



DAIHO CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MARCH 31, 2019 AND 2018
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

KPMG AZSA LLC
September 2019



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, 2019 and 2018, 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 judgment, 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, 2019 and 2018, 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, 2019 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,

KPMG AZSA LLC
September 26, 2019
Tokyo, Japan



DAIHO CORPORATION
CONSOLIDATED BALANCE SHEETS
March 31, 2019 and 2018

<u>ASSETS</u>	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Current assets:			
Cash and time deposits (Notes 15 and 20)	¥ 38,687	¥ 44,252	\$ 348,562
Receivables:			
Trade notes and accounts receivable (Notes 4 and 20)	70,866	66,028	638,489
Short-term loans receivable (Note 20)	19	20	171
Allowance for doubtful accounts (Note 20)	(91)	(91)	(819)
Costs on uncompleted construction contracts and other (Notes 3 and 9)	2,744	2,374	24,722
Advances paid (Note 20)	9,808	7,777	88,368
Other current assets	3,152	1,617	28,398
Total current assets	125,186	121,978	1,127,903
Property and equipment:			
Land	5,749	5,358	51,797
Buildings and structures	8,003	5,572	72,105
Machinery and equipment	7,080	8,397	63,789
Leased assets	188	172	1,693
Construction in progress	84	1,319	756
	21,105	20,820	190,152
Accumulated depreciation	(9,694)	(10,950)	(87,341)
Net property and equipment	11,411	9,869	102,811
Intangible assets	130	134	1,171
Investments and other non-current assets:			
Investment securities (Notes 5, 7, 12 and 20)	8,852	7,585	79,754
Long-term loans receivable (Note 20)	22	42	198
Deferred tax assets (Note 13)	475	218	4,279
Other non-current assets	964	851	8,685
Allowance for doubtful accounts (Note 20)	(105)	(119)	(946)
Total investments and other non-current assets	10,209	8,579	91,981
Total assets	¥ 146,938	¥ 140,561	\$ 1,323,885

See accompanying notes.



DAIHO CORPORATION
CONSOLIDATED BALANCE SHEETS
March 31, 2019 and 2018

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Current liabilities:			
Short-term loans payable (Note 8 and 20)	¥ 1,850	¥ 1,850	\$ 16,668
Current portion of long-term loans payable (Note 20)	—	3,150	—
Trade notes and accounts payable (Notes 6 and 20)	44,402	44,231	400,054
Advances received on uncompleted construction contracts	10,058	8,933	90,620
Income taxes payable (Note 13)	1,772	2,137	15,965
Allowance for losses on construction contracts (Note 9)	675	541	6,081
Deposits received (Note 20)	12,810	10,739	115,415
Allowance for warranties for completed construction	1,479	336	13,325
Other current liabilities	1,881	3,079	16,947
Total current liabilities	74,929	74,999	675,096
Non-current liabilities:			
Long-term loans payable (Note 8 and 20)	3,150	—	28,380
Deferred tax liabilities (Note 13)	12	230	108
Net defined benefit liability (Note 10)	6,050	6,285	54,509
Other long-term liabilities	969	1,137	8,730
Total long-term liabilities	10,182	7,654	91,737
Total liabilities	¥ 85,111	¥ 82,653	\$ 766,834
Contingent liabilities (Note 11)			
Net assets (Note 14):			
Shareholders' equity:			
Common stock			
Authorized - 32,000,000 shares			
Issued - 17,442,028 shares	9,039	9,039	81,439
Capital surplus	8,010	7,997	72,168
Retained earnings	42,818	37,974	385,782
Less: Treasury stock, at cost	(1,057)	(160)	(9,523)
Accumulated other comprehensive income:			
Unrealized gains on securities	2,237	2,083	20,154
Deferred gains or losses on hedges	75	257	675
Foreign currency translation adjustment	(20)	(22)	(180)
Remeasurements of defined benefit plans	(141)	(179)	(1,270)
Subscription rights to shares	427	545	3,847
Non-controlling interests	436	372	3,928
Total net assets	61,826	57,908	557,041
Total liabilities and net assets	¥ 146,938	¥ 140,561	\$ 1,323,885

See accompanying notes.



DAIHO CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Sales (Note 17):	¥ 150,777	¥ 149,649	\$ 1,358,473
Costs and expenses:			
Cost of sales (Note 17)	135,951	133,266	1,224,894
Selling, general and administrative expenses	5,659	5,155	50,986
	<u>141,610</u>	<u>138,421</u>	<u>1,275,880</u>
Operating income	9,166	11,227	82,584
Other income (expenses):			
Interest and dividend income	106	120	955
Interest expense	(34)	(34)	(306)
Guarantee commission	(58)	(66)	(522)
Commission fee	(38)	(74)	(342)
Gain and (loss) on sale and disposal of property and equipment	(196)	116	(1,765)
Foreign currency exchange gain and (loss), net	0	(10)	6
Loss on litigation (Note 19)	(20)	(43)	(180)
Gain on sales of investment securities	24	—	(216)
Other, net	48	(41)	432
	<u>(168)</u>	<u>(33)</u>	<u>(1,513)</u>
Income before income taxes and non-controlling interests	8,998	11,193	81,070
Income taxes (Note 13):			
Current	3,253	3,358	29,308
Deferred	(462)	(82)	(4,162)
Net income	6,207	7,917	55,923
Profit attributable to non-controlling interests	66	34	594
Profit attributable to owners of parent	<u>¥ 6,141</u>	<u>¥ 7,883</u>	<u>\$ 55,329</u>

Amounts per share of common stock:	Yen		U.S. dollars (Note 1)
	¥	¥	\$
Net income (Note 22)	357.07	456.24	3.22
Diluted net income per share (Note 22)	352.83	450.27	3.18
Cash dividends applicable to the year	75.00	15.00	0.68

The Company carried out a share consolidation on common stock with a ratio of 5 shares to 1 share on October 1, 2018. Cash dividends per share of common stock with the cut-off date in the year ended March 31, 2018 is the amount before the share consolidation.

