

KYOWA CritiCare Co., Ltd.

*Unaudited Financial Statements for the
Year Ended March 31, 2018,*

KYOWA CritiCare Co., Ltd.

Balance Sheet
March 31, 2018

ASSETS	Thousands of Yen		LIABILITIES AND EQUITY	Thousands of Yen	
	March 31, 2018	March 31, 2017		March 31, 2018	March 31, 2017
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash and cash equivalents (Note 9)	¥ 309,682	¥ 437,006	Short-term bank loans (Notes 4 and 9)	¥ 400,000	¥ 1,000,000
Receivables (Notes 8 and 9):			Current portion of long-term debt (Notes 4, 8 and 9)	226,662	118,333
Trade notes	321,423	363,613	Payables (Notes 8 and 9):		
Trade accounts	1,241,171	1,054,310	Trade notes	301,098	327,427
Electronically recorded monetary claims - operating	615,253	631,850	Trade accounts	651,285	651,116
Other	74,495	26,669	Electronically recorded monetary obligations - operating	552,343	636,913
Allowance for doubtful receivables	(2,458)	(2,291)	Notes and accounts payable - construction	44,523	52,902
Inventories (Note 3)	1,453,584	1,969,544	Other	99,765	96,315
Income taxes receivable	-	44,135	Consumption tax payable	129,194	-
Prepaid expenses and other current assets	54,541	212,708	Income tax payable	1,204	-
			Deferred tax liabilities	83	4,669
Total current assets	<u>4,067,691</u>	<u>4,737,544</u>	Accrued expenses	166,036	186,630
			Accrued bonus	59,012	68,366
PROPERTY, PLANT AND EQUIPMENT(NOTE 4):			Other current liabilities	<u>6,169</u>	<u>6,798</u>
Land	464,638	464,638			
Buildings and structures	2,781,047	2,702,476	Total current liabilities	<u>2,637,374</u>	<u>3,149,469</u>
Machinery and equipment	2,987,455	2,808,219			
Furniture and fixtures	358,255	334,099	LONG-TERM LIABILITIES:		
Construction in progress	42,691	128,944	Long-term debt (Notes 4, 8 and 9)	1,155,005	1,381,667
Total	<u>6,634,086</u>	<u>6,438,376</u>	Liability for retirement benefits	592,816	552,095
Accumulated depreciation	<u>(3,504,846)</u>	<u>(3,183,741)</u>	Customer deposits (Note 9)	8,839	8,349
Net property, plant and equipment	<u>3,129,240</u>	<u>3,254,635</u>	Deferred tax liabilities	19,657	21,058
			Other long-term liabilities	<u>2,453</u>	<u>2,428</u>
INVESTMENTS AND OTHER ASSETS:			Total long-term liabilities	<u>1,778,770</u>	<u>1,965,597</u>
Lease deposits (Note 9)	66,815	65,971			
Software	60,706	86,230	EQUITY(NOTE6):		
Trademark and licenses	14,884	17,138	Common stock; authorized, 100,000,000 shares; issued, 31,616,000 shares on		
Other assets	<u>300</u>	<u>307</u>	March 31, 2018, and March 31, 2017	100,000	100,000
Total investments and other assets	<u>142,705</u>	<u>169,646</u>	Capital surplus:		
			Additional paid-in capital	1,777,200	1,777,200
			Other capital surplus	1,174,768	1,174,768
			Retained earnings – unappropriated(Accumulated deficits)	<u>(128,476)</u>	<u>(5,209)</u>
			Total equity	<u>2,923,492</u>	<u>3,046,759</u>
TOTAL	<u>¥ 7,339,636</u>	<u>¥ 8,161,825</u>	TOTAL	<u>¥ 7,339,636</u>	<u>¥ 8,161,825</u>

See notes to financial statements.

KYOWA CritiCare Co., Ltd.

