Suminoe Textile Co., Ltd.
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ANNUAL REPORT 2016

Suminoe Textile Co., Ltd.

ANNUAL REPORT 2016

YEAR ENDED MAY 31.2016

Suminoe Textile Co., Ltd.

History

Company Purpose

We contribute to the improvement of society through production, sales of good products and prosperity of business.

Company Motto

We pride ourselves as a pioneer in the interior design and furnishing industry and persist in the spirit of cooperation, sincerity and resolution.

Suminoe Textile supplied carpet to various major architectural structures during the Meiji era. We have thus advanced together with Japan from its start as a modern nation.

Meiji Era
1883 At the age of 35 founder Denshichi Murata purchased 3 looms in 1883 and began manufacturing carpets.

1891 In 1891, Suminoe Textile supplied carpet for the establishment of Japan's Imperial Diet Building in Hibiya. We have been serving as its supplier for 120 years since then.

1896 Successful production of hand-woven moquette in 1896, adopted by Japan National Railways for seat covering in 1899.

Taisho Era
1913 Suminoe Textile Joint-Stock Company is established.

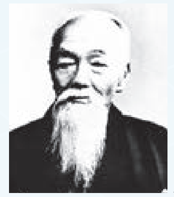
Showa Era
1930 Suminoe Textile Co., Ltd. is established.

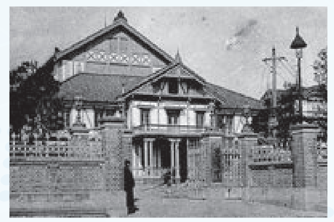
1949 Shares listed on the Tokyo, Osaka, and Kyoto stock exchanges.

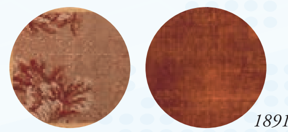
1958 Starting with our supply of nylon seat covering to Toyota Motor Corporation in 1958, our products have been used by various Japanese automobile manufacturers one after another.

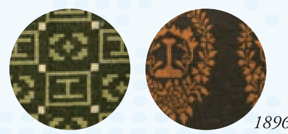
1980 Nara Factory began production of Japan's first carpet tiles.

Heisei Era
1994 Current subsidiary, T.C.H.Suminoe Co., Ltd. is jointly established in Thailand.

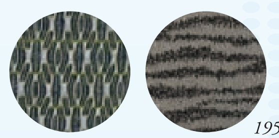

1883


1891


1891


1896


1913


1958


1980

We are aiming for the creation of a globally optimized supply system.

1998 TRIPLE FRESH®
deodorant treatment technology developed.

2003 Suminoe Textile of America Corporation is established in the U.S.
Current subsidiary, Suzhou Suminoe Textiles Co., Ltd. is established in China.
Current subsidiary, Suzhou Suminoe Koide Automotive Accessories Co., Ltd. is jointly established in China.
Current subsidiary, PT.Sinar Suminoe Indonesia is jointly established in Indonesia.

2005 Subsidiary, SPM Automotive Textile Co., Ltd. is jointly established in China.

2010 Subsidiary, Suminoe Teijin Techno Krishna India Pvt. Ltd. is jointly established in India.
Suminoe Textile Shanghai Co., Ltd. is established in China.

2011 "ECOS® " Recycled Carpet Tiles New Release.

2012 "ECOS® " became the first product to obtain Eco Mark certification under the new certification criteria.

2013 Consolidate Suminoe Koka Co., Ltd. and Suminoe Nara Co., Ltd., Suminoe Techno Co., Ltd. is established.
Suminoe Textile de Mexico, S.A. de C.V. is established in Mexico.
PT. Suminoe Surya Techno is established in Indonesia.

2015 Acquired Bondtex, Inc. and made it a consolidated subsidiary.

TRIPLE FRESH®
1998

ECOS
2011

1913 2013 100th Anniversary

100th Anniversary

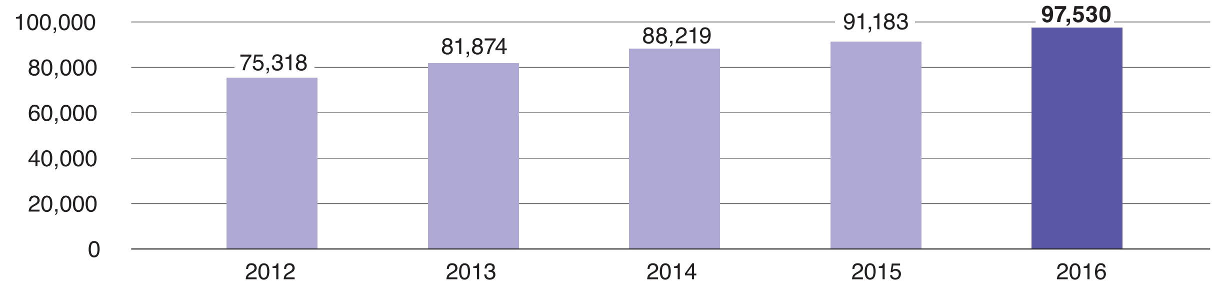
We celebrated the 130th anniversary of our founding and the 100th anniversary of our incorporation.
2013

Contents

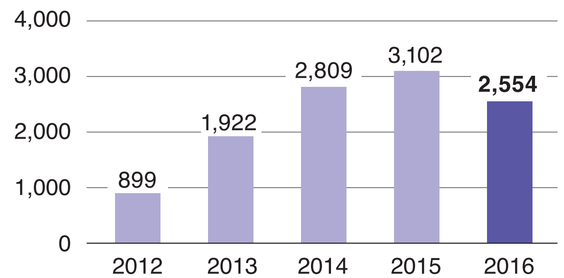
	Millions of Yen					Thousands of U.S.Dollars
	2016	2015	2014	2013	2012	2016
For the Year:						
Net Sales	¥97,530	¥91,183	¥88,219	¥81,874	¥75,318	$878,649
Operating Income	2,554	3,102	2,809	1,922	899	23,009
Net Income Attributable to Owners of the Parent	245	1,816	1,969	1,046	223	2,207
At Year-End:						
Total Assets	¥86,878	¥90,126	¥85,841	¥79,902	¥76,286	$782,685
Total Equity	37,178	39,205	34,571	32,267	28,646	334,937
Per Share (Yen and U.S. dollars):						
Net Income Attributable to Owners of the Parent	¥3.25	¥24.07	¥26.09	¥13.85	¥2.95	$0.03
Shareholder's Equity	441.61	466.15	409.77	385.46	341.89	3.98
Cash dividends applicable to the year	7.00	6.00	6.00	5.00	5.00	0.06
Financial Ratios (%):						
Equity Ratio	38.3%	39.0%	36.0%	36.4%	33.9%	
ROE (Net Income Attributable to Owners of the Parent Base)	0.7	5.5	6.6	3.8	0.9	
ROA (Ordinary Income Base)	3.3	4.2	4.1	2.9	1.5	

Notes:1. U.S. dollar amounts are converted from Japanese yen amounts at the rate of U.S.$1 to ¥111, the approximate rate on May 31, 2016.
Notes:2. Net income attributable to owners of the parent per share of common stock is computed based on the weighted average number of shares outstanding.

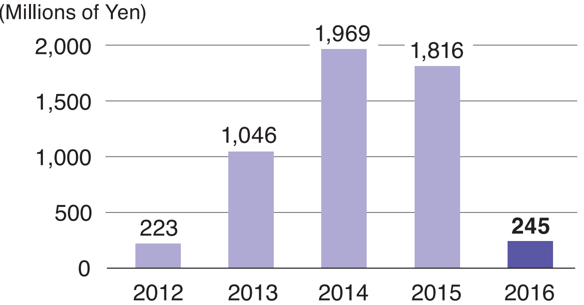
Net sales (Millions of Yen)



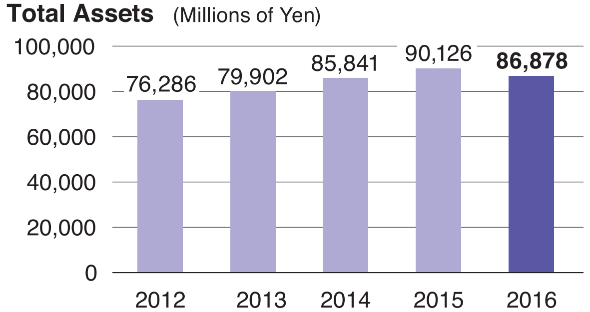
Operating Income (Millions of Yen)



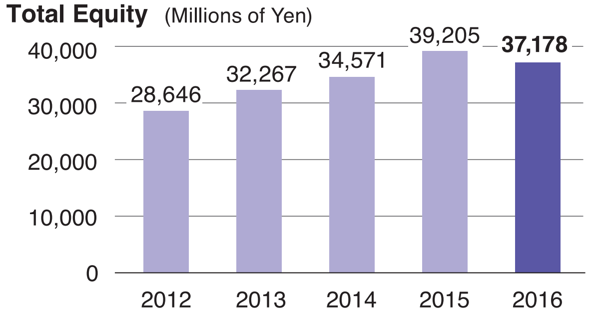
Net Income Attributable to Owners of the Parent
(Millions of Yen)



Total Assets (Millions of Yen)

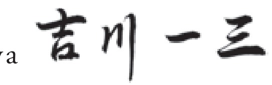


Total Equity (Millions of Yen)



Business Results

Chairman and President
Ichizo Yoshikawa



Consolidated financial result

During the first half of the consolidated fiscal year ending May 31, 2016 under review, the Japanese economy continued to experience a gradual recovery, mainly in domestic demand, thanks to stable corporate performance and a healthy employment environment, along with expansion of consumption by foreign visitors. However, the drastic fall in stock prices as well as the sharp appreciation of the yen, which began at the beginning of 2016, caused concerns about the worsening business performance of mainly export-based companies, making the economic outlook increasingly uncertain.

Overseas, despite the healthy employment environment and stable consumption trends, economic recovery in the United States remained moderate due to the cautious stance taken by companies regarding capital investment. At the same time, the slowdown in economic growth in China caused a decline in resource prices, having a significant impact on resource producer countries and emerging economies.

The announcement of our financial results for this year was substantially delayed due to the inappropriate accounting treatment which originated at our U.S. subsidiary Suminoe Textile of America Corporation (STA). We deeply apologize for the inconvenience and anxiety to all our shareholders and other parties concerned.

Under these circumstances, our Group, under the basic policies of our new medium term 3-year management plan “Advance Ahead 2018”, implemented various measures to achieve the targets for the first fiscal year of the plan. As a result of consolidating Bondtex Inc. in U.S. and PT. Sinar Suminoe Indonesia in Indonesia as our subsidiaries and due to the steady performance of the Interior Fittings segment, sales increased from the previous period. Meanwhile, operating income decreased due to various factors: U.S. subsidiary STA suffered additional costs to respond to confusion in the production lines due to a rapid increase in orders. In Japan, some auto manufacturers suspended production in the aftermath of the Kumamoto earthquakes and the fuel economy scandal, while customers of our sliced silicon ingots for solar cells reduced production. Moreover, costs for the demolition of Matsubara Office and the impairment of equipment for sliced silicon ingots for solar cells were recorded as extraordinary losses while some of the deferred tax assets were reversed at U.S. subsidiary STA. As a result, net income for the fiscal year under review fell far below that of the previous year.

As a result, our consolidated sales for this year under review were ¥97,530 million (U.S.$878,649 thousand, up 7.0% year-on-year), with operating income, ordinary income and net income attributable to owners of the parent of ¥2,554 million (U.S.$23,009 thousand, down 17.7%), ¥2,883 million (U.S.$25,973 thousand, down 22.7%), and ¥245 million (U.S.$2,207 thousand, down 86.5%), respectively.

Consolidated Financial Results & Targets

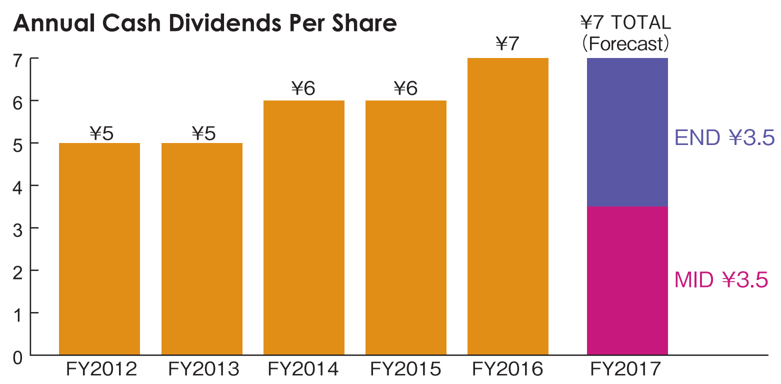
	2017 (Target)	2016 (Result)	2015 (Result)
Net Sales	¥95,400	¥ 97,530	¥ 91,183
		$878,649	$735,347
Operating Income	¥ 1,540	¥ 2,554	¥ 3,102
		$ 23,009	$ 25,017
Net Income	¥ 740	¥ 245	¥ 1,816
Attributable to Owners of the Parent		$ 2,207	$ 14,646
Exchange Rate(Yen)	—	U.S.$1=¥111	U.S.$1=¥124

¥ : Millions of Yen　$: Thousands of U.S. Dollars

Dividend policy

The Company has positioned shareholder return as a key management issue and distributes profits appropriately by taking into account stable dividend payments and business results. Based on this basic dividend policy, for this fiscal year, we have paid an annual dividend of ¥7.0 (U.S.$0.06) per share (¥3.5 (U.S.$0.03) per share for both year-end and interim dividends).

