

U-Shin Ltd. and its Consolidated Subsidiaries

Consolidated Financial Statements and Independent Auditor's Report

For the year ended November 30, 2016

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, 2016, 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, 2016, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

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 24, 2017

Consolidated Balance Sheet

U-Shin Ltd. and consolidated subsidiaries

As of November 30, 2016

ASSETS	Millions of Yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Current Assets			
Cash and cash equivalents (Note 12)	¥ 31,846	¥ 23,719	\$ 283,275
Time deposits (Note 12)	4,477	-	39,824
Receivables			
Trade notes and accounts (Note 12)	26,499	33,255	235,718
Other	3,637	2,803	32,356
Allowance for doubtful accounts	(625)	(625)	(5,559)
Inventories (Note 3)	17,505	19,503	155,712
Deferred tax assets (Note 9)	1,206	1,214	10,726
Prepaid expenses and other current assets	1,110	1,622	9,864
Total Current Assets	85,655	81,491	761,916
Property, Plant and Equipment			
Land	8,614	9,128	76,628
Buildings and structures	22,353	23,962	198,838
Machinery and equipment	41,519	43,748	369,317
Tools, furniture and fixtures	33,946	34,478	301,952
Construction in progress	2,496	2,695	22,201
Total	108,928	114,011	968,936
Accumulated depreciation and impairment loss	(70,006)	(69,027)	(622,721)
Net Property, Plant and Equipment	38,922	44,984	346,215
Investments and Other Assets			
Investment securities (Notes 5, 12)	12,389	13,389	110,206
Investments in unconsolidated subsidiaries and an associated company (Note 12)	1,775	490	15,792
Goodwill	-	6,426	-
Deferred tax assets (Note 9)	1,369	1,839	12,179
Other assets	3,186	4,716	28,338
Total Investments and Other Assets	18,719	26,860	166,515
Total	¥ 143,296	¥ 153,335	\$ 1,274,646

	Millions of Yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND EQUITY	2016	2015	2016
LIABILITIES			
Current Liabilities			
Payables			
Trade notes and accounts (Note 12)	¥ 21,963	¥ 22,037	\$ 195,365
Other	4,782	4,060	42,540
Electronically-recorded monetary obligations-operating (Note 12)	7,120	7,200	63,335
Short-term bank loans (Notes 6, 12)	12,622	3,333	112,273
Current portion of long-term bonds and convertible bonds with warrants (Notes 6, 12)	3,525	400	31,355
Current portion of long-term bank loans (Notes 6, 12)	13,110	15,378	116,619
Current portion of long-term lease obligations (Notes 6, 12)	377	625	3,357
Accrued expenses	4,102	4,302	36,492
Income taxes payable	851	1,206	7,572
Other current liabilities	12,561	8,593	111,722
Total Current Liabilities	<u>81,013</u>	<u>67,134</u>	<u>720,630</u>
Long-term Liabilities			
Long-term bonds and convertible bonds with warrants (Notes 6, 12)	7,104	10,345	63,194
Long-term bank loans (Notes 6, 12)	24,567	29,176	218,527
Long-term lease obligations (Notes 6, 12)	2,001	2,713	17,803
Deferred tax liabilities (Note 9)	2,067	2,501	18,384
Liability for employees' retirement benefits (Note 7)	3,200	3,208	28,464
Other long-term liabilities	1,095	914	9,737
Total Long-term Liabilities	<u>40,034</u>	<u>48,857</u>	<u>356,109</u>
Total Liabilities	<u>121,047</u>	<u>115,991</u>	<u>1,076,739</u>
COMMITMENTS AND CONTINGENT LIABILITIES (Note 13)			
EQUITY (Note 8)			
Common Stock — authorized, 120,000,000 shares; issued, 28,453,961 shares in 2016 and 28,383,441 shares in 2015	13,063	13,037	116,198
Capital surplus	13,169	13,143	117,137
Stock acquisition rights	1,573	1,575	13,988
Retained earnings	(5,277)	4,522	(46,939)
Treasury stock — at cost, 671,808 shares in 2016 and 671,747 shares in 2015	(514)	(514)	(4,569)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	4,051	4,571	36,032
Deferred loss on derivatives under hedge accounting	(157)	(123)	(1,401)
Foreign currency translation adjustments	(3,577)	1,195	(31,808)
Defined retirement benefit plans	(116)	(102)	(1,030)
Total	<u>22,215</u>	<u>37,304</u>	<u>197,608</u>
Noncontrolling interests	34	40	299
Total Equity	<u>22,249</u>	<u>37,344</u>	<u>197,907</u>
Total	<u>¥ 143,296</u>	<u>¥ 153,335</u>	<u>\$ 1,274,646</u>

See notes to consolidated financial statements.

