Financial Review

Consolidated Operating Results, Consolidated Financial Position, and Consolidated Cash Flow for FYE May 2023 (from June 1, 2022 to May 31, 2023) are as follows:

Results of Operation

Orders received
33,246 million yen
(YoY +**9.2**%)

Orders received increased 9.2% compared with the previous fiscal year to 33,246 million yen, buoyed by increases in the Transportation Business, Industry Business, and ICT Solution Business segments.

Net sales
31,025 million yen
(YoY +**2.9**%)

Net sales increased 2.9% compared with the previous fiscal year to 31,025 million yen, driven by increases in the Transportation Business, Industry Business, and ICT Solution Business segments.

Profit/Loss
Net income attributable to owners of the parent
824 million yen
(Loss of **930** million yen in the previous fiscal year)

From a profit perspective, operating income increased by 345 million yen to 517 million yen compared with the previous fiscal year. Ordinary income increased by 220 million yen to 987 million yen compared with the previous fiscal year. Net income attributable to owners of the parent improved by 1,754 million yen to 824 million yen, due to factors such as the end of the impact of the impairment loss on business assets related to the Industry Business segment that was recorded in the previous fiscal year.

Financial Position

Assets
Total assets **49,682** million yen

Total assets as of May 31, 2023 stood at 49,682 million yen, an increase of 2,765 million yen compared with the end of the previous fiscal year. The increase in total assets was largely attributable to an increase of 1,817 million yen in investment securities and an increase of 1,145 million yen in trade notes, accounts receivable and contract assets, partially offset by a decrease of 621 million yen in property, plant and equipment.

Liabilities
Total liabilities **25,099** million yen

Total liabilities as of May 31, 2023 stood at 25,099 million yen, an increase of 195 million yen compared with the end of the previous fiscal year. This increase was largely attributable to an increase of 1,012 million yen in trade notes and accounts payable and an increase of 63 million yen in provision for product warranties, partially offset by a decrease of 585 million yen in debt.

Net assets
Total net assets **24,582** million yen

Net assets as of May 31, 2023 stood at 24,582 million yen, an increase of 2,569 million yen compared with the end of the previous fiscal year. This increase was largely attributable to an increase of 1,456 million yen in unrealized holding gain on available-for-sale securities.

Cash Flows

Cash flow from operating activities
Net cash provided by operating activities
815 million yen

Net cash provided by operating activities amounted to 815 million yen (net cash of 2,504 million yen provided in the previous fiscal year), principally due to the recording of profit before income taxes and an increase in trade notes and accounts payable.

Cash flow from investing activities
Net cash provided by investing activities
635 million yen

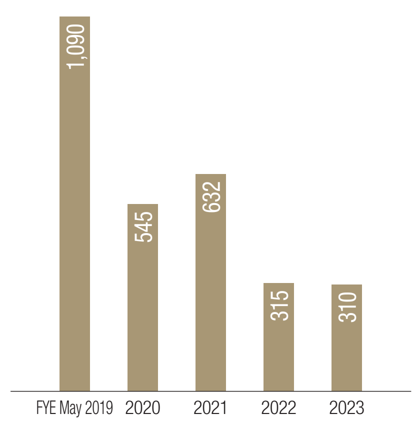
Net cash provided by investing activities totaled 635 million yen (net cash of 289 million yen provided in the previous fiscal year), principally due to proceeds from sales of investment securities.

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

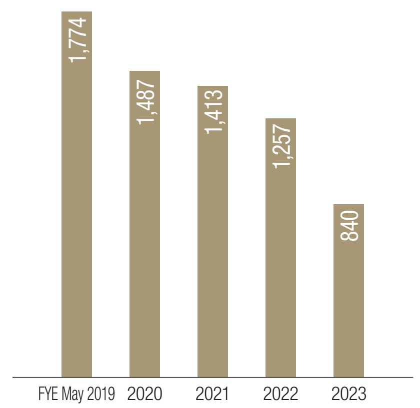
Net cash used in financing activities was 390 million yen (net cash of 2,356 million yen used in the previous fiscal year), primarily owing to repayment of debt.

Reference Data for Management Indices (For the Years Ended May 31 or As of May 31)

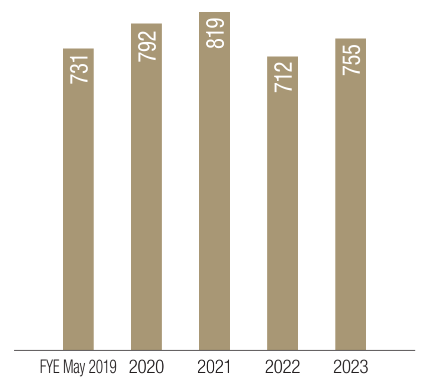
Capital investment (Unit: Million yen)



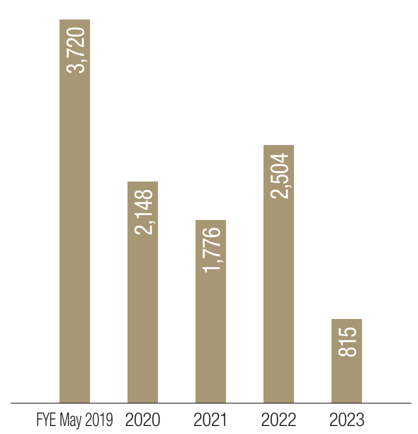
Depreciation and amortization (Unit: Million yen)



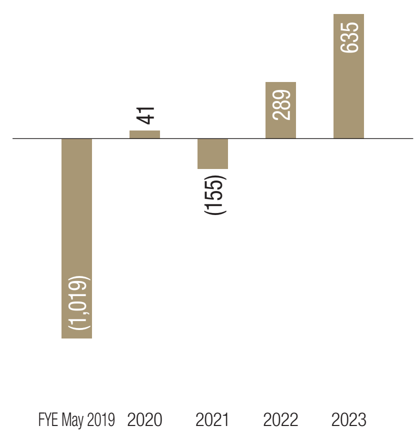
Research and development costs (Unit: Million yen)



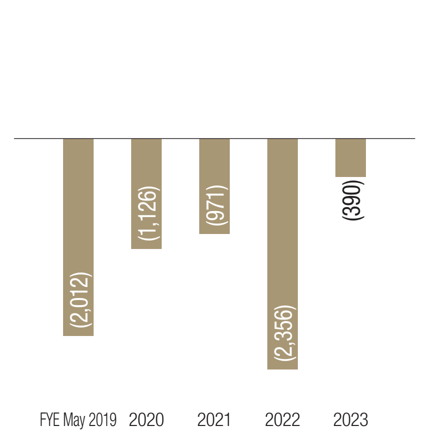
Cash flows from operating activities (Unit: Million yen)



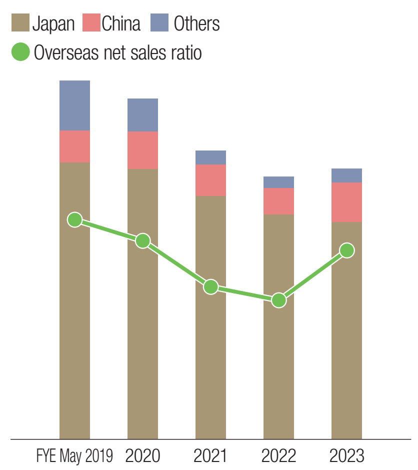
Cash flows from investing activities (Unit: Million yen)



