

ANNUAL REPORT 2019

Year ended March 31, 2019



Profile

Shin Nippon Air Technologies Co., Ltd. (SNK or the Company) 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 based on air conditioning, which range from the creation of a better human environment for offices, shopping centers, hospitals, hotels, museums, etc.; 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.

SNK was incorporated in 1969 to take over the air conditioning construction activities of Toyo Carrier Engineering Co., Ltd., a company which had been 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. The Company and its predecessor have 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 the Shinjuku New City (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 assist its customers in developing their operations throughout Asia through the 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.

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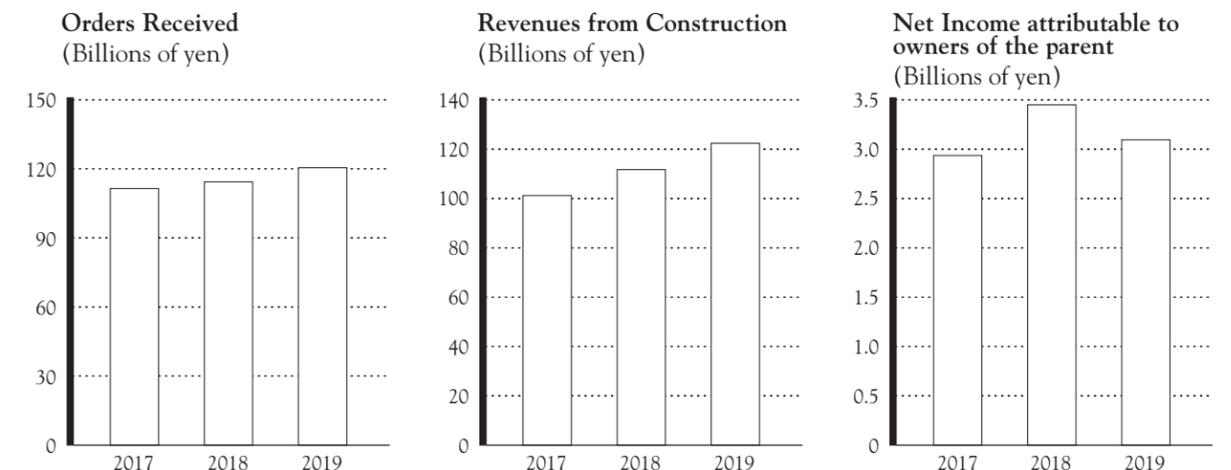
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Financial Highlights

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

	Millions of Yen			Thousands of U.S. Dollars
	2017	2018	2019	2019
For the year:				
Orders received	¥111,435	¥114,320	¥120,530	\$1,085,856
Revenues from construction	101,202	111,742	122,390	1,102,613
Operating income	3,897	4,274	3,885	35,004
Net income attributable to owners of the parent	2,934	3,449	3,095	27,885
At year-end:				
Total assets	¥ 86,696	¥ 98,267	¥102,026	\$ 919,153
Current assets	59,081	70,938	74,665	672,663
Net property, plant and equipment	3,507	3,722	3,417	30,782
Current liabilities	43,607	52,328	56,187	506,192
Net shareholders' equity	39,770	43,019	43,065	387,969

Note: 1. U.S. dollar amounts represent translations of Japanese yen amounts at the exchange rate on March 31, 2019 of ¥111 to US\$1.
2. Effective from the beginning of fiscal 2018, the Company has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018), etc. For key performance indicators for fiscal 2016 and fiscal 2017, figures calculated by retrospectively applying the above-mentioned accounting standard, etc. are presented.





Review of Operations

1) Business Operations and Results

During the fiscal year 2018 which ended on March 31, 2019, the Japanese economy's progress in extricating itself from deflation was extremely slow because of lower personal consumption due to the frequent occurrence of natural disasters, slowing growth of exports, and a decline in sentiment arising from the intensifying U.S.-China trade war. On the other hand, robust expansion of private-sector capital investment continued and the Japanese economy remained on a moderate recovery track supported by the strong world economy and wage increases. However, the real economy lacked vigor and various issues remained.

In the construction industry in which SNK and its subsidiaries (together the SNK Group or the Group) operate, while private-sector capital investment remained robust and real-estate-related investment such as redevelopment projects in central Tokyo continued to be brisk, the shortage of engineers and skilled workers, and price increases in materials, equipment and labor costs became evident. It was necessary to respond to technological innovation by utilizing artificial intelligence (AI) and the internet of things (IoT) and to enhance productivity by implementing measures to reduce long working hours and achieve workstyle reform.

Against the above background, the SNK Group continued to implement its mid-term business plan, SNK Value Innovation 2020, which covers the three years from fiscal 2017 commencing on April 1, 2017. SNK Value Innovation 2020's objectives are: i) to develop and promote a growth strategy for enhancing customer loyalty; ii) to integrate design and construction technologies and information technologies for ensuring safety and quality and improving productivity; and iii) to establish a highly transparent management structure and achieve sound utilization of management resources in accordance with the needs of society. The basic policy of the Group will continue to be to respond to the needs of customers and society as an environmental solutions company contributing to the protection of the global environment and the realization of a sustainable global society, while aiming to achieve sustainable growth in the period up to the 2020s and the creation of further corporate value. The SNK Group operated its business in accordance with this policy in the second year of its mid-term business plan.

