

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

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

*For the year ended November 30, 2013*

## Consolidated Balance Sheet

U-SHIN LTD. and consolidated subsidiaries

As of November 30, 2013

ASSETS	Millions of Yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
<b>Current Assets</b>			
Cash and cash equivalents (Note 14)	¥ 37,981	¥ 33,718	\$ 370,838
Receivables			
Trade notes and accounts (Note 14)	31,929	15,363	311,745
Other	2,112	1,393	20,620
Allowance for doubtful accounts	(602)	(423)	(5,876)
Marketable securities (Notes 6, 14)	-	23	-
Inventories (Note 4)	16,641	9,106	162,478
Deferred tax assets (Note 10)	1,033	1,257	10,088
Prepaid expenses and other current assets	864	1,289	8,431
Total Current Assets	<u>89,958</u>	<u>61,726</u>	<u>878,324</u>
<b>Property, Plant and Equipment</b>			
Land	9,604	7,931	93,770
Buildings and structures	23,356	14,122	228,045
Machinery and equipment	40,846	17,559	398,803
Tools, furniture and fixtures	30,491	17,607	297,707
Construction in progress	5,153	3,142	50,316
Total	<u>109,450</u>	<u>60,361</u>	<u>1,068,641</u>
Accumulated depreciation	<u>(63,009)</u>	<u>(35,265)</u>	<u>(615,207)</u>
Net Property, Plant and Equipment	<u>46,441</u>	<u>25,096</u>	<u>453,434</u>
<b>Investments and Other Assets</b>			
Investment securities (Notes 6, 14)	10,267	6,607	100,248
Investments in unconsolidated subsidiaries and an associated company (Note 14)	252	252	2,459
Goodwill	7,846	-	76,604
Deferred tax assets (Note 10)	778	115	7,599
Other assets	6,602	3,391	64,458
Total Investment and Other Assets	<u>25,745</u>	<u>10,365</u>	<u>251,368</u>
<b>Total</b>	<u>¥ 162,144</u>	<u>¥ 97,187</u>	<u>\$ 1,583,126</u>

See notes to consolidated financial statements.

<b>LIABILITIES AND EQUITY</b>	Millions of Yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables			
Trade notes and accounts (Note 14)	¥ 22,727	¥ 5,620	\$ 221,899
Other	3,157	9,149	30,828
Electronically recorded monetary obligations-operating (Note 14)	7,046	-	68,799
Short-term bank loans (Notes 7, 14)	1,034	5,600	10,097
Current portion of long-term bonds (Notes 7, 14)	200	400	1,953
Current portion of long-term bank loans (Notes 7, 14)	9,176	7,392	89,596
Current portion of long-term lease obligations (Notes 7, 14)	3,767	748	36,778
Accrued expenses	4,818	1,545	47,041
Income tax payable	796	126	7,772
Deferred tax liabilities (Note 10)	1	6	9
Other current liabilities	6,134	1,504	59,877
<b>Total Current Liabilities</b>	<b>58,856</b>	<b>32,090</b>	<b>574,649</b>
<b>Long-term Liabilities</b>			
Long-term bonds and convertible bonds with warrants (Notes 7, 14)	7,599	1,700	74,191
Long-term bank loans (Notes 7, 14)	49,047	30,065	478,881
Long-term lease obligations (Notes 7, 14)	2,412	651	23,554
Deferred tax liabilities (Note 10)	1,348	101	13,158
Liability for employees' retirement benefit (Note 8)	3,127	1,303	30,534
Other long-term liabilities	2,079	146	20,300
<b>Total Long-term Liabilities</b>	<b>65,612</b>	<b>33,966</b>	<b>640,618</b>
<b>Total Liabilities</b>	<b>124,468</b>	<b>66,056</b>	<b>1,215,267</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES (Note 15)</b>			
<b>EQUITY (Note 9)</b>			
Common Stock — authorized, 78,657,000 shares; issued, 31,995,502 shares in 2013 and 31,995,502 shares in 2012	12,016	12,016	117,325
Capital surplus	12,122	12,122	118,356
Stock acquisition rights	1,502	-	14,660
Retained earnings	9,366	9,230	91,444
Treasury stock — at cost, 2,037,037 shares in 2013 and 986,794 shares in 2012	(1,305)	(585)	(12,738)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	3,044	683	29,717
Foreign currency translation adjustments	895	(2,363)	8,741
<b>Total</b>	<b>37,640</b>	<b>31,103</b>	<b>367,505</b>
Minority interests	36	28	354
<b>Total Equity</b>	<b>37,676</b>	<b>31,131</b>	<b>367,859</b>
<b>Total</b>	<b>¥ 162,144</b>	<b>¥ 97,187</b>	<b>\$ 1,583,126</b>

See notes to consolidated financial statements.

## Consolidated Statement of Operations

U-SHIN LTD. and consolidated subsidiaries

For the year ended November 30, 2013

	Millions of Yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
<b>Net sales</b>	¥ 108,473	¥ 61,160	\$ 1,059,101
<b>Cost of goods sold</b>	96,021	51,217	937,527
Gross profit	12,452	9,943	121,574
<b>Selling, general and administrative expenses</b>	10,661	7,324	104,082
<b>Operating income</b>	1,791	2,619	17,492
<b>Other income (expenses)</b>			
Interest and dividend income	252	183	2,461
Foreign exchange gain	2,948	513	28,786
Subsidy income	1,582	-	15,450
Interest expenses	(960)	(638)	(9,371)
Commitment fee	(228)	(495)	(2,227)
Loss on valuation of currency swap	(853)	-	(8,329)
Business integration related expenses (Note 12)	(1,188)	-	(11,601)
Loss on sales of property, plant and equipment, Loss on disposal of property, plant and equipment	(257)	(42)	(2,506)
Impairment Loss (Note 5)	(199)	(902)	(1,944)
After-care of products	(237)	(2,654)	(2,315)
Provision for business structure improvement expenses (Note 12)	(1,343)	-	(13,115)
Other, net	98	(193)	945
Other income (expenses) - net	(385)	(4,228)	(3,766)
<b>Income (loss) before income taxes and minority interests</b>	1,406	(1,609)	13,726
<b>Income taxes (Note 10)</b>			
Current	674	585	6,584
Deferred	328	(654)	3,203
Total income taxes	1,002	(69)	9,787
<b>Net income (loss) before minority interests</b>	404	(1,540)	3,939
<b>Minority interests in net income (loss)</b>	3	(2)	28
<b>Net income (loss)</b>	¥ 401	¥ (1,538)	\$ 3,911
<b>Per Share of Common Stock:</b>			
Basic net income (loss)	¥ 13.29	¥ (50.08)	\$ 0.13
Cash dividends applicable to the year	10.00	10.00	0.10

See notes to consolidated financial statements.

