

ANNUAL REPORT 2020

Year ended March 31, 2020



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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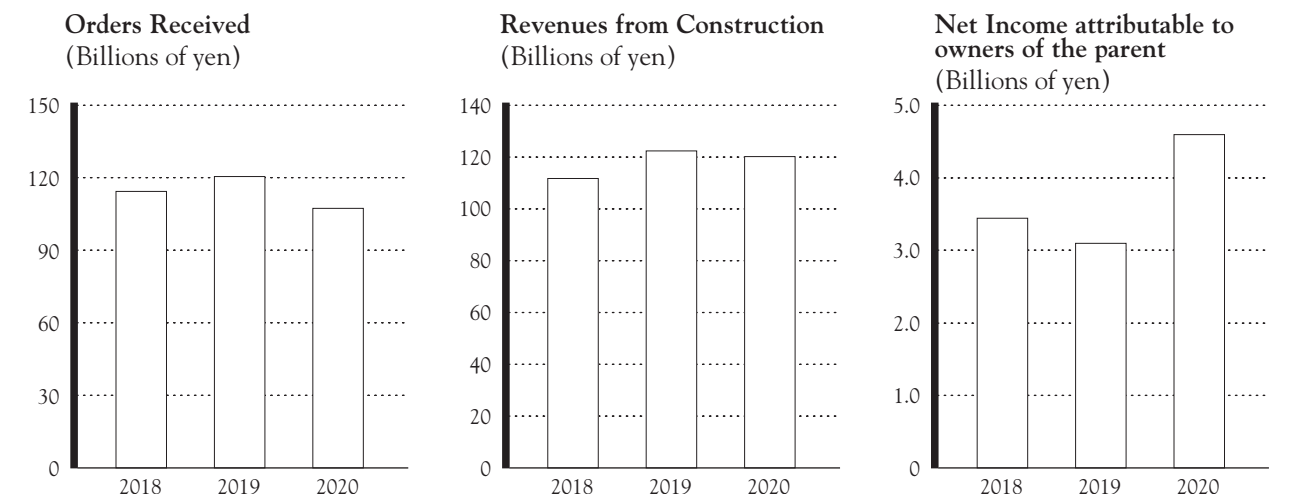
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Financial Highlights

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

	Millions of Yen			Thousands of U.S. Dollars
	2018	2019	2020	2020
For the year:				
Orders received	¥114,320	¥120,530	¥107,304	\$ 984,446
Revenues from construction	111,742	122,390	120,106	1,101,890
Operating income	4,274	3,885	6,409	58,801
Net income attributable to owners of the parent	3,449	3,095	4,604	42,237
At year-end:				
Total assets	¥ 98,267	¥102,026	¥ 98,926	\$ 907,576
Current assets	70,938	74,665	74,481	683,310
Net property, plant and equipment	3,722	3,417	3,208	29,439
Current liabilities	52,328	56,187	52,654	483,077
Net shareholders' equity	43,019	43,065	44,404	407,366

Note: U.S. dollar amounts represent translations of Japanese yen amounts at the exchange rate on March 31, 2020 of ¥109 to US\$1.





Review of Operations

1) Business Operations and Results

During the fiscal year 2019 which ended on March 31, 2020, the Japanese economy continued its moderate recovery, thanks to improvements in employment and the income environment, which were supported by robust domestic demand, despite heightened concerns over a slowdown in the global economy due to factors which included the continuation of the U.S.-China trade friction and the United Kingdom's withdrawal from the European Union. However, due to the worldwide spread of the novel Coronavirus Disease (COVID-19), economic activities were depressed. Further, the declaration by the Japanese government of a state of emergency in early April 2020 made the future outlook unpredictable.

In the construction industry in which SNK and its subsidiaries (together the SNK Group or the Group) operate, tensions arising from trade problems cast a shadow over private-sector capital investment in the manufacturing industry. Furthermore, while real-estate investment such as redevelopment projects in central Tokyo experienced a slight sense of stagnation, the shortage of engineers and skilled workers, and the trend of price increases in materials, equipment and labor costs continued. In addition, initiatives in response to technological innovation by utilizing artificial intelligence (AI) and the internet of things (IoT), as well as to enhance productivity by implementing measures to reduce long working hours and achieve workstyle reform, have all become issues that are essential for future business continuation and growth.

Against the above background, the SNK Group continued to implement its mid-term business plan, SNK Value Innovation 2020, which covered the three years from fiscal 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, while improving productivity; and iii) to establish a highly transparent management structure and improve the soundness 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 2020s and the further enhancement of its corporate value. The SNK Group operated its business in accordance with this policy in the third year, the final year, of its mid-term business plan.

As a result, the Group's orders received during the fiscal year decreased 11.0% on a year on year basis to ¥107,304 million and revenues from construction decreased 1.9% year on year to ¥120,106 million. Revenues carried forward to the next fiscal year decreased ¥12,801 million to ¥72,403 million.

With regard to overall profit, as Group's efforts to generate profit produced results. The Group's gross profit increased 26.1% year on year to ¥14,186 million; operating income increased 65.0% to ¥6,409 million; ordinary income increased 60.8% to ¥6,810 million, and net income attributable to owners of the parent increased 48.7% year on year to ¥4,603 million.

