



DAIHO CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED MARCH 31, 2022 AND 2021

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

KPMG AZSA LLC
October 2022



Independent auditor's report

To the Board of Directors of DAIHO CORPORATION:

Opinion

We have audited the accompanying consolidated financial statements of DAIHO CORPORATION (“the Company”) and its consolidated subsidiaries (collectively referred to as “the Group”), which comprise the consolidated balance sheets as at March 31, 2022 and 2021, the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in 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 ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matters

We draw attention to Note 2(25) “Additional Information” and Note 24 “Subsequent events” to the consolidated financial statements. the Company

- resolved entering into the capital and business alliance agreement, decrease additional paid in capital, issuance of new shares through third-party allotment, takeover bid of treasury stock and borrowing large amount of funds at the board of directors’ meeting held on March 24, 2022,
- approved decrease additional paid in capital at the extraordinary shareholders' meeting held on May 24, 2022,
- acquired the treasury stock on July 14, 2022 based on the resolution at the board of directors’ meeting above,
- completed the issuance of new shares through third-party allotment on July 19, 2022 based on the resolution at the board of directors’ meeting above,
- resolved the cancellation of the treasury stock at the board of directors’ meeting held on August 10, 2022, and completed it on August 31, 2022.

Our opinion is not modified in respect of these matters.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Reasonableness of the Company's estimate of total construction costs in the construction contracts

The key audit matter	How the matter was addressed in our audit
<p>As described in Note 2 (20) "Significant accounting estimates" to the consolidated financial statements, the Company recognized total sales of ¥156,520 million, of which ¥144,259 million revenue recognized based on the progress toward satisfaction of performance obligations satisfied over time (excludes those contracts applying the cost recovery method) and its allowance for losses on construction contracts amounted to ¥855 million.</p> <p>As described in Note 2 (7) "Revenue and cost recognition", revenue from construction contracts is recognized over time based on the progress towards satisfaction of the performance obligations. The estimates of progress are calculated as the percentage of the cumulative construction cost incurred compared to the estimated total costs. In order to estimate progress towards satisfaction of the performance obligations reasonably, it is particularly necessary to estimate total construction costs reasonably.</p> <p>As also described in Note 2 (12) "Allowance for losses on construction contracts" that is to estimate for losses on construction contracts, the Company provides an allowance for the losses on construction contracts, which are expected to be incurred in the next fiscal year and after, when the estimated construction costs will certainly exceed the ordered contract amount and such losses can be reasonably estimated.</p> <p>The details of construction contracts are highly unique, as basic specifications and work details are prepared based on customers' instructions. Therefore, it is difficult to determine criteria that are uniformly applicable to all construction contracts, when it comes to estimating the total construction costs in the construction contracts. Specifically, estimating the total construction costs involved a high degree of uncertainty as described below, and management's determination of the following aspects of construction</p>	<p>The primary procedures we performed to assess whether the Company's estimate of total construction costs in the construction contracts was reasonable included the following:</p> <p>(1) Internal control testing</p> <p>We tested the design and operating effectiveness of certain of the Company's internal controls relevant to the process of estimating total construction costs. In this assessment, we focused our testing on the following controls:</p> <ul style="list-style-type: none"> controls to prepare and approve a project budget on which the estimate of total construction costs was based; and controls to timely and reasonably reflect changes in circumstances that occurred during the process of construction in the estimate of total construction costs. <p>(2) Assessment of the reasonableness of the estimated total construction costs</p> <p>In order to assess the reasonableness and accuracy of the estimated total construction costs, we compared the actual construction costs at the end of the current fiscal year or the revised estimated total construction costs with the most recent estimate of total construction costs. Based on the results of this assessment, we inquired of management and the personnel responsible for construction work about the basis used for preparing the estimated total construction costs. In addition, we:</p> <ul style="list-style-type: none"> assessed whether the total construction costs included were construction costs in line with the construction details agreed upon with customers, as well as ensured they did not include any items that were not agreed upon with customers, by comparing construction contracts and statements of construction items with respective construction

had a significant effect on the estimated total construction costs at the end of the fiscal year:

- whether all construction details required to completely fulfill a construction contract were specified, and the estimated construction costs that were determined necessary were included in the estimated total construction costs; and
- whether a change made to a construction contract based on agreement newly reached between concerned parties during the process of construction, changes in work due to changes in construction conditions that occurred subsequent to the start of construction, and incidents that did not exist when the most recent estimate of the total construction costs was revised were timely and reasonably reflected in the estimated total construction costs.

We, therefore, determined that our assessment of the reasonableness of the Company's estimate of total construction costs in the construction contracts was of the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.

costs included in the estimated total construction costs;

- compared the estimated construction costs for each construction included in the estimated total construction costs with external service providers' written estimates on which the estimated construction costs were based, or the details of the internally prepared documents supporting those costs;
- assessed whether the estimated total construction costs were timely and reasonably revised by comparing the actual construction costs at the end of the current fiscal year with the estimated total construction costs; and
- with respect to the construction contracts whose value was significant, inspected construction timelines and assessed whether the estimated total construction costs were revised by reflecting changes in work due to changes in construction conditions occurred after the launch of construction.
- We observed certain of the construction sites that were significant in value, and understood the details of constructions and the status of the items included in the estimated total construction costs.

Other Information

The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements, the financial statements, and our auditor's reports thereon.

We do not perform any work on the other information as we determine such information does not exist.

Responsibilities of Management and Corporate Auditors and the Board of Corporate Auditors 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.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's

financial reporting process.

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 our 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, and 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 an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express 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 presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, 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 corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

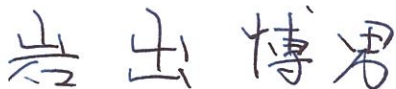
From the matters communicated with corporate auditors and the board of corporate auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2022 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We 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.



Hiroo Iwida

Designated Engagement Partner

Certified Public Accountant



Junichi Tanaka

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

October 3, 2022

DAIHO CORPORATION
CONSOLIDATED BALANCE SHEETS
March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
<u>ASSETS</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>
Current assets:			
Cash and time deposits (Notes 15 and 20)	¥ 19,780	¥ 28,213	\$ 161,614
Trade notes and accounts receivable (Notes 3,16 and 20)	100,889	89,097	824,323
Electronically recorded monetary claims - operating (Note 20)	301	1,974	2,459
Short-term loans receivable (Note 20)	2	2	16
Allowance for doubtful accounts	(6)	(4)	(49)
Costs on uncompleted construction contracts and other (Notes 4 and 10)	2,303	3,081	18,816
Advances paid (Note 20)	13,367	16,506	109,216
Income taxes refund receivable (Note 13)	525	50	4,289
Other current assets	3,003	2,033	24,536
Total current assets	<u>140,167</u>	<u>140,955</u>	<u>1,145,248</u>
Property and equipment:			
Land	8,662	8,868	70,773
Buildings and structures	10,880	10,881	88,896
Machinery and equipment	8,053	7,559	65,797
Leased assets	145	188	1,184
Construction in progress	214	11	1,748
	<u>27,955</u>	<u>27,510</u>	<u>228,409</u>
Accumulated depreciation	<u>(10,804)</u>	<u>(10,325)</u>	<u>(88,275)</u>
Net property and equipment	<u>17,151</u>	<u>17,184</u>	<u>140,133</u>
Intangible assets	231	189	1,887
Investments and other non-current assets:			
Investment securities (Notes 7, 8 and 20)	8,044	8,904	65,724
Long-term loans receivable (Note 20)	2,659	2,236	21,725
Deferred tax assets (Note 13)	850	906	6,945
Other non-current assets	623	607	5,090
Allowance for doubtful accounts	(106)	(85)	(866)
Total investments and other non-current assets	<u>12,071</u>	<u>12,569</u>	<u>98,627</u>
Total assets	<u>¥ 169,621</u>	<u>¥ 170,899</u>	<u>\$ 1,385,905</u>

See accompanying notes.

DAIHO CORPORATION
CONSOLIDATED BALANCE SHEETS
March 31, 2022 and 2021

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Current liabilities:			
Short-term loans payable (Notes 5,9 and 20)	¥ 6,100	¥ 7,950	\$ 49,840
Trade notes and accounts payable (Note 20)	34,991	32,882	285,897
Electronically recorded obligations – operating (Note 20)	10,409	11,376	85,047
Advances received on uncompleted construction contracts	9,959	8,344	81,371
Income taxes payable (Notes 3,13 and 16)	558	2,198	4,559
Allowance for losses on construction contracts (Note 10)	855	290	6,985
Deposits received (Note 20)	21,174	16,415	173,004
Allowance for warranties for completed construction	687	2,022	5,613
Other current liabilities	1,709	1,765	13,963
Total current liabilities	86,445	83,245	706,307
Non-current liabilities:			
Convertible bond-type bonds with share acquisition rights (Notes 9 and 20)	1,463	3,196	11,953
Long-term loans payable (Notes 9 and 20)	—	3,150	—
Deferred tax liabilities (Note 13)	8	21	65
Net defined benefit liability (Note 11)	6,267	6,179	51,205
Provision for share-based remuneration	162	125	1,323
Other long-term liabilities	781	850	6,381
Total long-term liabilities	8,683	13,523	70,945
Total liabilities	¥ 95,128	¥ 96,769	\$ 777,253
Contingent liabilities (Note 12)			
Net assets (Note 14):			
Shareholders' equity (Note 24) :			
Common stock			
Authorized - 32,000,000 shares			
Issued - 18,433,163 shares	10,549	10,549	86,191
Capital surplus	9,059	9,564	74,017
Retained earnings	56,753	52,765	463,706
Less: Treasury stock, at cost	(3,725)	(1,288)	(30,435)
Accumulated other comprehensive income (Note 21) :			
Unrealized gains on securities	747	1,641	6,103
Foreign currency translation adjustment	(31)	(22)	(253)
Remeasurements of defined benefit plans (Note 11)	28	(37)	228
Subscription rights to shares (Note 23)	266	307	2,173
Non-controlling interests	845	651	6,904
Total net assets	74,493	74,130	608,652
Total liabilities and net assets	¥ 169,621	¥ 170,899	\$ 1,385,905

See accompanying notes.