Cash flows from financing activities (Unit: Million yen)



Net sales by region (Unit: Million yen)



	2019	2020	2021	2022	2023
Japan	31,745	30,997	27,876	25,779	24,915
China	3,663	4,282	3,628	3,015	4,536
Others	5,763	3,791	1,638	1,363	1,574
Total	41,172	39,071	33,143	30,158	31,025
Overseas net sales ratio	22.9%	20.7%	15.9%	14.5%	19.7%

TOYO DENKI SEIZO K.K.
Consolidated Balance Sheets

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Assets			
Current assets:			
Cash on hand and in banks (Notes 16 and 18)	¥ 5,520	¥ 4,449	$ 39,493
Trade notes, accounts receivable and contract assets (Notes 2, 16 and 20)	13,236	12,091	94,702
Electronically recorded receivables (Note 16)	1,116	1,136	7,991
Inventories (Note 3)	6,319	6,267	45,212
Other current assets	555	246	3,976
Allowance for doubtful accounts	(10)	(1)	(72)
Total current assets	26,738	24,189	191,304
Property, plant and equipment (Notes 4 and 6):			
Buildings and structures	3,611	3,985	25,841
Machinery and vehicles	348	579	2,491
Land	1,269	1,270	9,086
Construction in progress	11	7	81
Other	459	479	3,290
Total property, plant and equipment	5,701	6,322	40,790
Investments and other assets:			
Investment securities (Notes 16 and 17)	14,288	12,471	102,231
Deferred tax assets (Note 11)	108	883	776
Intangible assets	77	101	552
Other (Note 5)	2,775	2,953	19,856
Allowance for doubtful accounts	(7)	(6)	(56)
Total investments and other assets	17,242	16,403	123,361
Total assets (Note 21)	¥49,682	¥46,916	$355,456

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
LIABILITIES AND NET ASSETS			
Current liabilities:			
Trade notes and accounts payable (Note 16)	¥ 2,060	¥ 1,610	$ 14,740
Electronically recorded payables	4,768	4,205	34,115
Short-term borrowings and current portion of long-term debt (Notes 6 and 16)	885	585	6,333
Income taxes payable (Note 11)	128	306	915
Contract liabilities (Note 20)	84	47	606
Accrued expenses	589	688	4,218
Accrued directors' bonuses	39	6	279
Accrued employees' bonuses	673	699	4,816
Reserve for losses on order acknowledgements (Note 3)	989	963	7,076
Provision for product warranties	70	6	504
Other	411	449	2,944
Total current liabilities	10,699	9,569	76,552
Long-term liabilities:			
Long-term debt (Notes 6 and 16)	10,288	11,173	73,610
Liability for retirement benefits (Note 7)	4,075	4,113	29,160
Long-term payables	30	38	221
Other	4	6	31
Total long-term liabilities	14,399	15,333	103,023
Commitments and contingencies (Note 14)			
Net assets (Notes 8 and 15):			
Shareholders' equity:			
Common stock	¥ 4,998	¥ 4,998	$ 35,761
Capital surplus	3,177	3,177	22,733
Retained earnings	11,347	11,122	81,186
Treasury stock	(486)	(1,282)	(3,482)
Total shareholders' equity	19,036	18,016	136,199
Accumulated other comprehensive income:			
Unrealized holding gain on securities	5,370	3,913	38,422
Translation adjustments	202	144	1,445
Retirement benefits liability adjustments (Note 7)	(26)	(61)	(187)
Total accumulated other comprehensive income	5,546	3,996	39,680
Total net assets	24,582	22,012	175,879
Total liabilities and net assets	¥49,682	¥46,916	$355,456

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.
Consolidated Statements of Income

For the Years Ended	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Net sales (Notes 20 and 21)	¥31,025	¥30,158	$221,974
Cost of sales (Note 3)	23,828	23,343	170,481
Gross profit	7,197	6,815	51,492
Selling, general and administrative expenses (Note 9)	6,679	6,643	47,789
Operating income (Note 21)	517	171	3,703
Non-operating income (expenses):			
Interest and dividend income	191	154	1,370
Interest expense	(52)	(58)	(377)
Equity in earnings of affiliates accounted for by the equity method	221	242	1,581
Foreign exchange gain	104	227	750
Subsidy income	—	20	—
Other income, net	4	8	34
	469	594	3,359
Ordinary income	987	766	7,062
Special gains (losses), net (Note 10)	167	(1,996)	1,201
Income (loss) before income taxes	1,155	(1,230)	8,264
Income taxes (Note 11):			
Current	205	403	1,472
Deferred	124	(703)	892
	330	(299)	2,364
Net income (loss)	824	(930)	5,899
Net income (loss) attributable to owners of the parent	¥ 824	¥ (930)	$ 5,899

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.
Consolidated Statements of Comprehensive Income

For the Years Ended	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Net income (loss)	¥ 824	¥ (930)	$ 5,899
Other comprehensive income (loss) (Note 12):			
Unrealized holding gain (loss) on securities	1,456	(889)	10,420
Translation adjustments	—	2	—
Retirement benefits liability adjustments	35	35	252
Share of other comprehensive income of affiliates accounted for by the equity method	57	53	412
Total other comprehensive income (loss)	1,549	(797)	11,085
Comprehensive income	¥2,373	¥(1,727)	$16,984
Comprehensive income attributable to:			
Owners of the parent	¥2,373	¥(1,727)	$16,984
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, 2021	¥4,998	¥3,177	¥12,320	¥(1,281)	¥19,214	¥4,803	¥ 88	¥(97)	¥4,793	¥24,008
Changes during the year										
Cash dividends paid	—	—	(268)	—	(268)	—	—	—	—	(268)
Net loss attributable to owners of the parent	—	—	(930)	—	(930)	—	—	—	—	(930)
Purchases of treasury stock	—	—	—	(0)	(0)	—	—	—	—	(0)
Net changes in items other than those in shareholders' equity	—	—	—	—	—	(889)	56	35	(797)	(797)
Total changes during the year	—	—	(1,198)	(0)	(1,198)	(889)	56	35	(797)	(1,996)
Balance as of May 31, 2022	¥4,998	¥3,177	¥11,122	¥(1,282)	¥18,016	¥3,913	¥144	¥(61)	¥3,996	¥22,012
Balance as of June 1, 2022	¥4,998	¥3,177	¥11,122	¥(1,282)	¥18,016	¥3,913	¥144	¥(61)	¥3,996	¥22,012
Changes during the year										
Cash dividends paid	—	—	(268)	—	(268)	—	—	—	—	(268)
Net income attributable to owners of the parent	—	—	824	—	824	—	—	—	—	824
Purchases of treasury stock	—	—	—	(0)	(0)	—	—	—	—	(0)
Disposal of treasury stock	—	(331)	—	796	464	—	—	—	—	464
Transfer of loss on disposal of treasury stock	—	331	(331)	—	—	—	—	—	—	—
Net changes in items other than those in shareholders' equity	—	—	—	—	—	1,456	57	35	1,549	1,549
Total changes during the year	—	—	225	795	1,020	1,456	57	35	1,549	2,569
Balance as of May 31, 2023	¥4,998	¥3,177	¥11,347	¥(486)	¥19,036	¥5,370	¥202	¥(26)	¥5,546	¥24,582

