Consolidated Operating Results, Consolidated Financial Position, and Consolidated Cash Flow for Fiscal 2020 (from June 1, 2020 to May 31, 2021) are as follows:

Results of Operation

Orders received
YoY -22.0%

Orders received decreased 22.0% compared with the previous fiscal year to 30,055 million yen due to a decrease in orders received in the Transportation Systems segment, the Industrial Systems segment, and the Information Equipment Systems segment.

Net sales
YoY -15.2%

Net sales decreased 15.2% compared with the previous fiscal year to 33,143 million yen due to a decrease in the Transportation Systems segment.

Profit/Loss
Net income attributable to owners of the parent
YoY -9.6%

From a profit perspective, operating income decreased 60.3% compared with the previous fiscal year to 423 million yen. Ordinary income decreased 37.3% compared with the previous fiscal year to 757 million yen. Net income attributable to owners of the parent decreased 9.6% to 977 million yen, as a result of efforts to cut some cross-shareholdings.

Financial Position

Assets
Total assets
51,967 million yen

Total assets as of May 31, 2021 stood at 51,967 million yen, a decrease of 3,198 million yen compared with the end of the previous fiscal year. The decrease in total assets was largely attributable to a decrease of 1,554 million yen in trade notes and accounts receivable and a decrease of 1,602 million yen in investment securities, offset by an increase of 670 million yen in cash on hand and in banks.

Liabilities
Total liabilities
27,958 million yen

Total liabilities as of May 31, 2021 stood at 27,958 million yen, a decrease of 3,023 million yen compared with the end of the previous fiscal year. This decrease was largely attributable to a decrease of 1,727 million yen in trade notes and accounts payable and a decrease of 707 million yen in debt.

Net assets
Total net assets
24,008 million yen

Net assets as of May 31, 2021 stood at 24,008 million yen, a decrease of 174 million yen compared with the end of the previous fiscal year. This decrease was largely attributable to a decrease of 924 million yen in unrealized holding gain on available-for-sale securities, offset by an increase of 709 million yen in retained earnings.

Cash Flows

Cash flow from operating activities
Net cash provided by operating activities
1,776 million yen

Net cash provided by operating activities amounted to 1,776 million yen (net cash of 2,148 million yen provided in the previous fiscal year), principally due to a decrease in trade notes and accounts receivable.

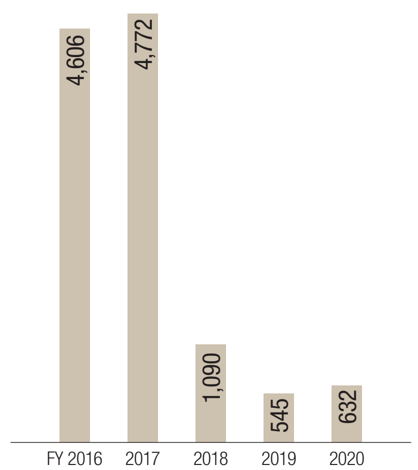
Cash flow from investing activities
Net cash used in investing activities
155 million yen

Net cash used in investing activities totaled 155 million yen (net cash of 41 million yen provided in the previous fiscal year), principally due to purchases of property, plant and equipment.

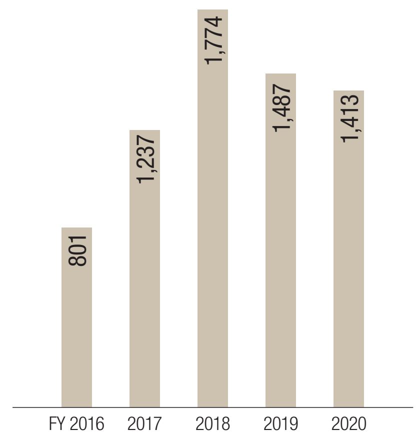
Cash flow from financing activities
Net cash used in financing activities
971 million yen

Net cash used in financing activities was 971 million yen (net cash of 1,126 million yen used in the previous fiscal year), primarily owing to repayment of debt.

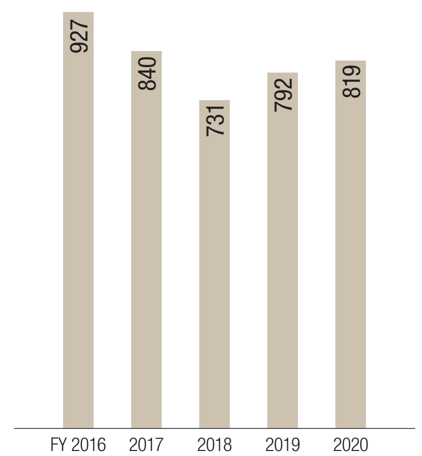
Capital investment (Unit: Million yen)



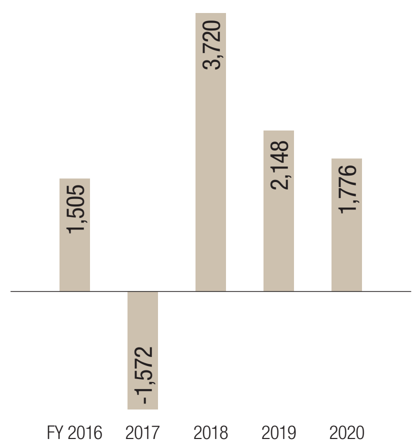
Depreciation and amortization (Unit: Million yen)



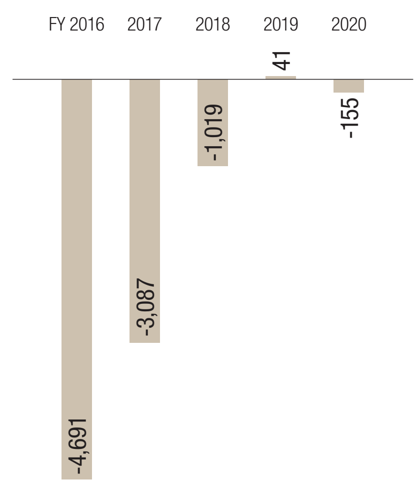
Research and development costs (Unit: Million yen)



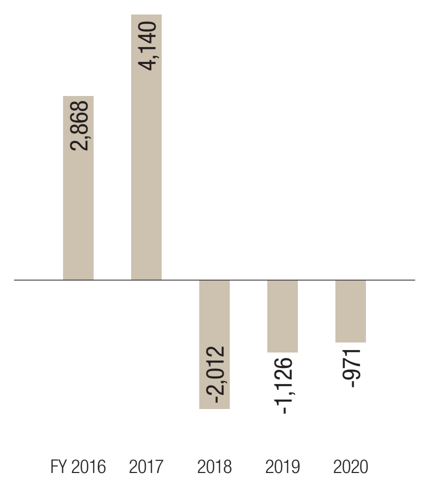
Cash flows from operating activities (Unit: Million yen)



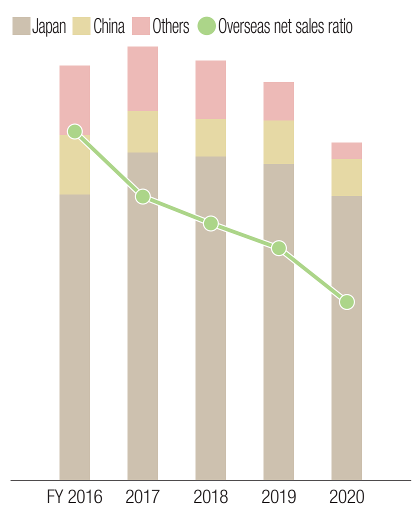
Cash flows from investing activities (Unit: Million yen)



Cash flows from financing activities (Unit: Million yen)



Net sales by region (Unit: Million yen)



	2017	2018	2019	2020	2021
Japan	28,006	32,124	31,745	30,997	27,876
China	5,882	4,085	3,663	4,282	3,628
Others	6,778	6,317	5,763	3,791	1,638
Total	40,668	42,527	41,172	39,071	33,143
Overseas net sales ratio	31.1%	25.3%	22.9%	20.7%	15.9%

