UPL Limited, Japan

Financial Statements for the Year Ended March 31, 2017 and Independent Auditor's Report

INDEPENDENT AUDITOR'S REPORT

The Directors of
UPL Limited, Japan

We have audited the accompanying balance sheet of UPL Limited, Japan (the "Company") as of March 31, 2017 and the related statement of income and changes in net assets for the year then ended, and notes to the financial statements all expressed in Japanese yen.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of theses financial statements in accordance with Note 2. Basis of Presenting Financial Statements and Note 3. Summary of Significant Accounting Policies to the financial statements and the evaluation whether the accounting policies applied to the preparation of the financial statements are acceptable; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of March 31, 2017, and the results of its operations for the year then ended, in accordance with Note 2. Basis of Presenting Financial Statements and Note 3. Summary of Significant Accounting Policies to the financial statements.

Basis of Accounting
Without modifying our opinion, we draw attention to Note 2. Basis of Presenting Financial Statements and Note 3. Summary of Significant Accounting Policies to the financial statements, which describes the basis of accounting. These financial statements are prepared to assist the Company to meet the requirement of the preparation of the consolidated financial statements of UPL Limited, India and UPL Corporation Limited. As a result, the financial statements may not suitable for another purposes.

Conflicts of Interest
We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

Hikari Audit Corporation
Hikari Audit Corporation
April 15, 2017

Balance Sheet
March 31, 2017 and 2016

Assets	2016	2017
Current Assets:		
Cash	¥ 104,549,572	¥ 75,288,834
Accounts receivable - trade	773,090,619	914,831,196
Accounts receivable - other	1,603,767	1,762,518
Inventories	10,303,398	45,255,881
Prepaid expenses	1,909,375	1,909,375
Advance payments	18,981,461	13,989,310
Deferred tax assets	5,131,000	2,180,000
Suspense payment	-	4,811,071
Total current assets	915,569,192	1,060,028,185
Non-current Assets:		
Property and equipment:		
Leasehold improvement	3,941,847	3,941,847
Furniture and fixtures	7,634,852	7,495,067
Other	327,800	634,943
Accumulated depreciation	(7,905,829)	(8,433,079)
Property and equipment - net	3,998,670	3,638,778
Intangible fixed assets	266,700	498,907
Investments and other assets:		
Investment securities	2,330,869,552	1,302,210,100
Lease deposits	16,832,450	16,832,450
Other deposits	2,000,000	2,000,000
Insurance reserve fund	33,126,816	39,198,595
Golf-club membership	850,000	850,000
Deferred tax assets	14,203,000	19,525,000
Total other assets	2,397,881,818	1,380,616,145
Total non-current assets	2,402,147,188	1,384,753,830
Total	¥3,317,716,380	¥2,444,782,015

	2016	2017
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable - trade	679,698,927	709,218,408
Accounts payable - other	24,623,180	14,223,821
Accrued expenses	43,297,293	-
Income tax payable	18,826,400	6,518,100
Accrued bonuses	9,510,000	6,000,000
Suspense receipt	73,629,189	118,415,520
Other current liabilities	2,736,667	2,758,031
Total current liabilities	852,321,656	857,133,880
Long-term Liabilities		
Long-term borrowings	1,788,274,953	-
Allowance for retirement benefits to directors	31,865,250	49,537,208
Accrued retirement benefits	3,993,000	3,254,845
Total long-term liabilities	1,824,133,203	52,792,053
Total liabilities	2,676,454,859	909,925,933
Net Assets:		
Shareholder's Equity:		
Share Capital	50,000,000	90,000,000
Capital surplus	494,950,000	1,114,950,000
Retained earnings	96,311,521	329,906,082
Total shareholder's equity	641,261,521	1,534,856,082
Total net assets	641,261,521	1,534,856,082
Total	¥3,317,716,380	¥2,444,782,015

