

## **Matters for Internet Disclosure under Laws and Regulations, and the Articles of Incorporation**

- ① Details of Non-consolidated Financial Statements, etc. of VITEC HOLDINGS CO., LTD. for the most recent fiscal year, out of matters to be set out in Proposal No. 1 “Approval of the Absorption-type Merger Agreement” in Reference Documents for the General Meeting of Shareholders
  
- ② Details of Non-consolidated Financial Statements, etc. of VITEC GLOBAL ELECTRONICS CO., LTD. for the most recent fiscal year, out of matters to be set out in Proposal No. 2 “Approval of the Absorption-type Company Split Agreement” in Reference Documents for the General Meeting of Shareholders

### **UKC Holdings Corporation**

This document is provided to our shareholders by posting them on our website (<https://www.ukcgroup.com/>) pursuant to laws and regulations, and Article 15 of our Articles of Incorporation.

Details of Non-consolidated Financial Statements, etc. of VITEC HOLDINGS CO., LTD. for the most recent fiscal year, out of matters to be set out in Proposal No. 1 “Approval of the Absorption-type Merger Agreement” in Reference Documents for the General Meeting of Shareholders

<<Attachments>>

**Business Report**

(From: April 1, 2017  
To: March 31, 2018)

**1. Current status of the Corporate Group**

**(1) Status of business during the fiscal year under review**

① Progress and results of the business

	30th period (Fiscal year ended March 2017)	31st Period (Fiscal year ended March 2018)	% of change from previous year
Net sales	138,841 million yen	185,883 million yen	133.9%
Operating income	2,780 million yen	3,130 million yen	112.6%
Ordinary income	2,067 million yen	2,573 million yen	124.5%
Net income attributable to owners of parent	1,512 million yen	1,840 million yen	121.7%

For the consolidated fiscal year ended March 31, 2018, net sales increased by 33.9% year-on-year, driven by favorable performances of Device, Environmental Energy and Procurement Agency Businesses. Operating income increased by 12.6% year-on-year.

<Status of major markets relevant to the Group>

(Device/Procurement)

Digital device	In the flat-screen TV segment, 4K TVs leads the market due to the replacement demand and the full-scale spread of 4K. The market for new products is being formed such as OLED-TVs, standing game consoles, head-mounted displays and smart speakers.
Automobile	Car navigation systems seem to be more diversified such as e-cockpit, display audit and link with smart phones due to the market environment and the penetration rate of smart phones. The market is expected to expand with an eye to Connected Car and automatic driving, and the market for electric vehicles is expected to grow in China.
Information and telecommunications	The smart phone market is slowing down. On the other hand, increasing capacity of smart phones and the growing demand for data center contributed to the strong memory market in FY2017. Provision of new added value has started as memory is installed in devices which had no communication feature before such as automated plants and Connected Car.

(Environmental Energy)

Power generation	While the feed-in tariff cost is decreasing, procurement of parts and know-how of design and construction become important to streamline power plants and reduce construction cost. The trading market of power plants that have been already operated and solar power generation assuming to keep farming in farmland (“Solar sharing”) gain increasing attention.
Power Producer and Supplier (PPS)	While the market shares of Power Producer and Supplier (PPS) to the total market have been gradually increasing in electricity sales, sales amount and the number of contracts, some PPSs are forced to cease their services due to response to institutional reform and a hike of wholesale price.
Plant factories	From the viewpoint of safety and stable supply of food, demand for vegetables grown in plant factories continues to increase. While there are certain new entrants from outside the industry, some operators withdraw from the industry. Cultivation technology and the production control method are advancing.

The status of business segments is shown below.

Business segment		30th period (Fiscal year ended March 2017)		31st period (Fiscal year ended March 2018)		% of change from previous year
		Amount	Composition ratio	Amount	Composition ratio	
Net sales		Millions of yen	%	Millions of yen	%	%
	Device business	108,695	78.3	132,025	71.0	121.5
	Environmental energy business	12,832	9.2	13,127	7.1	102.3
	Procurement agency business	17,313	12.5	40,730	21.9	235.2
	Total	138,841	100.0	185,883	100.0	133.9
Segment income	Device business	984	35.4	1,377	44.0	139.9
	Environmental energy business	1,629	58.6	1,606	51.3	98.6
	Procurement agency business	165	6.0	146	4.7	88.2
	Total	2,780	100.0	3,130	100.0	112.6

(Device business)

Net sales of the device business amounted to 132,025 million yen. The sales of image sensors for smart phones stayed solid throughout the year, and the demand for on-board semiconductors was strong. In addition, the sales of memory products for servers and TVs grew significantly.

As a result of reduction of selling and general administrative expenses as part of the structural reform and other efforts, segment income increased.

(Environmental energy business)

Net sales of the environmental energy device business amounted to 13,127 million yen. In the energy business, while panel sales decreased, annual revenue and income from electric power selling are steadily increasing due to an increase in the accumulated total of power plants including extra-high voltage plants. (Accumulated total of mega solar of 45 plants: including solar sharing) In addition, we launched operation of the first small-sized wind-power plant in Hokkaido. In future, we will aim at expanding revenue and increasing the number of plants through establishing solar power plants and small-sized wind-power plants at the same place.

In the electric power retail business, while sales increased due to acquisition of new customers including government offices, incomes declined somewhat affected by market procurement costs.

In the plant factory business, three factories became full operation as planned. In February 2018, we announced the growth strategy toward mass deployment of plant factories and in April 2018, we increased capital through third-party allotment.

(Procurement agency business)

Net sales of the procurement agency business amounted to 40,730 million yen. As business with the Panasonic Group started on a full scale, sales increased significantly mainly in liquid crystal for automobiles, various parts for air conditioners, compressors for refrigerators and parts for PCs, but revenue decreased due to the unfavorable impact of foreign exchange rate.

We are working on developing new businesses with other customers by utilizing business know-how cultivated by collaboration with the Panasonic Group.

② Status of capital investment

The total capital expenditures of the Group for the fiscal year ended March 2018 amounted to 2,458 million yen, including new plant factories in VITEC FIRM NANA0, CO., LTD. and VITEC FIRM SATSUMASENDAI CO., LTD.

Business category	Name of office	Details of facilities
Environmental energy business	Nanao Factory (Nanao City, Ishikawa)	Plant factory
Environmental energy business	Satsumasendai Factory (Satsumasendai City, Kagoshima)	Plant factory
Environmental energy business	Nakanoto Factory (Nakanotomachi, Ishikawa)	Plant factory

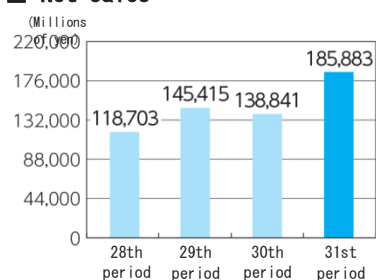
③ Status of financing

With respect to financing, consolidated interest-bearing liabilities amounted to 37,959 million yen (FY2016: 28,194 million yen).

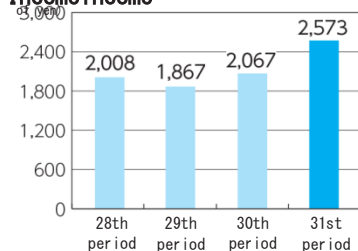
(2) Status of assets and income

Category	28th period (Fiscal year ended March 2015)	29th period (Fiscal year ended March 2016)	30th period (Fiscal year ended March 2017)	31st period (Fiscal year ended March 2018) (Current consolidated accounting period)
Net sales (Millions of yen)	118,703	145,415	138,841	185,883
Ordinary income (Millions of yen)	2,008	1,867	2,067	2,573
Income attributable to owners of parent (Millions of yen)	1,425	1,243	1,512	1,840
Net income per share (Yen)	102.72	90.88	109.88	129.93
Total assets (Millions of yen)	56,460	60,871	63,939	76,974
Net assets (Millions of yen)	13,157	13,365	15,131	16,307

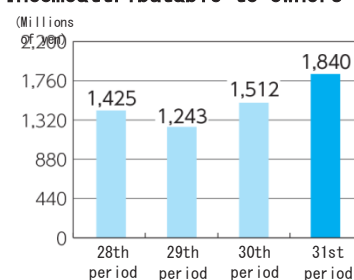
■ Net sales



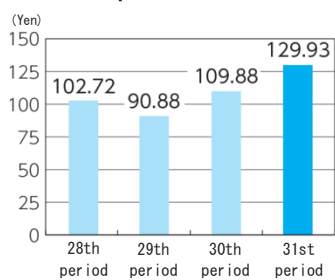
■ Ordinary  
Income income



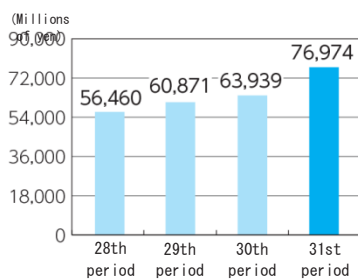
■ Income attributable to owners of parent



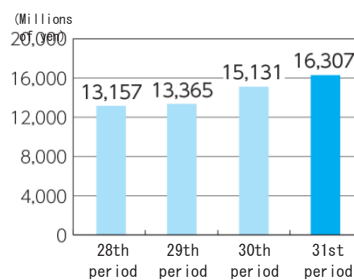
■ Net income per share



■ Total assets



■ Net assets



### (3) Status of major parent company and subsidiaries

① Status of parent company

Not applicable.

② Status of major subsidiaries

Company name	Capital stock	Capital contribution ratio	Major business
VITEC GLOBAL ELECTRONICS CO., LTD.	310 million yen	100.0%	Sale of electronic parts
VITEC GREEN ENERGY CO., LTD.	310 million yen	100.0%	Environmental energy business
VITEC SOLAR ENERGY CO., LTD.	50 million yen	100.0%	Solar power generation business
VITEC VEGETABLE FACTORY CO., LTD.	20 million yen	100.0%	Sale of vegetables grown in plant factories
PTT CO., LTD.	308 million yen	80.0%	Procurement agency business
VITEC ELECTRONICS (SINGAPORE) PTE.LTD.	2,574 thousand USD	100.0%	Sale of electronic parts
VITEC GLOBAL OPERATIONS CO.,LTD.	4,636 thousand USD	100.0%	Sale of electronic parts

③ Status of specified wholly-owned subsidiary as of the end of fiscal year

Not applicable.

### (4) Issues to be dealt with

Under the management philosophy, “Create a rich life and the earth-friendly future by “Device business” and “Environmental energy business”, the VITEC Group took a step toward a new stage for growth as a company which co-creates values by electronics on the 30th anniversary of its foundation. In February 2018, we announced a new medium-term management plan (34th period) by adding a growth strategy in the respective business domain to the past medium-term management plans. Based on “World, social contribution and co-creation” as a keyword, we will aim to achieve our goals and improve corporate value with each business fulfilling its roles and responsibilities to expand the scope and pursue income.

<Outline of the medium-term management plan>

▪ Basic policy

[1] Grow revenue by new expansion of businesses

[2] Structural reform

[3] Shift to high value-added products

▪ Roles in each business

Expansion of scale: Device Business and Procurement Agency Business

Pursuit of revenue: Electronic Device Business, Energy Business, PPS business and Plant Factory Business

- Target numerical values and management indicators (for 34th period ending March 2021)

Net sales	300 billion yen
Operating income	8,000 million yen
Ordinary income	6,500 million yen
Net income	4,000 million yen
Capital adequacy ratio	20% or more
DE ratio	Less than 1.5
ROE	17% or more
Dividend ratio	30% or more
Net income per share	270 yen or more

(Note) Calculation method of DE ratio: Interest-bearing liabilities excluding lease obligations ÷ Equity capital

The followings show key issues that the Group's each business should address for achieving the medium-term management plan.

- Device Business

(Device business)

In the device business, based on the thorough customer-oriented approach, we are working on structural reform such as organizational restructuring so that we can sell our extensive line of products in an effective manner. In addition to economies of scale by pursuing the expansion of scope, we work to increase income by promoting streamlining such as stricter inventory management and review of logistics cost. Furthermore, we will further increase income by developing a new business model beyond the existing product sales.

(Electronic device business)

In the electronic device business, while maintaining our current high-value added business model, we will develop businesses in new growing markets.

- Procurement Agency Business

We will build a robust collaboration system by improving procurement function in response to needs of Panasonic Corporation, our business partner. By utilizing know-how cultivated by collaboration with the Panasonic Group, we will accelerate to provide functions and services across industries, which meet with each customer's need, to lead the expansion of the Group's sales. In addition, we will create synergy by collaborating the Device Business which has abundant product portfolio with the Procurement Agency Business having strong relationship with procurement units of customers.



- Environmental Energy Business

(Energy business)

While improving power generation efficiency in the solar business and maintaining such profitable business including solar sharing, we are working on a new business model including mid- and small-sized wind-power generation and biomass power generation.

(PPS business)

We will reduce reliance on the market by increasing contracted power source in order to minimize the effect by fluctuation of procurement costs in the power market, and build a business model resilient to changes in the market by developing unique electric power sales model and expanding the balancing business.

(Plant factory business)

With the aim of “Regional revitalization and safety and stable supply of food”, we increased capital of 5 billion yen with contribution by leading partner companies in each area in April 2018 in order to establish mass production system and promote development of market-oriented products. We plan to start operation of five factories, including the 8th Factory with daily production capacity of 100,000 roots, within three years in addition to currently operating three factories, with the aim of achieving sales of 10 billion yen or more.

Based on these measures mentioned above, we will contribute to sustainable development of the society.

**(5) Major business** (as of March 31, 2018)

The Group consists of the Company and 26 consolidated subsidiaries and is engaged in sales of semiconductor and electronic components, development of software for microcomputers, consulting in the field of energy and environment, and sales of related products.

**(6) Major place of business** (as of March 31, 2018)

The Company 3-6-5 Higashi-shinagawa, Shinagawa-ku, Tokyo

Domestic subsidiaries VITEC GLOBAL ELECTRONICS CO., LTD. (Tokyo)

VITEC GREEN ENERGY CO., LTD. (Tokyo)

VITEC SOLAR ENERGY CO., LTD. (Tokyo)

VITEC VEGETABLE FACTORY CO., LTD. (Tokyo)

PTT CO., LTD. (Tokyo), and others

Overseas subsidiaries VITEC GLOBAL OPERATIONS CO.,LTD. (Hong Kong)

VITEC ELECTRONICS (SINGAPORE) PTE.LTD. (Singapore), and others

**(7) Status of employees (as of March 31, 2018)**

① Status of employees of the Corporate Group

Business category	Number of employees	Change from previous fiscal year-end
Device business	420 employees	Decrease of 18 employees
Environmental energy business	120 employees	Increase of 78 employees
Procurement agency business	65 employees	Increase of 2 employees
Total	605 employees	Increase of 62 employees

② Status of employees of the Company

Number of employees	Change from the end of the previous fiscal year	Average age	Average years of service
61 employees	Increase of 4 employees	44.5 years old	8 years and 0 month

(Note) Eight employees loaned to other companies are not included.

