



Consolidated Financial Statements

DAIHO CORPORATION

For the Years ended March 31,
2023 and 2022
Together with Independent
Auditors' Report

KPMG AZSA LLC
October 2023



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, 2023 and 2022, 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, 2023 and 2022, 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.

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
As described in Note 2 (22) "Significant accounting estimates" to the consolidated financial statements, the Company recognized total sales of ¥156,050 million, of which ¥145,569 million revenue recognized based on the progress toward satisfaction of performance obligations satisfied over time	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: (1) Internal control testing

(excludes those contracts applying the cost recovery method) and its allowance for losses on construction contracts amounted to ¥1,610 million.

As described in Note2 (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.

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.

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 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

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:

- 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.

(2) Assessment of the reasonableness of the estimated total construction costs

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:

- 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 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

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.

- 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.
- 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, 2023 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 Iwaide

Designated Engagement Partner

Certified Public Accountant

Junichi Tanaka

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

October 6, 2023

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.

DAIHO CORPORATION
CONSOLIDATED BALANCE SHEETS
March 31, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
<u>ASSETS</u>	<u>2023</u>	<u>2022</u>	<u>2023</u>
Current assets:			
Cash and time deposits (Notes 15 and 21)	¥ 28,074	¥ 19,780	\$ 210,244
Trade notes and accounts receivable (Notes 3,17 and 21)	99,018	100,889	741,541
Electronically recorded monetary claims - operating (Note 21)	315	301	2,359
Short-term loans receivable (Note 21)	2	2	14
Allowance for doubtful accounts	(5)	(6)	(37)
Costs on uncompleted construction contracts and other (Notes 4 and 10)	2,222	2,303	16,640
Advances paid (Note 21)	11,025	13,367	82,565
Income taxes refund receivable	51	525	381
Other current assets	1,283	3,003	9,608
Total current assets	<u>141,988</u>	<u>140,167</u>	<u>1,063,341</u>
Property and equipment:			
Land	8,588	8,662	64,315
Buildings and structures	10,813	10,880	80,978
Machinery and equipment	7,557	8,053	56,594
Leased assets	170	145	1,273
Construction in progress	1,075	214	8,050
	<u>28,205</u>	<u>27,955</u>	<u>211,225</u>
Accumulated depreciation	<u>(10,873)</u>	<u>(10,804)</u>	<u>(81,427)</u>
Net property and equipment	<u>17,332</u>	<u>17,151</u>	<u>129,798</u>
Intangible assets	601	231	4,500
Investments and other non-current assets:			
Investment securities (Notes 7, 8 and 21)	8,206	8,044	61,454
Long-term loans receivable (Note 21)	406	2,659	3,040
Deferred tax assets (Note 13)	1,039	850	7,781
Other non-current assets	913	623	6,837
Allowance for doubtful accounts	<u>(129)</u>	<u>(106)</u>	<u>(966)</u>
Total investments and other non-current assets	<u>10,437</u>	<u>12,071</u>	<u>78,162</u>
Total assets	<u>¥ 170,359</u>	<u>¥ 169,621</u>	<u>\$ 1,275,810</u>

See accompanying notes.

DAIHO CORPORATION
CONSOLIDATED BALANCE SHEETS
March 31, 2023 and 2022

<u>LIABILITIES AND NET ASSETS</u>	Millions of yen		Thousands of U.S. dollars (Note 1)
	<u>2023</u>	<u>2022</u>	<u>2023</u>
Current liabilities:			
Short-term loans payable (Notes 5,9 and 21)	¥ 950	¥ 6,100	\$ 7,114
Trade notes and accounts payable (Note 21)	34,599	34,991	259,110
Electronically recorded obligations – operating (Note 21)	10,652	10,409	79,772
Advances received on uncompleted construction contracts (Note 3)	9,322	9,959	69,812
Income taxes payable (Note 17)	1,918	558	14,363
Accrued consumption taxes	2,576	36	19,291
Allowance for losses on construction contracts (Note 10)	1,610	855	12,057
Deposits received (Note 21)	19,586	21,174	146,678
Allowance for warranties for completed construction	1,047	687	7,840
Other current liabilities	1,561	1,673	11,690
Total current liabilities	<u>83,826</u>	<u>86,445</u>	<u>627,769</u>
Non-current liabilities:			
Convertible bond-type bonds with share acquisition rights (Notes 9 and 21)	26	1,463	194
Long-term loans payable (Notes 9 and 21)	6,000	—	44,933
Deferred tax liabilities (Note 13)	—	8	—
Net defined benefit liability (Note 11)	6,302	6,267	47,195
Provision for share-based remuneration	191	162	1,430
Provision for directors' retirement benefits	35	—	262
Provision for executive officers' retirement benefits	25	—	187
Other long-term liabilities	772	781	5,781
Total long-term liabilities	<u>13,354</u>	<u>8,683</u>	<u>100,007</u>
Total liabilities	<u>¥ 97,180</u>	<u>¥ 95,128</u>	<u>\$ 727,776</u>
Contingent liabilities (Note 12)			
Net assets (Note 14):			
Shareholders' equity (Note 25):			
Common stock			
Authorized - 32,000,000 shares			
Issued - 18,083,163 shares	30,736	10,549	230,180
Capital surplus	21,746	9,059	162,854
Retained earnings	20,843	56,753	156,092
Less: Treasury stock, at cost	(1,959)	(3,725)	(14,670)
Accumulated other comprehensive income (Note 22) :			
Unrealized gains on securities	510	747	3,819
Foreign currency translation adjustment	(43)	(31)	(322)
Remeasurements of defined benefit plans (Note 11)	152	28	1,138
Subscription rights to shares (Note 24)	166	266	1,243
Non-controlling interests	1,026	845	7,683
Total net assets	<u>73,179</u>	<u>74,493</u>	<u>548,034</u>
Total liabilities and net assets	<u>¥ 170,359</u>	<u>¥ 169,621</u>	<u>\$ 1,275,810</u>

See accompanying notes.