In addition, it plans to pay an annual dividend of ¥7.0 per share (an interim dividend of ¥3.5 and year-end dividend of ¥3.5) for the fiscal year ending May 2017.

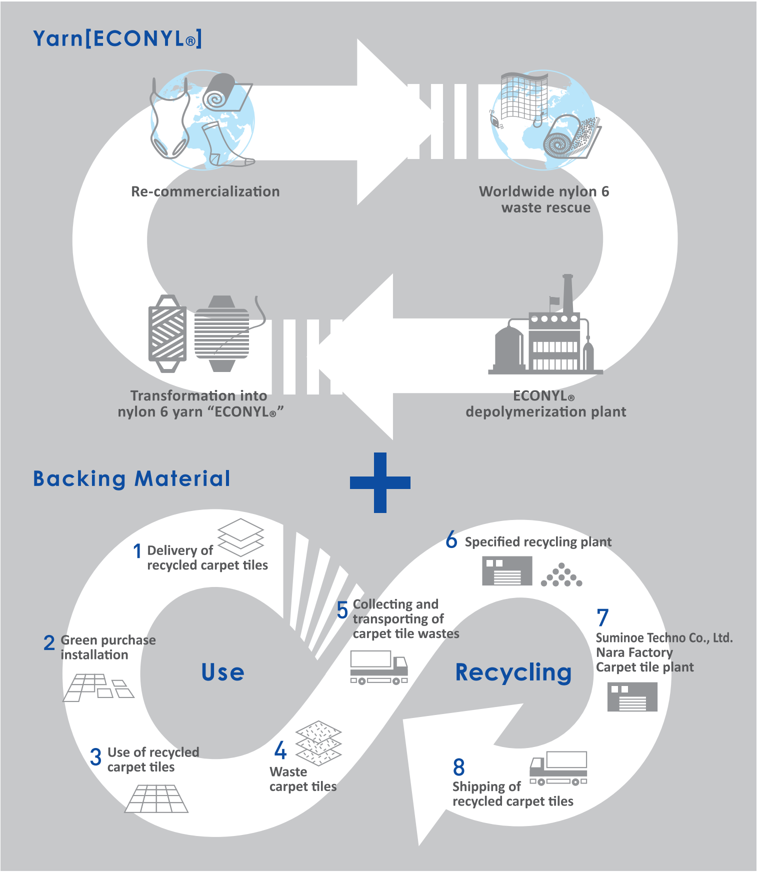


Outlook for the next term

In Japan, concerns are growing over the deterioration of corporate performance due to the yen's appreciation. Overseas, the impact of a slowdown in the growth of the Chinese economy on resource producer/emerging countries is expanding, while the UK voted to leave the EU. All these factors make the outlook for the world economy uncertain. For our business, overseas sales and income are both expected to decline due to foreign exchange losses as a result of the rising yen and the currencies of emerging countries falling at a pace much faster than we expected at the launch of the new medium-term 3-year management plan "Advance Ahead 2018". Although U.S. subsidiary STA has been recovering from the production trouble that occurred in the fiscal year ended May 2016, its effects are likely to remain in the fiscal year ending May 2017. In light of these circumstances, our plan for the fiscal year ending May 2017 aims at sales of ¥95,400 million, operating income of ¥1,540 million, ordinary income of ¥1,750 million, and net income attributable to owners of the parent of ¥740 million.

"ECOS® EX-7000", eco-friendly carpet tiles under the "horizontal recycling" system, released

In July 2015, we released a new eco-friendly carpet tile series under the "horizontal recycling" system, "ECOS® EX-7000". Our "ECOS®" series adopts materials recycled from used carpet tiles in our unique recycling system for the back side of the carpet, achieving a reasonable cost, about the same as for virgin products. The new EX-7000 series is made by combining Aquafil S.p.A's 100% recycled nylon "ECONYL®" as the surface material and "ECOS®" for the back side, realizing "double recycling" of both surface and back side materials. With a recycled material rate of 83% and CO2 reduction rate of 44% (compared to our existing products by Life Cycle Assessment), EX-7000 boasts the world's highest-level of environment-friendliness.



Horizontal recycling is:

the type of recycling in which materials are recycled into the same product repeatedly.

Aquafil S.p.A's ECONYL®

Aquafil S.p.A is the largest nylon manufacturer in Italy, with production bases in Slovenia, the United States, China, Thailand, and other countries, producing 80,000 tons of nylon threads annually. As a company engaged in businesses focusing on the environment, Aquafil, ahead of other manufacturers in the world, succeeded in mass producing "ECONYL®", a 100% "horizontally recycled" nylon fiber produced by collecting and chemically processing used fish nets, etc.

Topic 1

Development of a floor material for bathrooms

By employing our technologies for blending olefin materials and forming sheets that we have established through the development of products such as OH film, a simple slip-preventing film for vehicles, we have developed a new floor material for bathroom units which satisfies various requirements for bathrooms, such as proper flexibility and hydrophilicity.

With deliveries starting in the fiscal year ended May 2015, this film contributed to our overall sales throughout the fiscal year ended May 2016.

We will continue to develop floor materials for bathrooms with more sophisticated functions.

Olefin materials are:

materials similar to wood and paper, composed of carbon, hydrogen and oxygen, which generate little smoke or toxic gas when incinerated, being friendly to both humans and the environment.

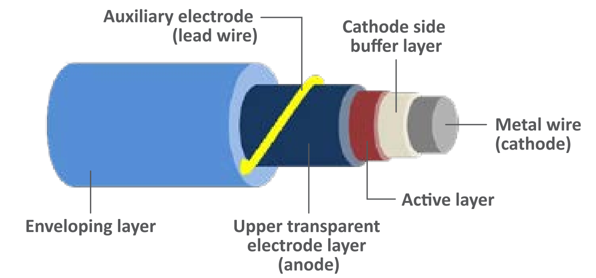
Topic 2

Smart textile: power-generating fiber and textile electrodes, to be applied in the sensor fabric field

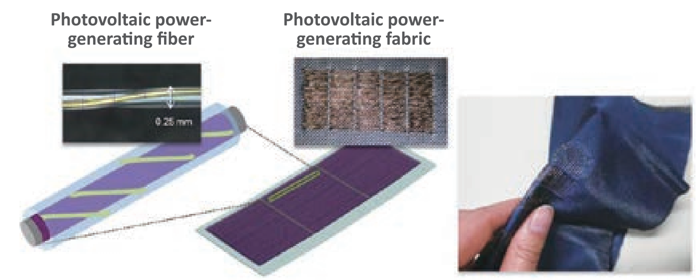
We have developed a new type of textile solar cell through an industry-academia collaboration adopted as a NEDO project.

These textile solar cells can be placed on curved surfaces and are therefore expected to be in demand as a stand-alone power source for wearable devices or indoor environment sensors, though with a small power output capacity of 150 μW per 10 ㎠.

We are aiming at commercial application of these textile solar cells, along with textile electrodes, which can be used as biological information sensors, as sensor fabrics in the fields of nursing care or health management during playing sports.



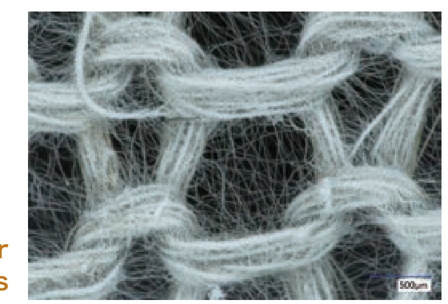
Structure of a fiber solar cell



Textile solar cell

If embedded in interior goods, they can be used as a power source for sensors for indoor environments to measure humidity, temperature, illuminance, CO2, etc. Or if embedded in clothing or hats, taking advantage of their wearable function, together with biological information sensors, they may be used in nursing care or for patient observation.

We developed a fabric that can stick fast to human skin, by applying ultrafine fiber to a conductive textile made of metal plated fiber. Since the electrodes are incorporated into a fabric, which can let the air through, users can feel less discomfort or stress when their skin is in close contact with the fabric for a long time for electromyography, etc.



Textile electrode for biological information sensors

The NEDO Project (NEDO Green Sensor Network System Project) is:

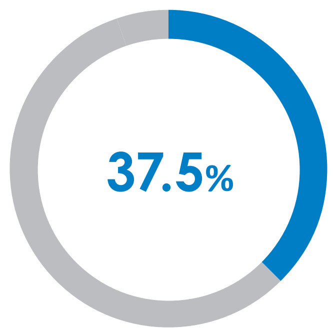
a Japanese industry-academia collaborative project, which has developed revolutionary new sensors that incorporate wireless communication, a stand-alone power source function and ultra-low power consumption, which are issues common to all sensor networks.

Suminoe at a Glance

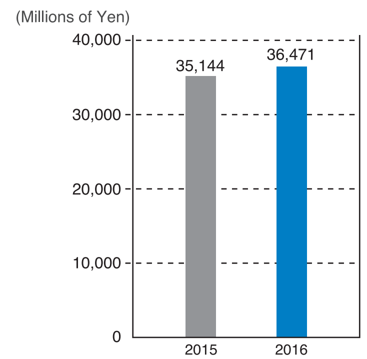
Interior Fittings

▶P 11

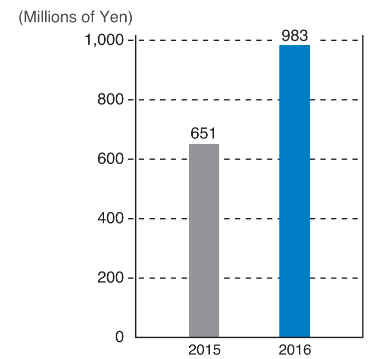
Contribution to Total Net Sales

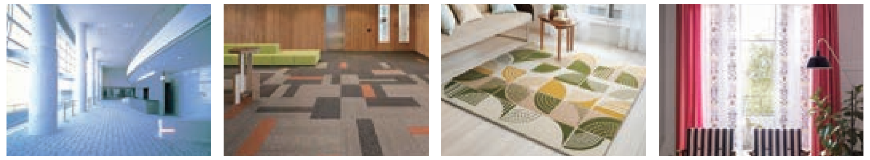


Net Sales

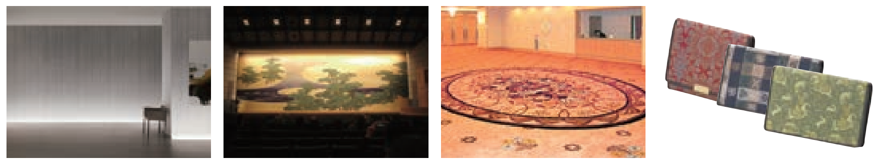


Operating Income





Roll Carpets | Carpet Tiles | Rugs and Mats | Curtains

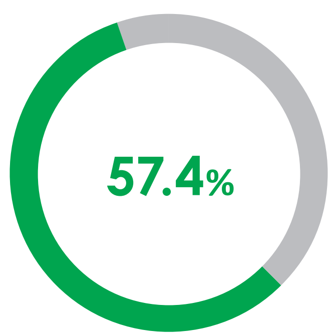


Wallpaper | Plush Hand-woven Curtains | Hand-woven Carpet and Hooked Rugs | Nishijin Brocade Fabric

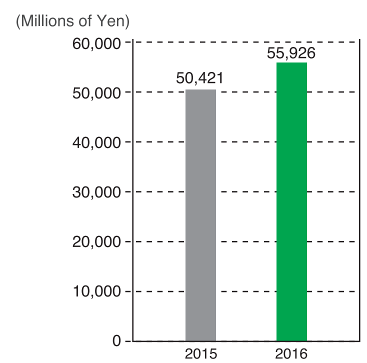
Automotive Textiles and Traffic Facilities

