

**U-SHIN LTD. and its Consolidated Subsidiaries**

***Consolidated Financial Statements  
and Independent Auditor's Report***

*For the year ended November 30, 2015*

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of U-SHIN LTD.:

We have audited the accompanying consolidated balance sheet of U-SHIN LTD. and its consolidated subsidiaries as of November 30, 2015, and the related consolidated statements of operations, 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 U-SHIN LTD. and its consolidated subsidiaries as of November 30, 2015, 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*

February 26, 2016

# Consolidated Balance Sheet

U-SHIN LTD. and consolidated subsidiaries

As of November 30, 2015

| <b>ASSETS</b>  | Millions of Yen  |                  | Thousands of<br>U.S. dollars<br>(Note 1) |
|--|------------------|------------------|--|
|  | 2015             | 2014             | 2015                                     |
| <b>Current Assets</b>  |                  |                  |  |
| Cash and cash equivalents (Note 13)  | ¥ 23,719         | ¥ 27,414         | \$ 193,122                               |
| Time deposits (Note 13)  | -                | 100              | -  |
| Receivables  |                  |                  |  |
| Trade notes and accounts (Note 13)   | 33,255           | 36,123           | 270,760                                  |
| Other  | 2,803            | 3,683            | 22,823                                   |
| Allowance for doubtful accounts  | (625)            | (365)            | (5,091)                                  |
| Inventories (Note 3)   | 19,503           | 20,364           | 158,796                                  |
| Deferred tax assets (Note 9)   | 1,214            | 1,524            | 9,881                                    |
| Prepaid expenses and other current assets                                      | 1,622            | 1,129            | 13,204                                   |
| <b>Total Current Assets</b>  | <b>81,491</b>    | <b>89,972</b>    | <b>663,495</b>                           |
| <b>Property, Plant and Equipment</b>   |                  |                  |  |
| Land   | 9,128            | 9,427            | 74,317                                   |
| Buildings and structures   | 23,962           | 25,463           | 195,101                                  |
| Machinery and equipment  | 43,748           | 45,671           | 356,199                                  |
| Tools, furniture and fixtures  | 34,478           | 33,999           | 280,718                                  |
| Construction in progress   | 2,695            | 3,715            | 21,945                                   |
| <b>Total</b>   | <b>114,011</b>   | <b>118,275</b>   | <b>928,280</b>                           |
| Accumulated depreciation and impairment loss                                   | (69,027)         | (68,891)         | (562,020)                                |
| <b>Net Property, Plant and Equipment</b>                                       | <b>44,984</b>    | <b>49,384</b>    | <b>366,260</b>                           |
| <b>Investments and Other Assets</b>  |                  |                  |  |
| Investment securities (Notes 5, 13)  | 13,389           | 11,330           | 109,013                                  |
| Investments in unconsolidated subsidiaries and an associated company (Note 13) | 490              | 519              | 3,991                                    |
| Goodwill   | 6,426            | 7,701            | 52,317                                   |
| Deferred tax assets (Note 9)   | 1,839            | 1,415            | 14,971                                   |
| Other assets   | 4,716            | 5,588            | 38,407                                   |
| <b>Total Investments and Other Assets</b>                                      | <b>26,860</b>    | <b>26,553</b>    | <b>218,699</b>                           |
| <b>Total</b>   | <b>¥ 153,335</b> | <b>¥ 165,909</b> | <b>\$ 1,248,454</b>                      |

|   | Millions of Yen  |                  | Thousands of<br>U.S. dollars<br>(Note 1) |
|---|------------------|------------------|--|
| <b>LIABILITIES AND EQUITY</b>   | 2015             | 2014             | 2015                                     |
| <b>LIABILITIES</b>  |                  |                  |  |
| <b>Current Liabilities</b>  |                  |                  |  |
| Payables  |                  |                  |  |
| Trade notes and accounts (Note 13)  | ¥ 22,037         | ¥ 24,459         | \$ 179,424                               |
| Other   | 4,060            | 3,916            | 33,054                                   |
| Electronically recorded monetary obligations-operating (Note 13)  | 7,200            | 7,690            | 58,624                                   |
| Short-term bank loans (Notes 6, 13)   | 3,333            | 2,575            | 27,136                                   |
| Current portion of long-term bonds (Notes 6, 13)  | 400              | 400              | 3,257                                    |
| Current portion of long-term bank loans (Notes 6, 13)   | 15,378           | 8,536            | 125,204                                  |
| Current portion of long-term lease obligations (Notes 6, 13)  | 625              | 411              | 5,091                                    |
| Accrued expenses  | 4,302            | 4,892            | 35,028                                   |
| Income tax payable  | 1,206            | 1,432            | 9,815                                    |
| Other current liabilities   | 8,593            | 5,798            | 69,974                                   |
| Total Current Liabilities   | <u>67,134</u>    | <u>60,109</u>    | <u>546,607</u>                           |
| <b>Long-term Liabilities</b>  |                  |                  |  |
| Long-term bonds and convertible bonds with warrants (Notes 6, 13)   | 10,345           | 12,286           | 84,227                                   |
| Long-term bank loans (Notes 6, 13)  | 29,176           | 42,553           | 237,547                                  |
| Long-term lease obligations (Notes 6, 13)   | 2,713            | 2,622            | 22,093                                   |
| Deferred tax liabilities (Note 9)   | 2,501            | 2,360            | 20,360                                   |
| Liability for employees' retirement benefits (Note 7)   | 3,208            | 3,319            | 26,117                                   |
| Other long-term liabilities   | 914              | 3,479            | 7,449                                    |
| Total Long-term Liabilities   | <u>48,857</u>    | <u>66,619</u>    | <u>397,793</u>                           |
| Total Liabilities   | <u>115,991</u>   | <u>126,728</u>   | <u>944,400</u>                           |
| <b>COMMITMENTS AND CONTINGENT LIABILITIES (Note 14)</b>   |                  |                  |  |
| <b>EQUITY (Note 8)</b>  |                  |                  |  |
| Common Stock — authorized, 120,000,000 shares; issued,<br>28,383,411 shares in 2015 and 31,995,502 shares in 2014 | 13,037           | 12,016           | 106,147                                  |
| Capital surplus   | 13,143           | 12,122           | 107,006                                  |
| Stock acquisition rights  | 1,575            | 1,734            | 12,827                                   |
| Retained earnings   | 4,522            | 8,893            | 36,814                                   |
| Treasury stock — at cost, 671,747 shares in 2015<br>and 5,256,069 shares in 2014                                  | (514)            | (3,447)          | (4,182)                                  |
| Accumulated other comprehensive income:   |                  |                  |  |
| Unrealized gain on available-for-sale securities  | 4,571            | 3,701            | 37,216                                   |
| Deferred loss on derivatives under hedge accounting   | (123)            | -                | (998)                                    |
| Foreign currency translation adjustments  | 1,195            | 4,010            | 9,729                                    |
| Defined retirement benefit plans  | (102)            | 106              | (829)                                    |
| Total   | <u>37,304</u>    | <u>39,135</u>    | <u>303,730</u>                           |
| Minority interests  | 40               | 46               | 324                                      |
| Total Equity  | <u>37,344</u>    | <u>39,181</u>    | <u>304,054</u>                           |
| <b>Total</b>  | <u>¥ 153,335</u> | <u>¥ 165,909</u> | <u>\$ 1,248,454</u>                      |

See notes to consolidated financial statements.

# Consolidated Statement of Operations

U-SHIN LTD. and consolidated subsidiaries

For the year ended November 30, 2015

|   | Millions of Yen |           | Thousands of<br>U.S. dollars<br>(Note 1) |
|---|-----------------|-----------|--|
|   | 2015            | 2014      | 2015                                     |
| <b>Net sales</b>  | ¥ 164,229       | ¥ 155,985 | \$ 1,337,153                             |
| <b>Cost of goods sold</b>                                       | 145,915         | 139,235   | 1,188,041                                |
| <b>Gross profit</b>   | 18,314          | 16,750    | 149,112                                  |
| <b>Selling, general and administrative expenses</b>             | 13,598          | 13,675    | 110,718                                  |
| <b>Operating income</b>   | 4,716           | 3,075     | 38,394                                   |
| <b>Other income (expenses)</b>                                  |                 |           |  |
| Interest and dividend income                                    | 522             | 392       | 4,246                                    |
| Foreign exchange (loss) gain                                    | (2,916)         | 464       | (23,744)                                 |
| Currency swap income (expenses) (Note 11)                       | 1,718           | (1,324)   | 13,990                                   |
| Gain on sales of property, plant and equipment (Note 11)        | 82              | 891       | 665                                      |
| Gain on sales of investment securities                          | 327             | 15        | 2,659                                    |
| Subsidy income (Note 11)  | -               | 901       | -  |
| Insurance income (Note 11)                                      | 18              | 1,000     | 150                                      |
| Reversal of provision for product warranties                    | -               | 106       | -  |
| Interest expenses   | (1,253)         | (1,570)   | (10,203)                                 |
| Business integration related expenses (Note 11)                 | -               | (128)     | -  |
| Loss on sales and disposal of property, plant and equipment     | (31)            | (63)      | (254)                                    |
| Impairment loss (Note 4)  | -               | (101)     | -  |
| Loss on product warranties (Note 11)                            | (554)           | (499)     | (4,513)                                  |
| Provision for business structure improvement expenses (Note 11) | (246)           | (180)     | (2,003)                                  |
| Settlement payment (Note 11)                                    | -               | (1,305)   | -  |
| Loss on cancellation of contracts (Note 11)                     | -               | (1,231)   | -  |
| Other, net  | (562)           | 21        | (4,558)                                  |
| Other expenses - net  | (2,895)         | (2,611)   | (23,565)                                 |
| <b>Income before income taxes and minority interests</b>        | 1,821           | 464       | 14,829                                   |
| <b>Income taxes (Note 9)</b>                                    |                 |           |  |
| Current   | 1,862           | 1,304     | 15,164                                   |
| Deferred  | (270)           | (412)     | (2,199)                                  |
| Total income taxes  | 1,592           | 892       | 12,965                                   |
| <b>Net income (loss) before minority interests</b>              | 229             | (428)     | 1,864                                    |
| <b>Minority interests in net income</b>                         | 2               | 5         | 18                                       |
| <b>Net income (loss)</b>  | ¥ 227           | ¥ (433)   | \$ 1,846                                 |
|   |                 | Yen       | U.S. dollars                             |
| <b>Per Share of Common Stock (Note 16):</b>                     |                 |           |  |
| Basic net income (loss)   | ¥ 8.49          | ¥ (15.18) | \$ 0.07                                  |
| Diluted net income  | 8.36            | -         | 0.07                                     |
| Cash dividends applicable to the year                           | 10.00           | 10.00     | 0.08                                     |

See notes to consolidated financial statements.

