

 **Shinko Shoji Co., Ltd.**

ANNUAL REPORT
2019

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:

1. Summary of Performances, etc.

The Japanese economy during this consolidated accounting year has experienced the gradual confined recovery, in spite of improvement of job conditions and business earnings, because of labor shortage and rise of labor costs accompanied therewith, repeated natural disasters as well as sluggish growth of consumer spending due to price increase in first half of the year, which has been at a standstill. In the second half year, however, the business prospects are uncertain due to trade friction between US and China, slowdown of the Chinese economy, Brexit, etc. Further, the world economy remains in an uncertain situation that would not allow optimism.

Under these economic conditions, our group (this company and consolidated subsidiaries) has experienced steady growth in the field of OA equipment, while lower performance in the fields of telecommunications and consumer equipment and decrease in the fields of industrial equipment, automobile electric components, and entertainment equipment in comparison with the previous year. Especially, the slowdown of the Chinese economy has significantly affected and orders related capital investment have greatly decreased since the third quarter although the field of entertainment equipment shows signs of recovery.

As a result of the above, the business performances of our group in this consolidated accounting year were: consolidated turnover 116,405 million Yen (US\$ 1,048 million 9.0% decrease compared with the previous period); business profit 2,442 million Yen (US\$ 22 million 28.9% decrease compared with the previous period); current profit 2,299 million Yen (US\$ 20 million 36.0% decrease compared with the previous period); and net profit in this period that belongs to the shareholders of the parent company 1,460 million Yen (US\$ 13 million 35.8% decrease compared with the previous period).

Performances per segment are as follows:

Electronic Components Business

The turnover in the electronic components business was 93,210 million Yen (US\$ 839 million 8.3% decrease compared with the previous period)

(i) Integrated Circuits

The domestic turnover of the OA equipment increased slightly while the turnovers of the automobile electric component and industrial equipment were weak.

The overseas turnover of the OA equipment was robust.

As a result of the above, the turnover related to the integrated circuits was 44,030 million Yen (US\$ 396 million 8.9% decrease compared with the previous period).

(ii) Semiconductor Chips

The domestic turnovers related to the industrial and entertainment equipment has been in a low gear.

The overseas turnover related to the telecommunications equipment has been notably in a low gear.

As a result of the above, the turnover of the semiconductor chips was 12,948 million Yen (US\$ 116 million 9.8% decrease compared with the previous period).

(iii) Circuit Components

Domestic turnover of the automobile electric components has been kept strongly while the industrial equipment has been in a low gear.

In contrast, the overseas turnover of the industrial equipment has been kept strong. On one hand, the turnover of the automobile electric components has been in a low gear.

As a result of the above, the turnover of the circuit components was 16,451 million Yen (US\$ 148 million 14.9% decrease compared with the previous period).

(iv) LCD, etc.

Both of the domestic and overseas turnovers of the automobile electric components have been kept strong. On the other hand, the turnover of the industrial equipment decreased in comparison with the previous period.

As a result of the above, the turnover related to the LCD etc. was 3,401 million Yen (US\$ 30 million 7.3% decrease compared with the previous period).

(v) Other Electronic Parts

Both of the domestic and overseas turnovers of the automobile electric components have been kept strong, while the turnover of the industrial equipment has been in a low gear.

As a result of the above, the turnover of other electronic parts was 16,378 million Yen (US\$ 147 million 2.7% increase compared with the previous period).

Assembly Business

Assembly Products

Both of the domestic and overseas turnovers of the entertainment and industrial equipment decreased in comparison with the previous period due to the slowdown of the Chinese economy.

As a result of the above, the turnover of the assembly products was 19,282 million Yen (US\$ 173 million 3.3% decrease compared with the previous period).

Other Businesses

Commissioned Development of Software for Electronic Devices and Microcomputers

Domestically, the temporary import business of electronic smoking devices was terminated.

As a result of the above, the turnover of commissioned development of software for electronic devices and microcomputers was 3,913 million Yen (US\$ 35 million 38.2% decrease compared with the previous period).

