SEIKITOKYU KOGYO CO., LTD.

Consolidated Financial Statements for
the year ended March 31, 2017

SEIKITOKYU KOGYO CO., LTD

Consolidated Balance Sheet

for the year ended March 31, 2017

Assets	Yen (millions) 2017	U.S. dollars (thousands) (Note 3) 2017
Current assets:		
Cash and deposits (Note 11)	¥ 12,351	$ 110,086
Trade receivables (Note 11):		
Notes	1,821	16,234
Accounts	19,458	173,432
Allowance for doubtful accounts	(3)	(24)
Net trade receivables	21,276	189,642
Deferred tax assets-current	1,095	9,760
Inventories:		
Cost on uncompleted construction contracts	8,471	75,502
Raw materials and supplies	290	2,590
Total inventories	8,761	78,092
Short-term loans receivable	11	99
Other current assets	2,489	22,191
Total current assets	45,983	409,870
Property, plant and equipment (Notes 5 and 6)	19,250	171,583
Intangible assets	214	1,909
Deferred tax assets-non-current	259	2,312
Investments and long-term loans:		
Investment securities:		
Other securities (Note 11)	264	2,356
Long-term trade receivables (Note 7)	3	23
Guarantee deposits and other investments	471	4,195
Allowance for doubtful accounts (Note 7)	(0)	(1)
Total investments and long-term loans	738	6,573
Total assets	¥ 66,444	$ 592,248

Liabilities and Net assets	Yen (millions) 2017	U.S. dollars (thousands) (Note 3) 2017
Current liabilities:		
Short-term loans payable (Note 11)	¥ 1,008	$ 8,988
Trade payables (Note 11):		
Notes	8,826	78,674
Accounts	12,496	111,380
Total trade payables	21,322	190,054
Advances received on uncompleted construction contracts	5,695	50,759
Provision for warranties for completed construction	68	603
Provision for loss on construction contracts	231	2,058
Provision for bonuses	1,217	10,848
Other current liabilities	1,393	12,414
Total current liabilities	30,934	275,724
Long-term loans payable (Note 11)	4,000	35,654
Net defined benefit liability	4,878	43,483
Other liabilities	560	4,988
Total liabilities	40,372	359,849
Net assets:		
Shareholders' equity (Note 8):		
Common stock		
Authorized - 150,000,000 shares	2,000	17,827
Issued - 40,414,407 shares		
Capital surplus	500	4,457
Retained earnings	25,362	226,061
Treasury stock - 47,808 shares	(24)	(212)
Total shareholders' equity	27,838	248,133
Accumulated other comprehensive income:		
Unrealized gain on investment securities	26	229
Remeasurements of defined benefit plans	(1,791)	(15,963)
Total accumulated other comprehensive income	(1,765)	(15,734)
Total net assets	26,073	232,399
Total liabilities and net assets	¥ 66,444	$ 592,248

See accompanying notes to consolidated financial statements.

SEIKITOKYU KOGYO CO., LTD

Consolidated Statement of Income

for the year ended March 31, 2017

	Yen (millions)		U.S. dollars (thousands) (Note 3)	
	2017		2017	
Completed construction contracts:				
Net sales	¥	54,207	$	483,171
Cost of sales		48,315		430,654
Gross profit		5,892		52,517
Finished goods:				
Net sales		19,784		176,347
Cost of sales		15,230		135,752
Gross profit		4,554		40,595
Real estate business:				
Net sales		116		1,034
Cost of sales		90		801
Gross profit		26		233
Total:				
Net sales		74,107		660,552
Cost of sales		63,635		567,207
Gross profit		10,472		93,345
Selling, general and administrative expenses:		4,060		36,191
Operating income		6,412		57,154
Other income:				
Interest and dividends		6		53
Other (Note 9)		150		1,334
Subtotal		156		1,387
Other expenses:				
Interest		21		185
Other (Note 10)		326		2,904
Subtotal		347		3,089
Income before income taxes		6,221		55,452
Income taxes				
Current		574		5,117
Deferred		26		228
Net income		5,621		50,107
Net income attributable to owners of parent	¥	5,621	$	50,107

SEIKITOKYU KOGYO CO., LTD.

