

Selected Financial Data

SANKO GOSEI LTD.

Consolidated

| Years ended May 31 | Millions of yen | | | | |
|------------------------------------|-----------------|----------|----------|----------|----------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Net sales..... | ¥ 58,339 | ¥ 56,160 | ¥ 55,642 | ¥ 50,175 | ¥ 43,232 |
| Operating income..... | 2,845 | 2,359 | 2,184 | 2,339 | 1,903 |
| Net income..... | 1,857 | 1,186 | 1,153 | 1,360 | 1,125 |
| Net assets..... | 16,746 | 15,052 | 13,905 | 13,049 | 10,866 |
| Total assets..... | 45,581 | 44,004 | 42,774 | 45,408 | 34,129 |
| Yen | | | | | |
| Amounts per share of common stock: | | | | | |
| Net income..... | ¥ 72.84 | ¥ 46.54 | ¥ 46.64 | ¥ 64.99 | ¥ 53.77 |

Note: The computation of net income per share is based on the weighted-average number of shares of common stock outstanding during the year.

Non-Consolidated

| Years ended May 31 | Millions of yen | | | | |
|--|-----------------|----------|----------|----------|----------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Net sales..... | ¥ 22,106 | ¥ 22,565 | ¥ 20,951 | ¥ 22,321 | ¥ 19,783 |
| Operating income..... | 750 | 1,230 | 1,126 | 1,280 | 1,085 |
| Net income..... | 961 | 1,567 | 664 | 1,250 | 925 |
| Net assets..... | 14,366 | 13,686 | 12,374 | 9,954 | 8,872 |
| Total assets..... | 30,848 | 28,754 | 26,653 | 24,242 | 19,555 |
| Yen | | | | | |
| Amounts per share of common stock: | | | | | |
| Net income..... | ¥ 37.70 | ¥ 61.48 | ¥ 26.86 | ¥ 59.74 | ¥ 44.22 |
| Cash dividends applicable to the year..... | 12.00 | 10.00 | 10.00 | 9.00 | 7.00 |

Note: The computation of net income per share is based on the weighted-average number of shares of common stock outstanding during the year.

A Message from the Management

Thank you very much for your kind support to our Sanko Gosei Group.

We have closed our account of this fiscal year and I would like to summarize our business situation and financial result.

Consolidated Results of Operations

In this fiscal year, Japanese economy showed gradual improvement trend of revenue of companies and personal income due to the economic strategy of the Government.

As for the global economy, Western countries and Chinese economy showed constantly growth, but we see the uncertain outlook for the economic situation because Middle East still have political and economic risks and trade friction.

In this situation, Sanko Gosei Group continuously conducted cost-cutting activities (tried to cut labor cost and the expense proactively) so that we are able to improve the production efficiency just as the previous year.

As a result of above mentioned performance, the sales amount of this consolidated accounting period is ¥ 58,339 million (increase of 3.9% compared with the previous year). As for the profit, the Operating Income is ¥ 2,845 million (increase of 20.6% compared with the previous year). Net Income is ¥ 1,857 million (increase of 56.5% compared with the previous year) .

Performance results of each segment are as follows:

Domestic

In plastic products division, demand for exterior and interior components for automobiles and household appliance increased but total sales amount of this division decreased. That is affected by decreased sales for information communication components. On the other hand, in mold tools division, sales for exterior and interior for automobiles increased. As a result, sales amount is ¥ 24,547 million (decrease of 2.1% compared with the previous year) and the segment income is ¥ 1,643 million (decrease of 22.7% compared with the previous year).

Europe

Sales of exterior and interior components for automobiles increased. As a result, sales amount is ¥ 8,370 million (increase of 3.1% compared with the previous year) and the segment income is ¥ 816 million (increase of 19.7% compared with the previous year).

Asia

As demand for exterior and interior components for automobiles increased in Thailand and India, sales amount is ¥ 18,447 million (increase of 5.9% compared with the previous year) and segment income is ¥ 781 million (the previous year's segment loss was ¥ 73 million).

North America

Demand for exterior and interior components for automobiles and automobiles function components steadily increased and furthermore sales of mold tools for exterior and interior components increased. As a result, sales amount is ¥ 6,975 million (increase of 25.8% compared with the previous year) and segment income is ¥ 257 million (decrease of 2.0% compared with the previous year).

Outlook

We still expect the unpredictable economic situation continues as new policy trends in U.S. and economic trends in Europe influence the global economy and foreign exchange in many ways.

So we promote the order expansion of high value-added products and the build-up of competitiveness by thorough cost reduction and aim at the expansion of the income.

We would appreciate having your continued support for our Sanko Gosei Group.

August, 2018

Kenso Kuroda
*President and
Representative Director*

Consolidated Balance Sheets

SANKO GOSEI LTD.

| | Millions of yen | |
|--|-----------------|----------|
| May 31, 2018 and 2017 | 2018 | 2017 |
| ASSETS | | |
| Current assets: | | |
| Cash on hand and in banks..... | ¥ 6,899 | ¥ 6,444 |
| Notes and accounts receivable: | | |
| Trade..... | 12,070 | 12,124 |
| Allowance for doubtful accounts..... | (1) | (1) |
| Inventories (Note 5)..... | 3,576 | 3,877 |
| Deferred tax assets (Note 13)..... | 196 | 278 |
| Other current assets..... | 1,702 | 1,367 |
| Total current assets..... | 24,442 | 24,089 |
| | | |
| Property, plant and equipment (Note 7): | | |
| Land..... | 4,471 | 4,106 |
| Buildings and structures..... | 16,690 | 16,070 |
| Machinery, equipment and automobile..... | 24,793 | 22,471 |
| Tools, furniture and fixtures..... | 8,002 | 7,611 |
| Construction in progress..... | 368 | 675 |
| Total property, plant and equipment..... | 54,324 | 50,933 |
| Accumulated depreciation..... | (34,491) | (32,469) |
| Net property, plant and equipment..... | 19,833 | 18,464 |
| | | |
| Investments and other assets: | | |
| Investments in affiliated companies..... | 380 | 376 |
| Investments in securities (Note 6)..... | 15 | 14 |
| Deferred tax assets (Note 13)..... | 400 | 412 |
| Intangible fixed assets..... | 616 | 708 |
| Other assets..... | 200 | 229 |
| Allowance for doubtful accounts..... | (29) | (33) |
| Allowance for investment loss..... | (276) | (255) |
| Total investments and other assets..... | 1,306 | 1,451 |
| | | |
| Total Assets: | ¥ 45,581 | ¥ 44,004 |

See accompanying notes.

