ANNUAL REPORT 2016

Year ended March 31, 2016

SHIN NIPPON AIR TECHNOLOGIES CO., LTD.

Profile

Shin Nippon Air Technologies (SNK) is a leading Japanese engineering company and applies its proprietary engineering systems to control not only air, water and heat, but also all other aspects of air conditioning, electrical and sanitary facilities. The Company offers comprehensive engineering solutions centered on air conditioning, ranging from the creation of a better human environment for offices, shopping centers, hospitals, hotels, museums, etc., and the creation of industrial facilities, such as clean rooms, and constant temperature and humidity rooms for semiconductor plants, pharmaceutical plants, R&D centers and similar facilities, to the construction of district heating & cooling systems.

The predecessor of Shin Nippon Air Technologies Co., Ltd. was Toyo Carrier Engineering Co., Ltd., which was established in 1930 as a joint venture between the Mitsui Group and Carrier Corporation of USA, an early pioneer in the field of air conditioning systems. SNK was incorporated and took over the air conditioning construction activities of Toyo Carrier Engineering in 1969. The Company has an outstanding record of achievements, including providing air conditioning systems for Japan's first nuclear reactor at the Japan Atomic Energy Research Institute (1957) and for Japan's first skyscraper, the Kasumigaseki Building (1968); the construction of a district heating and cooling system for Shinjuku's city center (1971) and air conditioning for the Johyoh fast breeder reactor in Ibaraki Prefecture (1974).

Since entering overseas markets in 1973, SNK has executed projects in 36 countries for the provision of air conditioning and electrical facilities as well as for firefighting, water supply, and sewage treatment and sanitary facilities; and has developed into a comprehensive engineering and construction company.

The Company currently has three overseas subsidiaries, based in Shanghai, Sri Lanka and Singapore, which help its customers develop operations in Asia through provision of engineering and construction of facilities.

In recent years, SNK has been placing great emphasis on making proposals for engineering solutions in the energy saving and environmental fields. The Company's solutions have earned it a high reputation in Japan and in those countries throughout the world where it carries on business.

Contents

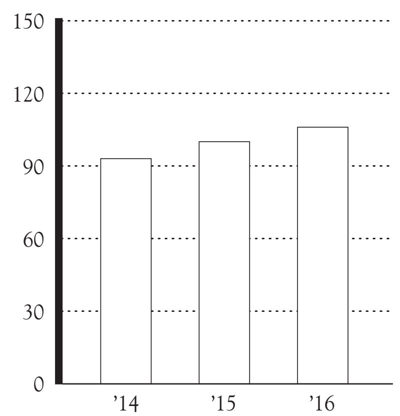
Financial Highlights

Shin Nippon Air Technologies Co., Ltd.
Years ended March 31

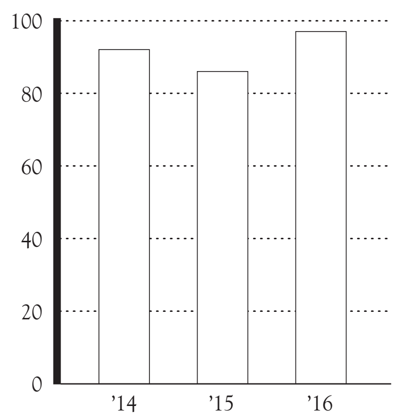
	Millions of Yen			Thousands of U.S. Dollars
	2014	2015	**2016**	**2016**
For the year:				
Orders received	¥ 93,230	¥100,840	**¥106,139**	**$ 939,284**
Revenues from construction	92,035	86,508	**97,330**	**861,326**
Operating income	2,233	2,143	**3,405**	**30,136**
Net income attributable to owners of the parent	1,339	1,443	**2,356**	**20,848**
At year-end:				
Total assets	¥ 85,003	¥ 83,652	**¥ 91,622**	**$ 810,816**
Current assets	57,784	52,349	**65,112**	**576,210**
Net property, plant and equipment	3,037	3,306	**3,069**	**27,163**
Current liabilities	47,878	41,157	**50,228**	**444,492**
Net shareholders' equity	34,035	38,067	**37,396**	**330,939**

Note: U.S. dollar amounts represent translations of Japanese yen amounts at the exchange rate on March 31, 2016 of ¥113 to US$1.

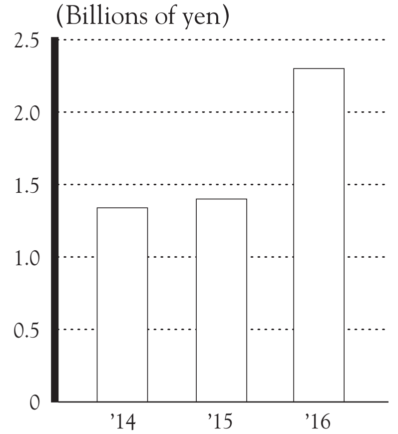
Orders Received
(Billions of yen)



Revenues from Construction
(Billions of yen)



Net Income attributable to owners of the parent
(Billions of yen)



Message from the President

Review of Operations

1) Business Operations and Results

During the fiscal year ended March 31, 2016, the Japanese economy continued on a moderate recovery path. However, while corporate earnings were brisk thanks to a weak yen and low oil prices, capital investment slowed. Moreover, personal consumption showed little growth as the weak yen increased the prices of food and other items, so an anticipated recovery in personal consumption did not materialize.

In the above circumstances, SNK and its subsidiaries (together the SNK Group or the Group) aimed to achieve further progress of their current mid-term business plan, the Ultimate Value Plan 2016 (from fiscal 2014 to and including fiscal 2016) during the second year of the plan over and above the progress achieved during the first year, fiscal 2014. The mid-term business plan has three objectives: i) to earn the highest level of customer confidence; ii) to ensure that technologies are handed on to the next generation and to promote cutting-edge technologies; and iii) to strengthen corporate governance and establish a more highly flexible organizational structure. All of the above have the overall aim of achieving the enrichment and evolution of SNK Quality to meet customer needs in pursuit of ultimate value.

Throughout the second year of the mid-term business plan, the SNK Group continued its established policy of accepting orders, while striking a balance between profitability on the one hand and the exploitation of the opportunities offered for business growth on the other hand, amid a marked change in the order-taking environment in the construction industry in Japan. As a result, orders received during the fiscal year increased 5.3% year on year to ¥106,139 million. This result exceeded the Group's forecast of ¥105 billion.

Revenues from construction were slightly less than the forecast of ¥100 billion but increased 12.5% year on year to ¥97,329 million. The volume of ongoing construction projects at the end of the fiscal year increased significantly, with the result that the Group's revenues carried forward to the next fiscal year increased ¥8,809 million to ¥73,061 million.

With regard to overall profit, thanks to the above mentioned robust order-taking environment and as a result of the SNK Group's efforts to cut administrative costs and office expenditures, the Group's gross profit increased 18.3% year on year to ¥9,860 million, operating income increased 59.0% to ¥3,405 million, and ordinary income increased 44.2% to ¥3,702 million.

The Group's extraordinary income was ¥198 million and extraordinary losses were ¥129 million.

As a result of all of the above, profit attributable to shareholders of the parent company increased 63.3% year on year to ¥2,355 million.

