THE SATORI GROUP

Financial Statements

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For the fiscal year ended May 31, 2018

SATORI ELECTRIC CO.,LTD.

By maintaining a constant grasp of the precise needs of the market, the Satori Group — centered on SATORI ELECTRIC CO., LTD. — has served as an efficient distribution channel between manufacturers and users in the ever more sophisticated fields of electronics and automation. On the firm basis of our outstanding technological strength, we have now broken out of the confines of simple product distribution to develop in-house customization and solution proposal capabilities. By this means, we are able to mobilize the full strength of the Satori Group to offer a comprehensive service in the field of electronic components and equipment in line with the three catchwords that encapsulate our basic policies — "Technology," "Solutions," and "Global."

Consolidated Domestic Subsidiaries: SATORI PINICS CO., LTD. STAR ELECTRONICS CO., LTD. SATORI S-TECH CO., LTD. SATORI SP TECHNOLOGY CO., LTD.
Consolidated Overseas Subsidiaries: TAIWAN SATORI CO., LTD. HONG KONG SATORI CO., LTD. SHANGHAI SATORI CO., LTD. KOREA SATORI CO., LTD. SINGAPORE SATORI PTE., LTD. SATORI E-TECHNOLOGY (AMERICA) INC. SATORI ELECTRIC (GERMANY) GmbH THAI SATORI CO., LTD.
Unconsolidated Subsidiaries: SATORI PRODUCTION MANAGEMENT CONSULTING CO., LTD. SHENZHEN SATORI CO., LTD.
Domestic Affiliate: INSIGHT INTERNATIONAL CO., LTD.

FINANCIAL HIGHLIGHTS

SATORI ELECTRIC CO., LTD. and Consolidated Subsidiaries

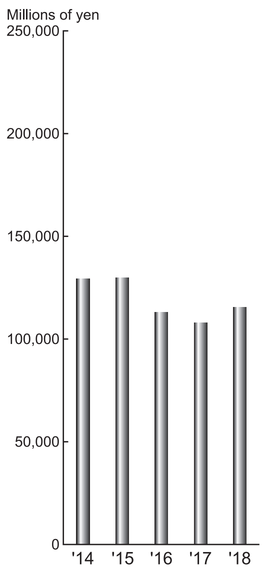
Years ended May 31

	Millions of yen					Thousands of U.S. dollars	Percent change between
	2014	2015	2016	2017	2018	2018	2017 and 2018
Operations Data:							
Net Sales	¥ 129,302	¥ 129,746	¥ 113,000	¥ 107,982	¥ 115,371	$ 1,061,371	6.8 %
Income before Income Taxes	1,597	2,305	371	484	334	3,073	(31.0)
Profit (Loss) Attributable to Owners of Parent	1,339	1,684	12	223	220	2,024	(1.3)
Financial Data:							
Total Assets	61,510	67,420	59,759	59,009	61,650	567,157	4.5
Net Assets	29,483	33,510	31,227	31,278	30,700	282,429	(1.8)
	Yen					U.S. dollars	
Per Share Data:							
Earnings (Loss) — Basic	¥ 78.98	¥ 99.31	¥ 0.73	¥ 13.17	¥ 13.31	$ 0.12	1.1 %
— Diluted	—	—	—	—	—	—	—
Cash Dividends	24.00	30.00	32.00	34.00	34.00	0.31	0.0
Net Assets	1,739	1,976	1,842	1,845	1,866	17.17	1.1
	Percent						
Financial Ratios:							
Return on Equity Ratio	4.6%	5.3%	0.0%	0.7%	0.7%		
Equity Ratio	47.9	49.7	52.3	53.0	49.8		

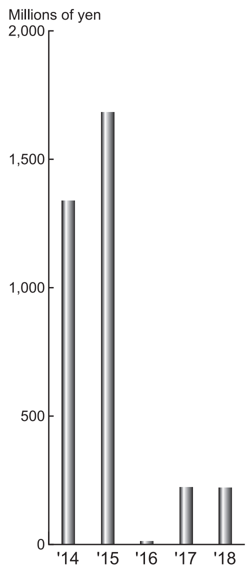
The United States dollar amounts represent translations of Japanese yen amounts at the rate of ¥108.70= $1 as of May 31, 2018.

See Notes 1, 2 and 10 to the consolidated financial statements.

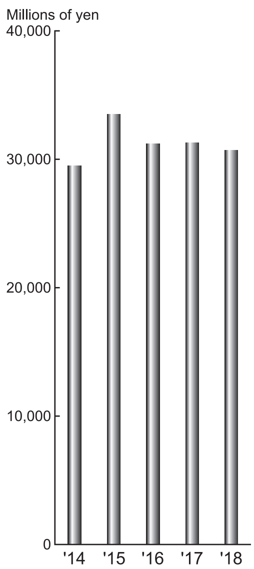
Net Sales



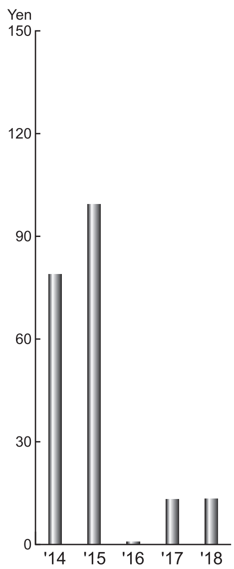
Profit (Loss) Attributable to Owners of Parent



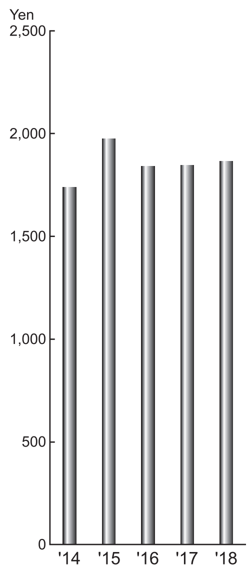
Net Assets



Earnings (Loss) per Share



Net Assets per Share



CONSOLIDATED BALANCE SHEETS

SATORI ELECTRIC CO., LTD. and Consolidated Subsidiaries
As of May 31, 2017 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
Assets	2017	2018	2018
Current assets:			
Cash and time deposits (Notes 5 and 17)	¥ 6,911	¥ 7,091	$ 65,235
Notes and accounts receivable — trade (Notes 3 and 5)	31,319	30,071	276,642
Allowance for doubtful accounts	(1)	(1)	(9)
Inventories (Note 4)	9,565	12,500	114,995
Deferred tax assets (Note 15)	412	427	3,928
Other current assets	743	1,276	11,739
Total current assets	48,949	51,364	472,530
Property, plant and equipment (Note 13):			
Land	1,334	1,229	11,306
Buildings and structures (Note 7)	4,459	4,415	40,617
Machinery and equipment	2,054	2,057	18,924
Lease assets	237	231	2,125
Construction in progress	6	71	653
	8,090	8,003	73,625
Less — accumulated depreciation	(3,861)	(3,944)	(36,284)
Net property, plant and equipment	4,229	4,059	37,341
Investments and other assets:			
Investment securities (Notes 5 and 6)	3,335	3,760	34,591
Investments in unconsolidated subsidiaries and affiliates (Note 5)	21	21	193
Guarantee deposits for trading	33	34	313
Leasehold rights	1,086	1,086	9,991
Deferred tax assets (Note 15)	63	85	782
Other assets	1,339	1,694	15,584
Allowance for doubtful accounts	(46)	(453)	(4,168)
Total investments and other assets	5,831	6,227	57,286
	¥ 59,009	¥ 61,650	$ 567,157

See accompanying notes.

Liabilities and Net Assets	Millions of yen 2017	Millions of yen 2018	Thousands of U.S. dollars (Note 1) 2018
Current liabilities:			
Short-term bank loans (Notes 5 and 8)	¥ 3,190	¥ 7,835	$ 72,079
Current portion of long-term debt (Notes 5 and 8)	1,900	—	—
Notes and accounts payable — trade (Notes 5 and 7)	14,583	12,236	112,566
Electronically recorded payables (Note 5)	—	2,338	21,509
Income taxes payable (Note 5)	189	206	1,895
Other current liabilities	1,182	1,598	14,701
Total current liabilities	21,044	24,213	222,750
Long-term liabilities:			
Long-term debt (Notes 5 and 8)	4,200	4,200	38,638
Liability for employees' severance and retirement benefits (Note 9)	1,585	1,626	14,959
Deferred tax liabilities (Note 15)	622	659	6,063
Deferred tax liabilities on revaluation gain for land (Note 15)	26	26	239
Other liabilities	254	226	2,079
Total long-term liabilities	6,687	6,737	61,978
Net assets:			
Shareholders' equity (Note 10):			
Common stock:			
Authorized — 69,000,000 shares			
Issued — 17,946,826 shares in 2017 and 2018	2,611	2,611	24,020
Capital surplus	3,608	3,608	33,192
Retained earnings	25,402	24,822	228,353
Treasury stock, at cost	(1,254)	(1,725)	(15,869)
Total shareholders' equity	30,367	29,316	269,696
Accumulated other comprehensive income:			
Unrealized holding gains on securities, net of income taxes	1,159	1,506	13,855
Losses on deferred hedge accounting, net of income taxes	(0)	(0)	(0)
Revaluation loss for land, net of income taxes	(173)	59	543
Foreign currency translation adjustments	(75)	(181)	(1,665)
Total accumulated other comprehensive income	911	1,384	12,733
Total net assets	31,278	30,700	282,429
	¥ 59,009	¥ 61,650	$ 567,157

See accompanying notes.