| | Millions of yen | |
|---|-----------------|----------|
| | 2018 | 2017 |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Short-term bank loans (Note 7): | ¥ 5,438 | ¥ 1,812 |
| Current portion of long-term debt (Note 7): | | |
| Bank loans..... | 2,527 | 2,828 |
| Bonds..... | 230 | 470 |
| Lease obligation due within one year..... | 763 | 864 |
| Notes and accounts payable: | | |
| Trade..... | 9,294 | 9,636 |
| Construction..... | 162 | 118 |
| Income taxes payable..... | 216 | 330 |
| Accrued expenses and other payables..... | 2,473 | 2,287 |
| Other current liabilities..... | 599 | 811 |
| Total current liabilities..... | 21,702 | 19,156 |
| Long-term liabilities: | | |
| Long-term debt (Note 7)..... | 4,197 | 6,696 |
| Long-term lease obligation..... | 1,403 | 1,406 |
| Net defined benefits liability (Note 10)..... | 957 | 1,015 |
| Deferred tax liabilities (Note 13)..... | 384 | 388 |
| Retirement benefits for directors and corporate auditors..... | 23 | 23 |
| Other long-term liabilities..... | 169 | 268 |
| Total long-term liabilities..... | 7,133 | 9,796 |
| Total Liabilities | 28,835 | 28,952 |
| NET ASSETS | | |
| Owners' equity: | | |
| Common stock..... | 2,886 | 2,886 |
| Authorized - 43,200,000 shares | | |
| Issued - 25,688,569 shares | | |
| Capital surplus..... | 2,964 | 2,964 |
| Retained earnings..... | 11,880 | 10,303 |
| Treasury stock..... | (43) | (43) |
| Total owners' equity..... | 17,687 | 16,110 |
| Accumulated other comprehensive income: | | |
| Valuation difference on available-for-sale securities..... | (3) | (4) |
| Foreign currency translation adjustments..... | (1,112) | (1,068) |
| Remeasurements of defined benefit plans..... | (361) | (466) |
| Deferred gains or losses on hedges..... | (0) | - |
| Total accumulated other comprehensive income..... | (1,476) | (1,538) |
| Non-controlling interests..... | 535 | 480 |
| Total Net Assets..... | 16,746 | 15,052 |
| Total Liabilities and Net Assets: | ¥ 45,581 | ¥ 44,004 |

Consolidated Statements of Income

SANKO GOSEI LTD.

| Years ended May 31, 2018 and 2017 | Millions of yen | |
|---|-----------------|----------|
| | 2018 | 2017 |
| Net sales (Note 17)..... | ¥ 58,339 | ¥ 56,160 |
| Costs and expenses (Note 17): | | |
| Cost of sales..... | 48,925 | 47,466 |
| Selling, general and administrative expenses (Note 11)..... | 6,569 | 6,335 |
| | 55,494 | 53,801 |
| Operating income (Note 17)..... | 2,845 | 2,359 |
| Other income (expenses): | | |
| Interest and dividend income..... | 28 | 24 |
| Interest expense..... | (269) | (307) |
| Equity in loss of affiliated companies..... | (22) | (35) |
| Other, net (Note 3,12)..... | (93) | (389) |
| | (356) | (707) |
| Income before income taxes and non-controlling interests..... | 2,489 | 1,652 |
| Income taxes (Note 13): | | |
| Current..... | 501 | 792 |
| Deferred..... | 73 | (185) |
| | (574) | (607) |
| Income before non-controlling interests..... | 1,915 | 1,045 |
| Non-controlling interests in losses | 58 | (141) |
| Net income | ¥ 1,857 | ¥ 1,186 |
| | Yen | |
| Amounts per share of common stock: | | |
| Net income | ¥ 72.84 | ¥ 46.54 |
| Cash dividends applicable to the year | 12.00 | 10.00 |

See accompanying notes.

Consolidated Statement of Comprehensive Income

SANKO GOSEI LTD.

| Years ended May 31, 2018 and 2017 | Millions of yen | |
|---|-----------------|---------|
| | 2018 | 2017 |
| Income before non-controlling interests | ¥ 1,915 | ¥ 1,045 |
| Other comprehensive income: | | |
| Valuation difference on available-for-sale securities..... | 0 | 1 |
| Deferred losses on hedges..... | (0) | - |
| Foreign currency translation adjustments | (74) | (160) |
| Adjustment of employees' retirement benefits..... | 105 | 94 |
| Share of other comprehensive income of affiliates accounted for using equity method..... | 26 | (39) |
| Total other comprehensive income(Note 8)..... | 57 | (104) |
| Comprehensive income | ¥ 1,972 | ¥ 941 |
| Comprehensive income attributable to: | | |
| Owners of the parent..... | 1,918 | 1,062 |
| Non-controlling interests..... | 54 | (121) |

See accompanying notes.

Consolidated Statements of Changes in Net Assets

SANKO GOSEI LTD.

| Period from June 1, 2017 to May 31, 2018 | Owners' equity | | | | |
|---|-----------------|--------------------|----------------------|-------------------|-------------------------|
| | Common stock | Capital surplus | Retained earnings | Treasury Stock | Total Owners' equity |
| Balance at beginning of year | ¥ 2,886 | ¥ 2,964 | ¥ 10,303 | ¥ 43 | ¥ 16,110 |
| Changes of items during the period | | | | | |
| Dividends | ¥ - | ¥ - | ¥ (280) | ¥ - | ¥ (280) |
| Net income | - | - | 1,857 | - | 1,857 |
| Purchase of treasury stock | - | - | - | (0) | (0) |
| Total changes of items during the period | - | - | 1,577 | (0) | 1,577 |
| Balance at the end of the current period | ¥ 2,886 | ¥ 2,964 | ¥ 11,880 | ¥ (43) | ¥ 17,687 |

Millions of yen

| | Accumulated other Comprehensive Income | | | | |
|---|--|--------------------------------------|--|---|---|
| | Valuation difference on available-for-sale securities | Deferred gains or losses on hedgs | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Total accumulated losses from valuation and translation adjustments |
| Balance at beginning of year | ¥ (4) | ¥ - | ¥ (1,068) | ¥ (466) | ¥ (1,538) |
| Changes of items during the period | | | | | |
| Net changes of items other than owners' equity | 1 | (0) | (44) | 105 | 62 |
| Total changes of items during the period | 1 | (0) | (44) | 105 | 62 |
| Balance at the end of the current period | ¥ (3) | ¥ (0) | ¥ (1,112) | ¥ (361) | ¥ (1,476) |

Millions of yen

| | Non-controlling interests | Total net assets |
|---|-------------------------------------|---------------------|
| | Balance at beginning of year | ¥ 480 |
| Changes of items during the period | | |
| Dividends | - | (280) |
| Net income | - | 1,857 |
| Purchase of treasury stock | - | (0) |
| Net changes of items other than owners' equity | 55 | 117 |
| Total changes of items during the period | 55 | 1,694 |
| Balance at the end of the current period | ¥ 535 | ¥ 16,746 |

Millions of yen

Consolidated Statements of Changes in Net Assets

SANKO GOSEI LTD.

| Period from June 1, 2016 to May 31, 2017 | Owners' equity | | | | |
|---|----------------|-----------------|-------------------|----------------|----------------------|
| | Common stock | Capital surplus | Retained earnings | Treasury Stock | Total Owners' equity |
| Balance at beginning of year | ¥ 2,886 | ¥ 2,715 | ¥ 9,357 | ¥ (43) | ¥ 14,915 |
| Changes of items during the period | | | | | |
| Dividends | ¥ - | ¥ - | ¥ (254) | ¥ - | ¥ (254) |
| Net income | - | - | 1,186 | - | 1,186 |
| Purchase of treasury stock | - | - | - | (0) | (0) |
| Changes in equity related to transaction with non-controlling interests | - | 248 | - | - | 248 |
| Changes in scope of consolidation | - | - | 14 | - | 14 |
| Changes in equity due to capital increase to consolidated subsidiary | - | 1 | - | - | 1 |
| Total changes of items during the period | - | 249 | 946 | (0) | 1,195 |
| Balance at the end of the current period | ¥ 2,886 | ¥ 2,964 | ¥ 10,303 | ¥ (43) | ¥ 16,110 |

