



DAIHO CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED MARCH 31, 2020 AND 2019
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

KPMG AZSA LLC
September 2020



Independent auditor's report

To the Board of Directors of DAIHO CORPORATION.:

Opinion

We have audited the accompanying consolidated financial statements of DAIHO CORPORATION ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2020 and 2019, 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 notes, comprising a summary of significant accounting policies, other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020 and 2019, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Corporate auditors and the board of corporate auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 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.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

岩出博男

Designated Engagement Partner

Certified Public Accountant

田中淳一

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

September 25, 2020

DAIHO CORPORATION
CONSOLIDATED BALANCE SHEETS
March 31, 2020 and 2019

<u>ASSETS</u>	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Current assets:			
Cash and time deposits (Notes 15 and 19)	¥ 30,294	¥ 38,687	\$ 278,360
Trade notes and accounts receivable (Notes 4 and 19)	80,011	69,688	735,192
Electronically recorded monetary claims - operating (Note 19)	1,718	1,178	15,786
Short-term loans receivable (Note 19)	13	19	119
Allowance for doubtful accounts (Note 19)	(86)	(91)	(790)
Costs on uncompleted construction contracts and other (Notes 3 and 9)	4,596	2,744	42,231
Advances paid (Note 19)	12,419	9,808	114,113
Other current assets	1,763	3,152	16,199
Total current assets	130,730	125,186	1,201,231
Property and equipment:			
Land	5,547	5,749	50,969
Buildings and structures	8,004	8,003	73,545
Machinery and equipment	7,013	7,080	64,439
Leased assets	187	188	1,718
Construction in progress	155	84	1,424
	20,908	21,105	192,116
Accumulated depreciation	(9,728)	(9,694)	(89,387)
Net property and equipment	11,180	11,411	102,729
Intangible assets	113	130	1,038
Investments and other non-current assets:			
Investment securities (Notes 5, 7, 12 and 19)	6,732	8,852	61,857
Long-term loans receivable (Note 19)	1,639	22	15,060
Deferred tax assets (Note 13)	1,154	475	10,603
Other non-current assets	688	964	6,321
Allowance for doubtful accounts (Note 19)	(53)	(105)	(486)
Total investments and other non-current assets	10,161	10,209	93,365
Total assets	¥ 152,187	¥ 146,938	\$ 1,398,391

See accompanying notes.

DAIHO CORPORATION
CONSOLIDATED BALANCE SHEETS
March 31, 2020 and 2019

<u>LIABILITIES AND NET ASSETS</u>	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Current liabilities:			
Short-term loans payable (Notes 8 and 19)	¥ 1,850	¥ 1,850	\$ 16,998
Trade notes and accounts payable (Notes 6 and 19)	39,295	38,272	361,067
Electronically recorded obligations – operating (Note 19)	10,216	6,129	93,871
Advances received on uncompleted construction contracts	7,335	10,058	67,398
Income taxes payable (Note 13)	1,319	1,772	12,119
Allowance for losses on construction contracts (Note 9)	361	675	3,317
Deposits received (Note 19)	13,321	12,810	122,401
Allowance for warranties for completed construction	1,783	1,479	16,383
Other current liabilities	1,648	1,881	15,142
Total current liabilities	77,130	74,929	708,720
Non-current liabilities:			
Long-term loans payable (Notes 8 and 19)	3,150	3,150	28,944
Deferred tax liabilities (Note 13)	17	12	156
Net defined benefit liability (Note 10)	6,043	6,050	55,526
Provision for share-based remuneration	52	—	477
Other long-term liabilities	804	969	7,387
Total long-term liabilities	10,067	10,182	92,502
Total liabilities	¥ 87,198	¥ 85,111	\$ 801,231
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	83,056
Capital surplus	7,998	8,010	73,490
Retained earnings	48,188	42,818	442,782
Less: Treasury stock, at cost	(1,825)	(1,057)	(16,769)
Accumulated other comprehensive income:			
Unrealized gains on securities	826	2,237	7,589
Deferred gains or losses on hedges	—	75	—
Foreign currency translation adjustment	(19)	(20)	(174)
Remeasurements of defined benefit plans	(124)	(141)	(1,139)
Subscription rights to shares	372	427	3,418
Non-controlling interests	532	436	4,888
Total net assets	64,988	61,826	597,151
Total liabilities and net assets	¥ 152,187	¥ 146,938	\$ 1,398,391

See accompanying notes.