CONSOLIDATED STATEMENTS OF OPERATIONS

SATORI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Years ended May 31, 2016, 2017 and 2018

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2016	2017	**2018**	**2018**
Net sales (Note 20)	¥ 113,000	¥ 107,982	**¥ 115,371**	**$ 1,061,371**
Cost of sales (Note 4)	103,583	98,701	**105,647**	**971,914**
Gross profit	9,417	9,281	**9,724**	**89,457**
Selling, general and administrative expenses (Note 11)	8,813	8,574	**9,326**	**85,796**
Operating income (Note 20)	604	707	**398**	**3,661**
Other income (expenses):				
Interest and dividend income	66	69	**67**	**616**
Interest expenses	(105)	(92)	**(108)**	**(993)**
Commission fee	5	21	**7**	**64**
Foreign exchange gains (losses)	(329)	(248)	**(158)**	**(1,453)**
Gains on sales of securities — net (Note 6)	95	8	**149**	**1,371**
Gains on liquidation of a subsidiary (Note 12)	31	—	**—**	**—**
Losses on disposal of fixed assets (Note 14)	(14)	(2)	**(3)**	**(27)**
Impairment losses on fixed assets (Notes 13 and 20)	—	(5)	**(105)**	**(966)**
Other — net	18	26	**87**	**800**
	(233)	(223)	**(64)**	**(588)**
Income before income taxes	371	484	**334**	**3,073**
Income taxes (Note 15):				
Current	287	239	**258**	**2,374**
Deferred	72	22	**(144)**	**(1,325)**
	359	261	**114**	**1,049**
Profit	12	223	**220**	**2,024**
Profit attributable to:				
Non-controlling interests	—	—	**—**	**—**
Owners of parent	¥ 12	¥ 223	**¥ 220**	**$ 2,024**

	Yen			U.S. dollars (Note 1)
Per share data:				
Earnings — Basic	¥ 0.73	¥ 13.17	**¥ 13.31**	**$ 0.12**
— Diluted	—	—	**—**	**—**
Cash dividends applicable to the year	32.00	34.00	**34.00**	**0.31**

See accompanying notes.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

SATORI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Years ended May 31, 2016, 2017 and 2018

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2016	2017	2018	2018
Profit	¥ 12	¥ 223	¥ **220**	$ **2,024**
Other comprehensive income (loss) (Note 16):				
Unrealized holding gains (losses) on securities	(670)	425	**347**	**3,192**
Gains (losses) on deferred hedge accounting	(2)	0	**(0)**	**(0)**
Revaluation gain for land, net of income taxes	2	—	—	—
Foreign currency translation adjustments	(1,038)	(48)	**(106)**	**(975)**
Adjustments for retirement benefits	(10)	(7)	—	—
Total	(1,718)	370	**241**	**2,217**
Comprehensive income (loss)	¥ (1,706)	¥ 593	¥ **461**	$ **4,241**
Comprehensive income (loss) attributable to:				
Owners of parent	¥ (1,706)	¥ 593	¥ **461**	$ **4,241**
Non-controlling interests	—	—	—	—

See accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

SATORI ELECTRIC CO., LTD. and Consolidated Subsidiaries

Years ended May 31, 2016, 2017 and 2018

		Millions of yen				
	Shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at June 1, 2015	17,946,826	2,611	3,608	26,285	(1,253)	31,251
Profit attributable to owners of parent		—	—	12	—	12
Cash dividends paid		—	—	(576)	—	(576)
Treasury stock, at cost		—	—	—	(1)	(1)
Other		—	—	—	—	—
Balance at June 1, 2016	17,946,826	2,611	3,608	25,721	(1,254)	30,686
Profit attributable to owners of parent		—	—	223	—	223
Cash dividends paid		—	—	(542)	—	(542)
Treasury stock, at cost		—	—	—	(0)	(0)
Other		—	—	—	—	—
Balance at June 1, 2017	17,946,826	¥ 2,611	¥ 3,608	¥ 25,402	¥ (1,254)	¥ 30,367
Profit attributable to owners of parent		—	—	220	—	220
Cash dividends paid		—	—	(568)	—	(568)
Treasury stock, at cost		—	—	—	(471)	(471)
Reversal of revaluation loss for land		—	—	(232)	—	(232)
Other		—	—	—	—	—
Balance at May 31, 2018	17,946,826	¥ 2,611	¥ 3,608	¥ 24,822	¥ (1,725)	¥ 29,316

	Millions of yen						
	Unrealized holding gains (losses) on securities, net of income taxes	Gains (losses) on deferred hedge accounting, net of income taxes	Revaluation loss for land, net of income taxes	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	Total net assets
Balance at June 1, 2015	1,404	2	(175)	1,011	17	2,259	33,510
Profit attributable to owners of parent	—	—	—	—	—	—	12
Cash dividends paid	—	—	—	—	—	—	(576)
Treasury stock, at cost	—	—	—	—	—	—	(1)
Other	(670)	(2)	2	(1,038)	(10)	(1,718)	(1,718)
Balance at June 1, 2016	734	(0)	(173)	(27)	7	541	31,227
Profit attributable to owners of parent	—	—	—	—	—	—	223
Cash dividends paid	—	—	—	—	—	—	(542)
Treasury stock, at cost	—	—	—	—	—	—	(0)
Other	425	0	—	(48)	(7)	370	370
Balance at June 1, 2017	1,159	(0)	(173)	(75)	—	911	31,278
Profit attributable to owners of parent	—	—	—	—	—	—	220
Cash dividends paid	—	—	—	—	—	—	(568)
Treasury stock, at cost	—	—	—	—	—	—	(471)
Reversal of revaluation loss for land	—	—	232	—	—	232	—
Other	347	(0)	—	(106)	—	241	241
Balance at May 31, 2018	¥ 1,506	¥ (0)	¥ 59	¥ (181)	¥ —	¥ 1,384	¥ 30,700

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

SATORI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Years ended May 31, 2016, 2017 and 2018

	Thousands of U.S. dollars (Note 1)				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at June 1, 2017	$ 24,020	$ 33,192	$ 233,689	$ (11,536)	$ 279,365
Profit attributable to owners of parent	—	—	2,024	—	2,024
Cash dividends paid	—	—	(5,225)	—	(5,225)
Treasury stock, at cost	—	—	—	(4,333)	(4,333)
Reversal of revaluation loss for land	—	—	(2,135)	—	(2,135)
Other	—	—	—	—	—
Balance at May 31, 2018	$ 24,020	$ 33,192	$ 228,353	$ (15,869)	$ 269,696

	Thousands of U.S. dollars (Note 1)						
	Unrealized holding gains on securities, net of income taxes	Gains (losses) on deferred hedge accounting, net of income taxes	Revaluation loss for land, net of income taxes	Foreign currency translation adjustments	Accumulated adjustments for retirement benefits	Total accumulated other comprehensive income	Total net assets
Balance at June 1, 2017	$ 10,663	$ (0)	$ (1,592)	$ (690)	$ —	$ 8,381	$ 287,746
Profit attributable to owners of parent	—	—	—	—	—	—	2,024
Cash dividends paid	—	—	—	—	—	—	(5,225)
Treasury stock, at cost	—	—	—	—	—	—	(4,333)
Reversal of revaluation loss for land	—	—	2,135	—	—	2,135	—
Other	3,192	(0)	—	(975)	—	2,217	2,217
Balance at May 31, 2018	$ 13,855	$ (0)	$ 543	$ (1,665)	$ —	$ 12,733	$ 282,429