2) Issues to be Addressed

Construction investment is expected to gain momentum in view of the increase in volume of Tokyo Olympics related infrastructure projects and other private sector construction projects, as well as the tendency for manufacturers to relocate certain operations from abroad back to Japan. On the other hand, while various construction projects will be undertaken in rapid succession, the shortage of workers and engineers, both of which are structural features of the construction industry in Japan, are expected to remain major issues of concern over the medium to long term. Securing an appropriate allocation of human resources, bringing about major improvements in productivity through the elimination of waste, and adopting countermeasures for project delays are all indispensable steps to be taken from the viewpoint of the SNK Group's financial performance, and the Group will vigorously address these issues.

Against the above background, the SNK Group will make every effort to achieve the goals of the Ultimate Value Plan 2016 with the aim of contributing to society and enhancing corporate value while simultaneously improving financial performance.

In these endeavors, Shin Nippon Air Technologies would, as always, greatly appreciate the continued support of its shareholders.

Osaka Center, Nomura Research Institute, Ltd.

❶ Osaka ❷ Air conditioning system, Plumbing system
❸ Approx. 15,243m^2 ❹ January 2016

LaLaport EXPOCITY

❶ Osaka ❷ Air conditioning system
❸ Approx. 223,000m^2 ❹ November 2015

Tokyu Plaza Ginza

❶ Tokyo
❷ Air conditioning system
❸ Approx. 50,000m^2
❹ March 2016

Photo: courtesy of Tokyu Land Corporation

Yezin Agricultural University

❶ Naypyidaw, Myanmar
❷ Air conditioning system, Electrical system, Plumbing system, Fire fighting system
❸ 5,250m^2 ❹ October 2015

❶ Location ❷ Scope of work ❸ Floor area ❹ Completion date

SNK Develops Mask Cleaning System—To Improve Working Environment at Nuclear Power Station

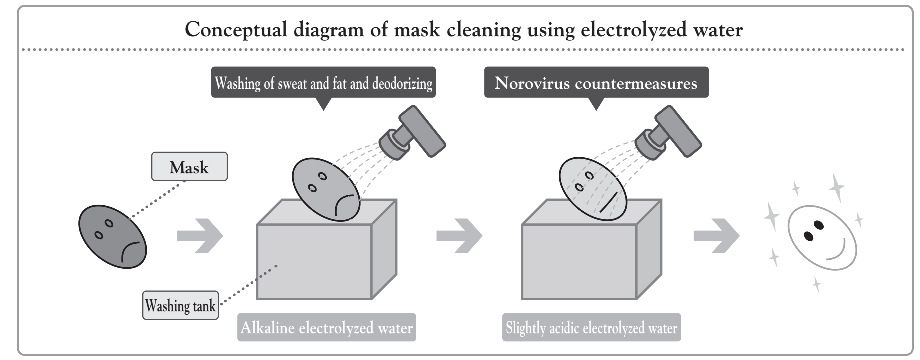
SNK developed a mask cleaning system equipped with functions for both deodorizing and the inactivation of noroviruses. This new system is based on research undertaken by SNK on countermeasures against noroviruses using electrolyzed water, which had been undertaken as part of its efforts to improve the harsh environment for workers working at the site of the Fukushima Daiichi Nuclear Power Station of Tokyo Electric Power Company in terms of health and safety. The new system was introduced by SNK in January 2016.

When entering the site of the power station, workers are required to wear a full-face mask. This new system efficiently removes protein deposits and odors in the mask caused by sweat and fat, by cleansing the mask with alkaline electrolyzed water. Then, by washing the mask with slightly acidic electrolyzed water, viruses are efficiently inactivated.

SNK's Research & Development Center has been conducting various studies to identify effective norovirus countermeasures since 2013, and has verified that use of slightly acidic electrolyzed water for cleaning lessens the activities of viruses including the norovirus. The conventional processes for cleaning masks, which include alcohol disinfection, were unable to achieve sufficient deodorizing and norovirus inactivation. The above system developed by SNK was adopted by the client because it is more effective than the conventional processes.

Furthermore, the introduction of this system is expected to lead to a reduction in flammable waste at the site of the power station, such as cloth used for wiping off stains etc. generated during the cleaning process.

SNK will continue its efforts to contribute to the improvement of the working environment at the Fukushima Daiichi Nuclear Power Station, to boost workers' morale and support recovery.



Further Business Development in Asia—Establishment of Cambodia Branch

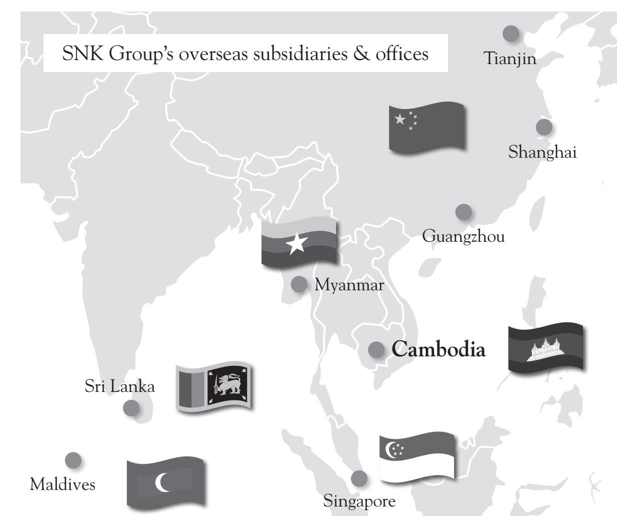
The SNK Group is developing its overseas business mainly in Asia, and has been promoting a strategy of entering new markets by strengthening the network of collaboration between its offices in China (Shanghai), Sri Lanka and Singapore. The Group re-entered Myanmar in fiscal 2013 and opened an office in Cambodia in March 2016. Both of these offices are branches of SNK (Asia Pacific) Pte. Ltd., one of SNK's subsidiary companies in Singapore.

Since its democratization in 1993, Cambodia has been transforming itself into an advanced country. In Cambodia, which borders Thailand and Vietnam, labor-intensive industries are being concentrated in industrial parks located along the country's borders with these two neighboring countries. In line with the development of the Southern Economic Corridor, which is planned to be a main artery of the Mekong Economic Zone, the liberalization of logistics, the exchanges of engineering staff, and the inflow of manufacturers can be anticipated from now on.

For the SNK Group to be in a position to offer the SNK Quality in Cambodia and thereby to enhance customer satisfaction, it is indispensable to foster the training of local engineers, to establish systems for the procurement and distribution of equipment and materials, and to develop a system for the management of personnel. Considering the time required to accomplish these tasks, SNK took the decision to establish a branch in Cambodia.

Looking to the future, SNK plans to further strengthen its engineering system and to increase the mobility of its human resources in the ASEAN Economic Region. By doing so, SNK plans to be able to offer the same standard of SNK Quality as that offered by it in Japan so as to meet customers' needs for the various operational facilities in their buildings, which are expected to increase in the future. By achieving the above objectives, SNK will contribute to its customers' business development.