DAIHO CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended March 31, 2020 and 2019

	<u>Millions of yen</u>		Thousands of U.S. dollars (Note 1)
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Sales :	¥ 162,811	¥ 150,777	\$ 1,496,012
Costs and expenses:			
Cost of sales	148,379	135,951	1,363,401
Gross profit	14,432	14,826	132,610
Selling, general and administrative expenses	5,921	5,659	54,405
	<u>154,300</u>	<u>141,610</u>	<u>1,417,807</u>
Operating income	8,511	9,166	78,204
Other income (expenses):			
Interest and dividend income	139	106	1,277
Interest expense	(36)	(34)	(330)
Guarantee commission	(66)	(58)	(606)
Commission fee	(22)	(38)	(202)
Gain (loss) on sale and disposal of property and equipment	657	(196)	6,036
Foreign currency exchange gain (loss), net	(49)	0	(450)
Loss on litigation (Note 18)	(17)	(20)	(156)
Gain on sales of investment securities	232	24	(2,131)
Other, net	114	48	1,047
	<u>950</u>	<u>(168)</u>	<u>8,729</u>
Income before income taxes and non-controlling interests	9,461	8,998	86,933
Income taxes (Note 13):			
Current	2,735	3,253	25,130
Deferred	(18)	(462)	(165)
Net income	6,744	6,207	61,968
Profit attributable to non-controlling interests	97	66	891
Profit attributable to owners of parent	<u>¥ 6,647</u>	<u>¥ 6,141</u>	<u>\$ 61,076</u>

	<u>Yen</u>		U.S. dollars (Note 1)
	<u>¥</u>	<u>¥</u>	<u>\$</u>
Amounts per share of common stock:			
Net income (Note 21)	395.64	357.07	3.64
Diluted net income per share (Note 21)	392.06	352.83	3.60
Cash dividends applicable to the year	100.00	75.00	0.92

See accompanying notes.

DAIHO CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended March 31, 2020 and 2019

	<u>Millions of yen</u>		<u>Thousands of U.S. dollars (Note 1)</u>
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Net income	¥ 6,744	¥ 6,207	\$ 61,968
Other comprehensive income: (Note 20)			
Unrealized gains or losses on securities	(1,411)	154	(12,965)
Deferred gains or losses on hedges	(75)	(181)	(689)
Foreign currency translation adjustments	1	1	9
Remeasurements of defined benefit plans	17	37	156
Total other comprehensive income	<u>(1,468)</u>	<u>12</u>	<u>(13,489)</u>
Comprehensive income	<u>¥ 5,276</u>	<u>¥ 6,219</u>	<u>\$ 48,479</u>
Comprehensive income attribute to:			
Owners of parent	¥ 5,178	¥ 6,153	\$ 47,579
Non-controlling interests	97	66	891

See accompanying notes.

DAIHO CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
Years ended March 31, 2020 and 2019

		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
	87,210	¥ 7,997	¥ 37,974	¥ (160)	¥ 2,083	¥ 257	¥ (22)	¥ (179)	¥ 545	¥ 372	¥ 57,908
BALANCE AT APRIL 1, 2018											
The Company carried out a share consolidation on common stock with a ratio of 5 shares to 1 share	(69,768)										
Cash dividends paid (¥15.0 per share)			(1,296)								(1,296)
Profit attributable to owners of parent			6,141								6,141
Disposal of treasury stock		13	106								119
Acquisition of treasury stock				(1,003)							(1,003)
Net change of items other than shareholders' equity					154	(181)	1	37	(118)	64	(42)
BALANCE AT MARCH 31, 2019	17,442	¥ 8,010	¥ 42,818	¥ (1,057)	¥ 2,237	¥ 75	¥ (20)	¥ (141)	¥ 427	¥ 436	¥ 61,826
Cash dividends paid (¥75.0 per share)											
Profit attributable to owners of parent			6,647								6,647
Disposal of treasury stock		(12)	66								54
Acquisition of treasury stock				(834)							(834)
Net change of items other than shareholders' equity					(1,411)	(75)	1	17	(54)	95	(1,428)
BALANCE AT MARCH 31, 2020	17,442	¥ 7,998	¥ 48,188	¥ (1,825)	¥ 826	¥ —	¥ (19)	¥ (124)	¥ 372	¥ 532	¥ 64,988

Thousands of U.S. dollars (Note 1)

		Thousands of U.S. dollars (Note 1)									
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
	83,056	\$ 73,601	\$ 393,439	\$ (9,712)	\$ 20,554	\$ 689	\$ (183)	\$ (1,295)	\$ 3,923	\$ 4,006	\$ 568,097
BALANCE AT APRIL 1, 2019											
Cash dividends paid (\$0.68 per share)			(11,733)								(11,733)
Profit attributable to owners of parent			61,076								61,076
Disposal of treasury stock		(110)	606								496
Acquisition of treasury stock				(7,663)							(7,663)
Net change of items other than shareholders' equity					(12,965)	(689)	9	156	(496)	872	(13,121)
BALANCE AT MARCH 31, 2020	83,056	\$ 73,490	\$ 442,782	\$ (16,769)	\$ 7,589	\$ —	\$ (174)	\$ (1,139)	\$ 3,418	\$ 4,888	\$ 597,151

See accompanying notes.

