KYOKUTO

# Annual Report 2022

**Year ended March 31, 2022**

CONTENTS



Kyokuto Kaihatsu Kogyo Co., Ltd.

## 1. Operational Results

### (1) Analysis of Operational Results

**<Summary of Operational Results for the Consolidated Fiscal Year ended March 31, 2022>**

In the fiscal year under review, the Japanese economy temporarily showed a moderate recovery trend in conjunction with the penetration of vaccines amid the ongoing impact of COVID-19. However, the future remained uncertain due to geopolitical risks from the Russia-Ukraine crisis, semiconductor shortages, high crude oil prices, and soaring raw material prices.

Representative Director,
President, CEO
Tatsuya Nunohara

Working against this backdrop, our Group strived to continue its business activities while placing the highest priority on the safety of customers, local residents, and employees.
At the same time, we implemented various measures and worked to generate profits with an eye to improving our corporate quality and deepening our social value, as we moved forward with the final year of our medium-term management plan 2019–21 "To the Growth Cycle" (3 year plan; April 1, 2019 – March 31, 2022).

As announced in the press release "Notice Concerning Transfer of Non-Current Assets and Recording of Extraordinary Income (Gain on Sale of Non-Current Assets)" on March 30, 2021, the Company recorded an extraordinary income of approximately 13 billion yen in the consolidated financial closing for the fiscal year ended March 31, 2022.

As a result, in the current consolidated fiscal year, net sales decreased by 260 million yen (0.3%) compared with the preceding consolidated fiscal year to 116,910 million yen. Operating income decreased by 2,106 million yen (23.2%) to 6,974 million yen, and the current net income attributable to owners of the parent increased by 7,499 million yen (110.7%) to 14,274 million yen.

We would like to present the summary of business on a consolidated basis by segment in comparison with the preceding fiscal year.

**i) Specialty Truck Segment**

Although domestic demand remained firm, earnings were affected by sluggish production in various sectors due to semiconductor shortages and higher prices of steel and other materials. The Group actively sought to receive orders while implementing infection-control measures and worked to improve productivity by introducing new products and streamlining production facilities.
At the Yokohama Plant, through pursuing large-scale capital investment aimed at improving productivity, we automated the body production line for medium-sized rear dump trucks, one of our main products. We will continue to strengthen our special-purpose vehicles business by improving productivity at each production site.
The Company's "large-sized rear dump truck wear-resistant steel plating (HARDOX) specifications" and the safety support system equipped with image recognition AI for garbage trucks won the 2021 GOOD DESIGN AWARD. The "large-sized rear dump truck

wear-resistant steel plating (HARDOX) specifications" were selected as one of the GOOD DESIGN BEST 100, awarded to 100 products that received a particularly high rating from the judging committee among the award recipients. In addition, regarding the safety support system equipped with image recognition AI for garbage trucks, 31 garbage trucks equipped with the system have been delivered to Fukaya City, Saitama Prefecture. We will strive to strengthen our attractive product lineup so that we can continue to meet customer needs.

Efforts were also made at the Group companies to strengthen the earnings base through capital investment.

NIPPON TREX Co., Ltd., a group company that manufactures and sells trailers, truck bodies, etc. opened a directly managed service center in Kitakyushu City to strengthen its stock-type business and improve the quality of after-sales service.

Hokuriku Heavy Industries, Ltd., a group company that manufactures and sells railway rolling stock for track maintenance, etc., has completed constructing a new plant and office with an approximately 50% increase in production capacity. We will contribute to the construction, maintenance and management of social infrastructure in Japan and overseas through the manufacture of "working vehicles" and "working rolling stock."

In overseas markets, the Group worked to secure sales and profits by expanding sales of special-purpose vehicles, led by Satrac in India.

Net sales in the Specialty Truck Segment decreased by 979 million yen (1.0%) to 98,571 million yen. Segment profit decreased by 2,399 million yen (34.9%) to 4,481 million yen.

New piston concrete pump truck
" PY140-36A"

New detachable body truck


Safety support system equipped with image recognition AI for garbage trucks
(This image is an image of detection. )

Medium-sized rear dump trucks body automation line at the Yokohama plant

**ii) Environmental Equipment and Systems Segment**

In the field of plant construction, the Group actively worked to attract orders for new projects and proceeded with the construction of properties for which orders have been received while also focusing on the stock-type business such as maintenance and entrusted operation.

As for new construction projects, we received orders from the Engaru Regional Wide Area Union in Hokkaido for the construction of a material recycling promotion facility from FY2021 to FY2023 and from Kawaguchi City, Saitama Prefecture for the construction, operation and management of the Totsuka Environmental Center in Kawaguchi City.

Net sales in the Environmental Equipment and Systems Segment increased by 618 million yen (5.6%) to 11,647 million yen. Segment profit increased by 103 million yen (5.2%) to 2,098 million yen.


Biogas plant in Okayama

Recycle center in Naha

**iii) Real Estate Rental Segment**

For multistory parking systems, the Group continued to focus on actively attracting orders for new properties and promoting the stock-type business such as renewal and maintenance. In Indonesia, we completed the construction of a large-scale multistory parking system the order for which we received through a local subsidiary, and will promote sales by emphasizing the convenience of multistory parking systems.

In the area of coin-operated parking, the situation improved moderately from a decline in operating rates caused by the impact of COVID-19.

Net sales in the Real Estate Rental Segment increased by 129 million yen (1.8%) to 7,261 million yen. Segment profit increased by 2 million yen (0.2%) to 1,143 million yen.

Multi-story parking equipment in Indonesia


Toll parking (Coin-operated)

**<Forecast of Operations for the Next Consolidated Fiscal Year ending March 31, 2022>**

In the fiscal year under review, the Japanese economy temporarily showed a moderate recovery trend in conjunction with the penetration of vaccines for COVID-19. However, the impact of the pandemic is still ongoing, and we expect that we will need to continue keeping a close watch on future trends.

The Group has established a basic policy for COVID-19 and projected the impact of the spread of COVID-19 as follows.

The Group has established a basic policy for COVID-19 as "Giving top priority to the safety of customers, local communities, and Group employees while ensuring balance with business continuation." Through the implementation of various measures, the Group has striven to reduce the risk of infection. The Group's current situation and countermeasures are as provided below.

1. Employees who tested positive for COVID-19 all had mild symptoms, and there was no impact on business operations.
2. Implemented teleworking/staggered work hours and allowed commuting by personal car.
3. Promoted digitization to continue business amid stay-at-home requests using video conferencing and online meetings.
4. Plants and service bases continued to run normally while implementing sufficient infection-control measures.

For the Group's mainstay Specialty Truck Segment, the Group has a backlog of orders of approximately 60 billion yen (as of March-end 2022) which is equivalent to over six months' worth of consolidated net sales of the Specialty Truck Segment. No major problems have occurred in plants' production activities.

Concerns about a prolonged impact of COVID-19 and further spread of infections are as listed below.

1. Delay and cancellation of new business negotiations during sales activities.
2. Delay in installation of truck chassis in production activities and impact on supply chains, including procurement of parts.

The Environmental Equipment and Systems Segment is operating normally without any delay, etc. in construction work due to the nature of public works that are essential to people's daily lives. Entrusted operations, etc. have also been busy with a higher operating rate caused partly by increases in household waste. It is expected that there will be almost no impact on business performance in the segment.

In the Real Estate Rental Segment*, the coin-operated parking business and others have experienced lower operating rates in all business locations, due to a decline in customer traffic caused by restrictions on going out. Recently, however, the situation has been moderately improving.

* As of April 1, 2022, the segment name of the Real Estate Rental Segment has been changed to the Parking and Other Operations Segment.

Under these circumstances, Our aim is to realize the long-term management vision

"Kyokuto Kaihatsu 2030," which was formulated with a view toward FY2030, and achieve the new medium-term management plan 2022–24 "Creating The Future As One" (3-year plan; April 1, 2022 – March 31, 2025), which was formulated as the first step toward realizing the long-term management vision. To this end, the Group is striving to build a solid foundation through strengthening synergies in the group and actively investing in growth. We have also set concrete numerical targets and policies. Meanwhile, we will pay close attention to the current and future economic conditions and other trends and respond flexibly such as by considering and implementing policy revisions, etc. as needed.

**(2) Analysis on Financial Conditions**

**i) Situations of Assets, Liabilities and Net Worth**

In the current consolidated fiscal year, total assets increased by 11,609million yen (8.1%) from the end of the preceding fiscal year to 154,350 million yen.

Current assets increased by 11,953 million yen (14.2%) to 96,276 million yen, due to increases in cash and deposits, etc.

Non-current assets (property, plant and equipment, intangible assets and investments and other assets) decreased by 344 million yen (0.6%) to 58,073 million yen, due to decreases in long-term loans receivable, etc.

Regarding liabilities, current liabilities decreased by 3,055 million yen (4.9%) to 33,686 million yen due to decreases in notes and accounts payable, etc. Non-current liabilities increased by 2,240 million yen (41.4%) to 7,652 million yen due to increases in deferred tax liability, etc.

Total net assets increased by 12, 424 million yen (12.4%) to 113,011 million yen due to the posting of net profit, etc. attributable to owners of parent.

As a result, the capital adequacy ratio stood at 73.0% as of the end of the current fiscal year (70.3% at the end of the preceding fiscal year).

**ii) Cash Flow Situation**

Consolidated cash and cash equivalents at the end of period increased by 16,008 million yen (75.4%) compared with the end of the preceding fiscal year to 37,248 million yen. Cash flow by activity type is summarized as follows:

Cash Flow from Operating Activities

Net cash provided by operating activities amounted to 6,867 million yen (a decrease of 1,396 million yen compared with the preceding fiscal year). This was because of the posting of net profit before tax, etc.

Cash Flow from Investing Activities

Net cash provided by investing activities amounted to 10,661 million yen (an increase of 14,966 million yen compared with the preceding fiscal year). This was because of sale of non-current assets, etc.

Cash Flow from Financing Activities
Net cash used by financing activities amounted to 1,555 million yen (an increase of 1,216 million yen compared with the preceding fiscal year). This was because of dividends paid, etc.

**(3) Principal policy for return of profits to shareholders and payment of dividends for the current year and next year**

The Group regards the return of profits to shareholders as one of the most important management policies. Its basic dividend policy is to determine dividends by comprehensively taking into account future business development, economic conditions, and other factors, as well as trends in business performance, while striving to improve its business performance and financial position. In order to achieve sustainable growth and increase corporate value, we will continue to focus on distributing dividends to shareholders at a high level and on a stable basis and pay dividends to shareholders in stages, taking into account trends in business performance while pursuing a higher payout ratio.

The Meeting of Shareholders on June 28th, 2022 resolved and passed to pay a dividend of 32 yen per share at the end of March 2022 as originally proposed by management, making its annual dividend 54 yen per share including an interim dividend, increased by 12 yen compared with the preceding fiscal year.

As for our policy for return of profits to shareholders in the new medium-term management plan (2022 to 2024), the Company will continue to pay a minimum annual dividend of 54 yen per share from the fiscal year ending March 2023 and aim to increase the value of shares by achieving a total return ratio of 50% in the fiscal year ending March 2025.

Based on the aforesaid policy under the new medium-term management plan, for the year ending March 2023, management plans to pay a minimum annual dividend of 54 yen per share (including an interim dividend of 22 yen), the same amount as in the preceding fiscal year.

## 2. Management Policy

### (1) Basic Management Policy of the Company

The management philosophy of the Kyokuto Kaihatsu Group is "Value technology and trust, make concerted efforts to develop the company, and widely contribute to the society."

Our ultimate goal in the management policy is to implement corporate policy recognizing a social role and responsibility as a public company in a strong relationship with various stakeholders such as customers, business partners, shareholders, employees, and local societies. In addition, by providing safe, effective and high quality products and services through our fair and sound business activities, the Kyokuto Kaihatsu Group seeks to bring about greater contribution to our society and maximize corporate value.

With this management policy, we devote ourselves to three major business domains including Specialty Truck, Environmental Equipment and Systems, and Real Estate Rental.

As of April 1, 2022, the segment name of the Real Estate Rental Segment has been changed to the Parking and Other Operations Segment.

### (2) Mid-to-Long Term Management Strategy

Under the long-term management vision “Kyokuto Kaihatsu 2030” that looks toward 2030 and this new medium-term management plan 2022–24 “Creating The Future As One” (3-year plan; April 1, 2022 – March 31, 2025), which signifies the first step toward realizing the long-term management vision, the Group is pursuing priority strategies toward growth of the Group based on the following policies.

