SEIKITOKYU KOGYO CO., LTD.

Consolidated Financial Statements for
the year ended March 31, 2018

SEIKITOKYU KOGYO CO., LTD

Consolidated Balance Sheet

for the year ended March 31, 2018

Assets	Yen (millions) 2018	U.S. dollars (thousands) (Note 2) 2018
Current assets:		
Cash and deposits (Note 10)	¥ 14,738	$ 138,722
Trade receivables (Note 10):		
Notes	2,429	22,860
Accounts	25,831	243,135
Net trade receivables	28,259	265,994
Deferred tax assets-current	1,010	9,507
Inventories:		
Cost on uncompleted construction contracts	4,348	40,927
Raw materials and supplies	301	2,830
Total inventories	4,649	43,757
Short-term loans receivable	11	105
Other current assets	2,350	22,123
Total current assets	51,017	480,208
Property, plant and equipment (Notes 4 and 5)	20,025	188,493
Intangible assets	225	2,117
Deferred tax assets-non-current	300	2,820
Investments and long-term loans:		
Investment securities:		
Other securities (Note 10)	263	2,475
Guarantee deposits and other investments	363	3,414
Total investments and long-term loans	626	5,888
Total assets	¥ 72,193	$ 679,526

Liabilities and Net assets	Yen (millions) 2018	U.S. dollars (thousands) (Note 2) 2018
Current liabilities:		
Short-term loans payable (Note 10)	¥ 1,008	$ 9,492
Trade payables (Note 10):		
Notes	10,579	99,574
Accounts	14,170	133,375
Total trade payables	24,748	232,949
Advances received on uncompleted construction contracts	4,177	39,315
Provision for warranties for completed construction	87	821
Provision for loss on construction contracts	207	1,948
Provision for bonuses	1,048	9,863
Allowance for losses on Anti-Monopoly Act	3,037	28,582
Other current liabilities	2,446	23,023
Total current liabilities	36,758	345,993
Long-term loans payable (Note 10)	3,000	28,238
Net defined benefit liability	4,253	40,034
Other liabilities	83	781
Total liabilities	44,094	415,046
Net assets:		
Shareholders' equity (Note 7):		
Common stock		
Authorized - 150,000,000 shares	2,000	18,825
Issued - 40,414,407 shares		
Capital surplus	500	4,707
Retained earnings	26,950	253,671
Treasury stock - 48,336 shares	(24)	(227)
Total shareholders' equity	29,426	276,976
Accumulated other comprehensive income:		
Unrealized gain on investment securities	24	228
Remeasurements of defined benefit plans	(1,352)	(12,724)
Total accumulated other comprehensive income	(1,328)	(12,496)
Total net assets	28,098	264,480
Total liabilities and net assets	¥ 72,193	$ 679,526

See accompanying notes to consolidated financial statements.

SEIKITOKYU KOGYO CO., LTD

Consolidated Statement of Income
for the year ended March 31, 2018

	Yen (millions) 2018	U.S. dollars (thousands) (Note 2) 2018
Completed construction contracts:		
Net sales	¥ 66,272	$ 623,793
Cost of sales	59,380	558,924
Gross profit	6,892	64,869
Finished goods:		
Net sales	15,266	143,696
Cost of sales	11,681	109,951
Gross profit	3,585	33,745
Real estate business:		
Net sales	122	1,145
Cost of sales	88	832
Gross profit	33	313
Total:		
Net sales	81,660	768,634
Cost of sales	71,150	669,708
Gross profit	10,510	98,926
Selling, general and administrative expenses:	4,275	40,235
Operating income	6,235	58,692
Other income:		
Interest and dividends	7	63
Other (Note 8)	184	1,735
Subtotal	191	1,798
Other expenses:		
Interest	54	504
Other (Note 9)	3,243	30,526
Subtotal	3,297	31,030
Income before income taxes	3,130	29,460
Income taxes		
Current	811	7,629
Deferred	45	421
Net income	2,275	21,410
Net income attributable to owners of parent	¥ 2,275	$ 21,410

SEIKITOKYU KOGYO CO., LTD.