**(8) Status of major lenders (as of March 31, 2018)**

Lender	Balance of borrowings
Mizuho Bank, Ltd.	3,187 million yen
The Bank of Tokyo-Mitsubishi UFJ, Ltd. (currently, MUFG Bank, Ltd.)	3,134 million yen
Sumitomo Mitsui Banking Corporation	2,421 million yen

**(9) Other important matters concerning the current status of the Corporate Group**

Not applicable.

## 2. Current Status of the Company

### (1) Status of stock (as of March 31, 2018)

① Total number of authorized shares	28,200,000 shares
② Total number of outstanding shares	14,376,358 shares
③ Number of shareholders	5,118
④ Major shareholders (Top 10)	

Name of shareholder	Number of shares held	Shareholding ratio
KMF CO., LTD.	4,120 thousand shares	28.65%
Japan Trustee Services Bank, Ltd. (Trust account)	748	5.19
Mizuho Trust & Banking Co., Ltd., retirement benefit trust (Sony shares of 008 account), re-trust trustees, Trust & Custody Services Bank, Ltd.	(Note 1) 717	4.97
Employee Stockholding Association of VITEC HOLDINGS CO., LTD.	409	2.83
Mizuho Bank, Ltd. (Trust & Custody Services Bank, Ltd.)	321	2.22
The Bank of Tokyo-Mitsubishi UFJ, Ltd. (currently, MUFG Bank, Ltd.)	321	2.22
Sumitomo Mitsui Banking Corporation	318	2.20
The Master Trust Bank of Japan, Ltd. (Trust account)	242	1.67
DAIWA CM SINGAPORE LTD-NOMINEE WPG HOLDINGS LIMITED (Daiwa Securities Co., Ltd.)	230	1.58
NOMURA PB NOMINEES LIMITED OMNIBUS-MARGIN (CASHPB) (Nomura Securities Co., Ltd.)	208	1.43

- (Note) 1. The Company's shares held by Sony Corporation are held as trust assets, and Sony retains its voting rights.
2. The Company owns 2,546 shares as treasury stock, but it is excluded from the major shareholders listed above. The Company's shares of 142,400 shares, which are held by Trust & Custody Services Bank, Ltd. (Trust E account) as trust asset under "Stock Benefit Trust (the Employee Stock Ownership Plan disposal type)", are not included in treasury shares.
3. The shareholding ratio is calculated after deduction of treasury shares.

### (2) Status of share acquisition rights

Not applicable.

**(3) Status of company officers**

① Status of directors (as of March 31, 2018)

Position in the Company	Name	Status of responsibilities and important concurrent posts
President (Representative Director)	Kunihiro Konno	Chairman & President President (Representative Director), VITEC GLOBAL ELECTRONICS CO., LTD.
Representative Senior Executive Vice President	Shoji Matsumoto	Group management
Executive Vice President	Tatsuichi Naruse	Staff and group management
Senior Vice President	Yoshimi Harada	President (Representative Director), VITEC GREEN ENERGY CO., LTD.
Senior Vice President	Toshiyuki Suzuki	Director, VITEC GLOBAL ELECTRONICS CO., LTD.
Senior Vice President	Osamu Komaki	Director, VITEC GLOBAL ELECTRONICS CO., LTD. VITEC GLOBAL OPERATIONS CO.,LTD.CEO
Senior Vice President	Hiroki Ohinata	Director, VITEC GLOBAL ELECTRONICS CO., LTD. President (Representative Director), Vitec System Engineering Inc.

Position in the Company	Name	Status of responsibilities and important concurrent posts
Director (Members of the Audit and Supervisory Committee)	Masanobu Seiki	
Director (Members of the Audit and Supervisory Committee)	Kazuo Takimoto	Certified Public Accountant, Tokyo Kudan Accounting Office Outside Auditor, METAWATER Co., Ltd.
Director (Members of the Audit and Supervisory Committee)	Haruka Matsuyama	Partner, Hibiya Park Law Offices Member of the Board of Directors, Mitsubishi UFJ Financial Group, Inc. Outside Director, T&D Holdings, Inc. Audit & Supervisory Board Member, Mitsui & Co.
Director (Members of the Audit and Supervisory Committee)	Seno Tezuka	Outside Auditor, Yakult Honsha Co., Ltd.

- (Note) 1. Directors (members of the Audit and Supervisory Committee) Kazuo Takimoto, Haruka Matsuyama and Seno Tezuka are Outside Directors.
2. Seno Tezuka, a member of the Audit and Supervisory Committee, is licensed as a Certified Public Accountant and has considerable insight about finance and accounting.
  3. The Company has designated Directors Kazuo Takimoto, Haruka Matsuyama and Seno Tezuka as Independent Corporate Officer under the provisions of the Tokyo Stock Exchange, and registered them as such at the Exchange.
  4. The Company has appointed a full-time person in charge of the internal audit who supports duties of the Audit and Supervisory Committee, and did not appoint full-time members of the Audit and Supervisory Committee.
  5. Although the Company has no full-time members of the Audit and Supervisory Committee, the Audit Department, which is responsible for conducting internal audits, and Internal Control Committee, both of which are responsible for internal control in the Company along with the Group and supervise compliance and risk management functions, in cooperation with the Audit and Supervisory Committee, provide audit to ensure the effectiveness of audits.
  6. The registered name of Haruka Matsuyama is Haruka Kato.

② Overview of limited liability agreement

The Company has entered into an agreement with directors who serve as members of the Audit and Supervisory Committee to limit their liability for damages as outlined under Article 423, Paragraph 1 of the Companies Act in accordance with Article 427, Paragraph 1 of the Companies Act.

The limit of liability for damages based on such agreement is the sum of amounts stipulated in each item of Paragraph 1, Article 425 of the Act.

③ Total remuneration of directors

Category	Number of directors paid	Amount
Director (excluding members of the Audit and Supervisory Committee) (Of those, Outside Directors)	7 (0)	231,400 thousand yen (0)
Director (members of the Audit and Supervisory Committee) (Of those, Outside Directors)	5 (4)	18,900 (11,700)
Total (Of those, outside officers)	12 (4)	250,300 (11,700)

- (Note) 1. The upper limit on total remuneration for Directors (excluding members of the Audit and Supervisory Committee) resolved at the general meeting of shareholders (by the resolution at the General Meeting of Shareholders held on June 24, 2015) is 500,000 thousand yen annually, and that for Directors (members of the Audit and Supervisory Committee)(by the resolution at the General Meeting of Shareholders held on June 24, 2015) is 50,000 thousand yen annually.
2. As of March 31, 2018, the number of Directors (excluding members of the Audit and Supervisory Committee) is seven, and the number of Directors (members of the Audit and Supervisory Committee) is four, of which, three are Outside Directors.
3. (Note) Unpaid directors (members of the Audit and Supervisory Committee) are not included.

④ Matters concerning outside officers

- i. Significant concurrent positions in other companies and relationship between the Company and such other companies  
Not applicable.
- ii. Major activities during the fiscal business  
Attendance in meetings of the Board of Directors and the Audit and Supervisory Committee

	Participation
Director (Members of the Audit and Supervisory Committee) Kazuo Takimoto	Mr. Takimoto attended all 16 meetings of the Board of Directors that were held during the current fiscal year, and all 17 meetings of the Audit and Supervisory Committee. Mr. Takimoto expresses opinions based on his expert perspective as a certified public accountant, and provides advice and recommendations to ensure the adequacy and appropriateness of decision-making of the Board of Directors and the Audit and Supervisory Committee.
Director (Members of the Audit and Supervisory Committee) Haruka Matsuyama	Ms. Matsuyama attended 15 of the total 16 meetings of the Board of Directors that were held during the current fiscal year, and 16 of the total 17 meetings of the Audit and Supervisory Committee. Ms. Matsuyama expresses opinions based on her expert perspective as a lawyer, and provides advice and recommendations to ensure the adequacy and appropriateness of decision-making of the Board of Directors and the Audit and Supervisory Committee.
Director (Members of the Audit and Supervisory Committee) Seno Tezuka	Mr. Tezuka attended all 16 meetings of the Board of Directors that were held during the current fiscal year, and all 17 meetings of the Audit and Supervisory Committee. Mr. Tezuka expresses opinions based on his expert perspective as a certified public accountant, and provides advice and recommendations to ensure the adequacy and appropriateness of decision-making of the Board of Directors and the Audit and Supervisory Committee.

**(4) Status of Accounting Auditor**

① Name: Deloitte Touche Tohmatsu LLC

② Amount of remuneration

	Payment amount
Amount of remuneration paid to the independent auditors for the current fiscal year	48,800 thousand yen
Total amount of cash and other financial benefits to be paid by the Company and its subsidiaries to the independent auditors	58,300 thousand yen

(Note) 1. The amount of remuneration paid to the accounting auditors for the current fiscal year represents the sum of the professional audit fees for the services under the Companies Act and those under the Financial Instruments and Exchange Act as the audit service agreement between the Company and the accounting auditors does not clearly divide them and it is impracticable to do so.

2. Based on “Practical Guidelines for Collaboration with Accounting Auditors” published by Japan Corporate Auditors Association, the Audit and Supervisory Committee confirmed audit results per audit item and per hierarchy and movement of remuneration as well as the status of the accounting auditor’s performance of duties in audit plans in the past years, and verified the adequacy of the audit plan and remuneration in the current fiscal year. As a result, we provided consent on remuneration of the accounting auditors under item 1 of Article 399 of the Companies Act.

③ Policies to determine dismissal or non-reappointment of the auditor

In the event that Audit and Supervisory Committee determines that the execution of duties by the accounting auditor is disrupted, or where necessary, it shall decide the content of proposal regarding dismissal or non-reappointment of the accounting auditor to be submitted to the shareholders’ meeting.

In the event that Audit and Supervisory Committee determines that the accounting auditor falls under any of the items of Article 340, Paragraph 1 of the Companies Act, Audit and Supervisory Committee shall dismiss the accounting auditor upon unanimous consent of the Audit and Supervisory Committee members. In this case, an Audit and Supervisory Committee member who is appointed by the Audit and Supervisory Committee shall report the fact that Audit and Supervisory Committee has dismissed the accounting auditor and reasons therefore at the first shareholders’ meeting to be held after such dismissal.

**(5) System for ensuring appropriate business execution**

Decisions made on the systems for ensuring that directors' execution of duties complies with the laws and the articles of incorporation and that business operations are appropriately executed are outlined below.

- ① System for ensuring that the execution of duties by directors and employees of the Company and its subsidiaries complies with laws and regulations and the articles of incorporation
  - i. Implement the "Vitec Group Code of Conduct" that stipulates the rules of behavior requiring the compliance with the laws, articles of incorporation, regulations and corporate ethics, and widely disseminate it among all directors and employees to ensure their compliance.
  - ii. Establish a Compliance Committee as a system for ensuring the compliance with the "Vitec Group Code of Conduct" and make efforts to respond appropriately.
  - iii. Introduce a whistleblowing system and establish a system for promptly identifying any violations to the Vitec Group Code of Conduct and resolving issues in a timely manner.
  - iv. Evaluate the status of establishment and operation of internal control by an audit department independent of the Internal Control Committee, which is an operating entity to ensure the reliability of financial reporting and the appropriateness of execution of duties, and of business execution departments.
  - v. Establish a system for eliminating any relationships with antisocial forces and respond with a firm attitude when receiving an unfair demand or request.
- ② System for retaining and managing information about the execution of duties by directorsRetain and manage appropriately information about directors' execution of duties in accordance with the "Information & Document Management Rules" of the Company.
- ③ Crisis management rules and other loss avoidance systems of the Company and its subsidiaries  
Directors of the Company and its subsidiaries shall, as a risk management system concerning one's scope in the division of duties, hold meetings and perform monitoring in accordance with the Risk Management Rules. In addition, based on the magnitude of importance, establish a system for reporting to the board of directors of the parent company.
- ④ System for ensuring that directors of the Company and its subsidiaries execute their duties efficiently
  - i. Under the system for ensuring that duties of directors of the Company and its subsidiaries are efficiently executed, hold the meeting of the board of directors of a subsidiary and the meeting of the board of directors of the parent company respectively once a month and also whenever necessary. In addition, discuss important matters in advance at various committee meetings and submit them to decision-making bodies so that the efficiency of execution of duties can be ensured.



- ii. Regarding the execution of duties based on the board of directors' decisions, the respective manager executes duties within his/her responsibility and authorization in accordance with the "Organization/Segregation of Duties Rules" and the "Work Authorization Rules."

⑤ System for ensuring appropriate business execution by the corporate entity comprising the Company and its subsidiaries

To ensure the appropriateness of business execution at group companies, seek authorization and provide reporting to the Company in accordance with the "Subsidiary Management Rules" and report the contents of resolution reached and reporting made by the board of directors of the subsidiary to the board of directors of the parent company every month. In addition, the audit department performs internal audits of the subsidiary and checks the status of compliance with the relevant rules.

⑥ System concerning employees who are to assist the duties of the Audit & Supervisory Committee and matters concerning the independence of such employees from directors and matters related to ensuring the effectiveness of instruction given by the Audit & Supervisory Committee to such employees

- i. Employees who assist Audit & Supervisory Committee members in their duties are not assigned, but the Audit & Supervisory Committee may request the audit department to examine necessary matters.
- ii. When making this request, the Audit & Supervisory Committee is authorized to give directions to the audit department within the range of audit work of the Audit & Supervisory Committee subject to assistance, and directors and other employees are not authorized to give such directions.
- iii. It shall be prescribed in the "Internal Audit Rules" that the audit department collaborates with the Audit & Supervisory Committee.
  - When preparing an audit plan, the audit department holds adequate discussions in advance with the Audit & Supervisory Committee.
  - The audit department reports audit results to the president & representative director, as well as to the Audit & Supervisory Committee and the Internal Control Committee.

⑦ System for directors and employees of the Company and its subsidiaries to report to the Audit & Supervisory Committee, system concerning other reports to the Audit & Supervisory Committee and system for ensuring that audits by the Audit & Supervisory Committee are performed effectively

Directors and employees of the Company and directors, employees and auditors of subsidiaries shall report the following matters to the Audit & Supervisory Committee:

- i. Matters resolved or reported at the meetings of the board of directors of subsidiaries
- ii. When a fact that may cause a substantial loss to the Company is identified
- iii. When an employee may not comply with the laws, regulations, or articles of incorporation
- iv. Other important matters that may affect the Company's business performance
- v. Matters regarding which the submission of reports and materials is requested by the Audit & Supervisory Committee

- ⑧ System to ensure that a person reporting to the Audit & Supervisory Committee does not receive unfair treatment on the grounds of having made such report

The Company and its subsidiaries shall establish a system for ensuring that any person who has made a report to the Audit & Supervisory Committee does not receive unfair treatment on the grounds of having made such report.

- ⑨ Matters related to the policies on the treatment of expenses and liabilities incurred and the procedures for advance payment or reimbursement of expenses in connection with the execution of duties by members of the Audit & Supervisory Committee

Regarding the procedures for advance payment or reimbursement of expenses incurred in connection with the execution of duties by members of the Audit & Supervisory Committee and the treatment of other expenses or liabilities incurred in connection with the such execution of duties, establish a system for promptly carrying out the procedures and treatment at the request of the Audit & Supervisory Committee.