## ***Consolidated Statement of Comprehensive Income (Loss)***

U-SHIN LTD. and consolidated subsidiaries

For the year ended November 30, 2013

	Millions of Yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
<b>Net income (loss) before minority interests</b>	¥ 404	¥ (1,540)	\$ 3,939
<b>Other comprehensive income (Note 16):</b>			
Unrealized gain on available-for-sale securities	2,360	517	23,046
Foreign currency translation adjustments	3,264	116	31,870
Total other comprehensive income	5,624	633	54,916
<b>Comprehensive income (loss)</b>	¥ 6,028	¥ (907)	\$ 58,855
<b>Total comprehensive income (loss) attributable to:</b>			
Owners of the parent	¥ 6,020	¥ (908)	\$ 58,773
Minority interests	8	1	82

See notes to consolidated financial statements.

## Consolidated Statement of Changes in Equity

U-SHIN LTD. and consolidated subsidiaries

For the year ended November 30, 2013

	Thousands		Millions of yen								
	Number of Shares of Common Stock Outstanding	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	Accumulated other comprehensive income		Total	Minority interests	Total equity
							Unrealized gain(loss) on available-for-sale securities	Foreign currency translation adjustments			
Balance at November 30, 2011	30,594	¥ 12,016	¥ 12,122	¥ -	¥ 11,157	¥ (831)	¥ 166	¥ (2,476)	¥ 32,154	¥ 27	¥ 32,181
Cash dividends, ¥11.00 per share	-	-	-	-	(336)	-	-	-	(336)	-	(336)
Net loss	-	-	-	-	(1,538)	-	-	-	(1,538)	-	(1,538)
Net changes of scope of consolidation	-	-	-	-	(7)	-	-	-	(7)	-	(7)
Loss on disposal of treasury stock	-	-	-	-	(46)	-	-	-	(46)	-	(46)
Purchase of treasury stock	(0)	-	-	-	-	(0)	-	-	(0)	-	(0)
Disposal of treasury stock	415	-	-	-	-	246	-	-	246	-	246
Net changes other than shareholders' equity	-	-	-	-	-	-	517	113	630	1	631
Total changes during the year	415	-	-	-	(1,927)	246	517	113	(1,051)	1	(1,050)
Balance at November 30, 2012	31,009	12,016	12,122	-	9,230	(585)	683	(2,363)	31,103	28	31,131
Cash dividends, ¥10.00 per share	-	-	-	-	(305)	-	-	-	(305)	-	(305)
Net income	-	-	-	-	401	-	-	-	401	-	401
Net changes of scope of consolidation	-	-	-	-	40	-	-	-	40	-	40
Purchase of treasury stock	(1,051)	-	-	-	-	(720)	-	-	(720)	-	(720)
Net changes other than shareholders' equity	-	-	-	1,502	-	-	2,361	3,258	7,121	8	7,129
Total changes during the year	(1,051)	-	-	1,502	136	(720)	2,361	3,258	6,537	8	6,545
Balance at November 30, 2013	29,958	¥ 12,016	¥ 12,122	¥ 1,502	¥ 9,366	¥ (1,305)	¥ 3,044	¥ 895	¥ 37,640	¥ 36	¥ 37,676

	Thousands of U.S. dollars (Note 1)										
	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock	Accumulated other comprehensive income		Total	Minority interests	Total equity	
						Unrealized gain(loss) on available-for-sale securities	Foreign currency translation adjustments				
Balance at November 30, 2012	\$ 117,325	\$ 118,356	\$ -	\$ 90,122	\$ (5,716)	\$ 6,671	\$ (23,076)	\$ 303,682	\$ 272	\$ 303,954	
Cash dividends, \$0.10 per share	-	-	-	(2,976)	-	-	-	(2,976)	-	(2,976)	
Net income	-	-	-	3,911	-	-	-	3,911	-	3,911	
Net changes of scope of consolidation	-	-	-	387	-	-	-	387	-	387	
Purchase of treasury stock	-	-	-	-	(7,022)	-	-	(7,022)	-	(7,022)	
Net changes other than stockholders' equity	-	-	14,660	-	-	23,046	31,817	69,523	82	69,605	
Total changes during the year	-	-	14,660	1,322	(7,022)	23,046	31,817	63,823	82	63,905	
Balance at November 30, 2013	\$ 117,325	\$ 118,356	\$ 14,660	\$ 91,444	\$ (12,738)	\$ 29,717	\$ 8,741	\$ 367,505	\$ 354	\$ 367,859	

See notes to consolidated financial statements.

