

The background of the cover is a complex, abstract composition of various geometric shapes, primarily triangles, in a wide range of colors including blue, green, yellow, orange, red, and purple. These shapes are layered and overlap, creating a sense of depth and movement. Interspersed among the larger shapes are smaller elements: thin lines connecting small dots, and individual dots in various colors (blue, green, yellow, orange, red, purple). The overall effect is a vibrant, modern, and dynamic visual field.

RYOYO

ANNUAL REVIEW 2019

Fiscal year ended
January 31, 2019

About the Ryoyo Group

Ryoyo Electro Corporation was founded in 1961 as a semiconductor trading company. Since then, the Company has continued to progress under its management philosophy of “Creating value in tune with the times” while expanding its operations in tandem with the growth of the electronics industry.

Today, as an electronics trading company with both a semiconductor and device business and an ICT and solutions business, the Ryoyo Group aims to be a driving force in generating new value and emotion, connecting all of the parties whose support we enjoy.



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Notes on the Scope of This Annual Review

With respect to the contents of this annual review, “the Company” refers to Ryoyo Electro Corporation, while “the Ryoyo Group” refers to Ryoyo Electro Corporation and its consolidated subsidiaries Ryoyo Semicon Corporation, Ryoyo Electro (Shanghai) Co., Ltd., Ryoyo Electro Hong Kong Ltd., Ryoyo Electro Singapore Pte., Ltd. and Ryoyo Electro India Pvt. Ltd.

Message from Management



We would like to take this opportunity to thank all of our stakeholders for their ongoing support of the Ryoyo Group.

The Ryoyo Group strives to provide stakeholders with satisfaction exceeding their expectations and to further provide unique and emotional added value in any era. We see this task as the very meaning for our existence.

Over the course of its long history, the Ryoyo Group has accumulated a wealth of assets, including suppliers, clients, operating bases, capital, and talented and dedicated human resources. Going forward, it will be crucial for us to organically merge these assets to create new value and emotion.

Looking back over the fiscal year ended January 31, 2019, while the dissolution of distributorship contracts had a negative impact on sales, sales increased year on year because we were able to incorporate demand related to artificial intelligence and deep learning while expanding businesses dealing in products for PCs. Accordingly, we realized increases in both overall sales and profits for the first time in four years and were able to start our three-year business plan, launched in February 2019, in a good position.

Under this plan, we will advance new initiatives in response to changes in society while redefining the essence of our role as an electronics trading company, at a time when people are increasingly questioning the value of electronics trading companies. The plan's strategic framework involves "restructuring trading functions," "taking action to establish an 'Only RYOYO' presence," and "upgrading business infrastructure." By providing emotion to customers, we will win out against the competition and, in turn, further increase the Group's corporate value.

We look forward to the ongoing support of all our stakeholders as we tackle the challenges to come.

Kenhachiro Ogawa

Moritaka Nakamura

Consolidated Financial Highlights

Ryoyo Electro Corporation and Consolidated Subsidiaries
For the years ended January 31, 2019, 2018, 2017, 2016, and 2015

	Millions of yen					Thousands of U.S. dollars*
	2019.1	2018.1	2017.1	2016.1	2015.1	2019.1
For the Year						
Net sales	¥ 93,799	¥ 92,234	¥ 98,417	¥ 112,332	¥ 110,107	\$860,866
Gross profit	8,925	7,591	8,099	7,852	8,801	81,915
Selling, general and administrative expenses	7,667	7,339	6,726	6,976	6,747	70,373
Operating income	1,257	251	1,373	876	2,053	11,541
Profit attributable to owners of parent	1,020	212	822	743	1,683	9,364
Free cash flows	1,132	(4,162)	6,874	4,392	467	10,393
At Year-End						
Total assets	¥ 75,948	¥ 78,111	¥ 77,973	¥ 76,865	¥ 82,937	\$697,029
Total net assets	62,208	64,404	64,859	63,921	65,583	570,933
Per Share of Common Stock (Yen / U.S. dollars)						
Net income	¥ 41.62	¥ 8.68	¥ 33.54	¥ 30.01	¥ 66.74	\$ 0.38
Total net assets	2,531.90	2,625.66	2,644.10	2,591.70	2,595.83	23.23
Cash dividends	60.00	60.00	40.00	30.00	30.00	0.55
Ratios (%)						
Gross profit margin	9.5	8.2	8.2	7.0	8.0	
Operating margin	1.3	0.3	1.4	0.8	1.9	
Net income margin	1.1	0.2	0.8	0.7	1.5	
Equity ratio	81.7	82.4	83.1	83.1	79.0	
Return on equity	1.6	0.3	1.3	1.1	2.6	
Other Information						
Number of shares issued**	24,521,409	24,506,240	24,507,328	24,636,009	25,237,095	
Number of employees	526	510	498	501	510	

* U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥108.96 = U.S.\$1.00, the exchange rate prevailing on January 31, 2019.

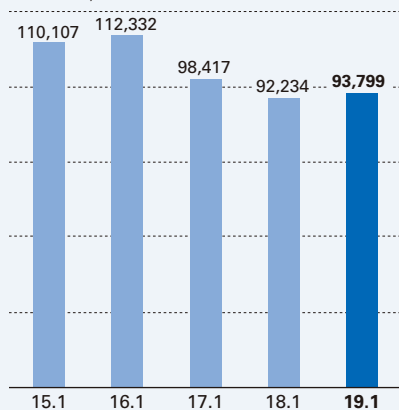
** Number of shares issued does not include treasury stock.

Notes: 1. The consolidated financial highlights are a translation of the Japanese financial statements. The Japanese version will be used for matters of a legal nature.

2. Unless otherwise noted, figures are rounded down to the nearest million.

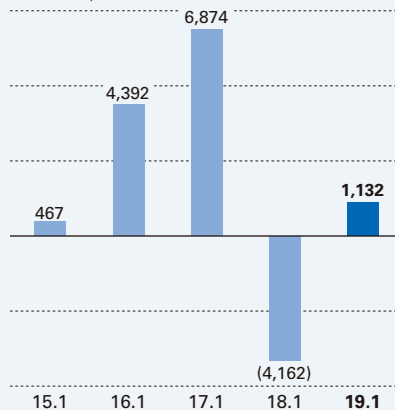
Net Sales

Millions of yen



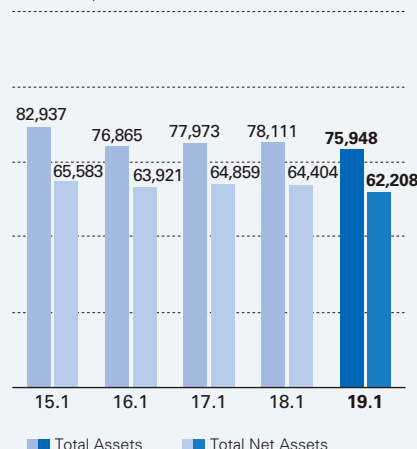
Free Cash Flows

Millions of yen



Total Assets / Total Net Assets

Millions of yen



To Our Shareholders



Moritaka Nakamura
Representative
Director & President

“We will pursue reforms through a collaborative effort encompassing all of our employees, thereby writing the next chapter in our history.”

To Our Shareholders

Proceeding to the Next Stage as “Team RYOYO”

In April 2018, when I became president and chief operating officer of Ryoyo Electro Corporation, I put forth a corporate slogan, “Connect Everything. With Technology. With Ideas.” Going forward, the extent to which we can demonstrate the value of our existence will be crucially important for the Group. Our corporate slogan expresses our desire to generate value by connecting all of our products and services, and creating a variety of links with customers and suppliers, as well as to promote cooperation between employees in every aspect of their work. In addition to improving the organizational structure

of the business, such as by transitioning to a business unit structure and revising business processes, I have worked to change the mind-set of Ryoyo Group employees by consistently sharing information on the Group’s current situation and vision. These efforts have been based on my conviction that if employees can work together as a team, the Group’s wealth of assets can be used to create new value. We will pursue reforms through a collaborative effort encompassing all of our employees, thereby writing the next chapter in our history.