▶P 13

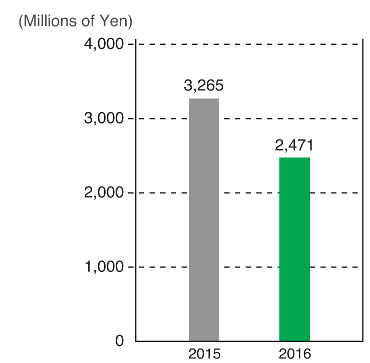
Contribution to Total Net Sales



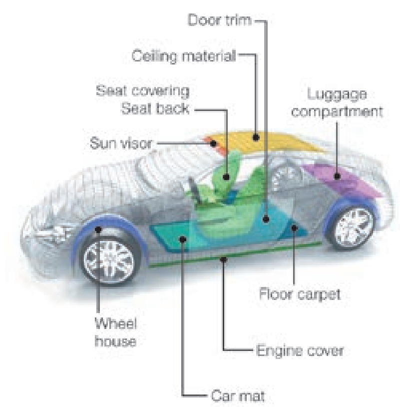
Net Sales



Operating Income



Automotive Textiles



Traffic Facilities

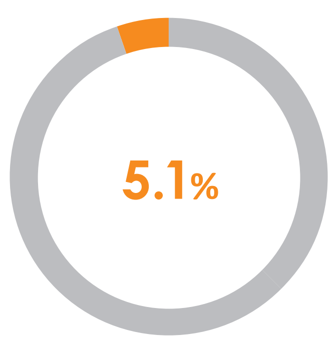
Train | Bus

Ship | Aircraft

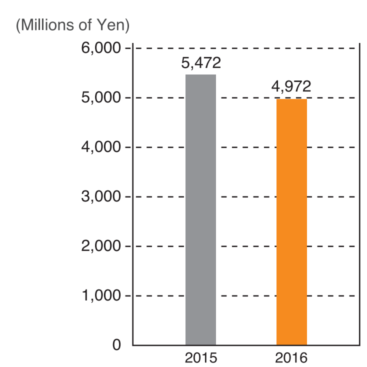
Functional Materials

▶P 15

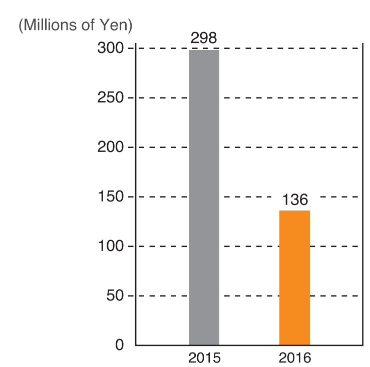
Contribution to Total Net Sales



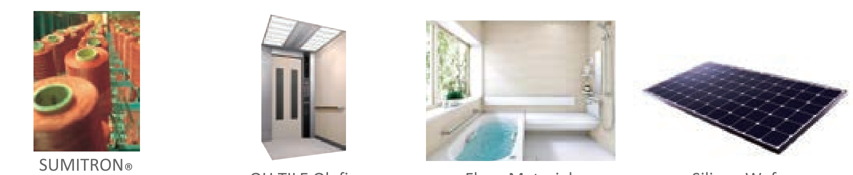
Net Sales



Operating Income



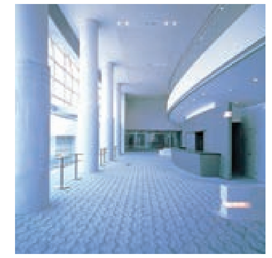
Electric Carpets | Tispa® Deodorization Related Brand | Air-filter Products



SUMITRON® Continuous Fiber Made from Recycled PET bottles | OH TILE Olefin Flooring Material | Floor Material for Bathrooms | Silicon Wafer

Interior Fittings

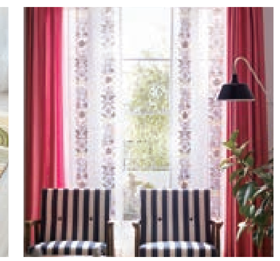
SUMINOE Co., Ltd.



Roll Carpets

Carpet Tiles

Rugs and Mats



Curtains

RUNON CO., LTD.

Wallpaper

Suminoe Textile Co., Ltd.

Kyoto Traditional Art and Craft Factory

Nishijin Brocade Fabric

Tango Textile Co., Ltd.

Plush Hand-woven Curtains

Hand-woven Carpet and Hooked Rugs

Comprehensive manufacturer of lifestyle Inspired

Since our founder, Denshichi Murata, began manufacturing carpets in 1883, Suminoe Textile has supplied carpet for the establishment of Japan's Imperial Diet Building in 1891 and contributed to lifestyle modernization as a pioneer of Japanese interior decor. At present, our subsidiary, SUMINOE Co., Ltd., sells Suminoe brand name products consisting mainly of curtains and carpets, while another subsidiary, RUNON CO., LTD., sells wallpaper, etc. Our diverse selection of interior products has been used in a wide variety of distinguished buildings such as the Diet Building, State Guest Houses, Japanese Prime Minister's Official Residence, hotels, and office buildings as well as general residences.

In particular, we were the first successful domestic manufacturer of carpet tiles. In 2011, with a view to a recycling-oriented society upcoming, Suminoe Textile developed the recycle carpet tiles "ECOS®". ECOS® uses recycled fiber for pile yarn on the surface and the powder recycled from used tile carpets for backing materials, achieving a recycled material ratio as high as 83%, which is unparalleled in the world.

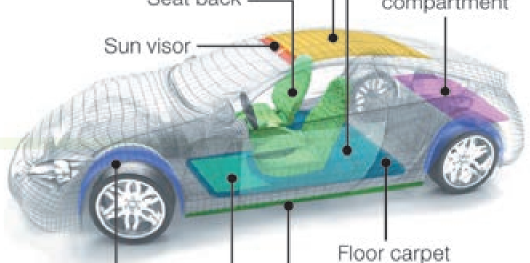
Based on our secure technology and abundance of experience, Suminoe Textile will continue to supply environmentally friendly and unique products matching diversified lifestyles and possessing excellent design as well as functionality.

Business overview for the fiscal year ended May 31, 2016

Sales of commercial-use carpets for office buildings, commercial facilities, and hotels exceeded those of the previous year along with an increase in the number of orders. Sales of "ECOS®", eco-friendly carpet tiles under the "horizontal recycling" system, steadily increased both in Japan and for export. Sales of carpets, rugs and mats for general households decreased from the previous year due to slowdown in personal spending and the warm weather in winter. Sales of curtains exceeded those of the previous year thanks to the steady performance of "mode S® Vol. 7" and "U Life® Vol. 8", our main brands, as well as the "Disney series" and our new brand "cölne". Sales of wall coverings exceeded those of the previous year due to the healthy performance of both "Runon Home" and the mass-production type "Runon Mark II".

As a result of the above, Interior Fittings Segment posted operating income of ¥983 million (U.S.$8,856 thousand, up 50.9% year-on-year) on net sales of ¥36,471 million (U.S.$328,568 thousand, up 3.8%).

Automotive Textiles and Traffic Facilities



Total Supplier of Automotive Textiles

In 1931, Suminoe Textile supplied carpets and seat covering materials to automobiles assembled and manufactured in Japan for Ford Motor Company and General Motors from the United States. Later, our products were regularly adopted in domestically manufactured automobiles whose production expanded along with national policy. At present, we supply products to all Japanese automobile manufacturers, and we have maintained the top market share in the domestic interior fitting market. Our greatest feature is that we are one of the few examples of a company in the world able to supply a total line of automotive interior fittings from floors to ceilings including carpets, seat covering materials, headliner, and trunk materials. We have established manufacturing and sales sites in the United States as well as China, Thailand, Indonesia, India and Mexico, and we are aiming for the creation of a globally optimized supply system.

A Leading Manufacturer of Interior Materials for railway vehicles

The cornerstone of our automotive textiles today is the manufacturing of seat covering materials for railway vehicles. In 1896, when construction of the railway network was rapidly progressing, we were the first to manufacture seat covering materials for railway vehicles in Japan. Since then, we have supplied seat covering materials to Japan National Railways and private railways and we are extremely proud of our top market share for more than one century. Today, Suminoe Textile supplies seat covering materials and the highly recyclable seat cushion material SUMICUBE®, etc., in public transportation vehicles such as Shinkansen bullet trains, trains, buses, ships, and aircraft.

Central Japan Railway Company, West Japan Railway Company : Sinkansen N700 series

SUMICUBE®
Seat Cushion Material

Business overview for the fiscal year ended May 31, 2016

In the area of automotive textiles, in Japan, although sales were stable until the end of 2015 due to newly received orders, the performance after January 2016 suffered the impact of suspension of production by some auto manufacturers due to the Kumamoto earthquakes and the fuel economy scandal. Overseas, sales at our operation bases in Mexico and India rose from the previous year, while the consolidation of subsidiaries in the U.S. and Indonesia also contributed to an increase in sales. The suspension of production and sales at some auto manufacturers affected our operating income in Japan as it did for sales. Overseas, despite a steady performance for newly received orders in Thailand and Indonesia, operating income declined substantially from the previous year. This is due to the inadequate response to an increase in orders at Suminoe Textile of America Corporation, which entailed quality problems and emergency transportation costs, and other factors including expenses for addressing inappropriate accounting, mainly concerning inventories, which was found in the fourth quarter.

In the area of traffic facilities, railway vehicle-related sales increased substantially, though without any new large-scale orders, thanks to the steady performance for continued orders related to new vehicle production and remodeling, as well as a recovery in orders for periodic replacement of seat covers. Orders for new buses continued to grow steadily, along with a rise in demand for high value-added goods for optional accessories, resulting in an increase in both sales and operating income. Orders for seat covering materials for airplanes also marked steady growth. Consequently, in traffic facilities as a whole, both sales and operating income grew substantially from the previous year.

As a result of the above, the Automotive Textiles and Traffic Facilities Segment posted operating income of ¥2,471 million (U.S.$22,261 thousand, down 24.3% year-on-year) on net sales of ¥55,926 million (U.S.$503,838 thousand, up 10.9%).

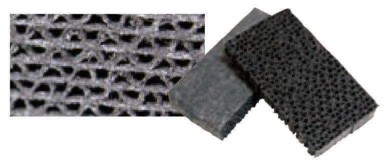
Functional Materials

Tispa® Deodorization Related Brand

The Tispa® series, "Real odor deodorization without disguising with a scent", is a stationary deodorizer for home use that uses a TRIPLE FRESH® Bio filter adopted in refrigerators and air purifiers. Tispa® features an extremely small amount of re-radiated odor due to a biomimetic enzyme that works as a catalyst for continually absorbing and decomposing odors.

Air-filter Products

"TRIPLE FRESH® Bio" is a new concept of deodorizing filter where a biomimetic enzyme is invested in to a corrugate carrier. It continuously deodorizes unpleasant odor gas. Biomimetic enzyme works as a catalyst, and decomposes and deodorizes unpleasant odor components by oxidation-reduction reaction. Therefore its validity is semi-permanent.



SUMITRON®
Continuous Fiber Made from Recycled PET Bottles

SUMITRON®, continuous fiber made from recycled PET bottles and manufactured in our Shiga Factory, (Suminoe Techno Co., Ltd.) holds the No.1 position in production volume for recycled polyester BCF in the domestic market. SUMITRON® is being adopted for our interior products and automotive textiles as well as dust control mats and brushes for house cleaning, etc.

Other Products

Electric Carpets

Floor Material for Bathrooms

Silicon Wafer for Solar Batteries

Business overview for the fiscal year ended May 31, 2016

In the area of functional materials, both sales and operating income exceeded those of the previous year, thanks to the sound performance of a floor material for bathrooms, whose full-scale production started in the previous year, and building materials. In the electric carpet business, both sales and operating income decreased from the previous year because of the reluctance of manufacturers to expand product lines, associated with a decrease in the number of orders. In the deodorizing/filter business, both sales and operating income declined from the previous year due to the stagnant performance of filters for overseas markets. In the solar battery-related business, both sales and operating income were substantially lower than for the previous year due to the impact of reduction of production by our customers.

As a result of the above, the Functional Materials Segment posted operating income of ¥136 million (U.S.$1,225 thousand, down 54.6% year-on-year) on net sales of ¥4,972 million (U.S.$44,793 thousand, down 9.1%).

Financial Section 2016

Year ended May 31, 2016

Contents

Consolidated Balance Sheet

Suminoe Textile Co., Ltd. and its Subsidiaries
May 31, 2016

ASSETS	Millions of Yen 2016	Millions of Yen 2015 As Restated (Note 18)	Thousands of U.S. Dollars (Note 1) 2016
CURRENT ASSETS:			
Cash and cash equivalents (Note 13)	¥ 7,811	¥ 9,543	$ 70,369
Marketable securities (Notes 5 and 13)	275	275	2,478
Short-term investments (Note 13)	140	120	1,261
Receivables:			
Trade notes (Note 13)	8,562	9,068	77,135
Trade accounts (Note 13)	14,207	14,550	127,991
Other	1,185	1,186	10,676
Allowance for doubtful receivables	(43)	(17)	(387)
Inventories (Note 6)	15,444	14,189	139,135
Deferred tax assets (Note 11)	415	431	3,739
Other	1,814	1,857	16,342
Total current assets	49,810	51,202	448,739
PROPERTY, PLANT AND EQUIPMENT (Note 8):			
Land	17,277	17,254	155,649
Buildings and structures (Note 7)	16,724	16,522	150,667
Machinery and equipment	20,845	20,071	187,792
Furniture and fixtures	2,575	2,544	23,198
Lease assets	2,484	2,510	22,378
Construction in progress	189	861	1,703
Total	60,094	59,762	541,387
Accumulated depreciation	(33,808)	(32,718)	(304,576)
Net property, plant and equipment	26,286	27,044	236,811
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 5, 8 and 13)	7,674	9,282	69,135
Investments in associated companies	555	336	5,000
Deferred tax assets (Note 11)	208	684	1,874
Other	2,493	1,726	22,459
Allowance for doubtful accounts	(148)	(148)	(1,333)
Total investments and other assets	10,782	11,880	97,135
TOTAL	¥86,878	¥90,126	$782,685

See notes to consolidated financial statements.