## Consolidated Statement of Comprehensive Income

U-SHIN LTD. and consolidated subsidiaries

For the year ended November 30, 2015

|   | Millions of Yen |         | Thousands of<br>U.S. dollars<br>(Note 1) |
|---|-----------------|---------|--|
|   | 2015            | 2014    | 2015                                     |
| <b>Net income (loss) before minority interests</b>  | ¥ 229           | ¥ (428) | \$ 1,864                                 |
| <b>Other comprehensive (loss) income (Note 15):</b> |                 |         |  |
| Unrealized gain on available-for-sale securities    | 870             | 657     | 7,084                                    |
| Deferred loss on derivatives under hedge accounting | (123)           | -       | (998)                                    |
| Foreign currency translation adjustments            | (2,822)         | 3,120   | (22,978)                                 |
| Defined retirement benefit plans                    | (208)           | (5)     | (1,695)                                  |
| Total other comprehensive (loss) income             | (2,283)         | 3,772   | (18,587)                                 |
| <b>Comprehensive (loss) income</b>                  | ¥ (2,054)       | ¥ 3,344 | \$ (16,723)                              |
| <b>Total comprehensive income attributable to:</b>  |                 |         |  |
| Owners of the parent                                | ¥ (2,049)       | ¥ 3,334 | \$ (16,682)                              |
| Minority interests                                  | (5)             | 10      | (41)                                     |

See notes to consolidated financial statements.

## Consolidated Statement of Changes in Equity

U-SHIN LTD. and consolidated subsidiaries

For the year ended November 30, 2015

|  | Thousands                                   | Millions of yen |                    |                                |                      |                   |
|--|---|-----------------|--------------------|--------------------------------|----------------------|-------------------|
|  | Shares of<br>Common<br>Stock<br>Outstanding | Common<br>stock | Capital<br>surplus | Stock<br>acquisition<br>rights | Retained<br>earnings | Treasury<br>stock |
| Balance at November 30, 2013                         | 29,958                                      | ¥ 12,016        | ¥ 12,122           | ¥ 1,502                        | ¥ 9,366              | ¥ (1,305)         |
| Cumulative effects of changes in accounting policies | -   | -               | -                  | -                              | (10)                 | -                 |
| Restated balance                                     | 29,958                                      | 12,016          | 12,122             | 1,502                          | 9,356                | (1,305)           |
| Cash dividends, ¥10.00 per share                     | -   | -               | -                  | -                              | (291)                | -                 |
| Net loss   | -   | -               | -                  | -                              | (433)                | -                 |
| Net changes of scope of consolidation                | -   | -               | -                  | -                              | 261                  | -                 |
| Purchase of treasury stock                           | (3,219)                                     | -               | -                  | -                              | -                    | (2,142)           |
| Net change in the year                               | -   | -               | -                  | 232                            | -                    | -                 |
| Total changes during the year                        | (3,219)                                     | -               | -                  | 232                            | (463)                | (2,142)           |
| Balance at November 30, 2014                         | 26,739                                      | ¥ 12,016        | ¥ 12,122           | ¥ 1,734                        | ¥ 8,893              | ¥ (3,447)         |
| Conversion of convertible bonds                      | 2,788                                       | 1,021           | 1,021              | -                              | -                    | -                 |
| Cash dividends, ¥10.00 per share                     | -   | -               | -                  | -                              | (265)                | -                 |
| Net income   | -   | -               | -                  | -                              | 227                  | -                 |
| Purchase of treasury stock                           | (1,815)                                     | -               | -                  | -                              | -                    | (1,400)           |
| Retirement of treasury stock                         | -   | -               | -                  | -                              | (4,333)              | 4,333             |
| Net change in the year                               | -   | -               | -                  | (159)                          | -                    | -                 |
| Total changes during the year                        | 973   | 1,021           | 1,021              | (159)                          | (4,371)              | 2,933             |
| Balance at November 30, 2015                         | 27,712                                      | ¥ 13,037        | ¥ 13,143           | ¥ 1,575                        | ¥ 4,522              | ¥ (514)           |

|  | Millions of yen  |  |   |  |          |       |                       |                 |
|--|--|--|---|--|----------|-------|-----------------------|-----------------|
|  | Accumulated other comprehensive income                     |  |   |  |          |       | Minority<br>interests | Total<br>equity |
|  | Unrealized<br>gain on<br>available-for-<br>sale securities | Deferred loss<br>on derivatives<br>under hedge<br>accounting | Foreign<br>currency<br>translation<br>adjustments | Defined<br>retirement<br>benefit plans | Total    | Total |                       |                 |
| Balance at November 30, 2013                         | ¥ 3,044  | ¥ -  | ¥ 895   | ¥ -                                    | ¥ 37,640 | ¥ 36  | ¥ 37,676              |                 |
| Cumulative effects of changes in accounting policies | -  | -  | -   | 111                                    | 101      | -     | 101                   |                 |
| Restated balance                                     | 3,044  | -  | 895   | 111                                    | 37,741   | 36    | 37,777                |                 |
| Cash dividends, ¥10.00 per share                     | -  | -  | -   | -                                      | (291)    | -     | (291)                 |                 |
| Net loss   | -  | -  | -   | -                                      | (433)    | -     | (433)                 |                 |
| Net changes of scope of consolidation                | -  | -  | -   | -                                      | 261      | -     | 261                   |                 |
| Purchase of treasury stock                           | -  | -  | -   | -                                      | (2,142)  | -     | (2,142)               |                 |
| Net change in the year                               | 657  | -  | 3,115   | (5)                                    | 3,999    | 10    | 4,009                 |                 |
| Total changes during the year                        | 657  | -  | 3,115   | (5)                                    | 1,394    | 10    | 1,404                 |                 |
| Balance at November 30, 2014                         | ¥ 3,701  | -  | ¥ 4,010   | ¥ 106                                  | ¥ 39,135 | ¥ 46  | ¥ 39,181              |                 |
| Conversion of convertible bonds                      | -  | -  | -   | -                                      | 2,042    | -     | 2,042                 |                 |
| Cash dividends, ¥10.00 per share                     | -  | -  | -   | -                                      | (265)    | -     | (265)                 |                 |
| Net income   | -  | -  | -   | -                                      | 227      | -     | 227                   |                 |
| Purchase of treasury stock                           | -  | -  | -   | -                                      | (1,400)  | -     | (1,400)               |                 |
| Retirement of treasury stock                         | -  | -  | -   | -                                      | -        | -     | -                     |                 |
| Net change in the year                               | 870  | (123)  | (2,815)   | (208)                                  | (2,435)  | (6)   | (2,441)               |                 |
| Total changes during the year                        | 870  | (123)  | (2,815)   | (208)                                  | (1,831)  | (6)   | (1,837)               |                 |
| Balance at November 30, 2015                         | ¥ 4,571  | (123)  | ¥ 1,195   | ¥ (102)                                | ¥ 37,304 | ¥ 40  | ¥ 37,344              |                 |

See notes to consolidated financial statements.

Thousands of U.S. dollars (Note 1)

|                                  | Common<br>stock | Capital<br>surplus | Stock<br>acquisition<br>rights | Retained<br>earnings | Treasury<br>stock |
|----------------------------------|-----------------|--------------------|--------------------------------|----------------------|-------------------|
| Balance at November 30, 2014     | \$ 97,838       | \$ 98,697          | \$ 14,114                      | \$ 72,405            | \$ (28,061)       |
| Conversion of convertible bonds  | 8,309           | 8,309              | -                              | -                    | -                 |
| Cash dividends, \$0.08 per share | -               | -                  | -                              | (2,159)              | -                 |
| Net income                       | -               | -                  | -                              | 1,846                | -                 |
| Purchase of treasury stock       | -               | -                  | -                              | -                    | (11,399)          |
| Retirement of treasury stock     | -               | -                  | -                              | (35,278)             | 35,278            |
| Net change in the year           | -               | -                  | (1,287)                        | -                    | -                 |
| Total changes during the year    | 8,309           | 8,309              | (1,287)                        | (35,591)             | 23,879            |
| Balance at November 30, 2015     | \$ 106,147      | \$ 107,006         | \$ 12,827                      | \$ 36,814            | \$ (4,182)        |

Thousands of U.S. dollars (Note 1)

|                                  | Accumulated other comprehensive income                     |  |   |  |            | Total  | Minority<br>interests | Total<br>equity |
|----------------------------------|--|--|---|--|------------|--------|-----------------------|-----------------|
|                                  | Unrealized<br>gain on<br>available-for-<br>sale securities | Deferred loss<br>on derivatives<br>under hedge<br>accounting | Foreign<br>currency<br>translation<br>adjustments | Defined<br>retirement<br>benefit plans |            |        |                       |                 |
| Balance at November 30, 2014     | \$ 30,132  | \$ -   | \$ 32,648   | \$ 866                                 | \$ 318,639 | \$ 374 | \$ 319,013            |                 |
| Conversion of convertible bonds  | -  | -  | -   | -                                      | 16,618     | -      | 16,618                |                 |
| Cash dividends, \$0.08 per share | -  | -  | -   | -                                      | (2,159)    | -      | (2,159)               |                 |
| Net income                       | -  | -  | -   | -                                      | 1,846      | -      | 1,846                 |                 |
| Purchase of treasury stock       | -  | -  | -   | -                                      | (11,399)   | -      | (11,399)              |                 |
| Retirement of treasury stock     | -  | -  | -   | -                                      | -          | -      | -                     |                 |
| Net change in the year           | 7,084  | (998)  | (22,919)  | (1,695)                                | (19,815)   | (50)   | (19,865)              |                 |
| Total changes during the year    | 7,084  | (998)  | (22,919)  | (1,695)                                | (14,909)   | (50)   | (14,959)              |                 |
| Balance at November 30, 2015     | \$ 37,216  | \$ (998)   | \$ 9,729  | \$ (829)                               | \$ 303,730 | \$ 324 | \$ 304,054            |                 |

See notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

U-SHIN LTD. and consolidated subsidiaries

For the year ended November 30, 2015

|  | Millions of Yen |                 | Thousands of<br>U.S. dollars<br>(Note 1) |
|--|-----------------|-----------------|--|
|  | 2015            | 2014            | 2015                                     |
| <b>Operating Activities</b>  |                 |                 |  |
| Income before income taxes and minority interests  | ¥ 1,821         | ¥ 464           | \$ 14,829                                |
| Adjustments for:   |                 |                 |  |
| Income taxes paid  | (1,662)         | (1,180)         | (13,533)                                 |
| Depreciation and amortization  | 8,521           | 8,026           | 69,380                                   |
| Impairment loss  | -               | 101             | -  |
| Currency swap (income) expenses  | (1,718)         | 1,189           | (13,990)                                 |
| Foreign exchange loss (gain)   | 1,054           | (1,701)         | 8,585                                    |
| Changes in assets and liabilities, net of effects:   |                 |                 |  |
| Decrease (increase) in trade notes and accounts receivable   | 1,055           | (2,938)         | 8,587                                    |
| Increase in inventories  | (387)           | (2,452)         | (3,150)                                  |
| (Decrease) increase in payables  | (447)           | 1,664           | (3,637)                                  |
| Increase in deposits received  | 1,313           | 229             | 10,686                                   |
| Other, net   | 2,276           | (2,006)         | 18,527                                   |
| Net cash provided by operating activities  | <u>11,826</u>   | <u>1,396</u>    | <u>96,284</u>                            |
| <b>Investing Activities</b>  |                 |                 |  |
| Purchases of property, plant and equipment   | (6,131)         | (7,946)         | (49,922)                                 |
| Purchases of intangible assets   | (918)           | (917)           | (7,470)                                  |
| Proceeds from sales of property, plant and equipment   | 655             | 1,884           | 5,337                                    |
| Purchase of investment securities  | (1,265)         | (48)            | (10,296)                                 |
| Other, net   | 432             | 532             | 3,506                                    |
| Net cash used in investing activities  | <u>(7,227)</u>  | <u>(6,495)</u>  | <u>(58,845)</u>                          |
| <b>Financing Activities</b>  |                 |                 |  |
| Net increase in short-term bank loans  | 814             | 1,527           | 6,625                                    |
| Proceeds from long-term bank loans   | 15,770          | 2,050           | 128,399                                  |
| Repayment of long-term bank loans  | (22,293)        | (9,193)         | (181,512)                                |
| Proceeds from issue of bonds and convertible bonds with warrants                                     | -               | 5,000           | -  |
| Redemption of bonds  | (400)           | (200)           | (3,257)                                  |
| Proceeds from sale and leaseback   | 828             | 317             | 6,744                                    |
| Purchase of treasury stock   | (1,400)         | (2,142)         | (11,399)                                 |
| Dividends paid   | (267)           | (291)           | (2,171)                                  |
| Repayment from sales and purchases contract based on a deferred payment plan                         | -               | (3,454)         | -  |
| Other, net   | (523)           | (397)           | (4,254)                                  |
| Net cash used in financing activities  | <u>(7,471)</u>  | <u>(6,783)</u>  | <u>(60,825)</u>                          |
| Foreign currency translation adjustments on cash and cash equivalents                                | (823)           | 1,181           | (6,699)                                  |
| Net decrease in cash and cash equivalents  | <u>(3,695)</u>  | <u>(10,701)</u> | <u>(30,085)</u>                          |
| Cash and cash equivalents at the beginning of year   | 27,414          | 37,981          | 223,207                                  |
| Increase in cash and cash equivalents resulting from change of scope of consolidation                | -               | 134             | -  |
| <b>Cash and cash equivalents at the end of year</b>  | <b>¥ 23,719</b> | <b>¥ 27,414</b> | <b>\$ 193,122</b>                        |
| <b>Noncash investing and financing activities:</b>   |                 |                 |  |
| Increase in common stock due to the conversion of convertible bonds with warrants                    | ¥ 1,021         | -               | \$ 8,309                                 |
| Increase in capital surplus due to the conversion of convertible bonds with warrants                 | 1,021           | -               | 8,309                                    |
| Decrease in convertible bonds with warrants due to the conversion of convertible bonds with warrants | (1,883)         | -               | (15,331)                                 |
| Decrease in stock acquisition rights due to the conversion of convertible bonds with warrants        | (159)           | -               | (1,287)                                  |
| Retirement of treasury stock   | 4,333           | -               | 35,278                                   |

See notes to consolidated financial statements.

# ***Notes to Consolidated Financial Statements***

U-SHIN LTD. and consolidated subsidiaries

For the year ended November 30, 2015

## **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 the application and disclosure requirements of International Financial Reporting Standards.

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 2014 consolidated financial statements to conform to the classifications used in 2015.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which U-SHIN LTD. (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 ¥122.82 to \$1, the approximate rate of exchange at November 30, 2015. 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 November 30, 2015, include the accounts of the Company and its 21 significant (21 in 2014) subsidiaries (together, the "Group"). Consolidation of the remaining subsidiaries would not have a material effect on the accompanying consolidated financial statements.

Under the control concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

Investments in the remaining subsidiaries and an associated company which are not consolidated or accounted for by the equity method are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The excess of the cost of acquisition over the fair value of the net assets of subsidiaries acquired at the date of acquisition is being amortized on a straight-line basis over 20 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

#### (i) Consolidated subsidiaries

Number of consolidated subsidiaries: 21

TOKYO SOKUTEIKIZAI CO., LTD.

U-SHIN SHOWA LTD.

SANWA SEISAKUSHO LTD.

U-SHIN TRANSPORT LTD.

U-SHIN MANUFACTURING (ZHONGSHAN) CO., LTD.

U-Shin Access Systems (Wuxi) CO., LTD.

U-SHIN INTERNATIONAL TRADING (SHANGHAI) LTD.

U-SHIN (THAILAND) CO., LTD.

ORTECH MALAYSIA SDN. BHD.

U-Shin Holdings Europe B.V.

U-Shin France S.A.S.

U-Shin Deutschland Zugangssysteme GmbH

U-Shin Deutschland Grundvermögen GmbH

U-Shin Italia S.p.A.

U-Shin Spain S.L.

U-SHIN EUROPE LTD.

U-Shin Slovakia s.r.o.

L.L.C. Access Mechanisms

YUHSHIN U.S.A.LTD.  
U-SHIN AUTOPARTS MEXICO, S.A. DE C.V.  
U-Shin do Brasil Sistemas Automotivos Ltda.

(ii) Unconsolidated subsidiaries

The main unconsolidated subsidiary is U-SHIN MANUFACTURING (SUZHOU) CO., LTD.

Consolidation of the unconsolidated subsidiaries would not have a material effect on the accompanying consolidated financial statements.

**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 International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, except for the following items which should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (1) amortization of goodwill; (2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity through other comprehensive income; (3) expensing capitalized development costs of R&D; (4) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting; and (5) exclusion of minority interests from net income, if contained in net income.

**c. Business Combinations**

In October 2003, the Business Accounting Council issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the ASBJ issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures," and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures." The accounting standard for business combinations allowed companies to apply the pooling-of-interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures.

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling-of-interests method of accounting is no longer allowed. (2) The previous accounting standard required research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development costs (IPR&D) acquired in the business combination are capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

**d. Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand and deposits with banks and financial institutions which are unrestricted as to withdrawal or use and which mature or become due within three months of the date of acquisition.

**e. 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.

**f. Inventories**

Inventories are stated at the lower of cost, determined by the weighted-average cost method, or net selling value.

**g. Property, Plant and Equipment**

Property, plant and equipment are stated at cost. Depreciation is computed by the straight-line method. The range of useful lives is from 3 to 50 years for buildings and structures, and from 2 to 12 years for machinery and equipment.

**h. Long-Lived Assets**

The Company 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.

**i. Investment Securities**

Investment securities are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The cost of securities sold is determined by the moving average method. Nonmarketable 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.

**j. Bonds with Warrants**

The proceeds from issuance of bonds with warrants are allocated between the bond portion and the warrant portion, resulting in a bond discount. Bond discounts are amortized by the straight-line method over the term of the related bonds. The amounts ascribed to warrants are stated as a separate component of equity.

**k. Employees' Retirement Benefits**

The Company and certain domestic subsidiaries have severance lump-sum payment plans and defined contribution pension plans. Certain overseas subsidiaries have severance lump-sum payment plans and defined contribution plans. The liability for employees' retirement benefits is provided at an amount based on the projected benefit obligation at the balance sheet date.

Effective April 1, 2000, the Company adopted a new accounting standard for retirement benefits and accounted for the 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 straight-line basis. Actuarial gains and losses are amortized on a straight-line basis over the following 10 years within the average remaining service period. Past service costs are amortized on a straight-line basis over 10 years within the average remaining service period.

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 retirement benefits) or asset (asset for 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 7).

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods, 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, both 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 for (a), (b) and (c) above from December 1, 2013. The effects of adopting the revised accounting standard are immaterial.

#### **l. 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 Group files a tax return under the consolidated corporate-tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

#### **m. 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.

#### **n. 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 yen at the average exchange rate.

#### **o. Derivatives and Hedging Activities**

The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group 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 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 the maturity of the hedged transactions.

Foreign currency forward contracts employed to hedge foreign exchange exposures for export sales are measured at fair value and the unrealized gains/losses are recognized in income.

Interest rate swaps are utilized to hedge interest rate exposures of long-term debt. These swaps which qualify for hedge accounting are measured at fair value at the consolidated balance sheet date and the unrealized gains or losses are deferred until maturity as deferred gain (loss) under hedge accounting in a separate component of equity.

Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense.

#### **p. Per Share Information**

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax and full exercise of outstanding warrants.

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.

#### q. 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:

(a) 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.

(b) Changes in presentation

When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.

(c) 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.

(d) Corrections of prior-period errors

When an error in prior-period financial statements is discovered, those statements are restated.