Three-Year Business Plan

We commenced a new three-year business plan in February 2019, which we are now enacting. This business plan’s strategic framework involves “restructuring trading functions,” “challenge to ‘Only RYOYO,’” and “enhancing business infrastructure.” By providing emotion to customers, we will win

out against the competition and, in turn, further increase the Group’s corporate value. To that end, we aim to reshape the Group as a high-value-added business and achieve net sales of ¥110.0 billion and operating income of ¥3.0 billion in the fiscal year ending January 31, 2022, the final year of the plan.

Three-Year Business Plan (February 2019 – January 2022)

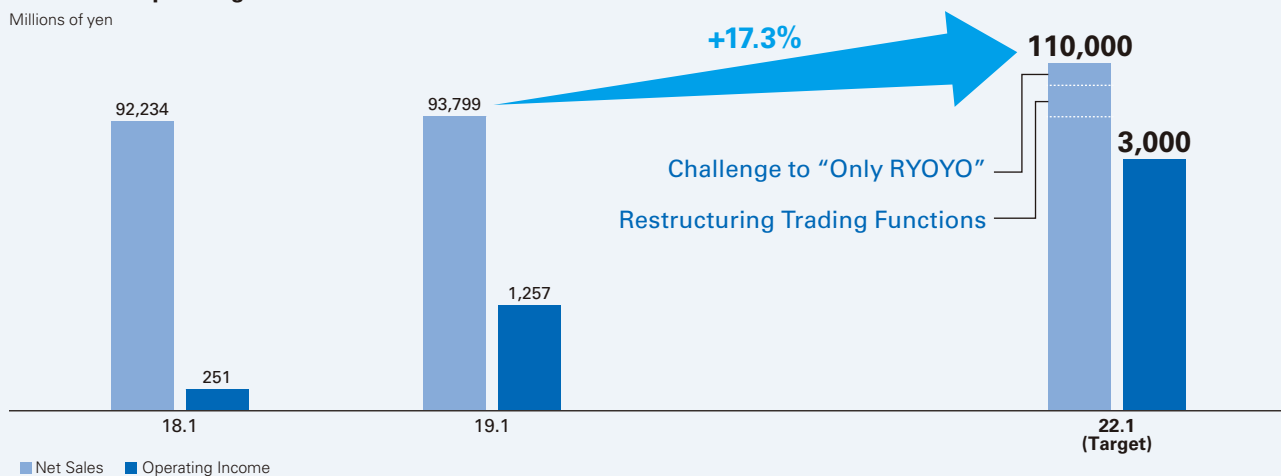
Restructuring
Trading Functions

Challenge to
“Only RYOYO”

Enhancing Business
Infrastructure

Net Sales / Operating Income

Millions of yen



1. Restructuring Trading Functions

Two of the Ryoyo Group's strengths lie in having a business model comprising in equal parts a semiconductor and device business and an ICT and solutions business, and its abundance of clients. However, we are currently failing to sufficiently leverage these strengths; therefore, I believe that the restructuring of trading functions is essential to achieving future growth. Accordingly, we will once again embrace the basics of trading that are expected of a trading company: namely, understanding clients and delivering what they want, when they want it, in an amount, of a quality, and at a price

they want. At the same time, we will maximize our existing customers by further determining and catering to their respective needs. Moreover, we are moving forward with the development of new products and the expansion of our client base and area of business operations, in accordance with the needs of our clients. For example, in March 2019 we established Ryoyo Electro Europe GmbH in Germany as a foothold for developing business in Europe. Furthermore, we are also advancing investigations into establishing operating bases in North America.

Framework for Restructuring Trading Functions

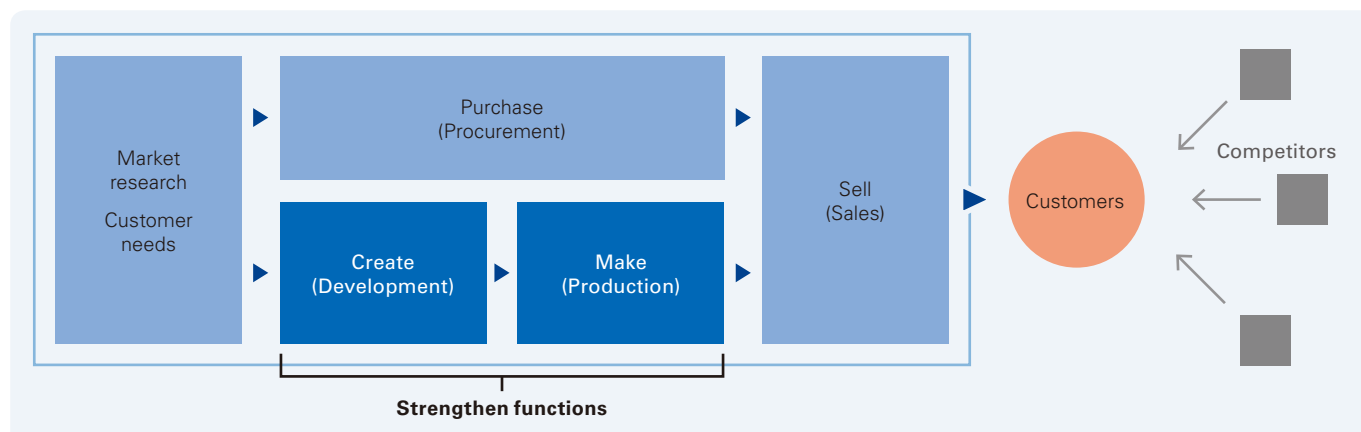
	Existing Products	New Products
Existing Customers	Maximize business opportunities through deeper understanding of client needs	Source new products from Europe, China, and elsewhere
New Customers	Accelerate acquisition of commercial rights Expand business area by establishing overseas operating bases	—

2. Challenge to "Only RYOYO"

We will "challenge to 'Only RYOYO'" in order to dramatically transform our income structure. "Challenge to 'Only RYOYO'" involves taking action to establish a distinctly Ryoyo presence. We will strive to provide value that is unique to the Group by building upon our technological resources and stepping up our investment in research and development to create original technologies and products while widening the range of our offerings that combine existing products with new ones.

An initial example of this undertaking is our development of voice recognition technology, work upon which started in 2018. This technology, which we have been working on since 2018, has enabled the Group to obtain a patent for the first time in its history. Discussions toward the practical application of this technology are currently underway.

To give our strengths a clear form, we will promote the creation of "Only RYOYO" by turning subsequent ideas into concrete projects while also looking into the possibility of mergers and acquisitions and partnerships.



