Kurotani Corporation and Subsidiary

Consolidated Financial Statements for the Year Ended August 31, 2017, and Independent Auditor's Report

Deloitte.

Deloitte Touche Tohmatsu LLC
Shinagawa Intercity
2-15-3 Konan
Minato-ku, Tokyo 108-6221
Japan

Tel: +81 (3) 6720 8200
Fax: +81 (3) 6720 8205
www.deloitte.com/jp/en

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Kurotani Corporation:

We have audited the accompanying consolidated balance sheet of Kurotani Corporation and its subsidiary as of August 31, 2017, and the related consolidated statements of operations, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kurotani Corporation and its subsidiary as of August 31, 2017, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

November 21, 2017
(March 1, 2018 as to Note 2.n)

Kurotani Corporation and Subsidiary

Consolidated Balance Sheet
August 31, 2017

ASSETS	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars (Note 1) 2017
CURRENT ASSETS:			
Cash and cash equivalents (Notes 13 and 14)	¥ 1,491	¥ 1,633	$ 13,559
Short-term investments (Note 14)	657	657	5,971
Receivables (Note 14):			
Trade notes	217	233	1,972
Electronically-recorded monetary claims—operating	918	783	8,350
Trade accounts	5,072	4,243	46,108
Other	598	720	5,437
Inventories (Note 3)	4,323	2,355	39,303
Deferred tax assets (Note 11)	56	66	510
Short-term loan to associated company	17		151
Prepaid expenses and other current assets	982	739	8,914
Total current assets	14,331	11,429	130,275
PROPERTY, PLANT AND EQUIPMENT—Net (Note 4):			
Land	1,521	1,521	13,828
Buildings and structures	399	424	3,632
Machinery and equipment	234	270	2,126
Furniture and fixtures	92	71	840
Construction in progress			1
Total property, plant and equipment—net	2,246	2,286	20,427
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 5 and 14)	546	362	4,964
Investments in associated company	166	149	1,513
Software	11	14	104
Deferred tax assets (Note 11)		125	
Other assets (Note 6)	12	11	97
Total investments and other assets	735	661	6,678
TOTAL	¥17,312	¥14,376	$157,380

LIABILITIES AND EQUITY	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars (Note 1) 2017
CURRENT LIABILITIES:			
Short-term bank loans (Notes 7 and 14)	¥ 3,820	¥ 3,841	$ 34,726
Current portion of long-term debt (Notes 7 and 14)	1,104	889	10,034
Payables (Note 14):			
Trade notes	379	374	3,444
Trade accounts	1,187	734	10,791
Other	327	229	2,970
Income taxes payable	580	6	5,271
Accrued expenses	70	31	640
Other current liabilities	34	9	310
Total current liabilities	7,501	6,113	68,186
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 14)	1,979	1,567	17,990
Liability for retirement benefits (Note 8)	87	89	793
Deferred tax liabilities (Note 11)	6		55
Total long-term liabilities	2,072	1,656	18,838
COMMITMENTS AND CONTINGENT LIABILITIES (Note 15)			
EQUITY (Note 9):			
Common stock—authorized, 28,000,000 shares; issued, 14,337,200 shares in 2017 and 2016*	1,000	1,000	9,091
Capital surplus:			
Additional paid-in capital	293	293	2,664
Other capital surplus	393	393	3,571
Retained earnings:			
Legal reserve	9	9	82
Unappropriated	5,832	4,867	53,021
Treasury stock—at cost, 288 shares in 2017 and 216 shares in 2016*			(1)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	143	13	1,303
Foreign currency translation adjustments	69	32	625
Total equity	7,739	6,607	70,356
TOTAL	¥17,312	¥14,376	$157,380

* Shares have been restated, as appropriate, to reflect two-for-one stock split effected March 1, 2018, as described in Note 2.n.

See notes to consolidated financial statements.

