

Financial Review

Consolidated Operating Results, Consolidated Financial Position, and Consolidated Cash Flow for FYE May 2024 (from June 1, 2023, to May 31, 2024) are as follows:

Results of Operation

<p>Orders Received 44,019 million yen (YoY +32.4%)</p>	<p>Net Sales 32,140 million yen (YoY +3.6%)</p>	<p>Profit/Loss Net income attributable to owners of the parent 935 million yen (YoY +13.4%)</p>
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Orders received increased 32.4% compared with the previous fiscal year to 44,019 million yen, buoyed by increases in the Transportation Business and Industry Business segments, despite a decrease in the ICT Solution Business.

Net sales increased 3.6% compared with the previous fiscal year to 32,140 million yen, driven by increases in the Transportation Business and Industry Business, despite a decrease in the ICT Solution Business.

From a profit perspective, operating income increased 79.2% compared with the previous fiscal year to 927 million yen. Ordinary income grew 50.7% year on year to 1,487 million yen. Net income attributable to owners of the parent was up 13.4% compared with the previous fiscal year to 935 million yen.

Financial Position

<p>Assets Total assets 51,652 million yen</p>	<p>Liabilities Total liabilities 25,582 million yen</p>	<p>Net assets Total net assets 26,070 million yen</p>
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Total assets as of May 31, 2024, stood at 51,652 million yen, an increase of 1,970 million yen compared with the end of the previous fiscal year. The increase in total assets was largely attributable to increases of 903 million yen in cash on hand and in banks and 720 million yen in investment securities, despite a decrease of 1,480 million yen in trade notes, accounts receivable and contract assets.

Total liabilities as of May 31, 2024, stood at 25,582 million yen, an increase of 482 million yen compared with the end of the previous fiscal year. This increase was largely attributable to the recording of deferred tax liabilities of 164 million yen and an increase of 232 million yen in trade notes and accounts payable, despite a decrease in reserve for losses on order acknowledgements of 212 million yen.

Net assets as of May 31, 2024, stood at 26,070 million yen, an increase of 1,487 million yen compared with the end of the previous fiscal year. This increase was largely attributable to an increase in retained earnings due to the recording of net income attributable to owners of the parent of 935 million yen and other factors.

Cash Flows

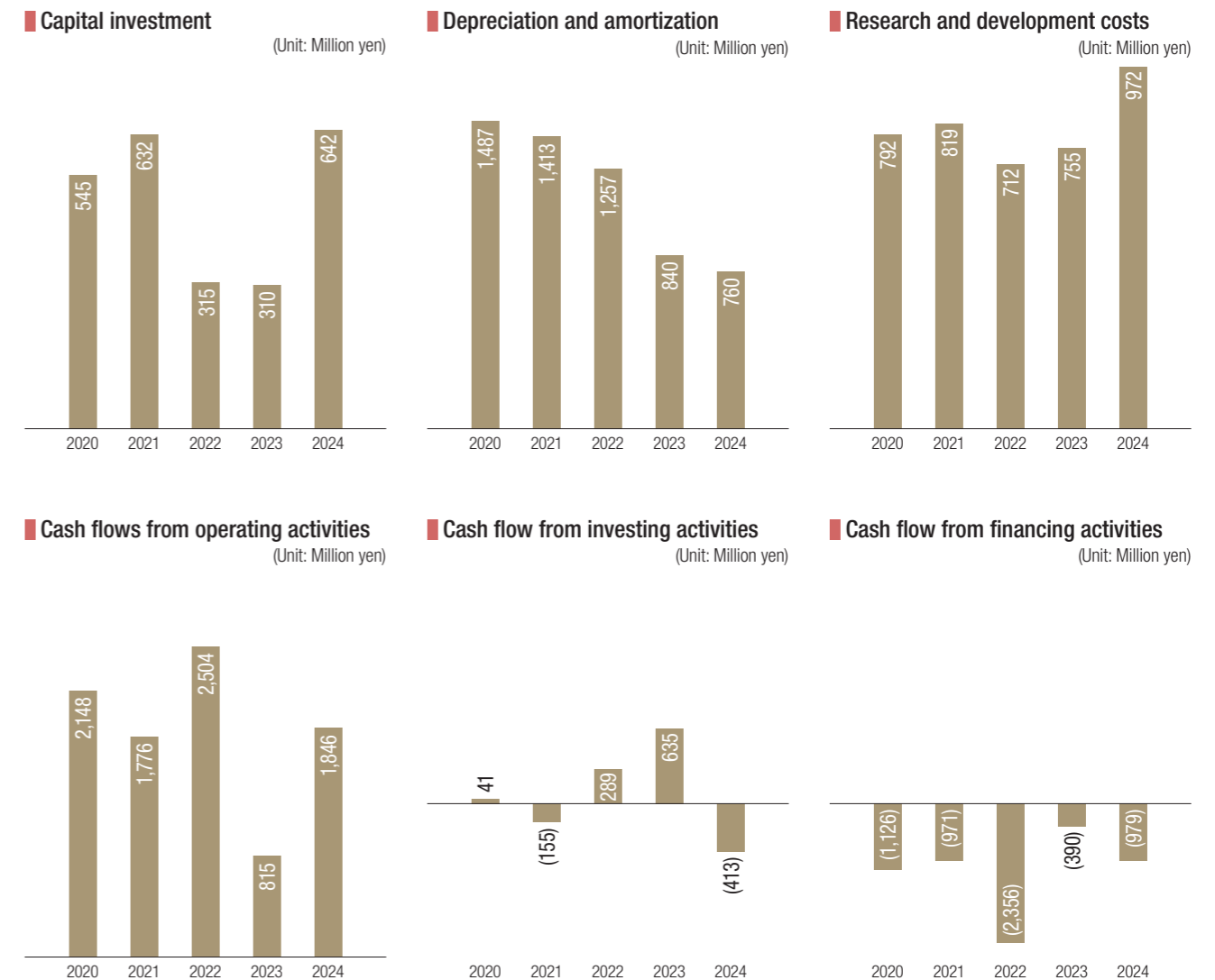
<p>Operating activities Net cash provided by operating activities 1,846 million yen</p>	<p>Cash flow from investing activities Net cash used in investing activities 413 million yen</p>	<p>Cash flow from financing activities Net cash used in financing activities 979 million yen</p>
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Net cash provided by operating activities amounted to 1,846 million yen (net cash of 815 million yen provided in the previous fiscal year), principally due to the recording of Income (loss) before income taxes and a decrease in trade notes and accounts receivable.