DAIHO CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Years ended March 31, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Sales (Note 17) :	¥ 156,050	¥ 156,520	\$ 1,168,651
Costs and expenses:			
Cost of sales (Note 10)	144,055	141,329	1,078,821
Selling, general and administrative expenses	6,929	6,333	51,890
	<u>150,985</u>	<u>147,662</u>	<u>1,130,719</u>
Operating income	5,064	8,857	37,924
Other income (expenses):			
Interest and dividend income	175	191	1,310
Interest expense	(59)	(52)	(441)
Guarantee commission	(62)	(72)	(464)
Commission fee	(486)	(194)	(3,639)
Gain (loss) on sale and disposal of property and equipment	(40)	156	(299)
Foreign currency exchange gain (loss), net	355	532	2,658
Loss on litigation (Note 20)	(15)	(18)	(112)
Impairment loss (Note 6)	(45)	(297)	(337)
Gain on sales of investment securities (Note 7)	258	221	(1,932)
Other, net	62	72	464
	<u>142</u>	<u>538</u>	<u>1,063</u>
Income before income taxes and non-controlling interests	5,207	9,395	38,994
Income taxes (Note 13):			
Current	2,206	2,782	16,520
Deferred	(97)	429	(726)
Net income	<u>3,098</u>	<u>6,184</u>	<u>23,200</u>
Profit attributable to non-controlling interests	184	196	1,377
Profit attributable to owners of parent	<u>¥ 2,914</u>	<u>¥ 5,987</u>	<u>\$ 21,822</u>

	Yen		U.S. dollars (Note 1)
Amounts per share of common stock:			
Net income (Note 23)	¥ 165.52	¥ 346.28	\$ 1.24
Diluted net income per share (Note 23)	163.53	326.36	1.22
Cash dividends applicable to the year	230.00	243.00	1.72

See accompanying notes.

DAIHO CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended March 31, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Net income	¥ 3,098	¥ 6,184	\$ 23,201
Other comprehensive income: (Note 22)			
Unrealized gains or losses on securities	(237)	(893)	(1,775)
Foreign currency translation adjustments	(11)	(8)	(82)
Remeasurements of defined benefit plans (Note 11)	123	66	921
Total other comprehensive income	<u>(126)</u>	<u>(835)</u>	<u>(944)</u>
Comprehensive income	<u>¥ 2,972</u>	<u>¥ 5,348</u>	<u>\$ 22,257</u>
Comprehensive income attribute to:			
Owners of parent	¥ 2,788	¥ 5,151	\$ 20,879
Non-controlling interests	184	196	1,378

See accompanying notes.

DAIHO CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
Years ended March 31, 2023 and 2022

	Number of shares of common stock (Thousands)	Millions of yen									
		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	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
Acquisition of treasury stock	—	—	—	—	(4,755)	—	—	—	—	—	(4,755)
Disposal of treasury stock	—	—	(511)	—	2,318	—	—	—	—	—	1,806
Transfer of the negative balance of other capital surplus	—	—	6	(6)	—	—	—	—	—	—	—
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
Cash dividends paid (¥230.0 per share)	—	—	—	(4,263)	—	—	—	—	—	—	(4,263)
Issuance of new shares	8,500	20,187	20,187	—	—	—	—	—	—	—	40,375
Profit attributable to owners of parent	—	—	—	2,914	—	—	—	—	—	—	2,914
Acquisition of treasury stock	—	—	—	—	(41,870)	—	—	—	—	—	(41,870)
Disposal of treasury stock	—	—	—	(585)	2,162	—	—	—	—	—	1,576
Cancellation of treasury stock	(8,850)	—	(41,474)	—	41,474	—	—	—	—	—	—
Transfer of the negative balance of other capital surplus	—	—	34,560	(34,560)	—	—	—	—	—	—	—
Net change of items other than shareholders' equity	—	—	—	—	—	(237)	(11)	123	(100)	180	(45)
Balance at March 31, 2023	18,083	¥ 30,736	¥ 21,746	¥ 20,843	¥ (1,959)	¥ 510	¥ (43)	¥ 152	¥ 166	¥ 1,026	¥ 73,179

		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, 2022	—	\$ 79,000	\$ 67,842	\$ 425,020	\$ (27,896)	\$ 5,594	\$ (232)	\$ 209	\$ 1,992	\$ 6,328	\$ 557,874
Cash dividends paid (\$1.82 per share)	—	—	—	(31,925)	—	—	—	—	—	—	(31,925)
Issuance of new shares	151,179	—	151,179	—	—	—	—	—	—	—	302,366
Profit attributable to owners of parent	—	—	—	21,822	—	—	—	—	—	—	21,822
Acquisition of treasury stock	—	—	—	—	(313,562)	—	—	—	—	—	(313,562)
Disposal of treasury stock	—	—	(4,381)	—	16,191	—	—	—	—	—	11,802
Cancellation of treasury stock	—	—	(310,596)	—	310,596	—	—	—	—	—	—
Transfer of the negative balance of other capital surplus	—	—	258,818	(258,818)	—	—	—	—	—	—	—
Net change of items other than shareholders' equity	—	—	—	—	—	(1,774)	(82)	921	(748)	1,348	(337)
Balance at March 31, 2023	—	\$ 230,180	\$ 162,854	\$ 156,092	\$ (14,670)	\$ 3,819	\$ (322)	\$ 1,138	\$ 1,243	\$ 7,683	\$ 548,034