# Consolidated Statement of Cash Flows

U-SHIN LTD. and consolidated subsidiaries

For the year ended November 30, 2013

	Millions of Yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
<b>Operating Activities</b>			
Income (loss) before income taxes and minority interests	¥ 1,406	¥ (1,609)	\$ 13,726
Adjustments for:			
Income taxes (paid) refunded	95	(1,602)	932
Depreciation and amortization	5,350	2,507	52,238
Impairment loss	199	902	1,944
Loss on valuation of currency swaps	853	-	8,329
Foreign exchange gain	(2,084)	(317)	(20,351)
Changes in assets and liabilities, net of effects:			
Decrease (increase) in trade notes and accounts receivable	(1,352)	895	(13,202)
Increase in inventories	(1,550)	(1,140)	(15,130)
Increase in payables	1,010	3,006	9,859
Increase in deposit received	1,285	258	12,548
Other, net	2,155	46	21,039
Net cash provided by operating activities	<u>7,367</u>	<u>2,946</u>	<u>71,932</u>
<b>Investing Activities</b>			
Purchases of property, plant and equipment	(10,696)	(8,706)	(104,433)
Purchases of intangible assets	(579)	(294)	(5,657)
Proceeds from sales of property, plant and equipment	615	26	6,006
Acquisitions of newly consolidated subsidiaries, net of cash acquired	(14,260)	-	(139,230)
Other, net	50	(603)	489
Net cash used in investing activities	<u>(24,870)</u>	<u>(9,577)</u>	<u>(242,825)</u>
<b>Financing Activities</b>			
Net increase (decrease) in short-term bank loans	(4,616)	800	(45,073)
Proceeds from long-term bank loans	26,900	4,000	262,644
Repayment of long-term bank loans	(6,134)	(4,072)	(59,887)
Proceeds from issue of bonds and convertible bonds with warrants	7,500	2,000	73,228
Redemption of bonds	(400)	(1,300)	(3,905)
Proceeds from sale and lease back	2,526	665	24,662
Pledged deposits accompanied with lease back	-	(593)	-
Purchase of treasury stock	(719)	(0)	(7,022)
Dividends paid	(305)	(337)	(2,977)
Repayment of loans receivable from Valeo S.A. to newly consolidated subsidiaries	(8,048)	-	(78,581)
Proceeds from sales and purchases contract based on a deferred payment plan	3,454	-	33,723
Other, net	(34)	167	(326)
Net cash provided by financing activities	<u>20,124</u>	<u>1,330</u>	<u>196,486</u>
Foreign currency translation adjustments on cash and cash equivalents	1,642	(345)	16,028
Net increase (decrease) in cash and cash equivalents	<u>4,263</u>	<u>(5,646)</u>	<u>41,621</u>
Cash and cash equivalents at the beginning of year	33,718	39,404	329,217
Net decrease in cash and cash equivalents due to exclusion from scope of consolidation	-	(40)	-
Cash and cash equivalents at the end of year	¥ 37,981	¥ 33,718	\$ 370,838

See notes to consolidated financial statements.

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

U-SHIN LTD. and consolidated subsidiaries

For the year ended November 30, 2013

## **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 2012 consolidated financial statements to conform to the classifications used in 2013.

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 ¥102.42 to \$1, the approximate rate of exchange at November 30, 2013. 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, 2013, include the accounts of the Company and its 21 significant (11 in 2012) 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

SANWA SEISAKUSHO LTD.

TOKYO SOKUTEIKIZAI CO., LTD.

U-SHIN SHOWA LTD.

U-SHIN TRANSPORT LTD.

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

ORTECH MALAYSIA SDN. BHD.

U-SHIN (THAILAND) CO., LTD.

U-SHIN EUROPE LTD.

U-SHIN AUTOPARTS MEXICO, S.A. DE C.V.

YUHSHIN U.S.A.LTD.

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 Slovakia s.r.o. \*

U-Shin Spain S.L. \*



U-Shin Access Mechanisms L.L.C. \*  
U-Shin do Brasil Sistemas Automotivos Ltda. \*  
U-Shin Access Mechanisms Mexico S.A.de C.V. \*  
U-Shin Access Systems (Wuxi) CO., LTD. \*

Changes in the scope of consolidation during the fiscal year ended November 30, 2013, are as follows:

- \*: Due to new acquisition, 11 subsidiaries became consolidated subsidiaries of the Company. Refer to Note 3 "Business combinations".
- Due to being merged into the Company, YAMATO SEIKO LTD. was excluded from the consolidation scope.

(ii) Unconsolidated subsidiaries

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

Consolidation of the remaining 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; (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 consists of cash on hand, 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, from 2 to 12 years for machinery and equipment.

(Change in accounting policies - change of depreciation method)

In prior years, the Company and its domestic consolidated subsidiaries calculated depreciation principally by the declining balance method, except for certain buildings.

Foreign consolidated subsidiaries calculated depreciation principally by the straight-line method.

From the fiscal year ended November 30, 2013, the Company and its domestic consolidated subsidiaries changed the depreciation method to the straight-line method.

Considering the use of the Companies' property, plant and equipment, the straight-line method better reflects the Companies' economic conditions than the declining balance method.

Also, unifying the Companies' accounting policies with the straight-line method was determined to be more rational since the operation of the Companies' property, plant and equipment became more stable than before as new plants in Hiroshima as mother plants in the Group began operations in December, 2012. As a result of this change, depreciation costs decreased by ¥451 million (\$4,400 thousand), operating income increased by ¥426 million (\$4,157 thousand) and income before income taxes and minority interests increased by ¥433 million (\$4,224 thousand) for the year ended November 30, 2013, compared with the amounts that would have been reported without the change.

**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. Non-marketable 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. Unrecognized prior service cost is charged to income by the straight-line method over the 10 years which are within the average remaining years of service of the employees. An actuarial adjustment is charged to income by the straight-line method over the following 10 years which are within the average remaining years of service of the employees.

**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 are classified and accounted for as follows: 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.

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 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.

Diluted net income per share is not presented as the effect of including potential common shares is anti-dilutive.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective 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. New Accounting Pronouncements**

Accounting Standard for Retirement Benefits - On May 17, 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 followed by partial amendments from time to time through 2009.

(a) Treatment in the balance sheet

Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, is recognized as a liability or asset.

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

(b) Treatment in the statement of income and the statement of comprehensive income

The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss.

Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining working lives 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 shall be 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 shall be treated as reclassification adjustments.

