

***UPL Limited, Japan***

*Financial Statements for the Year  
Ended March 31, 2018  
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, 2018 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 of these 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 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.

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, 2018, 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 other 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, 2018

**Balance Sheet**  
**March 31, 2017 and 2017**

<i>Assets</i>	2017	2018
Current Assets:		
Cash	¥ 75,288,834	¥ 379,181,655
Accounts receivable - trade	914,831,196	659,386,778
Accounts receivable - other	1,762,518	1,379,870
Inventories	45,255,881	58,318,441
Prepaid expenses	1,909,375	1,968,775
Advance payments	13,989,310	3,299,710
Deferred tax assets	2,180,000	2,770,000
Suspense payment	4,811,071	-
Total current assets	<u>1,060,028,185</u>	<u>1,106,305,229</u>
Non-current Assets:		
Property and equipment:		
Leasehold improvement	3,941,847	3,941,847
Furniture and fixtures	7,495,067	6,811,505
Other	634,943	4,741,443
Accumulated depreciation	(8,433,079)	(9,374,799)
Property and equipment - net	<u>3,638,778</u>	<u>6,119,996</u>
Intangible fixed assets	498,907	325,049
Investments and other assets:		
Investment securities	1,302,210,100	1,523,340,100
Lease deposits	16,832,450	16,832,450
Other deposits	2,000,000	2,000,000
Insurance reserve fund	39,198,595	46,538,654
Golf-club membership	850,000	850,000
Deferred tax assets	19,525,000	-
Total other assets	<u>1,380,616,145</u>	<u>1,589,561,204</u>
Total non-current assets	<u>1,384,753,830</u>	<u>1,596,006,249</u>
Total	<u>¥2,444,782,015</u>	<u>¥2,702,311,478</u>

	2017	2018
<b><i>Liabilities and Net Assets</i></b>		
Current Liabilities:		
Accounts payable - trade	709,218,408	494,073,989
Accounts payable - other	14,223,821	21,227,578
Short-term borrowings	-	88,228
Income tax payable	6,518,100	14,478,900
Accrued bonuses	6,000,000	4,423,000
Suspense receipt	118,415,520	350,543,323
Other current liabilities	2,758,031	2,803,037
Total current liabilities	<u>857,133,880</u>	<u>887,638,055</u>
Long-term Liabilities		
Allowance for retirement benefits to directors	49,537,208	57,096,458
Accrued retirement benefits	3,254,845	4,630,845
Differed tax liabilities	-	55,153,980
Total long-term liabilities	<u>52,792,053</u>	<u>116,881,283</u>
Total liabilities	<u>909,925,933</u>	<u>1,004,519,338</u>
Net Assets:		
Shareholder's Equity:		
Share Capital	90,000,000	90,000,000
Capital surplus	1,114,950,000	1,114,950,000
Retained earnings	329,906,082	348,223,120
Total shareholder's equity	<u>1,534,856,082</u>	<u>1,553,173,120</u>
Valuation, translation adjustments and others	-	144,619,020
Unrealized gain on securities	-	144,619,020
Valuation, translation adjustments and others	-	144,619,020
Total net assets	<u>1,534,856,082</u>	<u>1,697,792,140</u>
Total	<u>¥2,444,782,015</u>	<u>¥2,702,311,478</u>

**Statement of Income**  
**For the years ended March 31, 2018 and 2017**

	2017	2018
Revenue	¥2,843,453,849	¥3,180,613,139
Cost of sales	2,532,851,484	2,866,770,762
Gross Profit	310,602,365	313,842,377
Selling, General and Administrative expenses:		
Directors' remuneration	51,840,000	52,200,000
Staff salary	47,463,457	42,646,914
Bonus	4,341,143	7,210,710
Provision for retirement benefits	1,079,846	1,376,000
Provision for retirement benefits to directors	17,671,958	7,559,250
Accrued bonuses	6,000,000	4,423,000
Temporary staff fees	2,397,054	5,967,399
Legal welfare	13,305,103	12,834,268
Staff welfare expenses	2,473,503	2,627,132
Freight	1,329,482	1,009,753
Sample cost	270,137	1,116,525
Entertainment	19,260,278	21,130,953
Meeting	6,912,419	6,983,826
Transportation	10,322,045	12,489,423
Travel	8,300,133	8,619,659
Communication	2,844,031	3,096,403
Office supplies	4,751,505	3,640,525
Utilities	315,040	379,831
Subscription	219,054	198,240
Membership fees	3,627,000	4,087,000
Commission	2,896,578	3,863,875
Rent	20,198,940	20,198,940
Lease	1,911,400	3,041,050
Insurance	10,450,951	10,490,736
Sundry taxes	6,974,850	487,099
Outsourcing fees	13,298,805	11,791,416
Professional fees	7,395,000	6,140,360
Training	33,381	30,780
Advertisement	1,409,612	216,476
Promotion cost	-	5,268,047
Depreciation and amortization	777,808	2,126,936
Donation	100,000	20,000
Miscellaneous	53,246	83,010
Total selling, general and administrative expenses	270,223,759	263,355,536
Operating income	40,378,606	50,486,841
Other Income (Expenses)		
Interest income	393,194	403,204
Other income	17,463,628	16,711,616
Exchange gains (losses)	17,901,447	(4,517,503)
Interest expenses	(32,763,358)	(21,866,566)
Loss on disposal of fixed assets	(10,120)	(4)
Loss on valuation of investment securities	(1,028,659,452)	-
Other expenses	(619,296)	-
Other Income (expenses) – net	(1,026,293,957)	(9,269,253)
Income (loss) before income taxes	(985,915,351)	41,217,588
Income taxes		
Current	22,861,088	25,322,550
Deferred	(2,371,000)	(2,422,000)
Net Income (loss)	¥ (1,006,405,439)	¥ 18,317,038