Net cash used in investing activities totaled 413 million yen (net cash of 635 million yen provided in the previous fiscal year), principally due to purchases of property, plant and equipment and intangible assets.

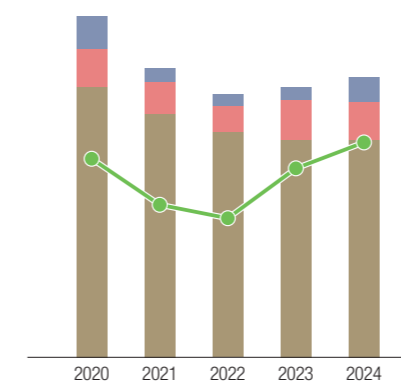
Net cash used in financing activities was 979 million yen (net cash of 390 million yen used in the previous fiscal year), primarily owing to repayment of debt.

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



Net sales by region

■ Japan ■ China ■ Others
● Overseas net sales ratio



	2020	2021	2022	2023	2024
Japan	30,997	27,876	25,779	24,915	24,936
China	4,282	3,628	3,015	4,536	4,274
Others	3,791	1,638	1,363	1,574	2,929
Total	39,071	33,143	30,158	31,025	32,140
Overseas net sales ratio	20.7%	15.9%	14.5%	19.7%	22.4%

TOYO DENKI SEIZO K.K.
Consolidated Balance Sheets

As of	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Assets			
Current assets:			
Cash on hand and in banks (Notes 15 and 17)	¥ 6,423	¥ 5,520	\$ 40,981
Trade notes, accounts receivable and contract assets (Notes 2, 15 and 19)	11,756	13,236	75,005
Electronically recorded receivables (Note 15)	1,849	1,116	11,799
Inventories (Note 3)	7,546	6,319	48,144
Other current assets	410	555	2,620
Allowance for doubtful accounts	(25)	(10)	(162)
Total current assets	27,960	26,738	178,388
Property, plant and equipment (Notes 4 and 6):			
Buildings and structures	3,372	3,611	21,518
Machinery and vehicles	303	348	1,933
Land	1,269	1,269	8,102
Construction in progress	135	11	864
Other	474	459	3,024
Total property, plant and equipment	5,555	5,701	35,443
Investments and other assets:			
Investment securities (Notes 15 and 16)	15,009	14,288	95,761
Deferred tax assets (Note 11)	—	108	—
Intangible assets	127	77	813
Other (Note 5)	3,001	2,775	19,152
Allowance for doubtful accounts	(2)	(7)	(17)
Total investments and other assets	18,136	17,242	115,709
Total assets (Note 20)	¥51,652	¥49,682	\$329,541

As of	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Liabilities and Net Assets			
Current liabilities:			
Trade notes and accounts payable	¥ 2,292	¥ 2,060	\$ 14,628
Electronically recorded payables	4,684	4,768	29,889
Short-term borrowings and current portion of long-term debt (Notes 6 and 15)	4,585	885	29,254
Income taxes payable (Note 11)	309	128	1,971
Contract liabilities (Note 19)	129	84	829
Accrued expenses	809	589	5,163
Accrued directors' bonuses	54	39	344
Accrued employees' bonuses	737	673	4,702
Reserve for losses on order acknowledgements (Note 3)	777	989	4,957
Provision for product warranties	156	70	996
Other	704	411	4,497
Total current liabilities	15,240	10,699	97,234
Long-term liabilities:			
Long-term debt (Notes 6 and 15)	6,003	10,288	38,300
Deferred tax liabilities (Note 11)	164	—	1,050
Liability for retirement benefits (Note 7)	4,151	4,075	26,485
Long-term payables	11	30	71
Other	11	4	72
Total long-term liabilities	10,341	14,399	65,980
Commitments and contingencies			
Net assets (Note 8):			
Shareholders' equity:			
Common stock	¥ 4,998	¥ 4,998	\$ 31,889
Capital surplus	3,177	3,177	20,272
Retained earnings	12,299	11,347	78,470
Treasury stock	(596)	(486)	(3,807)
Total shareholders' equity	19,878	19,036	126,825
Accumulated other comprehensive income:			
Unrealized holding gain on securities	5,696	5,370	36,341
Translation adjustments	485	202	3,098
Retirement benefits liability adjustments (Note 7)	9	(26)	61
Total accumulated other comprehensive income	6,191	5,546	39,501
Total net assets	26,070	24,582	166,327
Total liabilities and net assets	¥51,652	¥49,682	\$329,541

See notes to consolidated financial statements.

TOYO DENKI SEIZO K.K.
Consolidated Statements of Income

For the Years Ended	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Net sales (Notes 19 and 20)	¥32,140	¥31,025	\$205,054
Cost of sales (Note 3)	23,968	23,828	152,920
Gross profit	8,171	7,197	52,133
Selling, general and administrative expenses (Note 9)	7,243	6,679	46,214
Operating income (Note 20)	927	517	5,919
Non-operating income (expenses):			
Interest and dividend income	210	191	1,341
Interest expense	(48)	(52)	(309)
Equity in earnings of affiliates accounted for by the equity method	263	221	1,683
Foreign exchange gain	125	104	800
Other income, net	8	4	56
	559	469	3,571
Ordinary income	1,487	987	9,491
Special (losses) gains, net (Note 10)	(91)	167	(585)
Income before income taxes	1,395	1,155	8,905
Income taxes (Note 11):			
Current	396	205	2,532
Deferred	63	124	404
	460	330	2,937
Net income	935	824	5,968
Net income attributable to owners of the parent	¥ 935	¥ 824	\$ 5,968

See notes to consolidated financial statements.