2) Issues to be Addressed

In formulating its mid-term business plan for the next three fiscal years, the SNK Group has established SNK Vision 2030, a 10-year vision beginning with fiscal 2020, which will form the basis of the plan. The basic principal of SNK Vision 2030 has been stipulated as follows: "the SNK Group shall strive to be an organization of engineers that utilizes knowledge and technology to realize a sustainable global environment and improve the value of customers' assets." The Group believes that the creation and utilization of intellectual capital will influence its future competitive edge. With intellectual capital (comprising human capital, organizational capital and relationship capital) and sustainability capital as the core pillars of value creation, and in order to create a future value for the Group through the business model supported by these robust core pillars, the Group shall advance on the basis of the following five basic strategies.

i) Human Capital Strategy

The Company shall possess diverse, multi-talented personnel; nurture human capital in various specialized domains whose personnel can organically connect their individual career plans to career paths in the company; realize work style reforms at work sites, and conduct weighted allocation of personnel to business fields based on the business foundation reinforcement strategy.

ii) Digital Transformation Strategy

In order to promote the utilization of advanced information in line with a society undergoing digital transformation and to strive for further enhancement of operational flexibility, the Company shall promote information utilization through digital means; construct the Company's own ICT platform through the advancement of information communications technologies, and increase its existence value.

iii) Profitability Improvement Strategy

The Company shall strive to strengthen its safety and quality control structure and improve productivity, as these contribute to enhancing on-site flexibility, which can realize improvements in business profitability and the sustainable growth of construction execution capabilities.

iv) Business Foundation Reinforcement Strategy

The Company shall realize a business portfolio that takes capital cost into account and expand its revenue foundation through business development in new business domains.

v) Corporate Governance Strategy

The Company shall conduct the thorough development of CSR and ESG management, so as to realize a sustainable global environment and achieve a long-term improvement in stakeholder value, and strengthen the corporate governance structure that supports such management.

With regards to the next mid-term business plan, SNK Vision 2030 Phase I (fiscal 2020 to fiscal 2022), the Company shall focus on the above five basic strategies of the 10-year SNK Vision 2030, and strive for the improvement of corporate value.

H. Watani

Major construction projects recently completed

Future city Favore
Toyama Prefecture



Anan Medical Center
Tokushima Prefecture



LINK FOREST
Tokyo



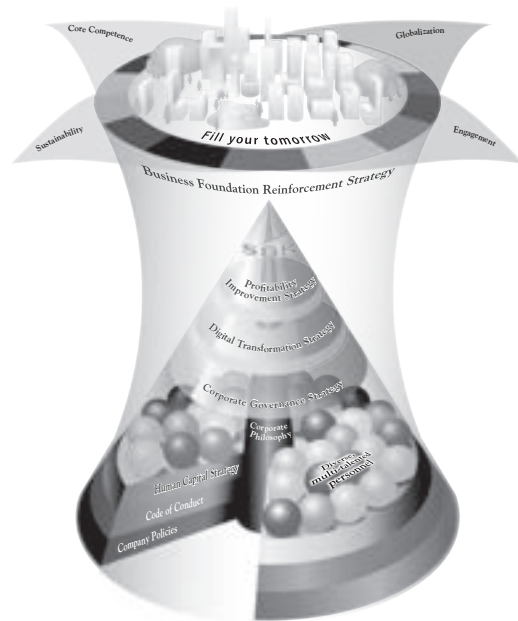
YAKULT MYANMAR FACTORY
Thilawa SEZ, Myanmar



Mid-Term Business Plan (2020-2022) SNK Vision 2030 Phase I

Basic Policy of 10-Year Vision: SNK Vision 2030

SNK shall strive to be an organization of engineers that utilizes knowledge and technology to realize a sustainable global environment and improve the value of customers' assets.



Fiscal 2022 Consolidated Management Numerical Targets

	Millions of Yen
Orders received	123,000
Revenues from construction	123,000
Operating income	6,300
Ordinary income	6,650
Net income attributable to owners of the parent	4,500
ROE	10.0% and above

Conversion into a Company with an Audit and Supervisory Committee

At a shareholders' meeting, the necessary amendments to the Articles of Incorporation have been approved, and the Company has changed from being a company with an Audit & Supervisory Board to a company with an Audit and Supervisory Committee. By making Audit and Supervisory Committee Members (who are responsible for the auditing, etc. of business execution of Directors), members of the Board of Directors, the Company strives to further strengthen the supervision function of the Board of Directors, and further enhance corporate governance.

Business Foundation Reinforcement Strategy

- 1) Implement the Group's growth strategy, with the aim of realizing a business portfolio which uses profitability evaluation that takes capital cost into account
- 2) Expand business domains and develop businesses in new fields through value creation from fostering social capital with all stake holders
- 3) Differentiate the SNK brand through active investments for the purpose of responding to the requests of society and customers
- 4) Expand business foundation after ascertaining the future potential of overseas business domains

Profitability Improvement Strategy

- 1) Pursue optimization of cost composition after ascertaining on-site profitability, the source of business profitability
- 2) Thoroughly manage safety and quality through operation of new construction management systems, and establish equipment assets management methods that utilizes IoT and AI technologies
- 3) Strengthen relationships in the supply chain including those with cooperating companies, which contribute to the reinforcement of on-site flexibility, and secure on-site personnel to achieve sustainable growth of construction execution capabilities

Human Capital Strategy

- 1) Promote reforms in the human resources system that contribute to the discovery, nurture and utilization of diverse, multi-talented personnel
- 2) Implement work style reforms and reinforcement of on-site personnel, with the aim of realizing a working environment that is comfortable and not excessively stressful

Digital Transformation Strategy

- 1) Construct and operate a management system that maximizes utilization of knowledge
- 2) Implement digitalization strategies and examine information analysis technologies following the evolution of digital transformation

Corporate Governance Strategy

- 1) Promote CSR activities that contribute to the achievement of SDGs, positioning the maintenance of an enriched society and the global environment as an organizational issue
- 2) Take on the challenge to implement corporate governance reforms that ensure sustainable growth
- 3) Transform into an "infrastructure-type" organization by putting engagement management into practice

Practical Application of O-T-9 Fall Prevention Construction Method for Suspension Equipment

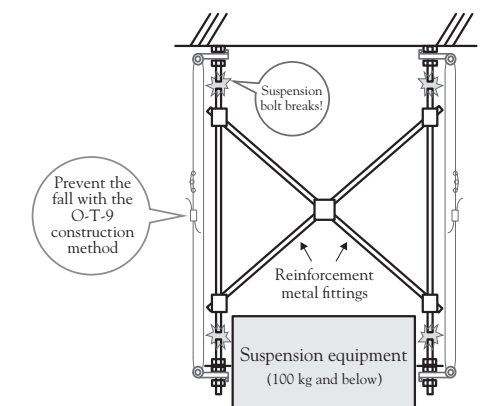
O-T-9 is, as an earthquake-resistant construction method for suspension equipment, a new construction method that can reliably prevent a fall when the suspension bolt of a suspension equipment breaks in an earthquake.

