

Consolidated Balance Sheets

C&G SYSTEMS INC. and consolidated subsidiaries

As of December 31, 2017, and December 31, 2016

(in thousand Yen)

	December 31, 2016	December 31, 2017
(Assets)		
Current assets		
Cash and bank deposits	1,932,275	2,241,417
Notes and accounts receivable	748,677	672,482
Inventories	41,627	52,516
Deferred tax assets	8,327	10,619
Other current assets	141,043	151,029
Allowance for doubtful accounts	(3,596)	(196)
Total current assets	2,868,355	3,127,869
Non current assets		
Tangible fixed assets		
Buildings and equipments	221,089	221,727
Accumulated depreciation	(119,200)	(126,289)
Net buildings and equipment	101,889	95,437
Machinery and delivery equipments	85,108	88,563
Accumulated depreciation	(66,307)	(68,486)
Net machinery and delivery equipments	18,800	20,076
Lands	71,100	71,100
Other tangible fixed assets	158,436	173,243
Accumulated depreciation	(118,540)	(126,430)
Net other tangible fixed assets	39,896	46,812
Total tangible fixed assets	231,686	233,426
Intangible fixed assets		
Softwares	79,665	47,086
Other intangible fixed assets	7,508	7,508
Total intangible fixed assets	87,173	54,594
Investments		
Investments securities	136,077	164,928
Deferred tax assets	14,170	280,432
Net investments in real estates	411,877	402,653
Insurance funds	429,377	428,493
Other investments	136,278	130,588
Allowance for doubtful accounts	(15,591)	(8,981)
Total investments	1,112,189	1,398,114
Total non current assets	1,431,050	1,686,136
Total assets	4,299,405	4,814,005

	December 31, 2016	December 31, 2017
(Liabilities)		
Current liabilities		
Accounts payable	53,415	62,508
Income taxes payable	120,006	104,169
Advances from customers	615,757	667,299
Other current liabilities	203,345	180,830
Total current liabilities	992,525	1,014,808
Non current liabilities		
Accrued pension and severance costs for officers	134,776	145,799
Net defined benefit liability	730,540	817,839
Other non current liabilities	115,053	100,357
Total non current liabilities	980,370	1,063,996
Total liabilities	1,972,896	2,078,804
(Net assets)		
Shareholders' equity		
Capital stock	500,000	500,000
Additional paid-in capital	125,000	125,000
Retained earnings	1,617,129	2,022,751
Treasury stock	(86)	(86)
Total shareholders' equity	2,242,043	2,647,664
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8,904	29,195
Foreign currency translation adjustments	17,214	15,027
Total accumulated other comprehensive income	26,119	44,223
Non-controlling interests	58,346	43,312
Total net assets	2,326,509	2,735,200
Total liabilities and net assets	4,299,405	4,814,005

Consolidated Statements of Income

C&G SYSTEMS INC. and consolidated subsidiaries

For the year ended December 31, 2017

(in thousand Yen)

	For the year ended December 31, 2016	For the year ended December 31, 2017
Sales	4,445,393	4,083,285
Costs of goods sold	1,795,870	1,548,472
Gross profit	2,649,522	2,534,813
Selling, general and administrative expenses	2,241,322	2,205,963
Operating income	408,200	328,849
Other income		
Interest received and dividends income	3,330	3,111
Rent income	87,616	87,901
Reversal of allowance for doubtful accounts	6,153	10,010
Other	3,575	12,001
Total other income	100,676	113,026
Other expenses		
Interest expense	346	206
Maintenance of investment properties	67,970	67,109
Other	1,854	922
Total other expenses	70,171	68,238
Ordinary income	438,705	373,636
Extraordinary income		
Gain on insurance adjustment	-	62,122
Total extraordinary income	-	62,122
Income before income taxes	438,705	435,759
Income tax expense - current	145,220	190,214
Income tax expense - deferred	2,134	(277,097)
Total income tax expense	147,355	(86,883)
Net income	291,350	522,643
Profit attributable to non-controlling interests	48,466	19,007
Profit attributable to owners of parent	242,883	503,635

	For the year ended December 31, 2016	For the year ended December 31, 2017
Net income	291,350	522,643
Other comprehensive Income		
Valuation difference on available-for-sale securities	8,061	20,290
Foreign currency translation adjustment	(13,381)	(4,014)
Total other comprehensive income	(5,320)	16,276
Total comprehensive income	286,029	538,919
Total Comprehensive Income attributable to:		
Owners of the parent	241,549	521,739
Non-controlling interests	44,479	17,180

Consolidated Statements of Cash Flows

C&G SYSTEMS INC. and consolidated subsidiaries

For the year ended December 31, 2017

(in thousand Yen)

	For the year ended December 31, 2016	For the year ended December 31, 2017
Cash flows from operating activities		
Income before income taxes and minority interests	438,705	435,759
Depreciation	99,091	123,136
Increase and decrease in allowance for doubtful account	(6,153)	(10,010)
Increase and decrease in accrued pension and severance costs for officers	11,025	11,022
Increase and decrease in net defined benefit liability	79,296	87,192
Interests and dividend income	(3,330)	(3,111)
Interest expense	346	206
Rent income	(87,616)	(87,901)
Other income and expences	58,164	57,885
Gain on insurance claim	–	(62,122)
Increase and decrease in notes and accounts receivable	16,173	82,597
Increase and decrease in inventories	100,591	(11,631)
Increase and decrease in accounts payable	(28,583)	8,749
Increase and decrease in advances from customers	(88,479)	34,574
Increase and decrease in accrued liabilities	(53)	(17,008)
Others	(576)	(424)
Subtotal	588,601	648,914
Interest and dividends received	3,327	3,112
Interest paid	(346)	(206)
Proceeds from rent income	87,616	87,901
Proceeds from insurance income	–	70,350
Others	(58,164)	(57,885)
Income taxes paid	(89,853)	(218,098)
Net cash provided by (used in) operating activities	531,180	534,089

	For the year ended December 31, 2016	For the year ended December 31, 2017
Cash flows from investing activities		
Payment into time deposits	(160,922)	(174,751)
Repayment of the time deposit	175,293	178,200
Investments in tangible fixed assets	(21,158)	(36,065)
Proceeds from sales of tangible fixed assets	3,818	1,945
Investments in intangible fixed assets	(38,630)	(47,631)
Purchase of insurance funds	(15,904)	(7,343)
Payments for lease and guarantee deposits	(4,089)	(7,033)
Proceeds from collection of lease and guarantee deposits	4,415	6,085
Purchase of memberships	(1,180)	–
Proceeds from sales of membership	633	300
Net cash provided by (used in) investing activities	(57,723)	(86,296)

	For the year ended December 31, 2016	For the year ended December 31, 2017
Cash flows from financing activities		
Repayment of finance lease debt	(1,017)	(1,059)
Purchase of treasury stock	(43)	–
Dividends paid	(97,477)	(98,674)
Dividends paid for non-controlling interests	(28,353)	(31,419)
Net cash provided by (used in) financing activities	(126,891)	(131,153)
Effect of exchange rate changes on cash and cash equivalents	(14,852)	(8,262)
Net increase and decrease in cash and cash equivalents	331,711	308,376
Cash and cash equivalents at beginning of period	1,496,555	1,828,267
Cash and cash equivalents at end of period	1,828,267	2,136,644