#### r. Changes in Presentation

(Consolidated Statement of Operations)

Prior to December 1, 2014, "Commitment fee" was disclosed separately in the "Other income (expenses) - net" section of the consolidated statement of operations. Since the materiality of the amount decreased during this fiscal year ended November 30, 2015, such amount is included in "Other, net" in the "Other income (expenses) - net" section of the consolidated statement of operations for the year ended November 30, 2015. The amount included in "Other, net" as of November 30, 2014, was ¥91 million.

(Consolidated Statement of Cash Flows)

Prior to December 1, 2014, "Purchase of investment securities" was included in "Other, net" in the "Net cash used in investing activities" section of the consolidated statement of cash flows. Since the amount increased significantly during this fiscal year ended November 30, 2015, such amount is disclosed separately in the "Net cash used in investing activities" section of the consolidated statement of cash flows for the year ended November 30, 2015. The amount of "Purchase of investment securities" included in "Net cash used in investing activities" for the year ended November 30, 2014, was ¥48 million.

### 3. Inventories

Inventories as of November 30, 2015 and 2014, consisted of the following:

|                           | Millions of Yen |          | Thousands of U.S. |
|---------------------------|-----------------|----------|-------------------|
|                           | 2015            | 2014     | dollars           |
| Finished products         | ¥ 8,365         | ¥ 8,680  | \$ 68,109         |
| Work in process           | 2,402           | 2,432    | 19,559            |
| Raw material and supplies | 8,736           | 9,252    | 71,128            |
| Total                     | ¥ 19,503        | ¥ 20,364 | \$ 158,796        |

### 4. Long-lived Assets

The Group reviewed its long-lived assets for impairment for the year ended November 30, 2014. As a result, the Group recognized an impairment loss of ¥101 million as other expense for certain asset groups of U-Shin Italia S.p.A. and U-Shin do Brasil Sistemas Automotivos Ltda. due to a continuous operating loss at those units, and the carrying amounts of the relevant assets were written down to the recoverable amounts. The recoverable amounts of those assets were measured at their value in use and the discount rates used for computation of the present value of future cash flows were 6.5% and 9%.

No impairment losses were recognized for the year ended November 30, 2015.

## 5. Investment Securities

The costs and aggregate fair values of investment securities as of November 30, 2015 and 2014, were as follows:

|                           |   | Millions of Yen |                 |                 |                 |       |   |        |
|---------------------------|---|-----------------|-----------------|-----------------|-----------------|-------|---|--------|
|                           |   | 2015            |                 |                 |                 |       |   |        |
|                           |   | Cost            | Unrealized gain | Unrealized loss | Carrying amount |       |   |        |
| Securities classified as: |   |                 |                 |                 |                 |       |   |        |
| Available-for-sale:       |   |                 |                 |                 |                 |       |   |        |
| Equity securities         | ¥ | 6,539           | ¥               | 6,939           | ¥               | (205) | ¥ | 13,273 |
| Debt securities           |   | -               |                 | -               |                 | -     |   | -      |
| Other                     |   | -               |                 | -               |                 | -     |   | -      |
| Total                     | ¥ | 6,539           | ¥               | 6,939           | ¥               | (205) | ¥ | 13,273 |

|                           |   | Millions of Yen |                 |                 |                 |      |   |        |
|---------------------------|---|-----------------|-----------------|-----------------|-----------------|------|---|--------|
|                           |   | 2014            |                 |                 |                 |      |   |        |
|                           |   | Cost            | Unrealized gain | Unrealized loss | Carrying amount |      |   |        |
| Securities classified as: |   |                 |                 |                 |                 |      |   |        |
| Available-for-sale:       |   |                 |                 |                 |                 |      |   |        |
| Equity securities         | ¥ | 5,484           | ¥               | 5,751           | ¥               | (22) | ¥ | 11,213 |
| Debt securities           |   | -               |                 | -               |                 | -    |   | -      |
| Other                     |   | -               |                 | -               |                 | -    |   | -      |
| Total                     | ¥ | 5,484           | ¥               | 5,751           | ¥               | (22) | ¥ | 11,213 |

|                           |    | Thousands of U.S. dollars |                 |                 |                 |         |    |         |
|---------------------------|----|---------------------------|-----------------|-----------------|-----------------|---------|----|---------|
|                           |    | 2015                      |                 |                 |                 |         |    |         |
|                           |    | Cost                      | Unrealized gain | Unrealized loss | Carrying amount |         |    |         |
| Securities classified as: |    |                           |                 |                 |                 |         |    |         |
| Available-for-sale:       |    |                           |                 |                 |                 |         |    |         |
| Equity securities         | \$ | 53,238                    | \$              | 56,499          | \$              | (1,672) | \$ | 108,065 |
| Debt securities           |    | -                         |                 | -               |                 | -       |    | -       |
| Other                     |    | -                         |                 | -               |                 | -       |    | -       |
| Total                     | \$ | 53,238                    | \$              | 56,499          | \$              | (1,672) | \$ | 108,065 |

The proceeds, realized gains and realized losses of the available-for-sale securities which were sold during the year ended November 30, 2015 and 2014, were as follows:

|                     |   | Millions of Yen |                |               |   |   |
|---------------------|---|-----------------|----------------|---------------|---|---|
|                     |   | 2015            |                |               |   |   |
|                     |   | Proceeds        | Realized gains | Realized loss |   |   |
| Available-for-sale: |   |                 |                |               |   |   |
| Equity securities   | ¥ | 536             | ¥              | 327           | ¥ | - |
| Debt securities     |   | -               |                | -             |   | - |
| Other               |   | -               |                | -             |   | - |
| Total               | ¥ | 536             | ¥              | 327           | ¥ | - |

|                     |   | Millions of Yen |                |               |   |   |
|---------------------|---|-----------------|----------------|---------------|---|---|
|                     |   | 2014            |                |               |   |   |
|                     |   | Proceeds        | Realized gains | Realized loss |   |   |
| Available-for-sale: |   |                 |                |               |   |   |
| Equity securities   | ¥ | 22              | ¥              | 15            | ¥ | - |
| Debt securities     |   | -               |                | -             |   | - |
| Other               |   | -               |                | -             |   | - |
| Total               | ¥ | 22              | ¥              | 15            | ¥ | - |

|                     | Thousands of U.S. dollars |                |               |
|---------------------|---------------------------|----------------|---------------|
|                     | 2015                      |                |               |
|                     | Proceeds                  | Realized gains | Realized loss |
| Available-for-sale: |                           |                |               |
| Equity securities   | \$ 4,366                  | \$ 2,659       | \$ -          |
| Debt securities     | -                         | -              | -             |
| Other               | -                         | -              | -             |
| Total               | \$ 4,366                  | \$ 2,659       | \$ -          |

## 6. Short-term Bank Loans, Long-term Debt and Lease Liabilities

### (1) Short-term bank loans, long-term debt and lease liabilities

Short-term bank loans at November 30, 2015 and 2014, consisted of notes and bank overdrafts. The annual interest rates applicable to the short-term bank loans averaged 0.4% and 0.5% at November 30, 2015 and 2014, respectively.

Long-term debt at November 30, 2015 and 2014, consisted of the following:

|  | Millions of Yen |          | Thousands of U.S. |
|--|-----------------|----------|-------------------|
|  |                 |          | dollars           |
|  | 2015            | 2014     | 2015              |
| Long-term loans payable maturing through 2023<br>(Average interest rates were 1.4% and 1.6% at<br>November 30, 2015 and 2014, respectively.) |                 |          |                   |
| Secured loans  | ¥ 12,240        | ¥ 13,770 | \$ 99,658         |
| Unsecured loans  | 32,314          | 37,319   | 263,093           |
| Bonds and convertible bonds with warrants  | 10,745          | 12,686   | 87,484            |
| Lease obligations  | 3,338           | 3,033    | 27,184            |
| Total  | ¥ 58,637        | ¥ 66,808 | \$ 477,419        |
| Less current portion   | (16,403)        | (9,347)  | (133,552)         |
| Long-term debt, less current portion   | ¥ 42,234        | ¥ 57,461 | \$ 343,867        |

The following is a summary of the terms for conversion and redemption of the convertible bonds with warrants:

#### Zero Coupon Convertible Bonds due 2018

|                                       |   |
|---------------------------------------|---|
| Conversion Price (*1)                 | ¥742                                      |
| Number of shares of common stock (*2) | 9,703,439                                 |
| Exercise Period                       | From September 3, 2013 to August 15, 2018 |

\*1: The conversion price is subject to adjustment for certain subsequent events such as the issue of common stock at less than market value and stock splits.

\*2: Number of shares of common stock is calculated on the assumption that all convertible bonds with warrants are converted.

#### Zero Coupon Convertible Bonds due 2019

|                                       |   |
|---------------------------------------|---|
| Conversion Price (*1)                 | ¥709                                      |
| Number of shares of common stock (*2) | 3,257,972                                 |
| Exercise Period                       | From October 3, 2014 to September 5, 2017 |

\*1: The conversion price is subject to adjustment for certain subsequent events such as the issue of common stock at less than market value and stock splits.

\*2: Number of shares of common stock is calculated on the assumption that all convertible bonds with warrants are converted.

Annual maturities of long-term debt, excluding finance leases, at November 30, 2015, were as follows:

| Years Ending<br>November 30 | Millions of Yen | Thousands of U.S.<br>dollars |
|-----------------------------|-----------------|------------------------------|
| 2016                        | ¥ 15,778        | \$ 128,460                   |
| 2017                        | 15,539          | 126,523                      |
| 2018                        | 15,796          | 128,611                      |
| 2019                        | 2,930           | 23,856                       |
| 2020                        | 1,530           | 12,457                       |
| 2021 and thereafter         | 4,590           | 37,372                       |
| Total                       | ¥ 56,163        | \$ 457,279                   |

Annual maturities of finance lease obligations at November 30, 2015, were as follows:

| Years Ending<br>November 30 | Millions of Yen | Thousands of U.S.<br>dollars |
|-----------------------------|-----------------|------------------------------|
| 2016                        | ¥ 625           | \$ 5,091                     |
| 2017                        | 440             | 3,582                        |
| 2018                        | 2,273           | 18,511                       |
| Total                       | ¥ 3,338         | \$ 27,184                    |

As is customary in Japan, the Company maintains substantial deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in the case of default and certain other specified events, all other debt payable to the banks. The Company has never been requested to provide any additional collateral.

