# Annual Report

**The 61st Fiscal Year**

**From April 1, 2023 to March 31, 2024**
**(FY2024)**

DAISHINKU CORP.

(E01952)

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[Cover]

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|---|---|
| Document title | Annual securities report |
| Clause of stipulation | Article 24, paragraph (1) of the Financial Instruments and Exchange Act |
| Place of filing | Director-General of the Kanto Local Finance Bureau |
| Filing date | June 28, 2024 |
| Fiscal year | The 61st fiscal year<br>(from April 1, 2023 to March 31, 2024) |
| Company name | 株式会社大真空 |
| Company name in English | DAISHINKU CORP. |
| Title and name of representative | Minoru Iizuka, President |
| Address of registered Head Office | 1389 Shinzaike, Hiraoka-cho, Kakogawa, Hyogo |
| Telephone number | +81-79-426-3211 |
| Name of contact person | Kuniharu Hayashi, Senior Executive Officer, General Manager of Finance & Accounting Division |
| Nearest place of contact | 1389 Shinzaike, Hiraoka-cho, Kakogawa, Hyogo |
| Telephone number | +81-79-426-3211 |
| Name of contact person | Kuniharu Hayashi, Senior Executive Officer, General Manager of Finance & Accounting Division |
| Place for public inspection | Tokyo Stock Exchange, Inc.<br>(2-1 Nihombashi Kabutocho, Chuo-ku, Tokyo) |

# PART I. Company Information

## I. Overview of the Company

### 1. Trends in key financial indicators, etc.

#### (1) Consolidated financial indicators

| Fiscal year | | 57th fiscal year | 58th fiscal year | 59th fiscal year | 60th fiscal year | 61st fiscal year |
|---|---|---|---|---|---|---|
| Fiscal year ended | | March 31, 2020 | March 31, 2021 | March 31, 2022 | March 31, 2023 | March 31, 2024 |
| Net sales | (Thousands of yen) | 29,881,946 | 33,189,369 | 41,306,270 | 38,430,954 | 39,343,676 |
| Ordinary income | (Thousands of yen) | 344,042 | 2,533,278 | 6,547,911 | 5,106,100 | 3,192,178 |
| Profit attributable to owners of parent | (Thousands of yen) | 276,355 | 1,223,402 | 3,848,289 | 3,208,798 | 1,876,144 |
| Comprehensive income | (Thousands of yen) | (94,099) | 4,292,211 | 7,537,409 | 4,021,959 | 5,068,470 |
| Net assets | (Thousands of yen) | 30,180,505 | 33,769,556 | 40,231,016 | 43,182,619 | 47,048,314 |
| Total assets | (Thousands of yen) | 62,995,277 | 68,627,909 | 81,317,834 | 83,622,452 | 91,064,623 |
| Net assets per share | (Yen) | 776.61 | 864.05 | 1,026.09 | 1,112.24 | 1,199.24 |
| Basic earnings per share | (Yen) | 8.56 | 37.89 | 119.21 | 99.41 | 58.12 |
| Diluted earnings per share | (Yen) | – | – | – | – | – |
| Equity-to-asset ratio | (%) | 39.8 | 40.6 | 40.7 | 42.9 | 42.5 |
| Return on equity | (%) | 1.1 | 4.6 | 12.6 | 9.3 | 5.0 |
| Price earnings ratio | (Times) | 43.38 | 16.33 | 10.14 | 7.31 | 13.78 |
| Cash flows from operating activities | (Thousands of yen) | 688,246 | 2,707,787 | 8,762,851 | 5,859,844 | 8,243,825 |
| Cash flows from investing activities | (Thousands of yen) | (2,592,131) | (5,388,980) | (5,176,774) | (6,524,893) | (3,994,757) |
| Cash flows from financing activities | (Thousands of yen) | 3,586,968 | 870,754 | 382,831 | 1,298,540 | 1,104,323 |
| Cash and cash equivalents at end of period | (Thousands of yen) | 15,321,066 | 13,940,884 | 18,516,683 | 18,437,258 | 24,355,138 |
| Number of employees<br>(Separately, average number of temporary employees) | (Persons) | 3,895<br>[336] | 3,876<br>[369] | 3,745<br>[373] | 3,350<br>[354] | 3,278<br>[320] |

Notes: 1 Information on diluted earnings per share is omitted due to an absence of potential shares.

2 The Company executed a 4-for-1 share split of its common shares on November 1, 2021. Net assets per share and basic earnings per share have been calculated as if the share split had occurred at the beginning of the 57th fiscal year.

(2) Financial indicators of the reporting company

| Fiscal year | | 57th fiscal year | 58th fiscal year | 59th fiscal year | 60th fiscal year | 61st fiscal year |
|---|---|---|---|---|---|---|
| Fiscal year ended | | March 31, 2020 | March 31, 2021 | March 31, 2022 | March 31, 2023 | March 31, 2024 |
| Net sales | (Thousands of yen) | 22,829,419 | 24,141,422 | 30,851,871 | 30,651,966 | 29,227,138 |
| Ordinary income | (Thousands of yen) | 142,985 | 1,196,019 | 3,845,932 | 4,107,186 | 1,144,173 |
| Profit | (Thousands of yen) | 631,965 | 876,440 | 3,216,736 | 3,059,318 | 873,410 |
| Share capital | (Thousands of yen) | 19,344,883 | 19,344,883 | 19,344,883 | 19,344,883 | 19,344,883 |
| Total number of shares issued | (Shares) | 9,049,242 | 9,049,242 | 36,196,968 | 36,196,968 | 36,196,968 |
| Net assets | (Thousands of yen) | 26,777,125 | 27,613,280 | 30,534,428 | 32,772,738 | 33,106,307 |
| Total assets | (Thousands of yen) | 53,677,152 | 54,095,151 | 59,768,984 | 60,957,420 | 64,176,708 |
| Net assets per share | (Yen) | 829.38 | 855.38 | 945.93 | 1,015.31 | 1,025.68 |
| Dividends per share<br>[Interim dividends per share] | (Yen) | 20.00<br>[5.00] | 35.00<br>[10.00] | 37.00<br>[25.00] | 28.00<br>[14.00] | 28.00<br>[14.00] |
| Basic earnings per share | (Yen) | 19.57 | 27.15 | 99.65 | 94.78 | 27.06 |
| Diluted earnings per share | (Yen) | – | – | – | – | – |
| Equity-to-asset ratio | (%) | 49.9 | 51.0 | 51.1 | 53.8 | 51.6 |
| Return on equity | (%) | 2.4 | 3.2 | 11.1 | 9.7 | 2.7 |
| Price earnings ratio | (Times) | 18.97 | 22.80 | 12.13 | 7.67 | 29.60 |
| Payout ratio | (%) | 25.55 | 32.23 | 18.31 | 29.54 | 103.47 |
| Number of employees | (Persons) | 622 | 616 | 640 | 662 | 660 |
| Total shareholder return<br>[Comparison benchmark: Dividend-included TOPIX] | (%)<br>(%) | 141.3<br>[90.5] | 237.7<br>[128.6] | 466.1<br>[131.2] | 295.6<br>[138.8] | 333.9<br>[196.2] |
| Highest share price | (Yen) | 2,158 | 2,790 | 1,790<br>[4,655] | 1,260 | 980 |
| Lowest share price | (Yen) | 899 | 1,422 | 933<br>[2,307] | 662 | 590 |

Notes: 1 Information on diluted earnings per share is omitted due to an absence of potential shares.

2 The Company executed a 4-for-1 share split of its common shares on November 1, 2021. Net assets per share and basic earnings per share have been calculated as if the share split had occurred at the beginning of the 57th fiscal year.

3 The dividends of ¥37.00 per share for the 59th fiscal year is the sum of the interim dividends of ¥25.00 and the year-end dividends of ¥12.00. Since the Company executed a 4-for-1 share split of its common shares on November 1, 2021, the interim dividends of ¥25.00 is dividends before the stock split and the year-end dividends of ¥12.00 is after the stock split.

4 The highest and lowest share prices are those quoted on the Tokyo Stock Exchange Prime Market on or after April 4, 2022, and on the Tokyo Stock Exchange 1st Section before April 4, 2022.

5 The Company executed a 4-for-1 share split of its common shares on November 1, 2021. The share prices for the 59th fiscal year represent the highest share price and the lowest share price after the share split, and the highest share price and the lowest share price before the share split are shown in square brackets.

2. History

| | |
|---|---|
| May 1963 | Daiwa Shinku Kogyosho founded in Kobe, Hyogo for the processing of vacuum tube, cathode-ray tube and crystal resonator base |
| July 1965 | Started mass production of crystal resonator parts |
| August 1966 | Opened Kakogawa Plant in Kakogawa, Hyogo |
| November 1970 | Opened Tokyo Office in Tokyo |
| October 1971 | Moved head office to Kakogawa, Hyogo |
| January 1973 | Opened Kurodasho Plant (current Nishiwaki Plant) in Nishiwaki, Hyogo |
| June 1974 | Opened Ichikawa Plant (current Kanzaki Plant) in Kanzakigun, Hyogo |
| September 1976 | Established HARMONY ELECTRONICS CORP. in Kaohsiung, Taiwan |
| November 1976 | Opened Miyazaki Plant in Koyu, Miyazaki |
| December 1976 | Completed new Head Office in Kakogawa, Hyogo |
| August 1977 | Established a sales subsidiary, DAIWA CRYSTAL CORPORATION (current DAISHINKU (AMERICA) CORP.) in California, U.S. (current consolidated subsidiary) |
| June 1980 | Established Central Laboratory in Kakogawa Plant |
| October 1980 | Opened Tottori Plant (current Tottori Production Div.) in Tottori, Tottori |
| May 1981 | Merged with Daiwa Shinku Kogyosho (former Bunkado Department Store) to change the per value of stock (merger ratio 1:10) |
| September 1981 | Established a sales subsidiary, DAIWA CRYSTAL (H.K.) LTD. (current DAISHINKU (HK) LTD.) in Kowloon, Hong Kong (current consolidated subsidiary) |
| June 1982 | Completed new Annex to Head Office in Kakogawa, Hyogo |
| July 1982 | Opened Kansas Representative Office of DAIWA CRYSTAL CORPORATION (current DAISHINKU (AMERICA) CORP.) in Kansas, U.S. |
| March 1983 | Listed on the 2nd section of the Osaka Stock Exchange |
| January 1984 | Completed new Central Laboratory in Kakogawa, Hyogo |
| April 1984 | Opened Tokushima Plant (current Tokushima Production Div.) in Yoshinogawa, Tokushima |
| March 1985 | Opened Tokushima 2nd Plant (current Tokushima Production Div.) in Yoshinogawa, Tokushima |
| March 1985 | Opened Singapore Representative Office in Singapore |
| April 1985 | Opened Düsseldorf Representative Office in Germany |
| June 1985 | Opened Distribution Center in Kakogawa, Hyogo |
| May 1987 | Opened Chukyo Local Office in Chita, Aichi |
| March 1988 | Dissolved Singapore Representative Office and established DAIWA CRYSTAL (SINGAPORE) PTE. LTD. (current DAISHINKU (SINGAPORE) PTE LTD.) as a sales subsidiary in Singapore (current consolidated subsidiary) |
| September 1988 | Established Daishin Kosan Corp. in Kakogawa, Hyogo |
| April 1989 | Closed Tokyo Office and established Tokyo Branch in Kawasaki, Kanagawa |
| May 1989 | Changed company name to DAISHINKU Corp. |
| July 1989 | Established a manufacturing subsidiary, PT. KDS INDONESIA in the suburbs of Jakarta, Indonesia (current consolidated subsidiary) |
| February 1991 | Dissolved Düsseldorf Representative Office and established DAISHINKU (DEUTSCHLAND) GmbH as a sales subsidiary in Germany (current consolidated subsidiary) |
| September 1991 | Listed on the 1st Section of the Osaka Stock Exchange |
| May 1993 | Established a manufacturing subsidiary, TIANJIN KDS CORP. in Tianjin, China (current consolidated subsidiary) |
| September 1993 | Opened Yaesu Sales Office in Chuo-ku, Tokyo |

| | |
|---|---|
| April 1994 | Made Nishihara Kinzoku Corp. a subsidiary through investment |
| April 1994 | Established a sales subsidiary, KDS (Taiwan) in Taipei, Taiwan |
| July 1994 | Moved Chukyo Local Office to Nagoya, Aichi and opened Nagoya Sales Office |
| September 1995 | Established a production base of quartz crystal devices for mobile communication equipment in Tottori Plant (current Tottori Production Div.) |
| November 1995 | Made Kyushu Tsushin Kogyo Corp. (current Kyushu Daishinku Corp.) a subsidiary through investment (current consolidated subsidiary) |
| June 1996 | Moved Tokyo Branch to Chuo-ku, Tokyo |
| October 1997 | Established DAISHINKU (U.K.) LTD. in London, U.K. |
| May 1998 | Opened Tokyo Laboratory in Saitama, Saitama |
| August 1999 | Closed Kansas Representative Office of DAISHINKU (AMERICA) CORP. and opened a Representative Office in Georgia, U.S. |
| December 1999 | Closed Kakogawa Plant |
| March 2000 | Merged Yaesu Sales Office to Tokyo Branch |
| May 2001 | Expanded production floor size of TIANJIN KDS CORP. |
| September 2002 | Opened Osaka Sales Office in Osaka, Osaka |
| July 2003 | Established a sales subsidiary, SHANGHAI DAISHINKU INTERNATIONAL TRADING CO., LTD. in Shanghai, China (current consolidated subsidiary) |
| August 2003 | Excluded Nishihara Kinzoku Corp. from the scope of consolidation due to sale of shares |
| August 2003 | Made HARMONY ELECTRONICS CORP. a subsidiary through share purchase (current consolidated subsidiary) |
| January 2004 | Merged DAISHINKU (U.K.) LTD. with DAISHINKU (DEUTSCHLAND) GmbH |
| August 2004 | Opened Tokyo Office in Tokyo Branch |
| September 2004 | Merged KDS (Taiwan) with HARMONY ELECTRONICS CORP. |
| December 2004 | Changed company name of Kyushu Tsushin Kogyo Corp. to Kyushu Daishinku Corp. |
| October 2005 | Transferred business of Miyazaki Plant to Kyushu Daishinku Corp. |
| July 2009 | Closed Tokyo Branch |
| July 2009 | Moved Tokyo Office to Ota-ku, Tokyo |
| September 2009 | Moved Osaka Sales Office to Suita, Osaka |
| March 2010 | Established DAISHINKU (THAILAND) CO., LTD. in Bangkok, Thailand (current consolidated subsidiary) |
| July 2010 | Merged a Representative Office of DAISHINKU (AMERICA) CORP. in Georgia with a Representative Office in California |
| June 2012 | Expanded the floor size of Central Laboratory |
| July 2013 | Listed on the 1st Section of the Tokyo Stock Exchange following the merger of the Tokyo Stock Exchange and the Osaka Stock Exchange |
| November 2013 | Moved Tokyo Office to Shinagawa-ku, Tokyo |
| May 2015 | Transferred business of Osaka Sales Office to Western Japan Sales Section, Domestic Marketing & Sales Department |
| November 2015 | Merged Tokyo Laboratory with Central Laboratory |
| June 2018 | Established a manufacturing subsidiary, HARMONY ELECTRONICS (DONGGUAN) CO., LTD. in Dongguan, China (current consolidated subsidiary) |
| December 2021 | Expanded the floor size of clean room for photolithography processing in Tokushima Production Div. |
| April 2022 | Transitioned to the Tokyo Stock Exchange Prime Market following the market restructuring of the Tokyo Stock Exchange |
| June 2022 | Transitioned to a company with an Audit & Supervisory Committee |

3. Description of business

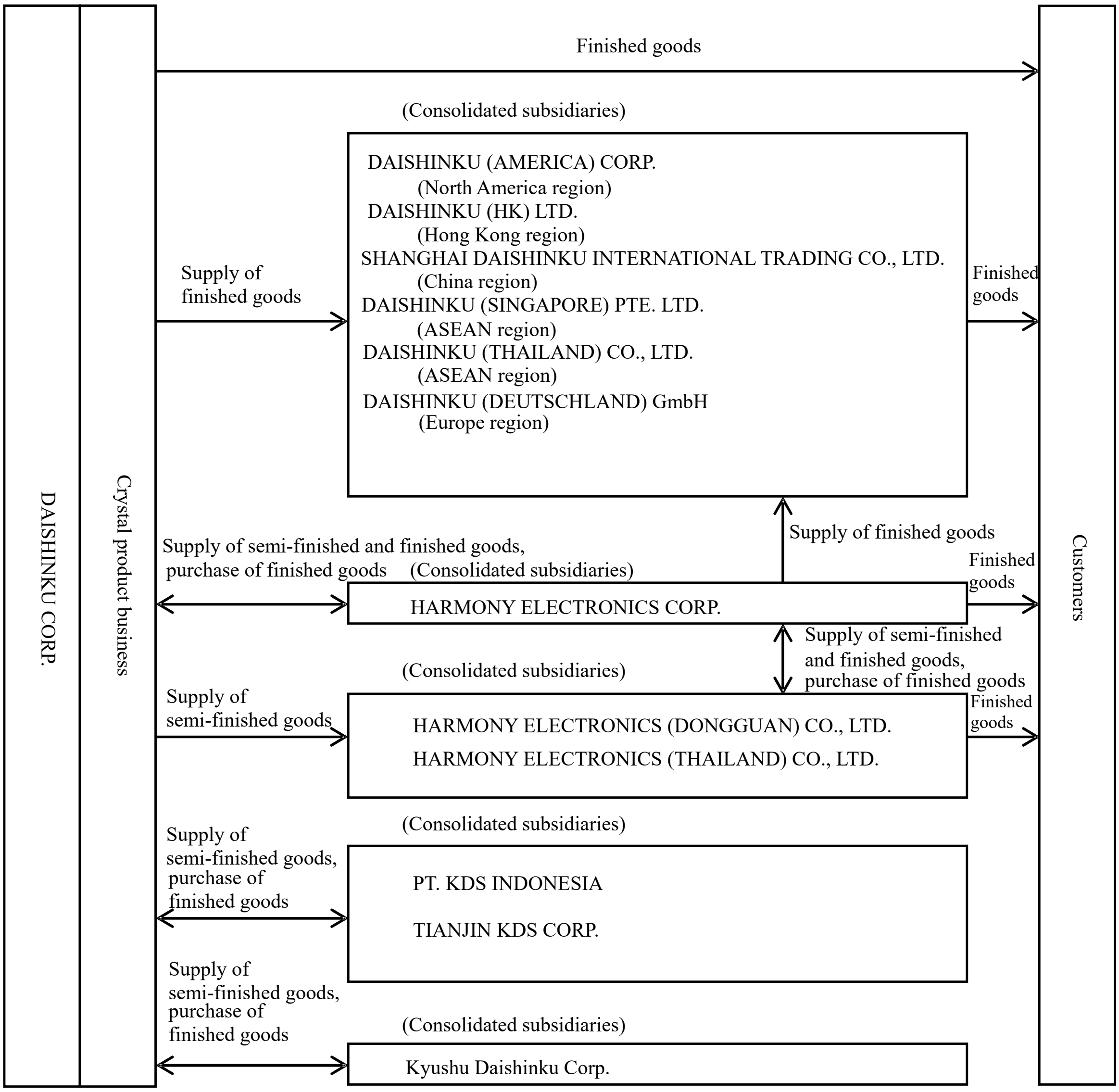
The Company and its affiliated companies consist of the Company and 13 consolidated subsidiaries (hereinafter the "Group"). The Group is an independent operating company engaged in manufacture and sales of crystal applied electronic parts. The Group is a comprehensive manufacturer of quartz crystal devices that produces and sells everything from parts including synthetic quartz crystals to electronic components such as crystal resonators, tuning fork crystal resonators and crystal applied products.

The positioning of each company within the Group's business is as follows.

[Crystal product business] In addition to manufacture and sales by the Company, the Company outsources manufacturing to its consolidated subsidiaries: PT. KDS INDONESIA, TIANJIN KDS CORP., Kyushu Daishinku Corp., and HARMONY ELECTRONICS CORP. In addition to manufacture and sales by HARMONY ELECTRONICS CORP., HARMONY ELECTRONICS CORP. outsources manufacturing to its manufacturing subsidiaries: HARMONY ELECTRONICS (DONGGUAN) CO., LTD. and HARMONY ELECTRONICS (THAILAND) CO., LTD.

Overseas sales are mainly done by six sales subsidiaries including DAISHINKU (HK) LTD.

The main business structure in the Group is as follows.



4. Overview of subsidiaries and associates

| Name | Address | Share capital or investments in capital | Principal contents of business | Ratio of voting rights held (%) | Relationship | | |
|---|---|---|---|---|---|---|---|
| | | | | | Interlocking officers | | Business transactions |
| | | | | | Officers of the Company (Persons) | Employees of the Company (Persons) | |
| Consolidated subsidiaries<br>DAISHINKU (HK) LTD. (Notes 1, 3) | Hong Kong | HKD16,000 thousand | Crystal product business | 100.0 | 1 | 2 | Sale of the Company's product mainly in Hong Kong |
| DAISHINKU (AMERICA) CORP. | California, U.S. | USD1,500 thousand | Crystal product business | 100.0 | 1 | 3 | Sale of the Company's products in the U.S. |
| DAISHINKU (SINGAPORE) PTE. LTD. | Singapore | SGD1,250 thousand | Crystal product business | 100.0 | 1 | 3 | Sale of the Company's products mainly in the ASEAN |
| DAISHINKU (DEUTSCHLAND) GmbH (Note 1) | Düsseldorf, Germany | EUR127 thousand | Crystal product business | 100.0 | 1 | 4 | Sale of the Company's products in Europe |
| PT. KDS INDONESIA (Note 1) | Bekasi, Indonesia | USD27,900 thousand | Crystal product business | 100.0 | – | 5 | The Company purchases finished goods from PT. KDS INDONESIA. Funding |
| TIANJIN KDS CORP. (Note 1) | Tianjin, China | CNY543,570 thousand | Crystal product business | 100.0 | – | 4 | The Company purchases finished goods from TIANJIN KDS CORP. The Company guarantees its borrowings from banks. Funding |
| Kyushu Daishinku Corp. | Kawaminami-cho, Koyu, Miyazaki | JPY20,000 thousand | Crystal product business | 100.0 | – | 2 | The Company purchases finished goods from Kyushu Daishinku Corp. |
| HARMONY ELECTRONICS CORP. (Notes 1, 3) | Kaohsiung, Taiwan | TWD1,070,412 thousand | Crystal product business | 50.4 | 2 | – | Manufacture and sales of crystal related electronic parts Funding |
| SHANGHAI DAISHINKU INTERNATIONAL TRADING CO., LTD. (Notes 1, 3) | Shanghai, China | CNY6,208 thousand | Crystal product business | 100.0 | 1 | 4 | Sale of the Company's products mainly in China |
| HARMONY ELECTRONICS (THAILAND) CO., LTD. (Notes 1, 2) | Ban Pong, Thailand | THB623,900 thousand | Crystal product business | 99.3 [99.3] | – | – | Manufacture and sales of crystal related electronic parts |
| HARMONY ELECTRONICS (SHENZHEN) CO., LTD. (Notes 1, 2) | Shenzhen, China | CNY128,606 thousand | Crystal product business | 100.0 [100.0] | – | – | Supply finished goods within the HARMONY ELECTRONICS Group. |
| HARMONY ELECTRONICS (DONGGUAN) CO., LTD. (Note 2) | Dongguan, China | CNY90,000 thousand | Crystal product business | 100.0 [100.0] | – | – | Manufacture and sales of crystal related electronic parts |
| DAISHINKU (THAILAND) CO., LTD. | Bangkok, Thailand | THB117,000 thousand | Crystal product business | 100.0 | 1 | 3 | Sale of the Company's products mainly in the ASEAN |

Notes: 1 The company falls under the category of "specified subsidiary."

2 The number within the parenthesis of the ratio of voting rights held is the ratio of voting rights which are indirectly held.

3 The key profit and loss information of consolidated subsidiaries whose net sales exceed 10% of consolidated net sales (excluding transactions among the consolidated companies) is as follows.

(Unit: Thousands of yen)

| Company name | Net sales | Ordinary income | Profit | Net assets | Total assets |
|---|---|---|---|---|---|
| DAISHINKU (HK) LTD. | 5,458,786 | 24,413 | 22,239 | 997,740 | 2,331,272 |
| HARMONY ELECTRONICS CORP. | 13,094,075 | 1,307,228 | 1,002,565 | 16,801,488 | 28,804,819 |
| SHANGHAI DAISHINKU INTERNATIONAL TRADING CO., LTD. | 6,753,472 | 83,323 | 58,690 | 996,767 | 3,172,947 |

5. Information about employees

(1) Consolidated companies

As of March 31, 2024

| Segment name | Numbers of employees (Persons) |
|---|---|
| Japan | 716 [159] |
| North America | 8 [–] |
| Europe | 21 [–] |
| China | 624 [–] |
| Taiwan | 824 [46] |
| Asia | 1,085 [115] |
| Total | 3,278 [320] |

Note: The number of employees indicates the number of working employees, and the average number of temporary employees during the fiscal year ended March 31, 2024 is given in square brackets separately.

(2) The reporting company

As of March 31, 2024

| Number of employees (Persons) | Average age (Years) | Average length of service (Years) | Average annual salary (Yen) |
|---|---|---|---|
| 660 | 44.3 | 20.0 | 5,885,028 |

Notes: 1 The number of employees represents individuals working within the reporting company.

2 Average annual salary includes bonuses and extra wages.

(3) Status of labor union

The only labor union of the Group is "Daiwa Shinku labor union" (current Daishinku labor union) of the Company, which was formed on November 11, 1974. The number of union member is 561 as of March 31, 2024, and the union shop system is adopted.

It belongs to the Japanese Electrical Electronic & Information Union and continues on a healthy path with stable labor-management relations.

(4) Ratio of female employees in management positions, rate of male employees taking childcare leave, and wage gap between male and female employees

(i) The reporting company

| Fiscal year ended March 31, 2024 | | | | Supplementary explanation |
|---|---|---|---|---|
| Ratio of female employees in management positions (%) (Note 2) | Wage gap between male and female employees (%) (Note 1) | | | |
| | All employees | Full-time employees | Non full-time employees | |
| 4.0 | 75.8 | 77.8 | 59.6 | |

Notes: 1 Part-time employees are excluded from non full-time employees.

2 Calculated in accordance with the provisions of the Act on the Promotion of Women's Active Engagement in Professional Life (Act No. 64 of 2015).

(ii) Consolidated subsidiaries

This information is omitted because the consolidated subsidiaries are not obligated to disclose the information pursuant to the provisions of Act on the Promotion of Women's Active Engagement in Professional Life (Act No. 64 of 2015) and Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Act No. 76 of 1991).

## II. Overview of Business

1. Management policy, management environment, issues to be addressed, etc.

   The Group's management policy, management environment, and issues to be addressed, etc. are as follows.

   Please note that matters concerning the future in this article were determined by the Group as of the end of the fiscal year ended March 31, 2024.

   (1) Our vision

   We, DAISHINKU CORP, hope to continue to be a corporate group as a global company that is trusted by people around the world based on our corporate motto: "Trust." With "trust" as our slogan, we will aim to become a company in which all employees work with hope while nurturing the spirit of valuing "connections between people."

   (2) Management strategy

   In November 2019, on the occasion of the 60th anniversary of our founding, we formulated our first 10-year Long-term Business Plan. The Long-term Business Plan sets forth seven basic strategies "OCEAN+2 Strategy" and aims to continue to be a leading company that is needed by customers through its high technical skills and strong enterprise power.

   <10-year Long-term Business Plan>

   "OCEAN+2 Strategy" 7 basic strategies

| | |
|---|---|
| One | Supply by one company for built-in ICs and other products centered on key products, Arkh series |
| Cost | Challenge to lower cost area thanks to the Arkh series, which reduces direct material costs |
| Element | Unparalleled competitive edge through size increase of synthetic quartz crystals and crystal wafers, our core technology, cutting and polishing technology |
| Alliance | Alliance through open innovation and collaboration to accelerate value creation |
| Niche | Creation of stable advantage of being a survivor in a niche market |
| +1 | Challenges for various crystals based on our growth technology cultivated thus far |
| +2 | Development of devices that create new value together with new underlying technology |

The Long-term Business Plan is divided into three phases, each with its own milestones. The 1st Medium-term Business Plan "Phase for Developing a Foundation" started in April 2021, the second year of the formulation of the Long-term Business Plan, ended. Looking back on the 1st Medium-term Business Plan, despite the confusion caused by COVID-19, record profits were achieved in the first year, ahead of the Medium-term Business Plan, due in part to strong demand for quartz crystal devices and the effect of price correction triggered by a shortage of products. Subsequently, our performance was affected by the end of the stay-at-home demand, rising energy costs, and lower capacity utilization due to a shortage of semiconductors, leading to a slowdown in the second and third years. On the other hand, looking at the quartz crystal devices market in the future, there is no doubt that it will expand driven by the semiconductor movement. In April, we launched the "2nd Medium-term Business Plan for Establishing a Foundation" which aims to achieve record high profits (on an operating profit basis) in the final year of the plan, the fiscal year ending March 31, 2027, by combining our response to the expanding market with our original initiatives under the "OCEAN+2 Strategy." In addition, in light of the Tokyo Stock Exchange's request for "Management Conscious of Cost of Capital and Stock Price," we will implement a business plan based on increasing earning power through competitive advantage with the aim of improving corporate value. The current cost of capital is estimated to be 8 to 10%, and we will achieve a PBR: 1x by targeting ROE: 8% or more in the final year of the plan, the fiscal year ending March 31, 2027.

Medium-term Business Plan

| | | |
|---|---|---|
| 1st Medium-term Business Plan | From the fiscal year ended March 31, 2022 to the fiscal year ended March 31, 2024 | Phase for Developing a Foundation |
| 2nd Medium-term Business Plan | From the fiscal year ending March 31, 2025 to the fiscal year ending March 31, 2027 | Phase for Establishing a Foundation |
| 3rd Medium-term Business Plan | From the fiscal year ending March 31, 2028 to the fiscal year ending March 31, 2030 | Phase for Growth and Further Development |

(3) Priority business and financial issues to be addressed

There are concerns about the future economic environment, including monetary policy actions by respective countries to fight inflation and other geopolitical risks. It will likely take some time for economic activities to stabilize. In terms of the business environment surrounding the Group, the industrial market has slowed down because of weak capital expenditure; however, the telecommunications market, including smartphones and wireless communication modules, and the consumer market, including PCs and peripherals, continue gradually picking up, and the automotive market is expected to remain strong due to further progress in ADAS (Advanced Driver Assistance Systems) and electrification.

We have been steadily making preparations for “Change Products” toward the 2nd Medium-term Business Plan, including the mass production of the world’s largest synthetic quartz crystals for 6-inch wafers and the expansion of our lineups of our original products, “Arkh series” and “Molded Type Crystal Oscillators.” We are working on Arkh series with an aim to maximize output per unit area by our original production method, while restricting capital investment at the same time. Moreover, our headquarters and plant, scheduled for completion in August 2024, will serve as a base for creating new value and shaping the future of DAISHINKU. It is intended to be a true mother plant, as evidenced by the introduction of a pilot line for next-generation fully automated production. In addition, in the office areas, we will pursue the maximization of output per worker by increasing business process productivity and sales primarily through the acceleration of DX and utilization of AI.

Furthermore, since our bias toward the China area has become a risk for fluctuations in business performance, we intend to eliminate our bias toward the Chinese market and reduce the risk of fluctuations in business performance by reviewing our market portfolio and investing in products with high price competitiveness. In the long term, given that timing devices will increase mainly in “IoT,” where wireless communication is indispensable, including autonomous driving, we will continue to build a system that can stably supply timing devices essential for the “connected society.” Moreover, from the viewpoint of reducing CO2 emissions, which increase in proportion to the production volume, we will take on new initiatives to realize carbon neutrality through CO2 capturing and separation as we endeavor to ensure “stable supply” and “environmental responsiveness,” which we consider to be material issues. Through such efforts, we will create new value that is original to the Company, which will lead to growth.

(4) Objective indicators to judge the achievement of management goals, etc.

We will strive to establish a management foundation that can flexibly respond to changes in the business environment and improve business performance, while strengthening profitability, effectively utilizing management resources, and reducing interest-bearing debt through financial strategies. We will also continue to promote cash flow-oriented management, aiming to further improve our financial position and strengthen our balance sheet. We set our target of ROE of 8% or more and ROIC of 4.5% or more for the fiscal year ending March 31, 2027.

2. Approach and initiatives for sustainability

The Group's approach and initiatives for sustainability are as follows.

Please note that matters concerning the future in this article were determined by the Group as of the end of the fiscal year ended March 31, 2024.

(1) Initiatives of the Group to climate change

Understanding the impact of climate change on business and society, the Group endorsed the recommendation of the TCFD*, is committed to improving financial disclosure and management of climate change-related information, and is working to create new value by setting greenhouse gas emission reduction targets, and regularly assessing and managing climate change risks.

(*) Task Force on Climate-related Financial Disclosures

We aim to balance material issues of "stable supply" in the business domain and "environmental responsiveness" in the environmental domain. For electronic components of a device, which consist of a small number of parts, the product design and production method play an important role in reducing CO2 emissions and advancing other environmental responsiveness. We consider the following requirements need to be met.

- To make products smaller/lighter
- To maximize the output per unit area
- To maximize the output per person
- To reduce the external procurement ratio

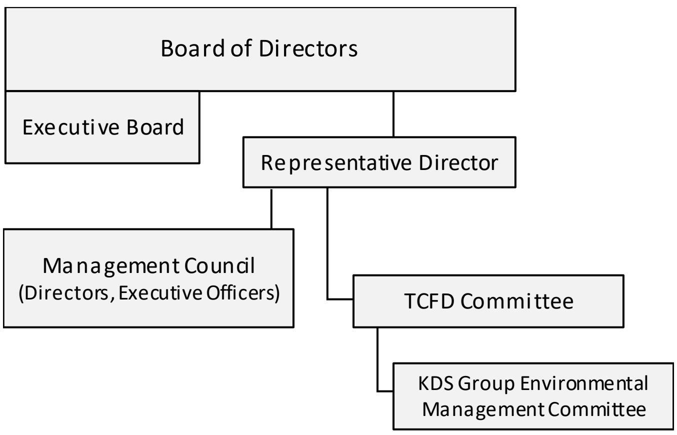
We will continue to grow as a company that contributes to a connected society through our original initiatives centered on these ideal production methods and products.

(i) Governance

In the Group, the Board of Directors determines and supervises policies and strategies on climate change issues. For effective supervision, the TCFD Committee of the Board of Directors has been established, chaired by President and composed of Directors, Executive Officers, and other members.

