DAITO TRUST CONSTRUCTION CO., LTD.

Daito Trust Construction Co., Ltd.
2-16-1, Konan, Minato-ku, Tokyo 108-8211 Japan
https://www.kentaku.co.jp/corporate/en/

Capital: 29,060 million yen
Stock: Listed in the Prime Market of the Tokyo Stock Exchange and
in the Premier Market of the Nagoya Stock Exchange (Code: 1878)
ADR Code: DIFTY
Editing: Corporate Planning Department
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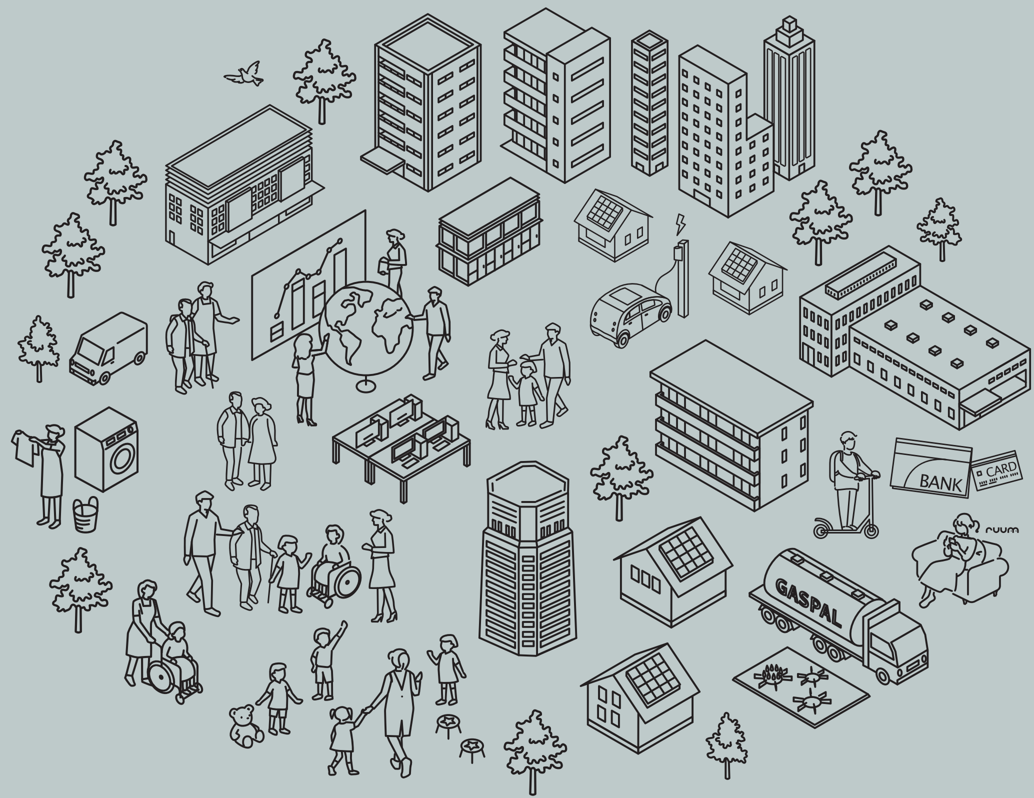
Environment
Social
Governance
Guidance for
Collaborative
Value Creation

Integrated report 2023(2023.9_02)

2023
INTEGRATED REPORT



DAITO TRUST
CONSTRUCTION CO., LTD.

Corporate Philosophy

"Contributing to society by realizing extensive and effective use of limited land."

Daito Group's Purpose

"Link the Trust to Make a Better Future."

The Daito Group has been standing side by side with the property owners and tenants, proudly supporting them and their futures. They have counted on all of us to provide the best services possible.
Going forward, we will retain a mission to hand over our trust to the next generation, and continue operating at our highest standard in perpetuity. Great value to the customers and the local community, and we should be proud of our commitments to them. In order to achieve this mission, we have formulated "Purpose."

Daito Group Basic Policy on Sustainability

As a company that supports affluent lifestyles, the Daito Group regards social changes as opportunities for growth, and we work to develop our business activities and realize a sustainable society with our stakeholders.

Contents

About this Integrated Report

Editorial policy
This report is for our stakeholders, especially our shareholders and investors, to deepen their understanding of the Daito Group. This report discloses and explains highly important information directly related to the improvement of our value creating activities, among the Group's financial and non-financial information.

Target readers
Our stakeholders, especially our shareholders and investors.

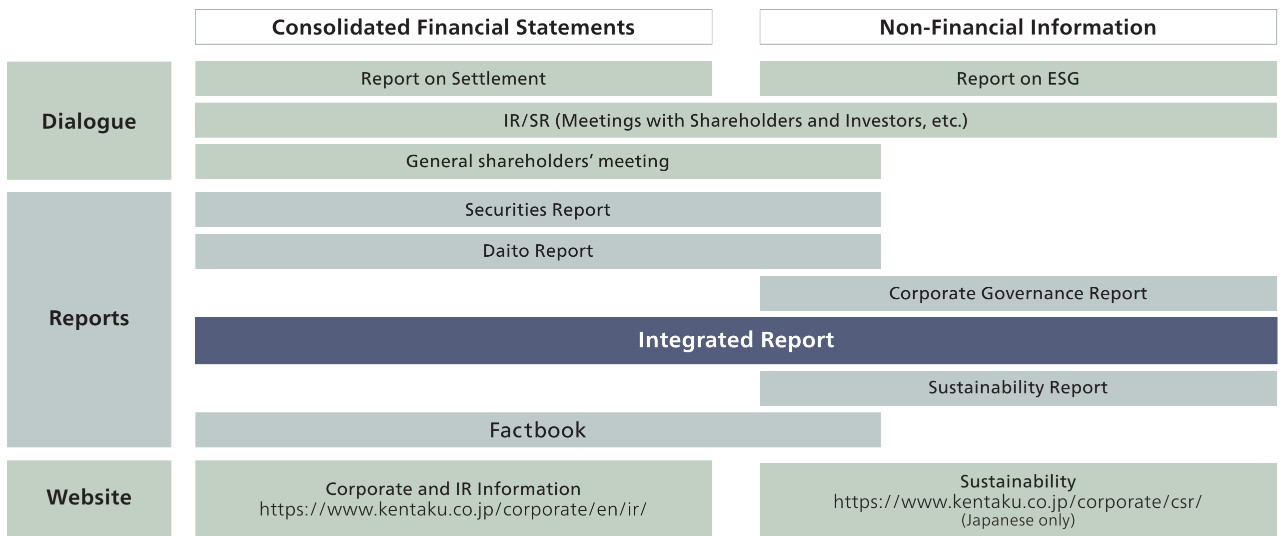
Indicators
Unless otherwise indicated, the figures in this report are "periodic" figures for FY2022. Other figures are accurate as of March 31, 2023.

Report period
The fiscal year ended March 31, 2023 (FY2022)
Note: Including some initiatives through to August 2023

Issued
September 2023

Forward-looking statements
Statements regarding the Group's future, including business forecasts, in this report are based on assumptions used for planning, predictions, and on future projections at the time of this report's release.
The Daito Trust Construction Co., Ltd. (the "Company") does not in any way guarantee the achievement of the projections. Our actual performance could significantly vary from these future projections, due to a variety of reasons.

Information System Chart



Daito Group's Purpose / 2030 Vision

Purpose

"Link the Trust to Make a Better Future."

Statement

Everyone wants peace of mind in their Lifestyle.

That's why we have pressed on with building and supplying safe, secure, and comfortable rental housing on the precious land that customers entrust to us.
We will continue working as a Group to address the challenge of supporting lifestyles so as realize all our customers' dreams.

But because lifestyle changes as rapidly as the times go by, we will not—and cannot—rest on the status quo. We must remain to be a challenger.

Through coexistence and co-creation with other business types, we will massively expand our business domains toward realizing a zero-waste society, disaster-resilient housing, and regional revitalization, with a focus on the rental housing business.

We will never cease striving to realize lifestyles that we can entrust with confidence to the next generation.

With people's hearts entrusted to us and with the Daito Group's accumulated experiences, each employee of the Group will work on changing people's difficulty into peace of mind around the world by being entrusted with each other.
And through our full range of services, we will link people with people, people with buildings, and people with communities carefully and respectfully.

To deliver the future of new "lifestyle" where people around the world can feel safe and comfortable from the bottom of their hearts.

New Five-Year Plan
2019-2023

2023
Present

Next medium-term management plan
From 2024 ※Under planning

CEO Message

We will be thankful for the trust placed in us and continue challenging ourselves, as we think and act in line with "Link the Trust to Make a Better Future."

The Daito Group is making a fresh start under its newly established Purpose. Takeuchi Kei, who took over as Representative Director and CEO in April 2023, talks about how the Group will navigate this era of great change, guided by the ideals embodied in the Purpose, the vision for the Group's future, and his three rules for the management.

Representative Director, Chief Executive Officer (CEO)
TAKEUCHI Kei

竹内 啓

We will continue to grow through innovation and challenges

I am very grateful for the constant support that everyone has extended to the Daito Group. I am Takeuchi Kei and I assumed office as the Representative Director and CEO for Daito Trust last April 1.

Since its founding in 1974, the Daito Group has created and provided new lifestyles for business partners, employees, tenants, users, and other community members by making effective use of the precious land entrusted to it by property owners. This commitment has powered our growth over the years, enabling us to enter our 50th year of operation this past June.

We now face many different changes sweeping across our operating environment. Japan's population is rapidly aging and shrinking. Rural communities are in decline. People's ways of working and living are becoming more diverse. Climate change is fueling frequent natural disasters. And, global affairs are in upheaval. I believe that it is our mission, as a corporate group that has long supported housing and lifestyles, to help overcome these challenges and concerns for society through our business activities.

The Daito Group has recently formulated a statement of its purpose: "Link the Trust to Make a Better Future." This Purpose sets the tone for our actions going forward as we seek to achieve further growth while linking to future generations the aspirations and dreams that have been entrusted to us. Holding aloft the Purpose as our banner, we are now forging a vision for where we want to be in 2030.

As we firmly embrace our Purpose, we will continue to grow through innovation and challenges so that we can live up to our stakeholders' trust and expectations, and remain as mutural partners to make a better future together over the 50 years, and to the next 100 years. You can count on many good things to come from the new Daito Group.

The final year of the New Five-Year Plan

Looking back at the plan's past four years

FY2023 marks the final fiscal year of the New Five-Year Plan, the medium-term management plan set in motion in FY2019. Looking back, the plan's past four years were truly a time of dramatic changes, including the tighter lending conditions, the spread of COVID-19, and the skyrocketing price of imported wood. The unexpected, far-reaching changes in our business environment compelled us to revise the plan's original targets downward in FY2021. After experimenting with different tactics, we finally saw signs of recovery in FY2022 and succeeded in putting ourselves back on track by recording a second consecutive year of growth in both revenue and profits.

Goals and challenges for the final year

For FY2023, we are seeking to achieve a third straight year of gains in revenue and profits.

One urgent task for reaching the plan's goals is to continue advancing the turnaround of our construction business. This segment was especially hit hard by the strong headwinds of the past four years of tumultuous changes—As affected by the COVID-19 pandemic, our ability to leverage Group's strength in face-to-face interactions with customers were impeded. The wood prices were soared by the supply shortage. Although the pandemic appears to have finally abated, we still face a host of medium- to long-term challenges in this business. These include the Japanese yen's weakening due to global developments, the ballooning of order prices, rising energy costs, and a shortage of construction workers and professionals. Despite such unfavorable conditions, we have managed to ride out the storm by taking action to stay on top of the changes in society, including by advancing digital sales and revamping our methods of procurement. Going forward, we will further strive to turn the persistent headwinds into opportunities for growth. We will continue establishing new approaches to sales, developing systems that reduce the burden on construction site workers, and securing exceptional construction talent on a global level. Through these and other actions, we will work to achieve higher revenue and profits and to further grow our Company.