To Our Shareholders

3. Enhancing Business Infrastructure

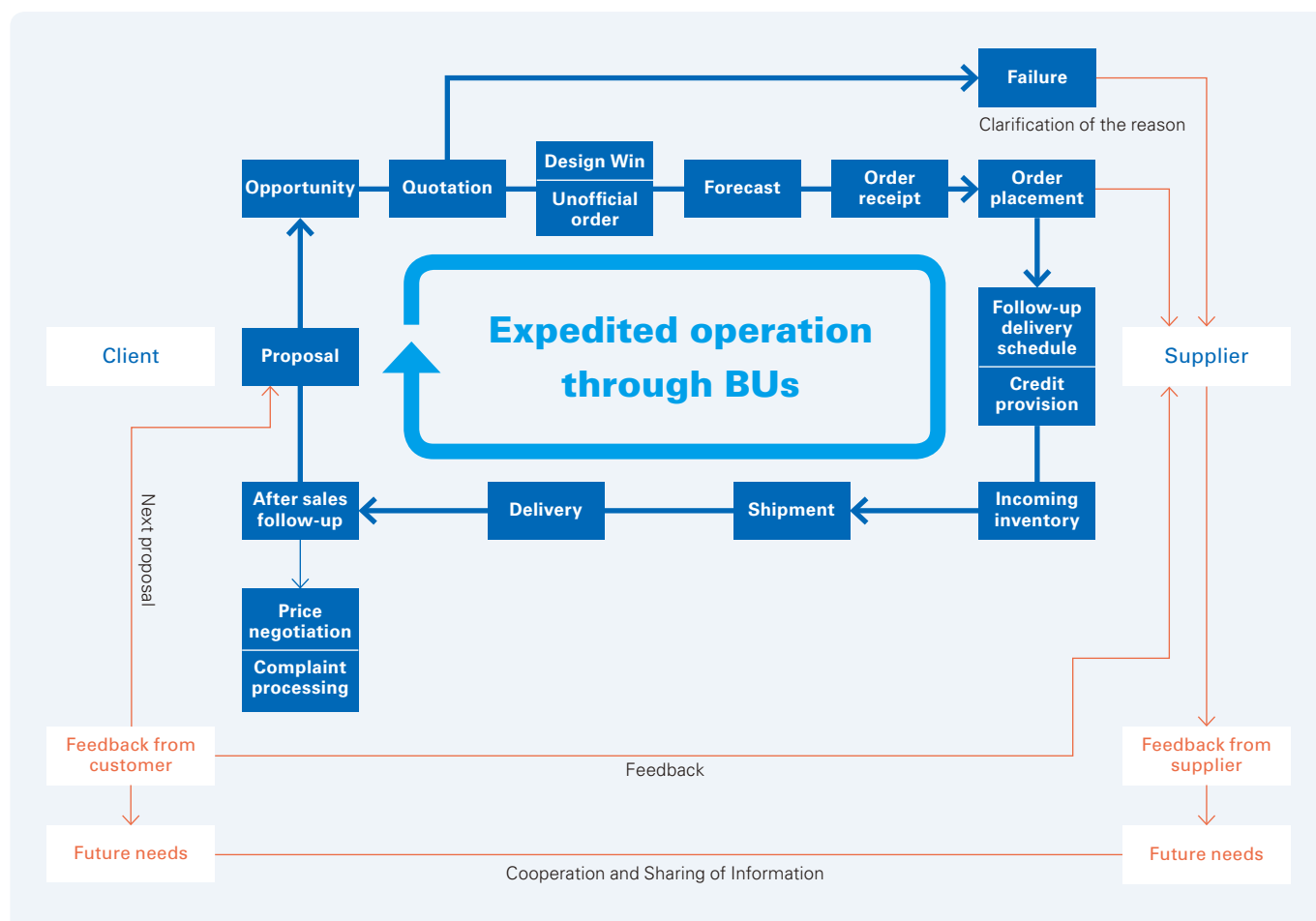
We are making efforts to upgrade business infrastructure as a foundation for “restructuring trading functions” and “challenge to ‘Only RYOYO.’”

In our business—which involves a seamless process from making proposals to customers to providing after sales follow-up—speed is of the utmost importance. Interdepartmental coordination and the sharing of information have been encouraged and we have expedited the basic operation cycle through the establishment of a support structure integrating Japanese and overseas operations, which followed the shift to a business unit structure in March 2018. Moreover, we will further enhance our competitiveness by merging our ICT and IoT

businesses in February 2019 to form a solutions business division, sharing and mobilizing a variety of resources, and refining the strengths that arise from being able to provide everything from devices to clouds and applications.

At the same time, we will maximize marketing productivity and unite to create structures for increasing corporate value. We will do this by improving the IT infrastructure that supports our business operations, developing a human resource system to facilitate working styles that respond to social changes, and enhancing our corporate governance structure to guarantee the soundness and transparency of management.

Basic Operation Cycle



Making the Fiscal Year Ending January 31, 2020 a Second Consecutive Year of Increased Sales and Profits

We expect to see expansion in both our semiconductor and device business and ICT and solutions business due to further progress in the trend toward the practical application of artificial intelligence and IoT technologies and to an increase in demand associated with infrastructure- and security-related projects pertaining to the Olympic and Paralympic Games Tokyo 2020. We anticipate this expansion despite recent concerns about both the impacts of trade friction between the U.S. and China and the future outlook of these economies. Furthermore, we aim to heighten sales and profits by generating an increase in the gross profit margin that will offset a rise in “proactive costs,” such as those resulting from investment in research and development and business infrastructure.

We position the fiscal year ending January 31, 2020 to be an exceptionally important year in our three-year business plan. I believe that increasing sales and profits for a second consecutive year while conducting investment for future growth will be the first step in transforming the Ryoyo Group into a high-value-added business.



(Millions of yen)

	18.1	19.1	20.1 (Plan)	YoY
Net Sales	92,234	93,799	98,000	+4.5%
Gross profit	7,591	8,925	9,600	+7.6%
SG&A expenses	7,339	7,667	8,100	+5.6%
Operating income	251	1,257	1,500	+19.3%
Ordinary income	432	1,474	1,600	+8.5%
Profit attributable to owners of parent	212	1,020	1,140	+11.7%

The Ryoyo Group Supports the T.League

To indicate its support for the philosophy of the T.League, which aims to become the world's No.1 table tennis league, the Group has signed a contract with the organizing body of the league to be an official sponsor. In this capacity, we will help promote the sport of table tennis by supporting the T.League and its players.

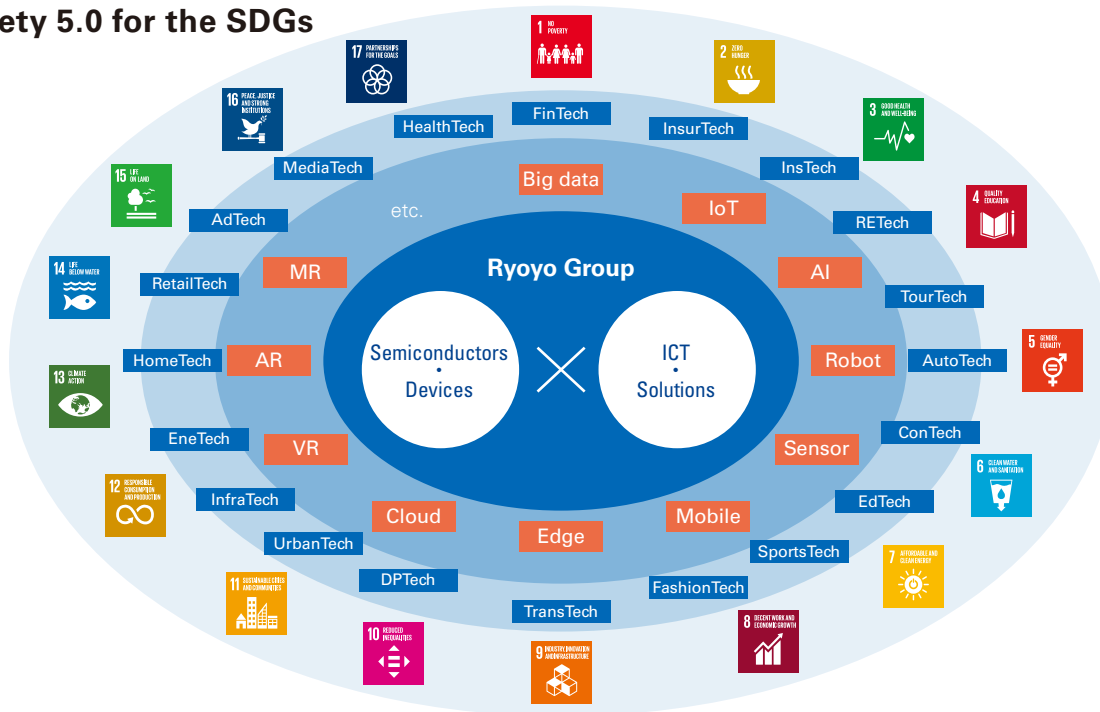


Realizing Society 5.0

Society 5.0, a vision for a future society to which Japan should aspire, follows the hunting and gathering society (Society 1.0), agricultural society (Society 2.0), industrial society (Society 3.0), and information society (Society 4.0). In Society 5.0, all people and things will be connected by the Internet of Things (IoT), and we will aim to drive economic development and resolve social issues by creating unprecedented new value. This process will consequently contribute to achieving the United Nations Sustainable Development Goals.

The Ryoyo Group's business domains encompass the technologies and factors that will facilitate such a society. We believe that, through our business, we have an opportunity to contribute to the realization of Society 5.0.