**【Long-term Management Vision “Kyokuto Kaihatsu 2030”】**

The Group’s long-term management vision is to be “a global comprehensive infrastructure manufacturer that contributes to the realization and development of a sustainable society.”

**(1) Sustainability vision**

- CO2 emission reduction rate ：minus 38%
  * Basic unit compared with FY2013 for Kyokuto Kaihatsu Kogyo, NIPPON TREX, and Kyokuto Kaihatsu Parking.
- Recycling rate ：Maintain at 99.0% or higher

**(2) Consolidated financial performance vision**

- Net sales ：200 billion JPY
- Operating income margin ：10% or more
- ROE ：10%

**【New Medium-Term Management Plan 2022–24 “Creating The Future As One”】**

In this medium-term management plan, formulated as the first step of the long-term management vision, we set out four basic policies and will resolutely carry out the plan in an aim to establish a comprehensive foundation for the Kyokuto Kaihatsu Group. In addition, in order to improve corporate value, we will implement strategies that take into consideration the balance between "active investment in growth" and "return to society and stakeholders" by utilizing the funds and interest-bearing debt obtained through our business activities to date.

1. **Basic policies**
   (1) Contributing to solving social issues and pursuing value provision
   (2)Improving productivity and strengthening income structure
   (3)Building a strong business foundation that supports sustainable growth and reform
   (4)Optimally distributing cash flow aimed at improving corporate value

2. **Sustainability targets (fiscal year ending March 2025)**
   ・CO2 emission reduction rate : minus 10% or more
   * Basic unit compared with FY2020 for Kyokuto Kaihatsu Kogyo, NIPPON TREX, and Kyokuto Kaihatsu Parking.
   ・Recycling rate : Maintain at 99.0% or higher

3. **Consolidated financial performance targets (fiscal year ending March 2025)**
   ・ Consolidated net sales : Over 140 billion JPY (including new M&A growth)
   ・ Consolidated operating income margin : 9% or more

4. **Financial policies**
   ・ Strategic investment : Over 30 billion JPY for growth investment and approx. 10 billion JPY for new M&A investment over the three years
   ・ Shareholder returns : Total payout ratio: 50% (FY ending March 2025), Lower limits of annual dividend per share: 54 JPY

**(3) Targeted management index**

In the long-term management vision "Kyokuto Kaihatsu 2030," our consolidated financial performance targets are net sales of 200 billion yen or more, operating income margin of 10% or more, and ROE of 10%.

In addition, for the term ending March 2025, the last fiscal year of the new medium-term management plan 2022–24 "Creating The Future As One" (3-year plan; April 1, 2022 to March 31, 2025), our consolidated financial performance targets are net sales of 140 billion yen or more and operating income margin of 9% or more.

CONSOLIDATED BALANCE SHEETS
At March 31, 2022 and 2021

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| ASSETS | 2022 | 2021 | 2022 |
| Current assets: | | | |
| Cash and deposits (Notes 8 & 9) | ¥ 25,815 | ¥ 9,703 | $ 210,888 |
| Short-term securities (Notes 8 & 9) | 11,500 | 12,200 | 93,947 |
| Trade notes and accounts receivable (Note 9) | - | 35,129 | - |
| Trade notes receivable (Note 9 & 17) | 6,647 | - | 54,299 |
| Trade accounts receivable (Note 9 & 17) | 23,078 | - | 188,533 |
| Contract assets (Note 17) | 495 | - | 4,049 |
| Electronically recorded monetary claims - operating (Note 9 & 17) | 8,300 | 7,886 | 67,802 |
| Merchandise & finished goods | 2,462 | 1,772 | 20,118 |
| Work in process | 6,946 | 6,588 | 56,742 |
| Raw materials & supplies | 9,816 | 8,613 | 80,187 |
| Other current assets (Note 9) | 1,273 | 2,495 | 10,397 |
| Allowance for doubtful accounts | (55) | (63) | (450) |
| Total current assets | 96,277 | 84,323 | 786,512 |
| | | | |
| Property, plant and equipment (Note 10): | | | |
| Land (Note 5) | 22,001 | 21,018 | 179,728 |
| Buildings and structures (Note 5) | 32,245 | 34,773 | 263,418 |
| Machinery, equipment and vehicles | 20,707 | 20,368 | 169,163 |
| Construction in progress | 933 | 291 | 7,625 |
| Other | 5,649 | 5,440 | 46,147 |
| Total | 81,535 | 81,890 | 666,081 |
| Accumulated depreciation | (41,763) | (41,955) | (341,170) |
| Net property, plant and equipment | 39,772 | 39,935 | 324,911 |
| | | | |
| Intangible assets | | | |
| Goodwill | 771 | 803 | 6,297 |
| Customer-related assets | 450 | 449 | 3,681 |
| Other | 1,223 | 817 | 9,991 |
| Total | 2,444 | 2,069 | 19,969 |
| | | | |
| Investments and other assets: | | | |
| Investment securities (Notes 3, 6 & 9) | 14,023 | 14,388 | 114,555 |
| Deferred tax assets (Note 14) | 281 | 264 | 2,295 |
| Long-term loans receivable (Note 9) | 456 | 1,964 | 3,727 |
| Other assets | 1,994 | 1,980 | 16,286 |
| Allowance for doubtful accounts (Note 9) | (897) | (2,182) | (7,327) |
| Total investments and other assets | 15,857 | 16,414 | 129,536 |
| Total non-current assets | 58,073 | 58,418 | 474,416 |
| Total | ¥ 154,350 | ¥ 142,741 | $ 1,260,928 |

The accompanying notes are an integral part of these statements.

| | Millions of yen | | | | Thousands of U.S. dollars (Note 1) | |
|---|---|---|---|---|---|---|
| LIABILITIES AND NET ASSETS | 2022 | | 2021 | | 2022 | |
| Current liabilities: | | | | | | |
| Short-term bank loans (Notes 4) | ¥ | 965 | ¥ | 740 | $ | 7,885 |
| Current portion of long-term bank loans (Notes 4 & 9) | | 28 | | 23 | | 225 |
| Trade notes and accounts payable | | 14,756 | | 16,547 | | 120,549 |
| Electronically recorded obligations - operating | | 8,458 | | 9,150 | | 69,092 |
| Accrued expenses | | 4,594 | | 4,814 | | 37,529 |
| Income taxes payable | | 1,129 | | 2,096 | | 9,226 |
| Other current liabilities (Note 4 & 17) | | 3,756 | | 3,372 | | 30,686 |
| Total current liabilities | | 33,686 | | 36,742 | | 275,192 |
| Non-current liabilities: | | | | | | |
| Long-term bank loans (Notes 4 & 9) | | 242 | | 282 | | 1,975 |
| Net defined benefit liabilities (Note 6) | | 186 | | 340 | | 1,522 |
| Liabilities for directors' retirement benefits | | 144 | | 152 | | 1,176 |
| Deferred tax liabilities (Note 14) | | 5,862 | | 2,295 | | 47,884 |
| Other non-current liabilities (Notes 4, 5 & 9) | | 1,219 | | 2,343 | | 9,959 |
| Total non-current liabilities | | 7,653 | | 5,412 | | 62,516 |
| Total liabilities | | 41,339 | | 42,154 | | 337,708 |
| Net assets: | | | | | | |
| Shareholders' equity: | | | | | | |
| Common stock (Note 12): | | | | | | |
| Authorized-170,950,672 shares | | | | | | |
| Issued-42,737,668 shares in 2022 and 2021 | | 11,900 | | 11,900 | | 97,213 |
| Capital surplus (Note 12) | | 11,839 | | 11,821 | | 96,717 |
| Retained earnings | | 86,435 | | 73,997 | | 706,114 |
| Treasury stock, at cost (Note 12): | | | | | | |
| 2,978,781 shares in 2021 | | | | | | |
| 2,849,820 shares in 2022 | | (2,081) | | (2,249) | | (17,004) |
| Total shareholders' equity | | 108,093 | | 95,469 | | 883,040 |
| Accumulated other comprehensive income (Note 15): | | | | | | |
| Unrealized gain on available-for-sale securities | | 4,598 | | 4,931 | | 37,564 |
| Foreign currency translation adjustments | | 59 | | 53 | | 483 |
| Remeasurements of defined benefit plans | | (64) | | (170) | | (521) |
| Total accumulated other comprehensive income | | 4,593 | | 4,814 | | 37,526 |
| Non-controlling interests | | 325 | | 304 | | 2,654 |
| Total net assets | | 113,011 | | 100,587 | | 923,220 |
| Total | ¥ | 154,350 | ¥ | 142,741 | $ | 1,260,928 |

The accompanying notes are an integral part of these statements.

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

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Net sales (Note 17) | ¥ 116,910 | ¥ 117,170 | $ 955,069 |
| Cost of sales (Note 16) | 95,742 | 94,009 | 782,141 |
| Gross profit | 21,168 | 23,161 | 172,928 |
| Selling, general and administrative expenses (Note 13) | 14,194 | 14,081 | 115,955 |
| Operating income | 6,974 | 9,080 | 56,973 |
| Other income (expenses): | | | |
| Interest and dividend income | 327 | 618 | 2,673 |
| Interest expense | (41) | (42) | (339) |
| Gain (loss) on sales of investment securities, net | 13 | (20) | 102 |
| Gain (loss) on sales or disposition of property and equipment, net | 13,167 | 83 | 107,566 |
| Share of profit (loss) of entities accounted for using equity method | 95 | (16) | 780 |
| Loss on valuation of investment securities (Note 3) | - | (104) | - |
| Provision of allowance for doubtful accounts | - | (489) | - |
| Foreign exchange gain (loss) | 173 | 91 | 1,415 |
| Other-net | (36) | (74) | (297) |
| Other expenses -net | 13,698 | 47 | 111,900 |
| Income before income taxes and non-controlling interests | 20,672 | 9,127 | 168,873 |
| Income taxes (Note 14): | | | |
| Current | 2,771 | 3,178 | 22,633 |
| Deferred | 3,635 | (770) | 29,697 |
| Total income taxes | 6,406 | 2,408 | 52,330 |
| Net income | 14,266 | 6,719 | 116,543 |
| Net loss attributable to non-controlling interests | (8) | (55) | (66) |
| Net income attributable to owners of the parent | ¥ 14,274 | ¥ 6,774 | $ 116,609 |

| | Yen | | U.S. dollars (Note 1) |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Amounts per shares: | | | |
| Basic net income | ¥ 358.35 | ¥ 170.49 | $ 2.93 |
| Diluted net income | - | - | - |
| Cash dividends applicable to earnings of the year | 54.00 | 42.00 | 0.44 |

The accompanying notes are an integral part of these statements.

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

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Net income | ¥ 14,266 | ¥ 6,719 | $ 116,543 |
| Other comprehensive income (Note 15): | | | |
| Unrealized gain on available-for-sale securities | (333) | 2,377 | (2,719) |
| Foreign currency translation adjustments | (18) | (74) | (143) |
| Remeasurements of defined benefit plans | 107 | 486 | 873 |
| Share of other comprehensive income in affiliates accounted for by the equity method | 52 | (23) | 421 |
| Total other comprehensive income | (192) | 2,766 | (1,568) |
| Comprehensive income | ¥ 14,074 | ¥ 9,485 | $ 114,975 |
| Total comprehensive income attributable to: | | | |
| Owners of the parent | 14,053 | 9,565 | 114,806 |
| Non-controlling interests | 21 | (80) | 169 |

The accompanying notes are an integral part of these statements.

