SEIKITOKYU KOGYO CO., LTD.

Consolidated Financial Statements
for the year ended March 31, 2023

Independent Auditor's Report

June 23, 2023

The Board of Directors
SEIKITOKYU KOGYO CO., LTD.

Ernst & Young ShinNihon LLC
Tokyo, Japan

中川 政人
Masato Nakagawa
Designated Engagement Partner
Certified Public Accountant

中村 崇
Takashi Nakamura
Designated Engagement Partner
Certified Public Accountant

Opinion

Pursuant to Article 444, paragraph 4 of the Companies Act, we have audited the accompanying consolidated financial statements, which comprise the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets, and notes to the consolidated financial statements of SEIKITOKYU KOGYO CO., LTD. and its consolidated subsidiaries (the Group) applicable to the fiscal year from April 1, 2022 to March 31, 2023.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position and results of operations of the Group applicable to the fiscal year ended March 31, 2023, in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Other Information

The other information comprises the information included in a disclosure document that contains audited financial statements but does not include the financial statements and our auditor's report thereon.
We have concluded that the other information did not exist. Accordingly, we have not performed any work related to the other information.

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

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

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

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

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

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

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

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

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

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

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

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

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

SEIKITOKYU KOGYO CO., LTD.

Consolidated Balance Sheet

for the year ended March 31, 2023

Assets	Yen (millions) 2023	U.S. dollars (thousands) (Note 2) 2023
Current assets:		
Cash and deposits	¥ 8,173	$ 61,208
Trade receivables		
Notes receivables	3,120	23,372
Accounts receivables	35,709	267,419
Total trade receivables	38,829	290,791
Inventories		
Cost on uncompleted construction contracts	229	1,712
Raw materials and supplies	331	2,482
Total inventories	560	4,194
Other current assets	2,430	18,198
Total current assets	49,992	374,391
Non-current assets:		
Property, plant and equipment (Notes 4 and 5)	26,750	200,332
Intangible assets	240	1,795
Investment and other assets		
Investment securities		
Other securities (Note 10)	303	2,267
Deferred tax assets	1,003	7,510
Guarantee deposits and other investments (Note 6)	474	3,552
Total investments and other assets	1,780	13,329
Total non-current assets	28,770	215,456
Total assets	¥ 78,762	$ 589,847

Liabilities and Net assets	Yen (millions) 2023	U.S. dollars (thousands) (Note 2) 2023
Current liabilities:		
Short-term loans payable (Note 5)	¥ 106	$ 794
Trade payables		
Notes payables	7,539	56,462
Accounts payables	15,723	117,751
Total trade payables	23,262	174,213
Income taxes payable	215	1,607
Advances received on uncompleted construction contracts	1,571	11,762
Provision for warranties for completed construction	40	303
Provision for loss on construction contracts	4	30
Provision for bonuses	1,655	12,395
Other current liabilities	4,312	32,289
Total current liabilities	31,165	233,393
Non-current liabilities:		
Long-term loans payable (Notes 5 and 10)	6,800	50,925
Net defined benefit liability	1,049	7,857
Other non-current liabilities	88	658
Total non-current liabilities	7,937	59,440
Total liabilities	39,102	292,833
Net assets:		
Shareholders' equity (Note 7):		
Share capital		
Authorized - 150,000,000 shares	2,000	14,978
Issued - 37,424,507 shares		
Capital surplus	500	3,744
Retained earnings	37,810	283,159
Treasury stock - 976,478 shares	(804)	(6,018)
Total shareholders' equity	39,506	295,863
Accumulated other comprehensive income:		
Unrealized gain on investment securities	34	257
Foreign currency translation adjustment	(20)	(154)
Remeasurements of defined benefit plans	140	1,048
Total accumulated other comprehensive income	154	1,151
Total net assets	39,660	297,014
Total liabilities and net assets	¥ 78,762	$ 589,847

See accompanying notes to consolidated financial statements.

SEIKITOKYU KOGYO CO., LTD.