Consolidated Statement of Changes in Net Assets
for the year ended March 31, 2017

	Shareholders' equity (Note 7)				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
			(Millions of yen)		
Balance at April 1, 2016	¥ 2,000	¥ 500	¥ 20,427	¥ (24)	¥ 22,903
Changes during the period					
Dividend of surplus			(686)		(686)
Net income attributable to owners of parent			5,621		5,621
Purchase of treasury stock				(0)	(0)
Disposal of treasury stock					
Net changes of items other than shareholders' equity					
Total changes during period	-	-	4,935	(0)	4,935
Balance as of March 31, 2017	¥ 2,000	¥ 500	¥ 25,362	¥ (24)	¥ 27,838

	Accumulated other comprehensive income			
	Unrealized gain on investment securities	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Total net assets
		(Millions of yen)		
Balance at April 1, 2016	¥ 13	¥ (1,684)	¥ (1,671)	¥ 21,232
Changes during the period				
Dividend of surplus				(686)
Net income attributable to owners of parent				5,621
Purchase of treasury stock				(0)
Disposal of treasury stock				
Net changes of items other than shareholders' equity	13	(107)	(94)	(94)
Total changes during period	13	(107)	(94)	4,841
Balance as of March 31, 2017	¥ 26	¥ (1,791)	¥ (1,765)	¥ 26,073

SEIKITOKYU KOGYO CO., LTD.

Consolidated Statement of Changes in Net Assets
for the year ended March 31, 2017

	Shareholders' equity (Note 7)				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
	(Thousands of U.S. dollars)				
Balance at April 1, 2016	$ 17,827	$ 4,457	$ 182,071	$ (210)	$ 204,145
Changes during the period					
Dividend of surplus			(6,117)		(6,117)
Net income attributable to owners of parent			50,107		50,107
Purchase of treasury stock				(2)	(2)
Disposal of treasury stock					
Net changes of items other than shareholders' equity					
Total changes during period	−	−	43,990	(2)	43,988
Balance as of March 31, 2017	$ 17,827	$ 4,457	$ 226,061	$ (212)	$ 248,133

	Accumulated other comprehensive income			
	Unrealized gain on investment securities	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Total net assets
	(Thousands of U.S. dollars)			
Balance at April 1, 2016	$ 111	$ (15,010)	$ (14,899)	$ 189,246
Changes during the period				
Dividend of surplus				(6,117)
Net income attributable to owners of parent				50,107
Purchase of treasury stock				(2)
Disposal of treasury stock				
Net changes of items other than shareholders' equity	118	(953)	(835)	(835)
Total changes during period	118	(953)	(835)	43,153
Balance as of March 31, 2017	$ 229	$ (15,963)	$ (15,734)	$ 232,399

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(a) Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from the accounts maintained by SEIKITOKYU KOGYO CO., LTD. (the “Company”) and its consolidated subsidiaries in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan and the Companies Act of Japan and in conformity with accounting principles generally accepted in Japan, which may differ in some material respects from accounting principles generally accepted and applied in countries and jurisdictions other than Japan.

Certain items presented in the Japanese consolidated financial statements have been reclassified for presentation solely for the convenience of readers outside Japan.

In addition, the notes to the consolidated financial statements include certain information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

(b) Consolidation Policies

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany accounts, intercompany transactions and unrealized profits have been eliminated in consolidation.

As of March 31, 2017, the number of consolidated subsidiaries was 7 and none of the subsidiaries and affiliates are accounted for by the equity method.

(c) Closing dates for consolidated subsidiaries

All the subsidiaries are consolidated using their financial statements as of their respective fiscal year end, which falls on March 31 as same as the consolidated fiscal year end.

(d) Method of Accounting for Construction Contracts

The Company and its consolidated subsidiaries recognize revenue and cost by applying the percentage of completion method for the construction projects for which the percentage of completion can be reliably estimated at the end of the reporting period. To estimate the progress of such construction project, a method to calculate the percentage of the cost incurred to the estimated total project cost (i.e. cost-to-cost method) is applied. For other construction projects, the completed-contract method is applied.

(e) Inventories

Inventories are stated at cost, cost being determined by the identified cost method for cost on uncompleted construction contracts or by the moving average method for raw materials and supplies, and adjusted for any substantial permanent decline in value.

Each item of inventory is initially recorded at acquisition cost, and when net realizable value is less than the cost (i.e., profitability of inventory has declined), the amount of cost is reduced to net realizable value.