Consolidated Statement of Changes in Net Assets
for the year ended March 31, 2018

	Shareholders' equity (Notes 2,7)				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
			(Millions of yen)		
Balance at April 1, 2017	¥ 2,000	¥ 500	¥ 25,362	¥ (24)	¥ 27,838
Changes during the period					
Dividend of surplus			(686)		(686)
Net income attributable to owners of parent			2,275		2,275
Purchase of treasury stock				(0)	(0)
Disposal of treasury stock		0		0	0
Net changes of items other than shareholders' equity					
Total changes during period	-	0	1,588	(0)	1,588
Balance as of March 31, 2018	¥ 2,000	¥ 500	¥ 26,950	¥ (24)	¥ 29,426

	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, 2017	¥ 26	¥ (1,791)	¥ (1,765)	¥ 26,073
Changes during the period				
Dividend of surplus				(686)
Net income attributable to owners of parent				2,275
Purchase of treasury stock				(0)
Disposal of treasury stock				0
Net changes of items other than shareholders' equity	(1)	439	438	438
Total changes during period	(1)	439	438	2,026
Balance as of March 31, 2018	¥ 24	¥ (1,352)	¥ (1,328)	¥ 28,098

SEIKITOKYU KOGYO CO., LTD.

Consolidated Statement of Changes in Net Assets
for the year ended March 31, 2018

	Shareholders' equity (Notes 2,7)				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
			(Thousands of U.S. dollars)		
Balance at April 1, 2017	$ 18,825	$ 4,707	$ 238,720	$ (223)	$ 262,029
Changes during the period					
Dividend of surplus			(6,459)		(6,459)
Net income attributable to owners of parent			21,410		21,410
Purchase of treasury stock				(4)	(4)
Disposal of treasury stock		0		0	1
Net changes of items other than shareholders' equity					
Total changes during period	−	0	14,950	(3)	14,947
Balance as of March 31, 2018	$ 18,825	$ 4,707	$ 253,671	$ (227)	$ 276,976

	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, 2017	$ 242	$ (16,857)	$ (16,615)	$ 245,414
Changes during the period				
Dividend of surplus				(6,459)
Net income attributable to owners of parent				21,410
Purchase of treasury stock				(4)
Disposal of treasury stock				1
Net changes of items other than shareholders' equity	(14)	4,133	4,118	4,118
Total changes during period	(14)	4,133	4,118	19,066
Balance as of March 31, 2018	$ 228	$ (12,724)	$ (12,496)	$ 264,480

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, 2018, 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.

Revenue recognized by applying the percentage of completion method was ¥17,829 million (U.S.$167,823 thousand) for the year ended March 31, 2018.

(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, 2018 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) Allowance for losses on Anti-Monopoly Act

Allowance for losses on Anti-Monopoly Act is provided based on an estimated amount of payment for surcharges under the Anti-Monopoly Act.

(p) 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.

(q) Consumption Taxes

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

(r) Consolidated Taxes

Consolidated tax return filing system.

2. Basis of Translation

The consolidated financial statements as of and for the year ended March 31, 2018 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 ¥106.24 = U.S.$1, the approximate rate of exchange in effect on March 31, 2018. 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.

3. 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, 2017	Common stock	¥686	$6,117	Retained earnings	¥17.00	$0.15	March 31, 2017	June 26, 2017

2) Dividends with a record date in the year ended March 31, 2018 and an effective date in the year ending March 31, 2019:

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, 2018	Common stock	¥404	$3,799	Retained earnings	¥10.00	$0.09	March 31, 2018	June 25, 2018

4. Property, Plant and Equipment

Property, plant and equipment at March 31, 2018 were as follows:

	Yen (millions) 2018	U.S. dollars (thousands) 2018
Buildings and structures	¥ 2,606	$ 24,527
Machinery, equipment, vehicles, tools, furniture and fixtures	3,314	31,198
Land	14,038	132,130
Construction in progress	68	637
Total	¥20,025	$ 188,493

5. Collateral Assets and Corresponding Liabilities

The following assets are provided as collateral for the borrowings at March 31, 2018:

	Yen (millions) 2018	U.S. dollars (thousands) 2018
Buildings	¥ 464	$ 4,363
Land	11,053	104,039
Total	¥11,517	$108,402

Corresponding Liabilities at March 31, 2018

	Yen (millions)	U.S. dollars (thousands)
	2018	2018
Short-term loans payable	¥1,000	$ 9,413
Long-term loans payable	3,000	28,238
Total	¥4,000	$37,651

6. Receivables Fully Offset Against Allowance for Doubtful Accounts

	Yen (millions)	U.S. dollars (thousands)
	2018	2018
Long-term trade receivables	¥517	$4,875

7. 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.