Society 5.0 for the SDGs



Contributing to Peace of Mind and Safety

—Zenkoji Temple in Nagano prefecture

Zenkoji Temple in Nagano prefecture, is a historic Buddhist temple which contains many historic buildings such as Main Hall (Hondo), National Treasure, Sanmon Gate and Buddhist library, designated as a nationally important cultural properties, so many worshippers visit from home and abroad as a popular tourist destination.

With increased attention, Zenkoji Temple has trouble with prank and graffiti on the wall of National Treasure and nationally important cultural properties. That's why considering to increase security cameras taking severe measures against troubles.

With consideration to install security cameras, there is difficulty of fix wire-line cables which damage the Zenkoji precious historic landscape. However wireless communication network provided by the Ryoyo Group creates wide area communication environment, and achieves installation of security cameras in Niomon Gate 300 meters away from Main Hall.

At the Group, we hope that the installation of these security cameras will help realize a safe and stress-free environment for worshippers to enjoy. We also hope to continue contributing to people's safety and peace of mind through the ongoing provision of ICT and IoT technologies.



Human Resource Strategy

Realizing Employees' Potential

The Group believes that, to advance the three-year business plan and, beyond that, achieve sustainable growth, human resources are an important foundation and source for increasing corporate value.

We are developing systems such as human resource and education programs as well as an environment that enables employees to adopt flexible workstyles in response to changes in the social environment, so that each and every employee can improve their skills and advance their careers, with a healthy, competitive spirit.

Moreover, to enable employees to be as productive as possible, it is necessary for a diversity of knowledge, experience, and abilities to be reflected in their work and roles. Accordingly, we are actively promoting the advancement of women and enhancing measures for cultivating global human resources to facilitate the diversification of human resources, while promoting a team-based mentality.

Diversifying Human Resources

As the declining birth rate and aging population greatly transform the labor market in Japan, the active promotion of women is essential to sustaining healthy growth. Currently, women account for around 20% of the total number of the Group's employees; however, we are making efforts to increase the number of women in management positions and to promote the career development of women.

	Date / Time period	Number of employees / Ratio / Number of years (Non-consolidated)
Number of employees	January 31, 2019	478
Number of female employees	January 31, 2019	106
Ratio of female employees to total employees	January 31, 2019	22.2%
Average length of service by female employees	January 31, 2019	9.8 years
Ratio of women hired	Average for previous 3 years	28.3%
Ratio of female employees taking childcare leave	Average for previous 3 years	100%

Coordination between human resources in Japan and overseas is an important theme in doing business globally. In March 2018, we switched to a system of business units and constructed a comprehensive organizational structure integrating Japanese and overseas business units, which have helped make it easier to share information and facilitate operations. Moreover, we are moving forward with initiatives to cultivate human resources who can flourish on the global stage. For example, we are enhancing the skills and communication levels of locally hired staff working overseas by providing both training and opportunities for exchanges to Japan.



We made the cultivation of human resources one of the main themes of the medium-term management plan beginning in the fiscal year ending January 31, 2020. While respecting each employee's strengths and individuality in their roles, we plan to restructure and enhance our education and training programs with the aim of creating a cycle in which everyone learns, grows, and thrives.

Corporate Governance

Board of Directors, Audit & Supervisory Board, and Corporate Officers

As of April 25, 2019



Kenhachiro Ogawa
Representative
Director & Chairman



Moritaka Nakamura
Representative
Director & President



Kiyoshi Waki
Director



Masaaki Tanabe
Director



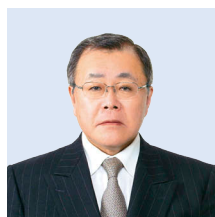
Yoshitsugu Tamakoshi
Director



Yasushi Okazaki
Director



Seiju Yasuda
Director



Yoshiharu Hayakawa
Outside Director
(Independent Director)



Masumi Shiraishi
Outside Director
(Independent Director)

Audit & Supervisory Board
Member

Yutaka Horikiri

Outside Audit & Supervisory
Board Members

Ryoji Kimura
Tsutomu Nobechi
Kazumi Akiyama

Managing Executive Officer

Kiyoshi Waki

Senior Executive Officers

Masaaki Tanabe
Yoshitsugu Tamakoshi
Yasushi Okazaki
Seiju Yasuda

Executive Officers

Hideki Suzuki
Atuyuki Ohashi
Mitsuru Tsukuba
Mitsuhiro Takeishi
Osamu Sano

Basic Corporate Governance Philosophy

At the Company, we recognize enhancing corporate governance as an important task for management. Therefore, in order to continue to guarantee the soundness, transparency, and effectiveness of management, as well as to increase corporate value and fulfill our responsibilities to society, we are striving to develop internal systems that ensure the functionality of corporate governance.

Company Organizations

Outline of the Corporate Governance Framework

Organizational format	Company with Audit & Supervisory Board
Chairman of the Board of Directors	Chairman
Number of directors	9 (including 2 outside directors)
Number of Audit & Supervisory Board Members	4 (including 3 outside Audit & Supervisory Board Members)
Independent officers	2 outside directors and 3 outside Audit & Supervisory Board Members
Number of Board of Directors' meetings held during the fiscal year ended January 31, 2019	12
Number of Audit & Supervisory Board meetings held during the fiscal year ended January 31, 2019	12
Voluntarily established advisory committees to the Board of Directors	Nomination and Compensation Committee

Directors and Board of Directors

The Board of Directors, which consists of nine directors (as of April 25, 2019), of whom two are outside directors, is responsible for making decisions as stipulated in laws, regulations, and the articles of incorporation; making important management decisions; and overseeing the execution of operations.

In principle, the Board of Directors meets once a month and met a total of 12 times during the year under review.

Audit & Supervisory Board Members and Audit & Supervisory Board

The Company is a Company with an Audit & Supervisory Board as defined by the Companies Act of Japan, whereby Audit & Supervisory Board Members act independently of directors and oversee directors' execution of operations. The Audit & Supervisory Board consists of four Audit & Supervisory Board Members (as of April 25, 2019), of whom three are outside Audit & Supervisory Board Members.

In principle, the Audit & Supervisory Board meets once a month and met a total of 12 times during the year under review.

Policy for Appointment of Independent Directors

The Company's basic policy is to appoint two or more independent directors, and the Company currently has two independent directors (as of April 25, 2019). These directors are selected based on the Company's own criteria for judging independence in order to ensure that they are able to effectively fulfill their role and responsibilities in facilitating the ongoing growth of the Company and the medium-to-long-term improvement of its corporate value.

Nomination and Compensation Committee

The Company has established a Nomination and Compensation Committee as an advisory body to the Board of Directors to further enhance corporate governance by strengthening the

independence, objectivity, and accountability of the Board of Directors' functions related to the nomination and compensation of directors and executive officers. The Nomination and Compensation Committee deliberates on the basic policies and proposals for the appointment and dismissal of directors and executive officers, as well as on the basic policies and compensation amounts related to decisions on compensation, and reports the results to the Board of Directors.

Furthermore, there is a requirement for the Nomination and Compensation Committee to consist of three or more directors, half or more of whom are outside directors. As of April 25, 2019, the Committee consists of four directors, of whom two are outside directors. One of the outside directors serves as the Committee chairman.

Directors

Directors	Reason for appointment
Kenhachiro Ogawa	Kenhachiro Ogawa has been involved in the management of the Company for many years, possesses broad insight into the overall management of electronics trading companies, and has demonstrated strong leadership.
Moritaka Nakamura	Moritaka Nakamura possesses wide-ranging experience, broad insight, and an extensive network of corporate relationships. Since assuming his role as the Company's president, he has continued to utilize that experience while demonstrating strong leadership in advancing management reforms. For these reasons, the Company believes that he is capable of contributing to the improvement of the Company's corporate value.
Kiyoshi Waki	Kiyoshi Waki has cultivated a wealth of expertise in Japan and overseas through his experience working for a financial institution. Since joining the Company, he has gained management experience through positions in the Corporate Strategy Division, the Overseas Marketing Division, and the Administration Division. He also possesses highly specialized knowledge and broad insight into accounting and finance.
Masaaki Tanabe	Masaaki Tanabe has many years of management experience in the ICT and solutions business and possesses extensive experience and broad insight into the Company's business.
Yoshitsugu Tamakoshi	Yoshitsugu Tamakoshi has many years of experience in the semiconductor and device businesses of Mitsubishi Electric Corporation and the Company, and he thus possesses extensive expertise and broad insight into this business area.
Yasushi Okazaki	Yasushi Okazaki has experience of frontline business operations in Japan and overseas gained in his previous positions, primarily in IT, and of working in internal auditing. In addition, he has been involved in the management of the Company's IoT and solutions businesses and possesses a wealth of experience and broad insight into these businesses.
Seiju Yasuda	Seiju Yasuda possesses extensive experience and broad insight into the Company's business. He has many years of wide-ranging experience in the Company's semiconductor and device business and ICT and solutions business as well as experience of a variety of positions at head office and other operating locations.