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

*Millions of yen*

| | | Shareholders' equity | | | | | Accumulated other comprehensive income | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity | Unrealized gain on available-for-sale securities | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | Non-controlling interests | Total net assets |
| Balance, March 31, 2020 | ¥ | 11,900 | 11,679 | 68,733 | (2,153) | 90,159 | 2,553 | 127 | (657) | 2,023 | 384 | 92,566 |
| Purchases of treasury stock | | | | | (289) | (289) | | | | | | (289) |
| Disposal of treasury stock | | | 142 | | 193 | 335 | | | | | | 335 |
| Net income attributable to owners of the parent | | | | 6,774 | | 6,774 | | | | | | 6,774 |
| Appropriation | | | | | | | | | | | | |
| Cash dividends paid | | | | (1,510) | | (1,510) | | | | | | (1,510) |
| Other net changes in the year | | | | | | | 2,378 | (74) | 487 | 2,791 | (80) | 2,711 |
| Balance, March 31, 2021 | ¥ | 11,900 | 11,821 | 73,997 | (2,249) | 95,469 | 4,931 | 53 | (170) | 4,814 | 304 | 100,587 |
| Cumulative effects of changes in accounting policies | | | | 1 | | 1 | | | | | | 1 |
| Restated balance, March 31, 2021 | | 11,900 | 11,821 | 73,998 | (2,249) | 95,470 | 4,931 | 53 | (170) | 4,814 | 304 | 100,588 |
| Purchases of treasury stock | | | | | (0) | (0) | | | | | | (0) |
| Disposal of treasury stock | | | 18 | | 168 | 186 | | | | | | 186 |
| Net income attributable to owners of the parent | | | | 14,274 | | 14,274 | | | | | | 14,274 |
| Appropriation | | | | | | | | | | | | |
| Cash dividends paid | | | | (1,837) | | (1,837) | | | | | | (1,837) |
| Other net changes in the year | | | | | | | (333) | 6 | 106 | (221) | 21 | (200) |
| Balance, March 31, 2022 | ¥ | 11,900 | 11,839 | 86,435 | (2,081) | 108,093 | 4,598 | 59 | (64) | 4,593 | 325 | 113,011 |

*Thousands of U.S. dollars*

| | | Shareholders' equity | | | | | Accumulated other comprehensive income | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity | Unrealized gain on available-for-sale securities | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Total accumulated other comprehensive income | Non-controlling interests | Total net assets |
| Balance, March 31, 2021 | $ | 97,213 | 96,568 | 604,504 | (18,375) | 779,910 | 40,281 | 439 | (1,392) | 39,328 | 2,485 | 821,723 |
| Cumulative effects of changes in accounting policies | | | | 10 | | 10 | | | | | | 10 |
| Restated balance, March 31, 2021 | | 97,213 | 96,568 | 604,514 | (18,375) | 779,920 | 40,281 | 439 | (1,392) | 39,328 | 2,485 | 821,733 |
| Purchases of treasury stock | | | | | (3) | (3) | | | | | | (3) |
| Disposal of treasury stock | | | 149 | | 1,374 | 1,523 | | | | | | 1,523 |
| Net income attributable to owners of the parent | | | | 116,609 | | 116,609 | | | | | | 116,609 |
| Appropriation | | | | | | | | | | | | |
| Cash dividends paid | | | | (15,009) | | (15,009) | | | | | | (15,009) |
| Other net changes in the year | | | | | | | (2,717) | 44 | 871 | (1,802) | 169 | (1,633) |
| Balance, March 31, 2022 | $ | 97,213 | 96,717 | 706,114 | (17,004) | 883,040 | 37,564 | 483 | (521) | 37,526 | 2,654 | 923,220 |

The accompanying notes are an integral part of these statements.

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

| | *Millions of yen* | | *Thousands of U.S. dollars (Note 1)* |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Operating activities: | | | |
| Income before income taxes and non-controlling interests | ¥ 20,672 | ¥ 9,127 | $ 168,873 |
| Depreciation and amortization | 2,909 | 2,805 | 23,762 |
| Amortization of goodwill | 85 | 40 | 691 |
| Loss on valuation of investment securities | - | 104 | - |
| Loss (gain) on sales of investment securities, net | (13) | 20 | (102) |
| Share of loss (profit) of entities accounted for using equity method | (95) | 16 | (780) |
| Loss (gain) on sales or disposition of property and equipment, net | (13,190) | (125) | (107,754) |
| Interest and dividend income | (327) | (618) | (2,673) |
| Interest expenses | 41 | 42 | 339 |
| Decrease (increase) in trade notes and accounts receivable | 4,536 | (76) | 37,054 |
| Decrease (increase) in inventories | (2,172) | (96) | (17,744) |
| Increase (decrease) in trade notes and accounts payable | (2,015) | (1,504) | (16,460) |
| Increase (decrease) in net defined benefit liabilities | (2) | 65 | (19) |
| Increase (decrease) in allowance for doubtful accounts | 4 | 492 | 32 |
| Increase (decrease) in allowance for others | (70) | (121) | (568) |
| Increase (decrease) in consumption taxes payable | (325) | (36) | (2,656) |
| Other, net | 159 | 370 | 1,310 |
| Sub total | 10,197 | 10,505 | 83,305 |
| Interest and dividend income received | 349 | 637 | 2,853 |
| Interest expenses paid | (41) | (41) | (339) |
| Income taxes paid | (3,638) | (2,837) | (29,720) |
| Net cash provided by operating activities | 6,867 | 8,264 | 56,099 |
| | | | |
| Investing activities: | | | |
| Purchases of securities and investments | (6) | (47) | (47) |
| Proceeds from sales of securities and investments | 197 | 101 | 1,611 |
| Proceeds from maturity of securities and investments | 600 | 586 | 4,902 |
| Purchases of property, plant and equipment | (5,633) | (3,356) | (46,021) |
| Proceeds from sales of property, plant and equipment | 15,463 | 172 | 126,322 |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 18) | - | (1,822) | - |
| Disbursement of loans receivable | - | (10) | - |
| Collection of loans receivable | 42 | 71 | 344 |
| Other,net | (1) | (0) | (10) |
| Net cash used in investing activities | 10,662 | (4,305) | 87,101 |
| | | | |
| Financing activities: | | | |
| Net increase (decrease) in short-term bank loans | 216 | (822) | 1,761 |
| Proceeds from long-term bank loans | 165 | 288 | 1,348 |
| Repayment of long-term bank loans | (201) | (675) | (1,639) |
| Payment for redemption of bonds | - | (50) | - |
| Payment of finance lease obligations | (52) | (49) | (424) |
| Purchases of treasury stock | (0) | (289) | (3) |
| Proceeds from sales of treasury stock | 154 | 335 | 1,256 |
| Dividends paid | (1,837) | (1,509) | (15,005) |
| Net cash used in financing activities | (1,555) | (2,771) | (12,706) |
| | | | |
| Foreign currency translation adjustments on cash and cash equivalents | 35 | (13) | 285 |
| Net increase (decrease) in cash and cash equivalents | 16,009 | 1,175 | 130,779 |
| Cash and cash equivalents at beginning of year | 21,240 | 20,065 | 173,517 |
| Cash and cash equivalents at end of year (Note 8) | ¥ 37,249 | ¥ 21,240 | $ 304,296 |

The accompanying notes are an integral part of these statements.

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Kyokuto Kaihatsu Kogyo Co., Ltd. (the "Company") and its consolidated subsidiaries (collectively the "Group") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically, in order to present them in a form which is more familiar to readers outside Japan.

In addition, the notes to consolidated financial statements include additional information which is not required under generally accepted accounting principles and practices in Japan.

The financial statements presented herein are expressed in Japanese yen and, solely for the convenience of the readers, have been translated into U.S. dollars at the rate of ¥122.41=US$1, the approximate exchange rate on March 31, 2022. These translations should not be construed as representations that the Japanese yen amounts actually are, have been or could be converted into U.S. dollar amounts.

## 2. Summary of Significant Accounting Policies

### (a) Consolidation

The consolidated financial statements include the accounts of the Company and its 11 significant subsidiaries. Investments in 5 nonconsolidated subsidiaries and 1 affiliated company are accounted for by the equity method.

Under the concept of control or significant influence, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies which the Group has the ability to exercise significant influence (affiliated companies) are accounted for by the equity method.

On March 31, 2022, 5 subsidiaries are excluded from scope of consolidation. As to these, investments in all nonconsolidated subsidiaries are accounted for by the equity method. These companies are not material in terms of total assets, net sales, net income and retained earnings and do not have any significant impact on the consolidated financial statements.

Among the consolidated subsidiaries, the balance sheet date for Kyokuto Kaihatsu (Kunshan) Machinery Co., Ltd., and PT. Kyokuto Indomobil Manufacturing Indonesia is December 31. They are consolidated using the financial statements as of their balance sheet date. Significant inter-company transactions between their balance sheet date and consolidated balance sheet date are adjusted for consolidation.

Furthermore, the balance sheet date for Kyokuto Special Automobile Trading (Shanghai) Co., Ltd. under the equity method is different from the consolidated balance sheet date, but no adjustments were made.

All significant inter-company balances and transactions have been eliminated in the consolidated financial statements. All material unrealized gains resulting from inter-company transactions have been eliminated.

Assets and liabilities of the consolidated subsidiaries at the time of investment are all valued at fair value. The goodwill is being amortized on a straight-line basis over estimated useful lives or 5 years in situations in which the useful lives cannot be estimated. However, insignificant goodwill is charged to expenses when incurred.

**(b) Cash Equivalents**

Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value. All of cash equivalents mature or become due within three months from the date of acquisition.

**(c) Short-term Securities and Investment Securities**

The Group classifies their securities which have readily determinable fair values as held-to-maturity debt securities, available-for-sale securities, depending on management's intent.

(Held-to-maturity debt securities)
Held-to-maturity debt securities are stated at amortized cost.

(Available-for-sale securities)
Securities other than shares that do not have a market value are stated at fair value, with unrealized gains or losses, net of applicable taxes, and reported in accumulated other comprehensive income. The cost of available-for-sale securities sold is determined based on the moving average method.
Shares that do not have a market value are stated at cost determined by the moving average method.

**(d) Inventories**

Merchandises are stated at cost determined by the specific identification method, or if lower, the net realizable value.
Raw materials, finished goods and work in process are stated at cost determined by the periodic average method, or if lower, the net realizable value.
Supplies are stated at cost determined by the last purchase cost method, or if lower, the net realizable value.

**(e) Depreciation**

Depreciation is principally computed under the straight-line method, using rates based on the estimated useful lives of the assets (except for lease assets). The useful lives are principally ranging from 7 to 60 years for buildings and structures, and 4 to 17 years for machinery, equipment and vehicles.
Amortization of intangible assets is computed by the straight-line method.

### (f) Retirement Benefits

Net defined benefit liabilities are recorded for employees' pension and severance payments based on the projected benefit obligations and the fair value of plan assets at the balance sheet date.
In calculating the projected retirement obligations, the straight-line attribution is applied for allocation of projected benefits to the periods until the end of the current fiscal year.
Actuarial gains or losses are amortized by declining-balance method over stated years that do not exceed the average remaining service period of the employees (10 years) beginning with the year following the year which incurred.

### (g) Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided against potential losses on collections at an amount determined using a historical bad debt loss ratio and an amount individually estimated on the collectability of receivables that are expected to be uncollectible due to bad financial condition or insolvency of the debtor.

### (h) Asset Retirement Obligations

Asset retirement obligations are defined as a statutory or similar obligation with regard to the removal of tangible fixed assets and are incurred when tangible fixed assets are acquired, constructed, developed or used in an ordinary way. The asset retirement obligation is recognized as the sum of the discounted cash flow required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made.

### (i) Revenue Recognition

In terms of revenue from contracts with customers of the Group, the contents of the main performance obligations and the usual timing of satisfaction of performance obligations (at the usual timing of revenue recognition) are as follows.
In the domestic sales of merchandise or finished goods, the period for which the control of merchandise or finished goods is transferred to the customers after shipping is usual, the revenue is recognized at the shipping applied to the alternative treatment provided in Paragraph 98 of "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30, March 26, 2021).

・Specialty truck business

In "Specialty truck business", the Group operates the manufactures and sales of the specialty trucks such as dump tracks and tailgate lifters, and also, the after-sales services such as the sales of the related components or inspection and maintenance.

In terms of sales of finished goods and components, revenue is recognized at the time of shipping. In terms of providing the inspection and maintenance, "Maintenance pack contract" is entered into with customer, and the transaction price is allocated to contents of inspection in the contract, so revenue is recognized over a certain period based on the implementation of inspection.

Payment terms are decided based on contracts with customers, the considerations of transaction are mostly received within 3 months after delivery, and do not include a significant financing component.

・Environmental equipment and systems business

In "Environmental equipment and systems business", the Company and its subsidiaries operate the construction of recycling facilities such as bulky garbage facilities and recycling centers, and also, the after-sales services such as the sales of the related components or inspection and maintenance. In addition, some consolidated subsidiaries operate the business of providing the service, working and management related to these facilities and equipment.

In terms of construction contracts, the performance obligation satisfies for a certain period. So, revenue is recognized based on the percentage of completion of satisfaction of the performance obligation, exclude the contract of short construction period. The method used to estimate the progress towards the satisfaction of the performance obligation is the input method based on the ratio of the actual costs to the total estimated costs. In terms of sales of recycling facilities and related components, revenue is recognized at the time of shipping to customers. In terms of service such as inspection, maintenance, working and management, revenue is recognized over time based on the occasion of each service under comprehensive maintenance contracts or working consignment contracts.