Kurotani Corporation and Subsidiary

Consolidated Statement of Operations
Year Ended August 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET SALES	¥52,869	¥42,956	$480,625
COST OF SALES	49,549	42,449	450,447
Gross profit	3,320	507	30,178
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 10)	1,220	1,099	11,088
Operating income (loss)	2,100	(592)	19,090
OTHER INCOME (EXPENSES):			
Interest and dividend income	9	8	86
Insurance income	1	24	7
Foreign exchange gain (loss)	(88)	122	(796)
Gain (loss) on derivative transactions	(272)	78	(2,470)
Interest expense	(70)	(63)	(640)
Gain (loss) on sales of property, plant and equipment			(4)
Equity in loss of associated company	(1)	(34)	(12)
Other—net		(2)	(1)
Other income (expenses)—net	(421)	133	(3,830)
INCOME (LOSS) BEFORE INCOME TAXES	1,679	(459)	15,260
INCOME TAXES (Note 11):			
Current	546	4	4,966
Deferred	96	(74)	865
Total income taxes	642	(70)	5,831
NET INCOME (LOSS)	1,037	(389)	9,429
NET INCOME (LOSS) ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 1,037	¥ (389)	$ 9,429

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.n):			
Basic net income (loss)*	¥72.34	¥(27.15)	$0.66
Cash dividends applicable to the year*	5.00	7.50	0.05

* Per share figures have been restated, as appropriate, to reflect two-for-one stock split effected March 1, 2018, as described in Note 2.n.

See notes to consolidated financial statements.

Kurotani Corporation and Subsidiary

Consolidated Statement of Comprehensive Income
Year Ended August 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET INCOME (LOSS)	¥1,037	¥(389)	$ 9,429
OTHER COMPREHENSIVE INCOME (LOSS) (Note 12):			
Unrealized gain (loss) on available-for-sale securities	130	(94)	1,185
Foreign currency translation adjustments	18	(38)	161
Share of other comprehensive income (loss) in associates	19	(39)	169
Total other comprehensive income (loss)	167	(171)	1,515
COMPREHENSIVE INCOME (LOSS)	¥1,204	¥(560)	$10,944
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of the parent	¥1,204	¥(560)	$10,944
Noncontrolling interests			

See notes to consolidated financial statements.

Kurotani Corporation and Subsidiary

Consolidated Statement of Changes in Equity
Year Ended August 31, 2017

		Millions of Yen								
			Capital Surplus		Retained Earnings			Accumulated Other Comprehensive Income (Loss)		
	Number of Shares of Common Stock Outstanding*	Common Stock	Additional Paid-in Capital	Other Capital Surplus	Legal Reserve	Unappropriated	Treasury Stock	Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Total Equity
BALANCE, SEPTEMBER 1, 2015	14,336,984	¥1,000	¥293	¥393	¥9	¥5,363		¥107	¥109	¥7,274
Net loss attributable to owners of the parent						(389)				(389)
Cash dividends, ¥7.50 per share*						(107)				(107)
Net change in the year					—		—	(94)	(77)	(171)
BALANCE, AUGUST 31, 2016	14,336,984	1,000	293	393	9	4,867		13	32	6,607
Net income attributable to owners of the parent						1,037				1,037
Cash dividends, ¥5.00 per share*						(72)				(72)
Purchase of treasury stock	(72)									
Net change in the year					—		—	130	37	167
BALANCE, AUGUST 31, 2017	14,336,912	¥1,000	¥293	¥393	¥9	¥5,832	—	¥143	¥ 69	¥7,739

	Thousands of U.S. Dollars (Note 1)								
		Capital Surplus		Retained Earnings			Accumulated Other Comprehensive Income (Loss)		
	Common Stock	Additional Paid-in Capital	Other Capital Surplus	Legal Reserve	Unappropriated	Treasury Stock	Unrealized Gain (Loss) on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Total Equity
BALANCE, AUGUST 31, 2016	$9,091	$2,664	$3,571	$82	$44,244	$(1)	$ 118	$295	$60,064
Net income attributable to owners of the parent					9,429				9,429
Cash dividends, $0.05 per share*					(652)				(652)
Net change in the year				—		—	1,185	330	1,515
BALANCE, AUGUST 31, 2017	$9,091	$2,664	$3,571	$82	$53,021	$(1)	$1,303	$625	$70,356

* Shares and per share figures have been restated, as appropriate, to reflect two-for-one stock split effected March 1, 2018, as described in Note 2.n.