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

SATORI ELECTRIC CO., LTD. and Consolidated Subsidiaries

Years ended May 31, 2016, 2017 and 2018

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2016	2017	2018	2018
Cash flows from operating activities:				
Income before income taxes	¥ 371	¥ 484	¥ 334	$ 3,073
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	359	362	384	3,533
Employees' severance and retirement benefits	145	(33)	42	386
Interest expenses incurred	105	92	108	993
(Gains) losses on sales of securities	(95)	(8)	(149)	(1,371)
Impairment losses on fixed assets	—	5	105	966
Change in receivables	4,092	1,767	856	7,875
Change in inventories	518	100	(2,495)	(22,953)
Change in allowance for doubtful accounts	(10)	(3)	411	3,781
Change in payables	(3,228)	(734)	41	377
Change in consumption taxes payable	101	(39)	(258)	(2,373)
Interest paid	(108)	(98)	(110)	(1,012)
Income taxes refund (paid)	(568)	(199)	(238)	(2,189)
Other — net	(303)	161	2	18
Net cash provided by (used in) operating activities	1,379	1,857	(967)	(8,896)
Cash flows from investing activities:				
Payments for purchase of securities	(139)	(138)	(45)	(414)
Proceeds from sales of securities	201	23	243	2,236
Payments for purchase of property, plant and equipment	(86)	(56)	(169)	(1,555)
Payments for purchase of intangible fixed assets	(36)	—	(78)	(718)
Payments for business transfer	—	—	(592)	(5,446)
Other — net	(106)	94	49	451
Net cash used in investing activities	(166)	(77)	(592)	(5,446)
Cash flows from financing activities:				
Net increase (decrease) in short-term bank loans	(308)	(722)	4,710	43,330
Proceeds from long-term debt	1,300	1,900	—	—
Payments of long-term debt	(1,400)	(2,000)	(1,900)	(17,480)
Payments for purchase of treasury stock	—	(0)	(471)	(4,333)
Cash dividends paid	(575)	(542)	(568)	(5,225)
Other — net	(34)	(45)	(47)	(432)
Net cash provided by (used in) financing activities	(1,017)	(1,409)	1,724	15,860
Effect of exchange rate changes on cash and cash equivalents	(293)	7	15	138
Net increase (decrease) in cash and cash equivalents	(97)	378	180	1,656
Cash and cash equivalents at beginning of year	6,630	6,533	6,911	63,579
Cash and cash equivalents at end of year (Note 17)	¥ 6,533	¥ 6,911	¥ 7,091	$ 65,235

See accompanying notes.

SATORI ELECTRIC CO., LTD. and Consolidated Subsidiaries
Years ended May 31, 2016, 2017 and 2018

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of SATORI ELECTRIC CO., LTD. (the "Company") and consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law.

Some supplementary information included in the statutory consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the exchange rate as of May 31, 2018, which was ¥108.70 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation and equity method

The accompanying consolidated financial statements include the accounts of the Company and its 12 significant subsidiaries (the "Group").　Effective March 26, 2018, SATORI SP TECHNOLOGY CO., LTD. was newly incorporated and included in the scope of consolidation.

All significant intercompany accounts and transactions have been eliminated.

In addition, adjustments were made to the accounts of consolidated foreign subsidiaries to reconcile from the accounting principles of the respective countries of domicile to either IFRS or the United States generally accepted accounting principles ("U.S. GAAP") as necessary, plus adjustments for the certain items specified in Practical Issues Task Force ("PITF") No. 18, Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements, issued by the Accounting Standards Board of Japan ("ASBJ") on May 17, 2006 from IFRS or U.S. GAAP to Japanese GAAP as necessary in consolidation.

The Company has two unconsolidated subsidiaries (SATORI PRODUCTION MANAGEMENT CONSULTING CO., LTD. and SHENZHEN SATORI CO., LTD.), consolidation of which would not significantly affect total assets, net sales, profit or retained earnings reported in the accompanying consolidated financial statements.

The equity method was also not applied to those two unconsolidated subsidiaries and an affiliate (INSIGHT INTERNATIONAL CO., LTD.) for the years ended May 31, 2017 and 2018 as such application would not significantly change the consolidated profit or retained earnings.

The fiscal year end of the consolidated subsidiaries, except for SHANGHAI SATORI CO., LTD., is May 31. The fiscal year end of SHANGHAI SATORI CO., LTD. is December 31, and accordingly, it is consolidated using pro forma financial information as of May 31.

(b) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the current exchange rate at the balance sheet date, and translation gains and losses are charged to income.

The balance sheets of foreign consolidated subsidiaries are translated into Japanese yen at the year-end rate except for net assets accounts which are translated at the historical rates. Statements of operations of consolidated foreign subsidiaries are translated at average rates except for statements of operations items resulting from transactions with the Group at the rates used by the Group.

Differences arising from translation are presented as "Foreign currency translation adjustments," which is included in the net assets section of the consolidated balance sheets.

(c) Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(d) Securities

Equity securities issued by unconsolidated subsidiaries are stated at the moving-average cost. Available-for-sale securities with available fair values are stated at fair value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets section of the consolidated balance sheets. Realized gains and losses on sale of such securities are computed using the moving-average cost.

Available-for-sale securities with no available fair value are stated at the moving-average cost.

If the fair value of equity securities issued by unconsolidated subsidiaries and available-for-sale securities declines significantly, such securities are stated at fair value and the difference between the fair value and the carrying amount is recognized as a loss for the period of the decline. If the fair value of equity securities issued by unconsolidated subsidiaries is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(e) Inventories

Inventories are stated at the lower of cost, determined mainly by the moving average method for merchandise, finished goods and raw materials, and mainly by the specific cost method for work in process, or net selling value.

(f) Allowance for doubtful accounts

The allowance for doubtful accounts is provided as amounts sufficient to cover possible losses on collection. The Group provided allowance for doubtful accounts using rates of actual losses on collection for receivables other than those subjected to individual collectibility analysis.

(g) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost except for revalued land. Depreciation is computed principally by the declining-balance method at rates based upon the estimated useful lives of assets, which are prescribed in the Japanese Corporation Tax Code, except buildings acquired by the Company and its domestic subsidiaries after March 31, 1998 which are depreciated using the straight-line method.

Property, plant and equipment acquired on or after April 1, 2007 are depreciated mainly by the declining-balance method at rates based upon the estimated useful lives of assets, which are prescribed in the Japanese Corporation Tax Code.

Facilities attached to buildings and structures acquired on or after April 1, 2016 are depreciated by the straight-line method at rates based upon the estimated useful lives of assets, which are prescribed in the Japanese Corporation Tax Code.

Pursuant to the Law concerning Revaluation of Land (the "Law"), land used for business operations was revalued at fair value as of May 31, 2001. Due to the revaluation, the related unrealized loss is reported as a separate component of net assets, net of applicable income taxes as "Revaluation loss for land, net of income taxes." As of May 31, 2017 and 2018, the fair values exceeded the revalued amounts. According to the revised Law, the Company is not permitted to revalue the land.

Finance lease assets that are not deemed to transfer ownership of the lease assets are depreciated over the period of the lease using a straight-line method, with zero residual value.

(h) Software costs

The Group amortizes software costs using the straight-line method over the estimated useful lives. The estimated useful lives of the software for sales are three years.

(i) Accrued bonuses to directors

The Group provides allowance for directors' accrued bonuses based on the estimated amounts at the balance sheet date.

(j) Employees' severance and retirement benefits

All eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions. The Group provides allowance for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at the balance sheet date.

In determining projected benefit obligation, the estimated amount of retirement benefits is attributed to periods on a benefit formula basis.

All of the actuarial differences are recognized as expenses in the year incurred.

Amortization of prior service cost is computed by the straight-line method at rates based upon the average remaining length of service, which is 5 years.

(k) Income taxes

The Group recognizes tax effects of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities. The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

(l) Amounts per share

The computation of earnings per share of common stock is based on the weighted-average number of shares outstanding during each fiscal year.

Cash dividends per share represent dividends declared as applicable to the respective years.

(m) Lease transactions

Lease assets under finance lease arrangements which commenced after May 31, 2008, except for certain immaterial or short-term finance leases, are capitalized to recognize lease assets and lease obligations in the balance sheet in accordance with the revised accounting standard for leases issued on March 30, 2007.

Certain immaterial or short-term finance leases are still accounted for as operating leases as permitted by the revised accounting standard.

(n) Derivatives and hedge accounting

Derivative financial instruments are stated at fair value and changes in the fair value as gains or losses are charged to income unless the derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Group defers recognition of gains or losses resulting from changes in the fair value of derivative financial instruments until the related gains or losses on the hedged items are recognized.

The Group uses forward foreign currency contracts, currency swaps and interest rate swaps as derivative financial instruments only for the purpose of mitigating future risks of fluctuation of foreign currency exchange and increases in the interest rate.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the liabilities for which the swap contract was executed.

(o) Reclassifications

Certain prior years' amounts in the consolidated financial statements have been reclassified to conform to the current year presentation.

(p) New accounting standards issued, but not yet applied

" Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, issued on March 30, 2018)

"Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, issued on March 30, 2018)

(1) Overview

The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") have jointly developed comprehensive accounting standard on revenue recognition, and the IASB issued IFRS No. 15 and the FASB issued Topic 606 "Revenue from Contracts with Customers" in May 2014. Considering the circumstances that IFRS No. 15 is applied from the fiscal year beginning on or after January 1, 2018 and Topic 606 is applied from the fiscal year beginning after December 15, 2017, the ASBJ has developed comprehensive accounting standard for revenue recognition, which was issued together with its implementation guidance.