Statement of Income Year Ended March 31, 2018

	Thousands of Yen	
	March 31, 2018	March 31, 2017
NET SALES (NOTE 8)	¥ 6,380,993	¥ 6,175,754
COST OF SALES (NOTE 8)	<u>5,274,279</u>	<u>4,927,614</u>
Gross profit	1,106,714	1,248,140
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (NOTE 5)	<u>1,276,191</u>	<u>1,459,408</u>
Operating loss	<u>(169,477)</u>	<u>(211,268)</u>
OTHER INCOME (EXPENSES)		
Interest expense	(7,708)	(7,337)
Other – net(Note 8)	<u>44,446</u>	<u>36,964</u>
Other income (expenses) - net	<u>36,738</u>	<u>29,627</u>
(LOSS) INCOME BEFORE INCOME TAXES	(132,739)	(181,641)
INCOME TAXES	<u>(9,472)</u>	<u>171,185</u>
NET LOSS	<u>¥ (123,267)</u>	<u>¥ (352,826)</u>
	<u>Yen</u>	<u>Yen</u>
PER SHARE OF COMMON STOCK (NOTE 2)		
Net loss	¥ (3.90)	¥ (11.16)

See notes to financial statements.

KYOWA CritiCare Co., Ltd.

**Statement of Changes in Equity
Year Ended March 31, 2018**

	Thousands	Thousands of Yen				Total Equity
	Outstanding Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Other Capital Surplus	Retained Earnings	
BALANCE, APRIL 1, 2016	31,616	¥ 100,000	¥ 1,777,200	¥ 1,174,768	¥ 347,617	¥ 3,399,585
Net loss					(352,826)	(352,826)
BALANCE, MARCH 31, 2017	31,616	100,000	1,777,200	1,174,768	(5,209)	3,046,759
Net loss					(123,267)	(123,267)
BALANCE, MARCH 31, 2018	<u>31,616</u>	<u>¥ 100,000</u>	<u>¥1,777,200</u>	<u>¥ 1,174,768</u>	<u>¥ (128,476)</u>	<u>¥ 2,923,492</u>

See notes to financial statements.

KYOWA CritiCare Co., Ltd.

Statement of Cash Flows Year Ended March 31, 2018

	Thousands of Yen	
	March 31, 2018	March 31, 2017
OPERATING ACTIVITIES:		
Income (loss) before income taxes	¥ (132,739)	¥ (181,641)
Adjustments for:		
Income taxes refunded	52,607	-
Income taxes paid	(2,434)	(162,854)
Depreciation and amortization	356,198	171,741
Loss on disposal of property plant and equipment	-	163
Changes in assets and liabilities:		
Decrease (increase) in trade accounts receivable, trade notes receivable and electronically recorded monetary claims - operating	(128,074)	69,108
Decrease (increase) in other receivable	(47,826)	(108,111)
Decrease (increase) in inventories	515,960	(207,407)
Decrease (increase) in prepaid expenses and other current assets	158,167	(10,344)
Increase (decrease) in trade accounts payable, trade notes payable and electronically recorded monetary obligations - operating	(110,730)	(7,137)
Increase (decrease) in other payables	125,469	(105,171)
Increase (decrease) in accrued expenses and accrued bonus	(29,948)	(17,410)
Other - net	41,192	48,972
Total adjustments	<u>930,581</u>	<u>(328,450)</u>
Net cash (used in) provided by operating activities	<u>797,842</u>	<u>(510,091)</u>
INVESTING ACTIVITIES:		
Purchases of property, plant, and equipment	(205,989)	(773,248)
Purchases of software	-	(11,314)
Increase (decrease) in lease deposits	(844)	550
Net cash (used in) investing activities	<u>(206,833)</u>	<u>(784,012)</u>
FINANCING ACTIVITIES:		
Net increase (decrease) in short-term bank loans	(600,000)	700,000
Repayments in long-term debt	(118,333)	400,000
Net cash (used in) provided by financing activities	<u>(718,333)</u>	<u>1,100,000</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(127,324)	(194,103)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>437,006</u>	<u>631,109</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>¥ 309,682</u>	<u>¥ 437,006</u>

See notes to financial statements

KYOWA CritiCare Co., Ltd.

Notes to Financial Statements Year Ended March 31, 2018

1. BASIS OF PRESENTING FINANCIAL STATEMENTS

The accompanying 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, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these financial statements, certain reclassifications and rearrangements have been made to the Company's financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

2. SUMMARY OF ACCOUNTING POLICIES

Substantially the same accounting policies have been followed in these financial statements as were applied in the preparation of the financial statements for the year ended March 31, 2018.

