
Kurotani Corporation

*Financial Statements for the
Years Ended August 31, 2011 and 2010,
and Independent Auditors' Report*

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Kurotani Corporation:

We have audited the accompanying balance sheets of Kurotani Corporation (the "Company") as of August 31, 2011 and 2010, and the related statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kurotani Corporation as of August 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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

November 29, 2011

Kurotani Corporation

Balance Sheets

August 31, 2011 and 2010

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)	LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011		2011	2010	2011
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents (Note 10)	¥ 1,427	¥ 2,138	\$ 18,527	Short-term bank loans (Notes 6 and 10)	¥ 3,899	¥ 3,650	\$ 50,634
Short-term investments (Note 10)	699	698	9,076	Current portion of long-term debt (Notes 6 and 10)	908	2,402	11,792
Receivables (Note 10):				Payables (Note 10):			
Trade notes	2,464	1,890	32,004	Trade notes	408	388	5,294
Trade accounts	4,210	3,548	54,670	Trade accounts	840	902	10,904
Other	556	708	7,223	Other	433	327	5,625
Inventories (Note 3)	3,093	1,679	40,174	Income taxes payable (Note 10)	771	451	10,017
Deferred tax assets (Note 9)	150	115	1,953	Accrued expenses	31	24	407
Prepaid expenses and other current assets	662	499	8,582	Other current liabilities	22	55	270
Total current assets	13,261	11,275	172,209	Total current liabilities	7,312	8,199	94,943
PROPERTY, PLANT AND EQUIPMENT—Net (Note 4):				LONG-TERM LIABILITIES:			
Land	1,521	1,521	19,755	Long-term debt (Notes 6 and 10)	1,882	1,439	24,439
Buildings and structures	581	627	7,551	Liability for retirement benefits (Note 7)	65	67	850
Machinery and equipment	288	214	3,747	Total long-term liabilities	1,947	1,506	25,289
Furniture and fixtures	73	60	952	EQUITY (Note 8):			
Total property, plant and equipment—net	2,463	2,422	32,005	Common stock—authorized, 28,000,000 shares; issued, 7,168,600 shares in 2011 and 7,000,000 shares in 2010	593	500	7,706
INVESTMENTS AND OTHER ASSETS:				Capital surplus:			
Investment securities (Notes 5 and 10)	460	445	5,969	Additional paid-in capital	293	199	3,806
Software	62	89	811	Other capital surplus	799	109	10,383
Deferred tax assets (Note 9)	80	88	1,042	Retained earnings:			
Other assets	129	121	1,661	Legal reserve	9	9	117
Total investments and other assets	731	743	9,483	Retained earnings—unappropriated	5,542	4,350	71,969
				Unrealized loss on available-for-sale securities	(40)	(44)	(516)
				Treasury stock—at cost, 972,000 shares in 2010		(388)	
				Total equity	7,196	4,735	93,465
TOTAL	¥ 16,455	¥ 14,440	\$ 213,697	TOTAL	¥ 16,455	¥ 14,440	\$ 213,697

See notes to financial statements.

Kurotani Corporation

Statements of Income Years Ended August 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2011</u>	<u>2010</u>	<u>2011</u>
NET SALES	¥ 53,684	¥ 48,319	\$ 697,192
COST OF SALES	<u>50,055</u>	<u>45,698</u>	<u>650,061</u>
Gross profit	3,629	2,621	47,131
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>1,198</u>	<u>1,157</u>	<u>15,562</u>
Operating income	<u>2,431</u>	<u>1,464</u>	<u>31,569</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	8	7	104
Interest expense	(95)	(112)	(1,235)
Foreign exchange loss	(19)	(206)	(253)
Other—net	<u>(73)</u>	<u>18</u>	<u>(939)</u>
Other expenses—net	<u>(179)</u>	<u>(293)</u>	<u>(2,323)</u>
INCOME BEFORE INCOME TAXES	<u>2,252</u>	<u>1,171</u>	<u>29,246</u>
INCOME TAXES (Note 9):			
Current	1,031	545	13,390
Deferred	<u>(30)</u>	<u>(20)</u>	<u>(397)</u>
Total income taxes	<u>1,001</u>	<u>525</u>	<u>12,993</u>
NET INCOME	<u>¥ 1,251</u>	<u>¥ 646</u>	<u>\$ 16,253</u>
	<u>Yen</u>		<u>U.S. Dollars</u>
PER SHARE OF COMMON STOCK (Note 2.1):			
Basic net income	¥ 199.28	¥ 107.64	\$ 2.59
Cash dividends applicable to the year	20.00	10.00	0.26