The TCFD Committee meets four times a year to supervise climate change initiatives and report to the Board of Directors. The main resolutions are as follows.

- Basic policy on climate change measures
- Environment impact reduction and climate change measures
- Checking the progress of measures
- Disclosure of activities




In addition, the KDS Group Environmental Management Committee also meets four times a year and performs effective assessment and review of climate-related risks and opportunities. Under this system, the Group has adopted the "Scope 1+2" Carbon Neutrality Challenge in 2030 as a new common initiative with the aim of focusing on transition risks in climate-related risks and strengthen our efforts to reduce CO2 emissions.

(ii) Strategy

The Company analyzes the impact of changes in the external environment and climate change on the Company as of 2030, using the framework based on the TCFD recommendations. In our analysis of risks and opportunities, we consider policy and market changes with respect to transition risks toward climate change mitigation, and the frequency and impact of natural disasters caused by climate change with respect to physical risks.

To address identified risks and opportunities, we will work to solve social issues based on the "OCEAN+2 Strategy," our 10-year Long-term Business Plan. At this time, we are analyzing the factors that have the greatest impact, but will continue to analyze the financial impact on the Company.

Major risks and opportunities related to climate change

| Climate-related risks and opportunities | | Impact on business activities | Major responses by the DAISHINKU Group |
|---|---|---|---|
| Transition risks | Policy/ Regulation | ▶ Carbon pricing<br>Increased costs due to tighter CO2 emission regulations and emissions trading | ▶ Maximize the output per unit area<br>– Increased number of producible crystal chips by increasing the wafer size<br>– Minimize the equipment footprint by wafer-level packaging technology<br>– Improve productivity and reduce CO2 emissions<br>▶ Reduce energy consumption by shortening days required to grow synthetic quartz crystals and conserving energy of the growing furnace<br>▶ Reduce CO2 emissions through fuel conversion<br>Conversion of boilers, etc. to electricity |
| | Market | ▶ Changes in customer behavior<br>Low carbon solutions such as energy saving, smaller size and lighter weight for products may be required from customers | ▶ Reduce CO2 emission by making products smaller/lighter |
| Physical risks | Acute | ▶ Increased typhoons and torrential rains due to climate change, resulting in wind and flood damage, including flooding of business sites and nearby roads | ▶ As part of the BCP response, establish a system that can handle production at multiple locations |
| Opportunities | Products and services | ▶ Sales growth of low emission products | ▶ Development of the Arkh series with low emissions |
| | Energy sources | ▶ Reduction of CO2 emission through products with small/low-power consumption | ▶ Development of small/light weight quartz crystal devices<br>▶ Development of low-power consumption quartz crystal devices |
| | Resilience | ▶ Strengthen resilience to wind and flood damages in the supply chain | ▶ Propose products that are not affected by supply chain disruptions by reducing the external procurement ratio<br>▶ Resin molding<br>With the Arkh series embedded, resolve package material supply concerns due to increased demand |

(iii) Risk management

The Group has established and is promoting a company-wide risk management that focuses on risk prevention. Responsible persons are appointed from among Directors and Executive Officers to identify/understand not only climate-related risks but also various other risks to ensure the continuation and stable development of the business. With regard to risk response, in order to achieve sustainable growth as a sustainable company, we aim to balance material issues of "stable supply" in the business domain and "environmental responsiveness" in the environmental domain, maximizing the strengths of DAISHINKU.

(iv) Targets and indicators

Through activities that are always conscious of harmony with the global environment, the Group will continue to create new value and contribute to the development of the electronics society and the realization of a sustainable society.

1. Targets in FY2031

"Scope 1+2" Carbon Neutrality Challenge in 2030

We will continue to provide a stable supply of environmentally responsive products and work to reduce CO2 emissions.

2. Targets in FY2051

We aim to achieve carbon neutrality by 2050.

3. Specific reduction measures

| | |
|---|---|
| i. Development of products with reduced environmental impact | Development of our original product Arkh series, development of small CO2 recovery module |
| ii. Review of manufacturing processes | Size increase of crystal wafers, next-generation fully automated production, shortening days required to grow synthetic quartz crystals |
| iii. Introduction of renewable energy | Procurement of electricity with environmental value, installation of solar panels |
| iv. Introduction of advanced facilities with low environmental impact | Installation of industrial heat pumps (fuel conversion to reduce CO2 emissions) |
| v. Other | Energy-saving activities |

(2) Initiatives of the Group to human capital management

The Group has formulated a new human resource strategy as a major initiative in FY2025, launching human capital development with three keywords, "Improving income," "Feeling fulfillment," and "Having leeway."

Specific activities, indicators and targets are as follows.

(i) Strategy

■ Human capital development of the Group

People have different personalities, and each has their own strengths. What are your strengths? What do you want to do, and how do you make the most of them in your company? We believe that improving job satisfaction is important to maximize human capital. However, of course, just having everyone work in their area of expertise does not mean that the work that must be done as an organization (Must) can be accomplished. There are some pieces that cannot be filled by combining the strengths of all employees. "If no one is good at it, I will do it myself." "I am not able to do it now, but I want to be able to do it." "I want to train this person to be able to do this." We are focusing on improving the integrity, which is the fairness and seriousness to act for the organization and team, and creating a challenging environment to expand employees' expertise (Will, Can).

■ Creation of working environment of the Group

In order to maximize human capital, it is necessary to provide a safe and comfortable working environment as well as to improve job satisfaction. We are improving the environment through various system enhancements and safety and health initiatives.

We also believe that as a global company, we will be a strong company because diverse human resources can play an active role by leveraging their strengths. As part of such measures, we are working to create a comfortable workplace to promote the active participation of women.

We will continue our efforts to create a safe and secure working environment for all employees.

- Specific measures

(Human capital development)

- Type specific training for four types of managers

  In order to raise the quality of managers, we have classified four types of managers and planned training programs for each of their characteristics.

  With “practice/retention” as the keywords, we aim to improve learning by creating unique outputs that can be applied in practice after the training.

- DAISHINKU School to raise the level of professionalism

  We have established our own specialized courses for the development of specialized skills and have been systematically strengthening the development of human capital with advanced specialized skills since FY2024.

  First of all, training courses in equipment maintenance and sales skills have been started, and we will continue to enhance the content of training to improve the level of our organization.

(Improvement of job satisfaction)

- Creating a culture of proactive challenge

  In FY2024, we introduced an engagement survey and use the results (scores) to identify issues, analyze their causes, and promote improvement activities. We have positioned the indicator of “whether employees are working with vitality” as one of the most important items, and will work to improve the score through training for managers and efforts to strengthen teamwork, aiming to achieve our management vision of “a company in which all employees work with hope.”

- Revision of the evaluation system, establishment of new system for promoting employees on the local employment track

  In the evaluation of bonuses, the Company has traditionally focused on performance, but is revising the system to allow for more appropriate evaluation starting FY2025. In addition, we are working to motivate employees to take on challenges by making employees on the local employment track (no relocation is required) eligible for promotion to management positions, which was previously only available to employees on the main career track. We believe that promoting these measures will also lead to an increase in ratio of female managers.

(Improvement of comfortable workplace)

- Childcare leave system

  We support employees in balancing between family lives and work by establishing a system that exceeds legal requirements for the period and splitting of parental leave, and by covering all expenses for self-development during leave (previously, the company covered 50% of the expenses).

  The return-to-work rate after childcare leave achieved 100% for consecutive years since 2013, and we aim to continue to maintain this rate at 100%.

  The number of male employees taking childcare leave has been on the increase and we will continue to promote their use.

- Creating a safe and healthy work environment

  In FY2024, we launched the Safety Management Department and strengthened our safety and health initiatives to become “a company where zero occupational injuries are the norm.”

  The entire company is united in promoting safety and health activities, such as holding safety morning meetings, strengthening the 3S (Seiri, Seiton, and Seiso, meaning Organize, Put in Order, and Clean) activities, and collecting and improving near-miss information.

■ Results

(Use of childcare leave)

(Unit: persons)

| | FY2020 | FY2021 | FY2022 | FY2023 | FY2024 |
|---|---|---|---|---|---|
| Male | 0 | 0 | 1 | 3 | 5 |
| Female | 3 | 4 | 5 | 4 | 6 |
| Total | 3 | 4 | 6 | 7 | 11 |

(Active participation of women)

| | Managerial positions | | | | Position holders | | | |
|---|---|---|---|---|---|---|---|---|
| | Male (Persons) | Female (Persons) | Total (Persons) | Ratio of women (%) | Male (Persons) | Female (Persons) | Total (Persons) | Ratio of women (%) |
| FY2021 | 84 | 3 | 87 | 3.4 | 92 | 2 | 94 | 2.1 |
| FY2022 | 94 | 3 | 97 | 3.1 | 95 | 4 | 99 | 4.0 |
| FY2023 | 93 | 3 | 96 | 3.1 | 98 | 7 | 105 | 6.7 |
| FY2024 | 95 | 4 | 99 | 4.0 | 96 | 8 | 104 | 7.7 |

(ii) Indicators and targets

The Group has established the following non-financial indicators related to human capital.

| | Targets | FY2021 | FY2022 | FY2023 | FY2024 |
|---|---|---|---|---|---|
| Ratio of women in managerial positions (%) | 7.0 | 3.4 | 3.1 | 3.1 | 4.0 |
| Ratio of women of position holders (%) | 10.0 | 2.1 | 4.0 | 6.7 | 7.7 |

Note: Only non-consolidated indicators are disclosed since it is difficult to describe them due to different requirements and standards for each of the consolidated group companies.

3. Risks associated with businesses, etc.

The matters recorded in the annual securities report concerning the overview of business, financial information, etc. include the following key risks that are recognized by the management as having the potential to exert a material impact on the financial position, operating results, and cash flows of consolidated companies.

Please note that matters concerning the future in this article were determined by the Group as of the end of the fiscal year ended March 31, 2024.

(1) Factors impacting operating results

The Group belongs to the crystal industry and produces key electronic components including tuning fork crystal resonators, crystal resonators, and crystal applied products. The company’s performance may be affected by price and demand trends due to intensified competition and market fluctuations in the digital consumer electronics, including smartphones, PCs and flat-screen TVs, and the automotive electronics industry, which are our customers. The countermeasure to the structural problems of the crystal industry is to complete the 10-year Long-term Business Plan. Although the Company takes all possible measures to ensure quality control, its business performance may be affected in the event of damages due to product liability. In response, the Company is striving to achieve the Group’s quality goal of zero defects. In the process of implementing drastic management reforms, promoting cost structure reforms, reorganizing affiliates, and carrying out other group-wide activities to improve business performance with an eye to the future, there is a possibility that performance for a single fiscal year will fluctuate to some extent. We believe this can be understood by showing future performance improvement through the Long-term Business Plan and other means.

(2) Bad debt risk

In order to minimize the impacts on profit and loss due to bad debts, the Group has a thorough credit management and has made sufficient estimates of allowance for doubtful accounts against monetary claims. However, profits may be affected by losses if further bad debts occur due to deterioration of market conditions or other reasons. In response, the Group ensures thorough credit management throughout the Group, and is strengthening customer management by ensuring that credit checks are conducted on new customers and customers with delinquent collections.

(3) Factors of currency fluctuations

The Group has many overseas operations in Asia, North America, and Europe, with overseas sale accounting for 87.2% of consolidated net sales in the fiscal year ended March 31, 2024. The majority of our overseas sales and purchases from overseas subsidiaries are conducted in U.S. dollars, and we are not directly affected by exchange rate fluctuations in our business transactions and settlement balance of such transactions. However, due to the large proportion of foreign currency-denominated assets, liabilities, income, expenses, and local currencies of overseas subsidiaries that are translated into Japanese yen, fluctuations in exchange rates may affect the translated amounts in the consolidated financial statements. As a countermeasure, the Company strives to hedge risks by reducing the difference between receivables and payables, and by using forward exchange contracts.

(4) Interest rate fluctuations

The Group’s outstanding borrowings amounted to ¥33,782 million (37.1% of total assets) as of March 31, 2024, and future trends in market interest rates may affect the Group’s performance. However, most of the outstanding interest-bearing liabilities are long-term borrowings, etc., most of which were financed at fixed interest rates. We are also working to reduce the balance of interest-bearing debt in order to strengthen our financial position.

(5) Risk of fluctuations in stock prices

The Group held approximately ¥2,918 million in marketable equity securities as of March 31, 2024, primarily equity securities of business partners and financial institutions, and is exposed to the risk of stock price fluctuations in these securities. After quantitatively and qualitatively measuring the effects of acquiring the target shares and considering whether it is an appropriate use of the Company’s funds, the Board of Directors annually confirms the rationality of the acquisition and reviews whether to continue to hold the shares and the number of shares to be held. As a result of the verification, the Company will consider selling of those shares for which the initial holding purpose has been achieved or the effectiveness of the holding has diminished.

(6) Dependence on outside vendors for certain raw materials and components

The Group purchases raw materials and parts from a number of external suppliers, but is dependent on some suppliers for some parts and raw materials used in the manufacture of its products. The ability to continue to receive supplies efficiently and at low cost is affected by many factors, including some over which the Group has no control. These factors include the ability of suppliers to continuously secure raw materials and parts, and how competitive the Group is against other consumers in receiving supplies. The loss of a major suppliers could affect the Group's production and increase costs.

In order to make our business continuity plan (BCP) more realistic and effective for our external suppliers, we conduct questionnaires and hold business briefing sessions to promote continuous improvement and to reduce risk by securing stable inventory, certifying multiple suppliers, and making common parts in consideration of risk.

(7) Development of new products

The Group is actively engaged in research and development to meet the demand for smaller and more sophisticated crystal resonators. However, not all of these research and development efforts will be successful in the future, and the Group may be unable to meet market demands due to abandonment of development or delay in commercialization of new products and technologies.

In addition, there is no guarantee that new products and technologies developed by the Company will be protected as its original intellectual property.

The Group uses various intellectual property rights in the course of research and development. While we recognize that these rights are either owned by us or that we have legally obtained permission to use them, there is a possibility that we may infringe on the intellectual property rights of third parties outside the scope of our awareness.

If we are sued by a third party for infringement of intellectual property rights, and a dispute arises, it may affect our operating results.

Including the above risks, if the Group is unable to adequately anticipate changes in the industry and market and is unable to develop attractive new products, it could reduce future growth and profitability and affect the Group's performance and financial position. As a response to these issues, we review development themes every quarter while keeping an eye on market trends, and determine priorities for development that meets market demands. In addition, we formulated the Medium-term Business Plan in light of market requirements, and are developing products based on the development themes. With regard to intellectual property rights, we investigate intellectual property rights in related technical fields at the initial stage of development to ensure that we do not infringe on the intellectual property rights of third parties. After that, we operate a system in which the contents of third-party's patents in the regular publication of the patent gazette are checked by a person assigned to each field, and design changes and licensing agreement are considered as necessary.

(8) Environmental issues

The Group has never caused any serious environmental problems to date as the Group has made environmental preservation activities one of its key management policies and operates from the perspective of social responsibility. However, new environmental regulations may incur costs for countermeasures. We will strive to collect information on changes in environmental regulations and respond quickly and appropriately.

(9) Unforeseen accidents, natural disasters (BCP), infectious diseases, etc.

The Group takes safety measures and measures for business continuity and early recovery in anticipation of natural disasters such as earthquakes and wind and flood damage as well as accidental disasters such as fires. However, it is difficult to avoid all risks that may occur, which may have a significant impact on the Group's production system and business activities. In addition, the occurrence of social turmoil due to terrorism or war, deterioration of political conditions in the country, and other factors may affect the

Group’s business development. We will work to develop a response manual and strengthen our system to respond natural disasters, etc.

If a pandemic is to occur caused by the spread of infectious diseases, the Group’s business locations implement thorough safety and health measures to minimize its impact. However, if the spread of the infection and the resulting policy of curbing economic activities in various countries were to significantly reduce demand for our products or cause damage to our supply chain, including our business locations, it could have an impact on the Group’s performance.

(10) Information management (information security)

In order to remain a trusted company, the Group has established various internal regulations for the protection of information assets, and is working to develop and improve rules and systems for the appropriate handling of information. However, cyberattacks are constantly becoming more sophisticated, and information security is under constant threat. In response to increasingly sophisticated cyberattacks, we have created a security map based on the latest security trends, and will continue to strengthen measures with tools and raise employees’ awareness of security through education.

(11) Intensifying competition

The crystal industry, to which the Group belongs, faces competition from Japanese companies. In addition, the rise of overseas manufactures such as Chinese and Taiwanese companies is accelerating commoditization. The price fluctuations resulting from this intensifying competition may affect the Company’s earnings. To address these issues, we will promote “creation of new markets” and “specialization in specific markets” to introduce highly value-added differentiated products and products using new technologies that can secure profits even in low-priced markets. In addition, in order to manufacture large wafers, which will be essential for the photolithography technology that will be at the core of future quartz crystal devices, we plan to raise the entry barrier by further advancing our front-end process technologies, from synthetic quartz crystal growth to processing, as well as to sell wafers to outside customers.

(12) Risks regarding capital investment

The Group requires continuous capital investment for the maintenance, growth, etc. of its business. However, the Group may not be able to generate earnings as planned due to significant fluctuations in demand forecasts or changes in the external environment, such as longer lead times for equipment delivery. We will strive to mitigate risks by making early management decisions, etc. with a high level of marketing ability to consider all conditions, including the above changes.

(13) Securing human resources (human capital)

In order to promote sustainable management and continuous development, we believe it is necessary to secure appropriate human resources. However, if it becomes difficult to secure human resources due to the declining birthrate and aging society, or if the training of human resources does not proceed smoothly, the Group’s performance and financial position may be affected. We strive to secure young and talented human capital by actively promoting hiring new graduates and mid-career personnel. In addition, as measures to retain human capital, we are reviewing our wage and evaluation system and training system, and have introduced an engagement survey to strengthen the connection between the Company and its employees.

(14) Risks regarding compliance

The Group strives to establish compliance management and to strengthen its efforts, including training for all employees, to comply with laws and regulations. However, unforeseen revisions to or the establishment of new laws and regulations could affect the Group’s operating results due to the cost incurred to comply with such laws and regulations, or administrative penalties such as surcharges for violations of laws and regulations. We have established a corporate philosophy and code of conduct as well as a CSR code of conduct as the basis of our compliance system. We are working to ensure that all employees are fully aware of these standards and that they are implemented with the Group. In addition, we conduct compliance training for all employees on a regular basis to raise employees’ awareness of compliance. We also monitor, as appropriate, laws and regulations that are deeply related to corporate management, and strive to comply with laws and regulations.

(15) BCP measures for IT system

If the IT system fails due to a disaster in addition to failures due to hardware or human error and virus infection by cyberattacks, there is a risk that business continuity may become difficult due to system down or that liability may be incurred due to damages to customers. The Group not only conducts regular backups of servers, but also stores backup data remotely, and had begun operating some of its servers in robust data centers as part of its efforts toward information asset protection and BCP.

(16) Risks regarding occupational safety and health

In the Group, there are workplaces where works involve relatively high risk of accidents, such as working at heights, working in high temperature, and handling of heavy loads. The Group is promoting the development of a working environment in which employees can work safely and without suffering from accidents. However, in the unlikely event of a serious accident or industrial accident involving production facilities, the business activities may be restricted, which may affect the Group's performance, etc. To avoid those situations, the Group established a company-wide Occupational Safety and Health Meeting, with President having ultimate responsibility. Under its umbrella, a company-wide Occupational Safety and Health Coordination Meeting and a Safety and Health Committee at operating companies and workplaces are established to discuss and decide important policies related to occupational safety and health management and implement activities and monitoring.

In accordance with various laws and regulations as well as our occupational safety and health policy, we have established Safety and Health Management Regulations and are developing safety and health activities to ensure the safety and health of our employees, realize a comfortable working environment, and eliminate occupational accidents, commuting accidents, and serious accidents.

(17) Risks of change in funding environment

The Group raises funds for its operations through borrowings from banks, etc. However, if financial markets become unstable and worsen due to external factors such as international political instability, there is a possibility that fundraising becomes difficult or fundraising costs increase. This could have a negative impact on the Group's business, performance, and financial position. To address these risks, the Group is working to improve its financial soundness by improving its equity-to-asset ratio and efficiency, as well as to enhance its ability to generate cash flow, including by reviewing its asset holdings. In addition, the Company has commitment line agreements with financial institutions to ensure sufficient liquidity together with cash and cash equivalents, to mitigate the impact on management of the Group.

4. Management analysis of financial position, operating results and cash flows

(1) Overview of operating results, etc.

The Group's financial position, operating results and cash flows (hereinafter "operating results, etc.") for the fiscal year ended March 31, 2024 were as follows.

(i) Financial position and operating results

In the global economy, during the fiscal year ended March 31, 2024, economic recovery tended to slow down due to soaring prices with inflation, rising policy interest rates and so on. Capital investment is sluggish especially in the manufacturing industry, and geopolitical risks persist at high level, so an outlook remains uncertain.

As the business environment surrounding the Group, noticeable adjustments due to sluggish capital investment became apparent in the industrial market, and sales remained weak in the consumer market despite a recovery trend especially for PCs. On the other hand, in the telecommunications market, sales for Chinese smartphones showed a recovery trend. In the automotive market, sales remained strong due to a recovery in automobile production as the semiconductor shortage was resolved.

Under these circumstances, the Group continued to invest for growth such as the reinforcement of the production facilities mainly for photolithography products, which will be the Group's future growth driver, and the innovating of our core systems. We also participated in the "electronica China 2023," a trade fair held in China, where we introduced approaches to our core technologies for larger synthetic quartz crystals and crystal wafers, and our original products, "Arkh series" and "Molded Type Crystal Oscillators," drawing widespread attention.

As a result, the financial position and operating results for the fiscal year ended March 31, 2024 were as follows.

a. Financial position

Total assets as of March 31, 2024 stood at ¥91,064 million, up ¥7,442 million from March 31, 2023.

Total liabilities as of March 31, 2024 stood at ¥44,016 million, up ¥3,576 million from March 31, 2023.

Total net assets as of March 31, 2024 stood at ¥47,048 million, up ¥3,865 million from March 31, 2023.

b. Operating results

Net sales amounted to ¥39,343 million (up 2.4% year on year), operating profit was ¥2,135 million (down 49.3% year on year), ordinary income was ¥3,192 million (down 37.5% year on year), and profit attributable to owners of parent was ¥1,876 million (down 41.5% year on year).

The following are the business results in each segment.

In Japan, net sales were ¥7,781 million (down 4.3% year on year) and its segment profit was ¥116 million (down 95.8% year on year).

In North America, net sales were ¥2,405 million (up 37.0% year on year) and its segment profit was ¥16 million (up 632.7% year on year).

In Europe, net sales were ¥3,833 million (up 4.9% year on year) and its segment profit was ¥20 million (down 60.5% year on year).

In China, net sales were ¥12,300 million (down 5.7% year on year) and its segment loss was ¥55 million (its segment profit for the fiscal year ended March 31, 2023 was ¥538 million).

In Taiwan, net sales were ¥10,342 million (up 14.1% year on year) and its segment profit was ¥1,086 million (up 64.9% year on year).

In Asia, net sales were ¥2,680 million (down 3.5% year on year) and its segment profit was ¥493 million (up 123.5% year on year).

(ii) Cash flows

Cash and cash equivalents (hereinafter “cash”) as of March 31, 2024 increased ¥5,917 million year on year to ¥24,355 million, mainly due to profit before income taxes.

Cash flow positions in the fiscal year ended March 31, 2024 and the factors thereof are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities was ¥8,243 million (increase of ¥2,383 million year on year). This mainly reflected profit before income taxes of ¥4,123 million.

(Cash flows from investing activities)

Net cash used in investing activities was ¥3,994 million (decrease of ¥2,530 million year on year). This mainly reflected purchase of property, plant and equipment of ¥4,498 million.

(Cash flows from financing activities)

Net cash provided by financing activities was ¥1,104 million (decrease of ¥194 million year on year). This mainly reflected repayments of long-term borrowings of ¥10,085 million and proceeds from long-term borrowings of ¥12,880 million.

(iii) Results of production, orders and sales

a. Results of production

The production results by segments for the fiscal year ended March 31, 2024 were as follows.

| Segment name | Fiscal year ended March 31, 2024 (Thousands of yen) | Year-on-year (%) |
|---|---|---|
| Japan | 14,351,266 | (13.0) |
| China | 4,915,603 | (11.5) |
| Taiwan | 9,713,281 | 23.2 |
| Asia | 8,411,713 | 8.2 |
| Total | 37,391,865 | (0.9) |

Note: Amounts are based on sales prices and are before inter-segment transfers.

b. Results of orders received

The results of orders received by segments for the fiscal year ended March 31, 2024 were as follows.

| Segment name | Orders received (Thousands of yen) | Year-on-year (%) | Order backlog (Thousands of yen) | Year-on-year (%) |
|---|---|---|---|---|
| Japan | 7,429,934 | 3.6 | 1,453,542 | (19.2) |
| North America | 2,380,056 | 40.6 | 431,253 | 1.7 |
| Europe | 3,611,623 | 18.7 | 483,586 | (23.6) |
| China | 12,373,337 | 25.5 | 2,371,508 | 8.0 |
| Taiwan | 11,756,543 | 22.6 | 4,791,486 | 50.9 |
| Asia | 2,427,470 | 3.1 | 724,748 | (18.0) |
| Total | 39,978,965 | 18.6 | 10,256,126 | 12.6 |

c. Results of sales

The sales results by segments for the fiscal year ended March 31, 2024 were as follows.

| Segment name | Fiscal year ended March 31, 2024 (Thousands of yen) | Year-on-year (%) |
|---|---|---|
| Japan | 7,781,320 | (4.3) |
| North America | 2,405,202 | 37.0 |
| Europe | 3,833,725 | 4.9 |
| China | 12,300,895 | (5.7) |
| Taiwan | 10,342,263 | 14.1 |
| Asia | 2,680,269 | (3.5) |
| Total | 39,343,676 | 2.4 |

Note: Inter-segment transactions have been eliminated.

(2) Details of analysis and considerations regarding the status of operating results etc., from management's perspective

The details of recognition, analysis and considerations regarding the status of operating results etc. of the Group, from management's perspective are as follows.

Please note that matters concerning the future in this article were determined by the Group as of the end of the fiscal year ended March 31, 2024.

(i) Recognition, analysis and considerations regarding the status of financial position and operating results of the Group

The Group's financial position and operating results for the fiscal year ended March 31, 2024 were as follows.

a. Financial position

(Assets)

Total assets as of March 31, 2024 stood at ¥91,064 million, an increase of ¥7,442 million from March 31, 2023. This was mainly due to an increase in cash and deposits.

(Liabilities)

Total liabilities as of March 31, 2024 stood at ¥44,016 million, an increase of ¥3,576 million from March 31, 2023. This was mainly due to an increase in borrowings.

(Net assets)

Total net assets as of March 31, 2024 stood at ¥47,048 million, an increase of ¥3,865 million from March 31, 2023. This was mainly due to increases in retained earnings and foreign currency translation adjustment.

As a result, the equity-to-asset ratio decreased 0.4 percentage points to 42.5%.

b. Operating results

(Net sales)

Noticeable adjustments due to sluggish capital investment became apparent in the industrial market, and sales remained weak in the consumer market despite a recovery trend especially for PCs. On the other hand, in the telecommunications market, sales for Chinese smartphones showed a recovery trend. In the automotive market, sales remained strong due to a recovery in automobile production as the semiconductor shortage was resolved. Net sales amounted to ¥39,343 million, up 2.4% year on year. Of this amount, domestic net sales were ¥5,045 million, and overseas net sales was ¥34,298 million.

(Cost of sales, selling, general and administrative expenses)

Cost of sales was ¥29,554 million, up 10.3% year on year, mainly due to higher net sales.

Selling, general and administrative expenses was ¥7,653 million, up 3.0% year on year, mainly due to an increase in salaries.

(Profit attributable to owners of parent)

Profit attributable to owners of parent was ¥1,876 million, down 41.5% year on year, mainly due to foreign exchange gains of ¥1,295 million recorded under non-operating income and a gain on sale of investment securities of ¥988 million recorded under extraordinary income.

As a factor that will have a significant impact on the Group's operation results, price competition in the crystal product business continues to be severe. We expect to face intensified competition for market prices in the product markets, to which the Group belongs, depending on the price trends of customers' products. In addition, foreign exchange may affect the Group's performance depending on the fluctuation in the exchange.

c. Recognition, analysis and considerations regarding the status of financial position and operating results by segment

(Japan)

In Japan, net sales were ¥7,781 million, a decrease of ¥353 million, or down 4.3%, year on year mainly due to lower sales in the industrial market than the fiscal year ended March 31, 2023. Its segment profit was ¥116 million, a decrease of ¥2,664 million, or down 95.8% year on year, mainly due to price fluctuations and lower operation in addition to lower net sales.

(North America)

In North America, net sales were ¥2,405 million, an increase of ¥649 million, or up 37.0% year on year, mainly due to higher net sales in automotive and industrial markets. Its segment profit was ¥16 million, an increase of ¥14 million, or up 632.7% year on year.

(Europe)

In Europe, net sales were ¥3,833 million, an increase of ¥179 million, or up 4.9% year on year mainly due to higher net sales in the automotive market than the fiscal year ended March 31, 2023. Its segment profit was ¥20 million, a decrease of ¥31 million, or down 60.5% year on year mainly due to higher fixed costs resulting from increase in headcount.

(China)

In China, net sales were ¥12,300 million, a decrease of ¥741 million, or down 5.7% year on year mainly due to lower net sales in the consumer and industrial markets than the fiscal year ended March 31, 2023. Its segment loss was ¥55 million, a decrease of ¥594 million from the segment profit of ¥538 million in the fiscal year ended March 31, 2023 mainly due to price fluctuations and lower operation in addition to lower net sales.

(Taiwan)

In Taiwan, net sales were ¥10,342 million, an increase of ¥1,276 million, or up 14.1% year on year mainly due to higher net sales in the communication market. Its segment profit was ¥1,086 million, an increase of ¥427 million, or up 64.9% year on year.

(Asia)

In Asia, net sales were ¥2,680 million, a decrease of ¥96 million, or down 3.5% year on year mainly due to lower net sales in the consumer and communication markets. Its segment profit was ¥493 million, an increase of ¥272 million, or up 123.5% year on year mainly due to higher production of high value-added products.

(ii) Analysis and considerations of cash flows and information on source of capital and liquidity of funds

Cash flows of the Group for the fiscal year ended March 31, 2024 is described in (1) Overview of operating results, etc. (ii) Cash flows.

Source of capital and liquidity of funds of the Group are as follows.

a. Basic policy of financial strategy

The Group's basic policy is to continuously increase corporate value based on an optimal capital structure that is balanced in terms of financial soundness, capital efficiency, and shareholder return. The Group aims to improve "Debt-to-Equity ratio (DE ratio)" and "Equity-to-asset ratio" for financial soundness, "Return-on Equity (ROE)" for capital efficiency, and "Return-on-Invested Capital (ROIC)" for increased corporate value. In addition, the Group will further improve the cash conversion cycle (CCC) and maximize cash flow and improve capital efficiency through the use of cash on hand and other measures.

b. Demand for funds

Working capital of the Group is mainly composed of purchases of products, cost of manufacturing, and operating expenses, such as selling, general and administrative expenses. Capital investment demand includes purchases of production facilities and buildings for manufacturing products of the Group.

c. Raising of funds

In order to secure stable funds necessary for the maintenance and expansion of the Group's business activities, the Company raises funds through the use of internal funds and borrowings from financial institutions. Funds required for capital investment will be covered by operating cash flow generated by the business and liquidity on hand. The Group will also consider bank borrowings or capital market financing for the execution of growth investments to realize the 2nd Medium-term Business Plan, which will establish a foundation for the Long-term Business Plan, and will procure funds in a solid and flexible manner.

(iii) Significant accounting estimates and assumptions used in those estimates

Significant accounting estimates used in the preparation of the consolidated financial statements and the assumptions used in those estimates are described in "V. FINANCIAL INFORMATION, 1. Consolidated financial statements, etc., (1) Consolidated financial statements, Notes (Significant accounting estimates)."

5. Material management contracts, etc.

Contracts related to partnership

(Contract for sales of products)

| | |
|---|---|
| Name of contract | Partnership contract |
| Name of contracting company | SiTime Corporation |
| Date of the contract | October 27, 2015 |
| Period of contract | From October 27, 2015 to October 26, 2025 (If there is no notice of intent to terminate the contract at least one year prior to the expiration of the term, it will be automatically renewed.) |
| Detail of contract | Partnership contract signed to secure market share and increase sales in new markets<br>• Sale of MEMS Timing Devices in KDS brand |

6. Research and development activities

The Group focuses on the research and development of new products and new technologies as a specialized manufacturer in electronic devices using crystals. The development activities of new products and new technologies in the Group are aimed at actively proposing quartz crystal devices that meet the needs of an increasingly sophisticated society with our accumulated element technologies. Currently, 92 employees are engaged in the research and development activities of the Group.

The research and development expenses for the fiscal year ended March 31, 2024 was ¥2,170 million. The expansion of 5G-compatible smartphones, the spread of ADAS (Advanced Driver Assistance Systems) and progress in electrification led to active development in devices for car electronics. In response to the needs for quartz crystal devices as these products spread throughout the market, our engineering department has been actively developing products that are smaller and thinner, while also enhancing support for higher frequencies, precision, and functionality. Additionally, they aimed to achieve lower power consumption, improved environmental resistance, and increased environmental responsiveness. In particular, taking advantage of Arkh.3G's features of small size and thin profile, we respond preciously to customer needs for high-speed compact optical transceivers, built-in ICs, and SIP modules. In addition, the high productivity of the wafer level package (WLP) method realizes stable supply and environmental responsiveness. Furthermore, we will continue to apply the technology to other products and develop and expand new products going forward.

(1) Arkh series

(i) Arkh.3G We are working on reduction of manufacturing costs of crystal resonator. We will increase production capacity by increasing the size of crystal wafers used and develop the manufacturing technology necessary to improve yields and achieve stable manufacturing. In the future, 6-inch crystal wafers will be used to further reduce costs.

(ii) Arkh.2G We are developing ceramic package crystal oscillator with Arkh.3G embedded. Even in situations where the cost of purchased materials increases, the use of finished Arkh.3G instead of internal crystal blanks can improve assembly yields and reduce material costs for ICs and ceramic packages. In addition, the invested assets in Arkh.3G can be used for new ceramic package products, leading to improved investment efficiency. Going forward, we will enhance our lineup of Arkh.2G to include CMOS output crystal oscillators, differential output crystal oscillators, and temperature compensated crystal oscillators to meet customer needs.

(iii) Arkh.6G We are developing Arkh type high frequency crystal resonators. Higher frequencies are making crystal chips thinner and thinner, requiring advanced technology for assembly. In Arkh type crystal resonator of the WLP method, crystal chips can be manufactured as wafers and assembled as they are, making them suitable for production for higher frequency. We are developing Arkh.6G as products utilizing our proprietary technology.