DAIHO CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Years ended March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Sales (Note 16) :	¥ 156,520	¥ 161,697	\$ 1,278,862
Costs and expenses:			
Cost of sales (Note 10)	141,329	146,600	1,154,743
Selling, general and administrative expenses	6,333	6,031	51,744
	<u>147,662</u>	<u>152,631</u>	<u>1,206,487</u>
Operating income	8,857	9,066	72,367
Other income (expenses):			
Interest and dividend income	191	164	1,560
Interest expense	(52)	(67)	(424)
Guarantee commission	(72)	(68)	(588)
Commission fee	(194)	(68)	(1,585)
Gain (loss) on sale and disposal of property and equipment	156	(18)	1,274
Foreign currency exchange gain (loss), net	532	347	4,346
Loss on litigation (Note 19)	(18)	(13)	(147)
Loss on sales of investment securities (Note 7)	—	(48)	—
Impairment loss (Note 6)	(297)	(3)	(2,426)
Gain on sales of investment securities (Note 7)	221	179	(1,805)
Other, net	72	44	588
	<u>538</u>	<u>446</u>	<u>4,395</u>
Income before income taxes and non-controlling interests	9,395	9,513	76,762
Income taxes (Note 13):			
Current	2,782	3,233	22,730
Deferred	429	(105)	3,505
Net income	<u>6,184</u>	<u>6,385</u>	<u>50,527</u>
Profit attributable to non-controlling interests	196	122	1,601
Profit attributable to owners of parent	<u>¥ 5,987</u>	<u>¥ 6,262</u>	<u>\$ 48,917</u>

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income (Note 22)	¥ 346.28	¥ 362.23	\$ 2.83
Diluted net income per share (Note 22)	326.36	326.37	2.67
Cash dividends applicable to the year	243.00	110.00	1.99

See accompanying notes.

DAIHO CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Net income	¥ 6,184	¥ 6,385	\$ 50,527
Other comprehensive income: (Note 21)			
Unrealized gains or losses on securities	(893)	814	(7,296)
Foreign currency translation adjustments	(8)	(3)	(65)
Remeasurements of defined benefit plans (Note 11)	66	86	539
Total other comprehensive income	<u>(835)</u>	<u>898</u>	<u>(6,822)</u>
Comprehensive income	<u>¥ 5,348</u>	<u>¥ 7,283</u>	<u>\$ 43,696</u>
Comprehensive income attribute to:			
Owners of parent	¥ 5,151	¥ 7,160	\$ 42,087
Non-controlling interests	196	122	1,601

See accompanying notes.

DAIHO CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
Years ended March 31, 2022 and 2021

Millions of yen											
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains on securities, net of tax	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Subscription rights to shares	Non- controlling interests	Total
Balance at April 1, 2020	17,442	¥ 9,039	¥ 7,998	¥ 48,188	¥ (1,825)	¥ 826	¥ (19)	¥ (124)	¥ 372	¥ 532	¥ 64,988
Issuance of new shares	991	1,509	1,509	—	—	—	—	—	—	—	3,019
Cash dividends paid (¥100.0 per share)	—	—	—	(1,685)	—	—	—	—	—	—	(1,685)
Profit attributable to owners of parent	—	—	—	6,262	—	—	—	—	—	—	6,262
Disposal of treasury stock	—	—	56	—	1,792	—	—	—	—	—	1,849
Acquisition of treasury stock	—	—	—	—	(1,256)	—	—	—	—	—	(1,256)
Net change of items other than shareholders' equity	—	—	—	—	—	814	(3)	86	(64)	119	953
Balance at March 31, 2021	18,433	¥ 10,549	¥ 9,564	¥ 52,765	¥ (1,288)	¥ 1,641	¥ (22)	¥ (37)	¥ 307	¥ 651	¥ 74,130
Cash dividends paid (¥243.0 per share)	—	—	—	(1,993)	—	—	—	—	—	—	(1,993)
Profit attributable to owners of parent	—	—	—	5,987	—	—	—	—	—	—	5,987
Disposal of treasury stock	—	—	(511)	—	2,318	—	—	—	—	—	1,806
Acquisition of treasury stock	—	—	—	—	(4,755)	—	—	—	—	—	(4,755)
Transfer of the negative balance of other capital surplus	—	—	6	(6)	—	—	—	—	—	—	0
Net change of items other than shareholders' equity	—	—	—	—	—	(893)	(8)	66	(41)	193	(683)
Balance at March 31, 2022	18,433	¥ 10,549	¥ 9,059	¥ 56,753	¥ (3,725)	¥ 747	¥ (31)	¥ 28	¥ 266	¥ 845	¥ 74,493

Thousands of U.S. dollars (Note 1)											
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized gains on securities, net of tax	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Subscription rights to shares	Non- controlling interests	Total
Balance at April 1, 2021		\$ 86,191	\$ 78,143	\$ 431,121	\$ (10,523)	\$ 13,407	\$ (179)	\$ (302)	\$ 2,508	\$ 5,319	\$ 605,686
Issuance of new shares		—	—	—	—	—	—	—	—	—	24,667
Cash dividends paid (\$1.99 per share)		—	—	(16,284)	—	—	—	—	—	—	(16,284)
Profit attributable to owners of parent		—	—	48,917	—	—	—	—	—	—	48,917
Disposal of treasury stock		—	(4,175)	—	18,939	—	—	—	—	—	14,756
Acquisition of treasury stock		—	—	—	(38,851)	—	—	—	—	—	(38,851)
Transfer of the negative balance of other capital surplus		—	49	(49)	—	—	—	—	—	—	—
Net change of items other than shareholders' equity		—	—	—	—	(7,296)	(65)	539	(334)	1,576	(5,580)
Balance at March 31, 2022		\$ 86,191	\$ 74,017	\$ 463,706	\$ (30,435)	\$ 6,103	\$ (253)	\$ 228	\$ 2,173	\$ 6,904	\$ 608,652

See accompanying notes.

DAIHO CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2022	2021	2022
Cash flows from operating activities:			
Income before income taxes and non-controlling interests	¥ 9,395	¥ 9,513	\$ 76,762
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating activities:			
Depreciation and amortization	1,432	1,038	11,700
Impairment loss	297	3	2,426
Loss on litigation	18	13	147
Interest and dividend income	(191)	(164)	(1,560)
Interest expense	52	67	424
Increase (decrease) in allowance for doubtful accounts	23	(50)	187
Increase (decrease) in net defined benefit liability	153	221	1,250
Increase (decrease) in provision for bonuses	15	4	122
Foreign currency exchange (gains) losses, net	(189)	(122)	(1,544)
Loss (gain) on sales of investment securities	(221)	(130)	(1,805)
Increase (decrease) in allowance for losses on construction contracts	564	(71)	4,608
Increase (decrease) in provision for share-based remuneration	69	73	563
(Gain) loss on sale and disposal of property and equipment	(156)	18	(1,274)
Increase (decrease) in advances received on uncompleted contracts	1,615	1,008	13,195
(Increase) decrease in receivables and other current assets	(10,118)	(9,335)	(82,670)
(Increase) decrease in inventories	781	1,605	6,381
Increase (decrease) in payables and accrued expenses	1,139	(5,258)	9,306
(Increase) decrease in other assets	2,150	(4,309)	17,566
Increase (decrease) in other liabilities	4,577	3,510	37,396
Increase (decrease) in allowance for warranties for completed construction	(1,334)	239	(10,899)
Other, net	194	97	1,585
Subtotal	10,270	(2,028)	83,912
Interest and dividend received	188	160	1,536
Interest paid	(52)	(66)	(424)
Income taxes paid	(4,859)	(2,392)	(39,700)
Payments for loss on litigation	(9)	(30)	(73)
Net cash provided by (used in) operating activities	5,537	(4,357)	45,240
Cash flows from investing activities:			
Deposit in time deposits	(10)	(10)	(81)
Withdrawal from time deposits	10	20	81
Proceeds from sales of property and equipment	610	22	4,984
Payments for purchase of property and equipment	(2,072)	(7,270)	(16,929)
Payments for retirement of property, plant and equipment	(12)	(29)	(98)
Purchase of securities	—	(500)	—
Proceeds from sale of securities	—	500	—
Purchase of intangible assets	(100)	(111)	(817)
Purchase of memberships	—	(5)	—
Purchase of investment securities	(657)	(1,297)	(5,368)
Proceeds from sales of investment securities	459	429	3,750
Payments for long-term loans receivable	(605)	(670)	(4,943)
(Increase) decrease in short-term loans receivable	3	14	24
Collection of long-term loans receivable	180	70	1,470
Payments for asset retirement obligations	—	(57)	—
Net cash provided by (used in) investing activities	(2,194)	(8,892)	(17,926)
Cash flows from financing activities:			
Net (increase) decrease in short-term loans payable	(5,000)	6,100	(40,853)
Proceeds from issuance of bond	—	7,973	—
Purchase of treasury stock	(4,769)	(1,256)	(38,965)
Cash dividends paid	(1,995)	(1,680)	(16,300)
Cash dividends paid to non-controlling interests	(2)	(2)	(16)
Other, net	(203)	(78)	(1,658)
Net cash provided by (used in) financing activities	(11,971)	11,054	(97,810)
Effect of exchange rate changes on cash and cash equivalents	176	123	1,438
Net increase (decrease) in cash and cash equivalents	(8,451)	(2,071)	(69,049)
Cash and cash equivalents at the beginning of year	28,203	30,274	230,435
Cash and cash equivalents at end of year (Note 15)	¥ 19,751	¥ 28,203	\$ 161,377

See accompanying notes.

DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2022 and 2021

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of DAIHO CORPORATION (the “Company”) and its consolidated subsidiaries (together, the “Companies”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to the application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts to U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate as at March 31, 2022, which is ¥122.39 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

Amounts less than one million yen have been omitted. As a result, the total amounts in Japanese yen and translated U.S. dollars shown in the consolidated financial statements and notes to the consolidated financial statements do not necessarily agree with the sum of the individual amounts.

2. Significant accounting policies

(1) Principles of consolidation

(Significant consolidated subsidiaries)

Morimoto Corporation
Daiho Painting Industry Company Limited
Daiho real Estate Company Limited
Shinwa Machinery Company Limited
Thai Daiho Company Limited

(Non-consolidated subsidiaries)

Madagascar Daiho Corporation
Masters Comfort Company Limited

The consolidated financial statements as of March 31, 2022 include the accounts of the Company and its 8 subsidiaries. The other 2 subsidiaries are not consolidated as they have no material effect on the accompanying consolidated financial statements. All significant intercompany transactions and accounts have been eliminated.

Investments in other subsidiaries and affiliated companies are stated at cost since the Company’s equity in net income or retained earnings in such companies is not material.

(2) Inventories

Costs on uncompleted construction contracts, and costs of the real estate business and raw materials and supplies are stated at cost as determined on a specific basis. Costs of the real estate business and raw materials and supplies are measured at the lower of cost or net realizable value.

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(3) Property, equipment and depreciation

Property and equipment are stated at cost. Depreciation is computed principally based on the declining-balance method. Buildings (excluding fixtures attached to buildings) acquired on or after April 1, 1998 and fixtures attached to buildings and structures acquired on or after April 1, 2016 are depreciated using the straight-line method.

Estimated useful lives of the property and equipment are as follows:

	<u>2022</u>	<u>2021</u>
Buildings and structures	3 to 50 years	3 to 50 years
Machinery and equipment	2 to 20 years	2 to 20 years

(4) Intangible assets (excluding leased assets)

Intangible assets with finite useful lives are amortized using the straight-line method over their useful lives. The useful lives are determined using the same standard as set out in the Corporation Tax Law, provided however that software (for internal use) is subject to the straight-line method over the internally available period of five years.