Payment terms are decided based on contracts with customers, the considerations of transaction are received for several times depending on the progress of construction. So, they do not include a significant financing component.

**(j) Allowance for Losses on Construction Contracts**

Estimated losses on construction contracts are charged to income in the period in which they are identified.

**(k) Leases**

Finance lease transactions, except for immaterial or short-term finance lease transactions which are accounted for as operating leases, are capitalized to recognize lease assets and lease obligations in the balance sheet. Such capitalized lease assets are depreciated by the straight-line method over the lease terms assuming no residual value.

**(l) Income Taxes**

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amount and tax bases of assets and liabilities, and operating loss carry-forwards.

**(m) Derivatives**

All derivatives, except for certain foreign exchange forward contracts and interest rate swap contracts described below, are stated at fair value. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Group defers recognition of gains or losses resulting from a change in the market value of the derivative financial instruments until the related gains or losses on the hedged items are recognized. Accounts payable hedged by foreign exchange contracts which meet certain hedging criteria are translated at their contracted rates. Interest rate swaps which meet certain hedging criteria are accounted for as if the interest rate applied to the swaps had originally applied to the underlying debt.

**(n) Per Share Information**

Basic net income per share is computed based on net income available to common stockholders and the weighted average number of shares of common stock outstanding during each period. The average numbers of shares used in the computations are 39,832 and 39,734 thousand shares for 2022 and 2021, respectively.
Diluted net income per share is not disclosed because the Company had no potentially dilutive shares outstanding at these balance sheet dates.
Cash dividends per share shown in the statements of income are the amounts applicable to the respective years.

As described in (p), the Company and its domestic consolidated subsidiaries have changed accounting treatment for revenue recognition by applying the new accounting standards for revenue recognition from the beginning of the fiscal year ended March 31, 2022. As a result, the effect of earnings per share is immaterial.

### (o) Significant Accounting Estimates

(Goodwill and Customer-related assets)

(i) Amount recorded in the consolidated financial statements for the fiscal year

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Goodwill | ¥ 771 | ¥ 803 | $ 6,297 |
| Customer-related assets | ¥ 450 | ¥ 449 | $ 3,681 |

(ii) Information concerning significant accounting estimates for identifiable items

Goodwill and Customer-related assets of the newly consolidated subsidiary are amortized under the straight-line method, using rates based on the estimated useful lives of assets, below. The recognition and measurement of Goodwill and Customer-related assets are based on estimates or assumptions set using some factors such as future cash flow and discount rates. However, when these assumptions may be affected by changes in uncertain future economic conditions, the impairment losses related these assets may be recognized in the future.

| Estimated useful lives | Years |
|---|---|
| Goodwill | 10 |
| Customer-related assets | 16 |

(Impairment losses of Property, plant and equipment)

(i) Amount recorded in the consolidated financial statements for the fiscal year

There is not applicable for the fiscal year.

(ii) Information concerning significant accounting estimates for identifiable items

The impairment losses of the assets which have indication of impairment were not recognized since the estimated future cash flow calculated under the business plans of each segment exceeds carrying amount of the assets. The assets which have indication of impairment are below. However, when the business plan will be needed the review or update since affection of future market environment, the impairment losses of the assets may be recognized in the future.

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Specialty truck business | ¥ 555 | ¥ 538 | $ 4,534 |
| Environmental equipment and systems business | 647 | 647 | 5,289 |
| Real estate rental business | — | — | — |
| Total | ¥ 1,202 | ¥ 1,185 | $ 9,823 |

**(p) Changes in accounting policies**

(Application of Accounting Standard for Revenue Recognition, etc.)
The Group applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter the "Revenue Recognition Standard"), etc. from the beginning of the current fiscal year, the Group now recognizes revenue when control of promised goods or services is transferred to a customer in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

The main changes that have been made are as follows:
<u>Revenue recognition of construction contracts</u>
The percentage-of-completion method was previously used for the construction which the outcome of the construction activity was deemed reliably during the course of the activity, otherwise the completed-contract method was used, however from the fiscal year under review, the Company and its domestic subsidiaries have changed to be recognized when the performance obligation satisfied for a certain period, exclude the contract of short construction period.
The method used to estimate the progress towards the satisfaction of the performance obligation is the input method based on the ratio of the actual costs to the total estimated costs.

In applying the Revenue Recognition Standard, etc., in accordance with the transitional treatment set forth in the proviso to Paragraph 84 of the Revenue Recognition Standard, the cumulative effects of retrospectively applying new accounting policy to the periods prior to the beginning of the current fiscal year were added to or subtracted from retained earnings at the beginning of the current fiscal year, and the new accounting policy has been applied from the beginning balance. As a result of the above, for the current period ended March 31, 2022, net sales increased by ¥ 1 million ($ 11 thousand), cost of sales increased by ¥ 0 million ($ 5 thousand), and operating income and income before income taxes and non-controlling interests each increased by ¥ 0 million ($ 6 thousand). The effects of beginning balance of retained earnings were immaterial.

Due to the application of the Revenue Recognition Standard, etc., "Trade notes and accounts receivable," which had been reported under "current assets" on the balance sheet in the previous fiscal year, are now included in "Trade notes receivable", "Trade accounts receivable", and "Contract assets". In accordance with the transitional treatment set forth in Paragraph 89-2 of the Revenue Recognition Standard, figures for the previous fiscal year have not been reclassified as current year.

Note also that, in accordance with the transitional treatment set forth in Paragraph 89-3 of the Revenue Recognition Standard, "Notes Regarding Revenue Recognition" for the previous fiscal year was not disclosed.

(Application of accounting standards for calculating fair market values)

The Company has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019; hereinafter the "Fair Value Measurement Standard"), etc. from the beginning of the fiscal year, and will prospectively apply the new accounting policies stipulated by the Fair Value Measurement Standard, etc. in accordance with the transitional treatment set forth in Paragraph 19 of the Fair Value Measurement Standard and Paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019). This does not affect the consolidated financial statements.

And also, the notes of items regarding the details of each level for the fair value of financial instruments, etc. are disclosed in "Financial Instruments and Related Disclosures". However, in accordance with the transitional treatment set forth in Paragraph 7-4 of the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19, July 4, 2019), that notes were not disclosed.

**(q) Accounting Standards issued but not yet applied**

- "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No.31, June 17, 2021)

(i) Overview

Implementation Guidance on Accounting Standard for Fair Value Measurement (ASBJ Guidance No. 31) published on July 4, 2019 was revised on June 17, 2021. When the guidance was published, it indicated that because a certain period of

time may be required to discuss the fair value measurement of the investment trust with the people involved and in order to consider the notes regarding the fair value of investments in the unions or other organizations reported by net amount of equity on the balance sheet, around 1 year was required for discussion and consideration after publication of Accounting Standard for Fair Value Measurement.
As a result, the guidance has been revised and published on June 17, 2021.

(ii) Scheduled date of application
To be applied from the beginning of the fiscal year ending March 2023.

(iii) Effects of application of these standards
The effects of the application of the aforementioned guidance on the Company's consolidated financial statements are currently under the assessment.

**(r) Additional information**

(Accounting estimates of the impacts of the COVID-19 infection)
The Company believes that it is difficult to predict how the impacts of the COVID-19 infection will spread or when they will converge. However, we make the accounting estimates based on the assumption which the impact on financial position and operating results of the Group will continue for a certain period in the fiscal year ending March 31, 2023 based on external information available at this time.

(Granting Company Stock to Employees through a Trust)
The board of directors held on November 11, 2020 resolved to introduce a "Trust-type Employee Stockholding Incentive Plan [E-Ship®]"(hereinafter, "this Plan"). The objective is to incentivize all employees to improve the Company's corporate value in the medium-to-long term, enhance employee benefits, and encourage growth of the Company constantly through employee's motivation to work by equity participation as a shareholder. The Company is accounting for this Plan in according with "Practical Solution on Transactions of Delivering the Company's Own Stock to Employees etc. through Trusts" (ASBJ PITF No. 30, March 26, 2015).

(1) Incentive plan overview

This Plan is available to all employees who belong to the Kyokuto Kaihatsu Employee Shareholding Association (hereinafter, "Shareholding Association"). Under this Plan, the Company establishes a trust, called the "Kyokuto Kaihatsu Employee Shareholding Association Exclusive Trust" (hereinafter "the Employee Shareholding Association Trust") through a trust bank. The Employee Shareholding Association Trust will estimate the number of shares that the Employee Shareholding Association is likely to acquire over the 3 years after the establishment of the trust, and will accept this amount in advance through third-party allotment from the Company. The fund will be borrowed from financial institutions. The Employee Shareholding Association Trust will then continuously sell shares to the Shareholding Association, and if an amount equivalent to net gain on sale of the shares has accumulated in the Employee Shareholding Association Trust at the end of the trust period, the said amount will be distributed as residual assets to the members of the Employee Shareholding Association who meet the beneficiary eligibility criteria. Note that the Company will guarantee loans taken to accept the shares and thus will repay any outstanding portion of the loans, if an amount equivalent to loss on sale of shares has accumulated in the Employee Shareholding Association Trust at the end of the trust period due to a drop in the market price of the Company's shares.

(2) Residual Company shares held in the Employee Shareholding Association Trust

Any residual shares of the Company held in the Employee Shareholding Association Trust have been recorded at the Employee Shareholding Association Trust's book value (excluding incidental expenses) as treasury stock under Net assets in the accompanying consolidated balance sheets. The book value of the treasury stock at March 31, 2022 and 2021 are ¥ 87 million ($ 711 thousand, 62,300 shares) and ¥ 242 million (171,400 shares), respectively.

(3) Book value of debt recorded through the application of the total amount method

The book value of debt recorded through the application of the total amount method at March 31, 2022 and 2021 are ¥ 76 million ($ 617 thousand) and ¥ 249 million, respectively.

## 3. Securities

The following were a summary of held-to-maturity securities and available-for-sale securities at March 31, 2022 and 2021:

*Millions of yen*

| | Available-for-sale securities | | | |
|---|---|---|---|---|
| **March 31, 2022** | Cost | Gross unrealized gains | Gross unrealized losses | Book Value (Estimated fair value) |
| Market value available: | | | | |
| Equity securities | ¥ 5,362 | ¥ 6,798 | ¥ (162) | ¥ 11,998 |
| Other securities | 227 | — | (6) | 221 |
| Subtotal | ¥ 5,589 | ¥ 6,798 | ¥ (168) | ¥ 12,219 |
| Market value not available: | | | | 1,804 |
| Total | | | | ¥ 14,023 |

*Millions of yen*

| | Available-for-sale securities | | | |
|---|---|---|---|---|
| **March 31, 2021** | Cost | Gross unrealized gains | Gross unrealized losses | Book Value (Estimated fair value) |
| Market value available: | | | | |
| Equity securities | ¥ 5,372 | ¥ 7,192 | ¥ (71) | ¥ 12,493 |
| Other securities | 229 | — | (5) | 224 |
| Subtotal | ¥ 5,601 | ¥ 7,192 | ¥ (76) | ¥ 12,717 |
| Market value not available: | | | | 1,671 |
| Total | | | | ¥ 14,388 |

*Thousands of U.S. dollars*

| | Available-for-sale securities | | | |
|---|---|---|---|---|
| **March 31, 2022** | Cost | Gross unrealized gains | Gross unrealized losses | Book Value (Estimated fair value) |
| Market value available: | | | | |
| Equity securities | $ 43,805 | $ 55,530 | $ (1,321) | $ 98,014 |
| Other securities | 1,856 | — | (48) | 1,808 |
| Subtotal | $ 45,661 | $ 55,530 | $ (1,369) | $ 99,822 |
| Market value not available: | | | | 14,733 |
| Total | | | | $ 114,555 |

Impairment losses of available-for-sale securities which were recorded during the fiscal year ended March 31, 2021 were immaterial, and as for the fiscal year ended March 31, 2022, there were not applicable.

### 4. Short-term Bank Loans and Long-term Debts

The annual average interest rates applicable to short-term bank loans at March 31, 2022 and 2021 were 0.74% and 1.09%, respectively.