(Status of implementation of the system for ensuring appropriate business execution)

The Company aims to disseminate business activity guidelines (i.e. management philosophy and behavioral guidelines) among directors and employees by letting its management executives continuously talk about them at various meetings and posting them on its portal site's bulletin board.

Regarding internal controls, the Internal Control Committee (which is responsible for building internal control systems) held seven (7) meetings during the year, with attendance of director in charge of internal controls and members of the Audit & Supervisory Committee. After setting the range of assessment, the Internal Audit Department and other sections assess the status of maintenance and implementation and identify problems. The Internal Control Committee reports these problems to the director in charge of internal controls and Audit & Supervisory Committee members. Then relevant guidance is given as soon as possible so that these problems can be solved.

The Internal Audit Department's internal audit findings are summarized and its audit results are reported to the Representative Director, Chairman & President as well as to the Audit & Supervisory Committee and the Internal Control Committee in the form of audit reports or recommendation statements. With regard to certain matters, it is necessary to confirm the status of improvements made. By confirming such status at a later date, the Company strives to protect its assets and enhance management efficiency.

**(6) Basic policy on the control over the Company**

The Company recognizes the importance of this matter, but does not currently take defensive measures because the ratio of voting rights held by stable shareholders exceeds 50% at present.

**(7) Policy on decisions regarding dividends of surplus**

The Company prescribes in its Articles of Incorporation that matters on dividends of surplus and others set forth in each of the items in paragraph 1 of Article 459 of the Companies Act are determined based on a resolution of the board of directors rather than on a resolution of the general meeting of shareholders except in cases where otherwise provided for under relevant laws and regulations. This is for the purpose of distributing incomes to shareholders in an agile manner by giving the authority regarding dividends of surplus to the board of directors.

## Statement of income

### Balance sheet

(as of March 31, 2018)

(Unit: Thousand yen)

Item	Amount	Item	Amount
<b>(Assets)</b>		<b>(Liabilities)</b>	
<b>Current assets</b>	<b>17,529,377</b>	<b>Current liabilities</b>	<b>13,542,647</b>
Cash and deposits	1,611,488	Short-term loans payable	12,713,019
Accounts receivable - trade	76,275	Current portion of long-term loans payable	332,500
Short-term loans receivable	15,304,284	Lease obligations	6,922
Accounts receivable - other	434,558	Accounts payable - other	156,811
Deferred tax assets	23,137	Income taxes payable	138,695
Other	83,474	Provision for directors' bonuses	14,500
Allowance for doubtful accounts	△3,841	Provision for bonuses	15,532
		Other	164,665
<b>Non-current assets</b>	<b>7,167,246</b>	<b>Non-current liabilities</b>	<b>493,841</b>
<b>Property, plant and equipment</b>	<b>2,969,513</b>	Long-term loans payable	386,525
Buildings	933,602	Lease obligations	15,832
Machinery and equipment	2,118	Deferred tax liabilities	1,746
Tools, furniture and fixtures	18,141	Provision for retirement benefits	6,250
Land	1,976,258	Asset retirement obligations	37,940
Leased assets	20,584	Other	45,546
Construction in progress	18,807	<b>Total liabilities</b>	<b>14,036,489</b>
<b>Intangible assets</b>	<b>572,285</b>	<b>(Net assets)</b>	
Software	564,780	<b>Shareholders' equity</b>	<b>10,574,964</b>
Telephone subscription right	7,505	<b>Capital stock</b>	<b>5,244,234</b>
<b>Investments and other assets</b>	<b>3,625,447</b>	<b>Capital surplus</b>	<b>2,738,633</b>
Investment securities	357,842	Legal capital surplus	2,439,768
Shares of subsidiaries and associates	3,020,363	Other capital surplus	298,864
Investments in capital of subsidiaries and associates	81,594	<b>Retained earnings</b>	<b>2,727,042</b>
Long-term loans receivable	96,726	Other retained earnings	2,727,042
Guarantee deposits	94,434	Retained earnings brought forward	2,727,042
Other	34,462	<b>Treasury shares</b>	<b>△134,946</b>
Allowance for doubtful accounts	△59,976	<b>Valuation and translation</b>	<b>85,170</b>
		Valuation difference on available-for-sale securities	62,042
		Deferred gains or losses on hedges	23,127
<b>Total assets</b>	<b>24,696,623</b>	<b>(Total net assets)</b>	<b>10,660,134</b>
		<b>Total liabilities and net assets</b>	<b>24,696,623</b>

(Note) Amounts less than one thousand yen are rounded down.

## Statement of income

From: April 1, 2017

To: March 31, 2018

(Unit: Thousand yen)

Item	Amount	
<b>Operating revenue</b>		<b>2,037,301</b>
<b>Operating expenses</b>		<b>1,548,991</b>
<b>Operating income</b>		<b>488,309</b>
<b>Non-operating income</b>		
Interest and dividend income	269,856	
Other	33,247	303,103
<b>Non-operating expenses</b>		
Interest expenses	231,577	
Foreign exchange losses	34,738	
Other	5,336	271,652
<b>Ordinary income</b>		<b>519,760</b>
<b>Extraordinary losses</b>		
Loss on retirement of non-current assets	230	
Loss on liquidation of shares of subsidiaries and associates	3,441	3,671
<b>Net income before income taxes</b>		<b>516,088</b>
Income taxes - current	△165,200	
Income taxes - deferred	215,767	50,567
<b>Net income</b>		<b>465,521</b>

(Note) Amounts less than one thousand yen are rounded down.

## Consolidated balance sheet

(as of March 31, 2018)

(Unit: Thousand yen)

Item	Amount	Item	Amount
<b>(Assets)</b>		<b>(Liabilities)</b>	
<b>Current assets</b>	<b>55,710,297</b>	<b>Current liabilities</b>	<b>45,031,245</b>
Cash and deposits	4,700,862	Notes and accounts payable - trade	20,600,862
Notes and accounts receivable - trade	30,590,394	Short-term loans payable	16,690,565
Inventories	16,951,384	Current portion of long-term loans payable	378,122
Deferred tax assets	177,520	Lease obligations	796,431
Accounts receivable - other	2,437,984	Accounts payable - other	4,454,878
Other	901,244	Income taxes payable	397,101
Allowance for doubtful accounts	△49,093	Provision for directors' bonuses	14,500
<b>Non-current assets</b>	<b>21,263,802</b>	Provision for bonuses	147,434
<b>Property, plant and equipment</b>	<b>15,802,956</b>	Other	1,551,348
Buildings and structures	1,811,240	<b>Non-current liabilities</b>	<b>15,635,081</b>
Machinery, equipment and vehicles	1,338,860	Long-term loans payable	2,016,903
Tools, furniture and fixtures	174,481	Lease obligations	10,487,685
Land	2,238,816	Deferred tax liabilities	34,397
Leased assets	10,191,483	Net defined benefit liability	102,469
Construction in progress	48,073	Asset retirement obligations	745,802
<b>Intangible assets</b>	<b>714,936</b>	Other	2,247,822
Software	640,581	<b>Total liabilities</b>	<b>60,666,326</b>
Software in progress	41,272	<b>(Net assets)</b>	
Goodwill	22,682	<b>Shareholders' equity</b>	<b>15,672,248</b>
Other	10,400	<b>Capital stock</b>	<b>5,244,234</b>
<b>Investments and other assets</b>	<b>4,745,908</b>	<b>Capital surplus</b>	<b>2,694,562</b>
Investment securities	425,842	<b>Retained earnings</b>	<b>7,876,761</b>
Shares of subsidiaries and associates	444,160	<b>Treasury shares</b>	<b>△143,310</b>
Investments in capital of subsidiaries and associates	755,368	Other aggravate comprehensive income	<b>197,977</b>
Long-term loans receivable	105,053	Valuation difference on available-for-sale securities	62,042
Deferred tax assets	144,361	Deferred gains or losses on hedges	50,876
Other	2,935,616	Foreign currency translation adjustment	85,058
Allowance for doubtful accounts	△64,494	<b>Non-controlling interests</b>	<b>437,546</b>
<b>Total assets</b>	<b>76,974,099</b>	<b>(Total net assets)</b>	<b>16,307,772</b>
		<b>Total liabilities and net assets</b>	<b>76,974,099</b>

(Note) Amounts less than one thousand yen are rounded down.

## Consolidated Statement of income

From: April 1, 2017

To: March 31, 2018

(Unit: Thousand yen)

Item	Amount	
<b>Net sales</b>		<b>185,883,408</b>
<b>Cost of sales</b>		<b>174,892,052</b>
<b>Gross income</b>		<b>10,991,355</b>
<b>Selling, general and administrative expenses</b>		<b>7,860,651</b>
<b>Operating income</b>		<b>3,130,704</b>
<b>Non-operating income</b>		
Interest and dividend income	7,549	
Gain on investments in silent partnership	42,497	
Share of income of entities accounted for using equity method	44,414	
Foreign exchange gains	230,113	
Other	139,152	463,727
<b>Non-operating expenses</b>		
Interest expenses	763,028	
Loss on transfer of receivables	208,236	
Other	49,592	1,020,857
<b>Ordinary income</b>		<b>2,573,574</b>
<b>Extraordinary income</b>		
State subsidy	14,000	
Gain on transfer of rights	300,000	314,000
<b>Extraordinary losses</b>		
Loss on retirement of non-current assets	6,791	
Loss on valuation of investment securities	52,000	
Business structure improvement expenses	127,379	186,170
<b>Net income before income taxes</b>		<b>2,701,403</b>
Income taxes - current	669,903	
Income taxes - deferred	179,192	849,096
<b>Net income</b>		<b>1,852,307</b>
Net income attributable to non-controlling interests		11,406
<b>Net income attributable to owners of parent</b>		<b>1,840,900</b>

(Note) Amounts less than one thousand yen are rounded down.

## Statement of changes in equity

From: April 1, 2017

To: March 31, 2018

(Unit: Thousand yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings		Treasury shares	Total shareholders' equity
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings	Total retained earnings		
					Retained earnings brought forward			
Balance on April 1, 2017	5,244,234	2,439,768	119,425	2,559,194	3,045,180	3,045,180	△327,803	10,520,805
Changes of items during fiscal year								
Dividends of surplus					△783,659	△783,659		△783,659
Net Income					465,521	465,521		465,521
Disposal of treasury shares			179,439	179,439			192,856	372,295
Net changes of items other than shareholders' equity during fiscal year (net)								
Total changes of items during fiscal year	-	-	179,439	179,439	△318,137	△318,137	192,856	54,158
Balance on March 31, 2018	5,244,234	2,439,768	298,864	2,738,633	2,727,042	2,727,042	△134,946	10,574,964

	Valuation and translation adjustments			(Total net assets)
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance on April 1, 2017	28,112	-	28,112	10,548,918
Changes of items during fiscal year				
Dividends of surplus				△783,659
Net Income				465,521
Disposal of treasury shares				372,295
Net changes of items other than shareholders' equity during fiscal year (net)	33,930	23,127	57,058	57,058
Total changes of items during fiscal year	33,930	23,127	57,058	111,216
Balance on March 31, 2018	62,042	23,127	85,170	10,660,134

(Note) Amounts less than one thousand yen are rounded down.



## Notes to Financial Statements

### 1. Notes to Matters Concerning Significant Accounting Policies

(1) Valuation standards and valuation method of assets

① Valuation standards and valuation method of securities

For shares of subsidiaries and affiliates: moving average method using the cost method

For other securities

Securities with fair value	Fair value method based on the market prices at the balance sheet date (with the difference between the acquisition cost and the carrying amount of the other securities recognized as unrealized gains (losses) on securities available for sale, net of taxes, and included directly in net assets, while cost of sales determined by the moving average method)
----------------------------	--

Securities without fair value	Moving average method using the cost method
-------------------------------	---

② Valuation standards and valuation method of derivatives

Fair value method

(2) Depreciation method for non-current assets

① Property, plant and equipment (excluding leased assets)

The declining-balance method is adopted (The straight-line method for buildings (excluding facilities attached) acquired on and after April 1, 1998 and Facilities attached to buildings and Structures acquired on and after April 1, 2016). The useful lives for major asset categories are as follows:

Buildings	2 - 50 years
-----------	--------------

Machinery and equipment	2 - 17 years
-------------------------	--------------

Tools, furniture and fixtures	2 - 20 years
-------------------------------	--------------

② Intangible assets

Software (for internal use)	The straight-line method based on the estimated useful life for internal use determined by the Company (5 years)
-----------------------------	--

③ Leased assets

Lease assets relating to finance leases which do not transfer ownership to lessees

The straight-line method is adopted over the lease term with residual value of zero.

(3) Foreign currency translation

Foreign currency-denominated monetary claims and obligations are translated into Japanese yen primarily at the exchange rate prevailing at the balance sheet date, with translation adjustments recorded as losses (gains)

(4) Allowance for loan losses

- ① Allowance for doubtful accounts To provide for losses from loss on receivables, the Company records a general allowance for loan losses by applying the historical loan-loss ratio observed over specific periods, and records a specific allowance for certain loans at the estimated uncollectible amount based on assessment of each borrower's ability to repay.
- ② Provision for directors' bonuses It is appropriated in the amount of the expected total bonus payment to directors within the current consolidated fiscal year.
- ③ Provision for bonuses It is appropriated as the total amount of the bonuses expected to be paid to employees within the current consolidated fiscal year.
- ④ Provision for retirement benefits It is appropriated to provide against payment of retirement benefits to employees, on the basis of the total estimated amount of retirement benefit liabilities and pension funds as of the end of the current fiscal year.  
The simplified method is adopted for the calculation of provision for retirement benefits.

(5) Hedge accounting

- ① Hedge accounting  
The Company uses deferred hedges.
- ② Hedging instrument and the hedged item
  - i. Hedging instrument: Forward exchange contracts  
Hedged item: foreign currency- denominated monetary claims and obligations and foreign currency transactions
  - ii. Hedging instrument: Interest rate swaps  
Hedged item: loans in foreign currency
- ③ Hedging policy  
The Company concludes forward exchange contracts to avoid foreign exchange risks for the collection and payment of expected future foreign currency-denominated monetary claims and obligations. Moreover, it engages in interest rate swaps to hedge interest rate fluctuation risks of loans payable.
- ④ Evaluation method of the effectiveness of hedging  
Evaluation of effectiveness is omitted as hedging is deemed to be highly effective with the same important conditions for hedging instrument and the hedged item.

(6) Other important matters for the basis of presenting financial statements

- ① Accounting treatment for consumption taxes  
The tax excluded method is used.
- ② Application of the consolidated taxation system  
The consolidated taxation system is adopted from the current fiscal year.

(7) Additional information

Accounting treatment of stock benefit trust (the Employee Stock Ownership Plan disposal type)

The notes to Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts are omitted because the same description is provided in "1. (6) Additional Information" in the Notes to the Consolidated Financial Statements.

