitsui High-tec, Inc. and Subsidiaries

### Consolidated Statement of Income Year Ended January 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
NET SALES	¥ 78,728	¥ 65,346	\$ 723,669
COST OF SALES	<u>67,994</u>	<u>56,257</u>	<u>625,002</u>
Gross profit	10,734	9,089	98,667
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	<u>8,592</u>	<u>7,268</u>	<u>78,978</u>
Operating income	<u>2,142</u>	<u>1,821</u>	<u>19,689</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	84	79	772
Interest expense	(23)	(8)	(211)
Foreign exchange gain (loss) - net	(279)	43	(2,565)
Subsidy income	63	583	579
Reversal of provision for loss on business liquidation		108	
Loss on sales and disposal of property, plant and equipment	(160)	(59)	(1,471)
Loss on impairment of long-lived assets (Note 12)	(18)	(160)	(165)
Loss on disaster (Note 13)		(362)	
Other - net	<u>57</u>	<u>143</u>	<u>524</u>
Other income (expenses) - net	<u>(276)</u>	<u>367</u>	<u>(2,537)</u>
INCOME BEFORE INCOME TAXES	<u>1,866</u>	<u>2,188</u>	<u>17,152</u>
INCOME TAXES (Note 10):			
Current	414	242	3,805
Deferred	(490)	69	(4,504)
Total income taxes	<u>(76)</u>	<u>311</u>	<u>(699)</u>
NET INCOME	1,942	1,877	17,851
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>(36)</u>	<u>(27)</u>	<u>(331)</u>
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	<u>¥ 1,906</u>	<u>¥ 1,850</u>	<u>\$ 17,520</u>
	<u>Yen</u>		<u>U.S. Dollars</u>
PER SHARE OF COMMON STOCK (Note 2.q):			
Basic net income	¥ 49.54	¥ 47.41	\$ 0.46
Cash dividends applicable to the year	16.0	10.0	0.15

See notes to consolidated financial statements.

## Mitsui High-tec, Inc. and Subsidiaries

### Consolidated Statement of Comprehensive Income Year Ended January 31, 2018

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	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2018</u>	<u>2017</u>	<u>2018</u>
NET INCOME	¥ 1,942	¥ 1,877	\$ 17,851
OTHER COMPREHENSIVE LOSS (Note 16):			
Unrealized gain (loss) on available-for-sale securities	113	(76)	1,038
Foreign currency translation adjustments	(42)	(823)	(385)
Defined retirement benefit plans	(99)	95	(910)
Total other comprehensive loss	<u>(28)</u>	<u>(804)</u>	<u>(257)</u>
COMPREHENSIVE INCOME	<u>¥ 1,914</u>	<u>¥ 1,073</u>	<u>\$ 17,594</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ 1,878	¥ 1,046	\$ 17,263
Noncontrolling interests	36	27	331

See notes to consolidated financial statements.

**Mitsui High-tec, Inc. and Subsidiaries**
**Consolidated Statement of Changes in Equity  
Year Ended January 31, 2018**

	Thousands	Millions of Yen									
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income			Total	Noncontrolling Interests	Total Equity
						Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans			
BALANCE, FEBRUARY 1, 2016	39,906	¥ 16,404	¥ 17,252	¥ 16,942	¥ (1,732)	¥ 381	¥ 372	¥ (26)	¥ 49,593	¥130	¥ 49,723
Net income attributable to owners of the parent				1,850					1,850		1,850
Cash dividends, ¥11.0 per share				(434)					(434)		(434)
Purchase of treasury stock	(1,255)				(842)				(842)		(842)
Net changes in the year						(76)	(823)	95	(804)	21	(783)
BALANCE, JANUARY 31, 2017	38,651	¥ 16,404	¥ 17,252	¥ 18,358	¥ (2,574)	¥ 305	¥ (451)	¥ 69	¥ 49,363	¥ 151	¥ 49,514
Net income attributable to owners of the parent				1,906					1,906		1,906
Cash dividends, ¥11.0 per share				(424)					(424)		(424)
Purchase of treasury stock	(286)				(502)				(502)		(502)
Net changes in the year						113	(42)	(99)	(28)	28	0
BALANCE, JANUARY 31, 2018	<u>38,365</u>	<u>¥ 16,404</u>	<u>¥ 17,252</u>	<u>¥ 19,840</u>	<u>¥ (3,076)</u>	<u>¥ 418</u>	<u>¥ (493)</u>	<u>¥ (30)</u>	<u>¥ 50,315</u>	<u>¥ 179</u>	<u>¥ 50,494</u>

