

**Financial Results for the Year Ended March 2017 [Based on the Japanese Accounting Standards]  
(Consolidated)**

May 10, 2017

Name of the company: Takachiho Koheki Co., Ltd.

Stock market: Tokyo Stock Exchange First Section

Code No.: 2676

URL: <http://www.takachiho-kk.co.jp>

Representative (job title): Hideo Toda (President and CEO)

Contact person (job title): Masazumi Uematsu (Director, Executive Officer,

General Manager of the Corporate Management Division)

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Date of the shareholder's meeting: June 28, 2017

Date of dividends payment: June 29, 2017

Registration date of annual securities report: June 29, 2017

(Amounts less than one million yen are rounded down.)

1. Consolidated Financial Results for the Year ended March 2017 (from April 1, 2016 to March 31, 2017)

(1) Consolidated Operating Results

(Percent figures represent year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
FY 2016	19,037	(4.8)	500	14.6	700	70.4	279	171.0
FY 2015	19,986	6.3	436	(36.5)	410	(52.5)	103	(82.5)

Note: Comprehensive income: 412 million yen ( — %) for FY 2016

(433) million yen ( — %) for FY 2015

	Net income per share	Fully diluted net income per share	Return on equity	Ratio of ordinary income to total assets	Ratio of operating income to net sales
	yen	yen	%	%	%
FY 2016	29.66	—	2.0	3.8	2.6
FY 2015	10.79	10.77	0.7	2.2	2.2

Reference: Equity in earnings (losses) of affiliates: 0 million yen for FY 2016

0 million yen for FY 2015

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	million yen	million yen	%	yen
FY 2016	18,561	13,834	74.5	1,480.61
FY 2015	18,253	13,844	75.8	1,449.95

Reference: Owner's equity: 13,825 million yen for FY 2016

13,827 million yen for FY 2015

(3) Consolidated Cash Flow

	Cash flow from operating activities	Cash flow from investment	Cash flow from financing activities	Cash and cash equivalents at the end of the period
	million yen	million yen	million yen	million yen
FY 2016	898	(122)	(407)	5,563
FY 2015	371	349	(591)	5,158

## 2. Dividends

	Annual cash dividends per share					Total cash dividends (Annual)	Payout ratio (Consolidated)	Dividends to net assets (Consolidated)
	At 1st quarter end	At 2nd quarter end	At 3rd quarter end	At fiscal year end	Total			
	yen	yen	yen	yen	yen	million yen	%	%
FY 2015	—	12.00	—	12.00	24.00	232	222.4	1.6
FY 2016	—	12.00	—	12.00	24.00	224	80.9	1.6
FY 2017 forecast	—	12.00	—	12.00	24.00		34.5	

## 3. Forecast of Consolidated Operating Results for FY 2017 (from April 1, 2017 to March 31, 2018)

(Percent figures represent year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
FY 2017 1st half	9,560	8.9	220	73.3	220	12.2	110	42.6	11.78
FY 2017	21,000	10.3	1,000	99.8	1,000	42.8	650	132.4	69.61

### \* Notes:

(1) Changes to principal subsidiaries during the period (changes to specified subsidiary companies accompanying a change to the scope of consolidation): None

(2) Changes in accounting policies and estimates, and retrospective restatement:

(i) Changes in accounting policies due to amendments of accounting standards, etc.: Applicable

(ii) Changes in accounting policies other than (i) above: None

(iii) Changes in accounting estimates: None

(iv) Retrospective restatement: None

Note: For details, see P.21 of the attached material, “5. Consolidated Financial Statements (7) Changes in Accounting Policies.”

(3) Number of shares issued (common stock)

(i) Number of shares issued at the end of the period (including treasury shares)

(ii) Number of treasury shares at the end of the period

(iii) Average number of shares issued during the period

FY 2016	10,171,800	FY 2015	10,170,300
FY 2016	833,957	FY 2015	633,857
FY 2016	9,431,688	FY 2015	9,568,238

Reference: Non-consolidated Financial Results

Non-consolidated Financial Results for the Year ended March 2017 (from April 1, 2016 to March 31, 2017)

(1) Non-consolidated Operating Results

(Percent figures represent year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
FY 2016	13,889	(5.5)	492	(17.7)	702	13.2	456	11.3
FY 2015	14,702	(0.1)	597	(19.4)	620	(42.7)	410	(53.9)

	Net income per share	Fully diluted net income per share
	yen	yen
FY 2016	48.39	—
FY 2015	42.86	42.77

(2) Non-consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	million yen	million yen	%	yen
FY 2016	17,808	14,056	78.9	1,504.46
FY 2015	17,398	13,952	80.1	1,461.31

Reference: Owner's equity: 14,048 million yen for FY 2016, 13,935 million yen for FY 2015

\* This financial summary is not subject to audit procedure.

\* Appropriate use of forecasts and other items warranting special mention:

(Note on the forecasts, etc.)

The operating result forecast and other forward-looking statements contained in this report are based on the information currently available to the Company and certain assumptions the Company considers reasonable, and the Company by no means guarantees such achievement. In addition, final results may differ significantly from forecasts due to a variety of factors. With regard to the assumptions for result forecasts, see P. 2 of the attached material, "1. Analysis of Operating Results/Financial Position (1) Analysis of Operating Results."

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## 1. Analysis of Operating Results/Financial Position

### (1) Analysis of Operating Results

#### (i) Operating Results for current consolidated fiscal year

For the current consolidated fiscal year, the economy showed improvement in the employment/income environment in Japan, although it experienced weak exports and production throughout the year and a pause in capital investment despite the recovery in emerging economies and corporate earnings. For the outlook, amid the continuing improvement trend in the employment/income environment, the economy is expected to recover gradually due to various economic countermeasures. But it is concerned that uncertainties about overseas situations such as BREXIT, developments regarding the new U.S. administration and geopolitical risk may result in the deterioration of corporate earnings.

Although the market environment for our Group remains harsh due to increasingly fierce competition, we are striving to improve profitability by creating original added value to achieve further growth and expand our global business by entering growing markets primarily in Asia.

In the System Segment, by increasing the added value of our flagship products - Electronic Article Surveillance Systems and Access Control Systems, developing new markets for RFID Systems, Retail Security Solutions, Cloud-based Wireless LAN Systems - and establishing the Fire Protection System Business conducted in Thailand by Takachiho Fire, Security & Services (Thailand) Ltd. as a core business by expanding to the ASEAN region through the acquisition of Guardfire, we have endeavored to expand our global business. In the Device Segment Semiconductor Business, we have promoted the sale of new telecom-related products and enhancing board design proposals using a variety of semiconductors. In the Industrial Systems Business, we have focused on sales promotions in global markets by promoting the sale of Electronic Lock for overseas ATMs and establishing new sales channels for Mechanical Components in the U.S.

For operating results in the current consolidated fiscal year, sales decreased by 4.8 percent YOY to 19,037 million yen due to global weakness in the ATM market such as that in China and still prolonged RFID deals, despite a sales increase driven by solid performance in Access Control Systems and Cloud-based Wireless LAN Systems and large deals for Display Security Systems for major cellphone carriers.

In terms of profit/loss status, operating income increased 14.6 percent YOY to 500 million yen due to an increase in gross margin and efforts to cut selling, general and administrative expenses. Ordinary income increased 70.4 percent YOY to 700 million yen because foreign exchange losses that occurred in the previous fiscal year were dissolved and foreign exchange gains or losses turned into a positive value of 114 million yen. Net income attributable to owners of parent increased 171.0 percent YOY to 279 million yen as extraordinary losses were offset by an increase in ordinary income. Among the extraordinary losses, 87 million yen was recorded as an impairment loss attributable to the fact that for the goodwill that occurred as a result of the acquisitions made in 2012. This impairment loss is due to half year forward amortization was implemented after careful consideration of collectability at the phase where the goodwill was amortized for 4.5 years with the amortization period of 5 years.

The operating results of each Segment are as follows:

#### (System Segment)

System Segment sales increased 1.5 percent YOY to 11,347 million yen and operating income increased 253.6 percent YOY to 294 million yen due to a reduction in selling, general and administrative expenses.

For Security Solution Products, sales increased 2.6 percent YOY to 7,174 million yen with weak sales for apparel retailers and GMSs (general merchandise stores) and solid performances in large-scale deals for Display Security Systems for major cellphone carriers, sales of Access Control System for foreign companies and the security business in Thailand.

For Other System Solution Products, sales decreased 2.8 percent YOY to 1,612 million yen. This is because network devices including cloud-based wireless LAN systems grew sales, while sales deals for RFID systems were delayed and sales of mailing equipment suffered from a fall in the special demand related to the Social Security and Tax Number System experienced in the previous year.

For Customer Service Products, sales increased 1.2 percent YOY to 2,561 million yen due to an increase in revenues from large amount maintenance services of Display Security Systems for major cellphone carriers.