Audit & Supervisory Board Member

Audit & Supervisory Board Member	Reason for appointment
Yutaka Horikiri	Yutaka Horikiri has accumulated accounting and management experience through his years of service in the Company's Administration Division and Corporate Strategy Division and possesses extensive insight related to finance and accounting.

Outside Directors

Outside directors	Reason for appointment	Attendance at meetings of the Board of Directors
Yoshiharu Hayakawa	Yoshiharu Hayakawa possesses expert knowledge as a certified public accountant as well as extensive experience and broad insight as a management consultant. For these reasons, the Company believes that he is suited to help strengthen the corporate governance system and improve the corporate value of the Company.	12/12
Masumi Shiraishi	Masumi Shiraishi possesses broad expertise in economic and social matters gained through her considerable experience in the private, public, and academic sectors. The Company believes that she is capable of giving advice from a variety of viewpoints to help improve the Company's corporate value.	—

Corporate Governance

Outside Audit & Supervisory Board Members

Outside Audit & Supervisory Board Members	Reason for appointment	Attendance at meetings	
		Board of Directors	Audit & Supervisory Board
Ryoji Kimura	Ryoji Kimura possesses specialized insight into all areas of corporate legal affairs based on his long career as an attorney and his related scholarly knowledge and experience.	12/12	12/12
Tsutomu Nobechi	Tsutomu Nobechi possesses considerable insight into financial and accounting matters gained through his years of experience at auditing firms.	12/12	12/12
Kazumi Akiyama	Kazumi Akiyama gained a wealth of insight through his years of employment at central government offices.	12/12	12/12

Criteria for the Selection of Outside Officers

In order to ensure the independence of the candidates it recommends for positions as outside officers (outside directors and outside Audit & Supervisory Board Members), the Company has formulated criteria for the selection of outside officers. Please see the following website for more details: <https://www.ryoyo.co.jp/en/csr>

Compensation of Directors and Audit & Supervisory Board Members

In regard to compensation decision policies and calculation methods, compensation amounts for directors and Audit & Supervisory Board Members are to be no higher than the upper limit approved at the general shareholders' meeting. Compensation for directors is to be decided by the Board of Directors based upon reports from the Nomination and Compensation Committee. The Nomination and Compensation Committee will report its deliberations on each director's compensation, taking into consideration the performance of the Company and management circumstances, the economic climate, and such factors as each director's rank. Compensation amounts for Audit and Supervisory Board Members are decided by the Audit & Supervisory Board.

	Compensation by type (millions of yen)					Number of applicable individuals
	Total compensation	Basic compensation	Stock options	Bonuses	Retirement benefits	
Directors (excluding outside directors)	191	118	72	—	—	7
Audit & Supervisory Board Members (excluding outside Audit & Supervisory Board Members)	15	15	—	—	—	1
Outside officers	34	34	—	—	—	5

Note: The amount for compensation of directors does not include the portion paid to directors who serve concurrently as employees.

Furthermore, the Company has revised the compensation plan for directors to introduce a restricted stock compensation plan, effective from the fiscal year ending January 31, 2020. The introduction of this compensation plan is aimed at providing directors with incentives to realize the sustainable improvement of the Company's corporate value while further encouraging them to share the same interests as the Company's shareholders.

Analysis of Board of Directors' Effectiveness and Results of Evaluation

The Company implements self-surveys to analyze the overall effectiveness of the Board of Directors.

The most recent survey evaluated the structure of the Board of Directors, how it is operated, how outside officers are treated, and other matters. Through this survey, the Company confirmed that the Board of Directors was generally functioning appropriately and that it was indeed effective. Furthermore, the survey indicated that there had been

improvements on matters such as the timing of provision of materials pertaining to Board of Directors' meetings, as well as agenda items to be discussed at meetings, including those pertaining to medium-to-long-term management issues and other topics. Meanwhile, directors provided various suggestions on matters such as training opportunities for directors to enable them to enhance their judgment and fulfil their role and responsibilities, as well as the cultivation of mutual understanding between outside officers and management.

The Board of Directors will discuss these suggestions going forward and continue to improve its effectiveness with the aim of creating an ideal corporate governance system.

Internal Control Systems

The following are our basic principles for establishing internal control systems. These principles help us maintain systems for sound internal control.

- (1) System for ensuring that the execution of duties by Group directors and employees is in compliance with all laws, regulations, and the articles of incorporation
- (2) Items concerning the storage and management of information related to the execution of duties by directors
- (3) Rules and other systems for containing the risk of damages to the Group
- (4) System for ensuring the efficient execution of duties by Group directors
- (5) System for ensuring the appropriateness of operations undertaken by the corporate group consisting of Ryoyo Electro and its subsidiaries and for facilitating reporting to the Company with regard to the execution of duties by directors and other individuals at subsidiaries
- (6) Items concerning employees requested by the Audit & Supervisory Board to serve as assistants, the independence of these employees from directors, and the effectiveness of the orders issued to such employees by Audit & Supervisory Board Members
- (7) System concerning reports submitted by directors and employees of the Company and by directors, Audit & Supervisory Board Members, and employees of subsidiaries to the Audit & Supervisory Board of the Company; other systems concerning reports submitted to the Audit & Supervisory Board; and systems for ensuring that individuals issuing such reports do not suffer disadvantageous treatment due to reporting
- (8) Items related to policies concerning the procedures through which Audit & Supervisory Board Members may receive reimbursement, prior to or after the fact, for expenses incurred during the execution of their duties as well as the treatment of other expenses and liabilities incurred as part of the execution of duties
- (9) Other systems for ensuring effective auditing by the Audit & Supervisory Board

Risk Management Systems

Risks that may affect our operations include those related to compliance, the environment, disasters, information security, product quality, foreign exchange rates, and financial reporting.

Each department maintains effective risk management systems managed by employees that are responsible for risk management. In the event that any disruption occurs, these employees will guide their department in responding quickly and effectively to those disruptions in order to minimize the impact on operations. For more information on business risks, please refer to the following section of the Company's corporate website.

<https://www.ryoyo.co.jp/en/ir-library/business-risk>

Policy for Proactive Communication with Shareholders

The Company endeavors to ensure that disclosure of management information is conducted accurately, impartially, and promptly. In addition, we recognize that facilitating mutual understanding through proactive communication with shareholders and incorporating feedback from shareholders into management decision-making are crucial to the Company's ongoing growth and to the medium-to-long-term improvement of corporate value. Accordingly, the following provisions have been put in place to support proactive communications activities.

- (1) The director in charge of the Corporate Strategy Division oversees shareholder communications activities, receiving assistance from the general manager of the Corporate Strategy Division.
- (2) The Corporate Planning Department functions as a venue for communication with shareholders while preparations for communications activities are advanced through coordination between the Corporate Planning, General Affairs, and Accounting departments.
- (3) Explanatory forums are held for institutional investors at which we report on and explain current business conditions and the future direction of the Company.
- (4) Systems are in place to ensure that feedback received through shareholder communications activities is shared with management in a timely manner.
- (5) In-house workshops regarding insider information are held and other steps are taken to ensure the appropriate management of insider information.

Note: The Company strives to ensure timely and appropriate disclosure of management information through its corporate website and other venues.
<https://www.ryoyo.co.jp/en>

Consolidated Financial Review

● Operating Environment

During the year under review, the fiscal year ended January 31, 2019, the domestic economy continued its moderate recovery against a backdrop of improved corporate earnings. However, due to concerns about overseas political and economic conditions and the impact of changes in financial markets, the outlook is increasingly cautious.