	Thousands of U.S. Dollars (Note 1)										
		Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income			Total	Noncontrolling Interests	Total Equity
						Unrealized Gain on Available-for- Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans			
BALANCE, JANUARY 31, 2017	\$	150,786	\$ 158,581	\$ 168,747	\$ (23,660)	\$ 2,804	\$ (4,146)	\$ 634	\$ 453,746	\$ 1,388	\$ 455,134
Net income attributable to owners of the parent				17,520					17,520		17,520
Cash dividends, \$0.10 per share				(3,897)					(3,897)		(3,897)
Purchase of treasury stock					(4,615)				(4,615)		(4,615)
Net changes in the year						1,038	(385)	(910)	(257)	257	0
BALANCE, JANUARY 31, 2018	<u>\$</u>	<u>150,786</u>	<u>\$ 158,581</u>	<u>\$ 182,370</u>	<u>\$ (28,275)</u>	<u>\$ 3,842</u>	<u>\$ (4,531)</u>	<u>\$ (276)</u>	<u>\$ 462,497</u>	<u>\$ 1,645</u>	<u>\$ 464,142</u>

See notes to consolidated financial statements.

## Mitsui High-tec, Inc. and Subsidiaries

### Consolidated Statement of Cash Flows Year Ended January 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes	¥1,866	¥ 2,188	\$ 17,152
Adjustments for:			
Income taxes - paid	(377)	(334)	(3,465)
Depreciation and amortization	5,341	4,686	49,095
Loss on impairment of long-lived assets	18	160	165
Foreign exchange (gain) loss - net	(49)	405	(450)
Gain on sale of property, plant and equipment	(3)	(22)	(28)
Loss on sale and disposal of property, plant and equipment	160	59	1,471
Changes in assets and liabilities:			
Increase in notes and accounts receivable - trade	(2,025)	(1,110)	(18,614)
Increase in inventories	(836)	(655)	(7,685)
Increase in accounts payable - trade	543	669	4,991
Increase (decrease) in asset or liability for employees' retirement benefits	19	(130)	175
Decrease in provision for loss on business liquidation	(138)	(437)	(1,269)
Other - net	380	(449)	3,493
Total adjustments	3,033	2,842	27,879
Net cash provided by operating activities	4,899	5,030	45,031
<b>INVESTING ACTIVITIES:</b>			
Purchase of property, plant, equipment and intangible assets	(10,284)	(7,817)	(94,531)
Proceeds from sale of property, plant and equipment	7	544	64
Other - net	(56)	75	(514)
Net cash used in investing activities	(10,333)	(7,198)	(94,981)
<b>FORWARD</b>	¥ (5,434)	¥ (2,168)	\$ (49,950)

## Mitsui High-tec, Inc. and Subsidiaries

### Consolidated Statement of Cash Flows Year Ended January 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
FORWARD	¥ (5,434)	¥ (2,168)	\$ (49,950)
FINANCING ACTIVITIES:			
Proceeds from long-term debt	8,000	5,000	73,536
Repayments of long-term debt	(856)	(150)	(7,868)
Purchase of treasury stock	(502)	(842)	(4,615)
Dividends paid	(424)	(434)	(3,897)
Other - net	(9)	(6)	(83)
Net cash provided by financing activities	<u>6,209</u>	<u>3,568</u>	<u>57,073</u>
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	<u>(315)</u>	<u>(416)</u>	<u>(2,895)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	460	984	4,228
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>13,528</u>	<u>12,544</u>	<u>124,350</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>¥ 13,988</u>	<u>¥ 13,528</u>	<u>\$ 128,578</u>

See notes to consolidated financial statements.