As the ASBJ's basic policy in the development of the accounting standard on revenue recognition, the starting point is to adopt the basic principles of IFRS 15 from the viewpoint of comparability between financial statements that is one of the benefits resulting from the consistency with IFRS 15. In addition, if there is any business practice that should be considered in Japan, alternative treatments shall be added to the extent that does not hinder comparability.

(2) Scheduled date of application

The Company expects to apply the standard and implementation guidance from the beginning of the year ending May 31, 2022.

(3) Effect of applying the standard and implementation guidance

The Company is currently evaluating the effect of applying the "Accounting Standard for Revenue Recognition," etc., on its consolidated financial statements.

(q) Additional information

The Company has applied "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) from the year ended May 31, 2017.

3. Securitization of Notes and Accounts Receivable

The following notes and accounts receivable outstanding were transferred for securitization as of May 31, 2017 and 2018:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Notes and accounts receivable	¥ 617	¥ 3,618	$ 33,284

4. Inventories

Inventories as of May 31, 2017 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Merchandise	¥ 8,416	¥ 11,282	$ 103,790
Finished goods	407	560	5,152
Raw materials	399	454	4,176
Work in process	343	204	1,877
Total	¥ 9,565	¥ 12,500	$ 114,995

Inventories are stated at the lower of cost or market and the Company recorded valuation allowances for inventories held for the ordinary sales purpose due to a decline in profitability in the amount of ¥(68) million and ¥32 million ($294 thousand) for the years ended May 31, 2017 and 2018, respectively. These amounts were included in "Cost of sales."

5. Financial Instruments

(a) Qualitative information on financial instruments

Policy for measures relating to financial instruments:

The Group raises funds through bank loans and bond issuances and invests temporary funds surplus in low-risk instruments.

The derivatives policy states that the Group utilizes derivatives only to mitigate the risks that are described below, and do not conduct speculative transactions for trading purposes.

Financial instruments and related risks:

Trade receivables such as trade notes and accounts are exposed to the credit risk in relation to customers and trading partners. Trade receivables and payables denominated in foreign currencies are exposed to the foreign exchange rate fluctuation risk. The Group mitigates such risks through forward exchange contracts.

Investment securities, which mainly consist of equity securities issued by the business partners, are exposed to the market risk.

Payment terms of payables such as trade notes and accounts, electronically recorded payables and income taxes payable are less than one year.

Bank loans and corporate bonds are for the purpose of fund raising mainly in connection with operating activities. Certain loans are exposed to interest rate fluctuation risk. To mitigate the interest rate fluctuation risk of the debt, the Company and part of consolidated subsidiaries use interest rate swaps as hedging instruments for individual contracts.

Derivative transactions include forward exchange contracts to hedge foreign exchange risk associated with foreign currency denominated receivables and payables and interest rate swaps to hedge interest rate fluctuation risk associated with debts.

Please refer to Note 2 (n) regarding hedge accounting, hedging instruments and hedged items, hedging policy, assessment of hedge effectiveness and other matters.

Risk management for financial instruments:

Credit risk

Each sales department of the Group periodically reviews credit status of major customers and monitors due dates and balances of receivables for each customer to minimize uncollectable amounts in accordance with sales policies.

Derivative contracts are entered into only with highly credit rated financial institutions to mitigate the credit risk.

Market risk

The Company and part of consolidated subsidiaries use forward exchange contracts in principle for foreign currency denominated trade receivables and payables to mitigate foreign exchange risk identified by currency and by month. In addition, depending on the situation of foreign exchange markets, foreign currency denominated trade receivables and payables which are surely expected to arise from the forecast transactions on export and import transactions are hedged using forward exchange contracts. The Company also utilizes interest rate swaps to avoid interest rate fluctuation risk associated with debts and fix the interest expenses.

Regarding investment securities, the market values and financial positions of the issuers are monitored regularly, and are continuously reviewed for the holding status considering the market conditions and relationships with trading counterparties.

Derivative transactions entered into and managed by the Group are made in accordance with internal policies that regulate objectives, credit limit amount, scope, organization and others.

Liquidity risk

Each company within the Group monitors and manages liquidity risk by preparing monthly fund management plans.

(b) Fair value of financial instruments

Fair value of financial instruments includes the market prices and the reasonably calculated prices in case of no available market prices. Since variable factors are incorporated in calculating the fair value, such value may vary, if different assumptions were adopted.

Contracts amounts of derivative transactions described in Note 21 "Derivative Financial Instruments" do not present the market risk exposed to the derivative transactions by the contract amount.

Carrying amounts, fair values and unrealized gain (loss) of the financial instruments as of May 31, 2017 and 2018 were as follows:

	Millions of yen		
	2017		
	Carrying amount	Fair Value	Unrealized gain/(loss)
Cash and time deposits	¥ 6,911	¥ 6,911	¥ —
Notes and accounts Receivable	31,319	31,319	—
Investment securities	3,200	3,200	—
Total	¥ 41,430	¥ 41,430	¥ —
Notes and accounts Payable	¥ 14,583	¥ 14,583	¥ —
Short-term bank loans	3,190	3,190	—
Current portion of long-term debt	1,900	1,900	—
Income taxes payable	189	189	—
Long-term debt	4,200	4,158	(42)
Total	¥ 24,062	¥ 24,020	¥ (42)
Derivatives	¥ 7	¥ 7	¥ —

	Millions of yen		
	2018		
	Carrying amount	Fair Value	Unrealized gain/(loss)
Cash and time deposits	¥ 7,091	¥ 7,091	¥ —
Notes and accounts Receivable	30,071	30,071	—
Investment securities	3,632	3,632	—
Total	¥ 40,794	¥ 40,794	¥ —
Notes and accounts Payable	¥ 12,236	¥ 12,236	¥ —
Electronically recorded payables	2,338	2,338	—
Short-term bank loans	7,835	7,835	—
Current portion of long-term debt	—	—	—
Income taxes payable	206	206	—
Long-term debt	4,200	4,172	(28)
Total	¥ 26,815	¥ 26,787	¥ (28)
Derivatives	¥ (5)	¥ (5)	¥ —

	Thousands of U.S. dollars		
	2018		
	Carrying amount	Fair Value	Unrealized gain/(loss)
Cash and time deposits	$ 65,235	$ 65,235	$ —
Notes and accounts Receivable	276,642	276,642	—
Investment securities	33,413	33,413	—
Total	$ 375,290	$ 375,290	$ —
Notes and accounts Payable	$ 112,567	$ 112,567	$ —
Electronically recorded payables	21,509	21,509	—
Short-term bank loans	72,079	72,079	—
Current portion of long-term debt	—	—	—
Income taxes payable	1,895	1,895	—
Long-term debt	38,638	38,381	(257)
Total	$ 246,688	$ 246,431	$ (257)
Derivatives	$ (45)	$ (45)	$ —

Financial instruments whose fair value is extremely difficult to obtain are not included.

Cash and time deposits, and Notes and accounts receivable:
The carrying value of cash and time deposits, and notes and accounts receivable approximates fair value because of their short maturities.

Investment securities:
The fair value of marketable equity securities is measured at the quoted price of the stock exchange.

Notes and accounts payable, Electronically recorded payables, Short-term bank loans, Current portion of long-term debt and Income taxes payable:
The carrying value of notes and accounts payable, electronically recorded payables, short-term bank loans, current portion of long-term debt and income taxes payable approximates fair value because of their short maturities.

Long-term debt:
Long-term debt comprises bonds and long-term bank loans.

The fair value of bonds and long-term bank loans is measured at the present value by discounting expected repayments of principal and interest in the remaining period using an assumed interest rate on an equivalent new loan.

The fair value of interest-rate swaps for which the special treatment is applied is included in the fair value of long-term bank loans, as such swaps are treated as a single item incorporating the hedged long-term bank loans.

The special treatment under Japanese GAAP may be applied for interest rate swap contracts that meet certain hedging criteria. In the special treatment, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on debts for which the swap contract is executed.

Derivatives:
Information on fair value of derivatives is presented in Note 21.

The unlisted equity securities, shares in affiliates and investments in limited liability partnerships listed in the following table are not included in "Investment securities" above because there is no fair value available.