#### (Device Segment)

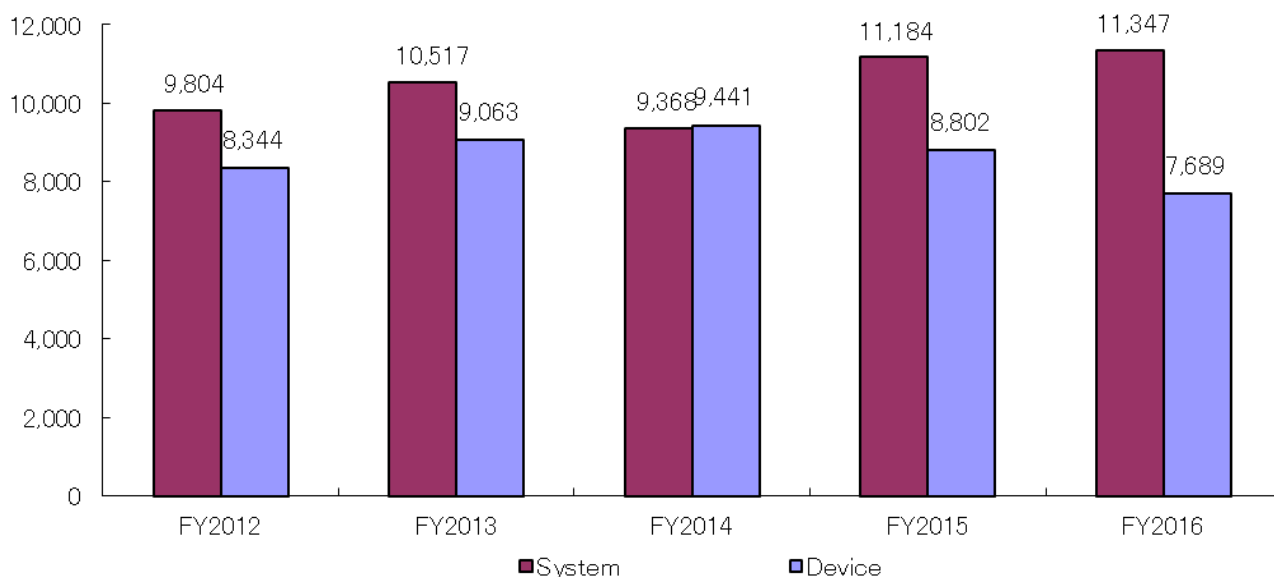
Device Segment sales decreased 12.6 percent YOY to 7,689 million yen and operating income decreased 39.6 percent YOY to 210 million yen.

For Semiconductor Products, sales decreased 11.2% YOY to 3,061 million yen due to weak sales of products for smartphones and delays in the mass production of products for IP-PBX(Private Branch eXchange), despite solid sales of products for industrial machines and the amusement market.

For Mechanical Component Products, sales decreased 13.6 percent YOY to 4,627 million yen due to weak sales in the ATM market in China and the difficulty in selling products for the amusement market resulting from increasing fierce competition despite large deals for Mechanical Components for banking terminals of overseas retailers

(millions of yen)

Sales by Segment



(ii) Future Outlook

The Japanese economy showed improvement in the employment/income environment, while it faced slow growth in exports and production throughout the year and a pause in capital investment, despite the recovery in emerging economies and corporate earnings. For the outlook, amid the continuing improvement trend in the employment/income environment, the economy is expected to recover gradually due to various economic countermeasures. But there is fear that uncertainties about overseas situations such as BREXIT, developments regarding the new U.S. administration and geopolitical risk will result in the deterioration of corporate earnings.

Under such circumstances, our Group will strive to achieve further business growth by conducting the medium-term management plan with the slogan of "Challenge toward 2018 -Beyond Boundaries-."

Specifically, in the System Segment, we will strive to promote sales of composite solutions for the retail industry, which combine image recognition with the Electronic Article Surveillance System, Display Security Systems for cellphone carriers, RFID systems primarily for the apparel market and cloud-based wireless LAN, where the market is rapidly growing. As for global business, we will make efforts to sell distinctive RFID tags (linen tags) in the Europe and U.S. and win deals for fire protection systems for power plants, which are expected to enjoy the expansion of demand of power in the ASEAN region, and for oil industrial complexes, where investment tends to recover due to the higher crude oil prices.

With regard to the Device Segment, we will strive to develop the industrial equipment area – primarily in the telecommunication infrastructure market – in Semiconductor Businesses, and enter the U.S. market through Takachiho America, Inc. in the Industrial Systems Business.

For the result forecast for the next fiscal year, we expect sales to be 21,000 million yen, ordinary income to be 1,000 million yen and net income attributable to owners of parent to be 650 million yen.

Sales forecasts by Segment are as follows:

	System	Device	Total
Net sales (million yen)	12,670	8,330	21,000
Rate of increase compared to FY 2015 (%)	11.7	8.3	10.3

## (2) Analysis of Financial Position

### (i) Assets, liabilities and net assets

Total assets as of the end of the current consolidated fiscal year increased 307 million yen YOY to 18,561 million yen. This is because goodwill decreased 406 million yen, while cash and deposits, notes and accounts receivable - trade and merchandise and finished goods increased 405 million yen, 126 million yen and 112 million yen, respectively.

Liabilities increased 317 million yen YOY to 4,726 million yen. This is because notes and accounts payable – trade increased 283 million yen.

Net assets decreased 10 million yen YOY to 13,834 million yen. This is because net income attributable to owners of parent amounted to 279 million yen while the dividend payment amounted to 226 million yen and the expenditure for the acquisition of treasury stock amounted to 179 million yen. The equity ratio decreased 1.3 percent from the end of the previous consolidated fiscal year to 74.5 percent.

### (ii) Cash flow

Cash and cash equivalents as of the end of the current consolidated fiscal year increased 405 million yen (7.9 percent) YOY to 5,563 million yen.

#### (Cash flow from operating activities)

Cash flow from operating activities during the current consolidated fiscal year increased 527 million yen (142.2 percent) YOY to 898 million yen. This is because net income before taxes and minority interests amounted to 588 million yen with income taxes paid being 421 million yen while amortization of goodwill amounted to 346 million yen, accounts payable-trade increased 307 million yen and depreciation amounted to 124 million yen.

#### (Cash flow from investment)

Cash flow from investment during the current consolidated fiscal year decreased 472 million yen YOY to -122 million yen. This is because acquisitions of property, plant and equipment amounted to 111 million yen.

#### (Cash flow from financing activities)

Cash flow from financing activities during the current consolidated fiscal year increased 183 million yen YOY to -407 million yen. This is due to dividend payments of 226 million yen and the expenditure for the acquisition of treasury stock of 179 million yen.

Index	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Equity ratio (%)	74.2	73.9	75.0	75.8	74.5
Capital adequacy ratio based on current market value (%)	47.3	54.4	50.3	47.5	50.5
Interest coverage ratio	464.2	262.3	937.1	154.8	599.9

Note: The above indexes are calculated according to the following formula:

Equity ratio = Shareholder's equity ÷ Total assets

Capital adequacy ratio based on the current market value = Market capitalization ÷ Total assets

Interest coverage ratio = Operating cash flow ÷ Interest expenses paid

1. Each index is calculated based on the consolidated financial numerical values.
2. Market capitalization is calculated by multiplying the closing share price at the end of the fiscal year by the number of shares issued at the end of the fiscal year (after deduction of treasury shares).
3. Operating cash flow represents cash flow from operating activities. Interest expenses paid represent the relevant amount paid in the Consolidated Cash Flow Statements.

### (3) Basic Policy for profit sharing and dividends for the current and next fiscal years:

The Company makes it its basic policy to pay dividends in a stable manner and considers it an important business challenge to return profits to our shareholders and to stably and continuously pay dividends. At the same time, we have focused on investment for future growth and through retained earnings for business expansion.

The year-end dividend for the current fiscal year will be 12 yen per share. Since we distributed an interim dividend of 12 yen per share, the total annual dividend will be 24 yen per share. We also plan to continue paying dividends twice a year with the record dates being September 30 and March 31 in the next fiscal year.

## 2. Corporate Group

Our Group consists of 13 companies, namely, the Company, 10 consolidated subsidiaries, 1 affiliated company, and 1 non-consolidated subsidiaries. The Group carries out a variety of business operations, and is engaged in export, import and sale of products, and the provision of services such as installation, maintenance, system design and system operation subcontracting by seeking and securing high-tech electronics products from outstanding overseas manufacturers.

The Products currently handled by us are security systems, other system equipment, application software, semiconductor/electronic parts, mechanical components, etc.

The Positioning of products and the correlation between segments and products in our business is as follows:

### <System Segment>

#### (Security Solution Products)

Our Group is engaged in consulting and designing systems in the security of electronic article surveillance/video monitoring, etc., and selling electronic article surveillance systems, access control systems, surveillance cameras, monitoring video recording apparatuses and retail security equipment, such as security tags, as well as store management equipment, such as customer traffic counters and operational support services. The Group conducts sales to a wide variety of customers in the retail and distribution industries, ranging from large-scale stores such as shopping centers to small stores such as drugstores. We are also engaged in designing/establishing Fire Protection Systems for the POG\* Business and selling related equipment for office buildings, commercial facilities, power-generating energy-related plants, natural gas/petrochemical plants, etc.

Mighty Cube Co.,Ltd. develops and sells self-alarming tag systems for electronic article surveillance and carries out transactions with various customers, including hardware stores and electronic retail stores.

Takachiho Fire, Security & Services (Thailand) Ltd. of Thailand is engaged in consulting and designing systems in the security of electronic article surveillance/video monitoring, etc., and selling electronic article surveillance systems, access control systems, surveillance cameras, Fire Protection Systems, etc.