As a result, the Group's orders received during the fiscal year increased 5.4% year on year to ¥120,530 million and revenues from construction increased 9.5% year on year to ¥122,389 million. Revenues carried forward to the next fiscal year decreased ¥1,859 million to ¥85,204 million.

With regard to overall profit, despite the increase in revenues from construction thanks to the robust order-taking environment, the Group's gross profit decreased 5.9% year on year to ¥11,252 million, operating income decreased 9.1% to ¥3,885 million, ordinary income decreased 8.8% to ¥4,235 million, and net income attributable to owners of the parent decreased 10.3% year on year to ¥3,095 million.

2) Issues to be Addressed

Private-sector capital investment and real-estate-related investment such as urban redevelopment projects in central Tokyo are expected to remain robust. On the other hand, the shortage of engineers and skilled workers, and long working hours have emerged as structural issues for the construction industry. The Group will continue to vigorously implement initiatives related to workstyle reform, including securing of human resources and their appropriate allocation, thereby bringing about improvements in productivity.

For each of the objectives of the SNK Value Innovation 2020 mid-term business plan, we are implementing the initiatives described below to enhance financial performance. Regarding i) the development and promotion of a growth strategy for enhancing customer loyalty, we are working to develop multifaceted one-stop solutions and enter business fields related to alternative energy. For ii) the integration of design and construction technologies, information technologies for ensuring safety and quality, and improving productivity, we are promoting use of AI and IoT technologies and implementing initiatives to enhance productivity of the construction processes and the saving of energy. For iii) the establishment of a highly transparent management structure and achievement of sound utilization of management resources in accordance with the needs of society, we will continue our initiatives to enhance corporate governance, ensure compliance, promote CSR and ESG management, curb long working hours and diversify workstyles.

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

Major construction projects recently completed

Tottori Prefectural Central Hospital,
Tottori Prefecture



Tokyo College of Music Naka-Meguro · Daikan-yama
Campus, Tokyo



Meiji Seika Food Industry (Shanghai) Co., Ltd.,
Shanghai, China



tette Sukagawa Citizens Exchange Center,
Fukushima Prefecture



Topics

Development of 「AiR-Lo³」 task-zone energy-saving air-conditioning system for large spaces

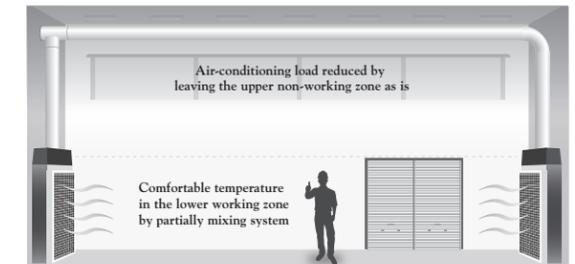
In building having a large space with a high ceiling, such as a factory or an exhibition hall, air conditioning is required mainly in a lower area extending two to three meters above the floor where people are active. However, conventional air conditioning for a large space is designed to achieve uniform temperature for the entire space from the floor to the ceiling, including the upper area, resulting in the waste of a lot of energy and areas with inadequate air conditioning.

To rectify the above situation, SNK has developed the AiR-Lo³, a task-zone energy-saving air conditioning system for large spaces that saves energy by partial air conditioning focused primarily on the lower zone where people are located and achieves improvement of the working environment.

The characteristic of this technology is “partially mixed system” by the adoption of an air outlet developed by SNK. This outlet reduces the inflow of air in the upper zone and suppresses mixing of air in the non-working zone while at the same time facilitating the intake of air in the horizontal direction and performs partial mixing of air in the working zone. The result is a great reduction in energy used for airflow and thermal energy, and the improvement of the environment of the working zone.

Partially mixed system enables optimization of the temperature environment of the working zone while reducing the air-conditioning load. In an experimental demonstration, the partially mixed system achieved a maximum reduction of more than 40% in the energy used for airflow compared with the conventional fully mixed system.

This system, suitable for flexible operation, can be widely applied to various large spaces regardless of whether the building is newly constructed or refurbished. SNK has been promoting full-scale introduction of AiR-Lo³ from April 2019 as a system that can contribute to the quality of life in society through improvement of the working environment and to the environment by energy saving.



Cooling by AiR-Lo³

Development of 「Wi-Musu」 wireless sensing system for environmental measurement

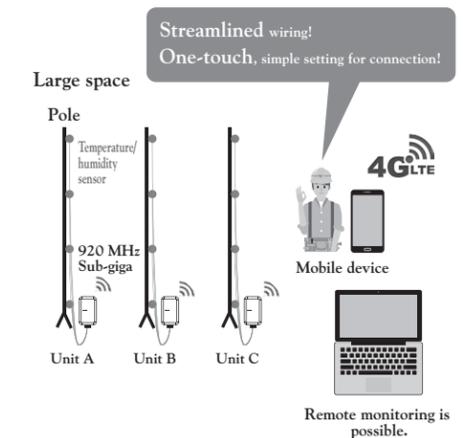
Since air conditioning for large spaces such as large clean rooms, data centers, and halls tends to be uneven depending on the location of the contents within the space, it is desirable for air-conditioning facilities to be designed for the particular space for which they will be used. For this purpose, detailed on-site multi-point environmental measurement for tests before completion of new buildings and before and after refurbishment of existing buildings is required, which is both time-consuming and labor-intensive as it involves installation of sensors, and the gathering and analysis of measurement data.