See notes to consolidated financial statements.

Kurotani Corporation and Subsidiary

Consolidated Statement of Cash Flows
Year Ended August 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
OPERATING ACTIVITIES:			
Income (loss) before income taxes	¥1,679	¥ (459)	$15,260
Adjustments for:			
Income taxes—paid	(6)	(56)	(53)
Income taxes—refund	1		11
Depreciation and amortization	150	176	1,362
Changes in assets and liabilities:			
Decrease (increase) in receivables	(796)	797	(7,238)
Increase in inventories	(1,968)	(314)	(17,894)
Increase in payable	545	126	4,954
Other—net	(108)	(581)	(977)
Total adjustments	(2,182)	148	(19,835)
Net cash used in operating activities	(503)	(311)	(4,575)
INVESTING ACTIVITIES:			
Payments into time deposits	(1,064)	(1,160)	(9,671)
Proceeds from withdrawal of time deposits	1,064	1,155	9,670
Purchases of property, plant and equipment	(23)	(140)	(210)
Purchases of software and other intangible assets	(5)		(44)
Proceeds from sales of property, plant and equipment		1	2
Purchases of investment securities	(7)	(7)	(67)
Proceeds from sales of securities		143	
Payments for short-term loan to associated company	(17)		(152)
Other—net		(3)	(3)
Net cash used in investing activities	(52)	(11)	(475)
FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans—net	300	(191)	2,727
Proceeds from long-term debt	1,700	1,200	15,455
Repayments of long-term debt	(1,073)	(1,114)	(9,757)
Dividends paid	(72)	(107)	(652)
Net cash provided by (used in) financing activities	855	(212)	7,773
FOREIGN CURRENCY TRANSLATION ADJUSTMENT ON CASH AND CASH EQUIVALENTS	(38)	19	(338)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	262	(515)	2,385
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,229	1,744	11,174
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 13)	¥1,491	¥1,229	$13,559

See notes to consolidated financial statements.

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Kurotani Corporation (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥110 to $1, the approximate rate of exchange at August 31, 2017. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Consolidation***—The consolidated financial statements as of August 31, 2017, include the accounts of the Company and its subsidiary (together the "Group").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

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

The fiscal year-end of the subsidiary is December 31. Accordingly, it is consolidated using pro forma financial information as of June 30, and adjustments were made to accounting for significant transactions that occurred from July 1 to August 31.

b. ***Cash Equivalents***—Cash equivalents are short-term investments that are readily convertible into cash and are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposit, commercial paper, and bond funds, all of which mature or become due within three months of the date of acquisition.

c. ***Inventories***—Inventories are stated at the lower of cost, determined by the average method for merchandise, finished products, work in process, raw materials and supplies, or net selling value (see Note 3).

d. ***Marketable and Investment Securities***—Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:

Available-for-sale securities, which are not classified as either trading securities that are held for the purpose of earning capital gains in the near term or held-to-maturity debt securities that are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method.

For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

e. ***Allowance for Doubtful Accounts***—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Company's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

f. ***Property, Plant and Equipment***—Property, plant and equipment are stated at cost.

Depreciation of property, plant and equipment is computed by the declining-balance method, while the straight-line method is applied to buildings acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016. The range of useful lives is principally from 15 to 35 years for buildings and from 4 to 7 years for machinery.

g. ***Software***—Software is carried at cost less accumulated amortization, which is calculated by the straight-line method over five years.

h. ***Long-Lived Assets***—The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

i. ***Retirement and Pension Plans***—The Company's employees' retirement benefits consist of two plans, a defined contribution pension plan and an unfunded retirement benefit plan as a defined benefit plan, which cover substantially all of the Company's employees.

The liability for the defined benefit plan is recorded at the amount that would be required if all employees retired at the balance sheet date.

j. ***Income Taxes***—The provision for income taxes is computed based on the pretax income included in the consolidated statement of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

The Company applied the Accounting Standards Board of Japan (the "ASBJ") Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," effective April 1, 2016. There was no impact from this for the year ended August 31, 2017.

k. ***Foreign Currency Transactions***—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of operations to the extent that they are not hedged by forward exchange contracts.