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

For the Years Ended	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Net income	¥ 935	¥ 824	\$ 5,968
Other comprehensive income (Note 12):			
Unrealized holding gain on securities	325	1,456	2,079
Translation adjustments	212	—	1,358
Retirement benefits liability adjustments	35	35	228
Share of other comprehensive income of affiliates accounted for by the equity method	70	57	451
Total other comprehensive income	645	1,549	4,117
Comprehensive income	¥1,580	¥2,373	\$10,085
Comprehensive income attributable to:			
Owners of the parent	¥1,580	¥2,373	\$10,085
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, 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
Balance as of June 1, 2023	¥4,998	¥3,177	¥11,347	¥ (486)	¥19,036	¥5,370	¥202	¥(26)	¥5,546	¥24,582
Changes during the year										
Cash dividends paid	—	—	(282)	—	(282)	—	—	—	—	(282)
Net income attributable to owners of the parent	—	—	935	—	935	—	—	—	—	935
Purchases of treasury stock	—	—	—	(110)	(110)	—	—	—	—	(110)
Change in scope of consolidation	—	—	299	—	299	—	—	—	—	299
Net changes in items other than those in shareholders' equity	—	—	—	—	—	325	283	35	645	645
Total changes during the year	—	—	952	(110)	842	325	283	35	645	1,487
Balance as of May 31, 2024	¥4,998	¥3,177	¥12,299	¥ (596)	¥19,878	¥5,696	¥485	¥ 9	¥6,191	¥26,070

	(Thousands of U.S. dollars) (Note 1)									
	Shareholders' equity					Accumulated other comprehensive income				
	Common stock	Capital surplus	Capital surplus	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, 2023	\$31,889	\$20,272	\$72,396	\$(3,105)	\$121,453	\$34,262	\$1,289	\$(167)	\$35,383	\$156,837
Changes during the year										
Cash dividends paid	—	—	(1,805)	—	(1,805)	—	—	—	—	(1,805)
Net income attributable to owners of the parent	—	—	5,968	—	5,968	—	—	—	—	5,968
Purchases of treasury stock	—	—	—	(701)	(701)	—	—	—	—	(701)
Change in scope of consolidation	—	—	1,911	—	1,911	—	—	—	—	1,911
Net changes in items other than those in shareholders' equity	—	—	—	—	—	2,079	1,809	228	4,117	4,117
Total changes during the year	—	—	6,073	(701)	5,371	2,079	1,809	228	4,117	9,489
Balance as of May 31, 2024	\$31,889	\$20,272	\$78,470	\$(3,807)	\$126,825	\$36,341	\$3,098	\$ 61	\$39,501	\$166,327

See notes to consolidated financial statements.

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

For the Years Ended	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars) (Note 1)
Operating activities			
Income before income taxes	¥ 1,395	¥ 1,155	\$ 8,905
Depreciation and amortization	760	840	4,852
Provision for allowance for doubtful accounts	10	9	65
Provision for (reversal of) accrued employees' bonuses	63	(26)	407
Increase (decrease) in liability for retirement benefits	94	(22)	601
Interest and dividend income	(210)	(191)	(1,341)
Interest expense	48	52	309
Equity in earnings of affiliates accounted for by the equity method	(263)	(221)	(1,683)
Gain on sales of property, plant and equipment	—	(150)	—
Gain on sales of investment securities	(337)	(530)	(2,156)
Business restructuring expenses	346	513	2,211
Loss on compensation for damage	83	—	530
Changes in operating assets and liabilities:			
Trade notes and accounts receivable	921	(1,125)	5,882
Inventories	(1,022)	(51)	(6,525)
Trade notes and accounts payable	25	1,012	162
Reserve for losses on order acknowledgements	(212)	25	(1,353)
Provision for product warranties	85	63	546
Contract liabilities	30	36	193
Accrued expenses	219	(98)	1,402
Other, net	(205)	(193)	(1,310)
Subtotal	1,833	1,097	11,699
Interest and dividend income received	260	201	1,662
Interest expense paid	(55)	(53)	(354)
Income taxes paid	(192)	(429)	(1,229)
Net cash provided by operating activities	1,846	815	11,777
Investing activities			
Purchases of property, plant and equipment	(312)	(324)	(1,991)
Proceeds from sales of property, plant and equipment	0	266	1
Purchases of intangible assets	(82)	(17)	(527)
Purchases of investment securities	(480)	(14)	(3,066)
Proceeds from sales of investment securities	530	818	3,387
Payments for investments in capital of subsidiaries and affiliates	(12)	—	(77)
Other, net	(56)	(92)	(360)
Net cash (used in) provided by investing activities	(413)	635	(2,635)
Financing activities			
Proceeds from long-term debt	300	—	1,913
Repayment of long-term debt	(885)	(585)	(5,648)
Purchases of treasury stock	(110)	(0)	(701)
Proceeds from disposal of treasury stock	—	464	—
Cash dividends paid	(281)	(267)	(1,793)
Other, net	(3)	(2)	(20)
Net cash used in financing activities	(979)	(390)	(6,249)
Effect of exchange rate change on cash and cash equivalents	38	10	243
Net increase in cash and cash equivalents	491	1,070	3,135
Cash and cash equivalents at beginning of period	5,520	4,449	35,217
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	411	—	2,627
Cash and cash equivalents at end of period (Note 17)	¥ 6,423	¥ 5,520	\$40,981

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 on Unification of Accounting Policies Applied to Foreign Subsidiaries, etc. 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 the Equity Method" (PITF No. 24). In accordance with these PITFs, 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, 2024, the numbers of consolidated subsidiaries and affiliates accounted for by the equity method were 7 and 2 (5 and 2 in 2023), respectively. Toyo Denki (Beijing) Co., Ltd. and Changzhou Yangdian Zhanyun Transport Equipment Co., Ltd., both of which had previously been the Company's unconsolidated subsidiaries, were included in the scope of consolidation in the year ended May 31, 2024, due to an increase in materiality. The fiscal year-end for each of the newly consolidated subsidiaries was December 31. Therefore, these subsidiaries were consolidated using their pro forma financial statements prepared as of March 31, and necessary adjustments were made to their financial statements to reflect any significant transactions that occurred from April 1 to May 31. The fiscal year-end for each of the consolidated subsidiaries other than the above subsidiaries was the same as the consolidated balance sheet date. All significant intercompany balances and transactions have been eliminated in consolidation.