TOYO DENKI SEIZO K.K.
Consolidated Balance Sheets

As of	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Assets			
Current assets:			
Cash on hand and in banks (Notes 16 and 18)	¥ 3,964	¥ 3,293	$ 36,118
Trade notes and accounts receivable (Notes 2 and 16)	13,218	14,135	120,426
Electronically recorded receivables (Note 16)	901	1,538	8,209
Inventories (Note 3)	6,901	7,178	62,877
Other current assets	318	139	2,898
Allowance for doubtful accounts	(2)	(0)	(24)
Total current assets	25,300	26,284	230,506
Property, plant and equipment (Note 4):			
Buildings and structures	6,410	6,753	58,401
Machinery and vehicles	966	1,059	8,805
Land	1,301	1,301	11,855
Construction in progress	24	86	227
Other	622	724	5,675
Total property, plant and equipment	9,325	9,925	84,964
Investments and other assets (Note 5):			
Investment securities (Notes 5, 16 and 17)	13,832	15,434	126,021
Deferred tax assets (Note 11)	223	170	2,037
Intangible assets	303	490	2,765
Other	2,988	2,865	27,230
Allowance for doubtful accounts	(6)	(6)	(62)
Total investments and other assets	17,341	18,954	157,992
Total assets (Note 20)	¥51,967	¥55,165	$473,462

As of	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
LIABILITIES AND NET ASSETS			
Current liabilities:			
Trade notes and accounts payable (Notes 2 and 16)	¥ 1,668	¥ 2,224	$ 15,198
Electronically recorded payables (Note 16)	4,705	5,877	42,870
Short-term borrowings and current portion of long-term debt (Notes 6 and 16)	2,085	2,207	18,998
Income taxes payable (Note 11)	161	334	1,472
Accrued expenses	611	606	5,574
Accrued directors' bonuses	36	36	327
Accrued employees' bonuses	827	876	7,539
Reserve for losses on order acknowledgements (Note 3)	871	732	7,941
Other	660	773	6,018
Total current liabilities	11,628	13,669	105,942
Long-term liabilities:			
Long-term debt (Notes 6, 16 and 19)	11,759	12,344	107,134
Deferred tax liabilities (Note 11)	427	930	3,891
Liability for retirement benefits (Note 7)	4,124	4,010	37,579
Long-term payables	17	25	158
Other	1	3	17
Total long-term liabilities	16,330	17,312	148,782
Commitments and contingencies (Note 14)			
Net assets (Notes 8 and 15):			
Shareholders' equity:			
Common stock	¥ 4,998	¥ 4,998	$ 45,539
Capital surplus	3,177	3,177	28,949
Retained earnings	12,320	11,610	112,251
Treasury stock	(1,281)	(1,280)	(11,677)
Total shareholders' equity	19,214	18,505	175,062
Accumulated other comprehensive income:			
Unrealized holding gain on securities	4,803	5,727	43,760
Translation adjustments	88	79	802
Retirement benefits liability adjustments (Note 7)	(97)	(129)	(887)
Total accumulated other comprehensive income	4,793	5,677	43,676
Total net assets	24,008	24,183	218,738
Total liabilities and net assets	¥51,967	¥55,165	$473,462

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.
Consolidated Statements of Income

For the Years Ended	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Net sales (Note 20)	¥33,143	¥39,071	$301,962
Cost of sales (Note 3)	25,805	30,828	235,106
Gross profit	7,338	8,242	66,856
Selling, general and administrative expenses (Note 9)	6,914	7,174	62,996
Operating income (Note 20)	423	1,068	3,860
Non-operating income (expenses):			
Interest and dividend income	202	235	1,848
Interest expense	(67)	(83)	(615)
Equity in losses of unconsolidated subsidiaries and affiliates	(4)	(39)	(41)
Foreign exchange gain (loss)	133	(56)	1,214
Insurance claim income related to disaster	34	104	318
Subsidy income	40	40	364
Disaster recover expenses	—	(79)	—
Other (expenses) income, net	(5)	19	(50)
	333	139	3,038
Ordinary income	757	1,207	6,899
Special gains, net (Note 10)	407	445	3,714
Income before income taxes	1,164	1,653	10,613
Income taxes (Note 11):			
Current	352	577	3,209
Deferred	(165)	(5)	(1,506)
	186	571	1,703
Net income	977	1,081	8,910
Net income attributable to non-controlling interests	—	—	—
Net income attributable to owners of the parent	¥ 977	¥ 1,081	$ 8,910

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.
Consolidated Statements of Comprehensive Income (Loss)

For the Years Ended	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Net income	¥ 977	¥ 1,081	$ 8,910
Other comprehensive loss (Note 12):			
Unrealized holding loss on securities	(924)	(1,448)	(8,423)
Translation adjustments	(6)	(12)	(55)
Retirement benefits liability adjustments	32	62	294
Share of other comprehensive income (loss) of affiliates accounted for by the equity method	14	(34)	133
Total other comprehensive loss	(883)	(1,433)	(8,050)
Comprehensive income (loss)	¥ 94	¥ (351)	$ 859
Comprehensive income (loss) attributable to:			
Owners of the parent	¥ 94	¥ (351)	$ 859
Non-controlling interests	—	—	—

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.
Consolidated Statements of Changes in Net Assets

(Millions of yen)

	Shareholders' equity					Accumulated other comprehensive income				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gain on securities	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Total net assets
Balance as of June 1, 2019	¥4,998	¥3,177	¥10,797	¥(1,280)	¥17,693	¥7,176	¥126	¥(192)	¥7,110	¥24,804
Changes during the year										
Cash dividends paid	—	—	(268)	—	(268)	—	—	—	—	(268)
Net income attributable to owners of the parent	—	—	1,081	—	1,081	—	—	—	—	1,081
Purchases of treasury stock	—	—	—	(0)	(0)	—	—	—	—	(0)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	(1,448)	(47)	62	(1,433)	(1,433)
Total changes during the year	—	—	813	(0)	812	(1,448)	(47)	62	(1,433)	(620)
Balance as of May 31, 2020	¥4,998	¥3,177	¥11,610	¥(1,280)	¥18,505	¥5,727	¥ 79	¥(129)	¥5,677	¥24,183
Balance as of June 1, 2020	¥4,998	¥3,177	¥11,610	¥(1,280)	¥18,505	¥5,727	¥ 79	¥(129)	¥5,677	¥24,183
Changes during the year										
Cash dividends paid	—	—	(268)	—	(268)	—	—	—	—	(268)
Net income attributable to owners of the parent	—	—	977	—	977	—	—	—	—	977
Purchases of treasury stock	—	—	—	(0)	(0)	—	—	—	—	(0)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	(924)	8	32	(883)	(883)
Total changes during the year	—	—	709	(0)	708	(924)	8	32	(883)	(174)
Balance as of May 31, 2021	¥4,998	¥3,177	¥12,320	¥(1,281)	¥19,214	¥4,803	¥ 88	¥ (97)	¥4,793	¥24,008

(Thousands of U.S. dollars) (Note 1)

	Shareholders' equity					Accumulated other comprehensive income				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized holding gain on securities	Translation adjustments	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Total net assets
Balance as of June 1, 2020	$45,539	$28,949	$105,784	$(11,669)	$168,603	$52,184	$724	$(1,181)	$51,726	$220,330
Changes during the year										
Cash dividends paid	—	—	(2,443)	—	(2,443)	—	—	—	—	(2,443)
Net income attributable to owners of the parent	—	—	8,910	—	8,910	—	—	—	—	8,910
Purchases of treasury stock	—	—	—	(7)	(7)	—	—	—	—	(7)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	(8,423)	78	294	(8,050)	(8,050)
Total changes during the year	—	—	6,466	(7)	6,458	(8,423)	78	294	(8,050)	(1,592)
Balance as of May 31, 2021	$45,539	$28,949	$112,251	$(11,677)	$175,062	$43,760	$802	$ (887)	$43,676	$218,738

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.
Consolidated Statements of Cash Flows