## 2. Notes to Balance Sheets

(1) Aggregate amount of advanced depreciation of property, plant and equipment 1,058,126 thousand yen

(2) Guarantee obligations

The following guarantees are provided for loans from financial institutions, accounts payable - trade, etc.:

VITEC GLOBAL ELECTRONICS CO., LTD.	6,660,640 thousand yen
VITEC GLOBAL OPERATIONS CO.,LTD.	1,845,033 thousand yen
VITEC ELECTRONICS (SINGAPORE) PTE.LTD.	586,535 thousand yen
VITEC ELECTRONICS TRADING(SHANGHAI)CO.,LTD.	1,047,558 thousand yen
PTT Company Limited	3,276,424 thousand yen
PTT (S&D HONG KONG) CO.,LTD.	145,572 thousand yen
PTT (TAIWAN) CO.,LTD.	610,717 thousand yen
VITEC SOLAR ENERGY CO., LTD.	21,579,855 thousand yen
VITEC WPG Limited	239,040 thousand yen
V-POWER Co., Ltd.	519,447 thousand yen
VITEC Farm Odate Co., Ltd.	140,000 thousand yen

(3) Monetary claims against and obligations owed to subsidiaries and associates

① Short-term monetary claims	15,304,967 thousand yen
② Long-term monetary claims	35,000 thousand yen
③ Short-term monetary obligations	3,308,535 thousand yen

(4) Monetary obligations owed to directors 35,333 thousand yen

## 3. Notes to Statement of Income

Transaction volume with subsidiaries and associates

① Transaction volume by business transactions	
Operating income	2,037,301 thousand yen
Operating expenses	8,152 thousand yen
② Transaction volume by other than business transactions	
Non-operating income	279,305 thousand yen
Non-operating expenses	2,258 thousand yen

## 4. Notes to Statement of Changes in Equity

Class and number of shares of treasury stock

Class of shares	Number of shares at the beginning of the year	Number of shares increased during the year	Number of shares decreased during the year	Number of shares at the end of the year
Common stock	437,446 shares	-	292,500 shares	144,946 shares

(Note) 1. The number of shares at the end of the year of treasury stock includes 142,400 shares of the Company held by the Trust & Custody Services Bank, Ltd. (Trust Account E).

2. Number of shares decreased during the year was due to the sale of 62,500 shares from the Trust & Custody Services Bank, Ltd. (Trust Account E) to the Employee Stock Ownership Plan) and the third party allocation of 230,000 shares.

## 5. Notes to Tax Effect Accounting

Breakdown of deferred tax assets and deferred tax liabilities by main causes

Deferred tax assets (current)	
Provision for directors' bonuses	4,439 thousand yen
Provision for bonuses	4,755 thousand yen
Loss brought forward	11,280 thousand yen
Other	12,189 thousand yen
Subtotal	<u>32,666 thousand yen</u>
Valuation allowance	<u>△1,141 thousand yen</u>
Total	31,524 thousand yen
Deferred tax liabilities (current)	
Difference and liabilities adjustment	<u>△8,387 thousand yen</u>
Total	<u>△8,387 thousand yen</u>
Deferred tax assets (current), net	23,137 thousand yen
Deferred tax assets (non-current)	
Provision for retirement benefits	1,913 thousand yen
Directors' retirement benefits payable	10,819 thousand yen
Allowance for doubtful accounts	18,399 thousand yen
Loss on valuation of membership	1,728 thousand yen
Shares of subsidiaries and associates due to corporate division	43,868 thousand yen
Loss on valuation of shares of subsidiaries and associates	97,004 thousand yen
Loss (gain) on transfer adjustment assets	37,232 thousand yen
Impairment loss	8,190 thousand yen
Asset retirement obligations	11,617 thousand yen
Deemed dividends	57,789 thousand yen
Loss brought forward	13,917 thousand yen
Other	18,534 thousand yen
Subtotal	<u>321,016 thousand yen</u>
Valuation allowance	<u>△273,024 thousand yen</u>
Total	<u>47,992 thousand yen</u>
Deferred tax liabilities (non-current)	
Valuation difference on available-for-sale securities	△27,381 thousand yen
Deferred gains or losses on hedges	△10,207 thousand yen
Asset retirement obligations	△9,305 thousand yen
Retirement benefit liabilities	<u>△2,843 thousand yen</u>
Total	<u>△49,738 thousand yen</u>
Deferred tax assets (non-current), net	△1,746 thousand yen

## 6. Notes to Transactions with Related Parties

### (1) Subsidiaries and Associates, etc.

Category	Name of the company, etc, or the person	Capital stock of Investments in capital	Details of business or occupation	Percentage of voting rights held In (by) (%)	Relationship with related party	Details of transactions	Transaction amount (thousand yen)	Item	End of year balance (thousand yen)
Subsidiary	VITEC GLOBAL OPERATIONS CO.,LTD.	thousand USD 4,636	Sale of electronic parts	100.0% of voting rights held indirectly in the company	Business management	Lending of funds (Note2) Guarantee of obligations (Note3)	2,605,825 1,845,033	Short-term loans receivable —	2,868,480 —
	VITEC ELECTRONICS (SINGAPORE) PTE.LTD.	thousand USD 2,574	Sale of electronic parts	100.0% of voting rights held indirectly in the company	Business management	Lending of funds (Note2) Guarantee of obligations (Note3)	981,511 586,535	Short-term loans receivable —	743,680 —
	VITEC ELECTRONICS TRADING (SHANGHAI) CO.,LTD.	thousand RMB 7,281	Sale of electronic parts	100.0% of voting rights held in the company	Concurrent director for business management	Guarantee of obligations (Note3)	1,047,558	—	—
	VITEC ELECTRONICS (AMERICAS) INC.	thousand USD 100	Sale of electronic parts	100.0% of voting rights held in the company	Business management	Lending of funds (Note2)	970,599	Short-term loans receivable	638,589
	PTT Company Limited	thousand yen 308,000	Sale of electronic parts	80.0% of voting rights held in the company	Business management	Guarantee of obligations (Note3)	3,276,424	—	—
	PTT(S&D HONGKONG) CO.,LTD.	thousand USD 1,000	Sale of electronic parts	80.0% of voting rights held indirectly in the company	Business management	Guarantee of obligations (Note3)	145,572	—	—
	PTT(TAIWAN) CO.,LTD.	thousand NTD 13,500	Sale of electronic parts	80.0% of voting rights held indirectly in the company	Business management	Guarantee of obligations (Note3)	610,717	—	—
	Co., Ltd. V-POWER	thousand yen 40,000	Electric power retail and specified-scale electricity business	82.5% of voting rights held in the company	Business management	Lending of funds (Note2) Guarantee of obligations (Note3)	1,051,307 519,447	Short-term loans receivable —	170,000 —

Category	Name of the company, etc. or the person	Capital stock of Investments in capital	Details of business or occupation	Percentage of voting rights held In (by) (%)	Relationship with related party	Details of transactions	Transaction amount (thousand yen)	Item	End of year balance (thousand yen)
Subsidiary	VITEC GLOBAL ELECTRONICS CO., LTD.	thousand yen 310,000	Sale of electronic parts	82.5% of voting rights held in the company	Concurrent director for business management entrustment commission	Lending of funds (Note2)	11,167,684	Short-term loans receivable	10,246,302
						Reception of Interest (Note2)	166,417	—	—
						Borrowing of funds (Note2)	101,604	Short-term loans payable	1,320,860
						Reception of consulting fee income and fiduciary obligation fee (Note4)	1,343,710	Accounts receivable - trade	56,624
						Guarantee of obligations (Note3)	6,660,640	—	—
	Guarantees of the Company's obligations (Note5)	5,755,120	—	—					
	VITEC GREEN ENERGY CO., LTD.	thousand yen 310,000	Environmental energy business	82.5% of voting rights held in the company	Concurrent director for business management entrustment commission	Borrowing of funds (Note2)	707,567	Short-term loans payable	846,084
						Reception of consulting fee income and fiduciary obligation fee (Note4)	363,981	Accounts receivable - trade	4,714
	VITEC SOLAR ENERGY CO., LTD.	thousand yen 50,000	Solar power generation business	82.5% of voting rights held in the company	Concurrent director for business management entrustment commission	Guarantees of the Company's obligations (Note5)	5,755,120	—	—
						Borrowing of funds (Note2)	900,035	Short-term loans payable	900,035
	VITEC WPG Limited	thousand USD 600	Sale of electronic parts	50.1% of voting rights held indirectly in the company	Concurrent director for business management	Guarantee of obligations (Note3)	21,579,855	—	—
						Guarantees of the Company's obligations (Note5)	5,755,120	—	—
						239,040	—	—	

Terms and conditions and the policy to decide the terms and conditions, etc.

- (Note)
1. The transaction amount of the amount above does not include consumption tax, etc.
  2. For the transaction amount for the lending and borrowing of funds, the average balance during the period is indicated. Moreover, market interest rates are taken into consideration for the determination of the interest rate of loans receivable and payable.
  3. The Company provided guarantee of obligations for borrowings from banks, etc., and received guarantee fees calculated based on the guaranteed amount, etc.
  4. Consulting fee and fiduciary obligation fee are reasonably determined, comprehensively taking into account the business size, trends of earnings and expenses for providing services, among others.
  5. Guarantees of the Company's obligations are received for borrowings from banks as guarantees of obligations by VITEC GLOBAL ELECTRONICS CO., LTD., VITEC GREEN ENERGY CO., LTD., and VITEC SOLAR ENERGY CO., LTD. The guarantee fee is not paid.

(2) Directors and major individual shareholders, etc.

Category	Name of the company, etc, or the person	Capital stock of Investments in capital	Details of business or occupation	Percentage of voting rights held In (by) (%)	Relationship with related party	Details of transactions	Transaction amount (thousand yen)	Item	End of year balance (thousand yen)
A company more than half of whose voting rights are held by directors and their close relatives	KMF Co., Ltd.	thousand yen 99,000	Property management	28.7% of voting rights held in the company	Acceptance of collaterals	Acceptance of collaterals (Note2)	127,832	—	—

Terms and conditions and the policy to decide the terms and conditions, etc.

(Note) 1. The transaction amount of the amount above does not include consumption tax, etc.

2. Regarding the acceptance of collaterals, the said company provides collaterals jointly with the borrower for loan claims of the Company. The amount of transaction is the amount of lending as of the end of the fiscal year under review.
3. Regarding the above, the Company received the repayment of loan claims of the Company (the transaction amount of 24,000 thousand yen for the fiscal year under review) from the Company's Representative Director, Chairman & President Kunihiko Konno (0.02% directly held) on behalf of the borrower.
4. KMF Co., Ltd. also falls under other subsidiaries and associates, and its transactions, etc. are as described above.

## 7. Notes to Per-share Information

(1) Net assets per share 749.06 yen

(2) Net income per share 32.86 yen

(Note) The shares of the Company remaining in the Trust & Custody Services Bank, Ltd. (Trust Account E), which are recorded as treasury shares in shareholders' equity, are included in treasury shares to be deducted from the calculation of the average number of shares during the period when calculating net income per share; and are included in treasury shares to be deducted from the total number of issued shares at the end of the period when calculating net assets per share. The average number of the said treasury shares deducted for the calculation of net income per share during the period is 170,562 shares, while the number of the said treasury shares deducted for the calculation of net assets per share at the end of the period is 142,400 shares.

## 8. Notes to Material Subsequent Events

Notes to this item are omitted because the same details are stated in the consolidated note table "6. Notes to Material Subsequent Events" on the underwriting of capital increase by VITEC VEGETABLE FACTORY CO., LTD. which is a consolidated subsidiary.



## Consolidated statement of changes in equity

From: April 1, 2017

To: March 31, 2018

(Unit: Thousand yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance as of April 1, 2017	5,244,234	2,515,123	6,818,847	△336,167	14,242,037
Changes in amounts of items during the consolidated fiscal year					
Dividends of surplus			△783,659		△783,659
Income attributable to owners of parent			1,840,900		1,840,900
Disposal of treasury shares		179,439		192,856	372,295
Changes in surplus due to the change of scope of consolidation			674		674
Changes in amounts of items other than shareholders' equity during the consolidated fiscal year (net amount)					
Changes in amounts of items during the consolidated fiscal year (total amount)	-	179,439	1,057,914	192,856	1,430,210
Balance as of March 31, 2018	5,244,234	2,694,562	7,876,761	△143,310	15,672,248

	Other aggravate comprehensive income				Non-controlling interests	(Total net assets)
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Total other aggravate comprehensive income		
Balance as of April 1, 2017	28,112	30,580	423,840	482,533	407,304	15,131,876
Changes in amounts of items during the consolidated fiscal year						
Dividends of surplus						△783,659
Income attributable to owners of parent						1,840,900
Disposal of treasury shares						372,295
Changes in surplus due to the change of scope of consolidation						674
Changes in amounts of items other than shareholders' equity during the consolidated fiscal year (net amount)	33,930	20,295	△338,782	△284,556	30,241	△254,314
Changes in amounts of items during the consolidated fiscal year (total amount)	33,930	20,295	△338,782	△284,556	30,241	1,175,896
Balance as of March 31, 2018	62,042	50,876	85,058	197,977	437,546	16,307,772

(Note) Amounts less than one thousand yen are rounded down.

## Notes To Consolidated Financial Statements

### 1. Notes to important matters for the basis of presenting consolidated financial statements

(1) Matters concerning scope of consolidation

① Number of consolidated subsidiaries and name of main consolidated subsidiaries

- i. Number of consolidated subsidiaries 26 companies
- ii. Name of major consolidated subsidiaries VITEC GLOBAL ELECTRONICS CO., LTD.  
VITEC GREEN ENERGY CO., LTD.  
VITEC SOLAR ENERGY CO., LTD.  
VITEC VEGETABLE FACTORY CO., LTD.  
PTT Company Limited  
VITEC ELECTRONICS(SINGAPORE)PTE.LTD.  
VITEC GLOBAL OPERATIONS CO.,LTD.

(Note) VITEC SOLAR ENERGY CO., LTD. changed its trade name to VITEC ENESTA CO., LTD. on April 1, 2018.

② Name, etc. of major unconsolidated subsidiaries

- i. Name of major unconsolidated subsidiaries There is no major unconsolidated subsidiary to note.
- ii. Reason for excluding from the scope of consolidation Unconsolidated subsidiaries are excluded from the scope of consolidation because they are small in size, and their net assets, net sales, income (corresponding to equity interests) and retained earnings (corresponding to equity interests) do not give a material impact on consolidated financial statements.

(2) Matters concerning application of equity method

① Number of entities accounted for using equity method and name of major entities, etc.

- i. Number of entities accounted for using equity method 3 companies
- ii. Name of major entities, etc. KOKUHO SYSTEM CO., LTD.

② Name, etc. of unconsolidated subsidiaries and associates for which equity method is not applied

- i. Name of major entities, etc. There is no major unconsolidated subsidiary and associate to note.
- ii. Reason for not applying equity method Unconsolidated subsidiaries and associated for which equity method is not applied are excluded from the scope of equity method application because they have a minimum impact on consolidated financial statements even if excluded from those subject to equity method given their income (corresponding to equity interests) and retained earnings (corresponding to equity interests) as well as have no importance.

(3) Matters concerning changes in scope of consolidation

Due to their increased importance, VITEC FARM NANAO, VITEC FARM SATSUSENDAI, and ViMOS Technologies GmbH are included in the scope of consolidation from the current consolidated accounting period.