See accompanying notes.



DAIHO CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended March 31, 2019 and 2018

	<u>Millions of yen</u>		<u>Thousands of U.S. dollars (Note 1)</u>
	<u>2019</u>	<u>2018</u>	<u>2019</u>
Net income	¥ 6,207	¥ 7,917	\$ 55,924
Other comprehensive income: (Note 21)			
Unrealized gains or losses on securities	154	549	1,388
Deferred gains or losses on hedges	(181)	154	(1,631)
Foreign currency translation adjustments	1	3	9
Remeasurements of defined benefit plans	37	89	333
Total other comprehensive income	<u>12</u>	<u>796</u>	<u>108</u>
Comprehensive income	<u>¥ 6,219</u>	<u>¥ 8,714</u>	<u>\$ 56,032</u>
Comprehensive income attribute to:			
Owners of parent	¥ 6,153	¥ 8,680	\$ 55,437
Non-controlling interests	66	34	595

See accompanying notes.



DAIHO CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
Years ended March 31, 2019 and 2018

Millions of yen

Number of shares of common stock (Thousands)	Millions of yen										Total
	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	
87,170	¥ 9,030	¥ 7,960	¥ 30,867	¥ (170)	¥ 1,533	¥ 103	¥ (25)	¥ (269)	¥ 610	¥ 340	¥ 49,981
40	9	9	—	—	—	—	—	—	—	—	19
—	—	—	(776)	—	—	—	—	—	—	—	(776)
—	—	—	7,883	—	—	—	—	—	—	—	7,883
—	—	26	—	18	—	—	—	—	—	—	45
—	—	—	—	(8)	—	—	—	—	—	—	(8)
—	—	—	—	—	549	154	3	89	(64)	31	763
87,210	¥ 9,039	¥ 7,997	¥ 37,974	¥ (160)	¥ 2,083	¥ 257	¥ (22)	¥ (179)	¥ 545	¥ 372	¥ 57,908
—	—	—	(1,296)	—	—	—	—	—	—	—	(1,296)
—	—	—	6,141	—	—	—	—	—	—	—	6,141
—	—	13	—	106	—	—	—	—	—	—	119
—	—	—	—	(1,003)	—	—	—	—	—	—	(1,003)
—	—	—	—	—	154	(181)	1	37	(118)	64	(42)
87,210	¥ 9,039	¥ 8,010	¥ 42,818	¥ (1,057)	¥ 2,237	¥ 75	¥ (20)	¥ (141)	¥ 427	¥ 436	¥ 61,826

BALANCE AT APRIL 1, 2017

Issuance of new shares

Cash dividends paid (¥9.0 per share)

Profit attributable to owners of parent

Disposal of treasury stock

Acquisition of treasury stock

Net change of items other than shareholders' equity

BALANCE AT MARCH 31, 2018

Cash dividends paid (¥15.0 per share)

Profit attributable to owners of parent

Disposal of treasury stock

Acquisition of treasury stock

Net change of items other than shareholders' equity

BALANCE AT MARCH 31, 2019

Thousands of U.S. dollars (Note 1)

Number of shares of common stock	Thousands of U.S. dollars (Note 1)										Total
	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	
81,439	\$ 81,439	\$ 72,051	\$ 342,138	\$ (1,441)	\$ 18,767	\$ 2,315	\$ (198)	\$ (1,612)	\$ 4,910	\$ 3,351	\$ 521,740
—	—	—	(11,676)	—	—	—	—	—	—	—	(11,676)
—	—	—	55,329	—	—	—	—	—	—	—	55,329
—	—	117	—	955	—	—	—	—	—	—	1,072
—	—	—	—	(9,036)	—	—	—	—	—	—	(9,036)
—	—	—	—	—	1,387	(1,630)	9	333	(1,063)	576	(378)
81,439	\$ 81,439	\$ 72,168	\$ 385,782	\$ (9,523)	\$ 20,154	\$ 675	\$ (180)	\$ (1,270)	\$ 3,847	\$ 3,928	\$ 557,041

BALANCE AT APRIL 1, 2018

Cash dividends paid (\$0.13 per share)

Profit attributable to owners of parent

Disposal of treasury stock

Acquisition of treasury stock

Net change of items other than shareholders' equity

BALANCE AT MARCH 31, 2019

See accompanying notes.