Ever since the Great East Japan Earthquake of March 2011, in suspension equipment, it has become standard practice to implement earthquake-resistant measures for suspension equipment. However, as it has been confirmed that there are spots where swing prevention reinforcement using existing diagonal members cannot be adequately constructed, the Company began developing a new fall prevention construction method, and has brought it to the level of practical application.

The distinctive characteristics of the O-T-9 construction method are as follows: it can be applied in either existing equipment or newly built equipment, new suspension bases are not required during construction, uniform construction quality can be ensured, and construction can be carried out in approximately one-third of the time required by existing fall prevention construction methods.

Construction can be carried out easily and in a short time in the following places: spots where swing prevention reinforcement cannot be conducted, such as high or narrow places and places with obstacles; existing equipment where earthquake-resistant measures are difficult to implement due to factors such as inability to secure spots for new suspension bases intended for fall prevention; and suspension equipment that are heavy, with concerns of a fall during earthquakes despite having existing swing prevention reinforcement installed.

As demand for earthquake-resistant measures for suspension equipment continues to rise, the Company shall contribute to society through technology that increases the safety of construction equipment, and provide a greater level of safety and security to customers.



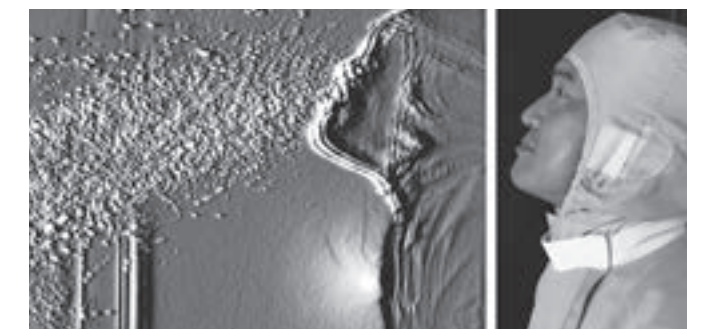
Mechanism of fall prevention via O-T-9 construction method

Fine Particle Visualization Technology

Since the 1990s, the Company has been developing fine particle visualization technology, which visualizes various types of fine particles that cannot be seen by the naked human eye and converts them into videos. This technology, which visualizes movements of 1/10,000 mm-wide fine particles such as dirt and dust, has been utilized in various situations, including the environmental evaluation of electronic device factories such as that of semiconductors, and the function evaluation of home appliances such as air purifiers, vacuum cleaners and air conditioners. Furthermore, the Company also conduct computer simulations that evaluate indoor air flow, temperature, particles, and gas concentration using computer graphics (CG).

Based on the results of years of technological development, the Company offers its own unique visualization-related product groups, including the world's most sophisticated fine particle visualization system which displays fine particles as video images in real time, and has developed its technological brand ViEST®, which provides a contracted evaluation service with staff members who are visualization technology experts.

Recently, videos of droplets from coughs and sneezes shot using the fine particle visualization system have been broadcast at various television stations, and have been garnering attention at places including medical sites.



Visualization image of droplets from a sneeze

Consolidated Balance Sheet

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
March 31, 2020

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
CURRENT ASSETS:			
Cash and cash equivalents (Note 14)	¥12,410	¥ 8,103	\$113,855
Short-term investments (Notes 3, 12 and 14)	77	77	706
Receivables (Note 14):			
Notes receivable – trade	1,372	855	12,591
Electronically-recorded monetary claims	1,961	4,493	17,987
Accounts receivable – trade	56,803	58,984	521,129
Allowance for doubtful accounts	(297)	(326)	(2,721)
Inventories (Note 4)	1,471	986	13,499
Other current assets	684	1,493	6,264
Total current assets	74,481	74,665	683,310
PROPERTY AND EQUIPMENT:			
Land	780	781	7,155
Buildings and structures	6,912	6,906	63,414
Machinery, equipment, tools, furniture, and fixtures	1,121	1,147	10,292
Lease assets (Note 13)	96	118	879
Total property and equipment	8,909	8,952	81,740
Accumulated depreciation	(5,701)	(5,535)	(52,301)
Net property and equipment	3,208	3,417	29,439
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3, 12 and 14)	18,699	21,519	171,549
Rental deposits	922	920	8,457
Investments in insurance contracts	241	237	2,214
Deferred tax assets (Note 10)	305	263	2,797
Net defined benefit asset (Note 7)	61	88	557
Other assets	1,189	1,003	10,907
Allowance for doubtful accounts	(180)	(86)	(1,654)
Total investments and other assets	21,237	23,944	194,827
TOTAL	¥98,926	¥102,026	\$907,576

See notes to consolidated financial statements.