Guardfire Limited and Guardfire Singapore Pte. Ltd. are engaged in the system design and sale of fire protection systems for the POG\* Business in Southeast Asia.

\*Fire protection systems for the oil, gas, petrochemical and power generation industries.

#### (Other System Solution Products)

Our Group is also engaged in designing/establishing cutting-edge electronics technology systems and selling related equipment, such as network system equipment (Cloud-based Wireless LAN Systems), RFID tags for logistics/inventory control systems, etc., related peripheral equipment and automated postal mail inserters (folding and inserting machines) capable of enclosing postal mail, printing addresses, sorting postal mail, etc.

TK Communication Technology co., Ltd is engaged in consulting and designing systems in enclosing postal mail, printing addresses, sorting postal mail, etc., and selling automated postal mail inserters (folding and inserting machines) and Inkjet Printing Systems and comprehensive management systems for enclosing and sealing operations.

Mighty Cube Co.,Ltd. as the leading RFID technology company in Japan, is engaged in the system development, sales, etc., of RFID Tags (contactless IC chips) and peripheral equipment (Reader/writer).

#### (Customer Service Products)

Our Group is engaged in system design, delivery and installation, maintenance, subcontracting of system operations and operational surveillance services for various products handled in the System Segment.

To enhance customer satisfaction through a prompt response, we also offer services 24 hours a day, 365 days a year and from 300 service bases throughout Japan.

TK Communication Technology co., Ltd. is engaged in providing support services for delivery, installation, maintenance, etc., of postal mailing products and improving systems.



<Device Segment>

(Semiconductors Products)

Our group is engaged in sales and consulting (design support for electronic equipment) of various types of semiconductors as represented by analog IC, sensors such as silicon microphone and electronic parts. These products are used in various areas, such as industrial electronics equipment, IP-PBX (private branch exchange) and information-telecommunications equipment including smartphones.

TAKACHIHO KOHEKI (H.K.) Ltd. and TAKACHIHO TRADING (SHANGHAI) Co., Ltd. are engaged in selling the above-mentioned products in China and Southeast Asia.

(Mechanical Component Products)

Our Group is engaged in selling and consulting in mechanical components that enhance safety, convenience and comfort, such as slide rails, gas springs and lifting systems. These products are used for opening and closing/withdrawal/safety mechanism (slide rails/gas springs/cylinder lock systems) of ATMs, etc., at financial institutions and convenience stores, withdrawal/lifting mechanism (slide rails/lifting systems) of built-in kitchen systems, paper feeding mechanism (slide rails/dampers) of copiers, etc.

TAKACHIHO KOHEKI (H.K.) Ltd., TAKACHIHO TRADING (SHANGHAI) CO., Ltd. and Takachiho America, Inc. are engaged in selling the above-mentioned products in China and Southeast Asia.

Correlation between Segment and Products:

Segment	Contents of main businesses	Principal companies
<b>Systems</b>		
Security Solution Products	Sales and designing/establishment of various types of systems, such as electronic article surveillance systems (shoplifting prevention devices, sensor cable type alarm units, security tags, etc.), video monitoring systems, access control systems and fire protection systems for POG* Business  *Fire protection systems for the oil, gas, petrochemical and power generation industries.	TAKACHIHO KOHEKI CO., LTD.
		Mighty Cube Co.,Ltd
		Takachiho Fire, Security & Services (Thailand) Ltd.
		Guardfire Limited
Other System Solution Products	Sales and designing/establishment of various types of systems, such as network system equipment (Cloud-based Wireless LAN Systems), RFID tags for logistics/inventory control systems, etc., related peripheral equipment and automated insertion systems (enclosing/sealing machines), etc.	TAKACHIHO KOHEKI CO., LTD.
		Mighty Cube Co.,Ltd
		TK Communication Technology co., Ltd
Customer Service Products	System design, installation and maintenance, subcontracting of system operations and operational surveillance services for various products in the System Segment.	TAKACHIHO KOHEKI CO., LTD.
		TK Communication Technology co., Ltd
<b>Devices</b>		
Semiconductor Products	Sales of various types of semiconductors (analog ICs, etc.), sensors (silicon microphones, etc.) and electronic parts	TAKACHIHO KOHEKI CO., LTD.
		TAKACHIHO KOHEKI (H.K.) Ltd.
		TAKACHIHO TRADING (SHANGHAI) CO., Ltd.
		Japan Micro Electronics Note 1
Mechanical Component Products	Sales of mechanical components, etc., for safety/labor saving, such as slide rails, gas springs, cylinder lock systems, dampers and lifting systems	TAKACHIHO KOHEKI CO., LTD.
		TAKACHIHO KOHEKI (H.K.) Ltd.
		TAKACHIHO TRADING (SHANGHAI) CO., Ltd.
		Takachiho America,Inc.

Notes: 1. Japan Micro Electronics is an equity method affiliate.

2. Terms such as product names and technical terminology:

(1) Security Tags: Special tags attached to products that enable shoplifting prevention devices to work.

(2) Cloud-based Wireless LAN System: a system capable of managing wireless LAN access points on the net

(3) RFID Tags: Special tags with micro IC chips having product information and antennas built in.

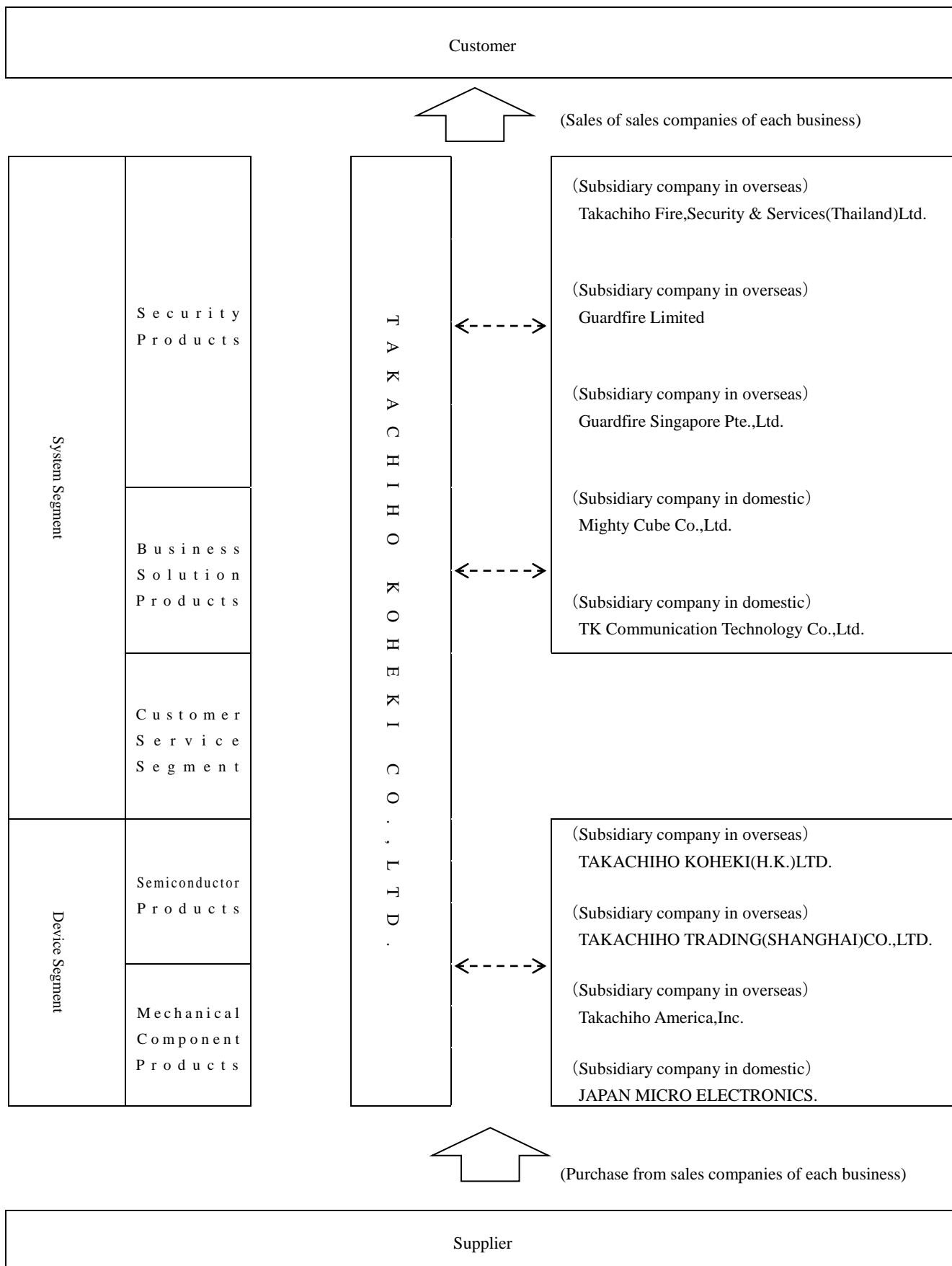
(4) Mail inserters (folding and inserting machines): Automated equipment for selection/enclosing and sealing operations of postal mail

(5) Slide Rails: Metallic rails with ball bearings built in that enable the easy pulling of heavy loads or drawers.