2. Capital Spending and Fund Raising

258 million Yen (US\$ 2 million) in total was invested by our group in this consolidated accounting year as capital spending. The major investment was 176 million Yen (US\$ 1 million) for ad on customize cost of the backbone system of our company.

This backbone system is scheduled to operate during the year of 2020. The additional investment for the actual operation is estimated at this moment to reach 471 million Yen (US\$ 4 million total amount: 647 million Yen US\$ 5 million).

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

Our group (our company and consolidated subsidiaries) faces the management environment in which the competition among global semiconductor makers that are merged and reorganized becomes all the more tough amid the circumstances where the globalization develops on one hand and the route sales under the traditional Japanese business practice makes it difficult to accomplish the stable growth on the other hand.

Under these circumstances, our group are committed to deploy various policies aiming to be a project planning company (integrated solution provider) in order to put new added values on the know-how that we have cultivated for a long time as a trading company.

Dealing positively and deliberately with investment matters to enhance the corporate values to balance the growth with sustainability in consideration of all the stakeholders, we are 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) Deployment of New Growth Strategy

In response to tough domestic competition and downsizing of the existing market, we strength New Business Department aiming mainly to cultivate new customers, the centering function of Commissioned Design Development Department to meet a wide range of customers' needs, and the marketing activities of AI System Marketing Department.

Amid the industry reorganization, we are also determined to enhance continuously 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 overseas upon new deployment of business talks mainly through EMS Sales Promotion Department.

On the other hand, we are determined to enlarge the international marketing system appropriately as needed in order to respond to further globalization.

Our group constructs a business model that makes it possible to undertake procurement of parts, representative purchase, assembly and quality control as well as delivery of finished products including design of hardware and software.

We are determined to deploy new products and customers and to challenge the expansion of the business on a basis of these business models.

(2) Further Enhancement of Risk Management System

We have strengthened the management of inventory and accounting necessary to keep a supply chain upon review of the risk management system because of earthquake disasters in the past.

Further, we are ready to discuss at a board meeting whether to improve as needed in order to enhance the required risk management and business continuity plan (BCP).

(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 now 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.

In June 2018, "Corporate Governance Code" was revised and "Guidelines for Investor and Company Engagement" was newly released by the Financial Services Agency. Upon these revision and release, we are determined to comply fully with all the items of the revised corporate governance code to enhance further the governance.

We revised and filed to Tokyo Stock Exchange the corporate governance report in December of the year.



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=¥110.99, 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, 2019.

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(CPLD)
Field Programmable Gate Array(FPGA)
SoCs that integrated Processor and FPGA
Adaptable Accelerator Cards for Data Center Workloads

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
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, 2018 and 2019

	2018	2019	2019
	(Millions of yen)		(Thousands of U.S.dollars) (Note 1)
ASSETS			
Current assets :			
Cash and deposits	¥16,523	¥20,179	\$181,809
Notes and accounts receivable-trade	23,964	24,016	216,380
Merchandise inventories	19,428	16,448	148,194
Raw materials	788	833	7,505
Work in process	12	8	72
Deferred tax assets	295	-	-
Accounts receivable-other	8,971	7,759	69,907
Other current assets	313	167	1,505
Less : Allowance for doubtful accounts	(59)	(4)	(36)
Total current assets	<u>70,235</u>	<u>69,406</u>	<u>625,336</u>
Fixed Assets :			
Property and equipment, at cost :			
Land	332	332	2,991
Buildings and structures	986	978	8,811
Machinery, equipment and other	1,386	1,376	12,397
Less : Accumulated depreciation	(1,858)	(1,888)	(17,010)
Total property and equipment	<u>846</u>	<u>798</u>	<u>7,189</u>
Intangible assets :			
Software	159	109	982
Other intangible assets	22	187	1,685
Total Intangible assets	<u>181</u>	<u>296</u>	<u>2,667</u>
Investments and other assets :			
Investment securities (Note 4)	2,977	2,610	23,516
Investments in unconsolidated subsidiaries and an affiliate	105	105	946
Deferred tax assets	63	143	1,288
Other assets	2,182	1,946	17,533
Less : Allowance for doubtful accounts	(3)	(8)	(72)
Total investments and other assets	<u>5,324</u>	<u>4,796</u>	<u>43,211</u>
Total fixed assets	<u>6,351</u>	<u>5,890</u>	<u>53,067</u>
Total	<u>¥76,586</u>	<u>¥75,296</u>	<u>\$678,403</u>