8. Other Income

The composition of "Other income-Other" for the year ended March 31, 2018 is as follows:

	Yen (millions)	U.S. dollars (thousands)
	2018	2018
Interest income	¥0	$1
Dividend income	7	61
Rent income	21	198
Gain on sales of non-current assets	1	8
Fiduciary obligation fee	34	319
Compensation income	64	608
Subsidy income	45	424
Other	19	178
Total	¥191	$1,798

9. Other Expenses

The composition of ”Other expenses-Other” for the year ended March 31, 2018 is as follows:

	Yen (millions)	U.S. dollars (thousands)
	2018	2018
Interest expenses	¥ 28	$262
Guarantee commission	26	243
Bill fluidizing commission	7	68
Loss on sales of non-current assets	4	41
Loss on retirement of non-current	21	194
Provision of allowance for losses on Anti-Monopoly Act	3,037	28,582
Impairment loss	144	1,355
Other	30	285
Total	¥3,297	$31,030

10. 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, 2018, and the difference thereof.

	Yen (millions)		
Assets	Carrying amount	Fair value	Unrealized gain (loss)
Cash and deposits:	¥ 14,738	¥ 14,738	¥ –
Trade receivables:			
Notes and accounts:	28,259	28,259	–
Investment securities:	60	60	–
Total	¥43,057	¥43,057	¥ –

	U.S. dollars (thousands)		
	Carrying amount	Fair value	Unrealized gain (loss)
Cash and deposits:	$ 138,722	$ 138,722	$ –
Trade receivables:			
Notes and accounts:	265,994	265,994	–
Investment securities:	561	561	–
Total	$405,277	$405,277	$ –

Liabilities	Yen (millions) Carrying amount	Fair value	Unrealized gain (loss)
Trade payables:			
Notes and accounts	¥24,748	¥24,748	¥ –
Short-term Loans payable:	8	8	–
Long-term Loans payable:	4,000	4,000	–
Total	¥28,756	¥28,756	¥ –

	U.S. dollars (thousands) Carrying amount	Fair value	Unrealized gain (loss)
Trade payables:			
Notes and accounts	$232,949	$232,949	$ –
Short -term Loans payable:	79	79	–
Long-term Loans payable:	37,651	37,651	–
Total	$270,679	$270,679	$ –

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.$9,413 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.$1,913 thousand) recorded on the consolidated balance sheet for the fiscal year ended March 31, 2018) 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.

11. Amounts Per Share

Amounts per share as of and for the year ended March 31, 2018 are as follows:

As of March 31

	Yen	U.S. dollars
	2018	2018
Net assets	¥696.09	$6.55

For the year ended March 31

	Yen	U.S. dollars
	2018	2018
Net Income	¥56.35	$0.53

12. Impairment Loss

The Company and certain consolidated subsidiaries recognized impairment losses for the following assets or groups of assets.

Use	Classification	Location	Yen (millions)	U.S. dollars (thousands)
Business assets	Buildings and structures, machinery, equipment, tools and land	Hokkaido and others	¥ 144	$1,355

The basis of grouping for the Company and its consolidated subsidiaries is on the smallest group of assets which generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.
The Company and its consolidated subsidiaries reduced the carrying amounts of business assets or groups of assets to their recoverable amounts considering significant deterioration of profitability and recognized the amounts of the reductions as impairment losses (¥144 million (U.S. $1,355 thousand)) in other expenses for the year ended March 31, 2018.
Impairment losses totaling ¥144 million ($1,355 thousand) are comprised of ¥29 million ($274 thousand) of buildings and structures, ¥22 million ($212 thousand) of machinery, equipment and tools, and ¥92million ($869 thousand) of land.
The recoverable amount of each asset or each group of assets was measured by their net realizable value and their usage value. The discount rate of 2.14% was applied for discounting future cash flows in the calculation of their usage value.

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 ¥4,000 million (U.S.$37,651 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.

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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, 2017 through March 31, 2018.

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, 2018 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, 2018