Consolidated Balance Sheet

LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
CURRENT LIABILITIES:			
Short-term bank loans (Notes 5 and 14)	¥ 6,780	¥ 12,372	\$ 62,202
Current maturities of long-term debt (Notes 5, 13 and 14)	560	308	5,140
Payables (Note 14):			
Notes payable – trade	1,472	2,469	13,505
Electronically recorded obligations-operating	501		4,599
Accounts payable – trade	33,288	33,518	305,398
Income taxes payable (Notes 10 and 14)	1,874	781	17,192
Advances received on construction work in progress (Note 6)	2,671	2,135	24,504
Accrued expenses	3,417	2,689	31,351
Allowance for loss on construction contracts	990	1,110	9,082
Other current liabilities	1,101	805	10,104
Total current liabilities	52,654	56,187	483,077
LONG-TERM LIABILITIES:			
Long-term debt (Notes 5, 13 and 14)	470	381	4,313
Liability for employees' retirement benefits (Note 7)	257	262	2,353
Deferred tax liabilities (Note 10)	1,116	1,989	10,243
Other long-term liabilities	25	142	224
Total long-term liabilities	1,868	2,774	17,133
EQUITY (Notes 8 and 16):			
Common stock – authorized, 84,252,100 shares; issued, 24,282,225 shares in 2020 and 25,282,225 shares in 2019	5,159	5,159	47,327
Capital surplus	6,888	6,888	63,190
Stock acquisition rights (Note 9)	168	176	1,540
Retained earnings	27,497	25,642	252,259
Treasury stock – at cost, 1,067,874 shares and 1,928,964 shares in 2020 and 2019, respectively	(1,690)	(2,834)	(15,499)
Accumulated other comprehensive income:			
Net unrealized gain on available-for-sale securities	6,223	7,833	57,090
Foreign currency translation adjustments	159	201	1,459
Total	6,382	8,034	58,549
Total equity	44,404	43,065	407,366
TOTAL	¥98,926	¥102,026	\$907,576

Consolidated Statement of Income

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
REVENUES FROM CONSTRUCTION	¥120,106	¥122,390	\$1,101,890
COSTS OF CONSTRUCTION CONTRACTS	105,920	111,138	971,740
Gross profit	14,186	11,252	130,150
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 11)	7,777	7,367	71,349
Operating income	6,409	3,885	58,801
OTHER INCOME (EXPENSES):			
Interest and dividend income	413	411	3,786
Interest expense	(29)	(44)	(264)
Loss on devaluation of investment securities (Note 3)	(354)		(3,247)
Foreign exchange (loss) gain – net	(26)	35	(242)
Gain on sales of investment securities (Note 3)	240	428	2,203
Other – net	219	(45)	2,007
Other income – net	463	785	4,243
INCOME BEFORE INCOME TAXES	6,872	4,670	63,044
INCOME TAXES (Note 10):			
Current	2,523	1,477	23,145
Deferred	(255)	98	(2,338)
Total income taxes	2,268	1,575	20,807
NET INCOME	4,604	3,095	42,237
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 4,604	¥ 3,095	\$ 42,237
		Yen	U.S. Dollars
	2020	2019	2020
PER SHARE OF COMMON STOCK (Notes 2.s and 17):			
Basic net income	¥197.07	¥130.27	\$1.81
Diluted net income	195.96	129.55	1.80
Cash dividends applicable to the year	70.00	50.00	0.64

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
NET INCOME	¥ 4,604	¥3,095	\$ 42,237
OTHER COMPREHENSIVE LOSS (Note 16):			
Net unrealized (loss) gain on available-for-sale securities	(1,610)	46	(14,773)
Foreign currency translation adjustments	(42)	(181)	(393)
Total other comprehensive loss	(1,652)	(135)	(15,167)
COMPREHENSIVE INCOME	¥ 2,951	¥2,960	\$ 27,070
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO— Owners of the parent	¥ 2,951	¥2,960	\$ 27,070

See notes to consolidated financial statements.

Consolidated Statement of Changes in Equity

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2020

	Thousands	Millions of Yen									Thousands of U.S. Dollars (Note 1)
		Number of Shares of Common Stock Issued	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated Net Unrealized Gain on Available-for- Sale Securities	Other Comprehensive Income	Total	
BALANCE, APRIL 1, 2018	25,282	¥5,159	¥6,888	¥134	¥23,755	¥(1,086)	¥7,787	¥382	¥8,169	¥43,019	
Net income attributable to owners of the parent					3,095					3,095	
Cash dividends, ¥50 per share					(1,208)					(1,208)	
Net unrealized gain on available-for-sale securities							46		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)	(181)	
Stock acquisition rights				42						42	
BALANCE, MARCH 31, 2019	25,282	5,159	6,888	176	25,642	(2,834)	7,833	201	8,034	43,065	
Net income attributable to owners of the parent					4,604					4,604	
Cash dividends, ¥70 per share					(1,285)					(1,285)	
Net unrealized gain on available-for-sale securities							(1,610)		(1,610)	(1,610)	
Purchase of treasury stock (191,005 shares)						(401)				(401)	
Disposal of treasury stock (13,200 shares)				(5)		19				14	
Cancellation of treasury stock (1,000,000 shares)	(1,000)		(1,469)			1,469					
Restricted share-based remuneration (38,991 shares)			10			57				67	
Transfer of retained earnings to capital surplus			1,464		(1,464)						
Foreign currency translation adjustments								(42)	(42)	(42)	
Stock acquisition rights				(8)						(8)	
BALANCE, MARCH 31, 2020	<u>24,282</u>	<u>¥5,159</u>	<u>¥6,888</u>	<u>¥168</u>	<u>¥27,497</u>	<u>¥(1,690)</u>	<u>¥6,223</u>	<u>¥159</u>	<u>¥6,382</u>	<u>¥44,404</u>	

Thousands of U.S. Dollars (Note 1)