(5) Lease assets

Leased assets arising from finance leases that do not transfer ownership of the lease property to the lessee are depreciated over the lease term using the straight-line method with a residual value of zero.

(6) Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

Items denominated in foreign currencies of foreign subsidiaries and affiliates are translated into Japanese yen at the current rate at the end of the fiscal year for all assets and liabilities, and at the average rate during the fiscal year for revenues and expenses.

(7) Revenue and cost recognition

The details of the main performance obligations related to revenue from construction contracts with the Companies' customers in the main projects and the ordinary timing of satisfaction of these performance obligations are as follows.

Since the performance obligations under construction contracts in the Civil engineering business and Building construction business are satisfied over time as the construction progress, revenue associated with these construction contracts is recognized based on the progress towards satisfaction of the performance obligations except when the contract amount is small or the period is very short. The progress is estimated using the percentage-of-completion method and the percentage at the end of the consolidated fiscal year is determined as the percentage of the cost incurred compared to the estimated total costs, so called "cost-proportional method". Except in the initial stages of the contracts, revenue is also recognized using the cost recovery method when it is not possible to reasonably estimate the progress towards satisfaction of performance obligations, but it is probable that the costs incurred will be recovered at the time of completion of construction.

In the current fiscal year, there were no construction contracts with significant financial components included in the transaction price. The timing of receipt of the transaction consideration varies depending on the terms of the contract, but it is generally received within one year.

(8) Marketable securities and investment securities

The Companies have neither trading securities nor held-to-maturity debt securities. Equity securities issued by subsidiaries, which are not consolidated or accounted for using the equity method, are stated at the moving-average cost. Available-for-sale securities with fair market values are stated at fair market value, and unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets on the Consolidated financial statements of Comprehensive Income. Realized gains and losses on the sale of such securities are computed using the moving-average cost. Equity securities without market prices are stated at the moving-average cost.

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(9) Costs of research and development

All research and development costs are charged to income as incurred. Costs of research and development for the years ended March 31, 2022 and 2021 totaled ¥183 million (\$1,495 thousand) and ¥93 million, respectively.

(10) Allowance for doubtful accounts

The Companies provide an allowance for doubtful accounts based principally on the historical bad debt ratio during a certain reference period, plus the estimated uncollectible amount based on the analysis of certain individual accounts, including claims in bankruptcy.

(11) Allowance for warranties for completed construction

The allowance for warranties for completed construction is provided to cover expenses for defects claimed concerning the completed work, based on the estimated amount for compensation to be paid in the future for the work completed during the fiscal year.

(12) Allowance for losses on construction contracts

The Companies provide an allowance for losses on uncompleted construction contracts at the fiscal year-end when losses are certainly anticipated for the next fiscal year onward, and such losses can be reasonably estimated.

(13) Provision for share-based remuneration

To prepare for the delivery of shares to directors, the Company recognizes an amount based on the expected board benefit obligations at the end of the current fiscal year in accordance with the “Rules on Provision of Shares to Officers.”

(14) Net defined benefit liability

(A) Method of attributing expected benefit to periods

The Companies determine the method of attributing expected benefit to periods based on a benefit formula.

(B) Method of processing actuarial gains and losses

Actuarial gains and losses are recognized as expenses using the straight-line method over 10 years, which falls within the average of the estimated remaining service years of the employees, commencing from the succeeding period.

(C) Adoption of simplified method for small entities

Certain subsidiaries calculate net defined benefit liability and retirement benefit expenses by using a simplified method in which retirement benefit obligations are equal to the amount that would be paid if all employees resigned voluntarily at the end of the fiscal year.

(15) Income taxes

Income taxes consist of corporation, enterprise and inhabitants taxes. The Companies recognize the tax effects of temporary differences between the financial statement basis and the tax basis of assets and liabilities. The provision for income taxes is computed based on the pretax income included in the consolidated financial statements 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.

(16) Derivatives and hedging activities

Forward foreign exchange contracts are utilized by the Companies to manage their exposures to fluctuations in foreign currency. The Companies do not enter into derivatives for trading or speculative purposes.

The Companies record derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless the derivative instruments are used for hedging purposes. When a forward foreign

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exchange contract meets certain conditions, the hedged item is translated at the corresponding forward foreign exchange contract rate. The following summarizes hedging derivative financial instruments used by the Companies and the items hedged:

<u>Hedging instruments</u>	<u>Items hedged</u>
Forward foreign exchange contracts	Foreign currency payables
Foreign currency deposits	Scheduled transactions denominated in foreign currencies

The Companies confirm that key terms and conditions of the hedging instruments and the hedged transactions are substantially the same to ensure the effectiveness for offsetting the fluctuation in fair value from the start of the transaction and thereafter.

(17) Amounts per share of common stock

Net income per share is computed using the weighted-average number of shares of common stock outstanding during the year. Cash dividends per share represent dividends declared as applicable to the respective years.

(18) Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(19) Appropriations of retained earnings

Appropriations of retained earnings are reflected in the accompanying consolidated financial statements for the following year upon the shareholders' meeting approval.

(20) Significant accounting estimates

Estimate of total construction costs in applying the percentage-of-completion method and recognizing an allowance for losses on construction contract

(Carrying amounts in the current year's consolidated financial statements)

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Construction revenue using the percentage-of-completion method	¥ 144,259	¥ 150,572	\$ 1,178,683
Allowance for losses on construction contracts	855	290	6,986

(Other information that assists users of consolidated financial statements in understanding the nature of the estimates)

For construction contracts, the Companies apply the method of recognizing revenue over a period of time using the cost-to-cost method as performance obligations are fulfilled. In applying the method of recognizing revenue over time, it is necessary to be able to reasonably estimate the progress of fulfillment of performance obligations, and to do so, it is necessary to be able to reasonably estimate the total construction costs.

In addition, in order to prepare for losses on construction contracts, the amount of loss expected to be incurred in the next fiscal year onward is recognized as an allowance for losses on construction contracts when the estimated total cost of construction work will certainly exceed the contract amount, and the amount of such losses can be reasonably estimated.

Construction contracts are characterized by their strong individuality, as the basic specifications and work content are based on the customer's instructions. Therefore, when applying the method of recognizing

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revenue over a certain period of time and estimating the total construction cost to be considered in recording a provision for contract loss, there is no uniform criterion applicable to all construction contracts. Accordingly, estimating total construction costs is subject to high uncertainties. If it becomes necessary to revise the estimate of the total cost of construction work, it may have a significant impact on sales and the amount of provision for loss on construction work in the next fiscal year.

(21) Changes in accounting policies

(Application of accounting standard for revenue recognition, etc.)

The Companies have applied the “Accounting standard for revenue recognition” (ASBJ Statement No.29, March 31, 2020, hereinafter the “Revenue recognition accounting standard”), etc. from the beginning of the current fiscal year and recognized revenue with the amounts that are expected to be received in exchange for the promised goods or services when the control of such goods or services are transferred to customers. Until the previous fiscal year, revenue associated with construction contracts for which the outcome could be reliably estimated was accounted for using the percentage-of-completion method, otherwise revenue was accounted for by the completed-contract-method. The accounting policy has been changed at the beginning of the current fiscal year, and revenue associated with construction contracts is recognized based on the progress towards satisfaction of the performance obligation except when the contract amount is small or the period is very short. The progress is estimated using the percentage-of-completion method and the percentage at the end of the fiscal year is using the cost-proportional method.

Except in the initial stages of the contracts, revenue is also recognized using the cost recovery method when it is not possible to reasonably estimate the progress towards satisfaction. For projects for which the contract amount is small or the period is very short, revenue is recognized at the time of completion.

Furthermore, the application of the revenue recognition accounting standard follows the transitional treatment stipulated in the proviso of paragraph 84 of the Accounting standard for revenue recognition. The cumulative effects in the case of retroactively applying the new accounting policy to periods before the beginning of the current fiscal year are adjusted in retained earnings at the beginning of the current fiscal year, and the new accounting policy is applied from this initial balance. However, the new accounting policy was not applied retrospectively to contracts for which almost all revenue amounts were recognized in accordance with the previous treatment prior to the beginning of the current fiscal year by applying the method prescribed in paragraph 86 of the accounting standard for revenue recognition.

As a result, the application of the accounting standard has no significant impact on the consolidated financial statements.

In addition, following the transitional treatment in paragraph 89-3 of the revenue recognition accounting standard, notes of “Revenue recognition” for the fiscal year ended March 31, 2021 are not provided.

(Application of accounting standard for fair value measurement)

The Companies have applied the “Accounting standard for fair value measurement” (ASBJ Statement No.30, July 4, 2019, hereinafter the “Fair value measurement accounting standard”), etc. from the beginning of the current fiscal year.

Accordingly, the Companies have applied new accounting policies under the fair value measurement accounting standard, etc. prospectively in accordance with the transitional treatment set out in paragraph 19 of the same standard and paragraph 44-2 of the “Accounting standard for financial instruments” (ASBJ statement No.10, July 4, 2019). The application of the accounting standard has no impact on the consolidated financial statements.

In addition, fair value information of financial instruments by level of inputs are disclosed in the notes of “Financial instruments”. However, following the transitional treatment in paragraph 7-4 of “Implementation guidance on disclosures about fair value of financial instruments” (ASBJ Guidance No.19, March 31, 2020), relevant information for the fiscal year ended March 31, 2021 is not provided.

(22) Unapplied accounting standards

(Standards and guidance not yet adopted)

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The following guidance has been issued but not yet adopted.

- “Implementation guidance on accounting standard for fair value measurement” (ASBJ Guidance No.31, June 17, 2021)

(A) Overview

The "Implementation guidance on accounting standard for fair value measurement" (ASB Guidelines No. 31) was initially announced on July 4, 2019, and stated that consideration of the "calculation of the market value of investment trusts" would require time for consultations with parties involved, and the fair value of "investments in partnerships, etc. that is recorded at the net amount equivalent to the equity on the balance sheet" would require some consideration. The guidance was revised and announced on June 17, 2021.

(B) Effective date

Effective from the beginning of the fiscal year ending March 31, 2023.

(C) Effects of the application of the standards

The impact of the application of accounting standards for fair value on the consolidated financial statements is currently being evaluated.

(23) For preparation of consolidated financial statements

(A) Accounting policies and procedures which are adopted when the provisions of the relevant accounting standards are not clear

(Accounting of Joint Venture)

The Company and certain consolidated subsidiaries incorporate Joint Ventures into their accounting by recording the amount of revenue and cost of sales associated with construction contracts according to the interests held in the Construction Joint Venture.

(24) Changes in presentation method

(Consolidated balance sheets)

“Income taxes refund receivable” have been presented separately from March 31, 2022 due to its increased importance. The consolidated financial statements as of March 31, 2021 have been reclassified to reflect this change in presentation method.

