



ANNUAL REPORT
2018

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.

Contents

To Our Shareholders	1
Main Line of Business	3
Consolidated Balance Sheets	4
Consolidated Statements of Income	6
Consolidated Comprehensive Statements of Income	7
Consolidated Statements of Changes in Net Assets	8
Consolidated Statements of Cash Flows	9
Notes to the Consolidated Financial Statements	10
Board of Directors and Auditors	20
Corporate Data	20

To Our Shareholders:

1. Summary of Performances, etc.

The Japanese economy during this consolidated accounting year has experienced basically a gradual growth trend due to the sustained employment situation and steady corporate profits although capital spending and M&A in a larger scale have been done in a scattered manner across the country.

Looking at the world economy, the US economy has met the recovery of the export sustained by the steady overseas demands although there is a negative effect of trade friction brought by the trade policy based on the protectionism, and the trend of recovery of capital spending due to the improved corporate profits. China has experienced the expanded foreign trade brought by the recovery of the world economy while Europe has experienced the stable conditions as a whole brought by the improved employment situation and moderate recovery of the personal spending.

Under these economic conditions, our group (this company and consolidated subsidiaries) has enjoyed a strong growth in the fields of the entertainment, industrial and consumer equipment, and steady growth in equipment for OA. On the other hand, telecommunications equipment has suffered the slowdown in the domestic market while enjoyed the strong growth in the overseas market.

As a result of the above, the business performances of our group in this consolidated accounting year were: consolidated turnover 127,926 million Yen (US\$ 1,204 million 13.8% increase compared with the previous period); business profit 3,436 million Yen (US\$ 32 million 60.9% increase compared with the previous period); current profit 3,592 million Yen (US\$ 33 million 67.9% increase compared with the previous period); and net profit in this period that belongs to the shareholders of the parent company 2,276 million Yen (US\$ 21 million 79.0% increase compared with the previous period).

Performances per segment are as follows:

Electronic Components Business

The turnover in the electronic component business was 101,655 million Yen (US\$ 956 million 5.2% increase compared with the previous period).

- (i) **Integrated Circuits**
Both of the domestic and overseas turnovers of the entertainment, industrial, and OA equipment were strong.
As a result of the above, the turnover related to the integrated circuits was 48,343 million Yen (US\$ 455 million 1.2% increase compared with the previous period).
- (ii) **Semiconductor Chips**
The domestic turnover related to the entertainment equipment has been kept strongly and as to the industrial equipment steadily. Overseas turnover related to the telecommunications equipment has been in a low gear.
As a result of the above, the turnover of the semiconductor chips was 14,362 million Yen (US\$ 135 million 3.4% decrease compared with the previous period).
- (iii) **Circuit Components**
Domestic turnover of the industrial equipment has been kept strongly. Overseas turnover of the telecommunications equipment has been kept strongly, and the automotive electric components steadily.
As a result of the above, the turnover of the circuit components was 19,339 million Yen (US\$ 182 million 31.3% increase compared with the previous period).
- (iv) **LCD, etc.**
Both of the domestic and overseas turnovers of the entertainment equipment have been kept strongly.
As a result of the above, the turnover related to the LCD etc. was 3,670 million Yen (US\$ 34 million 35.1% increase compared with the previous period).
- (v) **Other Electronic Parts**
The domestic turnover of the telecommunications equipment has been in a low gear.
As a result of the above, the turnover of other electronic parts was 15,941 million Yen (US\$ 150 million 3.4% decrease compared with the previous period).

Assembly Business

Assembly Products

Both of the domestic and overseas turnovers of the entertainment and industrial equipment have been kept strongly.

As a result of the above, the turnover of the assembly products was 19,938 million Yen (US\$ 187 million

71.3% increase compared with the previous period).

Other Businesses

Commissioned Development of Software for Electronic Devices and Microcomputers

The import business of electronic smoking devices has made temporarily domestic contribution.

As a result of the above, the turnover of commissioned development of software for electronic devices and microcomputers was 6,333 million Yen (US\$ 59 million 49.8% increase compared with the previous period).

2. Capital Spending and Fund Raising

101 million Yen (US\$ 1 million) in total was invested in this consolidated accounting year as capital spending mainly for repair work of buildings, acquisition of machinery and devices as well as equipment and fixtures. As to fund raising, there is no special remark since it is mainly raised by current borrowing from financial institutions.

3. Tasks to be settled

The electronics industry in which our group (this company and consolidated subsidiaries) engages is led by the economic growth of the emerging countries mainly composed of China and other Asian countries. The worldwide growth in the future might continue for a mid-and-long term.