(2) Crystal resonators, crystal oscillators

(i) We have developed resin molded type real-time clock DD3225TR (external dimensions: 3.2×2.5×1.1mmH). Following the temperature compensated type developed last year, this product is a real-time clock with advance functions such as alarm addition without temperature compensation. This product embeds our tuning fork crystal resonators with resin mold package, aiming to achieve improved productivity and stable supply. Its mass production is scheduled to begin in the first half of FY2025. In addition, we are developing real-time clock DD3225TQ of temperature compensated type with advanced features. Its mass production is scheduled to begin in the first half of FY2026.

(ii) We have developed small size, low voltage TCXO DSB1612SLD (external dimensions: 1.6×1.2×0.55mmH). It is an ultra small size TCXO compatible with 1.2V employing small-size, high-precision support technology, which supplies a stable clock source even in devices with limited battery size in wearable devices such as smart watches. Its mass production is scheduled to begin in the second half of FY2025.

(iii) We have developed small size, high frequency, low phase noise TCXO DSB1612SEB (external dimensions: 1.6×1.2×0.55mmH). It can support high frequency and low phase noise, which are required by the next generation wireless standards, including high speed mobile communication such as 5G and Wi-Fi. In addition, it has a suitable performance for increasingly sophisticated automotive communications with its support for low and high frequencies and high temperatures up to 105°C. Its mass production is scheduled to begin in the second half of FY2025.

(iv) We are developing resin molded type differential output crystal oscillators (external dimensions: 2.0×1.6×1.64mmH). We have successfully miniaturized it by embedding our Arkh.3G small size resonators in resin mold package. In addition, we are developing products for servers with external dimensions of 3.0×2.5×1.20mmH. By mass production utilizing our mold technology, we will increase our market share in differential output crystal oscillators. Their mass production is scheduled to begin in the first half of FY2026.

(v) We are developing resin molded type crystal oscillators (external dimensions: 3.0×2.5×1.20mmH, 5.0×3.2×1.20mmH, 7.3×4.9×1.70mmH). We will employ resin mold structures enabling efficient production of large size SPXOs, which are becoming increasingly difficult to supply, and meet customer needs by stable supply. Its mass production is scheduled to begin in the first half of FY2026.

## III. Information About Facilities

1. Overview of capital investments, etc.

   The Group (the Company and its consolidated subsidiaries) executed capital investments of ¥3,613 million, focusing on strengthening production systems in Japan and overseas, etc.

   The Group recorded impairment losses for the fiscal year ended March 31, 2024. Impairment losses are described in “V. FINANCIAL INFORMATION, 1. Consolidated financial statements, etc., (1) Consolidated financial statements, Notes (Consolidated statement of income), *7 Breakdown of impairment losses.”

2. Major facilities

Major facilities of the Group (the Company and its consolidated subsidiaries) are as follows.

(1) The reporting company

As of March 31, 2024

| Business place name (Location) | Segment name | Details of facilities | Book value (Thousands of yen) | | | | | | Numbers of employees (Persons) |
|---|---|---|---|---|---|---|---|---|---|
| | | | Buildings and structures | Machinery, equipment and vehicles | Land (area: thousand $m^2$) | Leased assets | Other (Note 1) | Total | |
| Head Office (Kakogawa, Hyogo) | Japan | Other facilities | 261,611 | 57,564 | 1,255,599 [16] | 6,758 | 689,950 | 2,271,483 | 149 |
| Central Laboratory (Kakogawa, Hyogo) | Japan | Other facilities | 261,006 | 118,413 | 1,348,195 [17] | 41,274 | 30,069 | 1,798,959 | 66 |
| Kanzaki Plant (Ichikawa, Kanzakigun, Hyogo) | Japan | Production facilities of crystal parts | 85,819 | 297,569 | 128,826 [12] | 7,760 | 1,276 | 521,252 | 5 |
| Miyazaki Plant (Kawaminami-cho, Koyu, Miyazaki) (Note 2) | Japan | Facilities of crystal applied products, other | 161,505 | 92,367 | 57,809 [24] | – | 4,261 | 315,943 | – |
| Tottori Production Div. (Tottori, Tottori) | Japan | Production facilities of crystal applied products, other | 511,791 | 1,603,391 | 478,798 [31] | 43,976 | 30,123 | 2,668,082 | 237 |
| Nishiwaki Plant (Nishiwaki, Hyogo) | Japan | Production facilities of crystal parts | 105,405 | 298,644 | 49,360 [15] | 5,327 | 6,706 | 465,444 | 32 |
| Tokushima Production Div. (Yoshinogawa, Tokushima) | Japan | Production facilities of crystal applied products, other | 256,885 | 228,620 | 1,225,369 [88] | 20,170 | 18,337 | 1,749,383 | 149 |

Notes: 1 The book value of "Other" assets is the total amount of tools, furniture and fixtures. It does not include construction in progress.

2 All of facilities of Miyazaki Plant are leased to Kyushu Daishinku Corp.

(2) Domestic subsidiaries

As of March 31, 2024

| Company name | Location | Segment name | Details of facilities | Book value (Thousands of yen) | | | | | Numbers of employees (Persons) |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Buildings and structures | Machinery, equipment and vehicles | Land (area: thousand $m^2$) | Other | Total | |
| Kyushu Daishinku Corp. | Kawaminami-cho, Koyu, Miyazaki | Japan | Facilities of crystal applied products, other | 19,497 | 970 | 33,451 [8] | 118 | 54,038 | 56 |

(3) Overseas subsidiaries

As of March 31, 2024

| Company name | Location | Segment name | Details of facilities | Book value (Thousands of yen) | | | | | Numbers of employees (Persons) |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Buildings and structures | Machinery, equipment and vehicles | Land (area: thousand $m^2$) | Other (Note 1) | Total | |
| PT. KDS INDONESIA | Bekasi, Indonesia | Asia | Production facilities of crystal resonators, other | 135,016 | 1,650,307 | 244,716 [32] | 320,749 | 2,350,789 | 1,072 |
| TIANJIN KDS CORP. | Tianjin, China | China | Production facilities of tuning fork crystal resonators, other | 371,211 | 1,601,913 | – [–] | 92,709 | 2,065,834 | 582 |
| HARMONY ELECTRONICS CORP. | Kaohsiung, Taiwan | Taiwan | Production facilities of crystal resonators, other | 648,955 | 3,979,263 | 598,604 [6] | 126,544 | 5,353,368 | 280 |
| HARMONY ELECTRONICS (SHENZHEN) CO., LTD. | Shenzhen, China | Taiwan | Production facilities of crystal resonators, other | – | 154,259 | – [–] | 2,744 | 157,004 | 16 |
| HARMONY ELECTRONICS (DONGGUAN) CO., LTD. | Dongguan, China | Taiwan | Production facilities of crystal resonators, other | 137,439 | 1,014,954 | – [–] | 3,871 | 1,156,266 | 151 |
| HARMONY ELECTRONICS (THAILAND) CO., LTD. | Ban Pong, Thailand | Taiwan | Production facilities of crystal resonators, other | 60,601 | 1,311,801 | 543,801 [55] | 1,860 | 1,918,065 | 377 |

Notes: 1 The book value of “Other” assets is the total amount of tools, furniture and fixtures. It does not include construction in progress.

2 In addition to the above, major leased facilities include the following.

Overseas subsidiaries

| Company name | Location | Segment name | Details of facilities | Land (area: thousand $m^2$) | Lease period | Annual rent |
|---|---|---|---|---|---|---|
| TIANJIN KDS CORP. | Tianjin, China | China | Production facilities of tuning fork crystal resonators, other | 69,607 [45] | 50 years | ¥3,276 thousand |

3. Planned additions, retirements, etc. of facilities

Capital expenditures of the Group (the Company and its consolidated subsidiaries) are planned based on comprehensive consideration of production plans, demand forecasts, and the ratio of investment to profits.

In principle, each consolidated company formulates its own facility plans.

The planned investments in addition, repair, etc. of important facilities as of the end of the fiscal year ended March 31, 2024 is ¥7,300 million, which will be financed by cash on hand and borrowings.

Plans for additions, retirements, etc. of important facilities are as follows.

(1) Additions of important facilities

| Company name Office name | Location | Segment name | Details of facilities | Planned investment amount | | Method of financing | Start and completion schedule | |
|---|---|---|---|---|---|---|---|---|
| | | | | Total (Thousands of yen) | Amount already paid (Thousands of yen) | | Start | Completion |
| DAISHINKU CORP. Head Office | Kakogawa, Hyogo | Japan | Headquarters and plant | 5,953,000 | 809,000 | Cash on hand and borrowings | November 2023 | August 2024 |

(2) Retirement, etc. of important facilities

Not applicable.

## IV. Information About the Reporting Company

1. Company's shares, etc.

(1) Total number of shares, etc.

(i) Total number of shares

| Class | Total number of authorized shares (Shares) |
|---|---|
| Common shares | 104,000,000 |
| Total | 104,000,000 |

(ii) Issued shares

| Class | Number of shares issued as of the end of the fiscal year (Shares) (March 31, 2024) | Number of shares issued as of the filing date (Shares) (June 28, 2024) | Name of listed financial instruments exchange or registered or licensed financial instruments firms association | Description |
|---|---|---|---|---|
| Common shares | 36,196,968 | 36,196,968 | Tokyo Stock Exchange (Prime Market) | The number of shares constituting one unit is 100 shares. |
| Total | 36,196,968 | 36,196,968 | – | – |

(2) Share acquisition rights, etc.

(i) Description of share option plan

Not applicable.

(ii) Description of rights plan

Not applicable.

(iii) Other information about share acquisition rights

Not applicable.

(3) Exercise status of bonds with share acquisition rights containing a clause for exercise price adjustment

Not applicable.

(4) Changes in number of shares issued, share capital, etc.

| Date | Increase (decrease) in total number of shares issued (Shares) | Balance of total number of shares issued (Shares) | Increase (decrease) in share capital (Thousands of yen) | Balance of share capital (Thousands of yen) | Increase (decrease) in legal capital surplus (Thousands of yen) | Balance of legal capital surplus (Thousands of yen) |
|---|---|---|---|---|---|---|
| November 1, 2021 (Note) | 27,147,726 | 36,196,968 | – | 19,344,883 | – | 5,781,500 |

Note: In accordance with the resolution of the Board of Directors held on September 10, 2021, the Company executed a share split on November 1, 2021 (a 4-for-1 share split, changing the total number of authorized shares from 26 million to 104 million). As a result, the total number of shares issued by the Company increased by 27,147,726 to 36,196,968.

## (5) Shareholding by shareholder category

As of March 31, 2024

| Category | Shareholding status (Number of shares per share unit: 100 shares) | | | | | | | | Shares less than one unit (Shares) |
|---|---|---|---|---|---|---|---|---|---|
| | Government and municipality | Financial institutions | Financial instruments business operators | Other corporations | Foreign corporations, etc. | | Individuals, etc. | Total | |
| | | | | | Non-individuals | Individuals | | | |
| Number of shareholders (Persons) | – | 28 | 28 | 161 | 74 | 40 | 9,638 | 9,969 | – |
| Number of shares held (Units) | – | 121,160 | 8,025 | 53,160 | 26,743 | 186 | 151,793 | 361,067 | 90,268 |
| Shareholding ratio (%) | – | 33.56 | 2.22 | 14.72 | 7.41 | 0.05 | 42.04 | 100.00 | – |

Note: 3,919,393 treasury shares are included in “Individuals, etc.” as 39,193 units and “Shares less than one unit” as 93 shares.

## (6) Major shareholders

As of March 31, 2024

| Name | Address | Number of shares held (Thousands of shares) | Ratio of shares held to total number of shares issued (excluding treasury shares) (%) |
|---|---|---|---|
| The Master Trust Bank of Japan, Ltd. (Trust account) | Akasaka Intercity AIR, 1-8-1 Akasaka, Minato-ku, Tokyo | 5,174 | 16.03 |
| The Hasegawa Welfare Foundation Co., Ltd. | 6-3-20, Motomachi-dori, Chuo-ku, Kobe, Hyogo | 2,400 | 7.44 |
| Custody Bank of Japan, Ltd. (Trust account) | 8-12, Harumi 1-chome, Chuo-ku, Tokyo | 1,559 | 4.83 |
| MUFG Bank, Ltd. | 7-1, Marunouchi 2-chome, Chiyoda-ku, Tokyo | 992 | 3.07 |
| The Joyo Bank, Ltd. | 5-5, Minami-machi 2-chome, Mito, Ibaraki | 979 | 3.03 |
| Sohei Hasegawa | Kakogawa, Hyogo | 973 | 3.02 |
| DAISHINKU Employees Shareholding Association | 1389 Shinzaike, Hiraoka-cho, Kakogawa, Hyogo | 821 | 2.54 |
| Hasegawa Corporation | 29-12, Yamate 3-chome, Kakogawa, Hyogo | 640 | 1.98 |
| The Dai-ichi Life Insurance Company, Limited | 13-1, Yurakucho 1-chome, Chiyoda-ku, Tokyo | 569 | 1.76 |
| Nippon Life Insurance Company | 6-6, Marunouchi 1-chome, Chiyoda-ku, Tokyo | 507 | 1.57 |
| Total | – | 14,616 | 45.29 |

Notes: 1 According to the report of changes submitted by Daiwa Asset Management Co. Ltd. on April 6, 2020, it has been disclosed to the public that, as of March 31, 2020, 442 thousand shares (4.88%) are held jointly. However, the Company is not able to fully confirm the number of shares held by these corporations as of March 31, 2024, therefore, they are not included in the above table. The content of the aforementioned report is as follows.

| Name of Large Shareholders | Number of shares held (Thousands of shares) | Shareholding ratio (%) |
|---|---|---|
| Daiwa Asset Management Co. Ltd. | 345 | 3.82 |
| Daiwa Securities Co. Ltd. | 50 | 0.56 |
| Daiwa Securities Group Inc. | 46 | 0.51 |

2 According to amendment report submitted by Barclays Securities Japan Limited on July 11, 2022, it has been disclosed to the public that, as of December 27, 2021, 1,173 thousand shares (3.24%) are held jointly. However, the Company is not able to fully confirm the number of shares held by these corporations as of March 31, 2024, therefore, they are not included in the above table. The content of the aforementioned report is as follows.

| Name of Large Shareholders | Number of shares held (Thousands of shares) | Shareholding ratio (%) |
|---|---|---|
| Barclays Capital Securities Ltd. | 1,148 | 3.17 |
| Barclays Bank PLC | 24 | 0.07 |

3 According to the report of changes submitted by Mizuho Bank, Ltd. on December 22, 2022, it has been disclosed to the public that, as of December 15, 2022, 1,743 thousand shares (4.82%) are held jointly. However, the Company is not able to fully confirm the number of shares held by these corporations as of March 31, 2024, therefore, they are not included in the above table. The content of the aforementioned report is as follows.

| Name of Large Shareholders | Number of shares held (Thousands of shares) | Shareholding ratio (%) |
|---|---|---|
| Mizuho Bank, Ltd. | 96 | 0.27 |
| Asset Management One Co., Ltd. | 1,647 | 4.55 |

4 According to the large shareholding report submitted by Mitsubishi UFJ Financial Group, Inc. on January 15, 2024, it has been disclosed to the public that, as of January 8, 2024, 1,837 thousand shares (5.08%) are held jointly. However, the Company is not able to fully confirm the number of shares held by these corporations as of March 31, 2024, therefore, they are not included in the above table. The content of the aforementioned report is as follows.

| Name of Large Shareholders | Number of shares held (Thousands of shares) | Shareholding ratio (%) |
|---|---|---|
| MUFG Bank, Ltd. | 992 | 2.74 |
| Mitsubishi UFJ Trust and Banking Corporation | 358 | 0.99 |
| Mitsubishi UFJ Asset Management Co., Ltd. | 486 | 1.34 |

5 According to the report of changes submitted by Nomura Asset Management Co., Ltd. on January 22, 2024, it has been disclosed to the public that, as of January 15, 2024, 1,904 thousand shares (5.26%) are held jointly. However, the Company is not able to fully confirm the number of shares held by these corporations as of March 31, 2024, therefore, they are not included in the above table. The content of the aforementioned report is as follows.

| Name of Large Shareholders | Number of shares held (Thousands of shares) | Shareholding ratio (%) |
|---|---|---|
| NOMURA INTERNATIONAL PLC | 47 | 0.13 |
| Nomura Asset Management Co., Ltd. | 1,857 | 5.13 |

6 According to the report of changes submitted by Nomura Securities Co., Ltd. on February 22, 2024, it has been disclosed to the public that, as of February 15, 2024, 1,645 thousand shares (4.55%) are held jointly. However, the Company is not able to fully confirm the number of shares held by these corporations as of March 31, 2024, therefore, they are not included in the above table. The content of the aforementioned report is as follows.

| Name of Large Shareholders | Number of shares held (Thousands of shares) | Shareholding ratio (%) |
|---|---|---|
| Nomura Securities Co., Ltd. | 205 | 0.57 |
| Nomura Asset Management Co., Ltd. | 1,439 | 3.98 |

7 According to the report of changes submitted by Sumitomo Mitsui Trust Bank, Limited on April 4, 2024, it has been disclosed to the public that, as of March 29, 2024, 3,556 thousand shares (9.83%) are held jointly. However, the Company is not able to fully confirm the number of shares held by these corporations as of March 31, 2024, therefore, they are not included in the above table. The content of the aforementioned report is as follows.

| Name of Large Shareholders | Number of shares held (Thousands of shares) | Shareholding ratio (%) |
|---|---|---|
| Sumitomo Mitsui Trust Bank, Limited | 176 | 0.49 |
| Sumitomo Mitsui Trust Asset Management Co., Ltd. | 2,951 | 8.15 |
| Nikko Asset Management Co., Ltd. | 429 | 1.19 |

## (7) Voting rights

### (i) Issued shares

As of March 31, 2024

| Category | Number of shares (Shares) | | Number of voting rights (Units) | Description |
|---|---|---|---|---|
| Shares without voting rights | – | | – | – |
| Shares with restricted voting rights (Treasury shares, etc.) | – | | – | – |
| Shares with restricted voting rights (Other) | – | | – | – |
| Shares with full voting rights (Treasury shares, etc.) | (Treasury shares held) Common shares | 3,919,300 | – | – |
| Shares with full voting rights (Other) | Common shares | 32,187,400 | 321,874 | – |
| Shares less than one share unit | Common shares | 90,268 | – | Shares less than one unit (100 shares) |
| Total number of shares issued | 36,196,968 | | – | – |
| Voting rights of all shareholders | – | | 321,874 | – |

### (ii) Treasury shares, etc.

As of March 31, 2024

| Name of shareholder | Address of shareholder | Number of shares held under own name (Shares) | Number of shares held under the name of others (Shares) | Total number of shares held (Shares) | Proportion of number of shares held against total number of issued shares (%) |
|---|---|---|---|---|---|
| (Treasury shares held) DAISHINKU CORP. | 1389 Shinzaike, Hiraoka-cho, Kakogawa, Hyogo | 3,919,300 | – | 3,919,300 | 10.83 |
| Total | – | 3,919,300 | – | 3,919,300 | 10.83 |

2. Acquisition, etc. of treasury shares

Class of shares, etc. Acquisition of common shares that falls under Article 155, Item 7 of the Companies Act

(1) Acquisition by resolution at the General Meeting of Shareholders

Not applicable.

(2) Acquisition by resolution at the Board of Directors meeting

Not applicable.

(3) Acquisition not based on resolution at the General Meeting of Shareholders or Board of Directors meeting

Acquisition of common shares under Article 155, Item 7 of the Companies Act

| Category | Number of shares (Shares) | Total value (Yen) |
|---|---|---|
| Treasury shares acquired during the fiscal year ended March 31, 2024 | 977 | 776,127 |
| Treasury shares acquired during the period after the reporting period to the filing date of this report | 236 | 178,872 |

Note: Treasury shares acquired during the period after the reporting period to the filing date of this report does not include the shares acquired through the purchase of shares less than one share unit from June 1, 2024 until the filing date of this Annual Securities Report.

(4) Disposal of acquired treasury shares and number of treasury shares held

| Category | Fiscal year ended March 31, 2024 | | Period after the reporting period to the filing date of this report | |
|---|---|---|---|---|
| | Number of shares (Shares) | Total value of disposal (Yen) | Number of shares (Shares) | Total value of disposal (Yen) |
| Acquired treasury shares for which subscribers were solicited | – | – | – | – |
| Acquired treasury shares that were cancelled | – | – | – | – |
| Acquired treasury shares that were transferred due to a merger, share exchange, share issuance, or company split | – | – | – | – |
| Other | – | – | – | – |
| Number of treasury shares held | 3,919,393 | – | 3,919,629 | – |

Note: Treasury shares held during the period after the reporting period to the filing date of this report does not include the shares acquired through the purchase of shares less than one share unit from June 1, 2024 until the filing date of this Annual Securities Report.

3. Dividend policy

The Company recognizes that it is important to maintain stable dividends as a means of returning profits to our shareholders, while taking into consideration the reinforcement of business structure and so forth in order to maintain its competitiveness.

We will adopt DOE (dividend on equity ratio) as an indicator for our dividend policy and establish a minimum DOE value for three years when formulating the Medium-term Business Plan. As the dividend policy for the fiscal years ending March 31, 2025 to March 31, 2027, we will set a DOE minimum of 2.8% and aim for 3.0% in the final year of the plan.

In addition, we intend to utilize retained earnings to prepare for capital investment, research and development, and other capital requirements as development investments for future business expansion.

The Company's basic policy on dividend payments is to pay dividends twice a year in the form of interim dividends and year-end dividends.

The decision-making body for these dividends of surplus is the General Meeting of Shareholders for the year-end dividends and the Board of Directors for the interim dividends.

Our Articles of Incorporation stipulate that the Company may pay interim dividends with a record date of September 30 each year by resolution of the Board of Directors.

Dividends for the fiscal year ended March 31, 2024 were as follows.

| Date of resolution | Total dividends (Thousands of yen) | Dividends per share (Yen) |
|---|---|---|
| Resolution at the Board of Directors meeting held on October 13, 2023 | 451,894 | 14 |
| Resolution at the Annual General Meeting of Shareholders held on June 27, 2024 | 451,886 | 14 |

4. Status of corporate governance, etc.

(1) Overview of corporate governance

(i) Basic policy regarding corporate governance

The Group strives to realize prompt, transparent and fair management and internationally competitive management as a global company. In addition, the Company exerts efforts to “enhance corporate value” to protect and augment the interests of all stakeholders supporting its corporate activities and to maximize shareholder value in a long-term and consistent manner. At the same time, the Company will reinforce its corporate governance to become a company that earns trust from society.

At the closing of the 59th Annual General Meeting of Shareholders held on June 29, 2022, the Company shifted from a company with a Board of Corporate Auditors to a company with an Audit and Supervisory Committee.

This change was intended to further enhance corporate governance through strengthening the supervisory function over the Board of Directors and reinforcing the monitoring system, to expedite management decision-making, and to further improve corporate value.

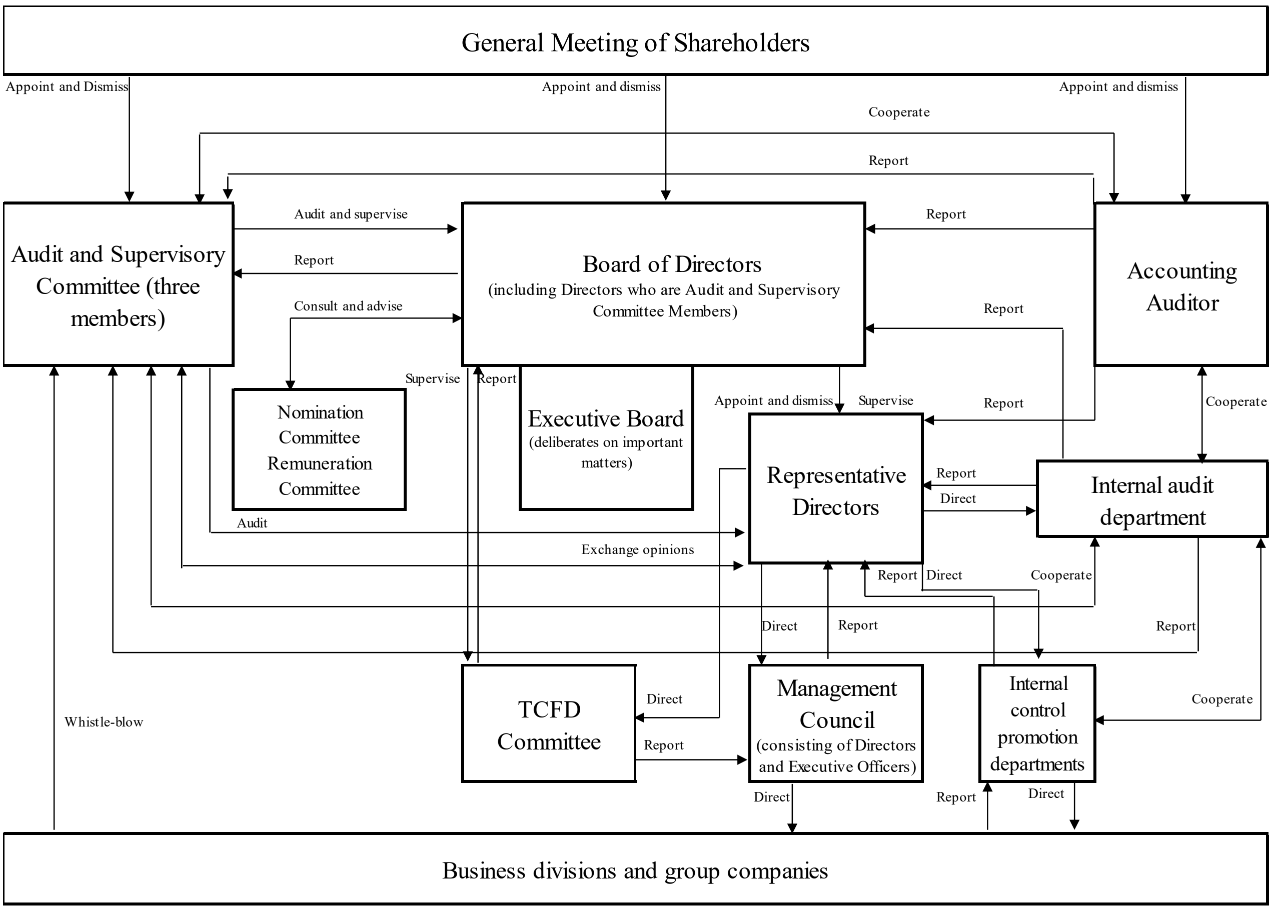
In addition, we ensure consistent performance supervision through the attendance of the full-time Audit and Supervisory Committee Member at important meetings.

Furthermore, we have an Accounting Auditor to whom we provide accurate management information relating to accounting practices, realizing an environment in which audits are conducted from a fair and unbiased standpoint.

The Company will consider improving the internal system to further enhance the internal audit function covering all aspects of corporate management.

(ii) Summary of system of corporate governance and reasons for adopting the system

The following chart illustrates the Company’s corporate governance structure as of the filing date.



a Summary of system of corporate governance

We have established a Board of Directors, an Audit and Supervisory Committee, and an Accounting Auditor as a company with an Audit and Supervisory Committee.

a) Board of Directors

The Company's Board of Directors is chaired by President Minoru Iizuka, and consists of six Directors (including two Outside Directors): Managing Directors Masashi Kawasaki, Shimpei Hasegawa, Director Kohei Hasegawa, Outside Directors Toshiaki Kotera, and Keiko Iijima; and three Directors (Audit and Supervisory Committee Members, including two Outside Directors): Toshiro Hiroshima, Keita Ushijima, and Toshiaki Hanasaki.

In addition to holding regular monthly meetings, our Board of Directors convenes ad-hoc meetings as necessary, in order to strive for agile and responsive management, aiming to facilitate free, vigorous and constructive discussions and exchanges of opinions, including issues raised by the Outside Directors. The specific matters to be considered include changes in corporate organization, important personnel decisions, approval of financial statements, determination of business plans, significant investments, establishment of internal control systems and other important business execution matters.

The Company's Board of Directors is composed of Directors with different expertise and experience, with up to seven Directors excluding Directors who are Audit and Supervisory Committee Members, and up to four Directors who are Audit and Supervisory Committee Members, ensuring that prompt and reliable actions can be taken with emphasis on transparency, soundness, and efficiency in corporate management. The term of office of Directors, excluding Directors who are Audit and Supervisory Committee Members is one year or less after their election, and the term of office of Directors who are Audit and Supervisory Committee Members is until the conclusion of the Annual General Meeting of Shareholders relating to the last fiscal year ending within two years after their election, as stipulated in the Articles of Incorporation, and they are appointed by the General Meeting of Shareholders.

b) Executive Board

The Company's Executive Board is chaired by President Minoru Iizuka, and consists of three Directors: Managing Directors Masashi Kawasaki and Shimpei Hasegawa. For important matters related to management policies and strategies, discussions are held in advance in the Executive Board, and decisions regarding execution are made by the Board of Directors following deliberations.

c) Audit and Supervisory Committee

The Company's Audit and Supervisory Committee consists of three members: Directors (Audit and Supervisory Committee Members) Toshiro Hiroshima, Keita Ushijima, and Toshiaki Hanasaki (including two Outside Directors). We recognize the auditing of the execution of duties by Directors and other roles and responsibilities prescribed by laws and regulations, and the Regulations of Audit and Supervisory Committee and others and conduct appropriate audits that are legitimate and appropriate from an independent and objective standpoint. The Audit and Supervisory Committee convenes regular meetings once a month and operates appropriately, incorporating objective opinions and views from Outside Directors flexibly and ensuring the effectiveness of the committee.

d) Management Council

The Company's Management Council is composed of Executive Directors and Executive Officers, and discuss individual management issues from a practical perspective.

e) Nomination Committee

The Company's Nomination Committee is chaired by Outside Director Toshiaki Kotera, and consists of three Directors: President Minoru Iizuka and Outside Director Keiko Iijima. We aim to strengthen the supervisory function over the Board of Directors and further enhance our corporate governance system by ensuring fairness, transparency, and objectivity in the evaluation and decision-making process related to the nomination of Directors.

f) Remuneration Committee

The Company’s Remuneration Committee is chaired by Outside Director Keita Ushijima, and consists of three Directors: Managing Director Shimpei Hasegawa and Outside Director Toshiaki Hanasaki. We aim to strengthen the supervisory function over the Board of Directors and further enhance our corporate governance system by ensuring fairness, transparency, and objectivity in the evaluation and decision-making process related to the remuneration of Directors.

b Reasons for adopting the system of corporate governance described above

The Company shifted from a company with a Board of Corporate Auditors to a company with an Audit and Supervisory Committee in June 2022, for the purpose of further enhancing corporate governance through strengthening the supervisory function over the Board of Directors and reinforcing the monitoring systems by including Audit and Supervisory Committee Members, who oversee the execution of Directors’ duties, as members of the Board of Directors. In addition, the Board of Directors can delegate some of the important business execution decisions to Executive Directors, ensuring agility and promptness in management.

Regarding management supervision and auditing functions, we believe that we have established a system to supervise and audit the execution of Directors’ duties from a neutral and objective standpoint, and recognize that the current corporate governance system is appropriate and effective.

(iii) Other matters regarding corporate governance

a) Status of the development of internal control systems

We have established the Code of Conduct on CSR (Corporate Social Responsibility) to ensure that Directors and employees comply with laws and regulations, as well as the Articles of Incorporation, and respect ethical principles in their actions. To ensure thorough implementation, Directors themselves take the lead in promoting and making sure that all officers and employees are well-informed.

In addition, we promote the establishment, maintenance and improvement of the Internal Control System with the General Affairs Department as the department in charge, while concurrently operating a whistleblowing system that allows Directors and employees to report any suspicious compliance violations to the Company through a whistleblowing contact.

b) Status of the development of risk management system

The Company has established the Risk Management Regulations to identify, understand and comprehensively manage various risks surrounding the Company.