(c) Amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases

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

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, 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 expects to apply the revised accounting standard for (a), (b) and (c) above from the beginning of the annual period beginning on December 1, 2013. The effects of adopting the revised accounting standard will be a decrease in Accumulated other comprehensive income of ¥19 million (\$188 thousand) and a decrease in the beginning balance of retained earnings of ¥10 million (\$95 thousand), resulting in a decrease to total equity of ¥29 million (\$283 thousand).

### 3. Business Combinations

#### Share Acquisition of U-Shin Holdings Europe B.V.

On May 24, 2013, the Company executed the share purchase agreement. Based on the agreement, the Company acquired all outstanding shares of U-Shin Holdings Europe B.V. and it became a consolidated subsidiary of the Company.

(1) Overview of business combination

a. The name of the acquired company and its business

Name of the acquired company: U-Shin Holdings Europe B.V. and its 10 subsidiaries  
Major businesses: Research and development, manufacture and sales of automotive components

b. Primary reason of business combination

In response to an expected shrinking domestic market, the Group seeks to acquire overseas customers and expand its sales overseas with acquisition of these companies which were subsidiaries of Valeo S.A.

c. Date of business combination

May 24, 2013

d. Legal form of business combination

Share purchase in cash

e. Name of the company after business combination

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 Slovakia s.r.o.  
U-Shin Spain S.L.  
L.L.C. Access Mechanisms  
U-Shin do Brasil Sistemas Automotivos Ltda.  
U-Shin Access Mechanisms Mexico S.A.de C.V.  
U-Shin Access Systems (Wuxi) CO., LTD.

f. Percentage of voting rights acquired

100%

g. Main reason to determine the acquiring company

Acquisition of 100% voting rights by share purchase in exchange for cash payment.

(2) Period of results of the acquired company included in the consolidated financial statements of the Company

From May 1, 2013 to November 30, 2013

(3) Cost of acquisition and its breakdown

	<u>Millions of Yen</u>
Cash payment for acquisition	¥ 19,167
Other cost directly incurred for the acquisition (advisory fees, etc.)	997
Acquisition cost	<u>¥ 20,164</u>

Since consideration for transfer of shares is being examined under the share purchase agreement, the above acquisition cost will be changed.

(4) Amount of goodwill, reason for recording goodwill, amortization method and amortization period

a. Amount of goodwill

¥ 7,496 million

Goodwill denominated in Euro of ¥7,846 million is recognized as of November 30, 2013 with effects of "Foreign currency translation adjustments" and amortization incurred since the acquisition.

Allocation of acquisition costs has not been completed as consideration for transfer of shares is being examined under the share purchase agreement and the recognition of assets and liabilities of the acquired company has not been determined.

b. Reason for recognizing goodwill

Since the acquisition cost exceeded the provisional net amount of assets acquired and liabilities assumed, the excess amount is recognized as goodwill. The goodwill arose from the expected future increase in profitability which is expected as a result of expanding business.

c. Method and term to amortize goodwill

Straight-line method over 20 years

(5) Acquired assets and liabilities on the date of the business combination

	<u>Millions of Yen</u>	<u>Thousands of U.S. dollars</u>
Current assets	¥ 25,386	\$ 247,865
Non-current assets	18,608	181,681
Total assets acquired	<u>¥ 43,994</u>	<u>\$ 429,546</u>
Current liabilities	¥ (34,383)	\$ (335,709)
Long-term liabilities	(2,698)	(26,340)
Total liabilities assumed	<u>¥ (37,081)</u>	<u>\$ (362,049)</u>

(6) Estimated impact on consolidated financial results, if the business combination had been completed at the beginning of the fiscal year

	<u>Millions of Yen</u>	<u>Thousands of U.S. dollars</u>
Net sales	¥ 27,955	\$ 272,947
Net operating loss	¥ (93)	\$ (906)

(Calculation Method of the Estimated Impact and Material Assumptions)

The above figures are the estimated amounts of net sales and income from December 1, 2012 to April 30, 2013, assuming that the combination had been completed at the beginning of the fiscal year ended November 30, 2013.

Amortization of goodwill from the beginning of the fiscal year ended November 30, 2013, to the business combination, whose amount is 146 million yen, is included. Net operating income excluding amortization of goodwill is 53 million yen.

The amounts shown in (6) above have not been audited by our independent auditor.

#### 4. Inventories

Inventories as of November 30, 2013 and 2012, consisted of the following:

	Millions of Yen				Thousands of
	2013		2012		U.S. dollars
					2013
Finished products	¥	7,209	¥	3,595	\$ 70,390
Work in process		2,151		1,542	20,999
Raw material and supplies		7,281		3,969	71,089
Total	¥	16,641	¥	9,106	\$ 162,478

#### 5. Long-lived Assets

The Group reviewed its long-lived assets for impairment as of November 30, 2013. As a result, the Group recognized an impairment loss of ¥199 million (\$1,944 thousand) as other expense for a certain asset group of U-Shin Italia S.p.A. due to a continuous operating loss at that unit and the carrying amount of the relevant construction in progress was written down to the recoverable amount. The recoverable amount of that construction in progress was measured at its value in use and the discount rate used for computation of the present value of future cash flows was 9%.

The Group reviewed its long-lived assets for impairment as of November 30, 2012. As a result, the Group recognized an impairment loss of ¥902 million as other expense for certain asset groups of Missouri, Kure and Kaita 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 amount of Missouri asset group was measured at their value in use and the discount rate used for computation of the present value of future cash flows was zero. The recoverable amounts of the Kure and Kaita groups were measured at their net selling price.