See accompanying notes

DAIHO CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2023 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2023	2022	2023
Cash flows from operating activities:			
Income before income taxes and non-controlling interests	¥ 5,207	¥ 9,395	\$ 38,994
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating activities:			
Depreciation and amortization	1,007	1,432	7,541
Impairment loss	45	297	337
Loss on litigation	15	18	112
Increase (decrease) in allowance for doubtful accounts	21	23	157
Increase (decrease) in allowance for warranties for completed construction	359	(1,334)	2,688
Increase (decrease) in provision for bonuses	(12)	15	(89)
Increase (decrease) in net defined benefit liability	157	153	1,175
Increase (decrease) in allowance for losses on construction contracts	755	564	5,654
Increase (decrease) in provision for share-based remuneration	68	69	509
(Gain) loss on sale and disposal of property and equipment	40	(156)	299
Interest and dividend income	(175)	(191)	(1,310)
Interest expense	59	52	441
Foreign currency exchange (gains) losses, net	(129)	(189)	(966)
Loss (gain) on sales of investment securities	(259)	(221)	(1,939)
(Increase) decrease in receivables and other current assets	1,858	(10,118)	13,914
(Increase) decrease in inventories	151	781	1,130
Increase (decrease) in payables and accrued expenses	(152)	1,139	(1,138)
Increase (decrease) in advances received on uncompleted contracts	(636)	1,615	(4,762)
(Increase) decrease in other assets	3,633	2,150	27,207
Increase (decrease) in other liabilities	758	4,577	5,676
Other, net	498	194	3,729
Subtotal	13,274	10,270	99,408
Interest and dividend received	187	188	1,400
Interest paid	(61)	(52)	(456)
Income taxes paid	(1,144)	(4,859)	(8,567)
Income taxes refund	614	—	4,598
Payments for loss on litigation	(14)	(9)	(104)
Net cash provided by (used in) operating activities	12,856	5,537	96,277
Cash flows from investing activities:			
Deposit in time deposits	(10)	(10)	(74)
Withdrawal from time deposits	10	10	74
Proceeds from sales of property and equipment	74	610	554
Payments for purchase of property and equipment	(1,038)	(2,072)	(7,773)
Payments for retirement of property, plant and equipment	(41)	(12)	(307)
Purchase of intangible assets	(287)	(100)	(2,149)
Purchase of investment securities	(764)	(657)	(5,721)
Proceeds from sales of investment securities	467	459	3,497
Proceeds from withdrawal of investment securities	55	—	411
Payments for long-term loans receivable	—	(605)	—
(Increase) decrease in short-term loans receivable	10	3	74
Collection of long-term loans receivable	2,268	180	16,984
Other, net	14	—	104
Net cash provided by (used in) investing activities	758	(2,194)	5,676
Cash flows from financing activities:			
Net (increase) decrease in short-term loans payable	(2,000)	(5,000)	(14,977)
Proceeds from issuance of common shares	40,188	—	300,966
Proceeds from long-term loans payable	5,878	—	44,020
Repayment of long-term loans payable	(3,150)	—	(23,590)
Purchase of treasury stock	(42,015)	(4,769)	(314,648)
Cash dividends paid	(4,256)	(1,995)	(31,872)
Cash dividends paid to non-controlling interests	(3)	(2)	(22)
Other, net	(71)	(203)	(531)
Net cash provided by (used in) financing activities	(5,431)	(11,971)	(40,672)
Effect of exchange rate changes on cash and cash equivalents	90	176	674
Net increase (decrease) in cash and cash equivalents	8,273	(8,451)	61,956
Cash and cash equivalents at the beginning of year	19,751	28,203	147,914
Cash and cash equivalents at end of year (Note 15)	¥ 28,025	¥ 19,751	\$ 209,877

See accompanying notes.

DAIHO CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2023 and 2022

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, 2023, which is ¥133.53 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, 2023 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>2023</u>	<u>2022</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.

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(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.

(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, 2023 and 2022 totaled ¥213 million (\$1,596 thousand) and ¥183 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) Provision for directors' retirement benefits

To prepare for the payment of the amount required to be paid to directors at the end of the fiscal year based on the internal rules for directors' retirement benefits, certain consolidated subsidiaries provide for the amount based on the internal rules for directors' retirement benefits at the end of the current fiscal year.

(15) Provision for executive officers' retirement benefits

To prepare for the payment of the amount required to be paid to executive officers at the end of the fiscal year based on the internal rules for executive officers' retirement benefits, certain consolidated subsidiaries provide for the amount based on the internal rules for executive officers' retirement benefits at the end of the current fiscal year.

(16) 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.

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(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.

(17) 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.

(18) 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 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.

(19) 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.

(20) 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.

(21) 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.

(22) Significant accounting estimates

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

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

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Construction revenue using the percentage-of-completion method	¥ 145,569	¥ 144,259	\$ 1,090,159
Allowance for losses on construction contracts	1,610	855	12,057

(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 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.

(23) Changes in accounting policies

(Adoption of the Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Companies have adopted the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Statement No.31, June 17, 2021, hereinafter the "Guidance on fair value measurement accounting standard") from the beginning of the current fiscal year.

Accordingly, the Companies have applied new accounting policies under the Guidance on fair value measurement accounting standard prospectively in accordance with the transitional treatment set out in Paragraph 27-2 of the Guidance. The adoption of the Guidance has no impact on the consolidated financial statements.

In addition, in accordance with Paragraph 27-3 of the Guidance on the fair value measurement accounting standard, fair value information of investment trusts for the fiscal year ended March 31, 2022, is not disclosed in fair value information of financial instruments by level of inputs included in "Note 21 Financial instruments."

(Provision for directors' retirement benefits)

From the current fiscal year, due to the establishment of internal rules for directors' retirement benefits, certain consolidated subsidiaries have changed the accounting policy of directors' retirement benefits from the method to be treated as expenses at the time of payment to the method to be provided for the amount based on the internal rules for directors' retirement benefits at the end of the current fiscal year as provision for directors' retirement benefits.

As a result of this change, the amount required to be paid as directors' retirement benefits at the end of the current fiscal year, which amounts to ¥35 million (\$263 thousand), is included in selling, general and

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administrative expenses. As a result, operating income and income before income taxes and non-controlling interests decreased by ¥35 million (\$263 thousand) compared with the same method previously adopted.