If an unexpected event occurs, the Company will set up a task force to take appropriate measures and deploy a crisis management system appropriate to the information age as a global group of enterprises.

c) Status of system for ensuring the appropriateness of business operations at subsidiaries

We appoint a responsible manager for each subsidiary to oversee and manage their business operations. In addition to holding regular reporting meetings, we have representatives of each subsidiary report important matters as appropriate, and provide guidance and improvements as needed.

d) Number of Directors of the Board

The Articles of Incorporation stipulate that the Company shall have no more than seven Directors, excluding Directors who are Audit and Supervisory Committee Members, and no more than four Directors who are Audit and Supervisory Committee Members.

e) Requirements for Resolutions on the election and dismissal of Directors

The Articles of Incorporation stipulate that resolution on the election and dismissal of Directors shall be adopted by a majority of the voting rights of the shareholders present who hold one-third or more of the voting rights of shareholders entitled to exercise voting rights. In addition, the Articles of Incorporation stipulate that resolution on the election of Directors shall not be conducted by cumulative voting.

f) Matters to be resolved by a General Meeting of Shareholders that may be resolved by the Board of Directors

a Acquisition of treasury shares

Pursuant to the provisions of Article 165, Paragraph 2 of the Companies Act, the Articles of Incorporation stipulate that the Company may acquire its treasury shares through market transactions or other means by resolution of the Board of Directors. This aims to execute a flexible capital policy that responds to changes in the business environment.

b Organization for determining Interim Dividends

To flexibly distribute earnings to shareholders, the Company's Articles of Incorporation stipulate that interim dividends may be paid by resolution of the Board of Directors with September 30 of each year as the record date, pursuant to the provisions of Article 454, Paragraph 5 of the Companies Act.

c Exemption of liability of Directors

- In order to ensure that Directors can fully fulfill their expected roles, the Articles of Incorporation stipulate that Directors (including former Directors) may be exempted from liability for damages by resolution of the Board of Directors to the extent provided by laws and regulations, pursuant to the provisions of Article 426, Paragraph 1 of the Companies Act,
- The Articles of Incorporation stipulate that, pursuant to the provisions of Article 427, Paragraph 1 of the Companies Act, the Company may enter into agreements with Outside Directors to limit their liability for damages under Article 423, Paragraph 1 of the Companies Act. Accordingly, we have entered into such liability limitation agreements with our Outside Directors. The maximum amount of liability for damages stipulated in these agreements are the minimum amount prescribed in Article 425, Paragraph 1 of the Companies Act, provided that the Outside Directors perform their duties in good faith and without gross negligence.
- The Company has entered into a Directors and Officers liability insurance (D&O insurance) contract with an insurance company, as stipulated in Article 430-3, Paragraph 1 of the Companies Act, with Directors and others as the insured parties. This ensures that compensation is provided for damages and other claims made against the insured parties arising from their business activities. However, claims for damages arising from intentional or grossly negligent violations of laws and regulations by the insured parties are not covered under this insurance policy. The insurance expenses are fully borne by the Company.

g) Requirements for special resolution at a General Meeting of Shareholders

The Articles of Incorporation stipulate that a special resolution at a General Meeting of Shareholders provided in Article 309, Paragraph 2 of the Companies Act shall be adopted by two-thirds or more of the voting rights of the shareholders present who hold one-third or more of the voting rights of shareholders entitled to exercise voting rights. This provision aims to ensure the smooth operation of a General Meeting of Shareholders by easing the quorum for special resolutions at the meeting.

h) Frequency of meetings and individual attendance

The frequency of meetings and attendance at meetings of the Board of Directors, the voluntary Nomination Committee, and the voluntary Remuneration Committee for the 61st fiscal year are as follows.

| | Name | Title (As of March 31, 2024) | Board of Directors | | |
|---|---|---|---|---|---|
| | | | Number of meetings held | Number of attendances | Attendance rate |
| | Sohei Hasegawa | Chairman and Representative Director | 13 | 13 | 100% |
| ◎ | Minoru Iizuka | President | 13 | 13 | 100% |
| | Masashi Kawasaki | Managing Director | 13 | 13 | 100% |
| | Shimpei Hasegawa | Director | 13 | 13 | 100% |
| | Toshiaki Kotera | Outside Director | 13 | 13 | 100% |
| | Keiko Iijima | Outside Director | 13 | 13 | 100% |
| | Hiroshi Maeda | Director (Full-time Audit and Supervisory Committee Member) | 13 | 13 | 100% |
| | Keita Ushijima | Outside Director (Audit and Supervisory Committee Member) | 13 | 13 | 100% |
| | Toshiaki Hanasaki | Outside Director (Audit and Supervisory Committee Member) | 13 | 13 | 100% |

(◎ : Chair of the Board of Directors)

Note: Director Kohei Hasegawa and Director (Audit and Supervisory Committee Member) Toshiro Hiroshima were newly elected at the Annual General Meeting of Shareholders held on June 27, 2024. Therefore, their attendance during the fiscal year ended March 31, 2024 is not stated.

| Name | Title (As of March 31, 2024) | Voluntary Nomination Committee | | | Voluntary Remuneration Committee | | |
|---|---|---|---|---|---|---|---|
| | | Committee member | Meetings held | Attendance | Committee member | Meetings held | Attendance |
| Sohei Hasegawa | Chairman and Representative Director | | | | ○ | 3 | 3 |
| Minoru Iizuka | President | ○ | 3 | 3 | | | |
| Masashi Kawasaki | Managing Director | | | | | | |
| Shimpei Hasegawa | Director | | | | | | |
| Toshiaki Kotera | Outside Director | ◎ | 3 | 3 | | | |
| Keiko Iijima | Outside Director | ○ | 3 | 3 | | | |
| Hiroshi Maeda | Director (Full-time Audit and Supervisory Committee Member) | | | | | | |
| Keita Ushijima | Outside Director (Audit and Supervisory Committee Member) | | | | ◎ | 3 | 3 |
| Toshiaki Hanasaki | Outside Director (Audit and Supervisory Committee Member) | | | | ○ | 3 | 3 |

(◎ : Chairperson, ○: Committee Member)

Note: Director Kohei Hasegawa and Director (Audit and Supervisory Committee Member) Toshiro Hiroshima were newly elected at the Annual General Meeting of Shareholders held on June 27, 2024. Therefore, their attendance during the fiscal year ended March 31, 2024 is not stated.

(2) Information about Directors

(i) List of Directors

Male: 8, Female: 1 (Ratio of female directors: 11.1%)

<table>
<tr><th>Title and position</th><th>Name</th><th>Date of birth</th><th colspan="2">Career summary</th><th>Term of office</th><th>Number of shares held (Thousands of shares)</th></tr>
<tr><td rowspan="12">President</td><td rowspan="12">Minoru Iizuka</td><td rowspan="12">September 14, 1961</td><td>April 1985</td><td>Joined the Company</td><td rowspan="12">Note 4</td><td rowspan="12">42</td></tr>
<tr><td>February 2004</td><td>Manager of Research Laboratory I, Central Laboratory</td></tr>
<tr><td>June 2014</td><td>Director</td></tr>
<tr><td>July 2014</td><td>Deputy Director of Central Laboratory<br>Representative Director of DAISHINKU (DEUTSCHLAND) GmbH</td></tr>
<tr><td>April 2015</td><td>General Manager of Production Division</td></tr>
<tr><td>January 2017</td><td>General Manager of Product Division</td></tr>
<tr><td>April 2017</td><td>Managing Director</td></tr>
<tr><td>July 2018</td><td>In charge of business management</td></tr>
<tr><td>April 2019</td><td>Senior Managing Director</td></tr>
<tr><td>October 2019</td><td>Director and Senior Vice President<br>Manager of Fundamental Technological Development Department</td></tr>
<tr><td>July 2021</td><td>President (current position)</td></tr>
<tr><td></td><td></td></tr>
<tr><td rowspan="12">Managing Director<br>General Manager of Material Business Development Division</td><td rowspan="12">Masashi Kawasaki</td><td rowspan="12">December 12, 1955</td><td>March 1978</td><td>Joined the Company</td><td rowspan="12">Note 4</td><td rowspan="12">19</td></tr>
<tr><td>November 1990</td><td>Manager of Engineering Department, Tottori Plant II</td></tr>
<tr><td>April 2002</td><td>Manager of Production Engineering Department</td></tr>
<tr><td>July 2004</td><td>Director of Tokushima Production Division</td></tr>
<tr><td>July 2008</td><td>President of Tianjin KDS Corp.</td></tr>
<tr><td>April 2015</td><td>Director of Kanzaki Plant</td></tr>
<tr><td>April 2016</td><td>Manager of Material Business Development Department</td></tr>
<tr><td>July 2018</td><td>Executive Officer<br>General Manager of Material Business Development Division</td></tr>
<tr><td>June 2020</td><td>Director</td></tr>
<tr><td>July 2021</td><td>Managing Director (current position)</td></tr>
<tr><td>January 2023</td><td>General Manager of Administration Division and General Manager of Material Business Development Division</td></tr>
<tr><td>April 2024</td><td>General Manager of Material Business Development Division (current position)</td></tr>
</table>

| Title and position | Name | Date of birth | Career summary | | Term of office | Number of shares held (Thousands of shares) |
|---|---|---|---|---|---|---|
| Managing Director<br>In charge of business management and General Manager of Sales Strategy & Marketing Division | Shimpei Hasegawa | February 11, 1979 | January 2006 | Joined the Company | Note 4 | 18 |
| | | | January 2017 | Manager of Research Department | | |
| | | | July 2018 | Executive Officer<br>Deputy General Manager of Sales Strategy & Marketing Division | | |
| | | | July 2018 | Manager of Sales Strategy Department | | |
| | | | April 2019 | Deputy in charge of business management | | |
| | | | April 2020 | Deputy General Manager of Sales Strategy & Marketing Division | | |
| | | | June 2020 | Director | | |
| | | | April 2022 | Managing Executive Officer<br>General Manager of Office of the President | | |
| | | | January 2023 | Senior Managing Executive Officer<br>General Manager of Sales Strategy & Marketing Division | | |
| | | | April 2024 | In charge of business management and General Manager of Sales Strategy & Marketing Division (current position) | | |
| | | | June 2024 | Managing Director (current position) | | |
| Director<br>Managing Executive Officer<br>General Manager of Alliance Promotion Division | Kohei Hasegawa | March 14, 1981 | April 2003 | Joined the Company | Note 4 | – |
| | | | January 2017 | Manager of Business Development Group | | |
| | | | July 2018 | Executive Officer<br>General Manager of Arkh.3G Business Development Division | | |
| | | | April 2020 | General Manager of New Business Promotion Division | | |
| | | | April 2022 | Senior Executive Officer<br>General Manager of Alliance Promotion Division (current position) | | |
| | | | January 2024 | Managing Executive Officer (current position) | | |
| | | | June 2024 | Director (current position) | | |
| Director | Toshiaki Kotera | July 25, 1963 | April 1992 | Joined Kotera Accounting Office | Note 4 | 23 |
| | | | September 1992 | Qualified as Certified Tax Accountant | | |
| | | | June 2007 | Corporate Auditor of the Company | | |
| | | | June 2015 | Director (current position) | | |

| Title and position | Name | Date of birth | Career summary | | Term of office | Number of shares held (Thousands of shares) |
|---|---|---|---|---|---|---|
| Director | Keiko Iijima | May 29, 1965 | April 1995 | Appointed as Judge (in Sapporo, Chiba, Osaka, Matsue and Kyoto) | Note 4 | 1 |
| | | | March 2009 | Retired | | |
| | | | June 2009 | Registered as a practicing attorney (current position) | | |
| | | | June 2016 | Director of the Company (current position) | | |
| | | | June 2022 | Corporate Auditor of Keifuku Electric Railroad Co., Ltd. (current position) | | |
| | | | March 2024 | Director (Audit and Supervisory Committee Member) of OPTEX GROUP CO., LTD. (current position) | | |
| Director (Full-time Audit and Supervisory Committee Member) | Toshiro Hiroshima | August 8, 1961 | April 1984 | Joined the Company | Note 5 | 5 |
| | | | April 1999 | Director of Kurodasho Plant | | |
| | | | April 2002 | General Manager of Procurement Department | | |
| | | | April 2015 | General Manager of Production Control Department | | |
| | | | April 2016 | General Manager of Production Department | | |
| | | | July 2018 | Executive Officer<br>General Manager of Production Division and General Manager of Production Control Division | | |
| | | | June 2020 | Director | | |
| | | | April 2022 | Managing Executive Officer | | |
| | | | October 2022 | General Manager of Production Division, General Manager of Production Control Department, and Manager of Production Control Section | | |
| | | | April 2023 | General Manager of Production Division | | |
| | | | April 2024 | Deputy in charge of business management | | |
| | | | June 2024 | Director (Audit and Supervisory Committee Member) (current position) | | |

| Title and position | Name | Date of birth | Career summary | | Term of office | Number of shares held (Thousands of shares) |
|---|---|---|---|---|---|---|
| Director (Audit and Supervisory Committee Member) | Keita Ushijima | July 28, 1953 | April 1979 | Employed by Osaka Regional Taxation Bureau | Note 5 | – |
| | | | July 2007 | District Director of Miki Tax Office | | |
| | | | July 2008 | Director of Transfer Pricing Division, First Large Enterprise Examination Department, Osaka Regional Taxation Bureau | | |
| | | | July 2010 | Director of Review Division (Large Enterprise Examination), First Large Enterprise Examination Department, Osaka Regional Taxation Bureau | | |
| | | | July 2011 | Director of Management Division (Large Enterprise Examination), First Large Enterprise Examination Department, Osaka Regional Taxation Bureau | | |
| | | | July 2012 | Deputy Assistant Regional Commissioner (Management and Co-ordination) | | |
| | | | July 2013 | District Director of Sakai Tax Office | | |
| | | | August 2014 | Representative of Keita Ushijima Tax Accountant Office (current position) | | |
| | | | June 2015 | Corporate Auditor of the Company | | |
| | | | February 2016 | Corporate Auditor of Maruka Machinery Co., Ltd. (currently MARUKA Corporation) | | |
| | | | June 2022 | Director (Audit and Supervisory Committee Member) (current position) | | |

| Title and position | Name | Date of birth | Career summary | | Term of office | Number of shares held (Thousands of shares) |
|---|---|---|---|---|---|---|
| Director (Audit and Supervisory Committee Member) | Toshiaki Hanasaki | May 25, 1952 | April 1977 | Employed by Osaka Regional Taxation Bureau | Note 5 | 9 |
| | | | July 2006 | District Director of Kaibara Tax Office | | |
| | | | July 2007 | Director of Co-ordinated Examination and Information Management Division, First Large Enterprise Examination Department, Osaka Regional Taxation Bureau | | |
| | | | July 2009 | Director of Co-ordination Division (Large Enterprise Examination), First Large Enterprise Examination Department, Osaka Regional Taxation Bureau | | |
| | | | July 2010 | District Director of Tondabayashi Tax Office | | |
| | | | July 2011 | Director of Office of Litigation, First Taxation Department, Osaka Regional Taxation Bureau | | |
| | | | July 2012 | District Director of Himeji Tax Office | | |
| | | | August 2013 | Representative of Hanasaki Tax Accountant Office (current position) | | |
| | | | June 2016 | Corporate Auditor of the Company | | |
| | | | June 2022 | Director (Audit and Supervisory Committee Member) (current position) | | |
| Total | | | | | | 120 |

Notes:
1. Directors Toshiaki Kotera and Keiko Iijima are Outside Directors.
2. Directors (Audit and Supervisory Committee Members) Keita Ushijima and Toshiaki Hanasaki are Outside Directors.
3. Managing Director, In charge of business management and General Manager of Sales Strategy & Marketing Division Shimpei Hasegawa and Director, Managing Executive Officer and General Manager of Alliance Promotion Division Kohei Hasegawa are brothers.
4. Period of one year from the conclusion of the Annual General Meeting of Shareholders held on June 27, 2024
5. Period of two years from the conclusion of the Annual General Meeting of Shareholders held on June 27, 2024

(ii) Information about Outside Directors

The Company has four Outside Directors.

Outside Director Toshiaki Kotera owns 23,600 shares of the Company. There are no other personal, capital, significant business, or other interests between the Company and him.

Outside Director Keiko Iijima owns 1,200 shares of the Company. The Company has an advisory contract with Park Sogo Law Office, to which Outside Director Keiko Iijima belongs, but the amount of remuneration is minimal. There are no other personal, capital, significant business, or other interests between the Company and her.

Outside Director Keita Ushijima has no personal, capital, significant business, or other interests with the Company.

Outside Director Toshiaki Hanasaki owns 9,900 shares of the Company. There are no other personal, capital, significant business, or other interests between the Company and him.

While the Company has not established any specific standards or policy regarding independence when electing Outside Directors, we refer to the Independence Tests stipulated by the Tokyo Stock Exchange, which are matters regarding the independence of Outside Officers required to be disclosed.

The Outside Directors, with their specialized knowledge and extensive experience necessary for their duties, are able to provide appropriate opinions from a neutral standpoint, and they fulfill a management supervisory function in the Company's corporate governance.

(iii) Mutual coordination between supervision or audits by Outside Directors and internal audits, Audit and Supervisory Committee audits, and accounting audits, and relationship to internal control department.

Regarding the mutual coordination between supervision or audits by Outside Directors and internal audits, Audit and Supervisory Committee audits, and accounting audits, and relationship to internal control department, the Company has elected four Outside Directors. Three Outside Directors possess considerable knowledge in finance and accounting as certified tax accountants. In addition, one of the Outside Directors possesses considerable knowledge in corporate legal affairs as an attorney-at-law. All Outside Directors attend Board of Directors meetings from an independent and neutral standpoint from the management side, monitoring the execution of duties by Directors and providing appropriate opinions to ensure the effectiveness of management oversight.

The Company holds a regular monthly Audit and Supervisory Committee meeting, which is composed of one Director who is an Audit and Supervisory Committee Member well-versed in company operations and two Outside Directors who are also Audit and Supervisory Committee Members. By flexibly incorporating objective opinions and perspectives from the Outside Directors, we aim to enhance the quality of our audits.

As the internal audit department, the Company has established an Internal Audit Section (comprising three members) tasked with the internal control monitoring function. This section conducts audits not only of internal operations but also of related companies from the perspective of group management.

The Audit and Supervisory Committee maintains close coordination with the Internal Audit Section by regularly and occasionally receiving reports on audit plans and results during the execution of its audit duties, such as investigating the company's operations and financial condition. Additionally, the committee receives reports on the status of the internal control system's development from the Administration Division and the Finance Division, which are in charge of internal control functions. This information is effectively utilized in the committee's audits to ensure efficient auditing.

In addition, the Directors who are Audit and Supervisory Committee Members and the Accounting Auditors, based on a relationship of mutual trust, communicate with each other through exchanges of opinions and information, such as by holding regular reporting meetings regarding audit plans, quarterly reviews, and year-end audits, six times a year to enhance the quality and efficiency of their respective audit operations.

(3) Information about audit

(i) Information about audits by the Audit and Supervisory Committee

a. Organization, personnel, and procedures of the Audit and Supervisory Committee

The Company's Audit and Supervisory Committee consists of one Director who is a full-time Audit and Supervisory Committee Member, and two Outside Directors who are part-time Audit and Supervisory Committee Members, making a total of three members. Following the audit policies and implementation plans set by the committee, they conduct audits on the legality and appropriateness of the Directors' execution of their duties, as well as on the methods and results of the Accounting Auditors' audits. They then prepare audit reports.

Toshiro Hiroshima, who is a full-time Audit and Supervisory Committee Member, has an extensive background as an executive manager of the production division and as a Managing Executive Officer in the Company. He possesses abundant experience and knowledge related to the Company's business, as well as extensive managerial experience and high-level insight as a manager. Keita Ushijima and Toshiaki Hanasaki, who are part-time Audit and Supervisory

Committee Members, hold qualifications as certified tax accountants and possess considerable knowledge in finance and accounting.

The Audit and Supervisory Committee maintains close coordination with the Internal Audit Section by regularly and on an ad-hoc basis receiving reports on audit plans and results during the execution of its audit duties, such as investigating the company's operations and financial condition. Additionally, the committee receives reports on the status of the internal control system's development from the Administration Division and the Finance Division, which are in charge of internal control functions. This information is effectively utilized in the committee's audits to ensure efficient auditing.

In addition, the Audit and Supervisory Committee and the Accounting Auditors, based on a relationship of mutual trust, hold regular meetings regarding the Accounting Auditors' audit plans, year-end audits, and quarterly reviews to enhance the quality and efficiency of their respective audit operations. Furthermore, Audit and Supervisory Committee members accompany the Accounting Auditors during on-site inventory inspections and participate in internal audits, ensuring the efficient execution of audit operations through the exchange of opinions and information.

Notes: 1. Toshiro Hiroshima was elected and assumed the position of Director (Audit and Supervisory Committee Member) at the Annual General Meeting of Shareholders held on June 27, 2024, and was elected as a full-time Audit and Supervisory Committee Member at the Audit and Supervisory Committee meeting held on the same date.

2. Hiroshi Maeda, who served as a Director (Full-time Audit and Supervisory Committee Member), retired from the position of Director (Full-time Audit and Supervisory Committee Member) as of June 27, 2024.

b. Frequency of Audit and Supervisory Committee meetings and attendance of individual Directors who are Audit and Supervisory Committee Members

The Audit and Supervisory Committee, chaired by the committee chairperson who is a full-time Audit and Supervisory Committee Member, holds regular meetings once a month as a general rule, and convenes ad-hoc meetings as necessary. In the fiscal year under review, the Company convened 14 meetings of the Audit and Supervisory Committee and the status of attendance of each individual Audit and Supervisory Committee Member is as follows.

| Name | | Number of meetings held | Number of attendances | Attendance rate |
|---|---|---|---|---|
| Director (Full-time Audit and Supervisory Committee Member) | Hiroshi Maeda | 14 | 14 | 100% |
| Outside Director (Audit and Supervisory Committee Member) | Keita Ushijima | 14 | 14 | 100% |
| Outside Director (Audit and Supervisory Committee Member) | Toshiaki Hanasaki | 14 | 14 | 100% |

Note: Since Toshiro Hiroshima were newly elected at the Annual General Meeting of Shareholders held on June 27, 2024, his attendance during the fiscal year ended March 31, 2024 is not stated.

c. Specific matters under consideration in the Audit and Supervisory Committee

- Preparation of audit reports
- Establishment of audit policies, audit plans, and assignment of responsibilities, etc.
- Audit of internal control development and operation status

  Annual plan of the Internal Control Office, annual internal control report, monitoring status and outcomes of the internal audit department, status of whistleblowing

- Validity of internal audit department audit results
- Adequacy of Accounting Auditor's Audit

  Audit plan and audit fees, audit methods and results, results of quarterly reviews, systems to ensure the proper performance of the audit firm's duties, and independence

- Information exchange on audit status with Accounting Auditors and discussions on Key Audit Matters (KAM).
- Reelection/Non-reelection of Accounting Auditors
- Necessity of expressing opinions on the election, etc. and remuneration of Directors other than Directors who are Audit and Supervisory Committee Members
- Appropriateness of corporate information disclosure
- Distributable amount of surplus and legality of dividends

d. Main activities of a full-time Audit and Supervisory Committee Member

The full-time Audit and Supervisory Committee Member conducted audit activities based on the audit policy, audit plan, etc. formulated by the Audit and Supervisory Committee. The main activities are as follows. The information obtained through these activities is shared with the Audit and Supervisory Committee to support the smooth activities of the part-time Audit and Supervisory Committee Members, while seeking objective and professional opinions from them.

- Attendance at important meetings

  Board of Directors meetings, Management Council meetings, Policy announcement meetings, Briefing sessions of progress of a profit plan, Sales Strategy & Marketing Division meetings, Production Division meetings, Quality meetings, and Administration Division meetings

- Access to important approval documents and minutes of meetings, etc.

  List of approval documents, minutes of Annual General Meeting of Shareholders, minutes of Board of Directors meetings, minutes of Nomination Committee meetings, minutes of Remuneration Committee meetings, minutes of Management Council meetings, internal audit result reports, Notice of General Meeting of Subsidiary Shareholders, Minutes of General Meeting of Subsidiary Shareholders, minutes of subsidiary Board of Directors meetings, minutes of Sales Strategy & Marketing Division meetings, minutes of Production Division meetings, minutes of Quality meetings, minutes of Administration Division meetings, subsidiary monthly financial statements, detailed statements of entertainment expenses, membership fees, donations, and miscellaneous expenses

- On-site inspection and attendance

  On-site inspections of head office, branches, and subsidiaries

  Witnessing of year-end physical inventory and internal audit department audits

- Expression of opinions at meetings of the Board of Directors and Audit and Supervisory Committee
- Internal control matters under the Companies Act

  Expressing opinions on the annual plan of the Internal Control Office, providing advice when the Office provides guidance to departments, and checking the progress and operational status of departmental risk management

- Cooperation with Accounting Auditors

  Audit results reporting meetings, quarterly review reporting meetings, and audit plan reporting meetings

  Discussions on Key Audit Matters (KAM)

(ii) Information about internal audit

With regard to the status of internal audits, we have established an Internal Audit Section (comprising three members) at the Company, conducting internal audits across all operations of the Group to regularly verify the adequacy and effectiveness of our internal control system.

To ensure the effectiveness of internal audits, internal audit results are accompanied by recommendations for addressing and rectifying issues, and are directly reported to the CEO, Board of Directors, and Audit and Supervisory Committee. The three audit functions, including audits by the Audit and Supervisory Committee, internal audits, and accounting audits, share information and communicate with each other to improve the reliability of financial reporting, and conduct efficient and effective audits.

(iii) Information about accounting audit

a Name of the audit firm

SCS Global LLC

b Length of continuous tenure

8 years

c Certified public accountants who executed audit duties

Yuji Ando

Yoshinari Umeda

d Assistants who participated in audits

Certified public accountants: 6; Others: 4

e Policy and reason for selecting the audit firm

When selecting and evaluating Accounting Auditors, the Company comprehensively considers their ability to conduct efficient audits in response to our extensive range of operations, the adequacy of their review system, the reasonableness and appropriateness of the audit days, audit period, specific audit procedures, and audit fees, as well as their audit performance. In addition, we will verify and confirm the auditors' independence based on the Code of Ethics established by the Japanese Institute of Certified Public Accountants, as well as their necessary professional qualifications.

The Company's Audit and Supervisory Committee will dismiss the Accounting Auditors with the unanimous consent of all Accounting Auditors if the Accounting Auditors are deemed to fall under any of the items stipulated in Article 340, Paragraph 1 of the Companies Act. In other cases, in which it is deemed difficult for the Accounting Auditor to properly execute its duties, the Company's Audit and Supervisory Committee will decide on a proposal for the dismissal or refusal of reelection of the Accounting Auditor. Upon this decision, the Company's Board of Directors will submit the proposal to the General Meeting of Shareholders.

f Evaluation of the audit firm conducted by the Audit and Supervisory Committee

The Audit and Supervisory Committee evaluates the Accounting Auditors. This evaluation involves monitoring and verifying whether the Accounting Auditors maintain their independence and conduct proper audits or not. Additionally, the Audit Committee received reports from the Accounting Auditors on the status of the execution of their duties, as well as confirmation that the "systems for ensuring proper execution of duties" (matters listed in each item of Article 131 of the Regulation on Corporate Accounting) is appropriately established and operated in accordance with the Quality Control Standards for Auditing (Business Accounting Council) and the practical guidelines of the Japanese Institute of Certified Public Accountants (Quality Control Standards Committee Statement No. 1 "Quality Control for Audit Firms" and Auditing Standards Committee Statement No. 220 "Quality Control for an Audit of Financial Statements"). As a result, we evaluated that there are no issues with the execution of duties by the Accounting Auditors, and resolved to reelect SCS Global LLC.

(iv) Details of audit fee, etc.

a Fees paid to certified public accountants, etc. for audits

(Unit: Thousands of yen)

| Category | Fiscal year ended March 31, 2023 | | Fiscal year ended March 31, 2024 | |
|---|---|---|---|---|
| | Fees for audit certification services | Fees for non-audit services | Fees for audit certification services | Fees for non-audit services |
| The reporting company | 38,000 | – | 37,000 | – |
| Consolidated subsidiaries | – | – | – | – |
| Total | 38,000 | – | 37,000 | – |

b Fees for member firms affiliated with the same network (SCS-Invictus Group) as the certified public accountants, etc. for audits (excluding item a above)

(Unit: Thousands of yen)

| Category | Fiscal year ended March 31, 2023 | | Fiscal year ended March 31, 2024 | |
|---|---|---|---|---|
| | Fees for audit certification services | Fees for non-audit services | Fees for audit certification services | Fees for non-audit services |
| The reporting company | – | – | – | – |
| Consolidated subsidiaries | – | 893 | – | 577 |
| Total | – | 893 | – | 577 |

Non-audit services for the consolidated subsidiaries include assistance with the preparation of tax returns for consolidated subsidiary PT. KDS INDONESIA and consolidated subsidiary DAISHINKU (THAILAND) Co., Ltd.

c Details of other major fees for audit certification services

(Fiscal year ended March 31, 2023)

The Company’s consolidated subsidiary, HARMONY ELECTRONICS CORP., paid ¥15,699 thousand to PwC Taiwan as fees for audit certification services.

(Fiscal year ended March 31, 2024)

The Company’s consolidated subsidiary, HARMONY ELECTRONICS CORP., paid ¥16,192 thousand to PwC Taiwan as fees for audit certification services.

d Policy on determining audit fee

The fees paid to certified public accountants, etc. for audits are estimated through thorough discussions between the Company and the certified public accountants and are determined with the consent of the Audit and Supervisory Committee. The Audit and Supervisory Committee assesses the appropriateness of the fee amount after confirming the basis and reasoning for the audit personnel and audit hours, paying attention to ensuring the independence of the certified public accountants for audits and the quality of the audit.

e Reasons for approval of the fees, etc. for the Accounting Auditor by the Audit and Supervisory Committee

The Audit and Supervisory Committee reviews the audit plan, the execution of the audit, and the estimated fees by the Accounting Auditor to ensure they are appropriate for the Company’s business scale and operations. Based on this review, the Committee determines its consent to the amount of fees, etc. of the Accounting Auditor.

(4) Remuneration, etc. for Directors

(i) The amounts of remuneration for Directors and matters regarding policy for the method of determining such amounts

Remuneration, etc. for Directors (excluding Directors who are Audit and Supervisory Committee Members) was resolved to be up to ¥25,000 thousand per month (excluding the portion of employee salaries for Directors concurrently serving as employees) and that for Directors who are Audit and Supervisory Committee Members up to ¥3,000 thousand per month at the 59th Annual General Meeting of Shareholders held on June 29, 2022. The amount of remuneration, etc. has been determined within the limit of remuneration.

The remuneration for Directors (excluding Directors who are Audit and Supervisory Committee Members) is determined by the Representative Director, delegated by resolution of the Board of Directors following deliberation by the Remuneration Committee, in accordance with the following policy.

- Maintains a high level of motivation for performance improvement and ensures the ability to secure excellent talent from both internal and external sources.
- Pays within the limit of the remuneration amount resolved at the General Meeting of Shareholders.

In addition, the remuneration of the Company’s Directors (excluding Directors who are Audit and Supervisory Committee Members) only consists of basic remuneration, which is comprised of monthly fixed remuneration and bonuses. The amount of remuneration is determined based on a comprehensive consideration of the remuneration level of other companies, the Company’s performance, and the level of employee salaries, according to position, responsibility, and years serving in the position. Payment of bonuses to directors shall be submitted to a General Meeting of Shareholders following thorough consideration of the business performance for the fiscal year, deliberation at the Remuneration Committee, and resolution by the Board of Directors. The bonus shall be paid at a certain time after a resolution of the General Meeting of Shareholders.

The amount of remuneration for individuals for the fiscal year ended March 31, 2024 was left to the Chairman and President to determine as resolved at the Board of Directors meeting held on June 29, 2023, following deliberation at the Remuneration Committee. That authority is to decide on the amount of basic remuneration for each Director (excluding Directors who are Audit and Supervisory Committee Members). The reason for delegating this authority to the Chairman is that he is expected to appropriately determine the amount of remuneration for Directors (excluding Directors who are Audit and Supervisory Committee Members) as he is the most knowledgeable about the environment surrounding the Group and our business conditions. In addition, the Board of Directors determined that the amount of remuneration complied with the determination policy because decisions were made after deliberation at the Remuneration Committee to ensure that such authority is properly exercised.

The remuneration of Directors who are Audit and Supervisory Committee Members was resolved through the discussion by Directors who are Audit and Supervisory Committee Members within the limit of remuneration resolved at a General Meeting of Shareholders.

The remuneration received by Directors of the reporting company for the fiscal year ended March 31, 2024 was only fixed remuneration.

(ii) Total amount of remuneration, etc., total amount of remuneration, etc. by type and the number of payees by category of directors

| Category of directors | Total amount of remuneration (Thousands of yen) | Total amount of remuneration by type (Thousands of yen) | Number of eligible directors (Persons) |
|---|---|---|---|
| | | Fixed remuneration | |
| Directors (excluding Audit and Supervisory Committee Members and Outside Directors) | 113,028 | 113,028 | 4 |
| Directors (Audit and Supervisory Committee Members) (excluding Outside Directors) | 10,800 | 10,800 | 1 |
| Outside Directors | 21,540 | 21,540 | 4 |

(iii) Total amount, etc. of remuneration, etc. of persons whose total amount of remuneration, etc. is ¥100 million or more

Not applicable.

(iv) Significant employee salaries of directors concurrently serving as employees

Not applicable.

(5) Share ownership

(i) Policy and concept of the classification of investment shares

The Company classify our holdings of shares into two categories: shares held for pure investment purposes, primarily for profit through fluctuations in share value or dividends; and shares held for purposes other than pure investment.

(ii) Investment shares whose purpose of holding is other than pure investment

a Method for inspecting the holding policy and the rationality of ownership, and the details of inspections by the Board of Directors and the like concerning the propriety of the ownership of individual issues

The Company holds shares in counterparties as strategic shareholdings for the purpose of maintaining and strengthening business relationships with these counterparties, when it is recognized that maintaining and strengthening stable business relationships with the counterparties will contribute to the medium- to long-term enhancement of the Company's corporate value. We quantitatively and qualitatively assess the benefits of holding shares and evaluate whether it is an appropriate use of our funds or not. Each year, the Board of Directors reviews the reasonableness, and based on this assessment, determines whether to continue holding the shares or not and reconsider the number of shares held. As a result of the verification, the Company considers selling of those shares for which the initial holding purpose has been achieved or the effectiveness of the holding has diminished.

b Number of issues and carrying amount

| | Number of issues | Total amount of carrying amount (Thousands of yen) |
|---|---|---|
| Unlisted shares | 3 | 7,800 |
| Shares other than unlisted shares | 16 | 1,740,792 |

(Issues whose number of shares increased in the fiscal year under review)

| | Number of issues | Total acquisition costs associated with increase in number of shares (Thousands of yen) | Reason for increase in number of shares |
|---|---|---|---|
| Unlisted shares | – | – | – |
| Shares other than unlisted shares | 2 | 10,131 | Purchase by the Company Shareholding Association |

(Issues whose number of shares decreased in the fiscal year under review)

| | Number of issues | Total sale value associated with decrease in number of shares (Thousands of yen) |
|---|---|---|
| Unlisted shares | – | – |
| Shares other than unlisted shares | – | – |

c Information on number of shares, carrying amount of specified investment shares and deemed holdings of shares by issue

Specified investment shares

| Issues | Fiscal year ended March 31, 2024 | Fiscal year ended March 31, 2023 | Purpose of holding, overview of business alliance, etc., quantitative effect of holding and reason for increase in number of shares | Holding of the Company's shares |
|---|---|---|---|---|
| | Number of shares (Shares) | Number of shares (Shares) | | |
| | Carrying amount (Thousands of yen) | Carrying amount (Thousands of yen) | | |
| Mitsubishi UFJ Financial Group, Inc. | 405,030 | 405,030 | (Purpose of Holding) Maintenance and strengthening of relationships in financial transactions<br>(Quantitative Holding effects) (Note 1) | Yes |
| | 630,631 | 343,424 | | |
| Sony Corporation | 17,474 | 17,207 | (Purpose of Holding) Maintenance and strengthening of business relationships<br>(Quantitative Holding effects) (Note 1)<br>(reason for increase in number of shares) Purchase by the Company Shareholding Association | No |
| | 226,905 | 206,234 | | |
| CASIO COMPUTER CO., LTD. | 143,668 | 138,301 | (Purpose of Holding) Maintenance and strengthening of business relationships<br>(Quantitative Holding effects) (Note 1)<br>(reason for increase in number of shares) Purchase by the Company Shareholding Association | No |
| | 186,194 | 179,515 | | |
| Hosiden Corporation | 94,000 | 94,000 | (Purpose of Holding) Maintenance and strengthening of business relationships<br>(Quantitative Holding effects) (Note 1) | Yes |
| | 182,266 | 151,340 | | |
| Mebuki Financial Group, Inc. | 269,100 | 269,100 | (Purpose of Holding) Maintenance and strengthening of relationships in financial transactions<br>(Quantitative Holding effects) (Note 1) | Yes |
| | 137,671 | 87,188 | | |
| Mitsubishi Electric Corporation | 30,000 | 30,000 | (Purpose of Holding) Maintenance and strengthening of business relationships<br>(Quantitative Holding effects) (Note 1) | No |
| | 75,360 | 47,355 | | |
| Iyogin Holdings, Inc. | 63,000 | 63,000 | (Purpose of Holding) Maintenance and strengthening of relationships in financial transactions<br>(Quantitative Holding effects) (Note 1) | Yes |
| | 73,899 | 47,376 | | |
| CMK Corporation | 76,100 | 76,100 | (Purpose of Holding) Maintenance and strengthening of business relationships<br>(Quantitative Holding effects) (Note 1) | Yes |
| | 47,182 | 34,701 | | |

| Issues | Fiscal year ended March 31, 2024 | Fiscal year ended March 31, 2023 | Purpose of holding, overview of business alliance, etc., quantitative effect of holding and reason for increase in number of shares | Holding of the Company's shares |
|---|---|---|---|---|
| | Number of shares (Shares) | Number of shares (Shares) | | |
| | Carrying amount (Thousands of yen) | Carrying amount (Thousands of yen) | | |
| The Hyakujushi Bank, Ltd. | 15,300 | 15,300 | (Purpose of Holding) Maintenance and strengthening of relationships in financial transactions<br>(Quantitative Holding effects) (Note 1) | Yes |
| | 45,548 | 28,106 | | |
| Chugin Financial Group, Inc. | 33,600 | 33,600 | (Purpose of Holding) Maintenance and strengthening of relationships in financial transactions<br>(Quantitative Holding effects) (Note 1) | Yes |
| | 44,167 | 29,870 | | |
| The San-in Godo Bank, Ltd. | 34,999 | 34,999 | (Purpose of Holding) Maintenance and strengthening of relationships in financial transactions<br>(Quantitative Holding effects) (Note 1) | Yes |
| | 42,243 | 25,864 | | |
| AIPHONE CO., LTD. | 6,000 | 6,000 | (Purpose of Holding) Maintenance and strengthening of business relationships<br>(Quantitative Holding effects) (Note 1) | Yes |
| | 18,120 | 12,246 | | |
| Daiwa Securities Group Inc. | 8,240 | 8,240 | (Purpose of Holding) Maintenance and strengthening of business relationships<br>(Quantitative Holding effects) (Note 1) | Yes |
| | 9,484 | 5,117 | | |
| The Japan Steel Works, Ltd. | 2,200 | 2,200 | (Purpose of Holding) Maintenance and strengthening of business relationships<br>(Quantitative Holding effects) (Note 1) | No |
| | 7,453 | 5,453 | | |
| Resona Holdings, Inc. | 7,379 | 7,379 | (Purpose of Holding) Maintenance and strengthening of relationships in financial transactions<br>(Quantitative Holding effects) (Note 1) | Yes |
| | 7,012 | 4,718 | | |
| DENSO Corporation (Note 2) | 2,308 | 577 | (Purpose of Holding) Maintenance and strengthening of business relationships<br>(Quantitative Holding effects) (Note 1) | No |
| | 6,653 | 4,294 | | |

Notes: 1. Not stated because of difficulty in describing quantitative holding effects. We quantitatively and qualitatively assess the benefits of holding shares and evaluate whether it is an appropriate use of our funds or not. Each year, the Board of Directors reviews the reasonableness, and based on this assessment, determines whether to continue holding the shares or not and reconsider the number of shares held.

