



**DAIHO CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED MARCH 31, 2016 AND 2015**  
**TOGETHER WITH INDEPENDENT AUDITORS' REPORT**

KPMG AZSA LLC  
September 2016



## Independent Auditor's Report

To the Board of Directors of DAIHO CORPORATION:

We have audited the accompanying consolidated financial statements of DAIHO CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated statements of operations, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of DAIHO CORPORATION and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*KPMG AZSA LLC.*

September 30, 2016  
Tokyo, Japan

KPMG AZSA LLC, a limited liability audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



**DAIHO CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**March 31, 2016 and 2015**

<u>ASSETS</u>	<u>Millions of yen</u>		<u>Thousands of</u> <u>U.S. dollars</u> <u>(Note 1)</u>
	<u>2016</u>	<u>2015</u>	<u>2016</u>
Current assets:			
Cash and time deposits (Notes 14 and 18)	¥ 31,662	¥ 16,307	\$ 280,990
Receivables:			
Trade notes and accounts receivable (Note 18)	62,554	68,257	555,147
Short-term loans receivable (Note 18)	24	25	213
Allowance for doubtful accounts (Note 18)	(164)	(177)	(1,455)
Costs on uncompleted construction contracts and other (Notes 3, and 8)	1,349	889	11,972
Deferred tax assets (Note 12)	760	556	6,745
Other current assets	6,593	8,970	58,511
Total current assets	<u>102,778</u>	<u>94,827</u>	<u>912,123</u>
Property and equipment:			
Land (Notes 6)	4,978	5,151	44,178
Buildings and structures (Notes 6)	5,071	5,098	45,004
Machinery and equipment	8,901	8,774	78,994
Leased assets	169	160	1,500
Construction in progress	89	3	789
	<u>19,208</u>	<u>19,186</u>	<u>170,465</u>
Accumulated depreciation	(11,457)	(11,615)	(101,677)
Net property and equipment	<u>7,751</u>	<u>7,571</u>	<u>68,788</u>
Intangible assets	145	137	1,287
Investments and other non-current assets:			
Investment securities (Notes 4, 6, 11 and 18)	5,780	5,406	51,296
Long-term loans receivable (Note 18)	79	102	701
Deferred tax assets (Note 12)	92	103	816
Claims provable in bankruptcy, claims provable in rehabilitation and other (Note 18)	557	15	4,943
Other non-current assets	929	1,646	8,244
Allowance for doubtful accounts (Note 18)	(757)	(622)	(6,718)
Total investments and other non-current assets	<u>6,680</u>	<u>6,650</u>	<u>59,282</u>
Total assets	<u>¥ 117,354</u>	<u>¥ 109,185</u>	<u>\$ 1,041,480</u>

See accompanying notes.



**DAIHO CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**March 31, 2016 and 2015**

<b>LIABILITIES AND NET ASSETS</b>	<b>Millions of yen</b>		<b>Thousands of U.S. dollars (Note 1)</b>
	<b>2016</b>	<b>2015</b>	<b>2016</b>
<b>Current liabilities:</b>			
Short-term loans payable (Notes 7 and 18)	¥ 5,000	¥ 8,400	\$ 44,373
Notes and accounts payable (Notes 5 and 18)	42,879	43,559	380,538
Advances received on uncompleted construction contracts	5,661	6,667	50,240
Income taxes payable (Note 12)	2,496	1,682	22,151
Allowance for losses on construction contracts (Note 8)	488	661	4,331
Deposits received (Note 18)	8,572	6,829	76,074
Allowance for warranties for completed construction	358	272	3,177
Other current liabilities	968	975	8,591
Total current liabilities	66,422	69,045	589,475
<b>Long-term liabilities:</b>			
Deferred tax liabilities (Note 12)	498	602	4,420
Net defined benefit liability (Note 9)	6,260	6,233	55,556
Allowance for losses on litigation	203	81	1,802
Other long-term liabilities	1,345	1,444	11,935
Total long-term liabilities	8,306	8,360	73,713
Total liabilities	¥ 74,728	¥ 77,405	\$ 663,188
<b>Contingent liabilities (Notes 10)</b>			
<b>Net assets (Note 13):</b>			
<b>Shareholders' equity:</b>			
<b>Common stock</b>			
Authorized - 160,000,000 shares			
Issued - 87,170,143 shares	9,030	6,321	80,138
Capital surplus	7,955	5,246	70,598
Retained earnings	24,261	18,932	215,309
Less: Treasury stock, at cost	(164)	(153)	(1,455)
<b>Accumulated other comprehensive income:</b>			
Unrealized gains on securities	1,197	1,341	10,623
Deferred gains or losses on hedges	38	87	337
Foreign currency translation adjustment	(27)	(14)	(240)
Remeasurements of defined benefit plans	(380)	(467)	(3,372)
Subscription rights to shares	401	184	3,559
Non-controlling interests:	315	303	2,795
Total net assets	42,626	31,780	378,292
Total liabilities and net assets	¥ 117,354	¥ 109,185	\$ 1,041,480

See accompanying notes.



**DAIHO CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**Years ended March 31, 2016 and 2015**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Sales:	¥ 146,816	¥ 138,526	\$ 1,302,946
Costs and expenses:			
Cost of sales	132,784	127,824	1,178,417
Selling, general and administrative expenses	4,683	4,555	41,560
	<u>137,467</u>	<u>132,379</u>	<u>1,219,977</u>
Operating income	9,349	6,147	82,969
Other income (expenses):			
Interest and dividend income	79	60	701
Interest expense	(56)	(76)	(497)
Guarantee commission	(60)	(58)	(532)
Gain and loss on sale and disposal of property and equipment	(22)	150	(195)
Foreign currency exchange (loss) gains, net	(135)	173	(1,198)
Loss on litigation (Note 17)	(475)	(100)	(4,215)
Impairment loss on fixed assets (Notes 16)	(0)	(776)	(0)
Reversal of allowance for losses on litigation	—	123	—
Other, net	29	72	257
	<u>(640)</u>	<u>(432)</u>	<u>(5,679)</u>
Income before income taxes and non-controlling interests	8,709	5,715	77,290
Income taxes (Note 12):			
Current	3,301	1,821	29,295
Deferred	(160)	(744)	(1,419)
Net income	<u>5,568</u>	<u>4,638</u>	<u>49,414</u>
Profit attributable to non-controlling interests	14	22	124
Profit attributable to owners of parent	<u>¥ 5,554</u>	<u>¥ 4,616</u>	<u>\$ 49,290</u>

	Yen		U.S. dollars (Note 1)
	2016	2015	2016
Amounts per share of common stock:			
Net Income (Note 20)	¥ 67.18	¥ 61.67	\$ 0.60
Diluted net income per share	66.54	61.45	0.59
Cash dividends applicable to the year	5.00	3.00	0.04

See accompanying notes.