#### 6. Investments Securities

The costs and aggregate fair values of investment securities as of November 30, 2013 and 2012, were as follows:

	Millions of Yen				Carrying amount	
	2013					
	Cost	Unrealized gain	Unrealized loss			
Securities classified as:						
Available-for-sale:						
Equity securities	¥	5,442	¥	4,776	¥	10,151
Debt securities		-		-		-
Other		-		-		-
Total	¥	5,442	¥	4,776	¥	10,151

	Millions of Yen				Carrying amount	
	2012					
	Cost	Unrealized gain	Unrealized loss			
Securities classified as:						
Available-for-sale:						
Equity securities	¥	5,437	¥	1,495	¥	6,491
Debt securities		-		-		-
Other		23		(0)		23
Total	¥	5,460	¥	1,495	¥	6,514

Thousands of U.S.dollars				
2013				
	Cost	Unrealized gain	Unrealized loss	Carrying amount
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 53,133	\$ 46,637	\$ (656)	\$ 99,114
Debt securities	-	-	-	-
Other	-	-	-	-
Total	\$ 53,133	\$ 46,637	\$ (656)	\$ 99,114

The impairment losses on available-for-sale equity securities for the year ended November 30, 2012, were ¥41 million.



## 7. 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, 2013 and 2012, consisted of notes and bank overdrafts. The annual interest rates applicable to the short-term bank loans averaged 1.0% and 0.6% at November 30, 2013 and 2012, respectively.

Long-term debt at November 30, 2013 and 2012, consisted of the following:

	Millions of Yen		Thousands of
	2013	2012	U.S. dollars
Long-term loans payable maturing through 2018 (Average interest rates were 1.7% and 1.5% at November 30, 2013 and 2012, respectively.)			2013
Secured loans	¥ 15,300	¥ -	\$ 149,385
Unsecured loans	42,923	37,457	419,092
Bonds and convertible bonds with warrants	7,799	2,100	76,144
Lease obligations	6,179	1,399	60,332
Total	¥ 72,201	¥ 40,956	\$ 704,953
Less current portion	(13,143)	(8,540)	(128,327)
Long-term debt, less current portion	¥ 59,058	¥ 32,416	\$ 576,626

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)	10,107,750
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: Numbers of shares of common stock are calculated on the assumption that all convertible bonds with warrants are converted.

Annual maturities of long-term debt, excluding finance leases, at November 30, 2013, were as follows:

Year Ending November 30	Millions of Yen	Thousands of U.S. dollars
2014	¥ 9,376	\$ 91,549
2015	8,312	81,151
2016	14,811	144,615
2017	12,078	117,926
2018	22,846	223,063
Total	¥ 67,423	\$ 658,304

Annual maturities of finance lease at November 30, 2013, were as follows:

Year Ending November 30	Millions of Yen	Thousands of U.S. dollars
2014	¥ 3,767	\$ 36,778
2015	311	3,033
2016	484	4,727
2017	238	2,329
2018	1,379	13,465
Total	¥ 6,179	\$ 60,332

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 case of default and detain 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, 2013, were as follows:

	Millions of Yen		Thousands of
	2013	2012	U.S. dollars
Investments in consolidated subsidiaries	¥ 14,612	¥ -	\$ 142,667

### (2) Loan commitment

The Company has commitment line contracts with six banks for effective financing. The commitment amount, outstanding balance and available funds of these contracts as of November 30, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of
	2013	2012	U.S. dollars
Commitment line contract	¥ 7,500	¥ 28,000	\$ 73,228
Actual loan balance	-	1,800	-
Available funds	¥ 7,500	¥ 26,200	\$ 73,228

### (3) Financial covenants

The Group's interest-bearing debt includes financial covenants on the basis of certain indicators namely, assets and profits and others, which is common practice for bank transactions in Japan.

Long-term debt with financial covenants amount to long-term debt of ¥33,000 million and bonds and convertible bonds with warrants of ¥7,501 million at November 30, 2013.

As of November 30, 2013, there was no infringement of the debt covenants.

## 8. 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. The liability for employees' retirement benefits is provided at an amount based on the projected benefit obligation at the balance sheet date. Unrecognized prior service cost is charged to income by the straight-line method over the 10 years which are within the average remaining years of service of the employees. An actuarial adjustment is charged to income by the straight-line method over the following 10 years which are within the average remaining years of service of the employees.

The liability for employees' retirement benefits at November 30, 2013 and 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. dollars
	2013	2012	2013
Projected benefit obligations	¥ 2,964	¥ 1,400	\$ 28,936
Unrecognized actuarial (gain) loss	163	(97)	1,598
Unrecognized prior service cost	-	-	-
Net liability	¥ 3,127	¥ 1,303	\$ 30,534

The components of net periodic benefit costs are as follows:

	Millions of Yen		Thousands of U.S. dollars
	2013	2012	2013
Service cost	¥ 115	¥ 88	\$ 1,120
Interest cost	49	26	473
Amortization of prior service cost	(37)	34	(363)
Recognized actuarial loss	20	33	200
Defined contribution plan's expenses	79	69	776
Net periodic benefit costs	¥ 226	¥ 250	\$ 2,206

Assumptions used for the years ended November 30, 2013 and 2012, are set forth as follows:

	2013	2012
Period attribution method for retirement benefits forecasted amount	Straight-line	Straight-line
Discount rate	1.1% ~ 3.2%	2.0%
Recognized period of actuarial gain / loss	10 years	10 years
Amortization period of prior service cost	10 years	10 years

## 9. Equity

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

### (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 meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company 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 specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

## 10. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rate of approximately 37.8 % for the year ended November 30, 2013, and 40.3% for the year ended November 30, 2012, are as follows:

	Millions of Yen		Thousands of
	2013	2012	U.S. dollars
Deferred tax assets:			
Allowance for retirement benefits	¥ 1,088	¥ 475	\$ 10,627
Land	659	640	6,435
Other allowance	644	-	6,290
Provision for business structure improvement	524	-	5,119
Impairment loss	460	682	4,492
After-care of products	353	822	3,446
Allowance for doubtful accounts	302	221	2,949
Inventories	271	213	2,648
Accrued bonus	254	238	2,476
Other	676	524	6,598
Valuation allowance	(2,356)	(2,100)	(23,008)
Total	¥ 2,875	¥ 1,715	\$ 28,072
Deferred tax liabilities:			
Unrealized gain on investments	¥ (1,667)	¥ (372)	\$ (16,272)
Deferred gain on exchange of lands	(576)	(23)	(5,619)
Other	(170)	(55)	(1,661)
Total	¥ (2,413)	¥ (450)	\$ (23,552)
Net deferred tax assets	¥ 462	¥ 1,265	\$ 4,520