Our vision for the Daito Group

Our Purpose: How it came about and the ideals it embodied

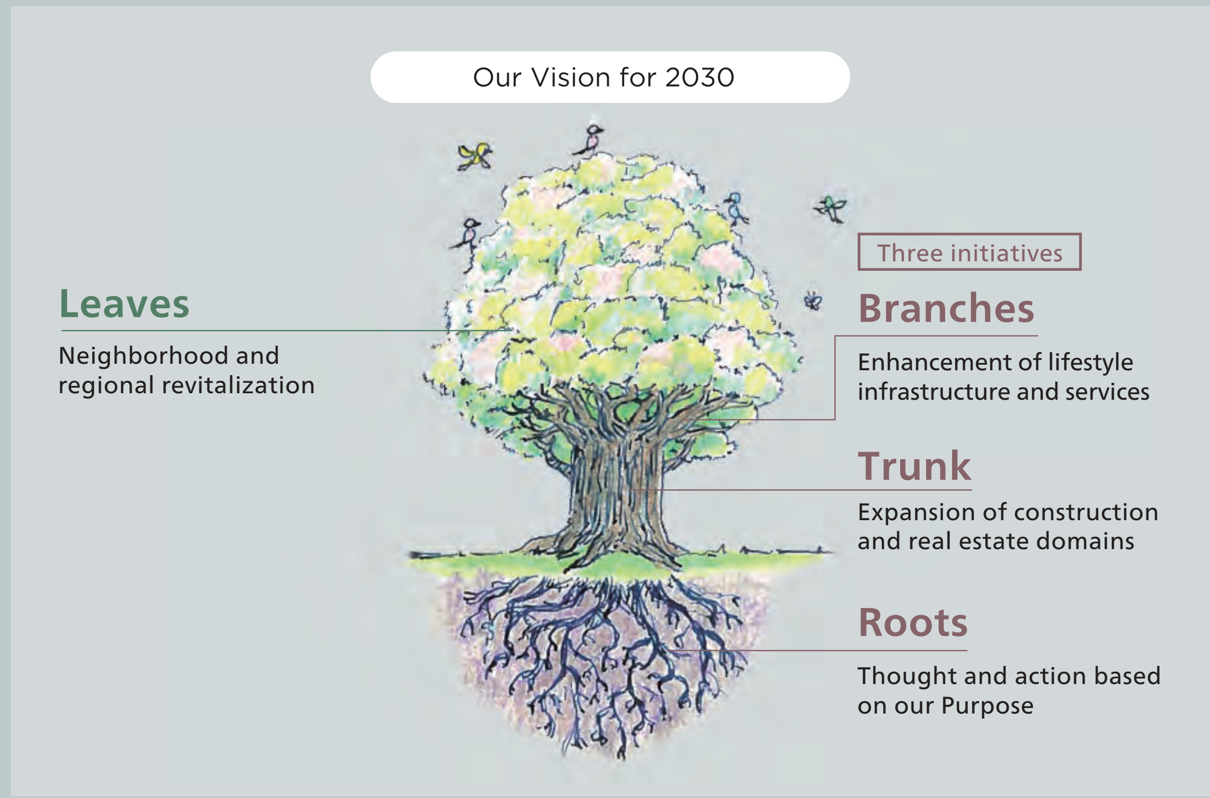
We have defined our Group's Purpose as "Link the Trust to Make a Better Future" to set the course toward further growth and greater corporate value over the next 50 years beyond the New Five-Year Plan.

Our Purpose is not something that I or the Corporate Planning Department thought up on our own. It is the product of a roughly one-year project that engaged all our officers in discussions aimed at identifying the reasons why our Group exists, the things will remain constant in the years ahead, and the ways we have provided value. It is the newfound understanding that our Group's mission has been and will continue to be making a better future for society and people's lifestyles by sincerely addressing the wants and needs entrusted to us by stakeholders, and by endeavoring to advance community revitalization and urban development through our

Discussion toward determining our Purpose rental housing business and other activities. Our Purpose represents a starting point—the aspiration of the entire Daito Group. Looking ahead, I think it will be vital to have our employees reexamine their own aspirations and become able to think and act in ways aligned with our Purpose. Our Group employees 17,851 people across diverse industries, including not only our core businesses of construction and real estate, but also segments such as care services, nursery schools, and gas supply. Every company, department, section, team, and employee is tasked with different duties, but as long as they are members of the Daito Group, their duties are all tied to our Purpose. Accordingly, we need for each and every Group company and employee to be able to link their work to our Purpose, thinking and acting in a manner mindful of who entrusted their responsibilities to them, of who will be entrusted to take over their responsibilities, and of how to make a better future. It is only then that our Purpose will truly be implanted in our culture and lead group to a sustainable future.

Our Vision for 2030

Our Purpose alone does not specifically tell us what we should aim toward or the direction we need to take. Without such guidance, the path to making our Purpose a reality becomes a longer journey. To provide us with a clear-cut direction, we have laid out a vision for where we want our Group to be in 2030, expressing it with the metaphor of a tree, the source of the wood our business depends upon. A tree extends strong roots into the land to absorb the nutrients it needs to grow a big trunk(See the illustration on p.10). Branches grow out from that trunk and sprout many leaves. In our tree, the roots are thoughts and actions grounded in our Purpose. The trunk represents our core businesses. The branches are the peripheral businesses emerging from the core businesses. And, the leaves are the many forms of value that our businesses create for society. In terms of our Group, each employee is to firmly set down the roots by thinking and acting in line with our Purpose. The addition of nutrients in the form of new business segments such as residential redevelopment and build and land set sales enables core businesses to become a big trunk. The peripheral businesses arising from the trunk—care services, nursery schools, gas, electricity, and so on—grow into large branches that offer "leaves" that bring vibrancy to society. We seek to contribute to urban development by linking each community with the rental housing we have provided over the years, and with care, nursery, distribution, and other facilities. This will enable our tree to spread across the country and connect people with people, people with communities, and communities with other communities. In doing so, we can help drive regional revitalization. However, this vision for 2030 is still a rough sketch. We will spend this year fleshing out the vision, discussing its details and fine-tuning it for the potential effects of the uncertainties of our business environment and the increasing frequency of unexpected business risks. The specific actions that emerge from those discussions will be incorporated, as a first step, in the medium-term management plan that will follow the New Five-Year Plan.



The Daito Group's material issues

In order for companies to survive in a society that will face many challenges in the years ahead, they must have a sustainability model whereby they continue to provide value to society through their business activities. Ever since our Group was founded, we have embraced the "sanpo yoshi"*1 spirit of Omi Shonin merchants, taking an approach to management in which we earn the trust of customers and give back to the community, and in so doing drive our further growth. This spirit, the forerunner to today's sustainability management, is the foundation for how we do things. I am proud that we have grown over the years by creating added value for society through our business operations and by flexibly adapting to society's changes and challenges of each era, such as when we reorganized Daito Cooperative Association into a whole-building lease business in response to a revision in the Insurance Business Act . In October 2021, we identified our "Seven Material Issues" (see p. 32 for details) as the priority challenges we must tackle in order that we can continue leveraging social changes as opportunities to create value for society. To accelerate our efforts for addressing those issues, we established a new set of KPIs this past June and began developing and implementing specific actions. Our employees have already started producing new business ideas that take advantage of the opportunities presented by the material issues, and I look forward to the deployment of those ideas.

In terms of our vision for 2030, the Seven Material Issues tie into our tree's roots—a commitment to think and act in line with our Purpose. We will step up our sustainability management as we seek to solve social challenges through our business activities, grow sustainably, and increase our corporate value, evolving into a company that society depends upon.

*1 Translated as "The Three Satisfactions," this economic ideal was practiced by the Omi Shonin, considered of Japan's three most famous historical groups of merchants. Instead of focusing solely on their own interests, practitioners also seek to produce benefits for the public through an approach that satisfies the seller, the buyer, and society.

CEO Message

My Three rules: Be thankful and challenging, take a hands-on approach, and keep it simple

Management Philosophy and Policy

One of the first things I did when taking over as the new CEO was to share my three rules for management with our employees.
The first is "Be thankful and challenging". The Daito Group marked its 50th anniversary in June 2023, a milestone made possible by the customers, shareholders, and many other stakeholders who have sustained our businesses for half a century. My career with Daito, which began in 1989, has been spent almost entirely in sales, including leadership positions such as branch manager. People naturally feel the desire to repay the favors extended to them by others. While working in the fiercely competitive world of sales, my credo, both in theory and practice, was to always be grateful to the everyone who supported me and use my job as a means of repaying those kindnesses. No matter what the other person's occupation or area of business may be, I make it a point to always be thankful for the favors they did for me, and to always provide my support to them in return. This value is the source of our growth as a corporate group that has thrived by entrusting and being entrusted, and I would like for us to continue cherishing it in the years to come.
My second rule is "Take a hands-on approach". The ones who are ultimately responsible for the nuts-and-bolts execution of all our pursuits—be it our carrying out our day-to-day business operations, living up to our Purpose, tackling our material issues, or whatever—are our people in the trenches. That's why I believe it is important for management to visit our offices and work sites so that they can lead with an understanding of what goes on at the front lines. The Daito Group encourages its leaders, including me, to create opportunities to travel around the country for face-to-face talks with employees. After those interactions, the leaders go straight back to headquarters with the points raised in discussions and the positive insights they gained, and use that feedback to develop improvements and reforms for further strengthening employees' power to get the job done. I also urge our employees in the field and the supporting back offices to collaborate with management and headquarters in speeding up the

execution of our operations.
The third rule is "Keep it simple". There's no point in instituting policies and measures if they are not communicated to our people in an easy-to-understand manner. Clear policies and timely decisions lead to better results at the front lines. To this end, I am reorganizing our execution functions and pursuing reforms for minimizing the frequency and length of meetings.
For some time, people in our Group have expressed the opinion that a barrier exists between employees and officers, and this is an issue that has concerned me since before I became CEO. Given that our Company has long been content with taking a top-down approach, there certainly is a mood that employees are unable to voice their opinions to officers. In order to change this part of our culture, the president's office door has been kept open since the tenure of the CEO before my immediate predecessor so that employees will feel welcome to enter. However, in spite of this policy of inviting anyone to come on in, my previous experiences in working in the president's office gave me the impression that employees remain hesitant to take up that offer even the door is opened. After becoming CEO, I came up with an idea for really making employees feel at ease about entering my office—I put up a tent from our new project partner Snow Peak in a corner of the office. This provides a space for not only everyday meetings but also periodic lunch chats with employees. These opportunities allow me to achieve a better approach to communication so that I can convey my thoughts and feelings to everyone.

Preventing recurrence of improper accounting treatments

We sincerely apologize for the considerable inconvenience and concern caused to our shareholders, investors, and other stakeholders by the improper accounting treatment discovered in April 2022.
We have implemented several measures aimed at preventing recurrence of similar improprieties in the future. These include realigning the organization and control environment of our accounting functions—with a focus on separation of duties between budget management and accounting—and of our management functions, including officers, such as reinforcing our whistleblowing system and internal controls. Going forward, not only to prevent recurrence, but we will further strengthen our internal controls for this purpose.

For details about Prevention of recurrence of improper accounting treatments ▶See P63

A message to our stakeholders

It is my heartfelt hope that the Daito Group will continue operating robustly over its next 50 years. For that to happen, it is critical to firmly pass the relay baton on to the next generation of runners. I may be the CEO, but I see myself as a middle runner whose role is to help the Group to put its Purpose into action. I believe that we must shape our Group into an organization that robustly sustains a continuous relay of people and business growth—taking the baton of past achievements from the preceding runner, nurturing it into greater success, and then handing it off to the next runner and so on. From the beginning the Daito Group has been an organization brimming with incredible energy.
I consider it my mission to keep that energy flowing and make it even more powerful. I cherish these words about the secret to success from Napoleon Hill*2: "You become what you think about". Every year, I include this maxim in the business plans given to our employees, with the hope that they will take it to heart and strive to turn their lives into truly wonderful experiences.
The Daito Group will continue transforming itself so that we can make a better future together with our stakeholders. You can count on us.

*2 An American writer known for his books on ways of thinking and strategies for achieving goals, including Think and Grow Rich and The Law of Success.

Director's Messages

MORI Yoshihiro

Director, Managing Executive Officer

General Manager of Real Estate Business Headquarter

President and Representative Director of Daito Kentaku Partners Co., Ltd.

Member of Governance Committee

Our newly defined Purpose is emblematic of our mission of being "a company that can grow sustainably, entrusted with dreams and the future." Since joining the Company in 1994, I have worked to improve our real estate services, including by introducing an online system for the Explanation of Important Matters and leasing stores that specialize for foreign tenants. I would like for us to help improve the sustainability of our Group and society by sincerely addressing society's needs and challenges in ways that realize comfortable lifestyles for tenants and contribute to the resolution of social issues. Specifically, I envision tackling the following challenges.
(1) Urban hollowing out and increasing housing abandonment as effects of depopulation from falling birthrate and population aging : We will strive to curb the hollowing out and depopulation of cities by expanding our lineup of leasing business solutions in area where demand is anticipated, and by reassessing the trend toward new supply. (2) Unmet needs of growing numbers of social minorities, vulnerable people, and foreign residents : We will work to remove nonphysical barriers faced by our increasing diverse range of customers by providing them with tenancy support and lifestyle services. (3) Rising incidence of natural disasters due to recent trends toward abnormal weather : We will respond through actions such as increasing the availability of disaster-resilient buildings and collaborating with communities that have strengthened their disaster resilience, and in doing so increase the value of buildings managed by our Group and enhance our competitive edge. (4) Global warming driven by rising greenhouse gas emissions : We will help reduce the Greenhouse Gas Emission from tenants' lifestyles by offering LCCM, ZEH, and other environmentally conscious products.
Aspiring to be a company that all stakeholders can confidently entrust with their future, our Group will mutually enhance its corporate value and contribute to the sustainable growth of society by proactively engaging with stakeholders and reflecting their feedback in our corporate activities.

