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[Delivery Document]  
Sanshin Electronics Co., Ltd.  
Stock Code: 8150

# Business Report on the 72nd Term

From April 1, 2022 to March 31, 2023

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## The Sanshin Spirit

Sanshin Electronics contributes to the development of today's electronics-driven society by embracing the challenge of the new and passing on the Sanshin Spirit to new generations.

Electronics products play a formative role in today's society. Electrical appliances connect with each other to provide unprecedented services to consumers, while drivers enjoy greater safety thanks to the spread of operation support systems such as collision avoidance. In the future as well, electronics will contribute to society by delivering greater safety, comfort and convenience.

As a general electronics trading company, Sanshin Electronics has continued to pursue new possibilities in electronics products in liaison with our customers, suppliers and business partners. We always bear in mind that we need to test the limits, unconstrained by prevailing orthodoxies.

Since its establishment, the Company has always cherished Trust (*Shin-yo* in Japanese), Principles (*Shinnen*) and Sincerity (*Shinjitsu*). Each of these components of our corporate code contains the Japanese character 信(*Shin*), testifying to the origin of the Company name. We believe that we must embrace these three words whenever we conduct our business. Guided by the above corporate code, we at Sanshin Electronics will explore the future of electronics products with the drive to tackle new challenges.

Trust	Principles	Sincerity
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Business cannot succeed without trust. It begins and ends with trust.	Do not just pursue profit. But act based on principles, which can be realized through self-discipline.	Always act sincerely. Rise to the challenge head-on.
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## **Business Report** (From April 1, 2022 to March 31, 2023)

### **I. Matters Concerning the Current Status of the Corporate Group**

#### **(1) Business Progress and Results**

During the consolidated fiscal year under review, the global economy experienced normalization of economic activities assuming life with COVID-19 in each country. On the other hand, the economic outlook remained uncertain due to factors including the impact of rising prices for goods on a global scale, high resource prices caused by the Russian invasion of Ukraine, changes in financial policy, and sudden exchange rate fluctuations.

In the electronics industry, a vital area of business for the Sanshin Electronics Group, the supply chain started to regain stability due to factors such as a gradual alleviation from the second half of the fiscal year for the tight supply and demand of semiconductors and electronic components, which had been an increasingly serious issue. In the domestic ICT industry, the transition of systems to the cloud and the use of subscription models spread in conjunction with increased needs to advance DX (Digital Transformation).

Against this background, the Group worked to increase profitability by reforming our business structure and to expand our business in growth markets. Specifically, in the device business, we worked to expand our existing businesses and establish a new profit structure. In the solution business, we strove to grow the business based on service provision, expand our digital technology, and expand our customer platform.

As a result of these efforts, business performance in the consolidated fiscal year under review was as follows: Net sales were ¥161,107 million (up 30.4% year-on-year), operating profit was ¥6,847 million (up 62.7% year-on-year), and ordinary profit was ¥5,511 million (up 54.8% year-on-year). Net profit attributable to shareholders of parent company was ¥3,832 million (up 51.8% year-on-year) and ROE was 11.8% (up from 6.8% in the previous year).

In regard to internal transactions of revenues and expenses between consolidated companies, the parent company's transactions are converted at the exchange rate at the time of the transaction or at the forward exchange rate, and the overseas subsidiary's transactions are converted at the average rate during the period and offset. During the consolidated fiscal year under review, due to the weaker yen, operating profit increased because the offsetting expenses greatly exceeded the corresponding revenues. However, the same amount has been adjusted as a foreign exchange loss in non-operating expenses. Hence, there is no impact on the ordinary profit.

## Device Segment

In the device business segment, our leading products are semiconductors (including system LSIs, microcomputers, power semiconductors, LCD driver ICs and memory) and electronic components (including connectors, capacitors and LCD panels). These products are sold mainly to electronics manufacturers. We also provide technical support such as software development and module development.

In the consolidated fiscal year under review, there were robust sales of electronic components, and net sales of semiconductors manufactured overseas increased due to expansion of commercial sales rights and strong sales of home video game consoles. Other factors in improved results were success in fully utilizing our trading company functions despite tight supply and demand for semiconductors, as well as exchange rates with a weaker yen year-on-year. This resulted in net sales of ¥147,575 million (up 33.5% year-on-year). In terms of profit, although selling, general and administrative expenses increased, segment profit was ¥4,144 million (up 89.4% year-on-year) due to the effect of increased revenue and strong projects with high profitability.

Note: Segment profit is based on ordinary profit.

## Solution Segment

In the solution business segment, we provide one-stop services spanning from design and construction to operation and maintenance of network devices and security products that utilize ICT in accordance with our customers' environments. In addition, we provide Line-of-Business systems such as sales and production management, and applications such as personnel, payroll, and accounting in various formats ranging from on premise to the cloud.

For the consolidated fiscal year under review, although sales of major products such as servers and communication devices were sluggish due to supply difficulties caused by tight supply and demand for semiconductors, etc., the supply chain started to normalize from the fourth quarter, and performance was as planned for the full year. This resulted in net sales of ¥13,532 million (up 3.6% year-on-year). In terms of profit, although selling, general and administrative expenses increased, segment profit was nearly the same year-on-year at ¥1,366 million (down 0.4% year-on-year).

Note: Segment profit is based on ordinary profit.

## **(2) Capital Investment Activities**

For the consolidated fiscal year under review, a total of ¥183 million in investments was conducted for purposes such as updating facilities in the headquarters building and Osaka Branch building, and introducing business support tools.

## **(3) Financing Activities**

For the consolidated fiscal year under review, outside financing was mainly ordinary borrowing from financial institutions. Furthermore, the Company has entered into commitment line contracts totaling ¥6,000 million with three correspondent financial institutions with the aim of securing a flexible and stable funding framework. There is no balance of borrowing based on these contracts at the end of the consolidated fiscal year under review.

## **(4) Future Challenges**

(Basic management policies)

The Company's basic policy is to adhere to the corporate philosophy of "Trust, Principles and Sincerity" in order to earn reputation as "the Chosen" among general electronics trading companies to prove its value based on a wide range of solutions it provides to its customers and suppliers.

In the device business, in order to assist all client companies active in home appliances, automobiles and industrial devices operations in their efforts for globalization, the Company has been striving to establish overseas subsidiaries and provide goods and services, as well as it has been serving as a coordinator for its customers and suppliers through extensive product range and enhanced technological strength for suppliers' product development. Furthermore, in the solution business, the Company has been actively acting as a system integrator with information and communication network at the core of its contributions to clients' business development. Sanshin Electronics will continue to increase the Group's present value proving why customers and suppliers choose us.

In managing its businesses, the Company will continue to fulfill its mission as a good corporate citizen by developing a system that enables diverse personnel to play an active role in the Company, as well as by continuing to reduce the environmental impact of its operations, just to mention a few actions.

(Target business indicators)

By establishing the return on equity (ROE) and ordinary profit as the Company's important business indicators, we will endeavor to improve earnings.

(Basic policies for profit distribution)

The Company considers profit returns to its shareholders as one of the most important management issues. The Company's basic policy is to determine dividends by comprehensively considering the need to maintain a balance between rewarding of shareholders, investment to gain opportunities for growth, attainment of sufficient retained earnings to enable sustainable growth, and improvement in capital efficiency. Under this policy, the Company has set a target for its dividend payout ratio of around 50% on a consolidated basis.

(Medium-term business strategy and future challenges)

In the device business segment, in order to cover the impact of the loss of business channels of Renesas Electronics Corporation, which had been a major supplier of the Group for many years, to secure a stable profit base, and to achieve sustainable growth, the Group is expanding business channels of suppliers with a focus on overseas manufacturers, and is working to construct a new business model. In the solution business segment, the use of cloud services is increasing in conjunction with heightened investment demand for DX (digital transformation) by corporations and municipalities. Taking advantage of this opportunity, the Group will focus on expanding our menu of solution services by strengthening collaboration with partners in addition to utilizing our in-house know-how. In addition to these business themes, the Group as a whole will proactively address corporate issues related to sustainability; for example, climate change and human capital.

Based on the above, the Group has formulated the V73 Medium-Term Management Plan (V73) to be concluded in the Company's 73rd Term (fiscal year ending March 31, 2024), and is currently implementing the Plan. By diligently implementing the following measures, we will strive to maintain an ROE of 6% or higher during the period of V73, and to strengthen a foundation for the next Medium-Term Management Plan.

## **1) Improve profitability through business structure reform and expand business in growth markets**

Device business

### i) Expansion of existing business and improvement of profitability

For existing businesses centered on sales of semiconductors / electronic components, we will create a robust profit structure by growing our product lineup with a focus on products from overseas manufacturers and by expanding business channels. At the same time, we will focus on increasing profitability by developing our sales activity infrastructure, reviewing our sales operations, and increasing business efficiency by optimizing personnel.

### ii) Establishment of a new profit structure

We will continue to expand our AI/IoT solution business, which mainly targets the manufacturing/infrastructure markets. Furthermore, similar to the solution business which is working to implement automation and visualization for manufacturing sites, logistics warehouses, etc., we will work to establish a new business model for strengthening collaboration with partners in fields requiring cooperation with partners such as logistics manufacturers and SIers (system integrators).