DAIHO CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Cash flows from operating activities:			
Income before income taxes and non-controlling interests	¥ 9,461	¥ 8,998	\$ 86,933
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating activities:			
Depreciation and amortization	671	684	6,165
Loss on litigation	17	20	156
Interest and dividend income	(139)	(106)	(1,277)
Interest expense	36	34	330
Increase (decrease) in allowance for doubtful accounts	(57)	(13)	(523)
Increase (decrease) in net defined benefit liability	(6)	(236)	(55)
Foreign currency exchange (gains) losses, net	23	17	211
Loss (gain) on sales of investment securities	(232)	(24)	(2,131)
Increase (decrease) in allowance for losses on construction contracts	(313)	133	(2,876)
Increase (decrease) in provision for share-based remuneration	52	—	477
(Gain) loss on sale and disposal of property and equipment	(657)	196	(6,036)
Increase (decrease) in advances received on uncompleted contracts	(2,721)	1,124	(25,002)
(Increase) decrease in receivables and other current assets	(10,870)	(4,823)	(99,880)
(Increase) decrease in inventories	(1,855)	(368)	(17,044)
Increase (decrease) in payables and accrued expenses	5,115	165	46,999
(Increase) decrease in other assets	(967)	(3,687)	(8,885)
Increase (decrease) in other liabilities	(125)	464	(1,148)
Increase (decrease) in allowance for warranties for completed construction	303	1,143	2,784
Other, net	82	126	753
Subtotal	(2,178)	3,849	(20,012)
Interest and dividend received	128	106	1,176
Interest paid	(36)	(34)	(330)
Income taxes paid	(3,166)	(3,626)	(29,091)
Payments for loss on litigation	(12)	(34)	(110)
Net cash provided by (used in) operating activities	(5,265)	261	(48,378)
Cash flows from investing activities:			
Deposit in time deposits	(20)	(2,520)	(183)
Withdrawal from time deposits	20	2,520	183
Proceeds from sales of property and equipment	1,639	34	15,060
Payments for purchase of property and equipment	(1,349)	(2,200)	(12,395)
Payments for retirement of property, plant and equipment	(33)	(75)	(303)
Purchase of intangible assets	(24)	(33)	(220)
Proceeds from sales of golf club memberships	144	—	1,323
Purchase of memberships	(8)	(95)	(73)
Purchase of investment securities	(376)	(1,086)	(3,454)
Proceeds from sales of investment securities	668	64	6,138
Payments for long-term loans receivable	(1,630)	(0)	(14,977)
(Increase) decrease in short-term loans receivable	1	2	9
Collection of long-term loans receivable	14	17	128
Payments for asset retirement obligations	(20)	(95)	(183)
Net cash provided by (used in) investing activities	(974)	(3,466)	(8,949)
Cash flows from financing activities:			
Proceeds from long-term loans payable	—	3,150	—
Repayment of long-term loans payable	—	(3,150)	—
Purchase of treasury stock	(834)	(1,003)	(7,663)
Proceeds from disposal of treasury stock	—	0	—
Cash dividends paid	(1,277)	(1,290)	(11,733)
Cash dividends paid to non-controlling interests	(2)	(2)	(18)
Other, net	(33)	(48)	(303)
Net cash provided by (used in) financing activities	(2,148)	(2,342)	(19,737)
Effect of exchange rate changes on cash and cash equivalents	(3)	(16)	(27)
Net increase (decrease) in cash and cash equivalents	(8,392)	(5,564)	(77,111)
Cash and cash equivalents at the beginning of year	38,667	44,232	355,297
Cash and cash equivalents at end of year (Note 15)	¥ 30,274	¥ 38,667	\$ 278,176

See accompanying notes.

DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2020 and 2019

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, 2020, which is ¥108.83 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, 2020 include the accounts of the Company and its 8 significant subsidiaries. The other 3 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>2020</u>	<u>2019</u>
Buildings and structures	3 to 50 years	3 to 50 years
Machinery and equipment	2 to 20 years	2 to 20 years

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March 31, 2020 and 2019

(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 ¥151,394 million (\$1,391,105 thousand) and ¥137,264 million for the years ended March 31, 2020 and 2019, 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, 2020 and 2019 totaled ¥98 million (\$900 thousand) and ¥67 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
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March 31, 2020 and 2019

(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) Provision for share-based remuneration

To prepare for the payment of the Company's shares to Directors and Executive Officers based on the Share Delivery Regulations, the amount is recorded based on the estimated amount of the share benefit obligation at the end of the current consolidated fiscal year.

(14) 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.

(15) 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.

(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 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.

(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.

DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(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 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 the previously reported results of operations or shareholders' equity.

(21) Changes in accounting policies

There are no applicable items.

(22) 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 31, 2020)
- "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30, March 31, 2020)

(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.

- "Accounting Standard for Fair Value Measurement "(ASBJ Statement No.30, July 4, 2019)
- "Accounting Standard for Inventory Valuation " (ASBJ Statement No.9, July 4, 2019)
- "Accounting Standard for Financial instruments " (ASBJ Statement No.10, July 4, 2019)
- "Guidance on Accounting Standard for Fair Value Measurement " (ASBJ Statement No.31, July 4, 2019)
- "Guidance on Disclosure of Fair Value of Financial Instruments " (ASBJ Statement No.19, March 31, 2020)

(A) Overview

It is a comprehensive standard for fair value measurement and disclosure of financial instruments.