See notes to financial statements.

Kurotani Corporation

**Statements of Changes in Equity
Years Ended August 31, 2011 and 2010**

	Outstanding Number of Shares of Common Stock	Millions of Yen							Total Equity
		Common Stock	Capital Surplus		Retained Earnings		Unrealized Gain (Loss) on Available-for-Sale Securities	Treasury Stock	
			Additional Paid-in Capital	Other Capital Surplus	Legal Reserve	Unappropriated			
BALANCE, SEPTEMBER 1, 2009	6,000,000	¥ 500	¥ 199	¥ 101	¥ 9	¥ 3,764	¥ 36	¥ (399)	¥ 4,210
Net income						646			646
Cash dividends, ¥10 per share						(60)			(60)
Sale of treasury stock	28,000			8				11	19
Net change in the year							(80)		(80)
BALANCE, AUGUST 31, 2010	6,028,000	500	199	109	9	4,350	(44)	(388)	4,735
Issuance of new stock (Note 8)	168,600	93	94						187
Net income						1,251			1,251
Cash dividends, ¥10 per share						(59)			(59)
Sale of treasury stock	972,000			690				388	1,078
Net change in the year							4		4
BALANCE, AUGUST 31, 2011	<u>7,168,600</u>	<u>¥ 593</u>	<u>¥ 293</u>	<u>¥ 799</u>	<u>¥ 9</u>	<u>¥ 5,542</u>	<u>¥ (40)</u>		<u>¥ 7,196</u>

	Thousands of U.S. Dollars (Note 1)							
	Common Stock	Capital Surplus		Retained Earnings		Unrealized Loss on Available-for-Sale Securities	Treasury Stock	Total Equity
		Additional Paid-in Capital	Other Capital Surplus	Legal Reserve	Unappropriated			
BALANCE, AUGUST 31, 2010	\$ 6,491	\$ 2,590	\$ 1,411	\$ 117	\$ 56,499	\$ (571)	\$ (5,040)	\$ 61,497
Issuance of new stock (Note 8)	1,215	1,216						2,431
Net income					16,253			16,253
Cash dividends, \$0.13 per share					(783)			(783)
Sale of treasury stock			8,972				5,040	14,012
Net change in the year						55		55
BALANCE, AUGUST 31, 2011	<u>\$ 7,706</u>	<u>\$ 3,806</u>	<u>\$ 10,383</u>	<u>\$ 117</u>	<u>\$ 71,969</u>	<u>\$ (516)</u>		<u>\$ 93,465</u>

See notes to financial statements.