DAIHO CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Cash flows from operating activities:			
Income before income taxes and non-controlling interests	¥ 8,998	¥ 11,193	\$ 81,070
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating activities:			
Depreciation and amortization	684	498	6,162
Loss on litigation	20	43	180
Interest and dividend income	(106)	(120)	(955)
Interest expense	34	34	306
Increase (decrease) in allowance for doubtful accounts	(13)	(94)	(117)
Increase (decrease) in net defined benefit liability	(236)	(9)	(2,126)
Foreign currency exchange (gains) losses, net	17	(10)	153
Increase (decrease) in allowance for losses on construction contracts	133	(175)	1,198
(Gain) loss on sale and disposal of property and equipment	196	(116)	1,765
Increase (decrease) in advances received on uncompleted contracts	1,124	(308)	10,127
(Increase) decrease in receivables and other current assets	(4,823)	1,294	(43,454)
(Increase) decrease in inventories	(368)	(249)	(3,315)
Increase (decrease) in payables and accrued expenses	165	2,723	1,486
(Increase) decrease in other assets	(3,687)	2,085	(33,219)
Increase (decrease) in other liabilities	464	626	4,180
Increase (decrease) in allowance for warranties for completed construction	1,143	(63)	10,298
Other, net	102	365	919
Subtotal	3,849	17,715	34,678
Interest and dividend received	106	120	955
Interest paid	(34)	(34)	(306)
Income taxes paid	(3,626)	(2,668)	(32,669)
Payments for loss on litigation	(34)	(122)	(306)
Net cash provided by (used in) operating activities	261	15,010	2,351
Cash flows from investing activities:			
Deposit in time deposits	(2,520)	(124)	(22,704)
Withdrawal from time deposits	2,520	124	22,704
Proceeds from sale of property and equipment	34	628	306
Payments for purchase of property and equipment	(2,200)	(1,879)	(19,821)
Payments for retirement of property, plant and equipment	(75)	—	(675)
Purchase of intangible assets	(33)	(28)	(297)
Purchase of memberships	(95)	—	(855)
Purchase of investment securities	(1,086)	(321)	(9,784)
Proceeds from sale of investment securities	64	99	576
Payments for long-term loans receivable	(0)	(2)	(2)
(Increase) decrease in short-term loans receivable	2	4	18
Collection of long-term loans receivable	17	17	153
Payments for asset retirement obligations	(95)	—	(855)
Net cash provided by (used in) investing activities	(3,466)	(1,480)	(31,228)
Cash flows from financing activities:			
Proceeds from long-term loans payable	3,150	—	28,380
Repayment of long-term loans payable	(3,150)	—	(28,380)
Purchase of treasury stock	(1,003)	(8)	(9,036)
Proceeds from disposal of treasury stock	0	0	7
Cash dividends paid	(1,290)	(774)	(11,622)
Cash dividends paid to non-controlling interests	(2)	(2)	(18)
Other, net	(48)	(88)	(432)
Net cash provided by (used in) financing activities	(2,342)	(874)	(21,101)
Effect of exchange rate changes on cash and cash equivalents	(16)	(16)	(144)
Net increase (decrease) in cash and cash equivalents	(5,564)	12,639	(50,130)
Cash and cash equivalents at the beginning of year	44,232	31,592	398,522
Cash and cash equivalents at end of year (Note 15)	¥ 38,667	¥ 44,232	\$ 348,382

See accompanying notes.



DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019 and 2018

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 the 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 to U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate as at March 31, 2019, which is ¥110.99 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 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, 2019 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 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.

(2) Inventories

Costs on uncompleted construction contracts, and costs of real estate business and raw materials and supplies are stated at cost as determined on a specific basis. Costs of 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 based on 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.

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

	<u>2019</u>	<u>2018</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, 2019 and 2018

(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) Lease assets

Assets of finance leases that do not transfer ownership of lease property to the lessee are depreciated over the lease term using the straight-line method with a residual value of 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 and cost recognition

The Companies recognize revenue by applying the percentage-of-completion method for the construction projects with the 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, the 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 as per the percentage-of-completion method amounted to ¥137,264 million (\$1,236,724 thousand) and ¥130,700 million for the years ended March 31, 2019 and 2018, 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 the 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 the sale of such securities are computed using the moving-average cost. Available-for-sale securities with no fair market value are stated at the 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, 2019 and 2018 totaled ¥67 million (\$603 thousand) and ¥58 million, respectively.

(10) Allowance for doubtful accounts

The Companies provide the allowance for doubtful accounts based principally on the historical bad debt ratio during a certain reference period, plus the 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 the 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, 2019 and 2018

(12) Allowance for losses on construction contracts

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

(13) Net defined benefit liability

(A) Method of attributing expected benefit to periods

The Companies determine the method of attributing expected benefit to periods based on a benefit formula.

(B) Method of processing actuarial gains and losses

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 years 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.

(14) Income taxes

Income taxes comprise corporation, enterprise and inhabitants taxes. The Companies recognize the 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.

(15) 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 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 translated at the corresponding forward exchange contract rate. The following summarizes hedging derivative financial instruments used by the Companies and the items hedged:

Hedging instruments

Forward foreign exchange contracts
Foreign currency deposits

Items 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 same, as the hedge items to ensure the effectiveness for offsetting the fluctuation of fair value from the start of transaction and thereafter.

(16) 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.

(17) 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 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, 2019 and 2018

(18) 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.

(19) 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 the previously reported results of operations or shareholders' equity.

(20) Changes in accounting policies

There are no applicable items.

(21) Unapplied accounting standards

(Standards and guidance not yet adopted)

The following standard and guidance have been issued but not yet adopted.

- "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29, March 30, 2018)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30, March 30, 2018)

(A) Overview

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying the following 5 steps:

Step 1: Identify contract(s) with customers.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligation in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

(B) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022

(C) Effects of the application of the standards

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

(22) Changes in presentation method

(Changes due to the adoption of "Partial Amendments to Accounting Standard for Tax Effect Accounting")

Upon application of "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018 (hereinafter, "Statement No. 28")) from the beginning of the current fiscal year, the Company and its domestic subsidiaries changed the presentation of deferred tax assets and deferred tax liabilities, such that deferred tax assets and deferred tax liabilities are classified as part of "investments and other non-current assets" and "non-current liabilities", respectively.

As a result, deferred tax assets of ¥672 million classified as "current assets" have been included in deferred tax assets (¥218 million) in "investments and other non-current assets", and deferred tax liabilities classified as "current liabilities" have been included in deferred tax liabilities (¥ 230 million) classified as "non-current liabilities" in the balance sheet as of the end of the previous fiscal year.



DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019 and 2018

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
	2019	2018	2019
Costs on uncompleted construction contracts	¥ 2,666	¥ 2,292	\$ 24,020
Real estate business spending	9	7	81
Raw materials and supplies	68	74	612

4. Notes maturing at the end of the year

Notes maturing at the end of the year are settled as of the clearing day. If days at the end of year when notes are due to be cleared are holidays of financial institutions, notes maturing at the end of the year are included in the balance at the end of the year as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Trade notes	¥ 5	¥ 36	\$ 45

5. 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, 2019 and 2018:

Available-for-sale securities:

(1) Securities with book values exceeding acquisition costs

Type	Millions of yen		
	2019		
	Acquisition cost	Book value	Difference
Equity securities	¥ 4,443	¥ 7,742	¥ 3,299
Bonds	10	10	0
Others	49	65	15
Total	¥ 4,502	¥ 7,818	¥ 3,315

Type	Millions of yen		
	2018		
	Acquisition cost	Book value	Difference
Equity securities	¥ 3,460	¥ 6,472	¥ 3,012
Bonds	10	10	0
Others	58	78	19
Total	¥ 3,529	¥ 6,560	¥ 3,031



DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019 and 2018

Thousands of U.S. dollars			
2019			
Type	Acquisition cost	Book value	Difference
Equity securities	\$ 40,030	\$ 69,754	\$ 29,723
Bonds	90	90	0
Others	441	585	135
Total	\$ 40,562	\$ 70,438	\$ 29,867

(2) Securities with book values not exceeding acquisition costs

Millions of yen			
2019			
Type	Acquisition cost	Book value	Difference
Equity securities	¥ 233	¥ 163	¥ (70)
Others	72	58	(13)
Total	¥ 305	¥ 221	¥ (84)

Millions of yen			
2018			
Type	Acquisition cost	Book value	Difference
Equity securities	¥ 214	¥ 191	¥ (22)
Others	21	20	(0)
Total	¥ 235	¥ 211	¥ (23)

Thousands of U.S. dollars			
2019			
Type	Acquisition cost	Book value	Difference
Equity securities	\$ 2,099	\$ 1,468	\$ (630)
Others	648	522	(117)
Total	\$ 2,747	\$ 1,991	\$ (756)

(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
	2019	2018	2019
Equity securities			
Sales	¥ 64	¥ 99	\$ 576
Related gains	24	13	216
Related losses	—	1	—



DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019 and 2018

(C) Available-for-sale securities impaired
Year ended March 31, 2019
Not applicable

Year ended March 31, 2018

During the fiscal year, impairment losses on other securities are recognized to be ¥54 million. Impairment accounting is applied to all cases where the market price falls by more than 50% from the acquisition cost at the end of the period, and if it falls by 30–50%, impairment treatment is carried out for the amount deemed necessary taking into consideration the possibility of recovery.

6. Derivatives

(A) Derivative transactions to which hedge accounting is not applied as of March 31, 2019 and 2018
Not applicable

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

As of March 31, 2019

			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	398	—	32
	Buying contracts Euro				
			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	3,585	—	288
	Buying contracts Euro				

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



DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019 and 2018

As of March 31, 2018

			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		1,025	398	152
	Euro				

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

7. Pledged assets

As of March 31, 2019 and 2018, the following assets of the Companies are pledged to guarantee money.

	Millions of yen		Thousands of U.S. dollars	
	2019	2018	2019	
Investment securities	¥ 10	¥ 10	\$ 90	

8. Short-term and long-term loans payable

Short-term loans payable consisted mainly of bank overdrafts from banks. The weighted average interest rates as at March 31, 2019 and 2018 are same 0.5% per annum.

Long-term loans payable consisted mainly of bank overdrafts from banks. The weighted average interest rate as at March 31, 2019 is 0.8% per annum.

The annual maturities of long-term loans payable as of March 31, 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars	
Over one year and less than two years	¥	-	\$	-
Over two years and less than three years		-		-
Over three years and less than four years		3,150		28,380
Over four years and less than five years		-		-
Total	¥	3,150	\$	28,380



DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019 and 2018

9. 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 the amount of costs on uncompleted construction contracts, is ¥6 million (\$54 thousand) and ¥2 million for the years ended March 31, 2019 and 2018, respectively. The amount of allowance for losses on construction contracts included in cost of sales is ¥313 million (\$2,820 thousand) and ¥406 million for the years ended March 31, 2019 and 2018, respectively.

10. Net defined benefit liability

(1) As of March 31, 2019 and 2018, 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, 2019 and 2018 (including the adoption of a simplified method to compute their retirement benefit obligations as permitted by Japanese GAAP).

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at the beginning of the year	¥ 6,285	¥ 6,294	\$ 56,626
Service cost	529	539	4,766
Interest cost	51	51	459
Actuarial loss (gain)	(7)	(13)	(63)
Benefits paid	(809)	(586)	(7,288)
Balance at the end of the year	¥ 6,050	¥ 6,285	\$ 54,509

(3) Movements in plan assets
Not applicable

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unfunded retirement benefit obligations	¥ 6,050	¥ 6,285	\$ 54,509
Total net defined benefit liability at the end of the respective fiscal year	6,050	6,285	54,509
Defined benefit liability	¥ 6,050	¥ 6,285	\$ 54,509
Total net defined benefit liability at the end of the respective fiscal year	6,050	6,285	54,509



DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019 and 2018

(5) The components of retirement benefit expenses for the years ended March 31, 2019 and 2018 (retirement benefit expenses in the consolidated subsidiaries using the simplified method are recorded in service cost) are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service cost	¥ 529	¥ 539	\$ 4,766
Interest cost	51	51	459
Net actuarial loss amortization	30	76	270
Total retirement benefit expenses for the respective fiscal year	<u>¥ 611</u>	<u>¥ 667</u>	<u>\$ 5,505</u>

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Actuarial difference	37	89	333
Total remeasurements for the respective fiscal year	<u>¥ 37</u>	<u>¥ 89</u>	<u>\$ 333</u>

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Actuarial gains and losses that are yet to be recognized	¥ 141	¥ 179	\$ 1,270
Total balance at the end of respective fiscal year	<u>¥ 141</u>	<u>¥ 179</u>	<u>\$ 1,270</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 the main items included in plan assets for the years ended March 31, 2019 and 2018 are not presented.

