



DAIHO CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MARCH 31, 2017 AND 2016
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

KPMG AZSA LLC
September 2017



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, 2017 and 2016, 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 misstatement, 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, 2017 and 2016, 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, 2017 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 22, 2017
Tokyo, Japan

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DAIHO CORPORATION
CONSOLIDATED BALANCE SHEETS
March 31, 2017 and 2016

<u>ASSETS</u>	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Current assets:			
Cash and time deposits (Notes 14 and 18)	¥ 31,612	¥ 31,661	\$ 281,771
Receivables:			
Trade notes and accounts receivable (Note 18)	67,292	62,554	599,803
Short-term loans receivable (Note 18)	19	24	169
Allowance for doubtful accounts (Note 18)	(162)	(164)	(1,443)
Costs on uncompleted construction contracts and other (Notes 3 and 8)	2,125	1,349	18,941
Advances paid (Note 18)	10,285	5,282	91,674
Deferred tax assets (Note 12)	745	759	6,640
Other current assets	949	1,311	8,458
Total current assets	112,867	102,778	1,006,034
Property and equipment:			
Land (Note 6)	5,845	4,978	52,099
Buildings and structures (Note 6)	5,156	5,070	45,957
Machinery and equipment	8,799	8,901	78,429
Leased assets	168	168	1,497
Construction in progress	27	89	240
	19,996	19,207	178,233
Accumulated depreciation	(11,348)	(11,457)	(101,149)
Net property and equipment	8,647	7,750	77,074
Intangible assets	132	145	1,176
Investments and other non-current assets:			
Investment securities (Notes 4, 6, 11 and 18)	6,614	5,780	58,953
Long-term loans receivable (Note 18)	60	78	534
Deferred tax assets (Note 12)	91	91	811
Claims provable in bankruptcy, claims provable in rehabilitation and other (Note 18)	—	557	—
Other non-current assets	960	929	8,556
Allowance for doubtful accounts (Note 18)	(142)	(757)	(1,265)
Total investments and other non-current assets	7,584	6,679	67,599
Total assets	¥ 129,232	¥ 117,353	\$ 1,151,903

See accompanying notes.

DAIHO CORPORATION
CONSOLIDATED BALANCE SHEETS
March 31, 2017 and 2016

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Current liabilities:			
Short-term loans payable (Notes 7 and 18)	¥ 1,850	¥ 5,000	\$ 16,489
Notes and accounts payable (Notes 5 and 18)	41,496	42,879	369,872
Advances received on uncompleted construction contracts	9,241	5,661	82,369
Income taxes payable (Note 12)	1,470	2,496	13,102
Allowance for losses on construction contracts (Note 8)	717	488	6,390
Deposits received (Note 18)	10,863	8,571	96,826
Allowance for warranties for completed construction	399	357	3,556
Other current liabilities	1,855	967	16,534
Total current liabilities	67,894	66,421	605,169
Long-term liabilities:			
Long-term loans payable (Notes 7 and 18)	3,150	—	28,077
Deferred tax liabilities (Note 12)	618	497	5,508
Net defined benefit liability (Note 9)	6,294	6,260	56,101
Allowance for losses on litigation	73	202	650
Other long-term liabilities	1,219	1,345	10,865
Total long-term liabilities	11,356	8,305	101,221
Total liabilities	¥ 79,251	¥ 74,727	\$ 706,399
Contingent liabilities (Note 10)			
Net assets (Note 13):			
Shareholders' equity:			
Common stock			
Authorized - 160,000,000 shares			
Issued - 87,170,143 shares	9,030	9,030	80,488
Capital surplus	7,960	7,955	70,951
Retained earnings	30,867	24,261	275,131
Less: Treasury stock, at cost	(170)	(163)	(1,515)
Accumulated other comprehensive income:			
Unrealized gains on securities	1,533	1,196	13,664
Deferred gains or losses on hedges	103	38	918
Foreign currency translation adjustment	(25)	(27)	(222)
Remeasurements of defined benefit plans	(269)	(379)	(2,397)
Subscription rights to shares	610	400	5,437
Non-controlling interests:	340	314	3,030
Total net assets	49,981	42,626	445,503
Total liabilities and net assets	¥ 129,232	¥ 117,353	\$ 1,151,903

See accompanying notes.