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the years ended November 30, 2013 and 2012, is as follows:

	2013	2012
Statutory effective tax rate	37.8 %	- %
Valuation allowance	12.2	-
Difference of tax rate between Japan and overseas	7.4	-
Expenses not deductible for income tax purposes	11.6	-
Amortization of goodwill	6.0	-
Difference of tax rate relate to Special Reconstruction	(5.9)	-
Corporation Tax		
Other, net	2.2	-
Accrual effective tax rate	71.3 %	- %

The reconciliation of significant differences between the statutory tax rate and effective tax rate is not reported for the year ended November 30, 2012, because a loss before income taxes and minority interests was recorded.

## 11. Research and Development Costs

Research and development costs charged to income were ¥4,334 million (\$42,312 thousand) and ¥1,832 million for the years ended November 30, 2013 and 2012, respectively.

## 12. Other Expenses

Business integration related expenses:

Legal fees, costs of a trademark change etc. which are related to business integration with business combination.

Provision for business structure improvement expenses:

Provision for restructuring factories, production lines in France etc.

## 13. Related Party Disclosures

Transactions of the Company with associated companies for the years ended November 30, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of
	2013	2012	U.S. dollars
C.T. Charlton & Associates, Inc.			2013
Commission for sales representation	¥ 80	¥ 44	\$ 779
Commission for advisory	¥ -	¥ 1,069	\$ -
Accounts payable paid	¥ 854	¥ -	\$ 8,340

## 14. Financial Instruments and Related Disclosures

### (1) Policy for financial instruments

The Company uses financial instruments, mainly bank loans, bonds and capital increase for fund raising. Derivatives are not used for speculative purposes, but to avoid 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 credits such as notes and accounts receivable are exposed to customers' credit risks, 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 comprised 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 is within one year related to operating debts such as notes and accounts payable. Bank loans are funds raised related to equipment funds and operation funds and a part of them are exposed to risks of fluctuation in interest rate. The Company uses derivative transactions (interest rate swap transactions) as a means of hedging against the risks of fluctuation in payment interest rates and to fix interest expense.

Derivatives are interest rate swap transactions entered into for the purpose of hedging against the risks of fluctuation in payment interest rates of bank loans. Also, foreign currency transactions and exchange-forward swap transactions are used as a hedge against trade payments and receivables denominated in foreign currencies. The 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 or income. In addition, the fair value of such interest rate swaps is included in hedged items such as long-term debt. The credit risk is not significant by limiting derivatives to high credit rated financial institutions. The basic principles of derivative transactions are approved by management of the finance department based on the internal guidelines which prescribe the authority and the limits for each transaction.

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 15 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, 2013 and 2012.

	Millions of Yen		
	2013		
	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥ 37,981	¥ 37,981	¥ -
Trade notes and accounts receivable	31,929		
Allowance for doubtful accounts	(166)		
	31,763	31,763	-
Investment securities	10,151	10,151	-
Investments in unconsolidated subsidiaries and an associated company	125	130	5
Total	¥ 80,020	¥ 80,025	¥ 5
Trade notes and accounts payable	¥ 22,727	¥ 22,727	¥ -
Electronically recorded monetary obligations-operating	7,046	7,046	-
Short-term bank loans	1,034	1,034	-
Current portion of long-term bonds	200	198	(2)
Current portion of long-term bank loans	9,176	9,164	(12)
Long-term bonds and convertible bonds with warrants	7,599	7,537	(62)
Long-term bank loans	49,047	48,950	(97)
Lease obligations	6,179	6,126	(53)
Total	¥ 103,008	¥ 102,782	¥ (226)
Derivatives transaction	¥ (855)	¥ (855)	¥ -

  

	Millions of Yen		
	2012		
	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥ 33,718	¥ 33,718	¥ -
Trade notes and accounts receivable	15,363		
Allowance for doubtful accounts	(166)		
	15,197	15,197	-
Marketable and investment securities	6,514	6,514	-
Investments in unconsolidated subsidiaries and an associated company	125	124	(1)
Total	¥ 55,554	¥ 55,553	¥ (1)
Trade notes and accounts payable	¥ 5,620	¥ 5,620	¥ -
Short-term bank loans	5,600	5,600	-
Current portion of long-term bonds	400	399	(1)
Current portion of long-term bank loans	7,392	7,399	7
Long-term bonds	1,700	1,664	(36)
Long-term bank loans	30,065	30,402	337
Total	¥ 50,777	¥ 51,084	¥ 307
Derivatives transaction	¥ -	¥ -	¥ -

	Thousands of U.S.dollars		
	2013		
	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	\$ 370,838	\$ 370,838	\$ -
Trade notes and accounts receivable	311,745		
Allowance for doubtful accounts	(1,621)		
	<u>310,124</u>	<u>310,124</u>	<u>-</u>
Investment securities	99,114	99,114	-
Investments in unconsolidated subsidiaries and an associated company	1,223	1,270	47
Total	<u>\$ 781,299</u>	<u>\$ 781,346</u>	<u>\$ 47</u>
Trade notes and accounts payable	\$ 221,899	\$ 221,899	\$ -
Electronically recorded monetary obligations-operating	68,799	68,799	-
Short-term bank loans	10,097	10,097	-
Current portion of long-term bonds	1,953	1,931	(22)
Current portion of long-term bank loans	89,596	89,475	(121)
Long-term bonds and convertible bonds with warrants	74,191	73,589	(602)
Long-term bank loans	478,881	477,930	(951)
Lease obligations	60,332	59,814	(518)
Total	<u>\$ 1,005,748</u>	<u>\$ 1,003,534</u>	<u>\$ (2,214)</u>
Derivatives transaction	\$ (8,344)	\$ (8,344)	\$ -