(6) Gas Springs: Using nitrogen gas, these springs enable heavy doors to be easily pulled upward or downward through the repulsion force of the gas

(7) Dampers: Cushioning mechanisms that make use of oil viscosity resistance to absorb shock when opening or closing a drawer.

The overview of the Group's business is as follows:



Note: Dotted lines represent transactions within the Group.

### 3. Management Policies

#### (1) Basic management policies of the Company

The Company promotes its management based on the corporate philosophy of *creation* at the heart of our business activities and through its technological expertise. As a technology trading company, the company will pursue 3 principal goals: 1. Enhance customer satisfaction; 2. Gain worldwide trust by enhancing our technological expertise, skills and humanity; 3. Contribute to society by making concerted efforts for paving the way to a bright future.

Our group conducts business activities by maintaining Safety/Security/Comfort as a core mission. As a technology trading company, by leveraging our extensive track record and experience and providing highly-specialized solutions, we intend to enhance customer corporate value.

In recognizing our CSR (Corporate Social Responsibility) as a corporate citizen and through the implementation of responsible, sincere and transparent business activities, our Group will promote management that can be trusted by all stakeholders and maintain and improve company's value.

#### (2) Targeted management indexes

The following are indexes in the medium-term management plan for the final fiscal year of FY2018:

Sales target: 25,500 million yen, Ordinary income target: 1,500 million yen

#### (3) Medium to long term management strategies of the Company

Our group conducts business in various industries such as finance, manufacturing, retail and information, telecommunications and construction of large plant. Facing rapid changes in the economic environment, our management strategies also need to change correspondingly.

Being confident that satisfying our customers through high-value added proposals is essential to our sustainable growth, we will promote the development of unique products and services by utilizing the creativity at the heart of our business activities.

Our group has established the three-year medium-term management plan with the final fiscal year of FY2018.

##### (i) Recognition of business environment

Amid the stagnation in the real economy due to the weak growth in the Japanese economy and the instability of overseas economies, in our business areas, the following are expected: the expansion of needs for security arising from a global increase in terrorism and crimes, the expansion of demand for electric power in the Asian region, demand from the Olympic Games ,emergence of new markets such as IoT, cloud for IT and telecommunication and also the expansion of the RFID market. The Company will make efforts for further growth by getting market opportunities.

##### (ii) Medium-term management policy

Our medium-term management policy is the "Achievement of profit growth through the creation of original solutions and the global businesses expansion" and is designed to build a business foundation which allows us to achieve a V-shaped recovery of profit for attaining ordinary income of 2,000 million yen in FY2020.

For this, we try to create a new market by using our Group strength such like specialized technology and products , regions, customers and experience in our business areas operates in Japan and overseas, with the following challenges under the medium- to long-term slogan "Challenges toward 2018 -Beyond Boundaries-."

##### Boundary 1: Beyond the boundary between organizations

By integrating the technology and sales networks of each company operating specialized businesses within the Group and we will establish the uniqueness to increase competitiveness.

##### Boundary 2: Beyond geographical boundaries

Accelerate entries into expanding overseas markets to strengthen growth of the Group.

##### Boundary 3: Challenge to boundaries of business domain

Build the cycle for boosting revenues by adding new business domains for the Group through the challenges toward the new emergence market.

(iii) Management Strategy

(A). Boost revenues and profit from existing businesses

- a. Strengthen competitiveness through unique system solutions where the strengths of the Group are integrated
- b. Devise solutions to increase the value of clients' products through original customization
- c. Strengthen sales/technical support seeking customer satisfaction

(B). Expand our global business

- a. Expand Fire Protection System Business in South East Asia
- b. Accelerate overseas expansion of Industrial mechanical components Business
- c. Promote sales of security business in China and South East Asia
- d. Sell special RFID tags in overseas markets

(C). Create new business

- a. Expand RFID business by developing new markets and solutions
- b. Develop/expand new businesses in growing areas (including EC business, video cloud business and water environment business)

(D). Business management

- a. Realize organizational scheme and globalization, development of human resources to strengthen competitiveness and improvement of employee education system to achieve the medium-term management plan.
- b. Strengthen risk management system corresponding to globalization and expansion of group management
- c. Continuously strengthen the governance system across the Group

(E). Dividend policy

- a. Maintain the basic policy of paying stable dividends and consider stability and continuity, as well as profit return to shareholders as a managerially significant issue
- b. Keep internal reserves for M&As and alliances as growth investment for business expansion

Our group has strived at operating businesses at high speed and low cost by increasing productivity and efficiency. To seek the efficient management of company resources, we will continue to promote following:

- (i) Achieve low cost operation by reducing costs for procuring products and sales and administration expenses
- (ii) Strengthen salesforce through prompt business processing/sophisticated use of IT (information technology).
- (iii) Improve inventory turnover through inventory reduction

Our group will make proactive efforts for CSR activities as a corporate citizen targeting management that can be trusted by all stakeholders.

(4) Issues facing the Company

Aiming for further growth, our Group will strive to lower the breakeven point by increasing gross profit and reducing selling, general and administrative expenses, as well as deal with the following issues to achieve further growth under the medium-term management plan for 2016-2018 "Challenge toward 2018 -Beyond Boundaries-," which was announced in the previous year.

- (i) Boost revenues from existing businesses;
- (ii) Expand our global business
- (iii) Create new business
- (iv) Strengthen the organization and training for human resources
- (v) Strengthen group management and businesses operations

#### 4. Basic stance relating to the selection of accounting standards

Most stakeholders of the Group are domestic shareholders, creditors, and business partners. In addition to considering the fact with the rare need for overseas financing and some burden, etc., from developing a system for preparing consolidated financial statements based on International Accounting Standards, it is our principle for the time being to prepare consolidated financial statements based on the Japanese Accounting Standards.

Furthermore, taking into account the trend of foreign ownership and the trend of the application of International Accounting Standards by other domestic companies in the same industry, etc., we intend to consider applying the International Accounting Standards.

## 5. Consolidated Financial Statements

### (1) Consolidated Balance Sheet

(Millions of yen)

	As of March 31, 2016	As of March 31, 2017
<b>Assets</b>		
Current assets		
Cash and deposits	5,758	6,163
Notes and accounts receivable - trade	5,863	5,989
Securities	500	500
Merchandise and finished goods	2,218	2,330
Raw materials	109	80
Deferred tax assets	133	131
Other	421	511
Allowance for doubtful accounts	(12)	(7)
Total current assets	14,992	15,699
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	21	24
Land	140	128
Other, net	144	151
Total property, plant and equipment	※ <sup>1</sup> 306	※ <sup>1</sup> 304
Intangible assets		
Goodwill	1,465	1,058
Other	122	88
Total intangible assets	1,587	1,147
Investments and other assets		
Investment securities	※ <sup>2</sup> 772	※ <sup>2</sup> 835
Deferred tax assets	172	135
Other	423	438
Allowance for doubtful accounts	(0)	(0)
Total investments and other assets	1,367	1,409
Total non-current assets	3,261	2,861
<b>Total assets</b>	<b>18,253</b>	<b>18,561</b>

(Millions of yen)

	As of March 31, 2016	As of March 31, 2017
<b>Liabilities</b>		
Current liabilities		
Notes and accounts payable - trade	2,466	2,749
Income taxes payable	277	193
Provision for bonuses	244	245
Provision for directors' bonuses	3	11
Other	701	834
Total current liabilities	3,693	4,034
Non-current liabilities		
Long-term accounts payable - other	26	24
Net defined benefit liability	645	631
Other	44	35
Total non-current liabilities	716	691
Total liabilities	4,409	4,726
<b>Net assets</b>		
Shareholders' equity		
Capital stock	1,208	1,209
Capital surplus	1,169	1,170
Retained earnings	12,194	12,237
Treasury shares	(604)	(783)
Total shareholders' equity	13,967	13,833
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	158	219
Foreign currency translation adjustment	(265)	(210)
Remeasurements of defined benefit plans	(33)	(16)
Total accumulated other comprehensive income	(140)	(7)
Subscription rights to shares	17	8
Non-controlling interests	0	0
Total net assets	13,844	13,834
Total liabilities and net assets	18,253	18,561



(2) Consolidated Income Statements and Statements of Comprehensive Income  
(Consolidated Income Statements)

(Millions of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Net sales	19,986	19,037
Cost of sales	15,013	14,223
Gross profit	4,973	4,813
Selling, general and administrative expenses	※ 1 4,536	※ 1 4,313
Operating profit	436	500
Non-operating income		
Interest income	3	2
Dividend income	16	15
Foreign exchange gains	—	114
Insurance income	0	2
Compensation income	13	30
Share of profit of entities accounted for using equity method	0	0
Gain on adjustment of account payable	—	28
Other	20	10
Total non-operating income	55	204
Non-operating expenses		
Interest expenses	2	1
Foreign exchange losses	75	—
Commission fee	2	2
Other	0	0
Total non-operating expenses	80	4
Ordinary profit	410	700
Extraordinary income		
Gain on sales of investment securities	62	0
Gain on reversal of subscription rights to shares	0	11
Total extraordinary income	63	11
Extraordinary losses		
Merger expenses	—	19
Impairment loss	※ 2 25	※ 2 100
Settlement package	—	3
Total extraordinary losses	25	123
Profit before income taxes	448	588
Income taxes - current	355	303
Income taxes - deferred	(8)	4
Total income taxes	347	308
Profit	101	279
Loss attributable to non-controlling interests	(2)	—
Profit attributable to owners of parent	103	279