It is expected as well that increase of investment in various fields for Tokyo Olympic would support the economic growth in Japan. In addition to the heat up of international competition, however, a severe phase might be seen due to the destabilization of the world situation, slowdown of the growth in Chinese and other Asian markets.

Our group facing with these circumstances adopts a growth strategy for future and is determined to tackle with the following tasks based on the reconstructed business strategy for which our merits are utilized, further replenishment of the corporate governance with higher transparency, and enhanced risk management.

(1) Enhancement of Domestic Sales Structure

New Business Sales Department is newly established with the aim of development of new customers upon reconstruction of the organization to enhance the domestic sales structure facing with tough domestic competition and downsizing of the existing market, and Commissioned Design Development Department is also newly established to meet a wide range of customers' needs.

Amid the industry reorganization, we are also determined to enhance the satisfaction of our customers and suppliers by promotion of the products of our major suppliers, including Renesas Electronics Corporation.

In addition, we are also determined to enhance the assembly business upon new deployment of business talks mainly through EMS Sales Promotion Department.

Keeping the above firmly in mind, we are determined to deploy new products and customers and to challenge the expansion of the business.

(2) Enhancement of Overseas Sales Structure

The overseas electronics market will be led by the newly emerging countries composing China and ASEAN countries in the future while the international competition might be escalated more and more. In view of these circumstances, we will strengthen the marketing activities in China. Further, we aim to enlarge the international sales structure appropriately as needed as occasion may require.

Our group constructs the structure that makes possible procurement of parts and representative sales, assembly and quality control, as well as delivery of finished products including loco design of hardware and software in China

Upon review of risk management system by reason of the quakes and natural disasters in the past and paying attention to acceleration of international business expansion for the purpose of decentralization of production bases, we are committed to strengthen the support system for Japanese companies, and deploy positively the sales promotion to loco companies in the fields of infrastructure, telecommunication, and medical care utilizing our merits in the field of automobile electric components.

(3) Risk in Restructuring of Semiconductor Industry

In view of the trend of semiconductor makers due to escalation of the international competition, we challenge hereafter to be a trading house that our customers and suppliers would demand through proposals of enhanced solution at every stages in development, procurement, distribution and finance, etc. taking into consideration the affect brought to our company due to direct sales or further unification of distribution or change in

production items by structural reform or review of functions of a trading house, or reorganization of semiconductor makers and trading houses.

(4) Risk in Inventory

It is a key factor of functions of a trading house to hold distribution inventory, which is a role demanded by customers and suppliers. However, termination of production (EOL) upon concentration and choice of production items due to escalation of international competition by semiconductor companies and distribution inventory (BCM) to keep a supply chain on the occasion of occurrence of natural disasters such as quakes have increased in recent years. We are affected thereby, too.

Our company considers them as an important issue for which system of write-off of the goods is introduced to minimize the risk in preparation for the risk in inventory valuation in the future.

We are determined to establish a scheme to cope with new risks and to secure the profits corresponding to risks.

(5) Approach to Corporate Governance

Our company filed a corporate governance report to Tokyo Stock Exchange in December 2015 that is in conformity with the corporate governance code. Taking this opportunity, we are further committed to strengthen the corporate governance with higher transparency that fits the business community and our company, and to enhance the risk management avoiding excessive risks while expediting the growth during a midterm and enriching the corporate values on a continuous basis.

Upon release of “Revision of the Corporate Governance Code and Establishment of Guidelines for Investor and Company Engagement” by Financial Services Agency and “Proposal on Revision of Corporate Governance Code” by Tokyo Stock Exchange in March 2018, we are committed to enhance further the governance. We are prepared basically to evolve our established view in conformity with the revision and satisfy both of the growth and sustainability paying attention to the reality in the business community.



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=¥106.24, 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, 2018.

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
Voltage / Current / Temperature Protection Devices
Sensors and Sensor Systems
Transformers
Ferrites and Accessories

TDK-Lambda Corporation

AC-DC Power Supplies
DC-DC Converters
Programmable Power Supplies (CVCC)

Xilinx, Inc

Complex programmable logic device
Field programmable gate array
Adaptive compute acceleration platform

Seiko Instruments Inc.

Quartz Crystal
Micro Battery
Rare Earth Magnet (DIANET)

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

KYOSHA CO.,LTD.

Printed Wiring Boards
Carrier jigs for mounting electrical components

SUSUMU Corporation

Thin film surface mount resistors
Current sensing surface mount resistors
High frequency surface mount components

TOKIN Corporation

Capacitor
EMI Countermeasure Parts
Sensors

EM Devices Corporation

Miniature Signal Relays
Miniature 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.