Millions of yen

| | Accumulated other Comprehensive Income | | | |
|---|---|--|---|---|
| | Valuation difference on available-for-sale securities | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Total accumulated losses from valuation and translation adjustments |
| Balance at beginning of year | ¥ (4) | ¥ (850) | ¥ (560) | ¥ (1,414) |
| Changes of items during the period | | | | |
| Net changes of items other than owners' equity | 0 | (218) | 94 | (124) |
| Total changes of items during the period | 0 | (218) | 94 | (124) |
| Balance at the end of the current period | ¥ (4) | ¥ (1,068) | ¥ (466) | ¥ (1,538) |

Millions of yen

| | Non-controlling interests | Total net assets |
|---|---------------------------|------------------|
| Balance at beginning of year | ¥ 403 | ¥ 13,904 |
| Changes of items during the period | | |
| Dividends | - | (254) |
| Net income | - | 1,186 |
| Purchase of treasury stock | - | (0) |
| Changes in equity related to transaction with non-controlling interests | - | 248 |
| Changes in scope of consolidation | - | 14 |
| Changes in equity due to capital increase to consolidated subsidiary | - | 1 |
| Net changes of items other than owners' equity | 77 | (47) |
| Total changes of items during the period | 77 | 1,148 |
| Balance at the end of the current period | ¥ 480 | ¥ 15,052 |

Millions of yen

Consolidated Statements of Cash Flows

SANKO GOSEI LTD.

| Years ended May 31, 2018 and 2017 | Millions of yen | |
|---|-----------------|----------------|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Income before income taxes and non-controlling interests..... | ¥ 2,489 | ¥ 1,652 |
| Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating activities: | | |
| Depreciation expenses..... | 2,435 | 2,552 |
| Amortization of goodwill..... | 30 | 60 |
| Interest and dividend income..... | (28) | (24) |
| Interest expense..... | 269 | 307 |
| Net changes in assets and liabilities: | | |
| Notes and accounts receivable..... | 104 | (269) |
| Inventories..... | 290 | (429) |
| Notes and accounts payable..... | (399) | (102) |
| Net increase in defined benefits liability..... | 86 | 23 |
| Other current liabilities..... | (243) | 945 |
| Other, net..... | (167) | 822 |
| Subtotal..... | 4,866 | 5,537 |
| Interest and dividend received..... | 28 | 24 |
| Interest paid..... | (263) | (303) |
| Income taxes paid..... | (595) | (817) |
| Net cash provided by operating activities..... | 4,036 | 4,441 |
| Cash flows from investing activities: | | |
| Proceeds from sales of investments securities..... | - | 10 |
| Proceeds from sales of property, plant and equipment..... | 19 | 11 |
| Purchase of property, plant and equipment..... | (2,941) | (1,929) |
| Purchase of short-term investment securities..... | (1) | (1) |
| Other..... | (31) | (98) |
| Net cash used in investing activities..... | (2,954) | (2,007) |
| Cash flows from financing activities: | | |
| Net increase (decrease) in short-term bank loans..... | 3,580 | (794) |
| Proceeds from long-term debt..... | 275 | 2,750 |
| Repayments of long-term debt..... | (2,824) | (2,642) |
| Issuance of bonds..... | - | 745 |
| Redemption of bonds..... | (470) | (495) |
| Repayments of lease obligation..... | (906) | (1,103) |
| Cash dividends paid..... | (280) | (254) |
| Cash dividends paid for non-controlling interests..... | - | (0) |
| Proceeds from sales of stock in subsidiary with no change in scope of consolidation..... | - | 455 |
| Purchase of treasury stock..... | (0) | (0) |
| Net cash used in financing activities..... | (625) | (1,338) |
| Effect of exchange rate changes on cash and cash equivalents..... | (2) | (166) |
| Net increase in cash and cash equivalents..... | 455 | 930 |
| Cash and cash equivalents, beginning of period..... | 6,444 | 5,506 |
| Cash and cash equivalents from newly consolidated subsidiaries..... | - | 8 |
| Cash and cash equivalents, end of period (Note 9)..... | ¥ 6,899 | ¥ 6,444 |

See accompanying notes.

Notes to Consolidated Financial Statements

SANKO GOSEI LTD.
May 31, 2018 and 2017

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of SANKO GOSEI LTD. (The "Company") and consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles with specific required adjustments. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

2. Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and 17 significant subsidiaries in 2018 and 16 significant subsidiaries in 2017. Investments in one significant affiliated company (20% - 50% owned) is accounted for by the equity method. All significant inter-company transactions and accounts have been eliminated.

Significant subsidiaries are as follow;

SANKO GOSEI TECHNOLOGY(SINGAPORE) PTE. LTD.
SANKO GOSEI UK LTD.
SANKO GOSEI (THAILAND) LTD.
SANKO GOSEI TECHNOLOGY(THAILAND) LTD.
SET EUROPE LTD.
PT. SANKO GOSEI TECHNOLOGY INDONESIA
TIANJIN SANKO GOSEI CO., LTD.
SHANGHAI SANKO GOSEI TECHNOLOGY LTD.
SANKO GOSEI ENGINEERING (GUANGZHOU) CO., LTD.
SANKO GOSEI MEXICO, S.A. DE C.V.
SANKO GOSEI PHILIPPINES, INC.
S-VANCE LTD.
SANKO GOSEI TECHNOLOGIES USA, INC.
SANKO SVANCE JRG TOOLONG INDIA PRIVATE LTD.
SANKO GOSEI TECHNOLOGY INDIA PRIVATE LTD.
WUHAN SANKO GOSEI CO., LTD.

Investments in affiliated companies not accounted for by the equity method are carried at cost or less. The settlement date of consolidated subsidiaries, TIANJIN SANKO GOSEI CO., LTD., SHANGHAI SANKO GOSEI TECHNOLOGY LTD., SANKO GOSEI ENGINEERING (GUANGZHOU) CO., LTD. and SANKO GOSEI MEXICO, S.A. DE C.V. are December 31. In addition, SANKO SVANCE JRG TOOLING INDIA PRIVATE LTD. and SANKO GOSEI TECHNOLOGY INDIA PRIVATE LTD. have the settlement date as of March 31.

As for above consolidated subsidiaries, we use their financial statements which is based on the provisional settlement date as of May 31, when we prepare the consolidated financial statements. Please note that necessary adjustment for consolidation is made regarding significant transactions, which occurred between the settlement date and the provisional settlement date.

(b) Securities

Available-for-sale securities with readily available fair market values are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of the net assets. Available-for-sale securities with no readily available fair market values are stated at moving-average costs. If the market value of available-for-sale securities, declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline.