Solution business

### i) Growth of a business based on service provision

In addition to strengthening the cloud platform provision system, we will capture needs for replacing on-premise systems with the cloud and will grow our business based on service provision by enhancing our menu of application services provided together with the cloud platform provision system.

### ii) Expansion of digital technology

We will strengthen efforts for improving our consulting function in order to reliably grasp business opportunities resulting from the progress of DX. We will focus on expanding digital technology in areas such as new technology for virtualization, security, and communications.

### iii) Expansion of customer platform

We will expand our customer platform by strengthening our pre-sales and marketing functions through enhancing our sales promotion departments, while at the same time strengthening collaboration with partners and expanding business domains through promoting inhouse cross-sales.

## **2) Improvement of capital efficiency**

We will further improve capital efficiency by strengthening efforts to maintain financial soundness required to continue stable transactions, while increasing profitability and maintaining the current scale of shareholders' equity. We will strive for early clearing of funds through efforts such as improving transaction conditions, liquidating receivables, and selling strategically held shares, will work to reduce total assets through efforts such as optimizing inventory, and will endeavor to balance increased capital efficiency and maintenance of financial soundness. Additionally, we will also focus on required measures (including commitment line contracts with correspondent financial institutions with whom contracts have already been executed) to ensure the agility and stability of financing.

## **3) Strengthening corporate governance**

### i) Strengthening of efforts to address issues related to sustainability

We believe that improving the value of human resources, who are the core of corporate activities, is the starting point for sustainable improvement of corporate value. In order to improve individual human resource value and organizational strength through active investment in human capital, we will hire diverse and talented human resources, and will support the development of skills and career enhancement. We will also increase employee engagement by establishing fair evaluation and treatment of employees, and by creating an environment where employees can work efficiently with peace of mind. Moreover, for climate change issues that have a major impact on a wide range of industries and sectors (including our business partners), we will establish systems for evaluating the degree of impact for climate change risks and opportunities, and for appropriately reflecting that evaluation in our management strategy. Furthermore, we will enhance information disclosure on efforts to address sustainability issues, and establish an environment for more constructive dialogue with investors and other stakeholders.

### ii) Strengthening the functions of the Board of Directors

To ensure that the Board of Director fulfills a central role in executing the measures stated above in 1), 2), and 3), we will clarify the skills necessary to make accurate decisions on important matters related to business execution and to supervise business execution, and will strive to build a management system that ensures the skill balance of the entire management team.

**(5) Trends in Assets and Operating Results of the Company**

	69th Term (From April 1, 2019 to March 31, 2020)	70th Term (From April 1, 2020 to March 31, 2021)	71st Term (From April 1, 2021 to March 31, 2022)	<b>72nd Term (From April 1, 2022 to March 31, 2023)</b>
Net Sales (million yen)	123,085	112,791	123,583	<b>161,107</b>
Operating Profit (million yen)	1,958	2,167	4,209	<b>6,847</b>
Ordinary Profit (million yen)	1,858	1,878	3,560	<b>5,511</b>
Net Profit Attributable to Shareholders of Parent Company (million yen)	1,451	1,646	2,524	<b>3,832</b>
Net Profit Per Share (yen)	75.66	85.82	171.12	<b>314.43</b>
Total Assets (million yen)	73,659	84,602	72,809	<b>78,601</b>
Net Assets (million yen)	42,029	43,210	30,683	<b>34,252</b>
Net Assets Per Share (yen)	2,188.84	2,249.40	2,514.04	<b>2,803.65</b>
Return on Equity (ROE) (%)	3.4	3.9	6.8	<b>11.8</b>

Note: The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29; March 31, 2020), etc., was applied from the beginning of the 71st term. The amounts for the 71st term and subsequent fiscal years are the amount after application of said Accounting Standard, etc.



**(6) Status of Parent Company and Principal Subsidiaries****1) Parent company**

Not applicable.

**2) Principal subsidiaries**

<b>Company Name</b>	<b>Address</b>	<b>Main Business</b>	<b>Capital</b>	<b>Voting Rights Ownership Ratio</b>
SANSHIN ELECTRONICS (HONG KONG) CO., LTD.	Hong Kong	Sales and import/export of semiconductors, electronic components and equipment	12,820,000 US Dollar	100.00%
SANSHIN ELECTRONICS SINGAPORE (PTE) LTD.	Singapore	Sales and import/export of semiconductors, electronic components and equipment	1,939,000 US Dollar	100.00%
TAIWAN SANSHIN ELECTRONICS CO., LTD.	Taipei, Taiwan	Sales and import/export of semiconductors, electronic components and equipment	160,000,000 Taiwan New Dollar	100.00%
SANSHIN ELECTRONICS CORPORATION	Michigan, U.S.A.	Sales and import/export of semiconductors, electronic components and equipment	3,000,000 US Dollar	100.00%
SANSHIN ELECTRONICS KOREA CO., LTD.	Seoul, South Korea	Sales and import/export of semiconductors, electronic components and equipment	5,000,000,000 Korean Won	100.00%
SANSHIN ELECTRONICS (THAILAND) CO., LTD.	Bangkok, Thailand	Sales and import/export of semiconductors, electronic components and equipment	100,000,000 Thai Baht	*100.00%
SANSHIN ELECTRONICS (SHANGHAI) CO., LTD.	Shanghai, China	Sales and import/export of semiconductors, electronic components and equipment	31,000,000 Chinese Yuan	*100.00%
TAKUMI CORPORATION	Tokyo, Japan	1. Development and sales of electronic equipment 2. Development of computer software 3. Acquisition, transfer, assistance in license acquisition, and management of intellectual property rights	45,000,000 Japanese Yen	74.38%
SANSHIN NETWORK SERVICE CO., LTD.	Tokyo, Japan	1. Design, construction, installation, maintenance, operation, and management of telecommunications systems 2. Design and installation of circuits and telephone equipment in telecommunications systems 3. Sales of equipment and devices related to telecommunications systems	30,000,000 Japanese Yen	100.00%

Notes: 1. The percentages marked with an asterisk (\*) include indirect holdings.

2. The Group has no specified wholly-owned subsidiary.

**(7) Principal Businesses (as of March 31, 2023)**

The Group is developing the device business and solution business. A description of each segment is provided in the overview of results per business segment in “(1) Business Progress and Results.”

**(8) Principal Offices (as of March 31, 2023)**

Domestic	
SANSHIN ELECTRONICS CO., LTD.	Headquarters: 4-12, Shiba 4-chome, Minato-ku, Tokyo Branches: Osaka Branch, Shizuoka Branch, Nagoya Branch, Takamatsu Branch, Utsunomiya Branch, Nagano Branch, Nagaoka Branch, Kochi Liaison Office Other Business Place: Distribution Center
AXIS DEVICE TECHNOLOGY CO., LTD.	Headquarters: Tokyo
SANSHIN NETWORK SERVICE CO., LTD.	Headquarters: Tokyo
SANSHIN MEDIA SOLUTIONS CO., LTD.	Headquarters: Tokyo
SANSHIN SYSTEM DESIGN CO., LTD.	Headquarters: Tokyo
TAKUMI CORPORATION	Headquarters: Tokyo

Overseas	
SANSHIN ELECTRONICS (HONG KONG) CO., LTD.	Headquarters: Hong Kong
SANSHIN ELECTRONICS (SHANGHAI) CO., LTD.	Headquarters: Shanghai, China
SANSHIN ELECTRONICS (SHENZHEN) CO., LTD.	Headquarters: Shenzhen, China
SANSHIN ELECTRONICS KOREA CO., LTD.	Headquarters: Seoul, South Korea
SANSHIN ELECTRONICS SINGAPORE (PTE) LTD.	Headquarters: Singapore
SAN SHIN ELECTRONICS (MALAYSIA) SDN. BHD.	Headquarters: Kuala Lumpur, Malaysia
SANSHIN ELECTRONICS (THAILAND) CO., LTD.	Headquarters: Bangkok, Thailand
TAIWAN SANSHIN ELECTRONICS CO., LTD.	Headquarters: Taipei, Taiwan
SANSHIN ELECTRONICS CORPORATION	Headquarters: Michigan, U.S.A.

**(9) Employees (as of March 31, 2023)**

Business Segment	Number of Employees	Change from the End of the Previous Term
Device business	316 (23)	Up 3 (up 1)
Solution business	202 (10)	No change (down 3)
Corporate (common)	49 (19)	Down 15 (up 3)
Total	567 (52)	Down 12 (up 1)

Notes: 1. The number of employees represents the number of those actually at work.

2. The number of employees in the “Corporate (common)” row includes personnel in administrative departments, such as General Affairs Department, Accounting Department, distribution centers, etc.

3. The annual average number of temporary employees (part-time and entrusted workers) is enclosed in ( ).

**(10) Principal Lenders (as of March 31, 2023)**

Lender	Outstanding Loan Amount
	(Million yen)
Sumitomo Mitsui Banking Corporation	16,789
MUFJ Bank, Ltd.	7,638
Mizuho Bank, Ltd.	1,000
Sumitomo Mitsui Trust Bank, Limited.	1,000
San ju San Bank, Ltd.	400

Note: The outstanding loan amount from banks listed above includes the outstanding loan amount from overseas subsidiaries of each bank.

**(11) Other Significant Matters Concerning the Current Status of Corporate Group**

Not applicable.

