

**Financial Results for the Year Ended March 2019 [Based on the Japanese Accounting Standards]  
(Consolidated)**

May 10, 2019

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): Takanobu Ide (President and CEO)

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

General Manager of the Corporate Management Division)

TEL: 03-3355-1111

Date of the shareholder's meeting: June 26, 2019

Date of dividends payment: June 27, 2019

Registration date of annual securities report: June 27, 2019

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

1. Consolidated Financial Results for the Year ended March 2019 (from April 1, 2018 to March 31, 2019)

(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 2018 | 19,894      | 1.7 | 989              | 49.1 | 1,086           | 53.8 | 491   | 275.3  |
| FY 2017 | 19,570      | 2.8 | 663              | 32.6 | 706             | 0.9  | 130   | (53.2) |

Note: Comprehensive income: 488 million yen ( 43.5 %) for FY 2018

340 million yen (  $\Delta$ 17.4 %) for FY 2017

|         | 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 2018 | 53.53                | —                                  | 3.5              | 5.8                                      | 5.0                                    |
| FY 2017 | 14.02                | 14.00                              | 0.9              | 3.8                                      | 3.4                                    |

Reference: Equity in earnings (losses) of affiliates: 7 million yen for FY 2018

3 million yen for FY 2017

(2) Consolidated Financial Position

|         | Total assets | Net assets  | Equity ratio | Net assets per share |
|---------|--------------|-------------|--------------|----------------------|
|         | million yen  | million yen | %            | yen                  |
| FY 2018 | 18,883       | 13,766      | 72.9         | 1,545.18             |
| FY 2017 | 18,566       | 13,958      | 75.1         | 1,492.86             |

Reference: Owner's equity: 13,760 million yen for FY 2018

13,948 million yen for FY 2017

(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 2018 | 939                                 | (134)                     | (678)                               | 5,203  |
| FY 2017 | 143                                 | (435)                     | (218)                               | 5,069  |

## 2. Dividends

|                  | Annual cash dividends per share |                    |                    |                    |       | Total cash dividends<br>(Annual) | Payout ratio<br>(Consolidated) | Dividends to net assets<br>(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 2017          | —                               | 12.00              | —                  | 12.00              | 24.00 | 224                              | 171.2                          | 1.6                                       |
| FY 2018          | —                               | 12.00              | —                  | 12.00              | 24.00 | 219                              | 44.8                           | 1.6                                       |
| FY 2019 forecast | —                               | 12.00              | —                  | —                  | —     |                                  | —                              |   |

On May 10, 2019, we announced the changes in dividend policy. Although the amount of the dividend has not been decided at present, according to this policy, the current stable dividend (24 yen a year) will be the lower limit for the dividend for the fiscal year ending March 2020. We plan to pay a dividend of ¥12 at the end of the second quarter and a year-end dividend of 40% or more for the consolidated payout ratio.

Please refer to “Notice of changes in dividend policy” announced on the same date for details.

## 3. Forecast of Consolidated Operating Results for FY 2019 (from April 1, 2019 to March 31, 2020)

(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 2019 1st half | 10,250      | 12.5 | 380              | 32.1 | 380             | 8.5  | 230   | 21.3 | 25.83                |
| FY 2019          | 22,100      | 11.1 | 1,200            | 21.3 | 1,200           | 10.4 | 800   | 62.9 | 89.83                |

### \* 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.: None

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

(iii) Changes in accounting estimates: None

(iv) Retrospective restatement: None

(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 2018 | 10,171,800 | FY 2017 | 10,171,800 |
| FY 2018 | 1,266,036  | FY 2017 | 827,990    |
| FY 2018 | 9,177,020  | FY 2017 | 9,339,160  |

Reference: Non-consolidated Financial Results

Non-consolidated Financial Results for the Year ended March 2019 (from April 1, 2018 to March 31, 2019)

(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 2018 | 14,745      | 3.4 | 834              | 39.9 | 951             | 46.4  | 457         | 3.9   |
| FY 2017 | 14,259      | 2.7 | 596              | 21.2 | 650             | (7.5) | 440         | (3.5) |

|         | Net income per share | Fully diluted net income per share |
|---------|----------------------|------------------------------------|
|         | yen                  | yen                                |
| FY 2018 | 49.86                | —                                  |
| FY 2017 | 47.15                | 47.10                              |

(2) Non-consolidated Financial Position

|         | Total assets | Net assets  | Capital adequacy ratio | Net assets per share |
|---------|--------------|-------------|------------------------|----------------------|
|         | million yen  | million yen | %                      | yen                  |
| FY 2018 | 17,924       | 14,105      | 78.7                   | 1,583.21             |
| FY 2017 | 17,908       | 14,401      | 80.4                   | 1,540.25             |

Reference: Owner's equity: 14,099 million yen for FY 2018, 14,391 million yen for FY 2017

\* 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. Overview of Operating Results/Financial Position (1) Overview of Operating Results."

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## 1. Overview of Operating Results/Financial Position

### (1) Overview of Operating Results

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

For the current consolidated fiscal year, Japan's economy is showing signs of weakness in some areas of exports and production. On the other hand, it has shown a continuing and gradual recovery trend with an improvement in capital investment, and consumer spending supported by steady improvement in the employment/income environment.

For the outlook, amid the continuing improvement trend in the employment/income environment despite some weakness remaining, the economy is expected to gradually recover as a result of various economic countermeasures.

However, we need to pay attention to the situation overseas, including BREXIT, the management of economic policies in the United States, and the effect of trade problems on the stock market and foreign exchange market.

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, we have made efforts to increase the added value of our flagship products, Electronic Article Surveillance Systems and Access Control Systems; develop new markets for RFID Systems, Retail Security Solutions, and Cloud-based Wireless LAN Systems; and expand the Fire Protection System Business, which is operated in Thailand and the ASEAN region.

In the Device Segment Semiconductor Business, we have promoted sales in the telecom infrastructure area and increasing added value, such as unique board designs using a variety of semiconductors. In the Industrial Systems Business, we have focused on sales of Mechanical Components for residential equipment in North America, the ASEAN region and China, in addition to conventional sales of Mechanical Components for ATMs, as well as the development of the automobile interior components market in Japan and overseas.

Amidst these circumstances, operating results in the current consolidated fiscal year show an increase in net sales of 1.7 percent YOY to 19,894 million yen.

In terms of profit and loss, operating income increased 49.1 percent YOY to 989 million yen. This is due to strong sales of the system segment, which has a relatively high profit margin, and also the effort made to reduce selling, general and administrative expenses.

Ordinary income increased 53.8 percent YOY to 1,086 million yen as foreign exchange gains of 54 million yen were recorded. Net income attributable to shareholders of the parent company increased 275.3 percent YOY to 491 million yen despite the impairment loss of fixed assets, including goodwill such as Guardfire Limited.

The operating results of each segment are as follows:

#### (System Segment)

System Segment sales increased 2.4 percent YOY to 12,267 million yen and operating income increased 48.0 percent YOY to 803 million yen.

For Security Solution Products, despite the sales increase resulting from the Access Control Systems promoting Work Style Reform, sales decreased 2.8 percent YOY to 7,435 million yen. This is due to weak sales of Display Security Systems and also due to the receipt of large orders for Fire Protection Systems in Thailand that has yet to result in sales during the current year.