Focusing on information and communication technologies (ICT) and IoT technologies, SNK has developed the Wi-Musu™ wireless sensing system for environmental measurement using digital sensors, wireless communication, and other components.

Characteristics of this system are multi-point simultaneous measurements, multiple measurements*1, simplification of measuring instrument installation by means of wireless communication, and remote data visualization capabilities. In fact, the time and labor required for installation of measuring instruments and data analysis was halved compared with that of the conventional measuring method*2.

Utilizing this high-precision sensing system with versatile functions, SNK aims to further enhance the quality of the air-conditioned space it offers to its customers while also saving labor.

Notes: *1. Possible to measure five items (temperature/humidity, CO₂ concentration, illuminance, airborne dust concentration and noise)
*2. Data by SNK



Use for large-space temperature measurement (diagram)

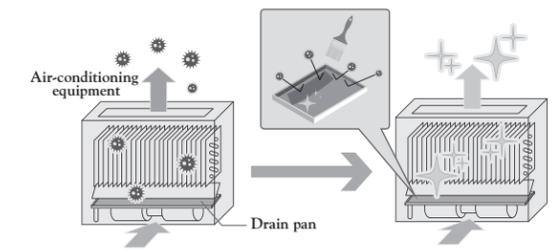
Launch of 「Ag-coat Master」 antibacterial water-based paint

The environment inside air-conditioning equipment is conducive to the proliferation of bacteria because of water condensation within the unit as air-conditioning equipment dehumidifies air in hot weather. As one aspect of the technology to suppress the proliferation of pathogenic microorganisms in air-conditioning equipment, SNK has developed water-based paint that endows with an antibacterial property the air-conditioning equipment coated with it.

Since outbreaks of diseases due to bacterial infection and food poisoning caused by bacterial contamination of food have emerged as issues in society, interest in antibacterial treatment is increasing. Whereas SNK has developed many air-conditioning systems with antibacterial performance utilizing its expertise in air-conditioning technology so far, there is also a need to endow existing facilities with antibacterial performance. SNK pursued research to address this need and the antibacterial water-based paint is the fruit of these efforts.

Characteristics of this antibacterial water-based paint are that only a single coating is required to endow existing facilities with antibacterial performance, the paint becomes effective as soon as it dries, and the antibacterial performance is long-lasting. Therefore, the interior of existing air-conditioning equipment can be rendered antibacterial by applying the paint on days when the facilities are not in use.

SNK believes that the potential application field for this antibacterial water-based paint extends far beyond air-conditioning equipment and is endeavoring to promote its use for other types of equipment.



Effect of antibacterial water-based paint (diagram)

Consolidated Balance Sheet

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
March 31, 2019

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥ 8,103	¥ 9,543	\$ 72,999
Short-term investments (Notes 3, 12 and 14)	77	485	694
Receivables (Note 14):			
Notes receivable – trade	855	1,635	7,702
Electronically-recorded monetary claims	4,493	2,875	40,475
Accounts receivable – trade	58,984	53,713	531,384
Allowance for doubtful accounts	(326)	(291)	(2,934)
Inventories (Note 4)	986	1,196	8,881
Other current assets	1,493	1,782	13,462
Total current assets	74,665	70,938	672,663
PROPERTY AND EQUIPMENT:			
Land	781	917	7,034
Buildings and structures	6,906	7,255	62,212
Machinery, equipment, tools, furniture, and fixtures	1,147	1,169	10,338
Lease assets (Note 13)	118	83	1,062
Total property and equipment	8,952	9,424	80,646
Accumulated depreciation	(5,535)	(5,702)	(49,864)
Net property and equipment	3,417	3,722	30,782
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3, 12 and 14)	21,519	21,359	193,860
Rental deposits	920	926	8,291
Investments in insurance contracts	237	179	2,131
Deferred tax assets (Note 10)	263	298	2,373
Net defined benefit asset (Note 7)	88	87	797
Other assets	1,003	846	9,027
Allowance for doubtful accounts	(86)	(88)	(771)
Total investments and other assets	23,944	23,607	215,708
TOTAL	¥102,026	¥98,267	\$919,153

See notes to consolidated financial statements.

Consolidated Balance Sheet

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
CURRENT LIABILITIES:			
Short-term bank loans (Notes 5 and 14)	¥ 12,372	¥ 9,062	\$111,459
Current maturities of long-term debt (Notes 5, 13 and 14)	308	798	2,772
Payables (Note 14):			
Notes payable – trade	2,469	3,123	22,242
Accounts payable – trade	33,518	31,453	301,960
Income taxes payable (Notes 10 and 14)	781	929	7,037
Advances received on construction work in progress (Note 6)	2,135	2,316	19,238
Accrued expenses	2,689	3,075	24,230
Allowance for loss on construction contracts	1,110	719	10,003
Other current liabilities	805	852	7,251
Total current liabilities	56,187	52,327	506,192
LONG-TERM LIABILITIES:			
Long-term debt (Notes 5, 13 and 14)	381	439	3,437
Liability for employees' retirement benefits (Note 7)	262	246	2,363
Deferred tax liabilities (Note 10)	1,989	1,920	17,921
Other long-term liabilities	142	316	1,271
Total long-term liabilities	2,774	2,921	24,992
EQUITY (Notes 8, 15 and 18):			
Common stock – authorized, 84,252,100 shares; issued, 25,282,225 shares in 2019 and 2018	5,159	5,159	46,474
Capital surplus	6,888	6,888	62,051
Stock acquisition rights (Note 9)	176	134	1,583
Retained earnings	25,642	23,755	231,004
Treasury stock – at cost, 1,928,964 shares and 923,055 shares in 2019 and 2018, respectively	(2,834)	(1,086)	(25,530)
Accumulated other comprehensive income:			
Net unrealized gain on available-for-sale securities	7,833	7,787	70,568
Foreign currency translation adjustments	201	382	1,819
Total	8,034	8,169	72,387
Total equity	43,065	43,019	387,969
TOTAL	¥102,026	¥98,267	\$919,153