The carrying amounts of assets pledged as collateral for the above collateralized long-term debt at November 30, 2015 and 2014, were as follows:

|  | Millions of Yen |          | Thousands of U.S.<br>dollars |
|--|-----------------|----------|------------------------------|
|  | 2015            | 2014     | 2015                         |
| Investments in consolidated subsidiaries | ¥ 16,741        | ¥ 16,741 | \$ 136,303                   |

## (2) Loan commitment

The Company has commitment line contracts with four banks for effective financing. The commitment amount, outstanding balance and available funds of these contracts as of November 30, 2015 and 2014, were as follows:

|                          | Millions of Yen |         | Thousands of U.S.<br>dollars |
|--------------------------|-----------------|---------|------------------------------|
|                          | 2015            | 2014    | 2015                         |
| Commitment line contract | ¥ 7,500         | ¥ 7,500 | \$ 61,065                    |
| Actual loan balance      | -               | 500     | -                            |
| Available funds          | ¥ 7,500         | ¥ 7,000 | \$ 61,065                    |

## (3) Financial covenants

The Group's interest-bearing debt includes financial covenants on the basis of certain indicators, namely, net assets and profits and others.

Long-term debt with financial covenants amount to long-term debt of ¥24,280 million and bonds and convertible bonds with warrants of ¥9,510 million at November 30, 2015.

## 7. Liability for Employees' Retirement Benefits

The Company and certain domestic subsidiaries have severance lump-sum payment plans and defined contribution pension plans. Certain overseas subsidiaries have severance lump-sum payment plans and defined contribution plans.

### Defined benefit pension plans

- (1) The changes in defined benefit obligation for the years ended November 30, 2015 and 2014, were as follows (including the benefit plan for which the simplified method was applied):

|  | Millions of Yen |         | Thousands of<br>U.S. dollars |
|--|-----------------|---------|------------------------------|
|  | 2015            | 2014    | 2015                         |
| Balance at beginning of year                         | ¥ 3,319         | ¥ 2,964 | \$ 27,021                    |
| Cumulative effects of changes in accounting policies | -               | 15      | -                            |
| Restated balance                                     | 3,319           | 2,979   | 27,021                       |
| Service cost   | 218             | 152     | 1,771                        |
| Interest cost  | 47              | 60      | 385                          |
| Actuarial losses                                     | 58              | 225     | 474                          |
| Benefits paid  | (215)           | (197)   | (1,751)                      |
| Foreign currency translation adjustments             | (219)           | 100     | (1,783)                      |
| Balance at end of year                               | ¥ 3,208         | ¥ 3,319 | \$ 26,117                    |

- (2) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation as of November 30, 2015 and 2014, were as follows:

|   | Millions of Yen |         | Thousands of<br>U.S. dollars |
|---|-----------------|---------|------------------------------|
|   | 2015            | 2014    | 2015                         |
| Unfunded defined benefit obligation                   | ¥ 3,208         | ¥ 3,319 | \$ 26,117                    |
| Net liability arising from defined benefit obligation | ¥ 3,208         | ¥ 3,319 | \$ 26,117                    |
| Liability for retirement benefits                     | ¥ 3,208         | ¥ 3,319 | \$ 26,117                    |
| Net liability arising from defined benefit obligation | ¥ 3,208         | ¥ 3,319 | \$ 26,117                    |

- (3) The components of net periodic benefit costs for the years ended November 30, 2015 and 2014, were as follows (including the benefit plan for which the simplified method was applied):

|                                     | Millions of Yen |       | Thousands of<br>U.S. dollars |
|-------------------------------------|-----------------|-------|------------------------------|
|                                     | 2015            | 2014  | 2015                         |
| Service cost                        | ¥ 218           | ¥ 152 | \$ 1,771                     |
| Interest cost                       | 47              | 60    | 385                          |
| Recognized actuarial losses (gains) | 21              | (4)   | 168                          |
| Others                              | 5               | 5     | 45                           |
| Net periodic benefit costs          | ¥ 291           | ¥ 213 | \$ 2,369                     |

- (4) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of November 30, 2015 and 2014, were as follows:

|                  | Millions of Yen |        | Thousands of<br>U.S. dollars |
|------------------|-----------------|--------|------------------------------|
|                  | 2015            | 2014   | 2015                         |
| Actuarial losses | ¥ (298)         | ¥ (15) | \$ (2,427)                   |
| Total            | ¥ (298)         | ¥ (15) | \$ (2,427)                   |

- (5) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of November 30, 2015 and 2014, were as follows:

|                                       | Millions of Yen |       | Thousands of<br>U.S. dollars |
|---------------------------------------|-----------------|-------|------------------------------|
|                                       | 2015            | 2014  | 2015                         |
| Unrecognized actuarial (losses) gains | ¥ (149)         | ¥ 149 | \$ (1,215)                   |
| Total                                 | ¥ (149)         | ¥ 149 | \$ (1,215)                   |

- (6) Assumption mainly used for the years ended November 30, 2015 and 2014, was as follows:

|               | 2015        | 2014        |
|---------------|-------------|-------------|
| Discount rate | 1.0% - 2.0% | 1.0% - 2.0% |

#### Defined contribution plan

The amount of contribution required for the defined contribution plan paid by the Group was ¥85 million (\$691 thousand) and ¥75 million for the years ended November 30, 2015 and 2014, respectively.

## 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:

### (1) 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. 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 is prescribed as one year rather than two years of normal 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 cannot do so because it does not. 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 are 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 yen.

### (2) 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 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 under certain conditions upon resolution of the shareholders.

### (3) 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 a normal effective statutory tax rate of approximately 35.3% and 37.8% for the years ended November 30, 2015 and 2014, respectively. The details related to deferred tax are as follows:

|  | Millions of Yen |           | Thousands of |
|--|-----------------|-----------|--------------|
|  | 2015            | 2014      | U.S. dollars |
| Deferred tax assets:                         |                 |           |              |
| Tax loss carryforwards                       | ¥ 2,062         | ¥ 1,847   | \$ 16,785    |
| Other allowance                              | 1,151           | 803       | 9,369        |
| Allowance for retirement benefits            | 872             | 950       | 7,104        |
| Impairment loss                              | 484             | 746       | 3,939        |
| Inventories                                  | 411             | 420       | 3,346        |
| Provision for business structure improvement | 320             | 409       | 2,605        |
| Advances received                            | 276             | -         | 2,245        |
| Accrued bonus                                | 234             | 229       | 1,903        |
| Allowance for doubtful accounts              | 131             | 143       | 1,071        |
| After-care of products                       | 89              | 297       | 727          |
| Land   | 44              | 95        | 362          |
| Other  | 877             | 1,265     | 7,141        |
| Valuation allowance                          | (3,404)         | (3,410)   | (27,718)     |
| Total  | ¥ 3,547         | ¥ 3,794   | \$ 28,879    |
| Deferred tax liabilities:                    |                 |           |              |
| Unrealized gain on investments               | ¥ (2,163)       | ¥ (2,029) | \$ (17,614)  |
| Deferred gain on exchange of lands           | (523)           | (573)     | (4,254)      |
| In-process research and development          | (26)            | (207)     | (214)        |
| Other  | (294)           | (410)     | (2,395)      |
| Total  | ¥ (3,006)       | ¥ (3,219) | \$ (24,477)  |
| Net deferred tax assets                      | ¥ 541           | ¥ 575     | \$ 4,402     |

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of operations for the years ended November 30, 2015 and 2014, is as follows:

|  | 2015   | 2014    |
|--|--------|---------|
| Statutory effective tax rate                     | 35.3 % | 37.8 %  |
| Valuation allowance                              | 35.9   | 29.9    |
| Difference in subsidiaries' tax rates            | (3.6)  | 33.7    |
| Expenses not deductible for income tax purposes  | 1.2    | 16.8    |
| Revenue not taxable for income tax purposes      | (5.2)  | (5.0)   |
| Per capita inhabitant tax                        | 1.8    | 6.9     |
| Tax credit for research and development expenses | (6.0)  | (2.1)   |
| Amortization of goodwill                         | 7.5    | 32.1    |
| Deferred (loss) gain on sales of property        | (5.4)  | 28.8    |
| Effect of tax rate reduction                     | 4.5    | 11.0    |
| Corporate income tax for prior years             | 23.6   | 3.8     |
| Other, net                                       | (2.2)  | (1.4)   |
| Accrual effective tax rate                       | 87.4 % | 192.3 % |

New tax reform laws enacted in 2015 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2015, to approximately 32.8% and for the fiscal year beginning on or after April 1, 2016, to approximately 32.1%. The effect of this change on the consolidated financial statements is not material.

## 10. Research and Development Costs

Research and development costs charged to income were ¥6,436 million (\$52,401 thousand) and ¥6,081 million for the years ended November 30, 2015 and 2014, respectively.

## 11. Other Income (Expenses)

Gain on sales of property, plant and equipment:

It is mainly gain from sales of land and buildings and structures of old plants in Hiroshima (Kaita) and China (Zhongshan) for the year ended November 30, 2014.

Subsidy income:

During the year ended November 30, 2014, the Company received subsidy income granted by a local government toward the establishment of a new plant in Hiroshima.

Insurance income:

During the year ended November 30, 2014, the Company received insurance covering costs related to replacing defective products for the year ended November 30, 2012.

Currency swap income:

These mainly include valuation gains incurred from the currency swap contract to reduce exposure to fluctuations in foreign exchange rates on loans to a subsidiary for the year ended November 30, 2015, because of the depreciation of the euro due to the quantitative easing and other actions by the European Central Bank. Also, valuation losses on foreign exchange rates resulting from the loan are recognized.

Currency swap expenses:

These mainly include valuation losses incurred from the currency swap contract to reduce exposure to fluctuations in foreign exchange rates on loans to a subsidiary for the year ended November 30, 2014, because of the rapid depreciation of the Japanese yen from the end of October 2014. Also, valuation gain on foreign exchange rates resulting from the loan is recognized.

Business integration related expenses:

This includes legal fees, costs of a trademark change, etc., which are related to the business combination in May 2013 for the year ended November 30, 2014.

Loss on product warranties:

This is an estimated amount of future potential costs related to replacing defective products for the years ended November 30, 2015 and 2014.

Provision for business structure improvement expenses:

This is a provision for restructuring factories, production lines, etc., for the years ended November 30, 2015 and 2014.