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Unlisted equity securities:			
Investment securities	¥ 48	¥ 48	$ 442
Shares in affiliates	21	21	193
Investments in limited liability partnerships	87	79	727

(c) Maturity analysis for financial assets and securities with contractual maturities

The maturity analysis for financial assets and securities with contractual maturities as of May 31, 2017 and 2018 was as follows:

	Millions of yen			
May 31, 2017:	Due within one year	Due after one year through five	Due after five year through ten	Due after ten years
Cash and time deposits	¥ 6,911	¥ —	¥ —	¥ —
Notes and accounts receivable	31,319	—	—	—
Total	¥38,230	¥ —	¥ —	¥ —

	Millions of yen			
May 31, 2018:	Due within one year	Due after one year through five	Due after five year through ten	Due after ten years
Cash and time deposits	¥ 7,091	¥ —	¥ —	¥ —
Notes and accounts receivable	30,071	—	—	—
Total	¥ 37,162	¥ —	¥ —	¥ —

	Thousands of U.S. dollars			
May 31, 2018:	Due within one year	Due after one year through five	Due after five year through ten	Due after ten years
Cash and time deposits	$ 65,235	$ —	$ —	$ —
Notes and accounts receivable	276,642	—	—	—
Total	$341,877	$ —	$ —	$ —

6. Securities

(a) The following tables summarize carrying amounts and acquisition costs of securities with available fair values as of May 31, 2017 and 2018:

Available-for-sale securities
Securities whose carrying amount (fair value) exceeds acquisition cost

	Millions of yen		
May 31, 2017:	Carrying amount	Acquisition cost	Difference
Equity securities	¥ 3,189	¥ 1,562	¥ 1,627

	Millions of yen		
May 31, 2018:	Carrying amount	Acquisition cost	Difference
Equity securities	**¥ 3,621**	**¥ 1,512**	**¥ 2,109**

	Thousands of U.S. dollars		
May 31, 2018:	Carrying amount	Acquisition cost	Difference
Equity securities	**$ 33,312**	**$ 13,910**	**$ 19,402**

Securities whose fair value does not exceed acquisition cost

	Millions of yen		
May 31, 2017:	Carrying amount	Acquisition cost	Difference
Equity securities	¥ 11	¥ 12	¥ (1)

	Millions of yen		
May 31, 2018:	Carrying amount	Acquisition cost	Difference
Equity securities	**¥ 11**	**¥ 12**	**¥ (1)**

	Thousands of U.S. dollars		
May 31, 2018:	Carrying amount	Acquisition cost	Difference
Equity securities	**$ 101**	**$ 110**	**$ (9)**

(b) Sales of securities classified as available-for-sale securities for the years ended May 31, 2017 and 2018 are summarized as follows:

	Millions of yen		
May 31, 2017:	Proceeds from sales	Gains on sales	Losses on sales
Equity securities	¥ 23	¥ 8	¥ 0
	¥ 23	¥ 8	¥ 0

	Millions of yen		
May 31, 2018:	Proceeds from sales	Gains on sales	Losses on sales
Equity securities	**¥ 243**	**¥ 149**	**¥ —**
	¥ 243	**¥ 149**	**¥ —**

	Thousands of U.S. dollars		
May 31, 2018:	Proceeds from sales	Gains on sales	Losses on sales
Equity securities	**$ 2,236**	**$ 1,371**	**$ —**
	$ 2,236	**$ 1,371**	**$ —**

(c) Impairment losses on securities

No loss on devaluation of securities was recognized for the years ended May 31, 2016, 2017 and 2018.

The Company necessarily recognizes impairment losses on securities when the fair value (or net asset value) of the securities declines by 50 % or more of the acquisition cost. When the fair value declines between 30% and 50% of the acquisition cost, the Company determines the amount to be devaluated, taking into consideration the quantitative materiality and recoverability.

7. Pledged Assets

The following assets were pledged to secure notes and accounts payable amounting to ¥100 million and nil as of May 31, 2017 and 2018, respectively:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Buildings and structures	¥ 173	**¥ —**	**$ —**

8. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans bore interest at weighted-average rates of 0.83% and 1.56% as of May 31, 2017 and 2018, respectively.

Long-term debt as of May 31, 2017 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	**2018**	**2018**
Unsecured:			
1.06% -1.35% loans from Japanese banks, due in 2018	¥ 1,400	**¥ —**	**$ —**
0.85% - 0.86% loans from Japanese banks, due in 2020	1,000	**1,000**	**9,200**
0.65% - 0.90% loans from Japanese banks, due in 2021	1,300	**1,300**	**11,959**
0.51% loans from Japanese banks, due in 2021	900	**900**	**8,279**
0.94% Japanese yen bonds, due in 2018	500	**—**	**—**
0.38% Japanese yen bonds, due in 2021	1,000	**1,000**	**9,200**
	6,100	**4,200**	**38,638**
Less amount due within one year	(1,900)	**(—)**	**(—)**
	¥ 4,200	**¥ 4,200**	**$ 38,638**

The annual maturities of long-term debt as of May 31, 2018 were as follows:

Year ending May 31,	Millions of yen	Thousands of U.S. dollars
2019	**¥ —**	**$ —**
2020	**1,000**	**9,200**
2021	**1,300**	**11,959**
2022	**1,900**	**17,479**
	¥ 4,200	**$ 38,638**

The Company has entered into commitment line agreements with three financial institutions to secure the mobility and stability of fund raising. The commitment lines amount to ¥9,000 million ($82,797 thousand) and the outstanding balance of the loans based on the agreements was ¥3,070 million ($28,243 thousand) as of May 31, 2018.

9. Employees' Severance and Retirement Benefits

(1) Overview of the severance and retirement benefit plans

The Group provides two types of severance and retirement benefit plans for employees including unfunded lump-sum payment plans based on the internal rule of the severance and retirement benefits and defined contribution pension plans. In addition, additional severance and retirement benefits may be paid which are not subject to the projected benefit obligations determined based on the actuarial method in accordance with the accounting for retirement benefits.

(2) Defined benefit plans

a. The changes in the projected benefit obligation during the years ended May 31, 2017 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Projected benefit obligation at beginning of the year	¥ 1,605	¥ 1,585	$ 14,581
Service cost	112	106	975
Actuarial differences	(20)	14	129
Retirement benefits paid	(112)	(77)	(708)
Other	(0)	(2)	(18)
Projected benefit obligation at end of the year	¥ 1,585	¥ 1,626	$ 14,959

b. The changes in the plan assets during the years ended May 31, 2017 and 2018

There was no applicable information.

c. Reconciliation between the ending balance of projected benefit obligation and plan assets and liability for employees' severance and retirement benefits

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Unfunded projected benefit obligation	¥ 1,585	¥ 1,626	$ 14,959
Net liability for employees' severance and retirement benefits recorded in the consolidated balance sheet	1,585	1,626	14,959
Liability for employees' severance and retirement benefits	¥ 1,585	¥ 1,626	$ 14,959
Net liability for employees' severance and retirement benefits recorded in the consolidated balance sheet	1,585	1,626	14,959

d. The components of retirement benefit expenses for the years ended May 31, 2016, 2017 and 2018 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2016	2017	2018	2018
Service cost	¥ 105	¥ 112	¥ 106	$ 975
Interest cost	12	—	—	—
Amortization of actuarial differences	150	(20)	14	129
Amortization of prior service cost	(14)	(13)	—	—
Other	37	43	36	331
Retirement benefit expenses on defined benefit plans	¥ 290	¥ 122	¥ 156	$ 1,435

e. The components of adjustments for retirement benefits (before tax effect) for the years ended May 31, 2016, 2017 and 2018 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2016	2017	2018	2018
Prior service cost	¥ (14)	¥ (13)	¥ —	$ —

f. The components of accumulated adjustments for retirement benefits (before tax effect) as of May 31, 2016, 2017 and 2018 are as follows:

	Millions of yen			Thousands of U.S. dollars
	2016	2017	2018	2018
Unrecognized prior service cost	¥ (13)	¥ —	¥ —	$ —

g. Plan assets

There are no applicable matters to be noted.

h. Major actuarial assumption in accounting for the plans as of May 31, 2016 , 2017 and 2018 is as follows:

	2016	2017	2018
Discount rate	0.0%	0.0%	0.0%

The Group does not use a projected rate of salary increase in computing projected benefit obligation since it adopts mainly the point system.

(3) Defined contribution plans

The amount of the required contribution to the defined contribution plans of the Company and its consolidated subsidiaries was ¥171 million, ¥164 million and ¥165 million ($1,518 thousand) for the years ended May 31, 2016, 2017 and 2018, respectively.

10. Shareholders' Equity

Under the Company Law in Japan (the "Company Law"), at least 50% of the paid-up price of new shares, is required to be designated as common stock. The portion which is to be designated as common stock is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as common stock are credited to additional paid-in capital which is included in capital surplus in the accompanying financial statements.

Under the Company Law, an amount equal to 10% of cash dividends shall be appropriated and set aside as legal earnings reserve or additional paid-in capital until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. Legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit or may be capitalized by resolution of the shareholders' meeting.

Legal earnings reserve and additional paid-in capital are available for distributions or certain other purposes by the resolution of shareholders' meeting. Under the Company Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital and retained earnings, respectively, which are potentially available for dividend.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Company Law.

11. Research and Development Expenses

Research and development expenses are expensed as incurred. Research and development expenses, which are included in selling, general and administrative expenses, totaled ¥120 million, ¥69 million and ¥58 million ($534 thousand) for the years ended May 31, 2016, 2017 and 2018, respectively.