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

m. ***Derivatives and Hedging Activities***—The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and nonferrous metal prices. Foreign exchange forward contracts and options are utilized by the Group to reduce foreign currency exchange risk. Also, commodity forward contracts are utilized by the Group to reduce nonferrous metal price risk. The Group does not enter into derivatives for trading or speculative purposes.

All derivative financial instruments are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of operations.

n. ***Per Share Information***—Basic net income or loss per share is computed by dividing net income or loss attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share of common stock is not disclosed herein because the Company has not issued any securities that are potentially dilutive for the years ended August 31, 2017 and 2016.

Cash dividends per share presented in the accompanying consolidated statement of operations are dividends applicable to the respective years, including dividends to be paid after the end of the year.

On March 1, 2018, the Company effected two-for-one stock split by way of a free share distribution based on the resolution of the Board of Directors meeting held on January 15, 2018. As a result of the stock split, 7,168,600 shares were issued to shareholders of record on February 28, 2018. All fiscal and prior year share and per share figures have been restated to reflect the impact of the stock split. Such restatements include calculations regarding the Company's weighted-average number of common shares, basic net income per share, and cash dividends per share.

3. INVENTORIES

Inventories as of August 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Merchandise	¥ 3	¥ 3	$ 24
Finished products	949	336	8,631
Work in process	128	109	1,169
Raw materials and supplies	3,243	1,907	29,479
Total	¥4,323	¥2,355	$39,303

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of August 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Land	¥1,521	¥1,521	$13,828
Buildings and structures	2,233	2,215	20,305
Machinery and equipment	2,537	2,504	23,060
Furniture and fixtures	357	325	3,251
Construction in progress			1
Acquisition cost	6,648	6,565	60,445
Accumulated depreciation	(4,402)	(4,279)	(40,018)
Net book value	¥2,246	¥2,286	$20,427

5. INVESTMENT SECURITIES

Investment securities as of August 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Noncurrent:			
Marketable equity securities	¥531	¥347	$4,827
Nonmarketable equity securities	15	15	137
Total	¥546	¥362	$4,964

The cost and aggregate fair value of investment securities that have a quoted market price in an active market as of August 31, 2017 and 2016, were as follows:

	Millions of Yen			
August 31, 2017	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	¥342	¥192	¥ (3)	¥531
Total	¥342	¥192	¥ (3)	¥531
August 31, 2016				
Equity securities	¥334	¥ 41	¥(28)	¥347
Total	¥334	¥ 41	¥(28)	¥347

	Thousands of U.S. Dollars			
August 31, 2017	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	$3,107	$1,748	$(28)	$4,827
Total	$3,107	$1,748	$(28)	$4,827

6. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The amount deducted directly from investments and other assets as of August 31, 2017 and 2016, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Other assets	¥39	¥39	$353

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans as of August 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unsecured bank loans with a weighted-average interest rate of 1.18% (2017) and 0.93% (2016)	¥3,820	¥3,841	$34,726

Long-term debt as of August 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unsecured bank loans due serially to 2022 with a weighted-average interest rate of 0.50% (2017) and 0.56% (2016)	¥3,083	¥2,456	$28,024
Total	3,083	2,456	28,024
Less current portion	(1,104)	(889)	(10,034)
Long-term debt, less current portion	¥1,979	¥1,567	$17,990

Annual maturities of long-term debt as of August 31, 2017, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Within one year	¥1,104	$10,034
In the 2nd year	771	7,010
In the 3rd year	636	5,783
In the 4th year	417	3,788
In the 5th year and thereafter	155	1,409
Total	¥3,083	$28,024

8. RETIREMENT BENEFITS

a. *Overview of the Company's Retirement Benefit Plan*

The employees' retirement benefits consist of two plans, a defined contribution pension plan and an unfunded retirement benefit plan as a defined benefit plan, which cover substantially all of the Company's employees.