	Thousands of U.S. Dollars (Note 1)									Thousands of U.S. Dollars (Note 1)
	Common Stock	Capital Surplus	Stock Acquisition Rights	Retained Earnings	Treasury Stock	Accumulated Net Unrealized Gain on Available-for- Sale Securities	Other Comprehensive Income	Total	Total Equity	
BALANCE, MARCH 31, 2019	\$47,327	\$63,190	\$1,612	\$235,243	\$(25,999)	\$71,863	\$1,852	\$73,715	\$395,088	
Net income attributable to owners of the parent				42,237					42,237	
Cash dividends, \$0.64 per share				(11,793)					(11,793)	
Net unrealized gain on available-for-sale securities						(14,773)		(14,773)	(14,773)	
Purchase of treasury stock (191,005 shares)					(3,682)				(3,682)	
Disposal of treasury stock (13,200 shares)			(49)		178				129	
Cancellation of treasury stock (1,000,000 shares)			(13,478)		13,478					
Restricted share-based remuneration (38,991 shares)			99		526				625	
Transfer of retained earnings to capital surplus			13,428		(13,428)					
Foreign currency translation adjustments								(393)	(393)	(393)
Stock acquisition rights				(72)					(72)	(72)
BALANCE, MARCH 31, 2020	<u>\$47,327</u>	<u>\$63,190</u>	<u>\$1,540</u>	<u>\$252,259</u>	<u>\$(15,499)</u>	<u>\$57,090</u>	<u>\$1,459</u>	<u>\$58,549</u>	<u>\$407,366</u>	

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Shin Nippon Air Technologies Co., Ltd. and Subsidiaries
Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	
OPERATING ACTIVITIES:			
Income before income taxes	¥ 6,872	¥ 4,670	\$ 63,044
Adjustments for:			
Income taxes – paid	(1,448)	(1,618)	(13,285)
Depreciation and amortization	470	433	4,312
Gain on sales of investment securities	(240)	(428)	(2,203)
Loss on devaluation of investment securities	354		3,247
Changes in assets and liabilities:			
Decrease (increase) in receivables – trade	3,959	(6,318)	36,318
(Increase) decrease in inventories	(494)	187	(4,529)
(Decrease) increase in payables – trade	(707)	1,535	(6,484)
Increase (decrease) in advances received on construction work in progress	548	(116)	5,028
Increase in allowance for doubtful accounts	66	33	605
Increase in liability for employees' retirement benefits	23	23	208
(Decrease) increase in allowance for losses on construction contracts	(120)	392	(1,104)
Increase (decrease) in accrued consumption taxes	413	(23)	3,785
Decrease in consumption taxes refund receivable	455	640	4,177
Commission for purchase of treasury shares		66	
Other – net	1,021	(141)	9,381
Net cash provided by (used in) operating activities	<u>11,171</u>	<u>(1,282)</u>	<u>102,500</u>
INVESTING ACTIVITIES:			
Decrease in time deposits		582	
Increase in time deposits		(478)	
Purchases of property and equipment	(70)	(231)	(640)
Purchases of intangible fixed assets	(228)	(349)	(2,093)
Proceeds from sale of property and equipment		220	
Purchases of short-term investments and investment securities	(12)	(312)	(114)
Proceeds from sales and redemptions of short-term investments and investment securities	448	951	4,109
Decrease in loan receivables – net	41	9	380
Other – net	1	(57)	6
Net cash provided by investing activities	<u>180</u>	<u>335</u>	<u>1,648</u>
FORWARD	<u>¥11,351</u>	<u>¥ (947)</u>	<u>\$104,148</u>

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020	2019	2020
FORWARD	¥11,351	¥ (947)	\$104,148
FINANCING ACTIVITIES:			
(Decrease) increase in short-term bank loans – net	(5,588)	3,300	(51,264)
Proceeds from long-term debt	600	200	5,505
Repayments of long-term debt	(281)	(768)	(2,578)
Dividends paid	(1,285)	(1,208)	(11,793)
Repayment of lease obligations	(37)	(37)	(342)
Purchases of treasury stock	(402)	(1,838)	(3,687)
Net cash used in financing activities	(6,993)	(351)	(64,159)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(51)	(142)	(472)
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	4,307	(1,440)	39,517
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,103	9,543	74,338
CASH AND CASH EQUIVALENTS, END OF YEAR	¥12,410	¥ 8,103	\$113,855
NONCASH INVESTING AND FINANCING ACTIVITIES:			
Finance lease assets and debt	¥66	¥53	\$604

See notes to consolidated financial statements.

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 2019 consolidated financial statements to conform to the classifications used in 2020.

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 ¥109 to \$1, the approximate rate of exchange at March 31, 2020. 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, 2020, include the accounts of the Company and all of its subsidiaries (together, the “Group”). The Company has eight 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.; SNK ENGINEERING TECHNOLOGY (SHANGHAI) CO., LTD. and FUJIAN SNK INVESTMENT CONSULTING CO., LTD. in China.

In May 2020, SHIN NIPPON AIR TECHNOLOGIES (SHANGHAI) CO., LTD. changed its company name to SNK (CHINA) CONSTRUCTION CO., LTD.

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; (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; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

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 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, 2016, 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.

- 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 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.
- 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 Company has a risk-sharing type corporate pension classified as defined contribution pension plan.
- k. **Stock Options** – Compensation expense for employee stock options 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." In the consolidated balance sheet, the stock option is presented as a stock acquisition right as a separate component of equity until exercised.
- l. **Leases** – Finance lease transactions are capitalized to recognize lease assets and lease obligations in the balance sheet. All other leases are accounted for as operating leases.
- m. **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.
- n. **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, 2020 and 2019, were ¥99,924 million (\$916,730 thousand) and ¥100,799 million, respectively.
- o. **Bonuses to Directors** – Bonuses to directors are accrued at the year-end to which such bonuses are attributable.
- p. **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.
- q. **Foreign Currency Financial Statements** – The balance sheet accounts of the foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the 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.
- r. **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.
- s. **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.