2. As of September 28, 2023, each share of DENSO Corporation has been split into four shares.

Deemed holdings of shares

| Issues | Fiscal year ended March 31, 2024 | Fiscal year ended March 31, 2023 | Purpose of holding, overview of business alliance, etc., quantitative effect of holding and reason for increase in number of shares | Holding of the Company's shares |
|---|---|---|---|---|
| | Number of shares (Shares) | Number of shares (Shares) | | |
| | Carrying amount (Thousands of yen) | Carrying amount (Thousands of yen) | | |
| YOKOWO CO., LTD. | 153,900 | 153,900 | (Purpose of holding) Exercise of voting rights (retirement benefit trust)<br>(Quantitative Holding effects) (Note 3) | Yes |
| | 243,162 | 321,651 | | |

Notes: 1. When selecting the top holdings in terms of carrying amount, specific investment shares and deemed holdings of shares are not aggregated.

2. The deemed holdings of shares are held in trust as a retirement benefit trust and are not recorded on the Company's balance sheet. The "Carrying amount" for the deemed holdings of shares is calculated by multiplying the market value of the deemed holdings of shares as of the end of the fiscal year by the number of shares subject to the authority to exercise voting rights.

3. Not stated because of difficulty in describing quantitative holding effects. We quantitatively and qualitatively assess the benefits of holding shares and evaluate whether it is an appropriate use of our funds or not. Each year, the Board of Directors reviews the reasonableness, and based on this assessment, and determines whether to continue holding the shares or not and reconsider the number of shares held.

(iii) Investment shares whose purpose of holding is pure investment

Not applicable.

## V. Financial Information

1 Basis of preparation of the consolidated financial statements and the non-consolidated financial statements

(1) The consolidated financial statements of the Company are prepared in accordance with the Regulation on Terminology, Forms and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Order No. 28 of 1976).

(2) The non-consolidated financial statements of the Company are prepared in accordance with the Regulations on Terminology, Forms and Preparation Methods of Financial Statements (Ministry of Finance Order No. 59 of 1963; hereinafter the "Regulations on Non-consolidated Financial Statements").

As the Company falls under the category of a special company submitting financial statements, the non-consolidated financial statements of the Company are prepared in accordance with Article 127 of the Regulation on Non-consolidated Financial Statements.

2 Auditing and attestation

The consolidated and the non-consolidated financial statements for the fiscal year ended March 31, 2024 (from April 1, 2023 to March 31, 2024) were audited by SCS Global LLC, pursuant to the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

3 Particular efforts to secure the appropriateness of the consolidated financial statements

The Company makes particular efforts to secure the appropriateness of its consolidated financial statements. Specifically, to appropriately grasp the content of accounting standards, etc., and to develop a system that enables it to respond appropriately to changes in accounting standards, etc., the Company has joined the Financial Accounting Standards Foundation (FASF). We obtain various types of information and participate in training sessions and seminars hosted by organizations with specialized information.

1. Consolidated financial statements, etc.

(1) Consolidated financial statements

(i) Consolidated balance sheet

(Unit: Thousands of yen)

| | | As of March 31, 2023 | | As of March 31, 2024 |
|---|---|---|---|---|
| Assets | | | | |
| Current assets | | | | |
| Cash and deposits | | 18,517,098 | | 24,539,199 |
| Notes and accounts receivable - trade | *3 | 9,514,449 | *3, *4 | 9,646,343 |
| Contract assets | | 173,175 | | 114,681 |
| Securities | | 39,854 | | – |
| Merchandise and finished goods | | 7,221,518 | | 5,168,581 |
| Work in process | | 5,292,225 | | 6,165,762 |
| Raw materials and supplies | | 4,660,821 | | 5,080,355 |
| Other | | 1,301,442 | | 1,661,378 |
| Allowance for doubtful accounts | | (9,087) | | (13,835) |
| Total current assets | | 46,711,499 | | 52,362,467 |
| Non-current assets | | | | |
| Property, plant and equipment | | | | |
| Buildings and structures | *1 | 20,115,710 | *1 | 20,959,555 |
| Accumulated depreciation | | (16,982,831) | | (17,942,809) |
| Buildings and structures, net | | 3,132,878 | | 3,016,746 |
| Machinery, equipment and vehicles | | 57,375,564 | | 61,469,657 |
| Accumulated depreciation | | (44,305,708) | | (49,268,189) |
| Machinery, equipment and vehicles, net | | 13,069,856 | | 12,201,468 |
| Tools, furniture and fixtures | | 6,576,767 | | 7,438,486 |
| Accumulated depreciation | | (5,426,445) | | (6,092,601) |
| Tools, furniture and fixtures, net | | 1,150,322 | | 1,345,884 |
| Land | *1 | 5,920,297 | *1 | 5,964,533 |
| Leased assets | | 1,000,153 | | 992,673 |
| Accumulated depreciation | | (585,168) | | (764,009) |
| Leased assets, net | | 414,984 | | 228,664 |
| Construction in progress | | 6,896,838 | | 8,830,349 |
| Total property, plant and equipment | | 30,585,178 | | 31,587,646 |
| Intangible assets | | 1,184,714 | | 1,236,891 |
| Investments and other assets | | | | |
| Investment securities | | 2,812,160 | | 2,925,984 |
| Long-term loans receivable | | 1,285 | | 1,043 |
| Retirement benefit asset | | 678,734 | | 1,134,541 |
| Deferred tax assets | | 756,688 | | 637,335 |
| Other | | 919,991 | | 1,206,512 |
| Allowance for doubtful accounts | | (27,800) | | (27,800) |
| Total investments and other assets | | 5,141,060 | | 5,877,617 |
| Total non-current assets | | 36,910,953 | | 38,702,155 |
| Total assets | | 83,622,452 | | 91,064,623 |

(Unit: Thousands of yen)

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable - trade | 1,827,047 | 2,617,382 |
| Short-term borrowings | 2,361,569 | 2,376,990 |
| Current portion of long-term borrowings | 9,658,529 | 11,629,640 |
| Lease liabilities | 254,663 | 140,194 |
| Accounts payable - other | 2,659,707 | 1,684,180 |
| Income taxes payable | 976,237 | 479,574 |
| Contract liabilities | 11 | 79 |
| Provision for bonuses | 800,654 | 713,786 |
| Other | 927,382 | 1,070,130 |
| Total current liabilities | 19,465,802 | 20,711,960 |
| Non-current liabilities | | |
| Long-term borrowings | 18,390,443 | 19,776,032 |
| Lease liabilities | 173,217 | 91,911 |
| Deferred tax liabilities | 1,135,633 | 1,939,636 |
| Retirement benefit liability | 1,048,161 | 1,224,331 |
| Long-term accounts payable - other | 77,838 | 65,912 |
| Asset retirement obligations | 27,837 | 28,304 |
| Other | 120,898 | 178,218 |
| Total non-current liabilities | 20,974,031 | 23,304,347 |
| Total liabilities | 40,439,833 | 44,016,308 |
| Net assets | | |
| Shareholders’ equity | | |
| Share capital | 19,344,883 | 19,344,883 |
| Capital surplus | 7,172,364 | 7,172,364 |
| Retained earnings | 6,500,970 | 7,473,320 |
| Treasury shares | (1,929,648) | (1,930,424) |
| Total shareholders’ equity | 31,088,569 | 32,060,143 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 1,069,484 | 1,257,965 |
| Foreign currency translation adjustment | 3,318,351 | 4,916,324 |
| Remeasurements of defined benefit plans | 425,069 | 474,136 |
| Total accumulated other comprehensive income | 4,812,905 | 6,648,425 |
| Non-controlling interests | 7,281,144 | 8,339,745 |
| Total net assets | 43,182,619 | 47,048,314 |
| Total liabilities and net assets | 83,622,452 | 91,064,623 |

(ii) Consolidated statement of income and consolidated statement of comprehensive income

Consolidated statement of income

(Unit: Thousands of yen)

| | | Fiscal year ended March 31, 2023 | | Fiscal year ended March 31, 2024 |
|---|---|---|---|---|
| Net sales | | 38,430,954 | | 39,343,676 |
| Cost of sales | *6 | 26,788,733 | *6 | 29,554,753 |
| Gross profit | | 11,642,221 | | 9,788,923 |
| Selling, general and administrative expenses | *1, *2 | 7,432,201 | *1, *2 | 7,653,642 |
| Operating profit | | 4,210,019 | | 2,135,280 |
| Non-operating income | | | | |
| Interest income | | 76,291 | | 176,895 |
| Dividend income | | 78,406 | | 89,823 |
| Foreign exchange gains | | 809,247 | | 1,295,672 |
| Other | | 289,760 | | 342,786 |
| Total non-operating income | | 1,253,705 | | 1,905,178 |
| Non-operating expenses | | | | |
| Interest expenses | | 209,573 | | 294,165 |
| Commission expenses | | – | | 200,500 |
| Cancellation penalty | | – | | 162,000 |
| Facility relocation expenses | | – | | 95,105 |
| Other | | 148,051 | | 96,510 |
| Total non-operating expenses | | 357,624 | | 848,281 |
| Ordinary profit | | 5,106,100 | | 3,192,178 |
| Extraordinary income | | | | |
| Gain on sale of non-current assets | *3 | 13,607 | *3 | 67,206 |
| Gain on sale of investment securities | | 46,631 | | 988,103 |
| Total extraordinary income | | 60,239 | | 1,055,309 |
| Extraordinary losses | | | | |
| Loss on sale of non-current assets | *4 | 0 | *4 | 57,868 |
| Loss on retirement of non-current assets | *5 | 431 | *5 | 1,317 |
| Impairment losses | *7 | 38,102 | *7 | 65,206 |
| Total extraordinary losses | | 38,533 | | 124,391 |
| Profit before income taxes | | 5,127,806 | | 4,123,095 |
| Income taxes - current | | 1,431,647 | | 671,375 |
| Income taxes for prior periods | | – | | 73,418 |
| Income taxes - deferred | | 145,886 | | 499,683 |
| Total income taxes | | 1,577,533 | | 1,244,477 |
| Profit | | 3,550,272 | | 2,878,618 |
| Profit attributable to non-controlling interests | | 341,473 | | 1,002,473 |
| Profit attributable to owners of parent | | 3,208,798 | | 1,876,144 |

Consolidated statement of comprehensive income

(Unit: Thousands of yen)

| | Fiscal year ended March 31, 2023 | Fiscal year ended March 31, 2024 |
|---|---|---|
| Profit | 3,550,272 | 2,878,618 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (451,246) | 15,446 |
| Foreign currency translation adjustment | 1,045,157 | 2,123,153 |
| Remeasurements of defined benefit plans, net of tax | (122,223) | 51,252 |
| Total other comprehensive income | * 471,687 | * 2,189,852 |
| Comprehensive income | 4,021,959 | 5,068,470 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 3,615,755 | 3,711,665 |
| Comprehensive income attributable to non-controlling interests | 406,204 | 1,356,805 |

### (iii) Consolidated statement of changes in equity

Previous fiscal year (From April 1, 2022 to March 31, 2023)

(Unit: Thousands of yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of period | 19,344,883 | 7,168,224 | 4,131,434 | (1,928,693) | 28,715,849 |
| Changes during period | | | | | |
| Dividends of surplus | | | (839,263) | | (839,263) |
| Profit attributable to owners of parent | | | 3,208,798 | | 3,208,798 |
| Purchase of treasury shares | | | | (964) | (964) |
| Disposal of treasury shares | | 13 | | 9 | 23 |
| Purchase of shares of consolidated subsidiaries | | 4,126 | | | 4,126 |
| Net changes in items other than shareholders' equity | | | | | – |
| Total changes during period | – | 4,139 | 2,369,535 | (955) | 2,372,720 |
| Balance at end of period | 19,344,883 | 7,172,364 | 6,500,970 | (1,929,648) | 31,088,569 |

| | Accumulated other comprehensive income | | | | Non-controlling interests | Total net assets |
|---|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Foreign currency translation adjustment | Remeasure-ments of defined benefit plans | Total accumulated other comprehensive income | | |
| Balance at beginning of period | 1,287,673 | 2,551,740 | 566,533 | 4,405,948 | 7,109,218 | 40,231,016 |
| Changes during period | | | | | | |
| Dividends of surplus | | | | | | (839,263) |
| Profit attributable to owners of parent | | | | | | 3,208,798 |
| Purchase of treasury shares | | | | | | (964) |
| Disposal of treasury shares | | | | | | 23 |
| Purchase of shares of consolidated subsidiaries | | | | | | 4,126 |
| Net changes in items other than shareholders' equity | (218,189) | 766,610 | (141,464) | 406,956 | 171,925 | 578,881 |
| Total changes during period | (218,189) | 766,610 | (141,464) | 406,956 | 171,925 | 2,951,602 |
| Balance at end of period | 1,069,484 | 3,318,351 | 425,069 | 4,812,905 | 7,281,144 | 43,182,619 |

Fiscal year under review (From April 1, 2023 to March 31, 2024)

(Unit: Thousands of yen)

| | Shareholders' equity | | | | |
|---|---|---|---|---|---|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of period | 19,344,883 | 7,172,364 | 6,500,970 | (1,929,648) | 31,088,569 |
| Changes during period | | | | | |
| Dividends of surplus | | | (903,793) | | (903,793) |
| Profit attributable to owners of parent | | | 1,876,144 | | 1,876,144 |
| Purchase of treasury shares | | | | (776) | (776) |
| Net changes in items other than shareholders' equity | | | | | – |
| Total changes during period | – | – | 972,350 | (776) | 971,574 |
| Balance at end of period | 19,344,883 | 7,172,364 | 7,473,320 | (1,930,424) | 32,060,143 |

| | Accumulated other comprehensive income | | | | Non-controlling interests | Total net assets |
|---|---|---|---|---|---|---|
| | Valuation difference on available-for-sale securities | Foreign currency translation adjustment | Remeasure-ments of defined benefit plans | Total accumulated other comprehensive income | | |
| Balance at beginning of period | 1,069,484 | 3,318,351 | 425,069 | 4,812,905 | 7,281,144 | 43,182,619 |
| Changes during period | | | | | | |
| Dividends of surplus | | | | | | (903,793) |
| Profit attributable to owners of parent | | | | | | 1,876,144 |
| Purchase of treasury shares | | | | | | (776) |
| Net changes in items other than shareholders' equity | 188,480 | 1,597,973 | 49,067 | 1,835,520 | 1,058,600 | 2,894,121 |
| Total changes during period | 188,480 | 1,597,973 | 49,067 | 1,835,520 | 1,058,600 | 3,865,695 |
| Balance at end of period | 1,257,965 | 4,916,324 | 474,136 | 6,648,425 | 8,339,745 | 47,048,314 |

### (iv) Consolidated statement of cash flows

(Unit: Thousands of yen)

| | Fiscal year ended March 31, 2023 | Fiscal year ended March 31, 2024 |
|---|---|---|
| Cash flows from operating activities | | |
| Profit before income taxes | 5,127,806 | 4,123,095 |
| Depreciation | 3,993,066 | 3,941,284 |
| Amortization of long-term prepaid expenses | 76,167 | 76,467 |
| Impairment losses | 38,102 | 65,206 |
| Increase (decrease) in allowance for doubtful accounts | (969) | 3,673 |
| Increase (decrease) in provision for bonuses | 75,735 | (87,019) |
| Increase (decrease) in provision for bonuses for directors (and other officers) | (15,000) | – |
| Decrease (increase) in retirement benefit asset | 41,368 | (455,807) |
| Increase (decrease) in retirement benefit liability | (201,533) | 380,404 |
| Interest and dividend income | (154,697) | (266,719) |
| Interest expenses | 209,573 | 294,165 |
| Foreign exchange losses (gains) | 252,538 | 36,421 |
| Loss (gain) on sale of investment securities | (46,631) | (988,103) |
| Loss (gain) on sale of property, plant and equipment | (13,607) | (9,337) |
| Loss on retirement of property, plant and equipment | 431 | 1,317 |
| Decrease (increase) in trade receivables | 951,019 | 905,934 |
| Decrease (increase) in inventories | (213,946) | 1,689,166 |
| Increase (decrease) in trade payables | (2,497,969) | (29,130) |
| Other, net | 100,537 | 183,490 |
| Subtotal | 7,721,990 | 9,864,511 |
| Interest and dividends received | 154,697 | 266,719 |
| Interest paid | (202,929) | (291,571) |
| Income taxes paid | (1,813,914) | (1,595,834) |
| Net cash provided by (used in) operating activities | 5,859,844 | 8,243,825 |
| Cash flows from investing activities | | |
| Payments into time deposits | (81,484) | (179,002) |
| Proceeds from withdrawal of time deposits | – | 84,042 |
| Purchase of securities | (40,675) | – |
| Proceeds from sale of securities | – | 44,463 |
| Purchase of property, plant and equipment | (5,808,475) | (4,498,628) |
| Proceeds from sale of property, plant and equipment | 28,812 | 143,095 |
| Purchase of intangible assets | (712,411) | (386,449) |
| Purchase of investment securities | (9,799) | (10,131) |
| Proceeds from sale of investment securities | 81,249 | 1,061,703 |
| Loan advances | (480) | (620) |
| Proceeds from collection of loans receivable | 625 | 1,020 |
| Other, net | 17,745 | (254,250) |
| Net cash provided by (used in) investing activities | (6,524,893) | (3,994,757) |

(Unit: Thousands of yen)

| | | Fiscal year ended March 31, 2023 | | Fiscal year ended March 31, 2024 |
|---|---|---|---|---|
| Cash flows from financing activities | | | | |
| Net increase (decrease) in short-term borrowings | | (973,025) | | (345,163) |
| Proceeds from long-term borrowings | | 10,575,480 | | 12,880,000 |
| Repayments of long-term borrowings | | (6,687,622) | | (10,085,961) |
| Repayments of lease liabilities | | (106,388) | | (210,941) |
| Dividends paid | | (834,489) | | (901,116) |
| Dividends paid to non-controlling interests | | (674,472) | | (231,717) |
| Proceeds from sale of treasury shares | | 23 | | – |
| Purchase of treasury shares | | (964) | | (776) |
| Net cash provided by (used in) financing activities | | 1,298,540 | | 1,104,323 |
| Effect of exchange rate change on cash and cash equivalents | | (712,915) | | 564,488 |
| Net increase (decrease) in cash and cash equivalents | | (79,424) | | 5,917,879 |
| Cash and cash equivalents at beginning of period | | 18,516,683 | | 18,437,258 |
| Cash and cash equivalents at end of period | * | 18,437,258 | * | 24,355,138 |

Notes to Consolidated Financial Statements

(Significant matters forming the basis for preparation of consolidated financial statements)

1. Scope of consolidation

   (1) Consolidated subsidiaries

   Number of consolidated subsidiaries: 13

   The major consolidated subsidiaries are omitted as they are listed in "I. Overview of the Company, 4. Overview of subsidiaries and associates."

   (2) Non-consolidated subsidiaries

   Not applicable.

2. Application of the equity method

   (1) Non-consolidated subsidiaries and affiliates accounted for by the equity method

   Not applicable.

   (2) Non-consolidated subsidiaries and affiliates not accounted for by the equity method

   Not applicable.

3. Fiscal year, etc. of consolidated subsidiaries

   Of the consolidated subsidiaries, TIANJIN KDS CORP., HARMONY ELECTRONICS CORP., HARMONY ELECTRONICS (SHENZHEN) CO., LTD., HARMONY ELECTRONICS (DONGGUAN) CO., LTD., HARMONY ELECTRONICS (THAILAND) CO., LTD., SHANGHAI DAISHINKU INTERNATIONAL TRADING CO., LTD., and DAISHINKU (THAILAND) CO., LTD have a fiscal year ending on December 31, while PT. KDS INDONESIA, DAISHINKU (AMERICA) CORP., DAISHINKU (HK) LTD., DAISHINKU (SINGAPORE) PTE. LTD., DAISHINKU (DEUTSCHLAND) GmbH, and Kyushu Daishinku Corp., have a fiscal year ending on March 31.

   In preparing the consolidated financial statements, the financial statements of the consolidated subsidiaries as of their respective fiscal year-ends are used.

   The financial statements of SHANGHAI DAISHINKU INTERNATIONAL TRADING CO., LTD., DAISHINKU (THAILAND) CO., LTD, TIANJIN KDS CORP., HARMONY ELECTRONICS CORP., HARMONY ELECTRONICS (SHENZHEN) CO., LTD., HARMONY ELECTRONICS (DONGGUAN) CO., LTD., and HARMONY ELECTRONICS (THAILAND) CO., LTD. are based on provisional financial statements as of March 31, prepared in accordance with their respective fiscal year-ends.

4. Accounting policies

   (1) Standards and methods for valuation of important assets

      (i) Securities

      Available-for-sale securities

      Securities other than shares, etc. without market value

      Stated at fair value (valuation differences are directly recorded in shareholders' equity, and the cost of securities sold is computed mainly based on the moving-average method).

      Shares, etc. without market value

      Mainly stated at cost using the moving average method.

      (ii) Derivatives

      Stated at fair value

      (iii) Inventories

      Mainly stated at cost based on the weighted average method (carrying amounts on the balance sheet are subject to the book value reduction method based on decreased profitability).

(2) Depreciation or amortization method for important depreciable or amortizable assets

(i) Property, plant and equipment (excluding leased assets)

The declining-balance method is used by the Company and its consolidated subsidiaries in Japan (however, the straight-line method is used for buildings (excluding facilities) acquired on or after April 1, 1998, and for facilities attached to buildings and for structures acquired on or after April 1, 2016).

The straight-line method is used by the consolidated subsidiaries outside Japan.

Major useful lives are as follows.

| | |
|---|---|
| Buildings and structures | 3 to 60 years |
| Machinery, equipment and vehicles | 2 to 15 years |

(ii) Intangible assets (excluding leased assets)

The straight-line method is used.

Regarding software for internal use, the straight-line method is used based on the internally usable period (five years).

(iii) Leased assets

Lease assets related to finance lease transactions that do not transfer ownership are depreciated using the straight-line method over the lease term as the useful life, with the residual value set as the guaranteed residual value.

Right-of-use assets are amortized using the straight-line method over the asset's useful life or the period of the lease, whichever is shorter.

(3) Standards for recording significant provisions and allowances

(i) Allowance for doubtful accounts

To prepare for potential credit losses on accounts receivable, loans, and other receivables, an estimated uncollectable amount is provided at the amount estimated by either using the historical rate of credit loss for general receivables, or based on individual consideration of collectability for specific receivables such as highly doubtful receivables.

(ii) Provision for bonuses

To prepare for payment of bonuses for employees, a provision is recorded based on the estimated amount of bonuses to be paid.

(iii) Provision for bonuses for directors

To prepare for payment of bonuses for directors, a provision is recorded based on the estimated amount of bonuses to be paid. No provision has been recorded for the fiscal year ended March 31, 2024, as there is no estimated amount to be paid.

(4) Accounting methods for retirement benefits

(i) Method of attributing expected retirement benefits to periods

In the calculation of retirement benefit obligations, expected retirement benefits are attributed to the period up to the end of the fiscal year under review on a benefit formula basis.

(ii) Method of amortizing actuarial gains and losses and past service cost

Past service cost is amortized using the straight-line method over a certain period within the average remaining service years (mainly 10 years) of employees when incurred.

Actuarial gains and losses are amortized using the straight-line method over a certain period within the average remaining service years (mainly 10 years) of employees when incurred in each fiscal year, from the fiscal year following the accrual of each gain or loss.

(5) Basis for recognizing significant revenue and expenses

Revenue from the sale of goods or products is derived from manufacturing sales, and we have a performance obligation to deliver the goods or products based on contracts with our customers. The performance obligation is considered to be fulfilled at the point in time when control over the asset is transferred to the customer. For domestic sales transactions, because there is a normal period of time between the shipment of the finished goods and the transfer of control to the customer, we recognize revenue at the time of shipment. For export transactions, revenue is recognized at the time of delivery to the customer as stipulated by the trade terms.

(6) Significant hedge accounting methods

(i) Hedge accounting method

In principle, the deferral hedge accounting is applied. Exceptional accounting is applied to interest rate swaps that meet the requirements.

In addition, we apply hedge accounting using the forward contracted rate to foreign currency-denominated receivables and payables that are covered by forward exchange contracts meeting the requirements for the hedge accounting.

(ii) Hedging instruments and hedged items

Hedging instruments and hedged items to which hedge accounting was applied during the fiscal year under review are as follows.

Hedging instruments: Interest rate swaps, foreign exchange contracts and currency options

Hedged items: borrowings, foreign currency-denominated receivables and payables, and foreign currency-denominated forecast transactions.

(iii) Hedging policy

We hedge foreign exchange rate fluctuations and interest rate risks related to the hedged items within certain limits.

(iv) Method of evaluating the effectiveness of hedges

The Company evaluates the effectiveness of hedging by comparing cumulative cash flow fluctuations or market fluctuations between hedging instruments and hedged items on a quarterly basis, based on the amount of fluctuation of both. However, the evaluation of effectiveness is omitted for forward exchange contracts meeting the requirements for the hedge accounting using the forward contracted rate and interest rate swaps subject to exceptional accounting.

(7) Scope of cash and cash equivalents in consolidated statement of cash flows

Funds (cash and cash equivalents) in the consolidated statement of cash flows consist of cash on hand, deposits that can be withdrawn on demand, and short-term investments maturing within three months from the acquisition date, which are easily convertible and bear minimal risk of value fluctuation.

(Significant accounting estimates)

Recoverability of deferred tax assets

(1) Amount recorded on the consolidated financial statements for the fiscal year under review

(Unit: Thousands of yen)

| | Fiscal year ended March 31, 2023 | Fiscal year ended March 31, 2024 |
|---|---|---|
| Deferred tax assets (net) | 756,688 | 637,335 |

The amounts before offsetting deferred tax liabilities were ¥1,043,501 thousand in the fiscal year ended March 31, 2023 and ¥913,199 thousand in the fiscal year ended March 31, 2024.

(2) Information on details of significant accounting estimates pertaining to identified items

(i) Method of calculating amount recorded on the consolidated financial statements for the fiscal year under review

We assess the recoverability of deferred tax assets based on estimates of taxable income related to future deductible temporary differences and tax loss carryforwards. Estimates of taxable income is based on the business plan for the subsequent fiscal year.

(ii) Major assumptions used in calculating the amounts recorded in the consolidated financial statements for the fiscal year under review

The main assumptions in the business plan for the subsequent consolidated fiscal year, which form the basis for the estimate of taxable income, include sales projections based on external factors such as demand trends from major customers and future order forecasts.

(iii) Impact on the consolidated financial statements for the subsequent fiscal year

While the formulated business plan is based on assumptions deemed reasonable considering the current situation and available information, main assumptions may be influenced by the outcome of future changes in future uncertain economic conditions. If the outcome of future taxable income differs from our forecasts and assumptions, the assessment of the recoverability of deferred tax assets may also differ.

(Changes in accounting policies)

(Change in inventory valuation method)

The Company and some of its consolidated subsidiaries have changed the valuation method for supplies within inventories from the last purchase price method (with write-downs based on decreased profitability) to the weighted average method (with write-downs based on decreased profitability), effective from the third quarter of the fiscal year.

This change in the valuation method was prompted by the introduction of a new core system in the third quarter of the fiscal year, leading to the adoption of an inventory valuation method better suited to this system.

The impact amount of this change in accounting policy is minor, and it has not been applied retrospectively.

(New accounting standards not yet applied)

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

(1) Outline

In February 2018, ASBJ Statement No. 28 “Partial Amendments to Accounting Standard for Tax Effect Accounting,” etc. (hereinafter referred to as “ASBJ Statement No. 28, etc.”) were issued, and the transfer of practical guidelines on tax effect accounting from the Japanese Institute of Certified Public Accountants to the Accounting Standards Board of Japan was completed. During this deliberation process, it was decided to reconsider the following two issues after the publication of ASBJ Statement No. 28, etc., and these issues have now been reviewed and announced.

- Classification of tax expenses (taxation on other comprehensive income)
- Tax effect related to the sale of subsidiary shares (subsidiary or affiliate shares) when the group corporation taxation system is applied.

(2) Scheduled application date

The accounting standards will be applied from the beginning of the fiscal year ending March 2025.

(3) Impact of applying the accounting standards

The impact amount on the consolidated financial statements of applying the Accounting Standard for Current Income Taxes, etc. is currently assessed.

(Changes in presentation)

Not applicable.

(Additional information)

Not applicable.

(Consolidated balance sheet)

*1 Pledged assets and secured liabilities

Assets pledged as collateral are as follows:

The assets pledged as collateral are for the bank borrowings of subsidiaries. However, there are no corresponding liabilities as of the end of the fiscal year ended March 31, 2024.

(Unit: Thousands of yen)

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Buildings and structures | 71,785 | 58,935 |
| Land | 11,455 | 11,639 |
| Total | 83,240 | 70,574 |

2 Notes receivable and electronically recorded monetary claims - operating transferred by endorsement

(Unit: Thousands of yen)

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Notes receivable and electronically recorded monetary claims - operating transferred by endorsement | 96,307 | 80,012 |

*3 The amounts of notes and accounts receivable - trade arising from contracts with customers are as follows.

(Unit: Thousands of yen)

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Notes receivable - trade | 396,714 | 268,113 |
| Accounts receivable - trade | 9,117,735 | 9,378,230 |
| Total | 9,514,449 | 9,646,343 |

*4 Notes maturing on the last day of the fiscal year under review

For the accounting treatment of notes maturing on the last day of the fiscal year under review, although the fiscal year-end was a bank holiday, they have been processed as if they were settled on the maturity date. The amount of notes maturing on the last day of the fiscal year under review is as follows.

(Unit: Thousands of yen)

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Notes receivable - trade | – | 20,801 |

(Consolidated statement of income)

*1 Main items and amounts of selling, general and administrative expenses are as follows.

(Unit: Thousands of yen)

| | Fiscal year ended March 31, 2023 | Fiscal year ended March 31, 2024 |
|---|---|---|
| Payroll and allowances, and welfare expenses | 2,415,901 | 2,570,277 |
| Provision for bonuses | 158,125 | 115,677 |
| Retirement benefit expenses | 48,193 | 44,803 |
| Research and development expenses | 2,205,117 | 2,170,842 |

*2 Total amount of research and development expenses included in selling, general and administrative expenses and manufacturing costs for the fiscal year under review.

(Unit: Thousands of yen)

| Fiscal year ended March 31, 2023 | Fiscal year ended March 31, 2024 |
|---|---|
| 2,205,117 | 2,170,842 |

*3 Details of gain on sales of non-current assets are as follows.

(Unit: Thousands of yen)

| | Fiscal year ended March 31, 2023 | Fiscal year ended March 31, 2024 |
|---|---|---|
| Buildings and structures | – | 36,537 |
| Machinery, equipment and vehicles | 1,628 | 1,824 |
| Tools, furniture and fixtures | 11,979 | 1,948 |
| Land | – | 26,895 |
| Total | 13,607 | 67,206 |

*4 Details of loss on sales of non-current assets are as follows.

(Unit: Thousands of yen)

| | Fiscal year ended March 31, 2023 | Fiscal year ended March 31, 2024 |
|---|---|---|
| Machinery, equipment and vehicles | 0 | 230 |
| Tools, furniture and fixtures | – | 57,626 |
| Construction in progress | – | 11 |
| Total | 0 | 57,868 |

*5 Details of loss on retirement of non-current assets is as follows.

(Unit: Thousands of yen)

| | Fiscal year ended March 31, 2023 | Fiscal year ended March 31, 2024 |
|---|---|---|
| Buildings and structures | 187 | 617 |
| Machinery, equipment and vehicles | 88 | 230 |
| Tools, furniture and fixtures | 155 | 469 |
| Total | 431 | 1,317 |

*6 The value of ending inventories represents the value after written down of the book value according to a decrease in profitability (the lower-of-cost-or-market method), and the following loss on valuation of inventories is included in the cost of sales.