- Fair value is defined as "exit price."
- Depending on inputs, fair value is classified as Level 1, 2 or 3. The extent of disclosure varies according to the input level.

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(B) Effective date

This standard is set to become applicable from the fiscal year ending on or after March 31, 2022.

(C) Effects of the application of the standards

Its impact is being assessed.

- “Accounting Standard for Disclosure of Accounting Estimates”(ASBJ Statement No.31, March 31, 2020)

(A) Overview

The purpose of this accounting standard is to disclose information that will facilitate the understanding of the users of financial statements regarding accounting estimates serving as the basis of amounts recorded in the financial statements for the current fiscal year that have the risk of significantly impacting the financial statements for the following fiscal year.

(B) Effective date

These standards are set to become applicable from the fiscal year ending on or after March 31, 2021.

- “Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections”(ASBJ Statement No.24, March 31, 2020)

(A) Overview

This standard is revised to improve footnote information for accounting principles and procedures applied, if relevant accounting standards are unclear.

(B) Effective date

This standard is set to become applicable from the fiscal year ending on or after March 31, 2021.

(23) Additional Information

(Stock delivery trust system for directors and executive officers)

(A) Transaction overview

Based on the resolution of the 70th Ordinary General Meeting of Shareholders held on June 27, 2019, from August 27, 2019, the Company's directors (excluding outside directors; the same applies hereafter) and executive officers (collectively, hereafter “directors”, etc.) and the value of the Company's stock will be more clearly linked, and directors, etc. will share the profits and risks of stock price fluctuations with shareholders, thereby improving medium- to long-term performance. In order to raise the awareness of contributing to the increase of corporate value, we have introduced a stock compensation system (hereinafter referred to as the "system").

Specifically, this system adopts a mechanism called a stock delivery trust for executives (hereinafter referred to as “the trust”), and the trust established by the Company's contribution of money acquires the shares of the Company. , A stock compensation plan is prepared in which a number of shares of the Company equivalent to the number of points granted by the Company to each director etc. are delivered to each director etc. through this trust.

In principle, directors receive the shares of the Company when they retire.

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(B) Company shares remaining in the trust

With the introduction of this system, Japan Trustee Services Bank, Ltd. (trust account) has acquired 106,600 shares of the Company.

The Company's stock remaining in the trust is recorded as treasury stock in the net assets section at the book value (excluding the amount of incidental expenses) in the Trust. The book value and the number of shares of the treasury stock were not applicable at the end of the previous consolidated fiscal year, and were ¥272 million (\$2,499 thousand) and 106,600 shares at the end of the current consolidated fiscal year.

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
	2020	2019	2020
Costs on uncompleted construction contracts	¥ 4,135	¥ 2,666	\$ 37,995
Real estate business	389	9	3,574
Raw materials and supplies	71	68	652

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
	2020	2019	2020
Trade notes	¥ —	¥ 5	\$ —

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, 2020 and 2019:

Available-for-sale securities:

(1) Securities with book values exceeding acquisition costs

Type	Millions of yen		
	2020		
	Acquisition cost	Book value	Difference
Equity securities	¥ 2,407	¥ 4,064	¥ 1,657
Bonds	10	10	0
Others	27	27	0
Total	¥ 2,444	¥ 4,102	¥ 1,658

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Millions of yen			
2019			
Type	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

Thousands of U.S. dollars			
2020			
Type	Acquisition cost	Book value	Difference
Equity securities	\$ 22,117	\$ 37,342	\$ 15,225
Bonds	91	91	2
Others	248	248	6
Total	\$ 22,457	\$ 37,691	\$ 15,234

(2) Securities with book values not exceeding acquisition costs

Millions of yen			
2020			
Type	Acquisition cost	Book value	Difference
Equity securities	¥ 2,296	¥ 1,848	¥ (448)
Others	74	61	(13)
Total	¥ 2,371	¥ 1,909	¥ (461)

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

Thousands of U.S. dollars			
2020			
Type	Acquisition cost	Book value	Difference
Equity securities	\$ 21,097	\$ 16,980	\$ (4,116)
Others	679	560	(119)
Total	\$ 21,786	\$ 17,541	\$ (4,235)

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(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
	2020	2019	2020
Equity securities			
Sales	¥ 647	¥ 64	\$ 5,945
Related gains	232	24	2,131
Related losses	12	—	110
Others			
Sales	20	—	183
Related gains	0	—	8

(C) Available-for-sale securities impaired

Year ended March 31, 2020

During the fiscal year, impairment losses on other securities are recognized to be ¥12 million (\$110 thousand).

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.

Year ended March 31, 2019

Not applicable

6. Derivatives

(A) Derivative transactions to which hedge accounting is not applied as of March 31, 2020 and 2019

Not applicable

(B) Derivative transactions to which hedge accounting is applied

Currency-related transactions

As of March 31, 2020

Not applicable

As of March 31, 2019

Hedge accounting method	Transaction type	Hedged items	Millions of yen		
			Contract amount	Contract over one year	Fair value
Allocation method	Foreign exchange forward contracts	Scheduled transactions denominated in foreign currencies			
	Buying contracts		398	—	32
	Euro				

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

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7. Pledged assets

As of March 31, 2020 and 2019, the following assets of the Companies are pledged to guarantee money.