	(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, 2022	$35,761	$22,733	$79,576	$(9,173)	$128,897	$28,001	$1,033	$(440)	$28,594	$157,492
Changes during the year										
Cash dividends paid	—	—	(1,918)	—	(1,918)	—	—	—	—	(1,918)
Net income attributable to owners of the parent	—	—	5,899	—	5,899	—	—	—	—	5,899
Purchases of treasury stock	—	—	—	(4)	(4)	—	—	—	—	(4)
Disposal of treasury stock	—	(2,370)	—	5,696	3,326	—	—	—	—	3,326
Transfer of loss on disposal of treasury stock	—	2,370	(2,370)	—	—	—	—	—	—	—
Net changes in items other than those in shareholders' equity	—	—	—	—	—	10,420	412	252	11,085	11,085
Total changes during the year	—	—	1,610	5,691	7,301	10,420	412	252	11,085	18,387
Balance as of May 31, 2023	$35,761	$22,733	$81,186	$(3,482)	$136,199	$38,422	$1,445	$(187)	$39,680	$175,879

See notes to consolidated financial statements.

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

For the Years Ended	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Operating activities			
Income (loss) before income taxes	¥ 1,155	¥(1,230)	$ 8,264
Depreciation and amortization	840	1,257	6,010
Impairment loss	—	2,256	—
Reversal of allowance for doubtful accounts	9	(0)	67
Provision for accrued employees' bonuses	(26)	(128)	(188)
(Decrease) increase in liability for retirement benefits	(22)	5	(158)
Interest and dividend income	(191)	(154)	(1,370)
Interest expense	52	58	377
Equity in earnings of affiliates accounted for by the equity method	(221)	(242)	(1,581)
Subsidy income	—	(20)	—
Gain on sales of property, plant and equipment	(150)	—	(1,079)
Gain on sales of investment securities	(530)	(366)	(3,797)
Loss on valuation of investment securities	—	45	—
Gain on reversal of foreign translation adjustment	—	(94)	—
Business restructuring expenses	513	—	3,674
Loss on valuation of investments in capital of subsidiaries and affiliates	—	155	—
Changes in operating assets and liabilities:			
Trade notes and accounts receivable	(1,125)	891	(8,053)
Inventories	(51)	633	(370)
Trade notes and accounts payable	1,012	(557)	7,244
Reserve for losses on order acknowledgements	25	99	181
Provision for product warranties	63	(0)	455
Contract liabilities	36	13	263
Accrued expenses	(98)	97	(701)
Other, net	(193)	(156)	(1,387)
Subtotal	1,097	2,562	7,850
Interest and dividend income received	201	162	1,439
Interest expense paid	(53)	(60)	(381)
Subsidies received	—	20	—
Income taxes paid	(429)	(180)	(3,076)
Net cash provided by operating activities	815	2,504	5,832
Investing activities			
Purchases of property, plant and equipment	(324)	(351)	(2,319)
Proceeds from sales of property, plant and equipment	266	14	1,903
Purchases of intangible assets	(17)	(18)	(127)
Purchases of investment securities	(14)	(73)	(101)
Proceeds from sales of investment securities	818	466	5,858
Proceeds from liquidation of an affiliate	—	283	—
Payments of loans receivable	(50)	—	(357)
Collection of loans receivable	—	15	—
Other, net	(42)	(45)	(306)
Net cash provided by investing activities	635	289	4,549
Financing activities			
Decrease in short-term loans payable	—	(1,500)	—
Repayment of long-term debt	(585)	(585)	(4,187)
Purchases of treasury stock	(0)	(0)	(4)
Proceeds from disposal of treasury stock	464	—	3,326
Cash dividends paid	(267)	(269)	(1,911)
Other, net	(2)	(1)	(17)
Net cash used in financing activities	(390)	(2,356)	(2,795)
Effect of exchange rate change on cash and cash equivalents	10	48	72
Net increase in cash and cash equivalents	1,070	485	7,658
Cash and cash equivalents at beginning of period	4,449	3,964	31,835
Cash and cash equivalents at end of period (Note 18)	¥ 5,520	¥ 4,449	$39,493

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 gain (loss) and capitalized development costs.

As of May 31, 2023, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 5 and 2 (5 and 2 in 2022), respectively. All significant intercompany balances and transactions have been eliminated in consolidation. The closing date of all consolidated subsidiaries is consistent with that of the Company.

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 quotations 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 at the amount estimated to cover future losses on order acknowledgements for which losses are projected and reasonably estimable at the end of the current fiscal year. Provision of reserve for losses on order acknowledgements in the amounts of ¥78 million ($559 thousand) and ¥99 million is included in cost of sales for the years ended May 31, 2023 and 2022, respectively.

(n) Provision for product warranties
Provision for product warranties is provided at the amount estimated to cover the Company's stand-ready obligation for repair under product warranties for which future costs are projected and reasonably estimable at the end of the current fiscal year.

(o) 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 gain (loss) is 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.

(p) 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.

(q) Accounting for significant revenue and costs
The Group engages primarily in the manufacturing and sale of electronic equipment, and in installation works.

Revenue from sales of products is recognized when the product is accepted by a customer, as control of the products is transferred to the customer and performance obligations are satisfied upon the customer's acceptance of the products.

However, in the case of domestic sales of products, revenue is recognized upon shipment if the period between the shipment of the product and the transfer of control of the product to the customer is a normal time period.

In addition, with respect to construction contracts for which performance obligations are satisfied over time, revenue is recognized based on progress toward complete satisfaction of a performance obligation.

The percentage of completion is based on the costs incurred relative to the estimated total cost (input method).

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

(s) Derivative financial instruments
The Company and certain consolidated subsidiaries conduct 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 fixed assets in the Industrial Systems segment)
(1) The amount recorded in the consolidated financial statements for the years ended May 31, 2023 and 2022
Property, plant and equipment, intangible assets and long-term prepaid expenses belonging to certain groups of assets in the Industrial Systems segment:

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Impairment loss	¥ —	¥2,256	$ —
Property, plant and equipment, intangible assets and long-term prepaid expenses	3,055	3,325	21,859

(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 amounts recorded in the consolidated financial statements for the year ended May 31, 2023
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 groups of assets. In the current fiscal year, the Group identified an indication of impairment for some asset groups related to the Industrial Systems segment. The asset groups had recorded an operating loss mainly due to the impact on production processes caused by the prolonged difficulty in purchasing parts and materials, as well as the rapid electrification of testing machines for automobile development. However, the Group did not recognize an impairment loss as the aggregated amount of undiscounted future cash flows exceeded the carrying amount of the asset groups. The future cash flows are estimated based on the business plan approved by the management.

b. Main assumptions used for computing the amount recorded in the consolidated financial statements for the year ended May 31, 2023

In the computation of undiscounted future cash flows, the main assumption is future net sales. Future net sales are computed based on historical performance and projections of order acknowledgements made mainly considering industry trends.