# Mitsui High-tec, Inc. and Subsidiaries

## Notes to Consolidated Financial Statements Year Ended January 31, 2018

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### 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 2017 consolidated financial statements to conform to the classifications used in 2018.

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 ¥108.79 to U.S. \$1, the approximate rate of exchange at January 31, 2018. 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, 2018 include the accounts of the Company and its 13 (14 in 2017) 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.

During the year ended January 31, 2018, Mitsui Electric Co., Ltd., a wholly owned subsidiary of the Company, was excluded from the scope of consolidation due to an absorption-type merger by the Company on February 1, 2017.

Goodwill is amortized using the straight-line method over a period of 20 years. However, goodwill 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* - Under Accounting Standards Board of Japan (“ASBJ”) Practical Issues Task Force No. 18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements,” 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 recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (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.
- c. Cash Equivalents* - Cash equivalents are short-term investments that are readily convertible into cash and exposed to an 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 principally stated at the lower of cost, substantially determined by the specific-cost method, or net realizable 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 realizable 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 and Amortization** - 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 acquired by the Company and its domestic subsidiaries after April 1, 1998, and building improvements and structures acquired by the Company and its domestic subsidiaries on or after April 1, 2016, 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.

Amortization of intangible assets included in other assets is computed by the straight-line method.

Regarding software for internal use, amortization is computed by the straight-line method over the estimated useful lives (five 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 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 some of its subsidiaries account for liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and are recognized in profit or loss over five years, no longer than the expected average remaining service period of the employees ("standard method").

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 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 end of the year 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 the 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.

The Company and its domestic subsidiaries applied ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," effective February 1, 2017.

- 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 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 fiscal year.

Diluted net income per share is not disclosed in the accompanying consolidated statements of income as the Group does not have any dilutive securities.

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 fiscal year.

### 3. SHORT-TERM INVESTMENTS

Short-term investments as of January 31, 2018 and 2017 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2018</u>	<u>2017</u>	<u>2018</u>
Time deposits which mature over three months from the date of acquisition	¥ 350	¥ 111	\$ 3,217

### 4. INVENTORIES

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

	Millions of Yen		Thousands of U.S. Dollars
	<u>2018</u>	<u>2017</u>	<u>2018</u>
Merchandise	¥ 575	¥ 492	\$ 5,285
Finished products	2,242	2,059	20,609
Work in process	2,139	2,015	19,662
Raw materials and supplies	1,678	1,272	15,424
Goods in transit	136	60	1,250
Total	<u>¥ 6,770</u>	<u>¥ 5,898</u>	<u>\$ 62,230</u>

### 5. INVESTMENT SECURITIES

Investment securities as of January 31, 2018 and 2017 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2018</u>	<u>2017</u>	<u>2018</u>
Non-current:			
Marketable equity securities	¥ 1,023	¥ 854	\$ 9,403
Nonmarketable equity securities	<u>39</u>	<u>39</u>	<u>359</u>
Total	<u>¥ 1,062</u>	<u>¥ 893</u>	<u>\$ 9,762</u>

The costs and aggregate fair values of marketable equity securities at January 31, 2018 and 2017 were as follows:

<u>January 31, 2018</u>	Millions of Yen			Fair Value
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 422	¥ 601		¥ 1,023

<u>January 31, 2017</u>				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 415	¥ 439		¥ 854
		Thousands of U.S. Dollars		
<u>January 31, 2018</u>	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 3,879	\$ 5,524		\$ 9,403

## 6. INVESTMENT PROPERTY

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

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

Millions of Yen			
Carrying amount			Fair value
<u>February 1, 2017</u>	<u>Increase/Decrease</u>	<u>January 31, 2018</u>	<u>January 31, 2018</u>
¥ 327		¥ 327	¥ 337