**DAIHO CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**Years ended March 31, 2016 and 2015**

	<u>Millions of yen</u>		<u>Thousands of U.S. dollars (Note 1)</u>
	<u>2016</u>	<u>2015</u>	<u>2016</u>
Net income	¥ 5,568	¥ 4,638	\$ 49,414
Other comprehensive income: (Note 19)			
Unrealized gains or losses on securities	(144)	391	(1,278)
Deferred gains or losses on hedges	(49)	67	(435)
Foreign currency translation adjustment	(14)	18	(124)
Remeasurements of defined benefit plans	87	110	772
Total other comprehensive income	<u>(120)</u>	<u>586</u>	<u>(1,065)</u>
Comprehensive income	<u>¥ 5,448</u>	<u>¥ 5,224</u>	<u>\$ 48,349</u>
Comprehensive income attribute to:			
Comprehensive income attributable to owners of parent	¥ 5,434	¥ 5,202	\$ 48,225
Comprehensive income attributable to non-controlling interests	14	22	124

See accompanying notes.



**DAIHO CORPORATION**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
 Years ended March 31, 2016 and 2015

Millions of yen

	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains on securities, net of tax	Deferred gains or losses on hedges, net of tax	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Subscription rights to shares	Non-controlling interests	Total
BALANCE AT APRIL 1, 2014	75,670	¥ 6,321	¥ 5,246	¥ 12,576	¥ (141)	¥ 950	¥ 20	¥ (31)	¥ (577)	¥ —	¥ 282	¥ 24,646
Cumulative effects of changes in accounting policies	—	—	—	1,890	—	—	—	—	—	—	—	1,890
Issuance of new shares	—	—	—	—	—	—	—	—	—	—	—	—
Cash dividends paid (¥2.0 per share)	—	—	—	(150)	—	—	—	—	—	—	—	(150)
Profit attributable to owners of parent	—	—	—	4,616	—	—	—	—	—	—	—	4,616
Disposal of treasury stock	—	—	0	—	0	—	—	—	—	—	—	0
Acquisition of treasury stock	—	—	—	—	(12)	—	—	—	—	—	—	(12)
Net change of items other than shareholders' equity	—	—	—	—	—	391	67	17	110	184	21	790
BALANCE AT MARCH 31, 2015	75,670	¥ 6,321	¥ 5,246	¥ 18,932	¥ (153)	¥ 1,341	¥ 87	¥ (14)	¥ (467)	¥ 184	¥ 303	¥ 31,780
Issuance of new shares	11,500	2,709	2,709	—	—	—	—	—	—	—	—	5,418
Cash dividends paid (¥3.0 per share)	—	—	—	(225)	—	—	—	—	—	—	—	(225)
Profit attributable to owners of parent	—	—	—	5,554	—	—	—	—	—	—	—	5,554
Disposal of treasury stock	—	—	—	—	—	—	—	—	—	—	—	—
Acquisition of treasury stock	—	—	—	—	(11)	—	—	—	—	—	—	(11)
Net change of items other than shareholders' equity	—	—	—	—	—	(144)	(49)	(13)	87	217	12	110
BALANCE AT MARCH 31, 2016	87,170	¥ 9,030	¥ 7,955	¥ 24,261	¥ (164)	¥ 1,197	¥ 38	¥ (27)	¥ (380)	¥ 401	¥ 315	¥ 42,626

Thousands of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains on securities, net of tax	Deferred gains or losses on hedges, net of tax	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Subscription rights to shares	Non-controlling interests	Total
BALANCE AT APRIL 1, 2015	\$ 56,096	\$ 46,556	\$ 168,016	\$ (1,357)	\$ 11,901	\$ 772	\$ (125)	\$ (4,144)	\$ 1,633	\$ 2,689	\$ 282,037
Issuance of new shares	24,042	24,042	—	—	—	—	—	—	—	—	48,084
Cash dividends paid (\$0.03 per share)	—	—	(1,997)	—	—	—	—	—	—	—	(1,997)
Profit attributable to owners of parent	—	—	49,290	—	—	—	—	—	—	—	49,290
Disposal of treasury stock	—	—	—	—	—	—	—	—	—	—	—
Acquisition of treasury stock	—	—	—	(98)	—	—	—	—	—	—	(98)
Net change of items other than shareholders' equity	—	—	—	—	(1,278)	(435)	(115)	772	1,926	106	976
BALANCE AT MARCH 31, 2016	\$ 80,138	\$ 70,598	\$ 215,309	\$ (1,455)	\$ 10,623	\$ 337	\$ (240)	\$ (3,372)	\$ 3,559	\$ 2,795	\$ 378,292

See accompanying notes





**DAIHO CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Years ended March 31, 2016 and 2015**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Cash flows from operating activities:			
Income before income taxes and non-controlling interests	¥ 8,709	¥ 5,715	\$ 77,290
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating activities:			
Depreciation and amortization	380	362	3,372
Stock-based compensation expense	217	184	1,926
Impairment loss on fixed assets	0	776	0
Loss on litigation	475	100	4,215
Interest and dividend income	(79)	(59)	(701)
Interest expense	56	76	497
Increase (Decrease) in allowance for doubtful accounts	(166)	(315)	(1,473)
Increase (Decrease) in net defined benefit liability	30	100	266
Foreign currency exchange (gains) losses, net	133	(179)	1,180
Increase (Decrease) in allowance for losses on construction contracts	(173)	212	(1,535)
(Gain) Loss on sale and disposal of property and equipment	22	(150)	195
Increase (Decrease) in advances received on uncompleted contracts	(1,006)	(833)	(8,928)
(Increase) Decrease in receivables and other current assets	5,686	(12,612)	50,461
(Increase) Decrease in inventories	(463)	1,964	(4,109)
Increase (Decrease) in payables and accrued expenses	(658)	2,423	(5,840)
(Increase) Decrease in other assets	2,407	(4,203)	21,361
Increase (Decrease) in other liabilities	1,512	928	13,419
Increase(Decrease) in allowance from warranties for completed construction	86	20	763
Other, net	268	49	2,380
Subtotal	17,436	(5,442)	154,739
Interest and dividend received	79	59	701
Interest paid	(53)	(64)	(470)
Income taxes paid	(2,518)	(540)	(22,346)
Payments for loss on litigation	(53)	(55)	(471)
Net cash provided by (used in) operating activities	14,891	(6,042)	132,153
Cash flows from investing activities:			
Deposit in time deposits	(110)	(67)	(976)
Withdrawal from time deposits	154	67	1,367
Proceeds from sale of property and equipment	185	1,253	1,642
Payment for purchase of property and equipment	(741)	(245)	(6,576)
Purchase of investment securities	(683)	(651)	(6,061)
Proceeds from sale of investment securities	60	159	532
Payment for loans receivable	(3)	(5)	(27)
(Increase)Decrease in short-term loans receivable	3	6	27
Collection of loans receivable	22	22	195
Purchase of intangible assets	(34)	(32)	(302)
Net cash provided by (used in) investing activities	(1,147)	507	(10,179)
Cash flows from financing activities:			
Net decrease in short-term debt	(6,550)	3,350	(58,129)
Proceeds from issuance of common shares	5,417	—	48,074
Proceeds from long-term debt	3,150	—	27,955
Purchase of treasury stock	(10)	(12)	(89)
Cash dividends paid	(225)	(149)	(1,997)
Cash dividends paid to minority interests	(2)	(2)	(18)
Other, net	(68)	(74)	(603)
Net cash provided by (used in) financing activities	1,712	3,113	15,193
Effect of exchange rate changes on cash and cash equivalents	(58)	99	(515)
Net increase (decrease) in cash and cash equivalents	15,398	(2,323)	136,652
Cash and cash equivalents at beginning of year	16,235	18,558	144,081
Cash and cash equivalents at end of year (Note 14)	¥ 31,633	¥ 16,235	\$ 280,733

See accompanying notes.