For Other System Solution Products, sales increased 20.0 percent YOY to 2,002 million yen as a result of strong sales in Cloud-based wireless LAN Systems

For Customer Service Products, sales increased 6.3 percent YOY to 2,829 million yen

#### (Device Segment)

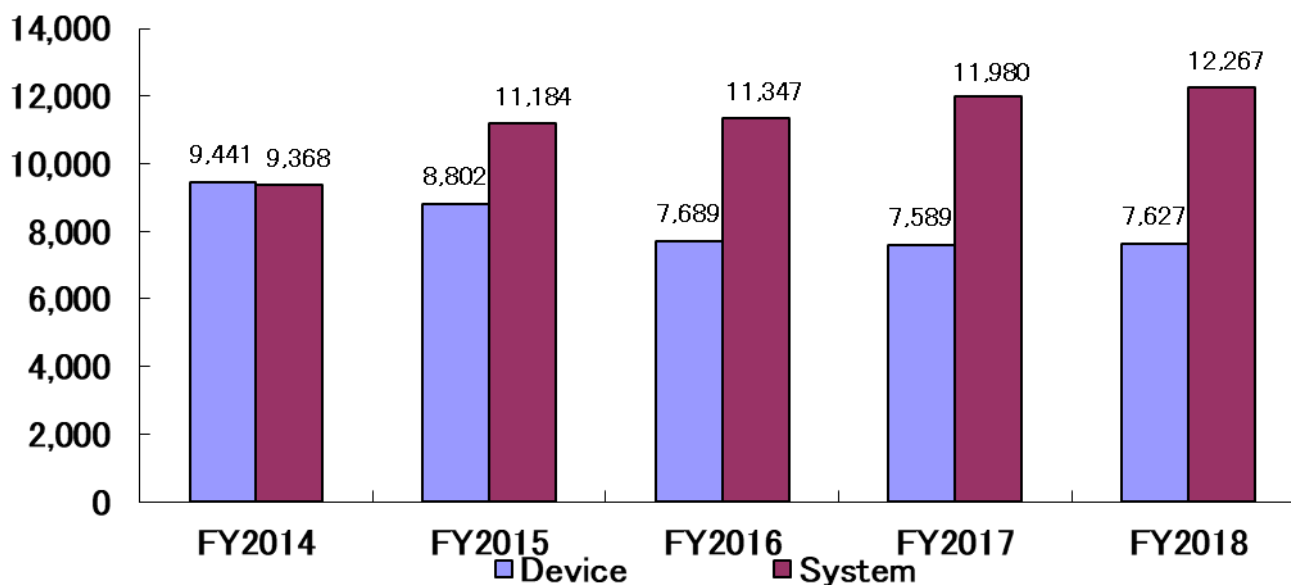
Device Segment sales increased 0.5 percent YOY to 7,627 million yen and operating income increased 103.5 percent YOY to 185 million yen.

For Semiconductor products, sales decreased 5.9 percent YOY to 3,319 million yen due to shrinking sales of electronic parts for smartphones.

For Mechanical Component Products, sales increased 6.1 percent YOY to 4,307 million yen as a result of solid sales for office furniture.

(millions of yen)

Sales by Segment



(ii) Future Outlook

Recently, Japan's economy has shown some weakness in certain areas of exports and production. On the other hand, it has shown a continuing and gradual recovery trend with an improvement in capital investment and consumer spending supported by steady improvement in the employment/income environment. For the outlook, amid the continuing improvement trend in the employment/income environment despite some weakness remaining, the economy is expected to gradually recover as a result of various economic countermeasures. However, we need to pay attention to the situation overseas, including BREXIT, the management of economic policies in the United States, and the effect of trade problems on the stock market and foreign exchange market.

Under such circumstances, our Group will strive to achieve further business growth, with the medium-term management policy of "Concentrating on core areas and changing to create new corporate value."

Specifically, in the System Segment, we will strive to promote sales of security solutions with the Electronic Article Surveillance Systems and image recognition technology for retail industries, RFID systems primarily for the apparel market, sales support solutions related to labor saving measures, for a Cloud-based wireless LAN with a rapidly growing market for office use, and for solutions to support Work Style Reform. As for global business, we will make efforts to win deals for fire protection systems for power plants, which are expected to enjoy an expansion in the demand for power in the ASEAN region, and for oil industrial complexes, where investment tends to recover due to higher crude oil prices.

With regard to the Device Segment, we will strive to develop industrial equipment area centered on the telecommunications infrastructure market in the electronics sector, and develop the automotive sector. In the Industrial Systems Business we will promote the sales of high value-added unit products for the housing equipment market in China and capture the U.S. market through Takachiho America, Inc.

For the results forecast for the next fiscal year, we expect sales to be 22,100 million yen, ordinary income to be 1,200 million yen, and net income attributable to owners of the parent company to be 800 million yen.

Sales forecasts by Segment are as follows:

|  | System | Device | Total  |
|--|--------|--------|--------|
| Net sales (million yen)                  | 14,000 | 8,100  | 22,100 |
| Rate of increase compared to FY 2018 (%) | 14.1   | 6.2    | 11.1   |

## (2) Overview of Financial Position

### (i) Status of assets, liabilities and net assets

Total assets as of the end of the current consolidated fiscal year increased 316 million yen YOY to 18,883 million yen. This is due to notes and accounts receivable - trade, cash and deposits, and prepaid expenses increased 412 million yen, 134 million yen, and 99 million yen, respectively, while goodwill decreased 308 million yen.

Liabilities increased 508 million yen YOY to 5,116 million yen. This is due to notes and accounts payable – trade, accounts payable – other, advance payments, income taxes payable, and consumption taxes payable increased 186 million yen, 118 million yen, 81 million yen, 66 million yen, and 49 million yen, respectively.

Net assets decreased 191 million yen YOY to 13,766 million yen. This is due to net income attributable to owners of the parent company that amounted to 491 million yen, while the dividend payment amounted to 224 million yen and the expenditures for the acquisition of treasury stock amounted to 464 million yen.

The equity ratio decreased 2.2 points from the end of the previous consolidated fiscal year to 72.9 percent.

### (ii) Status of Cash flow

Cash and cash equivalents as of the end of the current consolidated fiscal year increased 134 million yen (2.7 percent) YOY to 5,203 million yen.

#### (Cash flow from operating activities)

Cash flow from operating activities during the current consolidated fiscal year increased 796 million yen YOY to 939 million yen. This is due to net income before taxes and minority interests that amounted to 894 million yen with income taxes paid being 343 million yen, while accounts payable - trade increased 185 million yen, the impairment loss amounted to 184 million yen, respectively.

#### (Cash flow from investment)

Cash flow from investment activities during the current consolidated fiscal year increased 300 million yen YOY to -134 million yen. This was mainly due to the acquisition of non-current assets of 139 million yen.

#### (Cash flow from financing activities)

Cash flow from financing activities during the current consolidated fiscal year decreased 459 million yen YOY to -678 million yen. This is due to expenditure for the acquisition of treasury stock of 464 million yen and dividend payments of 224 million yen.

| Index  | FY 2014 | FY 2015 | FY 2016 | FY 2017 | FY 2018 |
|--|---------|---------|---------|---------|---------|
| Equity ratio (%)   | 75.0    | 75.8    | 74.5    | 75.1    | 72.9    |
| Capital adequacy ratio based on current market value (%) | 50.3    | 47.5    | 50.5    | 67.5    | 44.6    |
| Interest coverage ratio                                  | 937.1   | 154.8   | 599.9   | 72.5    | 681.5   |

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 distribution of profit and the Dividends for the current and next fiscal years:

(i) Basic Policy for distribution of profit and the Dividends for the current fiscal year.

We make it its basic policy to pay dividends in a stable manner and consider 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.

(ii) Basic Policy for distribution of profit and the Dividends for the next fiscal year.

We consider it an important business challenge to return profits to our shareholders and make profit distribution according to our business results, in addition to the policy of paying stable dividends. In principle, our basic policy is to set a consolidated payout ratio of at least 40%, with the current stable dividend (24 yen per year) as the lower limit. In addition, we have focused on investments for future growth and through retained earnings for business expansion.

(iii) Dividends for the current and next fiscal year.

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.