For the Years Ended	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Operating activities			
Income before income taxes	¥ 1,164	¥ 1,653	$ 10,613
Depreciation and amortization	1,413	1,487	12,874
Reversal of allowance for doubtful accounts	2	(7)	23
Provision for accrued employees' bonuses	(49)	57	(449)
Increase in liability for retirement benefits	97	138	890
Interest and dividend income	(202)	(235)	(1,848)
Interest expense	67	83	615
Insurance claim income related to disaster	(34)	(104)	(318)
Subsidy income	(40)	(40)	(364)
Disaster recover expenses	—	79	—
Gain on sales of investment securities	(407)	(447)	(3,714)
Changes in operating assets and liabilities:			
Trade notes and accounts receivable	1,567	(64)	14,279
Inventories	274	372	2,497
Trade notes and accounts payable	(1,743)	(481)	(15,886)
Reserve for losses on order acknowledgements	142	166	1,298
Advances received	(11)	(13)	(101)
Accrued expenses	(14)	(64)	(136)
Other, net	(86)	(164)	(787)
Subtotal	2,138	2,418	19,487
Interest and dividend income received	210	235	1,919
Interest expense paid	(68)	(91)	(622)
Proceeds from insurance income related to disaster	34	104	318
Subsidies received	40	40	364
Payments for disaster recover expenses	—	(79)	—
Income taxes paid	(580)	(477)	(5,285)
Net cash provided by operating activities	1,776	2,148	16,182
Investing activities			
Purchases of property, plant and equipment	(548)	(647)	(5,001)
Purchases of intangible assets	(43)	(33)	(399)
Purchases of investment securities	(14)	(14)	(129)
Proceeds from sales of investment securities	693	1,132	6,318
Payments of loans receivable	(111)	(26)	(1,013)
Collection of loans receivable	11	—	103
Payments for investments in capital of subsidiaries and affiliates	(88)	(338)	(810)
Other, net	(53)	(31)	(484)
Net cash (used in) provided by investing activities	(155)	41	(1,415)
Financing activities			
Decrease in short-term loans payable	(83)	(287)	(762)
Repayment of long-term debt	(617)	(568)	(5,624)
Purchases of treasury stock	(0)	(0)	(7)
Cash dividends paid	(268)	(268)	(2,447)
Other, net	(1)	(1)	(10)
Net cash used in financing activities	(971)	(1,126)	(8,852)
Effect of exchange rate change on cash and cash equivalents	21	(10)	195
Net increase in cash and cash equivalents	670	1,053	6,108
Cash and cash equivalents at beginning of period	3,293	2,240	30,009
Cash and cash equivalents at end of period (Note 18)	¥ 3,964	¥ 3,293	$ 36,118

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.
Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(a) Basis of presentation

The accompanying consolidated financial statements of TOYO DENKI SEIZO K.K. (the "Company") and consolidated subsidiaries (collectively the "Group") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards (IFRS), and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

Amounts of less than one million yen and one thousand U.S. dollars have been rounded down to the nearest million yen and thousand U.S. dollars, respectively, in the presentation of the accompanying consolidated financial statements. As a result, the totals in yen and U.S. dollars do not necessarily agree with the sum of the individual amounts.

(b) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements included the accounts of the Company and any significant companies controlled directly or indirectly by the Company.

Companies over which the Company exercises significant influence in terms of their operating and financial policies have been accounted for by the equity method. The Company applies the "Practical Solution of Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force (PITF) No. 18) and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for using Equity Method" (PITF No. 24). In accordance with these PITF, the accompanying consolidated financial statements have been prepared by using the accounts of foreign consolidated subsidiaries and affiliates prepared in accordance with either IFRS or accounting principles generally accepted in the United States as adjusted for certain items including goodwill, actuarial differences and capitalized development costs.

As of May 31, 2021, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 6 and 3 (6 and 3 in 2020). A subsidiary, TOYO DENKI USA, INC., for which fiscal year end is December 31, is consolidated by using their pro forma financial statements as of March 31 which are prepared solely for consolidation purposes and necessary adjustments are made to their financial statements to reflect any significant transactions from April 1 to May 31. All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in subsidiaries and affiliates which are neither consolidated nor accounted for by the equity method are carried at cost or less. Where there has been a permanent decline in the value of such investments, the Company has written down the investments.

(c) Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, and differences arising from the translation are included in the consolidated statements of income.

The balance sheet accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except for the components of net assets excluding non-controlling interests which are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rate of exchange in effect during the year. Differences arising from the translation are presented as translation adjustments in the consolidated financial statements.

(d) Cash and Cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks which can be withdrawn at any time and short-term investments with a maturity of three months or less from the date of purchase, which can easily be converted to cash and are subject to little risk of change in value.

(e) Inventories

Inventories are stated principally at the lower of cost or net realizable value, cost being determined principally by the specific identification method for finished products and work in process and by the moving average cost method for raw material and supplies.

(f) Short-term investments and investment securities
Securities other than equity securities issued by subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities (available-for-sale securities). Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Available-for-sale securities with market quotation are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Available-for-sale securities without market quotation are carried at cost. Cost of securities sold is determined by the moving average method.

(g) Property, plant and equipment (except for leased assets) and depreciation
Depreciation of property, plant and equipment of the Company and its consolidated subsidiaries is calculated principally by the declining-balance method based on the estimated useful lives and the residual value, while buildings except for facilities attached to buildings acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after June 1, 2016 are depreciated by the straight-line method. The estimated useful lives of these assets are as follows:

Buildings and structures:	8 to 60 years
Machinery and vehicles:	3 to 12 years

Significant renewals and additions are capitalized at cost. Maintenance and repairs are charged to income.

(h) Intangible assets (except for leased assets)
Intangible assets are amortized using the straight-line method. Software for internal use is amortized over the internal available period (5 years) using the straight-line method.

(i) Leases
Leased assets capitalized under the finance lease arrangements which do not transfer ownership to the lessee are depreciated over the lease period without any residual value using the straight-line method.
All other lease transactions are accounted for as operating leases and related payments are charged to income as incurred.

(j) Allowance for doubtful accounts
Allowance for doubtful accounts is provided based on past experience for normal receivables and on an estimate of the collectability of receivables from companies in financial difficulty.

(k) Accrued directors' bonuses
Accrued directors' bonuses are provided to cover the current fiscal year's portion of the estimated amounts to be paid in future for the performance incentive bonuses.

(l) Accrued employees' bonuses
Accrued employees' bonuses are provided to cover the current fiscal year's portion of the estimated amounts to be paid in future.

(m) Reserve for losses on order acknowledgements
Reserve for losses on order acknowledgements is provided based on the amounts expected to be incurred during the current fiscal year and which are able to estimate the losses reasonably to cover the future losses on order acknowledgements. Provision of reserve for losses on order acknowledgements in the amounts of ¥142 million ($(1,298) thousand) and ¥166 million is included in cost of sales for the years ended May 31, 2021 and 2020, respectively.

(n) Retirement benefits
Retirement benefit obligation is attributed to each period by the benefit formula method over the estimated years of service of the eligible employees.
Prior service cost is amortized as incurred by the straight-line method over a fixed period (10 years) within the average remaining years of service of the employees.
Actuarial differences are amortized by the straight-line method over a fixed period (10 years) within the average remaining years of service of the employees from the following year when incurred.

(o) Income taxes
Deferred tax assets and liabilities have been recognized in the consolidated financial statements with respect to the temporary differences between the financial reporting and tax bases of the assets and liabilities, and were measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(p) Construction revenue and costs
Construction revenue and construction costs are recognized by the percentage-of-completion method, if the outcome of a construction contract can be estimated reliably. The percentage of completion is measured based on the percentage of the costs incurred to the estimated total costs. For other construction contracts, the completed-contract method is applied.

(q) Research and development expenses
Research and development expenses are charged to income when incurred.

(r) Consumption taxes
Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(s) Derivative financial instruments
The Company and certain consolidated subsidiaries enter into various derivative transactions in order to manage certain risks arising from adverse fluctuations in interest rates. Derivative financial instruments are carried at fair value with changes in unrealized gain or loss charged or credited to operations, except for these which meet the criteria for deferred hedge accounting under which unrealized gain or loss is deferred as a component of net assets.
Deferred hedge accounting is adopted for derivatives which qualify as hedges, under which unrealized gain or loss is deferred. Hedging instruments are derivative transactions and hedged items are primarily interest on debts. Hedge effectiveness is not assessed if the substantial terms and conditions of the hedging instruments and the hedged items are the same.

(t) Significant accounting estimates
(Impairment of certain assets or groups of assets in the Industrial Systems segment)
(1) The amount recorded in the consolidated financial statements for the year ended May 31, 2021
Property, plant and equipment, intangible assets and long-term prepaid expenses belonging to certain groups of assets in the Industrial Systems segment:
¥5,928 million ($54,011 thousand)
(2) Other information that is useful for the reader of the consolidated financial statements to understand the contents of accounting estimates
a. Calculation method for the amount recorded in the consolidated financial statements for the year ended May 31, 2021
In preparing the consolidated financial statements, the Group groups its assets so that the estimates on impairment of fixed assets appropriately reflect the Group's actual management condition, and assesses indication of impairment. Assessment of indication of impairment is carried out based on the information available to the Group on the status of profit or loss generated from operating activities using the assets, etc. and whether the business environment has deteriorated significantly in connection with the business using the assets or groups of assets. Whenever an indication of impairment is found, the Group determines whether the aggregated amount of undiscounted future cash flows exceeds the corresponding carrying value.
Certain groups of assets in the Industrial Systems segment have recorded ongoing operating loss for the year ended May 31, 2021 mainly because sales projects were postponed due to the impact of COVID-19, and indication of impairment has been identified. However, since the aggregated amount of undiscounted future cash flows generated from such groups of assets exceeds their corresponding carrying value, the Group has not recognized any impairment loss.
The aggregated amount of undiscounted future cash flows generated from such assets or groups of assets are computed based on the business plan approved by the management and the growth rate for the period that exceeds the business plan period.
b. Main assumptions used for computing the amount recorded in the consolidated financial statements for the year ended May 31, 2021
In the computation of undiscounted future cash flows, the main assumption is net sales based on the projection of future order acknowledgements. Net sales based on the projection of future order acknowledgements are computed based on the management's evaluation of future trends of the industry, historical performances and internal and external information.
The number of certain sales projects postponed due to the impact of COVID-19 in the year ended May 31, 2021 is expected to be reduced in the following fiscal year.
c. Effects on the consolidated financial statements for the following fiscal year
Estimates on undiscounted future cash flows involve uncertainties, since they are subject to changes of demand trends of some customers and unforeseeable events such as natural disasters. Accordingly, when the undiscounted future cash flows significantly differ from the assumption by the Group, the assessment of impairment might be significantly affected.