DAIHO CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Sales:	¥ 143,613	¥ 146,815	\$ 1,280,087
Costs and expenses:			
Cost of sales	128,398	132,784	1,144,469
Selling, general and administrative expenses	5,167	4,682	46,055
	<u>133,566</u>	<u>137,466</u>	<u>1,190,533</u>
Operating income	10,047	9,348	89,553
Other income (expenses):			
Interest and dividend income	83	79	739
Interest expense	(39)	(55)	(347)
Guarantee commission	(69)	(59)	(615)
Commission fee	(30)	(20)	(267)
Gain and loss on sale and disposal of property and equipment	(14)	(21)	(124)
Foreign currency exchange gain and loss, net	91	(134)	811
Loss on litigation (Note 17)	(25)	(475)	(222)
Impairment loss on fixed assets (Note 16)	(0)	(0)	(0)
Reversal of allowance for losses on litigation	128	—	1,140
Allowance for losses on construction contracts	(307)	—	(2,736)
Other, net	48	47	427
	<u>(135)</u>	<u>(640)</u>	<u>(1,203)</u>
Income before income taxes and non-controlling interests	9,911	8,708	88,341
Income taxes (Note 12):			
Current	2,886	3,301	25,724
Deferred	(40)	(160)	(356)
Net income	7,065	5,568	62,973
Profit attributable to non-controlling interests	27	13	240
Profit attributable to owners of parent	<u>¥ 7,037</u>	<u>¥ 5,554</u>	<u>\$ 62,723</u>

	Yen		U.S. dollars (Note 1)
	2017	2016	2017
Amounts per share of common stock:			
Net income (Note 20)	¥ 81.53	¥ 67.18	\$ 0.73
Diluted net income per share	80.75	66.54	0.72
Cash dividends applicable to the year	9.00	5.00	0.08

See accompanying notes.

DAIHO CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net income	¥ 7,065	¥ 5,568	\$ 62,974
Other comprehensive income: (Note 19)			
Unrealized gains or losses on securities	337	(144)	3,004
Deferred gains or losses on hedges	64	(48)	570
Foreign currency translation adjustments	1	(13)	9
Remeasurements of defined benefit plans	110	87	980
Total other comprehensive income	<u>514</u>	<u>(120)</u>	<u>4,582</u>
Comprehensive income	<u>¥ 7,580</u>	<u>¥ 5,447</u>	<u>\$ 67,564</u>
Comprehensive income attribute to:			
Owners of parent	¥ 7,552	¥ 5,434	\$ 67,314
Non-controlling interests	28	13	250

See accompanying notes.

DAIHO CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
Years ended March 31, 2017 and 2016

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 adjustments	Remeasurements of defined benefit plans	Subscription rights to shares	Non-controlling interests	Total
BALANCE AT APRIL 1, 2015	75,670	¥ 6,321	¥ 5,246	¥ 18,931	¥ (153)	¥ 1,341	¥ 87	¥ (13)	¥ (466)	¥ 183	¥ 302	¥ 31,780
Issuance of new shares	11,500	2,708	2,708	—	—	—	—	—	—	—	—	5,417
Cash dividends paid (¥3.0 per share)	—	—	—	(224)	—	—	—	—	—	—	—	(224)
Profit attributable to owners of parent	—	—	—	5,554	—	—	—	—	—	—	—	5,554
Disposal of treasury stock	—	—	—	—	—	—	—	—	—	—	—	—
Acquisition of treasury stock	—	—	—	—	(10)	—	—	—	—	—	—	(10)
Net change of items other than shareholders' equity	—	—	—	—	—	(144)	(48)	(13)	87	216	11	108
BALANCE AT MARCH 31, 2016	87,170	¥ 9,030	¥ 7,955	¥ 24,261	¥ (163)	¥ 1,196	¥ 38	¥ (27)	¥ (379)	¥ 400	¥ 314	¥ 42,626
Issuance of new shares	—	—	—	—	—	—	—	—	—	—	—	—
Cash dividends paid (¥5.0 per share)	—	—	—	(431)	—	—	—	—	—	—	—	(431)
Profit attributable to owners of parent	—	—	—	7,037	—	—	—	—	—	—	—	7,037
Disposal of treasury stock	—	—	5	—	2	—	—	—	—	—	—	7
Acquisition of treasury stock	—	—	—	—	(8)	—	—	—	—	—	—	(8)
Net change of items other than shareholders' equity	—	—	—	—	—	337	64	1	110	209	26	750
BALANCE AT MARCH 31, 2017	87,170	¥ 9,030	¥ 7,960	¥ 30,867	¥ (170)	¥ 1,533	¥ 103	¥ (25)	¥ (269)	¥ 610	¥ 340	¥ 49,981

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 adjustments	Remeasurements of defined benefit plans	Subscription rights to shares	Non-controlling interests	Total
BALANCE AT APRIL 1, 2016	\$ 80,488	\$ 70,906	\$ 216,249	\$ (1,452)	\$ 10,660	\$ 338	\$ (240)	\$ (3,378)	\$ 3,565	\$ 2,798	\$ 379,944
Issuance of new shares	—	—	—	—	—	—	—	—	—	—	—
Cash dividends paid (\$0.04 per share)	—	—	(3,841)	—	—	—	—	—	—	—	(3,841)
Profit attributable to owners of parent	—	—	62,723	—	—	—	—	—	—	—	62,723
Disposal of treasury stock	—	44	—	17	—	—	—	—	—	—	62
Acquisition of treasury stock	—	—	—	(71)	—	—	—	—	—	—	(71)
Net change of items other than shareholders' equity	—	—	—	—	3,003	570	1	980	1,862	231	6,685
BALANCE AT MARCH 31, 2017	\$ 80,488	\$ 70,951	\$ 275,131	\$ (1,515)	\$ 13,664	\$ 918	\$ (222)	\$ (2,397)	\$ 5,437	\$ 3,030	\$ 445,503

See accompanying notes.