- a. Revenue Recognition* - Regarding goods sold to wholesalers, the significant risks and rewards of ownership of the goods are retained by the manufacturer until wholesalers sell them to their customers. Therefore, the sales of goods to certain wholesalers shall be recognized only after shipments from the wholesalers are confirmed. Other sales are recognized upon shipment of goods to customers.
- b. Cash and Cash Equivalents* - Cash equivalents include time deposits, which mature or become due within three months of the date of acquisition.
- c. Allowance for Doubtful Receivables* - The allowance for doubtful receivables is stated in amounts considered to be appropriate based on the Company's past credit loss experience and an evaluation of potential losses in the receivables outstanding.
- d. Inventories* - Inventories are stated at the lower of cost, determined by the moving average method, or market.
- e. Property, Plant, and Equipment* - Property, plant, and equipment are stated at cost. Depreciation is computed by the straight-line method. The range of useful lives is from 5 to 38 years for buildings and structures, from 3 to 10 years for machinery and equipment, and from 2 to 20 years for furniture and fixtures.
- f. Long-Lived Assets* - The Company reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured 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.
- g. Retirement and Pension Plans* - The Company has an unfunded retirement benefit plan covering substantially all of its employees who meet eligibility requirements under the retirement allowance plan. Under the plan, employees are entitled to benefits based on level of salary, length of service, and certain other factors at the time of retirement or termination.

The Company accounts for the liability for retirement benefits based on projected benefit obligations at the balance sheet date.

Prior service cost and actuarial gain/loss are recognized at the time of occurrence.

Retirement allowances for directors are recorded to state the liability at the amount that would be required if all directors retired at the balance sheet date.

- h. Research and Development Costs** - Research and development costs are charged to income as incurred.
- i. Asset Retirement Obligations** - Asset retirement obligation is defined as a legal obligation imposed either by law or by contract that results from the acquisition, construction, development, and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.
- j. Income Taxes** - The provision for income taxes is computed based on the pretax income included in the 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 current enacted tax laws to the temporary differences.
- In terms of interim financial statements, income taxes are computed in each interim period based on the best estimate of the weighted-average annual income tax rate expected for the full financial year.
- k. Per Share Information** - Net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.
- l. Reclassifications** - Certain prior year amounts have been reclassified to conform to the current year presentation.

3. INVENTORIES

Inventories as of March 31, 2018 and March 31, 2017, consisted of the following:

	Thousands of Yen	
	March 31, 2018	March 31, 2017
Merchandise	¥ 214,118	¥ 573,287
Finished products	745,604	1,002,684
Work in process	44,610	30,162
Raw materials and supplies	<u>449,252</u>	<u>363,411</u>
Total	<u>¥ 1,453,584</u>	<u>¥ 1,969,544</u>

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

Short-term bank loans as of March 31, 2018 and March 31, 2017, consisted of the following:

	Thousands of Yen	
	March 31, 2018	March 31, 2017
Overdraft with annual interest rates 0.31% and 0.28% at March 31, 2018 and March 31, 2017, respectively	100,000	200,000
Overdraft with annual interest rates 0.28% and 0.28% at March 31, 2018 and March 31, 2017, respectively	300,000	800,000
Short-term bank loans	<u>¥400,000</u>	<u>¥ 1,000,000</u>

Long-term debt as of March 31, 2018 and March 31, 2017, consisted of the following:

	Thousands of Yen	
	March 31, 2018	March 31, 2017
Unsecured loans from banks, 0.35%, guaranteed by Lupin Limited (¥10,000 thousand maturing monthly beginning April 2017)	¥ 490,000	¥ 600,000
Unsecured loans from banks, 0.31%, guaranteed by Kyowa Pharmaceutical Industry Co., Ltd. (¥8,333 thousand maturing monthly beginning March 2018)	491,667	500,000
Unsecured loans from banks, 0.38%, guaranteed by Kyowa Pharmaceutical Industry Co., Ltd. (¥6,666 thousand maturing monthly beginning March 2019)	400,000	400,000
Total	1,381,667	1,500,000
Less current portion	(226,662)	(118,333)
Long-term debt, less current portion	<u>¥1,155,005</u>	<u>¥ 1,381,667</u>