Cash and cash equivalents, Trade notes and accounts receivable

The carrying amounts of “Cash and cash equivalents” 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 the 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 which 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
	2013		2012		U.S. dollars
					2013
Unlisted stocks	¥	116	¥	116	\$ 1,134
Subsidiaries' stocks	¥	102	¥	102	\$ 993

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

	Millions of Yen			
	2013			
	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	¥ 37,981	¥ -	¥ -	¥ -
Trade notes and accounts receivable	31,929	-	-	-
Total	¥ 69,910	¥ -	¥ -	¥ -

	Millions of Yen			
	2012			
	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	¥ 33,718	¥ -	¥ -	¥ -
Trade notes and accounts receivable	15,363	-	-	-
Marketable and investment securities:				
Securities available-for-sale with maturity				
Other	23	-	-	-
Total	¥ 49,104	¥ -	¥ -	¥ -

	Thousands of U.S.dollars			
	2013			
	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	\$ 370,838	\$ -	\$ -	\$ -
Trade notes and accounts receivable	311,745	-	-	-
Total	\$ 682,583	\$ -	\$ -	\$ -

## 15. 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, 2013 and 2012.

	Millions of Yen			
	2013			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain/loss
Foreign currency forward contracts				
Selling USD	¥ 10,299	¥ -	¥ (2)	¥ (2)
Selling EUR	821	-	(0)	(0)
Currency swap				
Selling EUR	13,863	13,169	(853)	(853)
Buying JPY	56	11	0	0
Total	¥ 25,039	¥ 13,180	¥ (855)	¥ (855)

There are no derivative transactions to which hedge accounting is not applied as of November 30, 2012.

	Thousands of U.S. dollars			
	2013			
	Contract amount	Contract amount due after one year	Fair value	Unrealized gain/loss
Foreign currency forward contracts				
Selling USD	\$ 100,561	\$ -	\$ (15)	\$ (15)
Selling EUR	8,020	-	(2)	(2)
Currency swap				
Selling EUR	135,350	128,583	(8,329)	(8,329)
Buying JPY	549	110	2	2
Total	\$ 244,480	\$ 128,693	\$ (8,344)	\$ (8,344)

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, 2013 and 2012.

Millions of Yen						
2013						
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	¥	42,975	¥	36,965	¥ Note 1

Millions of Yen						
2012						
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	¥	21,305	¥	21,025	¥ Note 1

Thousands of U.S. dollars						
2013						
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	\$	419,596	\$	360,916	\$ Note 1

Note 1

Interest rate swaps which qualify for hedge accounting and meet specific matching criteria has been applied 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.

## 16. Comprehensive Income

The components of other comprehensive income for the years ended November 30, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2013	2012	2013
Unrealized gain on available-for-sale securities			
Gains arising during the year	¥ 3,655	¥ 834	\$ 35,687
Reclassification adjustments to profit or loss	-	(56)	0
Amount before income tax effect	3,655	778	35,687
Income tax effect	(1,295)	(261)	(12,641)
Total	¥ 2,360	¥ 517	\$ 23,046
Foreign currency translation adjustments			
Adjustments arising during the year	¥ 3,264	¥ 116	\$ 31,870
Total	¥ 3,264	¥ 116	\$ 31,870
Total other comprehensive income	¥ 5,624	¥ 633	\$ 54,916

## 17. Subsequent Events

### a. Purchase of treasury stock

The Board of Directors approved the purchase of the Company treasury stock on January 28, 2014(i), and February 27, 2014(ii), pursuant to Article 156 of the Corporate Law, and purchased treasury stock from February 3, 2014. Details were as follows:

Reason for purchase of treasury stock:

To manage capital policy flexibility and improve capital efficiency and shareholders' value in response to the changing business environment.

Details of the resolution of the Board of Directors

(1) Class of shares:	Common stock
(2) Total number of shares:	Maximum of 600,000 shares (i) Maximum of 1,000,000 shares (ii)
(3) Total purchase cost:	¥420 million (\$4,101 thousand) (i) ¥750 million (\$7,323 thousand) (ii)
(4) Period for purchase:	From January 30, 2014 to February 21, 2014 (i) From March 3, 2014 to March 24, 2014 (ii)
(5) Method of purchase:	On-market trade at Tokyo Stock Exchange

Result of purchase (i)

(1) Class of shares:	Common stock
(2) Total number of shares:	600,000 shares
(3) Total purchase cost:	¥391 million (\$3,822 thousand)
(4) Period for purchase:	From February 3, 2014 to February 19, 2014

### b. Recognition of other expenses

The Board of Directors approved a decision that the Group would not acquire the shares of Minda Valeo Security Systems Private Limited owned by Valeo S.A. which the Group had previously negotiated to acquire, and signed a memorandum of understanding not to acquire these shares. With this agreement, the Company paid € million, equal to ¥1,305 million, which will be recognized as other expenses for the year ended November 30, 2014.

### c. Appropriations of Retained Earnings

The following appropriations of retained earnings at November 30, 2013 were approved at the shareholders' meeting held on February 27, 2014:

	<u>Millions of Yen</u>	<u>Thousands of U.S. dollars</u>
Year-end cash dividends, ¥ 5 (\$ 0.05) per share	¥ 150	\$ 1,463

## 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 set, electric steering lock, door latch, heater control, door handle, switch and keyless entry and so on. Secondly, the industrial equipment business consists of machine tools and industrial equipment for agriculture and construction, harness, cable wire, electric fuel pump and rotary encoder and so on. Lastly, the home security units business consists of lock for residential, hotel and building, cylinders, handle set, electric lock 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 Note2, "Summary of Significant Accounting Policies."

(Change in accounting policies - change of depreciation method)

From the fiscal year ended November 30, 2013, the Group changed the depreciation method to the straight-line method as stated in Note 2, "Summary of Significant Accounting Policies, Accounting Change."