Consolidated Statement of Income
for the year ended March 31, 2023

	Yen (millions) 2023	U.S. dollars (thousands) (Note 2) 2023
Completed construction contracts:		
Net sales	¥ 74,700	$ 559,428
Cost of sales	66,616	498,887
Gross profit	8,084	60,541
Finished goods:		
Net sales	17,613	131,903
Cost of sales	16,906	126,607
Gross profit	707	5,296
Power business:		
Net sales	101	757
Cost of sales	90	676
Gross profit	11	81
Total:		
Net sales	92,414	692,088
Cost of sales	83,612	626,170
Gross profit	8,802	65,918
Selling, general and administrative expenses:	6,133	45,928
Operating income	2,669	19,990
Other income (Note 8) :		
Interest and dividends	8	61
Other	130	971
Subtotal	138	1,032
Other expenses (Note 9):		
Interest	56	419
Impairment loss (Note 12)	826	6,189
Other	127	948
Subtotal	1,009	7,556
Profit before income taxes	1,798	13,466
Income taxes		
Current	726	5,438
Deferred	(55)	(413)
Net income	1,127	8,441
Net profit attributable to owners of parent	¥ 1,127	$ 8,441

SEIKITOKYU KOGYO CO., LTD.

Consolidated Statement of Changes in Net Assets
for the year ended March 31, 2023

	Shareholders' equity (Notes 2 and 7)				
	Share capital	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
			(Millions of yen)		
Balance at April 1, 2022	¥ 2,000	¥ 521	¥ 40,248	¥ (2,503)	¥ 40,266
Changes during the period					
Dividend of surplus			(1,122)		(1,122)
Net income attributable to owners of parent			1,127		1,127
Purchase of treasury stock				(801)	(801)
Disposal of treasury stock			(1)	37	36
Cancellation of treasury stock		(21)	(2,442)	2,463	—
Net changes of items other than shareholders' equity					—
Total changes during period	—	(21)	(2,438)	1,699	(760)
Balance as of March 31, 2023	¥ 2,000	¥ 500	¥ 37,810	¥ (804)	¥ 39,506

	Accumulated other comprehensive income				
	Unrealized gain on investment securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Total net assets
			(Millions of yen)		
Balance at April 1, 2022	¥ 23	¥ 5	¥ 204	¥ 232	¥ 40,498
Changes during the period					
Dividend of surplus					(1,122)
Net income attributable to owners of parent					1,127
Purchase of treasury stock					(801)
Disposal of treasury stock					36
Cancellation of treasury stock					—
Net changes of items other than shareholders' equity	11	(25)	(64)	(78)	(78)
Total changes during period	11	(25)	(64)	(78)	(838)
Balance as of March 31, 2023	¥ 34	¥ (20)	¥ 140	¥ 154	¥ 39,660

SEIKITOKYU KOGYO CO., LTD.

Consolidated Statement of Changes in Net Assets
for the year ended March 31, 2023

	Shareholders' equity (Notes 2 and 7)				
	Share capital	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
			(Thousands of U.S. dollars)		
Balance at April 1, 2022	$ 14,978	$ 3,902	$ 301,418	$ (18,745)	$ 301,553
Changes during the period					
Dividend of surplus			(8,407)		(8,407)
Net income attributable to owners of parent			8,441		8,441
Purchase of treasury stock				(5,992)	(5,992)
Disposal of treasury stock			(7)	275	268
Cancellation of treasury stock		(158)	(18,286)	18,444	—
Net changes of items other than shareholders' equity					—
Total changes during period	—	(158)	(18,259)	12,727	(5,690)
Balance as of March 31, 2023	$ 14,978	$ 3,744	$ 283,159	$ (6,018)	$ 295,863

	Accumulated other comprehensive income				
	Unrealized gain on investment securities	Foreign currency translation adjustment	Retirement benefits liability adjustments	Total accumulated other comprehensive income	Total net assets
			(Thousands of U.S. dollars)		
Balance at April 1, 2022	$ 172	$ 34	$ 1,528	$ 1,734	$ 303,287
Changes during the period					
Dividend of surplus					(8,407)
Net income attributable to owners of parent					8,441
Purchase of treasury stock					(5,992)
Disposal of treasury stock					268
Cancellation of treasury stock					—
Net changes of items other than shareholders' equity	85	(188)	(480)	(583)	(583)
Total changes during period	85	(188)	(480)	(583)	(6,273)
Balance as of March 31, 2023	$ 257	$ (154)	$ 1,048	$ 1,151	$ 297,014

Notes to the Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(a) Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared from the accounts maintained by SEIKITOKYU KOGYO CO., LTD. (the "Company") and its consolidated subsidiaries in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan and the Companies Act of Japan and in conformity with accounting principles generally accepted in Japan, which may differ in some material respects from accounting principles generally accepted and applied in countries and jurisdictions other than Japan.