## II. Shares of the Company (as of March 31, 2023)

(1) Number of Shares Authorized to Be Issued: 76,171,000 shares

(2) Number of Shares Issued: 16,281,373 shares

(3) Number of Shareholders: 7,050

(4) Major Shareholders (Top ten shareholders)

Name of Shareholder	Number of Shares Held (Thousands of shares)	Shareholding Ratio (%)
Matsunaga Eiichi, Ltd.	1,600	12.95
NEC Corporation	1,049	8.49
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,023	8.28
Sumitomo Mitsui Banking Corporation	614	4.98
MUFG Bank, Ltd.	455	3.69
Custody Bank of Japan, Ltd. (Trust Account)	421	3.41
Meiji Yasuda Life Insurance Company	266	2.16
Sumitomo Life Insurance Company	265	2.14
Sumitomo Mitsui Trust Bank, Limited	251	2.03
San ju San Bank, Ltd.	250	2.03

Notes: 1. The number of shares held by Custody Bank of Japan, Ltd. (trust account) includes 162,400 shares of the Company which are trust property of the trust in relation to the performance-based stock compensation plan for Directors (excluding External Directors).

2. The Company has 3,926,637 shares of treasury stock, but is excluded from the major shareholders above.

3. Shareholding ratio is calculated with treasury stock excluded.

## (5) Shares Issued As Compensation for Execution of Duties in the Consolidated Fiscal Year Under Review

	No. of Shares	No. of Persons Issued Shares
Directors (excluding External Directors)	9,000	1

## III. Stock Acquisition Rights, etc.

Not applicable.

#### IV. Directors and Audit & Supervisory Board Members

##### (1) Status of Directors and Audit & Supervisory Board Members (as of March 31, 2023)

Position	Name	Responsibility Within the Company	Important Concurrent Roles, etc.
Representative Director, CEO	Mitsumasa Matsunaga		
Representative Director, COO	Toshiro Suzuki	In charge of Auditing Office	
Director, Senior Operating Officer	Fumihide Kitamura	Supervisor of Device Business	
Director, Senior Operating Officer	Yuji Mori	Senior General Manager of Solution Marketing & Sales Division	
Director, Senior Operating Officer	Koji Sakamoto	Senior General Manager of Administration Division	
Director, Senior Operating Officer	Mitsuhiro Ogawa	Deputy Supervisor of Device Business	
Director, Operating Officer	Hiroshi Harada	Deputy Senior General Manager of Solution Marketing & Sales Division	
Director, Operating Officer	Jun-ichi Murakami	Senior General Manager of Finance & Accounting Division	
Director	Takeshi Uchimura		
Director	Minoru Nishino		External Director of Mori-Gumi Co., Ltd.
Director	Tatsuo Takeuchi		
Director	Akihiro Fujioka		
Audit & Supervisory Board member (Full-time)	Akio Misono		
Audit & Supervisory Board member (Full-time)	Shin-ichi Miura		
Audit & Supervisory Board member	Shohei Yamamoto		Lawyer of Marunouchi-Chuo Law Office, External Director of Narasaki Sangyo Co., Ltd., Audit & Supervisory Board member of MegaHouse Corporation, External Audit & Supervisory Board member of Bandai Co., Ltd., External Audit & Supervisory Board member of Toin Corporation
Audit & Supervisory Board member	Kuniharu Kezuka		Certified public accountant and tax accountant of Kezuka Accounting Office

Notes: 1. Takeshi Uchimura, Minoru Nishino, Tatsuo Takeuchi and Akihiro Fujioka serve as External Directors, while Shohei Yamamoto and Kuniharu Kezuka serve as External Audit & Supervisory Board members. Also, the Company has designated all six of them as Independent Directors and Audit & Supervisory Board members as per the provisions of the Tokyo Stock Exchange, and has given notice to this effect to the Stock Exchange. The Company has engaged in sales transactions with Pioneer Corporation, the former place of employment for Tatsuo Takeuchi. However, the transaction amount was an insignificant amount that was less than 1% of the Group's consolidated net sales. Therefore, we have judged that independence from management of the Company has been secured.

2. Kuniharu Kezuka is qualified as a certified public accountant and certified tax accountant, and has a considerable degree of knowledge about financial and accounting matters.
3. The Company has no special relationships with the entities listed above in which the External Directors and External Audit & Supervisory Board members hold important concurrent positions.
4. During this consolidated fiscal year, the Directors' positions and responsibilities within the Company were changed as follows:

Name	Before change	After change	Date of change
Fumihide Kitamura	Director, Senior Operating Officer, Supervisor of Device Business Group/In charge of Business Administration Department and IoT Business Unit/General Manager of Business Administration Department	Director, Senior Operating Officer, Supervisor of Device Business Group/In charge of Business Administration Department and IoT Business Unit/General Manager of Business Administration Department and Director of IoT Business Unit	April 1, 2022
Fumihide Kitamura	Director, Senior Operating Officer, Supervisor of Device Business Group/In charge of Business Administration Department and IoT Business Unit/General Manager of Business Administration Department and Director of IoT Business Unit	Director, Senior Operating Officer, Supervisor of Device Business	June 1, 2022
Mitsuhiro Ogawa	Director, Senior Operating Officer, in charge of CE Unit, Semiconductor Engineering Unit, and Electronic Components Sales Promotion Unit in Device Business Group/Director of CE Unit	Director, Senior Operating Officer, Deputy Supervisor of Device Business	June 1, 2022
Akio Misono	Director, Senior Operating Officer, Senior General Manager of Finance & Accounting Division	Audit & Supervisory Board member (Fulltime)	June 28, 2022

5. The following table shows information on officers who retired during this consolidated fiscal year.

Name	Date of retirement	Retirement reason	Title, duties and important concurrent roles, etc., at the time of retirement
Keiji Nishio	June 28, 2022	End of term	Audit & Supervisory Board member (Fulltime)

## (2) Overview of Limited Liability Contract

Pursuant to Article 427, Paragraph 1 of the Companies Act, the Company entered into an agreement respectively with Takeshi Uchimura, Minoru Nishino, Tatsuo Takeuchi, Akihiro Fujioka, Akio Misono, Shin-ichi Miura, Shohei Yamamoto and Kuniharu Kezuka, which limits their liability for damages prescribed in Article 423, Paragraph 1 of the same Act. The limit on their liability for damages under the agreement coincides with the legally stipulated amounts.

## (3) Overview of Liability Insurance Contract for Officers, etc.

Pursuant to Article 430, Paragraph 3, Item 1 of the Companies Act, the Company has entered into a liability insurance contract for Directors, Audit & Supervisory Board members, Operating Officers, employees in management positions, and persons dispatched to another company as officers. The Company pays the full amount of the insurance premiums. The overview of the insurance contract is that the insurance company will pay compensation for damages that may occur when an insured individual is held responsible for the execution of his/her duties or is subject to a charge of liability for pursuing those responsibilities. The contract will be renewed every year.

Damages caused when an insured individual violates laws or regulations are exempt from the insurance contract. Furthermore, we are taking measures to ensure that insured persons can execute their duties properly; for example, setting a limit on the amount to be covered.

We plan to renew the insurance contract with the same contents at the next renewal period.

## (4) Compensation to Be Paid to Directors and Audit & Supervisory Board Members

### 1) Total compensation for this fiscal year

Post	Total amount of compensation, etc.	Total amount of compensation, etc., by type			Number of applicable officers
		Basic compensation	Performance-based allowance for bonuses to employees	Performance-based allowance for stock compensation	
Directors	¥227 million	¥129 million	¥61 million	¥36 million	13
(External Directors)	(¥26 million)	(¥26 million)	(—)	(—)	(4)
Audit & Supervisory Board members	¥45 million	¥45 million	—	—	5
(External Audit & Supervisory Board members)	(¥12 million)	(¥12 million)	(—)	(—)	(2)
Total	¥273 million	¥175 million	¥61 million	¥36 million	18

Notes: 1. The number listed above includes Directors and Audit & Supervisory Board members who retired upon conclusion of the 71st Ordinary General Meeting of Shareholders held on June 28, 2022.

2. The amount of compensation for Directors does not include the salaries of Directors who concurrently serve as employees.

3. The upper limit on the total amount of compensation to be paid to Directors was set at ¥420 million per year (excluding the employee salaries) at the 56th Ordinary General Meeting of Shareholders held on June 22, 2007.



The number of Directors at the conclusion of this General Meeting of Shareholders was 12 (including 0 External Directors).

4. In regards to stock compensation that is established in addition to monetary compensation, for Directors excluding External Directors, we established a share settlement trust with a total limit of 50,000 points (1 point = 1 share of the Company's ordinary shares) per year based on the resolution at the 66th Ordinary General Meeting of Shareholders held on June 23, 2017. The period of the trust is 5 years from August 2017 to August 2022, and the maximum contribution amount is ¥200 million (equivalent to ¥40 million per year). If the trust period is extended, this General Meeting of Shareholders also made a decision on contribution to the trust up to a maximum amount calculated by multiplying the number of years of the extension by ¥40 million, and on continuing the maximum number of points granted per year. (At the Board of Directors meeting held on June 15, 2022, the Company resolved to extend the trust period until August 31, 2027 and to continue the system.)The number of Directors at the conclusion of this General Meeting of Shareholders was 9 (excluding 3 External Directors who are not eligible for stock compensation).
5. The upper limit on the total amount of compensation to be paid to Audit & Supervisory Board members was set at ¥50 million per year at the 42nd Ordinary General Meeting of Shareholders held on December 21, 1993. The number of Audit & Supervisory Board members at the conclusion of this General Meeting of Shareholders was 2. The Company abolished the bonus system for Audit & Supervisory Board members in the 54th term.
6. The Company establishes ordinary profit as the indicator for performance-based bonuses and ROE as the indicator for performance-based stock compensation. Changes for results of these indicators are shown in "I. Matters Concerning the Current Status of the Corporate Group" – "(5) Trends in Assets and Operating Results of the Company."