Board-to-Board Connectors
Wire-to-Board Connectors
FFC,FPC connector

NEC Corporation

Factory Computer
Video Solution
Optical Transceivers for Backbone Network

SCHOOT Japan 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

Japan Seoul Semiconductor Co., Ltd

LED

AVX Corporation

Tantalum Capacitors
Ceramic Capacitors
Varistors
BIDDEFORD
Power / Chip Film Capacitors
Connectors

YKC Corporation

Double-sided, multilayer, SBH board
Thin rigid PWB
Flexible PWB

Yamamoto Mfg. Co., Ltd.

Large High-Density, Super-Multi-Layer Printed Circuit Boards
High-Density, Multi-Layer Printed Circuit Boards
Radiation board
Small/Complex-Shaped Multi-Layer Printed Circuit Boards

Remarks : We have distribution agreements with these
manufacturers for domestic sales.
Please contact our International Marketing Department overseas
Subsidiaries and affiliate for sales when you have any issue
outside Japan.

Consolidated Balance Sheets

As of 31st March, 2017 and 2018

	As of 31st March,		
	2017	2018	2018
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
ASSETS			
Current assets :			
Cash and deposits	¥25,361	¥16,523	\$155,525
Notes and accounts receivable-trade	25,727	23,964	225,565
Merchandise inventories	13,244	19,428	182,869
Raw materials	572	788	7,418
Work in process	5	12	113
Deferred tax assets	122	295	2,777
Accounts receivable-other	8,416	8,971	84,441
Other current assets	268	313	2,947
Less : Allowance for doubtful accounts	(71)	(59)	(555)
Total current assets	<u>73,644</u>	<u>70,235</u>	<u>661,100</u>
Fixed Assets :			
Property and equipment, at cost :			
Land	332	332	3,125
Buildings and structures	978	986	9,281
Machinery, equipment and other	1,343	1,386	13,046
Less : Accumulated depreciation	(1,607)	(1,858)	(17,489)
Total property and equipment	<u>1,046</u>	<u>846</u>	<u>7,963</u>
Intangible assets :			
Software	198	159	1,496
Other intangible assets	23	22	207
Total Intangible assets	<u>221</u>	<u>181</u>	<u>1,703</u>
Investments and other assets :			
Investment securities (Note 4)	2,745	2,977	28,021
Investments in unconsolidated subsidiaries and an affiliate	105	105	988
Deferred tax assets	38	63	592
Other assets	1,890	2,182	20,538
Less : Allowance for doubtful accounts	(3)	(3)	(28)
Total investments and other assets	<u>4,775</u>	<u>5,324</u>	<u>50,111</u>
Total fixed assets	<u>6,042</u>	<u>6,351</u>	<u>59,777</u>
Total	<u>¥79,686</u>	<u>¥76,586</u>	<u>\$720,877</u>

As of 31st March,

LIABILITIES AND NET ASSETS

Current liabilities :

	2017	2018	2018
	(Millions of yen)		(Thousands of U.S.dollars) (Note 1)
Notes and accounts payable-trade	¥15,318	¥14,120	132,907
Electronically recorded obligations	1,222	1,047	\$9,855
Short-term bank loans (Note 5)	1,530	1,489	14,015
Current portion of short-term bank loans	600	-	-
Income tax payable	255	820	7,718
Allowance for bonuses	407	433	4,076
Allowance for bonuses to directors	39	58	546
Other current liabilities	805	748	7,041
Total current liabilities	<u>20,176</u>	<u>18,715</u>	<u>176,158</u>

Long-term liabilities :

Long-term bank loans, less current portion (Note 5)	2,500	2,800	26,356
Deferred tax liabilities on revaluation of land	5	5	47
Deferred tax liabilities	224	396	3,728
Provision for board benefit trust	38	63	592
Net defined benefit liability (Note 6)	1,039	1,008	9,488
Other long-term liabilities	189	204	1,920
Total long-term liabilities	<u>3,995</u>	<u>4,476</u>	<u>42,131</u>

Contingent liabilities (Note 9) :

Net assets (Note 7) :

Common stock:			
Authorized-39,700,000 shares			
Issued-24,855,283 shares in 2017 and 2018	9,502	9,502	89,439
Capital surplus	9,733	9,733	91,613
Retained earnings	37,252	38,631	363,620
Treasury stock, at cost	(2,862)	(6,277)	(59,083)
Accumulated other comprehensive income:			
Unrealized gain/(loss) on securities	685	918	8,641
Foreign currency translation adjustment	758	365	3,435
Revaluation reserve for land (Note 11)	(50)	(50)	(470)
Net defined benefit liability	(29)	10	94
Total	<u>54,989</u>	<u>52,832</u>	<u>497,289</u>