Consolidated Statement of Operations

U-Shin Ltd. and consolidated subsidiaries

For the year ended November 30, 2016

	Millions of Yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net sales	¥ 153,894	¥ 164,229	\$ 1,368,922
Cost of goods sold	138,110	145,915	1,228,521
Gross profit	15,784	18,314	140,401
Selling, general and administrative expenses	12,515	13,598	111,318
Operating income	3,269	4,716	29,083
Other income (expenses)			
Interest and dividend income	472	522	4,194
Foreign exchange gain (loss)	207	(2,916)	1,839
Currency swap income (Note 11)	-	1,718	-
Gain on sales of property, plant and equipment	47	82	419
Gain on sales of investment securities	62	327	555
Insurance income	122	18	1,084
Interest expenses	(1,045)	(1,253)	(9,291)
Loss on sales and disposal of property, plant and equipment	(20)	(31)	(178)
Impairment loss (Note 4)	(6,704)	-	(59,631)
Loss on product warranties (Note 11)	(1,075)	(554)	(9,558)
Provision for business structure improvement expenses (Note 11)	(144)	(246)	(1,281)
Settlement payment (Note 11)	(1,740)	-	(15,481)
Other - net	(655)	(562)	(5,832)
Other expenses - net	(10,473)	(2,895)	(93,161)
(Loss) income before income taxes	(7,204)	1,821	(64,078)
Income taxes (Note 9)			
Current	1,554	1,862	13,827
Deferred	903	(270)	8,033
Total income taxes	2,457	1,592	21,860
Net (loss) income	(9,661)	229	(85,938)
Net (loss) income attributable to noncontrolling interests	(1)	2	(13)
Net (loss) income attributable to owners of the parent	¥ (9,660)	¥ 227	\$ (85,925)
		Yen	U.S. dollars
Per Share of Common Stock (Note 15):			
Basic net (loss) income	¥ (348.52)	¥ 8.49	\$ (3.10)
Diluted net income	-	8.36	-
Cash dividends applicable to the year	-	10.00	-

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

U-Shin Ltd. and consolidated subsidiaries

For the year ended November 30, 2016

	Millions of Yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net (loss) income	¥ (9,661)	¥ 229	\$ (85,938)
Other comprehensive loss (Note 14):			
Unrealized (loss) gain on available-for-sale securities	(520)	870	(4,627)
Deferred loss on derivatives under hedge accounting	(34)	(123)	(310)
Foreign currency translation adjustments	(4,776)	(2,822)	(42,476)
Defined retirement benefit plans	(14)	(208)	(125)
Total other comprehensive loss	(5,344)	(2,283)	(47,538)
Comprehensive loss	¥ (15,005)	¥ (2,054)	\$ (133,476)
Total comprehensive loss attributable to:			
Owners of the parent	¥ (14,999)	¥ (2,049)	\$ (133,424)
Noncontrolling interests	(6)	(5)	(52)

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

U-Shin Ltd. and consolidated subsidiaries

For the year ended November 30, 2016

	Thousands	Millions of yen				
	Number of Shares of Common Stock Outstanding	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock
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 attributable to owners of the parent	-	-	-	-	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)
Conversion of convertible bonds	70	26	26	-	-	-
Cash dividends, ¥5.00 per share	-	-	-	-	(139)	-
Net loss attributable to owners of the parent	-	-	-	-	(9,660)	-
Purchase of treasury stock	(0)	-	-	-	-	(0)
Net change in the year	-	-	-	(2)	-	-
Total changes during the year	70	26	26	(2)	(9,799)	(0)
Balance at November 30, 2016	27,782	¥ 13,063	¥ 13,169	¥ 1,573	¥ (5,277)	¥ (514)

	Millions of yen							
		Accumulated other comprehensive income					Noncontrolling	
Unrealized gain on available-for- sale securities		Deferred loss on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans	Total		interests	
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 attributable to owners of the parent	-	-	-	-	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	
Conversion of convertible bonds	-	-	-	-	52	-	52	
Cash dividends, ¥5.00 per share	-	-	-	-	(139)	-	(139)	
Net loss attributable to owners of the parent	-	-	-	-	(9,660)	-	(9,660)	
Purchase of treasury stock	-	-	-	-	(0)	-	(0)	
Net change in the year	(520)	(34)	(4,772)	(14)	(5,342)	(6)	(5,348)	
Total changes during the year	(520)	(34)	(4,772)	(14)	(15,089)	(6)	(15,095)	
Balance at November 30, 2016	¥ 4,051	¥ (157)	¥ (3,577)	¥ (116)	¥ 22,215	¥ 34	¥ 22,249	

See notes to consolidated financial statements.