(Recoverability of deferred tax assets)

(1) The amount recorded in the consolidated financial statements for the year ended May 31, 2021
Deferred tax assets, before offsetting deferred tax liabilities: ¥1,983 million ($18,075 thousand)

(2) Other information that is useful for the reader of the consolidated financial statements to understand the contents of accounting estimates

a. Calculation method for the amount recorded in the consolidated financial statements for the year ended May 31, 2021
Regarding deductible temporary differences and the carryforward of unused tax losses, the Group determines the recoverability of deferred tax assets based on projected future taxable income and tax planning. Estimates of future taxable income of the Company are based mainly on its business plan.

b. Main assumptions used for computing the amount recorded in the consolidated financial statements for the year ended May 31, 2021
In preparing the business plan, which forms the basis for estimating future taxable income of the Group, the main assumption is net sales based on the projection of future order acknowledgements. Net sales based on the projection of future order acknowledgements are computed based on the management's evaluation of future trends of the industry, historical performances and internal and external information.
The number of certain sales projects postponed due to the impact of COVID-19 in the year ended May 31, 2021 is expected to be reduced in the following fiscal year.

c. Effects on the consolidated financial statements for the following fiscal year
Deferred tax assets already recorded are assessed for recoverability every fiscal year and the contents are reviewed. However, if the assessment of recoverability of deferred tax assets is changed based on changes in the estimated future taxable income or due to other factors, net income may fluctuate due to reversal of or additional provision for deferred tax assets.

(u) Accounting standards issued but not yet effective

(Accounting Standard for Revenue Recognition and Related Implementation Guidance)

The ASBJ issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) on March 31, 2020 and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30) on March 26, 2021.

(1) Overview
The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") of the U.S. have jointly developed a comprehensive accounting standard for revenue recognition. In May 2014, the IASB and the FASB each issued "Revenue from Contracts with Customers" (IASB: IFRS 15 and FASB: Topic 606). Considering that IFRS 15 has been applied from fiscal years beginning on or after January 1, 2018 and Topic 606 has been applied from fiscal years beginning after December 15, 2017, the ASBJ has developed a comprehensive accounting standard for revenue recognition, which was issued together with its implementation guidance.
As a basic policy in developing the accounting standard for revenue recognition, the ASBJ has incorporated the basic principles of IFRS 15 from the viewpoint of comparability between financial statements, a factor essential for facilitating consistency with IFRS 15. In addition, if there are any business practices in Japan for which consideration is required, alternative accounting treatments shall be added to the accounting standard to the extent that they do not impair comparability.

(2) Scheduled date of adoption
The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending May 31, 2022.

(3) Impact of the adoption of accounting standard and implementation guidance
The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

(Accounting Standard for Fair Value Measurement and Related Implementation Guidance)

On July 4, 2019, the ASBJ issued "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30), and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31), along with related updates to "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9), and "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10). In addition, on March 31, 2020, the ASBJ issued "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19).

(1) Overview
In light of the circumstances that the IASB and the FASB provide nearly identical guidance on fair value measurement, that is, IFRS 13 "Fair Value Measurement" and FASB Accounting Standards Codification ("ASC") Topic 820 "Fair Value Measurement," the ASBJ had been working to align Japanese accounting standards with international accounting standards mainly concerning guidance and disclosures about the fair value of financial instruments, and therefore issued "Accounting Standard for Fair Value Measurement" along with other standards and guidance.
As a basic policy of the ASBJ in developing accounting standards for fair value measurement, from the viewpoint of enhancing comparability of financial statements among domestic and foreign companies by using unified measurement methods, the ASBJ determined to incorporate substantially all of the provisions in IFRS 13, and defined other treatments for specific matters as long as they do not significantly impair the comparability among financial statements, in consideration for conventional practices prevailing in Japan.

(2) Scheduled date of adoption
The Company expects to adopt the accounting standards and related implementation guidance from the beginning of the fiscal year ending May 31, 2022.

(3) Impact of adoption of revised accounting standard and related implementation guidance
The Company is currently evaluating the effect of the adoption of the accounting standards and related implementation guidance on its consolidated financial statements.

(v) Change in presentation

(Adoption of "Accounting Standard for Disclosure of Accounting Estimates")

The Company has adopted "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31 issued on March 31, 2020) for the consolidated financial statements as of May 31, 2021 and the note on significant accounting estimates is presented in the consolidated financial statements.

However, the note does not include the contents for the fiscal year ended May 31, 2020 pursuant to the transitional treatment prescribed in the proviso of the paragraph 11 of the Accounting Standard.

2. Other Explanatory Information

Note 1. U.S. Dollar Amounts

The accompanying consolidated financial statements are expressed in yen, and solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥109.76=U.S.$1, the approximate rate of exchange prevailing at May 31, 2021. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such rate.

Note 2. Notes Receivable and Payable

As May 31, 2020 fell on a bank holiday, the following notes receivable and payable are deemed to have been settled on the maturity date:

As of	May 31, 2021 (Millions of yen)	May 31, 2020 (Millions of yen)	May 31, 2021 (Thousands of U.S. dollars)
Notes receivable	¥—	¥64	$—
Notes payable	—	6	—

Note 3. Inventories

Inventories as of May 31, 2021 and 2020 were as follows:

As of	May 31, 2021 (Millions of yen)	May 31, 2020 (Millions of yen)	May 31, 2021 (Thousands of U.S. dollars)
Goods and finished products	¥ 514	¥ 756	$ 4,688
Work in process	3,565	3,424	32,480
Raw materials and supplies	2,821	2,996	25,708
	¥6,901	¥7,178	$62,877

Inventories were stated at the lower of cost or net realizable value and the Company recognized losses on write-down of inventories held for the ordinary sales purpose due to a decline in profitability in the amount of ¥190 million ($1,737 thousand) and ¥212 million for the years ended May 31, 2021 and 2020, respectively. These amounts were included in “Cost of sales.”

Inventories related to construction contracts which are estimated to make losses were stated after deducting the corresponding reserve for losses on order acknowledgements in the following amounts:

As of	May 31, 2021 (Millions of yen)	May 31, 2020 (Millions of yen)	May 31, 2021 (Thousands of U.S. dollars)
Goods and finished products	¥ 28	¥ 2	$ 259
Work in process	144	135	1,317
	¥173	¥138	$1,576

Note 4. Property, Plant and Equipment

The following table sets forth the acquisition costs and related accumulated depreciation:

As of	May 31, 2021 (Millions of yen)	May 31, 2020 (Millions of yen)	May 31, 2021 (Thousands of U.S. dollars)
Buildings and structures	¥ 12,338	¥ 12,269	$ 112,410
Machinery and vehicles	8,397	8,179	76,503
Other	4,857	4,654	44,258
	25,593	25,103	233,172
Accumulated depreciation	(17,593)	(16,565)	(160,290)
	¥ 7,999	¥ 8,538	$ 72,881

Depreciation of property, plant and equipment for the years ended May 31, 2021 and 2020 were as follows:

For the Years Ended	May 31, 2021 (Millions of yen)	May 31, 2020 (Millions of yen)	May 31, 2021 (Thousands of U.S. dollars)
	¥1,413	¥1,487	$12,874

Accumulated depreciation of property, plant and equipment amounted to ¥17,593 million ($160,290 thousand) and ¥16,565 million as of May 31, 2021 and 2020, respectively.