DAIHO CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Cash flows from operating activities:			
Income before income taxes and non-controlling interests	¥ 9,911	¥ 8,708	\$ 88,342
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating activities:			
Depreciation and amortization	438	380	3,904
Stock-based compensation expense	216	216	1,925
Loss on litigation	25	475	222
Interest and dividend income	(83)	(79)	(739)
Interest expense	39	55	347
Increase (decrease) in allowance for doubtful accounts	(616)	(166)	(5,490)
Increase (decrease) in net defined benefit liability	34	29	303
Foreign currency exchange (gains) losses, net	(36)	132	(320)
Increase (decrease) in allowance for losses on construction contracts	229	(173)	2,041
(Gain) loss on sale and disposal of property and equipment	14	21	124
Increase (decrease) in advances received on uncompleted contracts	3,580	(1,006)	31,910
(Increase) decrease in receivables and other current assets	(4,711)	5,685	(41,991)
(Increase) decrease in inventories	(777)	(463)	(6,925)
Increase (decrease) in payables and accrued expenses	(1,390)	(658)	(12,389)
(Increase) decrease in other assets	(4,121)	2,406	(36,732)
Increase (decrease) in other liabilities	3,083	1,511	27,480
Increase (decrease) in allowance for warranties for completed construction	42	85	374
Other, net	152	271	1,354
Subtotal	6,030	17,436	53,749
Interest and dividend received	82	79	730
Interest paid	(41)	(53)	(366)
Income taxes paid	(3,982)	(2,518)	(35,493)
Payment for loss on litigation	(26)	(53)	(232)
Net cash provided by (used in) operating activities	2,062	14,890	18,379
Cash flows from investing activities:			
Deposit in time deposits	(109)	(110)	(971)
Withdrawal from time deposits	118	154	1,051
Proceeds from sale of property and equipment	6	184	53
Payment for purchase of property and equipment	(1,300)	(741)	(11,587)
Purchase of investment securities	(449)	(683)	(4,002)
Proceeds from sale of investment securities	101	60	900
Payment for long-term loans receivable	(1)	(2)	(8)
(Increase) decrease in short-term loans receivable	6	3	53
Collection of long-term loans receivable	20	21	178
Purchase of intangible assets	(15)	(33)	(133)
Net cash provided by (used in) investing activities	(1,621)	(1,146)	(14,448)
Cash flows from financing activities:			
Net decrease in short-term loans payable	—	(6,550)	—
Proceeds from issuance of common shares	—	5,417	—
Proceeds from long-term loans payable	3,150	3,150	28,077
Repayment of long-term loans payable	(3,150)	—	(28,077)
Purchase of treasury stock	(8)	(10)	(71)
Proceeds from disposal of treasury stock	0	—	0
Cash dividends paid	(429)	(224)	(3,824)
Cash dividends paid to non-controlling interests	(1)	(1)	(8)
Other, net	(55)	(67)	(491)
Net cash provided by (used in) financing activities	(496)	1,712	(4,421)
Effect of exchange rate changes on cash and cash equivalents	15	(58)	133
Net increase (decrease) in cash and cash equivalents	(40)	15,397	(357)
Cash and cash equivalents at beginning of year	31,633	16,235	281,959
Cash and cash equivalents at end of year (Note 14)	¥ 31,592	¥ 31,633	\$ 281,593

See accompanying notes.

DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2017 and 2016

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 from 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, 2017, which is ¥ 112.19 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.

Amounts of less than one million yen have been omitted. As a result, the total amounts in Japanese yen and translated U.S. dollars shown in the consolidated financial statements and notes to the consolidated financial statements do not necessarily agree with the sum of the individual amounts.

2. Significant accounting policies

(1) Principles of consolidation

The consolidated financial statements as of March 31, 2017 include the accounts of the Company and its 8 significant subsidiaries. The 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 principally by the declining-balance method. Buildings (excluding fixtures attached to buildings) acquired on or after April 1, 1998 and fixtures attached to buildings and structures acquired on or after April 1, 2016 are depreciated using the straight-line method.