Non-controlling interests

	526	563	5,299
Total net assets	<u>55,515</u>	<u>53,395</u>	<u>502,588</u>
Total	<u>¥79,686</u>	<u>¥76,586</u>	<u>\$720,877</u>

Consolidated Statements of Income

As of 31st March, 2017 and 2018

	Year ended 31st March,		
	2017	2018	2018
	(Millions of yen)		(Thousands of U.S.dollars) (Note 1)
Net sales	¥112,458	¥127,926	\$1,204,122
Cost of sales	102,710	116,576	1,097,289
Gross Profit	9,748	11,350	106,833
Selling, general and administrative expenses	7,613	7,914	74,491
Operating income	2,135	3,436	32,342
Other income (expenses):			
Interest and dividend income	147	110	1,035
Interest expense	(50)	(56)	(527)
Exchange loss	(116)	73	687
Loss on sales and disposal of property and equipment	(12)	(7)	(66)
Impairment loss on fixed assets	24	(158)	(1,487)
Gain on sales of investment securities	0	5	47
Settlement expenses	(300)	(6)	(56)
Other, net	7	28	263
Net other income (expenses)	(300)	(11)	(104)
Income before income taxes and minority interests	1,835	3,425	32,238
Income taxes (Note 8):			
Current year	691	1,329	12,509
Deferred	(153)	(218)	(2,052)
Total income taxes	538	1,111	10,457
Profit (loss)	1,297	2,314	21,781
Profit (loss) attributable to non-controlling interests	26	38	358
Profit (loss) attributable to owners of parent	¥1,271	¥2,276	\$21,423
	(Yen)		(U.S.dollars) (Note 1)
Per share data :			
Net income	¥55.83	¥104.75	\$0.99
Cash dividends applicable to the year	40.00	50.00	0.47

Consolidated Comprehensive Statements of Income

Year ended 31st March, 2017 and 2018

	Year ended 31st March,		
	2017	2018	2018
	(Millions of yen)		(Thousands of U.S.dollars) (Note 1)
Profit (loss)	¥1,297	¥2,314	\$21,781
Other comprehensive income			
Net unrealized gain (loss) on available-for-sale securities	212	232	2,183
Foreign currency translation adjustment	(175)	(396)	(3,727)
Remeasurements of defined benefit plans	14	39	367
Total other comprehensive income	51	(125)	(1,177)
Comprehensive income	¥1,348	¥2,189	\$20,604
 (Details)			
Comprehensive income relating to shareholders of parental company	¥1,322	¥2,154	\$20,275
Comprehensive income relating to minority shareholders	¥26	¥35	\$329

Consolidated Statements of Changes in Net Assets

Year ended 31st March, 2017 and 2018

	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 plans	Non-controlling interests		
Balance, March 31, 2016	24,855	¥9,502	¥9,733	¥36,906	(¥2,207)	¥474	¥0	(¥50)	¥933	(¥44)	¥499	¥55,746	
Cumulative effects of changes in accounting policies												-	
Restated balance	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	¥0	(¥50)	¥758	(¥29)	¥526	¥55,515	
Gain on disposal of treasury stock												0	
Profit (loss) attributable to owners of parent				2,276								2,276	
Increase in retained earnings from newly consolidated subsidiary												-	
Reversal of revaluation reserve for land												-	
Cash dividends, ¥50 per share				(897)								(897)	
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					(3,415)							(3,415)	
Other net increase/(decrease)						233		(393)	39	37		(84)	
Balance, March 31, 2018	24,855	¥9,502	¥9,733	¥38,631	(¥6,277)	¥918	-	(¥50)	¥365	¥10	¥563	¥53,395	

	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 plans	Non-controlling interests		
Balance, March 31, 2017	24,855	\$89,439	\$91,613	\$350,640	(\$26,939)	\$6,448	\$0	(\$470)	\$7,135	(\$273)	\$4,951	\$522,544	
Gain on disposal of treasury stock												-	
Profit (loss) attributable to owners of parent				21,423								21,423	
Increase in retained earnings from newly consolidated subsidiary												-	
Reversal of revaluation reserve for land												-	
Cash dividends, ¥50 per share				(8,443)								(8,443)	
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					(32,144)							(32,144)	
Other net increase/(decrease)						2,193		(3,700)	367	348		(792)	
Balance, March 31, 2018	24,855	\$89,439	\$91,613	\$363,620	(\$59,083)	\$8,641	-	(\$470)	\$3,435	\$94	\$5,299	\$502,588	