Note 5. Investments and Other Assets

Investments in unconsolidated subsidiaries and affiliates included in “Investment securities” as of May 31, 2021 and 2020 were as follows:

As of	May 31, 2021 (Millions of yen)	May 31, 2020 (Millions of yen)	May 31, 2021 (Thousands of U.S. dollars)
Investments in capital	¥2,249	¥2,158	$20,496

Note 6. Short-Term Borrowings and Long-Term Debt

As of May 31, 2021 and 2020, short-term borrowings and the current portion of long-term debt consisted of the following:

As of	May 31, 2021 (Millions of yen)	May 31, 2020 (Millions of yen)	May 31, 2021 (Thousands of U.S. dollars)
Loans, principally from banks	¥1,500	¥1,590	$13,666
Current portion of long-term debt	585	617	5,332
	¥2,085	¥2,207	$18,998

The annual weighted average interest rates applicable to short-term borrowings and current-portion of long-term debt as of May 31, 2021 were 0.455% and 0.607%, respectively.

As of May 31, 2021 and 2020, long-term debts were as follows:

As of	May 31, 2021 (Millions of yen)	May 31, 2020 (Millions of yen)	May 31, 2021 (Thousands of U.S. dollars)
Long-term debt, excluding current portion, serially due from 2022 through 2032	¥11,759	¥12,344	$107,134

The annual weighted average interest rate applicable to long-term debt as of May 31, 2021 was 0.416%.

The maturities of long-term debt are summarized as follows:

Years ended May 31	(Millions of yen)	(Thousands of U.S. dollars)
2022	¥ 585	$ 5,332
2023	585	5,332
2024	885	8,065
2025	4,525	41,228
2026 and thereafter	5,763	52,507
	¥12,344	$112,467

As of May 31, 2021 and 2020, the assets pledged as collateral for short-term borrowings and long-term debt were as follows:

As of	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures	¥5,485	¥5,768	$49,974
Machinery and vehicles	596	588	5,439
Other property, plant and equipment	376	436	3,432
Land	1,232	1,232	11,228
	¥7,691	¥8,025	$70,075

The following assets included in the above are set by factory foundation fixed collateral security for short-term borrowings as of May 31, 2021 and 2020:

As of	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures	¥1,474	¥1,542	$13,430
Machinery and vehicles	596	588	5,439
Other property, plant and equipment	376	436	3,432
	¥2,447	¥2,566	$22,301

Note 7. Retirement Benefit Plans

The Company and its consolidated subsidiaries have retirement benefit plans combined by defined contribution plans and lump-sum payment plans.

The Company and its consolidated subsidiaries introduced the point system in the lump-sum payment plans, under which retirement benefit amounts are computed based on the accumulated points granted according to the job ranking and performances.

Under the lump-sum payment plans held by certain consolidated subsidiaries, the liability for retirement benefits and retirement benefit expenses are calculated using a simplified method.

The changes in the retirement benefit obligation during the years ended May 31, 2021 and 2020 were as follows:

For the Years Ended	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Retirement benefit obligation as of June 1	¥4,010	¥3,893	$36,534
Service cost	284	290	2,596
Interest cost	15	14	136
Actuarial loss	16	(21)	154
Retirement benefits paid	(202)	(166)	(1,843)
Retirement benefit obligation as of May 31	¥4,124	¥4,010	$37,579

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of May 31, 2021 and 2020 for the Company's and the consolidated subsidiaries' defined benefit plans:

As of	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Unfunded retirement benefit obligation	¥4,124	¥4,010	$37,579
Net liability (asset) for retirement benefits on the consolidated balance sheets	4,124	4,010	37,579
Liability for retirement benefits	¥4,124	¥4,010	$37,579
Net liability (asset) for retirement benefits on the consolidated balance sheets	4,124	4,010	37,579

Note: The plan adopting the simplified method is included.

The components of retirement benefit expenses for the years ended May 31, 2021 and 2020 were as follows:

For the Years Ended	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost	¥284	¥290	$2,596
Interest cost	15	14	136
Amortization of actuarial loss	63	68	579
Retirement benefit expenses	¥363	¥373	$3,312

Retirement benefits liability adjustments included in other comprehensive income (before tax effect) as of May 31, 2021 and 2020 were as follows:

As of	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Actuarial gain	¥46	¥90	$424
Total	¥46	¥90	$424

Retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of May 31, 2021 and 2020 were as follows:

As of	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Unrecognized actuarial gain	¥140	¥186	$1,278
Total	¥140	¥186	$1,278

Major actuarial assumptions (weighted average) used in accounting for the above plans as of May 31, 2021 and 2020 were as follows:

For the Years Ended	May 31, 2021	May 31, 2020
Discount rate	0.4%	0.4%

Note: The Company does not use the expected rate of salary increase in computing retirement benefit obligation since the Company adopts the point system.

The amounts of the required contribution to the defined contribution plans of the Company and its consolidated subsidiaries were ¥118 million ($1,075 thousand) and ¥118 million for the years ended May 31, 2021 and 2020, respectively.

Note 8. Net Assets

Information regarding changes in net assets for the years ended May 31, 2021 and 2020 was as follows:

a. Shares issued and outstanding/ Treasury stock

For the year ended May 31, 2021

Type of shares	Number of shares as of June 1, 2020	Increase	Decrease	Number of shares as of May 31, 2021
		(Shares)		
Shares issued:				
Common stock	9,735,000	—	—	9,735,000
Treasury stock:				
Common stock	793,403	725	—	794,128

Details of the increase are as follows:
Increase due to purchase of shares of less than standard unit 725 shares

For the year ended May 31, 2020

Type of shares	Number of shares as of June 1, 2019	Increase	Decrease	Number of shares as of May 31, 2020
		(Shares)		
Shares issued:				
Common stock	9,735,000	—	—	9,735,000
Treasury stock:				
Common stock	792,966	437	—	793,403

Details of the increase are as follows:
Increase due to purchase of shares of less than standard unit 437 shares

b. Dividends

1) Dividends paid

For the year ended May 31, 2021

Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Annual general meeting of the shareholders on August 26, 2020	Common stock	¥268	$2,443	¥30.00	$0.27	May 31, 2020	August 27, 2020

For the year ended May 31, 2020

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date
Annual general meeting of the shareholders on August 28, 2019	Common stock	¥268	¥30.00	May 31, 2019	August 29, 2019

2) Dividends with the cut-off date in the year ended May 31, 2021 and the effective date in the year ending May 31, 2022

Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Source of dividends	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Annual general meeting of the shareholders on August 27, 2021	Common stock	¥268	$2,443	Retained earnings	¥30.00	$0.27	May 31, 2021	August 30, 2021

Note 9. Selling, General and Administrative Expenses

The main components of "Selling, general and administrative expenses" for the years ended May 31, 2021 and 2020 were as follows:

For the Years Ended	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Salaries and allowances	¥1,895	¥1,931	$17,265
Provision for accrued directors' bonuses	36	36	327
Provision for accrued employees' bonuses	322	348	2,934
Retirement benefit expenses	205	216	1,869
Provision for allowance for doubtful accounts	2	(1)	23
Research and development expenses	819	792	7,462

Note 10. Special Gains, Net

The components of "Special gains, net" for the years ended May 31, 2021 and 2020 were as follows:

For the Years Ended	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Special gains:			
Gain on sales of investment securities	¥407	¥447	$3,714
Special losses:			
Loss on valuation of investment securities	—	1	—
Total	¥407	¥445	$3,714

Note 11. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in a statutory rate of approximately 30.6% for the years ended May 31, 2021 and 2020. Income taxes of a foreign consolidated subsidiary are based generally on the tax rates applicable in the country of incorporation.

The reconciliation between the effective tax rates reflected in the consolidated statements of income and the effective statutory tax rate for the years ended May 31, 2021 and 2020 was as follows:

For the Years Ended	May 31, 2021	May 31, 2020
Effective statutory tax rate	30.6%	30.6%
Effect of:		
Non-deductible expenses for income tax purpose	1.2	1.2
Non-taxable income such as dividends income, etc.	(1.9)	(0.9)
Per capita inhabitant tax	2.5	1.7
Valuation allowance	4.9	4.8
Income from affiliates accounted for by the equity method	(0.1)	0.7
Liquidation of an affiliate	(21.0)	—
Difference arising from the rates used by subsidiaries	1.1	1.5
Retained profit of affiliates	0.3	(0.2)
Research and development tax credit	(1.2)	(1.2)
Investment incentive tax credit	—	(2.5)
Other	(0.4)	(1.1)
Effective tax rate	16.0%	34.6%

The significant components of deferred tax assets and liabilities as of May 31, 2021 and 2020 were as follows:

As of	May 31, 2021 (Millions of yen)	May 31, 2020 (Millions of yen)	May 31, 2021 (Thousands of U.S. dollars)
Deferred tax assets:			
Write-down of inventories	¥ 270	¥ 235	$ 2,467
Liability for retirement benefits	1,269	1,234	11,562
Accrued employees' bonuses	258	274	2,353
Reserve for losses on order acknowledgements	157	104	1,437
The carryforward of unused tax losses (Note 1)	549	472	5,008
Other	361	333	3,292
Total gross deferred tax assets	2,867	2,655	26,120
Valuation allowance for the carryforward of unused tax losses (Note 1)	(536)	(466)	(4,886)
Valuation allowance for deductible temporary differences	(346)	(359)	(3,158)
Total valuation allowance	(883)	(825)	(8,045)
Total deferred tax assets	1,983	1,830	18,075
Deferred tax liabilities:			
Unrealized holding gain on securities	(2,136)	(2,541)	(19,464)
Other	(50)	(48)	(464)
Total deferred tax liabilities	(2,187)	(2,589)	(19,928)
Net deferred tax liabilities	¥ (203)	¥ (759)	$ (1,853)

(Note 1) The breakdown of the carryforward of unused tax losses and valuation allowance by expiry date is as follows:
Year ended May 31, 2021

(Millions of yen)	Due in One Year or Less	Due after One Year through Two Years	Due after Two Years through Three Years	Due after Three Years through Four Years	Due after Four Years through Five Years	Due after Five Years	Total
The carryforward of unused tax losses (a)	¥ 435	¥ 5	¥—	¥—	¥—	¥109	¥ 549
Valuation allowance	(435)	(5)	—	—	—	(96)	(536)
Deferred tax assets	—	—	—	—	—	13	13(b)

(Thousands of U.S. dollars)	Due in One Year or Less	Due after One Year through Two Years	Due after Two Years through Three Years	Due after Three Years through Four Years	Due after Four Years through Five Years	Due after Five Years	Total
The carryforward of unused tax losses (a)	$ 3,964	$ 45	$—	$—	$—	$ 998	$ 5,008
Valuation allowance	(3,964)	(45)	—	—	—	(876)	(4,886)
Deferred tax assets	—	—	—	—	—	121	121(b)

(a) The amount is determined by multiplying the corresponding carryforward of unused tax losses by the effective statutory tax rate.
(b) Deferred tax assets of ¥13 million ($121 thousand) is recognized on the carryforward of unused tax losses of ¥549 million ($5,008 thousand) (amount multiplied by the effective statutory tax rate). The said deferred tax assets of ¥13 million ($121 thousand) is recognized on the carryforward of unused tax losses of ¥13 million ($122 thousand) (amount multiplied by the effective statutory tax rate) of Toyo Shoji Co., Ltd., which is a consolidated subsidiary of the Company.

Year ended May 31, 2020

(Millions of yen)	Due in One Year or Less	Due after One Year through Two Years	Due after Two Years through Three Years	Due after Three Years through Four Years	Due after Four Years through Five Years	Due after Five Years	Total
The carryforward of unused tax losses (a)	¥—	¥—	¥ 5	¥—	¥ 39	¥ 427	¥ 472
Valuation allowance	—	—	(5)	—	(33)	(427)	(466)
Deferred tax assets	—	—	—	—	6	—	6(b)

(a) The amount is determined by multiplying the corresponding carryforward of unused tax losses by the effective statutory tax rate.
(b) Deferred tax assets of ¥6 million is recognized on the carryforward of unused tax losses of ¥472 million (amount multiplied by the effective statutory tax rate). The said deferred tax assets of ¥6 million is recognized on the carryforward of unused tax losses of ¥6 million (amount multiplied by the effective statutory tax rate) of Toyo Koki Co., Ltd., which is a consolidated subsidiary of the Company.

Note 12. Other Comprehensive Loss

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive loss for the years ended May 31, 2021 and 2020:

For the Years Ended	May 31, 2021 (Millions of yen)	May 31, 2020 (Millions of yen)	May 31, 2021 (Thousands of U.S. dollars)
Unrealized holding loss on securities:			
Amount arising during the year	¥(1,737)	¥(1,653)	$(15,831)
Reclassification adjustments for gains and losses included in net income	407	(447)	3,714
Amount before tax effect	(1,330)	(2,100)	(12,117)
Tax effect	405	652	3,694
Unrealized holding loss on securities	(924)	(1,448)	(8,423)
Translation adjustments			
Amount arising during the year	(6)	(12)	(55)
Amount before tax effect	(6)	(12)	(55)
Translation adjustments	(6)	(12)	(55)
Retirement benefits liability adjustments			
Amount arising during the year	(16)	21	(154)
Reclassification adjustments for gains and losses included in net income	63	68	579
Amount before tax effect	46	90	424
Tax effect	(14)	(27)	(129)
Retirement benefits liability adjustments	32	62	294
Share of other comprehensive income (loss) of affiliates accounted for by the equity method			
Amount arising during the year	14	(34)	133
Share of other comprehensive income (loss) of affiliates accounted for by the equity method	14	(34)	133
Total other comprehensive loss	¥ (883)	¥(1,433)	$ (8,050)

Note 13. Lease Transactions

The information about finance leases that do not transfer ownership of the leased property to the lessee is omitted since there is no materiality in terms of value.

Note 14. Contingent Liabilities

As of May 31, 2021 and 2020, the Company was committed to provide guarantees on bank borrowings of the following affiliates:

As of	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Changzhou Ruiyang Transmission Technology Co., Ltd.	¥374	¥334	$3,408
Beijing Jingche Shuangyang Traction System Co., Ltd.	222	181	2,022

Note 15. Amounts Per Share

For the Years Ended	May 31, 2021	May 31, 2020	May 31, 2021
	(Yen)		(U.S. dollars)
Net income:			
Basic	¥109.38	¥120.98	$0.99

As of	May 31, 2021	May 31, 2020	May 31, 2021
	(Yen)		(U.S. dollars)
Net assets	¥2,685.28	¥2,704.61	$24.46

Note: Diluted net income per share is omitted since there is no dilution of equity.

The bases for calculation are as follows:

Basic net income per share

For the Years Ended	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Net income attributable to owners of the parent	¥977	¥1,081	$8,910
Net income not attributable to common shareholders	—	—	—
Net income attributable to owners of the parent related to common stock	977	1,081	8,910
	(Thousand shares)		
Average number of shares of common stock during the year	8,941	8,941	

Note 16. Financial Instruments

Overview

(1) Policy for financial instruments

The Group raises its necessary funds for capital investments to reinforce and renew production facilities and working capital principally through bank borrowings. The Group manages temporary cash surpluses through low risk financial assets. The Group uses derivatives in order to avoid the following risks and does not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk

Trade receivables—trade notes and accounts receivable and electronically recorded receivables—are exposed to credit risk in relation to customers. Trade receivables denominated in foreign currencies arising from international business are exposed to foreign exchange fluctuation risk, but the Group utilizes forward foreign exchange contracts to reduce such risk as a hedging instrument.

Investment securities are composed of mainly the shares of common stock of other companies with which the Group has business relationships and exposed to market risk.

Certain long-term debt raised for the purpose of making capital investments with variable interest rates is exposed to interest rate fluctuation risk. However, to reduce such risk and fix interest expense for long-term debt bearing interest at variable rates, the Group utilizes interest rate swap transactions as a hedging instrument.

Regarding hedging instruments and hedged items in hedge accounting, hedging policy, and assessment of the effectiveness of hedging activities, etc., please see “1. Summary of Significant Accounting Policies (s) Derivative financial instruments.”

(3) Risk management for financial instruments

(a) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal policies of the Group for managing credit risk arising from receivables, each related division monitors credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer. In addition, the Group is making efforts to identify and mitigate risks of bad debts from customers who are having financial difficulties.

Investment securities are composed of mainly the shares of common stock of highly rated companies with which the Group has business relationships. Accordingly, the Group believes that the credit risk deriving from such investment securities is insignificant.

The Group also believes that the credit risk of derivatives is insignificant as it enters into derivative transactions only with financial institutions which have a sound credit profile.

(b) Monitoring of market risks (the risk arising from fluctuations in foreign exchange rates, interest rates and others)

The Group utilizes interest rate swap transactions to reduce interest rate fluctuation risk on long-term debt.

For investment securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers.

In conducting derivative transactions, the division in charge of each derivative transaction follows the internal policies, which set forth delegation of authority and maximum upper limit on positions. Monthly reports including actual transactions data are submitted to the Board of Directors for their review.

(c) Monitoring of liquidation risk (the risk that the Group may not be able to meet its obligations on scheduled due dates)

Based on the report from each division, the Group prepares and updates its cash flow plans on a timely basis to manage liquidation risk.

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

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in Note 19, Derivative Transactions are not necessarily indicative of the actual market risk involved in derivative transactions.