	As of 31st March,		
	2018	2019	2019
	(Millions of yen)		(Thousands of U.S.dollars) (Note 1)
LIABILITIES AND NET ASSETS			
Current liabilities :			
Notes and accounts payable-trade	¥14,120	¥11,404	102,747
Electronically recorded obligations	1,047	3,442	\$31,012
Short-term bank loans (Note 5)	1,489	1,464	13,190
Income tax payable	820	195	1,757
Allowance for bonuses	433	451	4,064
Allowance for bonuses to directors	58	49	442
Other current liabilities	748	2,173	19,578
Total current liabilities	<u>18,715</u>	<u>19,178</u>	<u>172,790</u>
Long-term liabilities :			
Long-term bank loans, less current portion (Note 5)	2,800	3,100	27,930
Provision For Share Based Compensation Expenses For Directors	63	84	757
Provision For Share Based Compensation Expenses For Employees	-	57	514
Deferred tax liabilities on revaluation	5	5	45
Deferred tax liabilities	396	128	1,153
Net defined benefit liability (Note 6)	1,008	1,082	9,749
Other long-term liabilities	204	208	1,874
Total long-term liabilities	<u>4,476</u>	<u>4,664</u>	<u>42,022</u>
Contingent liabilities (Note 9) :			
Net assets (Note 7) :			
Common stock:			
Authorized-39,700,000 shares			
Issued-24,855,283 shares in 2018 and 2019	9,502	9,502	85,611
Capital surplus	9,733	9,788	88,188
Retained earnings	38,631	38,939	350,833
Treasury stock, at cost	(6,277)	(8,548)	(77,015)
Accumulated other comprehensive income:			
Unrealized gain/(loss) on securities	918	679	6,117
Unrealized gain/(loss) on deferred hedge	-	1	9
Foreign currency translation adjustment	365	570	5,135
Revaluation reserve for land (Note 11)	(50)	(50)	(450)
Net defined benefit liability	10	(18)	(162)
Total	<u>52,832</u>	<u>50,863</u>	<u>458,266</u>
Non-controlling interests	<u>563</u>	<u>591</u>	<u>5,325</u>

Consolidated Statements of Income

As of 31st March, 2018 and 2019

	Year ended 31st March,		
	2018	2019	2019
	(Millions of yen)		(Thousands of U.S.dollars) (Note 1)
Net sales	¥127,926	¥116,405	\$1,048,788
Cost of sales	116,576	105,870	953,870
Gross Profit	11,350	10,535	94,918
Selling, general and administrative expenses	7,914	8,093	72,916
Operating income	3,436	2,442	22,002
Other income (expenses):			
Interest and dividend income	110	106	955
Interest expense	(56)	(65)	(586)
Exchange loss	73	(220)	(1,982)
Gain on sales of Property and equipment	-	1	9
Loss on sales and disposal of property and equipment	(7)	(3)	(27)
Impairment loss on fixed assets	(158)	1	9
Gain on sales of investment securities	5	-	-
Settlement expenses	(6)	-	-
Other, net	28	35	315
Net other income (expenses)	(11)	(145)	(1,307)
Income before income taxes and minority interests	3,425	2,297	20,695
Income taxes (Note 8):			
Current year	1,329	758	6,829
Deferred	(218)	51	460
Total income taxes	1,111	809	7,289
Profit (loss)	2,314	1,488	13,406
Profit (loss) attributable to non-controlling interests	38	27	243
Profit (loss) attributable to owners of parent	¥2,276	¥1,461	\$13,163
	(Yen)		(U.S.dollars) (Note 1)
Per share data :			
Net income	¥104.75	¥72.28	\$0.65
Cash dividends applicable to the year	50.00	55.00	0.50