(f) Investments

Other securities (securities which are neither trading, held-to-maturity securities nor investments in subsidiaries and affiliates) with market value are carried at the market value on the balance sheet date. The difference between the acquisition cost and the market value of other securities is recognized as unrealized gain on investment securities in the consolidated balance sheet, net of tax effect. Non-marketable securities classified as other securities are carried at cost. The cost of other securities sold is computed based on the moving average method.

(g) Property, Plant and Equipment (Excluding leased assets)

The Company and its consolidated subsidiaries compute depreciation of Property, plant and equipment by the declining balance method, however, buildings (excluding structures attached to the buildings) acquired on or after April 1, 1998 are depreciated by the straight-line method. Rates for depreciation are based on the estimated useful lives of the assets according to their general class, type of construction, and use.

The estimated useful lives are principally as follows:

Buildings and structures	7~50 years
Machinery, vehicle, tools, furniture and fixtures	5~ 7 years

(h) Intangible Assets (Excluding leased assets)

Computer software for internal use is amortized by the straight-line method over the estimated useful lives (5 years).

(i) Leases

Depreciation of leased assets under finance leases that do not transfer ownership of the leased assets to the lessee is calculated by the straight-line method over the lease period with a residual value of zero.

(j) Income Taxes

Deferred tax assets and liabilities have been recognized in the consolidated financial statements for the year ended March 31, 2017 with respect to the differences between the financial reporting and tax bases of assets and liabilities, and were measured using the enacted tax rates and laws which will be in effect when the differences are expected to be reversed. Valuation allowances are provided for the deferred tax assets that are not considered to be recoverable.

(k) Allowance for Doubtful Accounts

General provision for doubtful accounts is recorded by applying a certain reserve percentage of the receivables based on the experience from past transactions. When considered necessary, specific reserves are provided based on the assessment of individual receivables.

(l) Provision for Warranties for Completed Construction

Provision for warranties for completed construction is recorded at an estimated amount, based on the actual number of defects and related warranty costs stipulated in completed construction contracts.

(m) Provision for Loss on Construction Contracts

Provision for loss on construction contracts is recorded for estimated future losses related to the construction contracts in progress.

(n) Provision for Bonuses

Provision for bonuses is stated at the estimated amount of bonuses which the Company and its consolidated subsidiaries are obliged to pay to their employees.

(o) Net defined benefit liability

Net defined benefit liability for employees has been recorded as the amount of retirement benefit obligations after deducting pension plan assets, calculated based on the estimated amounts of the balance sheet dates. The retirement benefit obligation for employees is attributed to each period by the straight-line method.

Prior service cost is amortized by the straight-line method over a period of principally 13 years, which is shorter than the average remaining years of service of the employees.

Actuarial gains and losses are amortized from the following year in which the gains or losses are recognized. Amortization is primarily calculated by the straight-line method over 10 years, which is shorter than the average remaining years of service of the employees.

Unrecognized prior service costs and unrecognized actuarial gains and losses are recorded as remeasurements of defined benefit plans in accumulated other comprehensive income in net assets after consideration of tax effects.

(p) Consumption Taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(q) Consolidated Taxes

Consolidated tax return filing system.

2. Additional Information

Effective from the fiscal year, the Company has applied the “Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No.26, March 28, 2016).

3. Basis of Translation

The consolidated financial statements as of and for the year ended March 31, 2017 presented herein are denominated in Japanese yen and, solely for the convenience of the readers, have been translated into U.S. dollars at the rate of ¥112.19 = U.S.$1, the approximate rate of exchange in effect on March 31, 2017. This translation should not be construed as a representation that any of the yen amounts could be converted into U.S. dollar amounts at the above or any other rate.

4. Dividends

1) Dividends paid

Resolution	Type of shares	Yen (millions) Total dividends	U.S. dollars (thousands) Total dividends	Source of dividends	Yen Dividends per share	U.S. dollars Dividends per share	Record date	Effective date
Annual general meeting of the shareholders on June 23, 2016	Common stock	¥686	$6,117	Retained earnings	¥17.00	$0.15	March 31, 2016	June 24, 2016

2) Dividends with a record date in the year ended March 31, 2017 and an effective date in the year ending March 31, 2018:

Resolution	Type of shares	Yen (millions) Total dividends	U.S. dollars (thousands) Total dividends	Source of dividends	Yen Dividends per share	U.S. dollars Dividends per share	Record date	Effective date
Annual general meeting of the shareholders on June 23, 2017	Common stock	¥686	$6,117	Retained earnings	¥17.00	$0.15	March 31, 2017	June 26, 2017