DAIHO CORPORATION
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March 31, 2017 and 2016

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

	<u>2017</u>	<u>2016</u>
Buildings and structures	3 to 50 years	3 to 50 years
Machinery and equipment	2 to 20 years	2 to 20 years

(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 ¥128,075 million (\$1,141,590 thousand) and ¥136,663 million for the years ended March 31, 2017 and 2016, 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 on 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, 2017 and 2016 totaled ¥51 million (\$454 thousand) and ¥41 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.

DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2017 and 2016

(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.

(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 inhabitants 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:

Hedging instruments

Forward foreign exchange contracts

Foreign currency deposits

Item hedged

Foreign currency payables

Scheduled transactions denominated in foreign currencies

The Companies confirm that substantial terms and conditions of the hedging instruments 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.

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(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.

(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 the current 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)

Due to amendments to the Japanese Corporation Tax Act, the Company and its domestic subsidiaries adopted "Practical Solution on a change in depreciation method due to Tax Reform 2016" (Practice Issue Task Force No. 32, June 17, 2016 (hereinafter, "PITF No. 32")) from the current fiscal year and changed the depreciation method for buildings, facilities attached to buildings and structures, which were acquired since April 1, 2016, from the declining-balance method to the straight-line method. The effect of this adoption on the consolidated financial statements for the year ended March 31, 2017 was immaterial.

(22) Additional Information

The Company and its domestic consolidated subsidiaries adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016 (hereinafter, "Guidance No. 26")) from the current fiscal year.

DAIHO CORPORATION
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March 31, 2017 and 2016

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
	2017	2016	2017
Costs on uncompleted construction contracts	¥ 2,033	¥ 1,285	\$ 18,121
Real estate business spending	26	-	231
Raw materials and supplies	65	64	579

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, 2017 and 2016:

Available-for-sale securities:

(1) Securities with book values exceeding acquisition costs

Type	Millions of yen		
	2017		
	Acquisition cost	Book value	Difference
Equity securities	¥ 2,878	¥ 5,166	¥ 2,287
Bonds	10	10	0
Others	66	78	12
Total	¥ 2,955	¥ 5,255	¥ 2,300

Type	Millions of yen		
	2016		
	Acquisition cost	Book value	Difference
Equity securities	¥ 2,535	¥ 4,354	¥ 1,819
Bonds	10	10	0
Others	87	90	2
Total	¥ 2,632	¥ 4,455	¥ 1,822

Type	Thousands of U.S. dollars		
	2017		
	Acquisition cost	Book value	Difference
Equity securities	\$ 25,652	\$ 46,046	\$ 20,385
Bonds	89	89	0
Others	588	695	106
Total	\$ 26,339	\$ 46,840	\$ 20,500

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(2) Securities with book values not exceeding acquisition costs

Type	Millions of yen		
	2017		
	Acquisition cost	Book value	Difference
Equity securities	¥ 530	¥ 450	¥ (79)
Others	101	95	(5)
Total	¥ 631	¥ 546	¥ (85)

Type	Millions of yen		
	2016		
	Acquisition cost	Book value	Difference
Equity securities	¥ 483	¥ 394	¥ (89)
Others	121	116	(4)
Total	¥ 605	¥ 511	¥ (93)

Type	Thousands of U.S. dollars		
	2017		
	Acquisition cost	Book value	Difference
Equity securities	\$ 4,724	\$ 4,011	\$ (704)
Others	900	846	(44)
Total	\$ 5,624	\$ 4,866	\$ (757)

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

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

Type	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Equity securities			
Sales	¥ 101	¥ 60	\$ 900
Related gains	1	6	8
Related losses	—	—	—

(C) Available-for-sale securities impaired

Year ended March 31, 2017

Not applicable.

Year ended March 31, 2016

Not applicable.

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5. Derivatives

(A) Derivative transactions to which hedge accounting is not applied as of March 31, 2017 and 2016.
 Not applicable.

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

As of March 31, 2017

			Millions of yen		
Hedge accounting method	Transaction type	Hedged items	Contract amount	Contract over one year	Fair value
Allocation method	Foreign exchange forward contracts	Scheduled transactions denominated in foreign currencies			
	Buying contracts Euro		2,943	1,025	138

			Thousands of U.S. dollars		
Hedge accounting method	Transaction type	Hedged items	Contract amount	Contract over one year	Fair value
Allocation method	Foreign exchange forward contracts	Scheduled transactions denominated in foreign currencies			
	Buying contracts Euro		26,232	9,136	1,230

(note 1) The fair value of this derivative is based on quoted market prices of forward exchange.

As of March 31, 2016

			Millions of yen		
Hedge accounting method	Transaction type	Hedged items	Contract amount	Contract over one year	Fair value
Deferred hedge method	Foreign exchange forward contracts	Scheduled transactions denominated in foreign currencies			
	Buying contracts USD		96	—	10

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

Hedge accounting method	Transaction type	Hedged items	Millions of yen		
			Contract amount	Contract over one year	Fair value
Allocation method	Foreign exchange forward contracts				
	Buying contracts USD	Accounts payable	5	—	(note 2)

(note 1) The fair value of this derivative is based on quoted market prices of forward exchange.