Millions of Yen			
Carrying amount			Fair value
<u>February 1, 2016</u>	<u>Increase/Decrease</u>	<u>January 31, 2017</u>	<u>January 31, 2017</u>
¥ 909	¥ (582)	¥ 327	¥ 337

Thousands of U.S. Dollars			
Carrying amount			Fair value
<u>February 1, 2017</u>	<u>Increase/Decrease</u>	<u>January 31, 2018</u>	<u>January 31, 2018</u>
\$ 3,006		\$ 3,006	\$ 3,098

Notes:

- 1) Carrying amount recognized in the consolidated balance sheet is net of accumulated depreciation and accumulated impairment losses, if any.
- 2) Decrease during the fiscal year ended January 31, 2017, represents the sale of certain properties of ¥582 million.
- 3) Fair value of properties is based on a real estate appraisal by an external real estate appraiser.

## 7. LONG-TERM DEBT

Long-term debt as of the years ended January 31, 2018 and 2017 consisted of the followings:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unsecured loans from banks, with interest rates ranging from 0.1% to 0.4%, due 2025	¥ 11,994	¥ 4,850	\$ 110,249
Total	¥ 11,994	¥ 4,850	\$ 110,249
Less current portion	¥ (1,388)	¥ (856)	\$ (12,758)
Long-term debt, less current portion	¥ 10,606	¥ 3,994	\$ 97,491

Annual maturities of long-term debt as of January 31, 2018 were as follows:

Year ending January 31	Millions of Yen	Thousands of U.S. Dollars
2019	¥ 1,388	\$ 12,758
2020	1,450	13,328
2021	1,750	16,086
2022	1,544	14,193
2023	4,962	45,611
2024 and thereafter	900	8,273
Total	¥ 11,994	\$ 110,249

## 8. RETIREMENT AND PENSION PLANS

The Company and some of its subsidiaries have funded pension plans and unfunded retirement benefit plans as defined benefit plans, and the Company also has a defined contribution plan for employees.

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.

### Defined benefit plans

(1) The changes in defined benefit obligation for the years ended January 31, 2018 and 2017, excluding plans applying the simplified method, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥ 5,201	¥ 5,137	\$ 47,808
Current service cost	348	330	3,199
Interest cost	27	26	248
Actuarial (gains) losses	114	(105)	1,048
Benefits paid	(184)	(190)	(1,691)
Effect of changing accounting treatment from the simplified method to the standard method due to the merger	50		459
Others	(21)	3	(193)
Balance at end of year	¥ 5,535	¥ 5,201	\$ 50,878

(2) The changes in plan assets for the years ended January 31, 2018 and 2017, excluding plans applying the simplified method, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥ 5,381	¥ 5,113	\$ 49,462
Expected return on plan assets	110	102	1,011
Actuarial gains (losses)	(15)	0	(138)
Contributions from the employer	353	355	3,245
Benefits paid	(184)	(189)	(1,691)
Effect of changing accounting treatment from the simplified method to the standard method due to the merger	108		992
Others	1		9
Balance at end of year	<u>¥ 5,754</u>	<u>¥ 5,381</u>	<u>\$ 52,890</u>

(3) The changes in net defined benefit assets applying the simplified method for the years ended January 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥ 58	¥ 55	\$ 533
Net periodic retirement benefit costs		(2)	
Contributions from the employer		5	
Effect of changing accounting treatment from the simplified method to the standard method due to the merger	(58)		(533)
Balance at end of year	<u>¥ 58</u>	<u>¥ 58</u>	<u>\$ 533</u>

(4) Reconciliation between the liability (asset) recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets for the years ended January 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Funded defined benefit obligation	¥ 5,521	¥ 5,241	\$ 50,749
Plan assets	(5,754)	(5,489)	(52,891)
	(233)	(248)	(2,142)
Unfunded defined benefit obligation	14	10	129
Net assets arising from defined benefit obligation	<u>¥ (219)</u>	<u>¥ (238)</u>	<u>\$ (2,013)</u>