(Unit: Thousands of yen)

| Fiscal year ended March 31, 2023 | Fiscal year ended March 31, 2024 |
|---|---|
| (2,549) | 147,287 |

*7 Breakdown of impairment losses

Fiscal year ended March 31, 2023

| Location | Used for | Category |
|---|---|---|
| HARMONY ELECTRONICS CORP. (Kaohsiung, Taiwan) | Idle assets | Machinery, equipment and vehicles |

The Group categorizes business assets according to management accounting classifications, grouping real estate for rent and idle assets in individual property units.
The Group recognizes impairment losses on idle assets for which future use is not expected by reducing their carrying amount to their recoverable amounts. The recoverable amount of idle assets is determined based on their net realizable values, which are deemed to be zero, resulting in the recognition of impairment losses. The breakdown is machinery, equipment and vehicles totaling ¥38,102 thousand.

Fiscal year ended March 31, 2024

| Location | Used for | Category |
|---|---|---|
| DAISHINKU CORP. | Idle assets | Construction in progress |
| HARMONY ELECTRONICS CORP. (Kaohsiung, Taiwan) | Idle assets | Machinery, equipment and vehicles |

The Group categorizes business assets according to management accounting classifications, grouping real estate for rent and idle assets in individual property units.
The Group recognizes impairment losses on idle assets for which future use is not expected by reducing their carrying amount to their recoverable amounts. The recoverable amount of idle assets is determined based on their net realizable values, which are deemed to be zero, resulting in the recognition of impairment losses. The breakdown is machinery, equipment and vehicles of ¥51,852 thousand and construction in progress of ¥13,353 thousand.

(Consolidated statement of comprehensive income)

* Reclassification adjustments and tax effects relating to other comprehensive income

(Unit: Thousands of yen)

| | Fiscal year ended March 31, 2023 | Fiscal year ended March 31, 2024 |
|---|---|---|
| Valuation difference on available-for-sale securities | | |
| Amount arising during the fiscal year | (397,142) | 1,156,675 |
| Reclassification adjustments | (46,631) | (988,103) |
| Before tax effect adjustments | (443,774) | 168,572 |
| Tax effects | (7,472) | (153,126) |
| Valuation difference on available-for-sale securities | (451,246) | 15,446 |
| Foreign currency translation adjustment | | |
| Amount arising during the fiscal year | 1,045,157 | 2,123,153 |
| Remeasurements of defined benefit plans, net of tax | | |
| Amount arising during the fiscal year | (10,517) | 389,096 |
| Reclassification adjustments | (75,470) | (81,067) |
| Before tax effect adjustments | (85,988) | 308,028 |
| Tax effects | (36,235) | (256,776) |
| Remeasurements of defined benefit plans, net of tax | (122,223) | 51,252 |
| Total other comprehensive income | 471,687 | 2,189,852 |

(Consolidated statement of changes in equity)

Fiscal year ended March 31, 2023

1. Class and total number of issued shares, and class and number of treasury shares

| | Beginning of the fiscal year (Thousands of shares) | Increase (Thousands of shares) | Decrease (Thousands of shares) | End of the year (Thousands of shares) |
|---|---|---|---|---|
| Issued shares | | | | |
| Common shares | 36,196 | – | – | 36,196 |
| Total | 36,196 | – | – | 36,196 |
| Treasury shares | | | | |
| Common shares (Notes) | 3,917 | 1 | 0 | 3,918 |
| Total | 3,917 | 1 | 0 | 3,918 |

Notes: 1. The increase of 1 thousand shares of common shares in treasury shares is due to the purchase of shares less than one unit.
2. The decrease of 0 thousand shares of common shares in treasury shares is due to the sale of shares less than one unit.

2. Share acquisition rights and treasury share acquisition rights

Not applicable.

3. Dividends

(1) Dividends paid

| (Resolution) | Class of shares | Total dividends (Thousands of yen) | Dividends per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|
| June 29, 2022 Annual General Meeting of Shareholders | Common shares | 387,355 | 12 | March 31, 2022 | June 30, 2022 |
| October 14, 2022 Board of Directors meeting | Common shares | 451,907 | 14 | September 30, 2023 | November 30, 2022 |

(2) Dividends with an effective date falling in the following fiscal year, among distributions with record dates belonging to the fiscal year under review

| (Resolution) | Class of shares | Total dividends (Thousands of yen) | Source of dividends | Dividends per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| June 29, 2023 Annual General Meeting of Shareholders | Common shares | 451,899 | Retained earnings | 14 | March 31, 2023 | June 30, 2023 |

Fiscal year ended March 31, 2024

1. Class and total number of issued shares, and class and number of treasury shares

| | Beginning of the fiscal year (Thousands of shares) | Increase (Thousands of shares) | Decrease (Thousands of shares) | End of the year (Thousands of shares) |
|---|---|---|---|---|
| Issued shares | | | | |
| Common shares | 36,196 | – | – | 36,196 |
| Total | 36,196 | – | – | 36,196 |
| Treasury shares | | | | |
| Common shares (Notes) | 3,918 | 0 | – | 3,919 |
| Total | 3,918 | 0 | – | 3,919 |

Note: The increase of 0 thousand shares of common shares in treasury shares is due to the purchase of shares less than one unit.

2. Share acquisition rights and treasury share acquisition rights

Not applicable.

3. Dividends

(1) Dividends paid

| (Resolution) | Class of shares | Total dividends (Thousands of yen) | Dividends per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|
| June 29, 2023 Annual General Meeting of Shareholders | Common shares | 451,899 | 14 | March 31, 2023 | June 30, 2023 |
| October 13, 2023 Board of Directors meeting | Common shares | 451,894 | 14 | September 30, 2023 | November 30, 2023 |

(2) Dividends with an effective date falling in the following fiscal year, among distributions with record dates belonging to the fiscal year under review

| (Resolution) | Class of shares | Total dividends (Thousands of yen) | Source of dividends | Dividends per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| June 27, 2024 Annual General Meeting of Shareholders | Common shares | 451,886 | Retained earnings | 14 | March 31, 2024 | June 28, 2024 |

(Consolidated statement of cash flows)

* Reconciliation of closing balance of cash and cash equivalents and the related account on the consolidated balance sheet

(Unit: Thousands of yen)

| | Fiscal year ended March 31, 2023 | Fiscal year ended March 31, 2024 |
|---|---|---|
| Cash and deposits | 18,517,098 | 24,539,199 |
| Time deposits with maturity over 3 months | (79,839) | (184,060) |
| Cash and cash equivalents | 18,437,258 | 24,355,138 |

Leases

1. Finance lease transactions

(for the lessee)

Finance lease transactions that do not transfer ownership

(i) Components of leased assets

Property, plant and equipment

Consisting primarily of manufacturing facilities for crystal applied products (“machinery, equipment and vehicles”)

(ii) Accounting method for depreciation of leased assets

The information is as described in “4. Accounting policies (2) Depreciation or amortization method for important depreciable or amortizable assets” in significant matters forming the basis for preparation of consolidated financial statements.

2. Operating lease transactions

(for the lessee)

Future lease payments to be received under non-cancellable leases of operating lease transactions

(Unit: Thousands of yen)

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Within 1 year | 33,257 | 44,290 |
| Over 1 year | 36,495 | 27,505 |
| Total | 69,753 | 71,795 |

(for the Lessor)

Future lease payments to be received under non-cancellable leases of operating lease transactions

(Unit: Thousands of yen)

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Within 1 year | 2,150 | – |
| Over 1 year | – | – |
| Total | 2,150 | – |

(Financial instruments)

1. Status of financial instruments

(1) Policy on financial instruments

The Group secures necessary funds (mainly through bank loans), in accordance with its capital investment plans. Temporary surplus funds are mainly managed in highly liquid financial assets, and short-term working capital is procured through bank loans. The Company uses derivative transactions for the purpose of hedging against the risks described below, and has a policy of not engaging in speculative transactions.

(2) Details and risks of financial instruments

Notes and accounts receivable - trade, which are trade receivables, are exposed to customer credit risk. In addition, trade receivables denominated in foreign currencies, arising from conducting business overseas, are subject to exchange rate fluctuation risks. However, except for those within the balance of accounts payable - trade denominated in the same foreign currency, we generally hedge these risks through forward exchange contracts.

Investment securities primarily consist of shares of companies with which we have business relationships, and they are exposed to market price fluctuation risks.

Accounts payable - trade, which are trade payables, fall due within one year. In addition, some of these liabilities are denominated in foreign currencies due to imports of goods, etc. and are subject to exchange rate fluctuation risks. However, except for those within the balance of accounts receivable - trade denominated in the same foreign currency, we hedge these risks through forward exchange contracts.

Borrowings are primarily intended for funding capital investment (in principle, within 5 years). Some of these borrowings are exposed to interest rate fluctuation risks, but we hedge using derivative transactions (interest rate swap transactions).

Derivative transactions are used for currency-related purposes to hedge against foreign exchange fluctuation risks of monetary receivables and payables denominated in foreign currencies and to secure stable profits, and for interest rate-related purposes to hedge against interest rate fluctuation risks in the future interest rate market for borrowing interest rates, etc. Please refer to the aforementioned “4. Accounting policies (6) Significant hedge accounting methods” in significant matters forming the basis for preparation of consolidated financial statements, regarding the hedging instruments and hedged items, hedging policy, and method of evaluating the effectiveness of hedging with respect to hedge accounting.

(3) Risk management framework for financial instruments

(i) Management of credit risk (the risk of contractual counterparty default, etc.)

The Company follows its credit management regulations and, regarding trade receivables, the Finance Division manages due dates and confirms outstanding balances for each customer. The Company also implements credit management practices to promptly identify and mitigate collection concerns arising from deteriorating financial conditions or other factors. Consolidated subsidiaries are also managed in the same manner in accordance with the Company’s credit management regulations.

(ii) Management of market risk (risk of fluctuations in exchange rates, interest rates, etc.)

In principle, the Company uses forward exchange contracts to hedge trade receivables and payables denominated in foreign currencies against the exchange rate fluctuation risks, which are identified on a monthly basis. In addition, the Company uses interest rate swap transactions to mitigate the fluctuation risk in interest payments related to its borrowings.

We continuously review our holdings of investment securities, taking into account market conditions and relationships with business partners.

Derivative transactions are executed and managed by the department in charge of funds with the approval of the person in charge of making decisions, in accordance with internal rules that stipulate transaction authorizations and transaction limits.

(iii) Management of liquidity risk associated with financing (the risk that the Group will be unable to pay by the due date)

The Company manages liquidity risk by preparing and updating cash flow plans in a timely manner by the department in charge based on reports from each department and maintaining liquidity on hand. Consolidated subsidiaries are also managed in the same manner as the Company.

(4) Supplementary explanation of fair value, etc. of financial instruments

As the calculation of the fair value of financial instruments incorporates fluctuating factors, such value may change if different assumptions are used in calculation. In addition, the contract amounts of derivative transactions in the Notes to “Derivatives” do not in themselves represent the market risk associated with these transactions.

2. Fair value, etc. of financial instruments

The carrying amounts on the consolidated balance sheet, fair values and the differences between them are as follows.

As of March 31, 2023

(Unit: Thousands of yen)

| | Carrying amount on the consolidated balance sheet | Fair value | Difference |
|---|---|---|---|
| (1) Investment securities (*2) | 2,804,360 | 2,804,360 | – |
| Total assets | 2,804,360 | 2,804,360 | – |
| (1) Long-term borrowings (*3) | 28,048,973 | 28,020,519 | 28,453 |
| Total liabilities | 28,048,973 | 28,020,519 | 28,453 |
| Derivative transactions (*4) | 64 | 64 | – |
| (1) Transactions of which hedge accounting is not applied | 64 | 64 | – |
| (2) Transactions of which hedge accounting is applied | – | – | – |

As of March 31, 2024

(Unit: Thousands of yen)

| | Carrying amount on the consolidated balance sheet | Fair value | Difference |
|---|---|---|---|
| (1) Investment securities (*2) | 2,918,184 | 2,918,184 | – |
| Total assets | 2,918,184 | 2,918,184 | – |
| (1) Long-term borrowings (*3) | 31,405,672 | 31,449,489 | (43,816) |
| Total liabilities | 31,405,672 | 31,449,489 | (43,816) |
| Derivative transactions (*4) | [5,075] | [5,075] | – |
| (1) Transactions of which hedge accounting is not applied | [5,075] | [5,075] | – |
| (2) Transactions of which hedge accounting is applied | – | – | – |

(*1) Cash and deposits, notes and accounts receivable - trade, securities, notes and accounts payable - trade, short-term borrowings, and accounts payable - other have been omitted, as these are cash-based and settled in a short period of time, and the carrying amounts therefore approximates fair value.

(*2) Shares, etc. without market value are not included in “(1) investment securities.” The amounts of these financial instruments recorded on the consolidated balance sheet are as follows.

(Unit: Thousands of yen)

| Category | Fiscal year ended March 31, 2023 | Fiscal year ended March 31, 2024 |
|---|---|---|
| Unlisted shares | 7,800 | 7,800 |

(*3) Long-term borrowings include current portion.

(*4) Net receivables and payables arising from derivatives are presented on a net basis, and value of a net payable after totaling of receivables and payables is shown in square brackets.

Notes: 1. Expected redemption amounts of monetary claims after the consolidated fiscal year-end date

As of March 31, 2023

(Unit: Thousands of yen)

| | Within 1 year | Over 1 year within 5 years | Over 5 years within 10 years | Over 10 years |
|---|---|---|---|---|
| Cash and deposits | 18,517,098 | – | – | – |
| Notes and accounts receivable - trade | 9,514,449 | – | – | – |
| Total | 28,031,548 | – | – | – |

As of March 31, 2024

(Unit: Thousands of yen)

| | Within 1 year | Over 1 year within 5 years | Over 5 years within 10 years | Over 10 years |
|---|---|---|---|---|
| Cash and deposits | 24,539,199 | – | – | – |
| Notes and accounts receivable - trade | 9,646,343 | – | – | – |
| Total | 34,185,543 | – | – | – |

2. Expected amount of repayment of long-term borrowings after the consolidated fiscal year-end date

As of March 31, 2023

(Unit: Thousands of yen)

| | Within 1 year | Over 1 year within 2 years | Over 2 years within 3 years | Over 3 years within 4 years | Over 4 years within 5 years | Over 5 years |
|---|---|---|---|---|---|---|
| Short-term borrowings | 2,361,569 | – | – | – | – | – |
| Long-term borrowings | 9,658,529 | 8,634,662 | 5,147,228 | 2,685,127 | 1,322,409 | 601,016 |
| Total | 12,020,099 | 8,634,662 | 5,147,228 | 2,685,127 | 1,322,409 | 601,016 |

As of March 31, 2024

(Unit: Thousands of yen)

| | Within 1 year | Over 1 year within 2 years | Over 2 years within 3 years | Over 3 years within 4 years | Over 4 years within 5 years | Over 5 years |
|---|---|---|---|---|---|---|
| Short-term borrowings | 2,376,990 | – | – | – | – | – |
| Long-term borrowings | 11,629,640 | 8,176,404 | 5,569,750 | 3,765,660 | 2,264,217 | – |
| Total | 14,006,631 | 8,176,404 | 5,569,750 | 3,765,660 | 2,264,217 | – |

3. Breakdown of financial instruments by level of fair value

The fair value of financial instruments is classified into the following three levels based on the observability and significance of the inputs used to measure fair value.

Level 1 fair value: Fair value measured based on market prices (unadjusted) for identical assets and liabilities in an active market.

Level 2 fair value: Fair value measured using directly or indirectly observable inputs other than Level 1 inputs.

Level 3 fair value: Fair value measured using important non-observable inputs.

When multiple inputs that have a significant impact on the measurement of fair value are used, the fair value is categorized to the level with the lowest priority in the measurement of fair value among the levels to which each input belongs.

(1) Financial instruments carried on the consolidated balance sheet at fair value

As of March 31, 2023

(Unit: Thousands of yen)

| Category | Fair value | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investment securities | | | | |
| Available-for-sale securities | | | | |
| Shares | 2,804,360 | – | – | 2,804,360 |
| Derivative transactions | | | | |
| Currency-related | – | 64 | – | 64 |
| Total assets | 2,804,360 | 64 | – | 2,804,424 |

As of March 31, 2024

(Unit: Thousands of yen)

| Category | Fair value | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Investment securities | | | | |
| Available-for-sale securities | | | | |
| Shares | 2,918,184 | – | – | 2,918,184 |
| Derivative transactions | | | | |
| Currency-related | – | [5,075] | – | [5,075] |
| Total assets | 2,918,184 | [5,075] | – | 2,913,109 |

(2) Financial instruments apart from those carried on the consolidated balance sheet at fair value

As of March 31, 2023

(Unit: Thousands of yen)

| Category | Fair value | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Long-term borrowings | – | 28,020,519 | – | 28,020,519 |
| Total liabilities | – | 28,020,519 | – | 28,020,519 |

As of March 31, 2024

(Unit: Thousands of yen)

| Category | Fair value | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Long-term borrowings | – | 31,449,489 | – | 31,449,489 |
| Total liabilities | – | 31,449,489 | – | 31,449,489 |

Note: Explanation of the valuation techniques and inputs used to calculate fair value

Investment securities

Listed companies are valued using market prices. Because listed shares are traded in active markets, their fair value is classified as Level 1.

Derivative transactions

The fair value of forward exchange contracts is calculated using the discounted present value method with observable inputs such as interest rates and exchange rates, and is classified as Level 2.

The fair value of interest rate swaps that are accounted for using exceptional accounting is included in that of corresponding long-term borrowings, since those interest rate swaps are treated as an adjustment to the long-term borrowings as hedged items. (See “Long-term Borrowings” below).

Long-term borrowings

These fair values are calculated using the discounted present value method, based on the total of principal and interest, the remaining term of the debt, and interest rates that reflect credit risk, and are classified as Level 2. For long-term borrowings subject to exceptional accounting of interest rate swaps, the fair values are calculated using the total of principal and interest that were treated as a part of the interest rate swaps (see “Derivative transactions” above).

(Securities)

1. Available-for-sale securities

As of March 31, 2023

(Unit: Thousands of yen)

| | Category | Carrying amount on the consolidated balance sheet | Acquisition cost | Difference |
|---|---|---|---|---|
| Securities whose carrying amount on the consolidated balance sheets exceeds acquisition cost | (1) Shares | 2,669,796 | 717,121 | 1,952,674 |
| | Subtotal | 2,669,796 | 717,121 | 1,952,674 |
| Securities whose amount recorded on the consolidated balance sheets do not exceed acquisition cost | (1) Shares | 134,564 | 149,146 | (14,581) |
| | (2) Other | 39,854 | 39,854 | – |
| | Subtotal | 174,418 | 189,000 | (14,581) |
| Total | | 2,844,215 | 906,122 | 1,938,092 |

Notes: 1. Unlisted shares, etc. (carrying amount on the consolidated balance sheets: ¥7,800 thousand) are not included in “Available-for-sale securities” in the table above since they are shares with no market price.

2. Impairment Criteria

Securities other than shares, etc. without market value are impaired in the following cases.

(i) Impairment is recognized if the average price over the past year before the fiscal year-end is less than 50% of the carrying amount.

(ii) Impairment is recognized if the decline in fair value for each quarter ranges from 30% to 50% of the carrying amount and this condition persists for two years.

As of March 31, 2024

(Unit: Thousands of yen)

| | Category | Carrying amount on the consolidated balance sheet | Acquisition cost | Difference |
|---|---|---|---|---|
| Securities whose amount recorded on the consolidated balance sheets exceeds acquisition cost | (1) Shares | 2,918,184 | 811,519 | 2,106,665 |
| | Subtotal | 2,918,184 | 811,519 | 2,106,665 |
| Securities whose amount recorded on the consolidated balance sheets do not exceed acquisition cost | (1) Shares | – | – | – |
| | (2) Other | – | – | – |
| | Subtotal | – | – | – |
| Total | | 2,918,184 | 811,519 | 2,106,665 |

Notes: 1. Unlisted shares, etc. (carrying amount on the consolidated balance sheets: ¥7,800 thousand) are not included in “Available-for-sale securities” in the table above since they are shares with no market price.

2. Impairment Criteria

Securities other than shares, etc. without market value are impaired in the following cases.

(i) Impairment is recognized if the average price over the past year before the fiscal year-end is less than 50% of the carrying amount.

(ii) Impairment is recognized if the decline in fair value for each quarter ranges from 30% to 50% of the carrying amount and this condition persists for two years.

2. Available-for-sale securities sold

Fiscal year ended March 31, 2023

(Unit: Thousands of yen)

| Category | Amount sold | Total gain on sale | Total loss on sale |
|---|---|---|---|
| (1) Shares | 81,249 | 46,631 | – |
| Total | 81,249 | 46,631 | – |

Fiscal year ended March 31, 2024

(Unit: Thousands of yen)

| Category | Amount sold | Total gain on sale | Total loss on sale |
|---|---|---|---|
| (1) Shares | 1,061,703 | 988,103 | – |
| Total | 1,061,703 | 988,103 | – |

(Derivatives)

1. Derivatives of which hedge accounting is not applied

Currency-related

As of March 31, 2023

(Unit: Thousands of yen)

| Category | Type of transaction | Contract amount, etc. | Contract amount, etc. of over 1 year | Fair value | Loss (gain) on valuation |
|---|---|---|---|---|---|
| Non-market transactions | Forward exchange contracts<br>Sold<br>U.S. dollars | 186,942 | – | 64 | 64 |
| Total | | 186,942 | – | 64 | 64 |

As of March 31, 2024

(Unit: Thousands of yen)

| Category | Type of transaction | Contract amount, etc. | Contract amount, etc. of over 1 year | Fair value | Loss (gain) on valuation |
|---|---|---|---|---|---|
| Non-market transactions | Forward exchange contracts<br>Sold<br>U.S. dollars | 802,473 | – | (5,075) | (5,075) |
| Total | | 802,473 | – | (5,075) | (5,075) |

2. Derivatives of which hedge accounting is applied

(1) Currency-related

As of March 31, 2023

Not applicable.

As of March 31, 2024

Not applicable.

(2) Interest-related

As of March 31, 2023

(Unit: Thousands of yen)

| Hedge accounting method | Type of transaction | Major hedged items | Contract amount, etc. | Contract amount, etc. of over 1 year | Fair value |
|---|---|---|---|---|---|
| Exceptional accounting for interest rate swaps | Interest rate swaps transactions<br>Floating Receivable / Fixed Payable | Long-term borrowings | 50,000 | – | (Note) |

Note: The fair value of interest rate swaps that are accounted for using exceptional accounting is included in that of corresponding long-term borrowings, since those interest rate swaps are treated as an adjustment to the long-term borrowings as hedged items.

As of March 31, 2024

Not applicable.

(Retirement benefits)

1. Overview of retirement benefit plans adopted

   The Company and its consolidated subsidiaries have adopted both funded and unfunded defined benefit plans as well as defined contribution plans to provide retirement benefits for employees.

   Under the defined benefit corporate pension plan, we provide lump-sum payments or pensions based on employees' salaries and length of service.

   In addition, the Company has established a retirement benefit trust under the defined benefit corporate pension plan since September 2016.

2. Defined benefit plans

   (1) Reconciliation of the beginning and ending balances of retirement benefit obligations

(Unit: Thousands of yen)

| | Fiscal year ended March 31, 2023 | Fiscal year ended March 31, 2024 |
|---|---|---|
| Balance of retirement benefit obligations at beginning of period | 4,772,892 | 4,720,794 |
| Service cost | 192,414 | 201,385 |
| Interest cost | 82,935 | 78,697 |
| Actuarial gains and losses accrued | 18,595 | 88,433 |
| Retirement benefits paid | (224,365) | (282,273) |
| Amount of the past service cost that arose during the fiscal year | (164,985) | – |
| Increase (decrease) due to the effect of foreign currency translation | 55,801 | 81,067 |
| Other | (12,495) | 10,672 |
| Balance of retirement benefit obligations at end of period | 4,720,794 | 4,898,777 |

   (2) Reconciliation of the beginning and ending balances of plan assets

(Unit: Thousands of yen)

| | Fiscal year ended March 31, 2023 | Fiscal year ended March 31, 2024 |
|---|---|---|
| Balance of plan assets at beginning of period | 4,400,008 | 4,351,367 |
| Expected return on plan assets | 48,266 | 59,831 |
| Actuarial gains and losses accrued | (112,030) | 495,732 |
| Contribution from employer | 189,920 | 100,622 |
| Retirement benefits paid | (180,056) | (200,459) |
| Increase (decrease) due to the effect of foreign currency translation | 5,258 | 1,893 |
| Balance of plan assets at end of period | 4,351,367 | 4,808,987 |

(3) Reconciliation between ending balance of retirement benefit obligations and plan assets, and retirement benefit liability/asset recorded in the consolidated balance sheet

(Unit: Thousands of yen)

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Retirement benefit obligations of funded plans | 3,733,868 | 3,725,245 |
| Plan assets | (4,351,367) | (4,808,987) |
| | (617,498) | (1,083,741) |
| Retirement benefit obligations of unfunded plans | 986,925 | 1,173,531 |
| Net amount of liabilities and assets recorded in the consolidated balance sheet | 369,426 | 89,790 |
| Retirement benefit liability | 1,048,161 | 1,224,331 |
| Retirement benefit asset | (678,734) | (1,134,541) |
| Net amount of liabilities and assets recorded in the consolidated balance sheet | 369,426 | 89,790 |

(4) Amounts of retirement benefit expenses and their components

(Unit: Thousands of yen)

| | Fiscal year ended March 31, 2023 | Fiscal year ended March 31, 2024 |
|---|---|---|
| Service cost | 192,414 | 201,385 |
| Interest cost | 82,935 | 78,697 |
| Expected return on plan assets | (48,266) | (59,831) |
| Amortization of actuarial gains and losses | (60,535) | (65,130) |
| Amortization of past service cost | (30,569) | (15,936) |
| Retirement benefit expenses related to defined benefit plans | 135,978 | 139,184 |

(5) Remeasurements of defined benefit plans, net of tax

Components of remeasurements of defined benefit plans (before deduction of tax effects) are as follows.

(Unit: Thousands of yen)

| | Fiscal year ended March 31, 2023 | Fiscal year ended March 31, 2024 |
|---|---|---|
| Past service cost | (132,461) | (1,048) |
| Actuarial gains and losses | 218,449 | (306,980) |
| Total | 85,988 | (308,028) |

(6) Remeasurements of defined benefit plans

Components of remeasurements of defined benefit plans included in accumulated other comprehensive income (before deduction of tax effects) are as follows.

(Unit: Thousands of yen)

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Unrecognized past service cost | (132,461) | (133,509) |
| Unrecognized actuarial gains and losses | (283,904) | (590,884) |
| Total | (416,365) | (724,394) |

(7) Plan assets

(i) Major components of plan assets

The ratio of each major category to total plan assets is as follows.

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Debentures | 38% | 40% |
| Shares | 43 | 43 |
| General account | 13 | 12 |
| Other | 6 | 5 |
| Total | 100 | 100 |

Note: The total pension assets include retirement benefit trusts established under the defined benefit corporate pension plan, accounting for 8% in the fiscal year ended March 31, 2023 and 6% in the fiscal year ended March 31, 2024.

(ii) Method for setting the long-term expected rate of return on plan assets

To determine the long-term expected rate of return on plan assets, the Company takes into account current and expected allocation of plan assets, and current and expected long-term return rate on various types of assets constituting plan assets.

(8) Actuarial assumptions

Major actuarial assumptions (expressed as a weighted average)

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Discount rate | Mainly 0.3% | Mainly 0.3% |
| Long-term expected rate of return | 1.5% | 1.5% |

3. Defined contribution plans

The amounts of required contributions to defined contribution plans of the Company and certain consolidated subsidiaries were ¥74,725 thousand as of March 31, 2023 and ¥76,501 thousand as of March 31, 2024.

(Share options, etc.)

Not applicable.

(Tax effect accounting)

1. Breakdown of deferred tax assets and deferred tax liabilities by cause

(Unit: Thousands of yen)

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Deferred tax assets | | |
| Loss on valuation of non-current assets | 867,545 | 888,334 |
| loss on valuation of inventories | 542,885 | 625,842 |
| Retirement benefit liability | 210,686 | 255,828 |
| Provision for bonuses | 245,658 | 218,209 |
| Unrealized profit | 245,151 | 124,798 |
| Contribution of securities to retirement benefit trust | 55,738 | 55,738 |
| Gain on management of retirement benefit trust | 46,363 | 47,838 |
| Accrued social insurance premiums | 37,991 | 34,323 |
| Loss on valuation of golf club membership | 23,574 | 23,574 |
| Long-term accounts payable - other | 19,882 | 19,381 |
| Other | 120,633 | 88,343 |
| Subtotal of deferred tax assets | 2,416,110 | 2,382,214 |
| Valuation allowance for tax loss carryforward (Note 1) | (1,619) | – |
| Valuation allowance for aggregate deductible temporary differences | (1,370,989) | (1,469,014) |
| Subtotal of valuation allowance | (1,372,608) | (1,469,014) |
| Total of deferred tax assets | 1,043,501 | 913,199 |
| Deferred tax liabilities | | |
| Temporary differences related to investments in consolidated subsidiaries | (1,055,632) | (1,364,869) |
| Valuation difference on available-for-sale securities | (145,099) | (298,225) |
| Remeasurements of defined benefit plans | – | (275,165) |
| Depreciation | (93,725) | (90,505) |
| Gain on contribution of securities to retirement benefit trust | (76,055) | (76,055) |
| Prepaid pension costs | (37,711) | (72,003) |
| Other | (14,222) | (38,673) |
| Total of deferred tax liabilities | (1,422,447) | (2,215,500) |
| Net deferred tax liabilities | (378,945) | (1,302,300) |

(Changes in presentation)

In the fiscal year ended March 31, 2023, “Accrued social insurance premiums,” which was included in “Other” under deferred tax assets, has been presented separately as an independent account in the fiscal year ended March 31, 2024 due to its increased importance in terms of amount. In addition, “Accrued enterprise taxes” and “Tax loss carryforwards” under deferred tax assets, which were independently presented in the fiscal year ended March 31, 2023, have been included in “Other” in the fiscal year ended March 31, 2024 due to their decreased importance in terms of amount. To reflect this change in presentation, the notes for the fiscal year ended March 31, 2023 have been reclassified. As a result, “Accrued enterprise tax” of ¥61,508 thousand, “Tax loss carryforwards” of ¥2,019 thousand, and “Other” of ¥95,096 thousand presented in the fiscal year ended March 31, 2023 have been reclassified as “Accrued social insurance premiums” of ¥37,991 thousand and “Other” of ¥120,633 thousand.

Note 1: Tax loss carryforward and related deferred tax assets for each carry-forward period

As of March 31, 2023

(Unit: Thousands of yen)

| | Within 1 year | Over 1 year within 2 years | Over 2 years within 3 years | Over 3 years within 4 years | Over 4 years within 5 years | Over 5 years | Total |
|---|---|---|---|---|---|---|---|
| Tax loss carryforward (*) | – | – | – | – | – | 2,019 | 2,019 |
| Valuation allowance | – | – | – | – | – | (1,619) | (1,619) |
| Deferred tax assets | – | – | – | – | – | 400 | 400 |

(*) Tax loss carryforward is the amount obtained by multiplying them with the statutory effective tax rate.

As of March 31, 2024

Not applicable.

2. Main components of major difference between the statutory effective tax rate and the effective income tax rate after applying tax effect accounting

As of March 31, 2023

Notes are omitted because the difference between the statutory effective tax rate and the effective income tax rate after application of tax-effect accounting is 5% or less of the statutory tax rate.

As of March 31, 2024

Notes are omitted because the difference between the statutory effective tax rate and the effective income tax rate after application of tax-effect accounting is 5% or less of the statutory tax rate.

(Asset retirement obligations)

The information is omitted as it is immaterial in terms of amount.

(Rental and other investment property)

The information is omitted as it is immaterial in terms of amount.

(Revenue recognition)

(1) Breakdown of revenue from contracts with customers

The information is as described in “Notes to (Segment information, etc.).”

(2) Information that provides a basis for understanding revenue

The information is as described in “4. Accounting policies (5) Basis for recognizing significant revenue and expenses.”

(Segment information, etc.)

Segment information

1. Overview of reportable segments

The reportable segments of the Company are components of the Group for which discrete financial information is available and regularly examined by the Board of Directors to make decisions about allocation of managerial resources and to assess their performance.

The Group manufactures and sells crystal applied electronic components. In Japan, the Company handles operations, while in overseas markets, the United States, Europe, China, Taiwan, and Asia are managed by DAISHINKU (AMERICA) CORP (US), DAISHINKU (DEUTSCHLAND) GmbH (Europe), DAISHINKU (HK) LTD. (China), TIANJIN KDS CORP. (China), HARMONY

ELECTRONICS CORP. and its subsidiaries (Taiwan), DAISHINKU (SINGAPORE) PTE. LTD. (Asia), DAISHINKU (THAILAND) CO., LTD (Asia), and PT. KDS INDONESIA (Asia) respectively. Each local subsidiary operates as an independent management unit, developing comprehensive regional strategies for the products it handles and conducting business activities.

Accordingly, the reportable segments of the Company are composed of geographic segments based on production and sales structure. We have six reportable segments: “Japan,” “North America,” “Europe,” “China,” “Taiwan” and “Asia.”

2. Method for calculating amounts of net sales, profit or loss, assets, liabilities and other items by reportable segment

The accounting method for the operating segments that are reportable is the same as described in “Significant matters forming the basis for preparation of consolidated financial statements.”

Profits of the reportable segments are based on operating profits.

Intersegment revenue or transfers are based on actual market price.