Settlement payment:

This is a payment for which the Group did not acquire the shares of Minda Valeo Security Systems Private Limited owned by Valeo S.A., which the Group had previously negotiated to acquire for the year ended November 30, 2014.

Loss on cancellation of contracts:

This is a payment for the cancellation of sales representation agreement contracts with C.T. Charlton & Associates, Inc. for the year ended November 30, 2014.

## 12. Related Party Disclosures

Transactions of the Company with associated companies for the years ended November 30, 2015 and 2014, were as follows:

|                                     | Millions of Yen |      | Thousands of |    |   |   |
|-------------------------------------|-----------------|------|--------------|----|---|---|
|                                     | 2015            | 2014 | U.S. dollars |    |   |   |
|                                     |                 |      | 2015         |    |   |   |
| C.T. Charlton & Associates, Inc.    |                 |      |              |    |   |   |
| Commission for sales representation | ¥               | -    | ¥            | 22 | ¥ | - |

### 13. Financial Instruments and Related Disclosures

#### (1) Policy for financial instruments

The Company uses financial instruments, mainly bank loans, bonds and capital increase for fundraising. Derivatives are not used for speculative purposes, but to manage financial risks as described below. The Group manages exposure to credit risk by limiting investments to highly liquid and high credit rated financial instruments.

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

Operating credit such as notes and accounts receivable are exposed to customers' credit risk, but the Company manages due dates and balances by customer, by identifying and responding to default risks at an early stage. Investment securities are mainly stocks and short-term monetary trusts related to safe investments. Although stocks are exposed to risks of fluctuation in market price, they are mainly composed of stocks of companies with which the Company has business relationships, and the Company periodically updates the fair value of listed companies' stocks in order to manage the risk of loss.

The due date of payment for operating debts such as notes and accounts payable is within one year.

Some bank loans are funds raised related to equipment funds and operation funds are exposed to the risk of fluctuation in interest rate.

The Company uses derivative transactions (interest rate swaps) as a means of hedging against the risks of fluctuation in payment interest rates and to fix interest expense.

Derivatives consist primarily of exchange-forward swaps and interest rate swaps. They are used to manage exposure to market risks from changes in foreign currency exchange rates or risks of fluctuation in interest rates. Please see Note 14 for more details about derivatives.

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations. The Group manages its liquidity risk based on analysis of each cash flow plan from each of its departments.

#### (3) Supplemental explanation regarding fair value of financial instruments

Fair value of financial instruments is measured based on quoted market prices if available, or reasonably assessed value if a quoted market price is not available. Fair value of financial instruments for which a quoted market price is not available is calculated based on certain assumptions, and the fair value might differ if different assumptions are used. In addition, the contract amount of the derivative transactions described in Note 14 does not represent the market risk of the derivative transactions.

#### (4) 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.

## (5) Fair value of financial instruments as of November 30, 2015 and 2014.

|  | Millions of Yen |            |                      |  |
|--|-----------------|------------|----------------------|--|
|  | 2015            |            |                      |  |
|  | Carrying amount | Fair value | Unrealized gain/loss |  |
| Cash and cash equivalents  | ¥ 23,719        | ¥ 23,719   | ¥ -                  |  |
| Time deposits  | -               | -          | -                    |  |
| Trade notes and accounts receivable                                  | 33,255          |            |                      |  |
| Allowance for doubtful accounts                                      | (180)           |            |                      |  |
|  | 33,075          | 33,075     | -                    |  |
| Investment securities  | 13,273          | 13,273     | -                    |  |
| Investments in unconsolidated subsidiaries and an associated company | 125             | 333        | 208                  |  |
| Total  | ¥ 70,192        | ¥ 70,400   | ¥ 208                |  |
| Trade notes and accounts payable                                     | ¥ 22,037        | ¥ 22,037   | ¥ -                  |  |
| Electronically recorded monetary obligations-operating               | 7,200           | 7,200      | -                    |  |
| Short-term bank loans  | 3,333           | 3,333      | -                    |  |
| Current portion of long-term bonds                                   | 400             | 399        | (1)                  |  |
| Current portion of long-term bank loans                              | 15,378          | 15,409     | 31                   |  |
| Long-term bonds and convertible bonds with warrants                  | 10,345          | 10,331     | (14)                 |  |
| Long-term bank loans   | 29,176          | 29,368     | 192                  |  |
| Lease obligations  | 3,338           | 3,431      | 93                   |  |
| Total  | ¥ 91,207        | ¥ 91,508   | ¥ 301                |  |
| Derivative transactions  | ¥ (74)          | ¥ (74)     | ¥ -                  |  |

|  | Millions of Yen |            |                      |  |
|--|-----------------|------------|----------------------|--|
|  | 2014            |            |                      |  |
|  | Carrying amount | Fair value | Unrealized gain/loss |  |
| Cash and cash equivalents  | ¥ 27,414        | ¥ 27,414   | ¥ -                  |  |
| Time deposits  | 100             | 100        | -                    |  |
| Trade notes and accounts receivable                                  | 36,123          |            |                      |  |
| Allowance for doubtful accounts                                      | (178)           |            |                      |  |
|  | 35,945          | 35,945     | -                    |  |
| Investment securities  | 11,213          | 11,213     | -                    |  |
| Investments in unconsolidated subsidiaries and an associated company | 125             | 385        | 260                  |  |
| Total  | ¥ 74,797        | ¥ 75,057   | ¥ 260                |  |
| Trade notes and accounts payable                                     | ¥ 24,459        | ¥ 24,459   | ¥ -                  |  |
| Electronically recorded monetary obligations-operating               | 7,690           | 7,690      | -                    |  |
| Short-term bank loans  | 2,575           | 2,575      | -                    |  |
| Current portion of long-term bonds                                   | 400             | 399        | (1)                  |  |
| Current portion of long-term bank loans                              | 8,536           | 8,592      | 56                   |  |
| Long-term bonds and convertible bonds with warrants                  | 12,286          | 12,264     | (22)                 |  |
| Long-term bank loans   | 42,553          | 43,562     | 1,009                |  |
| Lease obligations  | 3,033           | 3,052      | 19                   |  |
| Total  | ¥ 101,532       | ¥ 102,593  | ¥ 1,061              |  |
| Derivative transactions  | ¥ (1,912)       | ¥ (1,912)  | ¥ -                  |  |

|  | Thousands of U.S. dollars |                   |                         |
|--|---------------------------|-------------------|-------------------------|
|  | 2015                      |                   |                         |
|  | Carrying<br>amount        | Fair value        | Unrealized<br>gain/loss |
| Cash and cash equivalents  | \$ 193,122                | \$ 193,122        | \$ -                    |
| Time deposits  | -                         | -                 | -                       |
| Trade notes and accounts receivable                                  | 270,760                   |                   |                         |
| Allowance for doubtful accounts                                      | (1,464)                   |                   |                         |
|  | <u>269,296</u>            | <u>269,296</u>    | <u>-</u>                |
| Investment securities  | 108,065                   | 108,065           | -                       |
| Investments in unconsolidated subsidiaries and an associated company | 1,020                     | 2,711             | 1,691                   |
| Total  | <u>\$ 571,503</u>         | <u>\$ 573,194</u> | <u>\$ 1,691</u>         |
| Trade notes and accounts payable                                     | \$ 179,424                | \$ 179,424        | \$ -                    |
| Electronically recorded monetary obligations-operating               | 58,624                    | 58,624            | -                       |
| Short-term bank loans  | 27,136                    | 27,136            | -                       |
| Current portion of long-term bonds                                   | 3,257                     | 3,248             | (9)                     |
| Current portion of long-term bank loans                              | 125,204                   | 125,460           | 256                     |
| Long-term bonds and convertible bonds with warrants                  | 84,227                    | 84,117            | (110)                   |
| Long-term bank loans   | 237,547                   | 239,114           | 1,567                   |
| Lease obligations  | 27,184                    | 27,938            | 754                     |
| Total  | <u>\$ 742,603</u>         | <u>\$ 745,061</u> | <u>\$ 2,458</u>         |
| Derivative transactions  | \$ (599)                  | \$ (599)          | \$ -                    |

Cash and cash equivalents, Time deposits and Trade notes and accounts receivable

The carrying amounts of "Cash and cash equivalents", "Time deposits" and "Trade notes and accounts receivable" approximate fair value because they are settled in the short-term.

Investment securities, Investments in unconsolidated subsidiaries and an associated company

The fair values of investment securities are measured at the quoted market price of the stock exchange for stocks, and at quoted market prices obtained from the financial institution for investment trusts.

Trade notes and accounts payable, Electronically recorded monetary obligations-operating and Short-term loans

The carrying amounts of "Trade notes and accounts payable" and "Electronically recorded monetary claims-operating" approximate fair value because they are settled in the short-term.

Current portion of long-term bonds, Long-term bonds and convertible bonds with warrants

The fair values of bonds and convertible bonds with warrants are calculated by discounting the total amounts of principal and interest to present value using the interest rate assumed when similar new bonds are issued.

Current portion of long-term bank loans, Long-term bank loans and Lease obligations

The fair values of long-term bank loans and lease obligations are calculated by discounting the total amounts of principal and interest to present value using the interest rate assumed when a similar new borrowing or lease transaction occurs.

Long-term bank loans with interest rate swaps which qualify for hedge accounting and meet specific matching criteria are calculated by discounting principal and interest transacted together with the payments on the interest rate swap to present value using the interest rate adapted and rationally estimated when a similar borrowing occurs.

Derivatives

Since interest rate swaps that qualify for hedge accounting and meet specific matching criteria are transacted together with long-term bank loans which are considered as the hedge objects, those fair values are also included in the fair values of long-term bank loans. Fair value information is included in Note 14.