(Provision for executive officers' retirement benefits)

From the current fiscal year, due to the establishment of internal rules for executive officers' retirement benefits, certain consolidated subsidiaries have changed the accounting policy of executive officers' retirement benefits from the method to be treated as expenses at the time of payment to the method to be provided for the amount based on the internal rules for executive officers' retirement benefits at the end of the current fiscal year as provision for executive officers' retirement benefits.

As a result of this change, the amount required to be paid as executive officers' retirement benefits at the end of the current fiscal year, which amounts to ¥25 million (\$192 thousand), is included in selling, general and administrative expenses. As a result, operating income and income before income taxes and non-controlling interests decreased by ¥25 million (\$192 thousand) compared with the same method previously adopted.

(24) Unadopted accounting standards

(Standards and guidance not yet adopted)

The following accounting standards and guidance have been issued but not yet adopted.

- "Accounting Standard for Current Income Taxes" (ASBJ Statement No.27, October 28, 2022, ASBJ)
- "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No.25, October 28, 2022, ASBJ)
- "Guidance on Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No.28, October 28, 2022, ASBJ)

(A) Overview

In February 2018, ASBJ Statement No. 28, "Partial Amendments to Accounting Standard for Tax Effect Accounting," etc. (hereinafter referred to as "ASBJ Statement No. 28, etc.") were issued, and the transfer of JICPA's practical guidelines on tax effect accounting to ASBJ was completed. During their deliberations, it had been determined that the following two issues would be further discussed subsequent to the issuance of ASBJ Statement No. 28, etc. The above standards and guidance were issued as a result of the deliberations on the two issues below:

- Categories in which income tax expense should be recorded (taxation on other comprehensive income)
- Tax effects associated with sales of shares of subsidiaries, etc. (i.e., shares of subsidiaries or affiliates) when the group taxation regime is adopted

(B) Effective date

Effective from the beginning of the fiscal year ending March 31, 2025.

(C) Effects of the adoption of the standards

The effects of the adoption of Accounting Standard for Current Income Taxes, etc. are currently being evaluated.

(25) 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.

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(26) Changes in presentation of financial statements

(Consolidated balance sheets)

“Accrued consumption taxes” have been presented separately from March 31, 2023 due to their increased materiality. The consolidated financial statements as of March 31, 2022 have been reclassified to reflect this change in presentation of financial statements.

As a result, “Other current liabilities” in “Current liabilities” in the amount of ¥888 million in the consolidated balance sheets as of March 31, 2022, was reclassified to “Accrued consumption taxes” in the amount of ¥36 million and “Other” in “Current liabilities” in the amount of ¥852 million.

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
	2023	2022	2023
Trade notes and accounts receivable			
Balance at the beginning of the year	¥ 75,298	¥ 55,234	\$ 563,903
Balance at the ending of the year	60,879	75,298	455,920
Receivables from contracts with customers			
Balance at the beginning of the year	25,892	37,666	193,903
Balance at the ending of the year	38,455	25,892	287,987
Advances received on uncompleted construction contracts			
Balance at the beginning of the year	9,959	10,010	74,582
Balance at the ending of the year	9,322	9,959	69,812

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
	2023	2022	2023
Costs on uncompleted construction contracts	¥ 2,050	¥ 1,729	\$ 15,352
Real estate business	86	474	644
Raw materials and supplies	85	100	636

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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, 2023 and 2022 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Commitment line	¥ 5,000	¥ 15,000	\$ 37,444
Short-term loans payable	—	—	—
	¥ 5,000	¥ 15,000	\$ 37,444

6. Impairment losses on fixed assets

For the year ended March 31, 2023, the Companies recognized impairment loss on fixed assets as follows:

Major use	Asset category	Location	Amount
Idle assets	Land	Ibaraki-city, Osaka-prefecture	¥45 millions (\$337 thousand)
Idle assets	Land	Joetsu-city, Niigata-prefecture, and 1 other	¥0 millions (\$0 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 ¥45 million (\$337 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.

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
Idle assets	Land	Niigata-city, Niigata-prefecture	¥76 millions
Idle assets	Land and buildings	Yuzawa-town, Minamiuonuma-county, Niigata-prefecture	¥12 millions
Idle assets	Land	Minamisouma-city, Fukushima-prefecture, and 2 others	¥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 ¥297 million.

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.

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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, 2023 and 2022:

Available-for-sale securities:

(1) Securities with book values exceeding acquisition costs

Type	Millions of yen		
	2023		
	Acquisition cost	Book value	Difference
Equity securities	¥ 1,070	¥ 2,067	¥ 997
Bonds	10	10	0
Others	277	308	31
Total	¥ 1,357	¥ 2,386	¥ 1,028

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	Thousands of U.S. dollars		
	2023		
	Acquisition cost	Book value	Difference
Equity securities	\$ 8,013	\$ 15,479	\$ 7,466
Bonds	74	74	0
Others	2,074	2,306	232
Total	\$ 10,162	\$ 17,868	\$ 7,698

(2) Securities with book values not exceeding acquisition costs

Type	Millions of yen		
	2023		
	Acquisition cost	Book value	Difference
Equity securities	¥ 3,734	¥ 3,492	¥ (242)
Others	271	237	(34)
Total	¥ 4,006	¥ 3,729	¥ (276)

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

Thousands of U.S. dollars			
2023			
Type	Acquisition cost	Book value	Difference
Equity securities	\$ 27,963	\$ 26,151	\$ (1,812)
Others	2,029	1,774	(254)
Total	\$ 30,000	\$ 27,926	\$ (2,066)

(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
	2023	2022	2023
Equity securities			
Sales	¥ 404	¥ 428	\$ 3,025
Related gains	255	221	1,909
Others			
Sales	59	31	441
Related gains	3	7	22
Related losses	2	—	14

8. Pledged assets

As of March 31, 2023 and 2022, the following assets of the Companies are pledged to guarantee money.