3. Information on amounts of net sales, profit or loss, assets, liabilities and other items, and disaggregation of revenue by reportable segments

Fiscal year ended March 31, 2023

(Unit: Thousands of yen)

| | Reportable segment | | | | | | | Adjustments (Note 1) | Carrying amount on consolidated financial statements (Note 1) |
|---|---|---|---|---|---|---|---|---|---|
| | Japan | North America (Note 3) | Europe (Note 3) | China | Taiwan | Asia (Note 3) | Total | | |
| Net sales | | | | | | | | | |
| Revenue from contracts with customers | 8,134,899 | 1,755,999 | 3,654,095 | 13,042,475 | 9,066,248 | 2,777,236 | 38,430,954 | – | 38,430,954 |
| Other revenue | – | – | – | – | – | – | – | – | – |
| Sales to external customers | 8,134,899 | 1,755,999 | 3,654,095 | 13,042,475 | 9,066,248 | 2,777,236 | 38,430,954 | – | 38,430,954 |
| Intersegment sales or transfers | 22,513,681 | 51,069 | 9,746 | 4,362,702 | 2,765,750 | 6,780,264 | 36,483,215 | (36,483,215) | – |
| Total | 30,648,580 | 1,807,068 | 3,663,842 | 17,405,177 | 11,831,999 | 9,557,501 | 74,914,170 | (36,483,215) | 38,430,954 |
| Segment profit | 2,780,712 | 2,307 | 52,890 | 538,980 | 658,520 | 220,808 | 4,254,219 | (44,199) | 4,210,019 |
| Segment assets | 48,925,502 | 957,853 | 1,471,131 | 10,961,290 | 25,886,795 | 7,664,979 | 95,867,552 | (12,245,099) | 83,622,452 |
| Other items | | | | | | | | | |
| Depreciation | 1,405,373 | 305 | 3,712 | 170,472 | 1,287,534 | 716,734 | 3,584,132 | (20,098) | 3,564,034 |
| Impairment losses | – | – | – | – | 38,102 | – | 38,102 | – | 38,102 |
| Increase in property, plant and equipment and intangible assets | 3,371,138 | 44,386 | 6,412 | 243,420 | 1,553,969 | 1,015,677 | 6,235,004 | (4,942) | 6,230,062 |

Notes: 1. Adjustments are as follows.

(1) The adjustment in segment profit of ¥(44,199) thousand includes intersegment transactions eliminations of ¥17,556 thousand and other adjustments of ¥(61,756) thousand.

(2) The adjustment in segment assets of ¥(12,245,099) thousand includes offsetting and elimination of intersegment receivables and payables of ¥(11,494,285) thousand and other adjustments of ¥(750,814) thousand.

(3) The adjustments to increases in depreciation, and property, plant and equipment and intangible assets are primarily due to the elimination of unrealized profit.

2. Segment profit is adjusted to operating profit in the consolidated financial statements.

3. The breakdown of the main countries or regions belonging to each segment other than Japan, China, and Taiwan is as follows.
   (1) North America …… United States
   (2) Europe…… Germany
   (3) Asia…… Indonesia, Singapore and Thailand

Fiscal year ended March 31, 2024

(Unit: Thousands of yen)

| | Reportable segment | | | | | | | Adjustments (Note 1) | Carrying amount on consolidated financial statements (Note 1) |
|---|---|---|---|---|---|---|---|---|---|
| | Japan | North America (Note 3) | Europe (Note 3) | China | Taiwan | Asia (Note 3) | Total | | |
| Net sales | | | | | | | | | |
| Revenue from contracts with customers | 7,781,320 | 2,405,202 | 3,833,725 | 12,300,895 | 10,342,263 | 2,680,269 | 39,343,676 | – | 39,343,676 |
| Other revenue | – | – | – | – | – | – | – | – | – |
| Sales to external customers | 7,781,320 | 2,405,202 | 3,833,725 | 12,300,895 | 10,342,263 | 2,680,269 | 39,343,676 | – | 39,343,676 |
| Intersegment sales or transfers | 21,444,427 | 49,808 | 1,224 | 3,037,458 | 2,748,482 | 7,317,234 | 34,598,637 | (34,598,637) | – |
| Total | 29,225,748 | 2,455,011 | 3,834,949 | 15,338,354 | 13,090,746 | 9,997,504 | 73,942,314 | (34,598,637) | 39,343,676 |
| Segment profit (loss) | 116,550 | 16,904 | 20,910 | (55,266) | 1,086,041 | 493,515 | 1,678,655 | 456,625 | 2,135,280 |
| Segment assets | 52,452,147 | 1,103,557 | 1,412,156 | 11,722,743 | 29,086,839 | 8,330,420 | 104,107,864 | (13,043,241) | 91,064,623 |
| Other items | | | | | | | | | |
| Depreciation | 1,218,201 | 12,794 | 5,401 | 181,615 | 1,269,363 | 795,127 | 3,482,503 | (20,082) | 3,462,420 |
| Impairment losses | 13,353 | – | – | – | 51,852 | – | 65,206 | – | 65,206 |
| Increase in property, plant and equipment and intangible assets | 3,205,128 | 8,143 | 307 | 32,596 | 310,872 | 94,729 | 3,651,777 | – | 3,651,777 |

Notes:
1. Adjustments are as follows.
   (1) The adjustment in segment profit of ¥456,625 thousand includes intersegment transactions eliminations of ¥(41,363) thousand and other adjustments of ¥497,988 thousand.
   (2) The adjustment in segment assets of ¥(13,043,241) thousand includes offsetting and elimination of intersegment receivables and payables of ¥(12,669) thousand and other adjustments of ¥(374,171) thousand.
   (3) The adjustments in depreciation are primarily due to the elimination of unrealized profit.
2. Segment profit is adjusted to operating profit in the consolidated financial statements.
3. The breakdown of the main countries or regions belonging to each segment other than Japan, China, and Taiwan is as follows.
   (1) North America …… United States
   (2) Europe…… Germany
   (3) Asia…… Indonesia, Singapore and Thailand

Related information

Fiscal year ended March 31, 2023

1. Information about products and services

The information is omitted, because sales to external customers in the crystal product business exceed 90% of net sales in the consolidated statement of income.

2. Information about geographical areas

(1) Net sales

(Unit: Thousands of yen)

| Japan | North America | Europe | China | Taiwan | Asia | Total |
|---|---|---|---|---|---|---|
| 5,918,571 | 1,905,586 | 3,654,005 | 12,887,314 | 9,216,554 | 4,848,922 | 38,430,954 |

Note: Net sales are classified by country or region based on customers' location.

(2) Property, plant and equipment

(Unit: Thousands of yen)

| Japan | North America | Europe | China | Taiwan | Indonesia | Asia | Total |
|---|---|---|---|---|---|---|---|
| 14,221,424 | 36,542 | 2,096 | 2,077,911 | 11,420,012 | 2,805,453 | 21,738 | 30,585,178 |

3. Information about main customers

The information is omitted, because no major customer represents 10% or more of net sales to external customers in the consolidated statements of f income.

Fiscal year ended March 31, 2024

1. Information about products and services

The information is omitted, because sales to external customers in the crystal product business exceed 90% of net sales in the consolidated statement of income.

2. Information about geographical areas

(1) Net sales

(Unit: Thousands of yen)

| Japan | North America | Europe | China | Taiwan | Asia | Total |
|---|---|---|---|---|---|---|
| 5,045,218 | 2,466,324 | 3,914,010 | 12,331,182 | 10,422,759 | 5,164,181 | 39,343,676 |

Note: Net sales are classified by country or region based on customers' location.

(2) Property, plant and equipment

(Unit: Thousands of yen)

| Japan | North America | Europe | China | Taiwan | Indonesia | Asia | Total |
|---|---|---|---|---|---|---|---|
| 15,757,759 | 35,111 | 1,454 | 2,080,965 | 11,285,281 | 2,415,156 | 11,918 | 31,587,646 |

3. Information about main customers

The information is omitted, because no major customer represents 10% or more of net sales to external customers in the consolidated statements of f income.

Information about impairment loss of non-current assets by reportable segment

Fiscal year ended March 31, 2023

The information is omitted because the same information is disclosed in "Segment information."

Fiscal year ended March 31, 2024

The information is omitted because the same information is disclosed in “Segment information.”

Information about amortization and unamortized balance of goodwill by reportable segment

Fiscal year ended March 31, 2023

Not applicable.

Fiscal year ended March 31, 2024

Not applicable.

Information about gain on bargain purchase by reportable segment

Not applicable.

Related party information

The information is omitted as it is immaterial.

(Per share information)

| | Fiscal year ended March 31, 2023 (Yen) | Fiscal year ended March 31, 2024 (Yen) |
|---|---|---|
| Net assets per share | 1,112.24 | 1,199.24 |
| Basic earnings per share | 99.41 | 58.12 |

Notes: 1. Information on diluted earnings per share is omitted due to an absence of dilutive shares.

2. The bases for calculating basic earnings per share are as follows.

| | Fiscal year ended March 31, 2023 | Fiscal year ended March 31, 2024 |
|---|---|---|
| Basic earnings per share | | |
| Profit attributable to owners of parent (Thousands of yen) | 3,208,798 | 1,876,144 |
| Amount not attributable to common shareholders (Thousands of yen) | – | – |
| Profit attributable to owners of parent pertaining to common shares (Thousands of yen) | 3,208,798 | 1,876,144 |
| Average number of common shares during the period (Thousands of shares) | 32,279 | 32,278 |

3. The bases for calculating net assets per share are as follows.

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Total net assets (Thousands of yen) | 43,182,619 | 47,048,314 |
| Amount deducted from total net assets (Thousands of yen) | 7,281,144 | 8,339,745 |
| [including non-controlling interests] (Thousands of yen) | [7,281,144] | [8,339,745] |
| Net assets associated with common shares at the end of the period (Thousands of yen) | 35,901,474 | 38,708,569 |
| Number of common shares used in the calculation of net assets per share at the end of the period (Thousands of shares) | 32,278 | 32,277 |

(Significant subsequent events)

Not applicable.

(v) Annexed consolidated detailed schedules

Consolidated detailed schedule of borrowings

| Category | Balance as of April 1, 2024 (Thousands of yen) | Balance as of March 31, 2024 (Thousands of yen) | Average interest rate (%) | Payment due |
|---|---|---|---|---|
| Short-term borrowings | 2,361,569 | 2,376,990 | 3.59 | – |
| Current portion of long-term borrowings | 9,658,529 | 11,629,640 | 0.78 | – |
| Current portion of lease obligations | 254,663 | 140,194 | 2.07 | – |
| Long-term borrowings (excluding current portion) | 18,390,443 | 19,776,032 | 0.81 | From April 2025 to March 2029 |
| Lease obligations (excluding current portion) | 173,217 | 91,911 | 3.23 | From April 2025 to September 2027 |
| Other interest-bearing liabilities | – | – | – | – |
| Total | 30,838,423 | 34,014,769 | – | – |

Notes: 1 "Average interest rate" represents weighted average interest rate with respect to the ending balance of borrowings.

2 The repayment schedule of long-term borrowings and lease obligations (excluding current portion) over the next five years after the consolidated fiscal year-end date is as follows.

(Unit: Thousands of yen)

| | Over 1 year within 2 years | Over 2 years within 3 years | Over 3 years within 4 years | Over 4 years within 5 years |
|---|---|---|---|---|
| Long-term borrowings | 8,176,404 | 5,569,750 | 3,765,660 | 2,264,217 |
| Lease obligations | 56,169 | 30,926 | 4,816 | – |

Consolidated detailed schedule of asset retirement obligations

The information is omitted, because the amounts of asset retirement obligations at the beginning and the end of the fiscal year ended March 31, 2024 were not more than 1% of the total of liabilities and net assets at the beginning and the end of the fiscal year ended March 31, 2024, respectively.

(2) Other

Quarterly information for the fiscal year ended March 31, 2024

| (Cumulative period) | First quarter | Second quarter | Third quarter | Fiscal year ended March 31, 2024 |
|---|---|---|---|---|
| Net sales (Thousands of yen) | 9,318,901 | 19,332,388 | 29,685,035 | 39,343,676 |
| Profit before income taxes (Thousands of yen) | 1,013,325 | 2,889,405 | 2,781,142 | 4,123,095 |
| Profit attributable to owners of parent (Thousands of yen) | 439,551 | 1,391,082 | 1,157,428 | 1,876,144 |
| Basic earnings per share (Yen) | 13.62 | 43.10 | 35.86 | 58.12 |

| (Accounting period) | First quarter | Second quarter | Third quarter | Fourth quarter |
|---|---|---|---|---|
| Basic earnings (loss) per share (Yen) | 13.62 | 29.48 | (7.24) | 22.27 |

2. Financial statements, etc.

(1) Financial statements

(i) Balance sheet

(Unit: Thousands of yen)

| | | As of March 31, 2023 | | As of March 31, 2024 |
|---|---|---|---|---|
| Assets | | | | |
| Current assets | | | | |
| Cash and deposits | | 10,227,850 | | 11,175,438 |
| Notes receivable - trade | | 218,516 | *4 | 145,030 |
| Accounts receivable - trade | *1 | 9,197,991 | *1 | 8,783,989 |
| Merchandise and finished goods | | 3,494,337 | | 2,018,634 |
| Work in process | | 3,088,066 | | 3,731,616 |
| Raw materials and supplies | | 1,886,242 | | 2,193,734 |
| Prepaid expenses | | 118,888 | | 187,712 |
| Other | *1 | 2,860,091 | *1 | 3,838,558 |
| Allowance for doubtful accounts | | – | | (2,673) |
| Total current assets | | 31,091,983 | | 32,072,041 |
| Non-current assets | | | | |
| Property, plant and equipment | | | | |
| Buildings | | 1,704,198 | | 1,614,200 |
| Structures | | 29,780 | | 29,824 |
| Machinery and equipment | | 3,488,178 | | 2,693,384 |
| Vehicles | | 8,794 | | 3,186 |
| Tools, furniture and fixtures | | 621,571 | | 780,725 |
| Land | | 4,608,011 | | 4,543,959 |
| Leased assets | | 225,482 | | 125,268 |
| Construction in progress | | 3,483,604 | | 5,917,481 |
| Total property, plant and equipment | | 14,169,621 | | 15,708,029 |
| Intangible assets | | | | |
| Software | | 19,988 | | 1,107,644 |
| Telephone subscription right | | 12,591 | | 12,591 |
| Other | | 1,036,896 | | 22 |
| Total intangible assets | | 1,069,476 | | 1,120,258 |
| Investments and other assets | | | | |
| Investment securities | | 1,220,606 | | 1,748,592 |
| Shares of subsidiaries and associates | | 12,527,407 | | 12,527,407 |
| Investments in capital of subsidiaries and associates | | 210,145 | | 210,145 |
| Deferred tax assets | | 74,680 | | – |
| Prepaid pension costs | | 123,240 | | 235,306 |
| Other | *1 | 498,058 | *1 | 582,727 |
| Allowance for doubtful accounts | | (27,800) | | (27,800) |
| Total investments and other assets | | 14,626,338 | | 15,276,379 |
| Total non-current assets | | 29,865,436 | | 32,104,667 |
| Total assets | | 60,957,420 | | 64,176,708 |

(Unit: Thousands of yen)

| | | As of March 31, 2023 | | As of March 31, 2024 |
|---|---|---|---|---|
| Liabilities | | | | |
| Current liabilities | | | | |
| Accounts payable - trade | *1 | 2,918,342 | *1 | 3,625,905 |
| Short-term borrowings | | 400,000 | | 400,000 |
| Current portion of long-term borrowings | | 7,237,316 | | 8,475,952 |
| Lease liabilities | | 100,995 | | 102,061 |
| Accounts payable - other | *1 | 1,803,927 | *1 | 761,172 |
| Accrued expenses | | 310,525 | | 294,439 |
| Income taxes payable | | 797,039 | | 74,356 |
| Contract liabilities | | 11 | | 79 |
| Deposits received | | 25,811 | | 28,374 |
| Provision for bonuses | | 764,874 | | 677,493 |
| Other | | 11,751 | | 11,547 |
| Total current liabilities | | 14,370,594 | | 14,451,380 |
| Non-current liabilities | | | | |
| Long-term borrowings | | 13,580,669 | | 16,304,717 |
| Lease liabilities | | 127,741 | | 25,680 |
| Deferred tax liabilities | | – | | 194,405 |
| Asset retirement obligations | | 27,837 | | 28,304 |
| Other | | 77,838 | | 65,912 |
| Total non-current liabilities | | 13,814,086 | | 16,619,020 |
| Total liabilities | | 28,184,681 | | 31,070,401 |
| Net assets | | | | |
| Shareholders’ equity | | | | |
| Share capital | | 19,344,883 | | 19,344,883 |
| Capital surplus | | | | |
| Legal capital surplus | | 5,781,500 | | 5,781,500 |
| Other capital surplus | | 1,377,224 | | 1,377,224 |
| Total capital surplus | | 7,158,724 | | 7,158,724 |
| Retained earnings | | | | |
| Other retained earnings | | | | |
| Retained earnings brought forward | | 7,866,239 | | 7,835,856 |
| Total retained earnings | | 7,866,239 | | 7,835,856 |
| Treasury shares | | (1,929,648) | | (1,930,424) |
| Total shareholders’ equity | | 32,440,199 | | 32,409,039 |
| Valuation and translation adjustments | | | | |
| Valuation difference on available-for-sale securities | | 332,539 | | 697,268 |
| Total valuation and translation adjustments | | 332,539 | | 697,268 |
| Total net assets | | 32,772,738 | | 33,106,307 |
| Total liabilities and net assets | | 60,957,420 | | 64,176,708 |

(ii) Statement of income

(Unit: Thousands of yen)

| | | Fiscal year ended March 31, 2023 | | Fiscal year ended March 31, 2024 |
|---|---|---|---|---|
| Net sales | *1 | 30,651,966 | *1 | 29,227,138 |
| Cost of sales | *1 | 23,570,495 | *1 | 24,706,886 |
| Gross profit | | 7,081,470 | | 4,520,251 |
| Selling, general and administrative expenses | *1, *2 | 4,326,535 | *1, *2 | 4,389,860 |
| Operating profit | | 2,754,935 | | 130,391 |
| Non-operating income | | | | |
| Interest and dividend income | *1 | 745,541 | *1 | 728,626 |
| Foreign exchange gains | | 524,081 | | 602,722 |
| Other | *1 | 219,940 | *1 | 246,390 |
| Total non-operating income | | 1,489,563 | | 1,577,738 |
| Non-operating expenses | | | | |
| Interest expenses | | 50,824 | | 55,161 |
| Rental expenses | | 75,426 | | 58,851 |
| Commission expenses | | – | | 200,500 |
| Cancellation penalty | | – | | 162,000 |
| Other | *1 | 11,061 | *1 | 87,443 |
| Total non-operating expenses | | 137,313 | | 563,956 |
| Ordinary profit | | 4,107,186 | | 1,144,173 |
| Extraordinary income | | | | |
| Gain on sale of non-current assets | *3 | 57 | *3 | 63,983 |
| Gain on sale of investment securities | | 46,631 | | – |
| Total extraordinary income | | 46,689 | | 63,983 |
| Extraordinary losses | | | | |
| Loss on sale and retirement of non-current assets | *4 | 276 | *4 | 617 |
| Impairment losses | | – | | 13,353 |
| Total extraordinary losses | | 276 | | 13,970 |
| Profit before income taxes | | 4,153,599 | | 1,194,186 |
| Income taxes - current | | 1,105,562 | | 204,815 |
| Income taxes - deferred | | (11,281) | | 115,959 |
| Total income taxes | | 1,094,280 | | 320,775 |
| Profit | | 3,059,318 | | 873,410 |

### (iii) Statement of changes in equity

Previous fiscal year (From April 1, 2022 to March 31, 2023)

(Unit: Thousands of yen)

| | Shareholders' equity | | | | | |
|---|---|---|---|---|---|---|
| | Share capital | Capital surplus | | | Retained earnings | |
| | | Legal capital surplus | Other capital surplus | Total capital surplus | Other retained earnings: Retained earnings brought forward | Total retained earnings |
| Balance at beginning of period | 19,344,883 | 5,781,500 | 1,377,210 | 7,158,710 | 5,646,183 | 5,646,183 |
| Changes during period | | | | | | |
| Dividends of surplus | | | | | (839,263) | (839,263) |
| Profit | | | | | 3,059,318 | 3,059,318 |
| Purchase of treasury shares | | | | | | |
| Disposal of treasury shares | | | 13 | 13 | | |
| Net changes in items other than shareholders' equity | | | | | | |
| Total changes during period | – | – | 13 | 13 | 2,220,055 | 2,220,055 |
| Balance at end of period | 19,344,883 | 5,781,500 | 1,377,224 | 7,158,724 | 7,866,239 | 7,866,239 |

| | Shareholders' equity | | Valuation and translation adjustments | | Total net assets |
|---|---|---|---|---|---|
| | Treasury shares | Total shareholders' equity | Valuation difference on available-for-sale securities | Total valuation and translation adjustments | |
| Balance at beginning of period | (1,928,693) | 30,221,084 | 313,343 | 313,343 | 30,534,428 |
| Changes during period | | | | | |
| Dividends of surplus | | (839,263) | | | (839,263) |
| Profit | | 3,059,318 | | | 3,059,318 |
| Purchase of treasury shares | (964) | (964) | | | (964) |
| Disposal of treasury shares | 9 | 23 | | | 23 |
| Net changes in items other than shareholders' equity | | – | 19,195 | 19,195 | 19,195 |
| Total changes during period | (955) | 2,219,114 | 19,195 | 19,195 | 2,238,310 |
| Balance at end of period | (1,929,648) | 32,440,199 | 332,539 | 332,539 | 32,772,738 |

Fiscal year under review (From April 1, 2023 to March 31, 2024)

(Unit: Thousands of yen)

| | Shareholders' equity | | | | | |
|---|---|---|---|---|---|---|
| | Share capital | Capital surplus | | | Retained earnings | |
| | | Legal capital surplus | Other capital surplus | Total capital surplus | Other retained earnings<br>Retained earnings brought forward | Total retained earnings |
| Balance at beginning of period | 19,344,883 | 5,781,500 | 1,377,224 | 7,158,724 | 7,866,239 | 7,866,239 |
| Changes during period | | | | | | |
| Dividends of surplus | | | | | (903,793) | (903,793) |
| Profit | | | | | 873,410 | 873,410 |
| Purchase of treasury shares | | | | | | |
| Net changes in items other than shareholders' equity | | | | | | |
| Total changes during period | – | – | – | – | (30,383) | (30,383) |
| Balance at end of period | 19,344,883 | 5,781,500 | 1,377,224 | 7,158,724 | 7,835,856 | 7,835,856 |

| | Shareholders' equity | | Valuation and translation adjustments | | Total net assets |
|---|---|---|---|---|---|
| | Treasury shares | Total shareholders' equity | Valuation difference on available-for-sale securities | Total valuation and translation adjustments | |
| Balance at beginning of period | (1,929,648) | 32,440,199 | 332,539 | 332,539 | 32,772,738 |
| Changes during period | | | | | |
| Dividends of surplus | | (903,793) | | | (903,793) |
| Profit | | 873,410 | | | 873,410 |
| Purchase of treasury shares | (776) | (776) | | | (776) |
| Net changes in items other than shareholders' equity | | – | 364,728 | 364,728 | 364,728 |
| Total changes during period | (776) | (31,159) | 364,728 | 364,728 | 333,569 |
| Balance at end of period | (1,930,424) | 32,409,039 | 697,268 | 697,268 | 33,106,307 |

Notes to Non-consolidated Financial Statements

(Significant accounting policies)

1. Standards and methods for valuation of assets

   (1) Standards and methods for valuation of securities

   Shares of subsidiaries

   Stated at cost using the moving average method.

   Available-for-sale securities

| | |
|---|---|
| • Securities other than shares, etc. without market value | Stated at fair value (valuation differences are directly recorded in net assets, and the cost of sales is computed based on the moving-average method). |
| • Shares, etc. without market value | Stated at cost using the moving average method. |

   (2) Standards and methods for valuation of inventory

| | |
|---|---|
| Merchandise, finished goods, work in process, raw materials and supplies | Stated at cost using the weighted average method.<br>The carrying amounts on the balance sheet are determined using the book value reduction method based on decreased profitability. |

2. Depreciation or amortization method for depreciable or amortizable assets

   (1) Property, plant and equipment (excluding leased assets)

   The declining-balance method is used (however, the straight-line method is used for buildings (excluding facilities) acquired on or after April 1, 1998, and for facilities attached to buildings and for structures acquired on or after April 1, 2016).

   Major useful lives are as follows.

| | |
|---|---|
| Buildings and structures | 3 to 60 years |
| Machinery, equipment and vehicles | 2 to 8 years |

   (2) Intangible assets (excluding leased assets)

   The straight-line method is used.

   Regarding software for internal use, the straight-line method is used based on the internally usable period (five years).

   (3) Leased assets

   Lease assets related to finance lease transactions that do not transfer ownership are depreciated using the straight-line method over the lease term as the useful life, with the residual value set as the guaranteed residual value.

3. Standards for recording provisions and allowances

| | |
|---|---|
| (1) Allowance for doubtful accounts | To prepare for potential credit losses on accounts receivable, loans, and other receivables, an estimated uncollectable amount is provided at the amount estimated by either using the historical rate of credit loss for general receivables, or based on individual consideration of collectability for specific receivables such as highly doubtful receivables. |
| (2) Provision for bonuses | To prepare for payment of bonuses for employees, a provision is recorded based on the estimated amount of bonuses to be paid. |

| | | |
|---|---|---|
| (3) | Provision for bonuses for directors | To prepare for payment of bonuses for directors, a provision is recorded based on the estimated amount of bonuses to be paid. No provision has been recorded for the fiscal year ended March 31, 2024, as there is no estimated amount to be paid. |
| (4) | Provision for retirement benefits | To prepare for retirement benefits for employees, a provision is recorded based on the estimated amounts of retirement benefit obligation and plan assets (including retirement benefit trust) at the end of the fiscal year under review.<br><br>In the calculation of retirement benefit obligations, expected retirement benefits are attributed to the period up to the end of the fiscal year under review on a benefit formula basis.<br><br>Past service cost is amortized using the straight-line method over a certain period within the average remaining service years (10 years) of employees when incurred.<br><br>Actuarial gains and losses are amortized using the straight-line method over a certain period within the average remaining service years (10 years) of employees when incurred in each fiscal year, from the fiscal year following the accrual of each gain or loss. |

4. Basis for recognizing revenue and expenses

Revenue from the sale of goods or products is derived from manufacturing sales, and we have a performance obligation to deliver the goods or products based on contracts with our customers. The performance obligation is considered to be fulfilled at the point in time when control over the asset is transferred to the customer. For domestic sales transactions, because there is a normal period of time between the shipment of the finished goods and the transfer of control to the customer, we recognize revenue at the time of shipment. For export transactions, revenue is recognized at the time of delivery to the customer as stipulated by the trade terms.

5. Hedge accounting method

(1) Hedge accounting method

In principle, the deferral hedge accounting is applied. Exceptional accounting is applied to interest rate swaps that meet the requirements.

In addition, we apply hedge accounting using the forward contracted rate to foreign currency-denominated receivables and payables that are covered by forward exchange contracts.

(2) Hedging instruments and hedged items

Hedging instruments and hedged items to which hedge accounting was applied during the fiscal year under review are as follows.

Hedging instruments: Interest rate swaps, foreign exchange contracts and currency options

Hedged items: borrowings, foreign currency-denominated receivables and payables, and foreign currency-denominated forecast transactions

(3) Hedging policy

We hedge foreign exchange rate fluctuations and interest rate risks related to the hedged items within certain limits.

(4) Method of evaluating the effectiveness of hedges

The Company evaluates the effectiveness of hedging by comparing cumulative cash flow fluctuations or market fluctuations between hedging instruments and hedged items on a quarterly basis, based on the amount of fluctuation of both. However, the evaluation of effectiveness is omitted for forward exchange contracts meeting the requirements for the hedge accounting using the forward contracted rate and interest rate swaps subject to exceptional accounting.

(Significant accounting estimates)

Recoverability of deferred tax assets

(1) Amount recorded on the non-consolidated financial statements for the fiscal year under review

(Unit: Thousands of yen)

| | Fiscal year ended March 31, 2023 | Fiscal year ended March 31, 2024 |
|---|---|---|
| Deferred tax assets (net) | 74,680 | – |
| Deferred tax liabilities (net) | – | 194,405 |

The amounts before offsetting deferred tax liabilities were ¥334,172 thousand in the fiscal year ended March 31, 2023 and ¥252,439 thousand in the fiscal year ended March 31, 2024.

(2) Information on details of significant accounting estimates pertaining to identified items

The method for calculating the amount in (1) is the same as described in “Notes: (Significant accounting estimates), Recoverability of deferred tax assets” in the consolidated financial statements.

(Changes in accounting policies)

(Change in inventory valuation method)

The valuation method for supplies within inventories has been changed from the last purchase price method (with write-downs based on decreased profitability) to the weighted average method (with write-downs based on decreased profitability), effective from the third quarter of the fiscal year.

This change in the valuation method was prompted by the introduction of a new core system in the third quarter of the fiscal year, leading to the adoption of an inventory valuation method better suited to this system.

The impact amount of this change in accounting policy is minor, and it has not been applied retrospectively.

(Changes in presentation)

Not applicable.

(Additional information)

Not applicable.

(Non-consolidated balance sheets)

*1 Monetary claims and obligations with subsidiaries and associates (excluding those separately presented)

(Unit: Thousands of yen)

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Short-term monetary claims | 9,274,743 | 10,001,515 |
| Long-term monetary claims | 200,295 | 375,496 |
| Short-term monetary obligations | 2,069,653 | 2,333,309 |

2 Guarantee obligations

The Company guarantees its borrowings from banks made by affiliated companies.

| As of March 31, 2023 | | As of March 31, 2024 | |
|---|---|---|---|
| TIANJIN KDS CORP. | ¥265,042 thousand | TIANJIN KDS CORP. | ¥295,638 thousand |
| | (US$1,000 thousand) | | (US$1,000 thousand) |
| | (RMB6,800 thousand) | | (RMB6,800 thousand) |

The above guarantee obligations denominated in foreign currencies are translated into Japanese yen at the exchange rate as of the fiscal year-end date.

3 Notes receivable and electronically recorded monetary claims - operating transferred by endorsement

(Unit: Thousands of yen)

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Notes receivable and electronically recorded monetary claims - operating transferred by endorsement | 96,307 | 80,012 |

*4 Notes maturing on the last day of the fiscal year under review

For the accounting treatment of notes maturing on the last day of the fiscal year under review, although the fiscal year-end was a bank holiday, they have been processed as if they were settled on the maturity date. The amount of notes maturing on the last day of the fiscal year under review is as follows.

(Unit: Thousands of yen)

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Notes receivable - trade | – | 20,801 |

(Non-consolidated statements of income)

*1 Transactions with subsidiaries and associates

(Unit: Thousands of yen)

| | Fiscal year ended March 31, 2023 | Fiscal year ended March 31, 2024 |
|---|---|---|
| Amount of operating transactions | | |
| Net sales | 24,975,253 | 23,575,275 |
| Purchases | 14,244,477 | 13,568,460 |
| Other operating transactions | 61,454 | 55,325 |
| Transactions from non-operating transactions | 777,247 | 792,821 |

*2 The approximate proportion of expenses classified as selling expenses was 22% in the fiscal year ended March 31, 2023 and 25% in the fiscal year ended March 31, 2024, and approximate proportion of expenses classified as general and administrative expenses was 78% in the fiscal year ended March 31, 2023 and 75% in the current fiscal year ended March 31, 2024.

Main items and amounts of selling, general and administrative expenses are as follows.

(Unit: Thousands of yen)

| | Fiscal year ended March 31, 2023 | Fiscal year ended March 31, 2024 |
|---|---|---|
| Payroll and allowances | 900,974 | 923,430 |
| Provision for bonuses | 158,125 | 115,677 |
| Retirement benefit expenses | (1,232) | 4,392 |
| Depreciation | 33,254 | 171,490 |
| Research and development expenses | 1,883,729 | 1,801,251 |

*3 Details of gain on sales of non-current assets are as follows.

(Unit: Thousands of yen)

| | Fiscal year ended March 31, 2023 | Fiscal year ended March 31, 2024 |
|---|---|---|
| Buildings | – | 36,537 |
| Machinery and equipment | – | 549 |
| Vehicles | 56 | – |
| Tools, furniture and fixtures | 0 | – |
| Land | – | 26,895 |
| Total | 57 | 63,983 |

*4 Details of loss on sale and retirement of non-current assets is as follows.

(Unit: Thousands of yen)

| | Fiscal year ended March 31, 2023 | Fiscal year ended March 31, 2024 |
|---|---|---|
| Buildings | 187 | 617 |
| Machinery and equipment | 88 | 0 |
| Vehicles | 0 | – |
| Tools, furniture and fixtures | 0 | 0 |
| Total | 276 | 617 |

(Securities)

Shares of subsidiaries

As of March 31, 2023

(Unit: Thousands of yen)

| Category | Carrying amount | Fair value | Difference |
|---|---|---|---|
| Shares of subsidiaries | 3,706,031 | 7,530,081 | 3,824,050 |
| Total | 3,706,031 | 7,530,081 | 3,824,050 |

As of March 31, 2024

(Unit: Thousands of yen)

| Category | Carrying amount | Fair value | Difference |
|---|---|---|---|
| Shares of subsidiaries | 3,706,031 | 9,249,053 | 5,543,021 |
| Total | 3,706,031 | 9,249,053 | 5,543,021 |

Note: Carrying amount of shares, etc. without market value

(Unit: Thousands of yen)

| Category | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Shares of subsidiaries | 8,821,376 | 8,821,376 |

(Tax effect accounting)

1. Breakdown of deferred tax assets and deferred tax liabilities by cause

(Unit: Thousands of yen)

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Deferred tax assets | | |
| Loss on valuation of shares of subsidiaries and associates | 2,289,372 | 2,289,372 |
| Loss on valuation of non-current assets | 563,781 | 566,433 |
| loss on valuation of inventories | 276,276 | 341,379 |
| Provision for bonuses | 234,051 | 207,312 |
| Contribution of securities to retirement benefit trust | 55,738 | 55,738 |
| Gain on management of retirement benefit trust | 46,363 | 47,838 |
| Accrued social insurance premiums | 36,378 | 32,522 |
| Loss on valuation of golf club membership | 23,574 | 23,574 |
| Long-term accounts payable - other | 19,882 | 19,381 |
| Other | 103,925 | 52,492 |
| Subtotal of deferred tax assets | 3,649,344 | 3,636,047 |
| Valuation allowance for aggregate deductible temporary differences | (3,315,172) | (3,383,607) |
| Subtotal of valuation allowance | (3,315,172) | (3,383,607) |
| Total of deferred tax assets | 334,172 | 252,439 |
| Deferred tax liabilities | | |
| Valuation difference on available-for-sale securities | (145,099) | (298,225) |
| Gain on contribution of securities to retirement benefit trust | (76,055) | (76,055) |
| Prepaid pension costs | (37,711) | (72,003) |
| Other | (625) | (560) |
| Total of deferred tax liabilities | (259,491) | (446,845) |
| Net deferred tax assets (liabilities) | 74,680 | (194,405) |

(Changes in presentation)

In the fiscal year ended March 31, 2023, “Accrued social insurance premiums,” which was included in “Other” under deferred tax assets, has been presented separately as an independent account in the fiscal year ended March 31, 2024 due to its increased importance in terms of amount. To reflect this change in presentation, the notes for the fiscal year ended March 31, 2023 have been reclassified. As a result, “Other” of ¥140,303 thousand presented in the fiscal year ended March 31, 2023 have been reclassified as “Accrued social insurance premiums” of ¥36,378 thousand and “Other” of ¥103,925 thousand.

