KYOKUTO KOWA CORPORATION

Financial Statements
for the Year Ended March 31, 2021,
and Independent Auditor's Report

KYOKUTO KOWA CORPORATION
Balance Sheet
Year Ended March 31, 2021

ASSETS	Millions of Yen 2021	Thousands of U.S. Dollars (Note 1) 2021
CURRENT ASSETS:		
Cash and cash equivalents (Note 7)	¥ 535	$ 4,829
Receivables (Note 7):		
Trade notes (Note 3.b)	210	1,897
Electronically recorded monetary claims	357	3,228
Trade accounts	16,197	146,301
Parent company and affiliated companies (Note 8)	186	1,682
Other	1,778	16,059
Inventories (Note 3.a)	1,710	15,445
Prepaid expenses and other current assets	11	103
Total current assets	20,984	189,544
PROPERTY, PLANT AND EQUIPMENT:		
Land	926	8,365
Buildings and structures	2,557	23,094
Machinery and equipment	2,400	21,677
Tools, furniture and fixtures	1,092	9,875
Construction in progress	54	489
Total	7,029	63,500
Accumulated depreciation	(4,788)	(43,254)
Net property, plant and equipment	2,241	20,246
INVESTMENTS AND OTHER ASSETS:		
Investment securities (Note 7)	64	577
Deferred tax assets (Note 6)	167	1,508
Other assets (Note 8)	218	1,961
Allowance for doubtful accounts	(25)	(221)
Total investments and other assets	424	3,825
TOTAL	¥ 23,649	$ 213,615

LIABILITIES AND EQUITY	Millions of Yen 2021	Thousands of U.S. Dollars (Note 1) 2021
CURRENT LIABILITIES:		
Short-term borrowings from parent company (Note 7)	¥ 7,489	$ 67,642
Payables (Note 7):		
Trade notes	469	4,240
Electronically recorded obligations	1,982	17,903
Trade accounts	3,138	28,343
Parent company and affiliated companies (Note 8)	635	5,735
Other	219	1,979
Income taxes payable (Note 7)	160	1,443
Advances received on uncompleted construction contracts (Note 7)	256	2,315
Allowance for losses on construction contracts	143	1,296
Provision for warranties for completed construction	19	171
Other current liabilities	1,860	16,797
Total current liabilities	16,370	147,864
LONG-TERM LIABILITIES:		
Other	124	1,121
Total long-term liabilities	124	1,121
Total liabilities	16,494	148,985
CONTINGENT LIABILITIES (Note 3.b)		
EQUITY (Notes 4, 5, and 9):		
Common stock—authorized, 30,000,000 shares; issued, 8,680,000 shares in 2021	1,600	14,452
Capital surplus:		
Additional paid-in capital	1,695	15,310
Other capital surplus	812	7,339
Retained earnings:		
Legal reserve	118	1,063
Unappropriated	2,924	26,409
Unrealized gain on available-for-sale securities	6	57
Total equity	7,155	64,630
TOTAL	¥ 23,649	$ 213,615

See notes to financial statements.

KYOKUTO KOWA CORPORATION
Statement of Income
Year Ended March 31, 2021

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2021	2021
NET SALES (Note 8)	¥ 29,642	$ 267,742
COST OF SALES (Note 8)	25,920	234,120
Gross profit	3,722	33,622
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 8)	1,772	16,002
Operating income	1,950	17,620
OTHER INCOME (EXPENSES) (Note 8):		
Interest and dividend income	2	19
Interest expense	(74)	(667)
Financing expenses	(18)	(160)
Share issuance costs	(11)	(96)
Other—net	19	160
Other income (expenses)—net	(82)	(744)
INCOME BEFORE INCOME TAXES	1,868	16,876
INCOME TAXES		
Current	653	5,902
Deferred	(59)	(534)
Total income taxes	594	5,368
NET INCOME	¥ 1,274	$ 11,508

	Yen	U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 4 and 9):		
Basic net income	¥ 147.77	$ 1.33
Cash dividends applicable to the year	51.50	0.47

See notes to financial statements.