Kurotani Corporation

Statements of Cash Flows Years Ended August 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
OPERATING ACTIVITIES:			
Income before income taxes	¥ 2,252	¥ 1,171	\$ 29,246
Adjustments for:			
Income taxes—paid	(714)	(305)	(9,276)
Depreciation and amortization	192	199	2,489
Changes in assets and liabilities:			
Increase in accounts receivable	(1,083)	(1,571)	(14,069)
Increase in inventories	(1,415)	(204)	(18,373)
Increase in accounts payable	64	56	835
(Decrease) increase in liability for retirement benefits	(1)	13	(14)
Other—net	(338)	17	(4,381)
Total adjustments	(3,295)	(1,795)	(42,789)
Net cash used in operating activities	(1,043)	(624)	(13,543)
INVESTING ACTIVITIES:			
Payments into time deposits	(1,065)	(1,791)	(13,837)
Proceeds from withdrawal of time deposits	1,065	1,790	13,831
Purchases of property, plant and equipment	(37)	(94)	(482)
Proceeds from sales of property, plant and equipment	6	1	74
Purchases of investment securities	(8)	(138)	(106)
Purchases of software and other intangible assets	(5)		(64)
Other—net	(6)	(5)	(66)
Net cash used in investing activities	(50)	(237)	(650)
FINANCING ACTIVITIES:			
Increase in short-term bank loans—net	249	1,000	3,231
Proceeds from long-term debt	1,600	1,300	20,779
Repayments of long-term debt	(2,651)	(1,738)	(34,427)
Proceeds from issuance of common stock	187		2,430
Dividends paid	(59)	(60)	(783)
Sale of treasury stock	1,078	19	14,012
Net cash provided by financing activities	404	521	5,242
FOREIGN CURRENCY TRANSLATION ADJUSTMENT ON CASH AND CASH EQUIVALENTS	(22)	(143)	(284)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(711)	(483)	(9,235)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,138	2,621	27,762
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 1,427	¥ 2,138	\$ 18,527

See notes to financial statements.

Kurotani Corporation

Notes to Financial Statements Years Ended August 31, 2011 and 2010

1. BASIS OF PRESENTING FINANCIAL STATEMENTS

The accompanying financial statements have been prepared from the accounts maintained by Kurotani Corporation (the "Company") in accordance with the provisions set forth in the Companies Act of Japan (the "Companies Act") and in conformity 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 financial statements, certain reclassifications and rearrangements have been made to the Company's financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The financial statements are stated in Japanese yen, the currency of the country in which 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 ¥77 to \$1, the approximate rate of exchange at August 31, 2011. 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. Cash Equivalents*—Cash equivalents are short-term investments that are readily convertible into cash and that 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.

- b. 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.

- c. Investment Securities*—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 which are held for the purpose of earning capital gains in the near term, or held-to-maturity debt securities which 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.

Non-marketable 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.

- d. 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 after April 1, 1998. The range of useful lives is principally from 15 to 35 years for buildings and from 6 to 10 years for machinery.

- e. **Software**—Software is carried at cost less accumulated amortization, which is calculated by the straight-line method over 5 years.
- f. **Long-Lived Assets**—The Company 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.
- g. **Retirement and Pension Plans**—The employees' retirement benefits consist of two plans, a defined contribution pension plan and an unfunded retirement benefit plan, which cover substantially all of its employees.

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

- h. **Asset Retirement Obligations**—In March 2008, the Accounting Standards Board of Japan (the "ASBJ") published the accounting standard for asset retirement obligations, ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard was effective for fiscal years beginning on or after April 1, 2010.

The Company applied this accounting standard effective September 1, 2010. There was no effect of this change on the statements of income for the year ended August 31, 2011.

- i. **Income Taxes**—The provision for income taxes is computed based on the pretax income included in the statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.
- j. **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 income statement to the extent that they are not hedged by forward exchange contracts.

- k. Derivatives and Hedging Activities**—The Company 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 Company to reduce foreign currency exchange risk. Also, commodity forward contracts are utilized by the Company to reduce nonferrous metal price risk. The Company 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 income statement.

- l. Per Share Information**—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, which was 6,279,761 shares and 6,001,000 shares for the years ended August 31, 2011 and 2010, respectively, retroactively adjusted for the stock split effective April 1, 2011.

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, 2011 and 2010.