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 in 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 consolidated financial statements for the following year may be significantly affected.

(u) New accounting pronouncements

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

(1) Overview
The standards prescribe the accounting category of income taxes when other comprehensive income is subject to taxation and the treatment of tax effect accounting for sale of shares of subsidiaries when the group taxation regime is applied.
(2) Scheduled date of application
The Company expects to apply these standards from the beginning of the year ending May 31, 2025.
(3) Impact of the application
The Company is currently evaluating the impact of applying these standards on the consolidated financial statements.

(v) Changes in accounting estimates

(Provision for product warranties)
After updating the core system, the Company has developed a method for accumulating and collecting the data necessary to determine future costs to repair delivered products under stand-ready obligations. As this development enables more precise estimates, the Company changed its accounting estimates for the year ended May 31, 2023.

As a result, compared to the previous method, operating income, ordinary income and income (loss) before income taxes decreased by ¥55 million ($399 thousand), respectively.

The amount had been included in “Reserve for losses on order acknowledgements” under “Current liabilities” in the consolidated financial statements as of May 31, 2022. However, due to increased materiality resulting from the change in estimates, it is presented separately as “Provision for product warranties” as of May 31, 2023. In order to reflect this change in presentation, the consolidated financial statements as of May 31, 2022, have been reclassified.

As a result, the ¥6 million formerly included in “Reserve for losses on order acknowledgements” under “Current liabilities” as of May 31, 2022, has been reclassified into ¥6 million in “Provision for product warranties.” Further, the ¥(0) million formerly included in “Reserve for losses on order acknowledgements” under “Changes in operating assets and liabilities” for the year ended May 31, 2022, has been reclassified into ¥(0) million in “Provision for product warranties” under “Changes in operating assets and liabilities.”

(w) Additional information

(Accounting under the group tax sharing system)
The Company and its domestic consolidated subsidiaries are shifting from the single tax filing system to the group tax sharing system from the year ending May 31, 2024. Accordingly, the Company has applied the “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (ASBJ Practical Solution No. 42, August 12, 2021) to account for and disclose tax effect accounting for national and municipal income taxes effective May 31, 2023.

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 ¥139.77=U.S.$1, the approximate rate of exchange prevailing on May 31, 2023. 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. Receivables and Contract Assets Arising from Contracts with Customers

Trade notes, accounts receivable and contract assets from contracts with customers as of May 31, 2023 and 2022 were as follows:

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Notes receivable	¥ 377	¥ 586	$ 2,702
Accounts receivable	7,598	7,088	54,360
Contract assets	5,260	4,415	37,639

Note 3. Inventories

Inventories as of May 31, 2023 and 2022 were as follows:

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Goods and finished products	¥ 376	¥ 501	$ 2,695
Work in process	3,106	3,077	22,224
Raw materials and supplies	2,836	2,688	20,293
	¥6,319	¥6,267	$45,212

Inventories were stated at the lower of cost or net realizable value, and the Company recognized losses on the write-down of inventories held for the ordinary sales purpose due to a decline in profitability in the amounts of ¥28 million ($202 thousand) and ¥134 million for the years ended May 31, 2023 and 2022, respectively. These amounts were included in “Cost of sales.”

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

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Goods and finished products	¥12	¥ 0	$ 88
Work in process	14	153	103
	¥26	¥154	$191

Note 4. Property, Plant and Equipment

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

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures	¥ 9,952	¥ 10,326	$ 71,208
Machinery and vehicles	8,208	8,185	58,727
Other	5,138	4,977	36,763
	23,299	23,488	166,699
Accumulated depreciation	(18,879)	(18,444)	(135,075)
	¥ 4,420	¥ 5,044	$ 31,623

Depreciation of property, plant and equipment for the years ended May 31, 2023 and 2022 were as follows:

For the Years Ended	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Depreciation and amortization	¥840	¥1,257	$6,010

Accumulated depreciation of property, plant and equipment amounted to ¥18,879 million ($135,075 thousand) and ¥18,444 million as of May 31, 2023 and 2022, respectively.

Note 5. Investments and Other Assets

Investments in unconsolidated subsidiaries and affiliates included in “Other” under “Investments and other assets” as of May 31, 2023 and 2022 were as follows:

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Investments in capital	¥1,967	¥2,184	$14,074

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

As of May 31, 2023 and 2022, short-term borrowings and the current portion of long-term debt consisted of the following:

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Loans, principally from banks	¥ —	¥ —	$ —
Current portion of long-term debt	885	585	6,333
	¥885	¥585	$6,333

The annual weighted average interest rate applicable to current-portion of long-term debt as of May 31, 2023 was 0.580%.

As of May 31, 2023 and 2022, long-term debt was as follows:

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Long-term debt, excluding current portion, serially due from 2024 through 2032	¥10,288	¥11,173	$73,610

The annual weighted average interest rate applicable to long-term debt as of May 31, 2023 was 0.400%.

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

Years ended May 31	(Millions of yen)	(Thousands of U.S. dollars)
2024	¥ 885	$ 6,333
2025	4,525	32,376
2026	4,525	32,376
2027	515	3,688
2028 and thereafter	722	5,168
	¥11,173	$79,944

As of May 31, 2023 and 2022, the assets pledged as collateral for short-term borrowings and long-term debt were as follows:

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures	¥2,961	¥3,170	$21,186
Machinery and vehicles	255	368	1,825
Other property, plant and equipment	121	146	866
Land	1,201	1,201	8,596
	¥4,538	¥4,886	$32,474

The following assets included in the above are set by factory foundation fixed collateral security for short-term borrowings as of May 31, 2023 and 2022:

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures	¥1,278	¥1,380	$ 9,146
Machinery and vehicles	255	368	1,825
Other property, plant and equipment	121	146	866
	¥1,654	¥1,894	$11,837

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 a points system in the lump-sum payment plans, under which retirement benefit amounts are computed based on the total number of points granted according to job ranking and performance.

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, 2023 and 2022 were as follows:

For the Years Ended	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Retirement benefit obligation as of June 1	¥4,113	¥4,124	$29,432
Service cost	311	297	2,229
Interest cost	15	15	108
Actuarial gain	(15)	(16)	(113)
Retirement benefits paid	(349)	(287)	(2,497)
Other	—	(19)	—
Retirement benefit obligation as of May 31	¥4,075	¥4,113	$29,160

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of May 31, 2023 and 2022 for the Company's and the consolidated subsidiaries' defined benefit plans:

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Unfunded retirement benefit obligation	¥4,075	¥4,113	$29,160
Net liability for retirement benefits on the consolidated balance sheets	4,075	4,113	29,160
Liability for retirement benefits	¥4,075	¥4,113	$29,160
Net liability for retirement benefits on the consolidated balance sheets	4,075	4,113	29,160

Note: The plan adopting the simplified method is included.