KYOKUTO KOWA CORPORATION
Statement of Changes in Equity
Year Ended March 31, 2021

	Thousands	Millions of Yen						
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus: Additional Paid-in Capital	Capital Surplus: Other Capital Surplus	Retained Earnings: Legal Reserve	Retained Earnings: Unappropri-ated	Unrealized Gain on Available-for-Sale Securities	Total Equity
BALANCE, MARCH 31, 2020	8,620	¥ 100	¥ 195	¥ 812	¥ 118	¥ 1,951	¥ 7	¥ 3,183
Issuance of new shares	60	1,500	1,500					3,000
Net income						1,274		1,274
Cash dividends, ¥35 per share						(301)		(301)
Net change in the year							(1)	(1)
BALANCE, MARCH 31, 2021	8,680	¥ 1,600	¥ 1,695	¥ 812	¥ 118	¥ 2,924	¥ 6	¥ 7,155

	Thousands of U.S. Dollars (Note 1)						
	Common Stock	Capital Surplus: Additional Paid-in Capital	Capital Surplus: Other Capital Surplus	Retained Earnings: Legal Reserve	Retained Earnings: Unappropri-ated	Unrealized Gain on Available-for-Sale Securities	Total Equity
BALANCE, MARCH 31, 2020	$ 903	$ 1,761	$ 7,339	$ 1,063	$ 17,626	$ 59	$ 28,751
Issuance of new shares	13,549	13,549					27,098
Net income					11,508		11,508
Cash dividends, $0.32 per share					(2,725)		(2,725)
Net change in the year						(2)	(2)
BALANCE, MARCH 31, 2021	$ 14,452	$ 15,310	$ 7,339	$ 1,063	$ 26,409	$ 57	$ 64,630

See notes to financial statements.

1. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The accompanying financial statements have been prepared from the accounts maintained by KYOKUTO KOWA CORPORATION (the "Company"), in accordance with the provisions set forth in the Companies Act of Japan and applicable regulations and in accordance with accounting principles generally accepted in Japan. The information provided in the notes to the financial statements is limited to that required by the Companies Act of Japan and applicable regulations. Statements of comprehensive income and cash flows are not required as a part of the basic financial statements under the Companies Act of Japan and applicable regulations and, accordingly, are not presented herein.

In preparing these financial statements, certain reclassifications and rearrangements have been made to the Company's financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts are included for the convenience of readers outside Japan and have been made at the rate of ¥110.71 to $1, the approximate rate of exchange at March 31, 2021. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. ***Inventories***—Construction projects in progress, finished products, and work in process are stated at cost as determined by the specific identification method. Raw materials and supplies are stated at cost as determined by the moving-average method. The write-downs of inventories due to decreased profitability are reflected in the valuation of raw materials and supplies and the accompanying loss is recognized as cost of goods sold, in principle.

b. ***Property, Plant and Equipment***—Property, plant and equipment are stated at cost. Depreciation is computed by the declining-balance method based on the estimated useful lives of the assets, while the straight-line method is applied to buildings, excluding building fixtures, acquired on or after April 1, 1998. The range of useful lives is principally from 12 to 38 years for buildings and structures and from 3 to 9 years for machinery and equipment and tools, furniture and fixtures.

c. ***Long-Lived Assets***—The Company reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

d. ***Investment Securities***—Investment securities are classified and accounted for, depending on management's intent, as available-for-sale securities. They are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by an impairment charge to income.

e. ***Allowance for Doubtful Accounts***—The allowance for doubtful accounts is provided for at an amount sufficient to cover possible losses on collection. It consists of the estimated uncollectible amount with respect to identified doubtful receivables and an amount calculated by applying the percentage of actual losses on collection experienced in the past to the remaining receivables.

f. ***Allowance for Losses on Construction Contracts***—To cover losses which have a high probability of occurring in the future upon work completion, an allowance for estimated losses is provided based on the amount of orders received and the estimated cost.

g. ***Provision for Warranties for Completed Construction*** —Provision for warranties for completed construction is provided for anticipated future costs within the warranty period arising from warranties on completed construction.

h. ***Construction Contracts***— In December 2007, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No. 15, "Accounting Standard for Construction Contracts," and ASBJ Guidance No. 18, "Guidance on Accounting Standard for Construction Contracts." Under this accounting standard, construction revenue and construction costs should be recognized by the percentage-of-completion method if the outcome of a construction contract can be estimated reliably. If the outcome of a construction contract cannot be reliably estimated, the completed-contract method should be applied. When it is probable that the total construction costs will exceed total construction revenue, an estimated loss on the contract should be immediately recognized by providing for a loss on construction contracts. Construction contracts are individual contracts with the contractor. Even if there is no amendment agreement, if we have a substantial agreement with the contractee, we estimate the changes of the construction contract and recognize any additional revenue.