5. Property, Plant and Equipment

Property, plant and equipment at March 31, 2017 were as follows:

	Yen (millions)	U.S. dollars (thousands)
	2017	2017
Buildings and structures	¥ 7,147	$ 63,706
Machinery, equipment, vehicles, tools, furniture and fixtures	16,919	150,807
Land	14,082	125,520
Construction in progress	110	977
Subtotal	38,258	341,010
Less: Accumulated depreciation	(19,008)	(169,427)
Net property, plant and equipment	¥ 19,250	$ 171,583

6. Collateral Assets and Corresponding Liabilities

The following assets are provided as collateral for the borrowings at March 31, 2017:

	Yen (millions)	U.S. dollars (thousands)
	2017	2017
Buildings	¥ 494	$ 4,399
Land	11,053	98,522
Total	¥11,547	$102,921

Corresponding Liabilities at March 31, 2017

	Yen (millions)	U.S. dollars (thousands)
	2017	2017
Short-term loans payable	¥1,000	$ 8,913
Long-term loans payable	4,000	35,654
Total	¥5,000	$44,567

7. Receivables Fully Offset Against Allowance for Doubtful Accounts

	Yen (millions)	U.S. dollars (thousands)
	2017	2017
Long-term trade receivables	¥532	$4,740

8. Shareholders' Equity

In accordance with the Companies Act of Japan (the "Act"), the Company provides legal retained earnings, which is included in retained earnings. The Act requires that an amount equal to at least 10% of the amounts to be disbursed as distribution of earnings be appropriated to the legal retained earnings until the total of the legal retained earnings plus the legal capital surplus or either of them equals 25% of the common stock account.

The Act further provides that neither legal capital surplus nor the legal retained earnings is available for the payment of dividends, but either may be used to reduce or eliminate accumulated deficits by a resolution of the shareholders, or may be transferred to the common stock account by a resolution of the shareholders. The Act also provides that, if the total amount of legal capital surplus and the legal retained earnings exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders, either as a return of capital or as dividends, subject to the approval of the shareholders.

9. Other Income

The composition of "Other income-Other" for the year ended March 31, 2017 is as follows:

	Yen (millions)	U.S. dollars (thousands)
	2017	2017
Interest income	¥0	$0
Dividend income	6	52
Rent income	20	182
Gain on sales of non-current assets	83	737
Fiduciary obligation fee	13	113
Insurance premiums refunded cancellation	8	67
Subsidy income	15	135
Other	11	100
Total	¥156	$1,386

10. Other Expenses

The composition of ”Other expenses-Other” for the year ended March 31, 2017 is as follows:

	Yen (millions)	U.S. dollars (thousands)
	2017	2017
Interest expenses	¥ 21	$185
Guarantee commission	19	171
Bill fluidizing commission	8	68
Composition expenses for syndicate loan	66	586
Loss on sales of non-current assets	57	512
Loss on retirement of non-current	20	180
Penalties	138	1,228
Other	18	160
Total	347	$3,090

11. Financial Instruments

Cash of the Company and its consolidated subsidiaries is managed through short-term deposits. Funds are provided mainly by borrowings from banks.

Customers’ credit risk on trade receivables (notes and accounts) is mitigated through credit control.

The Company and its consolidated subsidiaries assess fair values of investment securities quarterly at market quotations.

Funds from short-term loans payable and long-term loans payable are used for operating funds and capital investment.

The following table presents the carrying amounts of financial instruments on the consolidated balance sheet and the fair value at March 31, 2017, and the difference thereof.

	Yen (millions)		
Assets	Carrying amount	Fair value	Unrealized gain (loss)
Cash and deposits:	¥ 12,351	¥ 12,351	¥ –
Trade receivables:			
Notes and accounts:	21,279	21,279	–
Investment securities:	61	61	–
Total	¥33,691	¥33,691	¥ –

	U.S. dollars (thousands)		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and deposits:	$ 110,086	$ 110,086	$ –
Trade receivables:			
Notes and accounts:	189,666	189,666	–
Investment securities:	544	544	–
Total	$300,296	$300,296	$ –

Liabilities	Yen (millions)		
	Carrying amount	Fair value	Unrealized gain (loss)
Trade payables:			
Notes and accounts	¥21,322	¥21,322	¥ –
Short-term Loans payable:	1,008	1,008	–
Long-term Loans payable:	4,000	4,000	–
Total	¥26,330	¥26,330	¥ –

	U.S. dollars (thousands)		
	Carrying amount	Fair value	Unrealized gain (loss)
Trade payables:			
Notes and accounts	$190,054	$190,054	$ –
Short -term Loans payable:	8,988	8,988	–
Long-term Loans payable:	35,654	35,654	–
Total	$234,696	$234,696	$ –

Note 1: Fair value calculation methods for financial instruments.