- t. **New Accounting Pronouncements** –
- "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020)
 - "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 31, 2020).
- On March 31, 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 Company expects to apply the accounting standard and guidance for annual periods beginning on April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.
- "Accounting Standards for Market Value Calculation" (ASBJ Statement No. 30, July 4, 2019)
 - "Accounting Standards Application Guidelines for Market Value Calculation" (ASBJ Guidance No.31, July 4, 2019)
 - "Accounting Standards for Inventory Valuation" (ASBJ Statement No. 9, July 4, 2019)
 - "Accounting Standards for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019)
 - "Application Guidelines for Disclosure of Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020)
- To improve comparability with International Accounting Standards, "Accounting Standards for Market Value Calculation" and "Guideline for Accounting Standards of Market Value Calculation" (hereinafter, "Accounting Standards for Market Value Calculation") were developed, and guidance on how to calculate the market price was established. Accounting Standards for Market Value Calculation are applied to the market prices of the following items.
- Financial instruments based on "Accounting Standards for Financial Instruments"
 - Inventory assets held for trading purposes in "Accounting Standards for Inventory Valuation"
- In addition, the "Application Guidelines for Disclosure of Fair Value of Financial Instruments" has been revised to stipulate notes such as a breakdown of financial instruments by fair value level.
- The Company expects to apply the accounting standard and guidance for annual periods beginning on April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

Notes to Consolidated Financial Statements

3. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Current:			
Time deposits which mature beyond three months from acquisition	¥ 77	¥ 77	\$ 706
Total	<u>¥ 77</u>	<u>¥ 77</u>	<u>\$ 706</u>
Noncurrent:			
Equity securities	¥18,194	¥21,015	\$166,921
Debt securities	504	504	4,628
Total	<u>¥18,698</u>	<u>¥21,519</u>	<u>\$171,549</u>

The costs and aggregate fair values of short-term investments and investment securities as of March 31, 2020 and 2019, were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2020				
Securities classified as available-for-sale:				
Equity securities	¥8,733	¥ 9,257	¥(607)	¥17,383
Debt securities	500	4		504
Total	<u>¥9,233</u>	<u>¥ 9,261</u>	<u>¥(607)</u>	<u>¥17,887</u>
March 31, 2019				
Securities classified as available for sale:				
Equity securities	¥8,928	¥11,397	¥(122)	¥20,203
Debt securities	500	4		504
Total	<u>¥9,428</u>	<u>¥11,401</u>	<u>¥(122)</u>	<u>¥20,707</u>

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
March 31, 2020				
Securities classified as available for sale:				
Equity securities	\$80,117	\$84,929	\$(5,570)	\$159,476
Debt securities	4,587	37		4,624
Total	<u>\$84,704</u>	<u>\$84,966</u>	<u>\$(5,570)</u>	<u>\$164,333</u>

Notes to Consolidated Financial Statements

The information for available-for-sale securities which were sold during the years ended March 31, 2020 and 2019, is as follows:

	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
March 31, 2020			
Available-for-sale – Equity securities	¥452	¥240	
Total	<u>¥452</u>	<u>¥240</u>	

	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
March 31, 2019			
Available-for-sale – Equity securities	¥653	¥428	
Total	<u>¥653</u>	<u>¥428</u>	

	Thousands of U.S. Dollars		
	Proceeds	Realized Gains	Realized Losses
March 31, 2020			
Available-for-sale – Equity securities	\$4,145	\$2,203	
Total	<u>\$4,145</u>	<u>\$2,203</u>	

The impairment losses on available-for-sale equity securities for the years ended March 31, 2020, were 354 million (\$3,247 thousand).

4. INVENTORIES

Inventories as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Construction work in progress	¥1,422	¥938	\$13,050
Materials and supplies	49	48	449
Total	<u>¥1,471</u>	<u>¥986</u>	<u>\$13,499</u>

5. LIABILITIES FOR LOSS ON CONSTRUCTION CONTRACTS

Liabilities for loss on construction contracts included in costs of construction contracts are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Liabilities for loss on construction contracts	¥861	¥779	\$7,902

6. 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 0.850% at March 31, 2020, and from 0.220% to 3.199% at March 31, 2019, respectively.

Long-term debt as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Unsecured loans from banks, maturing serially through 2022, with an interest rate of 0.73% for 2020 and 2019	¥ 928	¥ 609	\$ 8,514
Obligations under finance leases	102	80	940
Less current portion	(560)	(308)	(5,140)
Long-term debt, less current portion	<u>¥ 470</u>	<u>¥ 381</u>	<u>\$ 4,314</u>

Notes to Consolidated Financial Statements

Annual maturities of long-term debt, excluding finance leases (see Note 13), at March 31, 2020, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2021	¥528	\$4,844
2022	200	1,835
2023	200	1,835
Total	¥928	\$8,514

7. 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.

8. RETIREMENT AND PENSION PLANS

The Company provides a defined contribution pension plan for employees.

Consolidated subsidiaries have a lump-sum retirement allowance plan or a funded defined benefit pension plan as defined benefit plans and a defined contribution pension plan. Certain consolidated subsidiaries apply the simplified method for a lump-sum retirement allowance plan or a funded defined benefit pension plan.

The Company and some domestic subsidiaries participate in a multi-employer plan for which the Company cannot reasonably calculate the amount of plan assets corresponding to the contributions made by them. Therefore, it is accounted for using the same method as a defined contribution plan.

(1) The changes in liability for retirement benefits, which have been calculated by a simplified method for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Balance at beginning of year	¥174	¥160	\$1,594
Net periodic benefit costs	58	31	529
Benefits paid	(36)	(17)	(326)
Balance at end of year	¥196	¥174	\$1,797

(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, 2020 and 2019, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Funded defined benefit obligation	¥ 218	¥ 205	\$ 2,006
Plan assets	(279)	(293)	(2,563)
Total	(61)	(88)	(557)
Unfunded defined benefit obligation	257	262	2,353
Net liability for defined benefit obligation	¥ 196	¥ 174	\$ 1,796

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Liability for retirement benefits	¥257	¥262	\$2,353
Asset for retirement benefits	(61)	(88)	(556)
Net liability for defined benefit obligation	¥196	¥174	\$1,796

(3) Periodic benefit cost which has been calculated by a simplified method for the years ended March 31, 2020 and 2019, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Funded defined benefit obligation	¥58	¥31	\$529

Notes to Consolidated Financial Statements

(4) Defined contribution pension plan

(a) Retirement benefit costs for defined contribution plans

The main contributions to the defined contribution plans of the Group for the years ended March 31, 2020 and 2019, were ¥559 million (\$5,127 thousand) and ¥556 million, respectively.