In the electronics industry, where the Ryoyo Group operates, conditions varied by sector. Primarily in the automobile and industrial sectors, there was an acceleration of initiatives toward the practical application of technologies utilizing artificial intelligence (AI) and the Internet of Things (IoT). In addition, we saw market expansion and the continuation of IT-related investment by companies. On the other hand, there is growing concern about the potential impact of prolonged trade friction between the United States and China.

● Results for the Fiscal Year Ended January 31, 2019

In this environment, the negative impact on sales caused by the dissolution of distributorship contracts was offset by the Company's efforts to incorporate demand related to AI and deep learning as well as by the expansion of businesses dealing in products for PCs. Accordingly, in addition to substantial increases in profits as a result of a year-on-year decrease in inventory write-downs, consolidated net sales increased 1.7% year on year, to ¥93.7 billion; operating income soared 400.1%, to ¥1.2 billion; ordinary income increased 241.0%, to ¥1.4 billion; and profit attributable to owners of parent rose 379.5%, to ¥1.0 billion.

Sales by Segment

Semiconductors and Devices

Net sales of semiconductors and devices decreased ¥1.0 billion year on year, or 2.0%, to ¥49.9 billion.

Sales of products for communications applications fell 16.2%, to ¥6.8 billion, due to the contraction of businesses providing liquid crystal displays (LCDs) for use in smartphones.

Sales of products for digital consumer electronics decreased 19.4%, to ¥4.7 billion. Overall, sales performance was weak, despite the commencement of new projects for television applications.

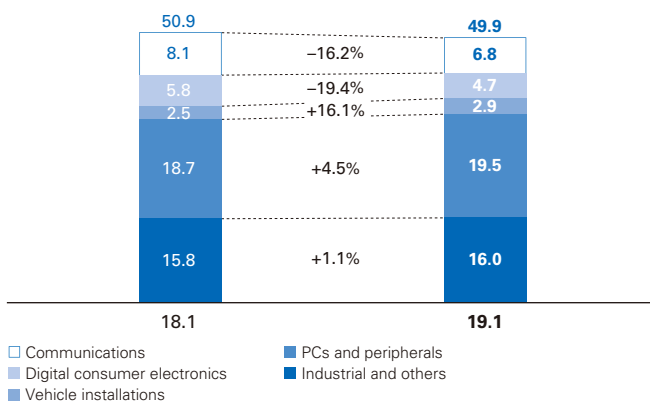
Sales of vehicle installations grew 16.1%, to ¥2.9 billion, due to an increase in sales of products for use in vehicle installations, such as in-vehicle cameras and driving recorders.

Sales of products for PCs and peripherals increased 4.5%, to ¥19.5 billion, due to increased sales of products for PCs and peripherals.

Sales of products for industrial and other applications increased 1.1%, to ¥16.0 billion, driven by robust demand for products for railway applications in the first half of the fiscal year under review.

Sales by Applications

Billions of yen



ICT and Solutions

Net sales of ICT and solutions increased ¥2.5 billion year on year, or 6.3%, to ¥43.8 billion.

Sales of PC, server, and network products rose 4.5%, to ¥9.8 billion, due partly to the contribution to sales of new security products.

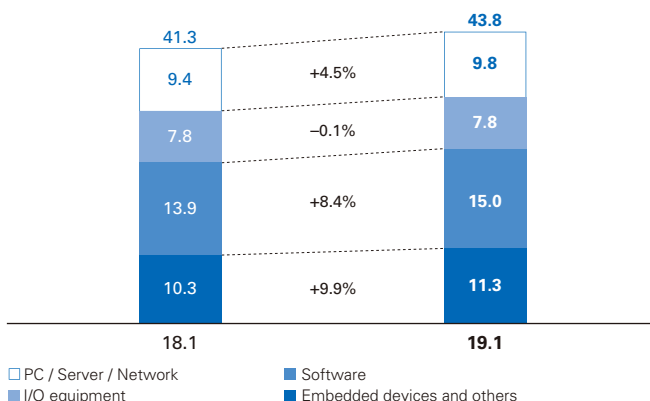
Sales of I/O equipment were more or less unchanged year on year at ¥7.8 billion, as a decline in sales of printers was offset by an increase in sales of monitors.

Sales of software were up 8.4%, to ¥15.0 billion, as a result of an increase in PC production volumes.

Sales of embedded devices and other products increased 9.9%, to ¥11.3 billion, as higher sales of AI- and deep learning-related products compensated for the negative impact of the end of one-off projects.

Sales by Products

Billions of yen



Sales by Region

Japan

In the year under review, sales to external customers in Japan increased ¥2.4 billion, or 3.3%, to ¥78.2 billion, following an increase in sales of software for PCs and products for use in AI and deep learning applications. Accordingly, operating income in this regional segment was up ¥0.9 billion, or 589.7%, to ¥1.1 billion, due to a reduction in inventory write-downs.

Asia

Sales to external customers in Asia decreased ¥0.9 billion, or 5.6%, to ¥15.5 billion, as a result of a decline in sales of LCDs for use in communications devices. However, operating income in this regional segment increased ¥56 million, or 66.8%, to ¥0.1 billion, following an improvement in the gross profit margin.

The figure for operating income presented in the consolidated statements of income includes operating income from each segment as well as from intersegment transactions.

Financial Position

Total assets at the end of the fiscal year amounted to ¥75.9 billion, ¥2.1 billion lower than at the previous fiscal year-end. This was primarily due to a decrease in investment securities.

Total liabilities were up ¥32 million, to ¥13.7 billion, mainly due to an increase in notes and accounts payable—trade.

Total net assets decreased ¥2.1 billion, to ¥62.2 billion. This was largely due to cash dividends paid and a decrease attributable to the valuation difference on available-for-sale securities.

Cash Flows

Cash and cash equivalents totaled ¥13.4 billion at the fiscal year-end, a ¥0.4 billion year-on-year decrease. Major factors included cash dividends paid.

Net cash provided by operating activities was ¥0.5 billion. This outcome was the result of income before income taxes of ¥1.5 billion being recorded and of working capital increasing due to the ¥1.3 billion rise in inventories.

Net cash provided by investing activities amounted to ¥0.5 billion. This was due to payments into time deposits of ¥1.1 billion.

Net cash used in financing activities amounted to ¥1.4 billion. Major outflows included cash dividends paid.

Returning Profits to Shareholders

The Company views returning profits generated from operating activities to its shareholders as one of its most important management tasks. Accordingly, we return profits to shareholders while considering the Company's financial position and the operating environment, while also retaining internal revenues sufficient enough to maintain a stable operating foundation and pursue future business expansion.

For the fiscal year ended January 31, 2019, with an emphasis on stable dividends and a total return ratio of 100% as our basic policy, the Company paid ¥30 per share of common stock for the year-end cash dividend, making for an annual cash dividend of ¥60 per share of common stock when combined with the interim dividend.

The Company's basic policy for the fiscal year ending January 31, 2020 is to pay stable dividends, targeting a dividend on equity ratio (DOE) of 3%, with the aim of further enhancing shareholder returns.

Based on this policy, we plan to increase the annual cash dividend by ¥20 from the year under review, to ¥80 per share of common stock, comprising an interim dividend and a year-end dividend of ¥40 each.

Risks Pertaining to the Company's Business

Risks that may affect the business performance, stock price, and financial condition of the Company include, but are not limited to, the following.

- (1) Abrupt changes in economic conditions
- (2) Fall in the price of products
- (3) Contracts with suppliers
- (4) Fluctuations in foreign exchange rates
- (5) Customers moving operations overseas
- (6) Country-based risks
- (7) Product defects, service problems, and delivery and intellectual property rights issues
- (8) Natural disasters and other acts of God
- (9) Collection of accounts receivable
- (10) Disposal and the write-down of inventories
- (11) Impairment losses on the write-down of investment securities
- (12) Retirement benefit obligations

For more information, please refer to the Company's corporate website.