Cash dividends per share presented in the accompanying statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year, retroactively adjusted for the stock split effective April 1, 2011.

m. New Accounting Pronouncements

Accounting Changes and Error Corrections—In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied due to a revision of accounting standards, the new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior Period Errors—When an error in prior period financial statements is discovered, those statements are restated. This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

3. INVENTORIES

Inventories at August 31, 2011 and 2010 consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2011</u>	<u>2010</u>	<u>U.S. Dollars</u>
			<u>2011</u>
Merchandise	¥ 7	¥ 6	\$ 85
Finished products	899	346	11,678
Work in process	112	127	1,459
Raw materials and supplies	<u>2,075</u>	<u>1,200</u>	<u>26,952</u>
Total	<u>¥ 3,093</u>	<u>¥ 1,679</u>	<u>\$ 40,174</u>

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at August 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2011</u>	<u>2010</u>	<u>2011</u>
Land	¥ 1,521	¥ 1,521	\$ 19,755
Buildings and structures	2,153	2,140	27,961
Machinery and equipment	2,036	1,935	26,452
Furniture and fixtures	<u>262</u>	<u>238</u>	<u>3,401</u>
Acquisition cost	5,972	5,834	77,569
Accumulated depreciation	<u>(3,509)</u>	<u>(3,412)</u>	<u>(45,564)</u>
Net book value	<u>¥ 2,463</u>	<u>¥ 2,422</u>	<u>\$ 32,005</u>

5. INVESTMENT SECURITIES

Investment securities as of August 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2011</u>	<u>2010</u>	<u>2011</u>
Investment securities:			
Marketable equity securities	¥ 365	¥ 352	\$ 4,737
Non-marketable equity securities	15	15	195
Others	<u>80</u>	<u>78</u>	<u>1,037</u>
Total	<u>¥ 460</u>	<u>¥ 445</u>	<u>\$ 5,969</u>

The cost and aggregate fair value of the investment securities that have a quoted market price in an active market at August 31, 2011 and 2010 were as follows:

	Millions of Yen			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
<u>August 31, 2011</u>				
Equity securities	¥ 411	¥10	¥ 56	¥ 365
Others	<u>100</u>	<u>—</u>	<u>20</u>	<u>80</u>
Total	<u>¥ 511</u>	<u>¥10</u>	<u>¥ 76</u>	<u>¥ 445</u>
<u>August 31, 2010</u>				
Equity securities	¥ 404		¥ 52	¥ 352
Others	<u>100</u>	<u>—</u>	<u>22</u>	<u>78</u>
Total	<u>¥ 504</u>	<u>—</u>	<u>¥ 74</u>	<u>¥ 430</u>

<u>August 31, 2011</u>	<u>Thousands of U.S. Dollars</u>			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Equity securities	\$ 5,343	\$ 128	\$ 734	\$ 4,737
Others	<u>1,297</u>	<u> </u>	<u>260</u>	<u>1,037</u>
Total	<u>\$ 6,640</u>	<u>\$ 128</u>	<u>\$ 994</u>	<u>\$ 5,774</u>

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

Short-term bank loans at August 31, 2011 and 2010 consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>
Unsecured bank loan with weighted average interest rate 1.10% (2011)	¥ 3,899	¥ 3,650	\$ 50,634

Long-term debt at August 31, 2011 and 2010 consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>
1.70% Unsecured yen bonds, due 2011		¥ 1,000	
0.60% Unsecured yen bonds, due 2011		500	
0.59% Unsecured yen bonds, due 2013	¥ 115	185	\$ 1,493
Unsecured bank loans due serially to 2016 with weighted average interest rate 1.10% (2011)	<u>2,675</u>	<u>2,156</u>	<u>34,738</u>
Total	<u>2,790</u>	<u>3,841</u>	<u>36,231</u>
Less current portion	<u>(908)</u>	<u>(2,402)</u>	<u>(11,792)</u>
Long-term debt, less current portion	<u>¥ 1,882</u>	<u>¥ 1,439</u>	<u>\$ 24,439</u>

Annual maturities of long-term debt at August 31, 2011 were as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Within one year	¥ 908	\$ 11,792
In the 2nd year	665	8,642
In the 3rd year	578	7,511
In the 4th year	560	7,266
In the 5th year and thereafter	<u>79</u>	<u>1,020</u>
Total	<u>¥ 2,790</u>	<u>\$ 36,231</u>

7. RETIREMENT BENEFITS

The liabilities for employees' retirement benefits at August 31, 2011 and 2010 were ¥65 million (\$850 thousand) and ¥67 million, respectively.