As a result, “Other current assets” of “Current assets” in the amount of ¥2,083 million in the consolidated balance sheets as of March 31, 2021, was reclassified to “Income taxes refund receivable” in the amount of ¥50 million and “Other” of “Current assets” in the amount of ¥2,033 million. .

(Consolidated statements of income)

“Impairment loss” have been presented separately from March 31, 2022 due to its increased importance. The consolidated financial statements as of March 31, 2021 have been reclassified to reflect this change in presentation method.

As a result, “Other, net” of “Other income (expenses)” in the amount of ¥47 million in the consolidated statements of income for the year ended March 31, 2021, was reclassified to “Impairment loss” in the amount of ¥3 million and “Other” of “Other income (expenses)” in the amount of ¥44 million.

(Consolidated statements of cash flows)

“Impairment losses” have been presented separately from March 31, 2022 due to its increased importance. The consolidated financial statements as of March 31, 2021 have been reclassified to reflect this change in presentation method.

As a result, “Other, net” of “Cash flows from operating activities” in the amount of ¥100 million in the consolidated statements of cash flow for the year ended March 31, 2021, was reclassified to “Impairment

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loss” in the amount of ¥3 million and “Other, net” of “Cash flows from operating activities” in the amount of ¥97 million.

(25) Additional Information

(Impact of COVID-19 on Accounting Estimates)

It is uncertain when COVID-19 will be contained. However, the Company and subsidiaries develop accounting estimates based on the assumption that construction requirements will continue to maintain employment levels. Measures include implementing remote working at offices across Japan and ensuring employee safety and health based on the measures to prevent infection at construction sites.

The Company and subsidiaries expect the impact of the pandemic on the Group’s business will be minor for the fiscal year ended March 31, 2022.

Changes in the business environment and spread of COVID-19 might affect the consolidated financial statements in the following fiscal year onward.

(Execution of capital and business alliance agreement, decrease in additional paid in capital, planned issuance of new shares through third-party allotment, takeover bid of treasury stock and planned borrowing of a large amount of funds)

(A) Execution of capital and business alliance agreement and decrease in additional paid in capital

At a meeting of the Company’s board of directors held on March 24, 2022, the Company resolved to (i) issue new shares to Aso Corporation ("Aso") through a third-party allotment (the "Capital increase through third-party allotment"). Enter into a capital and business alliance agreement (the "Capital and business alliance agreement") with Aso, the allottee of the capital increase through third-party allotment, and enter into a capital and business alliance agreement with Aso. (ii) The board of directors also resolved to read the provisions of article 156, paragraph 3 of the Law (Law No. 86 of 2005, including subsequent amendments), to acquire its own shares and to conduct a takeover bid for its own shares as a specific method of acquisition (the "Takeover bid") in accordance with article 156, paragraph 1 of the Law, which is applicable as replacement of article 165, paragraph 3 of the Law as applied pursuant to article 165, paragraph 3 of the same Law and the provisions of the articles of incorporation of the Company, and to conduct a Takeover bid for its own shares. The Company will borrow a large amount of funds to fund such Takeover bid of its own shares, and (iii) The Company will reduce the amount of its capital reserve, subject to approval at an extraordinary shareholders' meeting of the Company to be held on May 24, 2022, because an increase in the amount available for distribution is necessary in order to conduct the Takeover bid. The Company resolved to reduce the amount of capital reserve and entered into the Capital and business alliance agreement with Aso on May 24, 2022, subject to approval at the extraordinary shareholders' meeting of the Company to be held on May 24, 2022.

The three-year period from the fiscal year ending March 31, 2021 to the fiscal year ending March 31, 2023 is positioned as the period to build a foundation for the business and profit, with the aim of becoming a company that has been in business for 100 years. In the "Medium-term management plan (FY3/2021-FY3/2023)" (hereinafter referred to as the "New medium-term management plan") released on May 13, 2020, the Company set forth "focus on existing businesses," "entry into new businesses," and "initiatives in PPP business" as its basic business strategies. In addition, in the new medium-term management plan, the Company has decided to allocate ¥30,000 million over three years as strategic investments to growth investments, including mergers and acquisitions strategies with construction companies based outside the Tokyo metropolitan area and capital investments necessary for entering new businesses; and to invest in the development of new businesses, including the development of a new business model that will allow the Company to expand into new markets. Regarding shareholder return policy, the Company announced that it will secure a consolidated dividend payout ratio of 30% or more of net income, and that it will strive to flexibly purchase treasury stock in consideration of the progress of growth investments.

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In this context, the board of directors have been discussing the possibility of a collaboration with the Aso Group (a corporate group consisting of consolidated subsidiaries and equity method affiliates with Aso as the core company) since September 10, 2021, examining the nature of the business, the synergies that could be generated through such collaboration, and the possibility of overcoming challenges associated with such collaboration.

The Company has also received a proposal from its largest shareholder, City index eleventh Co., Ltd ("City index eleventh"), and Mr. Yoshiaki Murakami and Ms. Aya Nomura, who are also shareholders of City index eleventh's parent company, In the course of discussions to improve the corporate value of the Company, the differences of opinion between the Company and Mr. Murakami and others on the Company's management strategy and capital policy became more and more pronounced.

In order to improve the Company's corporate value over the medium to long term through the steady implementation of the new medium-term management plan, the board of directors determined that it is appropriate to promote the business alliance between the Company and the Aso Group in an integrated and proactive manner, and that the establishment of a relationship of trust and stabilization of the management base by having the Company under the Aso Group would be effective in achieving this goal. Therefore, the board of directors have decided that it would be a good option to establish a capital relationship as well as a business alliance with Aso Group, after City index eleventh and others sell their shares of the Company's common stock to Aso Group.

As a result of ongoing discussions between the Company and Aso, the Company decided to conduct the Takeover bid, followed by the Capital increase through third-party allotment to Aso, and on March 24, 2022, the Company entered into the capital and business alliance agreement with Aso. Through the Company becoming a consolidated subsidiary of Aso, the Company expects to realize synergies such as efficient expansion of business areas, collaboration in the maintenance and repair business, enhanced competitiveness in the disaster mitigation and disaster prevention business, and securing construction human resources. The schedule is as follows:

Board of directors' resolution regarding implementation of the capital increase through third-party allotment, execution of the capital and business alliance agreement, implementation of the Takeover bid, and reduction of the amount of capital reserve, and filing of a securities registration statement	March 24, 2022
Date of resolution of this extraordinary general meeting of shareholders	May 24, 2022
Effective date of capital reserve reduction	May 25, 2022
Date of board of directors' resolution to commence the Takeover bid	May 25, 2022
Announcement date for the commencement of the public offer (the date the public offer is made)	May 26, 2022
Public purchase period	May 26, 2022 to June 22, 2022
Commencement date of settlement of the Takeover bid	July 14, 2022
Transfer date of the third-party allotment	July 19, 2022

As a result of the approval at the Company's extraordinary shareholders' meeting held on May 24, 2022, the amount of capital reserve was reduced by ¥7,500 million (\$61,280 thousand) as of May 25, 2022. Please refer to "Notes (25. Subsequent events)" for details.

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(B) Overview of Capital Increase through Third-Party Allotment

(a) A summary of the Capital Increase through Third-Party Allotment is as follows:

Due date for bank transfer	July 19, 2022
Number of new shares issued	8,500,000 stocks
issue price	¥4,750 per share (\$38.81 per share)
Amount of funds raised	¥40,375 million (\$329,888 thousand)
Amount of capital to be increased	¥20,187 million (\$164,940 thousand)
Amount of capital reserve to be increased	¥20,187 million (\$164,940 thousand)
Allottees and method of allotment	All of the new shares to be issued will be allocated to Aso by way of a third-party allotment

(b) Specific use of funds to be raised

This will be to repay the borrowings to fund the settlement of the Takeover bid.

(C) Plans to make a takeover bid for treasury stock and borrow a large amount of funds

As described in (A). The execution of capital and business alliance agreement and reduction of capital reserve, following the resolution at the extraordinary shareholders' meeting on May 24, 2022, the Company resolved at the board of directors' meeting on May 25, 2022 to enter into a capital and business alliance agreement with the Company under the Companies act (Act No. 86 of 2005, as amended). (Law No. 86 of 2005, including subsequent amendments). The Company resolved to acquire treasury stock and to conduct a takeover bid for treasury stock as a specific method of acquisition in accordance with the provisions of article 156, paragraph 1 of the Companies act (Act No. 86 of 2005, as amended), as applied pursuant to article 165, paragraph 3 of the same act, and the Company's articles of incorporation.

(a) Details of director's resolution on acquisition of treasury stock

Type of shares	total (number)	Total acquisition price
common stock	8,850,100 stocks	¥41,860 million (\$342,021 thousand)

(Notes) Percentage of total shares issued: 48.01% (as of March 31, 2022)

(b) Offer Price

¥4,730 (\$38.65) per share of common stock

(c) Outline of Borrowing of takeover bid settlement funds

Name of loan	Bridge loan
Lender	Sumitomo Mitsui Banking Corporation
Loan amount	¥41,860 million (\$342,021 thousand)
how funds are used	Funds for the purchase of common stock under the Takeover bid
Repayment method	Lump-sum payment on the due date
Borrowing period	July 13, 2022 to July 20, 2022
Interest rate on loans	Short-term prime rate (annual rate 1.475%)
Collateral	Unsecured and unguaranteed

(D) Other

On March 24, 2022, the Company entered into a tender agreement with City index eleventh and others, under which the Company will tender the tendered shares (7,200,640 shares as of March 31, 2022; shareholding ratio: 41.26%) in the Takeover bid to be conducted by the Company.

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3. Trade notes and accounts receivable, advances received on uncompleted construction contracts

The balances of receivables from contracts with customers, contract assets and contract liabilities included in trade notes and accounts receivable and advances received on uncompleted construction contracts are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Trade notes and accounts receivable	¥ 75,298	¥ —	\$ 615,230
Receivables from contracts with customers	25,892	—	211,553
Advances received on uncompleted construction contracts	9,959	—	81,371

4. Costs on uncompleted construction contracts and other

Costs on uncompleted construction contracts and other are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Costs on uncompleted construction contracts	¥ 1,729	¥ 1,996	\$ 14,127
Real estate business	474	992	3,873
Raw materials and supplies	100	92	817

5. Commitment line agreements

The Company has entered into commitment line agreements for borrowings with five financial institutions for the purpose of efficient funding. The unused commitment line of credit based on such agreements for borrowings as of March 31, 2022 and 2021 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Commitment line	¥ 15,000	¥ 15,000	\$ 122,559
Short-term loans payable	—	7,000	—
	¥ 15,000	¥ 8,000	\$ 122,559

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6. Impairment losses on fixed assets

For the year ended March 31, 2022, the Companies recognized impairment loss on fixed assets as follows:

Major use	Asset category	Location	Amount
Idle assets	Land	Yokohama-city, Kanagawa-prefecture	¥208 millions (\$1,699 thousand)
Idle assets	Land	Niigata-city, Niigata-prefecture	¥76 millions (\$621 thousand)
Idle assets	Land and buildings	Yuzawa-town, Minamiuonuma-county, Niigata-prefecture	¥12 millions (\$98 thousand)
Idle assets	Land	Minamisouma-city, Fukushima-prefecture, and 2 others	¥0 millions (\$6 thousand)

Assets for business use are grouped based on managerial accounting units (per branch), and idle assets and assets used for rent are grouped based on individual assets.