(c) Allowance for Doubtful accounts

The allowance for doubtful accounts is provided for at an amount sufficient to cover probable losses on collection. It consists of the estimated uncollectible amount with respect to identified doubtful accounts and an amount calculated based on actual collection losses incurred in the past with respect to remaining receivables.

(d) Inventories

Inventories except mold tools of the Company and consolidated subsidiaries are stated at the lower of cost principally determined by the first-in, first-out method or net realizable value. Mold tools are stated at the lower of cost using the specific-identification method or net realizable value.

(e) Property, Plant and Equipment and Depreciation

Property, plant and equipment are carried at cost.

The Company computes depreciation by the straight-line method for buildings acquired after March 31,1998. The Company computes depreciation of the remaining assets principally by the declining-balance method.

Consolidated foreign subsidiaries compute depreciation principally by the straight-line method.

(f) Software cost and Land-use rights

Software for internal use is amortized using the straight-line method over its estimated useful lives (principally 5 years).

The right of using land is amortized using the straight-line method over its estimated useful lives (principally 50 years).

(g) Depreciation of capitalized Lease

Property, plant and equipment capitalized under finance lease arrangement is amortized by the straight-line method based on the lease term as the useful life and residual value of zero.

(h) Retirement Benefits

Under the Company's severance and retirement benefit plan, employees with more than 3 years of service with the Company are entitled to severance and retirement benefits upon retirement at age of 60 or earlier termination of employment. The amount of benefits is determined on the basis of the current rate of pay, length of service and certain other factors.

The severance and retirement benefits for the Company's employees are provided by the funded non-contributory pension plan. Certain consolidated foreign subsidiaries have a defined benefit plan.

The fund assets are held by trustees.

Liability and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions. The projected benefit obligation as of the balance sheet date is measured as the actuarial present value of future severance and retirement benefits for employee services rendered prior to that date.

Actuarial gains and losses are recognized in the statement of income using the straight-line method over from 10 to 14 years commencing with the succeeding year.

Directors and corporate auditors of the Company are covered by a separate lump-sum retirement benefit plan and the amount of retirement benefits for directors and corporate auditors is set at an amount required in accordance with the internal rules had all directors and corporate auditors retired as of the balance sheet date.

(i) Allowance for Bonus

To prepare for payment of bonuses to employee (including a director-employee), a reserve for bonuses is recorded in the amount for the fiscal year based on the estimated amount of payment.

(j) Allowance for investment loss

To prepare for investment loss to affiliated companies, estimated loss amount, which possibly occur in the future, is recorded.

(k) Income Taxes

Income taxes comprise corporation, enterprise and inhabitant taxes. Deferred income taxes are recognized for temporary differences between the financial statement basis and the tax basis of assets and liabilities.

(l) Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

These reclassifications had no impact on previously reported results of operations.

(m) Translation of Foreign Currency Transactions and Financial Statements

Receivables and payables denominated in foreign currencies are translated into Japanese yen using the rate at each company's balance sheet date. The resulting exchange gains or losses are charged to current income.

Financial statements of consolidated overseas subsidiaries are translated into Japanese yen at the year end rate, except that shareholders' equity accounts are translated at historical rates and income statement items resulting from transactions with the Company are translated at the rates used by the Company.

The resulting foreign currency translation adjustments are included in "Foreign currency translation adjustments" in the net assets in the accompanying consolidated balance sheets.

(n) Derivatives and Hedge accounting

Japanese GAAP requires companies to state derivative financial instruments at fair value and to recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in fair value of derivative instruments until the related gains or losses on hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged item are accounted for in the following manner:

- a) If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,
 - i) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the statement of income in the period which includes the inception date, and
 - ii) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.

b) If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

Also if interest rate swap contracts are used as hedge and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

The Companies use financial instruments to hedge future risks of market price fluctuations in accordance with their internal policies and procedures. The following summarizes hedging derivative financial instruments used by the Companies and items hedged:

| Hedging instrument: | Hedged items: |
|------------------------------------|---|
| Forward foreign exchange contracts | Foreign currency receivables, payables and transactions |
| Interest rate swap contracts | Bank loans |

(o) Goodwill

Goodwill is amortized using the straight-line method over 10 years.

(p) Statements of Cash Flows

For the purpose of preparing statements of cash flows, cash and cash equivalents include cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding 3 months at the time of purchase.

(q) Amounts per Share of Common Stock

The computations of net income per share of common stock shown on the accompanying consolidated statements of income are based on the weighted-average number of shares of common stock outstanding during each fiscal year.

Diluted net income per share is not shown because no securities with dilutive effects such as convertible bonds and bonds with warrants have been issued.

Cash dividends per share represent the actual amounts declared as applicable to the respective years.

3. Impairment losses

Year ended May 31, 2018

None

Year ended May 31, 2017

In this fiscal year, we recorded impairment losses with following assets.

| | |
|--------------|--------------|
| (a) Place | Bawar, India |
| (b) Category | Goodwill |
| (c) Amount | ¥ 85 million |

We conducted an impairment test by each subsidiary.

We recorded impairment losses above as we assume the consolidated subsidiary will not gain the future profit assumed in the business plan considered at the time of acquisition of the shares.

4. Standards and guidance not yet adopted

The following guidance were issued but not yet adopted.

“Implementation Guidance on Tax Effect Accounting”

(ASBJ Guidance No. 28, February 16, 2018 (hereinafter, “Guidance No.28”))

“Implementation Guidance on Recoverability of Deferred Tax Assets”

(ASBJ Guidance No. 26 (revised 2018), February 16, 2018 (hereinafter, “Guidance No.26”))

(a) Overview

The above guidance was revised in regard to the treatments for taxable temporary differences for investments in subsidiaries within the context of non-consolidated financial statements, and to clarify the treatments in determining recoverability of deferred tax assets in a company which was categorized as ‘Type1’ according to the guidance.

(b) Effective date

Effective from the beginning of the fiscal year ending May 31, 2019.

(c) Effects of the application of the standards

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

“Accounting Standard for Revenue Recognition”

(ASBJ Statement No.29, March 30, 2018)

“Implementation Guidance on Accounting Standard for Revenue Recognition”

(ASBJ Guidance No.30, March 30, 2018)

(a) Overview

The International Accounting Standard Board (“IASB”) and the Financial Accounting Standard Board (“FASB”) jointly developed comprehensive accounting standard for revenue recognition and the Revenue from Contracts with Customers was issued in May 2014, (IFRS No.15 by IASB and Topic 606 by FASB).

IFRS No.15 was applied for annual reporting periods beginning on or after January 2018, Topic 606 was also applied from annual reporting periods beginning December 15,2017. Based on such a situation, the ASBJ developed the comprehensive accounting standard for revenue recognition / the implementation guidance and issued them together.

On the ASBJ’s basic policy for development of accounting standard for revenue recognition, the basic principles of IFRS No.15 were incorporated into the ASBJ Statement No.29 as a starting points, the Statement was set out, from the view point of comparability among financial statements, which is one of merits for consistency with IFRS No.15. If there are any items which should be considered in current practices in Japan, alternative treatments are added to the extent to not losing the comparability.