(note 2) The fair value is included in those of their hedged items in Note 18, "Disclosure of fair values of financial instruments".

6. Pledged assets

As of March 31, 2017 and 2016, the following assets of the Companies are pledged to short-term loans payable.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Buildings and structures	¥ -	¥ 849	\$ -
Land	-	1,948	-
	¥ -	¥ 2,798	\$ -

As of March 31, 2017 and 2016, the following assets of the Companies are pledged to guarantee money for construction.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Investment securities	¥ 10	¥ 10	\$ 89

7. Short-term and Long-term loans payable

Short-term loans payable consisted mainly of bank overdrafts from banks. The weighted average interest rates at March 31, 2017 and 2016 are 0.5 % and 1.0% per annum, respectively.

Long-term loans payable consisted mainly of bank overdrafts from banks. The weighted average interest rate at March 31, 2017 is 0.8 % per annum.

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The annual maturities of long-term loans payable as of March 31, 2017 are as follows:

	Millions of yen		Thousands of U.S. dollars	
Over 1 year and less than 2 years	¥	3,150	\$	28,077
Over 2 years and less than 3 years		-		-
Over 3 years and less than 4 years		-		-
Over 4 years and less than 5 years		-		-
Total	¥	3,150	\$	28,077

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 for losses on construction contracts, matching with the amount of Costs on uncompleted construction contracts, is ¥291 million (\$2,593 thousand) and ¥30 million for the years ended March 31, 2017 and 2016, respectively. The amount of Allowance for losses on construction contracts included in Cost of sales is ¥210 million (\$1,871 thousand) and ¥307 million for the years ended March 31, 2017 and 2016, respectively.

9. Net defined benefit liability

(1) As of March 31, 2017 and 2016, 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 points. Other consolidated subsidiaries provide unfunded lump-sum payment plans.

(2) The following table shows movement in retirement benefit obligations for the years ended March 31, 2017 and 2016 (including adoption a simplified method in computing their retirement benefit obligations as permitted by Japanese GAAP).

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at the beginning of year	¥ 6,260	¥ 6,232	\$ 55,798
Service cost	531	541	4,733
Interest cost	51	50	454
Actuarial loss (gain)	(52)	(1)	(463)
Benefits paid	(494)	(563)	(4,403)
Balance at the end of year	¥ 6,294	¥ 6,260	\$ 56,101

(3) Movements in plan assets
 Not applicable.

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(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
	2017	2016	2017
Unfunded retirement benefit obligations	¥ 6,294	¥ 6,260	\$ 56,101
Total Net defined benefit liability at the end of respective fiscal year	6,294	6,260	56,101
Defined benefit liability	¥ 6,294	¥ 6,260	\$ 56,101
Total Net defined benefit liability at the end of respective fiscal year	6,294	6,260	56,101

(5) The components of retirement benefit expenses for the years ended March 31, 2017 and 2016 (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
	2017	2016	2017
Service cost	¥ 531	¥ 541	\$ 4,733
Interest cost	51	50	454
Net actuarial loss amortization	58	58	516
Past service costs amortization	—	27	—
Total retirement benefit expenses for the respective fiscal year	¥ 641	¥ 677	\$ 5,713

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Past service costs	¥ —	¥ 27	\$ —
Actuarial difference	110	59	980
Total remeasurements for the respective fiscal year	¥ 110	¥ 87	\$ 980

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Actuarial gains and losses that are yet to be recognized	¥ 269	¥ 379	\$ 2,397
Total balance at the end of respective fiscal year	¥ 269	¥ 379	\$ 2,397

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(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, 2017 and 2016 are not presented.

(9) The principal actuarial assumptions at March 31, 2017 and 2016 (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 its consolidated subsidiaries to the defined contribution pension plan was ¥172 million (\$1,533 thousand) and ¥170 million for the years ended March 31, 2017 and 2016, respectively.

10. Contingent liabilities

The Companies are contingently liable as a guarantor of indebtedness of customers aggregating ¥864 million (\$7,701 thousand) and ¥605 million at March 31, 2017 and 2016, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Investment securities loaned	¥ 1,422	¥ 1,689	\$ 12,674

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 30.9% and 33.1% for the years ended March 31, 2017 and 2016, 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, 2017 and 2016.