The liability for the defined benefit plan is recorded at the amount that would be required if all employees retired at the balance sheet date (the simplified method).

b. Defined Benefit Plan

Movement in liability for retirement benefit of the defined benefit plan applying the simplified method for the years ended August 31, 2017 and 2016, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥89	¥88	$813
Retirement benefit cost	8	8	70
Benefits paid	(10)	(7)	(90)
Balance at end of year	¥87	¥89	$793

Reconciliation of retirement benefit obligations to liability for retirement benefits as of August 31, 2017 and 2016, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unfunded retirement benefit obligations	¥87	¥89	$793
Total net liability for retirement benefits at end of year	¥87	¥89	$793

Retirement benefit cost of the defined benefit plan applying the simplified method for the years ended August 31, 2017 and 2016, was ¥8 million ($70 thousand) and ¥8 million, respectively.

c. Defined Contribution Pension Plan

The amount of contributions to the defined contribution plan for the years ended August 31, 2017 and 2016, was ¥10 million ($88 thousand) and ¥11 million, respectively.

9. EQUITY

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

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria, including (1) having the Board of Directors, (2) having independent auditors, (3) having an Audit and Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the Company has prescribed so in its articles of incorporation. However, the Company does not meet all the above criteria.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the Company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. ***Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus***

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of the aggregate amount of the legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

c. ***Treasury Stock and Treasury Stock Acquisition Rights***

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula.

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

On March 1, 2018, the Company made a stock split as described in Note 2.n.

10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Significant components of selling, general and administrative expenses for the years ended August 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Board members' compensation	¥154	¥147	$1,397
Salaries	174	176	1,585
Provision of reserve for bonuses	19	7	170
Net periodic benefit costs	6	4	54
Sales charges	435	420	3,956
Total	¥788	¥754	$7,162

11. INCOME TAXES

The Company is subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.7% and 32.8% for the years ended August 31, 2017 and 2016, respectively.

The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities as of August 31, 2017 and 2016, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Deferred tax assets:			
Inventories	¥ 49	¥ 55	$ 449
Accrued expenses	20	7	182
Accrued enterprise tax	26	1	236
Depreciation and amortization	13	13	119
Liability for retirement benefits	27	27	242
Investment securities	13	13	116
Provision of allowance for doubtful accounts	12	12	108
Unrealized loss on available-for-sale securities		2	
Tax loss carryforward		128	
Other	1	1	8
Subtotal	161	259	1,460
Less valuation allowance	(65)	(68)	(588)
Total	96	191	872
Deferred tax liabilities—Unrealized gain on available-for-sale securities	46		417
Total	46		417
Net deferred tax assets	¥ 50	¥191	$ 455

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of operations for the year ended August 31, 2017, with the corresponding figures for 2016, is as follows:

	2017	2016
Normal effective statutory tax rate	30.7%	32.8%
Expenses not deductible for income tax purposes	0.3	(1.3)
Per capita levy of corporate tax	0.3	(0.9)
Accumulated earnings tax	7.3	
Effect of tax rate reduction		(2.0)
Valuation allowance for deferred tax assets	(0.1)	(9.5)
Equity in loss of the associated company	(0.0)	(2.4)
Other—net	(0.3)	(1.6)
Actual effective tax rate	38.2%	15.1%

12. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended August 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥176	¥(142)	$1,602
Reclassification adjustments to profit or loss			
Amount before income tax effect	176	(142)	1,602
Income tax effect	(46)	48	(417)
Total	¥130	¥ (94)	$1,185
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 18	¥ (38)	$ 161
Reclassification adjustments to profit or loss			
Amount before income tax effect	18	(38)	161
Income tax effect			
Total	¥ 18	¥ (38)	$ 161
Share of other comprehensive loss in associates—			
Gains (losses) arising during the year	¥ 19	¥ (39)	$ 169
Total	¥ 19	¥ (39)	$ 169
Total other comprehensive income (loss)	¥167	¥(171)	$1,515

13. SUPPLEMENTAL CASH FLOWS INFORMATION

A reconciliation of cash and cash equivalents between the consolidated balance sheet and the consolidated statement of cash flows as of August 31, 2017 and 2016, is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Cash and cash equivalents in the consolidated balance sheet	¥1,491	¥1,633	$13,559
Bank overdraft		(404)	
Cash and cash equivalents in the consolidated statement of cash flows	¥1,491	¥1,229	$13,559