  

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Liability for employees' retirement benefits	¥ 38	¥ 13	\$ 349
Asset for employees' retirement benefits	(257)	(251)	(2,362)
Net assets arising from defined benefit obligation	<u>¥ (219)</u>	<u>¥ (238)</u>	<u>\$ (2,013)</u>



(5) The components of net periodic benefit costs for the years ended January 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Service cost	¥ 348	¥ 330	\$ 3,199
Interest cost	27	26	248
Expected return on plan assets	(110)	(102)	(1,011)
Recognized actuarial (gains) losses	(1)	14	(9)
Others	(6)	16	(55)
Net periodic retirement benefit costs calculated under the simplified method		2	
Net periodic benefit costs	¥ 258	¥ 286	\$ 2,372

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended January 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Actuarial gains (losses)	¥ (130)	¥ 118	\$ (1,195)
Total	<u>¥ (130)</u>	<u>¥ 118</u>	<u>\$ (1,195)</u>

(7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of January 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrecognized actuarial gains (losses)	¥ (38)	¥ 92	\$ (349)
Total	<u>¥ (38)</u>	<u>¥ 92</u>	<u>\$ (349)</u>

(8) Plan assets

*a. Components of plan assets*

Plan assets as of January 31, 2018 and 2017 consisted of the following:

	2018	2017
Debt investments	8.2%	12.0%
Equity investments	8.5	8.1
General account	72.8	73.0
Others	10.5	6.9
Total	<u>100.0%</u>	<u>100.0%</u>

*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 in accounting for the plan assets for the years ended January 31, 2018 and 2017 are set forth as follows:

	2018		2017	
Discount rate	Mainly	0.5%	Mainly	0.5%
Expected rate of return on plan assets	Mainly	2.0%	Mainly	2.0%

**Defined contribution plans**

The required contributions to defined contribution plans by the Company for the years ended January 31, 2018 and 2017 were ¥124 million (\$1,140 thousand) and ¥120 million, respectively.

## 9. 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 including (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 (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

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

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

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the 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.

## 10. 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 statutory tax rates of approximately 30.7% and 32.8% for the years ended January 31, 2018 and 2017, respectively.

The tax effects of significant temporary differences and tax loss carryforwards that resulted in deferred tax assets and liabilities at January 31, 2018 and 2017 were as follows:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2018</u>	<u>2017</u>	<u>U.S. Dollars</u>
			<u>2018</u>
Deferred tax assets:			
Tax loss carry forwards	¥ 2,212	¥ 2,401	\$ 20,333
Loss on impairment of long-lived assets	1,163	1,296	10,690
Unrealized profits included in inventories and fixed assets	148	103	1,360
Provision for loss on business liquidation	41	83	377
Liability for employee's retirement benefits	3	2	28
Other	370	120	3,401
Less valuation allowance	<u>(3,058)</u>	<u>(3,627)</u>	<u>(28,109)</u>
Total	<u>879</u>	<u>378</u>	<u>8,080</u>
Deferred tax liabilities:			
Net unrealized gain on available-for-sale securities	(183)	(133)	(1,682)
Other	<u>(114)</u>	<u>(112)</u>	<u>(1,048)</u>
Total	<u>(297)</u>	<u>(245)</u>	<u>(2,730)</u>
Net deferred tax assets	<u>¥ 582</u>	<u>¥ 133</u>	<u>\$ 5,350</u>

The amounts of net deferred tax assets (liabilities) shown in the following accounts in the consolidated balance sheets as of January 31, 2018 and 2017 were as follows:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2018</u>	<u>2017</u>	<u>U.S. Dollars</u>
			<u>2018</u>
Deferred tax assets - current assets	¥ 202	¥ 223	\$ 1,857
Deferred tax assets - investments and other assets	308	49	3,493
Other (deferred tax liabilities) - long-term liabilities		(139)	