Carrying amounts of certain assets used for idle properties were devalued to their recoverable amounts, due to lowered profitability or substantial declines in the fair market value.

As a result, the Companies recognized an impairment loss on fixed assets of ¥297 million (\$2,426 thousand). Recoverable amounts of certain assets are measured at net selling price at disposition. The Companies use appraisal value or route price for idle assets, and estimated selling price or route price for real estate for sale.

For the year ended March 31, 2021, the Companies recognized impairment loss on fixed assets as follows:

Major use	Asset category	Location	Amount
Equipment assets	Equipment	Osaka-city, Osaka-prefecture	¥3 millions
Idle assets	Land	Joetsu-city, Niigata-prefecture	¥0 millions
Idle assets	Land	Mimasaka-city, Okayama-prefecture	¥0 millions

Assets for business use are grouped based on managerial accounting units (per branch), and idle assets and assets used for rent are based on individual assets.

Carrying amounts of certain assets used for equipment assets and idle properties were devalued to their recoverable amounts, due to lowered profitability or substantial declines in the fair market value.

As a result, the Companies recognized an impairment loss on fixed assets of ¥3 million.

Recoverable amounts of certain assets are measured at net selling price at disposition. The Companies use road rating for idle assets, appraisal value or route price for branch assets and estimated selling price or route price for assets used for rent.

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7. Market value information for securities

(A) The following tables summarize acquisition costs and book values of securities with available fair values as of March 31, 2022 and 2021:

Available-for-sale securities:

(1) Securities with book values exceeding acquisition costs

Type	Millions of yen		
	2022		
	Acquisition cost	Book value	Difference
Equity securities	¥ 3,623	¥ 4,824	¥ 1,200
Bonds	10	10	0
Others	77	91	14
Total	¥ 3,711	¥ 4,925	¥ 1,214

Type	Millions of yen		
	2021		
	Acquisition cost	Book value	Difference
Equity securities	¥ 4,952	¥ 7,348	¥ 2,395
Bonds	10	10	0
Others	77	100	22
Total	¥ 5,039	¥ 7,459	¥ 2,419

Type	Thousands of U.S. dollars		
	2022		
	Acquisition cost	Book value	Difference
Equity securities	\$ 29,602	\$ 39,415	\$ 9,805
Bonds	82	82	0
Others	629	744	114
Total	\$ 30,321	\$ 40,240	\$ 9,919

(2) Securities with book values not exceeding acquisition costs

Type	Millions of yen		
	2022		
	Acquisition cost	Book value	Difference
Equity securities	¥ 1,248	¥ 1,127	¥ (121)
Others	279	276	(2)
Total	¥ 1,528	¥ 1,403	¥ (124)

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	Millions of yen		
	2021		
Type	Acquisition cost	Book value	Difference
Equity securities	¥ 107	¥ 58	¥ (49)
Others	—	—	—
Total	¥ 107	¥ 58	¥ (49)

	Thousands of U.S. dollars		
	2022		
Type	Acquisition cost	Book value	Difference
Equity securities	\$ 10,197	\$ 9,208	\$ (989)
Others	2,280	2,255	(16)
Total	\$ 12,485	\$ 11,463	\$ (1,013)

(B) Available-for-sale securities sold and the related gains and losses

Total sales and the related gains and losses of available-for-sale securities are as follows:

Type	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Equity securities			
Sales	¥ 428	¥ 346	\$ 3,497
Related gains	221	170	1,805
Related losses	—	48	—
Others			
Sales	31	84	253
Related gains	7	9	57

8. Pledged assets

As of March 31, 2022 and 2021, the following assets of the Companies are pledged to guarantee money.

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Investment securities	¥ 10	¥ 10	\$ 82

9. Short-term and long-term loans payable and Convertible bond-type bonds with share acquisition rights

Short-term loans payable consisted mainly of bank overdrafts. The weighted average interest rates as at March 31, 2022 and 2021 were 0.6% per annum and 0.6% per annum.

Current portion of long-term loans consisted mainly of bank overdrafts. The weighted average interest rate as at March 31, 2022 and 2021 were 0.8% per annum and 0.8% per annum.

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The annual maturities of Current portion of long-term borrowings as of March 31, 2022 and 2011 are as follows:

	Millions of yen		Thousand of U.S. dollars
	2022	2021	2022
Within one year	¥ 3,150	¥ —	\$ 25,737
Over one year and less than two years	—	3,150	—
Over two years and less than three years	—	—	—
Over three years and less than four years	—	—	—
Over four years and less than five years	—	—	—
Total	3,150	3,150	25,737

The annual maturities of Convertible bonds with subscription rights to shares payable as of March 31, 2022 and 2011 are as follows:

	Millions of yen		Thousand of U.S. dollars
	2022	2021	2022
Within one year	¥ —	¥ —	\$ —
Over one year and less than two years	—	—	—
Over two years and less than three years	—	—	—
Over three years and less than four years	1,463	—	11,953
Over four years and less than five years	—	3,196	—
Total	1,463	3,196	11,953

10. Allowance for losses on construction contracts

Costs on uncompleted construction contracts for which a construction loss is anticipated and allowance for losses on construction contracts are presented without being offset.

The amount of allowance for losses on construction contracts, matching the amount of costs on uncompleted construction contracts, is ¥11 million (\$90 thousand) and ¥1 million for the years ended March 31, 2022 and 2021, respectively. The amount of allowance for losses on construction contracts included in cost of sales is ¥780 million (\$6,373 thousand) and ¥300 million for the years ended March 31, 2022 and 2021, respectively.

11. Net defined benefit liability

(1) As of March 31, 2022 and 2021, the Company and certain consolidated subsidiaries provide two types of severance and retirement benefit plans: defined contribution pension plans and severance lump-sum payment plans based on points. Other consolidated subsidiaries provide unfunded lump-sum payment plans.

(2) The following table shows the movement in retirement benefit obligations for the years ended March 31, 2022 and 2021 (including the adoption of a simplified method to compute their retirement benefit obligations as permitted by Japanese GAAP).

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	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Balance at the beginning of the year	¥ 6,179	¥ 6,043	\$ 50,486
Service cost	522	540	4,265
Interest cost	50	49	409
Actuarial loss (gain)	(12)	(35)	(98)
Benefits paid	(472)	(419)	(3,857)
Balance at the end of the year	¥ 6,267	¥ 6,179	\$ 51,205

(3) The reconciliation between retirement benefit obligations and net defined benefit liability (including the adoption of the simplified method stated above) is as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Unfunded retirement benefit obligations	¥ 6,267	¥ 6,179	\$ 51,205
Total net defined benefit liability at the end of the respective fiscal year	6,267	6,179	51,205
Defined benefit liability	¥ 6,267	¥ 6,179	\$ 51,205
Total net defined benefit liability at the end of the respective fiscal year	6,267	6,179	51,205

(4) The components of retirement benefit expenses for the years ended March 31, 2022 and 2021 (retirement benefit expenses in the consolidated subsidiaries using the simplified method are recorded in service cost) are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Service cost	¥ 522	¥ 540	\$ 4,265
Interest cost	50	49	409
Net actuarial loss amortization	53	51	433
Total retirement benefit expenses for the respective fiscal year	¥ 626	¥ 641	\$ 5,115

(5) The remeasurements of defined benefit plans (before considering tax effect) are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Actuarial difference	¥ 66	¥ 86	\$ 539
Total remeasurements for the respective fiscal year	¥ 66	¥ 86	\$ 539

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(6) The accumulated remeasurements of defined benefit plans before considering tax effect are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Actuarial gains and losses that are yet to be recognized	¥ (28)	¥ 37	\$ (228)
Total balance at the end of respective fiscal year	¥ (28)	¥ 37	\$ (228)

(7) The principal actuarial assumptions as at March 31, 2022 and 2021 (expressed as weighted averages) are the discount rates of 0.8–1.0%.

(8) Defined contribution pension plan

The amount to be paid by the Companies to the defined contribution pension plan was ¥168 million (\$1,373thousand) and ¥168 million for the years ended March 31, 2022 and 2021, respectively.

12. Contingent liabilities

The Companies are contingently liable as a guarantor of indebtedness of customers aggregating is ¥4 million (\$33thousand) and ¥4 million as at March 31, 2022 and 2021, respectively.

13. Income taxes

Income taxes consist of taxes on corporation, enterprise and inhabitants.

The Companies are subject to a number of taxes based on income, which, in the aggregate, resulted in a normal rate of 30.6% in Japan for the year ended March 31, 2022 and 2021. The following table summarizes the main differences between the statutory tax rate and the Companies' effective tax rate for the year ended March 31, 2022 and 2021.

	2022		2021	
		%		%
Statutory tax rate	30.6		30.6	
Permanent differences:				
Non-deductible expenses	0.5		0.5	
Per capita inhabitants taxes	1.6		1.5	
Increase (Decrease) in valuation allowance	2.0		(0.0)	
Tax deduction for wage increases and productivity improvement	(0.2)		(0.2)	
Other	(0.3)		0.5	
Effective tax rate	34.2		32.9	

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Main components of the Companies' deferred tax assets and liabilities as of March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Deferred tax assets:			
Net defined benefit liability	¥ 1,945	¥ 1,900	\$ 15,892
Allowance for warranties for completed construction	210	619	1,716
Excess bonuses accrued	293	283	2,394
Enterprise taxes payable	96	141	784
Write-down of inventories (*1)	137	139	1,119
Subscription rights to shares	81	94	662
Impairment loss on fixed assets	183	93	1,495
Allowance for losses on construction contracts	261	88	2,133
Tax loss carryforwards	60	42	490
Allowance for doubtful accounts	30	29	245
Other	278	423	2,271
Subtotal	3,579	3,856	29,243
Valuation allowance (*2)	(2,333)	(2,180)	(19,062)
Total deferred tax assets	1,245	1,676	10,172
Deferred tax liabilities:			
Unrealized gains on securities	(342)	(728)	(2,794)
Deferred gains on property and equipment	(52)	(53)	(425)
Temporary differences on assets acquired through transfers of business	(8)	(8)	(65)
Other	(0)	(0)	(3)
Total deferred tax liabilities	(403)	(791)	(3,293)
Net deferred tax assets (liabilities)	¥ 841	¥ 885	\$ 6,871

(*1) "Write-down of inventories" is concerning the real estate reclassified from current assets to non-current assets by the change of the purpose.

(*2) "Valuation allowance" increased by ¥206 million (\$1,683 thousand). The main reason of this increase is due to an increase in impairment losses on fixed assets.