## **2) Retirement benefits paid to retired Directors and Audit & Supervisory Board members for this fiscal year**

At the 55th Ordinary General Meeting of Shareholders, which was held on June 23, 2006, approval was given for discontinuing payments in line with abolishing the retirement benefit system for Directors and Audit & Supervisory Board members. Following the resolution, there has been no retirement benefit paid for this fiscal year.

## **(5) Policies, etc., Related to the Determination of Contents for Compensation, etc., of Officers**

At the Board of Directors meeting held on June 24, 2016, the Company resolved policies for determining the content of compensation, etc., for individual Directors. When making a resolution to the Board of Directors, we consult in advance with the Nomination and Remuneration Advisory Committee, for which half of members are Independent Directors and Audit & Supervisory Board members, and receive reports on the contents of said consultation. Furthermore, the system in the Director Compensation Rules is designed so that the contents of individual compensation, etc., for Directors are calculated based on those policies, so the Board of Directors judges that the contents of compensation, etc., for individual Directors in the consolidated fiscal year under review are in accordance with those policies. The Board of Directors shall consult with the Nomination and Remuneration Advisory Committee every year regarding the validity of the Director Compensation Rules, and shall deliberate and decide on necessary measures based on reports from the Committee.

The contents of policies for determining the contents of compensation for individual Directors are as follows.

**1) Basic policy**

- Compensation for Directors shall be appropriate, and shall be sufficient for attracting and retaining diverse, talented personnel.
- Compensation for Directors shall enable Directors to continuously improve corporate value and share interests with the Company's shareholders.
- Measures shall be taken to ensure that the process of determining compensation for Directors is fair and transparent.
- Compensation for Directors shall consist of basic compensation, which is fixed compensation as payment for role and execution of duties, and performance-based compensation, which is linked to business performance. However, performance-based compensation is not appropriate for non-executive Directors, including External Directors who are independent of business execution; therefore, only basic compensation is used for non-executive Directors.

**2) Policy regarding basic compensation**

Basic compensation for Directors of the Company shall be a fixed monthly compensation. The amount of compensation shall be set within the range for each position stipulated in the Director Compensation Rules, taking into consideration the appropriate level.

**3) Policy regarding performance-based compensation, etc., and non-monetary compensation, etc.**

- The Company establishes the return on equity (ROE) and ordinary profit as the Company's important business indicators, and strives to improve these indicators. Therefore, the Company also uses these indicators for performance-based compensation, etc., and non-monetary compensation, etc., for executive Directors.
- Business indicators related to bonuses as short-term incentives shall be the consolidated ordinary profit and business profit (loss) by business segment for the applicable fiscal year. The amount of individual bonuses is calculated by multiplying the basic compensation amount of each Director by the factor stipulated in the Director Compensation Rules according to the results of each business index and the individual contribution evaluation. After being determined, the amount is paid after the Ordinary General Meeting of Shareholders for that fiscal year.
- The business indicator for stock-based compensation as a medium- to long-term incentive shall be the return on equity (ROE) for the fiscal year in which the compensation is issued. The number of shares to be individually issued is assigned after converting the basic compensation amount for each Director and the ROE performance in each fiscal year into points by using the methods specified in the Share Issuance Regulations, and the number of shares of the Company are issued at the time of leaving the position based on the cumulative number of points earned during time spent serving in that position.
- For these two indicators, a lower limit (no payment) and an upper limit are set. Director compensation is paid according to performance, within the upper and lower limits.

**4) Policy for ratio of compensation, etc.**

The ratio of performance-based compensation, etc., and non-monetary compensation, etc., is designed to be about 30%

of the total compensation for Directors at the upper limit of the current system.

**5) Items related to determination of compensation, etc.**

Pursuant to the Director Compensation Rules, the Board of Directors delegates the determination of the compensation amount, etc., for each Director to the Representative Directors.

**(6) Items Related to Delegating the Determination of Compensation, etc., for Officers**

Pursuant to the Director Compensation Rules, the Board of Directors delegates the determination of the individual compensation amount for each director to Representative Director & CEO Mitsumasa Matsunaga and Representative Director & COO Toshiro Suzuki. When deciding the contents of delegation, the Nomination and Remuneration Advisory Committee confirms that the contents comply with the Director Compensation Rules.

**(7) Matters Concerning External Directors and Audit & Supervisory Board Members**

**1) State of significant posts held concurrently at other corporations, and relations between the Company and such other corporations**

Please see the above “(1) Status of Directors and Audit & Supervisory Board Members” section.

**2) Major activities in the fiscal year under review**

- Status of attendance at meetings of the Board of Directors and the Audit & Supervisory Board

	Board of Directors Meetings (a total of 13 meetings)		Audit & Supervisory Board Meetings (a total of 16 meetings)	
	Number of Meetings Attended	Attendance Rate	Number of Meetings Attended	Attendance Rate
Director Takeshi Uchimura	13	100%	—	—
Director Minoru Nishino	12	92%	—	—
Director Tatsuo Takeuchi	13	100%	—	—
Director Akihiro Fujioka	13	100%	—	—
Audit & Supervisory Board member Shohei Yamamoto	13	100%	16	100%
Audit & Supervisory Board member Kuniharu Kezuka	13	100%	16	100%

- Statements made by Directors at the Board of Directors and summary of duties performed in relation to their expected roles

Takeshi Uchimura, Minoru Nishino, Tatsuo Takeuchi and Akihiro Fujioka provided a wide range of valuable

comments and advice in terms of corporate governance, risk analysis and evaluation in the course of business operation, compensation system for the Directors, election of any Directors, and overall management based on their abundant experience and achievements in corporate management at another listing companies.

Furthermore, as members of the Nomination and Remuneration Advisory Committee, the four Directors fulfill an important role in strengthening the independence, objectivity, and accountability of functions of the Board of Directors as expected by the Company; for example, they are involved in reporting to the Board of Directors in regards to the nomination of candidates for Directors and Audit & Supervisory Board members and in regards to the determination of Director compensation.

- Statements made by Audit & Supervisory Board members at the Board of Directors and at Audit & Supervisory Board meetings

Shohei Yamamoto and Kuniharu Kezuka provided comments effective and necessary for securing legal compliance of the Company's management from the viewpoints of their positions as a lawyer and as a certified public accountant and certified tax accountant, respectively.

## V. Status of Accounting Auditor

### (1) Name of Accounting Auditor

Deloitte Touche Tohmatsu LLC.

### (2) Amount of Compensation

	Amount to Be Paid
Compensation to be paid to Accounting Auditors for the fiscal year under review	¥47 million
Total of cash and other assets to be paid by the Company and subsidiaries to Accounting Auditors	¥56 million

Notes: 1. Among principal subsidiaries of the Company, overseas subsidiaries were subject to audits by a person other than the Accounting Auditor who audits the Company (overseas certified public accountant or person equivalent to the qualification of auditing firm) (limited to an audit subject to a foreign law equivalent to the Companies Act or the Financial Instruments and Exchange Act of Japan).

2. The auditing contract between the Company and the Accounting Auditors makes no distinction between auditing services based on the Corporate Law and auditing services based on the Financial Instruments and Exchange Law. Since no real distinction can be made in practice, the amount paid represents the total amount.

3. As prescribed in “Practical Guidelines Concerning Cooperation with Accounting Auditors” released by the Japan Audit & Supervisory Board Members Association, the Audit & Supervisory Board has evaluated the status of execution of duties by Accounting Auditors and their audit plan, and after considering the Company’s business results in the previous fiscal year, has agreed with the provisions of Article 399, Paragraph 1 of the Companies Act on matters such as the compensation to be paid to Accounting Auditors.

### (3) Non-Audit Work

The Company entrusts the Accounting Auditor with “an advisory service for disclosure in accordance with TCFD recommendations,” which is a service other than services as provided in Article 2, Paragraph 1 of the Certified Public Accountants Law (non-audit work), and paid compensation for such services to the Accounting Auditor.

### (4) Policy Concerning Decisions to Dismiss or Not to Reappoint Accounting Auditors

When there is any difficulty in execution of duties by the Accounting Auditor and their fulfillment is deemed necessary, the Audit & Supervisory Board shall determine the content of the proposal regarding whether to dismiss or not reappoint the Accounting Auditor to be submitted to the General Meeting of Shareholders. Furthermore, if the Accounting Auditor is deemed to fall under any of the items prescribed in Article 340, Paragraph 1 of the Companies Act, the Audit & Supervisory Board shall dismiss the Accounting Auditor based on consent of all Audit & Supervisory Board members. In this case, the Audit & Supervisory Board member designated by the Audit & Supervisory Board shall report on the dismissal of the Accounting Auditor and the reason thereof at the first General Meeting of Shareholders following the dismissal.