Moreover, VITEC SOLAR ENERGY CO., LTD. was excluded from consolidated subsidiaries because of its liquidation. However, its income is included in the consolidated statement of income until the completion date of liquidation.

- (4) Matters concerning the fiscal year, etc. of consolidated subsidiaries  
Among consolidated subsidiaries, the balance sheet date is December 31 for VITEC ELECTRONICS TRADING (SHANGHAI)CO.,LTD., VITEC ELECTRONICS (SHENZHEN)CO.,LTD., VGEL (SHENZHEN) CO.,LTD., VITEC WPG Limited, VITEC KOREA CO.,LTD. and ViMOS Technologies GmbH, while April 30 for VITEC ELECTRONICS (THAILAND) CO.,LTD. In presenting consolidated financial statements for these companies, financial statements based on provisional settlement of account implemented as of the consolidated balance sheet date are used.
- (5) Matters concerning accounting policies
- ① Valuation standards and valuation method of important assets
- i. Valuation standards and valuation method of securities  
Other securities
- (a) Securities with fair value Fair value method based on the market prices at the consolidated balance sheet date (The difference in valuation is recognized as unrealized gains (losses) on securities available for sale, net of taxes, and included directly in net assets, with cost of sales determined mainly by the moving average method)
- (b) Securities without fair value Moving average method using the cost method
- ii. Valuation standards and valuation method of derivatives  
Fair value method
- iii. Valuation standards and valuation method of inventories  
Merchandise Mainly, the moving average method using the cost method (balance sheet amounts are calculated by reducing book value due to the decline of profitability)
- ② Depreciation method for important depreciable assets
- i. Property, plant and equipment (excluding leased assets)
- (a) Consolidated companies in Japan  
The declining-balance method is mainly adopted (the straight-line method for buildings (excluding facilities attached) acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016). The useful lives for major asset categories are as follows:  
Buildings and structures 2 - 50 years  
Machinery, equipment and vehicles 2 - 17 years  
Tools, furniture and fixtures 2 - 20 years
- (b) Consolidated subsidiaries oversea  
Straight-line method
- ii. Intangible assets  
Software (for internal use) The straight-line method based on the estimated useful life for internal use determined by the Company (5 years)
- iii. Leased assets  
Lease assets relating to finance leases which transfer ownership to lessees  
The straight-line method with the useful life of 20 years is adopted.  
Lease assets relating to finance leases which do not transfer ownership to lessees  
The straight-line method is adopted over the lease term with residual value of zero (Guaranteed residual value if there are residual value guarantees).

- ③ Allowance for material loan losses
- i. Allowance for doubtful accounts To provide for losses from loss on receivables, the Company records a general allowance for loan losses by applying the historical loan-loss ratio observed over specific periods, and records a specific allowance for certain loans at the estimated uncollectible amount based on assessment of each borrower's ability to repay.
  - ii. Provision for directors' bonuses It is appropriated in the amount of the expected total bonus payment to directors within the current consolidated accounting year.
  - iii. Provision for bonuses It is appropriated by consolidated subsidiaries in Japan as the total amount of the bonuses expected to be paid to employees within the current consolidated accounting year.
- ④ Accounting for defined benefits
- For the Company and consolidated subsidiaries in Japan, net defined benefit asset and liability, retirement benefit expenses are calculated using the simplified method, which assumes: for lump sum payment of retirement allowance, the defined benefit obligation to be equal to the benefits payable if all eligible employees voluntarily terminated their employment at the fiscal year end; and for corporate pension plan, the defined benefit obligation to be equal to actuarial obligation by the calculation of the latest pension actuarial revaluation.
- ⑤ Standards for translation of material foreign currency-denominated assets of liabilities into Japanese yen
- Unless the distributed accounting is adopted, foreign currency-denominated monetary claims and obligations are translated into Japanese yen primarily at the exchange rate prevailing at the consolidated balance sheet date, with translation adjustments recorded as losses (gains) Assets and liabilities of overseas subsidiaries are translation into Japanese yen primarily at the exchange rate prevailing at the consolidated balance sheet date, revenue and expenses are translated into Japanese yen at the average exchange rate of the period, and translation adjustments were recorded in foreign currency translation adjustment and non-controlling interests under Assets.
- ⑥ Hedge accounting
- i. Hedge accounting
 

The Company uses deferred hedges in principle. Forward exchange contracts which meet the requirements of distributed accounting are processed by distributed accounting.
  - ii. Hedging instrument and the hedged item
    - i . Hedging instrument: Forward exchange contracts
 

Hedged item: foreign currency- denominated monetary claims and obligations and foreign currency transactions
    - ii . Hedging instrument: Interest rate swaps
 

Hedged item: loans in foreign currency
  - iii. Hedging policy
 

The Company concludes forward exchange contracts to avoid foreign exchange risks for the collection and payment of expected future foreign currency-denominated monetary claims and obligations. Moreover, it engages in interest rate swaps to hedge interest rate fluctuation risks of loans payable.
  - iv. Evaluation method of the effectiveness of hedging
 

Evaluation of effectiveness is omitted as hedging is deemed to be highly effective with the same important conditions for hedging instrument and the hedged item.

⑦ Matters Concerning Amortization of Goodwill

Goodwill is amortized using the straight-line method over a period required for the emergence of investment effects (10 years).

⑧ Other important matters for presenting consolidated financial statements

i. Accounting treatment for consumption taxes

The tax excluded method is used for consolidated companies in Japan.

ii. Application of the consolidated taxation system

The consolidated taxation system is applied to the Company and some consolidated subsidiaries from the current consolidated accounting period.

(6) Additional information

Accounting treatment of stock benefit trust (the Employee Stock Ownership Plan disposal type)

i. Summary of transactions

The Company has introduced the “Stock benefit trust (the Employee Stock Ownership Plan disposal type) (hereinafter referred to as the “ESOP Trust”) to provide incentives for promoting welfare of employees and improving enterprise value of the Company. For the accounting of the ESOP Trust, “Practical Treatment of Transactions of Delivering the Company’s Own Stock to Employees etc. through Trusts” ASBJ PITF No.30, March 26, 2015) is applied, and accounting is processed in accordance with the said guideline.

ii. The remaining stock of the Company in the Trust

The remaining stock of the Company in the Trust is booked as treasury stock in the Net Assets section at the book value

in the Trust (excluding incidental expenses). The book value and number of shares of the treasury stock is 133,459 thousand yen and 142 thousand shares, respectively at the end of the current consolidated accounting period.

iii. The book value of the loan that has been booked through the adoption of the total method:

66,525 thousand yen

## 2. Notes to Consolidated Balance Sheets

(1) Assets pledged as collateral and liabilities for collateral	
(Assets pledged as collateral)	
Buildings and structures	390,395 thousand yen
Machinery, equipment and vehicles	721,231 thousand yen
Tools, furniture and fixtures	<u>49,798 thousand yen</u>
Total	1,161,425 thousand yen
(Liabilities for collateral)	
Long-term loans payable	1,240,000 thousand yen
(2) Notes due at the end of the current consolidated accounting period	
Regarding the accounting treatment of notes due at the end of the current consolidated accounting period, the Company uses clearing dates as the settlement dates.	
As the end of the current consolidated accounting period is a holiday for financial institutions, the following notes due at the end of the current consolidated accounting period are included in the period-end balance.	
Notes receivable - trade	72,933 thousand yen
(3) Aggregate amount of advanced depreciation of property, plant and equipment	4,435,307 thousand yen
(4) Breakdown of inventories is as follows:	
Merchandise and finished goods	16,914,241 thousand yen
Work in process	33,381 thousand yen
Raw materials	3,761 thousand yen
(5) Notes receivable discounted: 2,233,163 thousand yen	
(6) Aggregate amount of advanced depreciation of non-current assets acquired by state subsidy, etc.	
Buildings and structures	646,252 thousand yen
Machinery, equipment and vehicles	1,057,755 thousand yen
Tools, furniture and fixtures	<u>20,378 thousand yen</u>
Total	1,724,387 thousand yen
(7) Guarantee obligations	
The guarantees are provided for associates' loans from financial institutions.	
VITEC Farm Odate Co., Ltd.	140,000 thousand yen

### 3. Notes to Consolidated Statement of Changes in Equity

#### (1) Class and total number of outstanding shares

Class of shares	Number of shares at the beginning of the current consolidated accounting period	Number of increased shares during the current consolidated accounting period	Number of decreased shares during the current consolidated accounting period	Number of shares at the end of the current consolidated accounting period
Common stock	14,376,358 shares	-	-	14,376,358 shares

#### (2) Class and number of shares of treasury stock

Class of shares	Number of shares at the beginning of the current consolidated accounting period	Number of increased shares during the current consolidated accounting period	Number of decreased shares during the current consolidated accounting period	Number of shares at the end of the current consolidated accounting period
Common stock	437,446 shares	-	292,500 shares	144,946 shares

(Note) 1. The number of shares at the end of the current consolidated accounting period of treasury stock includes 142,400 shares of the Company held by the Trust & Custody Services Bank, Ltd. (Trust Account E).

2. Number of shares decreased during the current consolidated accounting period was due to the sale of 62,500 shares from the Trust & Custody Services Bank, Ltd. (Trust Account E) to the Employee Stock Ownership Plan) and the third party allocation of 230,000 shares.

#### (3) Dividends of surplus

##### ① Cash dividends, etc. paid

i. Dividends by the resolution of the 30th Annual Shareholders' Meeting held on June 22, 2017

- Total amount of dividends 424,314 thousand yen
- Dividend per share 30 yen
- Record date March 31, 2017
- Effective date June 23, 2017

(Note) Total amount of dividends by the resolution of the Annual Shareholders' Meeting on June 22, 2017 includes the dividends of 6,147 thousand yen for the treasury shares of the Company held by the Trust & Custody Services Bank, Ltd. (Trust Account E).

ii. Dividends by the resolution of the Board of Directors meeting held on November 7, 2017

- Total amount of dividends 359,345 thousand yen
- Dividend per share 25 yen
- Record date September 30, 2017
- Effective date December 6, 2017

(Note) Total amount of dividends by the resolution of the Board of Directors meeting on November 7, 2017 includes the dividends of 4,210 thousand yen for the treasury shares of the Company held by the Trust & Custody Services Bank, Ltd. (Trust Account E).

② Dividends with a record date falling within the current consolidated accounting period, with an effective date falling within the following consolidated accounting period shall be submitted as follows to the 31st Annual Shareholders' Meeting held June 25, 2018:

- Total amount of dividends 503,083 thousand yen
- Dividend per share 35 yen
- Record date March 31, 2018
- Effective date June 26, 2018

The Company plans to use retained earnings for the dividends.

(Note) Total amount of dividends by the resolution of the Annual Shareholders' Meeting on June 25, 2018 includes the dividends of 4,984 thousand yen for the treasury shares of the Company held by the Trust

& Custody Services Bank,Ltd. (Trust Account E).

#### 4. Notes to Financial Instruments

##### (1) Matters related to financial instruments

Under the Group's policy, fund management is limited to short-term deposits, etc., and fund procurement is conducted mainly through the borrowings from banks.

Regarding the borrowing from banks, a certain percentage of funds are procured for the long-term to avoid liquidity risks and interest rate fluctuation risks. Derivative transactions are used to avoid future exchange rate fluctuations and speculative transactions are not conducted under the current policy.

##### (2) Matters related to the fair value, etc. of financial instruments

Consolidated balance sheet amounts, fair values and differences in amounts as of March 31, 2018 are as follows.

(Unit: Thousand yen)

	Consolidated balance sheet amounts	Fair values	Differences
① Cash and deposits	4,700,862	4,700,862	-
② Notes and accounts receivable - trade	30,590,394		
Allowance for doubtful accounts (*1)	△31,946		
	30,558,447	30,558,447	-
③ Accounts receivable - other	2,437,984	2,437,984	-
④ Investment securities	172,842	172,842	-
⑤ Long-term loans receivable (including the current portion)	241,026		
Allowance for doubtful accounts (*2)	△63,062		
	177,963	178,017	54
<b>Total assets</b>	<b>38,048,100</b>	<b>38,048,154</b>	<b>54</b>
① Notes and accounts payable - trade	20,600,862	20,600,862	-
② Short-term loans payable	16,690,565	16,690,565	-
③ Accounts payable - other	4,454,878	4,454,878	-
④ Income taxes payable	397,101	397,101	-
⑤ Long-term loans payable (including current portion of long-term loans payable)	2,395,025	2,338,786	△56,239
⑥ Lease obligations	11,284,117	10,622,710	△661,406
<b>Total liabilities</b>	<b>55,822,552</b>	<b>55,104,906</b>	<b>△717,645</b>
Derivative transactions (*3)	75,555	75,555	-

(\*1) Allowance for doubtful accounts corresponding to accounts receivable is deducted.

(\*2) Allowance for doubtful accounts corresponding to long-term loans receivable is deducted.

(\*3) The net amount of receivables and payables arising from derivative transactions is shown.



(Note) 1. Matters related to the method of calculating the fair value of financial instruments, and the transactions of securities and derivatives

(Assets)

① Cash and deposits, ② Notes receivable - trade and Accounts receivable - trade, and ③ Accounts receivable - other

Book value is used for these liabilities because they are settled in a short period of time and their fair values are almost equivalent to book values.

④ Investment securities

Their fair value is based on its market price on the stock exchange.

⑤ Long-term loans receivable

The fair value of long-term loans receivable is the present value of the receivable amount of principal and interest that reflects the recoverability is calculated by discounting by the expected interest rate for the remaining period.

(Liabilities)

① Notes and accounts payable - trade, ② Short-term loans payable, ③ Accounts payable - other, and ④ Income taxes payable

Book value is used for these liabilities because they are settled in a short period of time and their fair values are almost equivalent to book values.

⑤ Long-term loans payable

The fair value of long-term loans payable is the present value discounted by the interest rate expected for the new similar borrowing of the total amount of principals and interest.

⑥ Lease obligations

The fair value of lease obligations is calculated with the present value discounted by the interest rate expected for new similar lease transactions of the total amount of principals and interest.

(Derivative transactions)

Since forward exchange contracts with distributed accounting are processed with foreign currency- denominated monetary claims and obligations which are hedged items, their fair value is included in the fair value of said foreign currency- denominated monetary claims and obligations.

(Note) 2. Financial instruments whose fair value measurement is deemed extremely difficult

(Unit: Thousand yen)

Category	Consolidated balance sheet amounts
Non-listed stock (*1)	253,000
Shares of subsidiaries and affiliates (*2)	444,160
Investments in capital of subsidiaries and affiliates (*2)	755,368
Investments in capital (*2)	1,201

(\*1) Because non-listed stock has no market price and it is judged to be extremely difficult to determine its fair value, it

is not included in “(Assets) ④Investment securities”

(\*2) Because they have no market price and it is judged to be extremely difficult to determine their fair value, they are not subject to the fair value disclosure.