The components of retirement benefit expenses for the years ended May 31, 2023 and 2022 were as follows:

For the Years Ended	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost	¥311	¥297	$2,229
Interest cost	15	15	108
Amortization of actuarial loss	35	35	250
Extraordinary payment of increased retirement benefits	7	11	50
Retirement benefit expenses	¥368	¥359	$2,639

Retirement benefits liability adjustments included in other comprehensive income (before tax effect) as of May 31, 2023 and 2022 were as follows:

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Actuarial gain	¥50	¥51	$364
Total	¥50	¥51	$364

Retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of May 31, 2023 and 2022 were as follows:

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Unrecognized actuarial gain	¥37	¥88	$270
Total	¥37	¥88	$270

Major actuarial assumptions (weighted average) used in accounting for the above plans as of May 31, 2023 and 2022 were as follows:

For the Years Ended	May 31, 2023	May 31, 2022
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 ¥113 million ($813 thousand) and ¥116 million for the years ended May 31, 2023 and 2022, respectively.

Note 8. Net Assets

Information regarding changes in net assets for the years ended May 31, 2023 and 2022 was as follows:

a. Shares issued and outstanding / treasury stock

For the year ended May 31, 2023

Type of shares	Number of shares as of June 1, 2022	Increase	Decrease	Number of shares as of May 31, 2023
	(Shares)			
Shares issued:				
Common stock	9,735,000	—	—	9,735,000
Treasury stock:				
Common stock	794,608	735	493,500	301,843

Details of the increase are as follows:
Increase due to purchase of shares of less than standard unit 735 shares
Details of the decrease are as follows:
Decrease due to disposal of treasury stock through third-party allotment 493,500 shares

For the year ended May 31, 2022

Type of shares	Number of shares as of June 1, 2021	Increase	Decrease	Number of shares as of May 31, 2022
	(Shares)			
Shares issued:				
Common stock	9,735,000	—	—	9,735,000
Treasury stock:				
Common stock	794,128	480	—	794,608

Details of the increase are as follows:
Increase due to purchase of shares of less than standard unit 480 shares

b. Dividends

1) Dividends paid

For the year ended May 31, 2023

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 25, 2022	Common stock	¥268	$1,918	¥30.00	$0.21	May 31, 2022	August 26, 2022

For the year ended May 31, 2022

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 27, 2021	Common stock	¥268	¥30.00	May 31, 2021	August 30, 2021

2) Dividends with the cut-off date in the year ended May 31, 2023, and the effective date in the year ending May 31, 2024

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 29, 2023	Common stock	¥282	$2,024	Retained earnings	¥30.00	$0.21	May 31, 2023	August 30, 2023

Note 9. Selling, General and Administrative Expenses

The main components of "Selling, general and administrative expenses" for the years ended May 31, 2023 and 2022 were as follows:

For the Years Ended	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Salaries and allowances	¥1,811	¥1,868	$12,963
Provision for accrued directors' bonuses	39	6	279
Provision for accrued employees' bonuses	292	315	2,095
Retirement benefit expenses	199	202	1,427
Provision for allowance for doubtful accounts	0	(0)	0
Research and development expenses	755	712	5,402

Note 10. Special Gains (Losses), Net

The components of "Special gains (losses), net" for the years ended May 31, 2023 and 2022 were as follows:

For the Years Ended	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Special gains:			
Gain on sales of investment securities	¥ 530	¥ 366	$ 3,797
Gain on sales of property, plant and equipment	150	—	1,079
Gain on reversal of foreign translation adjustment	—	94	—
Special losses:			
Business restructuring expenses	(513)	—	(3,674)
Impairment loss	—	(2,256)	—
Loss on valuation of investment securities	—	(45)	—
Loss on valuation of investments in capital of subsidiaries and affiliates	—	(155)	—
Total	¥ 167	¥(1,996)	$ 1,201

Impairment loss

There was no applicable information for the year ended May 31, 2023.

The Group recognized an impairment loss on the following group of assets for the year ended May 31, 2022.

Use	Location	Type of assets	Loss on impairment (Millions of yen)
Manufacturing equipment of Industrial Systems	Toyo Denki Seizo K.K. Shiga Ryuo plant (Ryuo-cho, Shiga Pref.)	Buildings, etc.	¥2,256

In assessing impairment losses, the Group groups its business assets based on business classification for management accounting purposes under which income and expenditure are managed on an ongoing basis.

Since the future cash flows were lower than the carrying value of the asset group due to a deterioration in the earnings environment, the value of various fixed assets was reduced to their recoverable amount and the reduced amount was recorded as an impairment loss under special losses. The recoverable amount is measured using the value in use and calculated by discounting the future cash flows at 4.8%.

The above assets consist of buildings and structures in the amount of ¥2,046 million, machinery, equipment and vehicles in the amount of ¥178 million and land in the amount of ¥30 million.

Gain on sales of property, plant and equipment

This item consists of a gain of ¥150 million ($1,079 thousand) on the sale of a condominium (buildings and structures, land and other assets) held by the Company.

Business restructuring expenses

Business restructuring expenses were incurred for a loss on valuation of investments in capital, attorneys' fees and other items as part of the Company's restructuring of business development in China for Changzhou Yangdian Zhanyun Transport Equipment Co., Ltd., the Company's unconsolidated subsidiary and Chalco-Toyo Permanent Magnet Motor Co., Ltd., the Company's affiliate not accounted for by the equity method.

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, 2023 and 2022. 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 year ended May 31, 2023, was as follows:

For the Year Ended	May 31, 2023
Effective statutory tax rate	30.6%
Effect of:	
Non-deductible expenses for income tax purpose	1.5
Non-taxable income such as dividends income, etc.	(1.4)
Per capita inhabitant tax	2.4
Valuation allowance	(2.8)
Income from affiliates accounted for by the equity method	(5.9)
Difference arising from the rates used by subsidiaries	0.7
Retained profit of affiliates	5.2
Research and development tax credit	(1.2)
Other	(0.6)
Effective tax rate	28.6%

The reconciliation between the effective tax rates reflected in the consolidated statements of income and the effective statutory tax rate for the year ended May 31, 2022, is omitted since loss before income taxes was recorded for the year ended May 31, 2022.

The significant components of deferred tax assets and liabilities as of May 31, 2023 and 2022 were as follows:

As of	May 31, 2023 (Millions of yen)	May 31, 2022 (Millions of yen)	May 31, 2023 (Thousands of U.S. dollars)
Deferred tax assets:			
Write-down of inventories	¥ 353	¥ 307	$ 2,532
Impairment loss	661	691	4,732
Liability for retirement benefits	1,255	1,266	8,980
Accrued employees' bonuses	243	252	1,744
Reserve for losses on order acknowledgements	123	131	883
Provision for product warranties	21	2	154
The carryforward of unused tax losses (Note 2)	121	129	868
Other	387	496	2,770
Total gross deferred tax assets	3,168	3,278	22,667
Valuation allowance for the carryforward of unused tax losses (Note 2)	(116)	(129)	(835)
Valuation allowance for deductible temporary differences	(442)	(462)	(3,168)
Total valuation allowance (Note 1)	(559)	(592)	(4,001)
Total deferred tax assets	2,608	2,686	18,666
Deferred tax liabilities:			
Unrealized holding gain on securities	(2,371)	(1,736)	(16,968)
Other	(128)	(65)	(921)
Total deferred tax liabilities	(2,500)	(1,802)	(17,889)
Net deferred tax assets	¥ 108	¥ 883	$ 776

(Note 1) Valuation allowance decreased by ¥32 million ($231 thousand) due primarily to a decrease for tax loss carryforwards as well as a decrease due to an addition to deferred tax assets.