## **VI. System for Securing Appropriateness of Business Operations and the Status of Its Operation**

### **(1) System for Securing Appropriateness of Business Operations**

At the Meeting of the Board of Directors, the Company resolved the following system for securing compliance of directors' execution of duties in line with laws and regulations as well as with the Articles of Incorporation, but also for securing the appropriateness of the business operations of the Company.

#### **1) System for Securing Compliance of Execution of Duties by Directors and Employees with Laws and Regulations and Articles of Incorporation**

- The Company shall set the code of conduct in line with the company creed and philosophy where its directors and employees are required to comply with, and ensure that each and every director and employee is thoroughly informed of this code.
- The Company shall set compliance rules and establish a framework for compliance, including an internal reporting (whistle-blower) system.
- When detecting serious legal violation or other important matters concerning compliance, Directors shall immediately notify Audit & Supervisory Board members and report it at a meeting of the Board of Directors or a corporate management meeting without any delay.
- The Company shall set up an internal audit department that is independent from operational divisions and responsible for auditing the operational processes thereof in order to prevent and detect illegal acts and improve the processes.
- Audit & Supervisory Board members shall be allowed not only to attend meetings of the Board of Directors on a permanent basis but also to participate in other important meetings and committee meetings as necessary. In addition, Audit & Supervisory Board members shall regularly hold meetings to seek the opinions of Accounting Auditors.
- The Company shall stipulate explicitly the obligation to break off relations with antisocial forces in the code of conduct. Furthermore, it shall establish a department to handle such antisocial forces and take all necessary measures such as formulating a communication framework to contact the police and lawyers in the case of emergency, collecting and managing information, preparing regulations and manuals, and so on.

#### **2) System for Storage and Management of Information Concerning Directors' Execution of Duties**

- Directors shall store and manage documents and other information materials concerning their execution of duties appropriately in accordance with the rules set by the Company.
- Directors, Audit & Supervisory Board members and employees at the internal audit department may access such information at any times.

#### **3) Rules Concerning Risk Management**

- The Company has established risk management regulations, and clearly states the risks that it faces.
- Under the directions of its General Risk Committee, which is headed by the company president, the Company manages risk for the entire Group.
- As well as clarifying the supervisory department for each risk, the General Risk Committee sets up individual committees as required, and prepares systems for enabling swift and effective responses to be made when risks arise. Also, the Company formulates a Business Continuity Plan (BCP) that assumes the occurrence of a large-scale

earthquake related disaster.

- The General Risk Committee makes reports to the Board of Directors, as necessary, on the state of responses being made for risks that have arisen.
- Regarding potential risks requiring response, after assessing these, the General Risk Committee reviews the effectiveness of the risk policies and associated management systems, and then reports on their findings to the Board of Directors.

#### **4) System for Securing Efficiency of Execution of Duties by the Group's Directors**

- The Company shall hold a regular meeting of the Board of Directors every month and hold an extraordinary meeting of the Board of Directors as necessary.
- In addition, the Company shall regularly hold a corporate management meeting with the participation of Executive Directors, Full-time Audit & Supervisory Board members and others, for which sufficient deliberations shall be conducted in advance on particularly important matters to be determined by the Board of Directors.
- With regard to the execution of operations based on decisions made at a meeting of the Board of Directors, the divisions and officials in charge thereof as well as the execution procedures shall be determined based on the rules concerning the allocation of operational responsibilities and authorities. Furthermore, by similarly maintaining necessary regulations and providing execution proceedings for each subsidiary, the Company aims to streamline execution of duties by each subsidiary's corresponding director.

#### **5) System for Securing Appropriateness of Operations of the Group**

- All companies belonging to the Sanshin Electronics Group shall be required to comply with the Group creed and philosophy, the code of conduct and the compliance rules, and the Company shall ensure that directors and all employees of its subsidiaries are thoroughly informed. Each subsidiary shall maintain necessary regulations for itself based on the above rules.
- The Sanshin Electronics Group as a whole, including subsidiaries, shall implement measures to cope with the serious risks. Each subsidiary shall maintain necessary regulations for itself based on the above rules.
- Subsidiaries are required to obtain prior approval from and submit reports to the Company with regard to important matters as specified in the rules concerning the supervision of subsidiaries and affiliated companies.
- The Company shall regularly provide directors and employees of subsidiaries with opportunities to have the Company's Directors and Audit & Supervisory Board members reporting on the execution of their respective duties.
- Audit & Supervisory Board members shall conduct necessary audits with regard to subsidiaries, too.

#### **6) Systems for Ensuring the Reliability of Financial Reporting**

- To ensure the reliability of the Group's financial reporting and the effective and appropriate submission of the internal control reports, the Company shall set the Internal Control Management Regulations and introduce the framework to evaluate the effectiveness of the internal control system on a regular basis and to correct inadequacies, if any.

## **7) System for Accommodating Audit & Supervisory Board Members' Requests for Assistant Employees and Independence of Said Employees from Directors**

- Audit & Supervisory Board members shall be given the authority to issue instructions to the internal audit division with regard to matters necessary for their auditing activities.
- Concerning instructions received from Audit & Supervisory Board members with regard to matters necessary for their auditing activities, employees at the internal audit department shall not be bound by the chain of command leading down from Directors.
- The Company shall respect the Audit & Supervisory Board members' opinions with regard to matters related to the appointment, transfer, evaluation, disciplinary actions and so forth, of the employees at the internal audit department.

## **8) Systems for Reporting by Directors and Employees to Audit & Supervisory Board Members and for Securing Effective Audits by Audit & Supervisory Board Members**

- Audit & Supervisory Board members shall be given the authority to request necessary reports from directors and employees at any time.
- The Representative Directors shall provide the Audit & Supervisory Board members with opportunities to exchange opinions with them regularly.
- The internal audit department shall make sure to submit reports to Audit & Supervisory Board members after conducting audits of operations, etc.

The Company shall establish an appropriate system for the reporting of matters concerning compliance, such as legal violation, to Audit & Supervisory Board members by setting compliance rules.

- Any disadvantageous treatment given to Directors and Employees who contribute through reports to audits by Audit & Supervisory Board members, or to Directors, Audit & Supervisory Board members and Employees of subsidiaries is prohibited.
- When Audit & Supervisory Board members request to the Company the payment in advance for the expenses related to the execution of their auditing duties, the Company shall pay such costs or amortize the liability immediately. Moreover, in order to pay the expenses incurred in the execution of duties by Audit & Supervisory Board members, the Company shall allocate a certain amount of budget each year.

## **(2) Outline of the Status of Operation of the System for Securing Appropriateness of Business Operations**

The status of operation of the system for securing appropriateness of business operations is shown as below.

- The Company has set a code of conduct its directors and employees are required to comply with, and is currently taking thorough measures to make this code known by everyone at the training for new employees, as well as through periodic publications in the Company's newsletter, postings within offices, or by distributing cards internally. Furthermore, in order to assess the implementation status of this code of conduct, the Company regularly conducts an employee questionnaire. The results of the questionnaire are reported to the Board of Directors and the degree of awareness toward the code of conduct is confirmed.
- The Company has established internal reporting regulations which define items including confidentiality of whistle-blowers, prohibition of disadvantageous treatment of whistle-blowers, and prohibition of handling of reported incidents by individuals who are personally involved in said incidents. The Company operates an internal control



system. Furthermore, in order to strengthen independence from management, the Company includes all Audit & Supervisory Board members in the reporting contact point.

- The Company has established an Auditing Office as its internal auditing department. Currently, three dedicated staffs are stationed at the Auditing Office as of the date of creation for this business report. After conducting an operational audit, the Auditing Office submits an auditing report to the Representative Directors and to Audit & Supervisory Board members. Furthermore, the Audit & Supervisory Board members and Auditing Office hold meetings as necessary. Audit & Supervisory Board members gather information from the Auditing Office; for example, requesting reports on the status of the internal control system and related auditing results. Audit & Supervisory Board members also provide instruction and recommendations to the Auditing Office.
- Audit & Supervisory Board members shall attend the meetings of the Board of Directors. Furthermore, Full-time Audit & Supervisory Board members shall attend management and executive committee meetings, management strategy meetings and other important gatherings on a permanent basis. In addition to holding deliberation with Accounting Auditors at the beginning of the fiscal year under review in order to formulate an audit plan, Audit & Supervisory Board members meet periodically and as necessary, and are present during the performance of accounting audits as necessary.
- The General Risk Committee makes reports to the Board of Directors, as necessary, on the state of responses being made for risks that have arisen. Also, regarding new risks requiring response, after assessing these, the General Risk Committee reports on the effectiveness of the risk policies and associated management systems to the Board of Directors.
- During the period, ordinary meetings of the Board of Directors were held 13 times.
- The scope of matters to be resolved by the Board of Directors was limited to legal matters and fundamental matters of the Company (disposal of important assets such as investments, corporate code of conduct, corporate philosophy, code of conduct, establishment/revision of basic management policies and management plans, items related to corporate governance, etc.). Other matters shall be delegated to corporate management meetings and executive directors, and action shall be taken in accordance with rules. In regards to the executions of said actions, executive directors shall report to the Board of Directors as necessary. Through these reports, the Board of Directors shall supervise the decision-making and business operation of executive directors.
- Audit & Supervisory Board members perform accounting audits in important subsidiaries in Japan, and visit important overseas subsidiaries for periodic audits.
- In accordance with the Internal Control Management Regulations, the Internal Control Committee meets once every quarter. In order to evaluate the effectiveness of internal controls at the Company, the Internal Control Committee considers the self-assessment results of self-inspection and the results of independent evaluation by the Auditing Office. Results are reported to the COO.
- Representative Directors meet periodically with Audit & Supervisory Board members and Independent External Directors in order to exchange opinions. Furthermore, separate meetings are held between Audit & Supervisory Board members and Independent External Directors in order to exchange opinions.