	2017		2016
Statutory tax rate	30.9	%	33.1
Permanent differences:			
Non-deductible expenses	0.8		0.8
Non-taxable income	(1.6)		(0.8)
Per capita inhabitants taxes	1.3		1.5
Decrease in valuation allowance	(2.6)		0.9
Decrease in deferred income tax assets due to tax rate change	-		0.5
Elimination of inter-company dividends	1.6		0.9
Other	(1.6)		1.0
Effective tax rate	28.7		36.1

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Main components of the Companies' deferred tax assets and liabilities as of March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Net defined benefit liability	¥ 1,936	¥ 1,928	\$ 17,256
Write-down of inventories (*1)	353	353	3,146
Allowance for doubtful accounts	91	280	811
Allowance for losses on construction contracts	220	151	1,960
Impairment loss on fixed assets	331	331	2,950
Allowance for warranties for completed construction	123	110	1,096
Enterprise taxes payable	101	183	900
Excess bonuses accrued	208	175	1,853
Tax loss carryforwards	184	193	1,640
Subscription rights to shares	186	122	1,657
Other	189	397	1,684
Subtotal	3,973	4,228	35,413
Valuation allowance	(2,942)	(3,236)	(26,223)
Total deferred tax assets	1,030	991	9,180
Deferred tax liabilities:			
Unrealized gains on securities	(680)	(531)	(6,061)
Deferred gains on property and equipment	(60)	(61)	(534)
Temporary differences about assets acquired through transfer of business	(18)	(18)	(160)
Other	(54)	(24)	(481)
Total deferred tax liabilities	(813)	(637)	(7,246)
Net deferred tax assets (liabilities)	¥ 217	¥ 354	\$ 1,934

(*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
	2017	2016	2017
Current assets -Deferred tax assets	¥ 745	¥ 759	\$ 6,640
Investments and other non-current assets -Deferred tax assets	91	91	811
Long-term liabilities -Deferred tax liabilities	(618)	(497)	(5,508)

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.

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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. 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, 2017, the shareholders approved cash dividends amounting to ¥776 million (\$ 6,916 thousand). Such appropriations are not reflected in the consolidated financial statements as of March 31, 2017. 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, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash and time deposits	¥ 31,612	¥ 31,661	\$ 281,771
Less: Time deposits with maturities exceeding three months	(20)	(28)	(178)
Cash and cash equivalents	¥ 31,592	¥ 31,633	\$ 281,593

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 are 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.

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(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 the operating income of the consolidated statements of operations.

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

<u>Year ended</u>		Millions of yen					
March 31, 2017		Civil engineering	Building construction	Other	Total	Reconciliations (#1-#3)	Consolidated (#2)
Sales:							
Outside customers	¥	75,141	65,294	3,177	143,613	—	143,613
Inter-segment		—	6	755	762	(762)	—
Total		75,141	65,301	3,933	144,376	(762)	143,613
Segment income	¥	6,155	3,783	109	10,048	(1)	10,047
Identifiable assets	¥	74,206	53,487	2,939	130,633	(1,400)	129,232
Depreciation and amortization		296	114	37	449	(10)	438
Capital expenditures		1,211	120	4	1,337	(21)	1,315
<u>Year ended</u>		Millions of yen					
March 31, 2016		Civil engineering	Building construction	Other	Total	Reconciliations (#1-#3)	Consolidated (#2)
Sales:							
Outside customers	¥	73,745	69,546	3,523	146,815	—	146,815
Inter-segment		—	8	678	687	(687)	—
Total		73,745	69,554	4,202	147,502	(687)	146,815
Segment income (loss)	¥	5,469	3,766	126	9,361	(13)	9,348
Identifiable assets	¥	65,877	49,883	2,799	118,559	(1,206)	117,353
Depreciation and amortization		222	113	50	386	(6)	380
Capital expenditures		524	119	103	747	(20)	726

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<u>Year ended</u>	Thousands of U.S. dollars					
<u>March 31, 2017</u>	<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	\$ 669,765	\$ 581,994	\$ 28,318	\$ 1,280,087	\$ —	\$ 1,280,087
Inter-segment	—	53	6,729	6,792	(6,792)	—
Total	669,765	582,057	35,056	1,286,888	(6,792)	1,280,087
Segment income	\$ 54,862	\$ 33,719	\$ 971	\$ 89,562	\$ (8)	\$ 89,553
Identifiable assets	\$ 661,431	\$ 476,753	\$ 26,196	\$ 1,164,390	\$ (12,478)	\$ 1,151,903
Depreciation and amortization	2,638	1,016	329	4,002	(89)	3,904
Capital expenditures	10,794	1,069	35	11,917	(187)	11,721

#1. Reconciliations of segment income in an amount of ¥ (1) million (\$ (8) thousand) and ¥ (13) million for the years ended March 31, 2017 and 2016 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

For 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 on fixed assets by reported segments

Information about impairment loss on fixed assets by reported segments for the fiscal year ended March 31, 2017 is as follows:

Because of the poor importance, described are omitted.

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

Because of the poor importance, described are omitted.

(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, 2017, the Companies recognized impairment loss on the fixed assets as follows:

Because of the poor importance, described are omitted.

