

## Selected Financial Data

SANKO GOSEI LTD.

### Consolidated

Years ended May 31	Millions of yen				
	2017	2016	2015	2014	2013
Net sales.....	¥ 56,160	¥ 55,642	¥ 50,175	¥ 43,232	¥ 43,866
Operating income.....	2,359	2,184	2,339	1,903	2,053
Net income.....	1,186	1,153	1,360	1,125	1,906
Net assets.....	15,053	13,905	13,049	10,866	10,341
Total assets.....	44,005	42,774	45,408	34,129	32,149

Amounts per share of common stock:	Yen				
	¥ 46.54	¥ 46.64	¥ 64.99	¥ 53.77	¥ 91.06
Net income.....					

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				
	2017	2016	2015	2014	2013
Net sales.....	¥ 22,565	¥ 20,951	¥ 22,321	¥ 19,783	¥ 18,962
Operating income.....	1,230	1,126	1,280	1,085	964
Net income.....	1,567	664	1,250	925	651
Net assets.....	13,686	12,374	9,954	8,872	8,074
Total assets.....	28,754	26,653	24,242	19,555	18,625

Amounts per share of common stock:	Yen				
	¥ 61.48	¥ 26.86	¥ 59.74	¥ 44.22	¥ 31.08
Net income.....					
Cash dividends applicable to the year.....	10.00	10.00	9.00	7.00	6.00

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, the outlook for the future course of the Japanese economy shows improvement trend, because of revenue of companies and personal consumption is stronger than last year. In U.S, result of presidential election have led weakening yen and higher stock prices due to expectation for new political strategy.

As for the global economy, we see the uncertain outlook for the economic situation because the growth in emerging countries, including ASEAN, remains at a standstill. Furthermore, Europe and Middle East still have geopolitical risks and U.S has some problems that relate to rising in rate of interest.

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 for the domestic market, we cooperate with S-VANCE LTD. which is a consolidated subsidiary, for taking mold orders more than ever.

As for the global market, we increased the capital of SANKO GOSEI THECHNOLOGY INDIA PRIVATE LTD. and converted it to consolidated subsidiary as its importance has increased. In addition, we are preparing for construction of a new factory in Gujarat, India.

Hence, we recognize that SANKO SVANCE JRG TOOLING INDIA PRIVATE LTD. and SANKO GOSEI TECHNOLOGY INDIA PRIVATE LTD. become important production bases for India market which expects high future growth.

As a result of above mentioned performance, the sales amount of this consolidated accounting period is ¥ 56,160 million (increase of 0.9% compared with the previous year). As for the profit, the Operating Income is ¥ 2,359 million (increase of 8.0% compared with the previous year). Net Income is ¥ 1,186 million (increase of 2.9% compared with the previous year).

### **Performance results of our product groups are as follows:**

#### Domestic

Sales of the plastic products increased thanks to rise in orders of household appliance business and information communication equipment. By contrast, sales of the mold tools decreased due to sell of indirectly owned subsidiary. As a result, sales amount is ¥ 25,074 million (decrease of 0.3% compared with the previous year) and the segment income is ¥ 2,125 million (increase of 9.1% compared with the previous year).

#### Europe

In Europe, sales of exterior and interior components for automobiles increased. As a result, sales amount is ¥ 8,118 million (increase of 4.7% compared with the previous year) and the segment income is ¥ 682 million (increase in 9.2% compared with the previous year).

#### Asia

While demand for exterior and interior components for automobiles increased in Indonesia, mold tools for automobile components decreased in Thailand. As a result, sales amount is ¥ 17,424 million (decrease in 0.8% compared with the previous year) and segment loss is ¥ 74 million (the previous year's segment loss was ¥ 426 million).

### North America

Thanks to steady increase in the demand for exterior and interior components for automobiles, sales amount is ¥ 5,543 million (increase of 7.1% compared with the previous year) and segment income is ¥ 262 million (decrease of 52.9% compared with the previous year).

### **Outlook**

We still expect the unpredictable economic situation continues due to new policy trends in U.S, economic trends in Europe which influence the global economy in many ways.

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

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

August, 2017

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Kenso Kuroda  
*President and  
Representative Director*

# Consolidated Balance Sheets

SANKO GOSEI LTD.

May 31, 2017 and 2016	Thousands of yen	
	2017	2016
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash on hand and in banks.....	¥ 6,443,749	¥ 5,505,691
Notes and accounts receivable:		
Trade.....	12,123,722	11,952,154
Affiliated companies.....	353	3,838
Allowance for doubtful accounts.....	(837)	(6,915)
Inventories (Note 5).....	3,877,026	3,477,712
Deferred tax assets (Note 13).....	278,118	112,639
Other current assets.....	1,366,963	1,666,732
Total current assets.....	24,089,094	22,711,851
<b>Property, plant and equipment (Note 7):</b>		
Land.....	4,105,919	4,076,294
Buildings and structures.....	16,070,393	15,687,294
Machinery, equipment and automobile.....	22,471,242	21,279,016
Tools, furniture and fixtures.....	7,611,445	7,299,636
Construction in progress.....	674,945	115,497
Total property, plant and equipment.....	50,933,944	48,457,737
Accumulated depreciation.....	(32,469,426)	(30,340,362)
Net property, plant and equipment.....	18,464,518	18,117,375
<b>Investments and other assets:</b>		
Investments in affiliated companies.....	376,202	470,131
Investments in securities (Note 6).....	14,211	16,085
Deferred tax assets (Note 13).....	412,059	322,083
Intangible fixed assets.....	708,449	875,411
Allowance for investment loss.....	(255,179)	-
Other assets.....	228,050	290,982
Allowance for doubtful accounts.....	(32,521)	(29,580)
Total investments and other assets.....	1,451,271	1,945,112
<b>Total Assets:</b>	¥ 44,004,883	¥ 42,774,338

See accompanying notes.