The revenues recognized by the percentage-of-completion method for the year ended March 31, 2021, were ¥23,968 million ($216,497 thousand).

If the above assumptions and estimates need to be reviewed, it may affect the amount of construction revenue for the next fiscal year and thereafter.

(Key assumptions)
1. When total construction revenue, total construction costs, and the stage of completion of the contract at the balance sheet date can be reliably measured, the outcome of a construction contract is deemed to be estimated reliably.
2. It is assumed that information on any amendment agreements will be collected and the total estimated construction cost and total construction revenue will be reviewed in a timely manner.

i. ***Income Tax***—The provision for income taxes is computed based on the pretax income included in the statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

The Company's parent company files a tax return under the consolidated corporate tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries. The Company is included in the consolidated corporate tax system.

(Treatment of tax effects for transition from the consolidated corporate tax system to the group tax sharing system)
Regarding the transition from the consolidated tax system to the newly established group tax sharing system and the several changes to accounting policies of the single taxation system following the aforementioned transition under the act on partial revision of income tax act (Act No. 8, 2020), the Company calculates deferred tax assets and liabilities based on the corporate tax law before revision, notwithstanding the provisions of section 44 of the ASBJ Implementation Guidance on tax effects accounting (Guidance No. 28, February 16, 2018), pursuant to Section 3 of the ASBJ Practical Solution on the treatment of tax effects for the transition from the consolidated corporate tax system to the group tax sharing system (PITF No. 39, March 31, 2020).

j. ***Per Share Information***—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period.

Cash dividends per share presented in the accompanying statement of income are dividends applicable to the fiscal year, including dividends accrued and paid after the end of the year.

k. ***New Accounting Pronouncements***—On March 31, 2020, the ASBJ issued ASBJ Statement No. 29, " Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, " Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contracts with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when the entity satisfies a performance obligation

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021.

The Company expects to apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021, and the impact on retained earnings at the beginning of the fiscal year is immaterial.

3. NOTES TO BALANCE SHEET

a. Inventories

Inventories at March 31, 2021, consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
	2021	2021
Construction projects in progress	¥ 438	$ 3,954
Finished products	1,144	10,330
Work in process	54	486
Raw materials and supplies	74	675
Total	¥ 1,710	$ 15,445

b. Contingent liabilities

	Millions of Yen	Thousands of U.S. Dollars
	2021	2021
Guarantees to loans from banks of the parent company	¥ 6,050	$ 54,647
Trade notes endorsed	327	2,955
Total	¥ 6,377	$ 57,602

4. NOTES TO STATEMENT OF CHANGES IN EQUITY

a. Type and number of outstanding shares

For the year ended March 31, 2021	Number of Shares			
Type of shares	Balance at Beginning of Year	Increase in Shares During the Year	Decrease in Shares During the Year	Balance at End of Year
Issued stock:				
Common stock	8,620,000	60,000	—	8,680,000

The increase in issued stock is due to shareholder allocation.

b. Dividends

(1) Dividends paid to shareholders
For the year ended March 31, 2021

		Amount		Amount per Share			
Resolution Approved by	Type of Shares	Millions of Yen	Thousands of U.S. Dollars	Yen	U.S. Dollars	Record Date	Effective Date
Annual General Meeting of Shareholders (June 19, 2020)	Common stock	¥73	$662	¥8.5	$0.08	March 31, 2020	June 22, 2020
Board of Directors (October 23, 2020)	Common stock	¥228	$2,063	¥26.5	$0.24	September 30, 2020	November 30, 2020

(2) Dividends with a record date during the fiscal year but an effective date subsequent to the fiscal year
For the year ended March 31, 2021

		Amount		Amount per Share			
Resolution Approved by	Type of Shares	Millions of Yen	Thousands of U.S. Dollars	Yen	U.S. Dollars	Record Date	Effective Date
Annual General Meeting of Shareholders (June 18, 2021)	Common stock	¥217	$1,960	¥25.0	$0.23	March 31, 2021	June 21, 2021

5. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the general meeting of shareholders.
For companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company does not meet all the above criteria.