● <https://www.ryoyo.co.jp/en/ir-library/business-risk>

Consolidated Balance Sheets

Ryoyo Electro Corporation and Consolidated Subsidiaries
At January 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019.1	2018.1	2019.1
Assets			
Current assets			
Cash and deposits	¥13,416	¥14,040	\$123,134
Notes and accounts receivable—trade	25,585	25,912	234,811
Securities	544	649	5,000
Merchandise and finished goods	12,124	10,857	111,274
Deferred tax assets	409	497	3,758
Other	1,444	1,378	13,260
Allowance for doubtful accounts	(2)	(2)	(20)
Total current assets	53,523	53,332	491,219
Noncurrent assets			
Property, plant and equipment			
Tools, furniture and fixtures, net	91	81	837
Land	5	5	52
Other, net	91	76	844
Total property, plant and equipment	188	163	1,733
Intangible assets	404	454	3,708
Investments and other assets			
Investment securities	19,439	21,930	178,406
Net defined benefit asset	1,431	1,458	13,136
Other	1,305	1,152	11,984
Allowance for doubtful accounts	(344)	(381)	(3,161)
Total investments and other assets	21,832	24,160	200,367
Total noncurrent assets	22,425	24,778	205,809
Total assets	¥75,948	¥78,111	\$697,029

	Millions of yen		Thousands of U.S. dollars
	2019.1	2018.1	2019.1
Liabilities			
Current liabilities			
Notes and accounts payable–trade	¥10,092	¥ 9,653	\$ 92,627
Income taxes payable	126	419	1,156
Accrued consumption taxes	248	87	2,276
Provision for bonuses	241	205	2,216
Other	815	716	7,480
Total current liabilities	11,523	11,082	105,757
Noncurrent liabilities			
Net defined benefit liability	802	790	7,367
Deferred tax liabilities	876	1,429	8,039
Other	537	405	4,930
Total noncurrent liabilities	2,216	2,624	20,338
Total liabilities	13,739	13,706	126,095
Net assets			
Shareholders' equity			
Capital stock	13,672	13,672	125,477
Capital surplus	13,336	13,336	122,398
Retained earnings	35,827	36,287	328,812
Treasury shares	(2,690)	(2,707)	(24,691)
Total shareholders' equity	60,145	60,588	551,997
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	1,569	3,013	14,402
Deferred gains or losses on hedges	(0)	(0)	(4)
Foreign currency translation adjustment	189	430	1,737
Remeasurements of defined benefit plans	182	313	1,671
Total accumulated other comprehensive income	1,940	3,756	17,806
Subscription rights to shares	123	59	1,129
Total net assets	62,208	64,404	570,933
Total liabilities and net assets	¥75,948	¥78,111	\$697,029

Consolidated Statements of Income and Consolidated Comprehensive Statements of Income

Ryoyo Electro Corporation and Consolidated Subsidiaries
For the years ended January 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019.1	2018.1	2019.1
Consolidated Statement of Income			
Net sales	¥93,799	¥92,234	\$860,866
Cost of sales	84,874	84,643	778,950
Gross profit	8,925	7,591	81,915
Selling, general and administrative expenses			
Provision of allowance for doubtful accounts	77	229	714
Salaries and bonuses	3,027	2,900	27,781
Provision for bonuses	240	205	2,204
Retirement benefit expenses	93	129	854
Rent expenses	362	345	3,322
Depreciation	217	224	1,992
Other	3,650	3,304	33,503
Total selling, general and administrative expenses	7,667	7,339	70,373
Operating income	1,257	251	11,541
Non-operating income			
Interest income	110	73	1,015
Dividend income	123	157	1,134
Purchase discounts	6	8	59
Gain on investments in partnership	60	55	555
Other	24	19	222
Total non-operating income	325	313	2,987
Non-operating expenses			
Sales discounts	12	7	111
Foreign exchange losses	75	99	692
Commission fee	18	9	165
Loss on abandonment of noncurrent assets	1	12	15
Other	1	3	12
Total non-operating expenses	108	132	997
Ordinary income	1,474	432	13,531
Extraordinary income			
Gain on sales of investment securities	145	242	1,337
Gain on liquidation of subsidiaries and associates	16	—	155
Total extraordinary income	162	242	1,492
Extraordinary losses			
Loss on sales of investment securities	—	33	—
Loss on valuation of investment securities	104	28	957
Loss on liquidation of subsidiaries and associates	—	124	—
Total extraordinary losses	104	186	957
Income before income taxes and minority interests	1,532	488	14,066
Income taxes—current	282	507	2,593
Income taxes—deferred	229	(231)	2,107
Total income taxes	512	275	4,701
Profit	1,020	212	9,364
Profit attributable to owners of parent	¥ 1,020	¥ 212	\$ 9,364
Consolidated Comprehensive Statement of Income			
Profit attributable to owners of parent	1,020	212	9,364
Other comprehensive income			
Valuation difference on available-for-sale securities	(1,444)	567	(13,258)
Deferred gains or losses on hedges	0	(0)	3
Foreign currency translation adjustment	(240)	(98)	(2,209)
Remeasurements of defined benefit plans, net of tax	(131)	91	(1,206)
Total other comprehensive income	(1,816)	559	(16,671)
Comprehensive income	(796)	772	(7,306)
(Details)			
Comprehensive income attributable to owners of parent	(796)	772	(7,306)
Comprehensive income attributable to non-controlling interests	—	—	—

Consolidated Statements of Changes in Net Assets

Ryoyo Electro Corporation and Consolidated Subsidiaries
For the years ended January 31, 2019 and 2018

From February 1, 2018 to January 31, 2019	Millions of yen									
	Shareholders' equity					Accumulated other comprehensive income				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Subscription rights to shares
Balance at January 31, 2018	¥13,672	¥13,336	¥36,287	¥(2,707)	¥60,588	¥ 3,013	¥(0)	¥ 430	¥ 313	¥ 59
Changes of items during the period										
Dividends from surplus			(1,470)		(1,470)					
Profit attributable to owners of parent			1,020		1,020					
Purchase of treasury shares				(1)	(1)					
Disposal of treasury shares			0	0	0					
Exercise subscription rights to shares			(9)	18	9					
Net changes of items other than shareholders' equity						(1,444)	0	(240)	(131)	63
Total changes of items during the period	–	–	(460)	17	(442)	(1,444)	0	(240)	(131)	63
Balance at January 31, 2019	¥13,672	¥13,336	¥35,827	¥(2,690)	¥60,145	¥ 1,569	¥(0)	¥ 189	¥ 182	¥123

From February 1, 2017 to January 31, 2018	Millions of yen									
	Shareholders' equity					Accumulated other comprehensive income				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Subscription rights to shares
Balance at January 31, 2017	¥13,672	¥13,336	¥38,244	¥(3,649)	¥61,602	¥2,446	¥(0)	¥528	¥222	¥59
Changes of items during the period										
Dividends from surplus			(1,225)		(1,225)					
Profit attributable to owners of parent			212		212					
Purchase of treasury shares				(2)	(2)					
Disposal of treasury shares			0	0	0					
Retirement of treasury shares			(944)	944	–					
Net changes of items other than shareholders' equity						567	(0)	(98)	91	–
Total changes of items during the period	–	–	(1,956)	942	(1,014)	567	(0)	(98)	91	–
Balance at January 31, 2018	¥13,672	¥13,336	¥36,287	¥(2,707)	¥60,588	¥3,013	¥(0)	¥430	¥313	¥59

From February 1, 2018 to January 31, 2019	Thousands of U.S. dollars									
	Shareholders' equity					Accumulated other comprehensive income				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Subscription rights to shares
Balance at January 31, 2018	\$125,477	\$122,398	\$333,035	\$(24,851)	\$556,059	\$ 27,660	\$(7)	\$ 3,947	\$ 2,877	\$ 549
Changes of items during the period										
Dividends from surplus			(13,498)		(13,498)					
Profit attributable to owners of parent			9,364		9,364					
Purchase of treasury shares				(13)	(13)					
Disposal of treasury shares			0	0	0					
Exercise subscription rights to shares			(87)	173	85					
Net changes of items other than shareholders' equity						(13,258)	3	(2,209)	(1,206)	580
Total changes of items during the period	–	–	(4,222)	160	(4,062)	(13,258)	3	(2,209)	(1,206)	580
Balance at January 31, 2019	\$125,477	\$122,398	\$328,812	\$(24,691)	\$551,997	\$ 14,402	\$(4)	\$ 1,737	\$ 1,671	\$1,129