12. Gains on liquidation of a subsidiary

Gains on liquidation of a subsidiary was incurred for the year ended May 31, 2016 due to the reversal of foreign currency translation adjustments associated with the liquidation of SATORI S-TECH HONG KONG CO., LTD.

13. Impairment Losses on Fixed Assets

For the purpose of identifying fixed assets that are impaired, the Company and its consolidated domestic subsidiaries group their fixed assets for business purpose mainly based on the segment, and idle assets and assets planned to be sold are grouped by individual asset.
There was no applicable amount for the years ended May 31, 2016.
Disclosure of impairment losses for the year ended May 31, 2017 was omitted since those amounts were immaterial for the year ended May 31, 2017.
The Group recognized the following impairment losses for the year ended May 31, 2018.

			Millions of yen	Thousands of U.S. dollars
Use	Type of assets	Location	2018	2018
Assets planned to be sold	Land	Takasaki, Gunma Pref.	¥ 105	$ 966

For the year ended May 31, 2018, the carrying amount of above mentioned assets planned to be sold were devaluated to its recoverable amount following the decision made to sell these assets, and the reduced amount of ¥105 million ($966 thousand) is recorded as impairment losses on fixed assets under other income (expenses). The recoverable amount was measured at the net selling value, which is computed by the value planned to be sold based on the contracts.

14. Losses on Disposal of Fixed Assets

The components of losses on disposal of fixed assets for the years ended May 31, 2016, 2017 and 2018 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2016	2017	2018	2018
Buildings and structures	¥ 2	¥ 2	¥ 3	$ 27
Other property, plant and equipment	12	0	0	0
Total	¥ 14	¥ 2	¥ 3	$ 27

15. Income Taxes

The Group is subject to corporate (national), inhabitants and enterprise (local) taxes based upon income. The aggregate normal effective tax rates on income before income taxes were approximately 33.1%, 30.9% and 30.9% in 2016, 2017 and 2018, respectively.

Consolidated foreign subsidiaries are subject to the income taxes of the countries in which they are domiciled. The following table summarizes the significant differences between the statutory tax rate and the effective tax rate for financial statement purposes for the years ended May 31, 2016, 2017 and 2018:

	2016	2017	2018
Statutory tax rate:	33.1 %	30.9 %	30.9 %
Different tax rates applied to consolidated foreign subsidiaries	15.9	(9.7)	7.3
Non-deductible expenses	11.3	4.5	7.7
Non-taxable dividend income	(3.2)	(1.7)	(1.5)
Foreign income taxes withheld	5.5	1.1	1.2
Per capita inhabitant taxes	7.4	5.7	7.3
Accumulated earnings of consolidated foreign subsidiaries	(7.5)	(0.1)	—
Changes in valuation allowance	27.1	22.2	(16.6)
Adjustments of deferred tax assets due to tax rate changes	6.5	—	(2.4)
Other	0.6	1.0	0.2
Effective tax rate	96.7 %	53.9 %	34.1 %

Significant components of deferred tax assets and liabilities as of May 31, 2017 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Deferred tax assets:			
Inventories	¥ 185	¥ 204	$ 1,877
Accrued bonuses	134	129	1,187
Liability for employees' severance and retirement benefits	481	495	4,554
Land	340	372	3,422
Amount of loss carried forward	518	526	4,839
Other	315	292	2,686
	1,973	2,018	18,565
Valuation allowance	(1,477)	(1,390)	(12,788)
Total deferred tax assets	496	628	5,777
Deferred tax liabilities:			
Accumulated earnings of consolidated foreign subsidiaries	(61)	(59)	(543)
Net unrealized holding gains on securities	(474)	(618)	(5,685)
Other	(134)	(124)	(1,141)
Total deferred tax liabilities	(669)	(801)	(7,369)
Net deferred tax assets (liabilities)	¥ (173)	¥ (173)	$ (1,592)

Year ended May 31, 2018

Adjustments of deferred tax assets and liabilities due to a change in the corporate income tax rate:

In Taiwan, the Income Tax Law was revised on January 18, 2018 and the corporate income tax was increased from the beginning of the fiscal year beginning on or after January 1, 2018. Pursuant to this revision, the corporate income tax rate applied to the Company's consolidated subsidiary in Taiwan increased from 17% to 20%.

As a result of this tax rate change, deferred tax assets (net of deferred tax liabilities) increased by ¥8 million ($74 thousand), and foreign currency translation adjustments and income taxes-deferred decreased by ¥0 million ($0 thousand) and ¥8 million ($74 thousand), respectively.

16. Reclassification Adjustments and Tax Effects for Comprehensive Income

Amounts reclassified to profit in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income are as follows:

	Millions of yen			Thousands of U.S. dollars
	2016	2017	2018	2018
Unrealized holding gains on securities:				
Increase during the year	¥ (890)	¥ 601	¥ 652	$ 5,998
Reclassification adjustments	(93)	(4)	(161)	(1,481)
Sub-total, before tax	(983)	597	491	4,517
Tax effects	313	(172)	(144)	(1,325)
Sub-total, net of tax	(670)	425	347	3,192
Gains on deferred hedge accounting:				
Increase during the year	(1)	(3)	(0)	(0)
Reclassification adjustments	(2)	3	0	0
Sub-total, before tax	(3)	0	(0)	(0)
Tax effects	1	(0)	0	0
Sub-total, net of tax	(2)	0	(0)	(0)
Revaluation gain for land:				
Tax effects	2	—	—	—
Foreign currency translation adjustments:				
Increase during the year	(1,007)	(48)	(106)	(975)
Reclassification adjustments	(31)	—	—	—
Sub-total, net of tax	(1,038)	(48)	(106)	(975)
Adjustments for retirement benefits:				
Reclassification adjustments	(14)	(13)	—	—
Sub-total, before tax	(14)	(13)	—	—
Tax effects	4	6	—	—
Sub-total, net of tax	(10)	(7)	—	—
Total other comprehensive income	¥(1,718)	¥ 370	¥ 241	$ 2,217

17. Cash and Cash Equivalents

Reconciliations of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of May 31, 2017 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2018	2018
Cash and time deposits	¥ 6,911	¥ 7,091	$ 65,235
Cash and cash equivalents	¥ 6,911	¥ 7,091	$ 65,235

Year ended May 31, 2018

Major components of assets and liabilities increased due to business transfer whereby cash and cash equivalents were paid as consideration

Major components of assets acquired due to business transfer and the relationship between the acquisition value of the business and net payments due to the business transfer are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 592	$ 5,446
Non-current assets	3	28
Acquisition value of the business	595	5,474
Other	(3)	(28)
Net payments due to the business transfer	¥ 592	$ 5,446

18. Leases

Lessee:

The Group leases certain machinery and equipment and other assets, mainly consisting of electronic computers and related peripheral devices.

As discussed in Notes 2 (g) and (m), lease assets under finance lease arrangements are capitalized and depreciated over the lease period using the straight-line method with zero residual value.

Disclosure of future minimum lease payments including interest expense under operating leases as of May 31, 2017 and 2018 was omitted since the amounts were immaterial.

19. Business combination

(Business transfer)

The Company made a resolution to succeed sales business of hard-disk drive of INNOTECH CORPORATION at the Board of Directors' meeting held on September 7, 2017, and concluded a business transfer agreement effective the same date.

1. Outline of business combination
   (1) Name of the other party and its business
   Name of the other party: INNOTECH CORPORATION
   Business: Sales of hard disc drive
   (2) Major reason for business transfer
   The Group is an electronics trading firm whose main business is sales of electronic components and electronic equipment. As a part of its growth strategy, the Group has promoted sales expansion of flash memory products such as the solid state drive.
   The Group believes the takeover of hard disc drive sales business of INNOTECH CORPORATION would reinforce the storage sales business by obtaining new customers and absorbing the shift from the hard disc drive to the solid state drive, expanding storage products.
   (3)Date of business combination
   November 1, 2017
   (4)Legal form of business combination
   Business transfer

2. Period of operating results of the acquired business included in the consolidated statement of operations for the year ended May 31, 2018
   From November 1, 2017 through May 31, 2018

3. Acquisition costs of the acquired business and the components by type of consideration

Consideration for acquisition:	¥595 million ($5,474 thousand)
Acquisition cost:	¥595 million ($5,474 thousand)

4. Assets received and liabilities assumed on the date of business combination and their major components

Current assets:	¥592 million	($5,446 thousand)
Non-current assets:	3 million	($28 thousand)
Total assets	¥595 million	($5,474 thousand)

5. Estimates of the impacts on the consolidated statement of operations assuming that the business combination was completed on the date of beginning of the fiscal year ended May 31, 2018 and its computation method

   They are omitted since the effects on the consolidated statement of operations for the year ended May 31, 2018 are immaterial. The said note is not subject to the audit examination by an external auditor.