## (Consolidated Statements of Comprehensive Income)

(Millions of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Profit	101	279
Other comprehensive income		
Valuation difference on available-for-sale securities	(135)	60
Foreign currency translation adjustment	(356)	54
Remeasurements of defined benefit plans, net of tax	(43)	17
Total other comprehensive income	※ 1 (534)	※ 1 132
Comprehensive income	(433)	412
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(431)	412
Comprehensive income attributable to non-controlling interests	(2)	—

## (3) Consolidated Statements of Changes in Net Assets

Previous consolidated fiscal year (from April 1, 2015 to March 31, 2016)

(Unit: Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of the period	1,207	1,169	12,405	(298)	14,483
Changes of items during the period					
Issuance of new shares	1	1			2
Changes arising from changes in the accounting period of consolidated subsidiaries			(82)		(82)
Dividends from surplus			(232)		(232)
Profit attributable to owners of parent			103		103
Acquisition of Treasury Shares				(311)	(311)
Disposition of Treasury Shares		0		5	6
Interest change of a parent company concerned with the business with the non-controlling shareholders		(2)			(2)
Net changes of items other than shareholders' equity during the period					
Total changes of items during the period	1	(0)	(211)	(306)	(515)
Balance at the end of the period	1,208	1,169	12,194	(604)	13,967

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Re-measurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of the period	293	92	9	396	15	51	14,947
Changes of items during the period							
Issuance of new shares							2
Changes arising from changes in the accounting period of consolidated subsidiaries							(82)
Dividends from surplus							(232)
Profit attributable to owners of parent							103
Acquisition of Treasury Shares							(311)
Disposition of Treasury Shares							6
Interest change of a parent company concerned with the business with the non-controlling shareholders							(2)
Net changes of items other than shareholders' equity during the period	(135)	(357)	(43)	(536)	1	(51)	(586)
Total changes of items during the period	(135)	(357)	(43)	(536)	1	(51)	(1,102)
Balance at the end of the period	158	(265)	(33)	(140)	17	0	13,844

Current Consolidated Fiscal Year (from April 1, 2016 to March 31, 2017)

(Unit: Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at the beginning of the period	1,208	1,169	12,194	(604)	13,967
Changes of items during the period					
Issuance of new shares	0	0			1
Changes of scope of consolidation			(10)		(10)
Dividends from surplus			(226)		(226)
Profit attributable to owners of parent			279		279
Acquisition of Treasury Shares				(179)	(179)
Net changes of items other than shareholders' equity during the period					
Total changes of items during the period	0	0	43	(179)	(134)
Balance at the end of the period	1,209	1,170	12,237	(783)	13,833

	Accumulated other comprehensive income				Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Re-measurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at the beginning of the period	158	(265)	(33)	(140)	17	0	13,844
Changes of items during the period							
Issuance of new shares							1
Changes of scope of consolidation							(10)
Dividends from surplus							(226)
Profit attributable to owners of parent							279
Acquisition of Treasury Shares							(179)
Net changes of items other than shareholders' equity during the period	60	54	17	132	(8)	—	124
Total changes of items during the period	60	54	17	132	(8)	—	(10)
Balance at the end of the period	219	(210)	(16)	(7)	8	0	13,834

## (4) Consolidated Statements of Cash Flow

(Millions of yen)

	Previous consolidated fiscal year (from April 1, 2015 to March 31, 2016)	Current consolidated fiscal year (from April 1, 2016 to March 31, 2017)
<b>Cash flows from operating activities</b>		
Profit before income taxes	448	588
Depreciation	166	124
Loss (gain) on sales of investment securities	(62)	(0)
Impairment loss	25	100
Gain on reversal of subscription rights to shares	(0)	(11)
Amortization of goodwill	434	346
Interest and dividend income	(19)	(17)
Interest expenses	2	1
Increase (decrease) in provision for bonuses	(31)	0
Increase (decrease) in provision for directors' bonuses	(10)	9
Increase (decrease) in allowance for doubtful accounts	(8)	(4)
Increase (decrease) in net defined benefit liability	77	(16)
Decrease (increase) in notes and accounts receivable - trade	272	(61)
Decrease (increase) in inventories	(109)	(81)
Increase (decrease) in notes and accounts payable - trade	(549)	307
Increase(decrease)in subscription rights to shares	2	2
Other, net	(202)	3
Subtotal	435	1,292
Interest and dividend income received	19	17
Interest expenses paid	(2)	(1)
Income taxes paid	(156)	(421)
Income taxes refund	74	11
Net cash provided by (used in) operating activities	371	898
<b>Cash flows from investing activities</b>		
Proceeds from withdrawal of time deposits	150	—
Purchase of property, plant and equipment	(73)	(111)
Proceeds from sales of property, plant and equipment	0	—
Proceeds from redemption of securities	200	—
Purchase of investment securities	(0)	(0)
Proceeds from sales of investment securities	101	0
Purchase of intangible assets	(47)	(11)
Other, net	18	0
Net cash provided by (used in) investing activities	349	(122)
<b>Cash flows from financing activities</b>		
Cash dividends paid	(232)	(226)
Proceeds from issuance of common shares	2	1
Purchase of treasury shares	(312)	(179)
Repayments of lease obligations	(3)	(3)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(51)	—
Other, net	5	—
Net cash provided by (used in) financing activities	(591)	(407)
Effect of exchange rate change on cash and cash equivalents	(84)	23
Net increase (decrease) in cash and cash equivalents	45	391
Cash and cash equivalents at beginning of period	4,887	5,158
IncreaseOrDecreaseInCashAndCashEquivalentsDueToChangeInFiscalPeriodOfConsolidatedSubsidiaries	225	—
Increase in cash and cash equivalents from newly consolidated subsidiary	—	13
Cash and cash equivalents at end of period	※1 5,158	※1 5,563

(5) Note on going-concern assumption

Not applicable

(6) Significant matters constituting the basis for the preparation of consolidated financial statements

(i) Range of consolidation

a. Number of consolidated subsidiaries: 10 companies

Name of consolidated subsidiaries:

Mighty Cube Co.,Ltd.  
TK Communication Technology co., Ltd  
TAKACHIHO KOHEKI (H.K.) Ltd.  
TAKACHIHO TRADING (SHANGHAI) Co., Ltd.  
Takachiho Fire, Security & Services (Thailand) Ltd.  
Guardfire Limited  
Guardfire Singapore Pte. Ltd.  
TK Thai Holdings Co., Ltd.  
TK Fire Fighting Co., Ltd.  
Takachiho America,Inc.

A merger was implemented between consolidated subsidiaries, S-Cube K.K. as the surviving company and Mighty Card Corporation as the dissolving company, with the effective date of January 1, 2017. The merged company was renamed Mighty Cube Co., Ltd. As a result of the merger, Mighty Card Corporation was unconsolidated from the current consolidated fiscal year.

In addition, Takachiho America, Inc. was consolidated from the current consolidated fiscal year due to its increased significance.

b. Non-consolidated subsidiaries

Name of non-consolidated subsidiary:

TKTEC K.K.

It is a small company with an insignificant effect, and it is unconsolidated.

(ii) Application of equity method

a. Affiliated company accounted for by the equity method

Name of affiliated company under the application of equity method:

Japan Micro Electronics K.K.

b. Non-consolidated subsidiaries not accounted for by equity method

Name of non-consolidated subsidiary not accounted for by equity method:

TKTEC K.K.

It is a small company with an insignificant effect, and it is not accounted for by the equity method.

(iii) Fiscal year of consolidated subsidiaries

Among consolidated subsidiaries, TAKACHIHO KOHEKI (H.K.) Ltd.; TAKACHIHO TRADING (SHANGHAI) Co., Ltd. and Takachiho America,Inc. close accounts on December 31. In preparing the consolidated financial statements, their financial statements as of the same day were used. For significant transactions conducted from December 31 to the consolidated closing date, adjustments necessary for consolidation were made.

(iv) Accounting criteria

a. Criteria and methods for evaluating significant assets

(A) Securities

i. Held-to-maturity bonds

Amortized cost method (straight line method)

ii. Other securities

Those with fair market value

Market value method, based on the market price as of the last day of the consolidated fiscal year (Appraisal differences are handled by means of the direct net asset influx method and their cost is based on the gross average method)

Those without fair market value

Evaluated at cost by gross average method

(B) Inventory

Mainly the cost method based on the moving average method (balance sheet values are calculated using the book value reduction method based on a decline in profitability)

b. Depreciation method of significant depreciable assets

(A) Property, plant and equipment (excluding leased assets)

The straight-line method was used for tools, furniture and fixtures of the Company and some consolidated subsidiaries while the declining balance method was used for buildings and structures of the Company and the property, plant and equipment of some consolidated subsidiaries.

For buildings acquired on or after April 1, 1998 (excluding building accessories) and building accessories and structures acquired on or after April 1, 2016, the straight-line method was used.

Main useful life:

Buildings and structures: 10-50 years

Tools, furniture, and fixtures: 2-20 years

With regard to property, plant, and equipment acquired on or before March 31, 2007, the method where they are equally depreciated for 5 years from the year after depreciation is completed up to upper limit of depreciable amount was used.

(B) Non-current intangible assets

The straight-line method was used.