TATE Masafumi

Director, Senior Executive Officer

General Manager of Design Management Department

Our Group marked the 50th anniversary of its founding by formulating a statement of Purpose as an expression of our gratitude to stakeholders for entrusting us with their future over the years, and of our aspiration to have them continue entrusting their future to us in the years ahead.
Of the various challenges faced by society, climate change is one that needs to be addressed immediately. Climate change has a tremendous impact on our lives, driving an almost annual cycle of natural disasters. Given that our Group is responsible for extensive lifestyle infrastructure in the form of rental housing, I believe that we must take action in response to climate change. Going forward, we will advance solutions to environmental and social challenges through our business activities. For example, we will establish disaster prevention centers in communities under the Disaster Prevention and Living Research Project (Bo-Ku Lab), a project that seeks to increase awareness of disaster prevention. Also, we will create renewable energy through our supply of the standardized ZEH rental housing and the LCCM rental housing which makes CO2 emissions negative throughout the building's lifecycle. We moreover develop disaster-resilient rental housings to push forward the environmental and social solutions through our projects.
I will focus on developing products and technologies for wellness housing that allows residents to live in good health through not only our in-house efforts but also joint research with partners endowed with innovative technologies. I hope that everyone can count on me to play my part in building an organization and company that sustainably provides lifestyle services so that customers can enjoy peace of mind and safety through our offerings from rental housing to contributions to the community.

OKAMOTO Tsukasa

Director, Senior Executive Officer

General Manager of Finance and Accounting Department

In my role as an expert in finance and accounting, I wish to help enhance our corporate value by pursuing investment in human capital, IT, and intangible assets. As Japan's working population continues to shrink due to the falling birthrate and population aging, labor shortages have become a serious issue in all corners of society, fueling fierce competition for outstanding talent. This poses a major risk for our management going forward.
In order to attract and firmly retain talent, we need to have a purpose that resonates with our employees. Needless to say, it is vital that such a purpose be more than just a call to action—it must be put into practice.
In crafting our Purpose, the Board of Directors recognized that our longstanding Corporate Philosophy was no longer perfectly aligned with the current business conditions of each member of our Group. For this reason, we strongly desired to create a message that all stakeholders could identify with, and that employees could turn to as a moral compass when making difficult decisions.
I believe that it is critical for us to develop a workplace environment that provides job satisfaction and to improve employee engagement. This will enable us to inspire more people to join our Company and stay with us. It is also important to cultivate digital talent so that we can boost our productivity through DX. We will pursue focused investment in human capital, IT, and brands and other intangible assets to strengthen our medium- and long-term growth potential.
I think that our culture of challenging ourselves to evolve has been a driver of our growth over the past 50 years. In the years ahead, we will never become complacent as we continue to challenge ourselves to evolve.

AMANO Yutaka

Director, Senior Executive Officer

General Manager of Real Estate Development Headquarter

Our aim in formulating the statement of Purpose was not only to externally communicate the path that Daito Group aspires to follow, but also to provide our officers and employees with a long-term moral compass. The desire to convey the efforts our Group has made, the things that have made us proud, and the aspirations leading us to the future ultimately led us to "Link the Trust to Make a Better Future."
Today, Japanese society faces diverse challenges such as a decline in rural populations and an excessive concentration of people in urban areas, the shrinking of the population as a whole and the number of households, and the global warming-driven increase in the incidence of natural disasters.
I believe that our Group can contribute to local communities and society by forging solutions to those challenges through our business activities. For example, we can create enterprises such as smart town projects that support regional development, expand our overseas businesses, and advance the development and supply of environmentally conscious housing that supports climate change action.
We can solve those challenges only if we boldly take them on, leveraging the resources Daito Group has amassed over the years. I, too, will continue to boldly tackle the challenges in our path and work to foster a corporate culture that encourages fearless action.
Guided by its newly established Purpose, Daito Group will continue to evolve and challenge itself. And, we will push forward to remain a Company in which people entrust their future.

Director’s Messages

Our Group has articulated its Purpose as “Link the Trust to Make a Better Future.” Over the years, property owners and tenants in each community have entrusted us with their future, and we have done everything in our power to meet their expectations. In the next 50 years, we will strive to link together all communities we serve and to foster their growth. I am certain that those business activities will contribute to regional development and bring peace of mind to people’s lifestyles—and in doing so will evolve our Company into one where employees are inspired to follow their dreams.

Meanwhile, society must contend with the issue of labor shortages. It is forecast that Japan’s workforce in 2040 will have a deficit of 1.1 million workers.It is imperative that we cultivate a corporate environment in which employees can continue to enjoy vibrant, satisfying work experiences. We should define the vision for ourselves in the era of diversity, and work to achieve it.

Another urgent challenge for us to tackle is rural depopulation. I want our Group as a whole to help solve this issue through our leasing business and other business activities, and through collaboration with local governments.

Our vision and all the social challenges we address are linked by a common keyword: people. Today’s businesses are increasingly called upon to engage in sound management of their human resources. The Daito Group is no exception—we pledge to strive even harder to fully cultivate our talent so that we can continue providing new value that can only come from people.

Over our next 50 years, we, the Daito Group, will continue working as one team to help stakeholders everywhere enjoy peace of mind in their lives, remaining at their side as a trusted partner.

TANAKA Yoshimasa

Director, Senior Executive Officer

General Manager of Corporate Business Headquarter

Shikokuisland where I grew up, numbers among the regions where sharp population decline/aging have made depopulation a very serious concern. It is home to many exceptional companies, but I fear that unless action is taken to stem the tide of depopulation, the talent drain will drive out businesses, leaving behind lifeless communities predominantly inhabited by elderly residents.

I believe that Daito Group can respond to this issue by providing various services that support lifestyle infrastructure and everyday living by leveraging resources such as its facilities for seniors and rental housing. By doing this, it could help create local communities where people can live safely and with peace of mind, even in regions with significant depopulation.

The Purpose laid out by Daito Group is, I think, a declaration of its commitment to continue evolving with rapidly changing society, earning the trust of its customers, and taking on challenges. And, the Purpose expresses the Group’s determination to remain a presence that customers can entrust with their future.

We will continue challenging ourselves so that we can help bring forth a future in which everyone—no exceptions—can enjoy living in safety and with peace of mind. To do this we must closely listen to and link together the thoughts and feelings of stakeholders. As an outside director, I will fulfill my responsibility of closely monitoring and thoroughly overseeing business execution to ensure that the Group evolves toward the future using its Purpose as the compass showing the direction to be taken, and that executive directors and other members of the executive leadership institute actions for achieving Vison 2030 in line with the Purpose, toward the realization of urban revitalization and regional development.

IRITANI Atsushi

Outside Director

Chairman of Nominating and Remuneration Committee

Chairman of Governance Committee

I have been interested in climate change issues for nearly 20 years. I installed solar panels on the roof of my house, and I used to frequently visit research labs and other facilities built to increase sustainability in Japan and abroad. We are now in an era where the international community, markets, investors, and individuals are working to address climate change. I have been constantly following these moves.

Meanwhile, the issue of Japan’s falling birthrate is its national issue and it truly relates to women’s empowerment in society. Through my own experience in raising children while working, I think that transformation making changes toward the society that makes it easier not only for women but also for everybody to work as well as having and raising children is crucial to solve this problem.

DE&I, Diversity, Equity, and Inclusion are also themes that closely interested to me. In Japan, initiatives to promote women’s empowerment are set ahead, and the Group has already been carrying out various actions for advancing women’s empowerment. From now on, creating work environment where employee diversity is utilized by going extend beyond women’s empowerment will be needed.

We have set out KPIs on The Daito Group’s Seven Material issues, and monitor appropriateness and progress of the set KPIs in the medium- and long-term targets while providing advice where needed.

The Daito Group established Purpose in June 2023. Now the question is how to firmly instill the Purpose into management and all employees. I am looking forward to seeing the Group makes this happen by leveraging the power of action. The Group still holds much potential for further growth. We will strive toward greater sustainability through communications with the stakeholders.

SASAKI Mami

Outside Director

Member of Nominating and Remuneration Committee

Member of Governance Committee

Director's Messages

Our transition to a company with an audit and supervisory committee is expected to be a first step for raising the speed and quality of management decision-making to the level necessary for realizing 2030 Vision. As an inaugural member of the Audit & Supervisory Committee, I see my role as working to ensure that the Committee functions effectively, particularly with regard to auditing of directors' performance of their duties and supervision of officers responsible for business execution. In this role I will call attention to issues and challenges I identify, proactively offer my insights on how to solve them, and monitor the implementation of solutions. I will also seek to strengthen our coordination with the Internal Auditing Department and will provide management with advice grounded in an understanding of the situation at the front lines. Through these actions, I will strive to help shape the Daito Group into an organization and corporate group that grows soundly and sustainably, creates medium- and long-term corporate value, and earns the trust of society.

Going forward, the Committee will properly carry out its duty as an independent function that monitors directors' execution of the responsibilities mandated by shareholders, so that the Company will maintain the trust of stakeholders.

KAWAI Shuji
Director, Standing Audit & Supervisory Committee Member
Member of Governance Committee

This fiscal year marks Daito Trust's first year as a company with an audit and supervisory committee. As the inaugural chair of the Audit & Supervisory Committee, I will work with all my might to fulfill my important responsibilities.

To begin with, my expectation for the Audit & Supervisory Committee is for us to proactively work together with the Board of Directors' executive team, the internal audit functions, and the auditors of Group companies to improve the quality of corporate governance across the entire Group.

Our Committee activities will be directed at enhancing the quantity and quality of communication with people within and outside the Group who are responsible for corporate governance and the construction and operation of internal controls, and at improving auditing-related functions' skills and the quality of their activities.

By contributing to the fulfillment of the Daito Group's Purpose, the Committee will help to evolve Daito Group as a company that is trusted by society and all stakeholders and provides its employees with a place where they can work with peace of mind.

Leveraging my experience as a lawyer and manager within and outside the Company, I will use my roles as an Audit & Supervisory Committee member and a Director to contribute to the improvement of the entire Group's corporate value, with the aim of further evolving the quality of the Group's corporate governance.

MATSUSHITA Masa
Outside Director, Standing Audit & Supervisory Committee Member
Chairman of Audit & Supervisory Committee
Member of Governance Committee

Companies with an audit and supervisory committee entrust most of their major management decisions to their representative director and other directors. This enables these companies to swiftly make management and business execution decisions that are better in tune with the business environment. At the same time, this type of company is able to strengthen supervision of the board of directors through monitoring by the audit and supervisory committee, a body with decision-making authority that is made up of selected directors and other members.

We believe that the Daito Group's transition to a company with an audit and supervisory committee will enable it to further enhance its corporate governance as a corporate group.

As a member of the Audit & Supervisory Committee, I will fulfill my auditing and supervision duties to help ensure that the Daito Group's management decisions and business execution are carried out properly and fairly. And, as an independent outside director, I will strive to help development an environment that enables the representative director and other members of senior management to engage in the sound risk-taking that the Daito Group needs to achieve its vision for 2030. At the same time, I will support the Group's further growth and evolution by promoting both defensive and offensive governance in my role as an independent outside director.

SHODA Takashi
Outside Director, Audit & Supervisory Committee Member
Member of Governance Committee

Daito Trust's transition to a company with an audit and supervisory committee promises to lead the Company a better direction. This is because it enables quicker decision-making by transferring authority to executive functions, supports rigorous compliance with laws and rules through stronger monitoring of management by the Audit & Supervisory Committee, and facilitates more active exchange of insights between internal and external directors.

As a CPA, I see my primary responsibility as making sure that the Company's financial results are properly disclosed to shareholders and other concerned parties. For that to happen, the Company needs to continuously build up the systems necessary for sound operation of internal controls and for timely communication of important information. Accordingly, I will work hard to make sure that the Company is managed appropriately, including by communicating more closely with internal directors, outside auditors, the Group's auditors and internal auditing teams, among others.

I look forward to seeing the Daito Group continue striving to operate with strong transparency, including in finance and accounting, and leverage its strength in teamwork to produce driving forces for the achievement of its goals. As an external member of the Audit & Supervisory Committee, I will support the Company's sound growth by helping to ensure that its governance functions operate robustly, and that it always properly discloses information to external stakeholders.

KOBAYASHI Kenji
Outside Director, Audit & Supervisory Committee Member
Member of Governance Committee

At a Glance(Competitive Advantage, Delivered Value, and Secured Value)

Property owners' concerns about land and assets change significantly in step with social changes. We will address these changes through thought and action based on our new Purpose of "Link the Trust to Make a Better Future." and through a focus on resolving our Seven Material Issues so as to carve out a competitive advantage and continue to create new value in society.

Competitive advantage

Strengths in management

approx.
1,259,000
Contract management, rent management, and property management

Strengths in understanding market trends

157 branches nationwide
950 market analysis professionals

Strengths in rental brokerage

Brokering network with real estate agents, Group companies, and e-heya.net brand

Adding value to land utilization and rental housing business

Bridging finance, trust business, asset management consulting, guarantee service so tenants do not require a guarantor, etc.