**DAIHO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2016 and 2015**

**1. Basis of presenting consolidated financial statements**

The accompanying consolidated financial statements of DAIHO CORPORATION (the “Company”) and its consolidated subsidiaries (together, the “Companies”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2016, which is ¥ 112.68 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

**2. Significant accounting policies**

(1) Principles of consolidation

The consolidated financial statements as of March 31, 2016 include the accounts of the Company and its 8 significant subsidiaries.

Other 2 subsidiaries are not consolidated as they have no material effect on the accompanying consolidated financial statements. All significant inter-company transactions and accounts have been eliminated.

Investments in the other subsidiaries and affiliated companies are stated at costs since the Company’s equity in net income or retained earnings in such companies is not material.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated by using the fair value at the time the Company acquired control of the respective subsidiaries.

(2) Inventories

Costs on uncompleted construction contracts, costs on real estate business and raw materials and supplies are stated at cost as determined on a specific basis. Costs on real estate business and raw materials and supplies are measured at the lower of cost or net realizable value.

(3) Property, equipment and depreciation

Property and equipment are stated at cost. Depreciation is computed by the declining-balance method, except for the buildings acquired after March 31, 1998. The buildings (excluding building fixtures) are depreciated using the straight-line method.

Estimated useful lives of the property and equipment are as follows:

	<u>2016</u>	<u>2015</u>
Buildings and structures	3 to 50 years	3 to 50 years
Machinery and equipment	2 to 20 years	2 to 20 years



**DAIHO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2016 and 2015**

(4) Intangible assets

Intangible assets are amortized using the straight-line method. Software for internal use is amortized over its estimated useful life (five years).

(5) Accounting for certain lease transactions

Assets of finance leases that do not transfer ownership of lease property to the lessee is depreciated over the lease term using the straight-line method that residual value is zero.

(6) Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

The items of financial statements of foreign subsidiaries and affiliates are translated into Japanese yen at the current rate at the end of the fiscal year for all assets and liabilities, and at the average rate during the fiscal year for revenues and expenses.

(7) Revenue recognition

The Companies recognize revenue by applying the percentage-of-completion method for the construction projects with condition that the outcome of the construction activity is deemed certain at the end of the reporting period. To estimate the progress of such construction project, method to calculate the percentage of the cost incurred to the estimated total cost (= cost proportion method) has been applied. Other contract revenue is accounted for using the completed-contract method.

Construction revenues recognized by the percentage-of-completion method amounted to ¥136,664 million (\$1,212,851 thousand) and ¥121,889 million for the years ended March 31, 2016 and 2015, respectively.

(8) Marketable securities and investment securities

The Companies have neither trading securities nor held-to-maturity debt securities. Equity securities issued by subsidiaries, which are not consolidated or accounted for using the equity method, are stated at moving-average cost. Available-for-sale securities with fair market values are stated at fair market value and unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets via the Consolidated Statements of Comprehensive Income. Realized gains and losses on sale of such securities are computed using moving-average cost. Available-for-sale securities with no fair market value are stated at moving-average cost.

(9) Costs of research and development

All research and development costs are charged to income as incurred. Costs of research and development for the years ended March 31, 2016 and 2015 totaled ¥42 million (\$373 thousand) and ¥37 million, respectively.

(10) Allowance for doubtful accounts

The Companies provide allowance for doubtful accounts principally at an amount computed based on the historical bad debt ratio during a certain reference period, plus an estimated uncollectible amount based on the analysis of certain individual accounts, including claims in bankruptcy.

(11) Allowance for warranties for completed construction

The allowance for warranties for completed construction is provided to cover expenses for defects claimed concerning completed work, based on the estimated amount for compensation to be paid in the future for the work completed during the fiscal year.

(12) Allowance for losses on construction contracts

The Companies provide allowance for losses on uncompleted construction contracts at the fiscal year-end when losses are certainly anticipated for the next fiscal year and later and such losses can be reasonably estimated.



**DAIHO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2016 and 2015**

(13) Allowance for losses on litigation

The Companies provide allowance for losses on litigation at an amount estimated based on the progress of the litigation.

(14) Net defined benefit liability

(A) Method of attributing expected benefit to periods

For determining method of attributing expected benefit to periods, the Companies use a benefit formula basis.

(B) Method of processing actuarial gains and losses and prior service costs

Prior service costs are recognized as expenses using the straight-line method over 10 years, which falls within the average of the estimated remaining service lives of the employees. Actuarial gains and losses are recognized as expenses using the straight-line method over 10 years, which falls within the average of the estimated remaining service lives of the employees, commencing from the succeeding period.

(C) Adoption of simplified method for small entities

Certain subsidiaries calculate net defined benefit liability and retirement benefit expenses by using a simplified method in which retirement benefit obligations are equal to the amount that would be paid if all employees resigned voluntarily at the end of the fiscal year.

(15) Income taxes

Income taxes comprise corporation, enterprise and inhabitant taxes. The Companies recognize tax effects of temporary differences between the financial statement basis and the tax basis of assets and liabilities. The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

(16) Derivatives and hedging activities

Foreign exchange forward contracts are utilized by the Companies to manage their exposures to fluctuations in foreign exchange. The Companies do not enter into derivatives for trading purposes or speculative purposes.

The companies state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless the derivative instruments are used for hedging purposes.

When a foreign exchange forward contract meets certain conditions, the hedged item is stated by the forward exchange contract rate.

The following summarizes hedging derivative financial instruments used by the Companies and item hedged:

<u>Hedging instruments</u>	<u>Item hedged</u>
Forward foreign exchange contracts	Foreign currency payables
Foreign currency deposits	Scheduled transactions denominated in foreign currencies

The Companies confirm that substantial terms and conditions of the hedging instrument and the hedged transactions are the same, as well as it will have been constantly offset fluctuation of fair value at the beginning of hedge and after that.

(17) Amounts per share of common stock

Net income per share is computed using the weighted-average number of shares of common stock outstanding during the year. Cash dividends per share represent dividends declared as applicable to the respective years.