20. Segment Information
For the years ended May 31, 2016, 2017 and 2018

1. Descriptive information about reportable segments
   (1) Method of determination of reportable segments
   The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's chief decision making body is being performed in order to decide how management resources are allocated among the Group.
   The Group promotes its management by two businesses of device solution and system solution.
   (2) Type of products and services which belong to each reportable segment
   In the Device Solution business which is the core business, the Group intends to extend gross revenue by developing approaches toward growth markets such as automobile industries, etc. globally, and in the System Solution business, the Group plans to improve profitability by making the most of the Company's functional value (technology, manufacturing) for the industrial and social infrastructure.
   Outline of each reportable segment is as follows:

Business segment	Main products
Device Solution business	Semi-conductor, electronic components, electric materials, relate unit products, related own products
System Solution business	Control equipment and materials, FA system, related unit products, related own products

   (3) Matters concerning a change in reportable segments, etc.
   The Company upholds a new management basic system from the year ended May 31, 2018, and established future growth strategies for each business. In addition, the Company has changed its business segmentation to "Device Solution" business and "System Solution" business from the previous geographical segmentation of "Domestic" business and "Overseas" business. Segment information for the year ended May 31, 2017 has been restated by the new segmentation method to conform to the segment information for the year ended May 31, 2018. Segment information for the year ended May 31, 2016 has not been restated, as it is not required under the Japanese GAAP.

2. Measurement method of sales, profit or loss, assets and other items for each reportable segment
   The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "Summary of Significant Accounting Policies."
   Segment profit by the reportable segment is based on operating income.
   Inter-segment sales are based on the arm's length price.

3. Information about sales, profit or loss, assets and other items is as follows:

	Millions of yen				
	Reportable segments				
For the year ended May 31, 2016:	Domestic	Overseas	Total	Reconciliation	Consolidated
Net sales:					
Outside customers	¥ 74,793	¥ 38,207	¥ 113,000	¥ —	¥ 113,000
Inter-segment	5,014	143	5,157	(5,157)	—
Total	79,807	38,350	118,157	(5,157)	113,000
Segment profit (loss)	702	(110)	592	12	604
Segment assets	¥ 46,894	¥ 13,978	¥ 60,872	¥ (1,113)	¥ 59,759
Other items:					
Depreciation	¥ 332	¥ 27	¥ 359	¥ —	¥ 359
Increase in tangible and intangible fixed assets	202	13	215	—	215

Note: Above information is presented based on the previous segmentation method, and accordingly, there is no comparability with the segment information for the years ended May 31, 2017 and 2018.

	Millions of yen				
	Reportable segments				
For the year ended May 31, 2017:	Device Solution	System Solution	Total	Reconciliation	Consolidated
Net sales:					
Outside customers	¥ 86,957	¥ 21,025	¥ 107,982	¥ —	¥ 107,982
Inter-segment	486	130	616	(616)	—
Total	87,443	21,155	108,598	(616)	107,982
Segment profit (loss)	685	19	704	3	707
Other items:					
Depreciation	¥ 253	¥ 109	¥ 362	¥ —	¥ 362

Note: Above information has been restated to conform to the segment information for the year ended May 31, 2018.

	Millions of yen				
	Reportable segments				
For the year ended May 31, 2018:	Device Solution	System Solution	Total	Reconciliation (Note) 1	Consolidated (Note) 2
Net sales:					
Outside customers	¥ 91,840	¥ 23,531	¥ 115,371	¥ —	¥ 115,371
Inter-segment	487	71	558	(558)	—
Total	92,327	23,602	115,929	(558)	115,371
Segment profit (loss)	172	228	400	(2)	398
Other items:					
Depreciation	¥ 258	¥ 126	¥ 384	¥ —	¥ 384

	Thousands of U.S. dollars				
	Reportable segments				
For the year ended May 31, 2018:	Device Solution	System Solution	Total	Reconciliation (Note) 1	Consolidated (Note) 2
Net sales:					
Outside customers	$ 844,894	$ 216,477	$ 1,061,371	$ —	$ 1,061,371
Inter-segment	4,480	653	5,133	(5,133)	—
Total	849,374	217,130	1,066,504	(5,133)	1,061,371
Segment profit (loss)	1,582	2,098	3,680	(19)	3,661
Other items:					
Depreciation	$ 2,374	$ 1,159	$ 3,533	$ —	$ 3,533

(Notes):

1. The reconciliation of segment profit in an amount of ¥(2) million ($(19) thousand) includes elimination of intersegment transactions.
2. Segment profit is reconciled with "Operating income" in the consolidated statements of operations.
3. Segment assets and liabilities are not presented since they are not subject to regular analysis to determine the allocation of management resources and evaluate performances.

Related Information:

1. Information about product and service lines

	Millions of yen				
For the year ended May 31, 2016:	Semi-conductor	General electronic components	Electronic equipment	Products	Total
Net sales to outside customers	¥ 39,028	¥ 47,432	¥ 21,843	¥ 4,697	¥ 113,000

	Millions of yen				
For the year ended May 31, 2017:	Semi-conductor	General electronic components	Electronic equipment	Products	Total
Net sales to outside customers	¥ 31,969	¥ 46,151	¥ 25,450	¥ 4,412	¥ 107,982

	Millions of yen				
For the year ended May 31, 2018:	Semi-conductor	General electronic components	Electronic equipment	Products	Total
Net sales to outside customers	¥ 38,434	¥ 46,805	¥ 25,964	¥ 4,168	¥ 115,371

	Thousands of U.S. dollars				
For the year ended May 31, 2018:	Semi-conductor	General electronic components	Electronic equipment	Products	Total
Net sales to outside customers	$ 353,579	$ 430,589	$ 238,859	$ 38,344	$ 1,061,371

2. Information by region

Net sales:	Millions of yen					
	Year ended May 31, 2016					
Japan	Overseas					Total
	China	Taiwan	Other Asia	Other	Total	
¥ 64,538	¥ 28,444	¥ 4,657	¥ 13,379	¥ 1,982	¥ 48,462	¥ 113,000

Net sales:	Millions of yen					
	Year ended May 31, 2017					
Japan	Overseas					Total
	China	Taiwan	Other Asia	Other	Total	
¥ 62,568	¥ 26,041	¥ 3,557	¥ 11,657	¥ 4,159	¥ 45,414	¥ 107,982

Net sales:	Millions of yen					
	Year ended May 31, 2018					
Japan	Overseas					Total
	China	Taiwan	Other Asia	Other	Total	
¥ 62,604	**¥ 30,664**	**¥ 4,416**	**¥ 13,101**	**¥ 4,586**	**¥ 52,767**	**¥ 115,371**

Net sales:	Thousands of U.S. dollars					
	Year ended May 31, 2018					
Japan	Overseas					Total
	China	Taiwan	Other Asia	Other	Total	
$ 575,934	**$ 282,098**	**$ 40,626**	**$ 120,524**	**$ 42,189**	**$ 485,437**	**$ 1,061,371**

3. Information by major customer
   Information by major customer for the years ended May 31, 2016, 2017 and 2018 is omitted since there were no customers who accounted for more than 10% of net sales on the consolidated statement of operations for the years ended May 31, 2016, 2017 and 2018.

Information about impairment loss on non-current assets by reportable segment:
For the years ended May 31, 2016 and 2017, information about loss on impairment is omitted since it is immaterial.
For the year ended May 31, 2018, regarding corporate assets which are not allocated to each reportable segment, the Company devaluated the carrying amounts of assets planned to be sold to their recoverable amounts and recorded the devaluated amounts as loss on impairment. The Company recorded loss on impairment in an amount of ¥105 million ($966 thousand) for the year ended May 31, 2018.

21. Derivative Financial Instruments

The Group enters into forward exchange contracts and interest rate swap contracts as derivative financial instruments. The Group deals with forward exchange transactions to hedge exchange rate risk of monetary receivables and payables denominated in foreign currencies. Interest rate swap transactions are made in order to minimize the risk of fluctuation of interest rate on borrowings.

The derivative financial instruments are executed with creditworthy financial institutions, and the Company's management believes there is little default risk of counterparties. Derivative transactions are controlled by the accounting departments of the Group in accordance with the internal rules, which specify risk controls, maximum transaction amounts, credit limits, reporting requirements of derivatives transactions, etc.

The Group evaluates hedge effectiveness quarterly by comparing the cumulative changes in cash flows or the changes in fair value of hedged items with the corresponding changes in the hedging derivative instruments.