As a result of this change, operating income of the automotive, industrial equipment, and home security units segments increased by ¥376 million (\$3,667 thousand), ¥16 million (\$154 thousand) and ¥17 million (\$170 thousand), respectively, compared with the amounts that would have been reported without the change.

(Change in method of measurement for the amounts of profit (loss) for each segment)

From the fiscal year ended November 30, 2013, the Group changed the recognition of general and administrative expenses which are not allocated to each segment and are recognized as "Reconciliations" because these expenses are not related directly to each segment. The effect of this change on Segment Information for the year ended November 30, 2012, was related.

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

	Millions of Yen				
	2013				
	Automotive Division	Industrial Equipment Division	Home Security Units Division	Reconciliations	Consolidated
Net sales:					
Sales to external customers	¥ 88,337	¥ 17,476	¥ 2,660	¥ -	¥ 108,473
Intersegment sales or transfers	224	108	9	(341)	-
Total	¥ 88,561	¥ 17,584	¥ 2,669	¥ (341)	¥ 108,473
Segment profit	¥ 1,964	¥ 1,967	¥ 231	¥ (2,370)	¥ 1,791
Depreciation and amortization	¥ 5,150	¥ 78	¥ 81	¥ 41	¥ 5,350

Millions of Yen						
2012						
	Automotive Division	Industrial Equipment Division	Home Security Units Division	Reconciliations	Consolidated	
Net sales:						
Sales to external customers	¥ 40,752	¥ 17,663	¥ 2,745	¥ -	¥	61,160
Intersegment sales or transfers	234	91	8	(333)		-
Total	¥ 40,986	¥ 17,754	¥ 2,753	¥ (333)	¥	61,160
Segment profit	¥ 2,589	¥ 2,068	¥ 167	¥ (2,205)	¥	2,619
Depreciation and amortization	¥ 2,314	¥ 100	¥ 79	¥ 14	¥	2,507

Thousands of U.S.dollars						
2013						
	Automotive Division	Industrial Equipment Division	Home Security Units Division	Reconciliations	Consolidated	
Net sales:						
Sales to external customers	\$ 862,499	\$ 170,629	\$ 25,973	\$ -	\$	1,059,101
Intersegment sales or transfers	2,189	1,058	85	(3,332)		-
Total	\$ 864,688	\$ 171,687	\$ 26,058	\$ (3,332)	\$	1,059,101
Segment profit	\$ 19,173	\$ 19,205	\$ 2,257	\$ (23,143)	\$	17,492
Depreciation and amortization	\$ 50,284	\$ 765	\$ 788	\$ 401	\$	52,238

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

Millions of Yen						
2013						
	Automotive Division	Industrial Equipment Division	Home Security Units Division	Reconciliations	Consolidated	
Impairment losses of assets	¥ 199	¥ -	¥ -	¥ -	¥	199

Millions of Yen						
2012						
	Automotive Division	Industrial Equipment Division	Home Security Units Division	Reconciliations	Consolidated	
Impairment losses of assets	¥ 902	¥ -	¥ -	¥ -	¥	902

Thousands of U.S.dollars						
2013						
	Automotive Division	Industrial Equipment Division	House Security Units Division	Reconciliations	Consolidated	
Impairment losses of assets	\$ 1,944	\$ -	\$ -	\$ -	\$	1,944

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

	Millions of Yen				
	2013				
	Automotive Division	Industrial Equipment Division	Home Security Units Division	Reconciliations	Consolidated
Amortization of goodwill	¥ 222	¥ -	¥ -	¥ -	¥ 222
Goodwill at November 30, 2013	7,846	-	-	-	7,846

As of November 30, 2012, there is no goodwill.

	Thousands of U.S.dollars				
	2013				
	Automotive Division	Industrial Equipment Division	Home Security Units Division	Reconciliations	Consolidated
Amortization of goodwill	\$ 2,172	\$ -	\$ -	\$ -	\$ 2,172
Goodwill at November 30, 2013	76,604	-	-	-	76,604

(6) Information about geographical areas

(a) Net Sales

	Millions of Yen		Thousands of U.S. dollars
	2013	2012	2013
Net Sales:			
Japan	¥ 51,268	¥ 50,950	\$ 500,569
U.S.A	2,639	375	25,762
Europe	38,409	2,984	375,017
Asia	13,370	6,791	130,538
Other	2,787	60	27,215
Total	¥ 108,473	¥ 61,160	\$ 1,059,101

Note: Sales are classified in countries or regions based on the location of customers

(b) Property, plant and equipment

	Millions of Yen		Thousands of U.S. dollars
	2013	2012	2013
Property, plant and equipment:			
Japan	¥ 16,742	¥ 16,734	\$ 163,465
U.S.A	-	-	-
Europe	11,189	1,203	109,241
Asia	11,888	6,228	116,073
Other	6,622	931	64,655
Total	¥ 46,441	¥ 25,096	\$ 453,434

(7) Information about major customer

	2013		
	Millions of Yen	Thousands of U.S. dollars	Related segment name
	Sales	Sales	
Name of customer:			
Mazda Motor Corporation	¥ 19,072	\$ 186,213	Automotive Division

**19. Supplemental Cash Flow Information**

Acquisition of newly consolidated subsidiaries

Access mechanism business companies were acquired from Valeo S. A.. Assets and liabilities of these companies at the date of acquisition, acquisition cost, and payments for purchase of newly subsidiaries were as follows:

As of November 30, 2013

	Millions of Yen	Thousands of U.S. dollars
Assets acquired	¥ 43,994	\$ 429,546
Liabilities assumed	(31,529)	(307,841)
Goodwill	7,496	73,192
Foreign currency translation adjustments	203	1,978
Acquisition cost	20,164	196,875
Cash and cash equivalents	(5,904)	(57,645)
Payments for purchase, net	¥ 14,260	\$ 139,230