(b) The amounts equivalent to contributions commensurate with risks

The amounts equivalent to contributions commensurate with risks required to be contributed after the next fiscal year is ¥593 million (\$5,436 thousand).

The number of years remaining for the special contributions is seven years and nine months.

(c) Other matters

The total amounts equivalent to special contributions included in the contributions prescribed in the agreement at the transition to a risk sharing pension plan was ¥519 million (\$4,757 thousand) and the amount equivalent to special contributions was recorded under other current liabilities.

(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 Group. 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 (\$2,081 thousand) and ¥227 million for the years ended March 31, 2020 and 2019, respectively.

(a) The funded status of the multiemployer plan as of March 31, 2019 and 2018, was as follows:

	Millions of Yen	
	2019	2018
Plan assets	¥ 10,888	¥ 10,116
Sum of actuarial liabilities of pension plan and minimum actuarial reserve	(16,824)	(16,987)
Net balance	¥ (5,936)	¥ (6,871)

(b) The contribution ratio of the Group in the multi-employer plan for the years ended March 31, 2019 and 2018, was as follows:

	2019	2018
The contribution ratio of the Group in the multi-employer plan	18.5%	18.2%

The ratios above do not represent the actual actuarial liability ratio of the Group.

(c) Supplementary explanation

March 31, 2019

The net balance above is mainly caused by the prior service liability of ¥8,100 million (\$74,314 thousand), retained earnings of ¥205 million (\$1,882 thousand) and general reserve of ¥1,959 million (\$17,972 thousand) as of March 31, 2019. The prior service liability under the plan is amortized over 11 years.

March 31, 2018

The net balance above is mainly caused by the prior service liability of ¥8,829 million, retained earnings of ¥463 million and general reserve of ¥1,495 million as of March 31, 2018. The prior service liability under the plan is amortized over 12 years.

9. 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. With respect to the third condition above, the Board of Directors of companies with (a) board committees (namely, appointment committee, compensation committee and audit committee) or (b) an audit and supervisory committee (as implemented under the Companies Act effective May 1, 2015) may also declare dividends at any time because such companies, by nature, meet the criteria under the Companies Act. However, the Company does not meet all the above criteria.

Notes to Consolidated Financial Statements

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.

10. STOCK OPTIONS

The stock options outstanding as of March 31, 2020, are as follows:

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

Notes to Consolidated Financial Statements

	1st Stock Option	2nd Stock Option (Shares)	3rd Stock Option
<u>Year Ended March 31, 2020</u>			
<u>Non-vested</u>			
March 31, 2019 – Outstanding			4,200
Granted			
Canceled			
Vested			(4,200)
March 31, 2020 – Outstanding			
<u>Vested</u>			
March 31, 2019 – Outstanding	59,000	43,700	38,300
Vested			4,200
Exercised	(10,200)	(3,000)	
Canceled			
March 31, 2020 – Outstanding	48,800	40,700	42,500
Exercise price	¥1	¥1	¥1
	(\$0.01)	(\$0.01)	(\$0.01)
Average stock price at exercise	¥1,758	¥1,812	
	(\$16.13)	(\$16.62)	
Fair value price at grant date	¥960	¥1,429	¥1,478
	(\$8.81)	(\$13.11)	(\$13.56)

11. 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 30.6% for the years ended March 31, 2020 and 2019, respectively.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities as of March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
<u>Deferred tax assets:</u>			
Allowance for doubtful accounts	¥ 140	¥ 121	\$ 1,282
Employee accrued bonuses	910	639	8,351
Liability for employees' retirement benefits	75	74	691
Loss on devaluation of golf club memberships	54	54	499
Loss on devaluation of investment securities	205	93	1,877
Loss on devaluation of land	189	189	1,732
Allowance for loss on construction contracts	303	340	2,779
Risk-sharing corporate pension	40	93	364
Other	624	603	5,725
Valuation allowance	(526)	(418)	(4,828)
Total	2,014	1,788	18,472
<u>Deferred tax liabilities:</u>			
Unrealized gains on available-for-sale securities	(2,687)	(3,347)	(24,652)
Retained earnings of overseas subsidiaries	(85)	(86)	(782)
Other	(53)	(81)	(485)
Total	(2,825)	(3,514)	(25,919)
Net deferred tax liabilities	¥ (812)	¥(1,726)	\$ (7,446)

Notes to Consolidated Financial Statements

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, 2020, with the corresponding figures for 2019, is as follows:

	2020	2019
Normal effective statutory tax rate	30.6%	30.6%
Expenses not deductible permanently for income tax purposes	1.6	2.1
Income not taxable permanently for income tax purposes	(0.3)	(0.4)
Inhabitant tax	1.0	1.4
Difference in statutory tax rates of overseas subsidiaries	(1.4)	0.0
Valuation allowance	0.6	0.0
Special corporation tax deduction	(0.6)	(0.6)
Other – net	1.5	0.6
Actual effective tax rate	<u>33.0%</u>	<u>33.7%</u>

12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to costs of construction contracts and selling, general and administrative expenses were ¥417 million (\$3,828 thousand) and ¥423 million for the years ended March 31, 2020 and 2019, respectively.

13. ASSETS PLEDGED

Assets pledged as collateral as of March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
A time deposit	¥27	¥27	\$248

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	
	2020	2019	2020	2019
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥ 32	¥ 465	\$296	\$4,266
Due after one year	70	591	643	5,421
Total	<u>¥102</u>	<u>¥1,056</u>	<u>\$939</u>	<u>\$9,687</u>

The minimum rental commitments under noncancelable operating leases as of March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Due within one year	¥ 465	¥204	\$4,266
Due after one year	591	30	5,421
Total	<u>¥1,056</u>	<u>¥234</u>	<u>\$9,687</u>

Notes to Consolidated Financial Statements

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 investment securities are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes, electronically recorded obligations-operating and trade accounts, are mainly less than one year.