On May 10, 2019, we announced the “Notice of changes in dividend policy” Please refer to that for details.



## 2. Corporate Group Status

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-alarmed 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, and 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 (readers/writers).

#### (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.) LIMITED 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.) LIMITED, 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<br><br>*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.) LIMITED                     |
|                                |  | TAKACHIHO TRADING (SHANGHAI) Co., Ltd.              |
|                                |  | Japan Micro Electronics<br>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.) LIMITED                     |
|                                |  | 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.

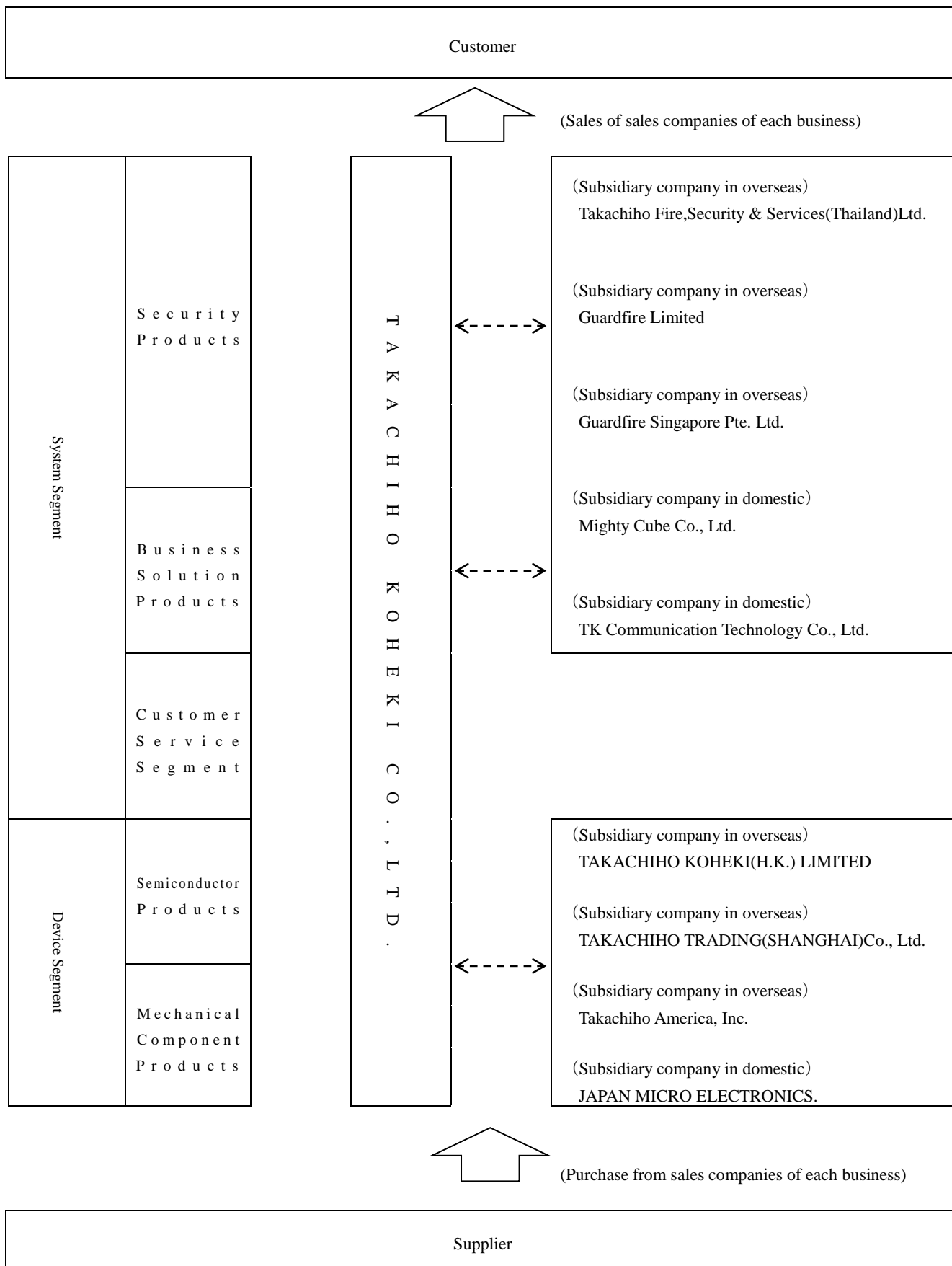
(4) Mail inserters (folding and inserting machines): Automated equipment for selection/enclosing and sealing operations of postal mail

(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 three principal goals: (1) Enhance customer satisfaction; (2) Gain worldwide trust by enhancing our technological expertise, skills and humanity; and (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, Medium- to long-term management strategies of the Company and Issues facing the Company

On May 17, 2019, the Group will announce a new medium-term management plan with the fiscal year ending March 2022 as the final year. Please refer to that for details.

### 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 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 International Accounting Standards.

## 5. Consolidated Financial Statements

### (1) Consolidated Balance Sheet

(Millions of yen)

|  | As of March 31, 2018 | As of March 31, 2019 |
|--|----------------------|----------------------|
| <b>Assets</b>                              |                      |                      |
| Current assets                             |                      |                      |
| Cash and deposits                          | 6,169                | 6,303                |
| Notes and accounts receivable - trade      | 6,277                | 6,690                |
| Merchandise and finished goods             | 2,416                | 2,445                |
| Raw materials                              | 107                  | 130                  |
| Other                                      | 587                  | 652                  |
| Allowance for doubtful accounts            | (18)                 | (13)                 |
| <b>Total current assets</b>                | <b>15,540</b>        | <b>16,209</b>        |
| Non-current assets                         |                      |                      |
| Property, plant and equipment              |                      |                      |
| Buildings and structures, net              | 21                   | 18                   |
| Land                                       | 128                  | 128                  |
| Other, net                                 | 152                  | 192                  |
| <b>Total property, plant and equipment</b> | <b>※ 1 302</b>       | <b>※ 1 338</b>       |
| Intangible assets                          |                      |                      |
| Goodwill                                   | 659                  | 350                  |
| Other                                      | 70                   | 104                  |
| <b>Total intangible assets</b>             | <b>729</b>           | <b>455</b>           |
| Investments and other assets               |                      |                      |
| Investment securities                      | ※ 2 1,238            | ※ 2 1,140            |
| Deferred tax assets                        | 223                  | 255                  |
| Other                                      | 531                  | 484                  |
| Allowance for doubtful accounts            | (0)                  | (0)                  |
| <b>Total investments and other assets</b>  | <b>1,993</b>         | <b>1,879</b>         |
| <b>Total non-current assets</b>            | <b>3,025</b>         | <b>2,673</b>         |
| <b>Total assets</b>                        | <b>18,566</b>        | <b>18,883</b>        |

(Millions of yen)

|  | As of March 31, 2018 | As of March 31, 2019 |
|--|----------------------|----------------------|
| <b>Liabilities</b>                                       |                      |                      |
| Current liabilities                                      |                      |                      |
| Notes and accounts payable - trade                       | 2,640                | 2,827                |
| Income taxes payable                                     | 188                  | 255                  |
| Provision for bonuses                                    | 245                  | 267                  |
| Provision for bonuses for directors (and other officers) | 10                   | 22                   |
| Other  | 802                  | 1,047                |
| Total current liabilities                                | 3,887                | 4,420                |
| Non-current liabilities                                  |                      |                      |
| Long-term accounts payable - other                       | 24                   | —                    |
| Retirement benefit liability                             | 658                  | 657                  |
| Other  | 36                   | 38                   |
| Total non-current liabilities                            | 719                  | 695                  |
| Total liabilities  | 4,607                | 5,116                |
| <b>Net assets</b>  |                      |                      |
| Shareholders' equity                                     |                      |                      |
| Capital stock  | 1,209                | 1,209                |
| Capital surplus  | 1,171                | 1,172                |
| Retained earnings  | 12,144               | 12,411               |
| Treasury shares  | (777)                | (1,231)              |
| Total shareholders' equity                               | 13,746               | 13,561               |
| Accumulated other comprehensive income                   |                      |                      |
| Valuation difference on available-for-sale securities    | 339                  | 266                  |
| Foreign currency translation adjustment                  | (119)                | (55)                 |
| Remeasurements of defined benefit plans                  | (17)                 | (11)                 |
| Total accumulated other comprehensive income             | 202                  | 199                  |
| Share acquisition rights                                 | 9                    | 5                    |
| Non-controlling interests                                | 0                    | 0                    |
| Total net assets   | 13,958               | 13,766               |
| Total liabilities and net assets                         | 18,566               | 18,883               |