(b) Effective date

Effective from the beginning of the fiscal year ending May 31, 2022

(c) Effects of the application of the standards

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

5. Inventories

Inventories at May 31, 2018 and 2017 were as follows:

| | Millions of yen | |
|---------------------------------|-----------------|----------------|
| | 2018 | 2017 |
| Finished goods..... | ¥ 958 | ¥ 1,228 |
| Work in progress..... | 1,924 | 1,997 |
| Raw materials and supplies..... | 694 | 652 |
| | <u>¥ 3,576</u> | <u>¥ 3,877</u> |

6. Securities

Significant securities with no fair market value are stated at cost as follows at May 31, 2018 and 2017:

| | Millions of yen | |
|----------------------|-----------------|------|
| | 2018 | 2017 |
| Unlisted stocks..... | ¥ 5 | ¥ 5 |

7. Short-term Bank Loans and Long-term Debt

Short-term bank loans outstanding at May 31, 2018 and 2017 bore interest at annual rate of 1.017%.

Long-term debt at May 31, 2018 and 2017 were as follows:

| | Millions of yen | |
|---|-----------------|----------------|
| | 2018 | 2017 |
| Unsecured bonds..... | ¥ 605 | ¥ 1,075 |
| Loans from banks..... | 6,349 | 8,919 |
| (The average interest rates are 1.235% and 1.259% at May 31, 2018 and 2017) | 6,954 | 9,994 |
| Bonds due within one year..... | (230) | (470) |
| Bank loans due within one year..... | (2,527) | (2,828) |
| | <u>¥ 4,197</u> | <u>¥ 6,696</u> |

The aggregate annual maturities of long-term debt at May 31, 2018 were as follows:

| | Millions of yen | |
|--------------------------|-----------------|--|
| 2019..... | ¥ 2,757 | |
| 2020..... | 2,094 | |
| 2021..... | 1,435 | |
| 2022..... | 651 | |
| 2023 and thereafter..... | 17 | |

At May 31, 2018, the following assets were pledged as collateral for bank loans.

| | Millions of yen | |
|--|-----------------|--|
| Land..... | ¥ 2,391 | |
| Machinery, equipment and automobile..... | 70 | |
| Buildings and structures..... | 1,765 | |

8. Comprehensive Income

Amounts reclassified to net income in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income were as follows:

| | Millions of yen | |
|--|-----------------|---------|
| | 2018 | 2017 |
| Unrealized gains (losses) in securities: | | |
| Occurrence amount..... | ¥ 0 | ¥ 1 |
| Deferred gains (losses) on hedges | | |
| Occurrence amount..... | ¥ (0) | ¥ - |
| Foreign currency translation adjustments | | |
| Occurrence amount..... | ¥ (74) | ¥ (160) |
| Employee retirement benefits adjustments | | |
| Occurrence amount..... | ¥ 146 | ¥ 72 |
| Share of other comprehensive income of associates accounted for using equity method | | |
| Occurrence amount..... | ¥ 26 | ¥ (52) |
| Total other comprehensive income before tax..... | ¥ 98 | ¥ (139) |
| Tax effect..... | ¥ (41) | ¥ 35 |
| Other comprehensive income, net of tax..... | ¥ 57 | ¥ (104) |

All tax effect of other comprehensive income arise from unrealized gains on securities.

9. Statement of cash flows

Relation between Cash and cash equivalents

and amount of account title which is recorded on Consolidated Balance Sheets

| | Millions of yen | |
|--------------------------------|-----------------|---------|
| | 2018 | 2017 |
| Cash and cash equivalents..... | ¥ 6,899 | ¥ 6,444 |

10. Net defined benefits liability

The Company and S-VANCE LTD. have defined benefit pension plan. Some foreign subsidiaries have lump-sum payment plans.

(a) Movement in retirement benefit obligations:

| | Millions of yen | |
|---|-----------------|---------|
| | 2018 | 2017 |
| Retirement benefit obligation at the beginning of the period..... | ¥ 3,963 | ¥ 3,873 |
| Service cost..... | 167 | 164 |
| Interest cost..... | 4 | 3 |
| Actuarial loss..... | 11 | 20 |
| Benefits paid..... | (102) | (102) |
| Others..... | (1) | 5 |
| Retirement benefit obligation at the end of the period..... | ¥ 4,042 | ¥ 3,963 |

(b) Movements in plan Assets:

| | Millions of yen | |
|---|-----------------|---------|
| | 2018 | 2017 |
| Plan assets at fair value at the beginning of the period..... | ¥ 2,948 | ¥ 2,805 |
| Expected return on plan assets..... | 28 | 27 |
| Actuarial gain (loss)..... | (2) | 8 |
| Contributions by the employer..... | 211 | 208 |
| Benefits paid..... | (100) | (100) |
| Plan assets at fair value at the end of the period..... | ¥ 3,085 | ¥ 2,948 |

(c) Reconciliation from retirement benefit obligations and plan assets liability (asset) for retirement benefits:

| | Millions of yen | |
|---|-----------------|---------|
| | 2018 | 2017 |
| Funded retirement benefits obligations..... | ¥ 3,899 | ¥ 3,842 |
| Plan assets..... | 3,085 | 2,948 |
| | 814 | 894 |
| Unfunded retirement benefits obligations..... | 143 | 121 |
| Total net liability (asset) for retirement benefits at the end of the period..... | 957 | 1,015 |
| Liability for retirement benefits..... | 957 | 1,015 |
| Total net liability (asset) for retirement benefits at the end of the period..... | ¥ 957 | ¥ 1,015 |

(d) Retirement benefit costs:

| | Millions of yen | |
|---|-----------------|-------|
| | 2018 | 2017 |
| Service costs..... | ¥ 167 | ¥ 164 |
| Interest cost on projected benefits obligation..... | 4 | 3 |
| Expected return on plan assets..... | (28) | (27) |
| Amortization of net actuarial difference..... | 158 | 82 |
| Other..... | 0 | 1 |
| Severance and retirement benefits expenses..... | ¥ 301 | ¥ 223 |

(e) Accumulated adjustments retirement benefits:

| | Millions of yen | |
|---|-----------------|------|
| | 2018 | 2017 |
| Past service costs that are yet to be recognized..... | ¥ 0 | ¥ 1 |
| Actuarial gains and losses that are yet to be recognized..... | 146 | 71 |
| Total balance at the end of the period..... | ¥ 146 | ¥ 72 |

(f) The breakdown of prior service cost and actuarial loss recognized

in accumulated other comprehensive income before deduction of tax benefit is as follows;

| | Millions of yen | |
|---------------------------------------|-----------------|-------|
| | 2018 | 2017 |
| Unrecognized prior service costs..... | ¥ - | ¥ 0 |
| Unrecognized actuarial loss..... | 626 | 771 |
| Total..... | ¥ 626 | ¥ 771 |

(g) Plan assets

| | 2018 | 2017 |
|--------------------------------------|------|------|
| Bonds..... | 40% | 32% |
| Equity securities..... | 22 | 22 |
| General account of the insurers..... | 21 | 22 |
| Other..... | 17 | 24 |
| Total..... | 100% | 100% |

(h) The assumptions used in accounting for the above plans are as follows;

| | 2018 | 2017 |
|--|----------------|----------------|
| Discount rate..... | 0.00% to 0.10% | 0.00% to 0.10% |
| Expected long-term rates of return on plan assets..... | 0.83% to 1.00% | 0.73% to 1.00% |
| Expected rates of salary increase..... | 2.30% to 4.49% | 2.30% to 4.49% |

11. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses were ¥ 564 million and ¥ 496 million for the years ended May 31, 2018 and 2017, respectively.

