



Shinko Shoji Co.,Ltd.

ANNUAL REPORT

2017

History

The Company was incorporated in 1953 under its present corporate name by Mr. Toshihisa Kitai, as a trading company principally dealing in electric motors and transformers.

In 1954, the Company began to purchase electron tubes from NEC Corporation for resale to manufacturers of electronic goods. In 1957 the Company entered into an agreement with NEC Corporation under which the Company was appointed as a distributor of certain electronic components manufactured by NEC Corporation. The Company began to distribute NEC Corporation's diodes and transistors in 1958 and, in the late 1960s, its integrated circuits. This relationship has continued to develop and NEC Electronics Corporation (currently Renesas Electronics Corporation) is now the largest supplier to the Company. Distributorship agreements have also been entered into with other suppliers including, in 1963, with TDK Corporation and the Company now has distributorship agreements with several different manufacturers.

In 1961, the Company moved its head office to Meguro, Tokyo and, in the same year, its first sales office was opened in Hiroshima. In addition to its head office, the Company now has 9 sales offices in Japan. The Company established its first overseas subsidiary in 1977. The Company now has twelve trading subsidiaries overseas.

In August 1983, the Company's Shares were first listed on the Tokyo Stock Exchange, moving to the First Section in April 1990.

In 2007, the Company moved its head office to Osaki, Tokyo and the capital was increased to 9,501,935,779yen.

In February 2012, the Company established Novalux Europe S.A. in Spain.

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To Our Shareholders:

The Japanese economy during this consolidated accounting year has been gradually improved in the fields of corporate profit, employment and income situations due to the active economic and financial policy by the Japanese government and Bank of Japan although the personal spending has been in a low gear.

Looking at the world economy, the US economy has maintained firmly the recovery trend supported by the increase of personal spending and improvement of the labor market. China and the newly emerging countries facing with the slowdown of the economies, EU with Brexit, geopolitical risks and bad debt, and Korea suffering the political unrest have been put in the uncertain economic situation.

Under these economic conditions, our group (this company and consolidated subsidiaries) has enjoyed steady growth in the automotive electric components and industrial equipment in the domestic market while consumer and telecommunications equipment have suffered the slowdown affected by decrease of capital expenditure in China and the newly emerging countries. Although recovery of demands to entertainment devices after revision of the rules and regulations was expected, the actual performance was below the expectation. And payment of compensation equal to 300 million Yen (US\$ 2 million) was accounted as extraordinary loss upon settlement for infringement of US patents.

As a result of the above, the performances of our group in this consolidated accounting year were: consolidated turnover 112,458 million Yen (US\$ 1,002 million 3.6% decrease compared with the previous period); business profit 2,135 million Yen (US\$ 19 million 1.7% decrease compared with the previous period); current profit 2,139 million Yen (US\$ 19 million 1.5% decrease compared with the previous period); and net profit in this period that belongs to the shareholders of the parent company 1,271 million Yen (US\$ 11 million 28.1% decrease compared with the previous period).

Performances per segment are as follows:

Electronic Components Business

The turnover in the electronic component business was 96,592 million Yen (US\$ 860 million 4.0% decrease compared with the previous period).

(i) **Integrated Circuits**

Both of the domestic and overseas turnovers of the consumer and telecommunications equipment were slowdown.

As a result of the above, the turnover related to the integrated circuits was 47,781 million Yen (US\$ 426 million 5.9% decrease compared with the previous period).

(ii) **Semiconductor Chips**

The domestic turnover related to the automotive electric components has been kept steadily while the turnover of the entertainment equipment has decreased. Overseas turnover of the OA equipment has decreased.

As a result of the above, the turnover of the semiconductor chips was 14,863 million Yen (US\$131 million 4.2% decrease compared with the previous period).

(iii) **Circuit Components**

The domestic turnover of the consumer equipment has decreased. Overseas turnover of the automotive electric components has been kept steadily.

As a result of the above, the turnover of the circuit components was 14,729 million Yen (US\$ 131 million 6.4% decrease compared with the previous period).

(iv) **LCD, etc.**

The overseas turnover of the industrial equipment has decreased.

As a result of the above, the turnover related to the LCD etc. was 2,717 million Yen (US\$ 24 million 6.8% decrease compared with the previous period).

(v) **Other Electronic Parts**

The domestic and overseas turnovers of the industrial equipment have been kept steadily.

As a result of the above, the turnover of other electronic parts was 16,499 million Yen (US\$147 million 5.2% increase compared with the previous period).

Assembly Business

Assembly Products

The domestic turnover of the entertainment equipment has remained unchanged in comparison with the previous period. The overseas turnover of the industrial equipment has decreased to the greater extent.

As a result of the above, the turnover of the assembly products was 11,638 million Yen (US\$ 103 million 7.9% decrease compared with the previous period).