Consolidated Statement of Changes in Equity

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2019

	Thousands	Millions of Yen								Total Equity
		Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Net Unrealized Gain on Available-for- Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	
BALANCE, APRIL 1, 2017	25,282	¥5,159	¥6,888	¥ 59	¥21,286	¥ (854)	¥6,960	¥ 316	¥(44)	¥39,770
Net income attributable to owners of the parent					3,449					3,449
Cash dividends, ¥45 per share					(980)					(980)
Net unrealized gain on available-for-sale securities							827			827
Purchase of treasury stock (144,520 shares)						(232)				(232)
Foreign currency translation adjustments								66		66
Defined retirement benefit plans									44	44
Stock acquisition rights				75						75
BALANCE, MARCH 31, 2018	25,282	5,159	6,888	134	23,755	(1,086)	7,787	382		43,019
Net income attributable to owners of the parent					3,095					3,095
Transfer of retained earnings to capital surplus										
Cash dividends, ¥50 per share					(1,208)					(1,208)
Net unrealized gain on available-for-sale securities							46			46
Purchase of treasury stock (1,025,609 shares)						(1,771)				(1,771)
Disposal of treasury stock (19,700 shares)						23				23
Foreign currency translation adjustments								(181)		(181)
Stock acquisition rights				42						42
BALANCE, MARCH 31, 2019	25,282	¥5,159	¥6,888	¥176	¥25,642	¥(2,834)	¥7,833	¥ 201		¥43,065

Thousands of U.S. Dollars (Note 1)

	Thousands of U.S. Dollars (Note 1)								Total Equity
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Net Unrealized Gain on Available-for- Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	
BALANCE, MARCH 31, 2018	\$46,474	\$62,051	\$1,209	\$214,009	\$ (9,783)	\$70,154	\$ 3,448		\$387,562
Net income attributable to owners of the parent				27,885					27,885
Transfer of retained earnings to capital surplus		3		(3)					
Cash dividends, \$0.45 per share				(10,887)					(10,887)
Net unrealized gain on available-for-sale securities						414			414
Purchase of treasury stock (1,025,609 shares)					(15,956)				(15,956)
Disposal of treasury stock (19,700 shares)			(3)		209				206
Foreign currency translation adjustments							(1,629)		(1,629)
Stock acquisition rights			374						374
BALANCE, MARCH 31, 2019	\$46,474	\$62,051	\$1,583	\$231,004	\$(25,530)	\$70,568	\$ 1,819		\$387,969

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
OPERATING ACTIVITIES:			
Income before income taxes	¥ 4,670	¥ 5,055	\$ 42,077
Adjustments for:			
Income taxes – paid	(1,618)	(1,149)	(14,578)
Depreciation and amortization	433	406	3,897
Amortization of goodwill		280	
Gain on sales of investment securities	(428)	(289)	(3,855)
Changes in assets and liabilities:			
Increase in receivables – trade	(6,318)	(9,013)	(56,917)
Decrease (increase) in inventories	187	(44)	1,683
Increase in payables – trade	1,535	6,243	13,832
(Decrease) increase in advances received on construction work in progress	(116)	1,214	(1,042)
Increase in allowance for doubtful accounts	33	44	300
Increase (decrease) in liability for employees' retirement benefits	23	(595)	208
Increase (decrease) in allowance for losses on construction contracts	392	(318)	3,528
Commission for purchase of treasury shares	66		598
Other – net	(141)	(1,667)	(1,283)
Net cash (used in) provided by operating activities	(1,282)	167	(11,552)
INVESTING ACTIVITIES:			
Decrease in time deposits	582	300	5,244
Increase in time deposits	(478)	(104)	(4,305)
Purchases of property and equipment	(231)	(606)	(2,079)
Purchases of intangible fixed assets	(349)	(271)	(3,144)
Proceeds from sale of property and equipment	220		1,982
Purchases of short-term investments and investment securities	(312)	(498)	(2,812)
Proceeds from sales and redemptions of short-term investments and investment securities	951	956	8,569
Decrease in loan receivables – net	9	16	85
Proceeds from cancellation of insurance contracts		1,734	
Increase in other assets	(57)	(38)	(526)
Net cash provided by investing activities	335	1,489	3,014
FORWARD	¥ (947)	¥ 1,656	\$ (8,538)

Consolidated Statement of Cash Flows

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
FORWARD	¥ (947)	¥1,656	\$ (8,538)
FINANCING ACTIVITIES:			
Increase in short-term bank loans – net	3,300	1,477	29,729
Proceeds from long-term debt	200	400	1,802
Repayments of long-term debt	(768)	(232)	(6,919)
Dividends paid	(1,208)	(980)	(10,887)
Repayment of lease obligations	(37)	(40)	(333)
Purchases of treasury stock	(1,838)	(232)	(16,554)
Net cash (used in) provided by financing activities	(351)	393	(3,162)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(142)	44	(1,277)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,440)	2,093	(12,977)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	9,543	7,450	85,976
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 8,103	¥9,543	\$ 72,999
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Finance lease assets and debt	¥53	¥13	\$482

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2019

1. BASIS OF PRESENTATION OF 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 order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2018 consolidated financial statements to conform to the classifications used in 2019.