8. EQUITY

Japanese companies are subject to 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. For companies that meet certain criteria such as: (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

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 common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

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 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 April 1, 2011, the Company made a thousand-for-one stock split by way of a free share distribution based on the resolution of the Board of the Directors meeting held on March 31, 2011. As a result, the number of issued shares of common stock increased by 6,993,000 shares.

The Company listed its securities on the Tokyo Stock Exchange Second Section and sold 972,000 shares of its treasury stock as at an initial public offering on June 9, 2011. In relation to the initial public offering, the Company issued 168,600 shares pursuant to the exercise of the underwriters' over-allotment option on July 8, 2011.

9. 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 40.4% for the years ended August 31, 2011 and 2010.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at August 31, 2011 and 2010 are as follows:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2011</u>	<u>2010</u>	<u>2011</u>
Deferred tax assets:			
Inventories	¥ 77	¥ 79	\$ 1,005
Accrued expenses	11	6	147
Accrued enterprise tax	52	30	676
Depreciation and amortization	25	29	321
Pension and severance costs	26	27	343
Investment securities	2	2	28
Unrealized loss on available-for-sale securities	27	30	350
Other	<u>10</u>	<u> </u>	<u>125</u>
Total	<u>¥ 230</u>	<u>¥ 203</u>	<u>\$ 2,995</u>

A reconciliation between the normal effective tax rate and the actual effective tax rates reflected in the accompanying statements of income for the years ended August 31, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Normal effective statutory tax rate	40.4 %	40.4 %
Expenses not deductible for income tax purposes	0.3	0.7
Accumulated earnings tax	2.9	3.3
Other—net	<u>0.8</u>	<u>0.4</u>
Actual effective tax rate	<u>44.4 %</u>	<u>44.8 %</u>

10. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

On March 10, 2008, the ASBJ revised ASBJ Statement No. 10, "Accounting Standard for Financial Instruments," and issued ASBJ Guidance No. 19, "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." This accounting standard and the guidance were applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010. The Company applied the revised accounting standard and the guidance effective August 31, 2010.

(1) *Company Policy for Financial Instruments*

The Company uses financial instruments, mainly long-term debt 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 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 Company, 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 and bonds are less than five years after the 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 11 for more detail about derivatives.

(3) Risk Management for Financial Instruments

Credit risk management

Credit risk is the risk of economic loss arising from counterparty's failure to repay or service debt according to the contractual terms. The Company 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 Company has adopted a policy of only dealing with creditworthy counterparties.

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

Foreign currency bank deposits, 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 Company has internal guidelines which 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 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 Company cannot meet its contractual obligations in full on maturity dates. The Company 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 11 for the detail of the fair value of derivatives. The determination of the quoted price requires some assumptions for related variable factors and the quoted price may fluctuate with different assumptions.