Certain items presented in the Japanese consolidated financial statements have been reclassified for presentation solely for the convenience of readers outside Japan.

In addition, the notes to the consolidated financial statements include certain information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

(b) Consolidation Policies

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany accounts, intercompany transactions and unrealized profits have been eliminated in consolidation.

As of March 31, 2023, the number of consolidated subsidiaries was 11 and none of the subsidiaries and affiliates are accounted for by the equity method. Major consolidated subsidiaries are SHINSEIKI KOGYO CO., LTD., SEIKITOKYU MYANMAR ROAD CO., LTD., and ST SERVICE CO., LTD.

Non-consolidated subsidiary is CHUGAI ENGINEERING CO., LTD. The non-consolidated subsidiary has been excluded from the scope of the consolidation as it is small in scale and the total amounts of the non-consolidated subsidiary's assets, net sales, equity in net income/loss, and equity in retained earnings does not have material impact on the consolidated financial statements.

(c) Closing dates for consolidated subsidiaries

All the subsidiaries are consolidated using their financial statements as of their respective fiscal year end, which falls on March 31 as same as the consolidated fiscal year end.

(d) Method of Accounting for Significant revenues and expenses

The Company and its consolidated subsidiaries (the "Group") have applied the Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan No. 29, March 31, 2020) and the Implementation Guidance on Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan Guidance No. 30, March 31, 2020).

The Group's main businesses are construction business and manufacturing and sales business of pavement materials. The details of performance obligations in each business are as follows.

Construction business
The Group is engaged in paving, civil engineering, and other businesses related to construction work in general, and is obligated to perform construction work under construction contracts with its customers. Under such construction contracts, since the value of the property increases and the customer obtains control of the asset as the Group proceeds with the construction work, the performance obligation is satisfied over a certain period of time and is satisfied as the construction progresses over the contract period. Therefore, the measurement of the degree of completion of the satisfaction of performance obligations for construction work, etc. is based on the percentage of incurred costs up to the end of each reporting period to the estimate of total construction cost. For construction contracts for which the percentage-of-completion for satisfaction of performance obligations cannot be estimated reasonably, revenue is recognized on a cost recovery method only to the extent of contract costs incurred will be recoverable. The transaction price is determined by the payments from customers contract, and the payments from customers are received in stages at the time stipulated in the contract. The amount of payments from customers does not include any significant financing component. There is no significant variable consideration that could change the amount of the payments from customers.

Manufacturing and sales business of pavement materials
The Group manufactures and sells asphalt mixture and other construction materials and is obligated to deliver the goods under sales contracts with customers. The performance obligation is satisfied at the time the goods are delivered, and revenue is recognized at the time of delivery. The transaction price is determined by the contract with the customer and is received in accordance with the contract. The amount of payments from customers does not include any significant financing component. There is no significant variable consideration that could change the amount of the payments from customers.

(e) Inventories

Inventories are stated at cost, cost being determined by the identified cost method for cost on uncompleted construction contracts or by the moving average method for raw materials and supplies, and adjusted for any substantial permanent decline in value.

Each item of inventory is initially recorded at acquisition cost, and when net realizable value is less than the cost (i.e., profitability of inventory has declined), the amount of cost is reduced to net realizable value.

(f) Investments

Other securities (securities which are neither trading, held-to-maturity securities nor investments in subsidiaries and affiliates) with market value are carried at the market value on the balance sheet date. The difference between the acquisition cost and the market value of other securities is recognized as unrealized gain on investment securities in the consolidated balance sheet, net of tax effect.

Non-marketable securities classified as other securities are carried at cost. The cost of other securities sold is computed based on the moving average method.