14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) *Group Policy for Financial Instruments*

The Group uses financial instruments, including bank loans and bonds, based on its capital financing plan. Cash surpluses, if any, are invested in low-risk financial assets. Short-term bank loans are used to fund its ongoing operations. Derivatives are used not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) *Nature and Extent of Risks Arising from Financial Instruments*

Receivables, such as trade notes, electronically-recorded monetary claims—operating and trade accounts, are exposed to customer credit risk. Also, receivables in foreign currencies are exposed to the risk of fluctuations in foreign currency exchange rates. Investment securities, mainly equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are less than one year. Short-term bank loans are used for operating funds. Long-term debt is used for capital expenditures.

Maturities of bank loans are less than five years after the consolidated balance sheet date.

Derivatives mainly include forward foreign currency contracts, options, and commodity forward contracts, which are used to manage exposure to risks of changes in foreign currency exchange rates of receivables and of fluctuations of nonferrous metal prices. Please see Note 15 for more detail about derivatives.

(3) *Risk Management for Financial Instruments*

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify default risk of customers at an early stage. With respect to derivative transactions, as a means of mitigating the risk of financial loss from defaults, the Group has adopted a policy of only dealing with creditworthy counterparties.

Market risk management (foreign exchange risk and interest rate risk)

Foreign currency bank deposits, bank loans, and trade receivables and payables are exposed to risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged principally by forward foreign currency contracts and options.

Investment securities are managed by monitoring the market values and financial position of issuers on a regular basis.

With respect to derivative transactions, the Group has internal guidelines that prescribe the authority and the limit for each transaction by the corporate planning department. The director who is in charge of the corporate planning department is required to report the status and results of derivative transactions to the chief executive officer on a monthly and annual basis. Reconciliation of transactions and balances with counterparties is made by the corporate treasury department.

Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on maturity dates. The Group manages its liquidity risk by holding adequate volumes of liquid assets along with adequate financial planning by the corporate treasury department.

(4) ***Fair Values of Financial Instruments***

Fair values of financial instruments are based on quoted prices in active markets. If quoted prices are not available, other rational valuation techniques are used instead. Also, please see Note 15 for details of the fair value of derivatives. The determination of the quoted price requires certain assumptions for related variable factors and the quoted price may fluctuate with different assumptions.

(a) Fair value of financial instruments

	Millions of Yen		
August 31, 2017	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥1,491	¥1,491	
Short-term investments	657	657	
Receivables	6,805	6,805	
Investment securities	531	531	—
Total	¥9,484	¥9,484	—
Short-term bank loans	¥3,820	¥3,820	
Payables	1,893	1,893	
Income taxes payable	580	580	
Long-term debt	3,083	3,083	—
Total	¥9,376	¥9,376	—
August 31, 2016			
Cash and cash equivalents	¥1,633	¥1,633	
Short-term investments	657	657	
Receivables	5,977	5,977	
Investment securities	347	347	—
Total	¥8,614	¥8,614	—
Short-term bank loans	¥3,841	¥3,841	
Payables	1,334	1,334	
Income taxes payable	6	6	
Long-term debt	2,456	2,459	¥3
Total	¥7,637	¥7,640	¥3

August 31, 2017	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$13,559	$13,559	
Short-term investments	5,971	5,971	
Receivables	61,867	61,867	
Investment securities	4,827	4,827	—
Total	$86,224	$86,224	—
Short-term bank loans	$34,726	$34,726	
Payables	17,205	17,205	
Income taxes payable	5,271	5,271	
Long-term debt	28,024	28,023	$(1)
Total	$85,226	$85,225	$(1)

Cash and cash equivalents

The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

Investment securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for equity instruments. Information on the fair value of investment securities by classification is included in Note 5.

Short-term investments, receivables, payables, income taxes payable, and short-term bank loans

The fair values of short-term investments, receivables, payables, income taxes payable, and short-term bank loans approximate carrying value because of their short-term maturities. Therefore, the fair values are measured at carrying value.