Angkor Wat (historical attraction in Cambodia)



Consolidated Balance Sheet

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2016	2015	2016
CURRENT ASSETS:			
Cash and cash equivalents (Note 15)	¥ 7,813	¥ 7,507	$ 69,140
Short-term investments (Notes 4, 13 and 15)	802	207	7,100
Receivables (Note 15):			
Notes receivable – trade	562	1,307	4,970
Electronically recorded monetary claims	2,995	763	26,512
Accounts receivable – trade	50,268	39,459	444,853
Allowance for doubtful accounts	(267)	(208)	(2,364)
Inventories (Note 5)	778	836	6,881
Deferred tax assets (Note 11)	1,386	1,090	12,262
Other current assets	775	1,388	6,855
Total current assets	65,112	52,349	576,210
PROPERTY AND EQUIPMENT:			
Land (Note 6)	584	628	5,170
Buildings and structures	6,460	6,499	57,167
Machinery, equipment, tools, furniture, and fixtures	1,047	1,013	9,267
Lease assets (Note 14)	79	81	695
Construction in progress		5	
Total property and equipment	8,169	8,226	72,299
Accumulated depreciation	(5,100)	(4,920)	(45,136)
Net property and equipment	3,069	3,306	27,163
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 15)	20,161	24,572	178,412
Rental deposits	933	992	8,255
Investments in insurance contracts	1,757	1,727	15,553
Deferred tax assets (Note 11)	82	58	722
Other assets	640	974	5,666
Allowance for doubtful accounts	(132)	(326)	(1,166)
Total investments and other assets	23,441	27,997	207,444
TOTAL	¥91,622	¥83,652	$810,816

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
LIABILITIES AND EQUITY	2016	2015	2016
CURRENT LIABILITIES:			
Short-term borrowings (Notes 7 and 15)	¥ 9,760	¥ 3,810	$ 86,372
Current maturities of long-term debt (Notes 7 and 15)	32	78	288
Payables (Note 15):			
Notes payable – trade	1,466	1,620	12,970
Accounts payable – trade (Note 13)	32,344	30,900	286,231
Income taxes payable (Notes 11 and 15)	1,353	225	11,976
Advances received on construction work in progress (Note 8)	1,433	907	12,685
Accrued expenses	2,489	1,870	22,029
Allowance for loss on construction contracts	960	1,045	8,494
Other current liabilities	390	702	3,448
Total current liabilities	50,228	41,157	444,492
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7 and 15)	456	79	4,038
Liability for employees' retirement benefits (Note 9)	775	796	6,859
Deferred tax liabilities (Note 11)	2,723	3,500	24,101
Other long-term liabilities (Note 14)	44	53	387
Total long-term liabilities	3,998	4,428	35,385
EQUITY (Notes 10 and 18):			
Common stock – authorized, 84,252,100 shares; issued, 25,282,225 shares in 2016 and 2015	5,159	5,159	45,651
Capital surplus	6,888	6,888	60,955
Retained earnings	18,964	17,231	167,826
Treasury stock – at cost, 777,264 shares and 41,844 shares in 2016 and 2015, respectively	(853)	(26)	(7,545)
Accumulated other comprehensive income:			
Net unrealized gain on available-for-sale securities	6,708	8,104	59,364
Foreign currency translation adjustments	461	609	4,083
Defined retirement benefit plans	68	102	604
Total	7,238	8,815	64,052
Total equity	37,396	38,067	330,939
TOTAL	¥91,622	¥83,652	$810,816

Consolidated Statement of Income

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
REVENUES FROM CONSTRUCTION	¥97,330	¥86,508	$861,326
COSTS OF CONSTRUCTION CONTRACTS (Note 9)	87,469	78,173	774,061
Gross profit	9,861	8,335	87,265
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Notes 9 and 12)	6,456	6,192	57,129
Operating income	3,405	2,143	30,136
OTHER INCOME (EXPENSES):			
Interest and dividend income	353	326	3,126
Interest expense	(37)	(26)	(331)
Foreign exchange (loss) gain – net	(47)	23	(414)
Gain on sales of investment securities (Note 4)	139	5	1,228
Impairment losses (Note 6)	(29)		(254)
Insurance profit	11	51	98
Loss on Anti-Monopoly Act		(140)	
Other – net	(24)	38	(218)
Other income – net	366	277	3,235
INCOME BEFORE INCOME TAXES	3,771	2,420	33,372
INCOME TAXES (Note 11):			
Current	1,611	690	14,257
Deferred	(196)	287	(1,732)
Total income taxes	1,415	977	12,525
NET INCOME	2,356	1,443	20,848
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 2,356	¥ 1,443	$ 20,848

	Yen		U.S. Dollars
	2016	2015	2016
PER SHARE OF COMMON STOCK (Note 2.q):			
Basic net income	¥95.47	¥57.15	$0.84
Cash dividends applicable to the year	25.00	25.00	0.22

	Thousands of Shares	
Weighted-average number of shares	24,675	25,241

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
NET INCOME	¥ 2,356	¥1,443	$ 20,848
OTHER COMPREHENSIVE (LOSS) INCOME (Note 16):			
Net unrealized (loss) gain on available-for-sale securities	(1,396)	3,090	(12,356)
Foreign currency translation adjustments	(148)	249	(1,308)
Defined retirement benefit plans	(34)	48	(302)
Total other comprehensive (loss) income	(1,578)	3,387	(13,965)
COMPREHENSIVE INCOME	¥ 777	¥4,830	$ 6,883
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO—			
Owners of the parent	¥ 777	¥4,830	$ 6,883

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2016

	Thousands	Millions of Yen							
						Accumulated Other Comprehensive Income			
	Number of Shares of Common Stock Issued	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Net Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total Equity
BALANCE, MARCH 31, 2014 (APRIL 1, 2014, as previously reported)	25,282	¥5,159	¥6,888	¥16,585	¥ (25)	¥ 5,014	¥360	¥ 54	¥34,035
Cumulative effect of accounting change				(227)					(227)
BALANCE, APRIL 1, 2014 (as restated)	25,282	5,159	6,888	16,357	(25)	5,014	360	54	33,807
Net income attributable to owners of the parent				1,443					1,443
Cash dividends, ¥22.5 per share				(568)					(568)
Net unrealized gain on available-for-sale securities						3,090			3,090
Purchase of treasury stock (2,196 shares)					(1)				(1)
Foreign currency translation adjustments							249		249
Defined retirement benefit plans								48	48
BALANCE, MARCH 31, 2015	25,282	5,159	6,888	17,231	(26)	8,104	609	102	38,067
Net income attributable to owners of the parent				2,356					2,356
Cash dividends, ¥25 per share				(624)					(624)
Net unrealized gain on available-for-sale securities						(1,395)			(1,395)
Purchase of treasury stock (735,420 shares)					(826)				(826)
Foreign currency translation adjustments							(148)		(148)
Defined retirement benefit plans								(34)	(34)
BALANCE, MARCH 31, 2016	25,282	¥5,159	¥6,888	¥18,964	¥(853)	¥ 6,708	¥461	¥ 68	¥37,396

	Thousands of U.S. Dollars (Note 1)							
					Accumulated Other Comprehensive Income			
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Net Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total Equity
BALANCE, MARCH 31, 2015	$45,651	$60,955	$152,497	$ (235)	$71,720	$5,391	$906	$336,886
Net income attributable to owners of the parent			20,848					20,848
Cash dividends, $0.22 per share			(5,519)					(5,519)
Net unrealized gain on available-for-sale securities					(12,356)			(12,356)
Purchase of treasury stock (735,420 shares)				(7,310)				(7,310)
Foreign currency translation adjustments						(1,308)		(1,308)
Defined retirement benefit plans							(302)	(302)
BALANCE, MARCH 31, 2016	$45,651	$60,955	$167,826	$(7,545)	$59,364	$4,083	$604	$330,939