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Investment securities	¥ 10	¥ 10	\$ 74

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, 2023 and 2022 were 0.6% per annum.

Long-term loans consisted mainly of bank overdrafts. The weighted average interest rate as at March 31, 2023 and 2022 were 0.7% per annum and 0.8% per annum.

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The annual maturities of long-term loans payable as of March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousand of U.S. dollars
	2023	2022	2023
Within one year	¥ —	¥ 3,150	\$ —
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	6,000	—	44,933
Total	6,000	3,150	44,933

The annual maturities of Convertible bonds with subscription rights to shares payable as of March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousand of U.S. dollars
	2023	2022	2023
Within one year	¥ —	¥ —	\$ —
Over one year and less than two years	—	—	—
Over two years and less than three years	26	—	194
Over three years and less than four years	—	1,463	—
Over four years and less than five years	—	—	—
Total	26	1,463	194

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 ¥143 million (\$1,070 thousand) and ¥56 million for the years ended March 31, 2023 and 2022, respectively. The amount of allowance for losses on construction contracts included in cost of sales is ¥1,227 million (\$9,188 thousand) and ¥780 million for the years ended March 31, 2023 and 2022, respectively.

11. Net defined benefit liability

(1) As of March 31, 2023 and 2022, 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, 2023 and 2022 (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
	2023	2022	2023
Balance at the beginning of the year	¥ 6,267	¥ 6,179	\$ 46,933
Service cost	517	522	3,871
Interest cost	51	50	381
Actuarial loss (gain)	(70)	(12)	(524)
Benefits paid	(462)	(472)	(3,459)
Balance at the end of the year	¥ 6,302	¥ 6,267	\$ 47,195

(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
	2023	2022	2023
Unfunded retirement benefit obligations	¥ 6,302	¥ 6,267	\$ 47,195
Total net defined benefit liability at the end of the respective fiscal year	6,302	6,267	47,195
Defined benefit liability	¥ 6,302	¥ 6,267	\$ 47,195
Total net defined benefit liability at the end of the respective fiscal year	6,302	6,267	47,195

(4) The components of retirement benefit expenses for the years ended March 31, 2023 and 2022 (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
	2023	2022	2023
Service cost	¥ 517	¥ 522	\$ 3,871
Interest cost	51	50	381
Net actuarial loss amortization	53	53	396
Total retirement benefit expenses for the respective fiscal year	¥ 621	¥ 626	\$ 4,650

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

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Actuarial difference	¥ 123	¥ 66	\$ 921
Total remeasurements for the respective fiscal year	¥ 123	¥ 66	\$ 921

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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
	2023	2022	2023
Actuarial gains and losses that are yet to be recognized	¥ (152)	¥ (28)	\$ (1,138)
Total balance at the end of respective fiscal year	¥ (152)	¥ (28)	\$ (1,138)

(7) The principal actuarial assumptions as at March 31, 2023 and 2022 (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 ¥166 million (\$1,247thousand) and ¥168 million for the years ended March 31, 2023 and 2022, respectively.

12. Contingent liabilities

The Companies are contingently liable as a guarantor of indebtedness of customers aggregating is ¥3 million (\$28 thousand) and ¥4 million as at March 31, 2023 and 2022, respectively.

The Companies are also contingently liable as a guarantor of the repayment of advance payment for sales to MORIMOTO Co.,Ltd. and KOSE R.E. Co.,Ltd., which amounted to ¥342 million (\$2,562 thousand) as at March 31, 2023.

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
MORIMOTO Co.,Ltd.	¥ 324	¥ —	\$ (2,426)
KOSE R.E. Co.,Ltd.	17	—	(127)
	¥ 342	¥ —	\$ (2,562)

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, 2023 and 2022. The following table summarizes the main differences between the statutory tax rate and the Companies' effective tax rate for the year ended March 31, 2023 and 2022.

	2023		2022	
		%		%
Statutory tax rate	30.6		30.6	
Permanent differences:				
Non-deductible expenses	1.4		0.5	
Per capita inhabitants taxes	2.8		1.6	
Increase (Decrease) in valuation allowance	7.6		2.0	
Tax deduction for wage increases and productivity improvement	(0.7)		(0.2)	
Other	(1.2)		(0.3)	
Effective tax rate	40.5		34.2	

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Main components of the Companies' deferred tax assets and liabilities as of March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Deferred tax assets:			
Net defined benefit liability	¥ 2,032	¥ 1,945	\$ 15,217
Allowance for losses on construction contracts	494	261	3,699
Allowance for warranties for completed construction	320	210	2,396
Excess bonuses accrued	290	293	2,171
Impairment loss on fixed assets	193	183	1,445
Write-down of inventories (*1)	136	137	1,018
Enterprise taxes payable	131	96	981
Allowance for doubtful accounts	89	30	666
Subscription rights to shares	51	81	381
Tax loss carryforwards	15	60	112
Other	315	278	2,359
Subtotal	4,071	3,579	30,487
Valuation allowance (*2)	(2,730)	(2,333)	(20,444)
Total deferred tax assets	1,341	1,245	10,042
Deferred tax liabilities:			
Unrealized gains on securities	(242)	(342)	(1,812)
Deferred gains on property and equipment	(50)	(52)	(374)
Temporary differences on assets acquired through transfers of business	(8)	(8)	(59)
Other	(0)	(0)	(0)
Total deferred tax liabilities	(301)	(403)	(2,254)
Net deferred tax assets (liabilities)	¥ 1,039	¥ 841	\$ 7,781

(*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 ¥397 million (\$2,965 thousand). The main reason of this increase is due to an increase in allowance for losses on construction contracts .

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.

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.