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended January 31, 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
Normal effective statutory tax rate	30.7%	32.8%
Permanent nondeductible expenses, such as entertainment expenses	1.2	1.0
Permanent nontaxable income, such as dividend income	(0.4)	(0.2)
Change in valuation allowance	(34.8)	(15.2)
Lower income tax rates applicable in certain foreign countries	1.4	(2.4)
Foreign corporation tax	0.3	1.3
Effect of tax deduction	(6.2)	(0.7)
Effect of changes in statutory tax rate	(0.1)	(0.2)
Other - net	3.8	(2.2)
Actual effective tax rate	<u>(4.1)%</u>	<u>14.2%</u>

#### **11. RESEARCH AND DEVELOPMENT COSTS**

Research and development costs charged to income for the years ended January 31, 2018 and 2017 were ¥444 million (\$4,081 thousand) and ¥302 million, respectively.

#### **12. LOSS ON IMPAIRMENT OF LONG-LIVED ASSETS**

The Group reviewed its long-lived assets for impairment as of January 31, 2018. As a result, the Group recognized impairment losses totaling ¥18 million (\$165 thousand) for IC leadframes (Stamped Leadframe division) of Mitsui High-tec (Guang Dong) Co., Ltd., due to continuous operating losses at these units. The carrying amounts of property, plant and equipment were written down to the recoverable amounts.

Comparatively, the Group recorded impairment losses totaling ¥160 million for the IC leadframes (Stamped Leadframe division) of Mitsui High-tec (Guang Dong) Co., Ltd. for the year ended January 31, 2017.

The recoverable amounts of business assets were measured at their values in use, and the discount rates used for computation of the present values of future cash flows were 4.8% and 5.6% for the years ended January 31, 2018 and 2017, respectively.

#### **13. LOSS ON DISASTER**

The “2016 Kumamoto Earthquake,” which occurred on April 14, 2016, caused damages to the factories of the Kumamoto office of the Company and Mitsui Electric Co., Ltd., which was absorbed by the Company on February 1, 2017. The Group recorded expenditures of restoration-related expenses of ¥362 million as loss on disaster for the year ended January 31, 2017.

## 14. 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 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 securities 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 positions 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 15 for more details about derivatives.

### (3) Fair values of financial instruments.

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead.

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

January 31, 2018	Millions of yen		
	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥ 13,988	¥ 13,988	
Short-term investments	350	350	
Notes and accounts receivable - trade	14,531	14,531	
Investment securities	1,023	1,023	
Total	<u>¥ 29,892</u>	<u>¥ 29,892</u>	
Accounts payable - trade	¥ 4,670	¥ 4,670	
Income taxes payable	456	456	
Long - term debt (including current portion)	11,994	11,999	¥ 5
Total	<u>¥ 17,120</u>	<u>¥ 17,125</u>	<u>¥ 5</u>

January 31, 2017	Millions of yen		
	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥ 13,528	¥ 13,528	
Short-term investments	111	111	
Notes and accounts receivable - trade	12,401	12,401	
Investment securities	854	854	
Total	¥ 26,894	¥ 26,894	
Accounts payable - trade	¥ 4,073	¥ 4,073	
Income taxes payable	272	272	
Long-term debt (including current portion)	4,850	4,850	¥ 0
Total	¥ 9,195	¥ 9,195	¥ 0

January 31, 2018	Thousands of U.S. Dollars		
	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	\$ 128,578	\$ 128,578	
Short-term investments	3,217	3,217	
Notes and accounts receivable - trade	133,569	133,569	
Investment securities	9,403	9,403	
Total	\$ 274,767	\$ 274,767	
Accounts payable - trade	\$ 42,927	\$ 42,927	
Income taxes payable	4,191	4,191	
Long-term debt (including current portion)	110,249	110,295	\$ 46
Total	\$ 157,367	\$ 157,413	\$ 46

Cash and cash equivalents, and short-term investments

The carrying values of cash and 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.

Long-term debt

The fair values of long-term debt at fixed interest rates are determined by discounting the cash flows related to the debt at the Company's assumed borrowing rate.