12. Other Income (Expenses) - Other, net

Other, net in other income (expenses) for the years ended May 31, 2018 and 2017 were analyzed as follows:

| | Millions of yen | |
|--|-----------------|---------|
| | 2018 | 2017 |
| Loss on sale and disposal of property, plant and equipment, net..... | ¥ (57) | ¥ (33) |
| Exchange gain net..... | 12 | 90 |
| Loss on devaluation of currency swap..... | (55) | (233) |
| Gain on sale of investment securities..... | - | 6 |
| Gain on valuation of derivatives..... | 30 | - |
| Loss on reduction of noncurrent assets..... | (25) | - |
| Gain on acceptance of governmental subsidy..... | 25 | - |
| Compensation received..... | 10 | 203 |
| Allowance for investment loss..... | (21) | (255) |
| Impairment loss of fixed assets..... | - | (85) |
| Other, net..... | (12) | (82) |
| | ¥ (93) | ¥ (389) |

13. Income Taxes

Significant components of the Companies' deferred tax assets and liabilities as of May 31, 2018 and 2017 were as follows:

| | Millions of yen | |
|---|-----------------|---------|
| | 2018 | 2017 |
| Deferred tax assets: | | |
| Net defined benefits liability..... | ¥ 287 | ¥ 304 |
| Allowance for retirement benefits for directors and corporate auditors..... | 7 | 7 |
| Loss on impairment of fixed assets..... | 37 | 37 |
| Loss carried forward..... | 700 | 740 |
| Unpaid legal welfare expenses..... | 27 | 29 |
| Other..... | 549 | 490 |
| Subtotal..... | 1,607 | 1,607 |
| Less-valuation allowance..... | (603) | (647) |
| Total deferred tax assets..... | ¥ 1,004 | ¥ 960 |
| Deferred tax liabilities: | | |
| Stock transfer loss which accompanies capital reduction..... | ¥ (216) | ¥ (216) |
| Property, plant and equipment..... | (433) | (308) |
| Loss valuation of land..... | (103) | (103) |
| Other..... | (40) | (31) |
| Total deferred tax liabilities..... | ¥ (792) | ¥ (658) |
| Net deferred tax assets (liabilities)..... | ¥ 212 | ¥ 302 |

Deferred tax assets and liabilities as of May 31, 2018 and 2017 were as follows:

| | Millions of yen | |
|---|-----------------|-------|
| | 2018 | 2017 |
| Current assets : Deferred tax assets..... | ¥ 196 | ¥ 278 |
| Investments and other assets : Deferred tax assets..... | 400 | 412 |
| Long-term liabilities : Deferred tax liabilities..... | (384) | (388) |

The effective income tax rates of the Companies at May 31, 2018 and 2017 differ from the statutory tax rates for the following reasons:

| | 2018 | 2017 |
|---|--------|--------|
| Statutory tax rate..... | 30.7 % | 30.7 % |
| Expense not deductible for tax purpose..... | 0.8 | 3.0 |
| Per capita inhabitant tax..... | 0.9 | 1.1 |
| Different tax rates applicable to foreign subsidiaries..... | (9.1) | (6.3) |
| Consolidation adjustment..... | 5.6 | 18.6 |
| Other, net..... | (5.8) | (10.4) |
| Effective tax rate..... | 23.1 % | 36.7 % |

14. Financial instruments

(a) Status of Financial Instruments Held by the Company

(Our policy for Financial Instruments)

The usage of funds within the group is limited to short-term bank deposits and so on.

Long-term debt for capital investment etc. are raised by secured loans from financial institution such as banks.

We utilize derivatives in order to avoid the risk mentioned later and we do not partake in speculation.

(The contents and risk of Financial Instruments)

Notes and accounts receivable balances are exposed to customers' payment risk.

We monitor due dates and customer credit limits and the executive officer in charge receives regular reports of any overdue receivables and deals with each one individually and takes necessary steps to reduce the risk.

Receivable in foreign currencies are exposed to exchange rate risk and we arrange forward foreign exchange contracts in order to hedge this risk.

Investment in securities is mainly stocks which we have for business with clients or for capital tie-up. These securities are exposed to market risk.

Payment terms of notes and accounts payable are mainly within one year.

Due to the import of raw material etc., some of those payables are in foreign currencies and are exposed to exchange rate risk. In order to avoid this risk, we basically hedge this risk by arranging forward foreign exchange contracts.

Short-term bank loans are mainly for working capital requirements and long-term debt are mainly for capital investment with maximum repayment term of eight years.

Some of these loans are exposed to interest rate risk due to the use of variable rate contracts and we hedge this risk by utilizing derivatives. (Interest rate swaps.)

Forward foreign exchange contracts are used to hedge the exchange rate risk of receivables and payables in foreign currencies.

For all information relating to hedging policy and the method used to measure the effectiveness of hedging, please refer to the note 2 (n) Derivatives and Hedge accounting to Consolidated Financial Statements.

(Risk management of Financial Instruments)

*** Management of credit risk (Risk of default of client)**

Based on credit limit management regulations, the General Manager of each business unit monitors the credit situation of main clients, not only by controlling due dates and credit limits but also by working to understand the customer's financial situation and risk of business failure and, in turn, trying to minimize this risk.

With regard to subsidiary companies, we exercise the same kind of procedure based on our credit limit management regulations.

With regard to derivative transactions, we only deal with high rated financial institutions and as such institutions are not exposed to credit risk.

*** Management of Market risk (Exchange rate risk, interest rate risk etc.)**

The Company and some of consolidated subsidiaries hedge the risk of variable exchange rates in each currency and on a monthly basis. And basically we hedge this risk by arranging forward foreign exchange contracts.

Also, the Company utilizes interest rate swap contracts in order to control variable risk of interest of loans.

With regard to investments in securities, we regularly check the market value and financial situation of the issuing company (client in business) and continuously review our holdings by taking our business situation into consideration.

Each month the Company's board of directors approves the derivative transactions which are executed in accordance with internal rules prescribing authority and transaction limits.