Other Businesses

Entrusted Software Development for Electronic Devices and Microcomputers

New business of import of electronic smoking devices has been launched in Japan.

As a result of the above, the turnover of entrusted software development for the electronic devices and microcomputers was 4,226 million Yen (US\$ 37 million 26.3% increase compared with the previous period).

The electronics industries in which our group (this company and consolidated subsidiaries) engages are pulled by the economic growth of the newly emerging countries mainly composed of China and other Asian countries. Seen from the global view of point, the growth will continue in the middle and long term.

In Japan various investments for Tokyo Olympic are expected to increase, whereby the economic growth is anticipated. However, we might face with a sever phase since unstable world situations, slowdown of the growth in Chinese and Asian markets might be foreseen in addition to the escalation of the international competition.

Under these environments, our group is determined to tackle with the restructuring of the business strategy for which our strength as the group is vitalized. In addition to this, we are determined to fulfill and enhance the corporate governance with higher transparency, to strength the risk management and to aim further growth.



Tatsuya Ogawa
President

Note:

U.S.dollar amounts contained in the above statements are translations of the corresponding Japanese yen amounts calculated at the exchange rate of US\$1=¥112.19, which was the mean of the quotations by a leading commercial bank in Tokyo for buying and selling dollars for yen on the spot market by telegraphic transfer on 31st March, 2017.

Main Line of Business

Renesas Electronics Corporation

Microcontroller (MCU)
Microprocessor (MPU)
Smart Analog
Power MOSFET
IGBT
Intelligent Power Device
Thyristors & Triacs
Transistor
Diode
Linear IC
Logic IC
Power Management IC
Analog IC for Automotiv
Photocoupler
Memory
ASIC
USB ASSP
LSI for Factory Automation
LSI for Automotive

TDK Corporation

Capacitors
Inductors
EMC Components
Ferrites and Accessories
Magnets
Flash Storages
FA Systems
Power Supplies

Xilinx, Inc

Complex programmable logic device
Field programmable gate array
Field programmable gate array (All Programmable Soc)

Seiko Instruments Inc.

Quartz Crystal
Micro Battery
Rare Earth Magnet (DIANET)

SII Semiconductor Corporation

Automotive Ics
Power Management Ics
Memory
Sensors

Kyocera Corporation

Ceramic chip capacitor
Transient Voltage Suppressors
Power Devices
FPC/FFC connectors
Crystal Oscillators
Printed Wiring Boards

Kyocera Display Corporation

Industrial TFTs - LCD module

Touch Screen

TOKIN Corporation

Capacitor
EMI Countermeasure Parts
Sensors

EM Devices Corporation

Miniture Signal Relays
Miniture Power Relays

KEC Corporation

Transistors
Diode
MOSFET
IGBT

Voltage Regulator

Fujikura Ltd / DDK Ltd.

Rectangular connector
Coaxial connector
FPC/FFC connector

Molex Japan Co., Ltd.

PWB connector
Peripheral connector
FFC,FPC connector

NEC Corporation

Personal computer's peripherals
Fiber optic devices
Industrial systems
OA equipments

NEC SCHOOT Components Corporation

Thermal cutoffs

Nisuco Electronics corporation

Film capacitor

Tianma Micro-electronics Co., Ltd ,

TFT-LCD module

Nippon Seiki Co., Ltd

Passive LCD

Gunze Limited

Touch panel
Optical Filems

Nidec Servo Corporation

DC Servomotor
AC Servomotor
Stepping motor
Cooling fan

Iwaki Musen kenkyusho Co., Ltd.

Cement Case Resistors

Remarks : We have distribution agreements with these manufacturers for domestic sales.

Please contact our International Marketing Department or overseas Subsidiaries and affiliate for sales when you have any issue outside Japan.

Consolidated Balance Sheets

As of 31st March, 2016 and 2017

	As of 31st March,		
	2016	2017	2017
	(Millions of yen)		(Thousands of U.S.dollars) (Note 1)
ASSETS			
Current assets :			
Cash and deposits	¥25,784	¥25,361	\$226,054
Notes and accounts receivable-trade	22,885	25,727	229,316
Merchandise inventories	13,333	13,244	118,049
Raw materials	436	572	5,098
Work in process	2	5	44
Deferred tax assets	214	122	1,087
Accounts receivable-other	9,136	8,416	75,015
Short-term investment securities	100	0	0
Other current assets	323	268	2,388
Less : Allowance for doubtful accounts	(6)	(71)	(632)
Total current assets	<u>72,207</u>	<u>73,644</u>	<u>656,419</u>
Fixed Assets :			
Property and equipment, at cost :			
Land	332	332	2,959
Buildings and structures	957	978	8,717
Machinery, equipment and other	1,363	1,343	11,970
Less : Accumulated depreciation	(1,633)	(1,607)	(14,323)
Total property and equipment	<u>1,019</u>	<u>1,046</u>	<u>9,323</u>
Intangible assets :			
Software	159	198	1,764
Other intangible assets	114	23	205
Total Intangible assets	<u>273</u>	<u>221</u>	<u>1,969</u>
Investments and other assets :			
Investment securities (Note 4)	2,335	2,745	24,467
Investments in unconsolidated subsidiaries and an affiliate	105	105	935
Deferred tax assets	34	38	338
Other assets	1,995	1,890	16,846
Less : Allowance for doubtful accounts	(3)	(3)	(26)
Total investments and other assets	<u>4,466</u>	<u>4,775</u>	<u>42,560</u>
Total fixed assets	<u>5,758</u>	<u>6,042</u>	<u>53,852</u>
Total	<u>¥77,965</u>	<u>¥79,686</u>	<u>\$710,271</u>