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 ¥111 to \$1, the approximate rate of exchange at March 31, 2019. 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, 2019, include the accounts of the Company and all of its subsidiaries (together, the “Group”). The Company has seven consolidated subsidiaries: SNK SERVICE CO., LTD. in Japan; NIPPO ENGINEERING 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.

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** – Under Accounting Standards Board of Japan (“ASBJ”) Practical Issues Task Force (PITF) No. 18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements,” 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. **Business Combinations** – Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. A parent’s ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent’s ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

d. **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.

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

- f. **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.
- g. **Property and Equipment** – Property and equipment are carried at cost. Depreciation of the Company and its domestic subsidiaries is computed substantially by the declining-balance method. The straight-line method is principally applied to the Company and its domestic subsidiaries for buildings acquired after April 1, 1998, and structures acquired after April 1, 2018, 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 lease assets are the terms of the respective leases.
- h. **Amortization of Goodwill** – Cost in excess of the net assets of subsidiaries acquired is amortized on a straight-line basis over 20 years.
- i. **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 is 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 as 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.
- j. **Research and Development Costs** – Research and development costs are charged to income as incurred.
- k. **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.
- l. **Retirement Benefits and Pension Plan** – The Company has a risk-sharing type corporate pension classified as defined contribution pension plan.
- m. **Stock Options** – Compensation expense for employee stock options, which were granted on and after May 1, 2006, is recognized based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services in accordance with ASBJ Statement No. 8, "Accounting Standard for Share-based Payment." Stock options granted to nonemployees are accounted for based on the fair value of either the stock option or the goods or services received. In the consolidated balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised.
- n. **Leases** – Finance lease transactions are capitalized to recognize lease assets and lease obligations in the balance sheet.
- o. **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.
- p. **Construction Contracts** – Construction revenue and construction costs are recognized by 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 balance sheet date can be reliably measured, the outcome of a construction contract is deemed to 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 such construction contracts.
The revenues recognized by way of the percentage-of-completion method for the years ended March 31, 2019 and 2018, were ¥100,799 million (\$908,101 thousand) and ¥95,186 million, respectively.
- q. **Bonuses to Directors** – Bonuses to directors are accrued at the year-end to which such bonuses are attributable.
- r. **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.
- s. **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" under accumulated other comprehensive income in a separate component of equity.
Revenue and expense accounts of the foreign subsidiaries are translated into Japanese yen at the average exchange rate.

- t. **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.
On February 16, 2018, the ASBJ issued ASBJ Statement No. 28, "Partial Amendments to Accounting Standard for Tax Effect Accounting," which requires deferred tax assets and deferred tax liabilities to be classified as investments and other assets and long-term liabilities, respectively. Deferred tax assets were previously classified as current assets and investments and other assets, and deferred tax liabilities were previously classified as current liabilities and long-term liabilities under the previous accounting standard. The revised accounting standard is effective for annual periods beginning on or after April 1, 2018. The Company retrospectively applied the revised accounting standard effective April 1, 2018, and deferred tax assets of ¥1,485 million and deferred tax liabilities of ¥1,299 million which were previously classified as current assets and long-term liabilities, respectively, as of March 31, 2018, have been reclassified as investments and other assets and long-term liabilities, respectively, in the accompanying consolidated balance sheet.
- u. **Per Share Information** – Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.
Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.
Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.
- v. **Accounting Changes and Error Corrections** – Under 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 are required 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.
- w. **New Accounting Pronouncements** – On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:
Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation
The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021.
The Group is in the process of determining the period from when the Company will apply the accounting standard and guidance.

Notes to Consolidated Financial Statements

3. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities as of March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Current:			
Time deposits which mature beyond three months from acquisition	¥ 77	¥ 185	\$ 694
Debt securities		300	
Total	¥ 77	¥ 485	\$ 694
Noncurrent:			
Equity securities	¥21,015	¥20,893	\$189,319
Debt securities	504	466	4,541
Total	¥21,519	¥21,359	\$193,860

The costs and aggregate fair values of short-term investments and investment securities as of March 31, 2019 and 2018, were as follows:

March 31, 2019	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available for sale:				
Equity securities	¥8,928	¥11,397	¥(122)	¥20,203
Debt securities	500	4		504
Total	¥9,428	¥11,401	¥(122)	¥20,707

March 31, 2018

Securities classified as available for sale:				
Equity securities	¥8,839	¥11,243		¥20,082
Debt securities	800		¥34	766
Total	¥9,639	¥11,243	¥34	¥20,848

March 31, 2019

March 31, 2019	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available for sale:				
Equity securities	\$80,433	\$102,671	\$(1,097)	\$182,007
Debt securities	4,505	36		4,541
Total	\$84,938	\$102,707	\$(1,097)	\$186,548

Notes to Consolidated Financial Statements

The information for available-for-sale securities which were sold during the years ended March 31, 2019 and 2018, is as follows:

	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
March 31, 2019			
Available-for-sale – Equity securities	¥653	¥428	
Total	¥653	¥428	
March 31, 2018			
Available-for-sale – Equity securities	¥456	¥290	¥1
Total	¥456	¥290	¥1
	Thousands of U.S. Dollars		
	Proceeds	Realized Gains	Realized Losses
March 31, 2019			
Available-for-sale – Equity securities	\$5,887	\$3,855	
Total	\$5,887	\$3,855	

4. INVENTORIES

Inventories as of March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Construction work in progress	¥938	¥1,139	\$8,452
Materials and supplies	48	57	429
Total	¥986	¥1,196	\$8,881

5. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans represent borrowings under bank overdraft agreements and notes due within one year, bearing interest ranging from 0.220% to 3.199% at March 31, 2019, and from 0.175% to 2.109% at March 31, 2018.