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2016

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2016	2015	2016
OPERATING ACTIVITIES:			
Income before income taxes	¥ 3,771	¥ 2,420	$ 33,372
Adjustments for:			
Income taxes – paid	(530)	(1,229)	(4,687)
Depreciation and amortization	357	341	3,158
Impairment losses	29		254
Loss on devaluation of investment securities	96		846
Gain on sales of investment securities	(139)	(5)	(1,228)
Changes in assets and liabilities:			
(Increase) decrease in receivables – trade	(12,393)	7,364	(109,677)
Decrease (increase) in inventories	52	(103)	462
Increase (decrease) in payables – trade	1,360	(4,773)	12,038
Increase (decrease) in advances received on construction work in progress	552	(877)	4,889
Decrease in allowance for doubtful accounts	(136)	(26)	(1,199)
Decrease in liability for employees' retirement benefits	(75)	(82)	(663)
(Decrease) increase in allowance for losses on construction contracts	(85)	160	(755)
Other – net	1,278	(414)	11,309
Net cash (used in) provided by operating activities	(5,862)	2,776	(51,880)
INVESTING ACTIVITIES:			
Decrease in time deposits	8		71
Increase in time deposits	(200)	(1)	(1,770)
Purchases of property and equipment	(126)	(422)	(1,116)
Purchases of intangible fixed assets	(76)	(128)	(672)
Purchases of short-term investments and investment securities	(3)	(307)	(24)
Proceeds from sales and redemptions of short-term investments and investment securities	1,826	287	16,160
Decrease in loan receivables – net	16	16	140
Decrease in other assets	50	551	444
Net cash provided by (used in) investing activities	1,495	(4)	13,233
FORWARD	¥ (4,367)	¥ 2,772	$ (38,647)

	Millions of Yen 2016	Millions of Yen 2015	Thousands of U.S. Dollars (Note 1) 2016
FORWARD	¥(4,367)	¥ 2,772	$(38,647)
FINANCING ACTIVITIES:			
Increase (decrease) in short-term borrowings – net	5,950	(900)	52,655
Repayment of long-term debt – net	355	(60)	3,142
Dividends paid	(624)	(568)	(5,519)
Repayment of lease obligations	(37)	(37)	(326)
Purchases of treasury stock	(826)	(1)	(7,308)
Net cash provided by (used in) financing activities	4,818	(1,566)	42,644
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(147)	209	(1,297)
NET INCREASE IN CASH AND CASH EQUIVALENTS	305	1,415	2,701
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,507	6,092	66,438
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 7,813	¥ 7,507	$ 69,140
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Finance lease assets and debt	¥11	¥33	$97

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2016

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in Japan in order to present them in a form that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2015 consolidated financial statements to conform to the classifications used in 2016.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Shin Nippon Air Technologies Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥113 to US$1, the approximate rate of exchange at March 31, 2016. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Consolidation*** – The consolidated financial statements as of March 31, 2016, include the accounts of the Company and all subsidiaries (together, the "Group") except SNK ENGINEERING TECHNOLOGY (SHANGHAI) CO., LTD. The Company has six consolidated subsidiaries: SNK Service Co., Ltd. in Japan; Shin Nippon Air Technologies (Shanghai) Co., Ltd. in China; Shin Nippon Lanka (Private) Limited in Sri Lanka; SNK (ASIA PACIFIC) PTE. LTD. in Singapore; SNK INDUSTRIAL TRADING (SHANGHAI) CO., LTD.; and SNK ENGINEERING TECHNOLOGY (SHANGHAI) CO., LTD. in China.

SNK ENGINEERING TECHNOLOGY (SHANGHAI) CO., LTD. was newly established in January 2016. Since its closing date is December 31, SNK ENGINEERING TECHNOLOGY (SHANGHAI) CO., LTD. is not included in the consolidated financial statements. The Company changed the name of SHIN NIPPON AIRTECH (SINGAPORE) PTE. LTD. to SNK (ASIA PACIFIC) PTE. LTD. in the current fiscal year.

Under the control concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. ***Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements*** – In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements" which was subsequently revised in February 2010 and March 2015 to reflect revisions of the relevant Japanese GAAP or accounting standards in other jurisdictions. PITF No. 18 prescribes that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; and (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting.

c. ***Cash Equivalents*** – Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits and certificates of deposit, which mature or become due within three months of the date of acquisition.

d. ***Inventories*** – Construction work in progress is stated at cost, determined using the specific identification method.

e. ***Short-Term Investments and Investment Securities*** – Marketable and investment securities are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined using the moving-average method.

For other-than-temporary declines in fair value, available-for-sale securities are reduced to net realizable value by a charge to income.

f. ***Property and Equipment*** – Property and equipment are carried at cost. Depreciation of property and equipment of the Company and its domestic subsidiary, except for buildings, is computed substantially using the declining-balance method. The straight-line method is principally applied to buildings of the Company and its domestic subsidiary, and property and equipment of its foreign subsidiaries.

The range of useful lives is principally from 3 to 50 years for buildings and structures and from 2 to 20 years for machinery, equipment, tools, furniture, and fixtures. The useful lives for leased assets are the terms of the respective leases.

g. ***Long-Lived Assets –*** The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured at the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

h. ***Research and Development Costs –*** Research and development costs are charged to income as incurred.

i. ***Allowance for Doubtful Accounts –*** The allowance for doubtful accounts is stated at amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

j. ***Retirement Benefits and Pension Plan –*** The Group has a defined contribution pension plan, cash balance pension plan, and unfunded retirement plans substantially covering all of its employees. The Group accounts for the liability for employees' retirement benefits based on the defined benefit obligations and plan assets at the consolidated balance sheet date.

Effective April 1, 2000, the Company adopted a new accounting standard for retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the consolidated balance sheet date. The projected benefit obligations are attributed to periods on a straight-line basis. Actuarial gains and losses are amortized on a straight-line basis over 10 years within the average remaining service period. Prior service costs are amortized on a straight-line basis over 10 years within the average remaining service period.

In May 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and were followed by partial amendments from time to time through 2009.

(a) Under the revised accounting standard, actuarial gains and losses and prior service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for employees' retirement benefits) or asset (asset for retirement benefits).

(b) The revised accounting standard does not change how to recognize actuarial gains and losses and prior service costs in profit or loss. Those amounts are recognized in profit or loss over a certain period no longer than the expected average remaining service period of the employees. However, actuarial gains and losses and prior service costs that arose in the current period and have not yet been recognized in profit or loss are included in other comprehensive income and actuarial gains and losses and prior service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments (see Note 16).

(c) The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods, the discount rate, and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, all with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to the consolidated financial statements in prior periods is required.

k. ***Allowance for Losses on Construction Contracts –*** The Group provides an allowance for losses on construction contracts which are probable and estimable at the consolidated balance sheet date.

l. ***Construction Contracts –*** Revenues and related costs are recognized using the percentage-of-completion method (the estimate of the progress rate of construction is a cost proportion method) if the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method is applied.

In December 2007, the ASBJ issued ASBJ Statement No. 15, "Accounting Standard for Construction Contracts" and ASBJ Guidance No. 18, "Guidance on Accounting Standard for Construction Contracts." Under this accounting standard, the construction revenue and construction costs should be recognized using the percentage-of-completion method if the outcome of a construction contract can be estimated reliably. When total construction revenue, total construction costs, and the stage of completion of the contract at the consolidated balance sheet date can be reliably measured, the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on construction contracts.