Statement of Income
For the years ended March 31, 2017 and 2016

	2016	2017
Revenue	¥3,565,052,270	¥2,843,453,849
Cost of sales	3,231,905,843	2,532,851,484
Gross Profit	333,146,427	310,602,365
Selling, General and Administrative expenses:		
Directors' remuneration	51,500,000	51,840,000
Staff salary	41,809,360	47,463,457
Bonus	7,501,144	4,341,143
Provision for retirement benefits	782,000	1,079,846
Provision for retirement benefits to directors	5,460,250	17,671,958
Accrued bonuses	9,510,000	6,000,000
Temporary staff fees	6,032,482	2,397,054
Legal welfare	11,060,182	13,305,103
Staff welfare expenses	1,528,273	2,473,503
Freight	960,799	1,329,482
Sample cost	1,390,440	270,137
Entertainment	17,662,379	19,260,278
Meeting	6,259,355	6,912,419
Transportation	14,471,285	10,322,045
Travel	14,231,691	8,300,133
Communication	2,856,935	2,844,031
Office supplies	4,011,585	4,751,505
Utilities	349,188	315,040
Subscription	246,054	219,054
Membership fees	3,587,000	3,627,000
Commission	4,413,742	2,896,578
Rent	19,675,360	20,198,940
Lease	1,721,310	1,911,400
Insurance	11,365,136	10,450,951
Sundry taxes	106,200	6,974,850
Outsourcing fees	10,628,396	13,298,805
Professional fees	5,219,000	7,395,000
Training	43,520	33,381
Advertisement	1,823,706	1,409,612
Promotion cost	9,855,556	-
Depreciation and amortization	735,759	777,808
Donation	40,000	100,000
Miscellaneous	14	53,246
Total selling, general and administrative expenses	266,838,101	270,223,759
Operating income	66,308,326	40,378,606
Other Income (Expenses)		
Interest income	37,783	393,194
Other income	16,905,553	17,463,628
Exchange gains (losses)	40,048,217	17,901,447
Interest expenses	(32,774,050)	(32,763,358)
Loss on disposal of fixed assets	(2)	(10,120)
Loss on valuation of investment securities	(3,639,900)	(1,028,659,452)
Other expenses	-	(619,296)
Other Income (expenses) – net	20,577,601	(1,026,293,957)
Income (loss) before income taxes	86,885,927	(985,915,351)
Income taxes		
Current	32,573,552	22,861,088
Deferred	1,840,000	(2,371,000)
Net Income (loss)	¥ 52,472,375	¥ (1,006,405,439)

Statement of Changes in Net assets
For the year ended March 31, 2017

	Shareholder's equity				Total net assets
	Share Capital	Capital surplus	Retained earnings	Total shareholder's equity	
Balance as of March 31, 2016	¥ 50,000,000	¥ 494,950,000	¥ 96,311,521	¥ 641,261,521	¥ 641,261,521
Change during the period					
Capital increase	950,000,000	950,000,000		1,900,000,000	1,900,000,000
Capital decrease	(910,000,000)	(330,000,000)	1,240,000,000	-	-
Net loss			(1,006,405,439)	(1,006,405,439)	(1,006,405,439)
Total change during the period	40,000,000	620,000,000	233,594,561	893,594,561	893,594,561
Balance as of March 31, 2017	¥ 90,000,000	¥ 1,114,950,000	¥ 329,906,082	¥ 1,534,856,082	¥ 1,534,856,082

Statement of Changes in Net assets
For the year ended March 31, 2016

	Shareholder's equity				Total net assets
	Share Capital	Capital surplus	Retained earnings	Total shareholder's equity	
Balance as of March 31, 2015	¥ 50,000,000	¥ 494,950,000	¥ 43,839,146	¥ 588,789,146	¥ 588,789,146
Change during the period					
Net income			52,472,375	52,472,375	52,472,375
Total change during the period			52,472,375	52,472,375	52,472,375
Balance as of March 31, 2016	¥ 50,000,000	¥ 494,950,000	¥ 96,311,521	¥ 641,261,521	¥ 641,261,521

Notes to Financial Statements

1. General

UPL Limited, Japan (the "Company") was incorporated in Japan on February 1, 2008 and is wholly owned by Bio-win Corporation Limited, Mauritius. Effective as of March 12, 2009, the Company merged with United Phosphorus Japan Limited and United Phosphorus Holding Japan Co., which were wholly-owned subsidiaries of Bio-win Corporation Limited, Mauritius and changed its name from NIPPON UPL K.K. to United Phosphorus Limited, Japan. In May 2014, the Company changed its name again from United Phosphorus Limited, Japan to UPL Limited, Japan as UPL Limited, India had changed its name from United Phosphorus Limited.