Long-term debt as of March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unsecured loans from banks, maturing serially through 2021, with an interest rate of 0.62% for 2019 and 2018	¥ 609	¥1,177	\$ 5,486
Obligations under finance leases	80	60	722
Less current portion	(308)	(798)	(2,771)
Long-term debt, less current portion	¥ 381	¥ 439	\$ 3,437

Annual maturities of long-term debt, excluding finance leases (see Note 13), at March 31, 2019, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2020	¥128	\$1,153
2021	200	1,802
Total	¥328	\$2,955

6. 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.

7. RETIREMENT AND PENSION PLANS

The Group has severance payment plans to 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.

- (1) The changes in liability for retirement benefits, which have been calculated by a simplified method for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Balance at beginning of year	¥160	¥146	\$1,439
Net periodic benefit costs	31	26	283
Benefits paid	(17)	(12)	(156)
Balance at end of year	¥174	¥160	\$1,566

- (2) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets which have been calculated by a simplified method as of March 31, 2019 and 2018, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Funded defined benefit obligation	¥ 205	¥ 197	\$ 1,847
Plan assets	(293)	(284)	(2,644)
Total	(88)	(87)	(797)
Unfunded defined benefit obligation	262	247	2,363
Net liability for defined benefit obligation	¥ 174	¥ 160	\$ 1,566

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Liability for retirement benefits	¥262	¥247	\$2,363
Asset for retirement benefits	(88)	(87)	(797)
Net liability for defined benefit obligation	¥174	¥160	\$1,566

- (3) Periodic benefit cost which has been calculated by a simplified method as of March 31, 2019 and 2018, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Funded defined benefit obligation	¥31	¥26	\$283

- (4) Defined contribution pension plan

The main contributions to the defined contribution plans of the Group for the years ended March 31, 2019 and 2018, were ¥556 million (\$5,008 thousand) and ¥226 million, respectively.

- (5) The Group participates in a multiemployer plan for which it 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 ¥227 million (\$2,045 thousand) and ¥242 million for the years ended March 31, 2019 and 2018, respectively.

The funded status of the multiemployer plan as of March 31, 2018 and 2017, was as follows:

The contribution ratio of the Group in the multiemployer plan

	Millions of Yen	
	March 31	
	2018	2017
Plan assets	¥ 10,116	¥ 9,039
Sum of actuarial liabilities of pension plan and minimum actuarial reserve	(16,987)	(17,011)
Net balance	¥ (6,871)	¥ (7,972)

March 31, 2018

The contribution ratio of the Group in the multiemployer plan

The net balance in above is the prior service liability of ¥8,829 million (\$79,545 thousand), and general reserve of ¥463 million (\$4,173 thousand) as of March 31, 2018, which are being amortized over 12 years.

March 31, 2017

The contribution ratio of the Group in the multiemployer plan

The net balance in above is the prior service liability of ¥9,468 million, and general reserve of ¥1,496 million as of March 31, 2017, which are being amortized over 12 years.

8. 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.

Notes to Consolidated Financial Statements

9. STOCK OPTIONS

The stock options outstanding as of March 31, 2019, are as follows:

Stock Options	Persons Granted	Number of Options Granted	Date of Grant	Exercise Price	Exercise Period
1st Stock Option	9 directors 15 executive officers and employees	70,400 shares	2016.8.22	¥1 (\$0.01)	From August 23, 2016 to August 22, 2046
2nd Stock Option	8 directors 17 executive officers and employees	52,000 shares	2017.7.10	¥1 (\$0.01)	From July 11, 2017 to July 10, 2047
3rd Stock Option	7 directors 19 executive officers and employees	42,500 shares	2018.7.9	¥1 (\$0.01)	From July 10, 2018 to July 9, 2048

The stock option activity is as follows:

	1st Stock Option	2nd Stock Option	3rd Stock Option
	(Shares)		
<u>Year Ended March 31, 2018</u>			
<u>Non-vested</u>			
March 31, 2017 – Outstanding	8,500		
Granted		52,000	
Canceled			
Vested	(8,500)	(46,600)	
March 31, 2018 – Outstanding		5,400	
<u>Vested</u>			
March 31, 2017 – Outstanding	61,900		
Vested	8,500	46,600	
Exercised			
Canceled			
March 31, 2018 – Outstanding	70,400	46,600	
<u>Year Ended March 31, 2019</u>			
<u>Non-vested</u>			
March 31, 2018 – Outstanding			
Granted	70,400	52,000	42,500
Canceled			
Vested	(70,400)	(52,000)	(38,300)
March 31, 2019 – Outstanding			4,200
<u>Vested</u>			
March 31, 2018 – Outstanding			
Vested	70,400	52,000	38,300
Exercised	(11,400)	(8,300)	
Canceled			
March 31, 2019 – Outstanding	59,000	43,700	38,300
Exercise price	¥1 (\$0.01)	¥1 (\$0.01)	¥1 (\$0.01)
Average stock price at exercise	¥1,605 (\$14.46)	¥1,605 (\$14.46)	
Fair value price at grant date	¥960 (\$8.65)	¥1,429 (\$12.87)	¥1,478 (\$13.32)