(Note 2) The breakdown of the carryforward of unused tax losses and valuation allowance by expiry date is as follows:

Year ended May 31, 2023

(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	¥ 47	¥ 68	¥ 121
Valuation allowance	—	—	—	(1)	(47)	(68)	(116)
Deferred tax assets	—	—	—	4	—	—	4(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)	$—	$—	$—	$41	$ 336	$ 490	$ 868
Valuation allowance	—	—	—	(8)	(336)	(490)	(835)
Deferred tax assets	—	—	—	33	—	—	33(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 ¥4 million ($33 thousand) are recognized for the carryforward of unused tax losses of ¥121 million ($868 thousand) (amount multiplied by the effective statutory tax rate). The said deferred tax assets of ¥4 million ($33 thousand) are recognized for the carryforward of unused tax losses of ¥96 million (690 thousand) (amount multiplied by the effective statutory tax rate) of TD Drive Manufacturing Co., Ltd., which is a consolidated subsidiary of the Company.

Year ended May 31, 2022

(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	¥—	¥—	¥—	¥ 12	¥ 111	¥ 129
Valuation allowance	¥ (5)	—	—	—	(12)	(111)	(129)
Deferred tax assets	—	—	—	—	—	0	0(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 ¥0 million are recognized for the carryforward of unused tax losses of ¥129 million (amount multiplied by the effective statutory tax rate). The said deferred tax assets of ¥0 million are recognized for the carryforward of unused tax losses of ¥20 million (amount multiplied by the effective statutory tax rate) of Toyo Shoji Co., Ltd., which is a consolidated subsidiary of the Company.

(Accounting under the group tax sharing system)
The Company and its domestic consolidated subsidiaries are shifting from the single tax filing system to the group tax sharing system from the year ending May 31, 2024. Accordingly, the Company has applied the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (ASBJ Practical Solution No. 42, August 12, 2021) to account for and disclose tax effect accounting for national and municipal income taxes effective May 31, 2023.

Note 12. Other Comprehensive Income (Loss)

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income (loss) for the years ended May 31, 2023 and 2022:

For the Years Ended	May 31, 2023 (Millions of yen)	May 31, 2022 (Millions of yen)	May 31, 2023 (Thousands of U.S. dollars)
Unrealized holding gain (loss) on securities:			
Amount arising during the year	¥1,560	¥(1,655)	$11,166
Reclassification adjustments for gains and losses included in net income	530	366	3,797
Amount before tax effect	2,091	(1,289)	14,963
Tax effect	(635)	399	(4,543)
Unrealized holding gain (loss) on securities	1,456	(889)	10,420
Translation adjustments			
Amount arising during the year	—	—	—
Reclassification adjustments for gains and losses included in net income	—	2	—
Amount before tax effect	—	2	—
Translation adjustments	—	2	—
Retirement benefits liability adjustments			
Amount arising during the year	15	24	113
Reclassification adjustments for gains and losses included in net income	35	26	250
Amount before tax effect	50	51	364
Tax effect	(15)	(15)	(111)
Retirement benefits liability adjustments	35	35	252
Share of other comprehensive income of affiliates accounted for by the equity method			
Amount arising during the year	57	53	412
Share of other comprehensive income of affiliates accounted for by the equity method	57	53	412
Total other comprehensive income (loss)	¥1,549	¥ (797)	$11,085

Note 13. Lease Transactions

Information on 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, 2023 and 2022, the Company was committed to provide guarantees on bank borrowings of the following affiliates:

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Changzhou Ruiyang Transmission Technology Co., Ltd.	¥325	¥316	$2,327
Beijing Jingche Shuangyang Traction System Co., Ltd.	231	224	1,654

Note 15. Amounts Per Share

For the Years Ended	May 31, 2023	May 31, 2022	May 31, 2023
	(Yen)		(U.S. dollars)
Net income (loss):			
Basic	¥91.85	¥(104.02)	$0.66

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Yen)		(U.S. dollars)
Net assets	¥2,605.99	¥2,462.17	$18.64

Note: Diluted net income per share is omitted for the year ended May 31, 2023 since there is no dilution of equity. Diluted net income per share is omitted for the year ended May 31, 2022 since there is no dilution of equity and the Company recorded net loss per share for the period.

The bases for calculation are as follows:

Basic net income (loss) per share

For the Years Ended	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Net income (loss) attributable to owners of the parent	¥824	¥(930)	$5,899
Net income (loss) not attributable to common shareholders	—	—	—
Net income (loss) attributable to owners of the parent related to common stock	824	(930)	5,899
	(Thousand shares)		
Average number of shares of common stock during the year	8,977	8,940	

Note 16. Financial Instruments

Overview

(1) Policy for financial instruments

The Group raises the necessary funds for capital investment 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 as hedging instruments to reduce such risk.

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 that have sound credit profiles.

(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 positions 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 position limits. Monthly reports including data on actual transactions are submitted to the Board of Directors for 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 reports 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

Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair values. 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.

Fair value of financial instruments

The carrying value and fair value of financial instruments on the consolidated balance sheets as of May 31, 2023 and 2022, and differences between the two, are shown in the following table.

As of May 31, 2023	Carrying value	Fair value	Difference
		(Millions of yen)	
Assets			
Investment securities*1	¥13,226	¥13,226	¥—
Total assets	¥13,226	¥13,226	¥—
Liabilities			
Long-term debt*2	¥11,173	¥11,178	¥ 4
Total liabilities	¥11,173	¥11,178	¥ 4

As of May 31, 2023	Carrying value	Fair value	Difference
	(Thousands of U.S. dollars)		
Assets			
Investment securities*1	$94,629	$94,629	$—
Total assets	$94,629	$94,629	$—
Liabilities			
Long-term debt*2	$79,944	$79,978	$34
Total liabilities	$79,944	$79,978	$34

*1 Investment securities
The fair value of investment securities is determined based on quoted prices on the stock exchange.
Securities are held as available-for-sale securities. For notes on these securities, see Note 17 "Securities."
*2 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, 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 current portion of long-term debt is included in the above table.

As of May 31, 2022	Carrying value	Fair value	Difference
	(Millions of yen)		
Assets			
Investment securities*1	¥11,408	¥11,408	¥—
Total assets	¥11,408	¥11,408	¥—
Liabilities			
Long-term debt*2	¥11,759	¥11,770	¥10
Total liabilities	¥11,759	¥11,770	¥10

*1 Investment securities
The fair value of investment securities is determined based on quoted prices on the stock exchange.
Securities are held as available-for-sale securities. For notes on these securities, see Note 17 "Securities."
*2 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, 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 current portion of long-term debt is included in the above table.