	Thousands of yen	
	2017	2016
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities:</b>		
Short-term bank loans (Note 7):	¥ 1,812,056	¥ 2,546,034
Current portion of long-term debt (Note 7):		
Bank loans.....	2,828,200	2,531,542
Bonds.....	470,000	420,000
Lease obligation due within one year.....	864,015	1,033,101
Notes and accounts payable:		
Trade.....	9,636,136	9,805,627
Construction.....	117,921	59,170
Income taxes payable.....	330,421	354,619
Accrued expenses and other payables.....	2,286,684	1,863,107
Other current liabilities.....	811,369	457,606
Total current liabilities.....	<u>19,156,802</u>	<u>19,070,806</u>
<b>Long-term liabilities:</b>		
Long-term debt (Note 7).....	6,695,881	6,689,951
Long-term lease obligation.....	1,406,437	1,547,996
Net defined benefits liability (Note 10).....	1,014,381	1,068,373
Deferred tax liabilities (Note 13).....	387,624	400,045
Retirement benefits for directors and corporate auditors.....	23,200	23,200
Other long-term liabilities.....	267,841	68,986
Total long-term liabilities.....	<u>9,795,364</u>	<u>9,798,551</u>
<b>Total Liabilities</b> .....	<u>28,952,166</u>	<u>28,869,357</u>
<b>NET ASSETS</b>		
<b>Owners' equity:</b>		
Common stock.....	2,885,735	2,885,735
Authorized - 43,200,000 shares		
Issued - 25,688,569 shares		
Capital surplus.....	2,964,400	2,714,859
Retained earnings.....	10,303,153	9,357,489
Treasury stock.....	(43,309)	(42,836)
Total owners' equity.....	<u>16,109,979</u>	<u>14,915,248</u>
<b>Accumulated other comprehensive income:</b>		
Unrealized losses on available-for-sale securities, net of taxes.....	(3,659)	(4,300)
Foreign currency translation adjustments.....	(1,067,851)	(849,688)
Remeasurements of defined benefit plans.....	(465,744)	(559,517)
Total accumulated other comprehensive income.....	<u>(1,537,254)</u>	<u>(1,413,505)</u>
Non-controlling interests.....	479,992	403,238
Total Net Assets.....	<u>15,052,717</u>	<u>13,904,981</u>
<b>Total Liabilities and Net Assets:</b>	<u>¥ 44,004,883</u>	<u>¥ 42,774,338</u>

# Consolidated Statements of Income

SANKO GOSEI LTD.

Years ended May 31, 2017 and 2016	Thousands of yen	
	2017	2016
<b>Net sales</b> (Note 17).....	¥ 56,159,787	¥ 55,641,879
<b>Costs and expenses</b> (Note 17):		
Cost of sales.....	47,465,456	46,834,692
Selling, general and administrative expenses (Note 11).....	6,335,428	6,623,618
	53,800,884	53,458,310
Operating income (Note 17).....	2,358,903	2,183,569
<b>Other income (expenses):</b>		
Interest and dividend income.....	24,084	20,451
Interest expense.....	(307,047)	(376,692)
Equity in loss of affiliated companies.....	(34,653)	(17,447)
Other, net (Note 4,12).....	(389,139)	(332,494)
	(706,755)	(706,182)
Income before income taxes and non-controlling interests.....	1,652,148	1,477,387
<b>Income taxes</b> (Note 13):		
Current.....	792,359	615,452
Deferred.....	(185,656)	56,650
	(606,703)	(672,102)
Income before non-controlling interests.....	1,045,445	805,285
<b>Non-controlling interests in losses</b> .....	(140,821)	(348,027)
<b>Net income</b> .....	¥ 1,186,266	¥ 1,153,312
	Yen	
<b>Amounts per share of common stock:</b>		
Net income .....	¥ 46.54	¥ 46.64
Cash dividends applicable to the year .....	10.00	10.00

See accompanying notes.

# Consolidated Statement of Comprehensive Income

SANKO GOSEI LTD.

Years ended May 31, 2017 and 2016	Thousands of yen	
	2017	2016
<b>Income before non-controlling interests</b> .....	¥ 1,045,445	¥ 805,285
<b>Other comprehensive income:</b>		
Net unrealized holding gains (losses) on securities.....	641	(5,681)
Deferred losses on hedges.....	-	(20)
Foreign currency translation adjustments .....	(159,618)	(1,079,768)
Adjustment of employees' retirement benefits.....	93,772	(435,539)
Share of other comprehensive income of affiliates accounted for using equity method.....	(38,594)	(89,678)
Total other comprehensive income.....	(103,799)	(1,610,686)
<b>Comprehensive income</b> .....	¥ 941,646	¥ (805,401)
<b>Comprehensive income attributable to:</b>		
Owners of the parent.....	1,062,517	(299,610)
Non-controlling interests.....	(120,871)	(505,791)

See accompanying notes.