Consolidated Statements of Cash Flows

Year ended 31st March, 2017 and 2018

	2017	2018	2018
	(Millions of yen)		(Thousands of U.S.dollars) (Note 1)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes	¥1,835	¥3,425	\$32,238
Depreciation	202	211	1,986
Impairment loss on fixed assets	-	158	1,487
Reversal of foreign currency translation adjustment –consolidated subsidiaries			
Increase/(Decrease) in allowance for doubtful accounts	65	(11)	(103)
Increase/(Decrease) in allowance for bonuses to directors	(6)	19	179
Increase/(Decrease) in net defined benefit liability	(28)	(27)	(254)
Increase/(Decrease) in provision for board benefit trust	17	25	235
(Gain)/Loss on disposals and sales of property and equipment, net	12	7	66
(Gain)/Loss on sales of investment securities, net	(24)	(5)	(47)
Interest and dividends received	(147)	(111)	(1,045)
Interest expenses	50	56	527
Loss on settlement expenses	300	7	66
(Increase)/Decrease in notes and accounts receivable–trade	(3,015)	1,594	15,003
(Increase)/Decrease in accounts receivable–other	754	(117)	(1,101)
(Increase)/Decrease in merchandise inventories	(162)	(6,473)	(60,928)
Increase/(Decrease) in notes and accounts payable–trade	2,661	(1,247)	(11,737)
Other, net	53	(771)	(7,257)
	<u>2,567</u>	<u>(3,260)</u>	<u>(30,685)</u>
Cash and cash equivalents received on interest and dividends	140	118	1,110
Cash and cash equivalents paid on interest expenses	(55)	(55)	(517)
Cash and cash equivalents paid on income taxes	(999)	(696)	(6,551)
Loss on settlement expenses	(300)	(7)	(66)
Net cash provided by operating activities	<u>1,353</u>	<u>(3,900)</u>	<u>(36,709)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payment into time deposits and proceeds from withdrawal of time deposits, net	(1,121)	2,019	19,004
(Purchase)/Sales of investment securities, net	27	3	28
Proceeds from redemption of investment securities	100	-	-
(Purchase)/Sales of property and equipment, net	(181)	(101)	(951)
Increase in intangible assets	(12)	(28)	(264)
Other, net	(5)	(11)	(103)
Net cash (used in) investing activities	<u>(1,192)</u>	<u>1,882</u>	<u>17,714</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase/(Decrease) in long-term bank loans, net	-	(300)	(2,824)
Cash dividends paid	(926)	(896)	(8,433)
Purchase of treasury shares	(657)	(3,415)	(32,144)
Other, net	(2)	(2)	(19)
Net cash (used in) financing activities	<u>(1,585)</u>	<u>(4,613)</u>	<u>(43,420)</u>
Translation Loss on Cash and Cash Equivalents	<u>(128)</u>	<u>(85)</u>	<u>(800)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	<u>(1,552)</u>	<u>(6,716)</u>	<u>(63,215)</u>
Cash and Cash Equivalents at Beginning of Year	<u>24,762</u>	<u>23,210</u>	<u>218,467</u>
Increase in cash and cash equivalents due to new consolidated subsidiary	-	-	-
Cash and Cash Equivalents at End of Year (Note 3)	<u>¥23,210</u>	<u>¥16,494</u>	<u>\$155,252</u>

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 ¥106.24 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 2017 consolidated financial statements to conform to the classifications used in 2018.

2. Summary of Significant Accounting Policies

(a) Principle of consolidation

The consolidated financial statements as of March 31, 2017 include the accounts of the Company and its twelve significant subsidiaries, and March 31, 2018 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
----------	---------

(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, 2017 and 2018, Cash and cash equivalents consisted of the following:

	2017	2018	2018
	(Millions of yen)		(Thousands of U.S.dollars) (Note 1)
Cash and deposits	¥25,361	¥16,523	\$15,526
Time deposits due over three months	(2,132)	-	-
Separate deposit (Board benefit trust)	(19)	(30)	(280)
Cash and cash equivalents	<u>¥23,210</u>	<u>¥16,493</u>	<u>\$15,246</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, 2018 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, 2018 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	2,854	1,539	1,315	26,863	14,486	12,377
Sub-total	2,854	1,539	1,315	26,863	14,486	12,377
Securities whose book value on the consolidated balance sheets do not exceed their acquisition cost						
Equity securities	102	118	(16)	960	1,110	(150)
Sub-total	102	118	(16)	960	1,110	(150)
Total	¥2,956	¥1,657	¥1,299	\$27,823	\$15,596	\$12,227

(Note1) Unlisted stocks (¥20 million or US\$188thousands) in consolidated balance sheet for the year ended 31st March, 2018) 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, 2018 was approximately 2.47 percent.

