

HODOGAYA UPL Co., LTD.

*Financial Statements for the Year
Ended March 31, 2018
and Independent Auditor's Report*

INDEPENDENT AUDITOR'S REPORT

The Directors of
HODOGAYA UPL Co., Ltd.

We have audited the accompanying balance sheet of HODOGAYA UPL Co., Ltd. (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 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. As a result, the financial statements may not suitable for another purpose.

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, 2018 and 2017

<i>Assets</i>	2017	2018
Current Assets:		
Cash	¥ 554,119,725	¥ 303,917,446
Accounts receivable - trade	1,296,766,707	1,719,236,395
Accounts receivable - other	6,972,183	52,337,612
Inventories	211,818,694	117,453,580
Prepaid expenses	34,401,084	1,549,669
Deferred tax assets	14,710,000	14,013,000
Total current assets	<u>2,118,788,393</u>	<u>2,208,507,702</u>
Non-current Assets:		
Property and equipment:		
Furniture and fixtures	4,565,000	4,565,000
Accumulated depreciation	(4,564,998)	(4,564,998)
Property and equipment - net	<u>2</u>	<u>2</u>
Intangible fixed assets:		
Trademark rights	130,003	90,003
Total intangible assets	<u>130,003</u>	<u>90,003</u>
Investments and other assets:		
Prepaid expenses	31,113,122	-
Total investment and other assets	<u>31,113,122</u>	<u>-</u>
Total non-current assets	<u>31,243,127</u>	<u>90,005</u>
Total	<u>¥2,150,031,520</u>	<u>¥ 2,208,597,707</u>

Liabilities and Net Assets

	2017	2018
Current Liabilities:		
Accounts payable - trade	¥1,085,238,567	¥ 1,176,213,254
Accounts payable - other	14,583,164	38,506,073
Short-term borrowings	180,000,000	80,000,000
Accrued expenses	31,338,037	26,436,565
Consumption tax payable	17,655,400	15,234,690
Income tax payable	24,663,300	21,277,400
Accrued bonuses	12,047,138	12,259,646
Reserve for sales returns	1,373,360	1,529,631
Other current liabilities	375,420	485,090
Total current liabilities	<u>1,367,274,386</u>	<u>1,371,942,349</u>
Total liabilities	<u>1,367,274,386</u>	<u>1,371,942,349</u>
Net Assets:		
Shareholders' Equity:		
Share Capital	290,000,000	290,000,000
Capital surplus	200,000,000	200,000,000
Retained earnings	292,757,134	346,655,358
Total shareholders' equity	<u>782,757,134</u>	<u>836,655,358</u>
Total net assets	<u>782,757,134</u>	<u>836,655,358</u>
Total	<u>¥2,150,031,520</u>	<u>¥2,208,597,707</u>

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

	2017	2018
Revenue	¥3,247,963,968	¥3,674,035,554
Cost of sales	2,772,569,866	3,148,395,824
Gross Profit	475,394,102	525,639,730
Selling, General and Administrative expenses:		
Directors' remuneration	24,600,000	25,320,000
Staff salary	86,366,031	81,368,873
Bonus	12,531,440	11,454,004
Legal welfare	20,536,927	20,385,385
Staff welfare expenses	251,480	261,703
Retirement benefit expenses	5,582,858	3,911,134
Accrued bonuses	12,047,138	12,259,646
Office supplies	577,814	557,022
Office rent	19,023,772	20,427,122
Insurance	1,164,750	1,150,830
Repair & maintenance	-	24,999
Sundry taxes	6,861,309	6,039,305
Depreciation and amortization	800,832	40,000
Transportation	21,516,848	22,833,868
Communication	2,168,724	1,966,522
Utilities	2,913,781	2,915,219
Service charges	477,843	419,817
Freight	25,251,244	23,988,992
Warehouse	7,837,721	8,232,833
Advertising cost	8,490,828	8,035,030
Entertainment	5,267,565	6,483,570
Subscription and research	136,529	123,437
Selling expenses	48,195,644	50,761,720
Outsourced research and development	52,350,246	94,481,171
Material costs	833,535	574,092
Membership fees	6,005,805	5,126,753
Donation	49,664	-
Outsourcing fees	33,376,383	35,705,989
Sample	8,147,975	10,772,969
Miscellaneous	4,746,209	3,513,041
Total selling, general and administrative expenses	418,110,895	459,135,046
Operating income (loss)	57,283,207	66,504,684
Other Income (Expenses)		
Interest income	2,931	3,770
Other income	4,767,762	8,176,268
Interest expenses	(1,309,635)	(661,671)
Loss on disposal of inventories	(96,000)	-
Other expenses	(331,405)	(1,464,252)
Other expenses	3,033,653	6,054,115
Income before income taxes	60,316,860	72,558,799
Income taxes		
Current	21,546,548	17,963,575
Deferred	(6,110,000)	697,000
Net Income	¥ 44,880,312	¥ 53,898,224