Short-term bank loans and long-term debt, excluding finances 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		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
March 31, 2020			
Cash and cash equivalents	¥12,487	¥12,487	
Receivables	57,669	57,669	
Electronically-recorded monetary claims	1,961	1,961	
Investment securities	17,887	17,887	
Total	<u>¥90,004</u>	<u>¥90,004</u>	
Payables	¥34,760	¥34,760	
Electronically recorded obligations-operating	501	501	
Short-term bank loans	6,780	6,780	
Income taxes payable	1,874	1,874	
Long-term debt and current maturities of long-term debt, excluding finance leases	928	926	¥(2)
Total	<u>¥44,843</u>	<u>¥44,841</u>	<u>¥(2)</u>

Notes to Consolidated Financial Statements

	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
March 31, 2019			
Cash and cash equivalents	¥ 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
	Thousands of U.S. Dollars		
March 31, 2020			
Cash and cash equivalents	\$114,561	\$114,561	
Receivables	529,069	529,069	
Electronically-recorded monetary claims	17,987	17,987	
Investment securities	164,103	164,103	
Total	\$825,720	\$825,720	
Payables	\$318,903	\$318,903	
Electronically recorded obligations-operating	4,599	4,599	
Short-term bank loans	62,202	62,202	
Income taxes payable	17,192	17,192	
Long-term debt and current maturities of long-term debt, excluding finance leases	8,514	8,493	\$(21)
Total	\$411,410	\$411,389	\$(21)

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 and Investment Securities

The fair values of short-term investments 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 and investment securities by classification is included in Note 3.

Payables, Electronically Recorded Obligations – Operating, Short-Term Bank Loans, and Income Taxes Payable

The carrying values of payables, electronically recorded obligations – operating, 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.

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
	2020	2019	2020
Investments in equity instruments that do not have a quoted market price in an active market	¥812	¥812	\$7,446

(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, 2020				
Cash and cash equivalents	¥12,487			
Receivables	57,669			
Electronically-recorded monetary claims	1,961			
Investment securities – Available-for-sale securities with contractual maturities				¥500
Total	¥72,117			¥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, 2020				
Cash and cash equivalents	\$114,561			
Receivables	529,069			
Electronically-recorded monetary claims	17,987			
Investment securities – Available-for-sale securities with contractual maturities				\$4,587
Total	\$661,617			\$4,587

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

Notes to Consolidated Financial Statements

16. OTHER COMPREHENSIVE LOSS

The components of other comprehensive loss for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Net unrealized (loss) gain on available-for-sale securities:			
(Loss) gain arising during the year	¥(2,384)	¥ 498	\$(21,873)
Reclassification adjustments to profit or loss	114	(428)	1,043
Amount before income tax effect	(2,270)	70	(21,830)
Income tax effect	660	(24)	6,057
Total	¥(1,610)	¥ 46	\$(14,773)
Foreign currency translation adjustments – Loss arising during the year	¥ (42)	¥(181)	\$ (393)
Total	¥ (42)	¥(181)	\$ (393)
Total other comprehensive loss	¥(1,652)	¥(135)	\$(15,167)

17. 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, 2020 and 2019, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income Attributable to Owners of the Parent	Weighted- Average Shares	EPS	
<u>Year Ended March 31, 2020</u>				
Basic EPS – Net income available to common shareholders	¥4,604	23,361	¥197.07	\$1.81
Effect of dilutive securities – Warrants		131		
Diluted EPS – Net income for computation	¥4,604	23,492	¥195.96	\$1.80
<u>Year Ended March 31, 2019</u>				
Basic EPS – Net income available to common shareholders	¥3,095	23,760	¥130.27	
Effect of dilutive securities – Warrants		131		
Diluted EPS – Net income for computation	¥3,095	23,891	¥129.55	

Notes to Consolidated Financial Statements

18. SEGMENT INFORMATION

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.

19. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2020, was approved at the Company's shareholders' meeting held on June 26, 2020:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥50.0 (\$0.458) per share	¥1,161	\$10,649

* * * * *

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of Shin Nippon Air Technologies Co., Ltd. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2020, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020, and its consolidated financial performance and its consolidated 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.

Basis for Opinion

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

Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

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

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

The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Member of
Deloitte Touche Tohmatsu Limited

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

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

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

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

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

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

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

June 26, 2020

Board of Directors

(As of June 26, 2020)

President

Hiroshi Natsui*

Directors

Keiichi Akamatsu
Satoshi Fuchino
Satoshi Shimomoto
Kiyoshi Endo
Masaki Ito
Shinji Maekawa

Outside Director

Shigeki Morinobu

Director, Audit and Supervisory Committee Member

Isao Yamada

Outside Director, Audit and Supervisory Committee Member

Takakazu Tsuruno
Yasushi Mizuno
Hideki Tokai

* Representative Director

Corporate Data

(As of March 31, 2020)

Date of Establishment	Number of Employees
October 1, 1969	1,099
Paid-in Capital	Stock Exchange Listing
¥5,159 millions	Tokyo Stock Exchange, 1st Section
Number of Shares Outstanding	Transfer Agent of Common Stock
24,282,225 shares	Sumitomo Mitsui Trust Bank, Limited
Number of Shareholders	
5,030	
By Type of Shareholder	By Number of Shares Held
Financial institutions 23.55%	500,000 shares or more 49.50%
Individuals & Others 28.77%	100,000 – 499,999 shares 29.39%
Foreign Shareholders 4.48%	10,000 – 99,999 shares 9.73%
Other domestic companies 43.20%	1,000 – 9,999 shares 8.25%
	Fewer than 1,000 shares 3.13%

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