Annual maturities of long-term debt as of March 31, 2018, were as follows:

<u>Years Ending March 31, 2018</u>	Thousands of Yen
2019	¥ 226,662
2020	309,988
2021	299,988
2022	299,988
2023	171,675
2024 and thereafter	<u>73,366</u>
Total	<u>¥ 1,381,667</u>

The carrying amounts of assets pledged as collateral for short-term bank loans of
¥100,000 thousand at March 31, 2018 were as follows:

Land	¥ 464,638
Building – net of accumulated depreciation	<u>402,354</u>
Total	<u>866,992</u>

5. RETIREMENT AND PENSION PLANS

Reconciliations of beginning and ending balances of the projected benefit obligations are as follows:

	Thousands of Yen	
	<u>2018</u>	<u>2017</u>
Projected benefit obligations at beginning of year	¥ 552,095	¥ 512,308
Service cost	48,479	47,366
Interest cost	1,104	512
Actuarial loss	3,918	449
Benefits paid	<u>(12,780)</u>	<u>(8,540)</u>
Projected benefit obligations at end of year	<u>¥592,816</u>	<u>¥ 552,095</u>

The components of net periodic benefit costs as of March 31, 2018 and 2017, were as follows:

	Thousands of Yen	
	<u>2018</u>	<u>2017</u>
Service cost	¥ 48,479	¥ 47,366
Interest cost	1,104	512
Recognized actuarial loss	<u>3,918</u>	<u>449</u>
Net periodic benefit costs	<u>¥ 53,501</u>	<u>¥ 48,327</u>

Assumptions used for the years ended March 31, 2018 and 2017, were as follows:

	<u>2018</u>	<u>2017</u>
Discount rate	0.2%	0.2%

In addition, the Company is a member of "Tokyo Pharmaceutical Industry Employee Pension Fund." This multiemployer pension plan does not permit reasonable calculation of the value of the pension assets based on the Company's contributions. As a result, this multiemployer pension plan is excluded from the calculation of the projected benefit obligation. Required contributions to the plan are charged to income.

The contributions to such multiemployer plan, which are accounted for using the same method as a defined contribution plan, were ¥19,143 thousand and ¥33,572 thousand for the years ended March 31, 2018 and 2017, respectively.

6. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions of 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, 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 cannot do so because it 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 ¥3,000 thousand.

(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 total of 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 under certain conditions upon resolution of the shareholders.

In January 2015, the Company issued 16,000 shares of common stock with payment of ¥1,600,000 thousand from Kyowa Pharmaceutical Industry Co., Ltd. The amount of increased common stock and paid-in capital was ¥800,000 thousand and ¥800,000 thousand, respectively. In February 2015, the Company reduced common stock without any refund. The amount of decreased common stock and increased other capital surplus was ¥1,199,000 thousand and ¥1,199,000 thousand, respectively. At the same time, the Company also reduced deficit of ¥512,432 thousand by offsetting it against other capital surplus.

(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.

7. INCOME TAXES

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 34.8% and 34.8% for the years ended March 31, 2018 and 2017, respectively.

The tax effects of significant temporary differences which resulted in deferred tax assets or liabilities as of March 31, 2018 and 2017, are as follows:

	<u>Thousands of Yen</u>	
	<u>2018</u>	<u>2017</u>
Current:		
Deferred tax assets:		
Inventories	¥ 30,648	¥ 110,084
Accrued expenses	58,574	59,641
Accrued bonus	20,382	23,613
Others	19,976	19,976
Less valuation allowance	<u>(129,580)</u>	<u>(213,314)</u>
Total	<u>-</u>	<u>-</u>
Deferred tax liabilities:		
Accrued enterprise tax	<u>(83)</u>	<u>(4,669)</u>
Net - current deferred tax (liabilities) assets	<u>¥ (83)</u>	<u>¥ (4,669)</u>
Noncurrent:		
Deferred tax assets:		
Liability for retirement benefits	¥ 209,257	¥ 190,711
Property, plant and equipment	38,050	37,963
Others	2,066	3,664
Less valuation allowance	<u>(249,373)</u>	<u>(232,338)</u>
Total	<u>-</u>	<u>-</u>
Deferred tax liabilities:		
Reserve deductible for Japanese tax purposes	<u>(19,657)</u>	<u>(21,058)</u>
Net - noncurrent deferred tax liabilities	<u>¥ (19,657)</u>	<u>¥ (21,058)</u>