Long-term debts at March 31, 2022 and 2021 consisted of the following:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Long-term bank loans | ¥ 270 | ¥ 305 | $ 2,200 |
| Lease obligations | 143 | 159 | 1,168 |
| Other | — | 210 | — |
| Total | ¥ 413 | ¥ 674 | $ 3,368 |

Aggregate annual maturities of long-term debts subsequent to March 31, 2022 were as follows:

| Year ending March 31 | *Millions of yen* | *Thousands of U.S. dollars* |
|---|---|---|
| 2023 | ¥ 77 | $ 631 |
| 2024 | 59 | 477 |
| 2025 | 32 | 259 |
| 2026 | 18 | 150 |
| 2027 and thereafter | 151 | 1,234 |
| Total | ¥ 337 | $ 2,751 |

Long-term bank loans for Trust-type Employee Stockholding Incentive Plan [E-Ship®] (¥ 76 million, $ 617 thousand) are not included in the above schedule, since it is difficult to calculate the amount of the annual maturities.

To set up a commitment line by multiple finance institutions, the Company renewed an agreement with a syndicate of 6 banks for the fiscal years ended March 31, 2022 and 2021, respectively.
The unexecuted balance of lending commitments of the Company at March 31, 2022 and 2021 were as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Total lending commitments | ¥ 5,000 | ¥ 5,000 | $ 40,846 |
| Less amounts currently executed | — | — | — |
| Unexecuted balance | ¥ 5,000 | ¥ 5,000 | $ 40,846 |

## 5. Pledged Assets

The following assets were pledged as collateral for the following borrowings at March 31, 2021, and there were not applicable at March 31, 2022:

| | *Millions of yen* |
|---|---|
| | 2021 |
| Land | ¥ 750 |
| Buildings | 1,487 |
| Total | ¥ 2,237 |

| | *Millions of yen* |
|---|---|
| | 2021 |
| Other non-current liabilities | ¥ 1,087 |
| Total | ¥ 1,087 |

## 6. Retirement Benefits

The Company, a domestic subsidiary and 2 foreign subsidiaries have defined benefit corporate pension plans and lump-sum retirement benefit plans. Other domestic subsidiaries join the Smaller Enterprise Retirement Allowance Mutual Aid Scheme which is a kind of defined contribution plans.

The changes in defined benefit obligations for the fiscal years ended March 31, 2022 and 2021 were as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Benefit obligations at beginning of year | ¥ 8,261 | ¥ 7,996 | $ 67,489 |
| Service cost | 540 | 522 | 4,414 |
| Interest cost | 23 | 10 | 192 |
| Actuarial gains or losses | (56) | 99 | (460) |
| Retirement benefits paid | (554) | (373) | (4,525) |
| Increase of benefit obligation due to a newly consolidated subsidiary | — | 8 | — |
| Translation adjustments | 3 | (1) | 21 |
| Benefit obligations at end of year | ¥ 8,217 | ¥ 8,261 | $ 67,131 |

The changes in plan assets for the fiscal years ended March 31, 2022 and 2021 were as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Plan assets at beginning of year | ¥ 7,921 | ¥ 7,028 | $ 64,716 |
| Expected return on plan assets | 157 | 141 | 1,282 |
| Actuarial gains or losses | 47 | 605 | 384 |
| Contributions from employers | 408 | 466 | 3,335 |
| Retirement benefits paid | (502) | (319) | (4,108) |
| Plan assets at end of year | ¥ 8,031 | ¥ 7,921 | $ 65,609 |

The reconciliation of the defined benefit obligations and plan assets to the net defined benefit liabilities recognized in the consolidated balance sheet as of March 31, 2022 and 2021 were as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Funded benefit obligations | ¥ 8,182 | ¥ 8,229 | $ 66,845 |
| Plan assets at end of year | 8,031 | 7,921 | 65,609 |
| | 151 | 308 | 1,236 |
| Non funded benefit obligations | 35 | 32 | 286 |
| Net amount of liabilities and assets recognized in consolidated balance sheet | ¥ 186 | ¥ 340 | $ 1,522 |
| Net defined benefit liabilities | ¥ 186 | ¥ 340 | $ 1,522 |
| Net defined benefit assets | — | — | — |
| Net amount of liabilities and assets recognized in consolidated balance sheet | ¥ 186 | ¥ 340 | $ 1,522 |

The retirement benefit expenses for the fiscal years ended March 31, 2022 and 2021 were as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Service cost | ¥ 540 | ¥ 522 | $ 4,414 |
| Interest cost | 23 | 10 | 192 |
| Expected return on plan assets | (157) | (141) | (1,282) |
| Recognition of actuarial gains or losses | 50 | 195 | 411 |
| Severance and pension costs | ¥ 456 | ¥ 586 | $ 3,735 |

Remeasurements of defined benefit plans recognized in other comprehensive income (amount before income tax effect) were as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Recognized actuarial gains or losses | ¥ 154 | ¥ 701 | $ 1,256 |
| Total | ¥ 154 | ¥ 701 | $ 1,256 |

Remeasurements of defined benefit plans recognized in accumulated other comprehensive income (amount before income tax effect) were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Unrecognized actuarial gains or losses | ¥ 92 | ¥ 245 | $ 751 |
| Total | ¥ 92 | ¥ 245 | $ 751 |

The components of plan assets as of March 31, 2022 and 2021 were as follows:

| | Ratio | |
|---|---|---|
| | 2022 | 2021 |
| Bonds | 54% | 54% |
| Securities | 23% | 22% |
| General account asset | 16% | 17% |
| Other | 7% | 7% |
| Total | 100% | 100% |

The major actuarial assumptions for the fiscal years ended March 31, 2022 and 2021 were as follows:

| | Ratio | |
|---|---|---|
| | 2022 | 2021 |
| Discount rate | | |
| The Company and a domestic subsidiary | 0.0 to 0.8% | 0.0 to 0.6% |
| A foreign subsidiary | 3.6 to 7.8% | 3.7 to 8.0% |
| Long-term rate of return on plan assets | | |
| The Company and a domestic subsidiary | 2.0% | 2.0% |
| A foreign subsidiary | －% | －% |
| Future salary increase | | |
| The Company and a domestic subsidiary | 4.4 to 8.8% | 4.3 to 8.8% |
| A foreign subsidiary | 7.0 to 10.0% | 7.0 to 10.0% |

Long-term rate of return on plan assets was determined by considering the current and future portfolio of plan assets and the current and future long-term performance of various assets comprise the plan assets.

The required amount of the defined contribution pension plan were ¥ 136 million ($ 1,107 thousand) and ¥ 126 million for the fiscal years ended March 31, 2022 and 2021 in the Company and other domestic subsidiaries.

## 7. Contingencies

At March 31, 2022 and 2021, the Group was contingently liable as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| As a guarantor of indebtedness of : | | | |
| Other | ¥ 5 | ¥ 7 | $ 45 |
| Total | ¥ 5 | ¥ 7 | $ 45 |

## 8. Cash and cash equivalents

Cash and cash equivalents at March 31, 2022 and 2021 were as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Cash and deposits | ¥ 25,815 | ¥ 9,703 | $ 210,888 |
| Short-term securities | 11,500 | 12,200 | 93,947 |
| Securities with redemption term of over 3 months | — | (600) | — |
| Time deposits with an original maturity of over 3 months | (39) | (39) | (319) |
| Guarantee for issuance of a letter of credit to the bank | (27) | (24) | (220) |
| Cash and cash equivalents | ¥ 37,249 | ¥ 21,240 | $ 304,296 |

## 9. Financial Instruments and Related Disclosures

(1) Policy for financial instruments

The Group manages funds by utilizing short-term deposits, etc. and raises money by borrowing from financial institutions and by issuing bonds. Derivatives are used, not for speculative nor trading purpose, but to hedge the exposure to foreign exchange rate risks with the debts and credits denominated in foreign currencies and interest rate risks associated with certain interest payments on borrowings.

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

Trade notes and accounts receivable are exposed to credit risk in relation to customers. In order to monitor credit risk, the Group manages, according to the credit management guideline of the Group, the due date and the balance of operating receivables from customers.

Investment securities consist of mainly equity securities issued by the Group's business partners and these securities are exposed to market risk. The Group periodically monitors the fair value of such equity securities, which is reported to the board meeting.

Trade notes and accounts payable have payment due dates mainly within 1 year. Trade notes and accounts payable denominated in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rate. Such risk is hedged principally by forward foreign currency contract.

Short-term bank loans are raised mainly in connection with business activities and long-term bank loan and bonds payable, which are due mainly within 5 years, are raised principally for the purpose of making capital investments. Long-term debts with variable interest rates are exposed to interest rate fluctuation risk, so the Group enters into interest rate swap transactions to manage such interest rate exposure.

Derivatives are managed in accordance with policies and procedures for risk assessment (see Note 11 "Derivatives") and also the Group enters into derivative transactions only with financially stable financial institutions to reduce institutions' credit risk.

Based on a report from the Company and consolidated subsidiaries, the Group prepares and updates its cash flow plans on a monthly basis to manage the Group's liquidity.

(3) Supplementary explanation of the estimated fair value of financial instruments

With regard to the below mentioned contract prices etc. of derivatives, the contract prices themselves do not present the market risk on the derivative transactions.

(4) Fair values of financial instruments

Summarized in the table below are the carrying amounts and the estimated fair value of financial instruments outstanding at March 31, 2022 and 2021. Financial instruments for which do not have a market value are not included in the table below.

*Millions of yen*

| March 31, 2022 | Carrying account | Fair value | Unrecognized gain/loss |
|---|---|---|---|
| Investment securities | ¥ 12,219 | ¥ 12,219 | ¥ — |
| Long-term loans receivable (*1) | 482 | | |
| Allowance for doubtful accounts (*2) | (177) | | |
| | 305 | 307 | 2 |
| Long-term bank loans (*1) | (270) | (270) | — |

*Millions of yen*

| March 31, 2021 | Carrying amount | Fair value | Unrecognized gain/loss |
|---|---|---|---|
| Investment securities | ¥ 12,717 | ¥ 12,717 | ¥ — |
| Long-term loans receivable (*1) | 1,990 | | |
| Allowance for doubtful accounts (*2) | (1,475) | | |
| | 515 | 516 | 1 |
| Long-term bank loans (*1) | (305) | (305) | — |
| Long-term deposits | (210) | (215) | (5) |

*Thousands of U.S. dollars*

| March 31, 2022 | Carrying account | Fair value | Unrecognized gain/loss |
|---|---|---|---|
| Investment securities | $ 99,822 | $ 99,822 | $ — |
| Long-term loans receivable (*1) | 3,940 | | |
| Allowance for doubtful accounts (*2) | (1,446) | | |
| | 2,494 | 2,509 | 15 |
| Long-term bank loans (*1) | (2,200) | (2,200) | — |

(*1) The carrying amounts of current portion of long-term loans receivable amounting ¥ 26 million ($ 213 thousand) and ¥ 26 million which are disclosed in "Other Current Assets" at March 31, 2022 and 2021 are included in Long-term loans receivable. The carrying amounts of current portion of long-term bank loans are included in Long-term bank loans.

(*2) The amount is the allowance for doubtful accounts with respect to long-term loans receivable individually.

(*3) The fair value of "Cash and deposits", "Short-term securities", "Trade notes receivable", "Trade accounts receivable", "Electronically recorded monetary claims – operating" "Trade notes and accounts payable", and "Electronically recorded obligations – operating" are not disclosed because these are settled in a short period of time and their fair values are approximately the same as the book value.

Financial instruments for which do not have a market value at March 31, 2022 and 2021 consist of the following:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Non-listed equity securities | ¥ 1,804 | ¥ 1,671 | $14,733 |
| Long-term deposits | — | 1,421 | — |

The annual maturities of financial assets and investment securities with contractual maturities subsequent to March 31, 2022 and 2021 were as follows:

| | *Millions of yen* | | |
|---|---|---|---|
| **March 31, 2022** | Due in 1 year or less | Due after 1 year through 5 years | Due after 5 years through 10 years |
| Cash and deposits | ¥ 25,815 | ¥ — | ¥ — |
| Trade notes receivable | 6,647 | — | — |
| Trade accounts receivable | 23,078 | — | — |
| Electronically recorded monetary claims - operating | 8,300 | — | — |
| Short-term securities | 11,500 | — | — |
| Total | ¥ 75,340 | ¥ — | ¥ — |

| | *Millions of yen* | | |
|---|---|---|---|
| **March 31, 2021** | Due in 1 year or less | Due after 1 year through 5 years | Due after 5 years through 10 years |
| Cash and deposits | ¥ 9,703 | ¥ — | ¥ — |
| Trade notes and accounts receivable | 35,129 | — | — |
| Electronically recorded monetary claims - operating | 7,886 | — | — |
| Short-term securities | 12,200 | — | — |
| Total | ¥ 64,918 | ¥ — | ¥ — |

*Thousands of U.S. dollars*

| March 31, 2022 | Due in 1 year or less | Due after 1 year through 5 years | Due after 5 years through 10 years |
|---|---|---|---|
| Cash and cash equivalents | $ 210,888 | $ — | $ — |
| Trade notes receivable | 54,299 | — | — |
| Trade accounts receivable | 188,533 | — | — |
| Electronically recorded monetary claims - operating | 67,802 | — | — |
| Short-term securities | 93,947 | — | — |
| Total | $ 615,469 | $ — | $ — |

(5) Breakdown of financial instruments by each fair value level

The fair values of financial instruments are categorized into the following three levels, in accordance with the observability and materiality of the inputs used in the fair value calculation.