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

	Millions of Yen		Thousands of U.S. Dollars	
	2018	2017	2018	
Investments in equity securities that do not have a quoted market price in an active market	¥ 39	¥ 39	\$	359

(4) Maturity analysis for financial assets with contractual maturities

January 31, 2018	Millions of Yen	
	Due in one year or less	Due after one year
Cash and cash equivalents	¥ 13,988	
Short-term investments	350	
Notes and accounts receivable - trade	14,531	
Total	¥ 28,869	

January 31, 2017	Millions of Yen	
	Due in one year or less	Due after one year
Cash and cash equivalents	¥ 13,528	
Short-term investments	111	
Notes and accounts receivable - trade	12,401	
Total	¥ 26,040	

January 31, 2018	Thousands of U.S. Dollars	
	Due in one year or less	Due after one year
Cash and cash equivalents	\$ 128,578	
Short-term investments	3,217	
Notes and accounts receivable - trade	133,569	
Total	\$ 265,364	

Please see Note 7 for annual maturities of long-term debt.



## 15. 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*

At January 31, 2018	Millions of Yen			
	Hedged Item	Contract Amount	Contract Amount due after One Year	Fair Value
Foreign currency forward contracts:				
Selling U.S.\$	Receivables	¥ 3,966		

At January 31, 2017	Millions of Yen			
	Hedged Item	Contract Amount	Contract Amount due after One Year	Fair Value
Foreign currency forward contracts:				
Selling U.S.\$	Receivables	¥ 3,510		

At January 31, 2018	Thousands of U.S. Dollars			
	Hedged Item	Contract Amount	Contract Amount due after One Year	Fair Value
Foreign currency forward contracts:				
Selling U.S.\$	Receivables	\$ 36,456		

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

## 16. OTHER COMPREHENSIVE LOSS

The components of other comprehensive loss for the years ended January 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of
	2018	2017	U.S. Dollars
			2018
Unrealized gain (loss) on available-for-sale securities:			
Gain (loss) arising during the year	¥ 162	¥ (49)	\$ 1,488
Reclassification adjustments to profit or loss		(74)	
Amount before income tax effect	162	(123)	1,488
Income tax effect	(49)	47	(450)
Total	<u>¥ 113</u>	<u>¥ (76)</u>	<u>\$ 1,038</u>
Foreign currency translation adjustments:			
Adjustments arising during the year	<u>¥ (42)</u>	<u>¥ (823)</u>	<u>\$ (385)</u>
Defined retirement benefit plans			
Adjustments arising during the year	¥ (129)	¥ 104	\$ (1,186)
Reclassification adjustments to profit or loss	(1)	14	(9)
Amount before income tax effect	(130)	118	(1,195)
Income tax effect	31	(23)	285
Total	<u>¥ (99)</u>	<u>¥ 95</u>	<u>\$ (910)</u>
Total other comprehensive loss	<u>¥ (28)</u>	<u>¥ (804)</u>	<u>\$ (257)</u>

## 17. 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 decisionmaker 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.”



## Thousands of U.S. Dollars

	2018						
	Reportable segment					Reconciliations	Consolidated
	Tooling	Electronic Parts	Electrical Parts	Machinery	Total		
Sales:							
Sales to external customers	\$ 40,463	\$ 391,681	\$ 279,722	\$ 11,803	\$ 723,669		\$ 723,669
Intersegment sales or transfers	29,690	0		1,728	31,418	\$ (31,418)	
Total	<u>\$ 70,153</u>	<u>\$ 391,681</u>	<u>\$ 279,722</u>	<u>\$ 13,531</u>	<u>\$ 755,087</u>	<u>\$ (31,418)</u>	<u>\$ 723,669</u>
Segment profit (loss)	<u>\$ 6,728</u>	<u>\$ 12,713</u>	<u>\$ 19,873</u>	<u>\$ (487)</u>	<u>\$ 38,827</u>	<u>\$ (19,138)</u>	<u>\$ 19,689</u>
Segment assets	61,835	300,147	190,523	7,427	559,932	104,642	664,574
Other:							
Depreciation	3,953	24,230	19,248	423	47,854	1,241	49,095
Increase in property, plant and equipment and intangible assets	5,377	50,124	39,213	175	94,889	3,576	98,465
Impairment losses of assets		165			165		165