The revenues recognized by way of the percentage-of-completion method for the years ended March 31, 2016 and 2015, were ¥82,825 million ($732,964 thousand) and ¥72,012 million, respectively.

m. ***Bonuses to Directors and Audit & Supervisory Board Members –*** Bonuses to directors and Audit & Supervisory Board members are accrued at year-end to which such bonuses are attributable.

n. ***Foreign Currency Transactions –*** All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.

o. ***Foreign Currency Financial Statements –*** The consolidated balance sheet accounts of the foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the consolidated balance sheet date, except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" in accumulated other comprehensive income, which is a separate component of equity.

Revenue and expense accounts of the foreign subsidiaries are translated into Japanese yen at the average exchange rate.

p. ***Income Taxes –*** The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

q. ***Per Share Information –*** Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Diluted net income per share for the years ended March 31, 2016 and 2015, is not disclosed because the Group did not have any convertible bonds, bonds with warrants, or stock options.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years, including dividends to be paid after the end of the year.

r. ***Accounting Changes and Error Corrections –*** In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows: (1) Changes in Accounting Policies – When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively, unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation – When the presentation of consolidated financial statements is changed, prior-period consolidated financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates – A change in an accounting estimate is accounted for in the period of the change if the change affects that period only and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors – When an error in prior-period consolidated financial statements is discovered, those statements are restated.

s. ***New Accounting Pronouncements***

Tax Effect Accounting – On December 28, 2015, the ASBJ issued ASBJ Guidance No. 26, "Guidance on Recoverability of Deferred Tax Assets," which included certain revisions of the previous accounting and auditing guidance issued by the Japanese Institute of Certified Public Accountants. While the new guidance continues to follow the basic framework of the previous guidance, it provides new guidance for the application of judgment in assessing the recoverability of deferred tax assets.

The previous guidance provided a basic framework which included certain specific restrictions on recognizing deferred tax assets depending on company's classification in respect of its profitability, taxable profit and temporary differences, etc.

The new guidance does not change such basic framework but, in limited cases, allows companies to recognize deferred tax assets even for a deductible temporary difference for which it was specifically prohibited to recognize a deferred tax asset under the previous guidance, if the company can justify, with reasonable grounds, that it is probable that the deductible temporary difference will be utilized against future taxable profit in some future period.

The new guidance is effective for the beginning of annual periods beginning on or after April 1, 2016. Earlier application is permitted for annual periods ending on or after March 31, 2016. The new guidance shall not be applied retrospectively and any adjustments from the application of the new guidance at the beginning of the reporting period shall be reflected within retained earnings or accumulated other comprehensive income at the beginning of the reporting period.

The Group expects to apply the new guidance on recoverability of deferred tax assets effective April 1, 2016, and is in the process of measuring the effects of applying the new guidance in future applicable periods.

3. ACCOUNTING CHANGE

a. ***Business Combination –*** The Group applied the revised ASBJ Statement No. 21, "Accounting Standard for Business Combinations," revised ASBJ Statement No. 22, "Accounting Standard for Consolidated Financial Statements" and revised ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" from the fiscal year ended March 31, 2016, and changed the presentation of net income and so on. To reflect the changes in presentation, prior-period consolidated financial statements have been reclassified.

b. ***Changes in the Presentation Method –*** Prior to April 1, 2015, electronically recorded monetary claims were included in notes receivable – trade in the current assets section of the consolidated balance sheet. Since during this fiscal year ended March 31, 2016, the amount increased significantly, such amount is disclosed separately in the current assets section of the consolidated balance sheet as of March 31, 2016. The amount included in notes receivable – trade as of March 31, 2015, was ¥763 million.

4. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities as of March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Current:			
Time deposits which mature beyond three months from acquisition	**¥ 398**	¥ 207	**$ 3,523**
Debt securities	**404**		**3,577**
Total	**¥ 802**	¥ 207	**$ 7,100**
Noncurrent:			
Equity securities	**¥18,404**	¥20,830	**$162,872**
Debt securities	**1,756**	3,274	**15,540**
Investments in limited partnerships and other		468	
Total	**¥20,161**	¥24,572	**$178,412**

The carrying amounts and aggregate fair values of marketable securities included in short-term investments and investment securities as of March 31, 2016 and 2015, were as follows:

	Millions of Yen			
March 31, 2016	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available for sale:				
Equity securities	¥ 8,065	¥9,661	¥134	¥17,592
Debt securities	2,209	10	59	2,160
Total	¥10,274	¥9,671	¥193	¥19,752
March 31, 2015				
Securities classified as available for sale:				
Equity securities	¥ 8,226	¥11,857	¥67	¥20,016
Debt securities	3,217	61	4	3,274
Total	¥11,443	¥11,918	¥71	¥23,290

	Thousands of U.S. Dollars			
March 31, 2016	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available for sale:				
Equity securities	$71,370	$85,492	$1,183	$155,679
Debt securities	19,553	90	527	19,117
Total	$90,922	$85,583	$1,709	$174,796

Notes to Consolidated Financial Statements

The information for available-for-sale securities which were sold during the years ended March 31, 2016 and 2015, is as follows:

	Millions of Yen		
March 31, 2016	Proceeds	Realized Gains	Realized Losses
Available-for-sale – Equity securities	¥303	¥139	
Total	¥303	¥139	
March 31, 2015			
Available-for-sale – Equity securities	¥10	¥5	
Total	¥10	¥5	

	Thousands of U.S. Dollars		
March 31, 2016	Proceeds	Realized Gains	Realized Losses
Available-for-sale – Equity securities	$2,681	$1,228	
Total	$2,681	$1,228	

Loss on devaluation of available-for-sale securities for the year ended March 31, 2016, was ¥95 million ($841 thousand).

5. INVENTORIES

Inventories as of March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Construction work in progress	**¥722**	¥756	**$6,387**
Materials and supplies	**56**	80	**494**
Total	**¥778**	¥836	**$6,881**

6. LONG-LIVED ASSETS

The Group recognized loss on impairment for the year ended March 31, 2016, for the following assets:

March 31, 2016

Location	Purpose of Use	Type of Assets	Millions of Yen	Thousands of U.S. Dollars
Hachimantai City in Iwate Prefecture	Rental asset	Land	¥29	$254

For purposes of evaluating and measuring impairment, the assets used for business are classified by group by each branch. Assets used for rent and idle properties are individually evaluated.

The carrying amount of the rental assets was devalued to their recoverable amounts due to the significant decline in market value.

The recoverable amount of a certain asset was measured at the anticipated net selling price at disposition. The Group used the actuary reports to calculate the reasonable net selling price at disposition.

No impairment loss was recognized in 2015.

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings represent borrowings under bank overdraft agreements and notes due within one year, bearing interest ranging from 0.270% to 1.475% at March 31, 2016, and from 0.310% to 1.475% at March 31, 2015.

Long-term debt as of March 31, 2016 and 2015, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unsecured loans from banks, maturing serially through 2018, with an interest rate of 0.65% for 2016 and 2015	¥400	¥ 45	$3,540
Obligations under finance leases	88	112	786
Less current portion	(32)	(78)	(288)
Total long-term debt, less current portion	¥456	¥ 79	$4,038

Annual maturities of long-term debt, excluding finance leases (see Note 14), at March 31, 2016, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2018	¥400	$3,540
Total	¥400	$3,540

8. ADVANCES RECEIVED ON CONSTRUCTION WORK IN PROGRESS

The Group normally receives payments from customers on a progressive basis in accordance with the terms of the respective construction contracts.