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

Because of the poor importance, described are omitted.

17. Loss on litigation

Components of the loss on litigation for the years ended March 31, 2017 and 2016 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Settlement packages	6	13	53
Allowance for loss on litigation	—	155	—
Provision of allowance for doubtful accounts	—	289	—
Others	18	16	160

18. Disclosure of fair values of financial instruments

Information on financial instruments for the years ended March 31, 2017 and 2016 is 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 derivatives for the purpose of avoiding risks as described below and not for speculative transactions.

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(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, 2017 and 2016 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).

	Millions of yen		
	2017		
	Book value	Fair value	Difference
Cash and time deposits	¥ 31,612	¥ 31,612	¥ —
Trade notes and accounts receivable	67,292	67,292	—
Short-term loans receivable	19	19	—
Advances paid	10,285	10,285	—
Investment securities	5,801	5,801	—
Long-term loans receivable	60		
Allowance for doubtful accounts	(41)		
Subtotal	19	19	0
Total assets	¥ 115,032	¥ 115,032	¥ 0
Short-term loans payable	¥ 1,850	¥ 1,850	¥ —
Trade notes and accounts payable	41,496	41,496	—
Deposits received	10,863	10,863	—
Long-term loans payable	3,150	3,134	(15)
Total liabilities	¥ 57,359	¥ 57,344	¥ (15)
Derivative transactions	¥ 138	¥ 138	¥ —

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	Millions of yen		
	2016		
	Book value	Fair value	Difference
Cash and time deposits	¥ 31,661	¥ 31,661	¥ —
Trade notes and accounts receivable	62,554	62,554	—
Short-term loans receivable	24	24	—
Advances paid	5,282	5,282	—
Investment securities	4,967	4,967	—
Long-term loans receivable	78		
Allowance for doubtful accounts	(56)		
Subtotal	22	22	0
Claims provable in bankruptcy, claims provable in rehabilitation and other	557		
Allowance for doubtful accounts	(557)		
Subtotal	—	—	—
Total assets	¥ 104,511	¥ 104,512	¥ 0
Short-term loans payable	¥ 5,000	¥ 5,000	¥ —
Trade notes and accounts payable	42,879	42,879	—
Deposits received	8,571	8,571	—
Total liabilities	¥ 56,451	¥ 56,451	¥ —
Derivative transactions	¥ 10	¥ 10	¥ —

	Thousands of U.S. dollars		
	2017		
	Book value	Fair value	Difference
Cash and time deposits	\$ 281,771	\$ 281,771	\$ —
Trade notes and accounts receivable	599,803	599,803	—
Short-term loans receivable	169	169	—
Advances paid	91,674	91,674	—
Investment securities	51,706	51,706	—
Long-term loans receivable	534		
Allowance for doubtful accounts	(365)		
Subtotal	169	169	0
Total assets	\$ 1,025,332	\$ 1,025,332	\$ 0
Short-term loans payable	\$ 16,489	\$ 16,489	\$ —
Trade notes and accounts payable	369,872	369,872	—
Deposits received	96,826	96,826	—
Long-term loans payable	28,077	27,934	(133)
Total liabilities	\$ 511,266	\$ 511,132	\$ (133)
Derivative transactions	\$ 1,230	\$ 1,230	\$ —

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

Assets:

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

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.

Liabilities:

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

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

- (2) Long-term loans payable

The fair values of long-term loans payable are based on the present value of discounted cash flows using the interest rate which may be applicable when the same kinds of borrowings are made.

Derivative transactions:

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

#2. Since no quoted market price is available and it is extremely difficult to determine the fair values, nonmarketable securities for the years ended March 31, 2017 and 2016 (book value: ¥813 million (\$7,246 thousand) and ¥813 million, respectively,) are not included in the above table.

#3. The aggregate maturities subsequent to March 31, 2017 and 2016 for financial assets with maturity are as follows:

Type	Millions of yen			
	2017			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	¥ 31,612	¥ —	¥ —	¥ —
Trade notes and accounts receivable	67,292	—	—	—
Short-term loans receivable	19	—	—	—
Advances paid	10,285	—	—	—
Investment securities				
Available-for-sale securities with contractual maturities	—	—	10	—
Long-term loans receivable	—	13	5	—
Claims provable in bankruptcy, claims provable in rehabilitation and other	—	—	—	—
Total	¥ 109,210	¥ 13	¥ 15	¥ —

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Millions of yen				
2016				
Type	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	¥ 31,661	¥ —	¥ —	¥ —
Trade notes and accounts receivable	62,554	—	—	—
Short-term loans receivable	24	—	—	—
Advances paid	5,282	—	—	—
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	¥ 99,522	¥ 16	¥ 16	¥ —