8. RELATED-PARTY DISCLOSURES

Transactions and balances of the Company with the parent companies for the year ended March 31, 2018 and 2017, were as follows:

	Thousands of Yen			Thousands of Yen		
	March 31, 2018			March 31, 2017		
	Lupin Limited	Lupin Japan&Asia Pacific K.K.	Kyowa Pharmaceutical Industry Co., Ltd.	Lupin Limited	Kyowa Pharmaceutical Industry Co., Ltd.	
Transactions:						
Sales			¥ 53,426		¥ 64,403	
Purchase of goods			44,822		9,486	
Selling, general, and administrative expenses	¥ 6,287	¥ 13,188	96,716	¥ 5,614	133,126	
Purchase of software					165	
Other income			36,584		16,536	
Interest expense					2,448	
Balance:						
Trade accounts receivables			¥ 5,708		¥ 4,137	
Other receivables			18,441		17,859	
Trade accounts payables			3,676			
Other payables	¥ 1,322	¥ 9,068	¥ 5,156	¥ 1,644	22,563	
Off-balance transactions :						
Guarantee for long-term debt	¥ 490,000		¥ 891,667	¥ 600,000	¥ 900,000	

9. FINANCIAL INSTRUMENTS

Policies for Financial Instruments

The Company uses financial instruments depending on its capital financing plan. Cash surpluses, if any, are invested in low-risk financial assets.

Nature and Extent of Risks Arising from Financial Instruments and Risk Management

Trade notes receivable, trade accounts receivable, electronically recorded monetary claims-operating, and other receivables, which are part of operational assets, are exposed to credit risk of customers. The risk is managed through monitoring of due dates/outstanding receivable balances and regular tracking of credit status of customers, following the Company's standard credit management procedures.

Short-term bank loans, trade notes payable, trade accounts payable, electronically recorded monetary obligations-operating, notes and accounts payable - construction, and other payables, which are part of operational liabilities, are due within one year. Short-term bank loans are borrowed for operational activities, and long-term debt is used mainly for investment in fixed assets. Those operational liabilities and debt are exposed to liquidity risk, and the risk is managed through adequate financial planning by the accounting department.

Fair Value of Financial Instruments

The estimated fair values of financial instruments as of March 31, 2018 and March 31, 2017 are summarized as follows:

	Thousands of Yen		
	March 31, 2018		
	Carrying Amount	Fair Value	Difference
Cash and cash equivalents	¥ 309,682	¥ 309,682	-
Trade notes receivable	321,423	321,423	-
Trade accounts receivable	1,241,171	1,241,171	-
Electronically recorded monetary claims - operating	615,253	615,253	-
Other receivables	74,495	74,495	-
Short-term bank loans	400,000	400,000	-
Trade notes payable	301,098	301,098	-
Trade accounts payable	651,285	651,285	-
Electronically recorded monetary obligations- operating	552,343	552,343	-
Notes and accounts payable - construction	44,523	44,523	-
Other payables	99,765	99,765	-
Long-term debt (including current portion)	1,381,667	1,381,515	¥ (152)

	Thousands of Yen		
	March 31, 2017		
	Carrying Amount	Fair Value	Difference
Cash and cash equivalents	¥ 437,006	¥ 437,006	-
Trade notes receivable	363,613	363,613	-
Trade accounts receivable	1,054,310	1,054,310	-
Electronically recorded monetary claims - operating	631,850	631,850	-
Other receivables	26,669	26,669	-
Short-term bank loans	1,000,000	1,000,000	-
Trade notes payable	327,427	327,427	-
Trade accounts payable	651,116	651,116	-
Electronically-recorded monetary obligations- operating	636,913	636,913	-
Notes and accounts payable - construction	52,902	52,902	-
Other payables	96,315	96,315	-
Long-term debt(including current portion)	1,500,000	1,495,929	¥ (4,071)

Method of Evaluating the Fair Value of Financial Instruments

Cash and cash equivalents, trade notes receivable, trade accounts receivable, electronically recorded monetary claims - operating, and other receivables:

- The carrying amounts approximate fair value because of the short maturities of these instruments.