LIABILITIES AND NET ASSETS

	2016	2017	2017
	(Millions of yen)		(Thousands of U.S.dollars) (Note 1)
Current liabilities :			
Notes and accounts payable-trade	¥14,016	¥15,318	136,536
Electronically recorded obligations	-	1,222	\$10,892
Short-term bank loans (Note 5)	1,566	1,530	13,637
Current portion of short-term bank loans	2,500	600	5,348
Income tax payable	515	255	2,273
Allowance for bonuses	-	407	3,627
Allowance for bonuses to directors	45	39	347
Other current liabilities	1,268	805	7,175
Total current liabilities	19,910	20,176	179,835
Long-term liabilities :			
Long-term bank loans, less current portion (Note 5)	600	2,500	22,283
Deferred tax liabilities on revaluation of land	5	5	44
Deferred tax liabilities	434	224	1,996
Provision for board benefit trust	22	38	339
Net defined benefit liability (Note 6)	1,068	1,039	9,261
Other long-term liabilities	180	189	1,684
Total long-term liabilities	2,309	3,995	35,607
Contingent liabilities (Note 9) :			
Net assets (Note 7) :			
Common stock:			
Authorized-39,700,000 shares			
Issued-24,855,283 shares in 2016 and 2017	9,502	9,502	84,695
Capital surplus	9,733	9,733	86,754
Retained earnings	36,906	37,252	332,043
Treasury stock, at cost	(2,207)	(2,862)	(25,510)
Accumulated other comprehensive income:			
Unrealized gain/(loss) on securities	474	685	6,106
Foreign currency translation adjustment	933	758	6,756
Revaluation reserve for land (Note 11)	(50)	(50)	(445)
Net defined benefit liability	(44)	(29)	(258)
Total	55,247	54,989	490,141
Non-controlling interests	499	526	4,688
Total net assets	55,746	55,515	494,829
Total	¥77,965	¥79,686	\$710,271

Consolidated Statements of Income

As of 31st March, 2016 and 2017

	Year ended 31st March,		
	2016	2017	2017
	(Millions of yen)		(Thousands of U.S.dollars) (Note 1)
Net sales	¥116,617	¥112,458	\$1,002,388
Cost of sales	106,949	102,710	915,500
Gross Profit	9,668	9,748	86,888
Selling, general and administrative expenses	7,496	7,613	67,858
Operating income	2,172	2,135	19,030
Other income (expenses):			
Interest and dividend income	112	147	1,310
Interest expense	(57)	(50)	(446)
Exchange loss	(61)	(115)	(1,025)
Gain on sales of Property and equipment	661	-	-
Loss on sales and disposal of property and equipment	(3)	(12)	(106)
Appraisal of investment securities	(129)	-	-
Settlement expenses	-	(300)	(2,674)
Other, net	(2)	30	266
Net other income (expenses)	521	(300)	(2,675)
Income before income taxes and minority interests	2,693	1,835	16,355
Income taxes (Note 8):			
Current year	1,084	691	6,159
Deferred	(161)	(153)	(1,364)
Total income taxes	923	538	4,795
Profit (loss)	1,770	1,297	11,560
Profit (loss) attributable to non-controlling interests	2	26	231
Profit (loss) attributable to owners of parent	¥1,768	¥1,271	\$11,329
	(Yen)		(U.S.dollars) (Note 1)
Per share data :			
Net income	¥75.53	¥55.83	\$0.50
Cash dividends applicable to the year	40.00	40.00	0.36

Consolidated Comprehensive Statements of Income

Year ended 31st March, 2016 and 2017

	Year ended 31st March,		
	2016	2017	2017
	(Millions of yen)		(Thousands of U.S.dollars) (Note 1)
Profit (loss)	¥1,770	¥1,297	\$11,561
Other comprehensive income			
Net unrealized gain (loss) on available-for-sale securities	(434)	212	1,889
Unrealized gain /(loss) on deferred hedge	0	-	-
Revaluation reserve for land	0	-	-
Foreign currency translation adjustment	(909)	(175)	(1,559)
Remeasurements of defined benefit plans	(8)	14	124
Total other comprehensive income	(1,351)	51	454
Comprehensive income	¥419	¥1,348	\$12,015
(Details)			
Comprehensive income relating to shareholders of parental company	¥421	¥1,322	\$11,784
Comprehensive income relating to minority shareholders	¥-2	¥26	\$231