Estimated Fair value of Financial Instruments

Carrying value of financial instruments on the consolidated balance sheets as of May 31, 2021 and 2020 and estimated fair value are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (Please refer to Note 2 below):

As of May 31, 2021	Carrying value	Fair value	Difference
		(Millions of yen)	
Assets			
1) Cash on hand and in banks	¥ 3,964	¥ 3,964	¥—
2) Trade notes and accounts receivable	13,218	13,218	—
3) Electronically recorded receivables	901	901	—
4) Investment securities	12,767	12,767	—
Total assets	¥30,851	¥30,851	¥—
Liabilities			
5) Trade notes and accounts payable	¥ 1,668	¥ 1,668	¥—
6) Electronically recorded payables	4,705	4,705	—
7) Short-term borrowings	1,500	1,500	—
8) Long-term debt	12,344	12,373	29
Total liabilities	¥20,218	¥20,247	¥29
9) Derivative transactions*	¥ —	¥ —	¥—

As of May 31, 2021	Carrying value	Fair value	Difference
	(Thousands of U.S. dollars)		
Assets			
1) Cash on hand and in banks	$ 36,118	$ 36,118	$ —
2) Trade notes and accounts receivable	120,426	120,426	—
3) Electronically recorded receivables	8,209	8,209	—
4) Investment securities	116,326	116,326	—
Total assets	$281,081	$281,081	$ —
Liabilities			
5) Trade notes and accounts payable	$ 15,198	$ 15,198	$ —
6) Electronically recorded payables	42,870	42,870	—
7) Short-term borrowings	13,666	13,666	—
8) Long-term debt	112,467	112,733	266
Total liabilities	$184,202	$184,468	$266
9) Derivative transactions*	$ —	$ —	$ —

*Derivative transactions are presented in a net amount of receivables and payables and net payables are shown in parenthesis.

As of May 31, 2020	Carrying value	Fair value	Difference
	(Millions of yen)		
Assets			
1) Cash on hand and in banks	¥ 3,293	¥ 3,293	¥—
2) Trade notes and accounts receivable	14,135	14,135	—
3) Electronically recorded receivables	1,538	1,538	—
4) Investment securities	14,369	14,369	—
Total assets	¥33,337	¥33,337	¥—
Liabilities			
5) Trade notes and accounts payable	¥ 2,224	¥ 2,224	¥—
6) Electronically recorded payables	5,877	5,877	—
7) Short-term borrowings	1,590	1,590	—
8) Long-term debt	12,961	13,005	43
Total liabilities	¥22,653	¥22,696	¥43
9) Derivative transactions*	¥ —	¥ —	¥—

*Derivative transactions are presented in a net amount of receivables and payables and net payables are shown in parenthesis.

Notes:
1. Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Assets:

Cash on hand and in banks, trade notes and accounts receivable and electronically recorded receivables
Since these items are settled in a short period of time, their carrying value approximates fair value.
However, if they are settled in a long period of time, the fair value of receivables is based on the present value of the receivables classified by definite periods discounted using interest rates on the corresponding period until settlement.

Investment securities
The fair value of stocks is based on quoted market prices. Investment securities held by the Group are classified as available-for-sale securities and please see Note 17 "Securities."

Liabilities:

Trade notes and accounts payable, electronically recorded payables and short-term borrowings
Since these items are settled in a short period of time, their carrying value approximates fair value.

Long-term debt
The fair value of long-term debt is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new borrowings were entered into. The fair value of long-term debt with variable interest rates, which is hedged by the interest rate swaps and to which hedge accounting is applied (refer to the following paragraph), is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new borrowings were entered into.

Derivative transactions
The fair value of interest rate swaps accounted for by the hedge accounting is included in the fair value of the related long-term debt, since such interest rate swaps are accounted for together with long-term debt as hedged items.
The fair value of interest rate swaps accounted for by the normal method is determined based on the price, etc. provided by the financial institutions.

2. Financial instruments for which it is extremely difficult to determine the fair value

As of	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Unlisted equity securities	¥1,064	¥1,065	$9,694

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the above table.

3. Redemption schedule for receivables and securities with maturities on May 31, 2021 and 2020 were as follows:

As of May 31, 2021	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
	(Millions of yen)			
Cash on hand and in banks	¥ 3,962	¥—	¥—	¥—
Trade notes and accounts receivable	13,189	29	—	—
Electronically recorded receivables	901	—	—	—
	¥18,052	¥29	¥—	¥—

As of May 31, 2021	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
	(Thousands of U.S. dollars)			
Cash on hand and in banks	$ 36,101	$ —	$—	$—
Trade notes and accounts receivable	120,162	264	—	—
Electronically recorded receivables	8,209	—	—	—
	$164,473	$264	$—	$—

As of May 31, 2020	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
	(Millions of yen)			
Cash on hand and in banks	¥ 3,291	¥ —	¥—	¥—
Trade notes and accounts receivable	13,940	194	—	—
Electronically recorded receivables	1,538	—	—	—
	¥18,770	¥194	¥—	¥—

4. The redemption schedule for long-term debt is disclosed in Note 6.

Note 17. Securities

Information regarding securities classified as available-for-sale securities

Available-for-sale securities

As of May 31, 2021	Carrying value	Acquisition cost	Unrealized gain (loss)
		(Millions of yen)	
Securities for which carrying value exceeds acquisition cost:			
Stock	¥12,514	¥5,511	¥7,003
Subtotal	¥12,514	¥5,511	¥7,003
Securities for which acquisition cost exceeds carrying value:			
Stock	¥ 253	¥ 317	¥ (63)
Subtotal	¥ 253	¥ 317	¥ (63)
Total	¥12,767	¥5,828	¥6,939

As of May 31, 2021	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Thousands of U.S. dollars)		
Securities for which carrying value exceeds acquisition cost:			
Stock	$114,015	$50,211	$63,804
Subtotal	$114,015	$50,211	$63,804
Securities for which acquisition cost exceeds carrying value:			
Stock	$ 2,310	$ 2,889	$ (579)
Subtotal	$ 2,310	$ 2,889	$ (579)
Total	$116,326	$53,101	$63,224

Notes: 1. Unlisted stocks were not included in the above table because there were no quoted market prices available and they were extremely difficult to determine the fair value.
2. Acquisition cost in the above table represents carrying value reflecting impairment losses.
If the market value of the securities declines by 50% or more from the acquisition cost as of the end of the fiscal year, the Group recognizes the difference between the market value and the acquisition cost as an impairment loss. If the decline ranges between about 30% and 50%, the Group recognizes an impairment loss for the necessary amount considering its recoverability.

As of May 31, 2020	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Millions of yen)		
Securities for which carrying value exceeds their acquisition cost:			
Stock	¥14,218	¥5,868	¥8,349
Subtotal	¥14,218	¥5,868	¥8,349
Securities for which acquisition cost exceeds their carrying value:			
Stock	¥ 151	¥ 229	¥ (78)
Subtotal	¥ 151	¥ 229	¥ (78)
Total	¥14,369	¥6,098	¥8,271

Notes: 1. Unlisted stocks were not included in the above table because there were no quoted market prices available and they were extremely difficult to determine the fair value.
2. Acquisition cost in the above table represents carrying value reflecting impairment losses.
If the market value of the securities declines by 50% or more from the acquisition cost as of the end of the fiscal year, the Group recognizes the difference between the market value and the acquisition cost as an impairment loss. If the decline ranges between about 30% and 50%, the Group recognizes an impairment loss for the necessary amount considering its recoverability.

Information regarding available-for-sale securities sold

For the Years Ended	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Stock:			
Sales proceeds	¥693	¥780	$6,318
Gain on sales	407	447	3,714
Loss on sales	—	—	—

Note 18. Supplementary Cash Flow Information

Cash and cash equivalents in the consolidated statements of cash flows for the years ended May 31, 2021 and 2020 were reconciled to cash on hand and in banks in the consolidated balance sheets as follows:

As of	May 31, 2021	May 31, 2020	May 31, 2021
	(Millions of yen)		(Thousands of U.S. dollars)
Cash on hand and in banks	¥3,964	¥3,293	$36,118
Cash and cash equivalents	¥3,964	¥3,293	$36,118

Note 19. Derivative Transactions

Hedging policies

The Company utilizes forward foreign exchange contracts and interest rate swaps for the purpose of hedging its exposure to fluctuations in foreign exchange rates and interest rates, respectively. However, based on internal management rules on financial market risk approved by the Company's Board of Directors, Group companies do not enter into transactions involving derivatives for speculative or trading purposes.

Types and purpose of derivative transactions

The Company primarily uses forward foreign exchange contracts to hedge against the fluctuations in foreign currency exchange rates on trade receivables denominated in foreign currencies and interest rate swaps to hedge against the adverse impact of fluctuations in interest rates on interest-bearing debt.