## 5. Notes to Per-share Information

- |                          |              |
|--------------------------|--------------|
| (1) Net assets per share | 1,115.15 yen |
| (2) Net income per share | 129.93 yen   |

(Note) The shares of the Company remaining in the Trust & Custody Services Bank, Ltd. (Trust Account E), which are recorded as treasury shares in shareholders' equity, are included in treasury shares to be deducted from the calculation of the average number of shares during the period when calculating net income per share; and are included in treasury shares to be deducted from the total number of issued shares at the end of the period when calculating net assets per share. The average number of the said treasury shares deducted for the calculation of net income per share during the period is 170,562 shares, while the number of the said treasury shares deducted for the calculation of net assets per share at the end of the period is 142,400 shares.

## 6. Notes to Material Subsequent Events

Third-party share issuance and subscription of new shares

On April 2, 2018, as part of the new growth strategy for plant factory business, VITEC VEGETABLE FACTORY CO., LTD. increased its capital through third-party allotment to partner companies in each area of plant factory business and subscription of new shares by the Company. It is summarized as follows:

- |                              |                                |                |
|------------------------------|--------------------------------|----------------|
| (1) Number of issues shares: | 500,000 shares                 |                |
| (2) Issue price:             | 10 thousand yen per share      |                |
| (3) Total value of issues:   | 5,000,000 thousand yen         |                |
| (4) Main allotted parties:   | VITEC HOLDINGS CO., LTD.       | 304,000 shares |
|                              | CANON ELECTRONICS INC.         | 50,000 shares  |
|                              | Ryonetsu Kogyo Co., Ltd.       | 50,000 shares  |
|                              | Development Bank of Japan Inc. | 20,000 shares  |
|                              | KOKUBU GROUP CORP.             | 10,000 shares  |

## Audit Reports

### Accounting Auditor's Report on Non-consolidated Financial Statements

#### Independent Auditor's Report

May 17, 2018

To the Board of Directors of VITEC HOLDINGS CO., LTD.:

#### Deloitte Touche Tohmatsu LLC

Designated  
Unlimited Liability  
Partner,  
Engagement  
Partner

Certified Public  
Accountant:

Konosuke Misawa (seal)

Designated  
Unlimited Liability  
Partner,  
Engagement  
Partner

Certified Public  
Accountant:

Fukuyuki Nishikawa (seal)

Designated  
Unlimited Liability  
Partner,  
Engagement  
Partner

Certified Public  
Accountant:

Kazuyoshi Kuramoto (seal)

Pursuant to Article 436, Paragraph 2, Item (1) of the Companies Act, we have audited the non-consolidated financial statements, namely, the non-consolidated balance sheets as of March 31, 2018 of VITEC HOLDINGS CO., LTD. (the "Company"), and the related non-consolidated statements of income and changes in equity for the 31st fiscal year from April 1, 2017 to March 31, 2018, and the related notes and the accompanying supplemental schedules.

#### Management's Responsibility for the Non-consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements and the accompanying supplemental schedules in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of non-consolidated financial statements and the accompanying supplemental schedules that are free from material misstatement, whether due to fraud or error.

#### Accounting Auditor's Responsibility

Our responsibility is to express an opinion on these non-consolidated financial statements and the accompanying supplemental schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements and the accompanying supplemental schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements and the accompanying supplemental schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements and the accompanying supplemental schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the non-consolidated financial statements and the accompanying supplemental schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements and the accompanying supplemental schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Audit Opinion

In our opinion, the non-consolidated financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the financial position of the Company, as of March 31, 2018, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in Japan.

#### Interest

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

## Accounting Auditor's Report on Consolidated Financial Statements

### Independent Auditor's Report

May 17, 2018

To the Board of Directors of VITEC HOLDINGS CO., LTD.:

#### Deloitte Touche Tohmatsu LLC

Designated  
Unlimited Liability  
Partner,  
Engagement  
Partner

Certified Public  
Accountant:

Konosuke Misawa (seal)

Designated  
Unlimited Liability  
Partner,  
Engagement  
Partner

Certified Public  
Accountant:

Fukuyuki Nishikawa (seal)

Designated  
Unlimited Liability  
Partner,  
Engagement  
Partner

Certified Public  
Accountant:

Kazuyoshi Kuramoto (seal)

Pursuant to the Article 444, Paragraph 4 of the Companies Act, we have audited the consolidated financial statements, namely, the consolidated balance sheet as of March 31, 2018 of VITEC HOLDINGS CO., LTD. (the "Company") and its consolidated subsidiaries, and the related consolidated statements of income and changes in net assets for the fiscal year from April 1, 2017 to March 31, 2018, and the related notes.

#### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### Accounting Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Audit Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as of March 31, 2018, and the results of their operations for the year then ended in accordance with accounting principles generally accepted in Japan.

#### Interest

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

## **Audit and Supervisory Committee's Report**

### **Audit Report**

Audit and Supervisory Committee has audited the performance of Directors' duties for the 31st fiscal year from April 1, 2017 to March 31, 2018. The methods and results are as follows.

#### **1. Audit and Supervisory Committee's Audit Method and Content**

Audit and Supervisory Committee has received reports from Directors and employees, etc. on a regular basis with respect to the content of the resolutions at the Board of Directors' meeting relating to the matters set out in Article 399-13, Paragraph 1, items (1) (b) and (c) of the Companies Act and the status of the development and operation of the systems (internal control systems) established based on such resolutions, requested explanations as necessary, expressed its opinions, as well as conducted audit through the following method.

- (a) Audit and Supervisory Committee communicated with Directors, Internal Audit Department and other employees, endeavored to collect information and create audit function in conformity with the Audit and Supervisory Committee auditing standards established by the Audit and Supervisory Committee, and in accordance with the audit policies and the separation of responsibilities. In addition, each Audit and Supervisory Committee member attended the Board of Directors' meeting and other important meetings to receive explanation for matters on the execution of the duties from Directors and employees, etc., requested for explanations as necessary, examined important decision documents, etc. and inspected the status of the business and assets at the head office and other principal business locations. Furthermore, with respect to the subsidiaries, each Audit and Supervisory Committee member attended the Board of Directors' meeting of subsidiaries, and in addition, communicated and exchanged information with Directors and Corporate Auditors, etc. of subsidiaries, and received business reports from subsidiaries as necessary.
- (b) Regarding basic policy under Article 118, Item (3)(a) of the Ordinance for Enforcement of the Companies Act and each measure under Item (3)(b) of the Ordinance as set out in the Business Report, Audit and Supervisory Committee members considered the content based on the circumstances of discussions at the Board of Directors and others.
- (c) Each Audit and Supervisory Committee member monitored and verified whether the Independent Auditor maintained its independence and properly conducted its audit, received a report from the Independent Auditor on the status of its performance of duties, and requested explanations as necessary. In addition, each Audit and Supervisory Committee member was notified by the Independent Auditor that it had established a "system to ensure that the performance of the duties of the Independent Auditor was properly conducted" (the matters set forth in the Items of Article 131 of the Rules of Corporate Accounting) in accordance with the "Quality Control Standards for Audits" (Business Accounting Council, October 28, 2005) and requested explanations as necessary.

Based on the above-described methods, each Audit and Supervisory Committee member examined the Business Report and accompanying supplemental schedules thereto, financial statements (balance sheet, statement of income, statement of changes in equity and notes to financial statements) and accompanying supplemental schedules thereto as well as the consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in equity and notes to consolidated financial statements) for the fiscal year.

## 2. Audit Results

### (1) Audit Results of Business Report, etc.

- (a) We acknowledge that the Business Report and the accompanying supplemental schedules properly present the status of the Company in accordance with the laws and regulations and the Articles of Incorporation of the Company.
- (b) We acknowledge that no misconduct or material fact constituting a violation of any law or regulation or the Articles of Incorporation of the Company was found with respect to the Directors' performance of their duties.
- (c) We acknowledge that the Board of Directors' resolutions with respect to the internal control systems are appropriate. We did not find any matter to be mentioned with respect to the description of the Business Report and the Directors' performance of their duties concerning the internal control systems.
- (d) We acknowledge that basic policy for the way of being of a person who controls the Company's financial and business policy decisions as mentioned in the Business Report is appropriate.

### (2) Audit Results of Financial Statements and the Accompanying Supplemental Schedules

We acknowledge that the methods and results of the audit performed by the Independent Auditor, Deloitte Touche Tohmatsu LLC, are appropriate.

### (3) Audit Results of Consolidated Financial Statements

We acknowledge that the methods and results of the audit performed by the Independent Auditor, Deloitte Touche Tohmatsu LLC, are appropriate.

May 24, 2018

Audit and Supervisory Committee of VITEC HOLDINGS CO., LTD.

Audit and Supervisory Committee member:	Masanobu Seiki	(seal)
Audit and Supervisory Committee member:	Kazuo Takimoto	(seal)
Audit and Supervisory Committee member:	Haruka Matsuyama	(seal)
Audit and Supervisory Committee member:	Seno Tezuka	(seal)

(Note) Audit and Supervisory Committee members Kazuo Takimoto, Haruka Matsuyama and Seno Tezuka are Outside Directors pursuant to Article 2, Item 15 and Article 331, Paragraph 6 of the Companies Act.

Details of financial statements, etc. for the recent fiscal year of VITEC GLOBAL ELECTRONICS CO., LTD. out of the matters to be set out in Proposal No. 2 “Approval on Absorption Division Agreement” of reference documents for the General Meeting of Shareholders.

<<Attachments>>

**Business Report**

( From April 1, 2017  
To March 31, 2018 )

**1. Current status of the corporate group**

**(1) Status of business during the fiscal year under review**

① Progress and results of the business

	Previous consolidated accounting period (From April 1, 2016 to March 31, 2017)	Current consolidated accounting period (From April 1, 2017 to March 31, 2018)	% of change from previous year
Net sales	108,695 million yen	132,025 million yen	121.5%
Segment income	984 million yen	1,377 million yen	139.9%

Net sales of the device business amounted to 132,025 million yen. The sales of image sensors for smart phones stayed solid throughout the year, and the demand for on-board semiconductors was strong. In addition, the sales of memory products for servers and TVs grew significantly.

As a result of our efforts to reduce selling and general administrative expenses as part of the structural reform, segment income increased.

<Status of major markets relevant to the Group>

(Device/Procurement)

Digital equipment	In the flat-screen TV segment, 4K TVs lead the market due to the replacement demand and the full-scale spread of 4K. The market for new products is being formed such as OLED-TVs, standing game consoles, head-mounted displays and smart speakers.
Automobile	Car navigation systems seem to be more diversified such as e-cockpit, display audio and link with smart phones due to the market environment and the penetration rate of smart phones. The market is expected to expand with an eye to Connected Car and automatic driving, and the market for electric vehicles is expected to grow in China.
Information and telecommunications	The smart phone market is slowing down. On the other hand, increasing capacity of smart phones and the growing demand for data center contributed to the strong memory market in FY2017. Provision of new added value has started as memory is installed in devices which had no communication feature before such as automated plants and Connected Car.

Please note that as the Company has only one segment, description by segment is omitted.



② Status of capital investment

Capital investment made during the fiscal year under review amounted to 55 million yen and mainly consisted of purchase of measuring instrument.

③ Status of financing

Financing is provided by VITEC HOLDINGS CO., LTD., the parent company, as funds for operating activities. Thus, interest-bearing liabilities were 12,814 million yen (Previous fiscal year: 8,860 million yen).

**(2) Status of assets and income**

Item	1st period (Fiscal year ended March 2016)	2nd period (Fiscal year ended March 2017)	3rd period (Fiscal year ended March 2018) (Fiscal year under review)
Net sales (Millions of yen)	47,038	71,318	86,929
Ordinary income (Millions of yen)	271	(67)	807
Net income (Millions of yen)	172	(100)	428
Net income per share (Yen)	17,218.42	(10,097.70)	42,847.13
Total assets (Millions of yen)	26,716	21,411	27,725
Net assets (Millions of yen)	1,856	1,783	2,200

**(3) Status of parent company and major subsidiaries**

① Status of parent company

The parent company of the Company is VITEC HOLDING CO., LTD. which owns 10,000 shares of the Company (Percentage of voting rights: 100%).

② Status of major subsidiaries

Company name	Capital stock	Capital contribution ratio	Major business
VITEC GLOBAL OPERATIONS CO.,LTD.	4,636 thousand USD	100.0%	Sale of electronic parts
VITEC ELECTRONICS (SINGAPORE) PTE.LTD.	2,574 thousand USD	100.0%	Sale of electronic parts

③ Status of specified wholly-owned subsidiary as of the end of fiscal year

Not applicable.

**(4) Issues to be dealt with**

Under the management philosophy, “Create a rich life and the earth-friendly future by “Device business” and “Environmental energy business”, the VITEC Group took a step toward a new stage for growth as a company which co-creates values by electronics on the 30th anniversary of its foundation. In February 2018, we announced a new medium-term management plan (34th period) by adding a growth strategy in the respective business domain to the past medium-term management plans. Based on “World, social contribution and co-creation” as a keyword, we will aim to achieve our goals and improve corporate value with each business fulfilling its roles and responsibilities to expand the scope and pursue income.

Major issues the Company is required to work on to realize the new medium-term management plan are as follows.

(Device business)

In the device business, based on the thorough customer-oriented approach, we are working on structural reform such as organizational restructuring so that we can sell our extensive line of products in an effective manner. In addition to economies of scale by pursuing the expansion of scope, we work to increase income by promoting streamlining such as stricter inventory management and review of logistics cost. Furthermore, we will further increase income by developing a new business model beyond the existing product sales.

(Electronic device business)

In the electronic device business, while maintaining our current high-value added business model, we will develop businesses in new growing markets.

Based on these measures mentioned above, we will contribute to sustainable development of the society.

**(5) Major business (as of March 31, 2018)**

The Company is mainly engaged in semiconductors and electronic parts business and electronic device business.

**(6) Major place of business** (as of March 31, 2018)

Head office 2-32-3 Kita-shinagawa, Shinagawa-ku, Tokyo

Branch 2-1-1 Awaza, Nishi-ku, Osaka-shi, Osaka

**(7) Status of employees** (as of March 31, 2018)

Number of employees	Change from the end of the previous fiscal year	Average age	Average years of service
184 employees	Decrease of 15 employees	42.6 years old	9 years and 4 months

(Note) 37 employees loaned to other companies are not included.

**(8) Status of major lenders** (as of March 31, 2018)

Lender	Balance of borrowings
VITEC HOLDINGS CO., LTD.	10,246 million yen

**(9) Other important matters concerning the current status of the corporate group**

Not applicable.

**2. Current status of the Company**

**(1) Status of stock** (as of March 31, 2017)

- ① Total number of authorized shares 10,000 shares
- ② Total number of outstanding shares 10,000 shares
- ③ Number of shareholders 1
- ④ Major shareholders (Top 10)

Name of shareholder	Number of shares held	Shareholding ratio
VITEC HOLDINGS CO., LTD.	10 thousand shares	100.00%

**(2) Status of share acquisition rights**

Not applicable.