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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, 2023, the shareholders approved cash dividends amounting to ¥4,072 million (\$30,501 thousand). The appropriations were not reflected in the consolidated financial statements as of March 31, 2023. 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, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Cash and time deposits	¥ 28,074	¥ 19,780	\$ 210,244
Less: Time deposits with maturities exceeding three months	(10)	(10)	(74)
Separate deposits with stock benefit trust	(39)	(18)	(292)
Cash and cash equivalents	¥ 28,025	¥ 19,751	\$ 209,877

16. Significant non-cash transactions

Changes in the amount of convertible bond-type bonds with share acquisition rights presented in the consolidated financial statements of cash flows as of March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Gain on disposal of treasury stock due to exercise of share acquisition rights	¥ (516)	¥ (490)	\$ (3,864)
Amount of decrease in treasury stock due to exercise of share acquisition rights	1,953	2,223	14,625
Amount of decrease in convertible bond-type bonds with share acquisition rights due to exercise of share acquisition rights	1,437	1,733	10,761

17. Revenue recognition

(A) Disaggregation of revenue from contracts with customers

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

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(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, 2023, which is expected to be recognized in or after the fiscal year ending March 31, 2024.

(1) Balances of contract assets and contract liabilities

	Millions of yen		Thousands of U.S. Dollars
	Balance as of March 31, 2023	Balance as of April 1, 2022	Balance as of March 31, 2023
Receivables from contracts with customers	¥ 38,455	¥ 25,892	\$ 287,987
Contract assets	60,879	75,298	455,920
Contract liabilities	9,322	9,959	69,812

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 revenues included in the beginning balances of contract liabilities for the fiscal years ended March 31, 2023 and 2022, were ¥8,479 million (\$63,498 thousand) and ¥8,367 million, respectively.

In addition, there was no significant change in the assets and liabilities recognized at the beginning of the current and previous fiscal years.

The amounts of revenues recognized for the fiscal years ended March 31, 2023 and 2022 (mainly, due to changes in transaction prices) in the past with the satisfaction of performance obligations were ¥4,890 million (\$36,620 thousand) and ¥5,740 million, respectively.

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(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 ¥267,770 million (\$2,005,317 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
	Balance as of March 31, 2023	Balance as of April 1, 2022	Balance as of March 31, 2023
Within one year	¥ 135,839	¥ 131,130	\$ 1,017,291
Over one year and less than two years	76,584	68,955	573,534
Over two years and less than three years	37,379	43,626	279,929
Over three years	17,968	13,339	134,561
Total	267,770	257,050	2,005,317

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18. 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:

Year ended March 31, 2023	Millions of yen					
	Civil engineering	Building construction	Other	Total	Reconciliations (#1·#2·#4)	Consolidated (#3)
Sales:						
Domestic sales	¥ 66,793	¥ 75,604	¥ 3,704	¥ 146,102	¥ —	¥ 146,102
International sales	9,706	241	—	9,948	—	9,948
Revenue generated from contracts with customers	¥ 76,500	¥ 75,845	¥ 3,704	¥ 156,050	¥ —	¥ 156,050
Outside customers	¥ 76,500	¥ 75,845	¥ 3,704	¥ 156,050	¥ —	¥ 156,050
Intersegment	—	9	667	676	(676)	—
Total	76,500	75,855	4,371	156,727	(676)	156,050
Segment income	¥ 3,798	¥ 860	¥ 385	¥ 5,044	¥ 20	¥ 5,064
Identifiable assets	¥ 92,527	¥ 75,469	¥ 5,783	¥ 173,781	¥ (3,421)	¥ 170,359
Depreciation and amortization	635	338	46	1,019	(12)	1,007
Capital expenditures	1,430	391	17	1,839	(60)	1,779

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Year ended
March 31, 2022

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	86,324	66,513	3,682	156,520	—	156,520
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	¥ 98,370	¥ 69,005	¥ 5,125	¥ 172,501	¥ (2,879)	¥ 169,621
Depreciation and amortization	1,055	328	62	1,447	(14)	1,432
Capital expenditures	1,681	505	8	2,195	—	2,195

Year ended
March 31, 2023

Thousands of U.S. dollars

	Civil engineering	Building construction	Other	Total	Reconciliations (#1·#2·#4)	Consolidated (#3)
Sales:						
Domestic sales	\$ 500,209	\$ 566,194	\$ 27,739	\$ 1,094,151	\$ —	\$ 1,094,151
International sales	72,687	1,804	—	74,500	—	74,500
Revenue generated from contracts with customers	\$ 572,904	\$ 567,999	\$ 27,739	\$ 1,168,651	\$ —	\$ 1,168,651
Outside customers	\$ 572,904	\$ 567,999	\$ 27,739	\$ 1,168,651	\$ —	\$ 1,168,651
Intersegment	—	67	4,995	5,062	(5,062)	—
Total	572,904	568,066	32,734	1,173,721	(5,062)	1,168,651
Segment income	\$ 28,443	\$ 6,440	\$ 2,883	\$ 37,774	\$ 149	\$ 37,931
Identifiable assets	\$ 692,930	\$ 565,183	\$ 43,308	\$ 1,301,437	\$ (25,619)	\$ 1,275,810
Depreciation and amortization	4,755	2,531	344	7,631	(89)	7,541
Capital expenditures	10,709	2,928	127	13,772	(449)	13,322

#1. Reconciliations of segment income amounting to ¥20 million (\$149 thousand) and ¥13 million for the years ended March 31, 2023 and 2022 are eliminations of intersegment transactions.

#2. Reconciliations of identifiable assets amounting to ¥ (3,421) million (\$25,619 thousand) and ¥ (2,879) million for the years ended March 31, 2023 and 2022 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 contracts with customers, and other sales are not material.