Thousands of U.S. dollars (Note 1)

	Common stock	Capital surplus	Stock acquisition rights	Retained earnings	Treasury stock
Balance at November 30, 2015	\$ 115,966	\$ 116,905	\$ 14,014	\$ 40,219	\$ (4,569)
Conversion of convertible bonds	232	232	-	-	-
Cash dividends, \$0.04 per share	-	-	-	(1,233)	-
Net loss attributable to owners of the parent	-	-	-	(85,925)	-
Purchase of treasury stock	-	-	-	-	(0)
Net change in the year	-	-	(26)	-	-
Total changes during the year	232	232	(26)	(87,158)	(0)
Balance at November 30, 2016	\$ 116,198	\$ 117,137	\$ 13,988	\$ (46,939)	\$ (4,569)

Thousands of U.S. dollars (Note 1)

	Accumulated other comprehensive income					Total	Noncontrolling interests	Total Equity
	Unrealized gain on available-for-sale securities	Deferred loss on derivatives under hedge accounting	Foreign currency translation adjustments	Defined retirement benefit plans				
Balance at November 30, 2015	\$ 40,659	\$ (1,091)	\$ 10,629	\$ (905)	\$ 331,827	\$ 355	\$ 332,182	
Conversion of convertible bonds	-	-	-	-	464	-	464	
Cash dividends, \$0.04 per share	-	-	-	-	(1,233)	-	(1,233)	
Net loss attributable to owners of the parent	-	-	-	-	(85,925)	-	(85,925)	
Purchase of treasury stock	-	-	-	-	(0)	-	(0)	
Net change in the year	(4,627)	(310)	(42,437)	(125)	(47,525)	(56)	(47,581)	
Total changes during the year	(4,627)	(310)	(42,437)	(125)	(134,219)	(56)	(134,275)	
Balance at November 30, 2016	\$ 36,032	\$ (1,401)	\$ (31,808)	\$ (1,030)	\$ 197,608	\$ 299	\$ 197,907	

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

U-Shin Ltd. and consolidated subsidiaries

For the year ended November 30, 2016

	Millions of Yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Operating Activities			
(Loss) income before income taxes	¥ (7,204)	¥ 1,821	\$ (64,078)
Adjustments for:			
Income taxes paid	(2,231)	(1,662)	(19,842)
Depreciation and amortization	7,694	8,521	68,441
Impairment loss	6,704	-	59,631
Currency swap income	-	(1,718)	-
Foreign exchange loss	2,866	1,054	25,494
Changes in assets and liabilities, net of effects:			
Decrease in trade notes and accounts receivable	4,786	1,055	42,569
Decrease (increase) in inventories	454	(387)	4,034
Increase (decrease) in payables	3,103	(447)	27,606
Increase in deposits received	2,355	1,313	20,945
Other - net	1,010	2,276	8,983
Net cash provided by operating activities	<u>19,537</u>	<u>11,826</u>	<u>173,783</u>
Investing Activities			
Purchases of property, plant and equipment	(4,274)	(6,131)	(38,016)
Purchases of intangible assets	(941)	(918)	(8,374)
Proceeds from sales of property, plant and equipment	179	655	1,594
Purchase of investment securities	(100)	(1,265)	(892)
Payments for investments in capital of a subsidiary	(1,302)	-	(11,585)
Payments into time deposits	(4,543)	-	(40,411)
Other - net	245	432	2,187
Net cash used in investing activities	<u>(10,736)</u>	<u>(7,227)</u>	<u>(95,497)</u>
Financing Activities			
Net increase in short-term bank loans	9,474	814	84,273
Proceeds from long-term bank loans	8,900	15,770	79,167
Repayment of long-term bank loans	(15,776)	(22,293)	(140,330)
Redemption of bonds	(400)	(400)	(3,558)
Proceeds from sale and leaseback	-	828	-
Purchase of treasury stock	(0)	(1,400)	(0)
Dividends paid	(118)	(267)	(1,050)
Other - net	(675)	(523)	(6,002)
Net cash used in financing activities	<u>1,405</u>	<u>(7,471)</u>	<u>12,500</u>
Foreign currency translation adjustments on cash and cash equivalents	<u>(2,079)</u>	<u>(823)</u>	<u>(18,499)</u>
Net increase (decrease) in cash and cash equivalents	<u>8,127</u>	<u>(3,695)</u>	<u>72,287</u>
Cash and cash equivalents at the beginning of year	23,719	27,414	210,988
Cash and cash equivalents at the end of year	¥ 31,846	¥ 23,719	\$ 283,275
Noncash investing and financing activities:			
Increase in common stock due to the conversion of convertible bonds with warrants	¥ 26	¥ 1,021	\$ 232
Increase in capital surplus due to the conversion of convertible bonds with warrants	26	1,021	232
Decrease in convertible bonds with warrants due to the conversion of convertible bonds with warrants	(50)	(1,883)	(438)
Decrease in stock acquisition rights due to the conversion of convertible bonds with warrants	(2)	(159)	(26)
Retirement of treasury stock	-	4,333	-

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

U-Shin Ltd. and consolidated subsidiaries

For the year ended November 30, 2016

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 2015 consolidated financial statements to conform to the classifications used in 2016.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which 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 ¥112.42 to \$1, the approximate rate of exchange at November 30, 2016. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. Summary of Significant Accounting Policies

a. Consolidation

The consolidated financial statements as of November 30, 2016, include the accounts of the Company and its 21 significant (21 in 2015) 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

YUHSIN 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 subsidiaries are U-SHIN MANUFACTURING (SUZHOU) CO., LTD. and U-SHIN MANUFACTURING (Wuxi) 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 that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (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; and (4) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting.