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

(c) Foreign currency translation

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

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

(d) Cash and Cash equivalents

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

(e) Inventories

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

(f) Short-term investments and investment securities

Securities other than equity securities issued by subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities (available-for-sale securities). Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Available-for-sale securities other than equity securities without market quotation, etc. are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Equity securities without market quotation, etc. 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 April 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 finance lease arrangements that 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 as 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 ¥(92) million (\$587 thousand) and ¥78 million is included in cost of sales for the years ended May 31, 2024 and 2023, 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 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 that will be in effect when the differences are expected to reverse.

(Application of the group tax sharing system)

The Company and its domestic consolidated subsidiaries have applied the group tax sharing system since the year ended May 31, 2024. Accordingly, accounting treatment of national and municipal income taxes, and tax effect accounting, as well as disclosure, are in accordance with the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (ASBJ Practical Solution No. 42, August 12, 2021).

(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 a product is accepted by the customer as control of the product is transferred to the customer and performance obligations are satisfied upon the customer's acceptance of the product.

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's Board of Directors determines the basic policy of derivative transactions, and interest rate swaps are used for hedging 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 those that 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 that qualify as hedges, under which unrealized gain or loss is deferred. Exceptional accounting treatment is applied to interest rate swaps that meet specific requirements for hedge accounting. Hedging instruments are interest rate swaps and hedged items are primarily interest on debts. Hedge effectiveness is not assessed because the substantial terms and conditions of the hedging instruments and those of the hedged items are the same.

(t) Significant accounting estimates

(Impairment of some fixed assets in the Industrial Systems segment)

(1) The amount recorded in the consolidated financial statements for the years ended May 31, 2024 and 2023

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, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars)
Impairment loss	¥ —	¥ —	\$ —
Property, plant and equipment, intangible assets and long-term prepaid expenses	2,917	3,055	18,615

(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, 2024

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 because the asset groups had recorded an operating loss mainly due to the impact on sales caused by a shortage of materials and supplies. 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. 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, 2024

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 in consideration of 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 differ significantly from the assumption made 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 application

The Company is currently evaluating the impact of applying these standards on the consolidated financial statements.

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 ¥156.74 = U.S.\$1, the approximate rate of exchange prevailing on May 31, 2024. 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, 2024 and 2023 were as follows:

As of	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars)
Trade notes receivable	¥ 382	¥ 377	\$ 2,440
Trade accounts receivable	6,785	7,598	43,290
Contract assets	4,588	5,260	29,274

Note 3. Inventories

Inventories as of May 31, 2024 and 2023 were as follows:

As of	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars)
Goods and finished products	¥ 466	¥ 376	\$ 2,973
Work in process	3,692	3,106	23,555
Raw materials and supplies	3,388	2,836	21,616
	¥7,546	¥6,319	\$48,144

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 ordinary sales purposes due to a decline in profitability in the amounts of ¥12 million (\$77 thousand) and ¥28 million for the years ended May 31, 2024 and 2023, 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, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars)
Goods and finished products	¥ 5	¥12	\$ 35
Work in process	114	14	727
	¥119	¥26	\$763

Note 4. Property, Plant and Equipment

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

As of	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures	¥ 9,987	¥ 9,952	\$ 63,720
Machinery and vehicles	8,341	8,208	53,221
Other	5,250	5,138	33,499
	23,580	23,299	150,442
Accumulated depreciation	(19,430)	(18,879)	(123,965)
	¥ 4,149	¥ 4,420	\$ 26,476

Depreciation of property, plant and equipment for the years ended May 31, 2024 and 2023 was as follows:

For the Years Ended	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars)
Depreciation and amortization	¥760	¥840	\$4,852

Note 5. Investments and Other Assets

Investments in unconsolidated subsidiaries and affiliates included in "Other" under "Investments and other assets" as of May 31, 2024 and 2023 were as follows:

As of	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars)
Investments in capital	¥2,127	¥1,967	\$13,570

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

As of May 31, 2024 and 2023, short-term borrowings and the current portion of long-term debt consisted of the following:

As of	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars)
Loans, principally from banks	¥ —	¥ —	\$ —
Current portion of long-term debt	4,585	885	29,254
	¥4,585	¥885	\$29,254

The annual weighted average interest rate applicable to the current portion of long-term debt as of May 31, 2024, was 0.399%.

As of May 31, 2024 and 2023, long-term debt was as follows:

As of	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars)
Long-term debt, excluding current portion, serially due from 2025 through 2032	¥6,003	¥10,288	\$38,300

The annual weighted average interest rate applicable to long-term debt as of May 31, 2024, was 0.495%.