### (3) Status of company officers

#### ① Status of directors (as of March 31, 2018)

Position in the Company	Name	Status of responsibilities and important concurrent posts
President (Representative Director)	Kunihiro Konno	Chairman & President, VITEC HOLDINGS CO., LTD.
Director	Toshiyuki Suzuki	Director, VITEC HOLDINGS CO., LTD.
Director	Osamu Komaki	Director, VITEC HOLDINGS CO., LTD. Vitec Global Operations Co., Ltd.CEO
Director	Hiroki Ohinata	Director, VITEC HOLDINGS CO., LTD. President (Representative Director), Vitec System Engineering Inc.
Representative Director	Yasuhiro Tanaka	
Director	Susumu Nishima	Manager, Accounting Department, VITEC HOLDINGS CO., LTD.
Director	Yoshiaki Oki	Managing Executive Officer, VITEC HOLDINGS CO., LTD.
Corporate Auditor	Toshihiko Inaba	Managing Executive Officer, VITEC HOLDINGS CO., LTD.
Corporate Auditor	Takamasa Kuroda	Accounting Department, VITEC HOLDINGS CO., LTD.

(Note) 1. Toshiyuki Suzuki, Osamu Komaki, Hiroki Ohinata, Susumu Nishima and Yoshiaki Oki are Outside Directors.

2. Toshihiko Inaba and Takamasa Kuroda are Outside Auditors.

#### ② Overview of limited liability agreement

Directors and Corporate Auditors of the Company signed an agreement which limits liability for damages as stipulated in Paragraph 1, Article 423 of the Companies Act based on the provisions of Paragraph 1, Article 427 of the Act.

The limit of liability for damages based on such agreement is the sum of amounts stipulated in each item of Paragraph 1, Article 425 of the Act.

③ Total remuneration of directors and corporate auditors

Category	Number of directors and corporate auditors paid	Amount
Director (Of those, outside directors)	1 (0)	8,500 thousand yen (0)
Corporate auditor (Of those, outside auditors)	0 (0)	0 (0)
Total (Of those, outside officers)	1 (0)	8,500 (0)

(Note) Unpaid directors (corporate auditors) are not included.

**(4) Status of accounting auditor**

Name: Deloitte Touche Tohmatsu LLC

**(5) System for ensuring appropriate business execution**

Decisions on the systems for ensuring that directors' execution of duties complies with the laws and the articles of incorporation and that business operations are appropriately executed are outlined below.

① System for ensuring that the execution of duties by the Company's directors and employees complies with the laws and the articles of incorporation

The Company has implemented the "Vitec Group Code of Conduct" that stipulates the rules of behavior requiring the compliance with the laws, articles of incorporation, regulations and corporate ethics, and has widely disseminated it among all directors and employees.

- i. The Audit Department of VITEC HOLDINGS, which is responsible for conducting internal audits of the VITEC Group, confirms the status of business execution and reports it to the president, Internal Control Committee members and corporate auditors of VITEC HOLDINGS.
- ii. In case a director identifies any violation of law or the articles of incorporation or other compliance-related material facts, he/she is required to immediately report it to corporate auditors and at a meeting of the board of directors without delay.

② System for retaining and managing information about the execution of duties by the Company's directors

Information about directors' execution of duties is appropriately retained and managed in accordance with the "Information & Document Management Rules."

③ The Company's crisis management rules and other loss avoidance systems

Each director is required to establish a risk management system covering the scope of his/her duties. However, the establishment of a material risk management system requires discussions at Internal Control Committee meetings of VITEC HOLDINGS.

④ System for ensuring that the Company's directors execute their duties efficiently

- i. Under the system for ensuring that directors' duties are efficiently executed, board of directors meetings are held on a monthly basis and also whenever necessary. In addition, important matters are discussed in advance at various committee meetings and submitted to decision-making bodies so that efficiency can be ensured.
- ii. Regarding the execution of duties based on the board of directors' decisions, the "Organization/Segregation of Duties Rules" and the "Work Authorization Rules" stipulate the scope of each manager's responsibility and authorization.

⑤ Corporate group structure consisting of the Company and its subsidiaries

To ensure the appropriateness of group companies' business operations, the Company has implemented the "Subsidiary Management Rules" and established the decision-making and reporting systems. The status of compliance with corporate rules is regularly confirmed through internal audits by VITEC HOLDINGS and monitored if necessary.

⑥ Matters related to employees who assist corporate auditors in their duties

- i. Employees who assist corporate auditors in their duties are not assigned, but they may ask the Audit Department of VITEC HOLDINGS to examine necessary matters. In this case, corporate auditors are still authorized to give directions within the range of audit work for which they are responsible, and directors and other employees are not authorized to give such directions.
- ii. The Audit Department of VITEC HOLDINGS assists corporate auditors in their duties. This matter is stipulated in the "Internal Audit Rules" as described below.
  - When preparing an audit plan, the Audit Department of VITEC HOLDINGS holds adequate discussions in advance with corporate auditors
  - The Audit Department reports audit results to the president, Internal Control Committee members and Audit Committee members of VITEC HOLDINGS
  - The Audit Department responds to corporate auditors' inquiries about audit results, etc. in writing

- ⑦ System for reporting to corporate auditors Other systems for ensuring that the corporate auditors' audits are effectively conducted

Directors and employees report the following matters to corporate auditors.

- i. When a fact that may cause a substantial loss to the Company is identified
  - ii. When an employee may not comply with the laws, regulations, or articles of incorporation
  - iii. Other important matters that may affect the Company's business performance
  - iv. Matters regarding which the submission of reports and materials is requested by corporate auditors
- ⑧ Matters related to the policies on the treatment of costs and liabilities incurred by audit

Regarding the treatment of prepaid expenses incurred in connection with corporate auditors' execution of duties, or other expenses or liabilities incurred in connection with redemption procedures or their execution of other duties, the Company has established a system enabling such treatment quickly at the request of Corporate Auditors.

(Status of implementation of the system for ensuring appropriate business execution)

The Company aims to disseminate business activity guidelines (i.e. management philosophy and behavioral guidelines of the VITEC Group) among directors and employees by letting its management executives continuously talk about them at various meetings and posting them on the bulletin board of the VITEC HOLDING's portal site.

Regarding internal controls, the Company attended seven meetings of the Internal Control Committee (which is responsible for building internal control systems) during the year with attendance of director in charge of internal controls and Audit Committee members. After setting the range of assessment, the Internal Audit Department of VITEC HOLDINGS and other sections assess the status of maintenance and implementation and identify problems. The Internal Control Committee of VITEC HOLDINGS reports these problems to director in charge of internal controls and corporate auditors. Then relevant guidance is given as soon as possible so that these problems can be solved.

Internal audit findings of the Internal Audit Department of VITEC HOLDINGS are summarized and audit results are reported as audit reports or recommendation statements to Representative Director, Chairman & President of VITEC HOLDINGS. With regard to certain matters, it is necessary to confirm the status of improvements made. By confirming such status at a later date, the Company strives to conserve assets and enhance management efficiency.

**(6) Basic policy on the control over the Company**

The Company recognizes the importance of this matter, but does not currently take defensive measures because the ratio of voting rights held by stable shareholders exceeds 100% at present.

**Balance sheet**  
(as of March 31, 2018)

(Unit: Thousand yen)

Item	Amount	Item	Amount
<b>(Assets)</b>		<b>(Liabilities)</b>	
<b>Current assets</b>	<b>26,825,638</b>	<b>Current liabilities</b>	<b>25,481,000</b>
Cash and deposits	683,225	Accounts payable - trade	11,861,532
Notes receivable - trade	644,233	Short-term loans payable	10,246,302
Accounts receivable - trade	16,709,577	Accounts payable - other	3,064,956
Merchandise	6,434,775	Accrued expenses	44,732
Accounts receivable - other	830,618	Income taxes payable	92,779
Advance payments - trade	88,931	Advances received	73,204
Prepaid expenses	27,283	Deposits received	36,038
Short-term loans receivable	1,323,813	Provision for bonuses	61,454
Deferred tax assets	54,458	<b>Non-current liabilities</b>	<b>44,391</b>
Other	60,667	Provision for retirement benefits	20,661
Allowance for doubtful accounts	-31,946	Deferred tax liabilities	17,357
<b>Non-current assets</b>	<b>899,782</b>	Asset retirement obligations	6,372
<b>Property, plant and equipment</b>	<b>87,053</b>	<b>Total liabilities</b>	<b>25,525,391</b>
Buildings	40,516	<b>(Net assets)</b>	
Tools, furniture and fixtures	46,536	<b>Shareholders' equity</b>	<b>2,172,742</b>
Other	0	<b>Capital stock</b>	<b>310,000</b>
<b>Intangible assets</b>	<b>26,872</b>	<b>Capital surplus</b>	<b>1,414,713</b>
Software	4,189	Legal capital surplus	100,000
Goodwill	22,682	Other capital surplus	1,314,713
<b>Investments and other assets</b>	<b>785,857</b>	<b>Retained earnings</b>	<b>448,028</b>
Investment securities	20,000	Other retained earnings	448,028
Shares of subsidiaries and affiliates	706,825	Retained earnings brought forward	448,028
Investments in capital of subsidiaries and affiliates	30,512	<b>Valuation and translation adjustments</b>	<b>27,287</b>
Long-term loans receivable	7,539	Deferred gains or losses on hedges	27,287
Other	20,980	<b>(Total net assets)</b>	<b>2,200,029</b>
<b>Total assets</b>	<b>27,725,421</b>	<b>Total liabilities and net assets</b>	<b>27,725,421</b>

(Note) Amounts less than one thousand yen are rounded down.



## Statement of income

From April 1, 2017

To March 31, 2018

(Unit: Thousand yen)

Item	Amount	
<b>Net sales</b>		<b>86,929,500</b>
<b>Cost of sales</b>		<b>81,507,485</b>
<b>Gross income</b>		<b>5,422,015</b>
<b>Selling, general and administrative expenses</b>		<b>4,541,016</b>
<b>Operating income</b>		<b>880,998</b>
<b>Non-operating income</b>		
Interest income	2,435	
Foreign exchange gains	165,112	
Other	44,552	212,100
<b>Non-operating expenses</b>		
Interest expenses	166,417	
Loss on transfer of receivables	111,551	
Other	7,182	285,151
<b>Ordinary income</b>		<b>807,948</b>
<b>Extraordinary income</b>		
Gain on sales of non-current assets	138	138
<b>Extraordinary losses</b>		
Loss on retirement of non-current assets	4,962	
Business structure improvement expenses	105,472	110,434
<b>Income before income taxes</b>		<b>697,652</b>
Income taxes - current	263,904	
Income taxes - deferred	5,276	269,180
<b>Net income</b>		<b>428,471</b>

(Note) Amounts less than one thousand yen are rounded down.

## Statement of changes in equity

From April 1, 2017

To March 31, 2018

(Unit: Thousand yen)

	Shareholders' equity						Total shareholders' equity
	Capital stock	Capital surplus			Retained earnings		
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings Retained earnings brought forward	Total retained earnings	
Balance as of April 1, 2017	310,000	100,000	1,314,713	1,414,713	19,557	19,557	1,744,271
Changes in amounts during the fiscal year							
Dividends of surplus							
Net income					428,471	428,471	428,471
Changes in amounts of items other than shareholders' equity during the fiscal year (net amount)							
Changes in amounts of items during the fiscal year (total amount)	-	-	-	-	428,471	428,471	428,471
Balance as of March 31, 2018	310,000	100,000	1,314,713	1,414,713	448,028	448,028	2,172,742

	Valuation and translation adjustments		(Total net assets)
	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance as of April 1, 2017	39,263	39,263	1,783,534
Changes in amounts during the fiscal year			
Dividends of surplus			
Net income			428,471
Changes in amounts of items other than shareholders' equity during the fiscal year (net amount)	-11,975	-11,975	-11,975
Changes in amounts of items during the fiscal year (total amount)	-11,975	-11,975	-11,975
Balance as of March 31, 2018	27,287	27,287	2,200,029

(Note) Amounts less than one thousand yen are rounded down.

## Notes to Financial Statements

### 1. Notes to Matters Concerning Significant Accounting Policies

- (1) Valuation standards and valuation method of assets
- ① Valuation standards and valuation method of securities  
For shares of subsidiaries and affiliates: moving average method using the cost method
  - ② Valuation standards and valuation method of derivatives  
Fair value method
  - ③ Valuation standards and valuation method of inventories  
Moving average method using the cost method (balance sheet values are calculated by reducing book value when relevant profitability declines)
- (2) Depreciation method for non-current assets
- ① Property, plant and equipment  
The declining-balance method is adopted (the straight-line method for buildings (excluding facilities attached) acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016). The useful lives of main assets are as follows:

Buildings	3 - 26 years
Tools, furniture and fixtures	2 - 20 years
  - ② Intangible assets

Software (for internal use)	The straight-line method based on the estimated useful life for internal use determined by the Company (5 years)
Goodwill	Straight-line amortization over a period required for the emergence of investment effects (10 years)
- (3) Standards for translation of foreign currency-denominated assets and liabilities into Japanese yen  
Foreign currency-denominated monetary claims and obligations are translated into Japanese yen primarily at the exchange rate prevailing at the balance sheet date, with translation adjustments recorded as losses (gains)
- (4) Standards for recording allowances
- ① Allowance for doubtful accounts  
To provide for losses from uncollectible receivables, the Company records a general allowance for loan losses by applying the historical loan-loss ratio observed over specific periods, and records a specific allowance for certain loans at the estimated uncollectible amount based on assessment of each borrower's ability to repay.
  - Provision for bonuses  
To provide for payment of bonuses to employees, the Company records an amount of bonuses that it is expected to pay within the current fiscal year out of the estimated future payment amount.
  - Provision for retirement benefits  
To provide for payment of retirement benefits to employees, the Company records a necessary amount based on an estimated amount of retirement benefit obligations and pension assets as of the end of the current fiscal year. The simplified method is adopted for the calculation of provision for retirement benefits.

- (5) Hedge accounting
- ① Hedge accounting  
The Company uses deferred hedges.
  - ② Hedging instruments and hedged items  
Forward exchange contracts      Foreign currency- denominated monetary claims  
and obligations and foreign currency transactions
  - ③ Hedging policy  
The Company concludes forward exchange contracts to avoid foreign exchange risks related to the collection and payment of expected future foreign currency-denominated monetary claims and obligations.
  - ④ Evaluation method of the effectiveness of hedging  
Evaluation of effectiveness is omitted as important conditions for hedging instruments and hedged items are the same and hedging is deemed to be highly effective.
- (6) Other important matters for the basis of preparing financial statements
- ① Accounting treatment for consumption taxes  
The tax excluded method is used.
  - ② Application of the consolidated taxation system  
The consolidated taxation system is adopted from the current fiscal year, with VITEC HOLDINGS CO., LTD. as the parent company.

## 2. Notes to Balance Sheets

- (1) Notes due at the end of the current fiscal year  
Regarding the accounting treatment of notes due at the end of the current fiscal year, the Company uses clearing dates as the settlement dates.  
As the end of the current fiscal year is a holiday for financial institutions, the following notes due at the end of the current fiscal year are included in the year-end balance.