Thousands of U.S. dollars				
2017				
Type	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	\$ 281,771	\$ —	\$ —	\$ —
Trade notes and accounts receivable	599,803	—	—	—
Short-term loans receivable	169	—	—	—
Advances paid	91,674	—	—	—
Investment securities				
Available-for-sale securities				
with contractual maturities	—	—	89	—
Long-term loans receivable	—	115	44	—
Claims provable in bankruptcy, claims provable in rehabilitation and other	—	—	—	—
Total	\$ 973,343	\$ 115	\$ 133	\$ —

#1. Among such as long-term loans receivable, 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:

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	Millions of yen	Millions of yen	Thousands of U.S. dollars
	2017	2016	2017
Unrealized gains on securities			
Increase (decrease) during the year	487	(248)	4,340
Reclassification adjustments	(1)	(6)	(8)
Subtotal, before tax	486	(255)	4,331
Tax (expense) or benefit	(148)	111	(1,319)
Subtotal, net of tax	337	(144)	3,003
Deferred gains or losses on hedges			
Increase (decrease) during the year	93	(74)	828
Reclassification adjustments	—	—	—
Subtotal, before tax	93	(74)	828
Tax (expense) or benefit	(28)	26	(249)
Subtotal, net of tax	64	(48)	570
Foreign currency translation adjustments			
Increase (decrease) during the year	1	(13)	8
Reclassification adjustments	—	—	—
Subtotal, before tax	1	(13)	8
Tax (expense) or benefit	—	—	—
Subtotal, net of tax	1	(13)	8
Remeasurements of defined benefit plans			
Increase (decrease) during the year	52	1	463
Reclassification adjustments	58	85	516
Subtotal, before tax	110	87	980
Tax (expense) or benefit	—	—	—
Subtotal, net of tax	110	87	980
Total other comprehensive income	514	(120)	4,581

20. Per Share Information

	Yen		U.S. dollars
	2017	2016	2017
Net income per share	¥ 81.53	¥ 67.18	\$ 0.72
Net assets per share	567.98	485.48	5.06
Net income per share (diluted)	80.75	66.54	0.71

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

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Profit attributable to owners of parent	¥ 7,037	¥ 5,554	\$ 62,723
Amount not belonging to ordinary shareholders	—	—	—
Net income attributable to common stock	¥ 7,037	¥ 5,554	\$ 62,723
Weighted average number of ordinary shares (thousands of shares)	86,323	82,683	

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

	2017	2016
Subscription rights to shares (thousands of shares)	831	795

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 years ended March 31, 2017 and 2016 amounted to ¥216 million (\$1,925 thousand) and 216 million, respectively.

A. Outline of stock options

	FY 2014 stock options	FY 2015 stock options	FY 2016 stock options
Title and number of grantees	7 Directors 8 Corporate officers	7 Directors 11 Corporate officers	7 Directors 11 Corporate officers
Number of stock options (a)	264,000 common shares	533,000 common shares	445,000 common shares
Grant date	March 2, 2015	March 1, 2016	March 1, 2017
Exercise conditions	(b)	(b)	(b)
Intended service period	No particular set	No particular set	No particular set
Exercise period	From March 3, 2015 to March 2, 2035	From March 2, 2016 to March 1, 2036	From March 2, 2017 to March 1, 2037

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.

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(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.)

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, 2017. The number of stock options is translated into the number of shares.

Fiscal year ended March 31, 2017:

Number of stock options

	FY 2014 stock options	FY 2015 stock options	FY 2016 stock options
Before vested:			
As of March 31, 2016	264,000	533,000	-
Granted	-	-	445,000
Forfeited	-	-	-
Vested	29,000	47,000	40,000
Outstanding	235,000	486,000	405,000
After vested:			
As of March 31, 2016	-	-	-
Vested	29,000	47,000	40,000
Exercised	10,000	-	-
Forfeited	-	-	-
Outstanding	19,000	47,000	40,000

Price information

	FY 2014 stock options	FY 2015 stock options	FY 2016 stock options
Exercise price	¥1 (\$0.008) per share	¥1 (\$0.008) per share	¥1 (\$0.008) per share
Average price when exercised	¥528 (\$4.70) per share	-	-
Fair value at the grant date	¥696 (\$6.20) per subscription to share	¥407 (\$3.62) per subscription to share	¥487 (\$4.34) 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 2016 stock options
Expected volatility of the underlying stock price (a)	51.98%
Expected remaining life of the options (b)	5.5 years
Expected dividends on the stock (c)	¥5 (\$0.044) per share
Risk-free interest rate during the expected option term (d)	(0.11)%

Notes:

(a) The volatility is calculated based on the actual stock prices during the five years and six months from September 1, 2011 to February 29, 2017.

(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.

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(c) Expected dividends are determined based on the latest actual dividends on common stock for the fiscal year ended March 31, 2016.

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

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.