9. RETIREMENT AND PENSION PLANS

The Group has severance payment plans for employees.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, or caused by death.

Years Ended March 31, 2016 and 2015

(1) The changes in defined benefit obligation for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year	¥3,399	¥3,020	$30,079
Cumulative effect of accounting change		352	
Balance at beginning of year (as restated)	3,399	3,372	30,079
Current service cost	237	233	2,099
Interest cost	24	24	216
Actuarial gains	(19)	(5)	(167)
Benefits paid	(250)	(225)	(2,212)
Balance at end of year	¥3,392	¥3,399	$30,016

(2) The changes in plan assets for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year	¥2,782	¥2,596	$24,615
Expected return on plan assets	70	65	615
Actuarial (gains) losses	(61)	80	(539)
Contributions from the employer	185	182	1,638
Benefits paid	(187)	(141)	(1,651)
Balance at end of year	¥2,789	¥2,782	$24,678

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Defined benefit obligation	¥ 3,392	¥ 3,399	$ 30,016
Plan assets	(2,789)	(2,782)	(24,678)
Total	603	617	5,337
Net liability arising from defined benefit obligation	¥ 603	¥ 617	$ 5,337

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Liability for employees' retirement benefits	¥603	¥617	$5,337
Net liability arising from defined benefit obligation	¥603	¥617	$5,337

(4) The components of net periodic benefit costs for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Service cost	¥237	¥232	$2,099
Interest cost	24	24	216
Expected return on plan assets	(70)	(65)	(615)
Amortization of prior service cost	4	3	31
Recognized actuarial gains	(14)	(20)	(128)
Net periodic benefit costs	¥181	¥174	$1,603

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Prior service cost	¥ 4	¥ 3	$ 31
Actuarial (gains) losses	(57)	64	(501)
Total	¥(53)	¥67	$(469)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Unrecognized prior service cost	¥ (7)	¥(10)	$ (63)
Unrecognized actuarial gains	105	161	933
Total	¥ 98	¥151	$870

(7) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2016 and 2015, consisted of the following:

	2016	2015
Debt investments	11%	10%
Equity investments	18	22
Cash and cash equivalents	58	57
Others	13	11
Total	100%	100%

b. *Method of determining the expected rate of return on plan assets*
The expected rate of return on plan assets is determined considering the long-term rates of return, which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2016 and 2015, were set forth as follows:

	2016	2015
Discount rate	0.7%	0.7%
Expected rate of return on plan assets	2.5	2.5
Future salary increase rate	5.8	5.8

(9) The changes in liability for retirement benefits, which have been calculated by a simplified method for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Balance at beginning of year	¥179	¥170	$1,584
Net periodic benefit costs	21	24	186
Benefits paid	(29)	(15)	(257)
Balance at end of year	¥171	¥179	$1,513

(10) Defined contribution pension plan
The main contributions to the defined contribution plans of the Group for the years ended March 31, 2016 and 2015, were ¥112 million ($991 thousand) and ¥111 million, respectively.

(11) The Group participates in a multiemployer plan for which the Group cannot reasonably calculate the amount of plan assets corresponding to the contributions made by the Company. Therefore, they are accounted for using the same method as a defined contribution plan.

The contributions to such multiemployer plan, which are accounted for using the same method as a defined contribution plan, were ¥219 million ($1,938 thousand) and ¥324 million for the years ended March 31, 2016 and 2015, respectively.

(a) The funded status of the multiemployer plan as of March 31, 2015 and 2014, was as follows:

	Millions of Yen March 31	
	2015	2014
Plan assets	¥ 41,830	¥ 37,500
Sum of actuarial liabilities of pension plan and minimum actuarial reserve	(53,355)	(50,287)
Net balance	¥(11,525)	¥(12,787)

March 31, 2015
The net balance in (a) above is the prior service liabilities of ¥12,692 million ($112,319 thousand), one-year surplus of ¥737 million ($6,522 thousand) and general reserve of ¥429 million ($3,796 thousand) as of March 31, 2015, which are being amortized over 16 years.

March 31, 2014
The net balance in (a) above is the prior service liabilities of ¥13,216 million, one-year surplus of ¥162 million and general reserve of ¥267 million as of March 31, 2014, which are being amortized over 17 years.

(b) The contribution ratio of the Group in the multiemployer plan for the years ended March 31, 2015 and 2014, was as follows:

	2015	2014
The contribution ratio of the Group in the multiemployer plan	18.4%	18.1%

10. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. ***Dividends***
Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company does not meet all the above criteria.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the Company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. ***Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus***
The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

c. ***Treasury Stock and Treasury Stock Acquisition Rights***
The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

11. INCOME TAXES

The Company and its domestic subsidiary are subject to Japanese national and local income taxes, which, in the aggregate, resulted in normal effective statutory tax rates of approximately 33.1% and 35.4% for the years ended March 31, 2016 and 2015, respectively.

The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities as of March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Deferred tax assets:			
Allowance for doubtful accounts	¥ 122	¥ 169	$ 1,080
Employee accrued bonuses	608	497	5,381
Liability for employees' retirement benefits	275	308	2,434
Loss on devaluation of golf club memberships	82	89	726
Loss on devaluation of investment securities	107	113	947
Loss on devaluation of land	189	200	1,673
Allowance for loss on construction contracts	296	344	2,620
Other	477	281	4,221
Valuation allowance	(430)	(464)	(3,805)
Total	1,726	1,537	15,277
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(2,864)	(3,743)	(25,345)
Other	(117)	(144)	(1,035)
Total	(2,981)	(3,887)	(26,380)
Net deferred tax liabilities	¥(1,256)	¥(2,350)	$(11,103)

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2016, with the corresponding figures for 2015 is as follows:

	2016	2015
Normal effective statutory tax rate	33.1%	35.4%
Expenses not deductible permanently for income tax purposes	2.3	5.4
Income not taxable permanently for income tax purposes	(0.4)	(1.6)
Inhabitant tax	1.7	2.7
Difference in statutory tax rates of overseas subsidiaries	(1.3)	(0.7)
Valuation allowance	(0.2)	(7.6)
Change of effective tax rate by tax reform	1.7	4.8
Other – net	0.6	2.0
Actual effective tax rate	37.5%	40.4%

New tax reform laws enacted in 2016 in Japan changed the normal effective statutory tax rate for the fiscal year beginning from April 1, 2016, to March 31, 2018, to approximately 30.9% and for the fiscal year beginning on or after April 1, 2018, to 30.6%. The effect of these changes was to decrease deferred tax liabilities, net of deferred tax assets, in the consolidated balance sheet as of March 31, 2016, by ¥97 million ($858 thousand) and income taxes – deferred (credit) in the consolidated statement of income for the year then ended by ¥63 million ($558 thousand) and increase net unrealized gain on available-for-sale securities in the consolidated balance sheet as of March 31, 2016, by ¥158 million ($1,398 thousand) and defined retirement benefit plans in the consolidated balance sheet as of March 31, 2016, by ¥1 million ($9 thousand).

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥338 million ($2,991 thousand) and ¥315 million for the years ended March 31, 2016 and 2015, respectively.