Level 1 fair value: Fair value calculated using the market price in an active market among the observable input relating to the calculating the fair value for an identical asset or liability.

Level 2 fair value: Fair value calculated using inputs among the observable input relating to the calculating the fair value, other than the Level 1 inputs.

Level 3 fair value: Fair value calculated using inputs that cannot be observed.

In cases where several inputs which have a material effect on the calculation of the fair value are used, among the levels to which the respective inputs belong, the fair value is categorized at the level with the lowest priority in the fair value calculation.

Financial instruments with the carrying amount recorded using the fair value subsequent to March 31, 2022 were as follows:

*Millions of yen*

| | Fair value | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investment securities | | | | |
| Other securities | ¥ 11,998 | ¥ 221 | ¥ — | ¥ 12,219 |
| Total | ¥ 11,998 | ¥ 221 | ¥ — | ¥ 12,219 |

*Thousands of U.S. dollars*

| | Fair value | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investment securities | | | | |
| Other securities | $ 98,014 | $ 1,808 | $ — | $ 99,822 |
| Total | $ 98,014 | $ 1,808 | $ — | $ 99,822 |

Financial instruments other than those recorded using the fair value subsequent to March 31, 2022 were as follows:

*Millions of yen*

| | Fair value | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Long-term loans receivable | ¥ — | ¥ 307 | ¥ — | ¥ 307 |
| Assets Total | ¥ — | ¥ 307 | ¥ — | ¥ 307 |
| Long-term bank loans | ¥ — | ¥ 270 | ¥ — | ¥ 270 |
| Liabilities Total | ¥ — | ¥ 270 | ¥ — | ¥ 270 |

*Thousands of U.S. dollars*

| | Fair value | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Long-term loans receivable | $ — | $ 2,509 | $ — | $ 2,509 |
| Assets Total | $ — | $ 2,509 | $ — | $ 2,509 |
| Long-term bank loans | $ — | $ 2,200 | $ — | $ 2,200 |
| Liabilities Total | $ — | $ 2,200 | $ — | $ 2,200 |

Explanation of the valuation methods and inputs used in calculating fair values

Investment securities

Listed shares are valued using the market price. Because listed shares are traded on active markets, their fair value is categorized as a level 1 fair value.

Bonds investment trust are measured at the quoted price obtained from counterparty financial institutions, their fair value is categorized as a level 2 fair value.

Long-term loans receivable

The fair value of long-term loans receivable is calculated using the discounted method based on estimated interest rates if similar new loan transaction is performed in the current period, their fair value is categorized as a level 2 fair value.

Long-term bank loans

The fair value of long-term bank loans is calculated using the discounted method based on estimated interest rates if similar new borrowings are entered into in the current period, their fair value is categorized as a level 2 fair value.

Long-term bank loans for Trust-type Employee Stockholding Incentive Plan [E-Ship®] is valued using the book value, because this is based on floating interest rates and reflect market interest rates within a short period of time, the fair value is approximately the same as the book value, their fair value is categorized as a level 2.

### 10. Investment Property

The company and certain subsidiaries hold some rental properties including land in Kanagawa and other areas (“investment properties”). The amounts of net income related to investment properties (rental income is recognized in operating revenue and rental expense is principally charged to operating expenses) were ¥ 948 million ($ 7,744 thousand) and ¥ 765 million for the fiscal years ended March 31, 2022 and 2021, respectively. Additionally, gain on sales of property and equipment related to certain investment property in an amount of ¥ 13,222 million ($ 108,013 thousand) was recognized in other income for the fiscal year ended March 31, 2022.

The carrying amount, changes in such balances and market prices of investment properties were as follows:

*Millions of yen*

| Carrying amount | | | Fair value |
|---|---|---|---|
| April 1, 2021 | Increase/ (decrease) | March 31, 2022 | March 31, 2022 |
| ¥ 7,121 | ¥ (2,297) | ¥ 4,824 | ¥ 4,247 |

*Millions of yen*

| Carrying amount | | | Fair value |
|---|---|---|---|
| April 1, 2020 | Increase/ (decrease) | March 31, 2021 | March 31, 2021 |
| ¥ 6,912 | ¥ 209 | ¥ 7,121 | ¥ 19,931 |

| | | | Thousands of U.S. dollars |
|---|---|---|---|
| Carrying amount | | | Fair value |
| April 1, 2021 | Increase/ (decrease) | March 31, 2022 | March 31, 2022 |
| $ 58,175 | $ (18,764) | $ 39,411 | $ 34,694 |

(a) Carrying amount is net of accumulated depreciation and accumulated impairment losses, if any.

(b) Increase during the fiscal year ended March 31, 2022 was mainly due to the expenditure of the guide signs of the coin parking business in amount of ¥ 40 million ($ 327 thousand). Decrease during the fiscal year ended March 31, 2022 was mainly due to the sale of Mizuho Shopping Center in an amount of ¥ 2,239 million ($ 18,291 thousand).
Increase during the fiscal year ended March 31, 2021 was mainly due to the expenditure of land for relocation of Tohoku branch in an amount of ¥ 328 million. Decrease during the fiscal year ended March 31, 2021 was mainly due to depreciation in an amount of ¥ 134 million.

(c) Fair value at March 31, 2022 and 2021 were principally measured based on the real estate appraisal assessed by the external real estate appraiser. In the case that there was a certain sales price under a contract, the sales price was adopted as the fair value.

## 11. Derivatives

Derivative financial instruments are utilized by the Company principally to reduce interest rate risk and foreign exchange rate risk. The Company has established a control environment which includes policies and procedures for risk assessment and for the approval, reporting and monitoring of transactions involving derivative financial instruments. The Company does not hold or issue derivative financial instruments for trading purposes.

At March 31, 2022 and 2021, the notional amounts and the estimated fair value of derivative financial instruments, for which deferred hedge accounting has been applied or has not been applied were none, respectively.

## 12. Shareholders' Equity

Changes in common stock and additional paid-in capital have resulted from the following:

| | | Millions of yen | |
|---|---|---|---|
| | Number of Shares issued | Common Stock | Capital Surplus |
| Balance at March 31, 2020 | 42,737,668 | ¥ 11,900 | ¥ 11,679 |
| Movement of stock during 2021 | — | — | 142 |
| Balance at March 31, 2021 | 42,737,668 | 11,900 | 11,821 |
| Movement of stock during 2022 | — | — | 18 |
| Balance at March 31, 2022 | 42,737,668 | ¥ 11,900 | ¥ 11,839 |

| | Thousands of U.S. dollars | |
|---|---|---|
| | Common Stock | Capital Surplus |
| Balance at March 31, 2021 | $ 97,213 | $ 96,568 |
| Movement of stock during 2022 | — | 149 |
| Balance at March 31, 2022 | $ 97,213 | $ 96,717 |

Increases of capital surplus during 2022 and 2021 were due to the disposal of treasury stock.

The Company adopted 100 shares of common stock as “unit amount of shares”. A holder of shares representing less than one unit cannot exercise any voting rights with respect to such shares. However, the holder is entitled to receive dividends and other distributions. A holder of a fraction of a unit may at any time request the Company to purchase such shares at the prevailing market price.

The shares held by the Employee Shareholding Association (62,300 and 171,400 shares) were included in the number of treasury stock at March 31, 2022 and 2021.

During 2022, the increase of treasury stock was due to the purchase of odd-lot shares (189 shares) and the acquisition without consideration associated with the retirement of object persons of the restricted stock compensation (150 shares). The decrease of treasury stock was due to the disposal of treasury stock as restricted stock compensation (20,200 shares) and the sales to Shareholding Association from the Employee Shareholding Association (109,100 shares).

During 2021, the increase of treasury stock was due to the purchase of odd-lot shares (538 shares) and the acquisition by the Employee Shareholding Association (204,400 shares). The decrease of treasury stock was due to the sales of odd-lot shares (52 shares), the sales to the Employee Shareholding Association (204,400 shares) and the sales to Shareholding Association from the Employee Shareholding Association (33,000 shares).

## 13. Research and Development

Research and development expenditure which is included in “Selling, general and administrative expenses” were ¥ 1,514 million ($ 12,365 thousand) and ¥ 1,509 million for the fiscal years ended March 31, 2022 and 2021, respectively.

## 14. Income Taxes

The Company and its domestic subsidiaries are subject to several taxes based on income, which in the aggregate resulted in a statutory tax rate of approximately 30.58% for the fiscal years ended March 31, 2022 and 2021. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2022 and 2021 were as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Deferred tax assets: | | | |
| Tax loss carry forward | ¥ 222 | ¥ 175 | $ 1,816 |
| Allowance for doubtful accounts | 239 | 380 | 1,952 |
| Accrued Bonuses | 705 | 762 | 5,759 |
| Provision for product warranties | 250 | 269 | 2,042 |
| Provision for loss on construction contracts | 118 | 14 | 967 |
| Accrued corporation enterprise tax | 117 | 155 | 960 |
| Loss on valuation of inventories | 76 | 142 | 619 |
| Forecast of construction cost | 69 | 40 | 560 |
| Net defined benefit liabilities | 55 | 101 | 447 |
| Fixed assets – elimination of intercompany profits | 200 | 200 | 1,633 |
| Loss on impairment of long-lived assets | 231 | 231 | 1,891 |

| | | | |
|---|---|---|---|
| Loss on valuation of investment for subsidiaries and affiliates | 124 | 438 | 1,012 |
| Excess depreciation | 382 | 385 | 3,121 |
| Other | 710 | 689 | 5,797 |
| Deferred tax assets sub-total | 3,498 | 3,981 | 28,576 |
| Less valuation allowance relevant to tax loss carry forward | (208) | (174) | (1,699) |
| Less valuation allowance relevant to total deductible temporary difference | (1,135) | (928) | (9,271) |
| Valuation allowance sub-total | (1,343) | (1,102) | (10,970) |
| Total deferred tax assets | ¥ 2,155 | ¥2,879 | $ 17,606 |

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Deferred tax liabilities: | | | |
| Unrealized gain on investment securities | ¥ (2,034) | ¥ (2,179) | $ (16,618) |
| Reduction reserve for fixed assets | (1,828) | (1,369) | (14,931) |
| Special reduction reserve for fixed assets | (2,473) | — | (20,199) |
| Unrealized gain on subsidiaries' fixed assets by revaluation at the beginning of consolidation | (1,317) | (1,311) | (10,762) |
| Other | (84) | (51) | (685) |
| Total deferred tax liabilities | (7,736) | (4,910) | (63,195) |
| Net deferred tax assets (liabilities) | ¥ (5,581) | ¥ (2,031) | $ (45,589) |

(Change in presentation methods)

From the fiscal year ended March 31, 2022, " Provision for loss on construction contracts" which was included in "Other" on the breakdown of deferred tax assets for the previous fiscal year, is presented separately because its amount has become significant. The breakdown of deferred tax assets for the previous fiscal year has been reclassified to reflect this change in presentation method.

As a result, ¥ 703 million which was presented in "Other" on the breakdown of deferred tax assets for the previous fiscal year has been reclassified as ¥ 14 million in "Provision for loss on construction contracts" and ¥ 689 million in "Other".

(Note) Tax loss carry forward and related deferred tax assets by expiration periods were as follows.