Adding value to the society, properties, and products

Care and nursery school services, gas supply businesses, provision of renewable energy such as solar panels

Technological capability to improve asset values

Technological capabilities developed through our growth as a rental housing specialist that realize high quality, high durability, and low maintenance

Delivered value / Secured value

Delivered value	Secured value
Asset succession through our Lease Management Trust System	Property owners **90,556** people
Provision of comfortable dwellings geared to tenant lifestyles	Tenants Approx. **2,190,000** people
Provision of **environmentally friendly buildings** that make ZEH* rental housing the norm	ZEH rental housing (total contracts) **56,729** units *As of the end of August 2023
Rewarding and pleasant **workplace environments**	Group employees **17,851** people
Restoring soundness to owners' **rental housing business**	Number of rental housing brokerage **251,000** Occupancy rate **98.0**% * Unit for residential use
Partnerships that enable **both parties to coexist and thrive together**	Design/construction partner companies **9,894** Partner real estate companies **13,260**

* An abbreviation of Net Zero Energy House which brings annual primary energy consumptions such as air conditioning, hot water, lighting, and ventilation to the break-even point as ZEH increases thermal insulation performance and energy efficiency through energy generation by solar power.

Path to Earning Trust and Growth

The Daito Group is not merely a construction and real estate company.
We support property owner's varied concerns related to the use of valuable land and asset successions through reliable, secure, and stable management support of the rental housing business that suits the changing times. By deepening trust with owners and families, as well as tenants, we have driven growth over the years.

Forerunner to the Lease Management Trust System

Founded in 1974 as Daito Sangyo Co., Ltd. (currently Daito Trust Construction Co., Ltd.), we gained our start by building commercial rental properties and proposing solutions for self-utilization of land to produce rental income. In 1980, we established Daito Kyosaikai to guarantee rent during times of vacancy—the first step on our path to establishing a comprehensive Lease Management Support Service.

Shift to Rental Housing

With significant declines in demand for commercial rental properties as a result of Japan's economic bubble bursting, we decided on a shift to the rental housing market, which was expanding due to the amendment and enforcement of the production green land law in 1992. We also established a solid position in the rental housing market through the popularity of our low-rise apartment building launched in February 1995, New Crestall 24 (two-by-four method).

Start of the Lease Management Trust System

The business operations of Daito Kyosaikai, which was the foundation of the Daito Group, encountered difficulties following the revision and enforcement of the Insurance Business Act in 2006. The new system that replaced Daito Kyosaikai was the Lease Management Trust System, and it remains at the core of the Daito Group.

For more information on the Lease Management Trust System, please see ▶P.17

Transition to a Total Lifestyle Support Company

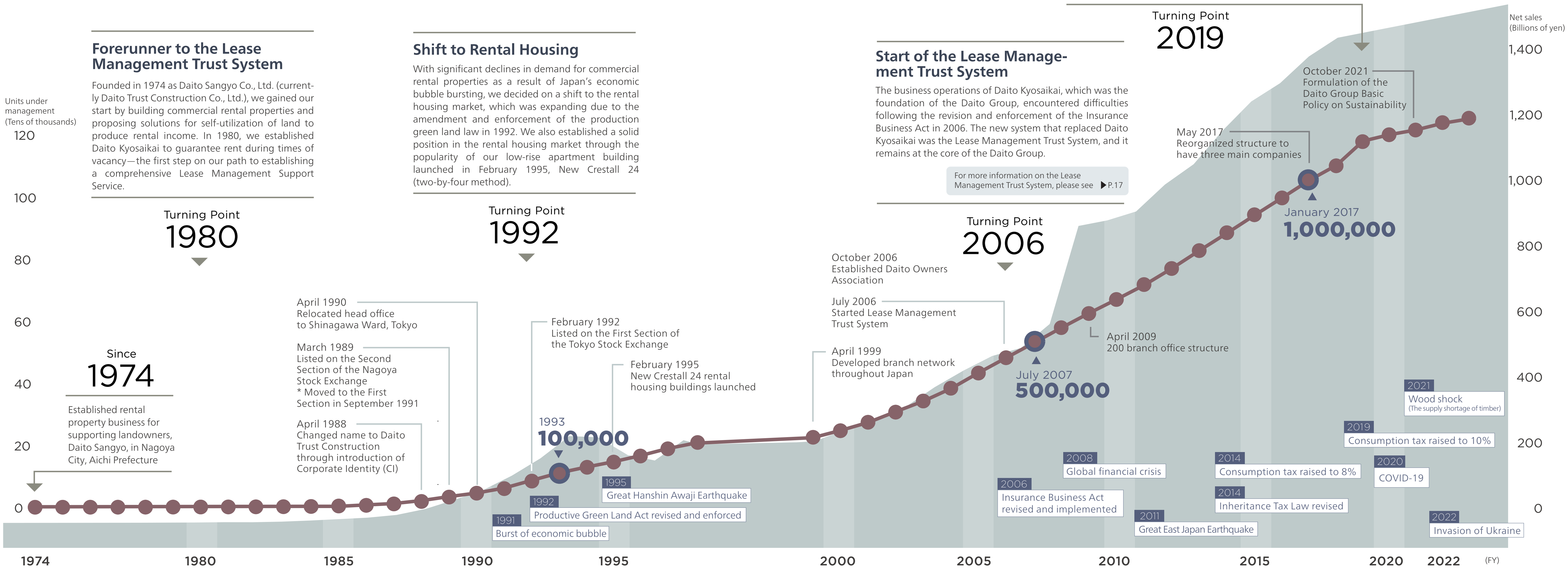
With an aim of sustainable growth, we launched the New Five-Year Plan in 2019 with a vision of becoming a total lifestyle support company.

For more information on the New Five-Year Plan, please see ▶P.49

50th Anniversary

We celebrated our 50th anniversary on June 20, 2023. We created the Daito Group's Purpose as our unchanging raison d'être from the past into the future.

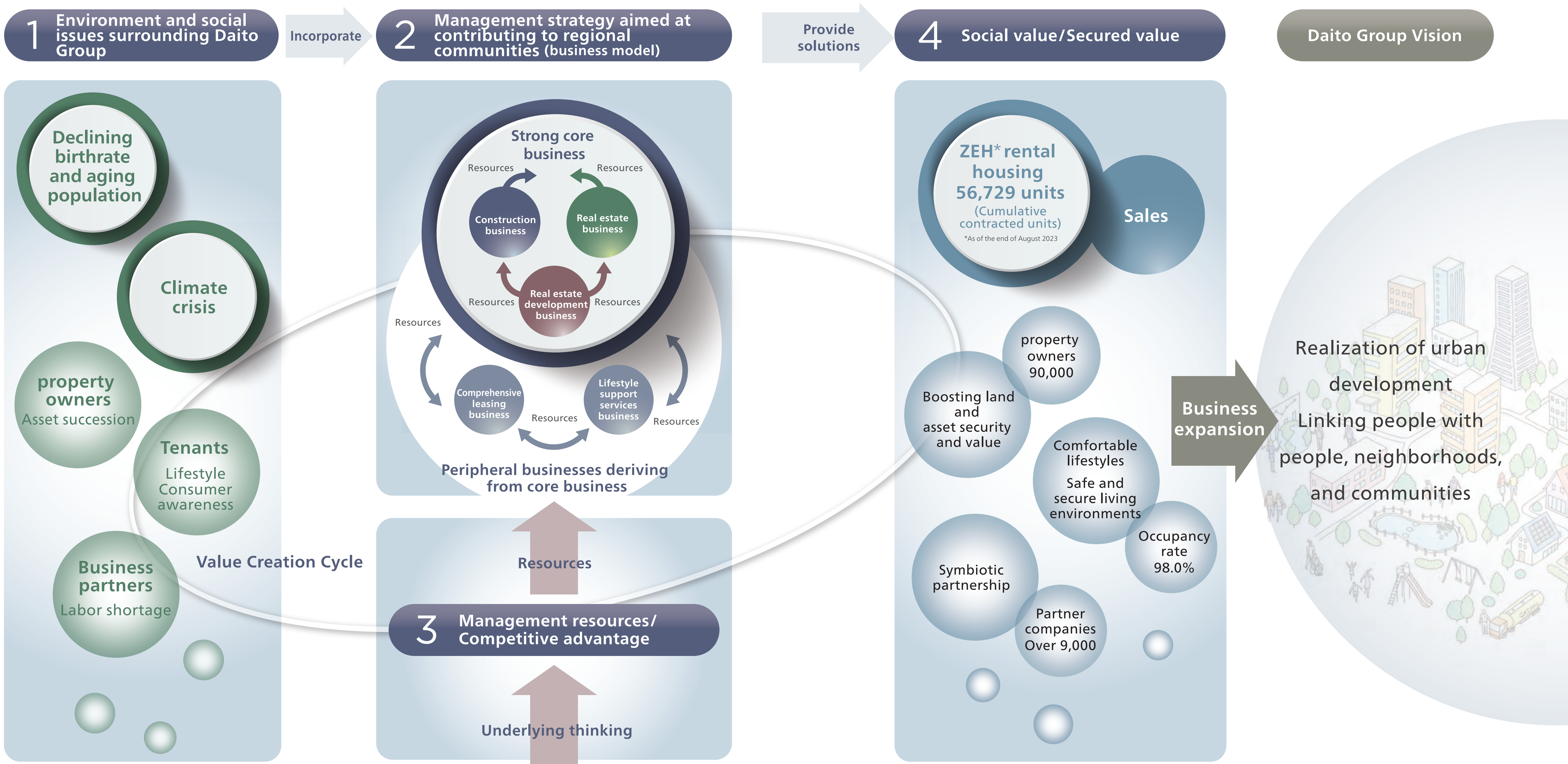
For more information on the Daito Group's Purpose, please see ▶P.3



History of Main Financial Indicators	FY1980	FY1992
Net sales	¥2.3 billion	¥277.9 billion
Operating income	¥0.1 billion	¥37.7 billion
Profit attributable to owners of the parent	—	¥20.1 billion
Owner's equity	—	—
ROE	—	—
EPS	—	¥148
Number of rental properties under management	815 units	85,397 units
Payout ratio	—	16.8%

	FY2006	FY2019	FY2022
Net sales	¥564.3 billion	¥1,586.2 billion	¥1,657.6 billion
Operating income	¥72.6 billion	¥127.9 billion	¥100.0 billion
Profit attributable to owners of the parent	¥41.8 billion	¥90.3 billion	¥70.3 billion
Owner's equity	¥274.6 billion	¥286.5 billion	¥405.8 billion
ROE	16.2%	30.6%	18.2%
EPS	¥345	¥1,306	¥1,031
Number of rental properties under management	493,829 units	1,165,000 units	1,259,000 units
Payout ratio	27.2%	50.0%	50.0%

Value Creation Cycle and Process



* An abbreviation of Net Zero Energy House which brings annual primary energy consumptions such as air conditioning, hot water, lighting, and ventilation to the break-even point as ZEH increases thermal insulation performance and energy efficiency through energy generation by solar power.

Thoughts and actions based on Daito Group's Purpose of "Link the Trust to Make a Better Future." Approach to the Seven Material Issues

We are constantly thinking about how to solve social issues and the issues and concerns of each individual in society through our business and acting accordingly, grounding our thought and actions in the Daito Group's newly formulated Purpose and Seven Material Issues.

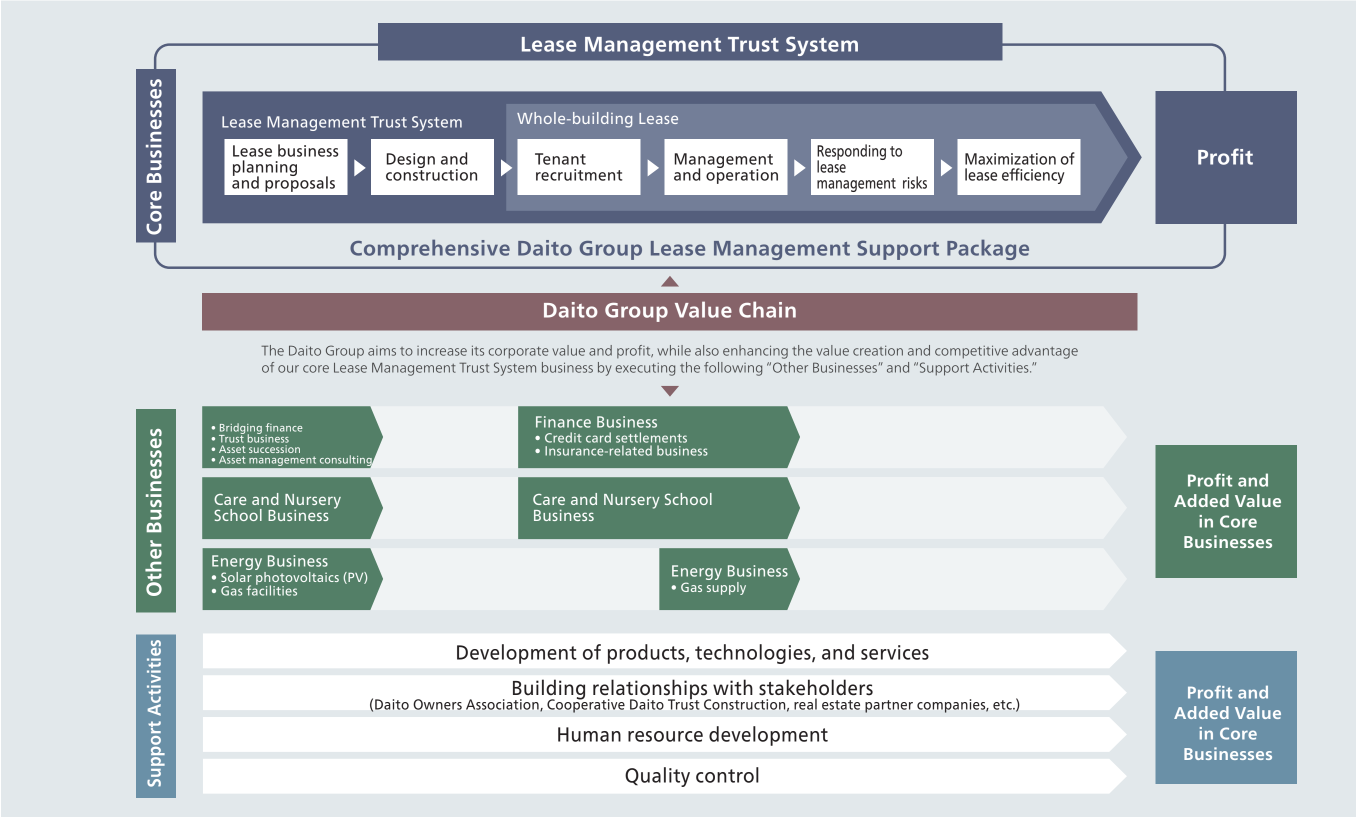
Our aim is to become a company needed by society using a business model of cooperation among the main engines of our construction business, real estate business, and other peripheral business areas to sustain a growth cycle whereby we provide the value of resolving social issues, leading to recognition and customers entrusting us with new plans, which we then take on the challenge of fulfilling.