The amortization period is the internally usable period (5 years) for software for internal use and the estimated effective life (3 years) for software for sale

(C) Leased assets

Leased assets associated with financial lease transactions that do not transfer ownership to the lessee

The straight-line method was used, assuming the lease period as the useful life and no residual value.

c. Criteria for provision of significant allowance and reserves

(A) Allowance for doubtful accounts

To prepare for credit losses, an allowance equal to the estimated amount of uncollectible claims was provided.

i. General claims

The method based on actual percentage of bad debts was used

ii. Doubtful claims, claims in bankruptcy and reorganization claims

An allowance equal to the estimated amount of uncollectible claims was provided after reviewing the collectability of each claim.

(B) Provision for bonuses

To prepare for the payment of bonuses to employees, among the estimated amount to be paid in the future, the portion attributable to the current consolidated fiscal year was provided.

(C) Provision for directors' bonuses

To prepare for the payment of bonuses to directors, among the estimated amount to be paid in the future, the portion attributable to the current consolidated fiscal year was provided.

d. Criteria for recording liabilities associated with retirement benefits

To prepare for the payment of retirement allowances to employees, based on the retirement benefit obligations and pension assets estimated at the end of the current consolidated fiscal year, the amount recognized to accrue at the end of the current consolidated fiscal year was recorded. In calculating the retirement benefit obligations, estimated retirement benefits were attributed to the period until the end of the current consolidated fiscal year, based on the benefit formula.

Actuarial differences distributed by specific years (5 years) within the average remaining service period of employees as of their occurrence were mainly expensed from the following consolidated fiscal year.

Unrecognized actuarial differences were recorded at re-measurements of defined benefit plans of accumulated other comprehensive income in the net assets after the adjustment of tax effects.

To prepare for the payment of retirement allowances to executive officers, additionally, the base amount at the end of the current consolidated fiscal year was recorded according to the internal rules on executive officers.

- e. Criteria for recognizing significant revenues and expenses
  - Criteria for recognizing amount and cost of completed works
  - (A) Works that will have a certain portion completed by end of the current consolidated fiscal year are recognized
    - Percentage of completion basis
  - (B) Other works
    - Completion basis
- f. Criteria for converting significant foreign currency assets or liabilities into Japanese yen
  - Foreign currency monetary claims and liabilities are converted into Japanese yen at the exchange rate at the end of the consolidated fiscal year and differences in conversion are recorded in profit or loss. Assets and liabilities and income and expenses of foreign subsidiaries are converted into Japanese yen at the rate of the closing date and differences in conversion are recorded in the foreign currency translation adjustment of the net assets
- g. Amortization method and period of goodwill
  - Goodwill was equally amortized over its effective period (5-8 years).
- h. Scope of cash in consolidated cash flow statements
  - Cash in the consolidated cash flow statements (cash and cash equivalents) include cash on hand, deposits that can be withdrawn at any time and liquid short-term investments with little risk of fluctuation in value with a period to maturity of 3 months or less
- i. Other significant matters for the preparation of consolidated financial statements
  - Accounting treatment of consumption taxes
  - Consumption tax and local consumption tax are accounted for on a tax-excluded basis and non-deductible consumption tax and local consumption tax are accounted for as an expense in the current consolidated fiscal year.

(7) Changes in Accounting Policies

(Application of Practical Solution on a Change in Depreciation Method due to Tax Reform 2016)

Due to the amendments to the Corporation Tax Act, we have applied the " Practical Solution on Accounting for Changes in Depreciation Method related to the 2016 Tax Law Changes " (ASBJ Practical Issues Task Force No. 32 of June 17, 2016) from the current consolidated fiscal year to change the depreciation method for building accessories and structures acquired on and after April 1, 2016 from the declining balance method to the straight-line method.

This has an insignificant effect on profit and loss.

(8) Additional information

(Application of the Implementation Guidance on Recoverability of Deferred Tax Assets)

We have applied the "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26 of March 28, 2016) from the current consolidated fiscal year.



(9) Notes on Consolidated Financial Statements  
(Consolidated Balance Sheet)

\*1 Accumulated depreciation of property, plant and equipment

	Previous consolidated fiscal year (as of March 31, 2016)	Current consolidated fiscal year (as of March 31, 2017)
	841 million yen	874 million yen

\*2 Item related to non-consolidated subsidiaries and affiliated companies

	Previous consolidated fiscal year (as of March 31, 2016)	Current consolidated fiscal year (as of March 31, 2017)
Investment securities(Stocks)	65 million yen	42 million yen

(Consolidated Income Statements)

\*1 Major expenses and amounts of selling, general and administrative expenses

	Previous consolidated fiscal year (from April 1, 2015 to March 31, 2016)	Current consolidated fiscal year (from April 1, 2016 to March 31, 2017)
	million yen	million yen
Salary and allowances	1,517	1,472
Provision for bonuses	204	200
Provision for directors' bonuses	3	11
Retirement benefit cost	108	110
Rent	427	420
Depreciation	138	95

\*2 Impairment loss

For the current consolidated fiscal year, our Group posted an impairment loss for the following asset group:

Previous consolidated fiscal year (from April 1, 2015 to March 31, 2016)

Location	Use	Type
Yura, Yura-cho, Sumoto-shi, Hyogo Prefecture, and other two places	Idle assets	Land

Our Group fundamentally groups business assets by type of business and idle assets by each asset.

For the current consolidated fiscal year, with regard to the asset group with the collectible value being remarkably lower than book value of idle assets not used for business, an impairment loss of 25 million yen was recorded. All impairment losses are related to land.

The collectible amount is measured at net selling value, based on the real estate appraisal value.

Current consolidated fiscal year (from April 1, 2016 to March 31, 2017)

Location	Use	Type
Nasu-machi, Nasu-gun, Tochigi Prefecture, and other three places	Idle assets	Land
-	Other	Goodwill

Our Group fundamentally groups business assets by type of business and idle assets by each asset.

For the current consolidated fiscal year, with regard to the asset group with the collectible value being remarkably lower than book value of idle assets not used for business, an impairment loss of 12 million yen was recorded. All impairment losses are related to land.

With regard to goodwill that occurred as a result of the acquisitions made in 2012, after careful consideration of collectability, an impairment loss of 87 million yen, all of the residual value, was recorded.

The collectible amount of idle assets is measured at net selling value, based on the real estate appraisal value. The collectible amount of the asset group including goodwill is measured at value in use and the discount rate is not reflected because the estimated period of use is short.

(Consolidated Statements of Comprehensive Income)

\*1 Reclassification adjustment and tax effects related to other comprehensive income

	Previous consolidated fiscal year (from April 1, 2015 to March 31, 2016)	Current consolidated fiscal year (from April 1, 2016 to March 31, 2017)
Valuation difference on available-for-sale securities:	million yen	million yen
Current accrued amount	(138)	86
Reclassification adjustment	(62)	(0)
Before adjustment of tax effect	(201)	86
Tax effects	66	(25)
Valuation difference on available-for-sale securities	(135)	60
Foreign currency translation adjustment:		
Current accrued amount	(356)	54
Re-measurements of defined benefit plans:		
Current accrued amount	(61)	16
Reclassification adjustment	(0)	9
Before adjustment of tax effect	(62)	25
Tax effects	19	(7)
Re-measurements of defined benefit plans	(43)	17
Total other comprehensive income	(534)	132

## (Consolidated Statements of Changes in Net Assets)

Previous consolidated fiscal year (from April 1, 2015 to March 31, 2016)

## 1. Type and total number of shares issued and type and number of treasury shares

	Number of shares at the beginning of the current consolidated fiscal year (shares)	Increase in shares during the current consolidated fiscal year (shares)	Decrease in shares during the current consolidated fiscal year (shares)	Number of shares at the end of the current consolidated fiscal year (shares)
Shares issued				
Common stock (Note1)	10,167,300	3,000	—	10,170,300
Total	10,167,300	3,000	—	10,170,300
Treasury shares				
Common stock (Note2,3)	349,807	290,050	6,000	633,857
Total	349,807	290,050	6,000	633,857

(Note) 1. 3,000-share increase in total number of issued common stock is due to the new shares issued upon exercise of subscription rights to shares.

2. The 290,050 share increase in common treasury stock is due to a 290,000 share increase resulting from an acquisition of treasury shares upon the resolution of the board of directors and a 50 share increase resulting from the purchase of shares less than 1 unit.