Notes receivable - trade	55,786 thousand yen
--------------------------	---------------------

(2) Accumulated depreciation of property, plant and equipment	327,400 thousand yen
---	----------------------

(3) Notes receivable discounted	2,233,163 thousand yen
---------------------------------	------------------------

### Guarantee obligations

The following guarantees are provided for the parent company's loans from financial institutions:

VITEC HOLDINGS CO., LTD.	5,755,120 thousand yen
--------------------------	------------------------

- (5) Monetary claims against and obligations owed to subsidiaries and affiliates

① Short-term monetary claims	5,857,117 thousand yen
② Short-term monetary obligations	10,696,000 thousand yen

### 3. Notes to Statement of Income

Volume of transactions with subsidiaries and affiliates

① Business transaction volume

Net sales	12,722,614 thousand yen
Total purchase of goods	2,143,161 thousand yen
Selling, general and administrative expenses	1,793,730 thousand yen

② Non-business transaction volume

Non-operating income	2,370 thousand yen
Non-operating expenses	166,417 thousand yen

### 4. Notes to Statement of Changes in Equity

(1) Class and total number of outstanding shares

Class of shares	Number of shares at the beginning of the year	Number of shares increased during the year	Number of shares decreased during the year	Number of shares at the end of the year
Ordinary shares	10,000 shares	-	-	10,000 shares

(2) Dividends of surplus

① Cash dividends, etc. paid

Not applicable

② Dividends whose record date belongs to the current fiscal year, but whose effective date falls in the following year

Resolution	Class of shares	Sources of dividends	Total amount of dividends (thousand yen)	Dividend per share (Yen)	Record date	Effective date
May 23, 2018	Ordinary shares	Retained earnings	130,000	13,000	March 31, 2018	June 29, 2018

## 5. Notes to Tax Effect Accounting

Breakdown of deferred tax assets and deferred tax liabilities by main causes

### Deferred tax assets (current)

Provision for bonuses	18,817 thousand yen
Valuation loss on goods	34,809 thousand yen
Accrued enterprise tax	17,296 thousand yen
Allowance for doubtful accounts	9,782 thousand yen
Other	<u>9,325 thousand yen</u>
Subtotal	90,031 thousand yen
Valuation allowance	<u>-21,591 thousand yen</u>
Total	68,440 thousand yen

### Deferred tax liabilities (current)

Deferred gains or losses on hedges	-12,043 thousand yen
Asset retirement obligations	<u>-1,938 thousand yen</u>
Total	<u>-13,981 thousand yen</u>
Deferred tax assets (current), net	54,458 thousand yen

### Deferred tax assets (non-current)

Provision for retirement benefits	6,326 thousand yen
Other	<u>2,957 thousand yen</u>
Subtotal	9,283 thousand yen
Valuation allowance	<u>-1,951 thousand yen</u>
Total	7,332 thousand yen

### Deferred tax liabilities (non-current)

Retirement benefit liability adjustment	-17,744 thousand yen
Goodwill	<u>-6,945 thousand yen</u>
Total	<u>-24,689 thousand yen</u>
Deferred tax liabilities (non-current), net	-17,357 thousand yen

## 6. Notes to Financial Instruments

### (1) Matters related to financial instruments

Under the Group's policy, fund investment is limited to short-term deposits, etc., and fund procurement is conducted mainly through the parent company's borrowings. Derivative transactions are used to avoid future exchange rate fluctuations and speculative transactions are not conducted under the current policy.

### (2) Matters related to the fair value, etc. of financial instruments

Balance sheet amounts, fair values and differences in amounts as of March 31, 2018 are as follows.

(Unit: Thousand yen)

	Balance sheet amounts	Fair values	Differences
① Cash and deposits	683,225	683,225	-
② Notes receivable - trade	644,233	644,233	-
③ Accounts receivable - trade	16,709,577		
Allowance for doubtful accounts (*1)	-31,946		
	16,677,631	16,677,631	-
④ Accounts receivable - other	830,618	830,618	-
⑤ Short-term loans receivable	1,320,860	1,320,860	-
⑥ Long-term loans receivable (including the current portion)	10,491	10,503	11
Total assets	20,167,061	20,167,072	11
① Accounts payable - trade	11,861,532	11,861,532	-
② Accounts payable - other	3,064,956	3,064,956	-
③ Short-term loans payable	10,246,302	10,246,302	-
④ Income taxes payable	92,779	92,779	-
Total liabilities	25,265,570	25,265,570	-
Derivative transactions (*2)	56,254	56,254	-

(\*1) Allowance for doubtful accounts corresponding to accounts receivable is deducted.

(\*2) The net amount of receivables and payables arising from derivative transactions is shown.

(Note) 1. Matters related to the method of calculating the fair value of financial instruments, and derivative transactions

(Assets)

- ① Cash and deposits, ② Notes receivable - trade, ③ Accounts receivable - trade ④ Accounts receivable - other, and ⑤ Short-term loans receivable

Book value is used for these assets because they are settled in a short period of time and their fair values are almost equivalent to book values.

- ⑥ Long-term loans receivable

The fair value of long-term loans receivable is the present value of the receivable amount of principal and interest that reflects the recoverability is calculated by discounting by the expected interest rate for the remaining period.

(Liabilities)

- ① Accounts payable - trade, ② Accounts payable - other, ③ Short-term loans payable, and ④ Income taxes payable

Book value is used for these liabilities because they are settled in a short period of time and their fair values

are almost equivalent to book values.

(Note) 2. Financial instruments whose fair value measurement is deemed extremely difficult

(Unit: Thousand yen)

Category	Balance sheet amounts
Investment securities	20,000
Shares of subsidiaries and affiliates	706,825
Investments in capital of subsidiaries and affiliates	30,512

Fair values of investment securities, investments in shares of subsidiaries and affiliates, and investments in capital of subsidiaries and affiliates are not shown due to the unavailability of market prices, inability to estimate cash flows, and extreme difficulty in grasping their fair values.



## 7. Notes to Transactions with Related Parties

### (1) Parent company

Category	Name of the company, etc, or the person	Capital stock of Investments in capital	Details of business or occupation	Percentage of voting rights held In (Held) Ratio (%)	Relationship with related party	Details of transactions	Transaction amount (thousand yen)	Item	End of year balance (thousand yen)
Parent company	VITEC HOLDINGS CO., LTD.	5,245,234 (thousand yen)	Business management by group	Directly held 100.0	Concurrent director for business management task commission	Loan of funds	110,071	Short-term loans receivable	1,320,860
						Loan of funds (Note 2)	11,013,052	Short-term loans payable	10,246,302
						Interest expenses paid (Note 2)	166,417	-	-
						Guarantee of obligations (Note 3)	5,755,120	-	-

Terms and conditions and the policy to decide the terms and conditions, etc.

(Notes) 1. The transaction amount of the amount above does not include consumption tax, etc.

- For the transaction amount for the loans of funds, the average balance during the period is indicated. Market interest rates are taken into consideration into the determination of the interest rate of loans.
- The guarantee of obligations of VITEC HOLDINGS CO., LTD. is for 5,755,120 thousand yen of the loans from financial institutions. The guarantee fee is not received.

### (2) Subsidiaries and Associates, etc.

Category	Name of the company, etc, or the person	Capital stock of Investments in capital	Details of business or occupation	Percentage of voting rights held In (Held) Ratio (%)	Relationship with related party	Details of transactions	Transaction amount (thousand yen)	Item	End of year balance (thousand yen)
Subsidiary	VITEC GLOBALOPERATIONS CO.,LTD.	4,636 (thousand USD)	Sale of electronic parts	Directly held 100%	Sale of electronic parts to the company	Sale of electronic parts (Note 2)	4,498,147	Accounts receivable - trade	982,112
						Receipt of commission (Note 3)	340,353	Accounts receivable - trade	45,717
	VITEC ELECTRONICS (TAIWAN) CO., LTD.	15,000 (thousands TWD)	Sale of electronic parts	Directly held 100%	Sale of electronic parts to the company	Sale of electronic parts (Note 2)	6,081,714	Accounts receivable - trade	2,832,520
						Receipt of commission (Note 3)	9,468	Accounts receivable - trade	1,622
	VITEC ELECTRONICS (SINGAPORE)PTE.LTD.	2,574 (thousand USD)	Sale of electronic parts	Directly held 100%	Sale of electronic parts to the company	Sale of electronic parts (Note 2)	971,743	Accounts receivable - trade	418,590
						Receipt of commission (Note 3)	145,106	Accounts receivable - trade	20,125

Terms and conditions and the policy to decide the terms and conditions, etc.

(Notes) 1. The transaction amount of the amount above does not include consumption tax, etc.

- For the sale of electronic parts, prices are determined considering the actual market prices.
- For the receipt of commission, prices are determined considering the sales activity tasks.

(3) Sibling company, etc.

Category	Name of the company, etc. or the person	Capital stock of Investments in capital	Details of business or occupation	Percentage of voting rights held In (Held) Ratio (%)	Relationship with related party	Details of transactions	Transaction amount (thousand yen)	Item	End of year balance (thousand yen)
Subsidiary of parent company	VITEC ELECTRONICS TRADING (SHANGHAI) CO.,LTD.	7,281 (thousand RMB)	Sale of electronic parts	-	Concurrently serving as a Director who is in charge of the sale of electronic parts to the company	Sale of electronic parts (Note 2)	750,486	Accounts receivable - trade	366,873
						Receipt of commission (Note 3)	67,408	Accounts receivable - trade	110,341
	VITEC ELECTRONICS (AMERICAS) INC.	100 (thousand USD)	Sale of electronic parts	-	Sale of electronic parts to the company	Sale of electronic parts (Note 2)	339,697	Accounts receivable - trade	285,579
						Receipt of commission (Note 3)	176,060	Accounts receivable - trade	26,802
	VITEC WPG Limited	600 (thousand USD)	Sale of electronic parts	-	Concurrently serving as a Director who is in charge of the sale of electronic parts to the company	Sale of electronic parts (Note 2)	1,511,682	Accounts receivable - trade	361,920

Terms and conditions and the policy to decide the terms and conditions, etc.

(Notes) 1. The transaction amount of the amount above does not include consumption tax, etc.

2. For the sale of electronic parts, prices are determined considering the actual market prices.

3. For the receipt of commission, prices are determined considering the sales activity tasks.

## 8. Notes to Per-share Information

(1) Net assets per share 220,002.99 yen

(2) Net income per share 42,847.13 yen

## 9. Notes to Material Subsequent Events

Not applicable

# Accounting Auditor's Report on Non-consolidated Financial Statements

## Independent Auditor's Report

May 17, 2018

VITEC GLOBAL ELECTRONICS CO., LTD.

To The Board of Directors

### Deloitte Touche Tohmatsu LLC

Designated  
Unlimited Liability  
Partner,  
Engagement  
Partner

Certified Public  
Accountant:

Konosuke Misawa (seal)

Designated  
Unlimited Liability  
Partner,  
Engagement  
Partner

Certified Public  
Accountant:

Fukuyuki Nishikawa (seal)

Designated  
Unlimited Liability  
Partner,  
Engagement  
Partner

Certified Public  
Accountant:

Kazuyoshi Kuramoto (seal)

Pursuant to Article 436, Paragraph 2, Item (1) of the Companies Act, we have audited the non-consolidated financial statements, namely, the non-consolidated balance sheets as of March 31, 2018 of VITEC GLOBAL ELECTRONICS CO., LTD. (the "Company"), and the related non-consolidated statements of income and changes in equity for the 3rd fiscal year from April 1, 2017 to March 31, 2018, and the related notes and the accompanying supplemental schedules.

#### Management's Responsibility for the Non-consolidated Financial Statements

Management is responsible for the entity's preparation and fair presentation of the financial statements and the accompanying supplemental schedules in accordance with accounting principles generally accepted in Japan. The responsibility also includes the arrangement and operation of the internal control which was determined to be necessary by the management, to enable the preparation and fair presentation of the financial statements and the accompanying supplemental schedules that are free from material misstatement, whether due to fraud or error.

#### Accounting Auditor's Responsibility

Our responsibility is to express an opinion on these non-consolidated financial statements and the accompanying supplemental schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements and the accompanying supplemental schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements and the accompanying supplemental schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements and the accompanying supplemental schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the non-consolidated financial statements and the accompanying supplemental schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements and the accompanying supplemental schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Audit Opinion

In our opinion, the non-consolidated financial statements and the accompanying supplemental schedules referred to above present fairly, in all material respects, the financial position of the Company, as of March 31, 2018, and the results of its operations for the year then ended in accordance with accounting principles generally accepted in Japan.

#### Interest

Our firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act.

End of the document

## Corporate Auditor's Report

### Audit Reports

For directors' performance of the duties during the 3rd fiscal year from April 1, 2017 to March 31, 2018, the corporate auditors prepared and report the Audit Report based on the Audit Report produced by each corporate auditor as below.

#### 1. Corporate Auditor's audit method and content

- (1) Corporate auditors decided audit policy and the separation of responsibilities, received the report on the performance of duties from the directors, the accounting auditor, etc. and requested for the explanation as required.
- (2) Each corporate auditor executed the audit with the following method by communicating with directors and other employees, collecting information and arranging audit environment based on the audit policy and the separation of the responsibilities in accordance with the corporate auditors' audit standard.
  - ① Corporate auditors attended the board of directors and other important meetings to receive the report on the execution of the duties from directors and employees, etc. and request for the explanation as required, viewed the important document of settlement and conducted the research of the business and property status of the head office and major operation sites.
  - ② To ensure that directors' execution of the duties stated in the Business Report complies with the laws and the articles of incorporation, corporate auditors received periodic reports from directors, employees, etc. on the content of the resolution of the board of directors related to the structure defined by Article 100, Paragraph 1 and 3 of the Companies Act as well as the structure and operation status of the system arranged based on the resolution, requested for the explanation and expressed their opinions.
  - ③ Corporate auditors monitored and verified that the accounting auditor maintained the independent position and conducted an adequate audit. In addition, they have received reports on the performance status of the duties from the accounting auditor, and requested for the explanation as required. Furthermore, corporate auditors were notified by the accounting auditor that it has been arranging "the structure to make sure the proper execution of duties" (stated in each paragraph of Article 131 of the Ordinance on Company Accounting) based on "Quality Control Standards for Audit" (October 28, 2005, Business Accounting Council), and requested for the explanation as required.

Based on the method above, corporate auditors reviewed the business report, the accompanying supplemental schedules, financial statements and the accompanying supplemental schedules for the fiscal year under review.

## 2. Audit results

### (1) Audit results of the business report

- ① We acknowledged that the business report and the accompanying supplemental schedules properly indicate the status of the company in accordance with the laws and the articles of incorporation.
- ② We did not acknowledge any important facts such as fraud and the breach of laws or the articles of incorporation regarding directors' performance of duties.
- ③ We certified that directors' resolution on internal control system is appropriate. For the description of the internal control system in the business report and directors' performance of duties, we did not find any matters to be pointed out.
- ④ For the transactions with parent companies, etc. stated in the business report, we did not find any matters to be pointed out regarding the point of the attention not to damage the interest of the company for the transactions, the judgement of the board of the directors to determine if the transaction would infringe the interest of the company, and the reasons.

### (2) Audit results of financial statements and the accompanying supplemental schedules

We verified that the method and results of the audit by the accounting auditor, Deloitte Touche Tohmatsu LLC, is valid.

May 23, 2018

VITEC GLOBAL ELECTRONICS CO., LTD.

Corporate Auditor Takamasa Kuroda Seal

Corporate Auditor Tadahiro Ogushi Seal

EOD