	Millions of yen				Thousands of U.S. dollars	
	2020		2019		2020	
Investment securities	¥	10	¥	10	\$	91

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, 2020 and 2019 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, 2020 is 0.8% per annum.

The annual maturities of long-term loans payable as of March 31, 2020 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		3,150		28,944
Over three years and less than four years		—		—
Over four years and less than five years		—		—
Total	¥	3,150	\$	28,944

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 not applicable and ¥6 million for the years ended March 31, 2020 and 2019, respectively. The amount of allowance for losses on construction contracts included in cost of sales is ¥157 million (\$1,442 thousand) and ¥313 million for the years ended March 31, 2020 and 2019, respectively.

10. Net defined benefit liability

(1) As of March 31, 2020 and 2019, 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.

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(2) The following table shows movement in retirement benefit obligations for the years ended March 31, 2020 and 2019 (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
	2020	2019	2020
Balance at the beginning of the year	¥ 6,050	¥ 6,285	\$ 55,591
Service cost	531	529	4,879
Interest cost	49	51	450
Actuarial loss (gain)	18	(7)	165
Benefits paid	(607)	(809)	(5,577)
Balance at the end of the year	¥ 6,043	¥ 6,050	\$ 55,526

(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
	2020	2019	2020
Unfunded retirement benefit obligations	¥ 6,043	¥ 6,050	\$ 55,526
Total net defined benefit liability at the end of the respective fiscal year	6,043	6,050	55,526
Defined benefit liability	¥ 6,043	¥ 6,050	\$ 55,526
Total net defined benefit liability at the end of the respective fiscal year	6,043	6,050	55,526

(5) The components of retirement benefit expenses for the years ended March 31, 2020 and 2019 (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
	2020	2019	2020
Service cost	¥ 531	¥ 529	\$ 4,879
Interest cost	49	51	450
Net actuarial loss amortization	35	30	321
Total retirement benefit expenses for the respective fiscal year	¥ 617	¥ 611	\$ 5,669

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Actuarial difference	¥ 17	¥ 37	\$ 156
Total remeasurements for the respective fiscal year	¥ 17	¥ 37	\$ 156

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Actuarial gains and losses that are yet to be recognized	¥ 124	¥ 141	\$ 1,139
Total balance at the end of respective fiscal year	¥ 124	¥ 141	\$ 1,139

(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, 2020 and 2019 are not presented.

(9) The principal actuarial assumptions as at March 31, 2020 and 2019 (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 ¥172 million (\$1,580thousand) and ¥173 million for the years ended March 31, 2020 and 2019, respectively.

11. Contingent liabilities

The Companies are contingently liable as a guarantor of indebtedness of customers aggregating ¥437 million (\$4,015 thousand) and ¥179 million as at March 31, 2020 and 2019, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Investment securities loaned	¥ 1,694	¥ 1,537	\$ 15,565

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 30.6% in Japan for the year ended March 31, 2020. The following table summarizes the main differences between the statutory tax rate and the Companies' effective tax rate for the year ended March 31, 2020.

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 for the year ended March 31, 2019.

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	<u>2020</u>	
Statutory tax rate	30.6	%
Permanent differences:		
Non-deductible expenses	0.8	
Per capita inhabitants taxes	1.4	
Decrease in valuation allowance	(2.9)	
Tax deduction for wage increases and productivity improvement	(1.1)	
Other	(0.1)	
Effective tax rate	<u>28.7</u>	

Main components of the Companies' deferred tax assets and liabilities as of March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	<u>2020</u>	<u>2019</u>	<u>2020</u>
Deferred tax assets:			
Net defined benefit liability	¥ 1,858	¥ 1,861	\$ 17,072
Write-down of inventories (*1)	139	246	1,277
Allowance for doubtful accounts	40	65	367
Allowance for losses on construction contracts	110	206	1,010
Impairment loss on fixed assets	93	212	854
Allowance for warranties for completed construction	546	453	5,016
Enterprise taxes payable	97	112	891
Excess bonuses accrued	282	275	2,591
Tax loss carryforwards	166	164	1,525
Subscription rights to shares	114	130	1,047
Other	448	428	4,116
Subtotal	<u>3,898</u>	<u>4,156</u>	<u>35,817</u>
Valuation allowance (*2)	<u>(2, 325)</u>	<u>(2, 607)</u>	<u>(21,363)</u>
Total deferred tax assets	1,572	1,549	14,444
Deferred tax liabilities:			
Unrealized gains on securities	(369)	(992)	(3,390)
Deferred gains on property and equipment	(55)	(56)	(505)
Temporary differences on assets acquired through transfers of business	(8)	(9)	(73)
Other	(0)	(28)	(8)
Total deferred tax liabilities	<u>(434)</u>	<u>(1,086)</u>	<u>(3,987)</u>
Net deferred tax assets (liabilities)	<u>¥ 1,137</u>	<u>¥ 463</u>	<u>\$ (10,447)</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 ¥281 million. The main reason of this decrease is due to a decrease in net defined benefit liability.