Derivative transactions to which hedge accounting is not applied:

As of May 31, 2021 and 2020, there were no currency-related derivatives.

Derivative transactions to which hedge accounting is applied:

Interest-related derivatives:
There were no derivatives as of May 31, 2021.

As of May 31, 2020	Major hedged item	Notional amount: Contract amount	Notional amount: Maturing after one year	Fair value
		(Millions of yen)		
Interest rate swaps accounted for by the exceptional method:				
Receive/floating and pay/fixed	Long-term debt	¥32	¥—	Note

Note: Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreement is recognized and included in interest expenses. Accordingly, the fair value of interest rate swaps is included in the fair value of long-term debt. The notional amount of long-term debt includes current portion of long-term debt.

Note 20. Segment Information

The reportable segments of the Group are components for which discrete financial information is available and operating results are regularly reviewed by the Board of Directors to make decisions about resource allocation and to assess performance.

The Group establishes business units by product and each business unit designs domestic and overseas comprehensive strategies for its products and is developing business activities. Accordingly, the Group consists of the three reportable segments by product based on the business units, which are Transportation Systems, Industrial Systems and Information Equipment Systems.

The accounting policies of the segments are substantially the same as those described in the significant accounting policies in "1. Summary of Significant Accounting Policies." Segment profit is evaluated based on operating income.

Inter-segment sales are recorded at the same prices used in transactions with third parties.

	Reportable segments: Transportation Systems	Reportable segments: Industrial Systems	Reportable segments: Information Equipment Systems	Other (Note)	Total	Adjustments	Consolidated
For the year ended May 31, 2021 (Millions of yen)							
Sales, profits or losses and asset by reportable segments							
Net sales:							
Sales to third parties	¥21,528	¥10,541	¥1,067	¥ 5	¥33,143	¥ —	¥33,143
Inter-segment sales and transfers	50	0	—	346	397	(397)	—
	21,579	10,542	1,067	352	33,541	(397)	33,143
Segment profit	¥ 2,211	¥ 718	¥ 267	¥ (39)	¥ 3,157	¥ (2,734)	¥ 423
Segment assets	¥17,151	¥13,838	¥ 674	¥479	¥32,144	¥19,822	¥51,967
Other items:							
Depreciation	¥ 607	¥ 527	¥ 25	¥ 4	¥ 1,165	¥ 247	¥ 1,413
Capital expenditures	¥ 454	¥ 113	¥ 10	¥ 2	¥ 580	¥ 51	¥ 632

	Reportable segments: Transportation Systems	Reportable segments: Industrial Systems	Reportable segments: Information Equipment Systems	Other (Note)	Total	Adjustments	Consolidated
For the year ended May 31, 2021 (Thousands of U.S. dollars)							
Sales, profits or losses and asset by reportable segments							
Net sales:							
Sales to third parties	$196,145	$ 96,042	$9,723	$ 52	$301,962	$ —	$301,962
Inter-segment sales and transfers	457	7	—	3,161	3,625	(3,625)	—
	196,602	96,049	9,723	3,213	305,588	(3,625)	301,962
Segment profit	$ 20,152	$ 6,542	$2,433	$ (359)	$ 28,769	$ (24,909)	$ 3,860
Segment assets	$156,267	$126,079	$6,149	$4,367	$292,863	$180,599	$473,462
Other items:							
Depreciation	$ 5,534	$ 4,810	$ 228	$ 42	$ 10,616	$ 2,258	$ 12,874
Capital expenditures	$ 4,137	$ 1,034	$ 93	$ 22	$ 5,287	$ 473	$ 5,761

Note: "Other" represents business units which are not included in reportable segments and consists of worker dispatching services related activities, etc.

	Reportable segments: Transportation Systems	Reportable segments: Industrial Systems	Reportable segments: Information Equipment Systems	Other (Note)	Total	Adjustments	Consolidated
For the year ended May 31, 2020 (Millions of yen)							
Sales, profits or losses and asset by reportable segments							
Net sales:							
Sales to third parties	¥24,269	¥13,023	¥1,772	¥ 5	¥39,071	¥ —	¥39,071
Inter-segment sales and transfers	12	1	—	510	524	(524)	—
	24,282	13,024	1,772	516	39,595	(524)	39,071
Segment profit	¥ 2,474	¥ 1,008	¥ 460	¥ 5	¥ 3,948	¥ (2,880)	¥ 1,068
Segment assets	¥20,364	¥13,679	¥1,062	¥536	¥35,642	¥19,522	¥55,165
Other items:							
Depreciation	¥ 592	¥ 608	¥ 27	¥ 4	¥ 1,232	¥ 255	¥ 1,487
Capital expenditures	¥ 356	¥ 111	¥ 24	¥ 5	¥ 497	¥ 47	¥ 545

Note: "Other" represents business units which are not included in reportable segments and consists of worker dispatching services related activities, etc.

Geographical information

Net sales to third parties by countries or areas grouped according to geographical classification for the years ended May 31, 2021 and 2020 were summarized as follows:

For the Years Ended	May 31, 2021 (Millions of yen)	May 31, 2020 (Millions of yen)	May 31, 2021 (Thousands of U.S. dollars)
Japan	¥27,876	¥30,997	$253,973
China	3,628	4,282	33,057
Other	1,638	3,791	14,932
Consolidated	¥33,143	¥39,071	$301,962

Note: Net sales information above is based on customers' location.

Major customer information

Major customer information for the years ended May 31, 2021 and 2020 was omitted since there was no customer to whom sales exceeds 10% of net sales recorded in the accompanying consolidated statements of income.

Note 21. Significant Subsequent Events

There were no significant subsequent events to be noted.

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Independent Auditor's Report

The Board of Directors
TOYO DENKI SEIZO K.K.

Opinion

We have audited the accompanying consolidated financial statements of TOYO DENKI SEIZO K.K. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at May 31, 2021, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at May 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of 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.

Impairment of certain assets or groups of assets in the Industrial Systems segment	
Description of Key Audit Matter	Auditor's Response
On the consolidated balance sheet of TOYO DENKI SEIZO K.K. as of May 31, 2021, the Company recorded property, plant and equipment, intangible assets, and long-term prepaid expenses totaling 9,657 million yen, accounting for 18.6% of total assets. Of this amount, property, plant and equipment, intangible	We mainly performed the following audit procedures with respect to the estimate of the total amount of undiscounted future cash flows used by management in determining whether to recognize impairment loss on the fixed assets belonging to certain groups of assets in the Industrial Systems segment.

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assets, and long-term prepaid expenses belonging to certain groups of assets in the Industrial Systems segment totaled 5,928 million yen, accounting for 11.4% of total assets. A majority of these fixed assets are depreciated or amortized on a systematic basis and, when there are indications of impairment, the Company must determine whether or not to recognize impairment loss. Indications of impairment include ongoing operating loss, significant decline in market value, significant deterioration in the operating environment, and change in use. The financial performance of the Industrial Systems segment is affected by net sales based on projected future orders received. Although the Company determined that there was an indication of impairment for the fiscal year ended May 31, 2021 due to ongoing operating loss, it did not recognize impairment loss since the total amount of undiscounted future cash flows from the fixed assets belonging to certain groups of assets in the Industrial Systems segment exceeded the carrying value of the corresponding assets. Estimates of future cash flows are based on business plans approved by the board of directors and, for periods of time that are longer than the periods covered by business plans, estimates are based on growth rates that take into account future uncertainty. As described in Significant accounting estimates in the notes to the consolidated financial statements, the key assumption underlying estimates of future cash flows is net sales based on projected future orders received, a factor which is subject to uncertainty. Given that net sales based on projected future orders received requires subjective judgment by management, we have determined that this is a key audit matter.	・Regarding future cash flows, we considered whether documents provided by the Company are consistent with business plans approved by the Company's board of directors. ・We considered the feasibility of approved business plans by interviewing managers and others who are responsible for certain groups of assets in the Industrial Systems segment. ・We considered whether the basis for approved business plans, i.e., actual orders received and forecasted orders received data, is consistent with related supporting documentation. ・We compared prior year business plans with subsequent actual figures to evaluate the adequacy of estimates made by management. ・Regarding growth rates for periods of time that are longer than the periods covered by business plans, we held discussions with management and considered the consistency between such growth rates and supporting documentation. ・Regarding the effect of the COVID-19 pandemic, we made inquiries of management relating to the Company's assumptions and compared such assumptions to economic conditions and the recent business environment.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

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

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

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Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended May 31, 2021 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

August 30, 2021

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Certified Public Accountant

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