# 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
<b>Balance at beginning of year</b>	¥ 2,885,735	¥ 2,714,859	¥ 9,357,490	¥ (42,836)	¥ 14,915,248
<b>Changes of items during the period</b>					
Dividends	¥ -	¥ -	¥ (254,853)	¥ -	¥ (254,853)
Net income	-	-	1,186,266	-	1,186,266
Purchase of treasury stock	-	-	-	(473)	(473)
Changes in equity related to transaction with non-controlling interests	-	248,159	-	-	248,159
Changes in scope of consolidation	-	-	14,250	-	14,250
Changes in equity due to capital increase to consolidated subsidiary	-	1,382	-	-	1,382
<b>Total changes of items during the period</b>	-	249,541	945,663	(473)	1,194,731
<b>Balance at the end of the current period</b>	¥ 2,885,735	¥ 2,964,400	¥ 10,303,153	¥ (43,309)	¥ 16,109,979

Thousands of yen

Period from June 1, 2016 to May 31, 2017	Accumulated other Comprehensive Income			
	Unrealized gains (losses) on available-for-sale securities, net of taxes	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated losses from valuation and translation adjustments
<b>Balance at beginning of year</b>	¥ (4,300)	¥ (849,688)	¥ (559,517)	¥ (1,413,505)
<b>Changes of items during the period</b>				
Net changes of items other than owners' equity	641	(218,163)	93,773	(123,749)
<b>Total changes of items during the period</b>	641	(218,163)	93,773	(123,749)
<b>Balance at the end of the current period</b>	¥ (3,659)	¥ (1,067,851)	¥ (465,744)	¥ (1,537,254)

Thousands of yen

Period from June 1, 2016 to May 31, 2017	Non-controlling interests	Total net assets
	<b>Balance at beginning of year</b>	¥ 403,238
<b>Changes of items during the period</b>		
Dividends	-	(254,853)
Net income	-	1,186,266
Purchase of treasury stock	-	(473)
Changes in equity related to transaction with non-controlling interests	-	248,159
Changes in scope of consolidation	-	14,250
Changes in equity due to capital increase to consolidated subsidiary	-	1,382
Net changes of items other than owners' equity	76,754	(46,995)
<b>Total changes of items during the period</b>	76,754	1,147,736
<b>Balance at the end of the current period</b>	¥ 479,992	¥ 15,052,717

Thousands of yen



# Consolidated Statements of Changes in Net Assets

SANKO GOSEI LTD.

Period from June 1, 2015 to May 31, 2016	Owners' equity				
	Common stock	Capital surplus	Retained earnings	Treasury Stock	Total Owners' equity
<b>Balance at beginning of year</b>	¥ 1,890,800	¥ 1,742,393	¥ 8,436,203	¥ (42,541)	¥ 12,026,855
<b>Changes of items during the period</b>					
Issuance of new stocks	¥ 994,935	¥ 994,934	¥ -	¥ -	¥ 1,989,869
Changes in equity related to transaction with non-controlling interests	-	(22,468)	-	-	(22,468)
Dividends	-	-	(232,025)	-	(232,025)
Net income	-	-	1,153,312	-	1,153,312
Purchase of treasury stock	-	-	-	(295)	(295)
<b>Total changes of items during the period</b>	994,935	972,466	921,287	(295)	2,888,393
<b>Balance at the end of the current period</b>	¥ 2,885,735	¥ 2,714,859	¥ 9,357,490	¥ (42,836)	¥ 14,915,248

Thousands of yen

Period from June 1, 2015 to May 31, 2016	Accumulated other Comprehensive Income				
	Unrealized gains (losses) on available-for-sale securities, net of taxes	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated gains (losses) from valuation and translation adjustments
<b>Balance at beginning of year</b>	¥ 1,381	¥ 19	¥ 161,994	¥ (123,977)	¥ 39,417
<b>Changes of items during the period</b>					
Net changes of items other than owners' equity	(5,681)	(19)	(1,011,682)	(435,540)	(1,452,922)
<b>Total changes of items during the period</b>	(5,681)	(19)	(1,011,682)	(435,540)	(1,452,922)
<b>Balance at the end of the current period</b>	¥ (4,300)	¥ -	¥ (849,688)	¥ (559,517)	¥ (1,413,505)

Thousands of yen

Period from June 1, 2015 to May 31, 2016	Non-controlling interests	Total net assets
	<b>Balance at beginning of year</b>	¥ 983,069
<b>Changes of items during the period</b>		
Issuance of new stocks	-	1,989,869
Changes in equity related to transaction with non-controlling interests	-	(22,468)
Dividends	-	(232,025)
Net income	-	1,153,312
Purchase of treasury stock	-	(295)
Net changes of items other than owners' equity	(579,831)	(2,032,753)
<b>Total changes of items during the period</b>	(579,831)	855,640
<b>Balance at the end of the current period</b>	¥ 403,238	¥ 13,904,981

Thousands of yen

# Consolidated Statements of Cash Flows

SANKO GOSEI LTD.