At March 31, 2022

*Millions of yen*

| | Within 1 year | After 1 year through 2years | After 2 year through 3years | After 3 year through 4years | After 4 year through 5years | After 5 years | Total |
|---|---|---|---|---|---|---|---|
| Tax loss carry forward | 6 | 69 | 66 | 24 | 38 | 19 | 222 |
| Valuation allowance | (6) | (69) | (66) | (24) | (37) | (6) | (208) |
| Deferred tax assets | — | — | — | — | 1 | 13 | 14 |

At March 31, 2021

*Millions of yen*

| | Within 1 year | After 1 year through 2years | After 2 year through 3years | After 3 year through 4years | After 4 year through 5years | After 5 years | Total |
|---|---|---|---|---|---|---|---|
| Tax loss carry forward | 33 | 5 | 60 | 57 | 20 | — | 175 |
| Valuation allowance | (33) | (5) | (60) | (57) | (19) | — | (174) |
| Deferred tax assets | — | — | — | — | 1 | — | 1 |

At March 31, 2022

*Thousands of U.S. dollars*

| | Within 1 year | After 1 year through 2years | After 2 year through 3years | After 3 year through 4years | After 4 year through 5years | After 5 years | Total |
|---|---|---|---|---|---|---|---|
| Tax loss carry forward | 52 | 562 | 535 | 196 | 312 | 159 | 1,816 |
| Valuation allowance | (52) | (562) | (535) | (196) | (305) | (49) | (1,699) |
| Deferred tax assets | — | — | — | — | 7 | 110 | 117 |

(a) Tax loss carry forward is shown as an amount multiplied by the statutory tax rate.

(b) The deferred tax assets of ¥ 14 million ($ 117 thousand) and ¥ 1 million were recognized for the balance of tax loss carry forward (an amount multiplied by the statutory tax rate) of ¥ 222 million ($ 1,816 thousand) and ¥ 175 million at March 31, 2022 and 2021, respectively.
Valuation allowance has not been recognized in the portion of tax loss carryforward based on judgement of recoverability through future taxable income.

The reconciliation between the statutory tax rate and the effective income tax rate for the fiscal years ended March 31, 2022 and 2021 were as follows:

| | 2021 |
|---|---|
| Statutory tax rate | 30.58% |
| Non-deductible expenses for income tax purpose | 0.40 |
| Non-taxable dividend income | (0.39) |
| Inhabitant per capita tax | 0.99 |
| Tax credit | (1.33) |
| Change in valuation allowance | (5.11) |
| Equity in earnings of affiliated companies | 0.05 |
| Other | 1.19 |
| Effective tax rate | 26.38% |

The reconciliation between the statutory tax rate and the effective income tax rate for the fiscal year ended March 31, 2022 was omitted because the difference is less than 5% of the statutory income tax rate.

## 15. Comprehensive Income

The components of other comprehensive income for the fiscal years ended March 31, 2022 and 2021 were as follows:

| | *Millions of yen* | | *Thousands of U.S. dollars* |
|---|---|---|---|
| | 2022 | 2021 | 2022 |
| Unrealized gain on available-for-sale securities: | | | |
| Gains (Losses) arising during the year | ¥ (465) | ¥ 3,400 | $ (3,800) |
| Reclassification adjustments for gain (loss) | (13) | 22 | (102) |
| Amount before income tax effect | (478) | 3,422 | (3,902) |
| Income tax effect | 145 | (1,045) | 1,183 |
| Total | ¥ (333) | ¥ 2,377 | $ (2,719) |
| Foreign currency translation adjustments: | | | |
| Adjustments arising during the year | ¥ (18) | ¥ (74) | $ (143) |
| Reclassification adjustments for gain (loss) | — | — | — |
| Amount before income tax effect | (18) | (74) | (143) |
| Income tax effect | — | — | — |
| Total | ¥ (18) | ¥ (74) | $ (143) |
| Remeasurements of defined benefit plans: | | | |
| Gains (Losses) arising during the year | ¥ 104 | ¥ 506 | $ 845 |
| Reclassification adjustments for gain (loss) | 50 | 195 | 411 |
| Amount before income tax effect | 154 | 701 | 1,256 |
| Income tax effect | (47) | (215) | (383) |
| Total | ¥ 107 | ¥ 486 | $ 873 |
| Share of other comprehensive income in affiliates accounted for by equity method: | | | |
| Gains (Losses) arising during the year | ¥ 52 | ¥ (50) | $ 421 |
| Reclassification adjustments for gain (loss) | — | 27 | — |
| Total | ¥ 52 | ¥ (23) | $ 421 |
| Total other comprehensive income | ¥ (192) | ¥ 2,766 | $ (1,568) |

## 16. Provision of reserve for Losses on Construction Contracts

Provision of reserve for losses on construction contracts included in Cost of Sales were ¥ 385 million ($ 3,144 thousand) and ¥ 97 million for the fiscal years ended March 31, 2022 and 2021, respectively.

## 17. Revenue from Contracts with Customers

(1) Disaggregation of revenue
Disaggregation of revenue is disclosed in Note 18.

(2) Basic information to understand revenue from contracts with customers
Basic information to understand revenue from contracts with customers is disclosed in Note 2(i).

(3) Contract balances

| | *Millions of yen* | *Thousands of U.S. dollars* |
|---|---|---|
| | 2022 | 2022 |
| Receivables from contracts with customers (beginning balance) | ¥ 41,457 | $ 338,670 |
| Receivables from contracts with customers (ending balance) | 38,025 | 310,634 |
| Contract assets (beginning balance) | 1,558 | 12,730 |
| Contract assets (ending balance) | 495 | 4,049 |
| Contract liabilities (beginning balance) | 386 | 3,150 |
| Contract liabilities (ending balance) | 652 | 5,323 |

Contract assets are primarily consideration for on-going construction. Contract liabilities are advances received on construction contracts in progress and sales of specialty trucks. Contract liabilities are included in other current liabilities in the accompanying consolidated balance sheets.
Of the revenue recognized during the fiscal year ended March 31, 2022, the amount included in contract liabilities at the beginning of the fiscal year was ¥ 335 million ($ 2,742 thousand).
The decrease of contract assets for the fiscal year ended March 31, 2022 was mainly due to the completion of on-going construction.
The increase of contract liabilities for the fiscal year ended March 31, 2022 was mainly due to the increase of advances received on construction contracts in progress.

(4) Transaction price allocated to the remaining performance obligations

The Group apply the practical expedient and the contracts whose initial expected terms are 1 year or less aren't included in the note of transaction price allocated to the remaining performance obligations.

Performance obligations mainly relate to the manufactures and sales of specialty trucks and "Maintenance pack contract" in "Specialty truck business" and construction contracts such as construction of recycling facilities and comprehensive maintenance contracts in "Environmental equipment and systems business".

The total amount of transaction price allocated to the remaining performance obligations by prospective satisfaction period at March 31, 2022 was as follows:

| | *Millions of yen* | *Thousands of U.S. dollars* |
|---|---|---|
| | 2022 | 2022 |
| Within 1 year | ¥ 21,584 | $ 176,328 |
| After 1 year through 2 years | 10,067 | 82,238 |
| After 2 year through 3 years | 4,197 | 34,290 |
| After 3 years | 9,717 | 79,377 |
| Total | ¥ 45,565 | $ 372,233 |

In terms of transaction price related to construction contracts, the amount was allocated based on the timing of prospective completion due to uncertain ratio of the cost incurred for each year. They approximately will be completed within 4 years and revenue will be recognized.

## 18. Segment Information

(1) Description of reportable segments

The Group's reportable segments are those for which separately financial information is available and regular evaluation by the Board of Directors is being performed in order to decide how resources are allocated among the Group. The Group conducts several types of businesses including specialty truck business, environmental equipment and systems and real estate rental business. The Company and its consolidated subsidiaries are engaged in each business as an independent management unit. The Group consists of three reportable segments, which are "Specialty truck business" (Industry A), "Environmental equipment and systems business" (Industry B) and "Real estate rental business" (Industry C). Industry A manufactures and distributes specialty trucks such as dump trucks, tailgate lifters, tank trucks, refuse trucks, trailers, etc. Industry B manufactures and distributes recycle facilities, including maintenance and consignment business. Industry C manufactures multistory parking equipment and offers operating services for toll parking and real estate rental services.

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

The accounting policies of each reportable segment are consistent to those disclosed in Note 2, "Summary of Significant Accounting Policies". Intersegment sales or transfers are based on the market prices.

As described in Note 2(p), the Group consolidated subsidiaries has changed accounting treatment for revenue recognition and the method for measuring reportable segment profit or loss by applying the new accounting standards for revenue recognition from the beginning of the fiscal year ended March 31, 2022. As a result, in the fiscal year, sales to customers increased by ¥ 1 million ($ 11 thousand) and segment profit increased by ¥0 million ($ 6 thousand) in "Environmental equipment and systems business".

(3) Information about sales, profit, assets and other items for the fiscal years ended March 31, 2022 and 2021 were as follows:

*Millions of yen*

| 2022 | *Reportable segments* Industry A | Industry B | Industry C | Total | Reconciliations (Note a) | Consolidated (Note b) |
|---|---|---|---|---|---|---|
| Net sales: | | | | | | |
| Goods or service transferred at a point in time | ¥ 98,409 | ¥ 3,621 | ¥ 5,473 | ¥ 107,503 | — | ¥ 107,503 |
| Goods or service transferred over time | 83 | 8,026 | — | 8,109 | — | 8,109 |
| Revenue from contracts with customers | 98,492 | 11,647 | 5,473 | 115,612 | — | 115,612 |
| Other revenue | 55 | — | 1,243 | 1,298 | — | 1,298 |
| External customers | 98,547 | 11,647 | 6,716 | 116,910 | — | 116,910 |
| Intersegment sales or transfers | 25 | 0 | 545 | 570 | (570) | — |
| Total | 98,572 | 11,647 | 7,261 | 117,480 | (570) | 116,910 |
| Segment profit | 4,481 | 2,098 | 1,143 | 7,722 | (748) | 6,974 |
| Segment assets | 83,268 | 8,145 | 11,443 | 102,856 | 51,494 | 154,350 |
| Other items: | | | | | | |
| Depreciation | 2,441 | 74 | 357 | 2,872 | 1 | 2,873 |
| Increase in tangible and intangible fixed assets | 3,840 | 73 | 1,245 | 5,158 | — | 5,158 |

(a) Reconciliations of segment profit in an amount of ¥ (748) million which consisted of elimination of intersegment transactions in an amount of ¥ 12 million and corporate expenses which were not allocated to each reportable segment in an amount of ¥ (760) million. Corporate expenses were mainly general administrative expenses not attributable to any other reportable segments.

Reconciliations of segment assets were surplus fund (cash and deposits and securities) and long-term investment fund (investment securities) of the Company.

(b) Segment profit was reconciled with operating income in the consolidated statements of income.

*Millions of yen*

| 2021 | *Reportable segments* Industry A | Industry B | Industry C | Total | Reconciliations (Note a) | Consolidated (Note b) |
|---|---|---|---|---|---|---|
| Net sales: | | | | | | |
| External customers | ¥ 99,534 | ¥ 11,028 | ¥ 6,608 | ¥ 117,170 | − | ¥ 117,170 |
| Intersegment sales or transfers | 17 | 0 | 524 | 541 | (541) | − |
| Total | 99,551 | 11,028 | 7,132 | 117,711 | (541) | 117,170 |
| Segment profit | 6,881 | 1,995 | 1,140 | 10,016 | (936) | 9,080 |
| Segment assets | 82,849 | 7,833 | 12,482 | 103,164 | 39,577 | 142,741 |
| Other items: | | | | | | |
| Depreciation | 2,346 | 68 | 373 | 2,787 | 1 | 2,788 |
| Increase in tangible and intangible fixed assets | 2,334 | 41 | 669 | 3,044 | − | 3,044 |

(a) Reconciliations of segment profit in an amount of ¥ (936) million which consisted of elimination of intersegment transactions in an amount of ¥ 12 million and corporate expenses which were not allocated to each reportable segment in an amount of ¥ (948) million. Corporate expenses were mainly general administrative expenses not attributable to any other reportable segments.

Reconciliations of segment assets were surplus fund (cash and deposits and securities) and long-term investment fund (investment securities) of the Company.

(b) Segment profit was reconciled with operating income in the consolidated statements of income.