LIABILITIES AND EQUITY	Millions of Yen 2016	Millions of Yen 2015 As Restated (Note 18)	Thousands of U.S. Dollars (Note 1) 2016
CURRENT LIABILITIES:			
Short-term bank loans (Notes 8 and 13)	¥ 9,933	¥ 9,541	$ 89,486
Current portion of long-term debt (Notes 8 and 13)	3,800	2,987	34,234
Payables:			
Trade notes (Note 13)	4,101	4,964	36,946
Trade accounts (Note 13)	14,109	14,780	127,108
Construction and other	660	697	5,946
Income taxes payable	890	672	8,018
Accrued expenses	2,290	2,307	20,631
Other (Note 11)	178	842	1,604
Total current liabilities	35,961	36,790	323,973
LONG-TERM LIABILITIES:			
Long-term debt (Notes 8 and 13)	4,794	4,536	43,189
Liability for retirement benefits (Note 9)	4,228	4,143	38,090
Deferred tax liabilities (Note 11)	497	1,008	4,477
Deferred tax liabilities related to land revaluation excess	3,761	3,970	33,883
Other	459	474	4,136
Total long-term liabilities	13,739	14,131	123,775
COMMITMENTS (Note 14)			
EQUITY (Notes 8, 10 and 16):			
Common stock - authorized, 300,000,000 shares; issued, 76,821,626 shares in 2016 and 2015	9,554	9,554	86,072
Capital surplus	2,652	2,652	23,892
Retained earnings	10,769	11,014	97,018
Treasury stock - at cost; 1,378,129 shares and 1,374,982 shares in 2016 and 2015, respectively	(360)	(359)	(3,243)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	2,450	3,771	22,072
Deferred gain (loss) on derivatives under hedge accounting	6	(3)	54
Land revaluation excess	7,797	7,588	70,243
Foreign currency translation adjustments	645	1,157	5,811
Defined retirement benefit plan	(197)	(205)	(1,775)
Total	33,316	35,169	300,144
Noncontrolling interests	3,862	4,036	34,793
Total equity	37,178	39,205	334,937
TOTAL	¥86,878	¥90,126	$782,685

Consolidated Statement of Income

Suminoe Textile Co., Ltd. and its Subsidiaries
Year Ended May 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015 As Restated (Note 18)	2016
NET SALES	¥97,530	¥91,183	$878,649
COST OF SALES	78,651	72,481	708,568
Gross profit	18,879	18,702	170,081
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	16,325	15,600	147,072
Operating income	2,554	3,102	23,009
OTHER INCOME (EXPENSES):			
Interest and dividend income	185	164	1,667
Rental income	238	235	2,144
Equity in earnings of associated companies	195	216	1,757
Interest expense	(242)	(230)	(2,180)
Rental expense	(36)	(40)	(324)
Gain (loss) on sales and disposals of property, plant and equipment	(113)	20	(1,018)
Impairment losses for long-lived assets (Note 7)	(372)	(269)	(3,351)
Other - net	(11)	262	(100)
Other income (expenses) - net	(156)	358	(1,405)
INCOME BEFORE INCOME TAXES	2,398	3,460	21,604
INCOME TAXES (Note 11):			
Current	1,286	1,093	11,586
Deferred	602	257	5,423
Total income taxes	1,888	1,350	17,009
NET INCOME	510	2,110	4,595
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	265	294	2,388
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 245	¥ 1,816	$ 2,207

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.r):			
Basic net income	¥3.25	¥24.07	$0.03
Cash dividends applicable to the year	7.00	6.00	0.06

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Suminoe Textile Co., Ltd. and its Subsidiaries
Year Ended May 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015 As Restated (Note 18)	2016
NET INCOME	¥ 510	¥2,110	$ 4,595
OTHER COMPREHENSIVE INCOME (LOSS) (Note 15):			
Unrealized gain (loss) on available-for-sale securities	(1,321)	1,593	(11,901)
Deferred gain (loss) on derivatives under hedge accounting	(43)	22	(387)
Land revaluation excess	209	406	1,883
Foreign currency translation adjustments	(676)	1,042	(6,090)
Remeasurements of defined benefit plans	9	42	81
Share of other comprehensive gain in associates	52	2	468
Total other comprehensive income (loss)	(1,770)	3,107	(15,946)
COMPREHENSIVE INCOME (LOSS)	¥(1,260)	¥5,217	$(11,351)
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:			
Owners of the parent	¥(1,361)	¥4,743	$(12,261)
Noncontrolling interests	101	474	910

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Suminoe Textile Co., Ltd. and its Subsidiaries
Year Ended May 31, 2016

	Number of Shares of Common Stock Outstanding	Millions of Yen			
		Common Stock	Capital Surplus	Retained Earnings As Restated (Note 18)	Treasury Stock
BALANCE, JUNE 1, 2014	75,453,687	¥9,554	¥2,652	¥ 9,703	¥(357)
Net income attributable to owners of the parent				1,816	
Cash dividends, ¥6.50 per share				(490)	
Purchase of treasury stock	(7,043)				(2)
Reversal of land revaluation excess				(15)	
Net change in the year					
BALANCE, MAY 31, 2015	75,446,644	9,554	2,652	11,014	(359)
Net income attributable to owners of the parent				245	
Cash dividends, ¥6.50 per share				(490)	
Purchase of treasury stock	(3,147)				(1)
Reversal of land revaluation excess					
Net change in the year					
BALANCE, MAY 31, 2016	75,443,497	¥9,554	¥2,652	¥10,769	¥(360)

	Millions of Yen							
	Accumulated Other Comprehensive Income					Total As Restated (Note 18)	Noncontrolling Interests	Total Equity As Restated (Note 18)
	Unrealized Gain (Loss) on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Land Revaluation Excess	Foreign Currency Translation Adjustments As Restated (Note 18)	Defined Retirement Benefit Plan			
BALANCE, JUNE 1, 2014	¥2,178	¥(14)	¥7,168	¥283	¥(248)	¥30,919	¥3,652	¥34,571
Net income attributable to owners of the parent						1,816		1,816
Cash dividends, ¥6.50 per share						(490)		(490)
Purchase of treasury stock						(2)		(2)
Reversal of land revaluation excess			15					
Net change in the year	1,593	11	405	874	43	2,926	384	3,310
BALANCE, MAY 31, 2015	3,771	(3)	7,588	1,157	(205)	35,169	4,036	39,205
Net income attributable to owners of the parent						245		245
Cash dividends, ¥6.50 per share						(490)		(490)
Purchase of treasury stock						(1)		(1)
Reversal of land revaluation excess								
Net change in the year	(1,321)	9	209	(512)	8	(1,607)	(174)	(1,781)
BALANCE, MAY 31, 2016	¥2,450	¥ 6	¥7,797	¥645	¥(197)	¥33,316	¥3,862	¥37,178

	Thousands of U.S. Dollars (Note 1)			
	Common Stock	Capital Surplus	Retained Earnings As Restated (Note 18)	Treasury Stock
BALANCE, MAY 31, 2015	$86,072	$23,892	$99,225	$(3,234)
Net income attributable to owners of the parent			2,207	
Cash dividends, $0.06 per share			(4,414)	
Purchase of treasury stock				(9)
Reversal of land revaluation excess				
Net change in the year				
BALANCE, MAY 31, 2016	$86,072	$23,892	$97,018	$(3,243)

	Thousands of U.S. Dollars (Note 1)							
	Accumulated Other Comprehensive Income					Total As Restated (Note 18)	Noncontrolling Interests	Total Equity As Restated (Note 18)
	Unrealized Gain (Loss) on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Land Revaluation Excess	Foreign Currency Translation Adjustments As Restated (Note 18)	Defined Retirement Benefit Plan			
BALANCE, MAY 31, 2015	$33,973	$(27)	$68,360	$10,424	$(1,847)	$316,838	$36,360	$353,198
Net income attributable to owners of the parent						2,207		2,207
Cash dividends, $0.06 per share						(4,414)		(4,414)
Purchase of treasury stock						(9)		(9)
Reversal of land revaluation excess								
Net change in the year	(11,901)	81	1,883	(4,613)	72	(14,478)	(1,567)	(16,045)
BALANCE, MAY 31, 2016	$22,072	$ 54	$70,243	$5,811	$(1,775)	$300,144	$34,793	$334,937

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Suminoe Textile Co., Ltd. and its Subsidiaries
Year Ended May 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015 As Restated (Note 18)	2016
OPERATING ACTIVITIES:			
Income before income taxes	¥ 2,398	¥ 3,460	$ 21,604
Adjustments for:			
Income taxes - paid	(1,064)	(1,097)	(9,586)
Income taxes - refunds	10	5	90
Depreciation and amortization	1,893	1,863	17,054
Impairment losses for long-lived assets	372	269	3,351
Amortization of negative goodwill		(44)	
Provision for doubtful receivables and accounts	27	(6)	243
Gain (loss) on sales and disposals of property, plant and equipment	113	(20)	1,018
Equity in earnings of associated companies	(195)	(216)	(1,757)
Changes in assets and liabilities:			
Decrease (increase) in notes and accounts receivable - trade	1,011	(688)	9,108
Decrease (increase) in inventories	(1,020)	566	(9,189)
(Decrease) increase in notes and accounts payable - trade	(1,793)	(588)	(16,153)
(Decrease) increase in liability for retirement benefits	112	(84)	1,009
Decrease (Increase) in other current assets	16	(289)	144
Decrease in other current liabilities	(722)	(290)	(6,505)
Other - net	296	861	2,668
Total adjustments	(944)	242	(8,505)
Net cash provided by operating activities	1,454	3,702	13,099
INVESTING ACTIVITIES:			
Proceeds from sales of property, plant and equipment	8	112	72
Purchases of property, plant and equipment	(742)	(1,423)	(6,685)
Proceeds from sales and redemption of securities	6,306	11,103	56,811
Purchases of marketable and investment securities	(6,649)	(11,119)	(59,901)
Purchases of investments in subsidiaries with changes in consolidation scope	(2,049)		(18,459)
Other - net	(85)	96	(766)
Net cash used in investing activities	(3,211)	(1,231)	(28,928)
FINANCING ACTIVITIES:			
Net change in short-term bank loans	561	(1,047)	5,054
Proceeds from long-term debt	3,313	1,181	29,847
Repayments of long-term debt	(2,989)	(2,096)	(26,928)
Purchase of treasury stock	(1)	(2)	(9)
Dividends paid	(490)	(490)	(4,414)
Other - net	(275)	(303)	(2,478)
Net cash provided by (used in) financing activities	119	(2,757)	1,072
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(94)	193	(847)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,732)	(93)	(15,604)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,543	9,564	85,973
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES		72	
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 7,811	¥ 9,543	$ 70,369

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Suminoe Textile Co., Ltd. and its Subsidiaries
Year Ended May 31, 2016

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 ("Japanese GAAP"), 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. In addition, certain reclassifications have been made in the 2015 consolidated financial statements to conform to the classifications used in 2016.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Suminoe Textile Co., Ltd. (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 ¥111 to $1, the approximate rate of exchange at May 31, 2016. 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 accompanying consolidated financial statements as of May 31, 2016, include the accounts of the Company and all subsidiaries (collectively, 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.

Investments in three associated companies (two associated companies in 2015) are accounted for using the equity method.

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is being amortized over a period not exceeding 20 years.

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.

b.Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements - In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," which was subsequently revised in February 2010 and March 2015 to reflect revisions of the relevant Japanese GAAP or accounting standards in other jurisdictions. PITF No. 18 prescribes that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification—"FASB ASC") tentatively may be used for the consolidation process, except for the following items which should be adjusted in the consolidation process, so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (1) amortization of goodwill; (2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity through other comprehensive income; (3) expensing capitalized development costs of research and development (R&D); and (4) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of cost model accounting.

PITF No. 18 was revised on March 26, 2015, in response to the revision to FASB ASC Topic 350 which provides private companies with a simplified goodwill accounting alternative that allows amortization of goodwill on a straight-line basis over a useful life of (1) 10 years or (2) less than 10 years if it can be demonstrated that a shorter useful life is more appropriate. Where a company has a US subsidiary which elects to amortize goodwill under the simplified method, the revised PITF No. 18 provides companies with a choice of (a) continuing to amortize the goodwill over the remaining useful life used by the parent in previous years in the consolidated financial statements, or (b) amortizing the goodwill prospectively over the useful life which was adopted by the US subsidiary if it is shorter than (a) above. The revised PITF No. 18 is effective for the beginning of annual periods beginning on or after April 1, 2015, or the beginning of annual period first ending after the issuance date of the revised PITF.

There was no impact on the Company's financial position or results of operations from such accounting changes.

c.Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method - In March 2008, the ASBJ issued ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the GAAP in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting.

d.Business Combinations - In October 2003, the Business Accounting Council issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the ASBJ issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures," and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures."

In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling-of-interests method of accounting is no longer allowed. (2) The previous accounting standard required research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development costs (IPR&D) acquired in the business combination are capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. The revised standard was applicable to business combinations undertaken on or after April 1, 2010.