## (6) Carrying amount of financial instruments whose fair values cannot be reliably determined

|                      | Millions of Yen |       | Thousands of U.S. dollars |  |
|----------------------|-----------------|-------|---------------------------|--|
|                      | 2015            | 2014  | 2015                      |  |
| Subsidiaries' stocks | ¥ 365           | ¥ 393 | \$ 2,971                  |  |
| Unlisted stocks      | ¥ 116           | ¥ 117 | \$ 948                    |  |

## (7) Maturity analysis for financial credit and securities with maturity after the date of consolidation

|                                     | Millions of Yen         |                                       |  |                     |
|-------------------------------------|-------------------------|---------------------------------------|--|---------------------|
|                                     | 2015                    |                                       |  |                     |
|                                     | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years |
| Cash and cash equivalents           | ¥ 23,719                | ¥ -                                   | ¥ -                                    | ¥ -                 |
| Trade notes and accounts receivable | 33,255                  | -                                     | -                                      | -                   |
| Total                               | ¥ 56,974                | ¥ -                                   | ¥ -                                    | ¥ -                 |

|                                     | Millions of Yen         |                                       |  |                     |
|-------------------------------------|-------------------------|---------------------------------------|--|---------------------|
|                                     | 2014                    |                                       |  |                     |
|                                     | Due in one year or less | Due after one year through five years | Due after five years through ten years | Due after ten years |
| Cash and cash equivalents           | ¥ 27,414                | ¥ -                                   | ¥ -                                    | ¥ -                 |
| Time deposits                       | 100                     | -                                     | -                                      | -                   |
| Trade notes and accounts receivable | 36,123                  | -                                     | -                                      | -                   |
| Total                               | ¥ 63,637                | ¥ -                                   | ¥ -                                    | ¥ -                 |

|                                     | Thousands of U.S. dollars |                                       |  |                     |
|-------------------------------------|---------------------------|---------------------------------------|--|---------------------|
|                                     | 2015                      |                                       |  |                     |
|                                     | Due in one year or less   | Due after one year through five years | Due after five years through ten years | Due after ten years |
| Cash and cash equivalents           | \$ 193,122                | \$ -                                  | \$ -                                   | \$ -                |
| Trade notes and accounts receivable | 270,760                   | -                                     | -                                      | -                   |
| Total                               | \$ 463,882                | \$ -                                  | \$ -                                   | \$ -                |

## 14. Derivatives

The Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Group also enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated within the Group's business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of the hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

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

(1) Derivative transactions to which hedge accounting is not applied as of November 30, 2015 and 2014.

|                                    |                 |                                    |            |                        | Millions of Yen |  |
|------------------------------------|-----------------|------------------------------------|------------|------------------------|-----------------|--|
|                                    |                 |                                    |            |                        | 2015            |  |
|                                    | Contract amount | Contract amount due after one year | Fair value | Unrealized gain (loss) |                 |  |
| Foreign currency forward contracts |                 |                                    |            |                        |                 |  |
| Selling USD                        | ¥ 8,880         | ¥ -                                | ¥ (118)    | ¥                      | (118)           |  |
| Selling EUR                        | 11,604          | -                                  | 442        | ¥                      | 442             |  |
| Total                              | ¥ 20,484        | ¥ -                                | ¥ 324      | ¥                      | 324             |  |

|                                    |                 |                                    |            |                        | Millions of Yen |  |
|------------------------------------|-----------------|------------------------------------|------------|------------------------|-----------------|--|
|                                    |                 |                                    |            |                        | 2014            |  |
|                                    | Contract amount | Contract amount due after one year | Fair value | Unrealized gain (loss) |                 |  |
| Foreign currency forward contracts |                 |                                    |            |                        |                 |  |
| Selling USD                        | ¥ 10,194        | ¥ -                                | ¥ (1)      | ¥                      | (1)             |  |
| Selling EUR                        | 781             | -                                  | (0)        | ¥                      | (0)             |  |
| Currency swap                      |                 |                                    |            |                        |                 |  |
| Selling EUR                        | 13,169          | 12,476                             | (1,911)    | ¥                      | (1,911)         |  |
| Buying JPY                         | 11              | -                                  | 0          | ¥                      | 0               |  |
| Total                              | ¥ 24,155        | ¥ 12,476                           | ¥ (1,912)  | ¥                      | (1,912)         |  |

|                                    |                 |                                    |            |                        | Thousands of U.S. dollars |  |
|------------------------------------|-----------------|------------------------------------|------------|------------------------|---------------------------|--|
|                                    |                 |                                    |            |                        | 2015                      |  |
|                                    | Contract amount | Contract amount due after one year | Fair value | Unrealized gain (loss) |                           |  |
| Foreign currency forward contracts |                 |                                    |            |                        |                           |  |
| Selling USD                        | \$ 72,301       | \$ -                               | \$ (961)   | \$                     | (961)                     |  |
| Selling EUR                        | 94,476          | -                                  | 3,599      | \$                     | 3,599                     |  |
| Total                              | \$ 166,777      | \$ -                               | \$ 2,638   | \$                     | 2,638                     |  |

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

(2) Derivative transactions to which hedge accounting is applied as of November 30, 2015 and 2014.

|   |                      | Millions of Yen |                                    |            |        |
|---|----------------------|-----------------|------------------------------------|------------|--------|
|   |                      | 2015            |                                    |            |        |
|   | Hedge item           | Contract amount | Contract amount due after one year | Fair value |        |
| Interest rate swaps:                      |                      |                 |                                    |            |        |
| floating rate receipt, fixed rate payment | Long-term bank loans | ¥ 19,358        | ¥ 8,962                            | ¥          | Note 1 |
| floating rate receipt, fixed rate payment | Long-term bank loans | 7,650           | 7,650                              |            | (153)  |
| Total                                     |                      | ¥ 27,008        | ¥ 16,612                           | ¥          | (153)  |

|   |                      | Millions of Yen |                                    |            |        |
|---|----------------------|-----------------|------------------------------------|------------|--------|
|   |                      | 2014            |                                    |            |        |
|   | Hedge item           | Contract amount | Contract amount due after one year | Fair value |        |
| Interest rate swaps:                      |                      |                 |                                    |            |        |
| floating rate receipt, fixed rate payment | Long-term bank loans | ¥ 37,165        | ¥ 31,480                           | ¥          | Note 1 |

|   |                      | Thousands of U.S. dollars |                                    |            |         |
|---|----------------------|---------------------------|------------------------------------|------------|---------|
|   |                      | 2015                      |                                    |            |         |
|   | Hedge item           | Contract amount           | Contract amount due after one year | Fair value |         |
| Interest rate swaps:                      |                      |                           |                                    |            |         |
| floating rate receipt, fixed rate payment | Long-term bank loans | \$ 157,609                | \$ 72,965                          | \$         | Note 1  |
| floating rate receipt, fixed rate payment | Long-term bank loans | 62,286                    | 62,286                             |            | (1,246) |
| Total                                     |                      | \$ 219,895                | \$ 135,251                         | \$         | (1,246) |

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

Note 1

Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are accounted for together with long-term debt designated as the hedged item. Therefore, their fair values are included in the fair value of the hedged long-term debt.

## 15. Comprehensive Income

The components of other comprehensive income for the years ended November 30, 2015 and 2014, were as follows:

|   | Millions of Yen |         | Thousands of<br>U.S. dollars |
|---|-----------------|---------|------------------------------|
|   | 2015            | 2014    | 2015                         |
| Unrealized gain on available-for-sale securities    |                 |         |                              |
| Gains arising during the year                       | ¥ 1,332         | ¥ 1,019 | \$ 10,839                    |
| Reclassification adjustments to profit or loss      | (327)           | -       | (2,659)                      |
| Amount before income tax effect                     | 1,005           | 1,019   | 8,180                        |
| Income tax effect                                   | (135)           | (362)   | (1,096)                      |
| Total   | ¥ 870           | ¥ 657   | \$ 7,084                     |
| Deferred loss on derivatives under hedge accounting |                 |         |                              |
| Gains arising during the year                       | ¥ (153)         | ¥ -     | \$ (1,246)                   |
| Reclassification adjustments to profit or loss      | -               | -       | -                            |
| Amount before income tax effect                     | (153)           | -       | (1,246)                      |
| Income tax effect                                   | 30              | -       | 248                          |
| Total   | ¥ (123)         | ¥ -     | \$ (998)                     |
| Foreign currency translation adjustments            |                 |         |                              |
| Adjustments arising during the year                 | ¥ (2,822)       | ¥ 3,120 | \$ (22,978)                  |
| Total   | ¥ (2,822)       | ¥ 3,120 | \$ (22,978)                  |
| Defined retirement benefit plans                    |                 |         |                              |
| Gains arising during the year                       | ¥ (319)         | ¥ (22)  | \$ (2,595)                   |
| Reclassification adjustments to profit or loss      | 21              | 7       | 168                          |
| Amount before income tax effect                     | (298)           | (15)    | (2,427)                      |
| Income tax effect                                   | 90              | 10      | 732                          |
| Total   | ¥ (208)         | ¥ (5)   | \$ (1,695)                   |
| Total other comprehensive (loss) income             | ¥ (2,283)       | ¥ 3,772 | \$ (18,587)                  |

## 16. Net Income per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the year ended November 30, 2015 is as follows:

|   | Millions of<br>Yen | Thousands<br>of Shares         | Yen    | U.S. dollars |
|---|--------------------|--------------------------------|--------|--------------|
|   | Net Income         | Weighted-<br>Average<br>Shares | EPS    | EPS          |
| Year ended November 30, 2015                            |                    |                                |        |              |
| Basic EPS - Net income available to common shareholders | ¥ 227              | ¥ 26,699                       | ¥ 8.49 | \$ 0.07      |
| Effect of dilutive securities - Convertible bonds       | -                  | 434                            |        |              |
| Diluted EPS - Net income for computation                | ¥ 227              | ¥ 27,133                       | ¥ 8.36 | \$ 0.07      |

Diluted net EPS for the year ended November 30, 2014 is not disclosed as there were no potentially dilutive securities for the year ended November 30, 2014.

## 17. Subsequent Events

### a. Establishment of a subsidiary

The Board of Directors approved the establishment of a subsidiary in China on December 22, 2015. The details are as follows:

#### (1) Purpose

Because U-Shin Access Systems (Wuxi) CO., LTD. which is a manufacturing subsidiary in China, has almost reached the limit of its production capacity, the Company intends to newly establish a subsidiary in Wuxi, where U-Shin Access Systems (Wuxi) CO., LTD. operates the business, and build a new plant for production capacity expansion and improvement of the production efficiency for future business expansion.

#### (2) Outline of subsidiary to be established

|                     |   |
|---------------------|---|
| Corporate name      | U-Shin Manufacturing (Wuxi) Co., Ltd.     |
| Location            | Wuxi, Jiangsu Province, China             |
| Share capital       | \$30 million (¥3,600 million) (Planned)   |
| Business activities | Manufacture and sales of automotive parts |
| Establishment       | March 2016 (Planned)                      |
| Shareholder         | U-SHIN LTD. 100%                          |

### b. Commitment line agreement

The Company concluded an agreement with Sumitomo Mitsui Banking Corporation in order to improve its financial balance and capital efficiency and to secure the mobility and stability of fundraising.