(b) Fair values of financial instruments

Book value, fair value and differences, as of May 31, 2018 and 2017 were as follows:

Millions of yen

| | May 31, 2018 | | |
|------------------------------------|--------------|------------|------------|
| | Book Value | Fair Value | Difference |
| Cash on hand and in banks..... | ¥ 6,899 | ¥ 6,899 | ¥ - |
| Notes and accounts receivable..... | 12,070 | 12,071 | 1 |
| Investments in securities..... | 10 | 10 | - |
| Total assets..... | 18,979 | 18,980 | 1 |
| Notes and accounts payable..... | 9,294 | 9,294 | - |
| Short-term bank loans..... | 5,438 | 5,438 | - |
| Bonds payable..... | 605 | 604 | (1) |
| Long-term bank Loans..... | 6,349 | 6,354 | 5 |
| Lease obligations..... | 2,165 | 2,167 | 2 |
| Total liabilities..... | 23,851 | 23,857 | 6 |
| Derivative transactions..... | (104) | (104) | - |

| | May 31, 2017 | | |
|------------------------------------|--------------|------------|------------|
| | Book Value | Fair Value | Difference |
| Cash on hand and in banks..... | ¥ 6,444 | ¥ 6,444 | ¥ - |
| Notes and accounts receivable..... | 12,124 | 12,124 | 0 |
| Investments in securities..... | 9 | 9 | - |
| Total assets..... | 18,577 | 18,577 | 0 |
| Notes and accounts payable..... | 9,636 | 9,636 | - |
| Short-term bank loans..... | 1,812 | 1,812 | - |
| Bonds payable..... | 1,075 | 1,076 | 1 |
| Long-term bank loans..... | 8,919 | 8,931 | 12 |
| Lease obligations..... | 2,270 | 2,294 | 24 |
| Total liabilities..... | 23,712 | 23,749 | 37 |
| Derivative transactions..... | (148) | (148) | - |

(*Note)

Methods of calculating the fair value of financial instruments and matters related to securities and derivative transactions.

(a) Cash on hand and in banks

Payment of these shall be settled within the short term and values will be based on book value because fair value approximates book value.

(b) Notes and accounts receivable

The fair values are calculated by discounting expected future cash flows using the current rate of high-security bond applicable to relevant receivable periods.

(c) Investments in securities

Fair value shall be based on market price.

(d) Notes and accounts payable (e) Short-term bank loans

Payment of these shall be settled within the short term and values will be based on book value because fair value approximates book value.

(f) Bonds payable

Fair value shall be calculated as present value by discounting the total amount of principal and interest by the interest rate of a similar new bond.

(g) Long term bank loans

Fair value shall be calculated as present value by discounting the total amount of principal and interest by the interest rate of a similar new loan.

Long term debt with variable interest rates are given special accounting treatment where we hedge risk by interest rate swap and the value shall be based on the total amount of principal and interest (after hedged with the interest rate swap) discounted by a reasonable interest rate for a similar new loan.

(h) Lease obligation

The fair values of lease obligation are calculated by discounting future cash flows of the principal and interest using the current interest rate applicable to similar lease.

15. Derivatives

The following tables summarize market value information as of May 31, 2018 and 2017 of derivative transactions:

Derivative transactions for which hedge accounting is not applied.

Currency related

Millions of yen

| | | May 31, 2018 | | | |
|-----------------------------|---------------------------|-----------------|---------------|--------------|---------------------|
| Type | Details | Contract amount | Over one year | Market value | Unrecognized profit |
| Items not traded on markets | Currency swap | | | | |
| | Receive: Foreign currency | ¥ 3,102 | ¥ 2,787 | ¥ (104) | ¥ (104) |
| | Pay: Japanese yen | | | | |
| | Receive: Japanese yen | ¥ 287 | ¥ 215 | ¥ 30 | ¥ 30 |
| | Pay: Foreign currency | | | | |
| | | May 31, 2017 | | | |
| Type | Details | Contract amount | Over one year | Market value | Unrecognized profit |
| Items not traded on markets | Currency swap | | | | |
| | Receive: Foreign currency | ¥ 3,342 | ¥ 3,102 | ¥ (148) | ¥ (148) |
| | Pay: Japanese yen | | | | |

Derivative transactions for which hedge accounting is applied.

Currency related

Year ended May 31, 2018

We omit the description because it has no importance.

Year ended May 31, 2017

None

Interest related

Year ended May 31, 2018

None

Year ended May 31, 2017

Millions of yen

| Type | Details | Hedged item | Contract amount | Over one year | Fair Value |
|--------------------|---------------------------------|---------------------------|-----------------|---------------|------------|
| Interest rate swap | Receive variable / pay fixed | Long-term loan payable | ¥ 60 | ¥ - | (*Note 1) |

(*Note 1)

Interest to be paid or received on the interest rate swap are added or subtracted from the interest expense on the long-term loan payable. The fair value presented is the total of the fair values of the long-term loan payable and the hedging instruments.

16. Segment Information

1) General information about reportable segments

The Sanko Gosei group mainly manufactures and sells plastic products and mold tools for the Automobile, OA equipment and household appliance or other fields in domestic and overseas markets.

The Sanko Gosei Group's reportable segments are components of the Group whose operating results are regularly reviewed by the Board of Directors to make decisions about resources to be allocated to the segments and assess their performance, for which discrete financial information is available.

They are independent management units, and each overseas affiliated company draws up each local comprehensive strategy about a product to handle and operates business.

Accordingly, the Sanko Gosei group are comprised of four geographical segments, - Japan, Europe, Asia and North America - based on manufacturing and selling system.

2) Basis of measurement about profit or loss, assets, segment liabilities and other material items by reportable segment

The accounting policies for the reportable segments are basically the same as those described in significant accounting policies in note 2, Presenting Consolidated Financial Statements.

3) Information about reported segment profit or loss, segment assets, and other material items by reportable segments.

Millions of yen

| | May 31, 2018 | | | | | | |
|-------------------------------|--------------|---------|----------|---------------|----------|-------------|--------------|
| | Japan | Europe | Asia | North America | Total | Adjustments | Consolidated |
| Sales: | | | | | | | |
| Outside..... | ¥ 24,547 | ¥ 8,370 | ¥ 18,447 | ¥ 6,975 | ¥ 58,339 | ¥ - | ¥ 58,339 |
| Inter-segment..... | 2,365 | 46 | 903 | 6 | 3,320 | (3,320) | - |
| Total sales..... | 26,912 | 8,416 | 19,350 | 6,981 | 61,659 | (3,320) | 58,339 |
| Operating income (loss)..... | ¥ 1,643 | ¥ 816 | ¥ 781 | ¥ 257 | ¥ 3,497 | ¥ (652) | ¥ 2,845 |
| Total assets..... | ¥ 20,483 | ¥ 4,662 | ¥ 14,544 | ¥ 5,601 | ¥ 45,290 | ¥ 291 | ¥ 45,581 |
| Other items: | | | | | | | |
| Depreciation..... | ¥ 835 | ¥ 249 | ¥ 995 | ¥ 282 | ¥ 2,361 | ¥ 73 | ¥ 2,434 |
| Increase in fixed assets..... | ¥ 1,562 | ¥ 552 | ¥ 1,471 | ¥ 296 | ¥ 3,881 | ¥ 16 | ¥ 3,897 |

(*Notes)

- Adjustments of segment income and loss include elimination of intersegment transactions of ¥ 38 million and corporate expenses not allocated to each reportable segment of ¥ 690 million.
- Adjustments were made to reconcile segment income to operating income in Consolidated Statements of Income.
- Total sales to outside customers include sales to affiliated companies. (¥ 68 million)