Consolidated Statements of Changes in Net Assets

Year ended 31st March, 2016 and 2017

	Thousands			Millions of yen									Total
	Number of shares of Common stock	Common stock	Capital Surplus	Retained Earnings	Treasury stock	Unrealized gain/(loss) on securities	Deferred hedge gain or loss	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit	Non-controlling interests		
Balance, March 31, 2015	24,855	¥9,502	¥9,600	¥35,939	(¥959)	¥907	¥0	¥230	¥1,840	(¥36)	¥502	¥57,525	
Cumulative effects of changes in accounting policies												¥0	
Restated balance	24,855	¥9,502	¥9,600	¥35,939	(¥959)	¥907	¥0	¥230	¥1,840	(¥36)	¥502	¥57,525	
Gain on disposal of treasury stock												-	
Profit (loss) attributable to owners of parent				1,769								1,769	
Increase in retained earnings from newly consolidated subsidiary				(9)								(9)	
Reversal of revaluation reserve for land				280								280	
Cash dividends, ¥40 per share				(1,073)								(1,073)	
Unrealized gain/(loss) on securities						(433)						(433)	
Deferred hedge gain/(loss)							(0)					(0)	
Revaluation reserve for land								(280)				(280)	
Net Increase/(decrease) in foreign currency translation adjustment									(907)			(907)	
Increase/(decrease) in treasury stock			133		(1,248)							(1,115)	
Other net increase/(decrease)										(8)	(3)	(11)	
Balance, March 31, 2016	24,855	¥9,502	¥9,733	¥36,906	(¥2,207)	¥474	¥0	(¥50)	¥933	(¥44)	¥499	¥55,746	
Gain on disposal of treasury stock					2							2	
Profit (loss) attributable to owners of parent				1,272								1,272	
Increase in retained earnings from newly consolidated subsidiary												-	
Reversal of revaluation reserve for land												-	
Cash dividends, ¥40 per share				(926)								(926)	
Unrealized gain/(loss) on securities												-	
Deferred hedge gain/(loss)												-	
Revaluation reserve for land												-	
Net Increase/(decrease) in foreign currency translation adjustment												-	
Increase/(decrease) in treasury stock					(657)							(657)	
Other net increase/(decrease)						211		(175)	15	27		78	
Balance, March 31, 2017	24,855	¥9,502	¥9,733	¥37,252	(¥2,862)	¥685	-	(¥50)	¥758	(¥29)	¥526	¥55,515	

	Thousands			Millions of U.S. dollars									Total
	Number of shares of Common stock	Common stock	Capital Surplus	Retained Earnings	Treasury stock	Unrealized gain/(loss) on securities	Deferred hedge gains or losses	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit	Non-controlling interests		
Balance, March 31, 2016	24,855	\$84,695	\$86,754	\$328,960	(\$19,672)	\$4,225	\$0	(\$445)	\$8,316	(\$392)	\$4,448	\$496,889	
Gain on disposal of treasury stock					18							18	
Profit (loss) attributable to owners of parent				11,329								11,329	
Increase in retained earnings from newly consolidated subsidiary												-	
Reversal of revaluation reserve for land												-	
Cash dividends, ¥40 per share				(8,256)								(8,256)	
Unrealized gain/(loss) on securities												-	
Deferred hedge gain/(loss)												-	
Revaluation reserve for land												-	
Net Increase/(decrease) in foreign currency translation adjustment												-	
Increase/(decrease) in treasury stock					(5,856)							(5,856)	
Other net increase/(decrease)						1,881		(1,560)	134	240		695	
Balance, March 31, 2017	24,855	\$84,695	\$86,754	\$332,033	(\$25,510)	\$6,106	-	(\$445)	\$6,756	(\$258)	\$4,688	\$494,819	