Consolidated Comprehensive Statements of Income

Year ended 31st March, 2018 and 2019

	Year ended 31st March,		
	2018	2019	2019
	(Millions of yen)		(Thousands of U.S.dollars) (Note 1)
Profit (loss)	¥2,314	¥1,487	\$13,397
Other comprehensive income			
Net unrealized gain (loss) on available-for-sale securities	232	(239)	(2,153)
Unrealized gain /(loss) on deferred hedge	-	1	9
Foreign currency translation adjustment	(396)	207	1,865
Remeasurements of defined benefit plans	39	(28)	(252)
Total other comprehensive income	(125)	(59)	(531)
Comprehensive income	¥2,189	¥1,428	\$12,866
 (Details)			
Comprehensive income relating to shareholders of parental company	¥2,154	¥1,399	\$12,605
Comprehensive income relating to minority shareholders	¥35	¥29	\$261

Consolidated Statements of Changes in Net Assets

Year ended 31st March, 2018 and 2019

	Thousands				Millions of yen							
	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	Total
Balance, March 31, 2017	24,855	¥9,502	¥9,733	¥37,252	(¥2,862)	¥685	¥0	(¥50)	¥758	(¥29)	¥526	¥55,515
Cumulative effects of changes in accounting policies												-
Restated balance	24,855	¥9,502	¥9,733	¥37,252	(¥2,862)	¥685	¥0	(¥50)	¥758	(¥29)	¥526	¥55,515
Gain on disposal of treasury stock												-
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				(896)								(896)
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	¥38,632	(¥6,277)	¥918	¥0	(¥50)	¥365	¥10	¥563	¥53,396
Gain on disposal of treasury stock												0
Profit (loss) attributable to owners of parent				1,460								1,460
Increase in retained earnings from newly consolidated subsidiary												-
Reversal of revaluation reserve for land												-
Cash dividends, ¥55 per share				(1,152)								(1,152)
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			55		(2,271)							(2,216)
Other net increase/(decrease)						(239)	1	205	(29)	29		(33)
Balance, March 31, 2019	24,855	¥9,502	¥9,788	¥38,940	(¥8,548)	¥679	1	(¥50)	¥570	(¥19)	¥592	¥51,455

	Thousands				Millions of U.S. dollars							
	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	Total
Balance, March 31, 2018	24,855	\$85,611	\$87,693	\$348,058	(\$56,555)	\$8,271	\$0	(\$450)	\$3,289	\$90	\$5,073	\$481,080
Gain on disposal of treasury stock												-
Profit (loss) attributable to owners of parent				13,163								13,163
Increase in retained earnings from newly consolidated subsidiary												-
Reversal of revaluation reserve for land												-
Cash dividends, ¥55 per share				(10,388)								(10,388)
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			495		(20,460)							(19,965)
Other net increase/(decrease)						(2,154)	9	1,846	(252)	252		(299)
Balance, March 31, 2019	24,855	\$85,611	\$88,188	\$350,833	(\$77,015)	\$6,117	9	(\$450)	\$5,135	(\$162)	\$5,325	\$463,591