Millions of yen

| | May 31, 2017 | | | | | | |
|-------------------------------|--------------|---------|----------|---------------|----------|-------------|--------------|
| | Japan | Europe | Asia | North America | Total | Adjustments | Consolidated |
| Sales: | | | | | | | |
| Outside..... | ¥ 25,074 | ¥ 8,118 | ¥ 17,424 | ¥ 5,544 | ¥ 56,160 | ¥ - | ¥ 56,160 |
| Inter-segment..... | 2,570 | 6 | 885 | 169 | 3,630 | (3,630) | - |
| Total sales..... | 27,644 | 8,124 | 18,309 | 5,713 | 59,790 | (3,630) | 56,160 |
| Operating income (loss)..... | ¥ 2,125 | ¥ 682 | ¥ (73) | ¥ 261 | ¥ 2,995 | ¥ (636) | ¥ 2,359 |
| Total assets..... | ¥ 20,919 | ¥ 3,765 | ¥ 13,862 | ¥ 5,799 | ¥ 44,345 | ¥ (341) | ¥ 44,004 |
| Other items: | | | | | | | |
| Depreciation..... | ¥ 748 | ¥ 233 | ¥ 1,282 | ¥ 218 | ¥ 2,481 | ¥ 71 | ¥ 2,552 |
| Increase in fixed assets..... | ¥ 871 | ¥ 225 | ¥ 1,277 | ¥ 908 | ¥ 3,281 | ¥ 33 | ¥ 3,314 |

(*Notes)

- Adjustments of segment income and loss include elimination of intersegment transactions of ¥ 47 million and corporate expenses not allocated to each reportable segment of ¥ 589 million.
- Adjustments were made to reconcile segment income to operating income in Consolidated Statements of Income.
- Total sales to outside customers include sales to affiliated companies. (¥ 2 million)

[Related Information]

| 1. Information by product / service | | Millions of yen | | |
|-------------------------------------|---|------------------|------------|----------|
| | | May 31, 2018 | | |
| | | Plastic products | Mold tools | Total |
| Sales to outside customers..... | ¥ | 47,235 | ¥ 11,104 | ¥ 58,339 |
| | | May 31, 2017 | | |
| | | Plastic products | Mold tools | Total |
| Sales to outside customers..... | ¥ | 46,389 | ¥ 9,771 | ¥ 56,160 |

| 2. Information by region / country | | Millions of yen | | | | |
|--|---|-----------------|---------|----------|---------------|----------|
| | | May 31, 2018 | | | | |
| | | Japan | Europe | Asia | North America | Total |
| Sales..... | ¥ | 22,839 | ¥ 9,019 | ¥ 18,872 | ¥ 7,609 | ¥ 58,339 |
| Property, plant and equipment, less accumulated depreciation..... | | 8,168 | 1,302 | 7,242 | 3,121 | 19,833 |
| | | May 31, 2017 | | | | |
| | | Japan | Europe | Asia | North America | Total |
| Sales..... | ¥ | 23,470 | ¥ 8,960 | ¥ 17,601 | ¥ 6,129 | ¥ 56,160 |
| Property, plant and equipment, less accumulated depreciation..... | | 7,497 | 985 | 6,832 | 3,150 | 18,464 |

(*Notes)

- Sales are classified according to regions or countries where customers are located.
- As regards sales in Europe, the UK is ¥ 6,048 million and ¥ 5,639 million for the years ended May 31, 2018 and 2017.
- As regards sales in Asia, the Thailand is ¥ 7,733 million and ¥ 7,274 million for the years ended May 31, 2018 and 2017.

[Additional Information of impairment loss of fixed assets by reportable segments]

| | | Millions of yen | | | | | | |
|---|---|-----------------|--------|------|---------------|-------|-------------|--------------|
| | | May 31, 2017 | | | | | | |
| | | Japan | Europe | Asia | North America | Total | Adjustments | Consolidated |
| Impairment loss of fixed assets..... | ¥ | - | ¥ - | ¥ 85 | ¥ - | ¥ 85 | ¥ - | ¥ 85 |

[Additional Information for Amortization of Goodwill and Goodwill at ending balance]

| | | Millions of yen | | | | | | |
|--------------------------|---|-----------------|--------|------|---------------|-------|-------------|--------------|
| | | May 31, 2018 | | | | | | |
| | | Japan | Europe | Asia | North America | Total | Adjustments | Consolidated |
| Depreciation amount..... | ¥ | - | ¥ - | ¥ - | ¥ 30 | ¥ 30 | ¥ - | ¥ 30 |
| End of balance..... | | - | - | - | 205 | 205 | - | 205 |

| | | Millions of yen | | | | | | |
|--------------------------|---|-----------------|--------|------|---------------|-------|-------------|--------------|
| | | May 31, 2017 | | | | | | |
| | | Japan | Europe | Asia | North America | Total | Adjustments | Consolidated |
| Depreciation amount..... | ¥ | - | ¥ - | ¥ 30 | ¥ 30 | ¥ 60 | ¥ - | ¥ 60 |
| End of balance..... | | - | - | - | 240 | 240 | - | 240 |

(Significant events after the reporting period)

Our Board of directors meeting which held on July 17, 2018 resolved that SANKO GOSEI LTD. conducts capital increase through public offering, private offering and the secondary offering of shares by way of over-allotment. The outline is as follow.

1) Public offering

| | | |
|-------------------------------|-------------------------------|-----------------|
| a) Class and number | common shares of the company | 3,709,200shares |
| b) Issuing price | ¥ 468 per share | |
| c) Amount of issuing price | ¥ 1,735 million | |
| d) To be paid price | ¥ 446.04 per share | |
| e) Amount of to be paid price | ¥ 1,654 million | |
| f) Increase capital stock | common stock ¥ 827 million | |
| and capital surplus | capital surplus ¥ 827 million | |
| g) Payment date | August 7, 2018 | |

2) Private offering

| | | |
|-------------------------------|-------------------------------|---------------|
| a) Class and number | common shares of the company | 734,500shares |
| b) To be paid price | ¥ 468 per share | |
| c) Amount of to be paid price | ¥ 343 million | |
| d) Increase capital stock | common stock ¥ 171 million | |
| and capital surplus | capital surplus ¥ 171 million | |
| e) Payment date | August 7, 2018 | |

3) Secondary offering of shares by way of over-allotment

| | | |
|-------------------------------|-------------------------------|---------------|
| a) Class and number | common shares of the company | 556,300shares |
| b) To be paid price | ¥ 446.04 per share | |
| c) Amount of to be paid price | ¥ 248 million | |
| d) Increase capital stock | common stock ¥ 124 million | |
| and capital surplus | capital surplus ¥ 124 million | |
| e) Application date | August 23, 2018 | |
| f) Payment date | August 24, 2018 | |

4) The way of use above increased capital is as follow.

| | | |
|--|-----------------|-------------------------------|
| a) Funds for construction of Kyushu factory | ¥ 1,000 million | By the end of August, 2019 |
| b) Investment for subsidiary "SANKO GOSEI TECHNOLOGY INDIA PRIVATE LTD." | ¥ 820 million | By the end of September, 2019 |
| c) Repayment for bank loans | ¥ 400 million | By the end of May, 2019 |