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

	Shareholder's equity				Total net assets
	Share Capital	Capital surplus	Retained earnings	Total shareholders' equity	
Balance as of March 31, 2017	¥ 290,000,000	¥ 200,000,000	¥292,757,134	¥782,757,134	¥782,757,134
Change during the period					
Net income			53,898,224	53,898,224	53,898,224
Total change during the period			53,898,224	53,898,224	53,898,224
Balance as of March 31, 2018	¥ 290,000,000	¥ 200,000,000	¥346,655,358	¥836,655,358	¥836,655,358

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 shareholders' equity	
Balance as of March 31, 2016	¥ 290,000,000	¥ 200,000,000	¥247,876,822	¥737,876,822	¥737,876,822
Change during the period					
Net income			44,880,312	44,880,312	44,880,312
Total change during the period			44,880,312	44,880,312	44,880,312
Balance as of March 31, 2017	¥ 290,000,000	¥ 200,000,000	¥292,757,134	¥782,757,134	¥782,757,134

Notes to Financial Statements

1. General

The Company was incorporated as a joint venture company in Japan on March 3, 2008 and is 60% owned by Hodogaya Chemical Co., Ltd. and 40% owned by United Phosphorus Holding BV, Netherlands.

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

2. Basis of Presenting Financial Statements

The accompanying financial statements have been prepared on the basis of the accounting guidelines 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 guidelines for small businesses in Jan 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

Inventories

Inventories are stated at cost determined by the total average method.

Depreciation and amortization

(1) Property and equipment

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:

Furniture and fixtures: 4-10 years

(2) Intangible fixed assets

Amortization of trademark rights is calculated by the straight-line method over 10 years.

Basis for reserves

(1) Accrued bonuses

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

(2) Reserve for sales returns

Reserve for sales returns is provided for future losses from agricultural chemicals exceeding their useable lifetimes, considering past return ratios and market distribution situation.

Accounting for the consumption tax

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

4. Notes to Statement of Changes in Net Assets

Number of shares issued as of March 31, 2018 — 500 shares

Number of shares issued as of March 31, 2017 — 500 shares

5. Details of Related party transactions (only group companies of UPL Limited, India)

	<u>2018</u>
Revenues	
UPL Limited, Japan	¥346,545,115
Purchases	
UPL Limited, Japan	854,124,960
Accounts receivable - trade	
UPL Limited, Japan	164,883,837
Accounts receivable - other	
UPL Limited, Japan	44,789,976
Accounts payable - trade	
UPL Limited, Japan	446,534,257
Accounts payable - other	
UPL Limited, Japan	1,370,870

6. Details of short-term borrowings

<u>Bank name</u>	<u>Amount</u>	<u>Collateral</u>	<u>Maturity date</u>	<u>Interest rate</u>
The Bank of Yokohama, Ltd	¥ 20,000,000	-	April 2, 2018	0.65545%
Sumitomo Mitsui Banking Corporation	60,000,000	-	April 27, 2018	0.63%

7. 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	3,783
Accrued expense	7,907
Reserve for sales returns	472
Enterprise tax payable	1,851
	<u>14,013</u>
Total deferred tax assets	<u>14,013</u>

(2) Statutory tax rate

Short term	30.86%
Long term	30.86%

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

	<u>March 31, 2018</u>
Statutory tax rate	30.86%
Permanent differences	1.72%
Tax credit	(5.46)%
Other	(1.40)%
Effective tax rate after adoption of tax-effect accounting	<u>25.72%</u>

8. Number of employees

	<u>March 31, 2017</u>	<u>March 31, 2018</u>
Permanent employee	19	16
Contract employee	-	1

9. Contingent liabilities

There were no contingent liabilities on balance sheet date.