14. Net assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Corporate Law ("the Law"), in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, companies are required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equal 25% of common stock.

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Under the Japanese Commercial Code (“the Law”), legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders’ meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders’ meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, however, on the condition that the total amount of legal earnings reserve and additional paid-in capital remains equal to or exceeds 25% of common stock, these are available for distribution by resolution of the shareholders’ meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders’ meeting held on June 29, 2022, the shareholders approved cash dividends amounting to ¥4,263million (\$34,831thousand). The appropriations were not reflected in the consolidated financial statements as of March 31, 2022. Such appropriations are recognized in the period when they are resolved.

15. Cash and cash equivalents

Reconciliations of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated financial statements of cash flows as of March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Cash and time deposits	¥ 19,780	¥ 28,213	\$ 161,614
Less: Time deposits with maturities exceeding three months	(10)	(10)	(82)
Separate deposits with stock benefit trust	(18)	—	(147)
Cash and cash equivalents	¥ 19,751	¥ 28,203	\$ 161,377

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16. Revenue recognition

(A) Disaggregation of revenue from contracts with customers

Disaggregation of revenue from contracts with customers are as described in the “Segment information”.

(B) Information related to the relationship between the satisfaction of performance obligations based on contracts with customers and the cash flows resulting from such contracts, as well as the amounts and timing of revenue from contracts with customers that existed as of March 31, 2022, which is expected to be recognized in or after the fiscal year ending March 31, 2023

(1) Balances of contract assets and contract liabilities

	Millions of yen		Thousands of U.S. Dollars
	Balance as of March 31, 2022	Balance as of April 1, 2021	Balance as of March 31, 2022
Receivables from contracts with customers	¥ 25,892	¥ 37,666	\$ 211,553
Contract assets	75,298	55,234	615,230
Contract liabilities	9,959	10,010	81,371

Contract assets relate to the Company and its consolidated subsidiaries' rights to consideration for completed construction contracts with clients that have been completed but not yet invoiced as of the balance sheet date. The contract assets are reclassified to receivables arising from contracts with customers when the Company and its subsidiaries' rights to the consideration become unconditional. The consideration for such completed work is invoiced upon completion of the work and received within approximately one year, in accordance with the terms of payment.

Contract liabilities primarily relate to advances received from customers based on payment terms for construction contracts with clients for which revenue is recognized. Contract liabilities are reversed upon revenue recognition.

The amount of revenue recognized in the current fiscal year that was included in the balance of contract liabilities at the beginning of the fiscal year was ¥8,367 million (\$68,363 thousand). There were no significant changes in contract assets and liabilities recognized at the beginning of the current fiscal year during the current fiscal year. There were no material changes in contract assets and liabilities recognized at the beginning of the current fiscal year.

The amount of revenue recognized (mainly, changes in transaction prices) in the current period from performance obligations satisfied in prior periods was ¥5,740 million (\$46,899 thousand).

(2) Transaction price allocated to the remaining performance obligations

The total transaction price allocated to the remaining performance obligations at the end of the current fiscal year is ¥257,050 million (\$2,100,253 thousand). These remaining performance obligations are expected to be recognized as revenue generally within five years, the details are as follows:

	Millions of yen	Thousands of U.S. Dollars
Within one year	¥ 131,130	\$ 1,071,411
Over one year and less than two years	68,955	563,404
Over two years and less than three years	43,626	356,451
Over three years	13,339	108,988
Total	257,050	2,100,253

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17. Segment information

(1) General information about reportable segments

The Companies' reportable segments include operating units of the business, for which separate financial information is available, and which are reviewed regularly by the Board of Directors to determine the distribution of management resources and evaluate business results. Accordingly, the company has three reportable segments: "Civil engineering", "Building construction" and "Other".

(2) Methods of measurement for the amounts of sales, income, assets and other items for each reportable segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Significant Accounting Policies"

Segment income is based on the operating income of the consolidated financial statements of income.

(3) Information about sales, income, assets and other items is as follows:

<u>Year ended</u>		<u>March 31, 2022</u>					Millions of yen	
		Civil engineering	Building construction	Other	Total	Reconciliations (#1·#2·#4)	Consolidated (#3)	
Sales:								
Domestic sales	¥	80,061	¥ 66,177	¥ 3,682	¥ 149,922	¥ —	¥ 149,922	
International sales		6,262	336	—	6,598	—	6,598	
Revenue generated from contracts with customers								
Outside customers	¥	86,324	¥ 66,513	¥ 3,682	¥ 156,520	¥ —	¥ 156,520	
Intersegment		—	5	778	784	(784)	—	
Total		86,324	66,519	4,461	157,304	(784)	156,520	
Segment income	¥	5,419	¥ 2,973	¥ 451	¥ 8,844	¥ 13	¥ 8,857	
Identifiable assets								
Depreciation and amortization		98,370	¥ 69,005	¥ 5,125	¥ 172,501	¥ (2,879)	¥ 169,621	
Capital expenditures		1,055	328	62	1,447	(14)	1,432	
		1,681	505	8	2,195	—	2,195	

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Year ended

March 31, 2021

Millions of yen

	Civil engineering	Building construction	Other	Total	Reconciliations (#1-#2-#4)	Consolidated (#3)
Sales:						
Outside customers	¥ 86,090	¥ 72,077	¥ 3,529	¥ 161,697	¥ —	¥ 161,697
Intersegment	—	5	339	344	(344)	—
Total	86,090	72,083	3,869	162,042	(344)	161,697
Segment income	¥ 5,054	¥ 3,666	¥ 334	¥ 9,055	¥ 10	¥ 9,066
Identifiable assets	¥ 88,513	¥ 80,640	¥ 4,687	¥ 173,841	¥ (2,941)	¥ 170,899
Depreciation and amortization	721	260	70	1,053	(15)	1,038
Capital expenditures	965	5,550	727	7,244	—	7,244

Year ended

March 31, 2022

Thousands of U.S. dollars

	Civil engineering	Building construction	Other	Total	Reconciliations (#1-#2-#4)	Consolidated (#3)
Sales:						
Domestic sales	\$ 654,147	\$ 540,706	\$ 30,084	\$ 1,224,953	\$ —	\$ 1,224,953
International sales	51,164	2,745	—	53,910	—	53,910
Revenue generated from contracts with customers	\$ 705,319	\$ 543,451	\$ 30,084	\$ 1,278,863	\$ —	\$ 1,278,862
Outside customers	\$ 705,319	\$ 543,451	\$ 30,084	\$ 1,278,863	\$ —	\$ 1,278,862
Intersegment	—	41	6,357	6,406	(6,406)	—
Total	705,319	543,500	36,449	1,285,268	(6,406)	1,278,862
Segment income	\$ 44,276	\$ 24,291	\$ 3,685	\$ 72,261	\$ 114	\$ 72,367
Identifiable assets	\$ 803,742	\$ 563,812	\$ 41,874	\$ 1,409,437	\$ (23,523)	\$ 1,385,905
Depreciation and amortization	8,620	2,680	507	11,823	(114)	11,700
Capital expenditures	13,735	4,126	65	17,934	—	17,934

- #1. Reconciliations of segment income amounting to ¥13 million (\$106 thousand) and ¥10 million for the years ended March 31, 2022 and 2021 are eliminations of intersegment transactions.
- #2. Reconciliations of identifiable assets amounting to ¥ (2,879) million (\$23,523 thousand) and ¥ (2,941) million for the years ended March 31, 2022 and 2021 are eliminations of intersegment transactions.
- #3. Consolidated amounts of segment income above correspond to the amounts of operating income in the consolidated financial statements of income.
- #4. All assets are allocated to the respective business segments.
- #5. Sales are mainly revenue generated from contacts with customers, and other sales are not material.

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(4) Related information

(a) Information by product or service

As the same information is disclosed in "(1) General information about reportable segments," this information is omitted.

(b) Information by region

(Sales)

Disclosure of sales information by region is omitted as the proportion of sales in Japan to total sales is over 90%.

(Property and equipment)

Disclosure of property and equipment information by region is omitted as the proportion of property and equipment in Japan to total property and equipment is over 90%.

(c) Information about major customers

For sales to external customers, sales to any specific customer account for less than 10% of net sales in the consolidated financial statements. Therefore, this information is omitted.

(5) Information about impairment loss on fixed assets by reportable segment for the year ended March 31, 2022, is as follows:

(Fiscal year March 31, 2022)

(Millions of yen)

	Civil engineering	Building construction	Other	Elimination and/or corporate	Total
Impairment loss on fixed assets	¥ 165	¥ 131	¥ —	¥ —	¥ 297

(Thousands of U.S. Dollar)

	Civil engineering	Building construction	Other	Elimination and/or corporate	Total
Impairment loss on fixed assets	\$ 1,348	\$ 1,070	\$ —	\$ —	\$ 2,427

(Fiscal year March 31, 2021)

Because of the immaterial nature of the amounts, the description is omitted.

(6) Amortization and balance of goodwill by reportable segment

Not applicable

(7) Amount of gain on negative goodwill by reportable segment

Not applicable

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18. Information on related parties

Year ended March 31, 2022

Name: Masters Comfort Company Limited
Attribution: Non-consolidated subsidiary
Capital: ¥4 million (\$33 thousand)
Equity ownership percentage of the Company: 50%

	Millions of yen Transaction amount		Millions of yen Balance at end
Loan of funds	¥ 605	(Long-term loans receivable)	¥ 2,655
Repayment of funds	180	(Advances received on uncompleted construction contacts)	59
Receipt of interest	60	(Other current assets)	16
Work fee	65	(Trade notes and accounts receivable)	1,722
Construction fee	557		
Construction sales	2,067		
	Thousands of U.S. dollars Transaction amount		Thousands of U.S. dollars Balance at end
Loan of funds	\$ 4,943	(Long-term loans receivable)	\$ 21,693
Repayment of funds	1,471	(Advances received on uncompleted construction contacts)	482
Receipt of interest	490	(Other current assets)	131
Work fee	531	(Trade notes and accounts receivable)	14,070
Construction fee	4,551		
Construction sales	16,889		

Transaction terms and policies for determining transaction terms (Note1). With regard to loan and collection of funds, efficient management of funds is carried out among group companies, and interest rates are determined in consideration of market interest rates. We do not accept or provide collateral.

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(Note2). Work fee is based on the normal terms and conditions of business based on prices agreed between the parties.

(Note3). Orders for construction work are determined through price negotiations, taking market prices into consideration.

Year ended March 31, 2021

Name: Masters Comfort Company Limited

Attribution: Non-consolidated subsidiary

Capital: ¥4 million

Equity ownership percentage of the Company: 50%

	Millions of yen		Millions of yen
	Transaction		Balance at end
	amount		
Loan of funds	¥ 670	(Long-term loans receivable)	¥ 2,230
Repayment of funds	70	(Advances received on uncompleted construction contracts)	59
Receipt of interest	49	(Other current assets)	14
Work fee	41	(Trade notes and accounts receivable from completed construction contracts and other)	61
Construction fee	277		

Transaction terms and policies for determining transaction terms

(Note1). With regard to loan and collection of funds, efficient management of funds is carried out among group companies, and interest rates are determined in consideration of market interest rates. We do not accept or provide collateral.