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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.

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 26, 2020, the shareholders approved cash dividends amounting to ¥1,685million (\$15,482thousand). The appropriations were not reflected in the consolidated financial statements as of March 31, 2020. 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, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cash and time deposits	¥ 30,294	¥ 38,687	\$ 278,360
Less: Time deposits with maturities exceeding three months	(20)	(20)	(183)
Cash and cash equivalents	¥ 30,274	¥ 38,667	\$ 278,176

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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:

<u>Year ended</u>	Millions of yen					
<u>March 31, 2020</u>	<u>Civil engineering</u>	<u>Building construction</u>	<u>Other</u>	<u>Total</u>	<u>Reconciliations (#1·#2·#4)</u>	<u>Consolidated (#3)</u>
Sales:						
Outside customers	¥ 77,988	¥ 81,280	¥ 3,542	¥ 162,811	¥ —	¥ 162,811
Intersegment	—	6	460	467	(467)	—
Total	<u>77,988</u>	<u>81,287</u>	<u>4,002</u>	<u>163,278</u>	<u>(467)</u>	<u>162,811</u>
Segment income	¥ 4,648	¥ 3,623	¥ 280	¥ 8,551	¥ (40)	¥ 8,511
Identifiable assets	¥ 83,601	¥ 66,568	¥ 3,942	¥ 154,112	¥ (1,925)	¥ 152,187
Depreciation and amortization	394	237	55	687	(15)	671
Capital expenditures	576	593	296	1,467	(49)	1,418

<u>Year ended</u>	Millions of yen					
<u>March 31, 2019</u>	<u>Civil engineering</u>	<u>Building construction</u>	<u>Other</u>	<u>Total</u>	<u>Reconciliations (#1·#2·#4)</u>	<u>Consolidated (#3)</u>
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	¥ 6,339	¥ 2,569	¥ 325	¥ 9,234	¥ (67)	¥ 9,166
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

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Year ended

March 31, 2020

Thousands of U.S. dollars

	Civil engineering	Building construction	Other	Total	Reconciliations (#1·#2·#4)	Consolidated (#3)
Sales:						
Outside customers	\$ 716,603	\$ 746,852	\$ 32,546	\$ 1,496,012	\$ —	\$ 1,496,012
Intersegment	—	55	4,226	4,291	(4,291)	—
Total	<u>716,603</u>	<u>746,917</u>	<u>36,772</u>	<u>1,500,303</u>	<u>(4,291)</u>	<u>1,496,012</u>
Segment income	\$ 42,708	\$ 33,290	\$ 2,572	\$ 78,572	\$ (367)	\$ 78,204
Identifiable assets	\$ 768,179	\$ 611,669	\$ 36,221	\$ 1,416,080	\$ (17,688)	\$ 1,398,391
Depreciation and amortization	3,620	2,177	505	6,312	(137)	6,165
Capital expenditures	5,292	5,448	2,719	13,479	(450)	13,029

#1. Reconciliations of segment income amounting to ¥(40) million (\$367) thousand and ¥(67) million for the years ended March 31, 2020 and 2019 are eliminations of intersegment transactions.

#2. Reconciliations of identifiable assets amounting to ¥(1,925) million (\$17,688 thousand) and ¥(2,099) million for the years ended March 31, 2020 and 2019 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.

(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 segment

Information about impairment loss on fixed assets by reported segment for the fiscal year ended March 31, 2019 and 2020 is as follows:

Because of the low significance, the description is omitted.

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

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

17. Information on related parties

Year ended March 31, 2020

		Million of yen		Thousands of U.S. dollars	
		Transaction amount	Balance at end	Transaction amount	Balance at end
Non-consolidated subsidiary					
Loan of funds	(Long-term loan)	¥ 1,630	¥ 1,630	\$ 14,977	\$14,977
Receipt of interest	(Advances received on uncompleted construction contracts)	14	23	128	211
Work fee	(Other current assets)	2	10	18	91

Transaction terms and policies for determining transaction terms, etc.

(Note1). With regard to loan and collection of funds, efficient management of funds is carried out among group companies, and interest rates are determined in consideration of market interest rates. We do not accept or provide collateral.

(Note2). The transaction amount does not include consumption tax.

Year ended March 31, 2019

Not applicable

18. Loss on litigation

Components of the loss on litigation for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Settlement packages	¥ 6	¥ 11	\$ 55
Others	10	8	91

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19. Financial instruments

Information on financial instruments for the years ended March 31, 2020 and 2019 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.

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

Trade notes and accounts receivable and Electronically recorded monetary claims - operating 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 and Electronically recorded obligations – operating 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, 2020 and 2019 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).

