Kurotani Corporation

Financial Statements for the
Years Ended August 31, 2010 and 2009,
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, 2010 and 2009, 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, 2010 and 2009, 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.

April 23, 2011

Kurotani Corporation

Balance Sheets
August 31, 2010 and 2009

ASSETS	Millions of Yen 2010	Millions of Yen 2009	Thousands of U.S. Dollars (Note 1) 2010
CURRENT ASSETS:			
Cash and cash equivalents (Note 10)	¥ 2,138	¥ 2,621	$ 25,449
Short-term investments (Note 10)	698	707	8,315
Receivables (Note 10):			
Trade notes	1,890	829	22,500
Trade accounts	3,548	3,127	42,241
Other	708	620	8,434
Inventories (Note 3)	1,679	1,475	19,984
Deferred tax assets (Note 9)	115	102	1,373
Prepaid expenses and other current assets	499	347	5,934
Total current assets	11,275	9,828	134,230
PROPERTY, PLANT AND EQUIPMENT—Net (Note 4):			
Land	1,521	1,521	18,109
Buildings and structures	627	678	7,468
Machinery and equipment	214	285	2,543
Furniture and fixtures	60	69	710
Total property, plant and equipment—net	2,422	2,553	28,830
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 5 and 10)	445	443	5,293
Software	89	120	1,058
Deferred tax assets (Note 9)	88	27	1,042
Other assets	121	113	1,447
Total investments and other assets	743	703	8,840
TOTAL	¥ 14,440	¥ 13,084	$ 171,900

LIABILITIES AND EQUITY	Millions of Yen 2010	Millions of Yen 2009	Thousands of U.S. Dollars (Note 1) 2010
CURRENT LIABILITIES:			
Short-term bank loans (Notes 6 and 10)	¥ 3,650	¥ 2,650	$ 43,452
Current portion of long-term debt (Notes 6 and 10)	2,402	1,657	28,594
Payables (Note 10):			
Trade notes	388	344	4,614
Trade accounts	902	930	10,733
Other	327	286	3,891
Income taxes payable (Note 10)	451	208	5,368
Accrued expenses	24	40	286
Other current liabilities	55	84	669
Total current liabilities	8,199	6,199	97,607
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6 and 10)	1,439	2,622	17,128
Liability for retirement benefits (Note 7)	67	53	793
Total long-term liabilities	1,506	2,675	17,921
EQUITY (Note 8):			
Common stock—authorized, 28,000,000 shares; issued, 7,000,000 shares in 2010 and 2009	500	500	5,950
Capital surplus:			
Additional paid-in capital	199	199	2,374
Other capital surplus	109	101	1,293
Retained earnings:			
Legal reserve	9	9	107
Retained earnings—unappropriated	4,350	3,764	51,791
Unrealized gain (loss) on available-for-sale securities	(44)	36	(523)
Treasury stock—at cost, 972,000 shares and 1,000,000 shares in 2010 and 2009, respectively	(388)	(399)	(4,620)
Total equity	4,735	4,210	56,372
TOTAL	¥ 14,440	¥ 13,084	$ 171,900

See notes to financial statements.

Kurotani Corporation

Statements of Income
Years Ended August 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
NET SALES	¥ 48,319	¥ 35,112	$ 575,226
COST OF SALES	45,698	32,887	544,022
Gross profit	2,621	2,225	31,204
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,157	1,037	13,779
Operating income	1,464	1,188	17,425
OTHER INCOME (EXPENSES):			
Interest and dividend income	7	10	85
Interest expense	(112)	(141)	(1,335)
Foreign exchange loss	(206)	(525)	(2,447)
Other—net	18	32	207
Other expenses—net	(293)	(624)	(3,490)
INCOME BEFORE INCOME TAXES	1,171	564	13,935
INCOME TAXES (Note 9):			
Current	545	204	6,486
Prior periods		35	
Deferred	(20)	40	(241)
Total income taxes	525	279	6,245
NET INCOME	¥ 646	¥ 285	$ 7,690

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.k):			
Basic net income	¥ 107.64	¥ 47.54	$ 1.28
Cash dividends applicable to the year	10.00	10.00	0.12

See notes to financial statements.