In September 2013, the ASBJ issued revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Guidance No. 10, "Guidance on Accounting Standards for Business Combinations and Business Divestitures," and revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements." Major accounting changes are as follows:

(a) Transactions with noncontrolling interest - A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Under the previous accounting standard, any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as an adjustment of goodwill or as profit or loss in the consolidated statement of income. Under the revised accounting standard, such difference is accounted for as capital surplus as long as the parent retains control over its subsidiary.

(b) Presentation of the consolidated balance sheet - In the consolidated balance sheet, "minority interests" under the previous accounting standard is changed to "noncontrolling interests" under the revised accounting standard.

(c) Presentation of the consolidated statement of income - In the consolidated statement of income, "net income before minority interests" under the previous accounting standard is changed to "net income" under the revised accounting standard, and "net income" under the previous accounting standard is changed to "net income attributable to owners of the parent" under the revised accounting standard.

(d) Provisional accounting treatments for a business combination - If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. Under the previous accounting standard guidance, the impact of adjustments to provisional amounts recorded in a business combination on profit or loss is recognized as profit or loss in the year in which the measurement is completed. Under the revised accounting standard guidance, during the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date.

(e) Acquisition-related costs - Acquisition-related costs are costs, such as advisory fees or professional fees, which an acquirer incurs to effect a business combination. Under the previous accounting standard, the acquirer accounts for acquisition-related costs by including them in the acquisition costs of the investment. Under the revised accounting standard, acquisition-related costs shall be accounted for as expenses in the periods in which the costs are incurred.

The above accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs are effective for the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted from the beginning of annual periods beginning on or after April 1, 2014, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income. In the case of earlier application, all accounting standards and guidance above, except for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, should be applied simultaneously.

Either retrospective or prospective application of the revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs is permitted. In retrospective application of the revised standards and guidance, the accumulated effects of retrospective adjustments for all (a) transactions with noncontrolling interest and (e) acquisition-related costs which occurred in the past shall be reflected as adjustments to the beginning balance of capital surplus and retained earnings for the year of the first-time application. In prospective application, the new standards and guidance shall be applied prospectively from the beginning of the year of the first-time application.

The revised accounting standards and guidance for (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income shall be applied to all periods presented in financial statements containing the first-time application of the revised standards and guidance.

The revised standards and guidance for (d) provisional accounting treatments for a business combination are effective for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2015. Earlier application is permitted for a business combination which occurs on or after the beginning of annual periods beginning on or after April 1, 2014.

The Company applied the revised accounting standards and guidance for (a) transactions with noncontrolling interest, (b) presentation of the consolidated balance sheet, (c) presentation of the consolidated statement of income, and (e) acquisition-related costs above, effective April 1, 2015, and (d) provisional accounting treatments for a business combination above for a business combination which occurred on or after April 1, 2015. The revised accounting standards and guidance for (a) transactions with noncontrolling interest and (e) acquisition-related costs were applied retrospectively for all applicable transactions which occurred prospectively.

With respect to (b) presentation of the consolidated balance sheet and (c) presentation of the consolidated statement of income, the applicable line items in the 2015 consolidated financial statements have been accordingly reclassified and presented in line with those in 2016.

There was no impact from these accounting changes.

e.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 which mature within three months of the date of acquisition.

f.Inventories - Inventories are stated at the lower of cost, determined by the average cost method for finished products, purchased merchandise, and work in process, and by the moving-average method for raw materials and supplies, or net selling value.

g.Marketable and Investment Securities - Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value and the related unrealized gains and losses are included in earnings; (2) held-to-maturity debt securities, for which management has the positive intent and ability to hold to maturity, are reported at amortized cost; and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as 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.

h.Property, Plant and Equipment - Property, plant and equipment, except land, are stated at cost. Depreciation is computed over the estimated useful lives of the assets by the declining-balance method, while the straight-line method is applied to buildings acquired after April 1, 1998, at rates based on the useful lives of the assets. Depreciation of lease assets that are deemed not to transfer ownership is computed using the straight-line method over the respective lease period. The range of estimated useful lives is principally from 3 to 50 years for buildings and structures and from 4 to 17 years for machinery and equipment. The useful lives for lease assets are the terms of the respective leases.

Under the "Law of Land Revaluation," promulgated and revised on March 31, 1998 and 1999, respectively, the Company elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of May 31, 2000. The resulting land revaluation excess represents unrealized appreciation of land and is stated, net of income taxes, as a component of equity. There was no effect on the consolidated statement of income from this revaluation. Continuous readjustment is not permitted, unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation excess account and related deferred tax liabilities.

As of May 31, 2016, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥5,087 million ($45,829 thousand).

i.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.

j.Retirement Benefits - The Company and certain subsidiaries have both lump-sum severance payments and defined contribution pension plans for employees' retirement benefits and account for the liability for retirement benefits based on the projected benefit obligations at the consolidated balance sheet date.

Effective April 1, 2000, the Company adopted a new accounting standard for retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations at the balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actuarial gains and losses are amortized on a straight-line basis over 10 years within the average remaining service period.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits," and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidance and were followed by partial amendments from time to time through 2009.

(a) Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(b) The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period are treated as reclassification adjustments (see Note 15).

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods, the discount rate, and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013 and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014 or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, all with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company applied the revised accounting standard and guidance for retirement benefits for (a) and (b) above, effective May 31, 2014, and for (c) above, effective June 1, 2014.

With respect to (c) above, the Company changed the method of determining the discount rate from using the period which approximates the expected average remaining service period to using a single weighted-average discount rate reflecting the estimated timing and amount of benefit payment. This change has no impact on profits.

The Company provides for the liability for directors and Audit and Supervisory Board Members' retirement benefits at the amounts that would be required to be paid if all directors and Audit and Supervisory Board Members retired at the consolidated balance sheet date. Amounts payable to directors and Audit and Supervisory Board members upon retirement are left to the approval of the Board of Directors.

k.R&D Costs - R&D costs are charged to income as incurred.

l.Leases - In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized by recognizing lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases that existed at the transition date and do not transfer ownership of the leased property to the lessee to continue to be accounted for as operating lease transactions with certain "as if capitalized" information disclosed in the notes to the lessee's financial statements.

The Company applied the revised accounting standard effective June 1, 2008. In addition, the Company accounted for leases that existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

m.Construction Contracts - In December 2007, the ASBJ issued ASBJ Statement No. 15, "Accounting standard for Construction Contracts," and ASBJ Guidance No. 18, "Guidance on Accounting Standard for Construction Contracts." Under the previous Japanese GAAP, either the completed-contract method or the percentage-of-completion method was permitted to account for construction contracts. Under this accounting standard, the construction revenue and construction costs should be recognized by the percentage-of-completion method if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs and the stage of completion of the contract at the consolidated balance sheet date can be reliably measured, the outcome of the construction contract is deemed to be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on construction contracts.

n.Income Taxes - The provision for current income taxes is computed based on the pretax income included in the consolidated statement 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 income tax rates to the temporary differences.

o.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 consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

p.Foreign Currency Financial Statements - The balance sheet accounts of foreign subsidiaries and associated companies are translated into Japanese yen at the current exchange rates as of the balance sheet date, except for equity, which is translated at historical rates. Revenue and expense accounts of the foreign subsidiaries and associated companies are translated into Japanese yen at the current exchange rates as of the balance sheet dates.
Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

q.Derivatives and Hedging Activities - The Group uses foreign exchange forward contracts and interest rate swaps to manage its exposures to fluctuations in foreign exchange and interest rates. The Group does not enter into derivatives for trading or speculative purposes.
Derivative financial instruments are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and the resulting gains or losses are recognized in the consolidated statement of income, and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on those derivatives are deferred until maturity of the hedged transactions.
Foreign currency forward exchange contracts are utilized to hedge foreign currency exposures on overseas transactions. Trade payables and receivables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.
Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

r.Per Share Information - Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.
The computations of net income per share of common stock are based on the weighted-average number of shares outstanding of 75,444,787 shares and 75,450,744 shares for the years ended May 31, 2016 and 2015, respectively.
Diluted net income per share is not disclosed because the Group has not issued dilutive securities.
Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

s.New Accounting Pronouncements
Tax Effect Accounting - On March 28, 2016, the ASBJ issued ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," which included certain revisions of the previous accounting and auditing guidance issued by the Japanese Institute of Certified Public Accountants. While the new guidance continues to follow the basic framework of the previous guidance, it provides new guidance for the application of judgment in assessing the recoverability of deferred tax assets.
The previous guidance provided a basic framework which included certain specific restrictions on recognizing deferred tax assets depending on the company's classification in respect of its profitability, taxable profit and temporary differences, etc.
The new guidance does not change such basic framework but, in limited cases, allows companies to recognize deferred tax assets even for a deductible temporary difference for which it was specifically prohibited to recognize a deferred tax asset under the previous guidance, if the company can justify, with reasonable grounds, that it is probable that the deductible temporary difference will be utilized against future taxable profit in some future period.
The new guidance is effective for the beginning of annual periods beginning on or after April 1, 2016. Earlier application is permitted for annual periods ending on or after March 31, 2016. The new guidance shall not be applied retrospectively and any adjustments from the application of the new guidance at the beginning of the reporting period shall be reflected within retained earnings or accumulated other comprehensive income at the beginning of the reporting period.
The Company expects to apply the new guidance on recoverability of deferred tax assets effective June 1, 2016, and is in the process of measuring the effects of applying the new guidance in future applicable periods.

3. ACCOUNTING CHANGE

(1)Change in the method of translating revenues and expenses of foreign subsidiaries
Prior to June 1, 2015, the revenues and expenses of foreign subsidiaries have been translated into Japanese yen using the current exchange rate on the date of closing of the relevant foreign subsidiary. Effective June 1, 2015, the Company changed its method of translating the foreign subsidiaries revenue and expenses into Japanese yen to the method of using the average exchange rate for the fiscal year in order to ease the effect on temporary exchange rate fluctuations and to reflect the results of foreign subsidiaries more appropriately in the consolidated financial statements in prospect of increasing the importance of foreign subsidiaries.
Since the effect of this change is immaterial, it is not applied retroactively.

(2)Application of Practical Solution on a change in depreciation method due to Tax Reform 2016
Following revisions to the Corporation Tax Act, the Company has applied "Practical Solution on a change in depreciation method due to Tax Reform 2016" (Practical Issues Task Force No. 32 issued on June 17, 2016) to this period, and has changed its depreciation method for buildings as well as accompanying facilities and structures which were acquired on or after April 1, 2016 from the declining balance method to the straight-line method.
The impact of this change on the consolidated financial results was immaterial.

4. BUSINESS COMBINATION

Year Ended May 31, 2016
(Business Combination by Acquisition)

a. Outline of the Business Combination
(1) Name of acquired company and its business outline
Name of the acquired company:
Bondtex, Inc.
Business outline:
Urethane laminate processing for automobile seat fabric and ceiling
Manufacture and sale of medical materials, etc.
(2) Major reason for the business combination
The company had previously entrusted urethane laminate processing of interior materials for automobiles to Bondtex, Inc. and other urethane laminate manufacturers in the United States. With this acquisition, the Company is planning to expand its market presence by vertical integration of operations, sales channels to US as well as Japanese automobile manufacturers, and sales of new products such as leather shells, and PVC.
In addition to automobile-related businesses, the Company will also actively promote Bondtex, Inc.'s medical use business which is expected to grow greatly in the future.
(3) Date of business combination
June 1, 2015
(4) Legal form of business combination
Share acquisition in consideration for cash
(5) Name of the company after the combination
There is no change.
(6) Ratio of voting rights acquired
100%
(7) Basis for determining the acquirer
It is based on the fact that Suminoe Textile of America Corporation, a consolidated subsidiary, acquired 100% of voting rights by means of share acquisition in consideration for cash.

b. The Period for which the Operations of the Acquired Company Are Included in the Consolidated Financial Statements
From June 1, 2015 to March 31, 2016

c. Acquisition Cost of the Acquired Company and Related Details of Each Class of Consideration

	Millions of Yen	Thousands of U.S. Dollars
Consideration for acquisition - Cash	¥2,049	$18,459
Acquisition cost	¥2,049	$18,459

d. Major Acquisition-Related Costs

Advisory fees and commissions to the lawyers:	¥46 million ($414 thousand)

e. Amount of Goodwill Incurred, Reasons for the Goodwill Incurred, and the Method and Period of Amortization
(1) Amount of goodwill incurred
¥23 million ($207 thousand)
(2) Reasons for the goodwill incurred
Because acquisition costs for the acquired company exceeded the net amount for assets acquired and liabilities assumed for the acquired company, the difference was recorded as goodwill.
(3) Method and period of amortization
The goodwill is amortized on a straight-line basis over 10 years.

f. The Assets Acquired and the Liabilities Assumed at the Acquisition Date Are as Follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥1,404	$12,649
Non-current assets	1,820	16,396
Total assets	¥3,224	$29,045
Current liabilities	¥ 908	$ 8,180
Non-current liabilities	290	2,613
Total liabilities	¥1,198	$10,793

g. Amount Allocated to Intangible Assets Other than Goodwill, Its Breakdown by Major Types, and Weighted Average Amortization Period by Major Types

	Amount		Amortization Period
	Millions of Yen	Thousands of U.S. Dollars	Years
Type of Asset			
Trademark rights	¥149	$1,342	10
Technology related assets	709	6,388	10
Total	¥858	$7,730	

h. Pro forma Impact on the Consolidated Statement of Income Assuming the Business Combination Was Completed at the Beginning of the Fiscal Year (Unaudited)
Pro forma impact on the consolidated statement of income is omitted due to its immateriality.

5. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of May 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Current:			
Marketable securities	¥ 275	¥ 275	$ 2,478
Total	¥ 275	¥ 275	$ 2,478
Non-current:			
Marketable equity securities	¥7,425	¥9,013	$66,892
Unlisted equity securities	249	249	2,243
Unlisted corporate bonds		20	
Total	¥7,674	¥9,282	$69,135

The cost and aggregate fair values of marketable and investment securities as of May 31, 2016 and 2015, were as follows:

	Millions of Yen			
	2016			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available for sale:				
Marketable equity securities	¥3,961	¥3,583	¥119	¥7,425
Other	275			275
Total	¥4,236	¥3,583	¥119	¥7,700

	Millions of Yen			
	2015			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available for sale:				
Marketable equity securities	¥3,615	¥5,414	¥16	¥9,013
Other	275			275
Total	¥3,890	¥5,414	¥16	¥9,288

	Thousands of U.S. Dollars			
	2016			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available for sale:				
Marketable equity securities	$35,685	$32,279	$1,072	$66,892
Other	2,478			2,478
Total	$38,163	$32,279	$1,072	$69,370

Proceeds from sales of available-for-sale securities for the years ended May 31, 2016 and 2015 were ¥6,306 million ($56,811 thousand) and ¥11,257 million, respectively. Gross realized gains and losses on these sales, computed on a moving-average cost basis, for the year ended May 31, 2016 were ¥3 million ($27 thousand) and ¥0 million ($0 thousand), respectively, and for the year ended May 31, 2015 were ¥3 million and ¥0 million, respectively.

6. INVENTORIES

Inventories as of May 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015 As Restated (Note 18)	2016
Finished products and purchased merchandise	¥ 9,753	¥ 9,248	$ 87,865
Work in process	1,707	1,592	15,378
Raw materials and supplies	3,984	3,349	35,892
Total	¥15,444	¥14,189	$139,135

7. IMPAIRMENT LOSSES

For the year ended May 31, 2016, the Group recognized ¥372 million ($3,351 thousand) of impairment losses as other expenses for a part of their operational assets because these were considered difficult to recover the investment amount due to a decline in profitability, etc.
This impairment loss consisted of losses of ¥355 million ($3,198 thousand) on operational assets, and losses of ¥17 million ($153 million) on assets to be disposed of. The recoverable value of operational assets was measured based on the net selling price, but it was difficult to divert to other companies or sell, so it was valued based on the memorandum value. The assets to be disposed of were measured based on the net selling price, such as estimated sales amount, etc. These assets to be disposed of were sold in June 2016.

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

Short-term bank loans are principally composed of bank overdrafts. As is customary in Japan, the Group obtains financing by discounting trade notes receivable with banks. The weighted-average annual interest rates for short-term bank loans and notes discounted at May 31, 2016 and 2015, were 1.33% and 1.26%, respectively.
Long-term debt as of May 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Loans from banks and other financial institutions: 2015 : 0.60% - 2.42% (due: years ending May 31, 2016 - 2021) 2016 : 0.60% - 4.20% (due: years ending May 31, 2017 - 2033)			
Collateralized	¥ 999	¥1,193	$ 9,000
Unsecured	6,027	4,400	54,297
Obligations under finance leases	1,568	1,930	14,126
Total	8,594	7,523	77,423
Less current portion	3,800	2,987	34,234
Long-term debt, less current portion	¥4,794	¥4,536	$43,189

Annual maturities of long-term debt, less current portion, as of May 31, 2016, were as follows:

Years Ending May 31	Millions of Yen	Thousands of U.S. Dollars
2018	¥1,299	$11,703
2019	1,144	10,306
2020	756	6,811
2021	272	2,450
2022 and thereafter	1,323	11,919
Total	¥4,794	$43,189

The assets pledged as collateral for short-term bank loans and long-term debt as of May 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Land	¥3,929	¥3,929	$35,397
Buildings and structures, less accumulated depreciation	592	637	5,333
Machinery and equipment, less accumulated depreciation	265	220	2,387
Investment securities	3,320	5,181	29,910
Total	¥8,106	¥9,967	$73,027

Of the above, property, plant and equipment assets that were provided as collateral for a factory foundations mortgage as of May 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Land	¥3,929	¥3,929	$35,397
Buildings and structures, less accumulated depreciation	592	637	5,333
Machinery and equipment, less accumulated depreciation	265	220	2,387
Total	¥4,786	¥4,786	$43,117

Bank overdrafts are generally covered under basic written agreements, which provide that additional collateral (including sums on deposit with such banks) or guarantors will be furnished at the banks' request and that any collateral furnished will be applicable to all indebtedness due to such banks. Certain long-term loan agreements provide that lenders may request the Group to submit proposals to pay dividends for approval. The Group has never received such a request from any of its lenders.
The Company concluded a syndicated loan agreement (balances at May 31, 2016 and 2015, were ¥2,474 million ($22,288 thousand) and ¥1,500 million, respectively), with Mizuho Bank, Ltd. as the Company's agent. This agreement is subject to the following financial covenants:

(1) Equity as of the year-end and the second quarter-end of each fiscal year shall be more than ¥30,100 million ($271,171 thousand) and no less than 75% of the balance of the corresponding period of the previous year, on a consolidated basis.
(2) Equity as of the year-end and the second quarter-end of each fiscal year shall be more than ¥22,800 million ($205,405 thousand) and no less than 75% of the balance of the corresponding period of the previous year, on a nonconsolidated basis.
(3) Ordinary income from Japanese GAAP shall not be a loss for two consecutive financial years after the fiscal year ended May 31, 2016, on a consolidated basis.
(4) Ordinary income from Japanese GAAP shall not be a loss for two consecutive financial years after the fiscal year ended May 31, 2016, on a nonconsolidated basis.

9. RETIREMENT BENEFITS

The Company and certain consolidated subsidiaries mainly have unfunded defined benefit plans and defined contribution plans for employees, directors and Audit and Supervisory Board members. Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Some consolidated subsidiaries of the Company adopt the simplified method regarding computing liability for retirement benefits and periodic benefit costs.
The liability for retirement benefits at May 31, 2016 and 2015, for directors and Audit and Supervisory Board members is ¥324 million ($2,919 thousand) and ¥287 million, respectively. Amounts payable to directors and Audit and Supervisory Board members upon retirement are left to the approval of the Board of Directors.

Defined Benefits

(1) The changes in defined benefit obligation for the years ended May 31, 2016 and 2015 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year	¥3,022	¥3,191	$27,225
Current service cost	111	120	1,000
Interest cost	21	22	189
Actuarial (gains) losses	19	(40)	171
Benefits paid	(160)	(271)	(1,441)
Balance at end of year	¥3,013	¥3,022	$27,144

(2) The schedule of the net defined benefit liability accounted for by the simplified method was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year	¥834	¥ 839	$7,514
Periodic benefit cost	151	160	1,360
Benefits paid	(88)	(171)	(793)
Others	(6)	6	(54)
Balance at end of year	¥891	¥ 834	$8,027

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unfunded defined benefit obligation	¥3,904	¥3,856	$35,171
Retirement allowances for directors and Audit and Supervisory Board Members	324	287	2,919
Net liability arising from defined benefit obligation	¥4,228	¥4,143	$38,090
	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Liability for retirement benefits	¥4,228	¥4,143	$38,090
Net liability arising from defined benefit obligation	¥4,228	¥4,143	$38,090

(4) The components of net periodic benefit costs for the years ended May 31, 2016 and 2015 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Service cost	¥111	¥120	$1,000
Interest cost	21	22	189
Recognized actuarial losses	40	41	360
Periodic benefit cost calculated by the simplified method	151	160	1,361
Net periodic benefit costs	¥323	¥343	$2,910

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of May 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Actuarial losses	¥21	¥81	$189
Total	¥21	¥81	$189

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of May 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unrecognized actuarial losses	¥283	¥304	$2,550
Total	¥283	¥304	$2,550

(7) Assumptions used for the years ended May 31, 2016 and 2015, were as follows:

	2016	2015
Discount rate	0.8%	0.8%

The expected compensation increase rates are based on the age-specific compensation increase index as of May 31, 2016 and 2015.

Defined Contribution

The amounts of required contributions to the defined contribution plans of the Company and consolidated subsidiaries for the years ended May 31, 2016 and 2015 were ¥161 million ($1,450 thousand) and ¥160 million, respectively.

10. 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 a 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.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to certain limitations and additional requirements.

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 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 the 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.

11. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 33.1% and 35.6% for the years ended May 31, 2016 and 2015, respectively.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities as of May 31, 2016 and 2015, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015 As Restated (Note 18)	2016
Deferred tax assets:			
Allowance for doubtful receivables and accounts	¥ 56	¥ 49	$ 505
Liabilities for retirement benefits	1,280	1,325	11,532
Tax loss carryforwards	1,153	1,159	10,387
Investment securities	84	89	756
Inventories	452	268	4,072
Other	647	568	5,829
Less valuation allowance	(1,702)	(809)	(15,333)
Total deferred tax assets	¥ 1,970	¥2,649	$ 17,748
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	¥1,000	¥1,613	$ 9,009
Land	397	420	3,576
Other	447	509	4,027
Total deferred tax liabilities	¥ 1,844	¥2,542	$ 16,612
Net deferred tax assets	¥ 623	¥1,115	$ 5,613
Net deferred tax liabilities	¥ 497	¥1,008	$ 4,477

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended May 31, 2016 and 2015, is as follows:

	2016	2015 As Restated (Note 18)
Normal effective statutory tax rate	33.1%	35.6%
Change in valuation allowance	42.2	2.0
Expenses not deductible for income tax purposes	2.1	0.6
Per capita levy	1.9	1.3
Difference of tax rates for foreign subsidiaries	(1.9)	(0.3)
Equity in gains of associated companies	(2.3)	(2.2)
Effect of corporate income tax rate reduction in Japan	2.3	3.1
Other - net	1.3	(1.1)
Actual effective tax rates	78.7%	39.0%

New tax reform laws enacted in 2016 in Japan changed the normal effective statutory tax rate for the fiscal year beginning on or after June 1, 2016, to approximately 30.8% and for the fiscal year beginning on or after June 1, 2018, to approximately 30.6%. The effect of these changes was to decrease deferred tax assets by ¥84 million ($757 thousand), deferred tax liabilities by ¥77 million ($694 thousand), deferred tax liabilities related to land revaluation excess by ¥209 million ($1,883 thousand), defined retirement benefit plan by ¥5 million ($45 thousand), deferred loss on derivatives under hedge accounting by ¥1 million ($9 thousand) and increase net unrealized gain on available-for-sale securities by ¥56 million ($505 thousand), land revaluation excess by ¥209 million ($1,883 thousand) in the consolidated balance sheet as of May 31, 2016, and to increase income taxes-deferred in the consolidated statement of income for the year then ended by ¥58 million ($523 thousand).

At May 31, 2016, certain subsidiaries have tax loss carryforwards aggregating approximately ¥3,429 million ($30,892 thousand), which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Years Ending May 31	Millions of Yen	Thousands of U.S. Dollars
2018		
2019	¥ 407	$ 3,667
2020	2	18
2021	5	45
2022 and thereafter	3,015	27,162
Total	¥3,429	$30,892

12. R&D COSTS

R&D costs charged to income were ¥348 million ($3,135 thousand) and ¥380 million for the years ended May 31, 2016 and 2015, respectively.

13. FINANCIAL INSTRUMENTS

(1) Group Policy for Financial Instruments

The Group uses financial instruments, mainly long-term debt, including bank loans, corporate bonds and lease obligations, 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 the Group's ongoing operations. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in Note 14.

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

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Receivables in foreign currencies are exposed to the risk of fluctuation in foreign currency exchange rates.

Marketable and investment securities, mainly the stocks of financial institutions, 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. Payables in foreign currencies are exposed to the risk of fluctuation in foreign currency exchange rates. Short-term bank loans are used to trade transactions. Long-term debt and obligations of finance leases are used to raise funds for capital investments.
A part of such payables is exposed to market risks from changes in variable interest rates; trade liabilities and loans are exposed to liquidity risk.
Derivatives mainly include foreign currency forward contracts and interest rate swaps, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables. Please see Note 14 for more details 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 Company manages and mitigates 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 sales department to identify the default risk of customers at an early stage. Also, subsidiaries of the Company manage credit risk based on the same guidelines.
The Company believes it has limited credit risk on derivative agreement transactions because it transacts with highly rated financial institutions.

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

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk with forecasted transactions is hedged principally by forward foreign currency contracts. Interest rate swaps are used to manage exposure to market risks from changes in interest rates of loan payables and bond payables.
Marketable and investment securities are managed by monitoring the market values and financial position of issuers on a regular basis.
Derivatives have been utilized in accordance with internal guidelines that regulate the authorization and credit limit.