Assets

Cash and deposits:

Since cash and deposits are settled on a short-term basis, the carrying amounts approximate fair values. The carrying amounts are therefore indicated as fair values.

Trade Receivables (notes and accounts):

Since these assets are settled on a short-term basis, the carrying amounts approximate fair values. The carrying amounts are therefore indicated as fair values.

Investment securities:

The fair value of these assets is determined by the prices listed on stock exchange.

Liabilities

Trade payables (notes and accounts):

Since these liabilities are settled on a short-term basis, the carrying amounts approximate fair values. The carrying amounts are therefore indicated as fair values.

Short-term Loans payable:

Since these liabilities are settled on a short-term basis, the carrying amounts approximate fair values. The carrying amounts are therefore indicated as fair values.

Long-term Loans payable:

Fair values of long-term loans payable are based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new loans were entered into.

In addition, the current portion of long-term loans payable which is included in short-term loans payable under current liabilities (¥1,000 million (U.S.$8,913 thousand) on the consolidated balance sheet is included in “long-term loans payable” in the above table.

Note 2: Non-marketable securities (¥203 million (U.S.$1,812 thousand) recorded on the consolidated balance sheet for the fiscal year ended March 31, 2017) are not included in ”Investment securities” above, because these securities are without quotations and future cash flows cannot be estimated, which makes it extremely difficult to assess their fair values.

12. Amounts Per Share

Amounts per share as of and for the year ended March 31, 2017 are as follows:

As of March 31

	Yen	U.S. dollars
	2017	2017
Net assets	¥645.90	$5.76

For the year ended March 31

	Yen	U.S. dollars
	2017	2017
Net Income	¥139.26	$1.24

13. Other Notes

In December 2016, the Company executed a syndicate loan contract with The Bank of Tokyo-Mitsubishi UFJ, Ltd. serving as the arranger (of which, the term loan as of the end of fiscal year is ¥5,000 million (U.S.$44,567 thousand)) .

The following financial covenants are attached to the syndicate loan mentioned above;

(a) The amount of net assets recorded on the balance sheet and consolidated balance sheet on the final day of each accounting period in and after the fiscal year ended March 31, 2017 must be maintained to at least 75% of the amount of net assets recorded on the balance sheet and consolidated balance sheet for the fiscal year immediately preceding said fiscal year or for the fiscal year ended March 31, 2016, whichever is the higher amount.

(b) Ordinary losses must not be recorded in two consecutive periods on the statements of income or consolidated statements of income in and after the fiscal year ended March 31, 2017.

(c) Net losses must not be recorded in two consecutive periods on the statements of income or consolidated statements of income in and after the fiscal year ended March 31, 2017.

(d) The total coverage ratio for the consolidated balance sheet, consolidated statements of income, and consolidated cash flow statement in and after the fiscal year ended March 31, 2017 must be maintained at 15.0 or lower.

It is stipulated under the loan that, in the event of changes in accounting standards, all concerned parties shall consult on the abovementioned financial covenants to determine the impact of the said changes.

EY
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Independent Auditor's Report

The Board of Directors
SEIKITOKYU KOGYO CO., LTD.

Pursuant to Article 444, Section 4 of the Companies Act, we have audited the accompanying consolidated financial statements, which comprise the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the notes to the consolidated financial statements of SEIKITOKYU KOGYO CO., LTD. (the "Company") applicable to the fiscal year from April 1, 2016 through March 31, 2017.

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 designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we 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 the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls 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. 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 referred to above present fairly, in all material respects, the financial position and results of operations of the SEIKITOKYU KOGYO Group, which consisted of the Company and consolidated subsidiaries, applicable to the fiscal year ended March 31, 2017 in conformity with accounting principles generally accepted in Japan.

Conflicts of Interest

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.

Ernst & Young ShinNihon LLC

May 22, 2017