Notes:

1. Cash on hand and in banks, trade notes and accounts receivable, electronically recorded receivables, trade notes and accounts payable, electronically recorded payables, short-term borrowings, income taxes payable, etc. are omitted since these items are settled in a short period of time and their carrying value approximates their fair value.
2. Equity securities without market quotation, etc. are not included in the above investment securities. The carrying value of such financial instruments is as follows:

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Unlisted equity securities	¥1,062	¥1,062	$7,602

3. Redemption schedule for receivables and securities with maturities on May 31, 2023 and 2022 were as follows:

As of May 31, 2023	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	¥ 5,520	¥—	¥—	¥—
Trade notes and accounts receivable	7,942	33	—	—
Electronically recorded receivables	1,116	—	—	—
	¥14,579	¥33	¥—	¥—

As of May 31, 2023	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	$ 39,493	$ —	$—	$—
Trade notes and accounts receivable	56,825	237	—	—
Electronically recorded receivables	7,991	—	—	—
	$104,311	$237	$—	$—

As of May 31, 2022	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	¥ 4,449	¥—	¥—	¥—
Trade notes and accounts receivable	7,643	32	—	—
Electronically recorded receivables	1,136	—	—	—
	¥13,229	¥32	¥—	¥—

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

Fair value information by level within the fair value hierarchy

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

Level 1 fair value: Fair value measured using (unadjusted) quoted prices in active markets for assets or liabilities that are the subject of the measurement.
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 significant unobservable inputs.

If multiple inputs that are significant to the fair value measurement are used, the fair value measurement is categorized in its entirety in the level of the lowest level input that is significant to the entire measurement.

(1) Financial assets and liabilities measured at fair value

As of May 31, 2023	Fair value			
	Level 1	Level 2	Level 3	Total
	(Millions of yen)			
Investment securities:				
Available-for-sale securities:				
Equity securities	¥13,226	¥—	¥—	¥13,226
Total financial assets	¥13,226	¥—	¥—	¥13,226
Not applicable to financial liabilities				

As of May 31, 2023	Fair value			
	Level 1	Level 2	Level 3	Total
	(Thousands of U.S. dollars)			
Investment securities:				
Available-for-sale securities:				
Equity securities	$94,629	$—	$—	$94,629
Total financial assets	$94,629	$—	$—	$94,629
Not applicable to financial liabilities				

As of May 31, 2022	Fair value			
	Level 1	Level 2	Level 3	Total
	(Millions of yen)			
Investment securities:				
Available-for-sale securities:				
Equity securities	¥11,408	¥—	¥—	¥11,408
Total financial assets	¥11,408	¥—	¥—	¥11,408
Not applicable to financial liabilities				

(2) Financial assets and liabilities other than those measured at fair value

As of May 31, 2023	Fair value			
	Level 1	Level 2	Level 3	Total
	(Millions of yen)			
Not applicable to financial assets				
Long-term debt	¥—	¥11,178	¥—	¥11,178
Total financial liabilities	¥—	¥11,178	¥—	¥11,178

As of May 31, 2023	Fair value			
	Level 1	Level 2	Level 3	Total
	(Thousands of U.S. dollars)			
Not applicable to financial assets				
Long-term debt	$—	$79,978	$—	$79,978
Total financial liabilities	$—	$79,978	$—	$79,978

As of May 31, 2022	Fair value			
	Level 1	Level 2	Level 3	Total
	(Millions of yen)			
Not applicable to financial assets				
Long-term debt	¥—	¥11,770	¥—	¥11,770
Total financial liabilities	¥—	¥11,770	¥—	¥11,770

Note: A description of the valuation techniques and inputs used in the fair value measurements

Investment securities

The fair value of listed equity securities is based on quoted market prices. As listed equity securities are traded in active markets, their fair value is classified as Level 1.

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, 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 is classified as Level 2.

The fair value of long-term debt includes the current portion of long-term debt.

Note 17. Securities

Information regarding securities classified as available-for-sale securities

Available-for-sale securities

As of May 31, 2023	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Millions of yen)		
Securities for which carrying value exceeds acquisition cost:			
Stock	¥13,162	¥5,411	¥7,751
Subtotal	¥13,162	¥5,411	¥7,751
Securities for which acquisition cost exceeds carrying value:			
Stock	¥ 63	¥ 72	¥ (9)
Subtotal	¥ 63	¥ 72	¥ (9)
Total	¥13,226	¥5,484	¥7,741

As of May 31, 2023	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Thousands of U.S. dollars)		
Securities for which carrying value exceeds acquisition cost:			
Stock	$94,175	$38,717	$55,458
Subtotal	$94,175	$38,717	$55,458
Securities for which acquisition cost exceeds carrying value:			
Stock	$ 453	$ 521	$ (68)
Subtotal	$ 453	$ 521	$ (68)
Total	$94,629	$39,238	$55,390

Note: 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, 2022	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Millions of yen)		
Securities for which carrying value exceeds acquisition cost:			
Stock	¥11,205	¥5,539	¥5,666
Subtotal	¥11,205	¥5,539	¥5,666
Securities for which acquisition cost exceeds carrying value:			
Stock	¥ 202	¥ 218	¥ (15)
Subtotal	¥ 202	¥ 218	¥ (15)
Total	¥11,408	¥5,758	¥5,650

Note: Acquisition cost in the above table represents carrying value reflecting impairment losses. In the year ended May 31, 2022, the Company recognized loss on valuation of investment securities in the amount of ¥45 million.
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, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Stock:			
Sales proceeds	¥818	¥466	$5,856
Gain on sales	530	366	3,797
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, 2023 and 2022 were reconciled to cash on hand and in banks in the consolidated balance sheets as follows:

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Cash on hand and in banks	¥5,520	¥4,449	$39,493
Cash and cash equivalents	¥5,520	¥4,449	$39,493

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 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, 2023 and 2022, there were no currency-related derivatives.

Derivative transactions to which hedge accounting is applied:

As of May 31, 2023 and 2022, there were no interest-related derivatives.

Note 20. Revenue Recognition

1. Disaggregation of revenue from contracts with customers

Information about disaggregation of revenue arising from contracts with customers is as follows:

For the Years Ended		May 31, 2023	May 31, 2022	May 31, 2023
		(Millions of yen)		(Thousands of U.S. dollars)
Reportable segment:				
Transportation Systems	Domestic railway	¥13,333	¥14,705	$ 95,393
	Overseas railway	4,492	2,831	32,144
	Other	2,031	1,919	14,531
	Subtotal	¥19,857	¥19,456	$142,069
Industrial Systems	Processing machine	¥ 3,321	¥ 2,719	$ 23,765
	Testing machine	2,341	2,173	16,753
	Power generator/power source	1,561	2,187	11,169
	Other	2,680	2,822	19,180
	Subtotal	¥ 9,905	¥ 9,902	$ 70,868
ICT Solution Systems	ICT solutions	¥ 1,256	¥ 790	$ 8,991
	Subtotal	¥ 1,256	¥ 790	$ 8,991
Other (Note)		¥ 6	¥ 9	$ 45
Total		¥31,025	¥30,158	$221,974
Revenue arising from contracts with customers		¥31,025	¥30,158	$221,974
Sales to third parties		¥31,025	¥30,158	$221,974

Note: "Other" represents business units which are not included in reportable segments and consists of worker dispatching services related activities, etc.
From the year ended May 31, 2023, the Group has renamed the Information Equipment Systems segment as the "ICT Solution Systems" segment. Accordingly, the segment in the previous year is presented under the new name. This change does not have an impact on the information about disaggregation of revenue arising from contracts with customers by reportable segments.