Long-term debt

The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate.

Derivatives

Information on the fair value of derivatives is included in Note 15.

(b) Financial instruments whose fair value cannot be reliably determined as of August 31, 2017 and 2016, are as follows:

	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars 2017
Investments in equity instruments that do not have a quoted market price in an active market	¥ 15	¥ 15	$ 136
Investments in associated company	166	149	1,513

(5) ***Maturity Analysis for Financial Assets and Securities with Contractual Maturities***

	Millions of Yen			
August 31, 2017	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥1,488			
Short-term investments	657			
Receivables	6,805			
Total	¥8,950			
August 31, 2016				
Cash and cash equivalents	¥1,629			
Short-term investments	657			
Receivables	5,977			
Total	¥8,263			

	Thousands of U.S. Dollars			
August 31, 2017	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	$13,528			
Short-term investments	5,971			
Receivables	61,857			
Total	$81,356			

Please see Note 7 for annual maturities of long-term debt.

15. DERIVATIVES

The Group enters into foreign currency forward contracts and options to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Group also enters into commodity forward contracts to hedge future price fluctuations of nonferrous metal inventories.

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

Because the counterparties to these derivatives are limited to major international financial institutions, trading companies, and London Metal Exchange ("LME") brokers, the Group does not anticipate any losses arising from credit risk.

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

Derivative Transactions to Which Hedge Accounting Is Not Applied

	Millions of Yen			
August 31, 2017	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Commodity forward contracts:				
Selling	¥ 463		¥(59)	¥(59)
Buying	480		42	42
Total	¥ 943		¥(17)	¥(17)
August 31, 2016				
Commodity forward contracts:				
Selling	¥1,323		¥ 50	¥ 50
Buying	1,499		(33)	(33)
Total	¥2,822		¥ 17	¥ 17

	Thousands of U.S. Dollars			
August 31, 2017	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Commodity forward contracts:				
Selling	$4,212		$(533)	$(533)
Buying	4,363		381	381
Total	$8,575		$(152)	$(152)

The fair value of derivative transactions is measured at the quoted price obtained from trading companies and LME brokers.

The contract or notional amounts of derivatives, which are shown in the above table, do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

16. RELATED PARTY DISCLOSURES

For the year ended August 31, 2016, there were no significant transactions with related party. Transaction of the Company with associated company for the year ended August 31, 2017, was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Purchases	¥2,148	$19,523

The balances of advance payment for the purchases from the associated company as of August 31, 2017, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Advance payment	¥315	$2,867

17. SUBSEQUENT EVENTS

a. The following appropriation of retained earnings as of August 31, 2017, was approved at the shareholders' meeting held on November 21, 2017:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥5 ($0.05) per share*	¥72	$651

* Per share figures have been restated to reflect the stock split as described in Note 2.n.

b. On March 1, 2018, the Company made a stock split as described in Note 2.n.

18. SEGMENT INFORMATION

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

(1) *Description of Reportable Segments*

The Group has two segments, the "nonferrous metals segment" and "arts and crafts segment." The nonferrous metals segment is engaged in the manufacture and sale of ingots and processing and sales of scrap. The arts and crafts segment is engaged in the manufacture and sale of arts and crafts.

(2) *Method of Measurement for the Amounts of Sales, Profit (Loss), Assets and Other Items for Each Reportable Segment*

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

Operating income (loss) is applied in "Segment profit (loss)." "Intersegment sales or transfers" are calculated based on market price.