Consolidated Statements of Cash Flows

Year ended 31st March, 2018 and 2019

	As of 31st March,		
	2018	2019	2019
	(Millions of yen)		(Thousands of U.S.dollars) (Note 1)
CASH FLOWS FROM OPERATING ACTIVITIES:			
Income before income taxes	¥3,425	¥2,297	\$20,695
Depreciation	211	173	1,559
Impairment loss on fixed assets	158	–	–
Increase/(Decrease) in allowance for doubtful accounts	(11)	(50)	(450)
Increase/(Decrease) in allowance for bonuses to directors	19	(9)	(81)
Increase/(Decrease) in net defined benefit liability	(27)	74	667
Increase/(Decrease) in provision for board benefit trust	25	78	702
(Gain)/Loss on disposals and sales of property and equipment, net	7	2	18
(Gain)/Loss on sales of investment securities, net	(5)	–	–
Interest and dividends received	(111)	(106)	(955)
Interest expenses	56	65	586
Loss on settlement expenses	7	–	–
(Increase)/Decrease in notes and accounts receivable–trade	1,594	(10)	(90)
(Increase)/Decrease in accounts receivable–other	(117)	737	6,640
(Increase)/Decrease in merchandise inventories	(6,473)	2,953	26,606
Increase/(Decrease) in notes and accounts payable–trade	(1,247)	(319)	(2,874)
Other, net	(771)	2,267	20,425
	(3,260)	8,152	73,448
Cash and cash equivalents received on interest and dividends	118	106	955
Cash and cash equivalents paid on interest expenses	(55)	(64)	(577)
Cash and cash equivalents paid on income taxes	(696)	(1,426)	(12,848)
Loss on settlement expenses	(7)	–	–
Net cash provided by operating activities	(3,900)	6,768	60,978
CASH FLOWS FROM INVESTING ACTIVITIES:			
Payment into time deposits and proceeds from withdrawal of time deposits, net	2,019	–	–
(Purchase)/Sales of investment securities, net	3	35	315
(Purchase)/Sales of property and equipment, net	(101)	(77)	(694)
Increase in intangible assets	(28)	(51)	(459)
Other, net	(11)	(9)	(81)
Net cash (used in) investing activities	1,882	(102)	(919)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase/(Decrease) in long-term bank loans, net	(300)	300	2,703
Cash dividends paid	(896)	(1,151)	(10,370)
Purchase of treasury shares	(3,415)	(2,271)	(20,461)
Other, net	(2)	51	459
Net cash (used in) financing activities	(4,613)	(3,071)	(27,669)
Translation Loss on Cash and Cash Equivalents	(85)	37	333
Net Increase/(Decrease) in Cash and Cash Equivalents	(6,716)	3,632	32,723
Cash and Cash Equivalents at Beginning of Year	23,210	16,494	148,608
Increase in cash and cash equivalents due to new consolidated subsidiary	–	–	–
Cash and Cash Equivalents at End of Year (Note 3)	¥16,494	¥20,126	\$181,331

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 ¥110.99 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 2018 consolidated financial statements to conform to the classifications used in 2019.

2. Summary of Significant Accounting Policies

(a) Principle of consolidation

The consolidated financial statements as of March 31, 2018 include the accounts of the Company and its twelve significant subsidiaries, and March 31, 2019 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 20 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, 2018 and 2019, Cash and cash equivalents consisted of the following:

	2018	2019	2019
	(Millions of yen)		(Thousands of U.S.dollars) (Note 1)
Cash and deposits	¥16,523	¥20,179	\$181,809
Separate deposit (Board benefit trust)	(30)	(54)	(487)
Cash and cash equivalents	<u>¥16,493</u>	<u>¥20,125</u>	<u>\$181,322</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, 2019 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, 2019 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	2,198	1,136	1,062	19,803	10,235	9,568
Sub-total	2,198	1,136	1,062	19,803	10,235	9,568
Securities whose book value on the consolidated balance sheets do not exceed their acquisition cost						
Equity securities	407	503	(96)	3,670	4,533	(863)
Sub-total	407	503	(96)	3,670	4,533	(863)
Total	¥2,605	¥1,639	¥966	\$23,473	\$14,768	\$8,705

(Note1) Unlisted stocks (¥2 million or US\$18thousands) in consolidated balance sheet for the year ended 31st March, 2019) 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, 2019 was approximately 3.40 percent.