Years ended May 31, 2017 and 2016	Thousands of yen	
	2017	2016
<b>Cash flows from operating activities:</b>		
Income before income taxes and non-controlling interests.....	¥ 1,652,148	¥ 1,477,387
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating activities:		
Depreciation expenses.....	2,551,692	2,545,755
Amortization of goodwill.....	60,133	42,934
Interest and dividend income.....	(24,084)	(20,451)
Interest expense.....	307,047	376,692
Net changes in assets and liabilities:		
Notes and accounts receivable.....	(268,909)	(1,178,383)
Inventories.....	(428,908)	192,951
Notes and accounts payable.....	(102,307)	633,949
Net increase in defined benefits liability.....	22,918	(37,494)
Other current liabilities.....	945,197	117,170
Other, net.....	823,058	(244,649)
Subtotal.....	5,537,985	3,905,861
Interest and dividend received.....	24,084	20,451
Interest paid.....	(303,405)	(386,339)
Cash received from insurance proceeds.....	-	193,660
Income taxes paid.....	(816,851)	(717,420)
Net cash provided by operating activities.....	4,441,813	3,016,213
<b>Cash flows from investing activities:</b>		
Proceeds from sales of investments securities.....	9,553	8,670
Proceeds from sales of subsidiaries with changes in scope of consolidation.....	-	445,604
Proceeds from acquisition of stock in subsidiaries with change in scope of consolidation.....	-	41,626
Proceeds from sales of property, plant and equipment.....	11,383	10,716
Capital expenditures.....	(1,928,505)	(1,702,491)
Additions to investments in securities.....	(741)	(721)
Other.....	(98,052)	(112,537)
Net cash used in investing activities.....	(2,006,362)	(1,309,133)
<b>Cash flows from financing activities:</b>		
Net decrease in short-term bank loans.....	(793,280)	(2,938,474)
Proceeds from long-term debt.....	2,750,000	4,300,000
Repayments of long-term debt.....	(2,641,456)	(2,247,551)
Issuance of common stock.....	-	1,989,870
Issuance of bonds.....	744,771	-
Redemption of bonds.....	(495,000)	(520,000)
Repayments of lease obligation.....		(1,051,934)
Cash dividends paid.....	(254,853)	(232,026)
Cash dividends paid for non-controlling interests.....	(322)	(590)
Payment for purchase of stock in subsidiary with no change in scope of consolidation.....	-	(286,816)
Proceeds from sales of stock in subsidiary with no change in scope of consolidation.....	454,889	-
Purchase of treasury stock.....	(473)	(295)
Net cash used in financing activities.....	(1,338,071)	(987,816)
Effect of exchange rate changes on cash and cash equivalents.....	(167,107)	(728,820)
<b>Net increase (decrease) in cash and cash equivalents.....</b>	<b>930,273</b>	<b>(9,556)</b>
<b>Cash and cash equivalents, beginning of period.....</b>	<b>5,505,691</b>	<b>5,515,247</b>
<b>Cash and cash equivalents from newly consolidated subsidiaries.....</b>	<b>7,785</b>	<b>-</b>
<b>Cash and cash equivalents, end of period.....</b>	<b>¥ 6,443,749</b>	<b>¥ 5,505,691</b>

See accompanying notes.

# Notes to Consolidated Financial Statements

SANKO GOSEI LTD.

May 31, 2017 and 2016

## 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 16 significant subsidiaries in 2017 and 15 significant subsidiaries in 2016. 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.

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 LTD., SHANGHAI SANKO GOSEI TECHNOLOGY LTD., SANKO GOSEI ENGINEERING (GUANGZHOU) 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.

Regarding the fiscal year of SANKO SVANCE JRG TOOLING INDIA PRIVATE LTD., we have provisional settlement date as of May 31, so that we can get management information more properly. As a result, we consolidate 14 months of profit and loss of the company (from April 1 2016 to May 31 2017) in this fiscal year.

### *(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 is 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 5-10 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. Additional information**

The company and its domestic subsidiaries adopted “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016 (hereinafter, “Guidance No.26”)) from the current fiscal year.

**4. Impairment losses**

**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

¥ 85,070 thousand

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.

**Year ended May 31, 2016**

None

## 5. Inventories

Inventories at May 31, 2017 and 2016 were as follows:

	Thousands of yen	
	2017	2016
Finished goods.....	¥ 1,227,535	¥ 855,039
Work in process.....	1,997,093	1,983,503
Raw materials and supplies.....	652,398	639,170
	<u>¥ 3,877,026</u>	<u>¥ 3,477,712</u>

## 6. Securities

Significant securities with no fair market value are stated at cost as follows at May 31, 2017 and 2016:

	Thousands of yen	
	2017	2016
Unlisted stocks.....	¥ 5,480	¥ 8,320

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

Short-term bank loans outstanding at May 31, 2017 and 2016 bore interest at annual rate of 2.05%.