13. ASSETS PLEDGED

At March 31, 2016, a time deposit of ¥27 million ($239 thousand) was pledged as collateral for accounts payable of ¥0 million ($0 thousand).

14. LEASES

The Group leases certain cars, software, and other assets.

Obligations under finance leases and future minimum payments under noncancelable operating leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2016		2016	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥ 33	¥212	$292	$1,876
Due after one year	56	92	498	814
Total	¥ 89	¥304	$790	$2,690

The minimum rental commitments under noncancelable operating leases as of March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Due within one year	¥212	¥466	$1,876
Due after one year	92	267	814
Total	¥304	¥733	$2,690

15. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) *Group Policy for Financial Instruments*

The Group purchases or issues financial instruments in order to finance its operations and to manage its surplus cash efficiently according to the Group policy of safe and secure asset management. Mainly short-term bank loans are used to fund its operations considering the cash flow projections. Derivatives, if any, are used only for hedging currency, interest rate, and other risks and not for speculation.

(2) *Nature and Extent of Risks Arising from Financial Instruments*

Receivables, such as trade notes, electronically recorded monetary claims and trade accounts, are exposed to customer credit risk.

Short-term investments in securities and investment securities are used mainly for relations with the client and utilization of surplus funds. Such short-term investments are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are mainly less than one year.

Short-term borrowings are used mainly for funding the Group's operations. Such borrowings are exposed to market risks from changes in variable interest rates.

(3) *Risk Management for Financial Instruments*

Credit risk (risk of default of contract) management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include performing credit checks when receiving orders and monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage.

Market risk management (foreign exchange risk and interest rate risk)

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Foreign exchange risk is hedged principally by borrowings in foreign currency (impact loan) for more than 50% of the position of receivables in foreign currency, net of payables in foreign currencies.

Investment securities are managed by purchasing mainly high-grade bonds and securities from reliable financial institutions according to internal policies and monitoring the market values and financial position of issuers on a quarterly basis at management meetings.

Liquidity risk management

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on their maturity dates. The Group manages its liquidity risk by holding adequate volumes of liquid assets, along with adequate financial planning by the corporate treasury department. The Group has established credit lines with banks to respond flexibly to demands for funding.

(4) *Fair Values of Financial Instruments*

Fair values of financial instruments are based on quoted prices in active markets. If quoted prices are not available, other rational valuation techniques are used instead.

(a) Fair value of financial instruments

	Millions of Yen		
March 31, 2016	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents and short-term investments	¥ 8,211	¥ 8,211	
Receivables	50,782	50,782	
Electronically recorded monetary claims	2,995	2,995	
Marketable securities	404	404	
Investment securities	19,348	19,348	
Total	¥81,740	¥81,740	
Payables	¥33,810	¥33,810	
Short-term borrowings	9,760	9,760	
Income taxes payable	1,353	1,353	
Long-term debt and current maturities of long-term debt,excluding finance lease	400	403	¥3
Total	¥45,323	¥45,326	¥3

March 31, 2015			
Cash and cash equivalents and short-term investments	¥ 7,715	¥ 7,715	
Receivables	40,712	40,712	
Electronically recorded monetary claims	763	763	
Investment securities	23,290	23,290	
Total	¥72,481	¥72,481	
Payables	¥32,520	¥32,520	
Short-term borrowings	3,810	3,810	
Income taxes payable	225	225	
Long-term debt and current maturities of long-term debt, excluding finance lease	45	45	
Total	¥36,600	¥36,600	

	Thousands of U.S. Dollars		
March 31, 2016	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents and short-term investments	$ 72,655	$ 72,655	
Receivables	449,407	449,407	
Electronically recorded monetary claims	26,512	26,512	
Marketable securities	3,577	3,577	
Investment securities	171,221	171,221	
Total	$723,370	$723,370	
Payables	$299,204	$299,204	
Short-term borrowings	86,372	86,372	
Income taxes payable	11,976	11,976	
Long-term debt and current maturities of long-term debt, excluding finance lease	3,540	3,566	$26
Total	$401,092	$401,118	$26

Cash and Cash Equivalents, Receivables and Electronically Recorded Monetary Claims
The carrying values of cash and cash equivalents, receivables and electronically recorded monetary claims approximate fair value because of their short maturities.

Short-Term Investments, Marketable Securities and Investment Securities
The fair values of short-term investments, marketable securities and investment securities are measured at the quoted market price of the stock exchange for equity instruments and at the quoted price obtained from financial institutions for certain debt instruments. Information on the fair value of short-term investments, marketable securities and investment securities by classification is included in Note 4.

Payables, Short-Term Borrowings, and Income Taxes Payable
The carrying values of payables, short-term borrowings, and income taxes payable approximate fair value because of their short maturities.

Long-Term Debt
The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate.

Derivatives
The Group had no derivative contracts at March 31, 2016.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Investments in equity instruments that do not have a quoted market price in an active market	**¥812**	¥ 813	**$7,186**
Investments in limited partnerships		468	
Total	**¥812**	¥1,281	**$7,186**

(5) *Maturity Analysis for Financial Assets and Securities with Contractual Maturities*

	Millions of Yen			
March 31, 2016	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 8,211			
Receivables	50,782			
Electronically recorded monetary claims	2,995			
Marketable securities – Available-for-sale securities with contractual maturities	400			
Investment securities – Available-for-sale securities with contractual maturities		¥1,300		¥500
Total	¥62,388	¥1,300		¥500

	Thousands of U.S. Dollars			
March 31, 2016	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	$ 72,655			
Receivables	449,407			
Electronically recorded monetary claims	26,512			
Marketable securities – Available-for-sale securities with contractual maturities	3,540			
Investment securities – Available-for-sale securities with contractual maturities		$11,504		$4,425
Total	$552,114	$11,504		$4,425

Please see Note 7 for annual maturities of long-term debt and Note 14 for obligations under finance leases.

16. OTHER COMPREHENSIVE (LOSS) INCOME

The components of other comprehensive (loss) income for the years ended March 31, 2016 and 2015, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Net unrealized (loss) gain on available-for-sale securities:			
(Loss) gain arising during the year	**¥(2,136)**	¥ 4,243	**$(18,906)**
Reclassification adjustments to profit	**(139)**	(5)	**(1,228)**
Amount before income tax effect	**(2,275)**	4,238	**(20,134)**
Income tax effect	**879**	(1,148)	**7,778**
Total	**¥(1,396)**	¥ 3,090	**$(12,356)**

Foreign currency translation adjustments – (Loss) gain arising during the year	¥ (148)	¥ 249	$ (1,308)
Total	¥ (148)	¥ 249	$ (1,308)
Defined retirement benefit plans:			
(Loss) gain arising during the year	¥ (42)	¥ 85	$ (373)
Reclassification adjustments to profit	(11)	(17)	(97)
Amount before income tax effect	(53)	68	(469)
Income tax effect	19	(20)	168
Total	¥ (34)	¥ 48	$ (302)
Total other comprehensive (loss) income	¥(1,578)	¥3,387	$(13,965)

17. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

Segment information about sales, profit (loss), assets, liabilities, and other items is not shown because the Group operates entirely in the equipment construction segment.

18. SUBSEQUENT EVENTS

a. Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2016, was approved at the Company's shareholders' meeting held on June 22, 2016:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥15.0 ($0.133) per share	¥367	$3,248

b. Introduction of Stock-Based Compensation Stock Options

The Company resolved at the shareholders' meeting held on June 22, 2016, to distribute stock-based compensation stock options (subscription rights to shares) to the Board's directors, with the exception of the Board's outside directors.