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

(Millions of yen)

|   | Fiscal year ended<br>March 31, 2018 | Fiscal year ended<br>March 31, 2019 |
|---|-------------------------------------|-------------------------------------|
| Net sales   | 19,570                              | 19,894                              |
| Cost of sales   | 14,776                              | 14,787                              |
| Gross profit  | 4,793                               | 5,107                               |
| Selling, general and administrative expenses                  | ※ 1 4,130                           | ※ 1 4,117                           |
| Operating profit  | 663                                 | 989                                 |
| Non-operating income  |                                     |                                     |
| Interest income   | 1                                   | 1                                   |
| Dividend income   | 15                                  | 21                                  |
| Foreign exchange gains  | 12                                  | 54                                  |
| Insurance income  | 0                                   | 3                                   |
| Share of profit of entities accounted for using equity method | 3                                   | 7                                   |
| Gain on bad debts recovered                                   | 5                                   | 7                                   |
| Other   | 8                                   | 6                                   |
| Total non-operating income                                    | 48                                  | 102                                 |
| Non-operating expenses  |                                     |                                     |
| Interest expenses   | 1                                   | 1                                   |
| Commission expenses   | 2                                   | 2                                   |
| Other   | 0                                   | 0                                   |
| Total non-operating expenses                                  | 5                                   | 5                                   |
| Ordinary profit   | 706                                 | 1,086                               |
| Extraordinary income  |                                     |                                     |
| Gain on sales of golf memberships                             | 1                                   | —                                   |
| Gain on reversal of share acquisition rights                  | 0                                   | 3                                   |
| Total extraordinary income                                    | 1                                   | 3                                   |
| Extraordinary losses  |                                     |                                     |
| Impairment loss   | ※ 2 253                             | ※ 2 184                             |
| Loss on retirement of non-current assets                      | 1                                   | —                                   |
| Corporate funeral expenses                                    | —                                   | 12                                  |
| Total extraordinary losses                                    | 254                                 | 196                                 |
| Profit before income taxes                                    | 453                                 | 894                                 |
| Income taxes - current  | 330                                 | 407                                 |
| Income taxes - deferred                                       | (7)                                 | (4)                                 |
| Total income taxes  | 322                                 | 403                                 |
| Profit  | 130                                 | 491                                 |
| Profit attributable to owners of parent                       | 130                                 | 491                                 |



## (Consolidated Statements of Comprehensive Income)

(Millions of yen)

|  | Fiscal year ended<br>March 31, 2018 | Fiscal year ended<br>March 31, 2019 |
|--|-------------------------------------|-------------------------------------|
| Profit   | 130                                 | 491                                 |
| Other comprehensive income                               |                                     |                                     |
| Valuation difference on available-for-sale securities    | 120                                 | (72)                                |
| Foreign currency translation adjustment                  | 90                                  | 64                                  |
| Remeasurements of defined benefit plans, net of tax      | (1)                                 | 6                                   |
| Total other comprehensive income                         | ※ 1 209                             | ※ 1 (2)                             |
| Comprehensive income                                     | 340                                 | 488                                 |
| Comprehensive income attributable to                     |                                     |                                     |
| Comprehensive income attributable to owners of<br>parent | 340                                 | 488                                 |

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

Previous consolidated fiscal year (from April 1, 2017 to March 31, 2018)

(Millions of yen)

|  | Shareholders' equity |                 |                   |                 |                            |
|--|----------------------|-----------------|-------------------|-----------------|----------------------------|
|  | Capital stock        | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of current period               | 1,209                | 1,170           | 12,237            | (783)           | 13,833                     |
| Changes of items during period                       |                      |                 |                   |                 |                            |
| Dividends of surplus                                 |                      |                 | (224)             |                 | (224)                      |
| Profit attributable to owners of parent              |                      |                 | 130               |                 | 130                        |
| Purchase of treasury shares                          |                      |                 |                   | (0)             | (0)                        |
| Disposal of treasury shares                          |                      | 1               |                   | 5               | 6                          |
| Net changes of items other than shareholders' equity |                      |                 |                   |                 |                            |
| Total changes of items during period                 | —                    | 1               | (93)              | 5               | (86)                       |
| Balance at end of current period                     | 1,209                | 1,171           | 12,144            | (777)           | 13,746                     |

|  | Accumulated other comprehensive income                |   |   |  | Share acquisition rights | Non-controlling interests | Total net assets |
|--|---|---|---|--|--------------------------|---------------------------|------------------|
|  | Valuation difference on available-for-sale securities | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income |                          |                           |                  |
| Balance at beginning of current period               | 219   | (210)                                   | (16)                                    | (7)  | 8                        | 0                         | 13,834           |
| Changes of items during period                       |   |   |   |  |                          |                           |                  |
| Dividends of surplus                                 |   |   |   |  |                          |                           | (224)            |
| Profit attributable to owners of parent              |   |   |   |  |                          |                           | 130              |
| Purchase of treasury shares                          |   |   |   |  |                          |                           | (0)              |
| Disposal of treasury shares                          |   |   |   |  |                          |                           | 6                |
| Net changes of items other than shareholders' equity | 120   | 90                                      | (1)                                     | 209  | 0                        |                           | 210              |
| Total changes of items during period                 | 120   | 90                                      | (1)                                     | 209  | 0                        | —                         | 124              |
| Balance at end of current period                     | 339   | (119)                                   | (17)                                    | 202  | 9                        | 0                         | 13,958           |

Current Consolidated Fiscal Year (from April 1, 2018 to March 31, 2019)

(Millions of yen)

|  | Shareholders' equity |                 |                   |                 |                            |
|--|----------------------|-----------------|-------------------|-----------------|----------------------------|
|  | Capital stock        | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of current period               | 1,209                | 1,171           | 12,144            | (777)           | 13,746                     |
| Changes of items during period                       |                      |                 |                   |                 |                            |
| Dividends of surplus                                 |                      |                 | (224)             |                 | (224)                      |
| Profit attributable to owners of parent              |                      |                 | 491               |                 | 491                        |
| Purchase of treasury shares                          |                      |                 |                   | (464)           | (464)                      |
| Disposal of treasury shares                          |                      | 1               |                   | 11              | 12                         |
| Net changes of items other than shareholders' equity |                      |                 |                   |                 |                            |
| Total changes of items during period                 | —                    | 1               | 266               | (453)           | (185)                      |
| Balance at end of current period                     | 1,209                | 1,172           | 12,411            | (1,231)         | 13,561                     |

|  | Accumulated other comprehensive income                |   |   |  | Share acquisition rights | Non-controlling interests | Total net assets |
|--|---|---|---|--|--------------------------|---------------------------|------------------|
|  | Valuation difference on available-for-sale securities | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Total accumulated other comprehensive income |                          |                           |                  |
| Balance at beginning of current period               | 339   | (119)                                   | (17)                                    | 202  | 9                        | 0                         | 13,958           |
| Changes of items during period                       |   |   |   |  |                          |                           |                  |
| Dividends of surplus                                 |   |   |   |  |                          |                           | (224)            |
| Profit attributable to owners of parent              |   |   |   |  |                          |                           | 491              |
| Purchase of treasury shares                          |   |   |   |  |                          |                           | (464)            |
| Disposal of treasury shares                          |   |   |   |  |                          |                           | 12               |
| Net changes of items other than shareholders' equity | (72)  | 64                                      | 6                                       | (2)  | (3)                      |                           | (6)              |
| Total changes of items during period                 | (72)  | 64                                      | 6                                       | (2)  | (3)                      | —                         | (191)            |
| Balance at end of current period                     | 266   | (55)                                    | (11)                                    | 199  | 5                        | 0                         | 13,766           |