**Statement of Changes in Net assets**  
**For the year ended March 31, 2018**

	Shareholder's equity			
	Share Capital	Capital surplus	Retained earnings	Total shareholder's equity
Balance as of March 31, 2017	¥ 90,000,000	¥ 1,114,950,000	¥ 329,906,082	¥ 1,534,856,082
Change during the period				
Net income			18,317,038	18,317,038
Net changes of items other than those in shareholders' equity				
Total change during the period			18,317,038	18,317,038
Balance as of March 31, 2018	¥ 90,000,000	¥ 1,114,950,000	¥ 348,223,120	¥ 1,553,173,120

Valuation, translation adjustments and others	Total net assets
Unrealized gain on securities	
-	¥ 1,534,856,082
	18,317,038
144,619,020	144,619,020
144,619,020	162,936,058
¥ 144,619,020	¥ 1,697,792,140

**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



## **Notes to Financial Statements**

### **1. General**

UPL Limited, Japan (the “Company”) was incorporated in Japan on February 1, 2008 and is wholly owned by UPL Corporation Limited (changed its name from 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 and requested by UPL Limited, India. 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, 2017	Increase	Decrease	March 31, 2018
Common stock	14,500	-	-	14,500

## 5. Details of Related party transactions

	<u>2018</u>
Revenues	
UPL Limited, Indonesia	¥ 5,260,485
UPL Limited, Vietnam	3,037,635
Hodogaya UPL Co., Ltd.	854,124,960
Purchase	
UPL Limited, India	46,204,440
UPL Limited, Gibraltar	323,314,492
UPL Corporation Limited	1,785,270,117
Hodogaya UPL Co., Ltd.	346,545,115
Accounts receivable - trade	
Hodogaya UPL Co., Ltd.	446,534,257
UPL Limited, Indonesia	5,203,753
UPL Limited, Vietnam	2,860,515
Accounts receivable - other	
Hodogaya UPL Co., Ltd.	1,370,870
Advance payments	
UPL Limited, India	146,400
Accounts payable - trade	
UPL Limited, Gibraltar	155,516,665
UPL Corporation Limited	76,455,844
Hodogaya UPL Co., Ltd.	209,673,813

## 6. Details of Investment Securities

	<u>Number of shares</u>	<u>Book value</u>
Ishihara Sangyo Kaisha Ltd.	1,170,000	¥ 1,523,340,000
Natural Art K.K.	100	100

## 7. Notes to Receivables

At March 31, 2018, 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 ¥109,478,109 and USD4,869,363.6. These receivables are derecognized from the Balance Sheet.

## 8. Tax-effect accounting

### (1) Significant components of deferred tax assets and liabilities

(Thousands of JPY)

March 31, 2018

Deferred tax assets	
<Short-term differences>	
Accrued bonus	1,531
Enterprise tax payable	1,239
	<u>2,770</u>
<Long-term differences>	
Accrued retirement benefit	1,602
Allowance for retirement benefit to directors	19,755
Impairment loss on investment	357,175
	<u>378,532</u>
Valuation allowance on impairment loss on investments	<u>(357,175)</u>
	21,356
Deferred tax liabilities	
<Long-term differences>	
Unrealized gain on securities	(76,510)
Total deferred tax liabilities	<u>(52,384)</u>

### (2) Statutory tax rate

Short term	34.60%
Long term	34.60%

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

	<u>March 31, 2018</u>
Statutory tax rate	34.81%
Permanent differences	12.33%
Income taxes for prior period	3.12%
Change in valuation allowances	3.06%
Other	2.24%
Effective tax rate after adoption of tax-effect accounting	<u>55.56%</u>

## 9. Number of employees

	<u>March 31, 2017</u>	<u>March 31, 2018</u>
Permanent employee	9	12
Contract employee	4	3

## 10. Contingent liabilities

There were no contingent liabilities on balance sheet date.