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	Millions of yen		
	2020		
	Book value	Fair value	Difference
Cash and time deposits	¥ 30,294	¥ 30,294	¥ —
Trade notes and accounts receivable	80,011	80,011	—
Electronically recorded monetary claims - operating	1,718	1,718	—
Short-term loans receivable	13		
Allowance for doubtful accounts	(10)		
Subtotal	3	3	—
Advances paid	12,419	12,419	—
Investment securities	6,011	6,011	—
Long-term loans receivable	1,639	1,618	(20)
Total assets	¥ 132,097	¥ 132,076	¥ (20)
Short-term loans payable	¥ 1,850	¥ 1,850	¥ —
Trade notes and accounts payable	39,295	39,295	—
Electronically recorded obligations – operating	10,216	10,216	—
Deposits received	13,321	13,321	—
Long-term loans payable	3,150	3,136	(13)
Total liabilities	¥ 67,833	¥ 67,819	¥ (13)

	Millions of yen		
	2019		
	Book value	Fair value	Difference
Cash and time deposits	¥ 38,687	¥ 38,687	¥ —
Trade notes and accounts receivable	69,688	69,688	—
Electronically recorded monetary claims - operating	1,178	1,178	—
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	38,272	38,272	—
Electronically recorded obligations – operating	6,129	6,129	—
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	¥ —

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	Thousands of U.S. dollars		
	2020		
	Book value	Fair value	Difference
Cash and time deposits	\$ 278,360	\$ 278,360	\$ —
Trade notes and accounts receivable	735,192	735,192	—
Electronically recorded monetary claims - operating	15,786	15,786	—
Short-term loans receivable	119		
Allowance for doubtful accounts	(91)		
Subtotal	27	27	—
Advances paid	114,113	114,113	—
Investment securities	55,232	55,232	—
Long-term loans receivable	15,060	14,867	(183)
Total assets	\$ 1,213,792	\$ 1,213,599	\$ (183)
Short-term loans payable	\$ 16,998	\$ 16,998	\$ —
Trade notes and accounts payable	361,067	361,067	—
Electronically recorded obligations – operating	93,871	93,871	—
Deposits received	122,401	122,401	—
Long-term loans payable	28,944	28,815	(119)
Total liabilities	\$ 623,293	\$ 623,164	\$ (119)

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

Assets:

- (1) Cash and time deposits, trade notes and accounts receivable, Electronically recorded obligations – operating, 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.
- (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, Electronically recorded obligations – operating, 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.

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#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, 2020 and 2019 (book value: ¥721 million (\$6,625 thousand) and ¥812 million, respectively,) are not included in the above table.

#3. The aggregate maturities subsequent to March 31, 2020 and 2019 for financial assets with maturity are as follows:

Millions of yen				
2020				
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	¥ 30,294	¥ —	¥ —	¥ —
Trade notes and accounts receivable	80,011	—	—	—
Electronically recorded monetary claims - operating	1,718	—	—	—
Short-term loans receivable	13	—	—	—
Advances paid	12,419	—	—	—
Investment securities				
Available-for-sale securities with contractual maturities	—	—	10	—
Long-term loans receivable	—	1,639	—	—
Total	¥ 124,456	¥ 1,639	¥ 10	¥ —

Millions of yen				
2019				
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	¥ 38,687	¥ —	¥ —	¥ —
Trade notes and accounts receivable	69,688	—	—	—
Electronically recorded monetary claims - operating	1,178	—	—	—
Short-term loans receivable	19	—	—	—
Advances paid	9,808	—	—	—
Investment securities				
Available-for-sale securities with contractual maturities	—	—	10	—
Long-term loans receivable	—	9	0	—
Total	¥ 119,381	¥ 9	¥ 10	¥ —

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Thousands of U.S. dollars				
2020				
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	\$ 278,360	\$ —	\$ —	\$ —
Trade notes and accounts receivable	735,192	—	—	—
Electronically recorded monetary claims - operating	15,786	—	—	—
Short-term loans receivable	119	—	—	—
Advances paid	114,113	—	—	—
Investment securities				
Available-for-sale securities with contractual maturities	—	—	91	—
Long-term loans receivable	—	15,060	—	—
Total	\$ 1,143,581	\$ 15,060	\$ 91	\$ —

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

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20. 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
	2020	2019	2020
Unrealized gains on securities	¥	¥	\$
Increase (decrease) during the year	(1,814)	246	(16,668)
Reclassification adjustments	(220)	(24)	(2,021)
Subtotal, before tax	(2,034)	222	(18,689)
Tax (expense) or benefit	623	(68)	5,724
Subtotal, net of tax	(1,411)	154	(12,965)
Deferred gains and losses on hedges			
Increase (decrease) during the year	(85)	(261)	(781)
Reclassification adjustments	(24)	—	(220)
Subtotal, before tax	(109)	(261)	(1,001)
Tax (expense) or benefit	33	80	303
Subtotal, net of tax	(75)	(181)	(689)
Foreign currency translation adjustments			
Increase (decrease) during the year	1	1	9
Remeasurements of defined benefit plans			
Increase (decrease) during the year	(18)	7	(165)
Reclassification adjustments	35	30	321
Subtotal, before tax	17	37	156
Tax (expense) or benefit	—	—	—
Subtotal, net of tax	17	37	156
Total other comprehensive income	¥ (1,468)	¥ 12	\$ (13,488)

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21. Per share information

	Yen		U.S. dollars
	2020	2019	2020
Net assets per share	¥ 3,825.50	¥ 3,579.48	\$ 35.15
Net income per share	395.64	357.07	3.63
Net income per share (diluted)	392.06	352.83	3.60

The Company carried out a share consolidation on common stock with a ratio of 5 shares to 1 share on October 1, 2018. 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, 2019.