(18) Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase are considered to be cash and cash equivalents.



**DAIHO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2016 and 2015**

(19) Appropriations of retained earnings.

Appropriations of retained earnings are reflected in the accompanying consolidated financial statements for the following year upon the shareholders' meeting approval.

(20) Reclassifications

Certain prior year amounts have been reclassified and restated to conform to the presentation of this year. These changes had no impact on previously reported results of operations or shareholders' equity.

(21) Application of new accounting standards

(Changes of accounting policies)

The Companies adopted "Revised Accounting Standard for Business Combinations" (ASBJ Statement No.21, September 13, 2013), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22, September 13, 2013) and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7, September 13, 2013) from the current fiscal year. As a result, the presentation of net income has been changed and the presentation of "minority interests" has been changed to "non-controlling interests". In accordance with these changes, certain items of consolidated financial statements of previous fiscal year were reclassified to conform to current year presentation.

(22) Accounting standards not yet adopted

"Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26 on March 28, 2016)

(A) Overview

"Implementation Guidance on Recoverability of Deferred Tax Assets" was established by the ASBJ when the authority of the Japanese Institute of Certified Public Accountants' accounting and auditing practical guidelines (sections related to accounting treatment) on tax-effect accounting were transferred to the ASBJ. The implementation guidance generally follows the framework related to the recoverability of deferred tax assets, in the JICPA's accounting and auditing practical guidelines, principally those provided in the JICPA Auditing Committee Report No. 66, "Audit Treatment for Judgment of Recoverability of Deferred Tax Assets," in that companies are grouped into 5 categories and the amount of deferred tax asset recorded is estimated based on the applicable category, while the criteria for category designation and treatment of the deferred tax asset amount recorded is reassessed as needed, thereby providing guidelines for the application of the "Accounting Standards for Tax-Effect Accounting" (Business Accounting Council) for the recoverability of deferred tax assets.

(B) Scheduled date of adoption

Opening balance sheet of the fiscal year beginning after April 1, 2016.

(C) Impact of the adoption

The impact of adopting the implementation guidance is currently being evaluated.





**DAIHO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2016 and 2015**

**3. Costs on uncompleted construction contracts and other**

Costs on uncompleted construction contracts and other are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Costs on uncompleted construction contracts	¥ 1,285	¥ 820	\$ 11,404
Raw materials and supplies	64	69	568

**4. Market value information for securities**

(A) The following tables summarize acquisition costs and book values of securities with available fair values as of March 31, 2016 and 2015:

Available-for-sale securities:

(1) Securities with book values exceeding acquisition costs

Type	Millions of yen		
	2016		
	Acquisition cost	Book value	Difference
Equity securities	¥ 2,535	¥ 4,354	¥ 1,819
Bonds	10	10	0
Others	88	92	4
Total	¥ 2,633	4,456	1,823

Type	Millions of yen		
	2015		
	Acquisition cost	Book value	Difference
Equity securities	¥ 2,144	¥ 4,155	¥ 2,011
Bonds	10	10	0
Others	100	116	16
Total	¥ 2,254	¥ 4,281	¥ 2,027

Type	Thousands of U.S. dollars		
	2016		
	Acquisition cost	Book value	Difference
Equity securities	\$ 22,497	\$ 38,640	\$ 16,143
Bonds	89	89	0
Others	781	817	36
Total	\$ 23,367	\$ 39,546	\$ 16,179



**DAIHO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2016 and 2015**

(2) Securities with book values not exceeding acquisition costs

Type	Millions of yen		
	2016		
	Acquisition cost	Book value	Difference
Equity securities	¥ 484	¥ 395	¥ (89)
Others	121	117	(4)
Total	¥ 605	512	(93)

Type	Millions of yen		
	2015		
	Acquisition cost	Book value	Difference
Equity securities	¥ 333	¥ 291	¥ (42)
Others	—	—	—
Total	¥ 333	291	(42)

Type	Thousands of U.S. dollars		
	2016		
	Acquisition cost	Book value	Difference
Equity securities	\$ 4,295	\$ 3,506	\$ (789)
Others	1,074	1,038	(36)
Total	\$ 5,369	4,544	(825)

(B) Available-for-sale securities sold, and the related gains and losses

Total sales, related gains and losses of available-for-sale securities are as follows:

Type	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Equity securities			
Sales	¥ 61	¥ 159	\$ 541
Related gains	7	25	62
Related losses	—	—	—

(C) Available-for-sale securities impaired

Year ended March 31, 2016

Not applicable.

Year ended March 31, 2015

Not applicable.



**DAIHO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2016 and 2015**

**5. Derivatives**

(A) Derivative transactions to which hedge accounting is not applied as of March 31, 2016 and 2015.  
Not applicable.

(B) Derivative transactions to which hedge accounting is applied  
Currency related transaction

As of March 31, 2016

Transaction Type	Hedged items	Millions of Yen		
		Contract amount	Contract over one year	Fair Value
Foreign exchange forward contracts Buying contracts USD	scheduled transactions denominated in foreign currencies	96	—	10

Transaction Type	Hedged items	Thousands of U.S. dollars		
		Contract amount	Contract over one year	Fair Value
Foreign exchange forward contracts Buying contracts USD(note1)	scheduled transactions denominated in foreign currencies	851	—	89

(note1) The fair value of this derivative is based on quoted market prices of forward exchange.

The following foreign exchange forward contracts meet certain conditions and their corresponding hedged items are stated by the forward exchange contract rates.

Transaction Type	Hedged items	Millions of Yen		
		Contract amount	Contract over one year	Fair Value
Foreign exchange forward contracts Buying contracts USD	Accounts payable	5	—	(note2)

  

Transaction Type	Hedged items	Thousands of U.S. dollars		
		Contract amount	Contract over one year	Fair Value
Foreign exchange forward contracts Buying contracts USD	Accounts payable	44	—	(note2)

(note2)The fair value is included in those of their hedged items in Note 18, "Disclosure of fair values of financial instruments".





**DAIHO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2016 and 2015**

As of March 31, 2015

Transaction Type	Hedged item	Millions of Yen		
		Contract amount	Contract over one year	Fair Value
Foreign exchange forward contracts	scheduled transactions denominated in foreign currencies			
Buying contracts				
USD		437	102	78

### 6. Pledged assets

As of March 31, 2016 and 2015, the following assets of the Companies are pledged to short-term loans payable.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Buildings and structures	850	784	7,543
Land	1,949	1,949	17,296
	¥ 2,799	¥ 2,733	\$ 24,839

As of March 31, 2016 and 2015, the following assets of the Companies are pledged to guarantee money for construction.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Investment securities	¥ 10	¥ 10	\$ 89

### 7. Short-term loans

Short-term loans consisted mainly of bank overdrafts from banks. The weighted average interest rates at March 31, 2016 and 2015 are 1.0 % and 1.1% per annum, respectively.