(9) The principal actuarial assumptions as at March 31, 2019 and 2018 (expressed as weighted averages) is the discount rate of 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 ¥173 million (\$1,558 thousand) and ¥178 million for the years ended March 31, 2019 and 2018, respectively.

11. Contingent liabilities

The Companies are contingently liable as a guarantor of indebtedness of customers aggregating ¥179 million (\$1,612 thousand) and ¥525 million as at March 31, 2019 and 2018, respectively.



DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019 and 2018

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Investment securities loaned	¥ 1,537	¥ 1,521	\$ 13,848

13. Income taxes

Income taxes consist of taxes on corporation, enterprise and inhabitants.

The Companies are subject to a number of taxes based on income, which, in the aggregate, resulted in a normal rate of 30.9% in Japan for the year ended March 31, 2018. The following table summarizes the main differences between the statutory tax rate and the Companies' effective tax rate for the year ended March 31, 2018.

Since the difference between the statutory tax rate and the Companies' effective tax rate is less than 5% of the statutory tax rate, a note is omitted.

	2018
Statutory tax rate	30.9 %
Permanent differences:	
Non-deductible expenses	0.7
Non-taxable income	(0.6)
Per capita inhabitants taxes	1.1
Decrease in valuation allowance	(1.7)
Elimination of intercompany dividends	0.6
Other	(1.7)
Effective tax rate	29.3



DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019 and 2018

Main components of the Companies' deferred tax assets and liabilities as of March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Net defined benefit liability	¥ 1,861	¥ 1,932	\$ 16,767
Write-down of inventories (*1)	246	246	2,216
Allowance for doubtful accounts	65	63	585
Allowance for losses on construction contracts	206	165	1,856
Impairment loss on fixed assets	212	212	1,910
Allowance for warranties for completed construction	453	102	4,081
Enterprise taxes payable	112	123	1,009
Excess bonuses accrued	275	260	2,477
Tax loss carryforwards	164	164	1,477
Subscription rights to shares	130	167	1,171
Other	428	392	3,856
Subtotal	<u>4,156</u>	<u>3,830</u>	<u>37,444</u>
Valuation allowance (*2)	<u>(2,607)</u>	<u>(2,728)</u>	<u>(23,488)</u>
Total deferred tax assets	<u>1,549</u>	<u>1,101</u>	<u>13,956</u>
Deferred tax liabilities:			
Unrealized gains on securities	(992)	(924)	(8,937)
Deferred gains on property and equipment	(56)	(58)	(504)
Temporary differences on assets acquired through transfers of business	(9)	(9)	(81)
Other	(28)	(121)	(252)
Total deferred tax liabilities	<u>(1,086)</u>	<u>(1,113)</u>	<u>(9,784)</u>
Net deferred tax assets (liabilities)	<u>¥ 463</u>	<u>¥ (11)</u>	<u>\$ (4,171)</u>

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

(*2) "Valuation allowance" decreased by ¥121 million. The main reason of this decrease is due to a decrease in net defined benefit liability.

14. 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.



DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019 and 2018

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 exceeds 25% of common stock, these 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 27, 2019, the shareholders approved cash dividends amounting to ¥1,277 million (\$11,505 thousand). The appropriations were not reflected in the consolidated financial statements as of March 31, 2019. Such appropriations are recognized in the period when they are resolved.

15. 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, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash and time deposits	¥ 38,687	¥ 44,252	\$ 348,562
Less: Time deposits with maturities exceeding three months	(20)	(20)	(180)
Cash and cash equivalents	¥ 38,667	¥ 44,232	\$ 348,382

16. Segment information

(1) General information about reportable segments

The Companies' reportable segments include items in the constituent units of business, for which separate 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. Accordingly, the company has three reportable segments: “Civil engineering,” “Building construction” and “Other.”

(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:



DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019 and 2018

Year ended

March 31, 2019

Millions of yen

	Civil engineering	Building construction	Other	Total	Reconciliations (#1·#2·#4)	Consolidated (#3)
Sales:						
Outside customers	¥ 75,694	¥ 71,391	¥ 3,690	¥ 150,777	¥ —	¥ 150,777
Intersegment	—	5	406	412	(412)	—
Total	<u>75,694</u>	<u>71,397</u>	<u>4,096</u>	<u>151,189</u>	<u>(412)</u>	<u>150,777</u>
Segment income	<u>¥ 6,339</u>	<u>¥ 2,569</u>	<u>¥ 325</u>	<u>¥ 9,234</u>	<u>¥ (67)</u>	<u>¥ 9,166</u>
Identifiable assets	¥ 83,216	¥ 61,713	¥ 4,108	¥ 149,038	¥ (2,099)	¥ 146,938
Depreciation and amortization	497	185	21	703	(19)	684
Capital expenditures	1,070	802	508	2,381	(148)	2,233