19. Loss on litigation

Components of the loss on litigation for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Settlement packages	¥ 9	¥ 14	\$ 74
Others	8	(0)	65

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20. Financial instruments

Information on financial instruments for the years ended March 31, 2022 and 2021 is as follows:

(A) Status of financial instruments

(1) Policy for financial instruments

The Companies limit their fund management to short-term deposits and raise funds through borrowings from financial institutions including banks.

The Company use derivatives for the purpose of avoiding risks as described below and not for speculative transactions.

(2) Types of financial instruments, related risk and risk management

Trade notes and accounts receivable and electronically recorded monetary claims - operating are exposed to credit risk in relation to customers. The Companies regularly monitor the credit standing of their main customers, due dates and outstanding balances of individual customers.

Advances paid is a credit occurring mainly through construction transactions excluded trade notes and accounts receivables, and the account is exposed to credit risk in relation to customers.

Investment securities are exposed to the risk of market price fluctuations. Those securities are composed mainly of the shares of other companies with which the Companies have a business relationship. The fair values of those securities are periodically reviewed and reported to the Board of Directors.

Trade notes and accounts payable and electronically recorded obligations – operating have payment due dates mainly within one year.

The purpose of loans payable is mainly for working capital finance.

Convertible bond-type bonds with share acquisition rights are intended to raise funds necessary for working capital and capital investment.

Derivatives used by the company are forward foreign exchange contracts for the purpose of hedging exchange rate fluctuations, which affect overseas transactions. The execution and management of derivative transactions are conducted in accordance with the Company's internal regulations.

Furthermore, in actual operations, derivative transactions are entered into only with financial institutions that possess high credit ratings in order to mitigate the counterparties' default risks.

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(B) Fair values of financial instruments

Book values of the financial instruments included in the consolidated balance sheet and their fair values as at March 31, 2022 and 2021 are as follows. The following table does not include equity securities without market prices (Refer to #2 below). Notes are omitted for cash, as the fair values of deposits, trade notes and accounts receivable, electronically recorded monetary claims - operating, short-term loans receivable, and trade notes and accounts payable, electronically recorded obligations-operating, short-term loans payable and deposits received their book values due to their short maturities.

Millions of yen			
2022			
	Book value	Fair value	Difference
Investment securities			
Other securities	¥ 6,329	¥ 6,329	¥ —
Long-term loans receivable	2,659	2,639	(19)
Total assets	¥ 8,988	¥ 8,969	¥ (19)
Current portion of long-term loans payable	¥ 3,150	¥ 3,136	¥ (13)
Convertible bond-type bonds with shares acquisition rights	1,463	2,184	721
Total liabilities	¥ 4,613	¥ 5,320	¥ 707

Millions of yen			
2021			
	Book value	Fair value	Difference
Investment securities			
Other securities	¥ 7,517	¥ 7,517	¥ —
Long-term loans receivable	2,236	2,222	(14)
Total assets	¥ 9,753	¥ 9,739	¥ (14)
Convertible bond-type bonds with shares acquisition rights	¥ 3,196	¥ 4,106	¥ 910
Long-term loans payable	3,150	3,136	(13)
Total liabilities	¥ 6,346	¥ 7,243	¥ 897

Thousands of U.S. dollars			
2022			
	Book value	Fair value	Difference
Investment securities			
Other securities	\$ 51,712	\$ 51,712	\$ —
Long-term loans receivable	21,725	21,562	(155)
Total assets	\$ 73,437	\$ 73,282	\$ (155)
Current portion of long-term loans payable	\$ 25,737	\$ 25,623	\$ 106
Convertible bond type bonds with subscription rights to shares	11,953	17,845	5,891
Total liabilities	\$ 37,691	\$ 43,468	\$ 5,777

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#1. As quoted prices are not readily available for unlisted stocks and the future cash flows cannot be estimated reliably, the fair value of the items is deemed to be extremely difficult to measure and are not included in “(2) Investment securities other securities”.

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
Unlisted stocks	¥ 1,715	¥ 1,387	\$ 14,013

#2. Monetary claims and Securities with scheduled redemption amounts maturing after March 31, 2022

Millions of yen				
2022				
Type	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	¥ 19,780	¥ —	¥ —	¥ —
Trade notes and accounts receivable	100,889	—	—	—
Electronically recorded monetary claims - operating	301	—	—	—
Short-term loans receivable	2	—	—	—
Advances paid	13,367	—	—	—
Investment securities				
Available-for-sale securities with contractual maturities	—	10	—	—
Long-term loans receivable	—	2,659	—	—
Total	¥ 134,341	¥ 2,669	¥ —	¥ —

Millions of yen				
2021				
Type	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	¥ 28,213	¥ —	¥ —	¥ —
Trade notes and accounts receivable	89,097	—	—	—
Electronically recorded monetary claims - operating	1,974	—	—	—
Short-term loans receivable	2	—	—	—
Advances paid	16,506	—	—	—
Investment securities				
Available-for-sale securities with contractual maturities	—	10	—	—
Long-term loans receivable	—	2,236	—	—
Total	¥ 135,794	¥ 2,246	¥ —	¥ —

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Thousands of U.S. dollars				
2022				
Type	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	\$ 161,614	\$ —	\$ —	\$ —
Trade notes and accounts receivable	824,323	—	—	—
Electronically recorded monetary claims - operating	2,459	—	—	—
Short-term loans receivable	16	—	—	—
Advances paid	109,216	—	—	—
Investment securities				
Available-for-sale securities with contractual maturities	—	82	—	—
Long-term loans receivable	—	21,725	—	—
Total	<u>\$ 1,097,647</u>	<u>\$ 21,807</u>	<u>\$ —</u>	<u>\$ —</u>

#3. Other interest-bearing liabilities amounts maturing after March 31, 2022

Millions of yen						
2022						
Type	Within one year	Over one year and less than two years	Over two years and less than three years	Over three years and less than four years	Over four years and less than five years	Over five years
Short-term loans payable	¥ 2,950	¥ —	¥ —	¥ —	¥ —	¥ —
Current portion of long-term loans	3,150	—	—	—	—	—
Convertible bond-type bonds with share acquisition rights	—	—	—	1,463	—	—
Total	<u>6,100</u>	<u>—</u>	<u>—</u>	<u>1,463</u>	<u>—</u>	<u>—</u>

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		Millions of yen					
		2021					
Type		Within one year	Over one year and less than two years	Over two years and less than three years	Over three years and less than four years	Over four years and less than five years	Over five years
Short-term loans payable	¥	7,950	¥ —	¥ —	¥ —	¥ —	¥ —
Convertible bond-type bonds with share acquisition rights		—	—	—	—	3,196	—
Long-term loans payable		—	3,150	—	—	—	—
Total		<u>7,950</u>	<u>3,150</u>	<u>—</u>	<u>—</u>	<u>3,196</u>	<u>—</u>
		Thousands of U.S. dollars					
		2022					
Type		Within one year	Over one year and less than two years	Over two years and less than three years	Over three years and less than four years	Over four years and less than five years	Over five years
Short-term loans payable	\$	24,103	\$ —	\$ —	\$ —	\$ —	\$ —
Current portion of long-term loans		25,737	—	—	—	—	—
Convertible bond-type bonds with share acquisition rights		—	—	—	11,954	—	—
Total		<u>49,841</u>	<u>—</u>	<u>—</u>	<u>11,954</u>	<u>—</u>	<u>—</u>

(C) Fair value information of financial instruments by level of inputs

The fair values of financial instruments are categorized into the following three levels based on the observability and significance of the inputs used to calculate fair values.

Level 1 Fair Values: Of observable inputs used in fair value measurement, fair values measured at quoted prices in active markets for identical assets or liabilities.

Level 2 Fair Values: Of observable inputs used in fair value measurement, fair values measured using inputs other than Level 1 inputs

Level 3 Fair Values: Fair values measured using unobservable inputs

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If multiple inputs are used in the calculation of fair value, the fair value is categorized in its entirety based on the lowest level of a significant input.

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(1) Financial instruments which are recognized at fair value in the consolidated balance sheets

	As of March 31, 2022			
	Fair value (Millins of Yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Equity securities	¥ 5,951	¥ —	¥ —	¥ 5,951
Government bonds	10	—	—	10
Total assets	5,961	—	—	5,961

	As of March 31, 2022			
	Fair value (Thousands of U.S. Dollars)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Equity securities	\$ 48,623	\$ —	\$ —	\$ 48,623
Government bonds	82	—	—	82
Total assets	48,705	—	—	48,705

* The investment trusts to which transitional measures are not included in the above. The book value of the investment trusts on the consolidated balance sheets is ¥368 million (\$3,007 thousand).

(2) Financial instruments which are not recognized at fair value in the consolidated balance sheets

	As of March 31, 2022			
	Fair value (Millins of Yen)			
	Level 1	Level 2	Level 3	Total
Long-term loans receivable	¥ —	¥ 2,639	¥ —	¥ 2,639
Total assets	—	2,639	—	2,639
Current portion of long-term loans	—	3,136	—	3,136
Convertible bond-type bonds with share acquisition rights	—	2,184	—	2,184
Total liabilities	—	5,320	—	5,320

	As of March 31, 2022			
	Fair value (Thousands of U.S. Dollars)			
	Level 1	Level 2	Level 3	Total
Long-term loans receivable	\$ —	\$ 21,562	\$ —	\$ 21,562
Total assets	—	21,562	—	21,562
Current portion of long-term loans	—	25,623	—	25,623
Convertible bond-type bonds with share acquisition rights	—	17,845	—	17,845
Total liabilities	—	43,468	—	43,468

(Note) Description of the valuation techniques and inputs used to measure fair value

- Investment securities

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The fair values of the listed equity securities and government bonds are estimated based on quoted market prices, and these securities are traded in active markets. Therefore, these securities are classified as Level 1 inputs.

- Long-term loans receivable

The fair values of long-term loans receivable, which are categorized by certain period, are calculated based on the present value of the future cash flows that is discounted by the interest rate that is estimated by adding a credit risk spread to the appropriate risk-free rate, such as the rate of return for government bonds. Therefore, long-term loans receivable are classified as Level 2 inputs.

- Current portion of long-term loans

The fair values of current portion of long-term loans are based on the present value of discounted cash flows using the supposed interest rate which may be applicable to the same kind of borrowing. Therefore, Current portion of long-term loans are classified as Level 2 inputs.

- Convertible bond-type bonds with share acquisition rights

The fair values of convertible bonds are estimated based on quoted market prices, but the convertible bonds are not traded in active markets. Therefore, the convertible bonds are classified as Level 2 inputs.