**DAIHO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2016 and 2015**

**8. Allowance for losses on construction contracts**

Costs on uncompleted construction contracts for which a construction loss is anticipated and Allowance for losses on construction contracts are presented without being offset.

The amount of Allowance of losses on construction contracts matching with the amount of Costs on uncompleted construction contracts is ¥31 million (\$275 thousand) and ¥1 million for the year ended March 31, 2016 and 2015, respectively.

The amount of Allowance of losses on construction contracts included in Cost of sales is ¥307 million (\$2,725 thousand) and ¥591 million for the year ended March 31, 2016 and 2015, respectively

**9. Net defined benefit liability**

(1)As of March 31,2016 and 2015,the Company and certain consolidated subsidiaries provide two types of severance and retirement benefit plans, defined contribution pension plans and severance lump-sum payment plans based on the point. Other consolidated subsidiaries provide unfunded lump-sum payment plans.

(2)The following table shows movement in retirement benefit obligations for the year ended March 31,2016 and 2015 ( including adoption a simplified method in computing their retirement benefit obligations as permitted by Japanese GAAP ).

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at the beginning of year	¥ 6,233	¥ 8,020	\$ 55,316
The cumulative effect of a change in accounting policy	—	(1,890)	—
Service cost	542	549	4,810
Interest cost	51	50	453
Actuarial loss(gain)	(2)	(22)	(18)
Benefits paid	(564)	(474)	(5,005)
Balance at the end of year	¥ 6,260	¥ 6,233	\$ 55,556

(3)Movements in plan assets  
Not applicable.

(4)The reconciliation from retirement benefit obligations to net defined benefit liability( including adoption a simplified method stated above) is as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unfunded retirement benefit obligations	¥ 6,260	¥ 6,233	\$ 55,556
Total Net defined benefit liability at the end of respective fiscal year	6,260	6,233	55,556
Defined benefit liability	¥ 6,260	¥ 6,233	\$ 55,556
Total Net defined benefit liability at the end of respective fiscal year	6,260	6,233	55,556



**DAIHO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2016 and 2015**

(5)The components of retirement benefit expenses for the year ended March 31,2016 and 2015 ( retirement benefit expenses in the consolidated subsidiaries using simplified method are recorded in service cost )are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Service cost	¥ 542	¥ 549	\$ 4,810
Interest cost	51	50	453
Net actuarial loss amortization	58	58	514
Past service costs amortization	27	30	240
Other	—	1	—
Total retirement benefit expenses for the respective fiscal year	<u>678</u>	<u>¥ 688</u>	<u>\$ 6,017</u>

(6)The remeasurements of defined benefit plans are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Past service costs	¥ 27	¥ 30	\$ 240
Actuarial difference	60	80	532
Total remeasurements for the respective fiscal year	<u>¥ 87</u>	<u>¥ 110</u>	<u>\$ 772</u>

(7)The accumulated remeasurements of defined benefit plans are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Actuarial gains and losses that are yet to be recognized	¥ 380	¥ 440	\$ 3,372
Past service costs that are yet to be recognized	—	27	—
Total balance at the end of respective fiscal year	<u>¥ 380</u>	<u>¥ 467</u>	<u>\$ 3,372</u>

(8)Plan assets

The Companies have no plan assets. Therefore, the reconciliation of plan assets of beginning and ending balances, and the component ratio of main items included in plan assets for the years ended March 31,2016 and 2015 are not presented.

(9)The principal actuarial assumptions at March 31, 2016 and 2015 (expressed as weighted averages) are as follows:

Discount rate 0.8~1.0%

(10)Defined contribution pension plan

The amount to be paid by the company and consolidated subsidiaries to the defined contribution pension plan was ¥171 million (\$1,518thousand) and ¥171 million for the year ended March 31, 2016 and 2015 respectively.



**DAIHO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2016 and 2015**

**10. Contingent liabilities**

The Companies are contingently liable as a guarantor of indebtedness of customers aggregating ¥606 million (\$5,378 thousand) and ¥1,403 million at March 31, 2016 and 2015, respectively.

**11. Investment securities loaned out under available-for-sale securities loan contracts**

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Investment securities loaned	¥ 1,689	¥ 1,604	\$ 14,989



**DAIHO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2016 and 2015**

**12. Income taxes**

The Companies are subject to a number of taxes based on income, which, in the aggregate, indicate the rate in Japan is approximately 33.1% and 35.6% for the years ended March 31, 2016 and 2015, respectively. The following table summarizes the main differences between the statutory tax rate and the Companies' effective tax rate for the years ended March 31, 2016 and 2015.

	2016		2015
Statutory tax rate	33.1	%	35.6 %
Permanent differences:			
Non-deductible expenses	0.8		1.2
Non-taxable income	(0.8)		(1.4)
Per capita inhabitant taxes	1.5		2.4
Decrease in valuation allowance	(0.9)		(21.9)
Decrease in deferred income tax assets due to tax rate change	0.5		0.9
Elimination of inter-company dividends	0.9		1.4
Other	1.0		0.6
Effective tax rate	36.1		18.8

Main components of the Companies' deferred tax assets and liabilities as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Net defined benefit liability	¥ 1,928	¥ 2,029	\$ 17,110
Write-down of inventories(*1)	354	374	3,142
Allowance for doubtful accounts	281	256	2,494
Allowance for losses on construction contracts	152	218	1,349
Impairment loss on fixed assets	332	350	2,946
Allowance for warranties for completed construction	110	89	976
Enterprise taxes payable	183	82	1,624
Excess bonuses accrued	175	130	1,553
Tax loss carry forwards	193	215	1,713
Other	520	407	4,615
Subtotal	4,228	4,150	37,522
Valuation allowance	(3,236)	(3,300)	(28,718)
Total deferred tax assets	992	850	8,804
Deferred tax liabilities:			
Unrealized gains on securities	(532)	(643)	(4,721)
Deferred gains on property and equipment	(62)	(68)	(550)
Temporary differences about assets acquired through transfer of business	(19)	(30)	(169)
Other	(25)	(52)	(222)
Total deferred tax liabilities	(638)	(793)	(5,662)
Net deferred tax assets(liabilities)	¥ 354	¥ 57	\$ 3,142



**DAIHO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2016 and 2015**

(\*1) "Write-down of inventories" is concerning the real estate reclassified from current assets to non-current assets by the change of the purpose.

Net deferred tax assets are included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Current assets -Deferred tax assets	¥ 760	¥ 556	\$ 6,745
Investments and other non-current assets -Deferred tax assets	92	103	816
Long-term liabilities -Deferred tax liabilities	(498)	(602)	(4,420)

On March 29, 2016, the Bill for Partial Amendment of the Income Tax Act (Law No. 15 of 2016) and the Bill for Partial Amendment of the Local Tax Act (Law No. 13 of 2016) were approved by Japan's National Diet. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from 32.3% to 30.9% in the fiscal years beginning on April, 2016 and 2017, and 30.6% in the fiscal years beginning on or after April 2018.