(g) Property, Plant and Equipment (Excluding leased assets)

The Group computes depreciation of Property, plant and equipment by the declining balance method, however, buildings (excluding structures attached to the buildings) acquired on or after April 1, 1998 are depreciated by the straight-line method. Rates for depreciation are based on the estimated useful lives of the assets according to their general class, type of construction, and use.

The estimated useful lives are principally as follows:

Buildings and structures	7 to 50 years
Machinery, vehicle, tools, furniture and fixtures	5 to 7 years

(h) Intangible Assets (Excluding leased assets)

Computer software for internal use is amortized by the straight-line method over the estimated useful lives (5 years).

(i) Leases

Depreciation of leased assets under finance leases that do not transfer ownership of the leased assets to the lessee is calculated by the straight-line method over the lease period with a residual value of zero.

(j) Income Taxes

Deferred tax assets and liabilities have been recognized in the consolidated financial statements for the year ended March 31, 2023 with respect to the differences between the financial reporting and tax bases of assets and liabilities, and were measured using the enacted tax rates and laws which will be in effect when the differences are expected to be reversed. Valuation allowances are recognized for the deferred tax assets that are not considered to be recoverable.

(k) Allowance for Doubtful Accounts

General provision for doubtful accounts is recorded by applying a certain reserve percentage of the receivables based on the experience from past transactions. When considered necessary, specific reserves are recognized based on the assessment of individual receivables.

(l) Provision for Warranties for Completed Construction

Provision for warranties for completed construction is recorded at an estimated amount, based on the actual number of defects and related warranty costs stipulated in completed construction contracts.

(m) Provision for Loss on Construction Contracts

Provision for loss on construction contracts is recorded for estimated future losses related to the construction contracts in progress.

(n) Provision for Bonuses

Provision for bonuses is stated at the estimated amount of bonuses which the Group is obliged to pay to their employees.

(o) Net defined benefit liability

Net defined benefit liability for employees has been recorded as the amount of retirement benefit obligations after deducting pension plan assets, calculated based on the estimated amounts of the balance sheet dates. The retirement benefit obligation for employees is attributed to each period by the straight-line method.

Prior service cost is amortized by the straight-line method over 13 years, which is shorter than the average remaining years of service of the employees.

Actuarial gains and losses are amortized from the following year in which the gains or losses are recognized. Amortization is primarily calculated by the straight-line method over 10 years, which is shorter than the average remaining years of service of the employees.

Unrecognized prior service costs and unrecognized actuarial gains and losses are recorded as remeasurements of defined benefit plans in accumulated other comprehensive income in net assets after consideration of tax effects.

(p) Accounting principles and procedures adopted when provisions of relevant accounting standards are unclear

With respect to construction projects and asphalt plants conducted by the Company as a joint venture with other companies, the Company accounts for them in proportion to its own share ratio.

(q) Significant Accounting Estimates

Estimate of the total construction cost in revenue recognized when performance obligations are satisfied over a specified over time:

Revenue recognized when performance obligations are satisfied over a specified over time was ¥73,060 million (U.S.$547,140 thousand) for the consolidated fiscal year ended March 31, 2023.

Calculation method:

Revenue recognized when performance obligations are satisfied over a specified over time is measured based on the progress of completion at the end of the consolidated fiscal year. The progress of completion is calculated based on the proportion of the cost incurred as of the end of the consolidated fiscal year to the estimated total cost of the project.

The total construction cost is accumulatively estimated based on objective prices such as standard unit price approved internally and quotation obtained from suppliers. Such estimations of total construction cost are reviewed as of the closing date, according to construction status, actual costs incurred or requests of specification changes received from customers.

Key assumptions:

Since each of the construction is highly individualized and basic specifications and work content are based on customer's instructions, it is necessary to sufficiently incorporate the characteristics of the construction in estimating total construction cost. In doing so, certain assumptions and judgments are required based on specialized knowledge of construction and construction experience such as unit price and quantity of materials and labor.