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.

In September 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements," and revised ASBJ Statement No. 7, "Accounting Standard for Business Divestitures." Major accounting changes are as follows:

(a) Presentation of the consolidated balance sheet

In the consolidated balance sheet, "minority interest" under the previous accounting standard is changed to "noncontrolling interest" under the revised accounting standard.

(b) Presentation of the consolidated statement of operations

In the consolidated statement of operations, "net income (loss) before minority interest" under the previous accounting standard is changed to "net income (loss)" under the revised accounting standard, and "net income (loss)" under the previous accounting standard is changed to "net income (loss) attributable to owners of the parent" under the revised accounting standard.

The above accounting standards for (a) presentation of the consolidated balance sheet and (b) presentation of the consolidated statement of operations are effective for the beginning of annual periods beginning on or after December 1, 2015, and is applied to all periods presented in financial statements containing the first-time application of the revised standards. The applicable line items in the 2015 consolidated financial statements have been accordingly reclassified and presented in line with those in 2016.

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 2 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. Provision for Product Warranties

Provision for the expected cost of warranty obligations for defective products sold is recorded at the best estimate of the expenditure, which is included in other current liabilities.

Contingent Liability

The Company could be subject to bearing the part of the costs related to replacing defective products sold; however, provision for product warranties on some products was not recorded because it is difficult to reasonably estimate their warranty values due to ongoing investigations.

k. Bonds with Warrants

The proceeds from issuance of bonds with warrants are allocated between a bond portion and a 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.

l. 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 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 14).

(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.

The Company applied the revised accounting standard for (a), (b) and (c) above from December 1, 2013. With respect to (c) above, the Company changed the method of attributing the expected benefit to periods from a straight-line basis to a benefit formula basis, the method of determining the discount rate from using the period which approximates the expected average remaining service period to using a single weighted average discount rate reflecting the estimated timing and amount of benefit payment.

m. Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statement of operations. 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.

n. Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income.

o. Foreign Currency Financial Statements

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

p. 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 operations; 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.

q. Per Share Information

Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding 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 operations are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

r. Accounting Changes and Error Corrections

In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections."

Accounting treatments under this standard and guidance are as follows:

(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.

3. Inventories

Inventories as of November 30, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. dollars
	2016	2015	2016
Finished products	¥ 7,785	¥ 8,365	\$ 69,250
Work in process	2,419	2,402	21,521
Raw material and supplies	7,301	8,736	64,941
Total	¥ 17,505	¥ 19,503	\$ 155,712

4. Long-lived Assets

The Group reviewed its long-lived assets for impairment as of November 30, 2016. As a result, the Group recognized an impairment loss of ¥6,704 million (\$59,631 thousand) for goodwill of ¥5,582 million (\$49,653 thousand) and other assets of ¥1,122 million (\$9,978 thousand) as other expense for certain asset groups of U-Shin Holdings Europe B.V. and its subsidiaries, U-Shin Slovakia s.r.o., U-Shin France S.A.S., U-Shin Spain S.L., U-Shin do Brasil Sistemas Automotivos Ltda. and U-Shin Italia S.p.A. due to a continuing operating loss at those units. The carrying amounts of the relevant assets were written down to their recoverable amounts for the year ended November 30, 2016. The recoverable amounts of those assets including goodwill were measured at their value in use and the discount rates used for computation of the present value of future cash flows were mainly 9.1%.

No impairment loss was recognized for the year ended November 30, 2015.

5. Investment Securities

The costs and aggregate fair values of investment securities as of November 30, 2016 and 2015, were as follows:

	Millions of Yen			
	Cost	Unrealized gains	Unrealized losses	Carrying amount
2016				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 6,442	¥ 5,968	¥ (137)	¥ 12,273
Debt securities	-	-	-	-
Other	-	-	-	-
Total	¥ 6,442	¥ 5,968	¥ (137)	¥ 12,273

	Millions of Yen			
	Cost	Unrealized gains	Unrealized losses	Carrying amount
2015				
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

	Thousands of U.S. dollars			
	Cost	Unrealized gains	Unrealized losses	Carrying amount
2016				
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 57,303	\$ 53,083	\$ (1,212)	\$ 109,174
Debt securities	-	-	-	-
Other	-	-	-	-
Total	\$ 57,303	\$ 53,083	\$ (1,212)	\$ 109,174

The proceeds, realized gains and realized losses of the available-for-sale securities which were sold during the years ended November 30, 2016 and 2015, were as follows:

	Millions of Yen		
	2016		
	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	¥ 238	¥ 62	¥ (23)
Debt securities	-	-	-
Other	-	-	-
Total	¥ 238	¥ 62	¥ (23)

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

	Thousands of U.S. dollars		
	2016		
	Proceeds	Realized gains	Realized losses
Available-for-sale:			
Equity securities	\$ 2,118	\$ 555	\$ (209)
Debt securities	-	-	-
Other	-	-	-
Total	\$ 2,118	\$ 555	\$ (209)

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, 2016 and 2015, consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans averaged 0.3% and 0.4% at November 30, 2016 and 2015, respectively.