2. Main components of major difference between the statutory effective tax rate and the effective income tax rate after applying tax effect accounting

| | As of March 31, 2023 | As of March 31, 2024 |
|---|---|---|
| Statutory effective tax rate | 30.6% | 30.6% |
| (Adjustments) | | |
| Increase (decrease) in valuation allowance for deferred tax assets | (1.9) | 5.7 |
| Dividends and other income that is never taxable | (4.9) | (16.4) |
| Exclusion of entertainment expenses and others from deductible expenses | 1.5 | 2.3 |
| Foreign withholding tax on dividends, etc. from foreign subsidiaries | 1.9 | 2.8 |
| Proportional resident tax | 0.4 | 1.4 |
| Other | (1.3) | 0.5 |
| Effective income tax rate after application of tax-effect accounting | 26.3 | 26.9 |

(Revenue recognition)

Description of useful information in understanding revenue from contracts with customers is omitted as it is provided in "Notes to (Revenue recognition)" in the consolidated financial statements.

(Significant subsequent events)

Not applicable.

(iv) Supplemental schedules

Schedule of property, plant and equipment

(Unit: Thousands of yen)

| Category | Type of assets | Balance at beginning of period | Increase during period | Decrease during period | Depreciation (amortization) during period | Balance at end of period | Accumulated depreciation |
|---|---|---|---|---|---|---|---|
| Property, plant and equipment | Buildings | 1,704,198 | 42,414 | 4,657 | 127,755 | 1,614,200 | 9,612,923 |
| | Structures | 29,780 | 3,460 | 602 | 2,812 | 29,824 | 879,039 |
| | Machinery and equipment | 3,488,178 | 278,108 | 477 | 1,072,425 | 2,693,384 | 21,494,033 |
| | Vehicles | 8,794 | – | – | 5,607 | 3,186 | 50,589 |
| | Tools, furniture and fixtures | 621,571 | 256,031 | 0 | 96,878 | 780,725 | 2,634,695 |
| | Land | 4,608,011 | – | 64,052 | – | 4,543,959 | – |
| | Leased assets | 225,482 | – | – | 100,214 | 125,268 | 375,804 |
| | Construction in progress | 3,483,604 | 2,770,247 | 336,371 [13,353] | – | 5,917,481 | – |
| | Total | 14,169,621 | 3,350,263 | 406,160 [13,353] | 1,405,694 | 15,708,029 | 35,047,086 |
| Intangible assets | Software | 19,988 | 1,215,180 | – | 127,524 | 1,107,644 | |
| | Telephone subscription right | 12,591 | – | – | – | 12,591 | |
| | Right to use water facilities | 76 | – | – | 54 | 22 | |
| | Other | 1,036,820 | 118,440 | 1,155,260 | – | – | |
| | Total | 1,069,476 | 1,333,621 | 1,155,260 | 127,578 | 1,120,258 | |

Notes: 1. Major components of the increase are as follows.

| | | | | |
|---|---|---|---|---|
| Construction in progress | Head office | Construction of headquarters and plant | ¥809,000 | thousand |
| | Tokushima Production Div. | Production facilities of crystal resonators and crystal oscillators | ¥316,798 | thousand |
| Software | Head office | Core system implementation costs, etc. | ¥1,211,438 | thousand |

2. Major components of the decrease are as follows.

| | | | | |
|---|---|---|---|---|
| Construction in progress | Head office | Transfer of core system implementation costs, etc. | ¥146,129 | thousand |
| | Tottori Production Div. | Transfer of production facilities of crystal resonators and crystal oscillators | ¥97,733 | thousand |
| Intangible assets (other) | Head office | Transfer of core system implementation costs, etc. | ¥1,155,260 | thousand |

Schedule of provisions

(Unit: Thousands of yen)

| Account items | Balance at beginning of period | Increase during period | Decrease during period | Balance at end of period |
|---|---|---|---|---|
| Allowance for doubtful accounts | 27,800 | 11,823 | 9,149 | 30,473 |
| Provision for bonuses | 764,874 | 677,493 | 764,874 | 677,493 |

(2) Details of major assets and liabilities

This information is omitted because the Company prepares the consolidated financial statements.

(3) Other

Not applicable.

## VI. Overview of Share Related Administration of the Company

| | |
|---|---|
| Fiscal year | From April 1 to March 31 |
| Annual General Meeting of Shareholders | During June |
| Record date | March 31 |
| Record date for dividends of surplus | September 30, March 31 |
| Number of shares constituting a standard unit | 100 shares |
| Purchase and sale of shares less than one unit | |
| Business handling office | (Special account)<br>Stock Transfer Agency Business Planning Department, Sumitomo Mitsui Trust Bank, Limited, 5-33 Kitahama 4-chome, Chuo-ku, Osaka |
| Shareholder register administrator | (Special account)<br>Sumitomo Mitsui Trust Bank, Limited, 4-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo |
| Offices available for repurchase | – |
| Charges for repurchase and sale | Amount equivalent to the commission fee for entrustment of the sale and purchase of shares |
| Method of public notice | The method of public notices of the Company shall be electronic public notices. However, in the event that electronic public notice is unavailable due to an accident or any other unavoidable reason, the public notice shall be given in the manner of the publication in the Nikkei (Nihon Keizai Shimbun) newspaper.<br>Electronic public notices are posted on the Company's website with the following URL:<br>https://www.kds.info |
| Special benefits to shareholders | None |

Note: In accordance with the Company's Articles of Incorporation, shareholders holding less than one unit of shares do not have any rights except for those listed in each item of Article 189, Paragraph 2 of the Companies Act, the right of claim under Article 166, Paragraph 1 of the Companies Act, the right to be allotted the shares and share acquisition rights offered according to the number of shares held, and the right to demand for the sale of shares less than one unit.

## VII. Reference Information on the Reporting Company, etc.

1. Information on the parent company or equivalent of the reporting company

   The Company has no parent company or equivalent as prescribed in Article 24-7, Paragraph 1 of the Financial Instruments and Exchange Act.

2. Other reference information

   The Company filed the following documents in the period from the beginning of the fiscal year under review to the date of filing of the Annual Securities Report.

(1) Annual Securities Report and its attachments and Confirmation Letter

Fiscal year (60th term) (From April 1, 2022 to March 31, 2023) Submitted to the Director-General of the Kanto Local Finance Bureau on June 30, 2023.

(2) Internal Control Report and its attachments

Submitted to the Director-General of the Kanto Local Finance Bureau on June 30, 2023.

(3) Quarterly Securities Reports and Confirmation Letter

| | | |
|---|---|---|
| (First quarter of the 61st fiscal year) | (from April 1, 2023 to June 30, 2023) | August 10, 2023 |
| (Second quarter of the 61st fiscal year) | (from July 1, 2023 to September 30, 2023) | November 6, 2023 |
| (Third quarter of the 61st fiscal year) | (from October 1, 2023 to December 31, 2023) | February 5, 2024 |
| | | Submitted to Director-General of the Kanto Local Finance Bureau |

(4) Extraordinary Report

Submitted to the Director-General of the Kanto Local Finance Bureau on July 3, 2023.

Extraordinary report based on the provisions of Article 19, Paragraph 2, Item 9-2 of the Cabinet Office Order on Disclosure of Corporate Affairs (Results of the exercise of voting rights at the General Meeting of Shareholders)

## PART II. Information on Guarantors for the Reporting Company, etc.

Not applicable.

**<u>Independent Auditor's Report and Internal Control Audit Report</u>**

June 27, 2024

To the Board of Directors of DAISHINKU CORP.

SCS Global LLC

Osaka Office

| | | |
|---|---|---|
| Designated Limited Liability Partner Managing Partner | Certified Public Accountant | Yuji Ando |
| Designated Limited Liability Partner Managing Partner | Certified Public Accountant | Yoshinari Umeda |

**<Audit of Consolidated Financial Statements>**

**Opinion**

For the purpose of audit certification pursuant to the provisions in Article 193-2, paragraph (1) of the Financial Instruments and Exchange Act, we have audited the accompanying consolidated financial statements, which comprise the consolidated balance sheets, consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity, consolidated statements of cash flows, the basis for preparation of consolidated financial statements, other notes and consolidated supplemental schedules of DAISHINKU CORP. (the "Company") for the fiscal year from April 1, 2023 through March 31, 2024, as listed in "Financial Information."

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial positions of the Company and its consolidated subsidiaries as of March 31, 2024, and their operating results and cash flows status for the fiscal year ended on such date in conformity with accounting principles generally accepted in Japan.

**Basis for the Opinion**

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibility under the auditing standards is stated in "Auditor's Responsibility for the Audit of the Consolidated Financial Statements." We are independent of the Company and its consolidated subsidiaries in accordance with the provisions related to professional ethics in Japan, and are fulfilling other ethical responsibilities as an auditor. We believe that we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the fiscal year under review. These matters were addressed in the process 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.

1. Valuation of inventories (validity of valuation of slow-moving inventories)

Description of key audit matters and reasons for determination

In the consolidated balance sheet for the fiscal year ended March 31, 2024, inventories (merchandise and finished goods, work in process, and raw materials and supplies) in the amount of ¥16,414,699 thousand were recorded, accounting for 18.0% of the total consolidated assets.
Changes in the balance of inventories and inventory turnover in recent years are as follows:

| | Fiscal year ended March 31, 2022 | Fiscal year ended March 31, 2023 | Fiscal year ended March 31, 2024 |
|---|---|---|---|
| Balance of inventories (Thousands of yen) | 16,533,571 | 17,174,565 | 16,414,699 |
| Net sales (Thousands of yen) | 41,306,270 | 38,430,945 | 39,343,677 |
| Inventory turnover (Months) | 4.8 | 5.3 | 5.0 |

The Company manufactures and sells crystal applied electronic products. In the quartz crystal device market where the Company operates, while growth is expected and demand can be fueled by technological innovation such as Information and Communication Technology (ICT), IoT device and ADAS (Advanced Driver Assistance Systems), the market size may significantly change when adjusting the supply-demand balance due to changes in needs and economic environments. In the fiscal year ended March 31, 2024, although demands for consumer, telecommunications and automotive markets were on a recovery trend, demands for the industrial market still remain in the adjustment phase. In addition, trends in demand forecasting remains uncertain coupled with changing external environments including trends in monetary policies of foreign countries against inflation. Given the high monetary significance of inventories in the consolidated balance sheet as well as high risks of their economic obsolescence due to changes in the market environment, valuation of inventories requires management to make judgement and verification of them needs expertise and judgement as experts. In this regard, we identified the validity of valuation of slow-moving inventories as one of the key audit matters.

Auditor’s responses

With regard to the validity of valuation of slow-moving inventories, we conducted the following procedures:

(1) In order to understand the Company’s accounting policy for inventories and its efforts to improve the inventory turnover in response to changes in the market environment, we asked questions of management. In addition, we evaluated the effectiveness of the parent company’s designing and implementing its internal controls to secure the validity of valuation of inventories.

(2) In addition to the above evaluation of the internal controls, we conducted experimental procedures regarding the parent company as follows:

- When inventory was taken, examined the site of inventories to confirm whether dormant inventories were stored or not, and asked the person in charge about the newly recognized dormant inventories as to reasons for recognition and the policy on them after the recognition.
- Obtained materials for consideration of slow-moving inventories, considered whether valuation losses were appropriately calculated subject to the inventory valuation policy, and carried out a test to verify the accuracy and completeness of the data.
- As for the items of slow-moving inventories in the past years, grasped the actual sales and use of the same items in the current fiscal year and made retroactive consideration of the past valuation.

(3) We obtained data of inventories from each consolidated company, verified whether the amount of inventory and inventory write-downs were recorded subject to the valuation policy, and confirmed the balance of inventories after valuation was recorded in the consolidated package.

| 2. Effectiveness of internal controls over the process of replacing the core systems as well as internal controls related to the replaced core systems |
|---|
| Description of key audit matters and reasons for determination |
| The Company planned to introduce new core systems, including finance and accounting systems, and started operating the new core systems in the fiscal year under review. Consequently, the Company migrated data to the new systems and changed internal controls over the related business processes.<br><br>The related business processes include processes to sales, accounts receivable-trade, and inventories. The new core systems have a wide influence on the Company's businesses.<br><br>If the new systems do not operate properly, a lot of wrong accounting will automatically repeat, and errors will occur in the related account items and disclosure, which may seriously and adversely affect the consolidated financial statements.<br><br>For this reason, we determined that key audit matters include the effectiveness of internal controls over the process of replacement of the core systems as well as internal controls related to the replaced core systems. |
| Auditor's responses |
| We conducted following audit procedures regarding the IT general controls related to the process of migration to the new core systems and evaluation of the related business processes.<br><br>(1) Verification of the accuracy and completeness of data migration to the new core systems<br><br>・ To verify the implementation of necessary procedures, including approval by the responsible person, for the introduction of the new core systems, we viewed the requirement definition document and specification document, migration plan, testing plan and specification document, migration results, minute of meeting for production, inspection document, etc.<br><br>・ To verify the complete and accurate migration of the master and transaction data, we viewed the results of data collation of the old and the new systems, which was made by the person in charge.<br><br>・ To verify the complete and accurate migration of the balances in the old core systems as of the time of production of the new core systems to the new core systems, we considered the balances (accounts receivable-trade, inventories, etc.) in the new and the old systems are consistent.<br><br>・ To ensure there is no deficiency in managing the occurrence of failures or errors after operating the new core systems and in recovering the systems in such cases, we asked questions of the manager of the information system department and viewed the management ledger.<br><br>(2) Evaluation of internal controls related to the new core systems<br><br>・ To evaluate the effectiveness of designing and implementing IT general controls (controls over change management, access management, operation management, and contractor management) over the new core systems after production, we asked questions of the manager of the information system department about each control item and viewed related materials, based on the evaluation sheet of the implementation status of IT general controls prepared by the Company.<br><br>・ To evaluate the effectiveness of designing and implementing internal controls over the business processes (processes to sales, accounts receivable-trade and inventories) that are influenced by the migration to the new core systems, we had the person in charge reverify the results and we directly compared evidence documents by sampling.<br><br>・ We considered the automated controls over information processing that is incorporated as internal controls over the business processes are implemented in the new core systems in the production environment as designed through the above procedures. |

**Other Statements**

Other statements consist of information contained in the Annual Securities Report other than the consolidated financial statements and non-consolidated financial statements and the Auditor's Reports thereon. Management is responsible for the preparation and disclosure of the other statements. The Audit and Supervisory Committee is also responsible for overseeing the directors' performance of their duties with regard to the design and implementation of the reporting process for the other statements.

Our audit opinion on the consolidated financial statements does not include the other statements, and we express no opinion on the other statements.

Our responsibility in the audit of the consolidated financial statements is to read the other statements carefully and, in the course of that reading, to consider whether there are material differences between the other statements and the consolidated financial statements or our knowledge obtained in the audit, and to pay attention to whether there is any indication of material errors in the other statements besides such material differences.

If, based on the work we have performed, we determine that there are material errors in the other statements, we are required to report those facts.

We have no other matters to report in respect to the other statements.

**Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and implementing such internal control as management determines is necessary to enable the preparation and fair presentation of the 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 whether it is appropriate to prepare the consolidated financial statements in accordance with the premise of a going concern, and for disclosing matters relating to going concern when it is required to do so in accordance with accounting principles generally accepted in Japan.

The Audit and Supervisory Committee is responsible for monitoring the execution of Directors' duties related to designing and implementing the financial reporting process.

**Auditor's Responsibility for the Audit of the Consolidated Financial Statements**

Our responsibility is 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 express an opinion on the consolidated financial statements from an independent standpoint in an audit report, based on our audit. Misstatements can occur as a result of fraud or error, and are deemed material if they can be reasonably expected to, either individually or collectively, influence the decisions of users taken on the basis of the consolidated financial statements.

We make professional judgment in the audit process in accordance with auditing standards generally accepted in Japan, and perform the following while maintaining professional skepticism.

- Identify and assess the risks of material misstatement, whether due to fraud or error. Design and implement audit procedures to address the risks of material misstatement. The audit procedures shall be selected and applied as determined by the auditor. In addition, sufficient and appropriate audit evidence shall be obtained to provide a basis for the audit opinion.
- Consider, in making those risk assessments, internal control relevant to the entity's audit in order to design audit procedures that are appropriate in the circumstances, although the purpose of the audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control.
- Assess the appropriateness of accounting policies adopted by management and the method of their application, as well as the reasonableness of accounting estimates made by management and the adequacy of related notes.
- Determine whether it is appropriate for management to prepare the consolidated financial statements on the

premise of a going concern and, based on the audit evidence obtained, determine whether there is a significant uncertainty in regard to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If there is a significant uncertainty concerning the premise of a going concern, the auditor is required to call attention to the notes to the consolidated financial statements in the audit report, or if the notes to the consolidated financial statements pertaining to the significant uncertainty are inappropriate, issue an opinion with some exceptions on the consolidated financial statements. While the conclusions of the auditor are based on the audit evidence obtained up to the date of the audit report, depending on future events or conditions, an entity may be unable to continue as a going concern.

- Assess whether the presentation of and notes to the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as assess the presentation, structure, and content of the consolidated financial statements including related notes, and whether the consolidated financial statements fairly present the transactions and accounting events on which they are based.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the Company and its consolidated subsidiaries in order to express an opinion on the consolidated financial statements. The auditor is responsible for instructing, supervising, and implementing the audit of the consolidated financial statements, and is solely responsible for the audit opinion.

We communicate with the Audit and Supervisory Committee 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, and other matters required by the standards for audits.

We also provide the Audit and Supervisory Committee with a statement that we have complied with the provisions of professional ethics in Japan regarding independence, and communicate with them matters that may reasonably be thought to bear on our independence, and where applicable, measures taken to eliminate disincentives or safeguards imposed to reduce disincentives to an acceptable level.

Of the matters discussed with the Audit and Supervisory Committee, we determine the matters that are considered to be particularly important for the audit of the consolidated financial statements for the fiscal year under review as key audit matters, and shall include them in the auditor's report. However, we do not include such matters in the Auditor's Report if the disclosure of such matters is prohibited by laws and regulations or if, although in extremely rare circumstances, we determine that such matters should not be reported because the disadvantages of reporting such matters in the Auditor's Report are reasonably expected to outweigh the public interest.

**<Internal Control Audit>**

**Opinion**

We have audited the Internal Control Report of DAISHINKU CORP. as of March 31, 2024 for the purpose of providing audit certification in accordance with Article 193-2, paragraph (2) of the Financial Instruments and Exchange Act.

In our opinion, the Internal Control Report referred to above, in which DAISHINKU CORP. indicated that its internal control over financial reporting as of March 31, 2024 was effective, presents fairly, in all material respects, the results of its assessment of internal control over financial reporting, in accordance with the assessment criteria for internal control over financial reporting generally accepted in Japan.

**Basis for the Opinion**

We conducted our internal control audit in accordance with auditing standards on internal control over financial reporting generally accepted in Japan. Our responsibility under auditing standards on internal control over financial reporting is stated in the "Auditor's Responsibility for the Audit of Internal Control." We are independent of the Company and its consolidated subsidiaries in accordance with the provisions related to professional ethics in Japan, and are fulfilling other ethical responsibilities as an auditor. We believe that we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

**Responsibilities of Management and the Audit and Supervisory Committee for the Internal Control Report**

Management is responsible for designing and implementing internal control over financial reporting, and for the preparation and fair presentation of the Internal Control Report in accordance with standards for assessment of internal control over financial reporting generally accepted in Japan.

The Audit and Supervisory Committee is responsible for monitoring and verifying the design and implementation of internal control over financial reporting.

Internal control over financial reporting may not completely prevent or detect misstatements in financial reporting.

**Auditor's Responsibility for the Audit of Internal Control**

Our responsibility is to obtain reasonable assurance about whether the Internal Control Report is free of material misstatement based on the internal control audit performed by us and to express an opinion on the Internal Control Report from an independent standpoint in the Internal Control Audit Report.

We make professional judgment in the audit process in accordance with auditing standards on internal control over financial reporting generally accepted in Japan, and perform the following while maintaining professional skepticism.

- Perform audit procedures to obtain audit evidence relating to the result of the assessment of internal control over financial reporting in the Internal Control Report. Audit procedures for internal control audits are selected and applied based on our judgment in consideration of the materiality of the effect on the reliability of financial reporting.
- Consider the overall presentation of the Internal Control Report with regards to the scope, procedures, and result of the assessment of internal control over financial reporting including descriptions by management.
- Obtain sufficient and appropriate audit evidence regarding the result of the assessment of internal control over financial reporting in the Internal Control Report. The auditor is responsible for instructing, supervising, and implementing the audit of the Internal Control Report, and is solely responsible for the audit opinion.

We communicate with the Audit and Supervisory Committee regarding, among other matters, the planned scope and timing of the internal control audit, the results of the internal control audit, significant deficiencies identified in internal control that should be disclosed, the results of their correction, and other matters required by the standards for internal control audits.

We also provide the Audit and Supervisory Committee with a statement that we have complied with the provisions of professional ethics in Japan regarding independence, and communicate with them matters that may reasonably be thought to bear on our independence, and where applicable, measures taken to eliminate disincentives or safeguards imposed to reduce disincentives to an acceptable level.

**<Information on Remuneration>**

The amounts of remuneration to our firm and persons who belong to the same network of the firm for their audit certification and non-audit certification of the financial statements of the Company and its consolidated subsidiaries for the fiscal year under review are stated in Status of corporate governance, etc. (3) Information about audit in "Information About the Reporting Company."

The dependence of remuneration stipulated in the Code of Ethics of the Japanese Institute of Certified Public Accountants continued to exceed 15% from the fiscal year ended March 31, 2024.

**Interest**

Our firm or engagement partners have no interests in the Company and its consolidated subsidiaries requiring disclosure under the provisions of the Certified Public Accountants Act of Japan.

End

Notes: 1. The original of the above audit report is kept separately by the Company (the company filing the Annual Securities Report).
2. The XBRL data is not included in the scope of audit.

# Independent Auditor's Report

June 27, 2024

To the Board of Directors of DAISHINKU CORP.

SCS Global LLC

Osaka Office

| | | |
|---|---|---|
| Designated Limited Liability Partner Managing Partner | Certified Public Accountant | Yuji Ando |
| Designated Limited Liability Partner Managing Partner | Certified Public Accountant | Yoshinari Umeda |

**<Audit of Non-consolidated Financial Statements>**

**Opinion**

For the purpose of audit certification pursuant to the provisions in Article 193-2, paragraph (1) of the Financial Instruments and Exchange Act, we have audited the accompanying non-consolidated financial statements, which comprise the balance sheets, the statements of income, the statements of changes in equity, significant accounting policies, other notes and supplemental schedules of DAISHINKU CORP. ("the Company") for the 61st fiscal year from April 1, 2023 through March 31, 2024, as listed in "Financial Information."

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial positions of DAISHINKU CORP. as of March 31, 2024, and its operating results for the fiscal year ended on such date in conformity with accounting principles generally accepted in Japan.

**Basis for the Opinion**

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibility under the auditing standards is stated in "Auditor's Responsibility for the Audit of the Non-consolidated Financial Statements." We are independent of the Company in accordance with the provisions related to professional ethics in Japan, and are fulfilling other ethical responsibilities as an auditor. We believe that we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

**Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the non-consolidated financial statements of the fiscal year under review. These matters were addressed in the process of the audit of the non-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.

| |
|---|
| 1. Valuation of inventories (validity of valuation of slow-moving inventories) |
| Description is omitted as the content is identical to the key audit matters (valuation of inventories (validity of valuation of slow-moving inventories)) stated in the audit report on the consolidated financial statements. |
| 2. Effectiveness of internal controls over the process of replacing the core systems as well as internal controls related to the replaced core systems |
| Description is omitted as the content is identical to the key audit matters (internal controls over the processes of replacing the core systems and internal controls related to the replaced core systems) stated in the audit report on the consolidated financial statements. |
| 3. Valuation of investments and loans to subsidiaries and associates |
| Description of key audit matters and reasons for determination |
| The Company has many group companies, most of which run business overseas. On the balance sheet of the Company as of March 31, 2024, shares of and investments in capital of subsidiaries and associates (hereinafter "shares, etc. of subsidiaries and associates") were ¥12,737,552 thousand, loans to subsidiaries and associates were ¥2,312,794 thousand (included in "other" under current assets and "long-term loans receivable" under investments and other assets), which account for 23.5% of the total assets.<br><br>The amount of shares, etc. of subsidiaries and associates is recorded on the balance sheet at the acquisition cost, but if the actual value substantially declines due to deterioration of the issuing company's financial position, an impairment loss will need to be recorded except when recoverability is supported by sufficient evidence. With regard to the valuation of loans to subsidiaries and associates, it is examined whether allowance for doubtful accounts is needed or not, taking into consideration their financial conditions and future profit plan, etc.<br><br>The Company takes on functions of fundraising and fund management for the entire group by combining investments and loans to group companies for their needs of working capital and business expansion funds. In view of this business structure of the Company, the valuation of investments and loans to subsidiaries and associates is largely influenced by the Company's group management policy and management's judgement and is significant to the balance sheet. Therefore we determined this is one of the key audit matters. |
| Auditor's responses |
| We conducted the following procedures regarding the appropriateness of valuation of investments and loans to subsidiaries and associates.<br>(1) Obtained audited financial statements from each company and verified the reliability of financial information which is the basis of calculation of the actual value of shares, etc. of subsidiaries and associates.<br>(2) Examined if there is a significant decline in the actual value of shares, etc. of subsidiaries and associates based on each company's financial information. At that time, with respect to shares, etc. of subsidiaries and associates whose actual value dropped considerably although no significant decline is identified, we asked questions about the current business situation and outlook in the future of such companies.<br>(3) With regard to the loan collection plan used for the valuation of loans to subsidiaries and associates, we considered the consistency between the profit plan and cash flow plan that were approved by management. |

**Other Statements**

Other statements consist of information contained in the Annual Securities Report other than the consolidated financial statements and non-consolidated financial statements and the Auditor's Reports thereon. Management is responsible for the preparation and disclosure of the other statements. The Audit and Supervisory Committee is also responsible for overseeing the directors' performance of their duties with regard to the design and implementation of the reporting process for the other statements.

Our audit opinion on the non-consolidated financial statements does not include the other statements, and we express no opinion on the other statements.

Our responsibility in the audit of the non-consolidated financial statements is to read the other statements carefully and, in the course of that reading, to consider whether there are material differences between the other statements and the non-consolidated financial statements or our knowledge obtained in the audit, and to pay attention to whether there is any indication of material errors in the other statements besides such material differences.

If, based on the work we have performed, we determine that there are material errors in the other statements, we are required to report those facts.

We have no other matters to report in respect to the other statements.

**Responsibilities of Management and the Audit and Supervisory Committee for the Non-consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the non-consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and implementing such internal control as management determines is necessary to enable the preparation and fair presentation of the non-consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the non-consolidated financial statements, management is responsible for assessing whether it is appropriate to prepare the non-consolidated financial statements in accordance with the premise of a going concern, and for disclosing matters relating to going concern when it is required to do so in accordance with accounting principles generally accepted in Japan.

The Audit and Supervisory Committee is responsible for monitoring the execution of Directors' duties related to designing and implementing the financial reporting process.

**Auditor's Responsibility for the Audit of the Non-Consolidated Financial Statements**

Our responsibility is to obtain reasonable assurance about whether the non-consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to express an opinion on the non-consolidated financial statements from an independent standpoint in an audit report, based on our audit. Misstatements can occur as a result of fraud or error, and are deemed material if they can be reasonably expected to, either individually or collectively, influence the decisions of users taken on the basis of the non-consolidated financial statements.

We make professional judgment in the audit process in accordance with auditing standards generally accepted in Japan, and perform the following while maintaining professional skepticism.

- Identify and assess the risks of material misstatement, whether due to fraud or error. Design and implement audit procedures to address the risks of material misstatement. The audit procedures shall be selected and applied as determined by the auditor. In addition, sufficient and appropriate audit evidence shall be obtained to provide a basis for the audit opinion.
- Consider, in making those risk assessments, internal control relevant to the entity's audit in order to design audit procedures that are appropriate in the circumstances, although the purpose of the audit of the non-consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control.
- Assess the appropriateness of accounting policies adopted by management and the method of their application, as well as the reasonableness of accounting estimates made by management and the adequacy of related notes.
- Determine whether it is appropriate for management to prepare the non-consolidated financial statements on the premise of a going concern and, based on the audit evidence obtained, determine whether there is a significant uncertainty in regard to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If there is a significant uncertainty concerning the premise of a going concern, the auditor is required to call attention to the notes to the non-consolidated financial statements in the audit report, or if the notes to the non-consolidated financial statements pertaining to the significant uncertainty are inappropriate, issue an opinion with some exceptions on the non-consolidated financial statements. While the

conclusions of the auditor are based on the audit evidence obtained up to the date of the audit report, depending on future events or conditions, an entity may be unable to continue as a going concern.

- Assess whether the presentation of and notes to the non-consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as assess the presentation, structure, and content of the non-consolidated financial statements including related notes, and whether the non-consolidated financial statements fairly present the transactions and accounting events on which they are based.

We communicate with the Audit and Supervisory Committee 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, and other matters required by the standards for audits.

We also provide the Audit and Supervisory Committee with a statement that we have complied with the provisions of professional ethics in Japan regarding independence, and communicate with them matters that may reasonably be thought to bear on our independence, and where applicable, measures taken to eliminate disincentives or safeguards imposed to reduce disincentives to an acceptable level.

Of the matters discussed with the Audit and Supervisory Committee, we determine the matters that are considered to be particularly important for the audit of the non-consolidated financial statements for the fiscal year under review as key audit matters, and shall include them in the Auditor's Report. However, we do not include such matters in the Auditor's Report if the disclosure of such matters is prohibited by laws and regulations or if, although in extremely rare circumstances, we determine that such matters should not be reported because the disadvantages of reporting such matters in the Auditor's Report are reasonably expected to outweigh the public interest.

**<Information on Remuneration>**

Information on remuneration is stated in the Auditor's Report on the consolidated financial statements.

**Interest**

Our firm or engagement partners have no interests in the Company requiring disclosure under the provisions of the Certified Public Accountants Act of Japan.

End

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Notes: 1. The original of the above audit report is kept separately by the Company (the company filing the Annual Securities Report).
2. The XBRL data is not included in the scope of audit.

[Cover]

| | |
|---|---|
| Document title | Confirmation Letter |
| Clause of stipulation | Article 24-4-2, paragraph (1) of the Financial Instruments and Exchange Act |
| Place of filing | Director-General of the Kanto Local Finance Bureau |
| Filing date | June 28, 2024 |
| Company name | 株式会社大真空 |
| Company name in English | DAISHINKU CORP. |
| Title and name of representative | Minoru Iizuka, President |
| Title and name of chief financial officer | Not applicable. |
| Address of registered Head Office | 1389 Shinzaike, Hiraoka-cho, Kakogawa, Hyogo |
| Place for public inspection | Tokyo Stock Exchange, Inc.<br>(2-1 Nihombashi Kabutocho, Chuo-ku, Tokyo) |

1. [Appropriateness of the descriptions in this Annual Securities Report]

   Minoru Iizuka, the Company's President and Representative Director, confirmed that information contained in the Company's Annual Securities Report for the 61st fiscal year (from April 1, 2023 to March 31, 2024) was described appropriately in accordance with the Financial Instruments and Exchange Act and related regulations.

2. [Special notes]

   There are no matters to be noted.

[Cover]

| | |
|---|---|
| Document title | Internal Control Report |
| Clause of stipulation | Article 24-4-4, paragraph (1) of the Financial Instruments and Exchange Act |
| Place of filing | Director-General of the Kanto Local Finance Bureau |
| Filing date | June 28, 2024 |
| Company name | 株式会社大真空 |
| Company name in English | DAISHINKU CORP. |
| Title and name of representative | Minoru Iizuka, President |
| Title and name of chief financial officer | Not applicable. |
| Address of registered Head Office | 1389 Shinzaike, Hiraoka-cho, Kakogawa, Hyogo |
| Place for public inspection | Tokyo Stock Exchange, Inc.<br>(2-1 Nihombashi Kabutocho, Chuo-ku, Tokyo) |

1. [Basic framework for internal controls regarding the financial reporting]

   Minoru Iizuka, President and Representative Director, is responsible for the design and implementation of internal control over financial reporting, and has designed and implemented internal controls over financial reporting in accordance with the basic framework for internal control set forth in “On the Revision of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)” released by the Business Accounting Council.

   Internal control is aimed at achieving its goal to a reasonable extent through basic elements of internal control organically intertwining and functioning in an integrated manner. Accordingly, internal control over financial reporting may not fully prevent or detect misstatements in financial reporting.

2. [Scope of assessment, record date, and assessment procedures]

   The assessment of internal control over financial reporting was made as of March 31, 2024 as the record date, which is the last day of the fiscal year ended, and in the assessment, we complied with assessment standards for internal control over financial reporting generally accepted in Japan.

   In this assessment, we assessed internal control that significantly affects the entire financial reporting on a consolidated basis (Company Level Controls), and then, based on the result, selected business processes to be assessed. In the assessment of the business processes, we made an assessment of effectiveness of internal control by analyzing the selected business processes, and then identifying key controls that have significant impact on credibility of financial reporting and assessing the design and implementation for the key controls.

   As for the scope of the assessment of internal control over financial reporting, a necessary scope was determined from the viewpoint of significance of impact on credibility of financial reporting for the Company and its consolidated subsidiaries. Significance of impact on credibility of financial reporting was determined in light of significance in terms of the amount and quality, and the scope of assessment of internal control over the business processes was reasonably determined based on results of assessment of Company Level Controls made targeting the Company and consolidated subsidiaries. Of the consolidated subsidiaries, those we determined are insignificant from the perspective of significance in terms of the amount and quality were not included in the scope of the assessment of Company Level Controls.

   As for the scope of assessment of internal control over the business processes, based on results of assessment of Company Level Controls, and taking into materiality of impact on financial reporting in terms of the amount and quality, we selected significant business entities whose total net sales exceeded two thirds of the consolidated net sales (excluding inter-company sales), and whose business processes to “net sales” “accounts receivable-trade” and “inventory,” which were closely associated with the Company’s business objectives, were included in the scope of assessment. Furthermore, regardless of the selected significant business entities, as for the scope including other business entities, business processes related to significant account items for which the possibility of material misstatements is high and which involve estimates and forecasts, and related to businesses or operations with high risks, were added to matters to be assessed as high significant business processes in view of the impact on financial reporting.

3. [Results of the assessment]

   As a result of the above assessment, we judged that the Company’s internal control over financial reporting was effective as of March 31, 2024.

4. [Supplementary notes]

   Not applicable.

5 [Special notes]

   Not applicable.