Kurotani Corporation

Statements of Changes in Equity
Years Ended August 31, 2010 and 2009

	Outstanding Number of Shares of Common Stock	Millions of Yen							
			Capital Surplus		Retained Earnings				
		Common Stock	Additional Paid-in Capital	Other Capital Surplus	Legal Reserve	Unappropriated	Unrealized Gain (Loss) on Available-for-Sale Securities	Treasury Stock	Total Equity
BALANCE, SEPTEMBER 1, 2008	6,000,000	¥ 500	¥ 199	¥ 101	¥ 9	¥ 3,539	¥ 74	¥ (399)	¥ 4,023
Net income						285			285
Cash dividends, ¥10 per share						(60)			(60)
Net change in the year							(38)		(38)
BALANCE, AUGUST 31, 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)
Net change in the year							(80)		(80)
Sale of treasury stock	28,000			8				11	19
BALANCE, AUGUST 31, 2010	6,028,000	¥ 500	¥ 199	¥ 109	¥ 9	¥ 4,350	¥ (44)	¥ (388)	¥ 4,735

	Thousands of U.S. Dollars (Note 1)							
		Capital Surplus		Retained Earnings				
	Common Stock	Additional Paid-in Capital	Other Capital Surplus	Legal Reserve	Unappropriated	Unrealized Gain (Loss) on Available-for-Sale Securities	Treasury Stock	Total Equity
BALANCE, AUGUST 31, 2009	$ 5,950	$ 2,374	$ 1,199	$ 107	$ 44,815	$ 424	$ (4,753)	$ 50,116
Net income					7,690			7,690
Cash dividends, $0.12 per share					(714)			(714)
Net change in the year						(947)		(947)
Sale of treasury stock			94				133	227
BALANCE, AUGUST 31, 2010	$ 5,950	$ 2,374	$ 1,293	$ 107	$ 51,791	$ (523)	$ (4,620)	$ 56,372

See notes to financial statements.

Kurotani Corporation

Statements of Cash Flows
Years Ended August 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010
OPERATING ACTIVITIES:			
Income before income taxes	¥ 1,171	¥ 564	$ 13,935
Adjustments for:			
Income taxes—paid	(305)	(635)	(3,630)
Depreciation and amortization	199	243	2,373
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(1,571)	5,185	(18,703)
(Increase) decrease in inventories	(204)	368	(2,425)
Increase (decrease) in accounts payable	56	(547)	670
Increase (decrease) in liability for retirement benefits	13	(3)	156
Other—net	17	343	193
Total adjustments	(1,795)	4,954	(21,366)
Net cash (used in) provided by operating activities	(624)	5,518	(7,431)
INVESTING ACTIVITIES:			
Payments into time deposits	(1,791)	(1,457)	(21,322)
Proceeds from withdrawal of time deposits	1,790	1,415	21,309
Purchases of property, plant and equipment	(94)	(95)	(1,121)
Proceeds from sale of property, plant and equipment	1	2	7
Purchases of investment securities	(138)	(109)	(1,646)
Purchases of software and other intangible assets		(108)	
Other—net	(5)	27	(45)
Net cash used in investing activities	(237)	(325)	(2,818)
FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans—net	1,000	(3,250)	11,905
Proceeds from long-term debt	1,300		15,476
Repayments of long-term debt	(1,738)	(1,318)	(20,694)
Dividends paid	(60)	(60)	(714)
Sale of treasury stock	19		227
Net cash provided by (used in) financing activities	521	(4,628)	6,200
FOREIGN CURRENCY TRANSLATION ADJUSTMENT ON CASH AND CASH EQUIVALENTS	(143)	(453)	(1,700)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(483)	112	(5,749)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,621	2,509	31,198
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 2,138	¥ 2,621	$ 25,449

See notes to financial statements.

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 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 ¥84 to $1, the approximate rate of exchange at August 31, 2010. 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, certificate of deposits, 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.

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 circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

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 to state the liability at the amount that would be required if all employees retired at each balance sheet date.

h. ***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.

i. ***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.

j. ***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.

k. ***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 6,001,000 shares and 6,000,000 shares for the years ended August 31, 2010 and 2009, respectively, retroactively adjusted for stock splits 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, 2010 and 2009.

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 stock split effective April 1, 2011.

l. *New Accounting Pronouncements*

Asset Retirement Obligations**—**In March 2008, the Accounting Standards Board of Japan (the "ASBJ") published a new 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 is effective for fiscal years beginning on or after April 1, 2010. Though earlier adoption is permitted for fiscal years beginning on or before March 31, 2010, the Company has not adopted this accounting standard yet.