3. The 6,000 share decrease in common treasury stock is due to the exercise of subscription rights.

## 2. Subscription rights to shares and treasury subscription rights to shares

Segment	Breakdown of subscription rights to shares	Type of stock subject to subscription rights to shares	Number of shares subject to subscription rights to shares (share)				Balance at the end of the current consolidated fiscal year (million yen)
			Beginning of the current consolidated fiscal year	Increase during the current consolidated fiscal year	Decrease during the current consolidated fiscal year	End of the current consolidated fiscal year	
TAKACHIHO KOHEKI CO., LTD.	Subscription rights to shares as stock option	—	—	—	—	—	17
Total		—	—	—	—	—	17

## 3. Dividends

## (1) Dividends paid

(Resolution)	Type of stock	Total dividends (million yen)	Dividends per share (yen)	Record date	Effective date
Annual shareholder's meeting held on June 26, 2015	Common stock	117	12.00 yen	March 31, 2015	June 29, 2015
Board of directors' meeting held on November 6, 2015	Common stock	114	12.00 yen	September 30, 2015	December 3, 2015

(2) Among dividends whose record date belongs to the current consolidated fiscal year, those whose effective date falls in the next consolidated fiscal year

(Resolution)	Type of stock	Total dividends (million yen)	Dividend resource	Dividends per share (yen)	Record date	Effective date
Annual shareholder's meeting held on June 26, 2016	Common stock	114	Retained earnings	12.00 yen	March 31, 2016	June 29, 2016

Current consolidated fiscal year (from April 1, 2016 to March 31, 2017)

1. Type and total number of shares issued and type and number of treasury shares

	Number of shares at the beginning of the current consolidated fiscal year (shares)	Increase in shares during the current consolidated fiscal year (shares)	Decrease in shares during the current consolidated fiscal year (shares)	Number of shares at the end of the current consolidated fiscal year (shares)
Shares issued				
Common stock (Note1)	10,170,300	1,500	—	10,171,800
Total	10,170,300	1,500	—	10,171,800
Treasury shares				
Common stock (Note2)	633,857	200,100	—	833,957
Total	633,857	200,100	—	833,957

(Note) 1. 1,500-share increase in total number of issued common stock is due to the new shares issued upon exercise of subscription rights to shares.

2. The 200,100 share increase in common treasury stock is due to a 200,000 share increase resulting from an acquisition of treasury shares upon the resolution of the board of directors and a 100 share increase resulting from the purchase of shares less than 1 unit.

2. Subscription rights to shares and treasury subscription rights to shares

Segment	Breakdown of subscription rights to shares	Type of stock subject to subscription rights to shares	Number of shares subject to subscription rights to shares (share)				Balance at the end of the current consolidated fiscal year (million yen)
			Beginning of the current consolidated fiscal year	Increase during the current consolidated fiscal year	Decrease during the current consolidated fiscal year	End of the current consolidated fiscal year	
TAKACHIHO KOHEKI CO., LTD.	Subscription rights to shares as stock option	—	—	—	—	—	8
Total		—	—	—	—	—	8

3. Dividends

(1) Dividends paid

(Resolution)	Type of stock	Total dividends (million yen)	Dividends per share (yen)	Record date	Effective date
Annual shareholder's meeting held on June 28, 2016	Common stock	114	12.00 yen	March 31, 2016	June 29, 2016
Board of directors' meeting held on November 4, 2016	Common stock	112	12.00 yen	September 30, 2016	December 5, 2016

(2) Among dividends whose record date belongs to the current consolidated fiscal year, those whose effective date falls in the next consolidated fiscal year

(Resolution)	Type of stock	Total dividends (million yen)	Dividend resource	Dividends per share (yen)	Record date	Effective date
Annual shareholder's meeting held on June 28, 2017	Common stock	112	Retained earnings	12.00 yen	March 31, 2017	June 29, 2017

(Consolidated Cash Flow Statements)

\*1 Relationship between ending balance of cash and cash equivalents and amounts of accounts stated on the consolidated balance sheet

	Previous consolidated fiscal year (from April 1, 2015 to March 31, 2016)	Current consolidated fiscal year (from April 1, 2016 to March 31, 2017)
	million yen	million yen
Cash and deposits account	5,758	6,163
Negotiable deposits in the securities account	500	500
Fixed deposits for more than 3 months	(1,100)	(1,100)
Cash and cash equivalents	5,158	5,563

(Segment Information, etc.)

[Segment Information]

1. Summary of reporting segments

Our group's reporting segments are that among components of our group separated financial information is available, and they are regularly reviewed by the board of directors to evaluate decisions concerning the allocation of management resources and business results.

Our group establishes organizational units suited to the characteristics of products/services and prepares comprehensive strategies for Japan and overseas.

Therefore, our group is composed of segments based on the characteristics of products/services. The three reporting segments are System and Device.

The Systems segment provides consulting of system equipment and design, sale and operational services for systems, in particular security products. The Device segment sells products such as semiconductors and mechanical components and offers consulting services for these products.

2. Methods for calculating amounts of sales, profit or loss, assets, liabilities and other items for each reporting segment

Reported accounting methods for business segments are almost the same as those described in the significant matters constituting the basis for the preparation of the consolidated financial statements

3. Information concerning amounts of sales, profit or loss, assets, liabilities and other items for each reporting segment

Previous consolidated fiscal year(from April 1, 2015 to March 31, 2016)

(Unit: millions of yen)

	System	Device	Total	Adjustments (Note) 1	Amount stated on the consolidated financial statements (Note) 2
Sales					
Sales to external customers	11,184	8,802	19,986	—	19,986
Internal sales or transfers between segments	—	—	—	—	—
Total	11,184	8,802	19,986	—	19,986
Segment profit or loss	83	348	431	4	436
Segment assets	9,065	3,561	12,627	5,626	18,253
Other items					
Depreciation	60	42	102	64	166
Amortization of goodwill	434	—	434	—	434
Impairment loss	—	—	—	25	25
Investment to entities accounted for using equity methods	—	10	10	—	10
Increase in property, plant and equipment and non-current intangible assets	63	17	81	39	120

(Note) 1. Adjustments are as follows:

- (1) Adjustments to segment profit or loss of 4 million yen are consolidated adjustments.
- (2) Adjustments to segment assets of 5,626 million yen include consolidated adjustments of 0 million yen and the whole-company assets of 5,626 million yen not attributed to reporting segments. The whole-company assets mainly represent surplus working capital (cash and securities), funds for long-term investment (investment securities) and assets related to administrative departments such as the general affairs department.
- (3) Adjustments to depreciation of 64 million yen are mainly depreciation of assets related to administrative departments such as the general affairs department.
- (4) Adjustments to impairment loss of 25 million yen are mainly impairment loss of idle land.
- (5) Adjustments to increase in property, plant and equipment and non-current intangible assets of 39 million yen are mainly increases in assets related to administrative departments such as the general affairs department.

(Note) 2. Segment profit or loss is reconciled to operating income on the consolidated income statements.

Current consolidated fiscal year (from April 1, 2016 to March 31, 2017)

(Unit: millions of yen)

	System	Device	Total	Adjustments (Note) 1	Amount stated on the consolidated financial statements (Note) 2
Sales					
Sales to external customers	11,347	7,689	19,037	—	19,037
Internal sales or transfers between segments	—	—	—	—	—
Total	11,347	7,689	19,037	—	19,037
Segment profit or loss	294	210	505	(4)	500
Segment assets	9,470	3,511	12,982	5,578	18,561
Other items					
Depreciation	40	35	76	48	124
Amortization of goodwill	346	—	346	—	346
Impairment loss	87	—	—	12	100
Investment to entities accounted for using equity methods	—	10	10	—	10
Increase in property, plant and equipment and non-current intangible assets	27	41	69	35	104

(Note) 1. Adjustments are as follows:

- (1) Adjustments to segment profit or loss of (4) million yen are consolidated adjustments.
- (2) Adjustments to segment assets of 5,578 million yen is the whole-company assets not attributed to reporting segments.  
The whole-company assets mainly represent surplus working capital (cash and securities), funds for long-term investment (investment securities) and assets related to administrative departments such as the general affairs department.
- (3) Adjustments to depreciation of 48 million yen are mainly depreciation of assets related to administrative departments such as the general affairs department.
- (4) Adjustments to impairment loss of 12 million yen are mainly impairment loss of idle land.
- (5) Adjustments to increase in property, plant and equipment and non-current intangible assets of 35 million yen are mainly increases in assets related to administrative departments such as the general affairs department.

(Note) 2. Segment profit or loss is reconciled to operating income on the consolidated income statements.

[Related Information]

Previous consolidated fiscal year (from April 1, 2015 to March 31, 2016)

1. Information by product and service

Description is omitted because product and service segments are the same as reporting segments.

2. Information by region

(1) Sales

(Unit: millions of yen)

Japan	Asia	Other	Total
14,641	4,996	348	19,986

(Note) 1 Sales are classified by country or region, based on the location of customers.

2 Method for classifying country or region

Based on the geographic proximity

3 Major countries or regions in segments

Asia: countries in East and South East

(2) Property, plant and equipment

Description is omitted because the amount of property, plant and equipment located in Japan is above 90% of that in the consolidated balance sheet.

3. Information by major customer

Description is omitted because among sales to external customers, there are no sales to a specific customer accounting for 10% or more of sales in the consolidated income statements.

Current consolidated fiscal year (from April 1, 2016 to March 31, 2017)

1. Information by product and service

Description is omitted because product and service segments are the same as reporting segments.

2. Information by region

(1) Sales

(Unit: millions of yen)

Japan	Asia	Other	Total
13,519	5,143	373	19,037

(Note) 1 Sales are classified by country or region, based on the location of customers.

2 Method for classifying country or region

Based on the geographic proximity

3 Major countries or regions in segments

Asia: countries in East and South East

(2) Property, plant and equipment

Description is omitted because the amount of property, plant and equipment located in Japan is above 90% of that in the consolidated balance sheet.

3. Information by major customer

Description is omitted because among sales to external customers, there are no sales to a specific customer accounting for 10% or more of sales in the consolidated income statements.