1 Environment and social issues surrounding Daito Group

The founding purpose of the Group was to come alongside property owners to help solve their issues, in keeping with their desire "to hand over land to the next generation that has been passed down through many generations." Our highest priority—since our founding, as we have expanded our business—has been to solve the issues of property owners. Their concerns about land and assets, however, change significantly in step with social changes. In Japan, where there is a long-term trend of a declining population, it is expected that population aging will increase further, and the number of singles and nuclear family households will also increase. In terms of our Group operating environment also, there is expected to be increases in demand for rental housing and in the number of older buildings. As a result, landowners are now facing more diversified issues—including diversification of rental housing management and a decrease in real estate competitiveness as the buildings age—in addition to traditional issues such as stable management of inherited assets and land. While these changes can conceivably pose risks to the Daito Group, they can also be significant opportunities for us to expand our business domains and enhance our competitive advantage.

2 Management strategy aimed at contributing to regional communities (business model)

The Lease Management Trust System is a unique system created to maximize the asset value of landowners while protecting their precious land by duly considering such social changes and issues of landowners. The Lease Management Trust System—which encompasses all aspects of lease management, from planning, design, and construction to tenant recruitment services and property management—not only supports landowners in lease management, but also reassures them about the various risks they face by flexibly adapting the support offered in line with social changes. Additionally, the value provided to tenants, business partners, and local communities by this system contributes to further solidifying the lease management of landowners. This in turn leads to the ongoing ability of the Group to secure and increase value. We believe this is what makes our business model unique.



3 Management resources/ Competitive advantage

We boast the following six tangible and intangible management resources. We stably secure these resources through our strong governance system, nurturing talent and organizational development, and socially and environmentally friendly management.

Human Capital

We regard human capital as the cornerstone of sustained corporate growth, building our organization accordingly. We are stepping up efforts to foster and secure highly specialized talent by, for example, introducing a systematic human resource development program for officers and employees at all levels. Taking the theme of "making everyone's individuality the company's strength," we are enhancing our diversity and inclusion initiatives toward creating new value, fostering an organization in which diversity is a real strength. We are also addressing health management and greater employee engagement so as to create an environment where a wide range of personnel can play an active role. In addition, the Daito Group Human Rights Policy aims to realize respect for the human rights of all our stakeholders.

Consolidated employees: 17,851

Percentage of female management personnel: 5.1%[*1]

Employment rate of people with disabilities: 3.07%

Percentage of maleemployees taking childcare leave: 119.1%[*1]

First-class building construction management engineers: 1,937[*1]

First-class architects and building engineers: 1,341[*2]

Real estate transactio specialists: 2,759[*2]

Certified property managers: 1,646[*3]

*1 Non-Consolidated Daito Trust Construction Co.,Ltd. *2 Daito Trust Construction Co.,Ltd. , Daito Kentaku Partners Co.,Ltd. , and Daito Kentaku Leasing Co.,Ltd. *3 Consolidated Daito Group

Social Capital

Daito's unique Lease Management Trust System—which encompasses all aspects of lease management, from planning, design, and construction to tenant recruitment services, property management, and business risk management—is designed to provide enhanced support that ensures owners' peace of mind. We also work together with local stakeholders to contribute to regional revitalization. Daito Group companies supply LP gas and municipal gas and operate care facilities and nursery schools, promoting the proliferation of neighborhood infrastructure.

Number of property owners: Approx. 90,000 people

Financial institutions handling rental housing loans: 378

Number of care facilities: 104[*4]

Number of tenants: Approx. 2.19 million

Occupancy rate: 98.0%
* Residential rent base.

Partner real estate companies: 13,260

Number of units with gas supply: 468,000

Number of nursery schools: 30

*4 Day-care centers, home visit-type care, and nursing facility

Management Resources/Comparative Advantage/Delivered Value/Secured Value

Intellectual capital

We are proactively developing new technologies and services, drawing on the knowhow built up through our lease management experience and our exploration of the possibilities of rental housing. Our Disaster Prevention and Living Project "Bo-Ku Lab" is engaged in R&D aimed at enhancing awareness of disaster preparedness in our Group rental housing. Various types of research are also conducted at our Institute of Future Design in Rental Housing to contribute to the advance of the real estate market and progress with dwellings and lifestyles. Other research includes Daito's own survey on neighborhood livability targeting local residents.

Production capital

Spearheaded by the design and construction departments in our branch offices nationwide, we engage in integrated management and supervision from procurement of construction materials to design, construction, and completion inspections so as to supply high-quality rental housing. We also work with local design and construction partner companies to create a comprehensive building construction system.

Daito Group offices
650

Design and construction partner companies
9,894

Natural capital

We have created Wood Procurement Guidelines and Sustainable Procurement Guidelines aimed at protecting biodiversity and using sustainable forest resources, working to make our entire supply chain eco-friendly. We are also promoting domestic lumber use, contributing to protection of local forests and ecosystems and reduced greenhouse gas emissions from construction material transportation. In the energy sector, we are promoting renewable energy dissemination by installing solar power generation equipment on Group-managed buildings. Addressing climate change is one of our key management priorities, and we are stepping up our efforts to contribute to achieving EP100 and RE100 toward SBT net-zero in 2040.

Sustainable wood procurement ratio
99.3%

Ratio of domestically-produced materials
7.98%

Greenhouse gas emissions
66,000 tons

* Consolidated Daito Group Scope 1+2

Financial capital

Maintaining a solid financial foundation will be key to realizing sustained corporate growth, so we are enhancing our financial governance.

Long-term credit rating
A (R&I)

4 Delivered and Secured Value

Delivered Value

Property Owners
- Preservation and improved value of land and assets
- Highly durable and high-quality buildings
- Long-term peace of mind, safety, and stability in rental management
- Smooth asset succession

Tenants
- Optimal dwellings suited to tenant lifestyles
- Support for comfortable living
- Safe and secure living environments

Business Partners
- Partnerships that enable both parties to coexist and thrive together
- Creation of local employment

Communities
- New standards for rental housing
- Vitalization of local economies and communities
- Environmentally friendly buildings

Employees
- A pleasant and rewarding working environment
- A culture that respects diverse personalities and ways of thinking

Shareholders
- A stable shareholder returns through management plan realization
- Transparent disclosure of corporate information

Secured Value

Rental housing units under management:
1,233,000
No.1 in industry for 27 consecutive years*1

Number of rental housing brokerage:
341,000
No.1 in industry for 13 consecutive years*2

Number of housing units supplied:
41,000
No.1 in industry for 3 consecutive years*3

Consolidated net sales:
¥1,657.6 billion

Consolidated operating income:
¥100.0 billion

Number of property owners:
Approx. 90,000

Number of tenants:
Approx. 2.1 million

Engagement score:
59.1 (A)
*May 2023

Cumulative number of contracted ZEH*4 rental housing units:
56,729 units
*As of the end of August 2023

Share of construction:
11.8%

Ratio of repeat contracts:
66.0%

Amount of solar power generated:
Supply for 80,482 households

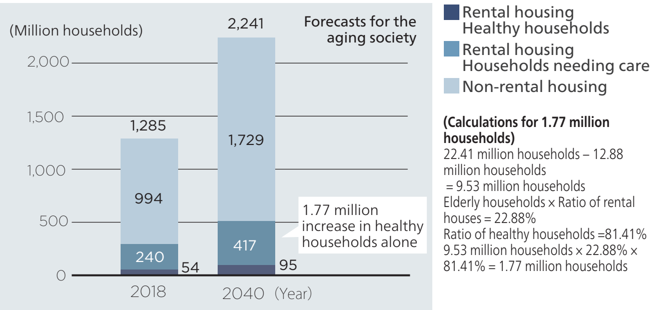
*1 Source: Zenkoku Chintai Jutaku Shimbun weekly newspaper, No. 1567, August 7, 2023, Zenkoku Chintai Jutaku Shimbunsha Ltd.
*2 Source: Zenkoku Chintai Jutaku Shimbun weekly newspaper, No. 1539, January 2, 2023 edition, Zenkoku Chintai Jutaku Shimbunsha Ltd.
*3 Source: Zenkoku Chintai Jutaku Shimbun weekly newspaper, No. 1562, June 26, 2023 edition, Zenkoku Chintai Jutaku Shimbunsha Ltd.
*4 An abbreviation of Net Zero Energy House which brings annual primary energy consumptions such as air conditioning, hot water, lighting, and ventilation to the break-even point as ZEH increases thermal insulation performance and energy efficiency through energy generation by solar power.

Analysis of Risks and Opportunities and Future Responses

The Daito Group analyzes six items related to the social situation and market environment that could impact the Group's future profits and losses, recognizing and evaluating the impact of each of these as our main risks and opportunities and taking measures accordingly. This work is conducted by the Risk Management Committee, an advisory body to the Board of Directors, and reflected in our management strategy.

The Risk Management Committee also scores the main risks identified by the various business departments according to the probability of occurrence over the short, medium, or long term and the degree of business impact. The Board of Directors conducts further analysis and evaluation of the main risk items identified through this process as having particularly serious financial or strategic implications, identifying key risk management items.

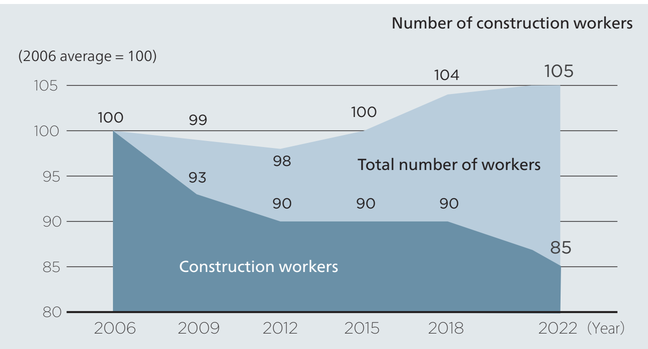
Population/household trends



Sources: "Household Projection for Japan: 2015–2040" (2018), National Institute of Population and Social Security Research; "Housing and Land Survey" (2018), Ministry of Internal Affairs and Communications (MIC); "Housing Life General Survey" (2018; preliminary figures), Ministry of Land, Infrastructure, Transport and Tourism (MLIT)

While the number of households where the head of the household is 65 years or older is predicted to increase by 17% to 22.41 million by 2040 compared to 2015, the Daito Group estimates that 81% of these elderly households will be households of active seniors.

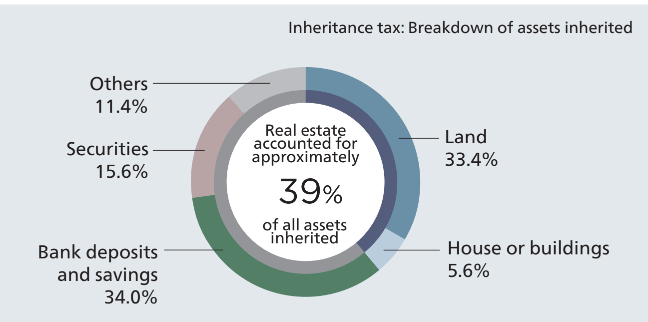
Labor force



Source: "Labour Force Survey: Long-term Time-series Data," MIC

According to the "Labour Force Survey" (MIC), there is a gradual increasing trend of total labor force participation in Japan, while the trend for construction workers is decreasing.

Laws and regulations



Source: "National Tax Agency Report" (2021), National Tax Agency (Japan)

Real estate accounted for approximately 39% of all inherited assets, while the majority of inheritance and succession planning measures involve the utilization and succession of real estate.