Impact on consolidated financial statements for the next consolidated fiscal year:

Since construction work generally takes a long period of time, key assumptions may change due to fluctuation of unit price of materials and labor, changes of construction contract during construction and delay of construction due to bad weather, etc., which may affect consolidated financial statements for the next consolidated fiscal year.

Estimate of the impairment of fixed assets of Manufacturing and sales business of pavement materials:

Fixed assets of Manufacturing and sales business of pavement materials was ¥16,814 million (U.S.$125,923 thousand) and impairment loss was ¥808 million (U.S.$6,051 thousand) for the consolidated fiscal year ended March 31, 2023.

Calculation method:

The Group determines the cash-generating units by the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The Group is assessing the recognition of impairment losses for asphalt plants that have indications of impairment. An impairment loss is recognized when the undiscounted future cash flows from the relevant asset group are less than the carrying amounts. The carrying amounts of such assets are reduced to their recoverable amounts. The recoverable amount of such asset groups is measured based on sales value or value in use.

Key assumptions:

The key assumptions used in the calculation of undiscounted future cash flows are sales volumes, sales prices and raw material prices for each asphalt plant. Sales volumes, sales prices and raw material prices are determined based on historical experience, the passthrough of raw material prices into sales prices and trends in raw material prices.

Impact on consolidated financial statements for the next consolidated fiscal year:

Key assumptions are subject to change based on trends in sales volumes, sales prices, raw material prices and other factors. If the recoverable amount decreases, an impairment loss may be recognized in the financial statements for the next consolidated fiscal year.

2. Basis of Translation

The consolidated financial statements as of and for the year ended March 31, 2023 presented herein are denominated in Japanese yen and, solely for the convenience of the readers, have been translated into U.S. dollars at the rate of ¥133.53 = U.S.$1, the approximate rate of exchange in effect on March 31, 2023. This translation should not be construed as a representation that any of the yen amounts could be converted into U.S. dollar amounts at the above or any other rate.

3. Dividends

1) Dividends paid

Resolution	Type of shares	Yen (millions) Total dividends	U.S. dollars (thousands) Total dividends	Source of dividends	Yen Dividends per share	U.S. dollars Dividends per share	Record date	Effective date
Annual general meeting of shareholders on June 23, 2022	Common stock	¥1,122	$8,407	Retained earnings	¥30.00	$0.22	March 31, 2022	June 24, 2022

2) Dividends with a record date in the year ended March 31, 2023 and an effective date in the year ending March 31, 2024:

Resolution	Type of shares	Yen (millions) Total dividends	U.S. dollars (thousands) Total dividends	Source of dividends	Yen Dividends per share	U.S. dollars Dividends per share	Record date	Effective date
Annual general meeting of shareholders on June 23, 2023	Common stock	¥1,093	$8,189	Retained earnings	¥30.00	$0.22	March 31, 2023	June 26, 2023

4. Property, Plant and Equipment

Property, plant and equipment at March 31, 2023 are as follows:

	Yen (millions)	U.S. dollars (thousands)
	2023	2023
Buildings and structures	¥ 6,294	$ 47,136
Machinery, equipment, vehicles, tools, furniture and fixtures	4,680	35,050
Land	14,897	111,565
Construction in progress	879	6,581
Total	¥ 26,750	$ 200,332

5. Collateral Assets and Corresponding Liabilities

The following assets are provided as collateral for the borrowings at March 31, 2023:

	Yen (millions)	U.S. dollars (thousands)
	2023	2023
Building and structures	¥ 1,576	$ 11,801
Land	491	3,682
Total	¥ 2,067	$ 15,483

Corresponding Liabilities at March 31, 2023

	Yen (millions)	U.S. dollars (thousands)
	2023	2023
Short-term loans payable	¥ 100	$ 749
Long-term loans payable	1,800	13,480
Total	¥ 1,900	$ 14,229

6. Receivables Fully Offset Against Allowance for Doubtful Accounts

	Yen (millions)	U.S. dollars (thousands)
	2023	2023
Long-term trade receivables	¥ 475	$ 3,555

7. Shareholders' Equity

In accordance with the Companies Act of Japan (the "Act"), the Company provides legal retained earnings, which is included in retained earnings. The Act requires that an amount equal to at least 10% of the amounts to be disbursed as distribution of earnings be appropriated to the legal retained earnings until the total of the legal retained earnings plus the legal capital surplus or either of them equals 25% of the share capital account.