## Consolidated Financial Statements

### CONSOLIDATED BALANCE SHEET

Sanshin Electronics Co., Ltd.

As of March 31, 2023

	Millions of yen
<b>ASSETS</b>	
<b>Current assets:</b>	
Cash and deposits	8,893
Notes and accounts receivable–trade, and contract assets	35,779
Electronically recorded monetary claims	1,485
Merchandise inventories	25,002
Partly-finished work	0
Accrued income	61
Consumption taxes receivable	162
Others	1,219
Allowance for doubtful accounts	(32)
Total current assets	72,572
<b>Non-current assets:</b>	
<b>Property and equipment</b>	
Buildings and structures	1,246
Land	1,135
Leased assets	159
Others	76
Total property and equipment	2,617
<b>Intangible assets:</b>	358
<b>Investments and other assets:</b>	
Investment securities	2,767
Deferred tax assets	181
Others	154
Allowance for doubtful accounts	(50)
Total investments and other assets	3,053
Total non-current assets	6,029
<b>TOTAL</b>	<b>78,601</b>

Note: Figures are rounded down to the nearest million yen.

**CONSOLIDATED BALANCE SHEET**

Sanshin Electronics Co., Ltd.

As of March 31, 2023

	Millions of yen
<b>LIABILITIES AND NET ASSETS:</b>	
<b>LIABILITIES:</b>	
<b>Current liabilities:</b>	
Notes and accounts payable–trade	13,858
Short-term loans payable	26,828
Lease obligations	67
Accrued corporate tax, etc.	958
Allowance for bonuses to employees	576
Allowance for bonuses to Directors and Audit & Supervisory Board members	61
Others	1,361
Total current liabilities	43,712
<b>Non-current liabilities:</b>	
Lease obligations	92
Deferred tax liabilities	21
Allowance for stock compensation	136
Net defined benefit liabilities	281
Others	104
Total non-current liabilities	636
Total liabilities	44,348
<b>NET ASSETS:</b>	
<b>Shareholders' equity:</b>	
Capital stock	14,811
Capital surplus	16
Retained earnings	25,255
Treasury stock	(8,777)
Total shareholders' equity	31,305
<b>Accumulated other comprehensive income:</b>	
Valuation difference on available-for-sale securities	568
Deferred hedge gains (losses)	44
Foreign currency translation adjustments	2,424
Remeasurements of defined benefit plans	(160)
Total accumulated other comprehensive income	2,877
<b>Non-controlling interests</b>	69
Total net assets	34,252
<b>TOTAL</b>	<b>78,601</b>

Note: Figures are rounded down to the nearest million yen.

**CONSOLIDATED PROFIT AND LOSS STATEMENT**

Sanshin Electronics Co., Ltd.

For the year ended March 31, 2023

	Millions of yen	
Net sales		161,107
Cost of sales:		144,231
Gross profit on sales		16,876
Selling, general and administrative expenses:		10,028
Operating profit		6,847
Non-operating profit:		
Interest income	38	
Dividend income	42	
Others	90	171
Non-operating expenses:		
Interest expenses	753	
Sales discounts	26	
Foreign exchange losses	690	
Others	37	1,508
Ordinary profit		5,511
Extraordinary profits:		
Gain on sales of non-current assets	0	
Gain on sales of investment securities	31	31
Extraordinary losses:		
Loss on retirement of non-current assets	4	
Loss on sales of investment securities	1	
Loss on valuation of investment securities	178	185
Net profit before tax and other adjustments		5,357
Corporate, resident and enterprise taxes	1,546	
Adjustment for corporate tax, etc.	(37)	1,508
Net profit		3,848
Net profit attributable to non-controlling interests		15
Net profit attributable to shareholders of parent company		3,832

Note: Figures are rounded down to the nearest million yen.

## CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Sanshin Electronics Co., Ltd.

For the year ended March 31, 2023

Millions of yen

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2022	14,811	-	22,654	(8,773)	28,692
Changes during the term					
Dividends of surplus			(1,231)		(1,231)
Net profit attributable to shareholders of parent company			3,832		3,832
Purchase of treasury stock				(0)	(0)
Disposal of treasury stock				12	12
Purchase of treasury stock via Board Benefit Trust				(99)	(99)
Disposal of treasury stock for Board Benefit Trust		16		83	99
Net changes of items other than shareholders' equity					
Total changes during the term	-	16	2,600	(3)	2,613
Balance as of March 31, 2023	14,811	16	25,255	(8,777)	31,305

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred hedge gains (losses)	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance as of April 1, 2022	567	(117)	1,512	(23)	1,937	53	30,683
Changes during the term							
Dividends of surplus							(1,231)
Net profit attributable to shareholders of parent company							3,832
Purchase of treasury stock							(0)
Disposal of treasury stock							12
Purchase of treasury stock via Board Benefit Trust							(99)
Disposal of treasury stock for Board Benefit Trust							99
Net changes of items other than shareholders' equity	1	162	912	(136)	939	15	955
Total changes during the term	1	162	912	(136)	939	15	3,568
Balance as of March 31, 2023	568	44	2,424	(160)	2,877	69	34,252

Note: Figures are rounded down to the nearest million yen.

Non-Consolidated Financial Statements

**NON-CONSOLIDATED BALANCE SHEET**

Sanshin Electronics Co., Ltd.

As of March 31, 2023

	Millions of yen
<b>ASSETS</b>	
<b>Current assets:</b>	
Cash and deposits	4,445
Trade notes	34
Electronically recorded monetary claims	1,485
Accounts receivable–trade and contract assets	19,888
Merchandise inventories	11,432
Partly-finished work	0
Advance payment	338
Prepaid expenses	154
Accrued income	144
Consumption taxes receivable	162
Others	73
Allowance for doubtful accounts	(0)
Total current assets	38,161
<b>Non-current assets:</b>	
<b>Property and equipment:</b>	
Buildings	1,239
Structures	2
Tools and fixtures	49
Land	1,135
Leased assets	123
Total property and equipment	2,551
<b>Intangible assets:</b>	
Software	227
Others	60
Total intangible assets	287
<b>Investments and other assets:</b>	
Investment securities	2,650
Stocks of subsidiaries and affiliates	3,557
Guarantee money deposit	17
Deferred tax assets	72
Prepaid pension costs	47
Others	34
Allowance for doubtful accounts	(10)
Total investments and other assets	6,370
Total non-current assets	9,209
<b>TOTAL</b>	<b>47,370</b>

Note: Figures are rounded down to the nearest million yen.

**NON-CONSOLIDATED BALANCE SHEET**

Sanshin Electronics Co., Ltd.

As of March 31, 2023

	Millions of yen
<b>LIABILITIES AND NET ASSETS:</b>	
<b>LIABILITIES:</b>	
<b>Current liabilities:</b>	
Trade notes	935
Trade accounts	11,153
Short-term loans payable	14,575
Lease obligations	49
Accounts payable	223
Accrued expenses	195
Accrued corporate tax, etc.	456
Advance received	475
Allowance for bonuses to employees	576
Allowance for bonuses to Directors and Audit & Supervisory Board members	61
Others	83
Total current liabilities	28,786
<b>Non-current liabilities:</b>	
Lease obligations	73
Allowance for stock compensation	136
Others	104
Total non-current liabilities	314
Total liabilities	29,100
<b>NET ASSETS:</b>	
<b>Shareholders' equity:</b>	
Capital stock	14,811
Capital surplus	16
Other capital surplus	16
Retained earnings	11,605
Retained surplus	221
Other retained earnings	11,384
Reserve for dividend payments	600
Retained earnings brought forward	10,784
Treasury stock	(8,777)
Total shareholders' equity	17,656
<b>Valuation and translation adjustments:</b>	
Valuation difference on available-for-sale securities	568
Deferred hedge gains (losses)	44
Total valuation and translation adjustments	613
Total net assets	18,269
<b>TOTAL</b>	<b>47,370</b>

Note: Figures are rounded down to the nearest million yen.

## NON-CONSOLIDATED PROFIT AND LOSS STATEMENT

Sanshin Electronics Co., Ltd.

For the year ended March 31, 2023

		Millions of yen
Net sales		104,800
Cost of sales:		95,986
Gross profit on sales		8,813
Selling, general and administrative expenses:		7,134
Operating profit		1,679
Non-operating profit:		
Interest and dividend income	1,371	
Foreign exchange gains	19	
Management consulting fees	240	
Others	42	1,674
Non-operating expenses:		
Interest expenses	256	
Others	33	289
Ordinary profit		3,063
Extraordinary profits:		
Gain on sales of non-current assets	0	
Gain on sales of investment securities	6	6
Extraordinary losses:		
Loss on retirement of non-current assets	4	
Loss on sales of investment securities	1	
Loss on valuation of investment securities	178	185
Net profit before tax and other adjustments		2,884
Corporate, resident and enterprise taxes	616	
Adjustment for corporate tax, etc.	6	622
Net profit		2,262

Note: Figures are rounded down to the nearest million yen.