## (4) Consolidated Statements of Cash Flow

(Millions of yen)

|   | Fiscal year ended<br>March 31, 2018 | Fiscal year ended<br>March 31, 2019 |
|---|-------------------------------------|-------------------------------------|
| <b>Cash flows from operating activities</b>                                     |                                     |                                     |
| Profit before income taxes  | 453                                 | 894                                 |
| Depreciation  | 103                                 | 99                                  |
| Loss (gain) on sales of investment securities                                   | —                                   | (0)                                 |
| Loss (gain) on sales of golf club memberships                                   | (1)                                 | —                                   |
| Impairment loss   | 253                                 | 184                                 |
| Gain on reversal of share acquisition rights                                    | (0)                                 | (3)                                 |
| Amortization of goodwill  | 192                                 | 142                                 |
| Interest and dividend income  | (17)                                | (23)                                |
| Interest expenses   | 1                                   | 1                                   |
| Share of loss (profit) of entities accounted for using equity method            | (3)                                 | (7)                                 |
| Increase (decrease) in provision for bonuses                                    | (1)                                 | 21                                  |
| Increase (decrease) in provision for bonuses for directors (and other officers) | (0)                                 | 12                                  |
| Increase (decrease) in allowance for doubtful accounts                          | 9                                   | (5)                                 |
| Increase (decrease) in retirement benefit liability                             | 15                                  | 1                                   |
| Corporate funeral expenses  | —                                   | 12                                  |
| Decrease (increase) in notes and accounts receivable - trade                    | (177)                               | (288)                               |
| Decrease (increase) in inventories  | (106)                               | (47)                                |
| Increase (decrease) in notes and accounts payable - trade                       | (113)                               | 185                                 |
| Increase(decrease)in subscription rights to shares                              | 1                                   | 0                                   |
| Other, net  | (171)                               | 76                                  |
| Subtotal  | 438                                 | 1,258                               |
| Interest and dividend income received   | 17                                  | 24                                  |
| Interest expenses paid  | (1)                                 | (1)                                 |
| Income taxes paid   | (318)                               | (343)                               |
| Income taxes refund   | 7                                   | 1                                   |
| Net cash provided by (used in) operating activities                             | 143                                 | 939                                 |
| <b>Cash flows from investing activities</b>                                     |                                     |                                     |
| Purchase of property, plant and equipment                                       | (63)                                | (70)                                |
| Proceeds from sales of property, plant and equipment                            | —                                   | 0                                   |
| Purchase of investment securities   | (227)                               | (0)                                 |
| Proceeds from sales of investment securities                                    | —                                   | 0                                   |
| Purchase of intangible assets   | (19)                                | (69)                                |
| Proceeds from sales of golf club memberships                                    | 1                                   | 3                                   |
| Other, net  | (126)                               | 0                                   |
| Net cash provided by (used in) investing activities                             | (435)                               | (134)                               |
| <b>Cash flows from financing activities</b>                                     |                                     |                                     |
| Cash dividends paid   | (224)                               | (224)                               |
| Purchase of treasury shares   | (0)                                 | (464)                               |
| Repayments of lease obligations   | (1)                                 | (1)                                 |
| Other, net  | 6                                   | 11                                  |
| Net cash provided by (used in) financing activities                             | (218)                               | (678)                               |
| Effect of exchange rate change on cash and cash equivalents                     | 16                                  | 8                                   |
| Net increase (decrease) in cash and cash equivalents                            | (494)                               | 134                                 |
| Cash and cash equivalents at beginning of period                                | 5,563                               | 5,069                               |
| Cash and cash equivalents at end of period                                      | ※ 1 5,069                           | ※ 1 5,203                           |

(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.) LIMITED  
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.

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.) LIMITED, 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

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 (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) Note on the change in presentation method

(Change due to the adoption of “Partial Amendments to Accounting Standard for Tax Effect Accounting”)

We have adopted “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28 on February 16, 2018), etc., from the beginning of the fiscal year under review. As a result, deferred tax assets are presented in investments and other assets, and deferred tax liabilities are presented in non-current liabilities.

As a result, in the consolidated balance sheet of the previous consolidated fiscal year, the "deferred tax assets" of "current assets" of 138 million yen is included and displayed in the "deferred tax assets" of "investments and other assets" of 223 million yen.

(8) Notes on Consolidated Financial Statements

(Consolidated Balance Sheet)

\*1 Accumulated depreciation of property, plant and equipment

|  | Previous consolidated fiscal year<br>(as of March 31, 2018) | Current consolidated fiscal year<br>(as of March 31, 2019) |
|--|---|--|
|  | 911 million yen   | 948 million yen  |

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

|                               | Previous consolidated fiscal year<br>(as of March 31, 2018) | Current consolidated fiscal year<br>(as of March 31, 2019) |
|-------------------------------|---|--|
| Investment securities(Stocks) | 45 million yen  | 51 million yen   |

## (Consolidated Income Statements)

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

|                                  | Previous consolidated fiscal year<br>(from April 1, 2017 to March 31, 2018) |                                  | Current consolidated fiscal year<br>(from April 1, 2018 to March 31, 2019) |
|----------------------------------|---|----------------------------------|--|
|                                  | million yen   |                                  | million yen  |
| Salary and allowances            | 1,398   | Salary and allowances            | 1,378  |
| Provision for bonuses            | 197   | Provision for bonuses            | 224  |
| Provision for directors' bonuses | 10  | Provision for directors' bonuses | 22   |
| Retirement benefit cost          | 99  | Retirement benefit cost          | 107  |
| Rent                             | 408   | Rent                             | 410  |
| Depreciation                     | 62  | Depreciation                     | 64   |

## \*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, 2017 to March 31, 2018)

| Location | Use   | Type     |
|----------|-------|----------|
| —        | Other | Goodwill |

## (i) History toward recognition of impairment loss

Guardfire Limited and Guardfire Singapore Pte. Ltd., (hereinafter called Guardfire), which were acquired in November 2014, recorded a shortfall in operating results in the medium-term management plan due to a delay in the construction plan of oil and generation plants in ASEAN member states arising from low crude oil prices for last three years. In light of this, we carefully considered the collectability of the assets. Consequently, we reduced a part of the assets to the collectable amount and recognized an impairment loss.

## (ii) Amount of impairment loss

Goodwill: 253 million yen

## (iii) Method for grouping the assets

Our Group groups business assets according to type of business.

## (iv) Method for calculating a collectable amount

Our Group measures a collectable amount of non-current assets of Guardfire, including goodwill, using the value in use calculated at the discount rate of 3.5 percent.

Current consolidated fiscal year (from April 1, 2018 to March 31, 2019)

| Location | Use   | Type     |
|----------|-------|----------|
| —        | Other | Goodwill |

## (i) History toward recognition of impairment loss

Guardfire Limited and Guardfire Singapore Pte. Ltd., (hereinafter called Guardfire), which were acquired in November 2014, showed sluggish results due to the drop in crude oil prices after their acquisition. Recently, Guardfire Limited (Thailand) won orders for several large projects owing to the resumption of construction plans for oil and power plants in ASEAN countries, so the activity for accepting orders has been going well. However, in terms of sales and profits, the plan has not yet been achieved. In light of this, we carefully considered the recoverability of Guardfire Limited's fixed assets such as good will. Consequently, we reduced part of the fixed assets to the recoverable amount and recognized an impairment loss.