The Assumptions Used to Measure Fair Value of 3rd Stock Option

Estimate method:	Black-Scholes option pricing model
Volatility of stock price:	26.983%
Estimated remaining outstanding period:	4.0 years
Estimated dividend:	¥45 per share
Interest rate with risk free:	(0.120)%

Notes to Consolidated Financial Statements

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 30.6% and 30.9% for the years ended March 31, 2019 and 2018, respectively.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities as of March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Deferred tax assets:			
Allowance for doubtful accounts	¥ 121	¥ 114	\$ 1,094
Employee accrued bonuses	639	776	5,758
Liability for employees' retirement benefits	74	70	666
Loss on devaluation of golf club memberships	54	53	490
Loss on devaluation of investment securities	93	93	835
Loss on devaluation of land	189	189	1,701
Allowance for loss on construction contracts	340	220	3,061
Risk-sharing corporate pension	93	145	834
Other	603	632	5,437
Valuation allowance	(418)	(418)	(3,769)
Total	1,788	1,874	16,107
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(3,380)	(3,356)	(30,451)
Other	(134)	(140)	(1,203)
Total	(3,514)	(3,496)	(31,654)
Net deferred tax liabilities	¥(1,726)	¥(1,622)	\$(15,547)

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, 2019, with the corresponding figures for 2018 is as follows:

	2019	2018
Normal effective statutory tax rate	30.6%	30.9%
Expenses not deductible permanently for income tax purposes	2.1	1.8
Income not taxable permanently for income tax purposes	(0.4)	(0.4)
Inhabitant tax	1.4	1.3
Difference in statutory tax rates of overseas subsidiaries	0.0	0.2
Valuation allowance	0.0	(0.6)
Other – net	0.0	(1.4)
Actual effective tax rate	33.7%	31.8%

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to costs of construction contracts and selling, general and administrative expenses were ¥423 million (\$3,808 thousand) and ¥374 million for the years ended March 31, 2019 and 2018, respectively.

12. ASSETS PLEDGED

At March 31, 2019, assets pledged as collateral were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
A time deposit	¥27	¥27	\$243

13. 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	
	2019		2019	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥27	¥204	\$240	\$1,834
Due after one year	53	30	482	270
Total	¥80	¥234	\$722	\$2,104

The minimum rental commitments under noncancelable operating leases as of March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Due within one year	¥204	¥475	\$1,834
Due after one year	30	227	270
Total	¥234	¥702	\$2,104

14. 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 bank loans and long-term debt, excluding finance lease are used mainly for funding the Group's operations. Such bank loans 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 policies, 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 currency exchange rate risk and interest rate risk)

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, 2019	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents and short-term investments	¥ 8,180	¥ 8,180		
Receivables	59,308	59,308		
Electronically-recorded monetary claims	4,493	4,493		
Investment securities	20,707	20,707		
Total	¥92,688	¥92,688		
Payables	¥35,986	¥35,986		
Short-term bank loans	12,372	12,372		
Income taxes payable	781	781		
Long-term debt and current maturities of long-term debt, excluding finance leases	609	612		¥3
Total	¥49,748	¥49,751		¥3

Notes to Consolidated Financial Statements

	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
March 31, 2018			
Cash and cash equivalents and short-term investments	¥ 9,728	¥ 9,728	
Receivables	54,621	54,621	
Electronically-recorded monetary claims	2,875	2,875	
Marketable securities	300	300	
Investment securities	20,548	20,548	
Total	¥88,072	¥88,072	
Payables	¥34,576	¥34,576	
Short-term bank loans	9,062	9,062	
Income taxes payable	929	929	
Long-term debt and current maturities of long-term debt, excluding finance leases	1,177	1,178	¥1
Total	¥45,744	¥45,745	¥1
	Thousands of U.S. Dollars		
March 31, 2019			
Cash and cash equivalents and short-term investments	\$ 73,692	\$ 73,692	
Receivables	534,307	534,307	
Electronically-recorded monetary claims	40,475	40,475	
Investment securities	186,548	186,548	
Total	\$835,022	\$835,022	
Payables	\$324,202	\$324,202	
Short-term bank loans	111,459	111,459	
Income taxes payable	7,037	7,037	
Long-term debt and current maturities of long-term debt, excluding finance leases	5,486	5,513	\$27
Total	\$448,184	\$448,211	\$27

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 the 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 3.

Payables, Short-Term Bank Loans, and Income Taxes Payable

The carrying values of payables, short-term bank loans, 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, 2019.

Notes to Consolidated Financial Statements

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

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Investments in equity instruments that do not have a quoted market price in an active market	¥812	¥812	\$7,312

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

	Millions of Yen			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
March 31, 2019				
Cash and cash equivalents	¥ 8,180			
Receivables	59,308			
Electronically-recorded monetary claims	4,493			
Investment securities – Available-for-sale securities with contractual maturities				¥500
Total	¥71,981			¥500

	Thousands of U.S. Dollars			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
March 31, 2019				
Cash and cash equivalents	\$ 73,692			
Receivables	534,307			
Electronically-recorded monetary claims	40,475			
Investment securities – Available-for-sale securities with contractual maturities				\$4,505
Total	\$648,474			\$4,505

Please see Note 5 for annual maturities of long-term debt and Note 13 for obligations under finance leases.