Year ended

March 31, 2018

Millions of yen

	Civil engineering	Building construction	Other	Total	Reconciliations (#1·#2·#4)	Consolidated (#3)
Sales:						
Outside customers	¥ 73,928	¥ 71,519	¥ 4,201	¥ 149,649	¥ —	¥ 149,649
Intersegment	191	6	2,273	2,471	(2,471)	—
Total	<u>74,120</u>	<u>71,525</u>	<u>6,474</u>	<u>152,120</u>	<u>(2,471)</u>	<u>149,649</u>
Segment income	<u>¥ 7,283</u>	<u>¥ 3,764</u>	<u>¥ 250</u>	<u>¥ 11,298</u>	<u>¥ (70)</u>	<u>¥ 11,227</u>
Identifiable assets	¥ 77,474	¥ 61,996	¥ 4,121	¥ 143,592	¥ (3,030)	¥ 140,561
Depreciation and amortization	382	103	27	513	(15)	498
Capital expenditures	1,644	532	6	2,183	(275)	1,907



DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019 and 2018

Year ended

March 31, 2019

Thousands of U.S. dollars

	Civil engineering	Building construction	Other	Total	Reconciliations (#1·#2·#4)	Consolidated (#3)
Sales:						
Outside customers	\$ 681,989	\$ 643,220	\$ 33,246	\$ 1,358,473	\$ —	\$ 1,358,473
Intersegment	—	45	3,657	3,712	(3,712)	—
Total	<u>681,989</u>	<u>643,274</u>	<u>36,904</u>	<u>1,362,185</u>	<u>(3,712)</u>	<u>1,358,473</u>
Segment income	<u>\$ 57,113</u>	<u>\$ 23,146</u>	<u>\$ 2,928</u>	<u>\$ 83,196</u>	<u>\$ (603)</u>	<u>\$ 82,584</u>
Identifiable assets	\$ 749,761	\$ 556,023	\$ 37,012	\$ 1,342,805	\$ (18,911)	\$ 1,323,885
Depreciation and amortization	4,477	1,666	189	6,333	(171)	6,162
Capital expenditures	9,640	7,225	4,576	21,452	(1,333)	20,118

- #1. Reconciliations of segment income amounting to ¥(67) million (\$(603) thousand) and ¥(70) million for the years ended March 31, 2019 and 2018 are eliminations of intersegment transactions.
- #2. Reconciliations of identifiable assets amounting to ¥(2,099) million (\$(18,911) thousand) and ¥(3,030) million for the years ended March 31, 2019 and 2018 are eliminations of intersegment transactions.
- #3. Consolidated amounts of segment income above correspond to the amounts of operating income in the consolidated statements of operations.
- #4. All assets are allocated to the respective business segments.
- #5. Upon application of "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) from the beginning of the current fiscal year, the identifiable assets for the previous fiscal year are restated to reflect such retrospective application.

(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.



DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019 and 2018

(5) Information about impairment loss on fixed assets by reported segment

Information about impairment loss on fixed assets by reported segment for the fiscal year ended March 31, 2018 and 2019 is as follows:

Because of the low significance, the description is omitted.

(6) Amortization and balance of goodwill by reportable segment

Not applicable

(7) Amount of gain on negative goodwill by reportable segment

Not applicable

17. Sales and costs of sales

The impact of fraudulent transactions, which led to a decline in sales by ¥33 million and an increase in cost of sales by ¥55 million, is included for the year ended March 31, 2018.

18. Information on related parties

Year ended March 31, 2019

Not applicable

Year ended March 31, 2018

Not applicable

19. Loss on litigation

Components of the loss on litigation for the years ended March 31, 2019 and 2018 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Settlement packages	¥ 11	¥ 33	\$ 99
Others	8	10	72

20. Financial instruments

Information on financial instruments for the years ended March 31, 2019 and 2018 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 Company use derivatives for the purpose of avoiding risks as described below and not for speculative transactions.



DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019 and 2018

(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 the credit standing of their main customers, due dates and outstanding balances of individual customers.

Advances paid is a credit mainly occurred by construction transactions other than trade notes and accounts receivables, and the account is exposed to credit risk in relation to customers.

Investment securities are exposed to the risk of market price fluctuations. Those securities are composed mainly of the shares of other companies with which the Companies have business relationship. The 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 purpose of loans payable is mainly for working capital finance.

Derivative used by the company is forward exchange contracts for the purpose of hedging exchange rate fluctuations, which affect overseas transactions. 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 that possess high credit ratings in order to mitigate the 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 as at March 31, 2019 and 2018 are as follows. The following table does not include financial instruments for which the fair value is extremely difficult to determine (Refer to #2 below).

	Millions of yen		
	2019		
	Book value	Fair value	Difference
Cash and time deposits	¥ 38,687	¥ 38,687	¥ —
Trade notes and accounts receivable	70,866	70,866	—
Short-term loans receivable	19		
Allowance for doubtful accounts	(13)		
Subtotal	6	6	—
Advances paid	9,808	9,808	—
Investment securities	8,039	8,039	—
Long-term loans receivable	22		
Allowance for doubtful accounts	(12)		
Subtotal	9	9	(0)
Total assets	¥ 127,418	¥ 127,418	¥ (0)
Short-term loans payable	¥ 1,850	¥ 1,850	¥ —
Trade notes and accounts payable	44,402	44,402	—
Deposits received	12,810	12,810	—
Long-term loans payable	3,150	3,136	(13)
Total liabilities	¥ 62,212	¥ 62,198	¥ (13)
Derivative transactions	¥ 32	¥ 32	¥ —



DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019 and 2018

	Millions of yen		
	2018		
	Book value	Fair value	Difference
Cash and time deposits	¥ 44,252	¥ 44,252	¥ —
Trade notes and accounts receivable	66,028	66,028	—
Short-term loans receivable	20	20	—
Advances paid	7,777	7,777	—
Investment securities	6,772	6,772	—
Long-term loans receivable	42		
Allowance for doubtful accounts	(26)		
Subtotal	15	15	0
Total assets	¥ 124,866	¥ 124,866	¥ 0
Short-term loans payable	¥ 1,850	¥ 1,850	¥ —
Trade notes and accounts payable	44,231	44,231	—
Current portion of long-term loans payable	3,150	3,150	—
Deposits received	10,739	10,739	—
Total liabilities	¥ 59,970	¥ 59,970	¥ —
Derivative transactions	¥ 152	¥ 152	¥ —