## (Per Share Information)

Item	Previous consolidated fiscal year	Current consolidated fiscal year
Net assets per share	1,449.95 yen	1,480.61 yen
Net income per share	10.79 yen	29.66 yen
Fully diluted net income per share	10.77 yen	— yen

(Note) 1. For the current consolidated fiscal year, the fully diluted net income per share is not presented because of no dilutive securities with a dilutive effect.

## 2. Basis for calculating net assets per share:

Item	Previous consolidated fiscal year (as of March 31, 2016)	Current consolidated fiscal year (as of March 31, 2017)
Total net assets in the consolidated balance sheet (million yen)	13,844	13,834
Net assets associated with common stock (million yen)	13,827	13,825
Major breakdown items of differences (million yen)		
Subscription rights to shares	17	8
Minority interests	0	0
Number of issued common stock (thousand shares)	10,170	10,171
Number of common stock for treasury (thousand shares)	633	833
Number of common stock used to calculate net assets per share (thousand shares)	9,536	9,337

## 3. Basis for calculating net income per share and fully diluted net income per share:

Item	Previous consolidated fiscal year (from April 1, 2015 to March 31, 2016)	Current consolidated fiscal year (from April 1, 2016 to March 31, 2017)
Net income in the consolidated income statements (million yen)	103	279
Net income associated with common stock (million yen)	103	279
Amount not attributable to common stockholders (million yen)	—	—
Average number of common stock during the period (thousand shares)	9,568	9,431
Fully diluted net income per share		
Adjustments to net income (million yen)	—	—
Increases in common stock used to calculate fully diluted net income per share (thousand shares)	21	—
Subscription rights to shares		
Summary of dilutive shares not included to calculate fully diluted net income per share because of no dilutive effect	Stock options granted by a resolution of the board of directors on July 17, 2015 (Subscription rights to shares: 58 units) Common stock: 87,000 shares	Stock options granted by a resolution of the board of directors on July 19, 2013 (Subscription rights to shares: 44 units) Common stock: 66,000 shares  Stock options granted by a resolution of the board of directors on July 17, 2015 (Subscription rights to shares: 55 units) Common stock: 82,000 shares

## (Significant Subsequent Event)

Not applicable

## 6. Non-consolidated Financial Statements

### (1) Balance sheet

(Millions of yen)

	As of March 31, 2016	As of March 31, 2017
<b>Assets</b>		
Current assets		
Cash and deposits	3,694	3,832
Notes receivable - trade	493	359
Electronically recorded monetary claims - operating	308	434
Accounts receivable - trade	3,139	3,285
Securities	500	500
Merchandise and finished goods	1,430	1,569
Short-term loans receivable	300	—
Deferred tax assets	82	80
Other	345	413
Allowance for doubtful accounts	(0)	(0)
Total current assets	10,296	10,475
Non-current assets		
Property, plant and equipment		
Buildings, net	9	8
Tools, furniture and fixtures, net	119	131
Land	140	128
Other, net	5	10
Total property, plant and equipment	275	278
Intangible assets	65	50
Investments and other assets		
Investment securities	706	792
Shares of subsidiaries and associates	5,647	5,815
Deferred tax assets	129	109
Other	277	315
Allowance for doubtful accounts	—	(29)
Total investments and other assets	6,761	7,004
Total non-current assets	7,102	7,333
Total assets	17,398	17,808

(Millions of yen)

	As of March 31, 2016	As of March 31, 2017
<b>Liabilities</b>		
Current liabilities		
Notes payable - trade	93	28
Electronically recorded obligations - operating	280	292
Accounts payable - trade	1,643	1,979
Income taxes payable	179	135
Provision for bonuses	182	177
Provision for directors' bonuses	—	9
Other	553	626
Total current liabilities	2,932	3,248
Non-current liabilities		
Long-term accounts payable - other	26	24
Provision for retirement benefits	469	460
Other	17	17
Total non-current liabilities	512	502
Total liabilities	3,445	3,751
<b>Net assets</b>		
Shareholders' equity		
Capital stock	1,208	1,209
Capital surplus		
Legal capital surplus	1,170	1,171
Other capital surplus	0	0
Total capital surpluses	1,171	1,172
Retained earnings		
Legal retained earnings	198	198
Other retained earnings		
General reserve	9,395	9,395
Retained earnings brought forward	2,407	2,637
Total retained earnings	12,001	12,231
Treasury shares	(604)	(783)
Total shareholders' equity	13,776	13,829
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	158	219
Total valuation and translation adjustments	158	219
Subscription rights to shares	17	8
Total net assets	13,952	14,056
<b>Total liabilities and net assets</b>	<b>17,398</b>	<b>17,808</b>

## (2) Income Statements

(Millions of yen)

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017
Net sales	14,702	13,889
Cost of sales	11,378	10,713
Gross profit	3,323	3,175
Selling, general and administrative expenses	2,725	2,683
Operating profit	597	492
Non-operating income		
Interest income	37	1
Dividend income	50	66
Foreign exchange gains	—	109
Insurance income	0	2
Compensation income	—	30
Other	8	4
Total non-operating income	97	214
Non-operating expenses		
Interest expenses	2	1
Commission fee	2	2
Foreign exchange losses	69	—
Other	0	0
Total non-operating expenses	74	4
Ordinary profit	620	702
Extraordinary income		
Gain on sales of investment securities	62	0
Gain on reversal of subscription rights to shares	0	11
Total extraordinary income	63	11
Extraordinary losses		
Impairment loss	25	12
Loss on valuation of shares of subsidiaries and associates	—	23
Settlement package	—	3
Total extraordinary losses	25	39
Profit before income taxes	658	674
Income taxes - current	227	221
Income taxes - deferred	20	(3)
Total income taxes	248	218
Profit	410	456

## (3) Statements of Changes in Net Assets

Previous consolidated fiscal year (from April 1, 2015 to March 31, 2016)

(Unit: millions of yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings
					General reserve	Retained earnings brought forward		
Balance at the beginning of the period	1,207	1,169	0	1,169	198	9,395	2,229	11,823
Changes of items during the period								
Issuance of new shares	1	1		1				
Dividends from surplus							(232)	(232)
Net income							410	410
Acquisition of Treasury Shares								
Disposition of Treasury Shares			0	0				
Net changes of items other than shareholders' equity during the period								
Total changes of items during the period	1	1	0	1	—	—	177	177
Balance at the end of the period	1,208	1,170	0	1,171	198	9,395	2,407	12,001

	Shareholders' equity		Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at the beginning of the period	(298)	13,901	293	293	15	14,211
Changes of items during the period						
Issuance of new shares		2				2
Dividends from surplus		(232)				(232)
Net income		410				410
Acquisition of Treasury Shares	(311)	(311)				(311)
Disposition of Treasury Shares	5	6				6
Net changes of items other than shareholders' equity during the period			(135)	(135)	1	(133)
Total changes of items during the period	(306)	(124)	(135)	(135)	1	(258)
Balance at the end of the period	(604)	13,776	158	158	17	13,952

Current consolidated fiscal year (from April 1, 2016 to March 31, 2017)

(Unit: millions of yen)

	Shareholders' equity							
	Capital stock	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings
					General reserve	Retained earnings brought forward		
Balance at the beginning of the period	1,208	1,170	0	1,171	198	9,395	2,407	12,001
Changes of items during the period								
Issuance of new shares	0	0		0				
Dividends from surplus							(226)	(226)
Net income							456	456
Acquisition of Treasury Shares								
Net changes of items other than shareholders' equity during the period								
Total changes of items during the period	0	0	—	0	—	—	229	229
Balance at the end of the period	1,209	1,171	0	1,172	198	9,395	2,637	12,231

	Shareholders' equity		Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at the beginning of the period	(604)	13,776	158	158	17	13,952
Changes of items during the period						
Issuance of new shares		1				1
Dividends from surplus		(226)				(226)
Net income		456				456
Acquisition of Treasury Shares	(179)	(179)				(179)
Net changes of items other than shareholders' equity during the period			60	60	(8)	51
Total changes of items during the period	(179)	52	60	60	(8)	103
Balance at the end of the period	(783)	13,829	219	219	8	14,056

## 7. Other

### (1) Purchases, orders received and sales

#### (i) Actual results of purchases

(Unit: millions of yen)

Segment	Previous consolidated fiscal year (from April 1, 2015 to March 31, 2016)	Current consolidated fiscal year (from April 1, 2016 to March 31, 2017)
System	7,508	7,356
Device	6,855	6,005
Total	14,363	13,362

#### (ii) Actual results of orders received

(Unit: millions of yen)

Segment	Previous consolidated fiscal year (from April 1, 2015 to March 31, 2016)		Current consolidated fiscal year (from April 1, 2016 to March 31, 2017)	
	Orders received	Backlog of orders	Orders received	Backlog of orders
System	10,854	3,077	11,519	3,249
Device	8,706	1,418	7,499	1,227
Total	19,560	4,496	19,018	4,477

#### (iii) Actual results of sales

(Unit: millions of yen)

Segment	Previous consolidated fiscal year (from April 1, 2015 to March 31, 2016)	Current consolidated fiscal year (from April 1, 2016 to March 31, 2017)
Security Solution Products	6,994	7,174
Other System Solution Products	1,658	1,612
Customer Service Products	2,531	2,561
System Total	11,184	11,347
Semiconductors Products	3,448	3,061
Mechanical Component Products	5,353	4,627
Device Total	8,802	7,689
Total	19,986	19,037