Liquidity risk management

The Company manages liquidity risk through adequate financial planning by the Finance Department of the Company.

Complementary information for fair value 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. The techniques include changing some factors and the fair values may be changed by adopting different assumptions. In addition, the contract amounts of derivatives in Note 14 do not directly indicate their market risk.

(4) Fair Values of Financial Instruments

(a) Fair value of financial instruments

	Millions of Yen		
May 31, 2016	Carrying Amount	Fair Value	Net Unrealized Gains/Losses
Cash and cash equivalents	¥ 7,811	¥ 7,811	
Short-term investments	120	120	
Notes receivable - trade	8,562	8,562	
Accounts receivable - trade	14,207	14,207	
Marketable securities and investment securities	7,700	7,700	
Total	¥38,400	¥38,400	
Notes payable - trade	¥ 4,101	¥ 4,101	
Accounts payable - trade	14,109	14,109	
Short-term bank loans	9,933	9,933	
Current portion of long-term debt	3,800	3,800	
Long-term debt	4,794	4,771	¥23
Total	¥36,737	¥36,714	¥23
Derivatives	¥ (41)	¥ (41)	

	Millions of Yen		
May 31, 2015	Carrying Amount As Restated (Note 18)	Fair Value As Restated (Note 18)	Net Unrealized Gains/Losses
Cash and cash equivalents	¥ 9,543	¥ 9,543	
Short-term investments	120	120	
Notes receivable - trade	9,068	9,068	
Accounts receivable - trade	14,550	14,550	
Marketable securities and investment securities	9,288	9,288	
Total	¥42,569	¥42,569	
Notes payable - trade	¥ 4,964	¥ 4,964	
Accounts payable - trade	14,780	14,780	
Short-term bank loans	9,541	9,541	
Current portion of long-term debt	2,987	2,987	
Long-term debt	4,536	4,476	¥60
Total	¥36,808	¥36,748	¥60
Derivatives	¥ 22	¥ 22	

	Thousands of U.S. Dollars		
May 31, 2016	Carrying Amount	Fair Value	Net Unrealized Gains/Losses
Cash and cash equivalents	$ 70,369	$ 70,369	
Short-term investments	1,081	1,081	
Notes receivable - trade	77,135	77,135	
Accounts receivable - trade	127,991	127,991	
Marketable securities and investment securities	69,370	69,370	
Total	$345,946	$345,946	
Notes payable - trade	$ 36,946	$ 36,946	
Accounts payable - trade	127,108	127,108	
Short-term bank loans	89,486	89,486	
Current portion of long-term debt	34,234	34,234	
Long-term debt	43,189	42,982	$207
Total	$330,963	$330,756	$207
Derivatives	$ (369)	$ (369)	

Assets

Cash and cash equivalents and notes and accounts receivable - trade

The fair values of cash and cash equivalents and notes and accounts receivable - trade approximate their carrying amounts as these amounts are settled in a short period of time.

Marketable and investment securities

The fair values of marketable and investment securities are measured at the quoted market price at the stock exchange for equity instruments and at the quoted price obtained from financial institutions for certain debt instruments. Information on the fair value of the marketable and investment securities by classification is included in Note 5.

Liabilities

Notes and accounts payable - trade, short-term bank loans and current portion of long-term debt

The fair values of notes and accounts payable - trade, short-term bank loans and current portion of long-term debt approximate their carrying amounts as these amounts are settled in a short period of time.

Long-term debt

The fair values of long-term loans at fixed interest rates are determined by discounting the cash flows related to the loans at the Company's assumed corporate borrowing rates. For the part of loans that is subjected to interest rate swaps, qualifies for hedge accounting, and meets specific matching criteria, fair value is determined by discounting the cash flows related to the loans with the interest rate swaps at the Company's assumed corporate borrowing rates.

Derivatives

Information on the fair value of derivatives is included in Note 14.

(b) Carrying amounts of financial instruments whose fair value cannot be reliably determined are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unlisted equity securities	¥249	¥249	$2,243
Unlisted corporate bonds	20	20	180

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

	Millions of Yen	
May 31, 2016	Due in One Year or Less	Due after One Year through Five Years
Cash and cash equivalents	¥ 7,811	
Short-term investments	140	
Notes receivable - trade	8,562	
Accounts receivable - trade	14,207	
Total	¥30,720	

	Millions of Yen	
May 31, 2015	Due in One Year or Less As Restated (Note 18)	Due after One Year through Five Years
Cash and cash equivalents	¥ 9,543	
Short-term investments	120	
Notes receivable - trade	9,068	
Accounts receivable - trade	14,550	
Marketable securities and investment securities with contractual maturities:		
Corporate bonds		¥20
Total	¥33,281	¥20

	Thousands of U.S. Dollars	
May 31, 2015	Due in One Year or Less	Due after One Year through Five Years
Cash and cash equivalents	$ 70,369	
Short-term investments	1,261	
Notes receivable - trade	77,135	
Accounts receivable - trade	127,991	
Total	$276,756	

Please see Note 8 for annual maturities of long-term debt and obligations under finance leases.

14. DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into derivative financial instrument contracts, in the normal course of business, to reduce its exposure to fluctuations in interest rates and foreign exchange rates. The Group utilizes interest rate swaps to hedge interest exposure on long-term debt. The Group also enters into foreign exchange forward contracts to hedge market risk from changes in foreign exchange rates associated with assets and liabilities denominated in foreign currencies. The Group does not hold or issue derivatives for trading purposes.
Because the counterparties to these derivatives are limited to major financial institutions, the Group does not anticipate any losses arising from credit risk.
Derivatives have been utilized in accordance with internal guidelines that regulate the authorization and the credit limit. Each derivative transaction is reported to the Accounting Department of the Company.
Derivative transactions to which hedge accounting is applied as of May 31, 2016 and 2015, are as follows:

	Millions of Yen			
At May 31, 2016	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:				
Selling U.S. dollar	Accounts receivable - trade	¥ 186		*1
Selling Euro	Accounts receivable - trade	33		*1
Buying U.S. dollar	Accounts payable - trade	53		*1
Buying Euro	Accounts payable - trade	40		*1
Foreign currency forward contracts:				
Selling U.S. dollar	Accounts receivable - trade	¥ 3		¥ 3
Buying U.S. dollar	Accounts payable - trade	765		724
Buying Euro	Accounts payable - trade	10		10
Interest rate swaps:				
(fixed-rate payment, floating-rate receipt)	Long-term loans	¥2,814	¥1,174	*2

	Millions of Yen			
At May 31, 2015	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:				
Selling U.S. dollar	Accounts receivable - trade	¥ 412		*1
Selling Euro	Accounts receivable - trade	58		*1
Buying U.S. dollar	Accounts payable - trade	6		*1
Buying Euro	Accounts payable - trade	40		*1
Foreign currency forward contracts:				
Selling U.S. dollar	Accounts receivable - trade	¥ 26		¥ 25
Buying U.S. dollar	Accounts payable - trade	526		549
Interest rate swaps:				
(fixed-rate payment, floating-rate receipt)	Long-term loans	¥2,660	¥1,740	*2

At May 31, 2016	Hedged Item (Thousands of U.S. Dollars)	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:				
Selling U.S. dollar	Accounts receivable - trade	$ 1,676		*1
Selling Euro	Accounts receivable - trade	297		*1
Buying U.S. dollar	Accounts payable - trade	477		*1
Buying Euro	Accounts payable - trade	360		*1
Foreign currency forward contracts:				
Selling U.S. dollar	Accounts receivable - trade	$ 27		$ 27
Buying U.S. dollar	Accounts payable - trade	6,892		6,523
Buying Euro	Accounts payable - trade	90		90
Interest rate swaps:				
(fixed-rate payment, floating-rate receipt)	Long-term loans	$25,351	$10,577	*2

*1.Foreign currency forward contracts are accounted for as part of accounts receivable and accounts payable. Therefore, the fair value of the contracts are included in the fair value of underlying accounts receivable and accounts payable.

*2.The part of interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income. In addition, the fair value of such interest rate swaps in Note 13 is included with that of the hedged items (i.e., long-term debt).

The fair value of foreign currency forward contracts is measured using quoted prices obtained from financial institutions.

15. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended May 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015 As Restated (Note 18)	2016
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥(1,931)	¥2,192	$(17,397)
Reclassification adjustments to profit or loss	(3)	(3)	(27)
Amount before income tax effect	(1,934)	2,189	(17,424)
Income tax effect	613	(596)	5,523
Total unrealized gain (loss) on available-for-sale securities	(1,321)	1,593	(11,901)
Deferred gain (loss) on derivatives under hedge accounting:			
Gains (losses) arising during the year	(63)	41	(567)
Reclassification adjustments to profit or loss		(8)	
Amount before income tax effect	(63)	33	(567)
Income tax effect	20	(11)	180
Total deferred gain (loss) on derivatives under hedge accounting	(43)	22	(387)
Land revaluation surplus:			
Income tax effect	209	406	1,883
Foreign currency translation adjustments:			
Adjustments arising during the year	(676)	1,042	(6,090)
Remeasurements of defined benefit plans:			
Gains (losses) arising during the year	(19)	40	(171)
Reclassification adjustments to profit	40	41	360
Amount before income tax effect	21	81	189
Income tax effect	(12)	(39)	(108)
Total remeasurements of defined benefit plans	9	42	81
Share of other comprehensive income in associates:			
Gains arising during the year	52	2	468
Total other comprehensive income (loss)	¥(1,770)	¥3,107	$(15,946)

16. SUBSEQUENT EVENT

The following appropriation of retained earnings as of May 31, 2016, was approved at the Company's shareholders' meeting held on August 30, 2016:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥3.5 ($0.03) per share	¥264	$2,378

17. SEGMENT INFORMATION

In March 2008, the ASBJ revised ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and issued ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures." Under the standard and guidance, 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's reportable segments are components for which separate financial information is available and whose operating results are reviewed regularly by the Board of Directors in order to determine allocation of resources and assess segment performance. The Group is organized by business operating units and subsidiaries which are separated based on the products and services they provide. Each of these units and subsidiaries plan comprehensive strategies for business and perform business activities. Therefore, based on these business operating units and also taking account of the types of products and the similarities in markets, the reportable segments of the Group are divided into three segments: the interior fittings segment, the automotive textile and traffic facilities segment and the functional materials segment. The interior fittings segment includes manufacturing and sales of carpets, curtains, wallpapers and other flooring materials. The automotive textile and traffic facilities segment includes manufacturing and sales of interior materials for automobiles, trains, buses, ships, aircraft and other conveyances. The functional materials segment includes manufacturing and sales of electric carpets and related products, such as deodorizers and processing of silicon wafers for solar cells.

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

The accounting policies of the segments are substantially the same as those described in the significant accounting policies in Note 2. The profits of reportable segments correspond to operating income. The internal sales or transfers among segments are based on actual market prices.

(3) Information about Sales, Profit, Assets and Other Items by Reportable Segment

	Millions of Yen 2016							
	Reportable Segments							
	Interior Fittings	Automotive Textile and Traffic Facilities	Functional Materials	Total	Others	Total	Reconciliations	Consolidated
Sales:								
Sales to customers	¥36,471	¥55,926	¥4,972	¥97,369	¥161	¥97,530		¥97,530
Intersegment sales	534	7	13	554	266	820	¥ (820)	
Total	¥37,005	¥55,933	¥4,985	¥97,923	¥427	¥98,530	¥ (820)	¥97,530
Segment profit	¥ 983	¥ 2,471	¥ 136	¥ 3,590	¥105	¥ 3,695	¥(1,141)	¥ 2,554
Segment assets	28,770	34,346	3,510	66,626	584	67,210	19,668	86,878
Other:								
Depreciation and amortization	311	1,249	214	1,774	17	1,791	102	1,893
Investments in associated companies accounted for by the equity method		555		555		555		555
Increase in property, plant and equipment and intangible assets	198	634	79	911	21	932	100	1,032

	Millions of Yen 2015							
	Reportable Segments							
	Interior Fittings	Automotive Textile and Traffic Facilities As Restated (Note 18)	Functional Materials	Total As Restated (Note 18)	Others	Total As Restated (Note 18)	Reconciliations	Consolidated As Restated (Note 18)
Sales:								
Sales to customers	¥35,144	¥50,421	¥5,472	¥91,037	¥146	¥91,183		¥91,183
Intersegment sales	522	10	18	550	234	784	¥ (784)	
Total	¥35,666	¥50,431	¥5,490	¥91,587	¥380	¥91,967	¥ (784)	¥91,183
Segment profit	¥ 651	¥ 3,265	¥ 298	¥ 4,214	¥ 76	¥ 4,290	¥ (1,188)	¥ 3,102
Segment assets	29,282	34,225	4,142	67,649	544	68,193	21,933	90,126
Other:								
Depreciation and amortization	318	1,100	309	1,727	17	1,744	119	1,863
Investments in associated companies accounted for by the equity method		334		334		334		334
Increase in property, plant and equipment and intangible assets	138	1,400	128	1,666	20	1,686	53	1,739

	Thousands of U.S. Dollars 2016							
	Reportable Segments							
	Interior Fittings	Automotive Textile and Traffic Facilities	Functional Materials	Total	Others	Total	Reconciliations	Consolidated
Sales:								
Sales to customers	$328,568	$503,838	$44,793	$877,199	$1,450	$878,649		$878,649
Intersegment sales	4,810	63	117	4,990	2,397	7,387	$ (7,387)	
Total	$333,378	$503,901	$44,910	$882,189	$3,847	$886,036	$ (7,387)	$878,649
Segment profit	$ 8,856	$ 22,261	$ 1,225	$ 32,342	$ 946	$ 33,288	$ (10,279)	$ 23,009
Segment assets	259,189	309,423	31,622	600,234	5,261	605,495	177,190	782,685
Other:								
Depreciation and amortization	2,802	11,252	1,928	15,982	153	16,135	919	17,054
Investments in associated companies accounted for by the equity method		5,000		5,000		5,000		5,000
Increase in property, plant and equipment and intangible assets	1,784	5,711	712	8,207	189	8,396	901	9,297

Note 1.Reconciliations of segment profit of ¥1,141 million ($10,279 thousand) consist of elimination of intersegment transactions of ¥26 million ($234 thousand) and corporate expenses unallocated to the respective reportable segments of ¥1,167 million ($10,513 thousand). Corporate expenses unallocated to the respective reportable segments include the costs of the Administrative Department and the Development Department of the Company.