**NON-CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
**Sanshin Electronics Co., Ltd.**  
**For the year ended March 31, 2023**

Millions of yen

	Shareholders' equity								
	Capital stock	Capital surplus		Retained earnings				Treasury stock	Total shareholders' equity
		Other capital surplus	Total capital surplus	Retained surplus	Other retained earnings		Total retained earnings		
					Reserve for dividend payments	Retained earnings brought forward			
Balance as of April 1, 2022	14,811	-	-	98	600	9,876	10,575	(8,773)	16,613
Changes during the term									
Dividends of surplus						(1,231)	(1,231)		(1,231)
Provision of retained surplus				123		(123)	-		-
Net profit						2,262	2,262		2,262
Purchase of treasury stock								(0)	(0)
Disposal of treasury stock								12	12
Purchase of treasury stock via Board Benefit Trust								(99)	(99)
Disposal of treasury stock for Board Benefit Trust		16	16					83	99
Net changes of items other than shareholders' equity									
Total changes during the term	-	16	16	123	-	907	1,030	(3)	1,042
Balance as of March 31, 2023	14,811	16	16	221	600	10,784	11,605	(8,777)	17,656

	Valuation and translation adjustments			Total net assets
	Valuation difference on available-for-sale securities	Deferred hedge gains (losses)	Total valuation and translation adjustments	
Balance as of April 1, 2022	567	(117)	449	17,062
Changes during the term				
Dividends of surplus				(1,231)
Provision of retained surplus				-
Net profit				2,262
Purchase of treasury stock				(0)
Disposal of treasury stock				12
Purchase of treasury stock via Board Benefit Trust				(99)
Disposal of treasury stock for Board Benefit Trust				99
Net changes of items other than shareholders' equity	1	162	164	164
Total changes during the term	1	162	164	1,207
Balance as of March 31, 2023	568	44	613	18,269

Note: Figures are rounded down to the nearest million yen.

# Audit Report

Report of the audit of the consolidated accounts by Accounting Auditors

## Independent Auditor's Report

May 9, 2023

To the Board of Directors of Sanshin Electronics Co., Ltd.:

### Deloitte Touche Tohmatsu LLC, Tokyo Office

Hirotsugu Mizuno

Designated and Engagement Limited Partner

Certified Public Accountant

Akiko Fujiharu

Designated and Engagement Limited Partner

Certified Public Accountant

#### Auditors' opinions

Pursuant to Article 444, Paragraph 4 of the Companies Act, we have audited the consolidated financial statements, which consist of the consolidated balance sheet, consolidated profit and loss statement, consolidated statement of changes in shareholders' equity and notes to consolidated financial statements, of Sanshin Electronics Co., Ltd., (the "Company") for the consolidated fiscal year from April 1, 2022 to March 31, 2023.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Company and its consolidated subsidiaries for the related consolidated fiscal year, and the consolidated results of their operations and their cash flows for the years then ended in conformity with corporate accounting standards generally accepted in Japan.

#### Basis for Auditors' opinions

We have carried out the audit in compliance with auditing standards generally recognized as fair and appropriate in Japan. Our responsibilities under these standards are stated in the "Responsibilities of Auditors in the auditing of consolidated financial statements." In accordance with applicable regulations related to occupational ethics in Japan, we are independent from the Company and its consolidated subsidiaries and fulfill all other ethical responsibilities as Auditors. We believe that the audit evidence we have obtained is sufficient and appropriate, and provides a reasonable basis for our opinions.

#### Other content

Other contents are the business report and its detailed statements. The Company's management is responsible for preparing and disclosing other content. Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for monitoring the Directors' execution of their work operations concerning reporting process preparation and implementation for other content.

Other content is not included in the Auditors' opinion on the consolidated financial statements. We do not express an opinion on the other content.

The responsibility of us in the audit of consolidated financial statements is to read through other content and, during the process of reading through, to examine whether there are any significant differences between other content and the consolidated financial statements or the knowledge gained by us during the audit process, and to pay attention to any other signs of significant error in other content other than those significant differences.

Based on the work performed, if we judge that there are significant errors in other content, we are required to report on those facts.

There are no matters related to other content that require reporting by us.

Responsibilities of the Company's management, Audit & Supervisory Board members, and the Audit & Supervisory Board for preparation of consolidated financial statements

The Company's management is responsible for preparing and fairly presenting these consolidated financial statements in accordance with corporate accounting standards generally accepted in Japan. This includes designing and operating internal controls judged by management as necessary to prepare and fairly present consolidated financial statements that are free from material misstatements due to fraud or error.

In the course of drafting consolidated financial statements, management is responsible for assessing whether it is appropriate to prepare the consolidated financial statements based on the premise of a going concern and disclosing the applicable information for matters related to said going concern when necessary based on corporate accounting standards which are generally accepted in Japan.

The Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for monitoring the Directors' execution of their work operations concerning financial reporting process preparation and implementation.

Responsibilities of Auditors in the auditing of consolidated financial statements

For the audits they perform, Auditors are responsible for acquiring a reasonable guarantee based on the audits they performed that there is no fraud or error within the consolidated financial statements as a whole which results in material misstatements and expressing an opinion on the applicable consolidated financial statements from their independent perspective within their audit report. Misstatements can occur as a result of fraud or error, and when these misstatements can reasonably be considered to affect the decision-making of consolidated financial statement users either individually or in total, they are determined to be material.

Auditors carry out the following auditing process in compliance with auditing standards generally recognized as fair and appropriate in Japan, using their professional and specialist judgment and maintaining a sense of professional skepticism in their work.

- Auditors identify and evaluate the risk of material misstatements resulting from fraud or error. Auditors also propose and implement auditing procedures for handling risks of these material misstatements. Selection and application of auditing procedures are carried out at the discretion of the Auditor. In addition, Auditors acquire audit evidence that is both sufficient and appropriate as a basis for stating their opinions.
- Expressing an opinion on the effectiveness of internal controls is not the purpose of auditing consolidated financial statements. However, Auditors consider internal controls related to the audit as part of their risk evaluations in order to formulate appropriate auditing procedures to fit the circumstances.
- Auditors evaluate the appropriateness of the accounting policy chosen by the management and the methods for its application, as well as the reasonableness of accounting estimates carried out by management and the validity of related explanatory notes.
- Auditors evaluate whether it is appropriate for the management to draft consolidated financial statements on the premise of a going concern. They also come to a conclusion regarding whether major uncertainties can be recognized related to matters or circumstances giving rise to serious doubts concerning the premise of a going concern based on

evidence acquired through the auditing process. If major uncertainties concerning the premise of a going concern can be recognized, Auditors caution consolidated financial statement users on this point in their audit reports, calling for attention to the explanatory notes. In addition, if the explanatory notes in the consolidated financial statements related to the applicable major uncertainty are not appropriate, Auditors are expected to indicate an exception in their opinion statements on the consolidated financial statements. Although the conclusions of Auditors are based on the auditing evidence they acquire up until the date of their audit report, there is still a possibility that a company will be unable to continue its business as a going concern due to future events and circumstances.

- In addition to determining whether the indications and explanatory notes of the consolidated financial statements are in compliance with corporate accounting standards generally accepted in Japan, Auditors also evaluate whether the indications, structure, and content of consolidated financial statements and their related explanatory notes, as well as the transactions and accounting matters on which these statements are based, are presented fairly.
- In order to express an opinion on consolidated financial statements, Auditors must acquire sufficient and appropriate auditing evidence related to financial affairs of the Company and its consolidated subsidiaries. Auditors are responsible for instructions, supervision, and implementation operations related to the auditing of consolidated financial statements. Auditors are solely responsible for their audit opinions.

Auditors will report the planned auditing scope, implementation period, important findings from the auditing process (including major deficiencies identified related to the internal controls), and other matters required by the auditing standards to the Company's Audit & Supervisory Board members and Audit & Supervisory Board.

Auditors will report on their adherence to independence as required by Japan's occupational ethics regulations, matters which could reasonably be considered to affect this independence, and the content of any safeguards measures implemented for the removal or mitigation of obstructing factors to the Company's Audit & Supervisory Board members and Audit & Supervisory Board.

#### Interest relationships

There are no interest relationships between the Company or consolidated subsidiaries and the auditing firm or between the Company or consolidated subsidiaries and the Designated and Engagement Limited Partners that are required to be reported according to the Certified Public Accountants Act.

## Independent Auditor's Report

May 9, 2023

To the Board of Directors of Sanshin Electronics Co., Ltd.:

### Deloitte Touche Tohmatsu LLC, Tokyo Office

Hirotsugu Mizuno

Designated and Engagement Limited Partner

Certified Public Accountant

Akiko Fujiharu

Designated and Engagement Limited Partner

Certified Public Accountant

#### Auditors' opinions

Pursuant to Article 436, Paragraph 2, Item 1 of the Companies Act, we have audited the financial statements, which consist of the balance sheet, profit and loss statement, statement of changes in shareholders' equity, notes to non-consolidated financial statements, and detailed statements thereof ("financial statements"), of Sanshin Electronics Co., Ltd., (the "Company") for the 72nd fiscal year from April 1, 2022 to March 31, 2023.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations for the related fiscal year in conformity with corporate accounting standards generally accepted in Japan.