Short-term bank loans, trade notes payable, trade accounts payable, electronically recorded monetary obligations-operating, notes and accounts payable - construction, and other payables:

- The carrying amounts approximate fair value because of the short maturities of these instruments.

Long-term debt:

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

Financial instruments whose fair values cannot be reliably determined were as follows:

	Thousands of Yen	
	March 31, 2018	March 31, 2017
Lease deposits	¥66,815	¥65,971
Customer deposits	8,839	8,349

Maturities of long-term debt:

Refer to Note 4 "SHORT-TERM BANK LOANS AND LONG-TERM DEBT."

(SUPPLEMENTARY INFORMATION)

1. PROPERTY, PLANT, AND EQUIPMENT

The changes in acquisition cost and the related depreciation by asset type for the year ended March 31, 2018 were as follows:

Description	Useful Life (Years)	Thousands of Yen									
		Acquisition Cost			Accumulated Depreciation			Total Net			
		Balance, March 31, 2017	Increase	Decrease	Balance, March 31, 2018	Balance, March 31, 2017	Increase	Decrease	Balance, March 31, 2018	Balance, March 31, 2017	Balance, March 31, 2018
Land		¥ 464,638	-	-	¥ 464,638	-	-	-	¥ 464,638	¥ 464,638	
Buildings and attached facilities	5 - 38	2,648,113	¥ 46,360	¥ 2,289	2,692,184	¥ 1,442,979	¥ 89,015	¥ 1,287	¥ 1,530,707	1,205,134	1,161,477
Structures	5 - 18	54,363	34,500	-	88,863	50,801	4,994	-	55,795	3,562	33,068
Subtotal		2,702,476	80,860	2,289	2,781,047	1,493,780	94,009	1,287	1,586,502	1,208,696	1,194,545
Machinery and equipment	8 - 10	2,770,580	183,067	3,831	2,949,816	1,442,032	199,440	3,586	1,637,886	1,328,548	1,311,930
Vehicles	3 - 7	37,639	-	-	37,639	36,495	363	-	36,858	1,144	781
Subtotal		2,808,219	183,067	3,831	2,987,455	1,478,527	199,803	3,586	1,674,744	1,329,692	1,312,711
Furniture and fixtures	2 - 20	334,099	26,596	2,440	358,255	211,434	34,606	2,440	243,600	122,665	114,655
Construction in progress		128,944	224,729	310,982	42,691	-	-	-	-	128,944	42,691
Total		¥ 6,438,376	¥ 515,252	¥319,542	¥ 6,634,086	¥ 3,183,741	¥ 328,418	¥ 7,313	¥ 3,504,846	¥ 3,254,635	¥ 3,129,240

2. PROVISION FOR RESERVE

Description	Thousands of Yen			Balance, March 31, 2018
	Balance, March 31, 2017	Increase	Decrease	
Accrued bonus	¥ 68,366	59,012	68,366	¥ 59,012
Allowance for doubtful receivables	2,291	2,458	2,291	2,458

3. SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES

The statement of selling, general, and administrative expenses for the year ended March 31, 2018 was as follows:

	Thousands of Yen March 31, 2018
Salary/benefit	¥ 363,544
Legal benefit	66,790
Bonus	40,337
Retirement benefit expenses	16,007
Commuting transportation	7,349
Retirement pension contribution to multiemployer pension fund	7,690
Advertisement	147
Freight	194,556
Sales promotion	30,859
Utilities	13,919
Research and development costs	60,156
Depreciation	37,942
Communication	9,067
Travel	73,407
Lease	65,352
Rent	30,010
Commissions paid	69,579
Temporary staffing cost	11,969
Repairs and maintenance	21,887
Insurance premium	3,215
Taxes and duties	3,266
Tools	5,305
Consumable goods	3,766
Entertainment	730
Other	139,342
Total selling, general and administrative expenses for the period	¥ 1,276,191

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