	Thousands of U.S. dollars		
	2019		
	Book value	Fair value	Difference
Cash and time deposits	\$ 348,562	\$ 348,562	\$ —
Trade notes and accounts receivable	638,489	638,489	—
Short-term loans receivable	171		
Allowance for doubtful accounts	(117)		
Subtotal	54	54	—
Advances paid	88,368	88,368	—
Investment securities	72,429	72,429	—
Long-term loans receivable	198		
Allowance for doubtful accounts	(108)		
Subtotal	81	81	(0)
Total assets	\$ 1,148,013	\$ 1,148,013	\$ (0)
Short-term loans payable	\$ 16,668	\$ 16,668	\$ —
Trade notes and accounts payable	400,054	400,054	—
Deposits received	115,415	115,415	—
Long-term loans payable	28,380	28,254	(117)
Total liabilities	\$ 560,518	\$ 560,392	\$ (117)
Derivative transactions	\$ 288	\$ 288	\$ —

#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 their fair values.



DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019 and 2018

(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 their 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 that may be applicable when the same kinds of borrowings are made.

Derivative transactions:

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

#2. Since no quoted market prices are available and it is extremely difficult to determine the fair values, nonmarketable securities for the years ended March 31, 2019 and 2018 (book value: ¥812 million (\$7,315 thousand) and ¥813 million, respectively,) are not included in the above table.

#3. The aggregate maturities subsequent to March 31, 2019 and 2018 for financial assets with maturity are as follows:

Type	Millions of yen			
	2019			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	¥ 38,687	¥ —	¥ —	¥ —
Trade notes and accounts receivable	70,866	—	—	—
Short-term loans receivable	6	—	—	—
Advances paid	9,808	—	—	—
Investment securities				
Available-for-sale securities				
with contractual maturities	—	—	10	—
Long-term loans receivable	—	9	0	—
Total	¥ 119,368	¥ 9	¥ 10	¥ —



DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019 and 2018

Type	Millions of yen			
	2018			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	¥ 44,252	¥ —	¥ —	¥ —
Trade notes and accounts receivable	66,028	—	—	—
Short-term loans receivable	20	—	—	—
Advances paid	7,777	—	—	—
Investment securities				
Available-for-sale securities with contractual maturities	—	—	10	—
Long-term loans receivable	—	11	4	—
Total	¥ 118,077	¥ 11	¥ 14	¥ —

Type	Thousands of U.S. dollars			
	2019			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	\$ 348,562	\$ —	\$ —	\$ —
Trade notes and accounts receivable	638,489	—	—	—
Short-term loans receivable	54	—	—	—
Advances paid	88,368	—	—	—
Investment securities				
Available-for-sale securities with contractual maturities	—	—	90	—
Long-term loans receivable	—	81	0	—
Total	\$ 1,075,484	\$ 81	\$ 90	\$ —

#1. Part of long-term loans receivable, have no redemption schedule are not included in the table above.



DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019 and 2018

21. Accounting standards for presentation of comprehensive income

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

	Millions of yen	Millions of yen	Thousands of U.S. dollars
	2019	2018	2019
Unrealized gains on securities	¥	¥	\$
Increase (decrease) during the year	246	749	2,216
Reclassification adjustments	(24)	43	(216)
Subtotal, before tax	222	793	2,000
Tax (expense) or benefit	(68)	(243)	(612)
Subtotal, net of tax	154	549	1,387
Deferred gains and losses on hedges			
Increase (decrease) during the year	(261)	222	(2,351)
Reclassification adjustments	—	—	—
Subtotal, before tax	(261)	222	(2,351)
Tax (expense) or benefit	80	(67)	720
Subtotal, net of tax	(181)	154	1,630
Foreign currency translation adjustments			
Increase (decrease) during the year	1	3	9
Reclassification adjustments	—	—	—
Subtotal, before tax	1	3	9
Tax (expense) or benefit	—	—	—
Subtotal, net of tax	1	3	9
Remeasurements of defined benefit plans			
Increase (decrease) during the year	7	13	63
Reclassification adjustments	30	76	270
Subtotal, before tax	37	89	333
Tax (expense) or benefit	—	—	—
Subtotal, net of tax	37	89	333
Total other comprehensive income	¥ 12	¥ 796	\$ 108



DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019 and 2018

22. Per share information

	Yen		U.S. dollars
	2019	2018	2019
Net assets per share	3,579.48	3,296.48	32.25
Net income per share	¥ 357.07	¥ 456.24	\$ 3.21
Net income per share (diluted)	352.83	450.27	3.17

The Company carried out a share consolidation on common stock with a ratio of 5 shares to 1 share on October 1, 2018. Net assets per share, net income per share and net income per share (diluted) are calculated based on the assumption that the consolidation of shares had been carried out at the beginning of the fiscal year ended March 31, 2018.

Basis of the calculation of net income per share is as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Profit attributable to owners of parent	¥ 6,141	¥ 7,883	\$ 55,329
Amount not belonging to ordinary shareholders	—	—	—
Net income attributable to common stock	¥ 6,141	¥ 7,883	\$ 55,329
Weighted average number of ordinary shares (thousands of shares)	17,199	17,279	

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

	2019	2018
Subscription rights to shares (thousands of shares)	207	229

23. Stock options

No stock option expense is accounted for under selling, general and administrative expenses in the Consolidated Statements of Operations for the fiscal years ended March 31, and 2019 and 2018.