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Profit attributable to owners of parent	¥ 6,647	¥ 6,141	\$ 61,076
Amount not belonging to ordinary shareholders	—	—	—
Net income attributable to common stock	¥ 6,647	¥ 6,141	\$ 61,076
Weighted average number of ordinary shares (thousands of shares)	16,801	17,199	

The Company's shares remaining in the trust, which are recorded as treasury shares in shareholders' equity, are deducted in the calculation of the average number of shares during the period for the calculation of net income per share and diluted net income per share. It is included in the number of shares, and also included in the number of treasury shares to be deducted from the total number of issued shares at the end of the term when calculating net assets per share. In calculating net income per share and diluted net income per share, the average number of shares of the treasury stock deducted during the period was not applicable in the previous consolidated fiscal year and was 106,600 shares in the current consolidated fiscal year. The number of shares of treasury stock deducted in the calculation of net assets per share at the end of the previous consolidated fiscal year was 106,600 shares during the current consolidated fiscal year. The dilutive factor included in calculating diluted net income per share is as follows.

	2020	2019
Subscription rights to shares (thousands of shares)	153	207

22. 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 2020 and 2019.

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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

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, 2020. The number of stock options is translated into the number of shares.

Fiscal year ended March 31, 2020:

Number of stock options

	FY 2014 stock options	FY 2015 stock options	FY 2016 stock options
Before vested:			
As of March 31, 2019	28,000	60,600	56,200
Granted	-	-	-
Forfeited	-	-	-
Vested	-	-	-
Outstanding	28,000	60,600	56,200
After vested:			
As of March 31, 2019	5,600	14,000	8,800
Vested	-	-	-
Exercised	5,000	9,200	7,600
Forfeited	-	-	-
Outstanding	600	4,800	1,200

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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	¥3,033 (\$27.86) per share	¥3,033 (\$27.86) per share	¥3,033 (\$27.86) per share
Fair value at the grant date	¥3,480 (\$31.97) per subscription to share	¥2,035 (\$18.69) per subscription to share	¥2,435 (\$22.37) 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.

23. Subsequent events

(A) Issuance of convertible bonds with stock acquisition rights

At the board of directors meeting held on August 7, 2020, the Company issued the 3rd series of unsecured convertible bond-type bonds with stock acquisition rights (conversion price downward revision clause, redemption claim right and convertible bond type stock acquisition rights). Issued a special pari passu bond. The outline is as follows.

(1) Total amount issued: ¥ 8,000 million

(2) Issue value: 100% of face value (face value of each bond is 1 million yen)

(3) Issue price (offer price): 102.5% of face value

(4) Interest rate: no interest

(5) Redemption amount: 100% of face value However, the amount to be redeemed in advance shall be the amount specified in the corporate bond guidelines.

(6) Redemption deadline: August 26, 2025

(7) Matters concerning stock acquisition rights

a. Types of shares subject to stock acquisition rights

Our common stock

b. Total number of stock acquisition rights issued

8,000 common shares

c. Conversion price

¥ 3,046 per share d. Exercise period

From October 1, 2020 to August 22, 2025

(8) Payment date (issue date): August 26, 2020

(9) Collateral or guarantee: No collateral or guarantee

(10) Conditions for exercising stock acquisition rights

Some stock acquisition rights may not be exercised.

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(11) Use of funds

Regarding the estimated amount of net proceeds from issuance of bonds with stock acquisition rights of ¥7,969 million, short-term loan repayment of ¥5,000 million due to the acquisition of land and buildings for commercial real estate "Daiho Annex" In addition, the remaining amount will be used for a part of working capital by the end of March 2021.

As for "Daiho Annex", the site area is 651.52 m², the total floor area of the building is 4,910.77 m², and the building has 8 floors above the SRC, and is adjacent to the head office building, Daiho Building. With the acquisition of "Daiho Annex" that can utilize the knowledge of the area around the head office building, in terms of operation, the contracts concluded with the previous owner and existing tenants will be taken over, while streamlining management and building the head office building. We believe that it is possible to implement a flexible strategy through the integrated management of the working capital is to respond to the continuous increase in the required capital due to the large amount of funds to be replaced in response to the long-term large-scale construction orders.

(B) Acquisition of treasury stock

The Company resolved the item related to the acquisition of treasury stock at the Board of Directors held on August 7, 2020, 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 shares to be acquired

Up to 1,000,000 shares (5.93% of the total outstanding stock excluding treasury stock)

c. Period of acquisition

From September 1, 2020 to August 31, 2021

d. Total cost acquisition

Up to ¥2,000 million (\$18,377 thousand)

e. Repurchase method

Auction market on the Tokyo Stock Exchange