21. Accounting standards for presentation of comprehensive income

Amounts reclassified to net income in the current period that are recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income are as follows:

	Millions of yen	Millions of yen	Thousands of U.S. dollars
	2022	2021	2022
Unrealized gains on securities	¥	¥	\$
Increase (decrease) during the year	(1,050)	1,354	8,579
Reclassification adjustments	(228)	(180)	(1,863)
Subtotal, before tax	(1,279)	1,173	(10,450)
Tax (expense) or benefit	385	(358)	3,146
Subtotal, net of tax	(893)	814	(7,296)
Foreign currency translation adjustments			
Increase (decrease) during the year	(8)	(3)	(65)
Remeasurements of defined benefit plans			
Increase (decrease) during the year	12	35	98
Reclassification adjustments	53	51	433
Subtotal, before tax	66	86	539
Tax (expense) or benefit	—	—	—
Subtotal, net of tax	66	86	539
Total other comprehensive income	¥ (835)	¥ 898	\$ 6,822

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22. Per share information

	Yen		U.S. dollars
	2022	2021	2022
Net assets per share	¥ 4,204.58	¥ 4,061.98	\$ 34.35
Net income per share	346.28	362.23	2.83
Diluted earnings per share	326.36	326.37	2.67

Basis of the calculation of net income per share and diluted earnings per share is as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2021	2022
(Net income per share)			
Profit attributable to owners of parent	¥ 5,987	¥ 6,262	\$ 48,917
Amount not belonging to ordinary shareholders	—	—	—
Net income attributable to owners of parent related to common stock	¥ 5,987	¥ 6,626	\$ 48,917
Weighted average number of ordinary shares (thousands of shares)	17,291	17,288	141,278
(Diluted earnings per share)			
Adjustment of profit attributable to owners of parent	¥ 0	1	\$ 5
Fees (after deduction of tax equivalent)	(0)	(1)	(6)

The Company's shares remaining in the trust, which are recorded as treasury shares in shareholders' equity, are included in the number of treasury shares to be deducted in the calculation of the average number of shares during the period for the calculation of net income per share and diluted net income per share. It is also included in the number of treasury shares to be deducted from the total number of issued shares at the end of the period when calculating net assets per share. In calculating net income per share and diluted net income per share, the average number of shares of the treasury stock deducted during the period was 106,600 shares in the previous fiscal year and was 98,308 shares in the current fiscal year. The number of shares of treasury stock deducted in the calculation of net assets per share at the end of the period was 106,600 shares for the previous fiscal year and 93,800 shares for the current fiscal year. The dilutive factor included in calculating diluted net income per share is as follows:

	2022	2021
Subscription rights to shares (thousands of shares)	1,057	1,902

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23. Stock options

No stock option expense is accounted for under selling, general and administrative expenses in the consolidated statement of income for the fiscal years ended March 31, and 2022 and 2021.

A. Outline of stock options

	FY 2014 stock options	FY 2015 stock options	FY 2016 stock options
Title and number of grantees	7 Directors 8 Corporate officers	7 Directors 11 Corporate officers	7 Directors 11 Corporate officers
Number of stock options (a)	52,800 common shares	106,600 common shares	89,000 common shares
Grant date	March 2, 2015	March 1, 2016	March 1, 2017
Exercise conditions	(b)	(b)	(b)
Intended service period	No particular set	No particular set	No particular set
Exercise period	From March 3, 2015 to March 2, 2035	From March 2, 2016 to March 1, 2036	From March 2, 2017 to March 1, 2037

Notes:

(a) The number of stock options means the total shares to be issued upon the exercise of subscription rights to shares.

(b) The following working conditions are required to be met.

(1) The grantees can exercise their rights from the following day of the day after one year from when the grantees lost their position as director or corporate officer. This period is limited to 9 years from the date.

(2) The grantees cannot exercise their rights if one of the following matters happen.

The grantee commits a crime that results in imprisonment, or worse, during the time as a director or corporate officer.

The grantees or legal heirs offer to waive all their rights or a part of their rights in writing using the format provided by the Company.

(3) A grantee's legal heir can exercise the rights within six months from the date the grantee passes away regardless of the condition mentioned above (1).

(Excluding those who succeeded again from the legal heirs when they pass away during that period)

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B. Scale and changes in stock options

The following describes the scale and changes in stock options that existed during the fiscal year ended March 31, 2022. The number of stock options is translated into the number of shares.

Fiscal year ended March 31, 2022:

Number of stock options

	FY 2014 stock options	FY 2015 stock options	FY 2016 stock options
Before vested:			
As of March 31, 2021	20,000	45,200	43,200
Granted	-	-	-
Forfeited	-	-	-
Vested	600	3,200	2,800
Outstanding	19,400	42,000	40,400
After vested:			
As of March 31, 2021	4,600	8,000	3,600
Vested	600	3,200	2,800
Exercised	4,600	8,000	3,600
Forfeited	-	-	-
Outstanding	600	3,200	2,800

Price information

	FY 2014 stock options	FY 2015 stock options	FY 2016 stock options
Exercise price	¥1 (\$0.008) per share	¥1 (\$0.008) per share	¥1 (\$0.008) per share
Average price when exercised	¥3,915 (\$31.99) per share	¥3,923 (\$32.05) per share	¥3,928 (\$32.09) per share
Fair value at the grant date	¥3,480 (\$28.43) per share	¥2,035 (\$16.63) per share	¥2,435 (\$19.90) per share

As of October 1, 2018, the Company carried out a share consolidation at a ratio of 5 common shares to 1. The share prices are calculated after taking into account the share consolidation.

C. Estimation of the number of stock options vested

Because it is difficult to reasonably estimate the number of options that will expire in the future, the number of options that have been forfeited is reflected.

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24. Subsequent events

(Decrease in additional paid in capital, acquisition of treasury stock and takeover bid of treasury stock)

(1) Decrease in additional paid in capital

The Company resolved the item related to the decrease in capital reserve at the board of directors meeting held on May 24, 2022.

(a) Purpose of decrease in additional paid capital

This is to secure the distributable amount that will be the source of funds for the takeover bid.

(b) Decrease additional paid in capital amount

Transfer from additional paid in capital to other capital surplus in accordance with article 448, paragraph 1 of the Japanese Corporate Law (the “Law”).

1) Decrease additional paid in capital: ¥ 7,500 million (\$61,280 thousand)

2) Increase other capital surplus: ¥ 7,500 million (\$61,280 thousand)

(2) Acquisition of treasury stock and takeover bid of treasury stock

The Company resolved the item related to the acquisition of treasury stock and takeover bid of treasury stock at the board of directors meeting held on May 25, 2022, in accordance with article 156, paragraph 1 of the Law, which is applicable as replacement of article 165, paragraph 3 of the Law, as detailed below.

(a) Purpose of takeover bid of treasury stock

In order to enhance the medium- to long-term corporate value through the steady implementation of the new medium-term management plan, it is appropriate for the Company and the Aso Group to promote a business alliance in an integrated and proactive manner. It is the belief the business alliance will be effective in building a relationship of trust and stabilizing the management base by having the Company under the umbrella of the Aso Group. Also, it is the belief that the best option is to have City index eleventh sell their shares of common stock of the Company to the Aso Group and to establish a capital relationship as well as a business alliance with the Aso Group.

As a result of ongoing discussions between the Company and Aso, the Company decided to conduct the Takeover bid and subsequently issue new shares to Aso through a third-party allotment. On March 24, 2022, the Company entered into the Capital and Business Alliance Agreement with Aso. Through Aso's consolidation of the Company as a consolidated subsidiary, the Company will become a wholly owned subsidiary of Aso. The Company and Aso entered into the Capital and business alliance agreement on March 3, 2022. The Company expects to realize synergies such as efficient expansion of its business area, collaboration in the maintenance and repair business, enhancement of competitiveness in disaster mitigation and disaster prevention business, and secure construction human resources.

(b) Details of acquired of treasury stock

1) Type of stock to acquired: Common stock of the Company

2) Number of shares to acquired: Up to 8,850,024 shares (48.01% of the total outstanding shares excluding treasury stock)

3) Total cost of acquisition: Up to ¥ 41,860 million (\$342,029 thousand)

4) Period of acquisition: From May 26, 2022 to July 22, 2022

(c) Result of takeover bid of treasury stock

1) Total shares of subscription: 9,640,133 shares

2) Number of shares to acquire: 8,850,024 shares

3) Total cost of acquisition: ¥41,860 million (\$342,026 thousand)

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(Borrowing large amounts of capital)

The Company has entered into a loan agreement with Sumitomo Mitsui Banking Corporation in order to borrow funds for the Takeover bid of treasury stock. Borrowings have been executed and repaid as follows:

- 1) Use of loans payable: Takeover bid of treasury stock
- 2) Lender: Sumitomo Mitsui Banking Corporation
- 3) Borrowing amount: ¥41,860 million (\$342,029 thousand)
- 4) Borrowing rate: Short-term prime rate (Annual rate 1.475%)
- 5) Borrowing execution date: July 13, 2022
- 6) Borrowing period: July 13, 2022 to July 20, 2022
- 7) Presence or absence of collateral: None

(Issuance of new shares through third-party allotment)

The Company resolved the item related to the issuance of new shares through third-party allotment at the board of directors meeting held on March 24, 2022, as detailed below. The Company completed the new shares through third-party allotment on July 19, 2022.

- 1) Type of stock to issuance: Common stock of the Company
- 2) Number of stock to issuance: 8,500,000 shares
- 3) Price of stock to issuance: ¥4,750 (\$38.81) per shares
- 4) Total cost of stock to issuance: ¥40,375 million (\$329,888 thousand)
- 5) Paid-in capital: ¥2,375 (\$19.41) per shares
- 6) Total paid-in capital: ¥20,187 million (\$164,940 thousand)
- 7) Date implementation third-party allotment: July 19, 2022
- 8) Capital increase method: Third-party allotment
- 9) Allotte, number of shares allocated: Aso, 8,500,000 shares
- 10) Use of funds: Repayment of loans (bridge loan) to fund the settlement of the Takeover bid
- 11) Other: Through the Company becoming a consolidated subsidiary of Aso, synergies are expected to be generated, including efficient expansion of business areas, collaboration in the maintenance and repair business, enhanced competitiveness in the disaster mitigation and disaster prevention business, and a response to the need to secure construction personnel.

(Cancellation of treasury stock)

The Company resolved the item related to the cancellation of treasury stock at the board of directors meeting held on August 10, 2022, in accordance with article 178 of the Law, as detailed below. The Company completed the cancellation of treasury stock on August 31, 2022.

- 1) Reason: To improve the ratio of tradable shares in the stock market and eliminate concerns about dilution
- 2) Type of stock and number of treasury shares canceled: Common stock of the Company, 8,850,000 shares (32.85% of the total outstanding shares excluded from cancellation)
- 3) Date of cancellation: August 31, 2022
- 4) Total number of shares outstanding after cancellation: 18,083,163 shares