(3) ***Information about Sales, Profit (Loss), Assets, Liabilities and Other Items***

	Millions of Yen				
	2017				
	Reportable Segment				
	Nonferrous Metals	Arts and Crafts	Total	Reconcil-iations	Consol-idated
Sales:					
Sales to external customers	¥52,394	¥475	¥52,869		¥52,869
Intersegment sales or transfers		2	2	¥ (2)	
Total	¥52,394	¥477	¥52,871	¥ (2)	¥52,869
Segment profit (loss)	¥ 2,049	¥ 51	¥ 2,100		¥ 2,100
Segment assets	13,228	951	14,179	¥3,133	17,312
Other:					
Depreciation	127	23	150		150
Investment in associated company	166		166		166
Increase in property, plant and equipment and intangible assets	90	19	109		109

	Millions of Yen				
	2016				
	Reportable Segment				
	Nonferrous Metals	Arts and Crafts	Total	Reconcil-iations	Consol-idated
Sales:					
Sales to external customers	¥42,407	¥549	¥42,956		¥42,956
Intersegment sales or transfers	6		6	¥ (6)	
Total	¥42,413	¥549	¥42,962	¥ (6)	¥42,956
Segment profit (loss)	¥ (669)	¥ 77	¥ (592)		¥ (592)
Segment assets	10,076	918	10,994	¥3,382	14,376
Other:					
Depreciation	154	22	176		176
Investment in associated company	149		149		149
Increase in property, plant and equipment and intangible assets	132	47	179		179

	Thousands of U.S. Dollars				
	2017				
	Reportable Segment				
	Nonferrous Metals	Arts and Crafts	Total	Reconcil-iations	Consol-idated
Sales:					
Sales to external customers	$476,306	$4,319	$480,625		$480,625
Intersegment sales or transfers		19	19	$ (19)	
Total	$476,306	$4,338	$480,644	$ (19)	$480,625
Segment profit (loss)	$ 18,627	$ 463	$ 19,090		$ 19,090
Segment assets	120,250	8,650	128,900	$28,480	157,380
Other:					
Depreciation	1,154	208	1,362		1,362
Investment in associated company	1,513		1,513		1,513
Increase in property, plant and equipment and intangible assets	814	176	990		990

Reconciliations to segment assets as of August 31, 2017 and 2016 (¥3,133 million ($28,480 thousand) and ¥3,382 million, respectively) represent corporate assets. Corporate assets mainly consist of cash and cash equivalents, land and the assets associated with the administration headquarters of the Group.

(4) ***Information about Products and Services***

	Millions of Yen				
	2017				
	Ingots	Scrap	Arts and Crafts	Other	Total
Sales to external customers	¥14,908	¥37,363	¥475	¥123	¥52,869

	Millions of Yen				
	2016				
	Ingots	Scrap	Arts and Crafts	Other	Total
Sales to external customers	¥15,768	¥26,490	¥549	¥149	¥42,956

	Thousands of U.S. Dollars				
	2017				
	Ingots	Scrap	Arts and Crafts	Other	Total
Sales to external customers	$135,527	$339,664	$4,319	$1,115	$480,625

(5) ***Information about Geographical Areas***

(*a*) *Sales*

Millions of Yen					
2017					
Japan	Korea	Asia (except Japan and Korea)	Europe	Other	Total
¥44,134	¥3,961	¥4,306	¥400	¥68	¥52,869

Millions of Yen					
2016					
Japan	Korea	Asia (except Japan and Korea)	Europe	Other	Total
¥33,266	¥5,135	¥3,995	¥341	¥219	¥42,956

Thousands of U.S. Dollars					
2017					
Japan	Korea	Asia (except Japan and Korea)	Europe	Other	Total
$401,213	$36,007	$39,146	$3,639	$620	$480,625

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

(*b*) *Property, plant and equipment*

More than 90% of property, plant and equipment exist in Japan. The remainder is not significant, and therefore does not require disclosure.

(6) ***Information about Major Customers***

	2017	
	Millions of Yen	
Name of Customer	Sales	Related Segment Name
Sumitomo Metal Mining Co., Ltd.	¥12,091	Nonferrous metals segment
JX Nippon Mining & Metals Corporation	5,294	Nonferrous metals segment

	2016	
	Millions of Yen	
Name of Customer	Sales	Related Segment Name
Sumitomo Metal Mining Co., Ltd.	¥10,176	Nonferrous metals segment

	2017	
	Thousands of U.S. Dollars	
Name of Customer	Sales	Related Segment Name
Sumitomo Metal Mining Co., Ltd.	$109,917	Nonferrous metals segment
JX Nippon Mining & Metals Corporation	48,127	Nonferrous metals segment

* * * * * *