2. Useful information in understanding revenue from contracts with customers

This information is as stated in *(q) Accounting for significant revenue and costs* under 1. Summary of Significant Accounting Policies.

Consideration for performance obligations is usually received within one year of satisfying the performance obligations and does not include any significant financing component.

3. Balance of contract assets and liabilities and the transaction price allocated to the remaining performance obligations

(1) Balance of contract assets and liabilities

As of	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Receivables from contracts with customers (beginning balance)	¥8,812	¥10,280	$63,046
Receivables from contracts with customers (ending balance)	9,092	8,812	65,055
Contract assets (beginning balance)	4,415	3,838	31,594
Contract assets (ending balance)	5,260	4,415	37,639
Contract liabilities (beginning balance)	47	34	342
Contract liabilities (ending balance)	84	47	606

Contract assets relate to the right of the Group to consideration for contracts with customers which have been completed but an invoice has not yet been issued as of the end of the fiscal period. Once the Group has an unconditional right to consideration, it reclassifies contract assets to receivables from contracts with customers.

Contract liabilities primarily relate to advances received from customers based on the contracts with customers before the performance obligation is satisfied. Contract liabilities are reversed as revenue is recognized.

Revenue recognized in the years ended May 31, 2023 and 2022 that was included in the contract liability balance at the beginning of the year was ¥45 million ($322 thousand) and ¥27 million, respectively.

(2) Transaction price allocated to the remaining performance obligations

The total transaction prices allocated to the remaining performance obligations as of May 31, 2023 and 2022 were ¥29,496 million ($211,034 thousand) and ¥27,275 million, respectively, and the Group expects to recognize revenue mainly within a period of one to three years as such remaining performance obligations are satisfied.

Note 21. Segment Information

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

The Group establishes business units by product, and each business unit designs domestic and overseas comprehensive strategies for its products and develops 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 ICT Solution Systems.

From the year ended May 31, 2023, the Group has renamed the Information Equipment Systems segment as the "ICT Solution Systems" segment. This change does not have an impact on segment information.

Accordingly, the segment in the previous year is presented under the new name.

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.

	For the year ended May 31, 2023						
	Reportable segments						
	Transportation Systems	Industrial Systems	ICT Solution Systems	Other (Note)	Total	Adjustments	Consolidated
				(Millions of yen)			
Sales, profits or losses and asset by reportable segment							
Net sales:							
Sales to third parties	¥19,857	¥ 9,905	¥1,256	¥ 6	¥31,025	¥ —	¥31,025
Inter-segment sales and transfers	33	1	—	299	334	(334)	—
	19,890	9,906	1,256	306	31,359	(334)	31,025
Segment profit (loss)	¥ 2,259	¥ 479	¥ 413	¥(14)	¥ 3,137	¥(2,619)	¥ 517
Segment assets	¥15,395	¥11,579	¥ 835	¥427	¥28,237	¥21,444	¥49,682
Other items:							
Depreciation	¥ 416	¥ 337	¥ 18	¥ 2	¥ 775	¥ 64	¥ 840
Capital expenditures	¥ 168	¥ 68	¥ 3	¥ 1	¥ 242	¥ 67	¥ 310

	For the year ended May 31, 2023						
	Reportable segments						
	Transportation Systems	Industrial Systems	ICT Solution Systems	Other (Note)	Total	Adjustments	Consolidated
				(Thousands of U.S. dollars)			
Sales, profits or losses and asset by reportable segment							
Net sales:							
Sales to third parties	$142,069	$70,868	$8,991	$ 45	$221,974	$ —	$221,974
Inter-segment sales and transfers	240	7	—	2,144	2,392	(2,392)	—
	142,310	70,876	8,991	2,189	224,367	(2,392)	221,974
Segment profit (loss)	$ 16,164	$ 3,427	$2,960	$ (107)	$ 22,445	$(18,742)	$ 3,703
Segment assets	$110,150	$82,847	$5,976	$3,055	$202,030	$153,426	$355,456
Other items:							
Depreciation	$ 2,979	$ 2,412	$ 134	$ 19	$ 5,546	$ 464	$ 6,010
Capital expenditures	$ 1,204	$ 489	$ 28	$ 14	$ 1,736	$ 482	$ 2,218

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

	For the year ended May 31, 2022						
	Reportable segments						
	Transportation Systems	Industrial Systems	ICT Solution Systems	Other (Note)	Total	Adjustments	Consolidated
				(Millions of yen)			
Sales, profits or losses and asset by reportable segment							
Net sales:							
Sales to third parties	¥19,456	¥ 9,902	¥790	¥ 9	¥30,158	¥ —	¥30,158
Inter-segment sales and transfers	10	0	—	329	340	(340)	—
	19,467	9,903	790	338	30,499	(340)	30,158
Segment profit (loss)	¥ 2,190	¥ 477	¥142	¥(19)	¥ 2,791	¥(2,619)	¥ 171
Segment assets	¥16,276	¥10,068	¥691	¥434	¥27,471	¥19,444	¥46,916
Other items:							
Depreciation	¥ 513	¥ 470	¥ 21	¥ 3	¥ 1,008	¥ 248	¥ 1,257
Capital expenditures	¥ 164	¥ 115	¥ 4	¥ —	¥ 284	¥ 31	¥ 315

Note: "Other" represents business units that 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, 2023 and 2022 were summarized as follows:

For the Years Ended	May 31, 2023	May 31, 2022	May 31, 2023
	(Millions of yen)		(Thousands of U.S. dollars)
Japan	¥24,915	¥25,779	$178,257
China	4,536	3,015	32,455
Other	1,574	1,363	11,262
Consolidated	¥31,025	¥30,158	$221,974

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

Major customer information

Major customer information for the years ended May 31, 2023 and 2022 was omitted since there was no customer to which sales exceeded 10% of net sales recorded in the accompanying consolidated statements of income.

Information about impairment loss on property, plant and equipment

There was no applicable information for the year ended May 31, 2023.

	For the year ended May 31, 2022						
	Reportable segments						
	Transportation Systems	Industrial Systems	ICT Solution Systems	Other (Note)	Total	Adjustments	Consolidated
				(Millions of yen)			
Impairment loss	¥—	¥2,256	¥—	¥—	¥2,256	¥—	¥2,256

Note 22. Significant Subsequent Events

There were no significant subsequent events to be noted.