Accounting Changes and Error Corrections**—**In December 2009, 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 with revision of accounting standards, a new policy is applied retrospectively unless revised accounting standards include specific transitional provisions. When revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(2) *Changes in presentations*

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. Earlier adoption is not permitted.

3. INVENTORIES

Inventories at August 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Merchandise	¥ 6	¥ 7	$ 68
Finished products	346	545	4,115
Work in process	127	77	1,513
Raw materials and supplies	1,200	846	14,288
Total	¥ 1,679	¥ 1,475	$ 19,984

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at August 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Land	¥ 1,521	¥ 1,521	$ 18,109
Buildings and structures	2,140	2,147	25,473
Machinery and equipment	1,935	1,931	23,028
Furniture and fixtures	238	242	2,837
Acquisition cost	5,834	5,841	69,447
Accumulated depreciation	(3,412)	(3,288)	(40,617)
Net book value	¥ 2,422	¥ 2,553	$ 28,830

5. INVESTMENT SECURITIES

Investment securities as of August 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Investment securities:			
Marketable equity securities	¥ 352	¥ 336	$ 4,189
Non-marketable equity securities	15	15	178
Others	78	92	926
Total	¥ 445	¥ 443	$ 5,293

The cost and aggregate fair value of the investment securities have a quoted market price in an active market at August 31, 2010 and 2009 were as follows:

	Millions of Yen			
August 31, 2010	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	¥ 404		¥ 52	¥ 352
Others	100		22	78
Total	¥ 504		¥ 74	¥ 430

August 31, 2009	Millions of Yen Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	¥ 268	¥ 82	¥ 14	¥ 336
Others	100		8	92
Total	¥ 368	¥ 82	¥ 22	¥ 428

August 31, 2010	Thousands of U.S. Dollars Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	$ 4,804		$ 615	$ 4,189
Others	1,189		263	926
Total	$ 5,993		$ 878	$ 5,115

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

Short-term bank loans at August 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Unsecured bank loan with weighted average interest rate 1.15% (2010)	¥ 3,650	¥ 2,650	$ 43,452

Long-term debt at August 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
0.98% Unsecured yen bonds, due 2010		¥ 80	
1.77% Unsecured yen bonds, due 2010		700	
1.70% Unsecured yen bonds, due 2011	¥ 1,000	1,000	$ 11,905
0.64% Unsecured yen bonds, due 2011	500	500	5,952
0.64% Unsecured yen bonds, due 2013	185	255	2,202
Unsecured bank loans due serially to 2015 with weighted average interest rate 1.40% (2010)	2,156	1,744	25,663
Total	3,841	4,279	45,722
Less current portion	(2,402)	(1,657)	(28,594)
Long-term debt, less current portion	¥ 1,439	¥ 2,622	$ 17,128

Annual maturities of long-term debt at August 31, 2010 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Within one year	¥ 2,402	$ 28,594
In the 2nd year	589	7,014
In the 3rd year	380	4,523
In the 4th year	260	3,090
In the 5th year and thereafter	210	2,501
Total	¥ 3,841	$ 45,722

7. RETIREMENT BENEFITS

The liabilities for employees' retirement benefits at August 31, 2010 and 2009 were ¥67 million ($793 thousand) and ¥53 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 the Board of Directors, (2) having independent auditors, (3) having the 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 aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts 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.

9. INCOME TAXES

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rate of approximately 40.4% for the years ended August 31, 2010 and 2009.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at August 31, 2010 and 2009 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Deferred tax assets:			
Inventories	¥ 79	¥ 73	$ 946
Accrued expenses	6	12	68
Accrued enterprise tax	30	16	359
Depreciation and amortization	29	28	341
Pension and severance costs	27	22	320
Write-down of investment securities	2	1	26
Unrealized loss on available-for-sale securities	30		355
Other		1	
Total	203	153	2,415
Deferred tax liabilities—Unrealized gain on available-for-sale securities		24	
Total		24	
Net deferred tax assets	¥ 203	¥ 129	$ 2,415

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, 2010 and 2009 is as follows:

	2010	2009
Normal effective statutory tax rate	40.4 %	40.4 %
Expenses not deductible for income tax purposes	0.7	1.2
Accumulated earnings tax	3.3	0.5
Income taxes for prior periods		6.2
Other—net	0.4	1.2
Actual effective tax rate	44.8 %	49.5 %