The principal business activities of the Company are to produce, import/export and distribute agricultural chemicals and raw materials of the agricultural chemicals, primarily in Japan.

2. Basis of Presenting Financial Statements

The accompanying financial statements have been prepared on the basis of the accounting guideline for small businesses in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. The information provided in the notes to the financial statements is limited to that required by the accounting guideline for small businesses in Japan. The financial statements are not intended to present the financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

3. Summary of Significant Accounting Policies

Investment securities

Investment securities are carried at fair value.

Inventories

Inventories are stated at cost determined by the last purchase price method.

Depreciation and amortization

(1) Property and equipment

Depreciation of leasehold improvement is computed by the straight line method over their estimated useful lives. Depreciation of furniture and fixtures is computed by the declining balance method at rates based on the estimated useful lives of the assets. The estimated useful lives of major assets are as follows:

Leasehold improvement:	15–50 years
Furniture and fixtures:	4–10 years

(2) Intangible fixed assets

Amortization of intangible fixed assets is calculated by the straight-line method.

Basis for reserves

(1) Accrued bonuses

Accrued bonuses for employees are provided for using the estimated amount which the Company is obligated to pay to employees after the fiscal year-end.

(2) Accrued retirement benefits

The Company's employees are entitled to lump-sum severance payments based on current basic salaries, length of services and certain other factors. The Company accrues 100% of obligations for employees based on a calculation assuming that all employees retired at the balance sheet date.

(3) Allowance for retirement benefits to directors

An allowance for retirement benefits to directors is provided in accordance with internal regulations.

Lease

Leases are accounted for as operating leases. Under the accounting guideline for small businesses in Japan, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized; while other financial leases are permitted to be accounted for as operating lease transactions.

Accounting for consumption tax

Transactions subject to consumption tax are recorded at amounts exclusive of consumption tax.

4. Notes to Statement of Changes in Net Assets

Share issued

Type of shares	March 31, 2016	Increase	Decrease	March 31, 2017
Common stock	5,000	9,500	-	14,500

5. Details of Related party transactions

	2017
Revenues	
UPL Limited, Indonesia	¥ 3,891,604
Hodogaya UPL Co., Ltd.	768,263,952
Purchase	
UPL Limited, India	142,764,542
UPL Limited, Gibraltar	303,189,317
UPL Corporation Limited	1,428,095,465
Hodogaya UPL Co., Ltd.	477,103,876
Interest expenses	
UPL Europe Ltd.	19,155,684
Accounts receivable - trade	
Hodogaya UPL Co., Ltd.	516,224,097
Accounts receivable - other	
Hodogaya UPL Co., Ltd.	1,365,599
Advance payments - other	
UPL Limited, India	97,096
Accounts payable - trade	
UPL Limited, India	57,539,196
UPL Limited, Gibraltar	173,209,968
UPL Corporation Limited	236,768,650
Hodogaya UPL Co., Ltd.	210,598,292

6. Details of Investment Securities

	Number of shares	Book value
Ishihara Sangyo Kaisha Ltd.	11,700,000	¥ 1,302,210,000
Natural Art K.K.	100	100

7. Notes to Receivables

At March 31, 2017, the amounts of trade receivables sold to UPL Finance B.V. (unrelated party) on a non-recourse basis in the framework of the receivables sale agreement amount to ¥218,807,364 and USD1,141,290. These receivables are derecognized from the Balance Sheet.

8. Tax-effect accounting

(1) Significant components of deferred tax assets

	(Thousands of JPY) March 31, 2017
<Short-term differences>	
Accrued bonus	2,089
Enterprise tax payable	95
	2,184
<Long-term differences>	
Accrued retirement benefit	1,126
Allowance for retirement benefit to directors	17,140
Impairment loss on investment	357,175
	375,441
Valuation allowance on impairment loss on investments	(355,916)
	19,525
	21,709

(2) Statutory tax rate

Short term	34.81%
Long term	34.60%

(3) The reconciliation between the effective tax rate and the statutory tax rate

	March 31, 2017
Statutory tax rate	34.81%
Permanent differences	(0.77%)
Valuation allowances	(36.32%)
Other	0.20%
Effective tax rate after adoption of tax-effect accounting	(2.08%)

9. Number of employees

	March 31, 2016	March 31, 2017
Permanent employee	8	9
Contract employee	4	4