Due to these changes in statutory income tax rates, net deferred tax assets(after deducting the deferred tax liabilities) decreased by ¥ 11 million(\$98 thousand) as of March 31, 2016, deferred income tax expense recognized for the fiscal year ended March 31, 2016 increased by ¥ 40million(\$355 thousand), and unrealized gains on securities increased by ¥ 28 million(\$248 thousand).

### 13.Net assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Japanese Corporate Law ("the Law"), companies are required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equal 25% of common stock.

Under the Japanese Commercial Code ("the Code"), legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remains equal to or exceeded 25% of common stock, they are available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.





**DAIHO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2016 and 2015**

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders' meeting held on June 29, 2016, the shareholders approved cash dividends amounting to ¥432 million (\$ 3,834 thousand). Such appropriations are not reflected in the consolidated financial statements as of March 31, 2016. They are recognized in the period when they are resolved.

#### 14. Cash and cash equivalents

Reconciliations of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash and time deposits	¥ 31,662	¥ 16,307	\$ 280,990
Less: Time deposits with maturities exceeding three months	(28)	(72)	(248)
Cash and cash equivalents	¥ 31,634	¥ 16,235	\$ 280,742

#### 15. Segment information

(1) General information about reportable segments

The Companies' reportable segments include items in the constituent units of business, for which separately financial information is available, and which reviewed regularly by the Board of Directors to determine the distribution of management resources and evaluate business results.

Therefore, the Companies categorize its operating activities into "Civil engineering", "Building construction" and "Other" businesses as reportable segments.

(2) Methods of measurement for the amounts of sales, income, assets and other items for each reportable segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Significant Accounting Policies".

Segment income is operating income of consolidated statements of operations.





**DAIHO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2016 and 2015**

(3) Information about sales, income, assets and other items is as follows:

<u>Year ended</u> March 31, 2016	Millions of yen					
	<u>Civil engineering</u>	<u>Building construction</u>	<u>Other</u>	<u>Total</u>	<u>Reconciliations (#1-#3)</u>	<u>Consolidated (#2)</u>
Sales:						
Outside customers	¥ 73,746	¥ 69,546	¥ 3,524	¥ 146,816	¥ —	¥ 146,816
Inter-segment	—	8	679	687	(687)	—
Total	<u>73,746</u>	<u>69,554</u>	<u>4,203</u>	<u>147,503</u>	<u>(687)</u>	<u>146,816</u>
Segment income	¥ 5,469	¥ 3,766	¥ 127	¥ 9,362	¥ (13)	¥ 9,349
Identifiable assets	¥ 65,877	¥ 49,883	¥ 2,800	¥ 118,560	¥ (1,206)	¥ 117,354
Depreciation and amortization	222	114	50	386	(6)	380
Capital expenditures	524	120	103	747	(20)	727

<u>Year ended</u> March 31, 2015	Millions of yen					
	<u>Civil engineering</u>	<u>Building construction</u>	<u>Other</u>	<u>Total</u>	<u>Reconciliations (#1-#3)</u>	<u>Consolidated (#2)</u>
Sales:						
Outside customers	¥ 69,751	¥ 65,171	¥ 3,604	¥ 138,526	¥ —	¥ 138,526
Inter-segment	1	9	372	382	(382)	—
Total	<u>69,752</u>	<u>65,180</u>	<u>3,976</u>	<u>138,908</u>	<u>(382)</u>	<u>138,526</u>
Segment income (loss)	¥ 4,476	¥ 1,578	¥ 85	¥ 6,139	¥ 8	¥ 6,147
Identifiable assets	¥ 57,398	¥ 50,198	¥ 2,793	¥ 110,389	¥ (1,204)	¥ 109,185
Depreciation and amortization	208	135	28	371	(9)	362
Capital expenditures	120	93	50	263	—	263



**DAIHO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2016 and 2015**

Year ended

March 31, 2016

Thousands of U.S. dollars

	Civil engineering	Building construction	Other	Total	Reconciliations (#1-#3)	Consolidated (#2)
Sales:						
Outside customers	\$ 654,473	\$ 617,199	\$ 31,274	\$ 1,302,946	\$ —	\$ 1,302,946
Inter-segment	—	71	6,026	6,097	(6,097)	—
Total	654,473	617,270	37,300	1,309,043	(6,097)	1,302,946
Segment income	\$ 48,536	\$ 33,422	\$ 1,127	\$ 83,085	\$ (116)	\$ 82,969
Identifiable assets	\$ 584,638	\$ 442,696	\$ 24,849	\$ 1,052,183	\$ (10,703)	\$ 1,041,480
Depreciation and amortization	1,970	1,012	443	3,425	(53)	3,372
Capital expenditures	4,650	1,065	914	6,629	(177)	6,452

#1.Reconciliations of segment income in an amount of ¥(13) million (\$ (116) thousand) and ¥8 million for the years ended March 31, 2016 and 2015, are eliminations of intersegment transactions.

#2.Consolidated amounts of segment income above correspond to the amounts of operating income in the consolidated statements of operations.

#3.All assets are allocated to the respective business segments without holding all-segment-covering ones.

(4) Related information

(a) Information by product or service

As the same information is disclosed in "(1) General information about reportable segments", this information is omitted.

(b) Information by region

(Sales)

Disclosure of sales information by region is omitted, as the proportion of sales in Japan to total sales is over 90%.

(Property and equipment)

Disclosure of property and equipment information by region is omitted, as the proportion of property and equipment in Japan to total property and equipment is over 90%.

(c) Information about major customers

Of sales to external customers, sales to any specific customer account for less than 10% of net sales in the consolidated financial statements. Therefore this information is omitted.

(5) Information about impairment loss of fixed assets by reported segments

Information about impairment loss of fixed assets by reported segments for the fiscal year ended March 31, 2016 is as follows:

Because of the poor importance, described are omitted.



**DAIHO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2016 and 2015**

Information about impairment loss of fixed assets by reported segments for the fiscal year ended March 31, 2015 is as follows:

		Millions of yen					
		Civil engineering	Building construction	Other	Total	Reconciliations	Consolidated
Year ended	March 31, 2015	¥ 0	¥ 776	—	¥ 776	¥ —	¥ 776
Impairment	loss						

(6) Amortization and balance of goodwill by reportable segment  
Not applicable.

(7) Amount of gain on negative goodwill by reportable segment  
Not applicable.

### 16. Impairment of Fixed Assets

For the year ended March 31, 2016, the Companies recognized impairment losses on the fixed assets as follows:

Because of the poor importance, described are omitted.

For the year ended March 31, 2015, the Companies recognized impairment losses on the fixed assets as follows:

Major use	Asset category	Location	Amount
Idle assets	Land	Minato City, Tokyo Prefecture	¥776 million
Idle assets	Land	Mimasaka City, Okayama Prefecture etc.	¥0 million

Grouping of the Companies' business assets are based on business units ( per branch ), and idle assets and assets used for rent are based on each asset.