Social Situation and Market Environment

		Main risks	Main opportunities	Future responses
Population/household trends	● Long-term trend of declining population and number of households ● Increasing population depletion in rural areas ● Increase in single-person and dual-income households ● Progressive aging of population	● Oversupply of houses and increase in vacancy rates ● Decreasing demand for housing stock for existing family types ● Increase in people leaving workforce to care for family ● Increase in solitary deaths	● Increase in rental housing tenants ● Increase in rent per household ● Increase in inheritance-related needs ● Growing demand for care businesses ● Rising demand for residences and services for the elderly ● Growing demand for nursery schools ● Growing need for preventive medical care	● Engagement in new areas such as care and nursery school business ● Enhanced uptake of tenants of foreign nationality
Labor force	● Decrease in working-age population ● Tightening regulations on labor standards ● Promotion of diversity ● Automation, optimization, mechanization ● Increase of foreign workers	● Labor shortages ● Shortage of sales representatives ● Increasing labor unit costs ● Prolonged construction periods ● Declining construction quality ● Skilled worker shortage	● Emergence of full-participation society ● Efforts to improve business efficiency ● Building training systems for engineers/craftspeople ● Building a pleasant working environment	● Promotion of digital transformation (DX) ● Promotion of platform business
Housing	● Increasing lifespan of housing ● Declining desire of people to own homes ● Rising prices of construction materials	● Decline in rebuilding demand ● Falling profit margins	● Reduction in repair costs ● Slowdown in rent rate declines due to aging of buildings ● Increasing renovation demand ● Increase in people who prefer rental housing	● Improvement of order efficiency, standardization of construction period ● Reinforcement of business with real estate companies ● Brokerage of real estate sales, management of buildings constructed by other companies ● Investment in real estate held domestically and internationally
Consumer awareness/lifestyles	● Increase in ethical consumption and awareness of the environment ● Greater awareness of natural disasters ● Diversifying life paths/styles ● Rise of advanced IT ● Advent of the COVID-19 era ● Emergence of digital marketing	● Falling demand for mass-market products (made to suit everyone) ● Declining use of brick-and-mortar stores and face-to-face sales	● Modification and revision of business content ● Increase in local migration ● Rising demand for high value-added rental housing ● Improving efficiency of living ● Increase in demand for non-face-to-face sales	● Development of a new lifestyle support business ● Stable operation of flexible workspaces
Laws and regulations	● Revision of Inheritance Tax Law ● Amendment of Production Green Land Law ● Liberalization of retail energy market ● Stricter lending conditions adopted by financial institutions ● Promotion of sustainability transformation (SX) ● Interest rate policy ● Movement toward ESG investment ● Tightening regulation on subleasing	● Decreasing demand for asset succession (if taxes decrease or taxes are abolished) ● Stricter lending conditions on apartment loans ● Increasing interest rates ● Worsening sentiment of property owners	● Growing demand for asset succession (if taxes increase or tax target base expands) ● Penetration/expansion of energy business ● Increase in demand for businesses with an exclusive focus on rental housing	● Promotion of energy business
Environment	● Climate change	● Growing demand for eco-friendly management ● Stricter environmental regulations for buildings ● Increase in natural disasters	● Growing demand for eco-friendly housing	● Promotion of eco-friendly housing

Sustainability

Toward Management Revolving around Sustainability

The Group will continue to engage in business activities toward management revolving around sustainability so as to respond to our stakeholders' diverse needs.
As part of this, we have drawn up our Basic Policy on Sustainability, identifying the major issues that most need to be addressed as the Daito Group's Seven Material Issues.
By resolving these material issues, the Group aims to be "a company that is essential to the society and to its living that can be entrusted with peoples dreams and the future."

The Daito Group's Promotion of Materiality

To achieve management revolving around sustainability, the Group has analyzed and evaluated the effect of social issues and environmental changes upon the Group from the perspective of both risks and opportunities, identifying the major issues that most need to be addressed as the Daito Group's Seven Material Issues. We are building a sustainability promotion framework with the aim of continuing to create value unique to the Group through the achievement of materiality.

Our Seven Material Issues

Management Material Issues

Environment 1

Taking action on climate risk through business activities

1-1. 100% renewable energy in business activities
1-2. Increasing energy efficiency
1-3. Procuring and using wood in a sustainable manner

Society 2

Contributing to a society where no one is left behind

2-1. Regional revitalization through business activities
2-2. Revitalizing and creating jobs at local companies
2-3. Providing work and a place to live for everyone

Talent/Organization 3

Instilling a corporate culture where everyone can grow and take on challenges

3-1. Providing opportunities for taking on challenges
3-2. Fostering and securing highly specialized talent
3-3. Constructing an environment that encourages growth and challenge

Corporate governance 4

Building an industry-leading governance system

4-1. Strengthening stakeholder engagement
4-2. Promoting fair and honest corporate management
4-3. Strengthening Group governance

Business Material Issues

Land/Assets 5

Support for the most effective use of land and assets

5-1. Suitable supply and business proposals that meet demand
5-2. Expanding and enhancing our services for land and asset utilization
5-3. Promoting partial provision of proprietary technologies and expertise

Rental housing 6

Improving asset value while also resolving social issues

6-1. Supplying buildings that maintain their asset value over the long term
6-2. Supplying a model of housing that responds to environment and social issues renewing
6-3. Raising value of old and underused buildings

Living/lifestyles 7

Improving convenience of living and neighborhoods

7-1. Active participation in and attracting non-residential businesses
7-2. Providing services that improve quality of life (QoL)
7-3. Promoting accessibility in information retrieval and barrier-free access to services

Sustainability Promotion Roadmap

FY2020~	FY2021~	FY2022~	FY2023~
Identification of material issues • Formed a project team led by executive officers • Determined the Seven Material Issues and their component facts in October 2021	**Directional analysis phase** • For execution, set up the Sustainability Executive Planning Meeting to provide detailed examinations • Determine the members of the Sustainability Executive Planning Meeting	**Execution Phase** • Starting Sustainability Executive Planning Meeting • Considering KPI setting and the direction of measurements	• Changing name to Sustainability Promotion Meeting while continuing to operate • Deciding KPIs • Setting up Subcommittees to consider and execute specific measures • In the future, a sustainability related meeting body will be considered on the management side

Materiality Identification Process

The Group's business activities are classified into multiple categories and the current internal and external situations are arranged into those categories. We then extract the Group's ideals based on the current situation and social change, etc. The gap between the current and the ideal situation is analyzed to identify materiality components, the impact of which on cash flow, the environment, and society is then assessed.

Materiality Examination System

A project team was formed to identify material issues, comprising all executive officers and officers in charge of the Corporate Planning and Business Strategy Departments in the Group's three main companies, along with other members who will carry the responsibilities of the next generation.

STEP 1	STEP 2	STEP 3	STEP 4	STEP 5	STEP 6
Categorize current situation	Extract ideal situation	Analyze gap between current and ideal situations	Extract materiality components	Assess impact(1) Cash flow	Assess impact(2) Environment/ society

Seven Material Issues
▶ P32

Strategy

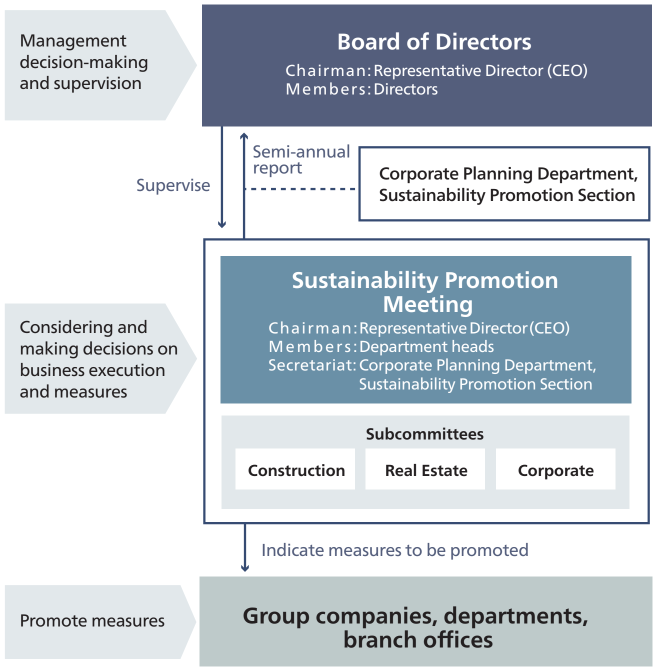
The Seven Material Issues identified by the Group comprise management material issues aimed at boosting the social value provided through our business activities and business material issues aimed at promoting the further expansion of Group business. We will tackle both types of materiality so as to enhance corporate value while also resolving social issues through sustainability management.

Concrete efforts
▶ Sustainability Report P.15

Governance

Our framework for pursuing sustainability management comprises three organizations: the Board of Directors, which decides and supervises our Sustainability Management Policy; the Sustainability Promotion Meeting, which considers how to respond to material issues through business activities; and the Sustainability Promotion Section, which acts as a bridge between management and execution.

All Group employees are proactively engaged in increasing corporate value while also solving issues so as to achieve our material issues.



A Sustainability Promotion Meeting Member's View

To resolve our Seven Material Issues, we need to pursue business not only within existing frameworks but also from the perspective of confronting changing challenges. For example, for rental housing—sixth in our list of issues—the Daito Group is working on standardizing and supplying ZEH* rental housing so as to boost our asset value and resolve social issues through rental housing. Going ahead, however, we need to look beyond new builds to also address Group-managed existing buildings. In other words, with discussion among Meeting members having identified current shortfalls and what new initiatives the Group as a whole should take, we are now at the stage of actioning specific measures. Watch for further Group materiality initiatives!

KATO Fumio
Manager of Technical Development Department, Daito Trust Construction Co., Ltd.,
Member of Sustainability Promotion Meeting

* An abbreviation of Net Zero Energy House which brings annual primary energy consumptions such as air conditioning, hot water, lighting, and ventilation to the break-even point as ZEH increases thermal insulation performance and energy efficiency through energy generation by solar power.

Indicators and Targets

We have set key performance indicators (KPIs) for the Seven Material Issues identified so as to manage progress. Medium-term targets have also been set for 2030, and work is underway to realize these. As of FY2023, we have added the non-financial indicators of "rate of ZEH provision," "rate of reduction of carbon emissions," "percentage of female management personnel," "employee engagement score," and "penetration rate of compliance efforts," which have also been adopted as materiality KPIs, as coefficients for the performance-linked component of director compensation.

Risk Management System

Sustainability risks are assessed by the Risk Management Committee, an advisory body to the Board of Directors which identifies and evaluates risks and opportunities with a serious financial or strategic impact on the Daito Group. The process of evaluating and identifying serious risk items comprises business departments first identifying all risk items impacting on Group business, which are then consolidated by the Risk Management Committee and scored according to the probability of occurrence over the short, medium, or long term and the extent of their impact on Group business.

The Board of Directors then monitors those main management risk items with particularly serious financial or strategic implications.

Introduce of non-financial indicators into Directors compensation
▶ P.60

Materiality Targets

		KPIs	2030 targets	FY2023 targets	FY2022 performance
Management Material Issues	1 Environment	❶ Greenhouse gas emissions reduction rate (Achivement of SBT) ❷ Rate of renewable energy use (RE100) ❸ Energy efficiency (EP100)	❶ Greenhouse gas emissions: Scope 1 + 2 : 55% reduction *Compared to FY2017 Scope 3 : 55% reduction *Compared to FY2017 ❷ Rate of renewable energy use: 60% (100% by 2040) ❸ Energy efficiency: 2x *Compared to FY2017	❶ Scope 1 + 2 : 25.4% reduction Scope 3 : 25.4% reduction ❷ 30% ❸ 2x	❶ Scope 1 + 2 : 20.1% reduction Scope 3 : 32.8% reduction ❷ 26% ❸ 1.08x
	2 Society	❶ Number of regions in which community contribution activities are conducted (number of prefectures) ❷ Services enabling everyone to live with peace of mind/ Business promotion	❶ Regions where activities are conducted : 47 prefectures ❷ Enhance tenant support for peace of mind	❶ 10 prefectures ❷ Provide equal support for all tenants	❶ 3 prefectures ❷ Consideration of non-discriminatory tenant recruitment
	3 Talent/ organization	❶ Employee engagement score ❷ Percentage of female management personnel	❶ engagement score: 62.0(AA) ❷ Percentage of female management personnel: 10.0%	❶ 60.0(AA) ❷ 8.0%	❶ 57.2(BBB) ❷ 5.1%
	4 Corporate governance	❶ Number of serious compliance violations ❷ Penetration rate of compliance efforts	❶ Number of serious compliance violations: 0 cases ❷ Penetration rate of compliance efforts: 100%	❶ 0 cases ❷ 90%	❶ 1 case (inappropriate accounting) ❷ 86.9%
Business Material Issues	5 Land/assets	❶ Unit occupancy rate ❷ Expand and enhance services for effective land and asset utilization	❶ National occupancy rate of 96% or more ❷ Build a system enabling proposals to be made on optimal utilization of all land and assets	❶ 96% or more ❷ Embed real estate securitization business*	❶ 98.1% ❷ —
	6 Rental housing	❶ Rate of provision of rental housing that responds to social issues ❷ Enhance services for improving asset value of old buildings	❶ ZEH Rate of provision 100% ❷ Develop business that leads to improvement of the asset value of old buildings and resolution of social issues	❶ ZEH Rate of provision 60% ❷ Develop business that enhances the asset value of old buildings	❶ 11.7% ❷ —
	7 Living/lifestyles	❶ Number of users of platform services useful for their everyday lives ❷ Engage proactively in non-residential business (Qualitative)	❶ ruum business platform members 4 million ❷ Diversify businesses and services that increase neighborhood convenience	❶ ruum business platform members 1.15 million ❷ Start providing businesses and services that can help to create comfortable neighborhoods	❶ 0.9 million ❷ —

Basic Approach

The Daito Group recognizes that our response to Climate Change is the important management issue in our handling of the environment and climate crisis among the seven materiality listed toward the sustainability promotion.
We analyze the impact of climate change on our business, as well as the risks and opportunities presented, in accordance with the Task Force on Climate-related Financial Disclosures (TCFD) framework, which we endorsed in May 2019. Analysis results are reflected in our management strategy and risk management and disclosed appropriately with a view to sustained social advance and sustained improvement in our corporate value.