Notes: 1. The amounts of "Reconciliations" for the year ended January 31, 2018, are as follows:

- (1) The amount of "Reconciliations" for segment profit is ¥2,082 million (\$19,138 thousand). This amount mainly includes general and administrative expenses, which is not allocable to the reportable segments.
- (2) The amount of "Reconciliations" for segment assets is ¥11,384 million (\$104,642 thousand), this amount is corporate assets which are not allocable to the reportable segments.
- (3) The amount of "Reconciliations" for depreciation of ¥135 million (\$1,241 thousand) consists of depreciation of corporate assets.
- (4) The "Reconciliations" of increase in property, plant and equipment and intangible assets of ¥389 million (\$3,576 thousand) is 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, 2017, are as follows:

- (1) The amount of "Reconciliations" for segment profit is ¥2,119 million. This amount mainly includes general and administrative expenses, which is not allocable to the reportable segments.
- (2) The amount of "Reconciliations" for segment assets is ¥10,353 million, this amount is corporate assets which are not allocable to the reportable segments.
- (3) The amount of "Reconciliations" for depreciation of ¥130 million consists of depreciation of corporate assets.
- (4) The "Reconciliations" of increase in property, plant and equipment and intangible assets of ¥154 million is 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			
2018			
Japan	China	Other	Total
¥ 35,149	¥ 16,880	¥ 26,699	¥ 78,728

  

Millions of Yen			
2017			
Japan	China	Other	Total
¥ 28,812	¥ 13,939	¥ 22,595	¥ 65,346

  

Thousands of U.S. Dollars			
2018			
Japan	China	Other	Total
\$ 323,090	\$ 155,161	\$ 245,418	\$ 723,669

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

(2) Property, plant and equipment

Millions of Yen				
2018				
Japan	China	North America	Other	Total
¥ 22,138	¥ 3,178	¥ 3,245	¥ 3,340	¥ 31,901

  

Millions of Yen				
2017				
Japan	China	Other	Total	
¥ 18,378	¥ 2,820	¥ 5,592	¥ 26,790	

  

Thousands of U.S. Dollars				
2018				
Japan	China	North America	Other	Total
\$ 203,494	\$ 29,212	\$ 29,828	\$ 30,701	\$ 293,235

2. Information about major customers

Millions of Yen		
2018		
Name of customer	Sales	Related segment name
TOYOTA MOTOR CORPORATION	¥ 15,697	Electrical Parts

  

Millions of Yen		
2017		
Name of customer	Sales	Related segment name
TOYOTA MOTOR CORPORATION	¥ 12,980	Electrical Parts

  

Thousands of U.S. Dollars		
2018		
Name of customer	Sales	Related segment name
TOYOTA MOTOR CORPORATION	\$ 144,287	Electrical Parts

**18. SUBSEQUENT EVENTS**

(1) Appropriation of Retained Earnings

At the general shareholders meeting held on April 20, 2018, the Company's shareholders approved the following appropriation of retained earnings as of January 31, 2018:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥10.0 (\$0.09) per share	¥ 384	\$ 3,530

(2) Acquisition of Treasury Stock

At the Board of Directors' meeting held on March 15, 2018, 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 350,000 shares (0.91% of currently outstanding common stock (excluding treasury stock))

(c) Total purchase price: Up to ¥650 million (\$5,975 thousand)

(d) Period of acquisition: From March 16, 2018 to April 12, 2018

(e) Method of acquisition: Market purchases on the Tokyo Stock Exchange

As a result, the Company acquired 350,000 of its own shares at an aggregate cost of ¥557 million (\$5,120 thousand) in the period from March 16, 2018 to March 19, 2018.

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