Long-term debt at November 30, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S.
	2016	2015	dollars
Long-term loans payable maturing through 2023 (Average interest rates were 1.2% and 1.4% at November 30, 2016 and 2015, respectively.)			2016
Secured loans	¥ 10,710	¥ 12,240	\$ 95,268
Unsecured loans	26,967	32,314	239,878
Bonds and convertible bonds with warrants	10,629	10,745	94,549
Lease obligations	2,378	3,338	21,160
Total	¥ 50,684	¥ 58,637	\$ 450,855
Less current portion	(17,012)	(16,403)	(151,331)
Long-term debt, less current portion	¥ 33,672	¥ 42,234	\$ 299,524

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)	3,187,452
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, 2016, were as follows:

Years Ending November 30	Thousands of U.S.	
	Millions of Yen	dollars
2017	¥ 16,670	\$ 148,286
2018	16,977	151,012
2019	5,525	49,146
2020	2,710	24,106
2021	3,895	34,647
2022 and thereafter	3,060	27,219
Total	¥ 48,837	\$ 434,416

Annual maturities of finance lease obligations at November 30, 2016, were as follows:

Years Ending November 30	Millions of Yen	Thousands of U.S. dollars
2017	¥ 377	\$ 3,357
2018	2,001	17,803
Total	¥ 2,378	\$ 21,160

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, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2016	2015	2016
Investments in consolidated subsidiaries	¥ 0	¥ 16,741	\$ 0

(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, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2016	2015	2016
Commitment line contract	¥ 13,500	¥ 7,500	\$ 120,085
Actual loan balance	3,232	-	28,748
Available funds	¥ 10,268	¥ 7,500	\$ 91,337

(3) Financial covenants

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

Short-term and long-term debt with financial covenants amount to short-term bank loans of ¥3,232 million (\$28,748 thousand), long-term bank loans of ¥15,370 million (\$136,719 thousand), convertible bonds with warrants of ¥9,460 million (\$84,149 thousand) and electronically-recorded monetary claims-operating of ¥ 6,983 million (\$61,312 thousand) at November 30, 2016.

In relation to the record of net loss for the year ended November 30, 2016, the Company breached financial covenants in terms of maintaining net assets among the covenants stipulated in the syndicated loan agreement between financial institutions and the Company, issuance contract of convertible bonds with warrants of the Company and other contracts.

The Company therefore requested to the related financial institutions that the agreement would be continued without applying the financial covenants relating to forfeiting the benefit of time, and as the result of negotiation, all of the covenant waiver process has been successfully completed and all the financial contracts shall be continued.

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, 2016 and 2015, were as follows (including the benefit plan for which the simplified method was applied):

	Millions of Yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at beginning of year	¥ 3,208	¥ 3,319	\$ 28,534
Service cost	217	218	1,934
Interest cost	45	47	398
Actuarial losses	49	58	437
Benefits paid	(173)	(215)	(1,539)
Prior service cost	(21)	-	(184)
Foreign currency translation adjustments	(125)	(219)	(1,116)
Balance at end of year	¥ 3,200	¥ 3,208	\$ 28,464

- (2) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation as of November 30, 2016 and 2015, was as follows:

	Millions of Yen		Thousands of U.S. dollars
	2016	2015	2016
Unfunded defined benefit obligation	¥ 3,200	¥ 3,208	\$ 28,464
Net liability arising from defined benefit obligation	¥ 3,200	¥ 3,208	\$ 28,464
Liability for retirement benefits	¥ 3,200	¥ 3,208	\$ 28,464
Net liability arising from defined benefit obligation	¥ 3,200	¥ 3,208	\$ 28,464

- (3) The components of net periodic benefit costs for the years ended November 30, 2016 and 2015, were as follows (including the benefit plan for which the simplified method was applied):

	Millions of Yen		Thousands of U.S. dollars
	2016	2015	2016
Service cost	¥ 217	¥ 218	\$ 1,933
Interest cost	45	47	398
Recognized actuarial losses	27	21	236
Prior service cost	(21)	-	(184)
Others	5	5	49
Net periodic benefit costs	¥ 273	¥ 291	\$ 2,432

- (4) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of November 30, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2016	2015	2016
Actuarial losses	¥ (20)	¥ (298)	\$ (180)
Total	¥ (20)	¥ (298)	\$ (180)

- (5) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of November 30, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S.
	2016	2015	dollars
Unrecognized actuarial losses	¥ (170)	¥ (149)	\$ (1,508)
Total	¥ (170)	¥ (149)	\$ (1,508)