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 are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010 with early adoption permitted from the beginning of the fiscal years ending before March 31, 2010. The Company applied the revised accounting standard and the new 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 market risk of fluctuation 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 market risks from changes in foreign currency exchange rates of receivables, and from fluctuations of nonferrous metal price. 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 term and balances of major customers by each business administration department to identify the default risk of customers in early stage. With respect to derivative transaction, 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 market 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 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 the transaction 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 price in active markets. If quoted price is not available, other rational valuation techniques are used instead. Also please see Note 11 for the detail of fair value for 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*

	Millions of Yen		
August 31, 2010	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 2,138	¥ 2,138	
Short-term investments	698	698	
Receivables	6,146	6,146	
Investment securities	430	430	
Total	¥ 9,412	¥ 9,412	
Short-term bank loans	¥ 3,650	¥ 3,650	
Payables	1,617	1,617	
Income taxes payable	451	451	
Long-term debt	3,841	3,852	¥ 11
Total	¥ 9,559	¥ 9,570	¥ 11

	Thousands of U.S. Dollars		
August 31, 2010	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 25,449	$ 25,449	
Short-term investments	8,315	8,315	
Receivables	73,175	73,175	
Investment securities	5,115	5,115	
Total	$ 112,054	$ 112,054	
Short-term bank loans	$ 43,452	$ 43,452	
Payables	19,238	19,238	
Income taxes payable	5,368	5,368	
Long-term debt	45,722	45,853	$ 131
Total	$ 113,780	$ 113,911	$ 131

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 the equity instruments. The information of the fair value for the 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 book value because of their short-term maturities. Therefore, the fair values are measured at book 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

The information of the fair value for derivatives is included in Note 11.

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

	Carrying Amount	
August 31, 2010	Millions of Yen	Thousands of U.S. Dollars
Investments in equity instruments that do not have a quoted market price in an active market	¥ 15	$ 179

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

	Millions of Yen			
August 31, 2010	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	¥ 2,132			
Short-term investments	698			
Receivables	6,146			
Total	¥ 8,976			

	Thousands of U.S. Dollars			
August 31, 2010	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	$ 25,381			
Short-term investments	8,315			
Receivables	73,175			
Total	$ 106,871			

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, 2010

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

	Thousands of U.S. Dollars			
August 31, 2010	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/Loss
Commodity forward contracts:				
Selling	$ 14,164		$ (1,180)	$ (1,180)
Buying	14,277		1,067	1,067
Total	$ 28,441		$ (113)	$ (113)

The following is the fair value information for foreign currency forward contracts and commodity forward contracts to which hedge accounting is not applied at August 31, 2009.

	Millions of Yen		
August 31, 2009	Contract Amount	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts—Selling U.S.$	¥ 278	¥ 4	¥ 4
Total	¥ 278	¥ 4	¥ 4
Commodity forward contracts:			
Selling	¥ 1,199	¥ (249)	¥ (249)
Buying	1,037	231	231
Total	¥ 2,236	¥ (18)	¥ (18)

The fair value of derivative transactions is measured at the quoted price obtained from the financial institutions, trading companies and London Metal Exchange (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. RELATED PARTY DISCLOSURES

There were no significant transaction with related parties for the year ended August 31, 2010.

Significant transactions with related parties for the year ended August 31, 2009 were as follows:

	Millions of Yen		
	2009		
Name of Related Individual	Bank Loan Guaranteed by Related Party without Commission	Collection of Receivable	Transfer of Life Insurance Policy
Sumihisa Kurotani	¥ 4,394		
Toshio Kurotani	2,210		
KH Premium Ltd.		¥ 26	
Kurotani Co., Ltd.			¥ 29

Notes: Sumihisa Kurotani is Representative Director of the Company, and Toshio Kurotani is Sumihisa Kurotani's father and the former director of the Company.

KH Premium Ltd. is owned 100% of its outstanding shares by Sumihisa Kurotani, and KH Premium Ltd. owns 92% of its outstanding shares of Kurotani Co., Ltd.

The transfer price of the life insurance policy was determined at the cash surrender value obtained from the insurance company.

13. SUBSEQUENT EVENT

The following appropriation of retained earnings at August 31, 2010 was approved at the shareholders meeting held on November 25, 2010:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥10 ($0.12) per share	¥ 60	$ 714

* * * * * *