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

Years ended May 31	(Millions of yen)	(Thousands of U.S. dollars)
2025	¥ 4,585	\$29,254
2026	4,585	29,254
2027	575	3,671
2028	338	2,161
2029 and thereafter	503	3,212
	¥10,588	\$67,554

As of May 31, 2024 and 2023, the assets pledged as collateral for short-term borrowings and long-term debt were as follows:

As of	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures	¥2,764	¥2,961	\$17,636
Machinery and vehicles	191	255	1,222
Land	1,201	1,201	7,665
Other property, plant and equipment	183	121	1,167
	¥4,340	¥4,538	\$27,692

The following assets included in the above were set by factory foundation fixed collateral security as of May 31, 2024 and 2023:

As of	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars)
Buildings and structures	¥1,189	¥1,278	\$7,586
Machinery and vehicles	191	255	1,222
Other property, plant and equipment	183	121	1,167
	¥1,563	¥1,654	\$9,977

Liabilities secured by security interests were as follows:

As of	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars)
Short-term borrowings	¥ 525	¥ 525	\$ 3,351
Long-term debt	1,763	2,288	11,249
	¥2,288	¥2,813	\$14,600

Note 7. Retirement Benefit Plans

The Company and its consolidated subsidiaries have retirement benefit plans that include a combination of defined contribution plans and lump-sum payment plans.

The Company and its consolidated subsidiaries have introduced a points system for the lump-sum payment plans, under which retirement benefit amounts are computed based on the total number of points granted in accordance with job ranking and performance.

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

Defined benefit plans

Changes in retirement benefit obligation during the years ended May 31, 2024 and 2023 were as follows:

For the Years Ended	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars)
Retirement benefit obligation as of June 1	¥4,075	¥4,113	\$26,003
Service cost	296	311	1,892
Interest cost	14	15	95
Actuarial gain	(18)	(15)	(118)
Retirement benefits paid	(217)	(349)	(1,386)
Retirement benefit obligation as of May 31	¥4,151	¥4,075	\$26,485

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of May 31, 2024 and 2023 for the Company's and the consolidated subsidiaries' defined benefit plans:

As of	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars)
Unfunded retirement benefit obligation	¥4,151	¥4,075	\$26,485
Net liability for retirement benefits in the consolidated balance sheets	4,151	4,075	26,485
Liability for retirement benefits	¥4,151	¥4,075	\$26,485
Net liability for retirement benefits in the consolidated balance sheets	4,151	4,075	26,485

Note: The plan adopting the simplified method is included.

The components of retirement benefit expenses for the years ended May 31, 2024 and 2023 were as follows:

For the Years Ended	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost	¥296	¥311	\$1,892
Interest cost	14	15	95
Amortization of actuarial loss	33	35	211
Extraordinary payment of increased retirement benefits	3	7	24
Retirement benefit expenses	¥348	¥368	\$2,223

Retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the years ended May 31, 2024 and 2023 were as follows:

For the Years Ended	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars)
Actuarial gain	¥51	¥50	\$329
Total	¥51	¥50	\$329

Retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of May 31, 2024 and 2023 were as follows:

As of	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars)
Unrecognized actuarial gain	¥(13)	¥37	\$(88)
Total	¥(13)	¥37	\$(88)

Major actuarial assumptions (weighted average) used in accounting for the above plans as of May 31, 2024 and 2023 were as follows:

For the Years Ended	May 31, 2024	May 31, 2023
	Discount rate	0.4%

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

Defined contribution plans

The amounts of the required contribution to the defined contribution plans of the Company and its consolidated subsidiaries were ¥112 million (\$719 thousand) and ¥113 million for the years ended May 31, 2024 and 2023, respectively.

Note 8. Net Assets

Information regarding changes in net assets for the years ended May 31, 2024 and 2023 was as follows:

a. Shares issued and outstanding / treasury stock

For the year ended May 31, 2024

Type of shares	Number of shares as of June 1, 2023	Increase	Decrease	Number of shares as of May 31, 2024
Shares issued:				
Common stock	9,735,000	—	—	9,735,000
Treasury stock:				
Common stock	301,843	104,828	—	406,671

Details of the increase are as follows:

Increase due to purchase of treasury stock based on the resolution of the Board of Directors held on January 11, 2024	103,800 shares
Increase due to purchase of shares of less than the standard unit	1,028 shares

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 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 the standard unit	735 shares
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Details of the decrease are as follows:

Decrease due to disposal of treasury stock through third-party allotment	493,500 shares
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b. Dividends

1) Dividends paid

For the year ended May 31, 2024

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 29, 2023	Common stock	¥282	\$1,805	¥30.00	\$0.19	May 31, 2023	August 30, 2023

For the year ended May 31, 2023

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 25, 2022	Common stock	¥268	¥30.00	May 31, 2022	August 26, 2022

2) Dividends with the cut-off date in the year ended May 31, 2024, and the effective date in the year ending May 31, 2025

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 28, 2024	Common stock	¥279	\$1,785	Retained earnings	¥30.00	\$0.19	May 31, 2024	August 29, 2024

Note 9. Selling, General and Administrative Expenses

The main components of “Selling, general and administrative expenses” for the years ended May 31, 2024 and 2023 were as follows:

For the Years Ended	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)	(Millions of yen)	(Thousands of U.S. dollars)
Salaries and allowances	¥1,943	¥1,811	\$12,398
Provision for accrued directors' bonuses	54	39	344
Provision for accrued employees' bonuses	325	292	2,078
Retirement benefit expenses	192	199	1,228
Provision for allowance for doubtful accounts	8	0	53
Research and development expenses	972	755	6,201

Note 10. Special (Losses) Gains, Net

The components of “Special (losses) gains, net” for the years ended May 31, 2024 and 2023 were as follows:

For the Years Ended	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)	(Millions of yen)	(Thousands of U.S. dollars)
Special gains:			
Gain on sales of investment securities	¥ 337	¥ 530	\$ 2,156
Gain on sales of property, plant and equipment	—	150	—
Special losses:			
Business restructuring expenses	(346)	(513)	(2,211)
Loss on compensation for damage	(83)	—	(530)
Total	¥ (91)	¥ 167	\$ (585)

Gain on sales of property, plant and equipment

For the year ended May 31, 2023

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

Business restructuring expenses

For the year ended May 31, 2024

Business restructuring expenses were recorded as part of the Company's restructuring of business development in China, which consisted of bad debt expenses and other costs incurred by Changzhou Yangdian Zhanyun Transport Equipment Co., Ltd. (consolidated subsidiary) of ¥179 million (\$1,147 thousand), and estimated expenses related to business restructuring of Chalco-Toyo Permanent Magnet Motor Co., Ltd. (affiliate not accounted for by the equity method) of ¥166 million (\$1,063 thousand).