2.Reconciliations of segment assets of ¥19,668 million ($177,190 thousand) consist of elimination of intersegment transactions of ¥42 million ($378 thousand) and corporate assets unallocated to the respective reportable segments of ¥19,710 million ($177,568 thousand). Corporate assets unallocated to the respective reportable segments mainly consist of surplus funds (cash, deposits and securities), long-term investments (investment securities) and assets of the Administrative Department of the Company.

(4) Information about Geographical Areas

For the year ended May 31, 2016	Japan	North and Central America	Asia	Others	Total
	Millions of Yen				
	2016				
Sales to customers	¥66,074	¥18,711	¥12,399	¥346	¥97,530
Property, plant and equipment	20,962	3,983	1,341		26,286

For the year ended May 31, 2015	Japan	North and Central America As Restated (Note 18)	Asia As Restated (Note 18)	Others	Total As Restated (Note 18)
	Millions of Yen				
	2015				
Sales to customers	¥63,271	¥17,340	¥10,092	¥480	¥91,183
Property, plant and equipment	21,641	3,648	1,755		27,044

For the year ended May 31, 2016	Japan	North and Central America	Asia	Others	Total
	Thousands of U.S. Dollars				
	2016				
Sales to customers	$595,261	$168,568	$111,703	$3,117	$878,649
Property, plant and equipment	188,847	35,883	12,081		236,811

(5) Information about Impairment Losses of Fixed Assets by Reportable Segment

	Millions of Yen						
	2016						
	Reportable Segments						
For the year ended May 31, 2016	Interior Fittings	Automotive Textile and Traffic Facilities	Functional Materials	Total	Others	Eliminations/ Corporate	Total
	¥12	¥9	¥351	¥372			¥372

	Millions of Yen						
	2015						
	Reportable Segments						
For the year ended May 31, 2015	Interior Fittings	Automotive Textile and Traffic Facilities As Restated (Note 18)	Functional Materials	Total As Restated (Note 18)	Others	Eliminations/ Corporate	Total As Restated (Note 18)
	¥37	¥155		¥192		¥78	¥269

	Thousands of U.S. Dollars						
	2016						
	Reportable Segments						
For the year ended May 31, 2016	Interior Fittings	Automotive Textile and Traffic Facilities	Functional Materials	Total	Others	Eliminations/ Corporate	Total
	$108	$81	$3,162	$3,351			$3,351

(6) Information about Negative Goodwill by Reportable Segment

Disclosure for the year ended May 31, 2016 is omitted since the aggregate value is immaterial.

	Millions of Yen						
	2015						
	Reportable Segments						
For the year ended May 31, 2015	Interior Fittings	Automotive Textile and Traffic Facilities	Functional Materials	Total	Others	Eliminations/ Corporate	Total
Amortization of negative goodwill		¥44		¥44			¥44

18. RESTATEMENT

The Company's management identified certain inappropriate accounting treatments at Suminoe Textile of America Corporation ("STA"), a subsidiary in the United States of America, with respect to the previously reported operating results. Accordingly, the Company's management decided to correct and restate its consolidated financial statements for the period from the year ended May 31, 2012 through the year ended May 31, 2015, which were previously filed with the Financial Services Agency of Japan. The accompanying consolidated financial statements reflect such corrections and have been prepared based on such restatements.

Following is a summary of the corrections on the financial statements as of and for the year ended May 31, 2015:

	Millions of Yen		
	As Previously Reported	Adjustments	As Restated
Net sales	¥91,245	¥(62)	¥91,183
Operating income	3,188	(86)	3,102
Income before income taxes	3,693	(233)	3,460
Net income attributable to owners of the parent	1,921	(105)	1,816
Net assets	40,016	(811)	39,205

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Suminoe Textile Co., Ltd.:

We have audited the accompanying consolidated balance sheet of Suminoe Textile Co., Ltd. and its subsidiaries as of May 31, 2016, and the related consolidated statements of income, 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 Suminoe Textile Co., Ltd. and its subsidiaries as of May 31, 2016 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.

Emphasis of Matter

We draw attention to Note 18 to the consolidated financial statements which describe the restatements due to correction of certain accounting treatments with respect to the previously reported operating results. Our opinion is not modified in respect of this matter.

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

October 31, 2016

Member of
Deloitte Touche Tohmatsu Limited

Company Network

(as of December 20, 2016)

Offices

Head Office, Osaka Branch & Osaka Showroom
11-20, Minami-Semba 3-Chome,
Chuo-ku, Osaka 542-8504
Phone: +81-6-6251-6801
Fax: +81-6-6251-0862

Tokyo Branch & Tokyo Showroom
BR Gotanda-Building, 30-4,
Nishi-Gotanda 2-Chome,
Shinagawa-ku, Tokyo 141-0031
Phone: +81-3-5434-2860
Fax: +81-3-5434-6542

Sales Offices

Sapporo, Aomori, Sendai, Saitama, Chiba, Yokohama, Shizuoka, Kanazawa, Nagoya, Kyoto, Kobe, Okayama, Hiroshima, Fukuoka

Factories

Nara, Shiga, Kyoto, Osaka, Aichi, Ishikawa

R&D Center

11-20, Minami-Semba 3-Chome,
Chuo-ku, Osaka 542-8504
Phone: +81-6-6251-6839
Fax: +81-6-6251-6868

Technical Center

Kubota, Ando-cho, Ikoma-gun,
Nara 639-1064
Phone: +81-743-57-5441
Fax: +81-743-57-6410

Subsidiaries

Japan
SUMINOE Co., Ltd.
RUNON CO., LTD.
Suminoe Logistics Co., Ltd.
Suminoe Works Co., Ltd.
Sewing Hyogo Co., Ltd.
Suminoe Teijin Techno Co., Ltd.
Marunaka Souei Co., Ltd.
Suminoe Techno Co., Ltd.
Tango Textile Co., Ltd.
Teijin Tecloth Ltd.
Owari Seisen Co., Ltd.
Kansai Laboratory Co., Ltd.
Suminoe Nakacho Device Technology Corporation

Subsidiaries

USA
Suminoe Textile of America Corporation
Bondtex, Inc.

Mexico
Suminoe Textile de Mexico, S.A. de C.V.

China
SPM Automotive Textile Co., Ltd.
Suzhou Suminoe Koide Automotive Accessories Co., Ltd.
Suminoe Textile Shanghai Co., Ltd.
Suzhou Suminoe Textiles Co., Ltd.

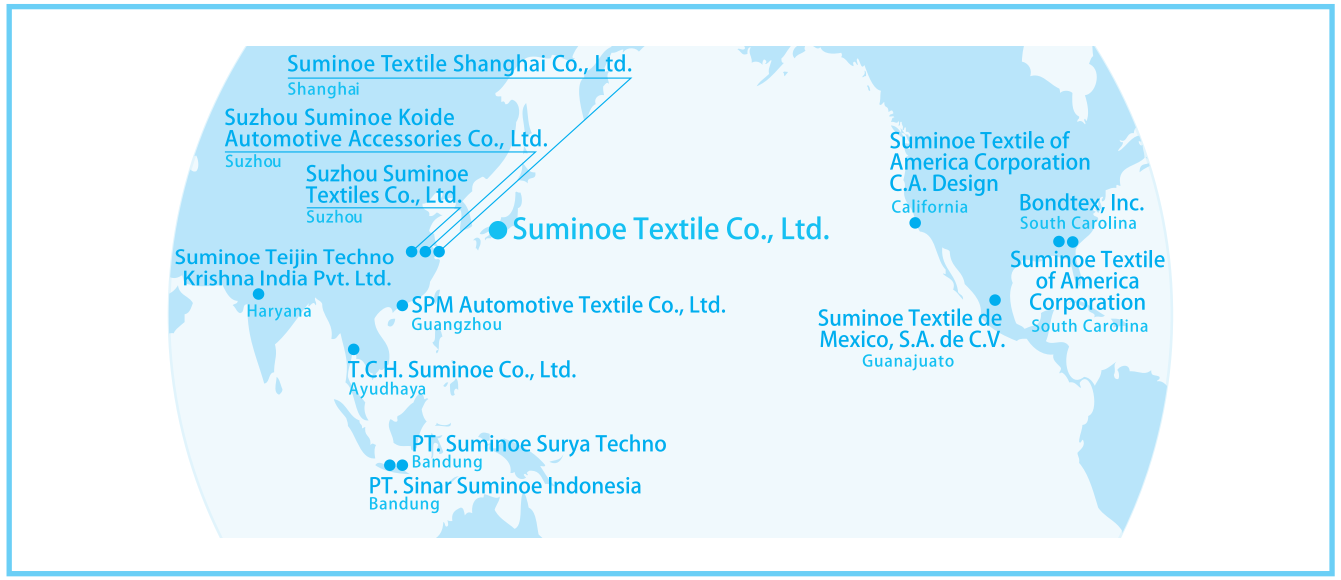
Thailand
T.C.H. Suminoe Co., Ltd.

Indonesia
PT. Suminoe Surya Techno
PT. Sinar Suminoe Indonesia

India
Suminoe Teijin Techno Krishna India Pvt. Ltd.

Associated Companies

Japan
Sumisho Airbag Systems Co., Ltd.
KST Co., Ltd.
Terra Science Co., Ltd.



Board of Directors and Corporate Auditors

(as of December 20, 2016)

Chairman and President

Ichizo Yoshikawa (Representative Director)

Senior Managing Directors

Yoshiaki Tanihara (Representative Director)
Hitoshi Iida (Representative Director)

Directors

Yoshiteru Mimura
Kunihiko Kotaki
Katsuyuki Sawai
Yutaka Masuyama
Haruo Shimizu

Corporate Auditors

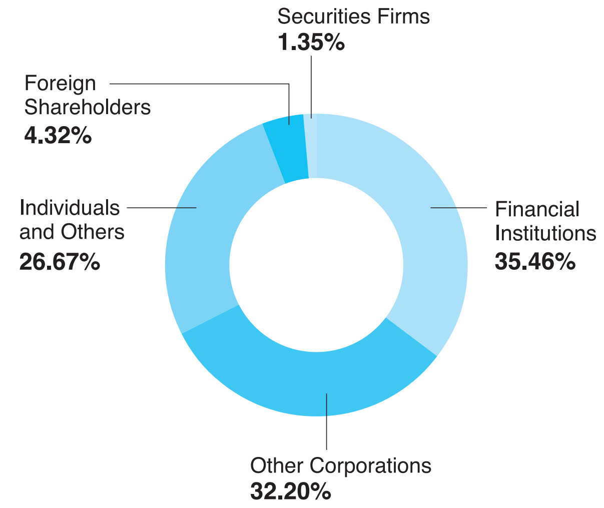
Makoto Tatsumi
Hidenao Yoichi
Yasufumi Yamashita

Investor Information

(as of October 15, 2016)

Founded:	1883
Incorporated:	December 25, 1913
	(Suminoe Textile Joint-Stock Company)
Change of Organization:	December 26, 1930
	(Suminoe Textile Co., Ltd.)
Capital:	¥9,554,173,950
Authorized Shares:	300,000,000
Issued Shares:	76,821,626
Shareholders:	5,461
Employees:	239 (Parent Company)
	2,786 (Consolidated Basis)

Composition of Shareholders :



Major Shareholders:

(as of October 15, 2016)

Name	Number of Shares (Thousands)	Percentage of Total Shares Outstanding
Takashimaya Company, Limited	9,249	12.26
Nippon Life Insurance Company	5,018	6.65
Marubeni Corporation	3,665	4.86
Mizuho Bank, Ltd.	2,345	3.11
The Nomura Trust and Banking Co., Ltd. (Trust account 2052197)	2,300	3.05
TOYOTA MOTOR CORPORATION	2,240	2.97
The Master Trust Bank of Japan Ltd. (as trustee for Retirement Benefit Trust of UNITIKA LTD.)	1,788	2.37
Suminoe Textile Kyoeikai	1,758	2.33
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,742	2.31
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	1,610	2.13