Governance

We have formed the Sustainability Promotion Meeting, chaired by the Representative Director (CEO), to address climate change and other aspects of sustainability. The meeting discusses specific problem-solving initiatives and manages progress in line with KPIs. The content of discussions is regularly reported to the Board of Directors. We have also set up an Environmental Management Project Committee, building an environmental management structure that includes our Group companies. The Committee holds regular plenary sessions with discussions aimed at understanding and resolving current issues so as to drive group-wide environmental efforts.

Strategy

The Daito Group's Seven Material Issues identify the most major sustainability-related issues that must be addressed. One such issue is environment, specifically taking action on climate change risks, with responding to climate change recognized as a key management issue.
Climate change presents various potential risks and opportunities for Group business activities, so it will be important for us to deal with these as a company.
To ensure the Group's long-term survival and growth, we will discern those risks and opportunities, utilizing our management resources, expertise, and other corporate strengths to address both environmental problem-solving and profit creation.

Specific initiatives
▶ Sustainability Report P.27

Risks and Opportunities

The Daito Group works on understanding the risks and opportunities that Climate Change affects our construction and real estate businesses along with the TCFD policies.We analyze and evaluate the business impact over the short, medium, and long term in future climate change scenarios (the 1.5°C, less than 2°C, and 4°C scenarios).

Scenario analysis and prerequisites

- **Implementation period:** January 2023 (1.5°C scenario added)
- **Time period:** 2023–2050 (short-term: 2025; medium-term: 2030; long-term: 2050).
- **Scope:** Daito Group construction and real estate business
- **Calculation requisites:** Calculation of amount of expected impact on profits during the relevant period for each item of analysis, based on the various climate change scenarios (STEPS, NZE, RCP, etc.). Risk was calculated as the amount of impact in the event that one of the above scenarios occurs.

Transition risks — Financial impact (Unit: million yen)

Category	Subcategory	Transition risks	1.5°C/Less than 2°C scenarios: Short-term	Medium-term	Long-term	4°C scenario: Short-term	Medium-term	Long-term
Policy/legal risks	Carbon tax introduction	Higher operating costs from introducing a carbon tax (Includes amount by which higher costs are constrained where greenhouse gases are reduced in line with the Science Based Targets (SBT) initiative)	754	577	0	416	653	1,071
Policy/legal risks	Carbon tax introduction	Reduced demand due to higher material costs and higher sales prices induced by a carbon tax (Includes amount by which sales fall where greenhouse gases are reduced in line with the Science Based Targets (SBT) initiative)	2,103	2,958	0	845	1,325	2,174
Policy/legal risks	Carbon tax introduction	Response • Pursue activities to reduce greenhouse gases across the whole supply chain in line with SBT reduction targets • Switch to low GHG emission construction techniques by, for example, developing and promoting sales of CLT • Introduce renewable energy to offices and construction sites, etc., in line with Renewable Energy 100% (RE100)						
Technology risks	EV adoption	Higher charging station installation costs due to EV adoption	190	88	102	86	101	102
Technology risks	EV adoption	Response • Promote systematic electrification of our fleet						
Technology risks	Introduction of renewable energy	Increased costs due to purchase of Renewable Energy Certificates	16	132	0	0	0	0
Technology risks	Introduction of renewable energy	Increased damage to solar power generation facilities as a result of wind and rain	0	949	1,012	-	-	-
Technology risks	Introduction of renewable energy	Response • Secure renewable energy with additionality through solar power generation business and biomass generation business						
Market risks	ZEH and LCCM expansion	Sales price increase due to increased ZEH*1 and LCCM*2 rental hosing sales, thereby reducing demand and reducing sales	59	148	996	-	-	-
Market risks	ZEH and LCCM expansion	Response • Promote the efforts toward technical skills improvement and price control related to merchandising of ZEH and LCCM rental housing.						
Evaluation risks	Responding to climate change	Loss of stakeholder trust and brand power due to a delayed response to climate change						
Evaluation risks	Responding to climate change	Response • Respond proactively to climate change so as to improve ESG-related evaluations						

*1 An abbreviation of Net Zero Energy House which brings annual primary energy consumptions such as air conditioning, hot water, lighting, and ventilation to the break-even point as ZEH increases thermal insulation performance and energy efficiency through energy generation by solar power.
*2 A registered trademark of Institute for Built Environment and Carbon Neutral for SDGs. We use the term by following the licensing arrangement.

Physical risks — Financial impact (Unit: million yen)

Category	Subcategory	Physical risks	1.5°C/Less than 2°C scenarios: Short-term	Medium-term	Long-term	4°C scenario: Short-term	Medium-term	Long-term
Acute risks	Water damage	Increased costs due to increased wind and water damage during construction	0	263	1,002	0	374	1,502
Acute risks	Water damage	Increased damage to solar power generation facilities due to wind and water damage	0	36	102	0	51	153
Acute risks	Water damage	Higher insurance premiums due to wind and water damage	0	381	1,457	0	542	2,168
Acute risks	Water damage	Response • Given increased wind and water damage in recent years, plan factories and the installation of solar power facilities based on those risks						
Chronic risks	Rising temperatures	Reduced labor efficiency in factories and longer construction times due to rising temperatures, pushing up personnel costs	0	26	122	0	72	710
Chronic risks	Rising temperatures	Increase in cooling costs due to rising temperatures	0	1	1	0	1	2
Chronic risks	Rising temperatures	Response • Given the rising temperatures of recent years, pursue construction planning that prioritizes safety, such as restricting summer work hours • Promote measures such as working from home and casual business attire in summer						
Chronic risks	Skyrocketing wood prices	Higher costs and sales prices due to skyrocketing wood prices, with the resulting drop in demand reducing sales	33	56	182	81	137	448
Chronic risks	Skyrocketing wood prices	Response • Diversify wood procurement sources in Japan and abroad in response to rising procurement costs						

Opportunities			Financial impact (Unit: million yen) 1.5°C/Less than 2°C scenarios Short-term	Medium-term	Long-term	4°C scenario Short-term	Medium-term	Long-term
Resource efficiency	Wood use	Realize resource efficiency and stable building provision through use of wood as a renewable resource						
		Actions • Promote even wider use of 2x4 and CLT construction methods • Use domestic timber • Create wood procurement guidelines and enhance the traceability of procured wood						
Energy resources	Introduce renewable energy	Reduce the cost of purchasing renewable energy (renewable energy certificates) by using power generated from our own renewable energy generation facilities	0.0	0.0	(2.2)	-	-	-
		Create profit through the sale of post-FIT surplus power	0.0	0.0	(1,252)	-	-	-
		Actions • Secure renewable energy sources with additionality through solar and biomass power generation business • Pursue the sale of post-FIT surplus power						
Products and services	ZEH/LCCM expansion	Increase sales by expanding the supply of highly energy-efficient ZEH and LCCM products	(100)	(267)	(1,745)	-	-	
		Actions • Standardize ZEH rental housing • Develop LCCM rental housing						
Market	ZEH/LCCM expansion	Enhance our corporate image as a leading eco-friendly company by proactively supplying ZEH and LCCM products Engage in ZEH standardization so as to seize opportunities to expand market share and realize business continuance when ZEH becomes compulsory in 2030						
		Actions • Standardize ZEH rental housing • Strengthen climate change initiatives through our business activities						
Resilience	Disaster countermeasures	Supply disaster-resilient housing so as to seize the opportunity to lead an accelerated regional recovery from buildings that mitigated damage Develop disaster management products so as to seize the opportunity to expand market share as a company supplying disaster-resilient housing						
		Actions • Strengthen our disaster response by creating a Disaster Vision • Promote sales of disaster-resilient oriented housing						
	Introduction of EVs	Promote the switch to EVs so as to boost our corporate image and credibility as a company that is responding to climate change						
		Actions • Systematically pursue electrification of our fleet						

Risk management

With regard to abnormal weather andnatural disasters caused by climate change, if large-scale natural disasters hit our clients, employees, buildings we manage, buildings we construct, and offices, it requires a massive amount of time and money and the business continuity can be threatened, we identify it as material management risks and we are discussing and implementing specific measures on the grounds. Moreover, we prepare a recovery system interdepartmentally in the Group by utilizing past experience in responding in times of disaster, and that allows us to handle the situation toward quick recovery if disaster would occur.

Indicators and targets

Greenhouse gas reduction targets	
SBT Standards	
Scope 1 + 2: 55% reduction by 2030 *1	Scope 3: 55% reduction by 2030 *2*3

Renewable energy targets	Energy efficiency target
Endorse RE100	Endorse EP100
100% by 2040	Double by 2030 *3

*1 We have already received SBT 1.5°C-level certification and are in the process of applying for SBT net-zero certification.
*2 We are in the process of applying for SBT net-zero certification. (Our previous goal of a 16% reduction by 2030 has already received SBT 2°C-level certification.)
*3 Compared to FY2017.

Other indicators and targets ▶ Sustainability Report P.26

Basic environmental policy/ DAITO Environmental Vision 2050 ▶ Sustainability Report P.18

Biodiversity

Basic Approach

The Daito Group's Basic Environmental Policy calls for protection of the global environment and harmony with local communities and nature, so we channel resources into biodiversity protection through timber procurement and other business activities. With procuring and using wood in a sustainable manner noted as an action in relation to "Environment," which is first on our list of Seven Material Issues toward sustainability promotion, we position the sustainable procurement and management of wood produced through sound biodiversity as a management priority. Our Environmental Vision toward promoting environmental management also notes under "Nature" our aim of realizing "a society that coexists with the natural environment".

Governance

The Daito Group recognizes the sustainable procurement of wood produced from biodiversity as a key management issue. We have established a Sustainability Promotion Committee headed by the Representative Director and CEO which discusses specific measures toward resolving issues. The committee regularly reports the content of its discussion to the Board of Directors, providing advice on guidelines and initiatives and managing progress. We have also set up an Environmental Management Project Committee to strengthen the construction of an environmental management system, Group companies included. We have announced our participation in 30 by 30, a worldwide initiative for governments to designate 30% of the Earth's land and ocean areas as protected areas by 2030, strengthening our work on biodiversity.

Strategy

The Daito Group promotes environmental awareness across the supply chain, with our Sustainable Procurement Guidelines stipulating biodiversity awareness, protection of water resources, and other matters related to environmental awareness.

Specific Biodiversity Initiatives ▶ Sustainability Report P.31

Sustainable Procurement Policy ▶ P.39

Pollution Prevention and Waste Reduction

Basic Approach

The Daito Group's Basic Environmental Policy calls on us to work to reduce, reuse and recycle resources in all business activities and to achieve harmony with local communities and nature, so we are focusing on efforts to prevent pollution and reduce waste in our business activities. Our Environmental Vision toward environmental management promotion to note under "Waste" that we will aim to "recycle all types of waste".

Specific Pollution Prevention and Waste Reduction Initiatives ▶ Sustainability Report P.33

Water Resources

Basic Approach

In addition to working on the reducing, reusing, and recycling resources in all our business activities, the Daito Group's Basic Environmental Policy calls on us to achieve harmony with local communities and nature, so we are focusing our efforts on the reduction of water use in our business activities as well as the effective utilization of water resources in harmony with nature.

Specific Water Resource Initiatives ▶ Sustainability Report P.35

Supply Chain Management

Basic Approach

In addition to providing high-quality products and services, the Daito Group aims to reduce various potential environmental and social risks in its business activities, including cutting carbon emissions and ensuring the safety of construction workers. We will work with suppliers and other stakeholders to contribute to greater social sustainability.

Governance and Strategy

Daito Group Sustainable Procurement Policy

We have formulated a Sustainable Procurement Policy that includes respect for human rights, establishment of corporate ethics, and other issues, aiming to ensure sound and sustainable transactions throughout the supply chain. We procure construction materials based on this policy.

Sustainable Procurement Policy: Nine categories

1. Legal compliance	2. Establishment of corporate ethics	3. Respect for human rights
4. Consideration for occupational health and safety	5. Quality assurance	6. Establishment of a business continuity plan
7. Consideration for the environment	8. Ensuring information security	9. Social contribution

Specific Sustainable Procurement Policy initiative
▶ Sustainability Report P.38

Risk Management

EcoVadis Sustainability Assessment System

In 2022, we introduced the EcoVadis sustainability assessment system so as to strengthen sustainability throughout the supply chain. The system provides comprehensive verification and evaluation of four areas essential for corporate supply chain sustainability—Environment, Labor & Human Rights, Ethics, and Sustainable Procurement—based on global standards, with sustainability management conducted based on evaluation results that are highly objective, reliable, and comparable.