(4) Related information

(a) Information by product or service

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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, 2023, is as follows:

(Fiscal year March 31, 2023)

(Millions of yen)

	Civil engineering	Building construction	Other	Elimination and/or corporate	Total
Impairment loss on fixed assets	¥ 22	¥ 23	¥ —	¥ —	¥ 45

(Thousands of U.S. Dollar)

	Civil engineering	Building construction	Other	Elimination and/or corporate	Total
Impairment loss on fixed assets	\$ 164	\$ 172	\$ —	\$ —	\$ 337

(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

(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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19. Information on related parties

Year ended March 31, 2023

Name: Masters Comfort Company Limited
Attribution: Non-consolidated subsidiary
Capital: ¥4 million (\$30 thousand)
Equity ownership percentage of the Company: 50%

	Millions of yen Transaction amount	Millions of yen Balance at end
Loan of funds	—	(Long-term loans receivable) ¥ 405
		(Advances received on uncompleted construction
Repayment of funds	¥ 2,250	contacts) 119
Receipt of interest	42	(Other current assets) 5
Work fee	65	
Construction fee	1,925	
Construction sales	359	
	Thousands of U.S. dollars Transaction amount	Thousands of U.S. dollars Balance at end
Loan of funds	—	(Long-term loans receivable) \$ 3,033
		(Advances received on uncompleted construction
Repayment of funds	\$ 16,850	contacts) 891
Receipt of interest	314	(Other current assets) 37
Work fee	486	
Construction fee	14,416	
Construction sales	2,688	

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.

(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.

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Year ended March 31, 2022

Name: Masters Comfort Company Limited
Attribution: Non-consolidated subsidiary
Capital: ¥4 million
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	

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.

(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.

20. Loss on litigation

Components of the loss on litigation for the years ended March 31, 2023 and 2022 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2023	2022	2023
Settlement packages	¥ 2	¥ 9	\$ 14
Others	13	8	97
Total	¥ 15	¥ 18	\$ 112

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21. Financial instruments

Information on financial instruments for the years ended March 31, 2023 and 2022 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.

Long-term loans receivable are mainly loans to affiliated companies and the repayment schedule is managed.

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.

Borrowings are primarily used to raise funds for business transactions, and borrowings with variable interest rates are exposed to interest rate fluctuation risk.

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, 2023 and 2022 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, 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			
2023			
	Book value	Fair value	Difference
Investment securities			
Other securities	¥ 6,116	¥ 6,116	¥ —
Long-term loans receivable	406	404	(2)
Total assets	¥ 6,523	¥ 6,521	¥ (2)
Long-term loans payable	¥ 6,000	¥ 6,058	¥ 58
Convertible bond-type bonds with shares acquisition rights	26	26	—
Total liabilities	¥ 6,026	¥ 6,084	¥ 58

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

Thousands of U.S. dollars			
2023			
	Book value	Fair value	Difference
Investment securities			
Other securities	\$ 45,802	\$ 45,802	\$ —
Long-term loans receivable	3,040	3,025	(14)
Total assets	\$ 48,850	\$ 48,835	\$ (14)
Long-term loans payable	\$ 44,933	\$ 45,368	\$ 434
Convertible bond type bonds with subscription rights to shares	194	194	—
Total liabilities	\$ 45,128	\$ 45,562	\$ 434

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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
	2023	2022	2023
Unlisted stocks	¥ 2,089	¥ 1,715	\$ 15,644

#2. Monetary claims and Securities with scheduled redemption amounts maturing after March 31, 2023

		Millions of yen			
		2023			
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	¥ 28,074	¥ —	¥ —	¥ —	—
Trade notes and accounts receivable	99,018	—	—	—	—
Electronically recorded monetary claims - operating	315	—	—	—	—
Short-term loans receivable	2	—	—	—	—
Advances paid	11,025	—	—	—	—
Investment securities					
Available-for-sale securities with contractual maturities	—	10	—	—	—
Long-term loans receivable	—	406	—	—	—
Total	¥ 138,437	¥ 416	¥ —	¥ —	—

		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	¥ —	¥ —	—

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Type	Thousands of U.S. dollars			
	2023			
	Within one year	Over one year but within five years	Over five years but within ten years	Over ten years
Cash and time deposits	\$ 210,244	\$ —	\$ —	\$ —
Trade notes and accounts receivable	741,541	—	—	—
Electronically recorded monetary claims - operating	2,359	—	—	—
Short-term loans receivable	14	—	—	—
Advances paid	82,565	—	—	—
Investment securities				
Available-for-sale securities with contractual maturities	—	74	—	—
Long-term loans receivable	—	3,040	—	—
Total	<u>\$ 1,036,748</u>	<u>\$ 3,115</u>	<u>\$ —</u>	<u>\$ —</u>

#3. Other interest-bearing liabilities amounts maturing after March 31, 2023

Type	Millions of yen					
	2023					
	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	¥ 950	¥ —	¥ —	¥ —	¥ —	¥ —
Long-term loans	—	—	—	—	6,000	—
Convertible bond-type bonds with share acquisition rights	—	—	26	—	—	—
Total	<u>950</u>	<u>—</u>	<u>26</u>	<u>—</u>	<u>6,000</u>	<u>—</u>

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		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 payable		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>
		Millions of yen					
		2023					
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	\$	7,114	\$ —	\$ —	\$ —	\$ —	\$ —
Long-term loans		—	—	—	—	44,933	—
Convertible bond-type bonds with share acquisition rights		—	—	194	—	—	—
Total		<u>7,114</u>	<u>—</u>	<u>194</u>	<u>—</u>	<u>44,933</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

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, 2023			
	Fair value (Millins of Yen)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Equity securities	¥ 5,560	¥ —	¥ —	¥ 5,560
Government bonds	10	—	—	10
Investment trusts	—	546	—	546
Total assets	5,570	546	—	6,116

	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

* 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.