Consolidated Statements of Cash Flows

Year ended 31st March, 2016 and 2017

	As of 31st March,		
	2016	2017	2017
	(Millions of yen)		(Thousands of U.S.dollars) (Note 1)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes	¥2,693	¥1,835	\$16,355
Depreciation	214	202	1,800
Increase/(Decrease) in allowance for doubtful accounts	0	65	579
Increase/(Decrease) in allowance for bonuses to directors	(12)	(6)	(53)
Increase/(Decrease) in net defined benefit liability	41	(28)	(249)
Increase/(Decrease) in provision for board benefit trust	22	17	151
(Gain)/Loss on disposals and sales of property and equipment, net	(659)	12	106
(Gain)/Loss on sales of investment securities, net	–	(24)	(213)
Appraisal of investment securities	129	–	–
Interest and dividends received	(112)	(147)	(1,310)
Interest expenses	56	50	445
Loss on settlement expenses	–	300	2,674
(Increase)/Decrease in notes and accounts receivable–trade	4,905	(3,015)	(26,874)
(Increase)/Decrease in accounts receivable–other	(1,191)	754	6,721
(Increase)/Decrease in merchandise inventories	710	(162)	(1,443)
Increase/(Decrease) in notes and accounts payable–trade	(4,742)	2,661	23,718
Other, net	488	53	472
	2,542	2,567	22,879
Cash and cash equivalents received on interest and dividends	111	140	1,247
Cash and cash equivalents paid on interest expenses	(56)	(55)	(490)
Cash and cash equivalents paid on income taxes	(1,142)	(999)	(8,904)
Loss on settlement expenses	–	(300)	(2,674)
Net cash provided by operating activities	1,455	1,353	12,058
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payment into time deposits and proceeds from withdrawal of time deposits, net	(225)	(1,121)	(9,992)
(Purchase)/Sales of investment securities, net	(10)	27	240
Proceeds from redemption of investment securities	100	100	891
(Purchase)/Sales of property and equipment, net	1,094	(181)	(1,613)
Increase in intangible assets	(139)	(12)	(106)
Other, net	71	(5)	(44)
Net cash (used in) investing activities	891	(1,192)	(10,624)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase/(Decrease) in short-term bank loans, net	11	–	–
Cash dividends paid	(1,074)	(926)	(8,254)
Purchase of treasury shares	(1,115)	(657)	(5,856)
Other, net	(2)	(2)	(17)
Net cash (used in) financing activities	(2,180)	(1,585)	(14,127)
Translation Loss on Cash and Cash Equivalents	(522)	(128)	(1,141)
Net Increase/(Decrease) in Cash and Cash Equivalents	(356)	(1,552)	(13,834)
Cash and Cash Equivalents at Beginning of Year	25,144	24,762	220,714
Increase in cash and cash equivalents due to new consolidated subsidiary	(26)	–	–
Cash and Cash Equivalents at End of Year (Note 3)	¥24,762	¥23,210	\$206,880

Notes to the Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from accounts and records maintained in Japanese yen by Shinko Shoji Co., Ltd. (the "Company") and its subsidiaries (together, hereinafter referred to as the "Companies") in conformity with accounting principles and practices generally accepted in Japan (hereinafter referred to as the "GAAP of Japan"), which are different in certain respects as to application and disclosure requirements of International Accounting Standards. Also, the accompanying consolidated financial statements have been prepared from the consolidated financial statements filed with the Ministry of Finance of Japan as required by the Financial Instruments and Exchange Laws of Japan. Certain reclassifications of account balances have been made so as to present the financial statements in a form that are more familiar to readers outside Japan.

The accounts and records of the Companies are maintained in Japanese yen. The accompanying consolidated financial statements have been presented in Japanese yen and have also been presented in US dollars by translating all Japanese yen amounts using the rate of ¥112.19 to US\$1. The presentation of such dollar amounts is solely for the convenience of the readers and is not intended to imply that yen amounts have been or could be converted, realized or settled in dollars at that or at any other rate.

Certain reclassifications have been made in the 2016 consolidated financial statements to conform to the classifications used in 2017.

2. Summary of Significant Accounting Policies

(a) Principle of consolidation

The consolidated financial statements as of March 31, 2016 include the accounts of the Company and its twelve significant subsidiaries, and March 31, 2017 include the accounts of the Company and its twelve significant subsidiaries. (together the "Group").

For the purposes of preparing the consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Companies have been eliminated.

The accounts of other subsidiaries were not consolidated, since their aggregate sales, total assets, net income and retained earnings have little effect on the total consolidated results of operations and assets. Investments in unconsolidated subsidiaries and an affiliate are carried at cost due to their immateriality.

(b) Cash and cash equivalents

For purposes of the consolidated statements of cash flows, the Companies consider all highly liquid debt instruments with maturities of three months or less to be cash equivalents.

(c) Investment securities

The GAAP of Japan have required the classification of investment securities(except for "unconsolidated subsidiaries and affiliates")of the Companies into three categories as follows:

- I)Debt securities that are expected to be held-to-maturity: carried at accumulated cost using the straight-line method
- II)Other securities, whose fair values are readily determinable: carried at fair value with unrealized gain or loss included in Equity as "Unrealized gain/(loss) on securities", net of applicable income taxes
- III)Other securities, whose fair values are not readily determinable: carried at cost using the moving-average method

With respect to investments in unconsolidated subsidiaries and affiliates, the Companies are carrying their amounts at cost, determined by the moving-average method.

(d) Merchandise inventories

Mainly the cost method using the moving average method(the carrying value on the balance sheet is written down to reflect the effect of lower profit margins).