- (6) Assumption mainly used for the years ended November 30, 2016 and 2015, was as follows:

	2016	2015
Discount rate	1.0% - 2.8%	1.0% - 2.0%

Defined contribution plan

The amount of contribution required for the defined contribution plan paid by the Group was ¥82 million (\$731 thousand) and ¥85 million for the years ended November 30, 2016 and 2015, 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 the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements. Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than 3 million 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 within equity 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 32.8% and 35.3% for the years ended November 30, 2016 and 2015, respectively. The details related to deferred tax are as follows:

	Millions of Yen		Thousands of U.S.
	2016	2015	dollars
Deferred tax assets:			2016
Tax loss carryforwards	¥ 1,574	¥ 2,062	\$ 14,005
Other allowance	1,185	1,151	10,537
Allowance for retirement benefits	835	872	7,428
Impairment loss	595	484	5,294
Inventories	384	411	3,418
Provision for business structure improvement	227	320	2,018
Advances received	307	276	2,734
Accrued bonus	233	234	2,071
After-care of products	119	89	1,062
Allowance for doubtful accounts	77	131	689
Land	42	44	375
Other	838	877	7,442
Valuation allowance	(4,154)	(3,404)	(36,948)
Total	¥ 2,262	¥ 3,547	\$ 20,125
Deferred tax liabilities:			
Unrealized gain on investments	¥ (1,781)	¥ (2,163)	\$ (15,838)
Deferred gain on exchange of lands	(489)	(523)	(4,354)
IPR&D	(47)	(26)	(421)
Other	(49)	(294)	(433)
Total	¥ (2,366)	¥ (3,006)	\$ (21,046)
Net deferred tax assets	¥ (104)	¥ 541	\$ (921)

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, 2016 and 2015, is as follows:

	2016	2015
Statutory effective tax rate	- %	35.3 %
Valuation allowance	-	35.9
Difference in subsidiaries' tax rates	-	(3.6)
Expenses not deductible for income tax purposes	-	1.2
Revenue not taxable for income tax purposes	-	(5.2)
Per capita inhabitant tax	-	1.8
Tax credit for research and development expenses	-	(6.0)
Amortization of goodwill	-	7.5
Deferred loss on sales of property	-	(5.4)
Effect of tax rate reduction	-	4.5
Corporate income tax for prior years	-	23.6
Other - net	-	(2.2)
Accrual effective tax rate	- %	87.4 %

The reconciliation of significant differences between the statutory tax rate and effective tax rate is not reported for the year ended November 30, 2016, because a loss before income taxes was recorded.

New tax reform laws enacted in 2016 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after April 1, 2016, to approximately 30.7% and for the fiscal year beginning on or after April 1, 2018, to approximately 30.5%. 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 ¥6,782 million (\$60,326 thousand) and ¥6,436 million for the years ended November 30, 2016 and 2015, respectively.

11. Other Income (Expenses)

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.

Loss on product warranties:

This is an estimated amount of future potential costs related to replacing defective products for the years ended November 30, 2016 and 2015.

Provision for business structure improvement expenses:

This is a provision for restructuring factories, production lines, etc., for the years ended November 30, 2016 and 2015.

Settlement payment:

On April 19, 2016, a lawsuit was filed against a consolidated subsidiary of the Company, YUHSHIN U.S.A. LTD., by General Motors LLC in the United States (hereinafter "GM"), claiming compensation for damages due to defective locksets manufactured by YUHSHIN U.S.A. LTD. A settlement was concluded on September 16, 2016, and the lawsuit was withdrawn. The Company recorded \$15.9 million (¥1,740 million) as settlement money to pay for the partial damages alleged by GM.

12. 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 customer 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, 2016 and 2015

	Millions of Yen			
	2016			
	Carrying amount	Fair value	Unrealized gain/loss	
Cash and cash equivalents	¥ 31,846	¥ 31,846	¥ -	
Time deposits	4,477	4,477	-	
Trade notes and accounts receivable	26,499			
Allowance for doubtful accounts	(170)			
	26,329	26,329	-	
Investment securities	12,273	12,273	-	
Investments in unconsolidated subsidiaries and an associated company	125	397	272	
Total	¥ 75,050	¥ 75,322	¥ 272	
Trade notes and accounts payable	¥ 21,963	¥ 21,963	¥ -	
Electronically-recorded monetary obligations-operating	7,120	7,120	-	
Short-term bank loans	12,622	12,622	-	
Current portion of long-term bonds and convertible bonds with warrants	3,525	3,525	(0)	
Current portion of long-term bank loans	13,110	13,184	74	
Long-term bonds and convertible bonds with warrants	7,104	7,105	1	
Long-term bank loans	24,567	24,828	261	
Lease obligations	2,378	2,564	186	
Total	¥ 92,389	¥ 92,911	¥ 522	
Derivative transactions	¥ (1,166)	¥ (1,166)	¥ -	