## (ii) Amount of impairment loss

Goodwill: 184 million yen

## (iii) Method for grouping the assets

Our Group groups business assets according to type of business.

## (iv) Method for calculating a recoverable amount

Our Group measures a recoverable amount of non-current assets of Guardfire, including goodwill, using the value in use calculated at the discount rate of 3.6 percent.



(Consolidated Statements of Comprehensive Income)

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

|  | Previous consolidated fiscal year<br>(from April 1, 2017 to March 31,<br>2018) | Current consolidated fiscal year<br>(from April 1, 2018 to March 31,<br>2019) |
|--|--|---|
| Valuation difference on available-for-sale securities: | million yen  | million yen   |
| Current accrued amount                                 | 172  | (103)   |
| Reclassification adjustment                            | —  | (0)   |
| Before adjustment of tax effect                        | 172  | (103)   |
| Tax effects  | (51)   | 31  |
| Valuation difference on available-for-sale securities  | 120  | (72)  |
| Foreign currency translation adjustment:               |  |   |
| Current accrued amount                                 | 90   | 64  |
| Re-measurements of defined benefit plans:              |  |   |
| Current accrued amount                                 | (5)  | 5   |
| Reclassification adjustment                            | 4  | 3   |
| Before adjustment of tax effect                        | (1)  | 9   |
| Tax effects  | 0  | (2)   |
| Re-measurements of defined benefit plans               | (1)  | 6   |
| Total other comprehensive income                       | 209  | (2)   |

## (Consolidated Statements of Changes in Net Assets)

Previous consolidated fiscal year (from April 1, 2017 to March 31, 2018)

## 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           | 10,171,800   | —   | —   | 10,171,800   |
| Total                  | 10,171,800   | —   | —   | 10,171,800   |
| Treasury shares        |  |   |   |  |
| Common stock (Note1,2) | 833,957  | 33  | 6,000   | 827,990  |
| Total                  | 833,957  | 33  | 6,000   | 827,990  |

(Note) 1. The 33 share increase in common treasury stock is due to the purchase of shares less than 1 unit.

2. 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 | —  | —   | —  | —  | —   | 9  |
| Total                      |   | —  | —   | —  | —  | —   | 9  |

## 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, 2017   | Common stock  | 112                           | 12.00 yen                 | March 31, 2017     | June 29, 2017    |
| Board of directors' meeting held on November 2, 2017 | Common stock  | 112                           | 12.00 yen                 | September 30, 2017 | December 5, 2017 |

(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 27, 2018 | Common stock  | 112                           | Retained earnings | 12.00 yen                 | March 31, 2018 | June 28, 2018  |

Current consolidated fiscal year (from April 1, 2018 to March 31, 2019)

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           | 10,171,800   | —   | —   | 10,171,800   |
| Total                  | 10,171,800   | —   | —   | 10,171,800   |
| Treasury shares        |  |   |   |  |
| Common stock (Note1,2) | 827,990  | 450,046   | 12,000  | 1,266,036  |
| Total                  | 827,990  | 450,046   | 12,000  | 1,266,036  |

(Note) 1. The 450,046 share increase in common treasury stock is due to a 450,000 share increase resulting from an acquisition of treasury shares upon the resolution of the board of directors and a 46 share increase resulting from the purchase of shares less than 1 unit.

2. The 12,000 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 | —  | —   | —  | —  | —   | 5  |
| Total                      |   | —  | —   | —  | —  | —   | 5  |

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 27, 2018   | Common stock  | 112                           | 12.00 yen                 | March 31, 2018     | June 28, 2018    |
| Board of directors' meeting held on November 5, 2018 | Common stock  | 112                           | 12.00 yen                 | September 30, 2018 | December 5, 2018 |

(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, 2019 | Common stock  | 106                           | Retained earnings | 12.00 yen                 | March 31, 2019 | June 27, 2019  |

(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<br>(from April 1, 2017 to March 31, 2018) | Current consolidated fiscal year<br>(from April 1, 2018 to March 31, 2019) |
|---------------------------------------|---|--|
|                                       | million yen   | million yen  |
| Cash and deposits account             | 6,169   | 6,303  |
| Fixed deposits for more than 3 months | (1,100)   | (1,100)  |
| Cash and cash equivalents             | 5,069   | 5,203  |

(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 two reporting segments are System and Device.

The Systems segment provides consulting of system equipment, system design and sales, operational services for systems, delivery installation, maintenance, and solution service 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, 2017 to March 31, 2018)

(Unit: millions of yen)

|   | System | Device | Total  | Adjustments<br>(Note) 1 | Amount stated on<br>the consolidated<br>financial statements<br>(Note) 2 |
|---|--------|--------|--------|-------------------------|--|
| Sales   |        |        |        |                         |  |
| Sales to external customers   | 11,980 | 7,589  | 19,570 | —                       | 19,570   |
| Internal sales or transfers<br>between segments                                   | —      | —      | —      | —                       | —  |
| Total   | 11,980 | 7,589  | 19,570 | —                       | 19,570   |
| Segment profit  | 543    | 91     | 634    | 29                      | 663  |
| Segment assets  | 9,356  | 3,794  | 13,151 | 5,414                   | 18,566   |
| Other items   |        |        |        |                         |  |
| Depreciation  | 36     | 24     | 61     | 41                      | 103  |
| Amortization of goodwill  | 192    | —      | 192    | —                       | 192  |
| Impairment loss   | 253    | —      | 253    | —                       | 253  |
| Investment to entities<br>accounted for using equity<br>methods                   | —      | 13     | 13     | —                       | 13   |
| Increase in property, plant and<br>equipment and non-current<br>intangible assets | 31     | 12     | 43     | 38                      | 81   |

(Note) 1. Adjustments are as follows:

(1) Adjustments to segment profit or loss of 29 million yen are consolidated adjustments.

(2) Adjustments to segment assets of 5,414 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 41 million yen are mainly depreciation of assets related to administrative departments such as the general affairs department.

(4) Adjustments to increase in property, plant and equipment and non-current intangible assets of 38 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, 2018 to March 31, 2019)

(Unit: millions of yen)

|   | System | Device | Total  | Adjustments<br>(Note) 1 | Amount stated on<br>the consolidated<br>financial statements<br>(Note) 2 |
|---|--------|--------|--------|-------------------------|--|
| Sales   |        |        |        |                         |  |
| Sales to external customers   | 12,267 | 7,627  | 19,894 | —                       | 19,894   |
| Internal sales or transfers<br>between segments                                   | —      | —      | —      | —                       | —  |
| Total   | 12,267 | 7,627  | 19,894 | —                       | 19,894   |
| Segment profit  | 803    | 185    | 989    | —                       | 989  |
| Segment assets  | 9,773  | 3,720  | 13,494 | 5,389                   | 18,883   |
| Other items   |        |        |        |                         |  |
| Depreciation  | 33     | 19     | 53     | 46                      | 99   |
| Amortization of goodwill  | 142    | —      | 142    | —                       | 142  |
| Impairment loss   | 184    | —      | 184    | —                       | 184  |
| Investment to entities<br>accounted for using equity<br>methods                   | —      | 19     | 19     | —                       | 19   |
| Increase in property, plant and<br>equipment and non-current<br>intangible assets | 43     | 16     | 59     | 110                     | 170  |

(Note) 1. Adjustments are as follows:

- (1) Adjustments to segment assets of 5,389 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.
- (2) Adjustments to depreciation of 46 million yen are mainly depreciation of assets related to administrative departments such as the general affairs department.
- (3) Adjustments to increase in property, plant and equipment and non-current intangible assets of 110 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, 2017 to March 31, 2018)

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  |
|--------|-------|-------|-------|--------|
|        |       | Thai  |       |        |
| 14,098 | 5,136 | 2,820 | 334   | 19,570 |

(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, 2018 to March 31, 2019)

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  |
|--------|-------|-------|-------|--------|
|        |       | Thai  |       |        |
| 14,814 | 4,910 | 2,666 | 169   | 19,894 |

(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               | 1,492.86 yen                      | 1,545.18 yen                     |
| Net income per share               | 14.02 yen                         | 53.53 yen                        |
| Fully diluted net income per share | 14.00 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<br>(as of March 31, 2018) | Current consolidated fiscal year<br>(as of March 31, 2019) |
|---|---|--|
| Total net assets in the consolidated balance sheet (million yen)                | 13,958  | 13,766   |
| Net assets associated with common stock (million yen)                           | 13,948  | 13,760   |
| Major breakdown items of differences (million yen)                              |   |  |
| Subscription rights to shares   | 9   | 5  |
| Minority interests  | 0   | 0  |
| Number of issued common stock (thousand shares)                                 | 10,171  | 10,171   |
| Number of common stock for treasury (thousand shares)                           | 827   | 1,266  |
| Number of common stock used to calculate net assets per share (thousand shares) | 9,343   | 8,905  |

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

| Item  | Previous consolidated fiscal year<br>(from April 1, 2017 to March 31, 2018)  | Current consolidated fiscal year<br>(from April 1, 2018 to March 31, 2019)   |
|---|--|--|
| Net income in the consolidated income statements (million yen)  | 130  | 491  |
| Net income associated with common stock (million yen)   | 130  | 491  |
| Amount not attributable to common stockholders (million yen)  | —  | —  |
| Average number of common stock during the period (thousand shares)  | 9,339  | 9,177  |
| 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)                      | 9  | —  |
| Subscription rights to shares   |  |  |
| Summary of dilutive shares not included to calculate fully diluted net income per share because of no dilutive effect | <p>Stock options granted by a resolution of the board of directors on July 17, 2015<br/>(Subscription rights to shares: 53 units)<br/>Common stock: 79,000 shares</p> <p>Stock options granted by a resolution of the board of directors on July 21, 2017<br/>(Subscription rights to shares: 255 units)<br/>Common stock: 25,000 shares</p> | <p>Stock options granted by a resolution of the board of directors on July 17, 2015<br/>(Subscription rights to shares: 50 units)<br/>Common stock: 75,000 shares</p> <p>Stock options granted by a resolution of the board of directors on July 21, 2017<br/>(Subscription rights to shares: 225 units)<br/>Common stock: 22,000 shares</p> |

(Significant Subsequent Event)

Not applicable



## 6. Non-consolidated Financial Statements

### (1) Balance sheet

(Millions of yen)

|   | As of March 31, 2018 | As of March 31, 2019 |
|---|----------------------|----------------------|
| <b>Assets</b>                                       |                      |                      |
| Current assets                                      |                      |                      |
| Cash and deposits                                   | 3,927                | 3,939                |
| Notes receivable - trade                            | 276                  | 213                  |
| Electronically recorded monetary claims - operating | 635                  | 622                  |
| Accounts receivable - trade                         | 3,143                | 3,427                |
| Merchandise and finished goods                      | 1,538                | 1,412                |
| Other   | 514                  | 607                  |
| Allowance for doubtful accounts                     | (0)                  | (0)                  |
| Total current assets                                | 10,037               | 10,222               |
| Non-current assets                                  |                      |                      |
| Property, plant and equipment                       |                      |                      |
| Buildings, net                                      | 6                    | 5                    |
| Tools, furniture and fixtures, net                  | 131                  | 158                  |
| Land  | 128                  | 128                  |
| Other, net  | 9                    | 8                    |
| Total property, plant and equipment                 | 276                  | 301                  |
| Intangible assets                                   | 38                   | 69                   |
| Investments and other assets                        |                      |                      |
| Investment securities                               | 1,192                | 1,089                |
| Shares of subsidiaries and associates               | 5,815                | 5,627                |
| Deferred tax assets                                 | 143                  | 156                  |
| Other   | 441                  | 493                  |
| Allowance for doubtful accounts                     | (37)                 | (34)                 |
| Total investments and other assets                  | 7,555                | 7,331                |
| Total non-current assets                            | 7,871                | 7,702                |
| Total assets  | 17,908               | 17,924               |

(Millions of yen)

|   | As of March 31, 2018 | As of March 31, 2019 |
|---|----------------------|----------------------|
| <b>Liabilities</b>  |                      |                      |
| Current liabilities   |                      |                      |
| Notes payable - trade   | 35                   | 32                   |
| Electronically recorded obligations - operating               | 318                  | 223                  |
| Accounts payable - trade                                      | 1,669                | 1,775                |
| Income taxes payable  | 121                  | 187                  |
| Provision for bonuses   | 175                  | 200                  |
| Provision for bonuses for directors (and other officers)      | 8                    | 20                   |
| Other   | 638                  | 853                  |
| Total current liabilities                                     | 2,966                | 3,295                |
| Non-current liabilities                                       |                      |                      |
| Long-term accounts payable - other                            | 24                   | —                    |
| Provision for retirement benefits                             | 481                  | 467                  |
| Provision for loss on business of subsidiaries and associates | 17                   | 38                   |
| Other   | 17                   | 18                   |
| Total non-current liabilities                                 | 541                  | 524                  |
| <b>Total liabilities</b>                                      | <b>3,507</b>         | <b>3,819</b>         |
| <b>Net assets</b>   |                      |                      |
| Shareholders' equity  |                      |                      |
| Capital stock   | 1,209                | 1,209                |
| Capital surplus   |                      |                      |
| Legal capital surplus   | 1,171                | 1,171                |
| Other capital surplus   | 1                    | 2                    |
| Total capital surpluses                                       | 1,173                | 1,174                |
| Retained earnings   |                      |                      |
| Legal retained earnings                                       | 198                  | 198                  |
| Other retained earnings                                       |                      |                      |
| General reserve   | 9,395                | 9,395                |
| Retained earnings brought forward                             | 2,853                | 3,086                |
| Total retained earnings                                       | 12,447               | 12,680               |
| Treasury shares   | (777)                | (1,231)              |
| Total shareholders' equity                                    | 14,052               | 13,832               |
| Valuation and translation adjustments                         |                      |                      |
| Valuation difference on available-for-sale securities         | 339                  | 266                  |
| Total valuation and translation adjustments                   | 339                  | 266                  |
| Share acquisition rights                                      | 9                    | 5                    |
| <b>Total net assets</b>                                       | <b>14,401</b>        | <b>14,105</b>        |
| <b>Total liabilities and net assets</b>                       | <b>17,908</b>        | <b>17,924</b>        |