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)	52,800 common shares	106,600 common shares	89,000 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



DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019 and 2018

Notes:

(a) The number of stock options means the total shares to be issued upon the 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 the grantees lost their position as director or corporate officer. This period is limited to 9 years from the date.

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

The grantee commits a crime that results in imprisonment or worse than that during the time as a director or corporate officer.

The grantees or legal heirs offer to waive all their rights or a part of their rights in writing using the format provided by the Company.

(3) A grantee's legal heir can exercise the rights during 6 months from the date the grantee passes 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, 2019. The number of stock options is translated into the number of shares.

Fiscal year ended March 31, 2019:

Number of stock options

	FY 2014 stock options	FY 2015 stock options	FY 2016 stock options
Before vested:			
As of March 31, 2018	45,400	93,600	81,000
Granted	-	-	-
Forfeited	-	-	-
Vested	17,400	33,000	24,800
Outstanding	28,000	60,600	56,200
After vested:			
As of March 31, 2018	-	-	-
Vested	17,400	33,000	24,800
Exercised	11,800	19,000	16,000
Forfeited	-	-	-
Outstanding	5,600	14,000	8,800

Price information

	FY 2014 stock options	FY 2015 stock options	FY 2016 stock options
Exercise price	¥1 (\$0.009) per share	¥1 (\$0.009) per share	¥1 (\$0.009) per share
Average price when exercised	¥3,251 (\$29.29) per share	¥3,251 (\$29.29) per share	¥3,251 (\$29.29) per share
Fair value at the grant date	¥3,480 (\$31.35) per subscription to share	¥2,035 (\$18.33) per subscription to share	¥2,435 (\$21.93) per subscription to share

As of October 1, 2018, the Company carried out a share consolidation at a ratio of 5 common shares to 1. The share prices are calculated after taking into account the share consolidation.

C. 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.



DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019 and 2018

24. Subsequent events

(A) Acquisition of treasury stock

The Company resolved the item related to the acquisition of treasury stock at the Board of Directors held on May 14, 2019, in accordance with article 156, paragraph 1 of the Japanese Corporate Law (the "Law"), which is applicable as replacement of article 165, paragraph 3 of the law. As a result, the following was implemented.

(1) Reason of acquisition of treasury stock

The Company decided to acquire its treasury stock in order to enhance the shareholders' value per share and to improve capital efficiency.

(2) Details

a. Type of stock to be acquired

Common stock of the Company

b. Number of stocks to be acquired

Up to 300,000 stocks (1.76% of the total outstanding stocks excluding treasury stock)

c. Period of acquisition

From May 15, 2019 to September 13, 2019

d. Total cost acquisition

Up to ¥1,000 million (\$9,009 thousand)

e. Repurchase method

Auction market on the Tokyo Stock Exchange

(3) Result

a. Type of stock acquired

Common stock of the Company

b. Number of stocks acquired

300,000 stocks

c. Period of acquisition

From May 15, 2019 to June 13, 2019

d. Total cost acquisition

¥831 million (\$7,487 thousand)

e. Repurchase method

Auction market on the Tokyo Stock Exchange

(B) Disposal of treasury stock through third-party allotment

At the Board of Directors held on August 9, 2019, the Company resolved to dispose of treasury stock through a third-party allotment following the introduction of a stock delivery trust for executives as a stock compensation plan. As a result, the following was implemented.

(1) Date of disposal	August 27, 2019
(2) Type and number of shares disposed	106,600 shares
(3) Disposal price	¥2,559 (\$23.05) per share
(4) Total disposal amount	¥272,789,400 (\$2,457,783.58)
(5) Allottee	Sumitomo Mitsui Trust Bank, Limited (trust account) (re-entrusted to: Japan Trustee Services Bank, Ltd. (trust account))
(6) Other	The disposal of treasury stock is executed when a notification is filed pursuant to the Financial Instruments and Exchange Act.



DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2019 and 2018

(C) Introduction of a stock delivery trust for executives

1. Overview of the Trust

At the 70th Ordinary General Meeting of Shareholders held on June 27, 2019, the Company resolved to introduce a stock compensation plan (hereinafter, the “Plan”, and the trust established for the introduction of the Plan is referred to as the “Trust”) for directors and executive officers (excluding outside directors; hereinafter “Directors, etc.”), and at the Board of Directors held on August 9, 2019, the Company resolved matters on acquisition of company shares by the trustee of the Trust. As a result, the following was implemented.

(1) Name	Stock delivery trust for Directors, etc.
(2) Entrustor	The Company
(3) Trustee	Sumitomo Mitsui Trust Bank, Limited (re-entrusted to: Japan Trustee Services Bank, Ltd.)
(4) Beneficiaries	Directors, etc. who meet beneficiary requirements
(5) Trust administrator	A third party is to be selected with no conflicts of interests with the Company and Directors, etc.
(6) Exercise of voting rights	Voting rights on the Company shares in the Trust will not be exercised during the trust period.
(7) Types of trust	Money trust other than cash trust (third-party benefit trust)
(8) Date of conclusion of this trust agreement	August 27, 2019
(9) The day to trust money	August 27, 2019
(10) The final day of the Trust	August 31, 2022

2. Matters on acquisition of company shares by the trustee of the Trust

(1) Type of shares to be acquired	Common stock
(2) Amount trusted by the Company as funds for acquiring shares	¥272,789,400 (\$2,457,783.58)
(3) Total number of shares to be acquired	106,600 shares
(4) Acquisition date	August 27, 2019
(5) Method of acquiring shares	Acquisition by disposal of treasury stock