(e) Property and equipment

Property and equipment are stated at cost. Depreciation is computed primarily by the declining –balance method, as prescribed by Japanese income tax laws, using estimated useful lives of assets principally as follows:

Buildings and structures	8 to 50 years
Machinery and equipment	2 to 15 years

(f) Intangible assets

Intangible assets including software are amortized by the straight-line method over the estimated useful lives of assets principally as follows:

software	5 years
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(g) Foreign currency translation

Foreign currency deposits and foreign currency receivables and payables are translated into Japanese yen at the rates prevailing at the balance sheet date, except for those subject to forward contracts, which are translated at the contracted rates. All asset, liability, income and expense of foreign subsidiaries are translated into Japanese yen at the rates prevailing at the balance sheet date, and the resulting translation adjustments are charged to Net assets as “Foreign currency translation adjustment”.

(h) Income taxes

Deferred tax assets and liabilities arising from temporary differences between financial and tax reporting are measured using the effective statutory tax rates and laws which will be in effect when the differences are expected to reverse. For the purpose of preparing consolidated financial statements, deferred tax assets and liabilities also arose from the elimination of unrealized profits among the Companies and the adjustment of allowance for doubtful accounts caused by the offsetting of inter-company receivables and payables.

(i) Appropriations of retained earnings

Appropriations of retained earnings of the Company at each year-end are reflected in the consolidated financial statements for the following year upon shareholders’ approval (See Note 10).

(j) Net income and cash dividends per share

The computations of net income per share are based on the weighted-average number of Shares outstanding during each year. Cash dividends per share are based on the cash dividends applicable to the respective years, including dividends to be paid after the end of the year.

3. Cash and cash equivalents

At 31st March, 2016 and 2017, Cash and cash equivalents consisted of the following:

	2016	2017	2017
	(Millions of yen)		(Thousands of U.S.dollars) (Note 1)
Cash and deposits	¥25,784	¥25,361	\$226,054
Time deposits due over three months	(1,013)	(2,132)	(19,000)
Separate deposit (Board benefit trust)	(8)	(19)	(174)
Cash and cash equivalents	<u>¥24,763</u>	<u>¥23,210</u>	<u>\$206,880</u>

4. Securities

Information that required to be disclosed in the Notes of the consolidated financial statements by the regulations and rules on disclosures under the Financial Instruments and Exchange Laws of Japan, consist of the following:

(a) Held-to-maturity debt securities as at 31st March, 2017 were as follows:

	(Millions of yen)			(Thousands of U.S. dollars)		
	Book Value	Fair value	Difference	Book Value	Fair value	Difference
Securities whose fair value exceed their book value on the consolidated balance sheets						
Bonds	-	-	-	-	-	-
Other	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-
Securities whose fair value do not exceed their book value on the consolidated balance sheets						
Bonds	-	-	-	-	-	-
Other	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-
Total	-	-	-	-	-	-

(b) Other securities as at 31st March, 2017 were as follows:

	(Millions of yen)			(Thousands of U.S. dollars)		
	Book Value	Acquisition Cost	Difference	Book Value	Acquisition Cost	Difference
Securities whose book value on the consolidated balance sheets exceed their acquisition cost						
Equity securities	2,453	1,458	994	21,864	12,995	8,859
Sub-total	2,453	1,458	994	21,864	12,995	8,859
Securities whose book value on the consolidated balance sheets do not exceed their acquisition cost						
Equity securities	166	196	(30)	1,488	1,747	(267)
Sub-total	166	196	(30)	1,488	1,747	(267)
Total	¥2,619	¥1,654	¥964	\$23,352	\$14,742	\$8,592

(Note1) Unlisted stocks (¥20 million or US\$178 thousands) in consolidated balance sheet for the year ended 31st March, 2017) which do not have market prices are not included since the estimation of fair value is deemed to be extremely difficult.

5. Short-Term and Long-Term Bank Loans

The weighted-average interest rates of short-term bank loans as at the year ended 31st March, 2017 was approximately 1.91 percent.

At 31st March, 2016 and 2017, long-term bank loans consisted of the following:

	<u>2016</u>	<u>2017</u>	<u>2017</u>
	(Millions of yen)		(Thousands of U.S.dollars)
Long-term banks loans	<u>¥3,100</u>	<u>¥3,100</u>	<u>\$27,632</u>
Less:current portion	<u>(2,500)</u>	<u>(600)</u>	<u>(5,349)</u>
Total	<u>¥3,100</u>	<u>¥2,500</u>	<u>\$22,283</u>

The aggregate annual maturities of long-term bank loans as at 31st March, 2017 were as follows:

	(Millions of yen)	(Thousands of U.S.dollars)
2018	<u>¥600</u>	<u>\$5,349</u>
2021	<u>¥2,500</u>	<u>\$22,283</u>
Total	<u>¥3,100</u>	<u>\$27,632</u>

6. Retirement Benefits

Employees of the Company and a domestic consolidated subsidiary are usually entitled to lump-sum employee retirement benefits determined by reference to their current basic rate of pay, length of service and conditions under which the termination occurs.