Long-term debt at May 31, 2017 and 2016 were as follows:

	Thousands of yen	
	2017	2016
Unsecured bonds.....	¥ 1,075,000	¥ 820,000
Loans from banks.....	8,919,081	8,821,493
(The average interest rates are 1.259% and 1.639% at May 31, 2017 and 2016)	9,994,081	9,641,493
Bonds due within one year.....	(470,000)	(420,000)
Bank loans due within one year.....	(2,828,200)	(2,531,542)
	<u>¥ 6,695,881</u>	<u>¥ 6,689,951</u>

The aggregate annual maturities of long-term debt at May 31, 2017 were as follows:

	Thousands of yen
2018.....	¥ 3,298,200
2019.....	2,713,586
2020.....	2,030,239
2021.....	1,368,768
2022 and thereafter.....	583,288

At May 31, 2017, the following assets were pledged as collateral for bank loans.

	Thousands of yen
Land.....	¥ 2,391,044
Machinery, equipment and automobile.....	90,274
Buildings and structures.....	1,774,461

## 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:

	Thousands of yen	
	2017	2016
Unrealized gains (losses) in securities:		
Occurrence amount.....	¥ 729	¥ (7,772)
Deferred losses on hedges		
Occurrence amount.....	¥ -	¥ (19)
Foreign currency translation adjustments		
Occurrence amount.....	¥ (159,618)	¥ (1,079,768)
Employee retirement benefits adjustments		
Occurrence amount.....	¥ 72,074	¥ (582,364)
Share of other comprehensive income of associates accounted for using equity method		
Occurrence amount.....	¥ (52,323)	¥ (89,677)
Total other comprehensive income before tax.....	¥ (139,138)	¥ (1,759,600)
Tax effect.....	¥ 35,339	¥ 148,914
Other comprehensive income, net of tax.....	¥ (103,799)	¥ (1,610,686)

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

## 9. Statement of cash flows

### (a) Relation between Cash and cash equivalents

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

	Thousands of yen	
	2017	2016
Cash on hand and in banks.....	¥ 6,443,749	¥ 5,505,691
Cash and cash equivalents (fixed term deposits exceeding 3 months).....	¥ -	¥ -
Cash and cash equivalents.....	¥ 6,443,749	¥ 5,505,691



**(b) Detail of assets and liabilities which belongs to  
the company consolidated by acquisition of shares**

**Year ended May 31, 2017**

None.

**Year ended May 31, 2016**

In connection with the consolidation of SANKO SVANCE JRG TOOLING INDIA PRIVATE LTD. through the acquisition of its shares, details of assets and liabilities at the time of its consolidation and the relationship between the acquisition cost of its shares and the expense (net) related to the acquisition are summarized as follows.

	Thousands of yen
Current assets.....	¥ 1,047,139
Non current assets.....	387,419
Current liabilities.....	(207,350)
Long-term liabilities.....	(272,917)
Non-controlling interests.....	(190,858)
Goodwill.....	146,166
Loss on graded purchase.....	(92,083)
Accumulated gain on equity method until takeover of control.....	(59,516)
Purchase cost of the stock.....	758,000
Cash and cash equivalents of SANKO SVANCE JRG TOOLING INDIA PRIVATE LTD. ....	(799,626)
Purchase of stock in subsidiary shown on the consolidated statements of cash flows.....	¥ (41,626)

**(c) Detail of assets and liabilities which belongs to  
the company ceased to be consolidated by sales of shares**

**Year ended May 31, 2017**

None.

**Year ended May 31, 2016**

The breakdown of assets and liabilities at the time of the exclusion of RESEARCH LABORATORY OF PLASTICS TECHNOLOGY Co., Ltd. from the scope of consolidation due to the sales of stocks, and the amount of the sales of stocks of RESEARCH LABORATORY OF PLASTICS TECHNOLOGY Co., Ltd. and its income (loss) on sales are summarized as follows.

	Thousands of yen
Current assets.....	¥ 724,415
Non current assets.....	139,335
Current liabilities.....	(472,054)
Gain on sale of the stock.....	205,404
Sale value of the stock.....	597,100
Cash and cash equivalents of RESEARCH LABORATORY OF PLASTICS TECHNOLOGY Co., Ltd. ....	(151,497)
Proceed from sale.....	¥ 445,603

## 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:

	Thousands of yen	
	2017	2016
Retirement benefit obligation at the beginning of the period.....	¥ 3,873,208	¥ 3,426,427
Service cost.....	163,885	152,152
Interest cost.....	3,401	39,138
Actuarial loss.....	19,999	509,901
Benefits paid.....	(102,235)	(234,714)
Others.....	4,558	(19,696)
Retirement benefit obligation at the end of the period.....	¥ 3,962,816	¥ 3,873,208

### (b) Movements in plan Assets:

	Thousands of yen	
	2017	2016
Plan assets at fair value at the beginning of the period.....	¥ 2,804,835	¥ 2,877,404
Expected return on plan assets.....	27,000	28,602
Actuarial gain.....	8,354	(141,980)
Contributions by the employer.....	208,084	205,953
Benefits paid.....	(99,838)	(165,144)
Plan assets at fair value at the end of the period.....	¥ 2,948,435	¥ 2,804,835

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

	Thousands of yen	
	2017	2016
Funded retirement benefits obligations.....	¥ 3,841,566	¥ 3,775,031
Plan assets.....	2,948,435	2,804,835
	893,131	970,196
Unfunded retirement benefits obligations.....	121,250	98,177
Total net liability (asset) for retirement benefits at the end of the period.....	1,014,381	1,068,373
Liability for retirement benefits.....	1,014,381	1,068,373
Total net liability (asset) for retirement benefits at the end of the period.....	¥ 1,014,381	¥ 1,068,373