At 31st March, 2018 and 2019, long-term bank loans consisted of the following:

	<u>2018</u>	<u>2019</u>	<u>2019</u>
	(Millions of yen)		(Thousands of U.S.dollars)
Long-term banks loans	<u>¥2,800</u>	<u>¥3,100</u>	<u>\$27,930</u>
Less:current portion	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>¥3,100</u>	<u>¥3,100</u>	<u>\$27,930</u>

The aggregate annual maturities of long-term bank loans as at 31st March, 2019 were as follows:

	(Millions of yen)	(Thousands of U.S.dollars)
2021	<u>¥600</u>	<u>\$5,406</u>
2022	<u>¥2,500</u>	<u>\$22,524</u>
Total	<u>¥3,100</u>	<u>\$27,930</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 2019 were as follows:

Defined benefit plans

	<u>2019</u>	<u>2019</u>
	(Millions of yen)	(Thousands of U.S.dollars)
Projected benefit obligation at beginning and end of year	¥819	\$7,379
Projected benefit obligation at beginning of year		
Service cost	31	279
Interest cost	3	27
Actuarial (gain) loss	50	450
Benefit paid	(35)	(315)
Projected benefit obligation at end of year	¥868	\$7,820

	As of 31st March,	
	<u>2019</u>	<u>2019</u>
	(Millions of yen)	(Thousands of U.S.dollars)
Projected benefit obligation at beginning and end of year	¥188	\$1,694
of the companies to which the simplified method is applied		
Projected benefit obligation at beginning of year		
Retirement benefit cost	35	315
Benefit paid	(10)	(90)
Projected benefit obligation at end of year	¥213	\$1,919

	As of 31st March,	
	<u>2019</u>	<u>2019</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	¥1,082	\$9,749
Net liability (asset) for retirement benefits in the consolidated balance sheet	¥1,082	\$9,749

	As of 31st March,	
	<u>2019</u>	<u>2019</u>
	(Millions of yen)	(Thousands of U.S.dollars)
Retirement benefit expenses		
Service cost	¥31	\$279
Interest cost	3	27
Amortization of actuarial (gain) loss	9	81
Total retirement benefit costs based on the simplified method	35	315
Other	10	90
Total retirement benefit cost for the year ended 31st,march, 2018	¥88	\$792

	As of 31st March,	
	<u>2019</u>	<u>2019</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	¥41	\$369
Total	¥41	\$369

	As of 31st March,	
	<u>2019</u>	<u>2019</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	¥26	\$234
Total	¥26	\$234

Basis of actuarial assumption

Basis of actuarial assumption at the end of year

Discount rate ----- 0.309%

Defined contribution pension plans

The amount to be paid by our Group (our Company and consolidated subsidiaries) to the defined contribution plans was 195 million Yen (US\$ 1,756thousands).

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 2019 is 890 million Yen (US\$ 8,018 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 30.9% in 2018 and 30.6% in 2019. The effective tax rate reflected in the accompanying consolidated statements of income and retained earnings for the year ended 31st March, 2018 and 2019 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, 2018 and 2019 primarily consisted of the following:

	As of 31st March,		
	2018	2019	2019
	(Millions of yen)		(Thousands of U.S.dollars)
Deferred tax assets:			
Accrued enterprise tax	¥57	¥24	\$216
Accrued business office tax	2	2	18
Allowance for bonuses	130	134	1,208
Allowance for doubtful accounts	18	4	36
Long-term accounts payable	22	26	234
Net defined benefit liability	313	337	3,036
Appraisal loss of investment securities	21	19	171
Unrealized loss on securities	5	21	189
Others	228	287	2,586
subtotal	796	854	7,694
Less valuation allowance	(119)	(154)	(1,388)
Total	677	700	6,306
Deferred tax liabilities:			
Unrealized gain on securities	(384)	(307)	(2,766)
Dividend income eliminated in consolidation	(313)	(375)	(3,378)
Others	(18)	(4)	(36)
Total	(715)	(686)	(6,180)
Net deferred tax assets	(¥38)	¥14	\$126

A reconciliation between the statutory tax rate for the year ended March 31, 2018 and 2019, and the effective tax rates reflected in the accompanying consolidated statement of income is as follows:

	<u>2018</u>	<u>2019</u>
Statutory tax rate	30.9%	30.6%
Expense not deductible for income tax purposes	0.9%	1.2%
Income not taxable for income tax purposes	-0.1%	0.2%
Inhabitants taxes-per capita	0.6%	0.9%
Tax rate difference of overseas consolidated subsidiaries	-5.5%	2.7%
Valuation allowance	4.9%	2.1%
Decrease in deferred tax assets resulting from tax rate change	-2.0%	-2.7%
Others	2.7%	0.3%
Effective tax rate	<u>32.4%</u>	<u>35.3%</u>