Date of the Resolution	June 22, 2016
Persons Granted	Directors (except for the outside directors): 9[(1)]
Class of Stock	Common stock
Number of Stock	The number of the subscription rights to shares assigned within one year from the date of the Company's shareholders' meeting for each fiscal year shall be no more than 1,000. The number of stocks granted shall be 100 stocks per one subscription right to shares.[(2)]
Amount to Be Paid on Exercise of Stock Option	The price of a stock upon exercise of subscription rights to shares shall be ¥1 multiplied by the number of stocks granted.
Exercise Period	The Company decides the exercise period at the Board of Directors' meeting within 30 years from the day following the date when a subscription right to shares is assigned (the "the day of assignment").
Exercise Condition	The subscription rights to shares shall be exercised within 10 days from the day following loss of the status of a director, an executive officer or an employee (or the day following the 10th day when the 10th day is a holiday). The Company decides other exercise conditions of subscription rights to shares at the Board of Directors' meeting when recruitment matters related to the subscription rights to shares are decided.
Matters Related to Stock Option Transfer	The approval of the Board of Directors is required for the acquisition of the subscription rights to shares by a transfer.
Matters Related to Substitute Payment	—
Matters Related to Issue of Stock Option with Reorganization	—

Notes:

(1) The Company will also assign subscription rights to shares, whose content is the same as the above (the Company decides the total number of the subscription rights to shares separately), to the executive officers.

(2) When the Company executes a stock split (including allotment of our general stock without contribution) or consolidation of shares for our general stock after the allocation date of a new stock reservation right, the number of shares to be granted is adjusted by the following calculation for the subscription rights to shares which are not exercised when the subscription rights to shares, the related stock split, or consolidation of shares is executed.

The number of granted shares before an adjustment multiplied by the ratio of the stock split or the consolidation of shares shall be equal to the number of granted stocks after an adjustment.

Other than the above, when an event requiring an adjustment of the number of stocks granted occurs, the Company can adjust the number of granted shares considered necessary at the Board of Directors' meeting. Fraction of less than one share resulting from the adjustment is rounded down.

* * * * * *

Independent Auditor's Report

Deloitte.

Deloitte Touche Tohmatsu LLC
Shinagawa Intercity
2-15-3, Konan
Minato-ku, Tokyo 108-6221
Japan

Tel:+81 (3) 6720 8200
Fax:+81 (3) 6720 8205
www.deloitte.com/jp

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Shin Nippon Air Technologies Co., Ltd.:

We have audited the accompanying consolidated balance sheet of Shin Nippon Air Technologies Co., Ltd. and its subsidiaries as of March 31, 2016, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our 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. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shin Nippon Air Technologies Co., Ltd. and its subsidiaries as of March 31, 2016, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation
Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 22, 2016

Member of
Deloitte Touche Tohmatsu Limited

Board of Directors

(As of June 22, 2016)

Chairman
Kaoru Takahashi*1

President
Hiroshi Natsui*1

Managing Director
Takeshi Usami
Satoshi Fuchino

Directors
Keiichi Akamatsu
Yoshimitsu Omiya
Satoshi Shimomoto
Kiyoshi Endo
Isao Yamada

Outside Director
Masahisa Ichimiya*2
Shigeki Morinobu

Standing Audit & Supervisory Board Member
Toru Ikio
Morio Kusuda

Audit & Supervisory Board Member
Takakazu Tsuruno
Tatsumi Jounoo

*1 Representative Directors
*2 Resigned on July 11, 2016

Corporate Data

(As of March 31, 2016)

Date of Establishment
October 1, 1969

Paid-in Capital
¥5,159 millions

Number of Shares Outstanding
25,282,225 shares

Number of Shareholders
5,342

Number of Employees
1,021

Stock Exchange Listing
Tokyo Stock Exchange, 1st Section

Transfer Agent of Common Stock
Sumitomo Mitsui Trust Bank, Limited

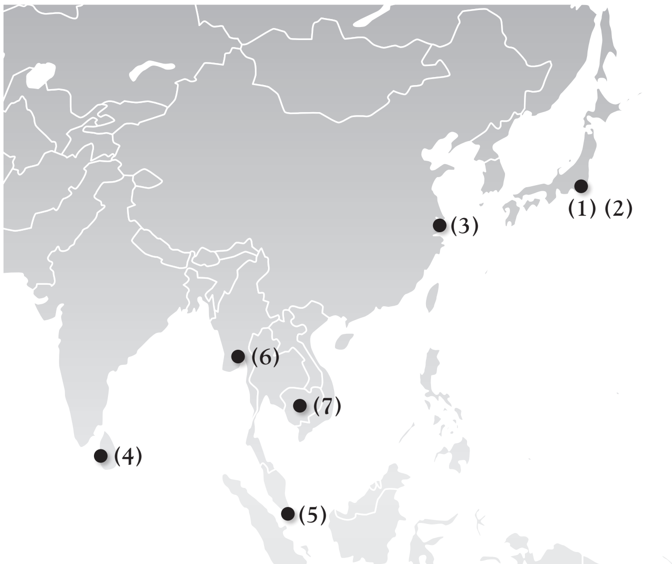
By Type of Shareholder

Financial institutions	21.52%
Individuals & Others	28.17%
Foreign Shareholders	8.12%
Other domestic companies	42.19%

By Number of Shares Held

500,000 shares or more	48.42%
100,000 – 499,999 shares	30.53%
10,000 – 99,999 shares	8.30%
1,000 – 9,999 shares	9.84%
Fewer than 1,000 shares	2.91%

Network



(1)Head Office
Hamacho Center Bldg. 2-31-1, Nihonbashi hamacho,
Chuo-ku, Tokyo 103-0007, Japan
Phone:81-3-3639-2700 Fax:81-3-3639-2732
URL:http://www.snk.co.jp/

SUBSIDIARIES

(2)SNK Service Co., Ltd.
Wakamatsu Bldg. 3-3-6, Nihonbashi honcho, Chuo-ku,
Tokyo 103-0023, Japan
Phone:81-3-5200-3940
Fax:81-3-5200-3935

(3)Shin Nippon Air Technologies (Shanghai) Co., Ltd.
2F, 301, Jiang Chang San Road, Shanghai, 200436,
P.R.China
Phone:86-21-51060068
Fax:86-21-51060063

(4)Shin Nippon Lanka (Private) Limited
Office/Factory
309/1, Colombo Road, Welisara, Sri Lanka
Phone:94-11-200-5300
Fax:94-11-223-6599

(5)SNK (Asia Pacific) Pte. Ltd.
315 Outram Road, #09-06, Tan Boon Liat Building,
Singapore 169074
Phone:65-6227-2300
Fax:65-6227-3122

(6)SNK (Asia Pacific) Pte. Ltd.
Myanmar Branch
No.1, Saw Hla Baw Street, Bauk Htaw, Yankin
Township, Yangon, Myanmar
Phone:95-1-401-354
Fax:95-1-401-354

(7)SNK (Asia Pacific) Pte. Ltd.
Cambodia Branch
#2-E6, iCon Professional Building, Norodom Blvd,
Tonle Bassac, Chamkarmorn, Phnom Penh, Cambodia.
Phone:855-92-237-965
Fax:855-92-237-965