(a) Fair value of financial instruments

<u>August 31, 2011</u>	Millions of Yen		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Cash and cash equivalents	¥ 1,427	¥ 1,427	
Short-term investments	699	699	
Receivables	7,230	7,230	
Investment securities	<u>445</u>	<u>445</u>	
Total	<u>¥ 9,801</u>	<u>¥ 9,801</u>	
Short-term bank loans	¥ 3,899	¥ 3,899	
Payables	1,681	1,681	
Income taxes payable	771	771	
Long-term debt	<u>2,790</u>	<u>2,800</u>	¥ 10
Total	<u>¥ 9,141</u>	<u>¥ 9,151</u>	<u>¥ 10</u>
<u>August 31, 2010</u>			
Cash and cash equivalents	¥ 2,138	¥ 2,138	
Short-term investments	698	698	
Receivables	6,146	6,146	
Investment securities	<u>430</u>	<u>430</u>	
Total	<u>¥ 9,412</u>	<u>¥ 9,412</u>	
Short-term bank loans	¥ 3,650	¥ 3,650	
Payables	1,617	1,617	
Income taxes payable	451	451	
Long-term debt	<u>3,841</u>	<u>3,852</u>	¥ 11
Total	<u>¥ 9,559</u>	<u>¥ 9,570</u>	<u>¥ 11</u>
<u>Thousands of U.S. Dollars</u>			
<u>August 31, 2011</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Cash and cash equivalents	\$ 18,527	\$ 18,527	
Short-term investments	9,076	9,076	
Receivables	93,897	93,897	
Investment securities	<u>5,774</u>	<u>5,774</u>	
Total	<u>\$ 127,274</u>	<u>\$ 127,274</u>	
Short-term bank loans	\$ 50,634	\$ 50,634	
Payables	21,823	21,823	
Income taxes payable	10,017	10,017	
Long-term debt	<u>36,231</u>	<u>36,367</u>	\$ 136
Total	<u>\$ 118,705</u>	<u>\$ 118,841</u>	<u>\$ 136</u>

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 values.

Long-Term Debt

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

Derivatives

Information on the fair value of derivatives is included in Note 11.

(b) *Financial instruments whose fair value cannot be reliably determined*

<u>August 31, 2011</u>	<u>Carrying Amount</u>	
	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Investments in equity instruments that do not have a quoted market price in an active market	¥ 15	\$ 195

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

<u>August 31, 2011</u>	<u>Millions of Yen</u>			
	<u>Due in 1 Year or Less</u>	<u>Due after 1 Year through 5 Years</u>	<u>Due after 5 Years through 10 Years</u>	<u>Due after 10 Years</u>
Cash and cash equivalents	¥ 1,419			
Short-term investments	699			
Receivables	7,230			
Total	<u>¥ 9,348</u>	<u> </u>	<u> </u>	<u> </u>
<u>August 31, 2010</u>				
Cash and cash equivalents	¥ 2,132			
Short-term investments	698			
Receivables	6,146			
Total	<u>¥ 8,976</u>	<u> </u>	<u> </u>	<u> </u>

<u>August 31, 2011</u>	Thousands of U.S. Dollars			
	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	\$ 18,431			
Short-term investments	9,076			
Receivables	93,897			
Total	\$ 121,404			

Please see Note 6 for annual maturities of long-term debt.

11. DERIVATIVES

The Company enters into foreign currency forward contracts and options to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Company 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 its 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 Company does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Company 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 at August 31, 2011

<u>August 31, 2011</u>	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Commodity forward contracts:				
Selling	¥ 357		¥2	¥2
Buying	355		—	—
Total	¥ 712		¥2	¥2

<u>August 31, 2011</u>	Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Commodity forward contracts:				
Selling	\$ 4,640		\$ 21	\$ 21
Buying	4,614		5	5
Total	\$ 9,254		\$ 26	\$ 26

The following is the fair value information for commodity forward contracts to which hedge accounting is not applied at August 31, 2010:

<u>August 31, 2010</u>	<u>Millions of Yen</u>			
	<u>Contract Amount</u>	<u>Contract Amount Due after One Year</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Commodity forward contracts:				
Selling	¥ 1,190		¥ (99)	¥ (99)
Buying	<u>1,199</u>	<u> </u>	<u>90</u>	<u>90</u>
Total	<u>¥ 2,389</u>	<u> </u>	<u>¥ (9)</u>	<u>¥ (9)</u>

The fair value of derivative transactions is measured at the quoted price obtained from the financial institutions, 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 Company's exposure to credit or market risk.

12. SUBSEQUENT EVENT

The following appropriation of retained earnings at August 31, 2011 was approved at the shareholders meeting held on November 29, 2011:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Year-end cash dividends, ¥20 (\$0.26) per share	¥ 143	\$ 1,862

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