9. Contingent Liabilities

At 31st March, 2018 and 2019, contingent liabilities consisted of the following:

	As of 31st March,		
	<u>2018</u>	<u>2019</u>	<u>2019</u>
	(Millions of yen)		(Thousands of U.S.dollars)
Guarantee of loans borrowed by Employees of the Company (under welfare plan)	¥1	¥0	\$0
	<u>¥1</u>	<u>¥0</u>	<u>\$0</u>

10. Subsequent Event

The following appropriations of retained earning at March 31, 2019 were approved at the Board of Directors held on June 4, 2019:

	As of 31st March,	
	<u>2019</u>	<u>2019</u>
	(Millions of yen)	(Thousands of U.S.dollars)
Cash dividends	<u>¥595</u>	<u>\$5,360</u>

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,	
	<u>2019</u>	<u>2019</u>
	(Millions of yen)	(Thousands of U.S.dollars)
Unrecognized difference between the book value of land and the fair value of land after revaluation	<u>(¥85)</u>	<u>\$765</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, 2018 and 2019 were summarized as follows:

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	24,241	76,373
Segment liabilities	10,555	3,954	657	15,166	7,813	22,979
Other items						
Depreciation expenses	-	44	15	59	151	210
Increase of tangible fixed assets and intangible fixed assets	-	16	6	22	106	128

millions of Yen						
Year ended 31st March, 2019						
	Electronics components business	Assembly business	Other business	Total	Adjustment amount	Consolidated income statement amount
Net sales						
Sales to external customers	¥93,210	¥19,282	¥3,913	¥116,405	-	¥116,405
Inter-segment sales and transfer	-	-	-	-	-	-
Total	93,210	19,282	3,913	116,405	-	116,405
Segment income	3,996	230	198	4,424	(1,982)	2,442
Segment assets	35,660	11,251	1,580	48,491	26,805	75,296
Segment liabilities	8,346	6,149	350	14,845	8,997	23,842
Other items						
Depreciation expenses	-	40	13	53	118	171
Increase of tangible fixed assets and intangible fixed assets	-	2	6	8	120	128

Thousands of U.S.dollars						
Year ended 31st March, 2019						
	Electronics components business	Assembly business	Other business	Total	Adjustment amount	Consolidated income statement amount
Net sales						
Sales to external customers	\$839,806	\$173,727	\$35,255	\$1,048,788	-	\$1,048,788
Inter-segment sales and transfer	-	-	-	-	-	-
Total	839,806	173,727	35,255	1,048,788	-	1,048,788
Segment income	36,003	2,073	1,783	39,859	(17,857)	22,002
Segment assets	321,290	101,369	14,236	436,895	241,508	678,403
Segment liabilities	75,196	55,402	3,153	133,751	81,061	214,812
Other items						
Depreciation expenses	-	360	117	477	1,063	1,540
Increase of tangible fixed assets and intangible fixed assets	-	18	54	72	1,081	1,153

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

Board of Directors and Auditors (As of 26th June, 2019)

Chairman* Akio Kitai	Director Teru Masaki Fumitaka Yuge	Standing Corporate Auditor Toshihiko Sato
President* Tatsuya Ogawa	Katsuhiko Hosono Kiyotaka Miyazawa Syuji Issiki	Corporate Auditor Kunio Sakamaki Toshihiko Ishihara
Managing Director Junichi Inaba	Katsuei Kobayashi	
	Outside director Toshio Oura Tatsuyoshi Yoshiike	* Representative Director

Corporate Data (As of 31st March, 2019)

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Date of Establishment	November 25, 1953
Paid-in Capital	9,502 million Yen
Number of Employees	818
Domestic Branches	Saitama, Matsumoto, Nagoya, Osaka, Utsunomiya, Kofu, Hiroshima, Hamamatsu, Sendai
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