## (2) Income Statements

(Millions of yen)

|   | Fiscal year ended<br>March 31, 2018 | Fiscal year ended<br>March 31, 2019 |
|---|-------------------------------------|-------------------------------------|
| Net sales   | 14,259                              | 14,745                              |
| Cost of sales   | 10,990                              | 11,273                              |
| Gross profit  | 3,268                               | 3,471                               |
| Selling, general and administrative expenses                  | 2,672                               | 2,637                               |
| Operating profit  | 596                                 | 834                                 |
| Non-operating income  |                                     |                                     |
| Interest income   | 0                                   | 0                                   |
| Dividend income   | 57                                  | 75                                  |
| Foreign exchange gains  | 21                                  | 56                                  |
| Insurance income  | 0                                   | 1                                   |
| Other   | 3                                   | 4                                   |
| Total non-operating income                                    | 83                                  | 138                                 |
| Non-operating expenses  |                                     |                                     |
| Interest expenses   | 1                                   | 0                                   |
| Commission expenses   | 2                                   | 2                                   |
| Provision of allowance for doubtful accounts                  | 7                                   | (3)                                 |
| Provision for loss on business of subsidiaries and associates | 17                                  | 20                                  |
| Other   | 0                                   | 0                                   |
| Total non-operating expenses                                  | 29                                  | 21                                  |
| Ordinary profit   | 650                                 | 951                                 |
| Extraordinary income  |                                     |                                     |
| Gain on sales of golf memberships                             | 1                                   | —                                   |
| Gain on reversal of share acquisition rights                  | 0                                   | 3                                   |
| Total extraordinary income                                    | 1                                   | 3                                   |
| Extraordinary losses  |                                     |                                     |
| Loss on retirement of non-current assets                      | 1                                   | —                                   |
| Loss on valuation of shares of subsidiaries and associates    | —                                   | 187                                 |
| Corporate funeral expenses                                    | —                                   | 12                                  |
| Total extraordinary losses                                    | 1                                   | 200                                 |
| Profit before income taxes                                    | 650                                 | 754                                 |
| Income taxes - current  | 215                                 | 279                                 |
| Income taxes - deferred                                       | (4)                                 | 18                                  |
| Total income taxes  | 210                                 | 297                                 |
| Profit  | 440                                 | 457                                 |

## (3) Statements of Changes in Net Assets

Previous consolidated fiscal year (from April 1, 2017 to March 31, 2018)

(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 beginning of current period               | 1,209                | 1,171                 | 0                     | 1,172                 | 198                     | 9,395                             | 2,637 | 12,231                  |
| Changes of items during period                       |                      |                       |                       |                       |                         |                                   |       |                         |
| Dividends of surplus                                 |                      |                       |                       |                       |                         |                                   | (224) | (224)                   |
| Profit   |                      |                       |                       |                       |                         |                                   | 440   | 440                     |
| Purchase of treasury shares                          |                      |                       |                       |                       |                         |                                   |       |                         |
| Disposal of treasury shares                          |                      |                       | 1                     | 1                     |                         |                                   |       |                         |
| Net changes of items other than shareholders' equity |                      |                       |                       |                       |                         |                                   |       |                         |
| Total changes of items during period                 | —                    | —                     | 1                     | 1                     | —                       | —                                 | 216   | 216                     |
| Balance at end of current period                     | 1,209                | 1,171                 | 1                     | 1,173                 | 198                     | 9,395                             | 2,853 | 12,447                  |

|  | Shareholders' equity |                            | Valuation and translation adjustments                 |   | Share acquisition rights | Total net assets |
|--|----------------------|----------------------------|---|---|--------------------------|------------------|
|  | Treasury shares      | Total shareholders' equity | Valuation difference on available-for-sale securities | Total valuation and translation adjustments |                          |                  |
| Balance at beginning of current period               | (783)                | 13,829                     | 219   | 219   | 8                        | 14,056           |
| Changes of items during period                       |                      |                            |   |   |                          |                  |
| Dividends of surplus                                 |                      | (224)                      |   |   |                          | (224)            |
| Profit   |                      | 440                        |   |   |                          | 440              |
| Purchase of treasury shares                          | (0)                  | (0)                        |   |   |                          | (0)              |
| Disposal of treasury shares                          | 5                    | 6                          |   |   |                          | 6                |
| Net changes of items other than shareholders' equity |                      |                            | 120   | 120   | 0                        | 121              |
| Total changes of items during period                 | 5                    | 222                        | 120   | 120   | 0                        | 344              |
| Balance at end of current period                     | (777)                | 14,052                     | 339   | 339   | 9                        | 14,401           |

Current consolidated fiscal year (from April 1, 2018 to March 31, 2019)

(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 beginning of current period               | 1,209                | 1,171                 | 1                     | 1,173                 | 198                     | 9,395                             | 2,853 | 12,447                  |
| Changes of items during period                       |                      |                       |                       |                       |                         |                                   |       |                         |
| Dividends of surplus                                 |                      |                       |                       |                       |                         |                                   | (224) | (224)                   |
| Profit   |                      |                       |                       |                       |                         |                                   | 457   | 457                     |
| Purchase of treasury shares                          |                      |                       |                       |                       |                         |                                   |       |                         |
| Disposal of treasury shares                          |                      |                       | 1                     | 1                     |                         |                                   |       |                         |
| Net changes of items other than shareholders' equity |                      |                       |                       |                       |                         |                                   |       |                         |
| Total changes of items during period                 | —                    | —                     | 1                     | 1                     | —                       | —                                 | 233   | 233                     |
| Balance at end of current period                     | 1,209                | 1,171                 | 2                     | 1,174                 | 198                     | 9,395                             | 3,086 | 12,680                  |

|  | Shareholders' equity |                            | Valuation and translation adjustments                 |   | Share acquisition rights | Total net assets |
|--|----------------------|----------------------------|---|---|--------------------------|------------------|
|  | Treasury shares      | Total shareholders' equity | Valuation difference on available-for-sale securities | Total valuation and translation adjustments |                          |                  |
| Balance at beginning of current period               | (777)                | 14,052                     | 339   | 339   | 9                        | 14,401           |
| Changes of items during period                       |                      |                            |   |   |                          |                  |
| Dividends of surplus                                 |                      | (224)                      |   |   |                          | (224)            |
| Profit   |                      | 457                        |   |   |                          | 457              |
| Purchase of treasury shares                          | (464)                | (464)                      |   |   |                          | (464)            |
| Disposal of treasury shares                          | 11                   | 12                         |   |   |                          | 12               |
| Net changes of items other than shareholders' equity |                      |                            | (72)  | (72)  | (3)                      | (76)             |
| Total changes of items during period                 | (453)                | (219)                      | (72)  | (72)  | (3)                      | (295)            |
| Balance at end of current period                     | (1,231)              | 13,832                     | 266   | 266   | 5                        | 14,105           |

## 7. Other

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

#### (i) Actual results of purchases

(Unit: millions of yen)

| Segment | Previous consolidated fiscal year<br>(from April 1, 2017 to March 31, 2018) | Current consolidated fiscal year<br>(from April 1, 2018 to March 31, 2019) |
|---------|---|--|
| System  | 7,931   | 7,934  |
| Device  | 6,082   | 6,135  |
| Total   | 14,014  | 14,069   |

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

(Unit: millions of yen)

| Segment | Previous consolidated fiscal year<br>(from April 1, 2017 to March 31, 2018) |                   | Current consolidated fiscal year<br>(from April 1, 2018 to March 31, 2019) |                   |
|---------|---|-------------------|--|-------------------|
|         | Orders received   | Backlog of orders | Orders received  | Backlog of orders |
| System  | 12,150  | 3,419             | 13,163   | 4,315             |
| Device  | 7,835   | 1,473             | 8,096  | 1,943             |
| Total   | 19,985  | 4,892             | 21,259   | 6,258             |

#### (iii) Actual results of sales

(Unit: millions of yen)

| Segment                        | Previous consolidated fiscal year<br>(from April 1, 2017 to March 31, 2018) | Current consolidated fiscal year<br>(from April 1, 2018 to March 31, 2019) |
|--------------------------------|---|--|
| Security Solution Products     | 7,651   | 7,435  |
| Other System Solution Products | 1,668   | 2,002  |
| Customer Service Products      | 2,661   | 2,829  |
| System Total                   | 11,980  | 12,267   |
| Semiconductors Products        | 3,529   | 3,319  |
| Mechanical Component Products  | 4,060   | 4,307  |
| Device Total                   | 7,589   | 7,627  |
| Total                          | 19,570  | 19,894   |