Carrying amounts of certain assets used for rent, idle properties were devalued to their recoverable amounts, due to lowered profitability or substantial declines in the fair market value.  
As a result, the Companies recognized an impairment loss of ¥776 million.

Recoverable amounts of certain assets are net selling price at disposition. The Companies use appraisal value or road rating for idle assets.



**DAIHO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2016 and 2015**

**17. Loss on litigation**

Components of losses on litigation for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Settlement package	13	11	115
Allowance for loss on litigation	156	50	1,384
Provision of allowance for doubtful accounts	289	—	2,565
Others	17	39	151

**18. Disclosure of fair values of financial instruments**

Informations on financial instruments for the years ended March 31, 2016 and 2015 are as follows.

(A) Status of financial instruments

(1) Policy for financial instruments

The Companies limit their fund management to short-term deposits and raise funds through borrowings from financial institutions including banks.

The Companies use derivative for the purpose of avoiding risks as described below, and not for speculative transactions.

(2) Types of financial instruments, related risk and risk management

Trade notes and accounts receivable are exposed to credit risk in relation to customers. The Companies timely monitor credit standing of their main customers, due dates and outstanding balances of individual customers.

Investment securities are exposed to risk of market price fluctuations. Those securities are composed mainly of the shares of other companies with which the Companies have business relationship. Fair values of those securities are periodically reviewed and reported to the board of directors.

Trade notes and accounts payable have payment due dates mainly within one year.

The derivative is forward exchange contracts for the purpose of the hedging for the exchange rate fluctuations which affect overseas business.

The execution and management of derivative transactions are conducted in accordance with the Company's internal regulations. Furthermore, in actual operations, derivative transactions are entered into only with financial institutions in possession of high credit ratings in order to mitigate counterparties' default risks.

(B) Fair values of financial instruments

Book values of the financial instruments included in the consolidated balance sheet and their fair values at March 31, 2016 and 2015 are as follows. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (Please refer to #2 below).



**DAIHO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2016 and 2015**

	Millions of yen		
	2016		
	Book Value	Fair Value	Difference
Cash and time deposits	¥ 31,662	¥ 31,662	¥ —
Trade notes and accounts receivable	62,554	62,554	—
Short-term loans receivable	24	24	—
Investment securities	4,967	4,967	—
Long-term loans receivable	79		
Allowance for doubtful accounts	(56)		
Sub total	23	23	0
Claims provable in bankruptcy, claims provable in rehabilitation and other	557		
Allowance for doubtful accounts	(557)		
Sub total	—	—	—
Total assets	¥ 99,230	¥ 99,230	¥ 0
Short-term loans	¥ 5,000	¥ 5,000	¥ —
Trade notes and accounts payable	42,879	42,879	—
Deposits received	8,572	8,572	—
Total liabilities	¥ 56,451	¥ 56,451	¥ —
Derivative transactions	¥ 10	¥ 10	¥ —

	Millions of yen		
	2015		
	Book Value	Fair Value	Difference
Cash and time deposits	¥ 16,307	¥ 16,307	¥ —
Trade notes and accounts receivable	68,257	68,257	—
Short-term loans receivable	25	25	—
Investment securities	4,572	4,572	—
Long-term loans receivable	102		
Allowance for doubtful accounts	(70)		
Sub total	32	33	1
Claims provable in bankruptcy, claims provable in rehabilitation and other	15		
Allowance for doubtful accounts	(15)		
Sub total	—	—	—
Total assets	¥ 89,193	¥ 89,194	¥ 1
Short-term loans	¥ 8,400	¥ 8,400	¥ —
Trade notes and accounts payable	43,559	43,559	—
Deposits received	6,829	6,829	—
Total liabilities	¥ 58,788	¥ 58,788	¥ —
Derivative transactions	¥ 78	¥ 78	¥ —



**DAIHO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2016 and 2015**

	Thousands of U.S. dollars		
	2016		
	Book Value	Fair Value	Difference
Cash and time deposits	\$ 280,990	\$ 280,990	\$ —
Trade notes and accounts receivable	555,147	555,147	—
Short-term loans receivable	213	213	—
Investment securities	44,081	44,081	—
Long-term loans receivable	701		
Allowance for doubtful accounts	(497)		
Sub total	204	204	0
Claims provable in bankruptcy, claims provable in rehabilitation and other	4,943		
Allowance for doubtful accounts	(4,943)		
Sub total	—	—	—
Total assets	\$ 880,635	\$ 880,635	\$ 0
Bank loans	\$ 44,373	\$ 44,373	\$ —
Trade notes and accounts payable	380,538	380,538	—
Deposits received	76,074	76,074	—
Total liabilities	\$ 500,985	\$ 500,985	\$ —
Derivative transactions	\$ 89	\$ 89	\$ —

#1. Fair value of financial instruments and matters pertaining to securities

Assets:

- (1) Cash and time deposits, Trade notes and accounts receivable and Short-term loans receivable

Since these items are settled in a short period of time, their book values approximate fair values.

- (2) Investment securities

The fair values of equity securities are based on quoted market prices. The fair values of bonds are based on either quoted market prices or prices provided by the financial institutions.

- (3) Long-term loans receivable

The fair values of long-term loans receivable are stated at the present value using future cash flows discounted by the premium-added rate on the proper index like yield on the government bonds. The fair values of employee loans are computed by discounting probable collection amounts of principals and interest by secure interest rate corresponding to the remaining period.

- (4) Claims provable in bankruptcy, claims provable in rehabilitation and other

With respect to claims provable in bankruptcy, claims provable in rehabilitation and other, allowance for bad debts are estimated based on the amount expected to collect. Consequently, the book values of those receivables less the estimated allowance for bad debts are deemed to approximate the fair values.

Liabilities:

- (1) Trade notes and accounts payable, Bank loans and Deposits received

Since these items are settled in a short period of time, their book values approximate fair values.

Derivative transactions:

The fair value of derivative transactions is valued from prices quoted by financial institutions.





**DAIHO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2016 and 2015**

#2. Since no quoted market price is available and it is extremely difficult to determine the fair values, nonmarketable securities for ended March 31, 2016 and 2015 (book value: ¥813 million (\$7,215 thousand) and ¥835 million) are not included in the above table.