	Millions of Yen			
	2015			
	Carrying amount	Fair value	Unrealized gain/loss	
Cash and cash equivalents	¥ 23,719	¥ 23,719	¥ -	
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)	¥ -	

	Thousands of U.S. dollars		
	2016		
	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	\$ 283,275	\$ 283,275	\$ -
Time deposits	39,824	39,824	-
Trade notes and accounts receivable	235,718		
Allowance for doubtful accounts	(1,518)		
	234,200	234,200	-
Investment securities	109,174	109,174	-
Investments in unconsolidated subsidiaries and an associated company	1,115	3,533	2,418
Total	\$ 667,588	\$ 670,006	\$ 2,418
Trade notes and accounts payable	\$ 195,365	\$ 195,365	\$ -
Electronically-recorded monetary obligations-operating	63,335	63,335	-
Short-term bank loans	112,273	112,273	-
Current portion of long-term bonds and convertible bonds with warrants	31,355	31,355	(0)
Current portion of long-term bank loans	116,619	117,276	657
Long-term bonds and convertible bonds with warrants	63,194	63,201	7
Long-term bank loans	218,527	220,845	2,318
Lease obligations	21,160	22,811	1,651
Total	\$ 821,828	\$ 826,461	\$ 4,633
Derivative transactions	\$ (10,368)	\$ (10,368)	\$ -

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 and convertible bonds with warrants, 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 13.

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

	Millions of Yen		Thousands of U.S. dollars	
	2016	2015	2016	
Subsidiaries' stocks	¥ 349	¥ 365	\$	3,097
Unlisted stocks	¥ 116	¥ 116	\$	1,032

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

	Millions of Yen			
	2016			
	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	¥ 31,846	¥ -	¥ -	¥ -
Time deposits	4,477	-	-	-
Trade notes and accounts receivable	26,499	-	-	-
Total	¥ 62,822	¥ -	¥ -	¥ -

	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	¥ -	¥ -	¥ -

	Thousands of U.S. dollars			
	2016			
	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	\$ 283,275	\$ -	\$ -	\$ -
Time deposits	39,824	-	-	-
Trade notes and accounts receivable	235,718	-	-	-
Total	\$ 558,817	\$ -	\$ -	\$ -

13. 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, 2016 and 2015

						Millions of Yen	
						2016	
		Contract amount	Contract amount due after one year	Fair value		Unrealized gain (loss)	
Foreign currency forward contracts							
Selling USD	¥	3,646	¥ -	¥ (282)	¥	(282)	
Selling EUR		8,024	-	(294)		(294)	
Selling CNY		3,445	-	(210)		(210)	
Total	¥	15,115	¥ -	¥ (786)	¥	(786)	

						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	

						Thousands of U.S. dollars	
						2016	
		Contract amount	Contract amount due after one year	Fair value		Unrealized gain (loss)	
Foreign currency forward contracts							
Selling USD	\$	32,428	\$ -	\$ (2,508)	\$	(2,508)	
Selling EUR		71,375	-	(2,614)		(2,614)	
Selling CNY		30,645	-	(1,866)		(1,866)	
Total	\$	134,448	\$ -	\$ (6,988)	\$	(6,988)	

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, 2016 and 2015

		Millions of Yen			
		2016			
	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	¥ 9,962	¥ 5,530	¥	Note 1
floating rate receipt, fixed rate payment	Long-term bank loans	7,650	7,650		(210)
Total		¥ 17,612	¥ 13,180	¥	(210)

		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)

		Thousands of U.S. dollars			
		2016			
	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	\$ 88,610	\$ 49,191	\$	Note 1
floating rate receipt, fixed rate payment	Long-term bank loans	68,048	68,048		(1,866)
Total		\$ 156,658	\$ 117,239	\$	(1,866)

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.

14. Other Comprehensive Income (Loss)

The components of other comprehensive income (loss) for the years ended November 30, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. dollars
	2016	2015	2016
Unrealized (loss) gain on available-for-sale securities			
Gains arising during the year	¥ (864)	¥ 1,332	\$ (7,686)
Reclassification adjustments to profit or loss	(39)	(327)	(346)
Amount before income tax effect	(903)	1,005	(8,032)
Income tax effect	383	(135)	3,405
Total	¥ (520)	¥ 870	\$ (4,627)
Deferred loss on derivatives under hedge accounting			
Gains arising during the year	¥ (57)	¥ (153)	\$ (506)
Reclassification adjustments to profit or loss	-	-	-
Amount before income tax effect	(57)	(153)	(506)
Income tax effect	23	30	196
Total	¥ (34)	¥ (123)	\$ (310)
Foreign currency translation adjustments			
Adjustments arising during the year	¥ (4,776)	¥ (2,822)	\$ (42,476)
Total	¥ (4,776)	¥ (2,822)	\$ (42,476)
Defined retirement benefit plans			
Gains arising during the year	¥ (40)	¥ (319)	\$ (361)
Reclassification adjustments to profit or loss	20	21	181
Amount before income tax effect	(20)	(298)	(180)
Income tax effect	6	90	55
Total	¥ (14)	¥ (208)	\$ (125)
Total other comprehensive loss	¥ (5,344)	¥ (2,283)	\$ (47,538)

15. Net Income per Share

Diluted net EPS for the year ended November 30, 2016, is not disclosed as there were no potentially dilutive securities for the year ended November 30, 2016.