The Act further provides that neither legal capital surplus nor the legal retained earnings is available for the payment of dividends, but either may be used to reduce or eliminate accumulated deficits by a resolution of the shareholders, or may be transferred to the share capital account by a resolution of the shareholders. The Act also provides that, if the total amount of legal capital surplus and the legal retained earnings exceeds 25% of the amount of share capital, the excess may be distributed to the shareholders, either as a return of capital or as dividends, subject to the approval of the shareholders.

8. Other Income

The composition of "Other income" for the year ended March 31, 2023 is as follows:

	Yen (millions)	U.S. dollars (thousands)
	2023	2023
Interest income	¥ 0	$ 1
Dividend income	8	60
Rent income	20	151
Foreign exchange gains	56	417
Gain on sales of non-current assets	2	17
Subsidy income	22	167
Other	30	219
Total	¥138	$1,032

9. Other Expenses

The composition of "Other expenses" for the year ended March 31, 2023 is as follows:

	Yen (millions)	U.S. dollars (thousands)
	2023	2023
Interest expenses	¥ 56	$ 419
Guarantee commission	20	149
Composition expenses for syndicated loan	22	163
Commission for purchase of treasury shares	23	168
Loss on sales of non-current assets	14	104
Loss on retirement of non-current assets	33	250
Impairment loss	826	6,189
Other	15	114
Total	¥1,009	$ 7,556

10. Financial Instruments

1) Financial Instruments
Cash of the Group is managed through short-term deposits. Funds are provided mainly by borrowings from banks.
Customers' credit risk on trade receivables (notes and accounts) is mitigated through credit control.
The Group assess fair values of investment securities quarterly at market quotations.
Funds from short-term loans payable and long-term loans payable are used for operating funds and capital investment.

2) Fair value of financial instruments
The following table presents the carrying amounts of financial instruments on the consolidated balance sheet and the fair value at March 31, 2023, and the difference thereof.
Non-marketable securities (¥203 million (U.S.$1,522 thousand) recorded on the consolidated balance sheet for the fiscal year ended March 31, 2023) are not included in "Investment securities" below. In addition, since cash and deposits, trade receivables, trade payables, and short-term loans payable are settled on a short-term basis, the carrying amounts approximate fair values. Therefore, notes have been omitted.

	Yen (millions)		
Assets	Carrying amount	Fair value	Unrealized gain (loss)
Investment securities:	¥100	¥100	¥ –
Total	¥100	¥100	¥ –

	U.S. dollars (thousands)		
	Carrying amount	Fair value	Unrealized gain (loss)
Investment securities:	$745	$745	$ –
Total	$745	$745	$ –

	Yen (millions)		
Liabilities	Carrying amount	Fair value	Unrealized gain (loss)
Long-term Loans payable:	¥6,900	¥6,900	¥ –
Total	¥6,900	¥6,900	¥ –

	U.S. dollars (thousands)		
	Carrying amount	Fair value	Unrealized gain (loss)
Long-term Loans payable:	$51,674	$51,674	$ –
Total	$51,674	$51,674	$ –

3) Breakdown of fair value of financial instruments by level

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

Level 1 fair value: Fair value calculated based on (unadjusted) quoted prices in active markets for identical assets or liabilities

Level 2 fair value: fair value calculated using directly or indirectly observable inputs other than Level 1 inputs

Level 3 fair value: Fair value calculated using significant unobservable inputs.

When multiple inputs that have a significant effect on fair value are used, fair value is classified into the level with the lowest priority in the calculation of fair value among the levels to which those inputs belong.