Semi-annual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

6. INCOME TAXES

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

	Millions of Yen	Thousands of U.S. Dollars
	2021	2021
Deferred tax assets:		
Allowance for losses on construction contracts	¥ 44	$ 395
Share-based compensation expenses	36	327
Accrued enterprise tax	32	292
Retirement payments	38	341
Provision for warranties for completed construction	6	52
Impairment loss	11	100
Other	22	203
Subtotal	189	1,710
Valuation allowance	(19)	(173)
Total	170	1,537
Deferred tax liabilities:		
Unrealized gain on available-for-sale securities	(3)	(29)
Total	(3)	(29)
Net deferred tax assets	¥ 167	$ 1,508

7. FINANCIAL INSTRUMENTS

a. Overview

(1) Policy for financial instruments

The Company raises funds by borrowing from the parent company and banks. Also, the Company restricts temporary excess fund management to highly secure assets such as time deposits.

(2) Types of financial instruments related risks and risk management

Receivables, such as trade note receivables, electronically recorded monetary claims, and trade account receivables, are exposed to the credit risk of customers. In order to mitigate the risk when orders are received, the Company conducts strict screening and determines project plans on the basis of internal guidelines. As investment securities are exposed to market risk, the Company monitors market prices of these securities.

Long-term loans are used for operations or capital investment.

The Company does not engage in derivative transactions.

b. Fair value of financial instruments

The following table shows the carrying values and fair values of financial instruments as of March 31, 2021, and any differences. Certain financial instruments, for which it is extremely difficult to determine the fair value, are not included.

	Millions of Yen			Thousands of U.S. Dollars		
At March 31, 2021	Carrying Value	Fair Value	Difference	Carrying Value	Fair Value	Difference
Assets						
Deposits	¥ 530	¥ 530	–	$ 4,789	$ 4,789	–
Receivables	18,728	18,728	–	169,167	169,167	–
Investment securities	20	20	–	179	179	–
Liabilities						
Short-term borrowings from the parent company	7,489	7,489	–	67,642	67,642	–
Payables	6,443	6,443	–	58,200	58,200	–
Income taxes payable	160	160	–	1,443	1,443	–
Advances received on uncompleted construction contracts	256	256	–	2,315	2,315	–

Assets

Deposits and Receivables

Since deposits and receivables are settled in a short period of time, the carrying value approximates fair value.

Investment securities

The fair value of stocks is determined based on quoted market prices.

Liabilities

Short-term borrowings from the parent company, Payables, Income taxes payable, and Advances received on uncompleted construction contracts

Since these accounts are settled in a short period of time, the carrying value approximates fair value.

c. Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of Yen	Thousands of U.S. Dollars
	2021	2021
Non-listed stocks	¥ 44	$ 398

It is extremely difficult to determine the fair values for these securities since they have no quoted market prices available. Thus, they are not included in "Investment securities" above.

8. RELATED PARTY DISCLOSURES

a. Parent company

Transactions with the parent company for the year ended March 31, 2021, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2021	2021
Fee for consulting and administrative services	¥ 122	$ 1,105
Allocated amount of consolidated corporation tax	501	4,529
Rental fees for land and office buildings	118	1,067
Interest expense	74	667
Acquisition of new shares	3,000	27,098
Guarantees to parent company's liabilities	6,050	54,647

The balances due to or from the parent company at March 31, 2021, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2021	2021
Receivables	¥ 13	$ 119
Other assets	59	532
Payables	528	4,772

Business terms:

1. Fee for consulting and administrative services are determined through negotiations with the parent company based on the amounts suggested by the parent company.
2. Rental fees for land and office buildings are determined through negotiations with the parent company on an arm's-length basis.
3. The parent company uses a Cash Management System (CMS) for its subsidiaries to control the cash surplus and spend money efficiently at the group level. The interest rates on loans within the CMS are generally decided based on the current market interest rates available.

   Because the loans within the group are made as needed, the amounts of the transactions are omitted from the table above.

4. The allocated amount of consolidated corporate tax is allocated based on the calculation of consolidated taxation by the parent company.
5. Acquisition of new shares was due to an underwriting of the Company's shareholder allotment for 50,000 yen per share.

b. Affiliated companies

Transactions with affiliated companies for the year ended March 31, 2021, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2021	2021
Net sales	¥ 2	$ 17
Cost of sales	826	7,461
Selling, general and administrative expenses	28	250

The balances due from / to affiliated companies at March 31, 2021, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2021	2021
Receivables	¥ 173	$ 1,563
Payables	107	963

9. PER SHARE INFORMATION

	Yen	U.S. Dollars
	2021	2021
Per share amounts:		
Net assets	¥ 824.33	$ 7.45
Basic net income	147.77	1.33

Diluted net income per share is not presented since there are no dilutive shares of common stock issuable upon conversion of the convertible debt.