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 Yen	Thousands of Shares	Yen
Year ended November 30, 2015		Weighted- Average	EPS
Basic EPS — Net income available to common shareholders	¥ 227	¥ 26,699	¥ 8.49
Effect of dilutive securities - Convertible bonds	-	434	
Diluted EPS - Net income for computation	¥ 227	¥ 27,133	¥ 8.36

16. Segment Information

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

(1) Description of 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, electronic steering column locks, door latches, door handles, power closure systems, light bars, and so on. The industrial equipment business consists of instruments for agricultural/construction/engineering/and industrial equipment use, 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				
	2016				
	Automotive Division	Industrial Equipment Division	Home Security Units Division	Reconciliations	Consolidated
Net sales:					
Sales to external customers	¥ 131,423	¥ 20,070	¥ 2,401	¥ -	¥ 153,894
Intersegment sales or transfers	239	220	3	(462)	-
Total	¥ 131,662	¥ 20,290	¥ 2,404	¥ (462)	¥ 153,894
Segment profit	¥ 3,170	¥ 2,423	¥ 133	¥ (2,457)	¥ 3,269
Depreciation and amortization	¥ 7,392	¥ 107	¥ 104	¥ 91	¥ 7,694

	Millions of Yen				
	2015				
	Automotive Division	Industrial Equipment Division	Home Security Units 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

	Thousands of U.S. dollars				
	2016				
	Automotive Division	Industrial Equipment Division	Home Security Units Division	Reconciliations	Consolidated
Net sales:					
Sales to external customers	\$ 1,169,036	\$ 178,532	\$ 21,354	\$ -	\$ 1,368,922
Intersegment sales or transfers	2,124	1,953	31	(4,108)	-
Total	\$ 1,171,160	\$ 180,485	\$ 21,385	\$ (4,108)	\$ 1,368,922
Segment profit	\$ 28,200	\$ 21,555	\$ 1,187	\$ (21,859)	\$ 29,083
Depreciation and amortization	\$ 65,755	\$ 950	\$ 925	\$ 811	\$ 68,441

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

	Millions of Yen				
	2016				
	Automotive Division	Industrial Equipment Division	Home Security Units Division	Reconciliations	Consolidated
Impairment losses of assets	¥ 6,704	¥ -	¥ -	¥ -	¥ 6,704

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

	Thousands of U.S. dollars				
	2016				
	Automotive Division	Industrial Equipment Division	Home Security Units Division	Reconciliations	Consolidated
Impairment losses of assets	\$ 59,631	\$ -	\$ -	\$ -	\$ 59,631

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

	Millions of Yen				
	2016				
	Automotive Division	Industrial Equipment Division	Home Security Units Division	Reconciliations	Consolidated
Amortization of goodwill	¥ 344	¥ -	¥ -	¥ -	¥ 344
Goodwill at November 30, 2016	-	-	-	-	-

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

	Thousands of U.S. dollars				
	2016				
	Automotive Division	Industrial Equipment Division	Home Security Units Division	Reconciliations	Consolidated
Amortization of goodwill	\$ 3,061	\$ -	\$ -	\$ -	\$ 3,061
Goodwill at November 30, 2016	-	-	-	-	-

Note: Impairment loss of goodwill of ¥5,582 million (\$ 49,653 thousand) was recognized for the year ended November 30, 2016.

(6) Information about geographical areas

(a) Net Sales

	Millions of Yen		Thousands of U.S. dollars
	2016	2015	2016
Net Sales:			
Japan	¥ 58,216	¥ 59,003	\$ 517,842
U.S.A.	3,131	3,180	27,854
Europe	56,457	62,062	225,341
Asia	25,333	26,889	502,195
Other	10,757	13,095	95,690
Total	¥ 153,894	¥ 164,229	\$ 1,368,922

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

(b) Property, plant and equipment

	Millions of Yen		Thousands of U.S. dollars
	2016	2015	2016
Property, plant and equipment:			
Japan	¥ 15,439	¥ 16,354	\$ 137,331
U.S.A.	-	-	-
Europe	9,372	11,153	83,370
Asia	10,694	13,200	95,130
Other	3,417	4,277	30,384
Total	¥ 38,922	¥ 44,984	\$ 346,215

(7) Information about major customers

		Sales		Thousands of U.S. dollars
	Related segment name	Millions of Yen		2016
		2016	2015	
Name of customer:				
Mazda Motor Corporation	Automotive Division	¥ 24,749	¥ 24,626	\$ 220,147