For the year ended May 31, 2023

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, 2024 and 2023. Income taxes of foreign consolidated subsidiaries are generally based on the tax rates applicable in the country of incorporation.

Reconciliation between the effective tax rates reflected in the consolidated statements of income and the effective statutory tax rates for the years ended May 31, 2024 and 2023 was as follows:

For the Years Ended	May 31, 2024	May 31, 2023
Effective statutory tax rate	30.6%	30.6%
Effect of:		
Non-deductible expenses for income tax purpose	1.7	1.5
Non-taxable income such as dividends income, etc.	(1.0)	(1.4)
Per capita inhabitant tax	1.9	2.4
Valuation allowance	2.5	(2.8)
Income from affiliates accounted for by the equity method	(5.7)	(5.9)
Difference arising from the rates used by subsidiaries	1.1	0.7
Retained profit of affiliates	2.6	5.2
Research and development tax credit	(3.4)	(1.2)
Other	2.5	(0.6)
Effective tax rate	32.9%	28.6%

The significant components of deferred tax assets and liabilities as of May 31, 2024 and 2023 were as follows:

As of	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Write-down of inventories	¥ 354	¥ 353	\$ 2,258
Impairment loss	599	661	3,822
Liability for retirement benefits	1,278	1,255	8,156
Accrued employees' bonuses	266	243	1,702
Reserve for losses on order acknowledgements	143	123	918
Provision for product warranties	27	21	172
The carryforward of unused tax losses (Note 2)	121	121	774
Other	368	387	2,349
Total gross deferred tax assets	3,159	3,168	20,155
Valuation allowance for the carryforward of unused tax losses (Note 2)	(121)	(116)	(774)
Valuation allowance for deductible temporary differences	(474)	(442)	(3,024)
Total valuation allowance (Note 1)	(595)	(559)	(3,799)
Total deferred tax assets	2,563	2,608	16,355
Deferred tax liabilities:			
Unrealized holding gain on securities	(2,501)	(2,371)	(15,956)
Other	(227)	(128)	(1,449)
Total deferred tax liabilities	(2,728)	(2,500)	(17,406)
Net deferred tax (liabilities) assets	¥ (164)	¥ 108	\$ (1,050)

(Note 1) Valuation allowance increased by ¥36 million (\$229 thousand) due primarily to an increase in business restructuring expenses.

(Note 2) The breakdown of the carryforward of unused tax losses and valuation allowance by expiry date is as follows:
As of May 31, 2024

(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	¥ 22	¥ 46	¥ 121
Valuation allowance	—	—	(5)	(47)	(22)	(46)	(121)
Deferred tax assets	—	—	—	—	—	—	—

(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)	\$—	\$—	\$ 37	\$ 300	\$ 143	\$ 294	\$ 774
Valuation allowance	—	—	(37)	(300)	(143)	(294)	(774)
Deferred tax assets	—	—	—	—	—	—	—

(a) The amount is determined by multiplying the corresponding carryforward of unused tax losses by the effective statutory tax rate.

As of 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	—	0	4(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 are recognized for the carryforward of unused tax losses of ¥121 million (amount multiplied by the effective statutory tax rate). The said deferred tax assets of ¥4 million are recognized for the carryforward of unused tax losses of ¥96 million (amount multiplied by the effective statutory tax rate) of TD Drive Manufacturing Co., Ltd., which is a consolidated subsidiary of the Company.

(Accounting under the group tax sharing system)

The Company and its domestic consolidated subsidiaries have applied the group tax sharing system since the year ended May 31, 2024. Accordingly, accounting treatment of national and municipal income taxes, and tax effect accounting, as well as disclosure, are in accordance with the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (ASBJ Practical Solution No. 42, August 12, 2021).

Note 12. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended May 31, 2024 and 2023:

For the Years Ended	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars)
Unrealized holding gain on securities:			
Amount arising during the year	¥ 793	¥1,560	\$ 5,060
Reclassification adjustments for gains and losses included in net income	(337)	530	(2,156)
Amount before tax effect	455	2,091	2,904
Tax effect	(129)	(635)	(825)
Unrealized holding gain on securities	325	1,456	2,079
Translation adjustments			
Amount arising during the year	212	—	1,358
Retirement benefits liability adjustments			
Amount arising during the year	18	15	118
Reclassification adjustments for gains and losses included in net income	33	35	211
Amount before tax effect	51	50	329
Tax effect	(15)	(15)	(100)
Retirement benefits liability adjustments	35	35	228
Share of other comprehensive income of affiliates accounted for by the equity method			
Amount arising during the year	70	57	451
Total other comprehensive income	¥ 645	¥1,549	\$ 4,117

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. Amounts Per Share

For the Years Ended	May 31, 2024	May 31, 2023	May 31, 2024
	(Yen)		(U.S. dollars)
Net income:			
Basic	¥99.53	¥91.85	\$0.63
As of			
Net assets	¥2,794.72	¥2,605.99	\$17.83

Note: Diluted net income per share is omitted for the years ended May 31, 2024 and 2023 since there is no dilution of equity.

The bases for calculation are as follows:

Basic net income per share

For the Years Ended	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars)
Net income attributable to owners of the parent	¥935	¥824	\$5,968
Net income not attributable to common shareholders	—	—	—
Net income attributable to owners of the parent related to common stock	935	824	5,968
	(Thousand shares)		
Average number of shares of common stock during the year	9,399	8,977	

Note 15. 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 mainly composed of 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 periodically monitors the credit worthiness of their main customers, and monitors due dates and outstanding balances by individual customer. In addition, the Group is making efforts to identify and mitigate the risks of bad debts from customers who are having financial difficulties.

Investment securities are mainly composed of the shares of common stock of highly rated companies with which the Group has business relationships. Accordingly, the Group believes that 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 value of such financial instruments and the financial positions of the issuers.