Financial assets and liabilities with fair value at March 31, 2023 are as follows:

	Yen (millions)			
	Level1	Level2	Level3	Total
Investment securities Available-for-sale securities Stocks:	¥100	¥ –	¥ –	¥100

	U.S. dollars (thousands)			
	Level1	Level2	Level3	Total
Investment securities Available-for-sale securities Stocks:	$745	$ –	$ –	$ 745

Financial assets and liabilities not recognized with fair value at March 31, 2023 are as follows:

	Yen (millions)			
	Level1	Level2	Level3	Total
Long-term Loans payable:	¥ –	¥6,900	¥ –	¥6,900

	U.S. dollars (thousands)			
	Level1	Level2	Level3	Total
Long-term Loans payable:	$ –	$51,674	$ –	$51,674

(Note) Explanation of valuation techniques and inputs used in the calculation of fair value

Investment securities:

Fair value of equity securities is determined using prices quoted on exchanges and classified as Level 1 fair value because they are traded in an active market.

Long-term Loans payable:

Fair value is calculated by discounting the total amount of principal and interest by the interest rate that would be applicable to a similar new borrowing, and is classified as Level 2 fair value. The "Current portion of long-term loans payable ¥100 million (U.S.$749 thousand)" included in "Short-term loans payable" under "Current liabilities" in the consolidated balance sheets is calculated as long-term loans payable.

11. Amounts Per Share

Amounts per share as of and for the year ended March 31, 2023 are as follows:

As of March 31

	Yen	U.S. dollars
	2023	2023
Net assets	¥1,088.13	$8.15

For the year ended March 31

	Yen	U.S. dollars
	2023	2023
Net Income	¥30.73	$0.23

12. Impairment Loss

The Group recognized impairment loss for the Following assets or groups of assets.

Use	Classification	Location	Yen (millions)	U.S. Dollars (thousands)
Business assets	Buildings, structures, Machinery, equipment, tools, furniture, fixtures and land	Akita Prefecture	¥432	$3,236
Business assets	Buildings, structures, Machinery, equipment, tools, furniture, fixtures and land	Chiba Prefecture	232	1,736
Business assets	Buildings, structures, Machinery, equipment, tools, furniture, fixtures and land	Hokkaido Prefecture	60	453
Business assets	Buildings, structures, Machinery, equipment, tools, furniture, fixtures and land	Kumamoto Prefecture	48	361

Business assets	Buildings, Machinery, equipment, tools, furniture, and fixtures	Yamagata Prefecture	18	133
Business assets	Buildings, structures, and Machinery	Toyama Prefecture	17	127
Business assets	Buildings, structures, Machinery, equipment, tools, furniture, fixtures and land	Miyazaki Prefecture	12	88
Business assets and others	Buildings, structures, Machinery, equipment, tools, furniture, fixtures and others	Aomori Prefecture and others	7	55
Total	—	—	¥826	$6,189

The Group determines the cash-generating units by the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.
The Group recognized impairment loss of ¥826 million (U.S.$6,189 thousand) in other expenses due to a significant decline in profitability for assets or groups of assets for the current consolidated fiscal year. The carrying amounts of such assets were reduced to their recoverable amounts.

The breakdown is as follows: Buildings and structures: ¥438 million (U.S.$3,284 thousand), Machinery, equipment, tools, furniture, fixtures and others: ¥276 million (U.S.$2,069 thousand), Land: ¥112 million (U.S.$836 thousand).
The recoverable amount of such assets or asset groups is measured based on sales value or value in use.

13. Revenue Recognition

1) Breakdown of revenue

The breakdown of revenues by major goods and services and their relevance to the segments for the year ended March 31, 2023 are as follows:

	Yen (millions)			
	Construction business	Manufacturing and sales business of pavement materials	Others	Total
Asphalt pavement	¥56,557	¥ –	¥ –	¥56,557
Concrete pavement	1,075	–	–	1,075
Civil engineering works, etc.	17,068	–	–	17,068
Asphalt mixtures	–	11,658	–	11,658
Other products (Note 1)	–	5,955	–	5,955
Others	–	–	15	15
Revenue from contracts with customers	74,700	17,613	15	92,328
Revenue from other sources (Note 2)	–	–	86	86
Revenue from external customers	74,700	17,613	101	92,414

	U.S. dollars (thousands)			
	Construction business	Manufacturing and sales business of pavement materials	Others	Total
Asphalt pavement	$423,554	$ –	$ –	$423,554
Concrete pavement	8,053	–	–	8,053
Civil engineering works, etc.	127,821	–	–	127,821
Asphalt mixtures	–	87,308	–	87,308
Other products (Note 1)	–	44,595	–	44,595
Others	–	–	108	108
Revenue from contracts with customers	559,428	131,903	108	691,439
Revenue from other sources (Note 2)	–	–	649	649
Revenue from external customers	559,428	131,903	757	692,088

(Note 1) Other products represent revenues recognized from contracts for the sale of asphalt emulsion, crushed stone and other products.