At 31st March, 2017 and 2018, long-term bank loans consisted of the following:

	<u>2017</u>	<u>2018</u>	<u>2018</u>
	(Millions of yen)		(Thousands of U.S.dollars)
Long-term banks loans	<u>¥3,100</u>	<u>¥2,800</u>	<u>\$26,356</u>
Less:current portion	<u>(600)</u>	<u>-</u>	<u>-</u>
Total	<u>¥3,100</u>	<u>¥2,800</u>	<u>\$26,356</u>

The aggregate annual maturities of long-term bank loans as at 31st March, 2018 were as follows:

	(Millions of yen)	(Thousands of U.S.dollars)
2021	<u>¥300</u>	<u>\$2,824</u>
2022	<u>¥2,500</u>	<u>\$23,532</u>
Total	<u>¥2,800</u>	<u>\$26,356</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 2018 were as follows:

Defined benefit plans

	2018	2018
	(Millions of yen)	(Thousands of U.S.dollars)
Projected benefit obligation at beginning and end of year		
Projected benefit obligation at beginning of year	¥889	\$8,367
Service cost	32	301
Interest cost	4	37
Actuarial (gain) loss	(30)	(282)
Benefit paid	(54)	(508)
Deduction of changing from standard treatment to shortcut method	(22)	(207)
Projected benefit obligation at end of year	¥819	\$7,708

	As of 31st March,	
	2018	2018
	(Millions of yen)	(Thousands of U.S.dollars)
Projected benefit obligation at beginning and end of year		
of the companies to which the simplified method is applied		
Projected benefit obligation at beginning of year	¥150	\$1,411
Retirement benefit cost	23	216
Benefit paid	(4)	(37)
Addition of changing from standard treatment to shortcut method	19	178
Projected benefit obligation at end of year	¥188	\$1,768

	As of 31st March,	
	2018	2018
	(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	¥1,008	\$9,488
Net liability (asset) for retirement benefits in the consolidated balance sheet	¥1,008	\$9,488

	As of 31st March,	
	<u>2018</u>	<u>2018</u>
	(Millions of yen)	(Thousands of U.S.dollars)
Retirement benefit expenses		
Service cost	¥32	\$301
Interest cost	4	37
Expected return on plan assets	—	—
Amortization of actuarial (gain) loss	25	235
Amortization of priorservice costs	—	—
Total retirement benefit costs based on the simplified method	23	216
Other	4	37
Total retirement benefit cost for the year ended 31st,march, 2018	¥88	\$826

	As of 31st March,	
	<u>2018</u>	<u>2018</u>
	(Millions of yen)	(Thousands of U.S.dollars)
Remeasurements of defined benefit plans, net of tax (before deducting tax effect)		
Priorservice costs	—	—
Actuarial difference	(¥57)	(\$536)
Total	(¥57)	(\$536)

	As of 31st March,	
	<u>2018</u>	<u>2018</u>
	(Millions of yen)	(Thousands of U.S.dollars)
Remeasurements of defined benefit plans (before deducting effect)		
Unrecognized past service costs	—	—
Unrecognized actuarial (gain) loss	(¥14)	(\$131)
Total	(¥14)	(\$131)

Basis of actuarial assumption

Basis of actuarial assumption at the end of year

Discount rate ----- 0.397%

Defined contribution pension plans

The amount to be paid by our Group (our Company and consolidated subsidiaries) to the defined contribution plans was 175 million Yen (US\$ 1,647 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 2018 is 890 million Yen (US\$ 8,377 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 30.8% in 2017 and 30.8% in 2018. The effective tax rate reflected in the accompanying consolidated statements of income and retained earnings for the year ended 31st March, 2017 and 2018 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, 2017 and 2018 primarily consisted of the following:

	As of 31st March,		
	2017	2018	2018
	(Millions of yen)		(Thousands of)
Deferred tax assets:			
Accrued enterprise tax	¥23	¥57	\$536
Accrued business office tax	2	2	19
Allowance for bonuses	126	130	1,224
Allowance for doubtful accounts	22	18	169
Long-term accounts payable	-	22	207
Net defined benefit liability	320	313	2,946
Unrealized loss on securities	8	5	47
Others	225	249	2,344
subtotal	726	796	7,492
Less valuation allowance	(135)	(119)	(1,121)
Total	591	677	6,371
Deferred tax liabilities:			
Unrealized gain on securities	(285)	(384)	(3,615)
Dividend income eliminated in consolidation	(439)	(313)	(2,946)
Others	(3)	(18)	(169)
Total	(727)	(715)	(6,730)
Net deferred tax assets	¥136	¥38	(\$359)

A reconciliation between the statutory tax rate for the year ended March 31, 2017 and 2018, and the effective tax rates reflected in the accompanying consolidated statement of income is as follows:

For the year ended March 31, 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.

	<u>2018</u>
Statutory tax rate	30.9%
Expense not deductible for income tax purposes	0.9%
Income not taxable for income tax purposes	-0.1%
Inhabitants taxes-per capita	0.6%
Tax rate difference of overseas consolidated subsidiaries	-5.5%
Valuation allowance	4.9%
Decrease in deferred tax assets resulting from tax rate change	-2.0%
Others	2.7%
Effective tax rate	<u>32.4%</u>

9. Contingent Liabilities

At 31st March, 2017 and 2018, contingent liabilities consisted of the following:

	As of 31st March,		
	<u>2017</u>	<u>2018</u>	<u>2018</u>
	(Millions of yen)		(Thousands of)
Guarantee of loans borrowed by			
Employees of the Company (under welfare plan)	¥4	¥1	\$9
	<u>¥4</u>	<u>¥1</u>	<u>\$9</u>

10. Subsequent Event

The following appropriations of retained earning at March 31, 2018 were approved at the Board of Directors held on June 6, 2018:

	As of 31st March,	
	<u>2018</u>	<u>2018</u>
	(Millions of yen)	(Thousands of U.S.dollars)
Cash dividends	<u>¥627</u>	<u>\$5,901</u>

11. Revaluation on land

At March 31, 2002, land owned by the Company was revalued under the Land Revaluation Law and unrealized gains 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,	
	<u>2018</u>	<u>2018</u>
	(Millions of yen)	(Thousands of)
Unrecognized difference between the book value of land and the fair value of land after revaluation	<u>(¥85)</u>	<u>(\$800)</u>

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, 2017 and 2018 were summarized as follows:

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

millions of Yen						
Year ended 31st March, 2018						
	Electronics components business	Assembly business	Other business	Total	Adjustment amount	Consolidated income statement amount
Net sales						
Sales to external customers	¥101,655	¥19,938	¥6,333	¥127,926	-	¥127,926
Inter-segment sales and transfer	-	-	-	-	-	-
Total	101,655	19,938	6,333	127,926	-	127,926
Segment income	4,797	356	255	5,408	(1,972)	3,436
Segment assets	39,656	10,030	2,447	52,133	24,453	76,586
Segment liabilities	10,555	3,954	657	15,166	8,025	23,191
Other items						
Depreciation expenses	-	44	15	59	151	210
Increase of tangible fixed assets and intangible fixed assets	-	16	6	22	106	128

Thousands of U.S.dollars						
Year ended 31st March, 2018						
	Electronics components business	Assembly business	Other business	Total	Adjustment amount	Consolidated income statement amount
Net sales						
Sales to external customers	\$956,843	\$187,669	\$59,610	\$1,204,122	-	\$1,204,122
Inter-segment sales and transfer	-	-	-	-	-	-
Total	956,843	187,669	59,610	1,204,122	-	1,204,122
Segment income	45,152	3,351	2,400	50,903	(18,561)	32,342
Segment assets	373,268	94,409	23,033	490,710	230,167	720,877
Segment liabilities	99,351	37,218	6,184	142,753	75,536	218,289
Other items						
Depreciation expenses	-	414	141	555	1,421	1,976
Increase of tangible fixed assets and intangible fixed assets	-	150	56	206	997	1,203

(note1) "Adjustment amount" column represent corporate expenses, assets, and liabilities which are not allocated to reportable segments

Board of Directors and Auditors (As of 27th June, 2018)

Chairman* Akio Kitai	Director Teru Masaki Fumitaka Yuge	Standing Corporate Auditor Toshihiko Sato
President* Tatsuya Ogawa	Katsuhiko 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, 2018)