#3. The aggregate maturities subsequent to March 31, 2016 and 2015 for financial assets with maturity are as follows:

Type	Millions of yen			
	2016			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	¥ 31,662	¥ —	¥ —	¥ —
Trade notes and accounts receivable	62,554	—	—	—
Short-term loans receivable	24	—	—	—
Investment securities				
Available-for-sale securities with contractual maturities	—	—	10	—
Long-term loans receivable	—	16	6	—
Claims provable in bankruptcy, claims provable in rehabilitation and other	—	—	—	—
Total	¥ 94,240	¥ 16	¥ 16	¥ —

Type	Millions of yen			
	2015			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	¥ 16,307	¥ —	¥ —	¥ —
Trade notes and accounts receivable	68,257	—	—	—
Short-term loans receivable	25	—	—	—
Investment securities				
Available-for-sale securities with contractual maturities	10	—	—	—
Long-term loans receivable	—	22	10	—
Claims provable in bankruptcy, claims provable in rehabilitation and other	—	—	—	—
Total	¥ 84,599	¥ 22	¥ 10	¥ —





**DAIHO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2016 and 2015**

Type	Thousands of U.S. dollars			
	2016			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	\$ 280,990	\$ —	\$ —	\$ —
Trade notes and accounts receivable	555,147	—	—	—
Short-term loans receivable	213	—	—	—
Investment securities				
Available-for-sale securities				
with contractual maturities	—	—	89	—
Long-term loans receivable	—	142	53	—
Claims provable in bankruptcy, claims provable in rehabilitation and other	—	—	—	—
Total	\$ 836,350	\$ 142	\$ 142	\$ —

#1. Among such as long-term loans and claims in bankruptcy, that there is no plan of redemption plans are not included in the table above

**19. Accounting Standards for Presentation of Comprehensive Income**

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income are as follows:



**DAIHO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2016 and 2015**

	Millions of yen	Millions of yen	Thousands of U.S. dollars
	2016	2015	2016
Unrealized gains on securities			
Increase(decrease) during the year	(249)	542	(2,210)
Reclassification adjustments	(7)	(13)	(62)
Sub-total, before tax	(256)	529	(2,272)
Tax (expense) or benefit	111	(138)	985
Sub-total, net of tax	(145)	391	(1,287)
Deferred gains or losses on hedges			
Increase(decrease) during the year	(75)	114	(666)
Reclassification adjustments	—	(15)	—
Sub-total, before tax	(75)	99	(666)
Tax (expense) or benefit	26	(32)	231
Sub-total, net of tax	(49)	67	(435)
Foreign currency translation adjustment			
Increase(decrease) during the year	(14)	18	(124)
Reclassification adjustments	—	—	—
Sub-total, before tax	(14)	18	(124)
Tax (expense) or benefit	—	—	—
Sub-total, net of tax	(14)	18	(124)
Remeasurements of defined benefit plans			
Increase(decrease) during the year	2	22	18
Reclassification adjustments	85	88	754
Sub-total, before tax	87	110	772
Tax (expense) or benefit	—	—	—
Sub-total, net of tax	87	110	772
Total other comprehensive income	(121)	586	(1,074)

**20.Per Share Information**

	Yen		U.S. dollars
	2016	2015	2016
Net income per share	¥ 67.18	¥ 61.67	\$ 0.60
Net assets per share	485.48	418.11	4.31
Net income per share (diluted)	66.54	61.45	0.59



**DAIHO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2016 and 2015**

The basis for calculation of net income per share is as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Profit attributable to owners of parent	¥ 5,554	¥ 4,616	\$ 49,290
Amount not belonging to ordinary shareholders	—	—	—
Net income attributable to common stock	¥ 5,554	¥ 4,616	\$ 49,290
Weighted average number of ordinary shares (thousands of shares)	82,683	74,859	

The dilutive factor included in calculating diluted net income per share is as follows

	2016	2015
Subscription rights to shares (thousands of shares)	795	263

#### 21. Stock option

Stock option expense that is accounted for under selling, general and administrative expenses on the Consolidated Statements of operations for the fiscal year ended March 31, 2016 and 2015 amounted to ¥217 million (\$1,926 thousand) and 184 million.

##### A. Outline of stock options

	FY 2014 stock options	FY 2015 stock options
Title and number of grantees	7 Director 8 Corporate officer	7 Director 11 Corporate officer
Number of stock options(a)	264,000 common shares	533,000 common shares
Grant date	March 2, 2015	March 1, 2016
Exercise condition	(b)	(b)
Intended service period	No particular set	No particular set
Exercise period	From March 3, 2015 to March 2, 2035	From March 2, 2016 to March 1, 2036

Notes:

(a) Number of stock options means total shares to be issued upon exercise of subscription rights to shares.

(b) It is required to fulfill the following working conditions.

(1) The grantees can exercise their rights from the following day of the day after one year from when lost the position as directors or corporate officer. This period are limited up to 9 years later from then.

(2) The grantees cannot exercise their rights if one of the following matters happen.

When the grantees commit a crime which deserves to imprisonment or something worse than that during the period of being as directors or corporate officer.

When the grantees or legal heirs offer to waive their every rights or part of them by written form given by the Company.

(3) The legal heirs can exercise the rights during 6 months from the date the grantees pass away regardless of the condition mentioned above (1)

(excluding those who succeeded again from the legal heirs when they pass away during that period.)



**DAIHO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2016 and 2015**

**B. Scale and changes in stock options**

The following describes the scale and changes in stock options that existed during the fiscal year ended March 31, 2016. The number of stock options is translated into the number of shares.

Fiscal year ended March 31, 2016:

Number of stock options

	FY 2014 stock options	FY 2015 stock options
Before vested:		
As of March 31, 2015	264,000	-
Granted	-	533,000
Forfeited	-	-
Vested	-	-
Outstanding	264,000	533,000
After vested:		
As of March 31, 2015	-	-
Vested	-	-
Exercised	-	-
Forfeited	-	-
Outstanding	-	-

Price information

	FY 2014 stock options	FY 2015 stock options
Exercise price	¥1 (\$0.009) per share	¥1 (\$0.009) per share
Average price when exercised	-	-
Fair value at the grant date	¥696 (\$6.18) per subscription to share	¥407 (\$3.61) per subscription to share

**C. Valuation method for estimating per share fair value of stock options**

The valuation method used for valuating fair value of subscription rights to shares is as follows:

Valuation method used

Black-Scholes option-pricing model

Principal parameters and estimation method	FY 2015 stock options
Expected volatility of the underlying stock price(a)	54.37%
Expected remaining life of the option(b)	5.5 years
Expected dividends on the stock(c)	¥3 (\$0.027) per share
Risk-free interest rate during the expected option term(d)	(0.221)%

Notes:

(a) The volatility is calculated based on the actual stock prices during the five years and six months from September 1, 2010 to February 29, 2016.

(b) As reasonable estimate is difficult for lack of sufficient data, the Company made assumptions they will be exercised at the mid-point of the exercise period.

(c) Expected dividends are determined based on the latest actual dividends on common stock for the fiscal year ended March 31, 2015.

(d) Japanese government bond yield corresponding to the expected remaining life.



**DAIHO CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2016 and 2015**

D. Estimation of the number of stock options vested

Because it is difficult to reasonably estimate the number of options that will expire in the future, the number of options that have been forfeited is reflected.

**22. Subsequent events**

There are no applicable items.