In conducting derivative transactions, the division in charge of each derivative transaction follows internal policies that 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 fair value, different assumptions and factors could result in different fair values. In addition, the notional amounts of derivatives in Note 18., 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 in the consolidated balance sheets as of May 31, 2024 and 2023, and differences between the two, are shown in the following table.

As of May 31, 2024	Carrying value	Fair value	Difference
	(Millions of yen)		

Assets			
Investment securities	¥13,946	¥13,946	¥ —
Total assets	¥13,946	¥13,946	¥ —

Liabilities			
Long-term debt (including current portion)	¥10,588	¥10,569	¥(19)
Total liabilities	¥10,588	¥10,569	¥(19)

As of May 31, 2024	Carrying value	Fair value	Difference
	(Thousands of U.S. dollars)		

Assets			
Investment securities	\$88,981	\$88,981	\$ —
Total assets	\$88,981	\$88,981	\$ —

Liabilities			
Long-term debt (including current portion)	\$67,554	\$67,432	\$(122)
Total liabilities	\$67,554	\$67,432	\$(122)

As of May 31, 2023	Carrying value	Fair value	Difference
	(Millions of yen)		

Assets			
Investment securities	¥13,226	¥13,226	¥ —
Total assets	¥13,226	¥13,226	¥ —

Liabilities			
Long-term debt (including current portion)	¥11,173	¥11,178	¥ 4
Total liabilities	¥11,173	¥11,178	¥ 4

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, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars)
Unlisted equity securities	¥1,062	¥1,062	\$6,779

3. The redemption schedule for receivables and securities with maturities on May 31, 2024 and 2023 were as follows:

As of May 31, 2024	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	¥ 6,423	¥—	¥—	¥—
Trade notes and accounts receivable	7,130	37	—	—
Electronically recorded receivables	1,849	—	—	—
	¥15,403	¥37	¥—	¥—

As of May 31, 2024	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	\$40,981	\$ —	\$ —	\$ —
Trade notes and accounts receivable	45,494	236	—	—
Electronically recorded receivables	11,799	—	—	—
	\$98,274	\$236	\$—	\$—

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	¥—	¥—

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 significant to fair value measurement are used, the fair value is classified in its entirety into 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, 2024	Fair value			
	Level 1	Level 2	Level 3	Total
	(Millions of yen)			
Investment securities:				
Available-for-sale securities:				
Equity securities	¥13,946	¥—	¥—	¥13,946
Total financial assets	¥13,946	¥—	¥—	¥13,946
Not applicable to financial liabilities				

As of May 31, 2024	Fair value			
	Level 1	Level 2	Level 3	Total
	(Thousands of U.S. dollars)			
Investment securities:				
Available-for-sale securities:				
Equity securities	\$88,981	\$—	\$—	\$88,981
Total financial assets	\$88,981	\$—	\$—	\$88,981
Not applicable to financial liabilities				

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				

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

As of May 31, 2024	Fair value			
	Level 1	Level 2	Level 3	Total
	(Millions of yen)			
Not applicable to financial assets				
Long-term debt	¥—	¥10,569	¥—	10,569
Total financial liabilities	¥—	¥10,569	¥—	10,569

As of May 31, 2024	Fair value			
	Level 1	Level 2	Level 3	Total
	(Thousands of U.S. dollars)			
Not applicable to financial assets				
Long-term debt	\$—	\$67,432	\$—	\$67,432
Total financial liabilities	\$—	\$67,432	\$—	\$67,432

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

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 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 16. Securities

Information regarding securities classified as available-for-sale securities:

Available-for-sale securities

As of May 31, 2024	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Millions of yen)		
Securities for which carrying value exceeds acquisition cost:			
Equity securities	¥13,864	¥5,640	¥8,224
Subtotal	¥13,864	¥5,640	¥8,224
Securities for which acquisition cost exceeds carrying value:			
Equity securities	¥ 82	¥ 109	¥ (26)
Subtotal	¥ 82	¥ 109	¥ (26)
Total	¥13,946	¥5,749	¥8,197

As of May 31, 2024	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Thousands of U.S. dollars)		
Securities for which carrying value exceeds acquisition cost:			
Equity securities	\$88,454	\$35,983	\$52,470
Subtotal	\$88,454	\$35,983	\$52,470
Securities for which acquisition cost exceeds carrying value:			
Equity securities	\$ 527	\$ 697	\$ (170)
Subtotal	\$ 527	\$ 697	\$ (170)
Total	\$88,981	\$36,680	\$52,300

Note: Acquisition cost in the above tables represents carrying value reflecting impairment losses. If the fair value of 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 fair 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 in consideration of its recoverability.

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

Note: Acquisition cost in the above table represents carrying value reflecting impairment losses. If the fair value of 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 fair 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 in consideration of its recoverability.

Information regarding available-for-sale securities sold

For the Years Ended	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars)
Equity securities:			
Sales proceeds	¥554	¥818	\$3,537
Gain on sales	337	530	2,156
Loss on sales	—	—	—

Note 17. Supplementary Cash Flow Information

Cash and cash equivalents in the consolidated statements of cash flows for the years ended May 31, 2024 and 2023 were reconciled to cash on hand and in banks in the consolidated balance sheets as follows:

As of	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars)
Cash on hand and in banks	¥6,423	¥5,520	\$40,981
Cash and cash equivalents	¥6,423	¥5,520	\$40,981

Note 18. Derivative Transactions

Hedging policies

The Company utilizes forward foreign exchange contracts and interest rate swaps for the purpose of hedging 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, 2024 and 2023, there were no currency-related derivatives.

Derivative transactions to which hedge accounting is applied:

As of May 31, 2024 and 2023, there were no interest-related derivatives.