	As of March 31, 2023			
	Fair value (Thousands of U.S. Dollars)			
	Level 1	Level 2	Level 3	Total
Investment securities				
Available-for-sale securities				
Equity securities	\$ 41,638	\$ —	\$ —	\$ 41,638
Government bonds	74	—	—	74
Investment trusts	—	4,088	—	4,088
Total assets	41,713	4,088	—	45,802

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

	As of March 31, 2023			
	Fair value (Millins of Yen)			
	Level 1	Level 2	Level 3	Total
Long-term loans receivable	¥ —	¥ 404	¥ —	¥ 404
Total assets	—	404	—	404
Long-term loans	—	6,058	—	6,058
Convertible bond-type bonds with share acquisition rights	—	26	—	26
Total liabilities	—	6,084	—	6,084

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	As of March 31, 2022			
	Fair value (Millions 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, 2023			
	Fair value (Thousands of U.S. Dollars)			
	Level 1	Level 2	Level 3	Total
Long-term loans receivable	\$ —	\$ 3,025	\$ —	\$ 3,025
Total assets	—	3,025	—	3,025
Long-term loans	—	45,368	—	45,368
Convertible bond-type bonds with share acquisition rights	—	194	—	194
Total liabilities	—	45,562	—	45,562

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

- Investment securities

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.

The fair values of the investment trusts with no market transaction price are based on the net asset value. They are and classified as Level 2 inputs if there is no material restriction to require considerations for risks from market participants in relation to their cancellation or repurchase requests.

- 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.

- Long-term loans

The fair values 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, 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.

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22. 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
	2023	2022	2023
Unrealized gains on securities	¥	¥	\$
Increase (decrease) during the year	(82)	(1,050)	(614)
Reclassification adjustments	(254)	(228)	(1,902)
Subtotal, before tax	(337)	(1,279)	(2,533)
Tax (expense) or benefit	100	385	748
Subtotal, net of tax	(237)	(893)	(1,775)
Foreign currency translation adjustments			
Increase (decrease) during the year	(11)	(8)	(82)
Remeasurements of defined benefit plans			
Increase (decrease) during the year	70	12	524
Reclassification adjustments	53	53	396
Subtotal, before tax	123	66	921
Tax (expense) or benefit	—	—	—
Subtotal, net of tax	123	66	921
Total other comprehensive income	¥ (126)	¥ (835)	\$ (943)

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23. Per share information

	Yen		U.S. dollars
	2023	2022	2023
Net assets per share	¥ 4,083.36	¥ 4,204.58	\$ 30.58
Net income per share	165.52	346.28	1.24
Diluted earnings per share	163.53	326.36	1.22

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
	2023	2022	2023
(Net income per share)			
Profit attributable to owners of parent	¥ 2,914	¥ 5,987	\$ 21,822
Amount not belonging to ordinary shareholders	—	—	—
Net income attributable to owners of parent related to common stock	¥ 2,914	¥ 5,987	\$ 21,822
Weighted average number of ordinary shares (thousands of shares)	17,607	17,291	17,607
(Diluted earnings per share)			
Adjustment of profit attributable to owners of parent	¥ 0	0	\$ 1
Fees (after deduction of tax equivalent)	(0)	(0)	(1)

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 98,308 shares in the previous fiscal year and was 84,385 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 93,800 shares for the previous fiscal year and 78,500 shares for the current fiscal year.

The dilutive factor included in calculating diluted net income per share is as follows:

	2023	2022
Subscription rights to shares (thousands of shares)	215	1,057

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24. 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 2023 and 2022.

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, 2023. The number of stock options is translated into the number of shares.

Fiscal year ended March 31, 2023:

Number of stock options

	FY 2014 stock options	FY 2015 stock options	FY 2016 stock options
Before vested:			
As of March 31, 2022	19,400	42,000	40,400
Granted	-	-	-
Forfeited	-	-	-
Vested	14,000	18,400	17,400
Outstanding	5,400	23,600	23,000
After vested:			
As of March 31, 2022	600	3,200	2,800
Vested	14,000	18,400	17,400
Exercised	14,600	10,600	11,400
Forfeited	-	-	-
Outstanding	-	11,000	8,800

Price information

	FY 2014 stock options	FY 2015 stock options	FY 2016 stock options
Exercise price	¥1 (\$0.007) per share	¥1 (\$0.007) per share	¥1 (\$0.007) per share
Average price when exercised	¥4,295 (\$32.17) per share	¥4,294 (\$32.16) per share	¥4,277 (\$32.03) per share
Fair value at the grant date	¥3,480 (\$26.06) per share	¥2,035 (\$15.24) per share	¥2,435 (\$18.24) 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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25. Subsequent events

(Decrease in common stock and additional paid in capital)

The Company resolved to decrease the amounts of common stock and additional paid-in capital at the board of directors meeting held on May 19, 2023, which was approved at the ordinary general meeting of shareholders held on June 29, 2023. It has been effective since August 4, 2023.

- (a) Purpose of the decrease in common stock and additional paid in capital
The purpose is to ensure flexibility of capital policy and maintain the financial soundness with the adoption of the appropriate taxation regime.
- (b) The amounts of decrease in common stock and additional paid in capital
In accordance with the provisions of Article 447, Paragraph 1 and Article 448, Paragraph 1 of the Companies Act, the amounts of common stock and additional paid in capital will be reduced and the entire amount will be transferred to other capital surplus.
 - 1) The amount of decrease in common stock: ¥20,736 million (\$155,290 thousand)
 - 2) The amount of decrease in additional paid in capital: ¥11,746 million (\$87,965 thousand)
 - 3) The amount of increase in other capital surplus: ¥ 32,483 million (\$243,263 thousand)
- (c) Schedule of the decrease in common stock and additional paid in capital
 - 1) Board of directors meeting resolution: May 19, 2023
 - 2) General meeting of shareholders resolution: June 29, 2023
 - 3) Public notice of objection by creditors: July 3, 2023
 - 4) Final date for creditors objections: August 3, 2023
 - 5) Effective date: August 4, 2023