*Thousands of U.S. dollars*

| 2022 | Reportable segments Industry A | Industry B | Industry C | Total | Reconciliations (Note a) | Consolidated (Note b) |
|---|---|---|---|---|---|---|
| Net sales: | | | | | | |
| Goods or service transferred at a point in time | $ 803,926 | $ 29,579 | $ 44,712 | $ 878,217 | – | $ 878,217 |
| Goods or service transferred over time | 680 | 65,570 | – | 66,250 | – | 66,250 |
| Revenue from contracts with customers | 804,606 | 95,149 | 44,712 | 944,467 | – | 944,467 |
| Other revenue | 448 | – | 10,154 | 10,602 | – | 10,602 |
| External customers | 805,054 | 95,149 | 54,866 | 955,069 | – | 955,069 |
| Intersegment sales or transfers | 203 | 1 | 4,456 | 4,660 | (4,660) | – |
| Total | 805,257 | 95,150 | 59,322 | 959,729 | (4,660) | 955,069 |
| Segment profit | 36,608 | 17,142 | 9,339 | 63,089 | (6,116) | 56,973 |
| Segment assets | 680,236 | 66,536 | 93,483 | 840,255 | 420,673 | 1,260,928 |
| Other items: | | | | | | |
| Depreciation | 19,944 | 605 | 2,914 | 23,463 | 5 | 23,468 |
| Increase in tangible and intangible fixed assets | 31,369 | 594 | 10,169 | 42,132 | – | 42,132 |

(a) Reconciliations of segment profit in an amount of $ (6,116) thousand which consisted of elimination of intersegment transactions in an amount of $ 98 thousand and corporate expenses which were not allocated to each reportable segment in an amount of $ (6,214) thousand. Corporate expenses were mainly general administrative expenses not attributable to any other reportable segments.

Reconciliations of segment assets were surplus fund (cash and deposits and securities) and long-term investment fund (investment securities) of the Company.

(b) Segment profit was reconciled with operating income in the consolidated statements of income.

(4) Amortization and unamortized balances of goodwill by reportable segment for the fiscal years ended March 31, 2022 and 2021 were as follows:

*Millions of yen*

| 2022 | Industry A | Industry B | Industry C | Reconciliations | Consolidated |
|---|---|---|---|---|---|
| Amortization | ¥ 85 | ¥ – | ¥ – | ¥ – | ¥ 85 |
| Unamortized balances | 771 | – | – | – | 771 |

*Millions of yen*

| 2021 | Industry A | Industry B | Industry C | Reconciliations | Consolidated |
|---|---|---|---|---|---|
| Amortization | ¥ 40 | ¥ – | ¥ – | ¥ – | ¥ 40 |
| Unamortized balances | 803 | – | – | – | 803 |

*Thousands of U.S. dollars*

| 2022 | Industry A | Industry B | Industry C | Reconciliations | Consolidated |
|---|---|---|---|---|---|
| Amortization | $ 691 | $ – | $ – | $ – | $ 691 |
| Unamortized balances | 6,297 | – | – | – | 6,297 |

## 19. Subsequent Event

(Appropriations of the Company's retained earnings)
The following appropriations of the Company's retained earnings in respect of the fiscal year ended March 31, 2022 were as proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on June 28, 2022.

| Appropriations | *Millions of yen* | *Thousands of U.S. dollars* |
|---|---|---|
| Cash dividends of ¥ 32 ($ 0.26) per share | ¥ 1,278 | $ 10,433 |

(Purchase of Treasury Stock)
At the meeting of the board of directors held on June 6, 2022, the Company has resolved to purchase of its treasury stock in accordance with Article 156 of the Companies Act of Japan, as applied pursuant to paragraph 3 of Article 165 of the Companies Act of Japan.

1. Reason for purchase of treasury share

To make it possible to carry out a flexible capital management policy in response to changes in the business environment, the Company would purchase the treasury stock. The Company will use the treasury stock for improvement of the corporate value and stock value.

2. Details of purchase

| | |
|---|---|
| (1) Class of share: | Ordinary shares of the Company |
| (2) Total number of shares of common stock to be repurchased: | Up to 2,000,000 shares |

(5.0% of the total number of shares of common stock outstanding excluding treasury stock)

| | |
|---|---|
| (3) Total amount: | Up to ¥ 2,500,000,000 ($20,423 thousand) |
| (4) Period: | From July 1, 2022 to June 30, 2023 |

(Disposal of Treasury Stock as Restricted Stock Compensation Plan)

At the meeting of the board of directors held on June 28, 2022, the Company has resolved to conduct a disposal of its treasury stock as restricted stock compensation (hereinafter “Disposal of Treasury Stock” or “Disposal”) as follows;

1. Overview of the Disposal

| | |
|---|---|
| (1) Payment date | July 22, 2022 |
| (2) Class and number of shares for the disposal | 21,200 ordinary shares of the Company |
| (3) Disposal price | ¥ 1,434 ($ 11.71) per share |
| (4) Total value of the disposal | ¥ 30,400,800 ($ 248 thousand) |
| (5) Persons eligible for allotment of shares and number thereof, and number of shares for allotment | Directors of the Company (excluding outside directors): 5 persons, 8,200 shares<br>Executive officers who do not concurrently serve as directors of the Company: 10 persons, 7,000 shares<br>Directors of domestic subsidiaries of the Company: 12 persons, 4,600 shares<br>Executive officers who do not concurrently serve as directors of domestic subsidiaries of the Company: 7 persons, 1,400 shares |
| (6) Other | The Company has submitted a Securities Notice based on the Financial Instruments and Exchange Act for the Disposal of Treasury Stock |

2. Purpose of and Reason for the Disposal

At the meeting of the board of directors held on May 13, 2021, the Company resolved to introduce "Restricted Share-based Remuneration Plan" (hereinafter "The Plan") to the "Eligible Directors, etc." who are directors of the Company (hereinafter "Eligible Directors"), excluding outside directors, and executive officers, excluding concurrent directors of the Company, directors of domestic subsidiaries of the Company and executive officers excluding concurrent directors of domestic subsidiaries of the Company for the purpose of providing incentives to increase corporate value continuously as well as further aligning shared values with shareholders for Eligible Directors, etc..

Also, at the 86th annual general meeting of shareholders held on June 25, 2021, as monetary compensation to serve as invested assets to acquire the restricted stocks, it was approved that the amount of the Plan for the Eligible Directors shall not exceed JPY 50 million ($ 408 thousand), and that the Company's shares shall be issued or disposed within 50,000 shares per 1 year, and that the restricted period on stock transfer shall be 3 years, etc..

## INDEPENDENT AUDITOR'S REPORT

The Board of Directors of KYOKUTO KAIHATSU KOGYO CO., LTD

### Opinion

We have audited the accompanying consolidated financial statements of KYOKUTO KAIHATSU KOGYO CO., LTD and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2022, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.
In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### Basis for Opinion

We conducted our audit in accordance with auditing standard 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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

| Evaluation of goodwill and Customer-related assets(Note 2 Summary of Significant Accounting Policies (o)"Significant accounting estimates goodwill and Customer-related assets" | |
|---|---|
| Description of Key Audit Matter | Auditor's Response |
| The Company recorded goodwill and Customer-related assets as for SATRAC of JPY 771 million and JPY 450 million in the Consolidated Financial Statements<br><br>Although the goodwill is amortised in every fiscal year, the Company would determine to recognize impairment loss in case of indication of impairment, comparing the carrying amount to discounting estimated future cash flows from the unit which good will has been allocated . If the carrying amount of the unit exceeds the recoverable amount of the unit, the Company must recognize impairment loss.<br><br>As stated in Note 2 to the consolidated financial statements, the key assumptions, such as estimated future cash flows and discount rate, were used for measurement of the goodwill and Customer-related assets.<br><br>The Company would have to revision estimate future cash flows and discount rate | To address the key audit matters, we evaluated the design and tested the operating effectiveness of controls over the assessing the goodwill and Customer-related assets, and performed the following substantive procedures, among others:<br><br>・ Evaluated the excess earning powers in initial recognition of the goodwill and comprehended the changes in the business environment.<br>・ Assessed whether the future plan used for estimating future cash flow was consistent with the medium-term business plan for the next fiscal years.<br>・ Performed comparative analyses of the operating profit against initial business plan and the historical data. |

| | |
|---|---|
| by uncertain economical changes. In addition the management's judgement is required, we determined this matter to be a key audit matter. | |

**Other Information**

The other information comprises the information included in a disclosure document that contains audited consolidated financial statements but does not include the consolidated financial statements and our audit report thereon. Management is responsible for preparation and disclosure of the other information. The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's reporting process of the other information.
Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.
In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.
If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.
We have nothing to report in this regard.

**Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.
The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing 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. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.
As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgement 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.

- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, for the risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate 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 in accordance with accounting principles generally accepted in Japan.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the consolidated financial statements in Japan, and to 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 the Corporate Auditor 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.

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

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

**Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2022 are presented solely for convenience. Our audit also included the translation of Japanese yen amount 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.

PKF Hibiki Audit Corporation
Osaka, Japan
August 5th, 2022

| | |
|---|---|
| Naoya Hayashi | Takahiro Fujita |
| Naoya Hayashi | Takahiro Fujita |
| Representative Partner | Representative Partner |
| Engagement Partner | Engagement Partner |
| Certified Public Accountant | Certified Public Accountant |

## CORPORATE INFORMATION

Kyokuto Kaihatsu Kogyo Co., Ltd.
Established: June 1, 1955
Paid-in Capital: 11,899,867,400 yen (March 31, 2022)
Number of Employees: consolidated 3,138; non-consolidated 1,093 (March 31, 2022)

Headquarters:
6-1-45, Koshienguchi, Nishinomiya-shi, Hyogo, 663-8545 Japan
Tel.+81-798-66-1000, Fax.+81-798-66-8146
Tokyo Office (Overseas Business Department):
3-15-10, Higashi-shinagawa, Shinagawa-ku, Tokyo, 140-0002, Japan
Tel.+81-3-5781-9828, Fax+81-3-5781-3431

Plants:
Yokohama Plant
Occupies 96,657 ㎡
Located in Yamato, Kanagawa (Japan)
Nagoya Plant
Occupies 109,611 ㎡
Located in Komaki, Aichi (Japan)
Miki Plant
Occupies 100,728 ㎡
Located in Miki, Hyogo (Japan)
Fukuoka Plant
Occupies 43,503 ㎡
Located in Iizuka, Fukuoka (Japan)
Head Plant of NIPPON TREX Co., Ltd.
Occupies 125,285 ㎡
Located in Toyokawa, Aichi (Japan)
Otowa Plant of NIPPON TREX Co., Ltd.
Occupies 20,889 ㎡
Located in Toyokawa, Aichi (Japan)
Mito Plant of NIPPON TREX Co., Ltd.
Occupies 36,367 ㎡
Located in Toyokawa, Aichi (Japan)
Plant of KYOKUTO KAIHATSU (KUNSHAN) MACHINERY CO., LTD.
Occupies 83,140 ㎡
Located in Kunshan, Jiangsu (China)
Plant of SATRAC ENGINEERING PRIVATE LIMITED
Occupies 24,292 ㎡
Located in Nidavanda Village, Nelmangala, Bangalore (India)
Plant of PT KYOKUTO INDOMOBIL MANUFACTURING INDONESIA
Occupies 20,028 ㎡
Located in Purwakarta, Jawa Barat (Indonesia)

## BOARD OF DIRECTORS AND STATUTORY AUDITORS

| | |
|---|---|
| Tatsuya Nunohara, | Representative Director, President, CEO |
| | |
| Kazuhiko Harada, | Senior Managing Director, Senior Managing Executive Officer |
| Takeo Norimitsu, | Director, Associate Senior Executive Officer |
| Noboru Horimoto, | Director, Associate Senior Executive Officer |
| Teruyuki Kizu, | Director, Associate Senior Executive Officer |
| Akira Michigami, | Outside Director |
| Hiroyuki Terakawa, | Outside Director |
| Keiko Kaneko, | Outside Director |
| | |
| Akira Sakurai, | Standing Auditor |
| Soichiro Ochi, | Auditor |
| Yoshihiko Norikura, | Outside Corporate Auditor |
| Kuniaki Fujiwara, | Outside Corporate Auditor |
| | |
| Fumihiro Takasaki, | Associate Senior Executive Officer |
| Yukihiro Hosozawa, | Executive Officer |
| Shinichi Takahama, | Executive Officer |
| Yutaka Yoshida, | Executive Officer |
| Masashi Ushio, | Executive Officer |
| Shinsaku Chijiiwa, | Executive Officer |
| Tatsuya Nomura, | Executive Officer |
| Keisuke Iwata, | Executive Officer |
| Mamoru Shimizu, | Executive Officer |
| Koh Yamamoto, | Executive Officer |
| Tetsuya Ichimura, | Executive Officer |