Note 19 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, 2024		May 31, 2023	May 31, 2024
	(Millions of yen)			(Thousands of U.S. dollars)
Reportable segment:				
Transportation Systems	Domestic railway	¥12,579	¥13,333	\$ 80,255
	Overseas railway	5,086	4,492	32,451
	Other	3,072	2,031	19,599
	Subtotal	¥20,737	¥19,857	\$132,307
Industrial Systems	Production and processing equipment	¥ 3,061	¥ 3,321	\$ 19,532
	Automobile testing machines	2,428	2,341	15,492
	Power generator/power source	1,873	1,561	11,951
	Other	2,894	2,680	18,467
	Subtotal	¥10,257	¥ 9,905	\$ 65,443
ICT Solution Systems	ICT solutions	¥ 1,139	¥ 1,256	\$ 7,268
	Subtotal	¥ 1,139	¥ 1,256	\$ 7,268
Other (Note 1)	¥ 5	¥ 6	\$ 34	
Total	¥32,140	¥31,025	\$205,054	
Revenue arising from contracts with customers	¥32,140	¥31,025	\$205,054	
Sales to third parties	¥32,140	¥31,025	\$205,054	

Notes: 1. "Other" represents business units that are not included in reportable segments, and it consists of worker dispatch service-related activities, etc.
2. From the year ended May 31, 2024, the Group has renamed the "Processing machine" segment and the "Testing machine" segment as the "Production and processing equipment" segment and the "Automobile testing machines" segment, respectively. Accordingly, the information about disaggregation of revenue arising from contracts with customers for the year ended May 31, 2023, is presented under the new names. Such changes apply only to the segment names.

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, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)	(Millions of yen)	(Thousands of U.S. dollars)
Receivables from contracts with customers (beginning balance)	¥9,092	¥8,812	\$58,011
Receivables from contracts with customers (ending balance)	9,017	9,092	57,530
Contract assets (beginning balance)	5,260	4,415	33,564
Contract assets (ending balance)	4,588	5,260	29,274
Contract liabilities (beginning balance)	84	47	540
Contract liabilities (ending balance)	129	84	829

Contract assets relate to the right of the Group to consideration for contracts with customers that have been completed but for which 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 as 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.

Revenues recognized in the years ended May 31, 2024 and 2023 that were included in the contract liability balance at the beginning of each year were ¥76 million (\$485 thousand) and ¥45 million, respectively.

(2) Transaction price allocated to the remaining performance obligations

Total transaction prices allocated to the remaining performance obligations as of May 31, 2024 and 2023 were ¥41,375 million (\$263,974 thousand) and ¥29,496 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 20. 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.

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 as those used in transactions with third parties.

	For the year ended May 31, 2024						
	Reportable segments				Total	Adjustments	Consolidated
	Transportation Systems	Industrial Systems	ICT Solution Systems	Other (Note)			
Sales, profits or losses and asset by reportable segment							
Net sales:							
Sales to third parties	¥20,737	¥10,257	¥1,139	¥ 5	¥32,140	¥ —	¥32,140
Inter-segment sales and transfers	168	10	—	310	489	(489)	—
	20,906	10,268	1,139	315	32,629	(489)	32,140
Segment profit (loss)	¥ 2,387	¥ 1,030	¥ 314	¥ (2)	¥ 3,729	¥(2,802)	¥ 927
Segment assets	¥16,407	¥11,252	¥1,185	¥426	¥29,271	¥22,380	¥51,652
Other items:							
Depreciation and amortization	¥ 416	¥ 244	¥ 16	¥ 2	¥ 679	¥ 81	¥ 760
Capital expenditures	¥ 234	¥ 132	¥ 8	¥ —	¥ 374	¥ 267	¥ 642

	For the year ended May 31, 2024						
	Reportable segments				Total	Adjustments	Consolidated
	Transportation Systems	Industrial Systems	ICT Solution Systems	Other (Note)			
Sales, profits or losses and asset by reportable segment							
Net sales:							
Sales to third parties	\$132,307	\$65,443	\$7,268	\$ 34	\$205,054	\$ —	\$205,054
Inter-segment sales and transfers	1,074	68	—	1,981	3,124	(3,124)	—
	133,382	65,512	7,268	2,015	208,179	(3,124)	205,054
Segment profit (loss)	\$ 15,230	\$ 6,577	\$2,007	\$ (18)	\$ 23,797	\$ (17,878)	\$ 5,919
Segment assets	\$104,676	\$71,789	\$7,564	\$2,722	\$186,753	\$142,787	\$329,541
Other items:							
Depreciation and amortization	\$ 2,657	\$ 1,557	\$ 104	\$ 15	\$ 4,334	\$ 518	\$ 4,852
Capital expenditures	\$ 1,493	\$ 842	\$ 53	\$ —	\$ 2,389	\$ 1,708	\$ 4,097

Note: “Other” represents business units that are not included in reportable segments, and it consists of worker dispatch service-related activities, etc.

For the year ended May 31, 2023

	Reportable segments				Total	Adjustments	Consolidated
	Transportation Systems	Industrial Systems	ICT Solution Systems	Other (Note)			
(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 and amortization	¥ 416	¥ 337	¥ 18	¥ 2	¥ 775	¥ 64	¥ 840
Capital expenditures	¥ 168	¥ 68	¥ 3	¥ 1	¥ 242	¥ 67	¥ 310

Note: "Other" represents business units that are not included in reportable segments, and it consists of worker dispatch service-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, 2024 and 2023 were summarized as follows:

For the Years Ended	May 31, 2024	May 31, 2023	May 31, 2024
	(Millions of yen)		(Thousands of U.S. dollars)
Japan	¥24,936	¥24,915	\$159,095
China	4,274	4,536	27,270
Other	2,929	1,574	18,687
Consolidated	¥32,140	¥31,025	\$205,054

Note: Net sales information above is based on customer location.

Major customer information

Major customer information for the years ended May 31, 2024 and 2023 was omitted since there was no customer to which sales exceeded 10% of net sales recorded in the accompanying consolidated statements of income.

Note 21. Significant Subsequent Events

There were no significant subsequent events to be noted.