“Net defined benefit liability” recognized in the consolidated balance sheet as at 31st March 2017 were as follows:

Defined benefit plans

	<u>2017</u>	<u>2017</u>
	(Millions of yen)	(Thousands of U.S.dollars)
Projected benefit obligation at beginning and end of year	¥915	\$8,155
Projected benefit obligation at beginning of year		
Service cost	34	303
Interest cost	3	26
Actuarial (gain) loss	(3)	(26)
Benefit paid	(60)	(534)
Projected benefit obligation at end of year	¥889	\$7,924

	As of 31st March,	
	<u>2017</u>	<u>2017</u>
	(Millions of yen)	(Thousands of U.S.dollars)
Projected benefit obligation at beginning and end of year	¥153	\$1,363
of the companies to which the simplified method is applied		
Projected benefit obligation at beginning of year		
Retirement benefit cost	19	169
Benefit paid	(22)	(196)
Projected benefit obligation at end of year	¥150	\$1,336

	As of 31st March,	
	<u>2017</u>	<u>2017</u>
	(Millions of yen)	(Thousands of U.S.dollars)
Reconciliation of projected benefit and plan assets, and defined benefit liability		
and net defined benefit asset in the consolidated balance sheet		
Funded retirement benefit obligations	—	—
Plan assets	—	—
Subtotal	—	—
Unfunded retirement benefit obligations	1,039	9,261
Net liability (asset) for retirement benefits in the consolidated balance sheet	¥1,039	\$9,261

	As of 31st March,	
	2017	2017
	(Millions of yen)	(Thousands of U.S.dollars)
Retirement benefit expenses		
Service cost	¥34	\$303
Interest cost	3	26
Expected return on plan assets	—	—
Amortization of actuarial (gain) loss	18	160
Amortization of priorservice costs	—	—
Total retirement benefit costs based on the simplified method	19	169
Other	15	133
Total retirement benefit cost for the year ended 31st,march, 2016	¥89	\$791

	As of 31st March,	
	2017	2017
	(Millions of yen)	(Thousands of U.S.dollars)
Remeasurements of defined benefit plans (before deducting effect)		
Unrecognized past service costs	—	—
Unrecognized actuarial (gain) loss	42	374
Total	¥42	\$374

Basis of actuarial assumption

Basis of actuarial assumption at the end of year

Discount rate ----- 0.468%

Defined contribution pension plans

The amount to be paid by our Group (our Company and consolidated subsidiaries) to the defined contribution plans was 172 million Yen (US\$ 1,533 thousands).

7. Net assets

Under the Japanese Corporate Law, at least 50% of the issue price of new shares is required to be designated as common stock. The portion that is to be designated as common stock is determined by resolution of the Board of Directors proceeds in excess of the amounts designated as common stock are credited to additional paid-in capital.

The law provides that an amount equal to 10% of dividends shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid-in capital equals 25% of common stock.

The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distributions or certain other purposes by the resolution of shareholders' meeting. Legal reserve is included in retained earnings in Consolidated Balance Sheets. The legal reserve as at 31st March 2017 is 890 million Yen (US\$ 7,932 thousands).

8. Income taxes

The Companies is subject to corporate (national), inhabitants and enterprise (local) taxes based upon taxable income. The aggregate normal effective tax rate on income taxes was 33.1% in 2016 and 30.8% in 2017. The effective tax rate reflected in the accompanying consolidated statements of income and retained earnings for the year ended 31st March, 2016 and 2017 differs from the statutory tax rate primarily due to such items as permanently nondeductible expenses and temporary differences in recognizing certain income and expense items for financial and tax reporting purposes.

Deferred tax assets and liabilities of the Companies as of 31st March, 2016 and 2017 primarily consisted of the following:

	As of 31st March,		
	2016	2017	2017
	(Millions of yen)		(Thousands of)
Deferred tax assets:			
Accrued enterprise tax	¥37	¥23	\$205
Accrued business office tax	3	2	17
Accrued bonuses	116	-	-
Allowance for bonuses	-	126	1,123
Allowance for doubtful accounts	2	22	196
Net defined benefit liability	332	320	2,852
Unrealized loss on securities	26	8	71
Others	163	225	2,005
subtotal	679	726	6,469
Less valuation allowance	(104)	(135)	(1,203)
Deferred tax liabilities:			
Unrealized gain on securities	(208)	(285)	(2,540)
Dividend income eliminated in consolidation	(551)	(439)	(3,913)
Others	(2)	(3)	(26)
Total	(761)	(727)	(6,479)
Net deferred tax assets	¥186	¥136	\$1,213

A reconciliation between the statutory tax rate for the year ended March 31, 2016 and 2017, and the effective tax rates reflected in the accompanying consolidated statement of income is as follows:

For the year ended March 31, 2016 and 2017, notes have been omitted as the difference between the statutory tax rate and the effective tax rate after adoption of tax effect accounting was less than 5% of the statutory tax rate.