(Note 2) Revenue from other sources is derived from rental income in accordance with Accounting Standards Board of Japan No. 13, "Accounting Standard for Lease Transactions".

2) Contract Balance

Receivables arising from contracts with customers, contract assets, and contract liabilities at the beginning and end of the period are as follows. In the consolidated balance sheets, receivables arising from contracts with customers and contract assets are included in accounts receivables, and contract liabilities are included in advances received on uncompleted construction contracts.

	Yen (millions)		U.S. dollars (thousands)	
	Beginning balance 1 April 2022	Ending balance 31 March 2023	Beginning balance 1 April 2022	Ending balance 31 March 2023
Receivables arising from contracts with customers	¥27,530	¥31,325	$206,171	$234,589
Contract assets	7,399	7,490	55,412	56,096
Contract liabilities	1,921	1,571	14,387	11,762

Contract assets relate to the Group's rights to payments from customers for work that has created an asset controlled by the customer at the end of the consolidated fiscal year but has not yet been invoiced. Contract assets are transferred to receivables when the right to payment becomes unconditional.
Contract liabilities are those for which the Group has received payment from the customer for the Group's obligation to transfer goods or services to the customer or for which payment is due.

Revenue recognized during the current year amounted to ¥1,861 million (U.S.$13,939 thousand), which was included in the contract liability balance as of the beginning of the year. Revenue recognized during the current fiscal year from performance obligations satisfied in prior periods amounted to ¥913 million (U.S.$6,840 thousand).
Changes in contract assets in the current fiscal year were mainly due to revenue recognized in connection with the progress of construction (increase in contract assets) and transfers to accounts receivable (decrease in contract assets).
Changes in contract liabilities in the current fiscal year were mainly due to receipt of advance payments (increase in contract liabilities) and revenue recognition (decrease in contract liabilities).

3) Transaction price allocated to remaining performance obligations

The transaction prices allocated by the Group to unsatisfied performance obligations are as follows;

	Yen (millions)	U.S. dollars (thousands)	Explanation of expected timing of satisfaction
	2023	2023	
Construction	¥36,385	$272,483	It is generally expected to be satisfied within FY 2023-2024
Total	¥36,385	$272,483	

For performance obligations, related to the manufacturing and sales business of pavement materials for which the initially scheduled contract period is one year or less, the practical expedient method is applied and the performance obligations is not included in the information on remaining performance obligations.

14. Other Notes

In December 2020, the Company executed a syndicate loan contract with The Bank of Mitsubishi UFJ, Ltd. serving as the arranger (of which, the balance of the term loan as of the end of fiscal year is ¥5,000 million (U.S.$37,445 thousand).

The following financial covenants are attached to the syndicate loan mentioned above;

(a) The amount of net assets recorded on the balance sheet and consolidated balance sheet on the last day of each accounting period in and after the fiscal year ended March 31, 2021 must be maintained to at least 75% of the amount of net assets recorded on the balance sheet and consolidated balance sheet for the fiscal year immediately preceding said fiscal year or for the fiscal year ended March 31, 2020, whichever is the higher amount.

(b) Ordinary losses must not be recorded in two consecutive periods on the statements of income or consolidated statements of income in and after the fiscal year ended March 31, 2020.

(c) Net losses must not be recorded in two consecutive periods on the statements of income or consolidated statements of income in and after the fiscal year ended March 31, 2020.

(d) The total coverage ratio for the consolidated balance sheet, consolidated statements of income, and consolidated cash flow statement in and after the fiscal year ended March 31, 2021 must be maintained at 15.0 or lower.

It is stipulated under the loan that, in the event of changes in accounting standards, all concerned parties shall consult on the abovementioned financial covenants to determine the impact of the said changes.