Head Office	Art Village Osaki Central Tower 13F, 1-2-2 Osaki, Shinagawa-ku, Tokyo 141-8540, Japan Tel. 03(6361)8111(Main) Fax. 03(5437)8484 [URL] http://www.shinko-sj.co.jp/
Date of Establishment	November 25, 1953
Paid-in Capital	9,502 million Yen
Number of Employees	851
Domestic Branches	Saitama, Matsumoto, Nagoya, Osaka, Utsunomiya, Kofu, Hiroshima, Hamamatsu, Sendai
Domestic Subsidiaries	NOVALUX JAPAN CO., LTD. Art Village Osaki Central Tower 13F, 1-2-2 Osaki, Shinagawa-ku, Tokyo 141-8540, Japan Tel. 03(6361)8101 Fax. 03(5434)2257 Shinko Shoji LSI Design Center Co., Ltd. 2F Marumasu Bldg. No.18, 1-5, North7, West1, Kita-ku, Sapporo City, Hokkaido 060-0807, Japan Tel. 011(558)1125 Fax. 011(558)1126 NT Sales CO., LTD. Art Village Osaki Central Tower 13F, 1-2-2 Osaki, Shinagawa-ku, Tokyo 141-8540, Japan Tel. 03(5435)5250 Fax. 03(5435)5260

Overseas Subsidiaries

SHINKO (Pte) LTD. (SINGAPORE)

2 Leng Kee Road #04-05 Thye Hong Centre Singapore 159086
Tel. (65)6332-5700 Fax. (65)6332-5600

NOVALUX HONG KONG ELECTRONICS LIMITED (HONG KONG)

3F Flat A, Niche centre, 14 Wang
Tai Road Kowloon Bay, Kowloon, Hong Kong
Tel. (852)2755-9018 Fax.(852)2799-2040

NOVALUX TAIWAN ELECTRONICS LIMITED (TAIWAN)

3F, 191, Fuhsing N. Rd., Taipei.
Tel. (886)2-2719-1445 Fax. (886)2-2719-0960

NOVALUX AMERICA INC.(U.S.A.)

3885 Crestwood Parkway Suite 595
Duluth, Georgia, 30096, U.S.A.
Tel. (1)678-218-0808 Fax. (1)678-218-0810

NOVALUX SHANGHAI ELECTRONICS LIMITED (CHINA)

6206-6210, 118 Rui Jin 2 Road, Shanghai, China
Tel. (86)-21-6466-0481 Fax. (86)-21-6466-0491

NT sales. Hong Kong Ltd. (HONG KONG)

Unit1511, Level15, Tower2 Grand Central Plaza138 Shatin
Rural Committee Road Shatin, New Territories, Hong Kong
Tel. (852)2735-0041 Fax. (852)2634-0722

NOVALUX THAILAND Co., Ltd. (THAILAND)

283/49,Home Place Office Building,10th Fl.
Soi Sukhumvit 55 (Thong Lo), Klongton-Nua,
Wattana, Bangkok, 10110, Thailand
Tel. (66)2-067-5953 Fax. (66)2-064-9829

NOVALUX EUROPE,S.A. (SPAIN)

c/. Cordoba b, oficina 405, 29001
Malaga Spain
Tel. (34)952-062-560 Fax. (34)952-060-582

NOVALUX SHENGZHEN ELECTRONICS LIMITED (CHINA)

Rm. 2107A, Shenzhen Kerry Centre,
Renmin Road South, Shenzhen, China
Tel. (86)755-2518-1263 Fax. (86)755-2518-0592

SHINKO ASSEMBLY CHINA (CHINA)

10 Jingwah Industrial zone, Liangantian, Pinghu Town,
Longgang District, Shenzhen, China
Tel. (86)-755-84687101 Fax. (86)-755-84688429

Overseas Affiliate

NOVALUX MALAYSIA SDN, BHD. (MALAYSIA)

Suite C412, Central Tower, 4th Floor, Wisma
Consplant, No.2, Jaian SS16/4, Subang Jaya, 47500
Petaling Jaya, Salangor Darul Ehsan, West Malaysia
Tel. (60)3-5631-3569 Fax. (60)3-5631-4017

NIPPON SEIKI CONSUMER PRODUCTS (THAILAND) CO., LTD.

789/114 Pin-Thong Industrial Estate. Moo
1, Thumbon Nhongkham, Amphur
Sri-Racha, Chonburi 20230, Thailand
Tel. (66)0-3829-6823-5 Fax.(66)0-3829-6826

 **Shinko Shoji Co., Ltd.**

Art Village Osaki Central Tower 13F

1-2-2 Osaki, Shinagawa-ku Tokyo 141-8540 Japan

Tel. 03(6361)8111

Fax. 03(5437)8484

Printed in Japan