### (d) Retirement benefit costs:

	Thousands of yen	
	2017	2016
Service costs.....	¥ 163,885	¥ 152,152
Interest cost on projected benefits obligation.....	3,401	39,138
Expected return on plan assets.....	(27,000)	(28,602)
Amortization of net actuarial difference.....	82,345	67,913
Other.....	1,375	1,604
Severance and retirement benefits expenses.....	¥ 224,006	¥ 232,205

**(e) Accumulated adjustments retirement benefits:**

	Thousands of yen	
	2017	2016
Past service costs that are yet to be recognized.....	¥ 1,375	¥ 1,604
Actuarial gains and losses that are yet to be recognized.....	70,699	(583,968)
Total balance at the end of the period.....	¥ 72,074	¥ (582,364)

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

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

	Thousands of yen	
	2017	2016
Unrecognized prior service costs.....	¥ 344	¥ 1,719
Unrecognized actuarial loss.....	771,283	841,983
Total.....	¥ 771,627	¥ 843,702

**(g) Plan assets**

	2017	2016
Bonds.....	32%	40%
Equity securities.....	22	21
General account of the insurers.....	22	22
Other.....	24	17
Total.....	100%	100%

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

	2017	2016
Discount rate.....	0.00% to 0.10%	0.00% to 0.10%
Expected long-term rates of return on plan assets.....	0.73% to 1.00%	0.83% to 1.00%
Expected rates of salary increase.....	2.30% to 4.49%	2.30% to 3.88%

**11. Research and Development Expenses**

Research and development expenses included in selling, general and administrative expenses were ¥ 495,773 thousand and ¥ 494,663 thousand for the years ended May 31, 2017 and 2016, respectively.

**12. Other Income (Expenses) - Other, net**

Other, net in other income (expenses) for the years ended May 31, 2017 and 2016 were analyzed as follows:

	Thousands of yen	
	2017	2016
Loss on sale and disposal of property, plant and equipment, net.....	¥ (32,295)	¥ (64,346)
Exchange gain (loss) net.....	89,579	(435,454)
Loss in devaluation of currency swap.....	(233,342)	(44,160)
Gain in sale of investment securities.....	5,553	3,774
Insurance proceeds.....	-	193,660
Loss on disaster.....	-	(81,802)
Gain in sale of investment in affiliated companies.....	-	205,403
Loss on extraordinary retirement benefit.....	-	(176,177)
Compensation received.....	202,857	30,459
Allowance for investment loss.....	(255,179)	-
Impairment loss of fixed assets.....	(85,070)	-
Other, net.....	(81,242)	36,149
	¥ (389,139)	¥ (332,494)

### 13. Income Taxes

Significant components of the Companies' deferred tax assets and liabilities as of May 31, 2017 and 2016 were as follows:

	Thousands of yen	
	2017	2016
Deferred tax assets:		
Net defined benefits liability.....	¥ 303,693	¥ 288,022
Allowance for retirement benefits for directors and corporate auditors.....	7,076	7,076
Devaluation of investment in stocks of affiliated company.....	7,183	14,388
Loss on impairment of fixed assets.....	36,659	36,659
Loss carried forward.....	740,454	971,862
Unpaid legal welfare expenses.....	29,166	21,907
Other.....	483,674	278,285
Subtotal.....	1,607,905	1,618,199
Less-valuation allowance.....	(647,201)	(975,039)
Total deferred tax assets.....	¥ 960,704	¥ 643,160
Deferred tax liabilities:		
Stock transfer loss which accompanies capital reduction.....	¥ (215,746)	¥ (215,746)
Property, plant and equipment.....	(308,062)	(270,089)
Loss valuation of land.....	(102,812)	(102,812)
Other.....	(31,531)	(19,836)
Total deferred tax liabilities.....	¥ (658,151)	¥ (608,483)
Net deferred tax assets (liabilities).....	¥ 302,553	¥ 34,677

Deferred tax assets and liabilities as of May 31, 2017 and 2016 were as follows:

		Thousands of yen	
		2017	2016
Current assets	: Deferred tax assets.....	¥ 278,118	¥ 112,639
Investments and other assets	: Deferred tax assets.....	412,059	322,083
Long-term liabilities	: Deferred tax liabilities.....	(387,624)	(400,045)

The effective income tax rates of the Companies at May 31, 2017 and 2016 differ from the statutory tax rates for the following reasons:

	2016	
Statutory tax rate.....	30.7 %	32.8 %
Expense not deductible for tax purpose.....	3.0	2.2
Per capita inhabitant tax.....	1.1	1.2
Different tax rates applicable to foreign subsidiaries.....	(6.3)	(9.4)
Consolidation adjustment.....	18.6	5.2
Other, net.....	(10.4)	13.5
Effective tax rate.....	36.7 %	45.5 %

## **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 six 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 utilize 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, 2017 and 2016 were as follows:

Thousands of yen

	May 31, 2017		
	Book Value	Fair Value	Difference
Cash on hand and in banks.....	¥ 6,443,749	¥ 6,443,749	¥ -
Notes and accounts receivable.....	12,124,075	12,124,502	427
Investments in securities.....	8,730	8,730	-
Total assets.....	18,576,554	18,576,981	427
Notes and accounts payable.....	9,636,136	9,636,136	-
Short-term bank loans.....	1,812,056	1,812,056	-
Bonds payable.....	1,075,000	1,076,286	1,286
Long-term bank Loans.....	8,919,081	8,931,164	12,083
Lease obligations.....	2,270,452	2,293,707	23,255
Total liabilities.....	23,712,725	23,749,349	36,624
Derivative transactions.....	(148,299)	(148,299)	-
	May 31, 2016		
	Book Value	Fair Value	Difference
Cash on hand and in banks.....	¥ 5,505,691	¥ 5,505,691	¥ -
Notes and accounts receivable.....	11,955,992	11,958,398	2,406
Investments in securities.....	7,764	7,764	-
Total assets.....	17,469,447	17,471,853	2,406
Notes and accounts payable.....	9,805,627	9,805,627	-
Short-term bank loans.....	2,546,034	2,546,034	-
Bonds payable.....	820,000	824,217	4,217
Long-term bank loans.....	8,821,493	8,849,897	28,404
Lease obligations.....	2,581,097	2,639,765	58,668
Total liabilities.....	24,574,251	24,665,540	91,289
Derivative transactions.....	71,733	71,733	-

(\*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, 2017 and 2016 of derivative transactions:

Derivative transactions for which hedge accounting is not applied.

*Currency related* Thousands of yen

Type	Details	May 31, 2017			
		Contract amount	Over one year	Market value	Unrecognized profit
Items not traded on markets	Currency swap				
	Receive: foreign currency Pay: Japanese yen	¥ 3,341,708	¥ 3,101,596	¥ (148,299)	¥ (148,299)

  

Type	Details	May 31, 2016			
		Contract amount	Over one year	Market value	Unrecognized profit
Items not traded on markets	Currency swap				
	Receive: foreign currency Pay: Japanese yen	¥ 1,561,755	¥ 1,426,073	¥ 71,733	¥ 71,733

Derivative transactions for which hedge accounting is applied

*Currency related* Thousands of yen

Type	Details	Hedged item	May 31, 2016		
			Contract amount	Over one year	Fair Value
Fair values of forward foreign exchange	Foreign currency forward exchange contracts				
	Selling US dollar	Accounts receivable	¥ 7,953	¥ -	(*Note 1)
	Selling euros		6,424	-	
	Buying sterling pounds	Accounts payable	81,775	-	(*Note 2)

*Interest related* Thousands of yen

Type	Details	Hedged item	May 31, 2017		
			Contract amount	Over one year	Fair Value
Interest rate swap	Receive variable	Long-term loan payable	¥ 60,000	¥ -	(*Note 3)
	/ pay fixed				

  

Type	Details	Hedged item	May 31, 2016		
			Contract amount	Over one year	Fair Value
Interest rate swap	Receive variable	Long-term loan payable	¥ 200,000	¥ 60,000	(*Note 3)
	/ pay fixed				

(\*Note 1)

The fair values of forward foreign exchange contracts are included in the fair values of notes and accounts receivable, as the notes and accounts receivable denominated in foreign currencies are calculated by using forward foreign exchange rates, in case.

(\*Note 2)

The fair values of forward foreign exchange contracts are included in the fair values of notes and accounts payable, as the notes and accounts payable denominated in foreign currencies are calculated by using forward foreign exchange rates, in case.

(\*Note 3)

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. Summary of business combination**

We sold the shares of SANKO SVANCE JRG TOOLING INDIA PRIVATE LTD. at the board of directors' meeting at December 8, 2016.

### ***(a) Outline of transactions***

(1) Name of the covered company and description of business

SANKO SVANCE JRG TOOLING INDIA PRIVATE LTD.

Manufacturing and sales of Molding Tool

(2) The date of combination

December 20, 2016

(3) Legal form of transactions

Transfer of shares to non-controlling shareholders

(4) Other outline of transaction

The purpose of this transaction is to ensure the smooth promotion of business in India and to strengthen relationships with non-controlling shareholders.

1) The total number of shares transferred

17,400 thousand of shares (29% of total issued shares)

2) The transfer price

¥ 454,000 thousand

3) The ratio of equity after the transfer

61.0%

### ***(b) Outline of account processing***

The Company adopted “Revised Accounting Standard for Business Combinations” (ASBJ Statement No.21, September 13, 2013 ) and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (Accounting Standards Board of Japan, Guidance on Accounting Standards No. 10, December 22, 2006) .

This transaction become processed as the transaction with non-controlling subsidiaries.