Notes to Consolidated Financial Statements

15. OTHER COMPREHENSIVE (LOSS) INCOME

The components of other comprehensive (loss) income for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Net unrealized gain on available-for-sale securities:			
Gain arising during the year	¥ 498	¥1,497	\$ 4,487
Reclassification adjustments to profit	(428)	(288)	(3,855)
Amount before income tax effect	70	1,209	632
Income tax effect	(24)	(382)	(218)
Total	¥ 46	¥ 827	\$ 414
Foreign currency translation adjustments – (Loss) gain arising during the year	¥(181)	¥ 66	\$(1,628)
Total	¥(181)	¥ 66	\$(1,628)
Defined retirement benefit plans:			
Reclassification adjustments to profit		¥ 63	
Amount before income tax effect		63	
Income tax effect		(19)	
Total		¥ 44	
Total other comprehensive (loss) income	¥(135)	¥ 937	\$(1,214)

16. NET INCOME PER SHARE

Reconciliation of the Differences between Basic and Diluted Net Income per Share (“EPS”)

Reconciliation of the differences between basic and diluted EPS for the years ended March 31, 2019 and 2018, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
				EPS
Year Ended March 31, 2019				
Basic EPS—Net income available to common shareholders	¥3,095	23,760	¥130.27	\$1.17
Effect of dilutive securities – Warrants		131		
Diluted EPS – Net income for computation	¥3,095	23,891	¥129.55	\$1.17
Year Ended March 31, 2018				
Basic EPS—Net income available to common shareholders	¥3,449	24,489	¥140.84	
Effect of dilutive securities – Warrants		105		
Diluted EPS – Net income for computation	¥3,449	24,594	¥140.24	

Notes to Consolidated Financial Statements

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 presented because the Group has only one reportable segment, the equipment construction segment.

18. SUBSEQUENT EVENTS

a. Cancellation of Treasury Stock

The Company resolved to cancel treasury stock at the Board of Directors’ meeting held on March 29, 2019, pursuant to Article 178 of the Companies Act.

(1) Kind of shares to cancel:	Common shares of the Company
(2) Total number of shares to cancel:	1,000,000 shares (3.96% of total number of issued shares)
(3) Effective date of the cancellation:	April 10, 2019
(4) Total number of issued shares after cancellation:	24,282,225 shares

b. Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2019, was approved at the Company’s shareholders’ meeting held on June 21, 2019:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥35.0 (\$0.315) per share	¥817	\$7,364

Independent Auditor's Report

Deloitte.

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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, 2019, 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, 2019, 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 21, 2019

Member of
Deloitte Touche Tohmatsu Limited

Board of Directors

(As of June 21, 2019)

President

Hiroshi Natsui*

Director

Satoshi Fuchino
Keiichi Akamatsu
Yoshimitsu Omiya
Satoshi Shimomoto
Kiyoshi Endo
Isao Yamada

Outside Director

Shigeki Morinobu
Yasushi Mizuno

Standing Audit & Supervisory Board Member

Morio Kusuda
Shuichi Nomizu

Audit & Supervisory Board Member

Takakazu Tsuruno
Hideki Tokai

* Representative Director

Corporate Data

(As of March 31, 2019)

Date of Establishment

October 1, 1969

Paid-in Capital

¥5,159 millions

Number of Shares Outstanding

25,282,225 shares

Number of Shareholders

5,176

By Type of Shareholder

Financial institutions	22.64%
Individuals & Others	31.14%
Foreign Shareholders	3.00%
Other domestic companies	43.22%

Number of Employees

1,086

Stock Exchange Listing

Tokyo Stock Exchange, 1st Section

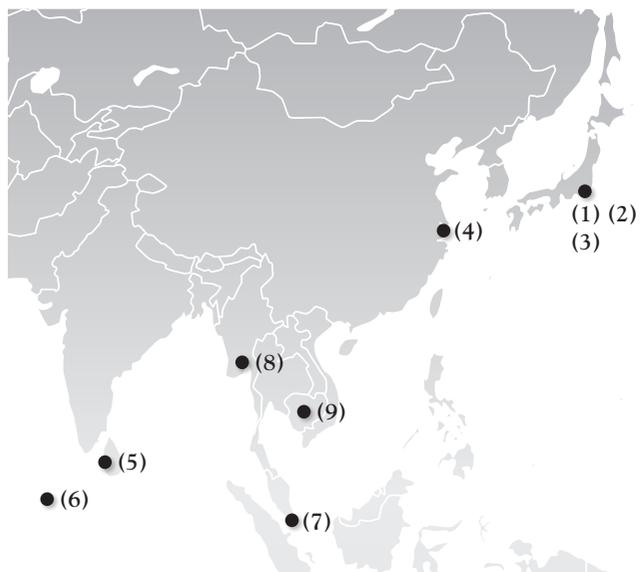
Transfer Agent of Common Stock

Sumitomo Mitsui Trust Bank, Limited

By Number of Shares Held

500,000 shares or more	50.21%
100,000 – 499,999 shares	29.76%
10,000 – 99,999 shares	9.06%
1,000 – 9,999 shares	7.87%
Fewer than 1,000 shares	3.10%

Network



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