#### Outline of agreement

|                               |   |
|-------------------------------|---|
| Credit lines for fund raising | ¥10,000 million   |
| Date of agreement             | February 12, 2016   |
| Term of commitment            | From February 12, 2016 to February 11, 2019 (Three years) |

### c. Appropriations of Retained Earnings

The following appropriation of retained earnings at November 30, 2015 was approved at the shareholders' meeting held on February 26, 2016:

|  | <u>Millions of Yen</u> | <u>Thousands of<br/>U.S. dollars</u> |
|--|------------------------|--------------------------------------|
| Year-end cash dividends, ¥ 5 (\$ 0.04) per share | ¥ 139                  | \$ 1,128                             |

## 18. 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 reporting segments

The Group's reporting 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's reporting segments consist of the automotive, industrial equipment, and home security units businesses. The automotive business consists of products such as lock sets, electric steering locks, door latches, climate control panels, door handles, switches, keyless entry, and so on. The industrial equipment business consists of instruments for agricultural/construction/and industrial equipment and machine tools, wire harnesses, switches, controllers, lamps, operator seats, and so on. The home security units business consists of locks for hotels, residential and commercial buildings, cylinders, handle sets, electric locks, and so on.

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

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

### (3) Information about sales, profit (loss), assets, and other items

|                                 | Millions of Yen        |                                     |                                    |                 |              |  |
|---------------------------------|------------------------|-------------------------------------|------------------------------------|-----------------|--------------|--|
|                                 | 2015                   |                                     |                                    |                 |              |  |
|                                 | Automotive<br>Division | Industrial<br>Equipment<br>Division | Home<br>Security Units<br>Division | Reconciliations | Consolidated |  |
| Net sales:                      |                        |                                     |                                    |                 |              |  |
| Sales to external customers     | ¥ 141,366              | ¥ 20,568                            | ¥ 2,295                            | ¥ -             | ¥ 164,229    |  |
| Intersegment sales or transfers | 269                    | 88                                  | 9                                  | (366)           | -            |  |
| Total                           | ¥ 141,635              | ¥ 20,656                            | ¥ 2,304                            | ¥ (366)         | ¥ 164,229    |  |
| Segment profit                  | ¥ 4,780                | ¥ 2,417                             | ¥ 98                               | ¥ (2,579)       | ¥ 4,716      |  |
| Depreciation and amortization   | ¥ 8,257                | ¥ 85                                | ¥ 90                               | ¥ 89            | ¥ 8,521      |  |

|                                 | Millions of Yen        |                                     |                                    |                 |              |  |
|---------------------------------|------------------------|-------------------------------------|------------------------------------|-----------------|--------------|--|
|                                 | 2014                   |                                     |                                    |                 |              |  |
|                                 | Automotive<br>Division | Industrial<br>Equipment<br>Division | Home<br>Security Units<br>Division | Reconciliations | Consolidated |  |
| Net sales:                      |                        |                                     |                                    |                 |              |  |
| Sales to external customers     | ¥ 132,460              | ¥ 21,149                            | ¥ 2,376                            | ¥ -             | ¥ 155,985    |  |
| Intersegment sales or transfers | 243                    | 159                                 | 28                                 | (430)           | -            |  |
| Total                           | ¥ 132,703              | ¥ 21,308                            | ¥ 2,404                            | ¥ (430)         | ¥ 155,985    |  |
| Segment profit                  | ¥ 3,691                | ¥ 2,475                             | ¥ 133                              | ¥ (3,224)       | ¥ 3,075      |  |
| Depreciation and amortization   | ¥ 7,778                | ¥ 76                                | ¥ 103                              | ¥ 69            | ¥ 8,026      |  |

|                                 | Thousands of U.S. dollars |                                     |                                    |                 |              |
|---------------------------------|---------------------------|-------------------------------------|------------------------------------|-----------------|--------------|
|                                 | 2015                      |                                     |                                    |                 |              |
|                                 | Automotive<br>Division    | Industrial<br>Equipment<br>Division | Home<br>Security Units<br>Division | Reconciliations | Consolidated |
| Net sales:                      |                           |                                     |                                    |                 |              |
| Sales to external customers     | \$ 1,151,005              | \$ 167,467                          | \$ 18,681                          | \$ -            | \$ 1,337,153 |
| Intersegment sales or transfers | 2,187                     | 718                                 | 75                                 | (2,980)         | -            |
| Total                           | \$ 1,153,192              | \$ 168,185                          | \$ 18,756                          | \$ (2,980)      | \$ 1,337,153 |
| Segment profit                  | \$ 38,921                 | \$ 19,682                           | \$ 802                             | \$ (21,011)     | \$ 38,394    |
| Depreciation and amortization   | \$ 67,230                 | \$ 691                              | \$ 734                             | \$ 725          | \$ 69,380    |

(4) Information about impairment loss of assets by reportable segments

|                             | Millions of Yen        |                                     |                                    |                 |              |
|-----------------------------|------------------------|-------------------------------------|------------------------------------|-----------------|--------------|
|                             | 2015                   |                                     |                                    |                 |              |
|                             | Automotive<br>Division | Industrial<br>Equipment<br>Division | Home<br>Security Units<br>Division | Reconciliations | Consolidated |
| Impairment losses of assets | ¥ -                    | ¥ -                                 | ¥ -                                | ¥ -             | ¥ -          |

|                             | Millions of Yen        |                                     |                                    |                 |              |
|-----------------------------|------------------------|-------------------------------------|------------------------------------|-----------------|--------------|
|                             | 2014                   |                                     |                                    |                 |              |
|                             | Automotive<br>Division | Industrial<br>Equipment<br>Division | Home<br>Security Units<br>Division | Reconciliations | Consolidated |
| Impairment losses of assets | ¥ 101                  | ¥ -                                 | ¥ -                                | ¥ -             | ¥ 101        |

|                             | Thousands of U.S. dollars |                                     |                                    |                 |              |
|-----------------------------|---------------------------|-------------------------------------|------------------------------------|-----------------|--------------|
|                             | 2015                      |                                     |                                    |                 |              |
|                             | Automotive<br>Division    | Industrial<br>Equipment<br>Division | Home<br>Security Units<br>Division | Reconciliations | Consolidated |
| Impairment losses of assets | \$ -                      | \$ -                                | \$ -                               | \$ -            | \$ -         |

(5) Information about amortization of goodwill and goodwill by reportable segments

|                               | Millions of Yen        |                                     |                                    |                 |              |
|-------------------------------|------------------------|-------------------------------------|------------------------------------|-----------------|--------------|
|                               | 2015                   |                                     |                                    |                 |              |
|                               | Automotive<br>Division | Industrial<br>Equipment<br>Division | Home<br>Security Units<br>Division | Reconciliations | Consolidated |
| Amortization of goodwill      | ¥ 385                  | ¥ -                                 | ¥ -                                | ¥ -             | ¥ 385        |
| Goodwill at November 30, 2015 | 6,426                  | -                                   | -                                  | -               | 6,426        |

|                               | Millions of Yen        |                                     |                                    |                 |              |
|-------------------------------|------------------------|-------------------------------------|------------------------------------|-----------------|--------------|
|                               | 2014                   |                                     |                                    |                 |              |
|                               | Automotive<br>Division | Industrial<br>Equipment<br>Division | Home<br>Security Units<br>Division | Reconciliations | Consolidated |
| Amortization of goodwill      | ¥ 397                  | ¥ -                                 | ¥ -                                | ¥ -             | ¥ 397        |
| Goodwill at November 30, 2014 | 7,701                  | -                                   | -                                  | -               | 7,701        |

|                               | Thousands of U.S. dollars |                                     |                                    |                 |              |
|-------------------------------|---------------------------|-------------------------------------|------------------------------------|-----------------|--------------|
|                               | 2015                      |                                     |                                    |                 |              |
|                               | Automotive<br>Division    | Industrial<br>Equipment<br>Division | Home<br>Security Units<br>Division | Reconciliations | Consolidated |
| Amortization of goodwill      | \$ 3,136                  | \$ -                                | \$ -                               | \$ -            | \$ 3,136     |
| Goodwill at November 30, 2015 | 52,317                    | -                                   | -                                  | -               | 52,317       |

(6) Information about geographical areas

(a) Net Sales

|            | Millions of Yen |           | Thousands of<br>U.S. dollars |
|------------|-----------------|-----------|------------------------------|
|            | 2015            | 2014      | 2015                         |
| Net Sales: |                 |           |                              |
| Japan      | ¥ 59,003        | ¥ 50,406  | \$ 480,406                   |
| U.S.A.     | 3,180           | 1,912     | 25,893                       |
| Europe     | 62,062          | 70,464    | 218,933                      |
| Asia       | 26,889          | 21,609    | 505,311                      |
| Other      | 13,095          | 11,594    | 106,610                      |
| Total      | ¥ 164,229       | ¥ 155,985 | \$ 1,337,153                 |

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

(b) Property, plant and equipment

|                                | Millions of Yen |          | Thousands of<br>U.S. dollars |
|--------------------------------|-----------------|----------|------------------------------|
|                                | 2015            | 2014     | 2015                         |
| Property, plant and equipment: |                 |          |                              |
| Japan                          | ¥ 16,354        | ¥ 16,915 | \$ 133,152                   |
| U.S.A.                         | -               | -        | -                            |
| Europe                         | 11,153          | 11,887   | 90,808                       |
| Asia                           | 13,200          | 13,766   | 107,473                      |
| Other                          | 4,277           | 6,816    | 34,827                       |
| Total                          | ¥ 44,984        | ¥ 49,384 | \$ 366,260                   |

(7) Information about major customers

|                         |                      | Sales           |          | Thousands of<br>U.S. dollars |
|-------------------------|----------------------|-----------------|----------|------------------------------|
|                         | Related segment name | Millions of Yen |          | 2015                         |
|                         |                      | 2015            | 2014     |                              |
| Name of customer:       |                      |                 |          |                              |
| Mazda Motor Corporation | Automotive Division  | ¥ 24,626        | ¥ 21,648 | \$ 200,508                   |