Consolidated Statements of Cash Flows

Ryoyo Electro Corporation and Consolidated Subsidiaries
For the years ended January 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars
	2019.1	2018.1	2019.1
I. Cash flows from operating activities			
Income before income taxes	¥ 1,532	¥ 488	\$ 14,066
Depreciation and amortization	217	226	1,998
Loss (gain) on sales and retirement of noncurrent assets	0	12	0
Share-based compensation expenses	72	–	665
Loss (gain) on investments in partnership	(60)	(55)	(555)
Foreign exchange losses (gains)	(3)	(17)	(31)
Increase (decrease) in provision	1	253	17
Increase (decrease) in net defined benefit liability	3	0	31
Interest and dividends income	(234)	(230)	(2,150)
Loss (gain) on sales of investment securities	(145)	(208)	(1,337)
Loss (gain) on valuation of investment securities	104	28	957
Loss on liquidation of subsidiaries and associates	–	124	–
Decrease (increase) in notes and accounts receivable–trade	196	3,308	1,799
Decrease (increase) in inventories	(1,310)	(291)	(12,024)
Increase (decrease) in notes and accounts payable–trade	518	92	4,759
Increase (decrease) in accrued consumption taxes	160	62	1,477
Other, net	(168)	(604)	(1,543)
Subtotal	886	3,189	8,132
Interest and dividends income received	212	231	1,950
Income taxes refund (paid)	(509)	(346)	(4,676)
Net cash provided by (used in) operating activities	588	3,074	5,405
II. Cash flows from investing activities			
Payments into time deposits	(1,049)	(1,028)	(9,627)
Proceeds from withdrawal of time deposits	1,192	1,050	10,946
Purchase of securities	–	(552)	–
Proceeds from redemption of securities	100	2,000	917
Purchase of property, plant and equipment and intangible assets	(165)	(81)	(1,517)
Proceeds from sales of property, plant and equipment and intangible assets	5	0	54
Purchase of investment securities	(8)	(12,876)	(82)
Proceeds from sales of investment securities	220	4,080	2,019
Purchase of shares of subsidiaries and associates	(3)	–	(28)
Payments of loans receivable from subsidiaries and associates	(99)	(72)	(913)
Collection of loans receivable from subsidiaries and affiliates	99	99	913
Proceeds from distribution of investment in partnerships	183	153	1,680
Purchase of insurance funds	(50)	(39)	(465)
Other, net	118	28	1,091
Net cash provided by (used in) investing activities	543	(7,236)	4,988
III. Cash flows from financing activities			
Cash dividends paid	(1,467)	(1,222)	(13,465)
Purchase of treasury shares	(1)	(2)	(13)
Proceeds from sales of treasury shares	0	0	0
Net cash provided by (used in) financing activities	(1,468)	(1,224)	(13,479)
IV. Effect of exchange rate changes on cash and cash equivalents	(140)	(62)	(1,286)
V. Net increase (decrease) in cash and cash equivalents	(476)	(5,449)	(4,371)
VI. Cash and cash equivalents at beginning of period	13,893	19,343	127,506
VII. Cash and cash equivalents at end of period	¥13,416	¥ 13,893	\$123,134

Corporate Data / Investor Information

As of January 31, 2019

Corporate Name

Ryoyo Electro Corporation

Address

Konwa Building, 1-12-22
Tsukiji, Chuo-ku, Tokyo
104-8408, Japan

Phone

+81-3-3543-7711

Fax

+81-3-3545-3507

Website

<https://www.ryoyo.co.jp/en>

Date of Incorporation

February 27, 1961

Paid-in Capital

¥13,672 million

Authorized Shares

119,628,800

Shares Issued

26,800,000

Shareholders

7,010

Stock Trading Unit

100 shares

Stock Listing

Tokyo Stock Exchange,
First Section

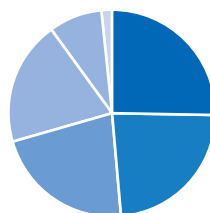
Ticker Code

8068

Transfer Agent

Mitsubishi UFJ Trust and
Banking Corporation

Composition of Shareholders



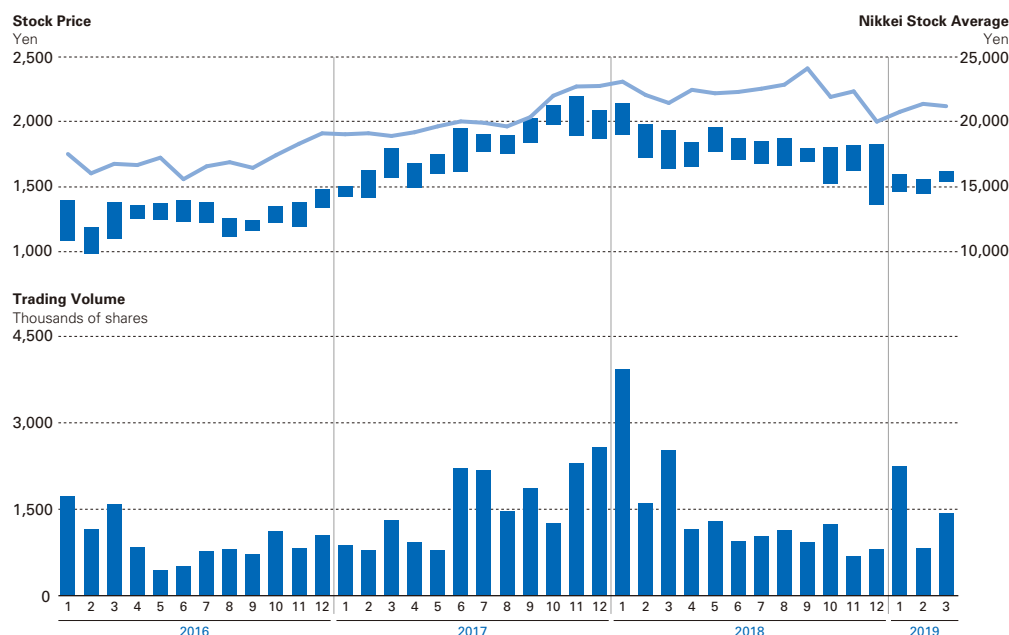
Foreign corporations and other foreign investors	25.9%
Individuals and other	23.9%
Financial institutions	21.8%
Other corporations	19.4%
Treasury stock	8.5%
Securities companies, etc.	0.5%

Major Shareholders

	Thousands of shares	%
CGML PB CLIENT ACCOUNT/COLLATERAL	3,863	15.76
Mitsubishi Electric Corporation	2,246	9.16
SHC Corporation	2,118	8.64
Japan Trustee Services Bank, Ltd. (Trust account)	1,858	7.58
The Master Trust Bank of Japan (Trust account)	1,165	4.75
Sheep Shokai Co.	523	2.13
Nippon Life Insurance Company	409	1.67
Japan Trustee Services Bank, Ltd. (Trust account 5)	391	1.60
Japan Trustee Services Bank, Ltd. (Trust account 9)	335	1.37
SSBTC CLIENT OMNIBUS ACCOUNT	288	1.18

Note: Calculations for the ownership percentages above do not account for the 2,278,591 shares of treasury stock.

Stock Price Chart



Caution on Forward-Looking Statements

The contents of this annual review that are not historical fact represent projections based on expectations and plans for the future. These projections contain elements of risk and uncertainty. As a result, forward-looking statements made in this annual review may differ from actual results and performance.

Notes on Performance Figures in This Annual Review

The performance figures used in this annual review, including those from previous fiscal years, are based on Ryoyo Electro Corporation's audited Japanese financial reviews.



In consideration for the environment, this annual review uses paper that has been approved by the Forest Stewardship Council (FSC). Additionally, this annual review is printed using highly biodegradable vegetable oil ink.