(a) Forward foreign exchange contracts not accounted for as hedge

The aggregate contracted amounts to be paid / received and the fair values of forward foreign exchange contracts not accounted for as hedge as of May 31, 2017 and 2018 were as follows:

May 31, 2017: Millions of yen

Category	Types of derivatives transactions	Contract amount	Contract amount due after one year	Fair value (Note)	Unrealized gain (loss)
Items not traded on exchanges	Forward exchange contracts: To sell U.S. dollars	¥ 802	¥ —	¥ 5	¥ 5
	Forward exchange contracts: To buy Euro	110	—	2	2
Total		¥ 912	¥ —	¥ 7	¥ 7

May 31, 2018: Millions of yen

Category	Types of derivatives transactions	Contract amount	Contract amount due after one year	Fair value (Note)	Unrealized gain (loss)
Items not traded on exchanges	Forward exchange contracts: To sell U.S. dollars	¥ **218**	¥ —	¥ **1**	¥ **1**
	Forward exchange contracts: To buy Euro	**132**	—	**(6)**	**(6)**
Total		¥ **350**	¥ —	¥ **(5)**	¥ **(5)**

May 31, 2018: Thousands of U.S. dollars

Category	Types of derivatives transactions	Contract amount	Contract amount due after one year	Fair value (Note)	Unrealized gain (loss)
Items not traded on exchange	Forward exchange contracts: To sell U.S. dollars	$ **2,006**	$ —	$ **10**	$ **10**
	Forward exchange contracts: To buy Euro	**1,214**	—	**(55)**	**(55)**
Total		$ **3,220**	$ —	$ **(45)**	$ **(45)**

(Note)
The fair value of forward foreign exchange contracts is estimated by obtaining quotes from financial institutions.

(b) Forward foreign exchange contracts accounted for as hedge

The aggregate contracted amounts to be paid / received and the fair values of forward foreign exchange contracts accounted for as hedge as of May 31, 2017 and 2018 were as follows:

May 31, 2017: Millions of yen

Hedge accounting method	Types of derivatives transactions	Major hedged items	Contract amount	Contract amount due after one year	Fair value (Note)
Basic accounting method (Deferred hedge accounting)	Forward exchange contracts: To sell U.S. dollars	Accounts receivable — trade	¥ 44	¥ —	¥ (0)
	Forward exchange contracts: To buy Euro	Accounts payable — trade	75	—	(0)
Total			¥ 119	¥ —	¥ (0)

May 31, 2018: Millions of yen

Hedge accounting method	Types of derivatives transactions	Major hedged items	Contract amount	Contract amount due after one year	Fair value (Note)
Basic accounting method (Deferred hedge accounting)	Forward exchange contracts: To buy Euro	Accounts payable — trade	¥ **140**	—	¥ **(0)**
Total			¥ **140**	¥ —	¥ **(0)**

May 31, 2018:

Hedge accounting method	Types of derivatives transactions	Major hedged items	Contract amount	Contract amount due after one year	Fair value (Note)
			Thousands of U.S. dollars		
Basic accounting method (Deferred hedge accounting)	Forward exchange contracts: To buy Euro	Accounts payable — trade	$ 1,288	$ —	$ (0)
Total			$ 1,288	$ —	$ (0)

(Note)
The fair value of forward foreign exchange contracts is estimated by obtaining quotes from financial institutions.

(c) Interest rate swap contracts accounted for as hedge
The aggregate amounts of interest rate swap contracts accounted for as hedge as of May 31, 2017 and 2018 were as follows:

May 31, 2017:

Hedge accounting method	Types of derivatives transactions	Major hedged items	Contract amount	Contract amount due after one year	Fair value (Note)
			Millions of yen		
Special treatment for interest rate swaps	Interest rate swap contracts: Interest swap fixed rate to floating rate	Long-term debt	¥ 2,300	¥ 1,300	¥ —

May 31, 2018:

Hedge accounting method	Types of derivatives transactions	Major hedged items	Contract amount	Contract amount due after one year	Fair value (Note)
			Millions of yen		
Special treatment for interest rate swaps	Interest rate swap contracts: Interest swap fixed rate to floating rate	Long-term debt	¥ 1,300	¥ 1,300	¥ —

May 31, 2018:

Hedge accounting method	Types of derivatives transactions	Major hedged items	Contract amount	Contract amount due after one year	Fair value (Note)
			Thousands of U.S. dollars		
Special treatment for interest rate swaps	Interest rate swap contracts: Interest swap fixed rate to floating rate	Long-term debt	$ 11,960	$ 11,960	$ —

(Note)
The fair value of interest rate swaps for which the special treatment is applied is disclosed in Note 5 (b) including the fair value of the underlying long-term debt, as such swaps are treated as a single item incorporating the hedged long-term debt.

22. Per Share Information

The weighted-average number of shares used in the computation was 16,956 thousand shares, 16,955 thousand shares and 16,585 thousand shares for the years ended May 31, 2016, 2017 and 2018, respectively.

Information about diluted earnings per share is omitted because there existed no potential share for the years ended May 31, 2016, 2017 and 2018.

23. Subsequent Events

(Cash dividends)
On July 13, 2018, the directors of the Company approved the following appropriations of retained earnings. Such appropriations have not been accrued in the consolidated financial statements as of May 31, 2018. Such appropriations are recognized in the period in which they were resolved.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends, ¥18.00 ($ 0.17) per share	¥ 296	$ 2,723

(Transactions under common control)
Based on the resolution of the Board of Directors' meeting held on December 21, 2017, the Company absorbed and merged Satori S-Tech Co., Ltd., which is a wholly owned subsidiary of the Company, into the Company effective June 1, 2018.

1. Outline of the transaction
   (1) Name of the business acquired and its business contents
   Name of the business: SATORI S-TECH CO., LTD. (the Company's consolidated subsidiary)
   Business: Development, design, manufacturing and sales of switch products for electric tools
   (2) Date of business combination
   June 1, 2018
   (3) Legal form of business combination
   Absorption-type merger between the Company as a surviving company and SATORI S-TECH CO., LTD. as a dissolving company
   (4) Name after business combination
   No change
   (5) Other matters concerning the outline of the transaction
   This merger aims to strengthen and expand the switch business management.
2. Outline of accounting treatments performed
   This absorption-type merger was accounted for as a transaction under common control in accordance with "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21 issued on September 13, 2013) and "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 issued on September 13, 2013).

(Business and Capital Alliance)
At the Board of Directors' meeting held on June 21, 2018, the Company resolved to carry out business and capital alliance with Panasonic Corporation (hereinafter "Panasonic") and transfer a part of shares of Satori SP Technology Co., Ltd. (hereinafter "Satori SP Technology"), which is the Company's consolidated subsidiary, to Panasonic.

1. Reason for business and capital alliance
   Satori SP Technology has started its business from June 2018 as a company which handles storage products that are strategic product of the Satori Group.
   The Satori Group, which has promoted expansion of foreign capital products, agreed to conclude a business and capital alliance agreement as a procurement management partner in the semi-conductor procurement innovation that Panasonic is promoting.
   The Company will aim to stabilize the medium- to long-term management through strengthening and building business relationship with Panasonic, securing transaction volume in

the intensified competitive market and expanding business in the focused market.

2. Details of business and capital alliance
   While the Company transfers 10,500 shares of Satori SP Technology which the Company owns, global procurement business will be carried out under the mutual cooperation based on the contract regarding semi-conductors procured by Panasonic Group.

Status of number of shares owned after the transfer and its ownership ratio

	Before the transfer	After the transfer
The Company	70,000 shares 100%	59,500 shares 85%
Panasonic	0 share 0%	10,500 shares 15%

3. Outline of the both companies (as of March 31, 2018)

(1) Name	Panasonic Corporation	Satori SP Technology Co., Ltd.
(2) Address	1006, Oaza Kadoma, Kadoma-shi, Osaka	14-10, Shiba 1-chome, Minato-ku, Tokyo
(3) Name and title of the representatives	Kazuhiro Tsuga Representative Director, President	Masahiko Koga Representative Director, President
(4) Business	Manufacturing and sales of electric and electronic equipment, etc.	Development, design, sales, export/import, maintenance of electronic parts and consulting
(5) Paid-in capital	¥258,700 million ($2,379,945 thousand)	¥350 million ($3,220 thousand)

4. Schedule

(1) Date of resolution at the Board of Directors' meeting	June 21, 2018
(2) Date of conclusion of share transfer agreement and shareholders agreement	June 21, 2018
(3) Date of share transfer	July 31, 2018
(4) Starting date of alliance	August 1, 2018

CORPORATE DATA

As of May 31, 2018

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Established	July 10, 1947
Paid-in Capital	¥2,611 million (US$24,020 thousand)
Number of Shareholders	6,094
Shares Outstanding	17,946,826
Employees	486 (consolidated 686)

Board of Directors
(as of August 23, 2018)

Representative Director,
Chairman of the Board
Kazutoshi Ueda

Representative Director,
President & CEO
Hiroyuki Satori

Director, Senior Managing Executive Officer
Yasushi Aoki

Director, Managing Executive Officer
Akihiko Sato

Independent Directors
Shuichi Fukuda
Sadahiro Shimomura
Hidetoshi Tawada
Toshimitsu Iwanami

Audit & Supervisory Board Members
Kenji Shimizu
Takeshi Nakazato
Shinichi Sato

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