9. Contingent Liabilities

At 31st March, 2016 and 2017, contingent liabilities consisted of the following:

	As of 31st March,		
	2016	2017	2017
Guarantee of loans borrowed by	(Millions of yen)		(Thousands of
Employees of the Company (under welfare plan)	¥6	¥4	\$35
	¥6	¥4	\$35

10. Subsequent Event

The following appropriations of retained earning at March 31, 2017 were approved at the Board of Directors held on June 2, 2017:

	As of 31st March,	
	2017	2017
Cash dividends	(Millions of yen)	(Thousands of
	¥452	\$4,028

11. Revaluation on land

At March 31, 2002, land owned by the Company was revalued under the Land Revaluation Law and unrealized were credited directly to Equity as "Revaluation reserve for land" after offsetting the related deferred tax liability as stipulated by the law.

	As of 31st March,	
	2017	2017
Unrecognized difference between the book value of land and the fair value of land after revaluation	(Millions of yen)	(Thousands of
	(¥85)	(\$757)

12. Derivative Transactions

The disclosure of derivative transactions has been omitted because disclosing such information in this Financial Results is considered immaterial.

13. Segment Information

Information concerning sales, income or loss, assets, liabilities, and other items in each report segment for the year ended 31st March, 2016 and 2017 were summarized as follows:

millions of Yen						
Year ended 31st March, 2016						
	Electronics components business	Assembly business	Other business	Total	Adjustment amount	Consolidated income statement amount
Net sales						
Sales to external customers	¥100,630	¥12,641	¥3,346	¥116,617	—	¥116,617
Inter—segment sales and transfer	—	—	—	—	—	—
Total	100,630	12,641	3,346	116,617	—	116,617
Segment income	3,679	(20)	219	3,878	(1,706)	2,172
Segment assets	38,170	5,494	1,331	44,995	32,970	77,965
Segment liabilities	10,821	2,737	458	14,016	8,203	22,219
Other items						
Depreciation expenses	—	56	—	56	158	214
Increase of tangible fixed assets and intangible fixed assets	—	18	—	18	209	227

millions of Yen						
Year ended 31st March, 2017						
	Electronics components business	Assembly business	Other business	Total	Adjustment amount	Consolidated income statement amount
Net sales						
Sales to external customers	¥96,592	¥11,638	¥4,226	¥112,456	—	¥112,456
Inter—segment sales and transfer	—	—	—	—	—	—
Total	96,592	11,638	4,226	112,456	—	112,456
Segment income	4,037	(196)	249	4,090	(1,954)	2,136
Segment assets	37,885	7,579	1,779	47,243	32,442	79,685
Segment liabilities	11,837	4,185	517	16,539	7,631	24,170
Other items						
Depreciation expenses	—	41	12	53	149	202
Increase of tangible fixed assets and intangible fixed assets	—	60	50	110	83	193

Thousands of U.S.dollars						
Year ended 31st March, 2017						
	Electronics components business	Assembly business	Other business	Total	Adjustment amount	Consolidated income statement amount
Net sales						
Sales to external customers	\$860,968	\$103,734	\$37,668	\$1,002,370	—	\$1,002,370
Inter—segment sales and transfer	—	—	—	—	—	—
Total	860,968	103,734	37,668	1,002,370	—	1,002,370
Segment income	35,983	(1,747)	2,219	36,455	(17,416)	19,039
Segment assets	337,686	67,555	15,857	421,098	289,170	710,268
Segment liabilities	105,508	37,302	4,608	147,418	68,018	215,436
Other items						
Depreciation expenses	—	365	106	471	1,328	1,799
Increase of tangible fixed assets and intangible fixed assets	—	534	445	979	739	1,718

Board of Directors and Auditors (As of 23rd June, 2017)

Chairman* Akio Kitai	Director Teru Masaki Fumitaka Yuge	Standing Corporate Auditor Toshihiko Sato
President* Tatsuya Ogawa	Katsuhiro Hosono Kiyotaka Miyazawa	Corporate Auditor Kunio Sakamaki Ginjiro Yanai
Managing Director Junichi Inaba	Outside director Toshio Oura Tatsuyoshi Yoshiike	* Representative Director

Corporate Data (As of 31st March, 2017)

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Date of Establishment	November 25, 1953
Paid-in Capital	9,502 million Yen
Number of Employees	769
Domestic Branches	Saitama, Matsumoto, Nagoya, Osaka, Utsunomiya, Kofu, Hiroshima, Hamamatsu, Sendai
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