## 17. 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.

Thousands of yen

	May 31, 2017						
	Japan	Europe	Asia	North America	Total	Adjustments	Consolidated
Sales:							
Outside.....	¥ 25,074,147	¥ 8,118,426	¥ 17,424,187	¥ 5,543,027	¥ 56,159,787	–	¥ 56,159,787
Inter-segment.....	2,570,038	5,696	885,284	168,539	3,629,557	(3,629,557)	–
Total sales.....	27,644,185	8,124,122	18,309,471	5,711,566	59,789,344	(3,629,557)	56,159,787
Operating income (loss).....	¥ 2,124,920	¥ 682,505	¥ (73,830)	¥ 261,715	¥ 2,995,310	¥ (636,407)	¥ 2,358,903
Total assets.....	¥ 20,919,478	¥ 3,765,338	¥ 13,861,878	¥ 5,798,819	¥ 44,345,513	¥ (340,630)	¥ 44,004,883
Other items:							
Depreciation.....	¥ 748,416	¥ 232,876	¥ 1,281,609	¥ 218,014	¥ 2,480,915	¥ 70,775	¥ 2,551,690
Increase in fixed assets.....	¥ 871,009	¥ 224,655	¥ 1,276,559	¥ 907,943	¥ 3,280,166	¥ 33,458	¥ 3,313,624

(\*Notes)

- Adjustments of segment income and loss include elimination of intersegment transactions of ¥ 47,156 thousand and corporate expenses not allocated to each reportable segment of ¥ 589,251 thousand.
- 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. (¥ 2,188 thousand)

Thousands of yen

	May 31, 2016						
	Japan	Europe	Asia	North America	Total	Adjustments	Consolidated
Sales:							
Outside.....	¥ 25,152,299	¥ 7,753,951	¥ 17,559,788	¥ 5,175,841	¥ 55,641,879	–	¥ 55,641,879
Inter-segment.....	2,306,350	6,290	939,402	263,197	3,515,239	(3,515,239)	–
Total sales.....	27,458,649	7,760,241	18,499,190	5,439,038	59,157,118	(3,515,239)	55,641,879
Operating income (loss).....	¥ 1,948,201	¥ 624,989	¥ (426,580)	¥ 555,847	¥ 2,702,457	¥ (518,888)	¥ 2,183,569
Total assets.....	¥ 21,325,845	¥ 4,573,937	¥ 13,820,524	¥ 4,438,907	¥ 44,159,213	¥ (1,384,875)	¥ 42,774,338
Other items:							
Depreciation.....	¥ 745,149	¥ 194,411	¥ 1,390,671	¥ 179,314	¥ 2,509,545	¥ 36,210	¥ 2,545,755
Increase in fixed assets.....	¥ 1,648,860	¥ 560,281	¥ 664,488	¥ 172,086	¥ 3,045,715	¥ 316,320	¥ 3,362,035

(\*Notes)

- Adjustments of segment income and loss include elimination of intersegment transactions of ¥ 71,085 thousand and corporate expenses not allocated to each reportable segment of ¥ 589,973 thousand.
- Adjustments were made to reconcile segment income to operating income in Consolidated Statements of Income.

[Related Information]

1. Information by product / service	Thousands of yen		
	May 31, 2017		
	Plastic products	Mold tools	Total
Sales to outside customers.....	¥ 46,388,932	¥ 9,770,855	¥ 56,159,787
	May 31, 2016		
	Plastic products	Mold tools	Total
Sales to outside customers.....	¥ 42,792,363	¥ 12,849,516	¥ 55,641,879

2. Information by region / country	Thousands of yen				
	May 31, 2017				
	Japan	Europe	Asia	North America	Total
Sales.....	¥ 23,469,961	¥ 8,960,033	¥ 17,600,595	¥ 6,129,198	¥ 56,159,787
Property, plant and equipment, less accumulated depreciation.....	7,496,525	984,923	6,832,602	3,150,468	18,464,518
	May 31, 2016				
	Japan	Europe	Asia	North America	Total
Sales.....	¥ 23,595,857	¥ 8,584,373	¥ 17,727,226	¥ 5,734,423	¥ 55,641,879
Property, plant and equipment, less accumulated depreciation.....	7,543,637	1,142,987	6,952,921	2,477,830	18,117,375

(\*Notes)

Sales are classified according to regions or countries where customers are located.

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

Impairment loss of fixed assets.....	Thousands of yen						
	May 31, 2017						
	Japan	Europe	Asia	North America	Total	Adjustments	Consolidated
of fixed assets.....	¥ -	¥ -	¥ 85,070	¥ -	¥ 85,070	¥ -	¥ 85,070

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

Depreciation amount..... End of balance.....	Thousands of yen						
	May 31, 2017						
	Japan	Europe	Asia	North America	Total	Adjustments	Consolidated
Depreciation amount.....	¥ -	¥ -	¥ 29,775	¥ 30,359	¥ 60,134	¥ -	¥ 60,134
End of balance.....	-	-	-	240,048	240,048	-	240,048

Depreciation amount..... End of balance.....	Thousands of yen						
	May 31, 2016						
	Japan	Europe	Asia	North America	Total	Adjustments	Consolidated
Depreciation amount.....	¥ -	¥ -	¥ 12,612	¥ 30,322	¥ 42,934	¥ -	¥ 42,934
End of balance.....	-	-	113,509	270,359	383,868	-	383,868

# Independent Auditor's Report

To the Board of Directors of SANKO GOSEI Ltd.:

We have audited the accompanying consolidated financial statements of SANKO GOSEI Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at May 31, 2017 and 2016, and the consolidated income statements, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

## 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 misstatements, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and 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 our judgement, 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, we consider 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, while the objective of the financial statement audit is 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 present fairly, in all material respects, the financial position of SANKO GOSEI Ltd. and its consolidated subsidiaries as at May 31, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

*KPMG AZSA LLC*

August 30, 2017

Toyama, Japan