#### Basis for Auditors' opinions

We have carried out the audit in compliance with auditing standards generally recognized as fair and appropriate in Japan. Our responsibilities under these standards are stated in the "Responsibilities of Auditors in the auditing of financial statements." In accordance with applicable regulations related to occupational ethics in Japan, we are independent from the Company and fulfill all other ethical responsibilities as Auditors. We believe that the audit evidence we have obtained is sufficient and appropriate, and provides a reasonable basis for our opinions.

#### Other content

Other contents are the business report and its detailed statements. The Company's management is responsible for preparing and disclosing other content. Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for monitoring the Directors' execution of their work operations concerning reporting process preparation and implementation for other content.

Other content is not included in the Auditors' opinion on the financial statements. We do not express an opinion on the other content.

The responsibility of us in the audit of financial statements is to read through other content and, during the process of reading through, to examine whether there are any significant differences between other content and the financial statements or the knowledge gained by us during the audit process, and to pay attention to any other signs of significant

error in other content other than those significant differences.

Based on the work performed, if we judge that there are significant errors in other content, we are required to report on those facts.

There are no matters related to other content that require reporting by us.

#### Responsibilities of the Company's management, Audit & Supervisory Board members, and the Audit & Supervisory Board for preparation of financial statements

The Company's management is responsible for preparing and fairly presenting these financial statements in accordance with corporate accounting standards generally accepted in Japan. This includes designing and operating internal controls judged by management as necessary to prepare and fairly present financial statements that are free from material misstatements due to fraud or error.

In the course of drafting financial statements, management is responsible for assessing whether it is appropriate to prepare the financial statements based on the premise of a going concern and disclosing the applicable information for matters related to said going concern when necessary based on corporate accounting standards which are generally accepted in Japan.

The Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for monitoring the Directors' execution of their work operations concerning financial reporting process preparation and implementation.

#### Responsibilities of Auditors in the auditing of financial statements

For the audits they perform, Auditors are responsible for acquiring a reasonable guarantee based on the audits they performed that there is no fraud or error within the financial statements as a whole which results in material misstatements and expressing an opinion on the applicable financial statements from their independent perspective within their audit report. Misstatements can occur as a result of fraud or error, and when these misstatements can reasonably be considered to affect the decision-making of financial statement users either individually or in total, they are determined to be material.

Auditors carry out the following auditing process in compliance with auditing standards generally recognized as fair and appropriate in Japan, using their professional and specialist judgment and maintaining a sense of professional skepticism in their work.

- Auditors identify and evaluate the risk of material misstatements resulting from fraud or error. Auditors also propose and implement auditing procedures for handling risks of these material misstatements. Selection and application of auditing procedures are carried out at the discretion of the Auditor. In addition, Auditors acquire audit evidence that is both sufficient and appropriate as a basis for stating their opinions.
- Expressing an opinion on the effectiveness of internal controls is not the purpose of auditing financial statements. However, Auditors consider internal controls related to the audit as part of their risk evaluations in order to formulate appropriate auditing procedures to fit the circumstances.
- Auditors evaluate the appropriateness of the accounting policy chosen by the management and the methods for its application, as well as the reasonableness of accounting estimates carried out by management and the validity of related explanatory notes.
- Auditors evaluate whether it is appropriate for the management to draft financial statements on the premise of a going concern. They also come to a conclusion regarding whether major uncertainties can be recognized related to matters or circumstances giving rise to serious doubts concerning the premise of a going concern based on evidence acquired through the auditing process. If major uncertainties concerning the premise of a going concern can be recognized, Auditors caution financial statement users on this point in their audit reports, calling for attention to the explanatory notes. In addition, if the explanatory notes in the financial statements related to the applicable major uncertainty are not appropriate, Auditors are expected to indicate an exception in their opinion statements on the financial statements. Although the conclusions of Auditors are based on the auditing evidence they acquire up until the date of their audit

report, there is still a possibility that a company will be unable to continue its business as a going concern due to future events and circumstances.

- In addition to determining whether the indications and explanatory notes of the financial statements are in compliance with corporate accounting standards generally accepted in Japan, Auditors also evaluate whether the indications, structure, and content of financial statements and their related explanatory notes, as well as the transactions and accounting matters on which these statements are based, are presented fairly.

Auditors will report the planned auditing scope, implementation period, important findings from the auditing process (including major deficiencies identified related to the internal controls), and other matters required by the auditing standards to the Company's Audit & Supervisory Board members and Audit & Supervisory Board.

Auditors will report on their adherence to independence as required by Japan's occupational ethics regulations, matters which could reasonably be considered to affect this independence, and the content of any safeguards measures implemented for the removal or mitigation of obstructing factors to the Company's Audit & Supervisory Board members and Audit & Supervisory Board.

#### Interest relationships

There are no interest relationships between the Company and the auditing firm or between the Company and the Designated and Engagement Limited Partners that are required to be reported according to the Certified Public Accountants Act.

## **Audit & Supervisory Board Members' Report**

The Audit & Supervisory Board (the "Board"), having deliberated on the audit reports prepared by the Audit & Supervisory Board members on the performance of the duties of Directors for the 72nd fiscal year from April 1, 2022 to March 31, 2023 hereby reports on its audit findings as follows:

### 1. Method and Content of the Audit by Audit & Supervisory Board Members and the Board

- (1) The Board established the audit policy and allocation of duties, etc., received reports from Audit & Supervisory Board members on the status of the execution and results of their audits, received reports from Directors and the Accounting Auditors on the status of execution of their duties and requested explanations as needed.
- (2) In compliance with the auditing standards set by the Audit & Supervisory Board and based on the audit policy, assigned duties, etc., each Audit & Supervisory Board member maintained proper communication with Directors, internal audit staff and other employees, and strove to create an environment that supports the collection and audit of information, as well as they conducted audit by the following methods.
  - 1) Attended meetings of the Board of Directors and other important gatherings, received reports from Directors and employees on the status of the execution of their duties, requested explanations as necessary, and examined the situation of the operations and assets of the head office and principal offices. In addition, the Audit & Supervisory Board members also maintained appropriate communication and exchanged information with Directors and Audit & Supervisory Board members of subsidiaries, and received reports about operations from subsidiaries when necessary.
  - 2) In order to ensure the system guaranteeing that the performance of the work of the Directors stipulated in the business reporting is in accordance with laws and ordinances and the Articles of Incorporation, and also to ensure appropriateness of all the other business processes that are required in a group comprising a joint stock company and its subsidiaries, regarding the corporate resolutions on the creation of a system in accordance with Article 100, Paragraphs 1 and 3 of the Enforcement of the Companies Act, as well as regarding the system (internal control system) currently maintained based on the contents of the corporate resolutions concerned, the Audit & Supervisory Board members regularly received reports from Directors, employees, etc., on the current situation of the establishment and the implementation of such system, requested explanations as necessary, and expressed their opinions.
  - 3) In addition, the Audit & Supervisory Board members monitored and verified whether the Accounting Auditors maintained their independence and implemented appropriate audits and received reports from the Accounting Auditors on the status of execution of their duties, and requested explanations as needed. In addition, Audit & Supervisory Board members were informed by the Accounting Auditors that they were developing the "structure and system to ensure that their duties would be executed in a proper manner" (items prescribed in Article 131 of the Corporate Calculation Regulations) in accordance with "Quality Control Standards for Auditing" (Business Accounting Council dated October 28, 2005), and requested explanations as needed.

Based on the aforementioned methods, the Audit & Supervisory Board members examined the Company's business report and its detailed statements, financial statements (non-consolidated balance sheets, non-consolidated profit and loss statement, non-consolidated statement of changes in shareholders' equity and notes to the non-consolidated financial statements), their detailed statements, and consolidated financial statements (consolidated balance sheets, consolidated profit and loss statement, consolidated statement of changes in shareholders' equity and notes to consolidated financial statements) for the fiscal year under review.



## 2. Results of the Audit

### (1) Results of the audit of the business report and its detailed statements

- (a) The business report and its detailed statements present fairly the status of the Company in conformity with the relevant laws and Articles of Incorporation.
- (b) No misconduct or material fact running counter to the relevant laws or Articles of Incorporation has been found with respect to the execution of Directors' duties.
- (c) The content of the resolutions of the Board of Directors on the internal control system are fair and reasonable. No item worthy of special mention has been found with respect to the contents of the business report and the execution of Directors' duties concerning the relevant internal control system.

### (2) Results of the audit of financial statements and their detailed statements

The audit methods adopted and the results of the audit conducted by Deloitte Touche Tohmatsu, Accounting Auditors, are appropriate.

### (3) Results of the audit of consolidated financial statements

The audit methods adopted and the results of the audit conducted by Deloitte Touche Tohmatsu, Accounting Auditors, are appropriate.

May 10, 2023

Audit & Supervisory Board

**Sanshin Electronics Co., Ltd.**

Akio Misono, Full-time Audit & Supervisory Board member

Shin-ichi Miura, Full-time Audit & Supervisory Board member

Shohei Yamamoto, External Audit & Supervisory Board member

Kuniharu Kezuka, External Audit & Supervisory Board member