EcoVadis (France): Conducts assessments of over 200 business types in more than 160 countries based on international sustainability standards

Supplier Management Meeting

In June 2023, we held a Supplier Management Meeting to strengthen our partnership with supplier companies. At the meeting, which was attended by 148 suppliers, we explained our policies and measures to companies developing, supplying, and transporting our construction materials, improving both sides' understanding of the situation. As part of this initiative, we give awards to those companies making strong contributions to better logistics, eco-friendliness, BCP measures, and technological development. We will continue to pursue supply chain sustainability by working with suppliers so as to boost technological capacity and achieve mutual development.

Specific Supply Chain Management Initiatives
▶ Sustainability Report P.38

Human Rights

Basic Approach

As a company that supports affluent lifestyles, we regard social change as an opportunity for growth, and we have committed to working with our stakeholders to fulfil our responsibility to respect human rights in our business activities so as to advance those business activities and realize a sustainable society. We promote its ettorts of the Daito Group Human Rights Policy, formulated on the basis of the United Nations Global Compact and the Daito Group Code of Conduct, which lays down guidelines applying to the conduct of everyone in the Group.

Daito Group Human Rights Policy (Summary)

- ■Applies to all Daito Group executive officers and employees. We expect our business partners, including construction firms, real estate companies, and suppliers, to comply with the policy and respect human rights.
- ■Rejecting all discrimination on the grounds of race, nationality, ethnicity, gender, sexual orientation, gender identity, disability, age, religion, creed, or social status, we will not tolerate social discrimination or human rights violations, and will foster a corporate culture that respects diversity and enables each individual to maximize their potential.
- ■We prohibit all forms of forced labor and child labor.

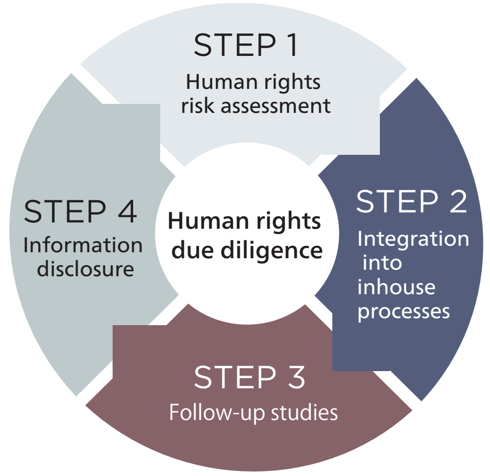
Full text of Daito Group Human Rights Policy https://www.kentaku.co.jp/corporate/csr/human.html ▶

Governance

Initiatives related to respect for human rights are discussed at the Sustainability Promotion Meeting and the Risk Management Committee and then reported to the Board of Directors, which supervises and discusses the reported content from a sustainability perspective.

Strategy and Risk Management

Based on the United Nations Guiding Principles on Business and Human Rights, we will build a human rights due diligence mechanism and review and improve this as necessary. We will accurately identify all risks in relation to the business activities of the whole Group, working to reduce and prevent the emergence of risks and their impact on management. In April 2023, the Sustainability Promotion Meeting referred to the Guidelines on Respecting Human Rights in Responsible Supply Chains in making a five-stage assessment of the likelihood and impact of 25 human rights risks for customers, partner companies and real estate companies, supply chain companies, and employees, identifying those risks that could arise through our business activities. Going forward, we will conduct follow-up studies on Group issues by identifying human rights-related information for high-risk items and regularly reviewing and verifying this risk assessment at the Risk Management Committee and other meetings, disclosing the results. We will clarify our human rights system, reflect our approach in relevant internal functions and in inhouse and procurement processes, and engage in stakeholder dialogue toward enhancing respect for human rights and related measures.



STEP 1 Human rights risk assessment
STEP 2 Integration into inhouse processes
STEP 3 Follow-up studies
STEP 4 Information disclosure

Human Capital Management

Basic Approach

Human resources, the Daito Group's largest form of capital, are the source of our competitive advantage. For the sustainable growth of the Group, we are promoting the development of human resources that support the growth of each and every employee and, based on employee engagement, the creation of an organization where it is satisfying to work.

Governance

Human Resource Development Policy

We are working to strengthen human resource development from the perspective of reskilling and support for career autonomy so that employees can find their work rewarding and feel motivated to grow, enabling us to continue to produce flexible, independent, and autonomous personnel who can embody our management philosophy, basic management policies, and the Daito Trust Code of Conduct in the face of a changing business environment.

Support for Qualification Acquisition

The Group provides support for distance learning and the acquisition of qualifications with strong relevance to Group business. Qualification and skill allowances are paid to those employees who acquire qualifications and meet certain requirements.

Number of main certified personnel
▶ Sustainability Report P.63

Talent Development Program

To forge ahead with the talent development requisite for our sustained growth and foster a corporate culture that furthers learning, we have constructed a talent development program covering officers and employees at all levels. The program systematizes and develops training in portable skills (skills that can be applied across different workplaces and types of jobs) and job-specific skills geared to business characteristics. Job-specific training is also provided in job-specific training departments .

Talent Development Program

Administrative position	Management position	Upper management position	Officers
● Introductory training upon employment ● Training for division manager candidates	● Training for newly promoted managers, development training for managers ● New Business Creation Academy	● Skill improvement training senior management ● Management Training Academy	● Executive officer and director training

Internal Qualification System

Daito has introduced "Kentaku Master," an original internal qualifications testing system aimed at acquisition of knowledge about the Company's overall business and its construction business. The system goes beyond the Daito Group's Lease Management Trust System and product expertise to include expertise about the markets, product knowledge, taxes, and specialized terminology.

Assessment and Remuneration System

We engage in performance-based assessment, distributing compensation appropriately, regardless of characteristics like age or gender. We also have flexibility in terms of bolstering allowances in line with business characteristics by job type. We have introduced target management into our assessment system so as to increase connections among management plans, the various organizations, and individual employees' targets. We will continue to link employees' motivation to achieve their targets with the realization of appropriate remuneration levels that boost our hiring competitiveness and our ability to keep staff, with reference also to the social situation.

Strategy

Securing Human Resources

We secure the human resources necessary for business through new graduate and mid-career recruitment and work to recruit talent by improving our recruitment methods and reviewing our outreach methods, including social media utilization, company briefings for new graduates and their families, and expansion of recruitment strata and routes. We have also introduced a professional system that recognizes employees with official qualifications and high levels of knowledge or skills with high market value in specific fields. Many of these professionals are working in areas that make a major contribution to boosting our business advantage, including the development of new technologies, products, and business and the execution of large-scale projects.

Risk Management

Employee Engagement Surveys

The survey results in May 2023 showed that the employee engagement score was raised up to 59.1 which rated as A, the third highest among the 11 steps rated by an engagement rating system optimizing employee engagement in deviation value. This result greatly exceeded the average rating* of the survey. We will continue to aim to be a company that is highly engaging where the employees can realize independence, autonomy, job satisfaction, and pride.

*The average engagement rating is B, and the average score is 50.0.

Key Initiatives in FY2022

Thanks Present activities

… Visualization of gratitude among employees to energize inhouse communication

San-Shine Campaign

… Employees all address each other as 'san' regardless of rank so as to build an environment conducive to expressing opinions and seeking advice

These initiatives were recognized by Link and Motivation Inc., which awarded us "Best Motivation Company 2023."

Other Related Initiatives

Internal Venture System "Mirai-novator"

In April 2020, the Daito Group started "Mirai-novator," an internal venture system aimed at creating new businesses to expand Group sales profit and creating a corporate culture in which Group employees can actively make plans and proposals. In addition to providing events and incentives by stage, we have inhouse and external mentors and executive officers support our budding entrepreneurs in commercializing their ideas, aiming to boost business certainty and fostering a management perspective.

Applications: 942 (total over four years)
Verification experiments toward commercialization: 15

* As of the end of March 2023

Basic Approach

As part of pursuing sustainability management, we believe that diversity—respecting, recognizing, and utilizing individuality—will be essential to our ongoing growth as a company. Employee growth is company growth, and we regard securing (recruitment and continued employment) and training talent as a top-priority management issue. Our aim is to create an organization in which diversity is a strength in keeping with the slogan, “Employee individuality is the Company’s strength”.

Diversity Declaration

01 We aim to create a corporate culture that respects the individuality of each and every one of us, recognizes diversity, and allows us to maximize our abilities.

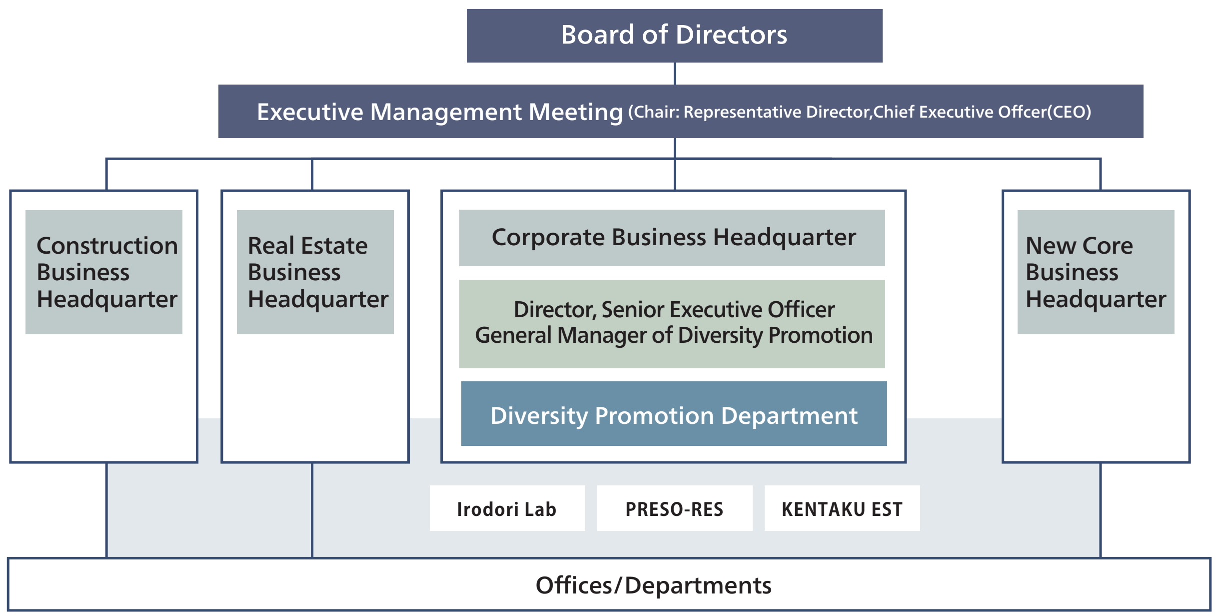
02 We will pursue creating an environment where employees feel motivated and comfortable to become a company we can be proud of, a company we can entrust our dreams and future to.

03 We aim to be a sustainable company that can continue to create new value by promoting diversity as a management strategy.

Governance

Diversity Promotion System

We set up the Diversity Promotion Division as an independent organization within the Human Resources Department in 2015. To strengthen diversity promotion still further, we separated the division from the Human Resources Department in FY2022 and made it the Diversity Promotion Department, with work continuing. We believe that not only top-down management but also bottom-up management is essential to creating an organization where human resources with diverse backgrounds can respect each other and play active roles. To this end, we are focusing on creating a climate and system that facilitates the collection of employee feedback and are working to review systems and improve the workplace environment based on the feedback collected.



Strategy

In order to become a company that can continue to create new value, we pursue diversity through specific initiatives centered on gender equality, utilization of diverse human resources, work-style reform, and work-life balance. In relation to gender equality, we introduced the Female Employee Development Program in October 2021 so as to change our approach from boosting the percentage of female management personnel simply by hiring talented women to one of identifying women with potential and systematically training and promoting them. By shifting the focus from hiring to training, the program enables female employees who find promotion a hurdle to receive the training to understand the roles of executives and managers so that they can consider promotion as a natural career option. We have also introduced a quota system designed to ensure the appointment of a predetermined number of women to management positions. Directors in charge of the various job types choose candidates, create specific training plans for them, and have them participate in women-specific training, reviews with their immediate superiors, and exchange with executive officers (in the case of candidates for senior management positions) so as to remove candidates’ unease and instill confidence and ambition. To promote the quota system not just by job type but company-wide, under the management leadership executive officers gather for regular meetings of the Female Advancement Promotion Committee, leading from the front.

Risk Management

The New Five-Year Plan, our medium-term management plan through to the end of FY2023, includes a section on diversity promotion that lays out an approach to diversity as part of our management strategy. In FY2023 as the last year of the New Five-Year Plan, we will promote human capital management, boost employee growth and our organizational engagement capacity, and actively implement personnel measures that help to increase our corporate value. Our performance in promoting diversity and the active participation of women will be monitored by the Board of Directors, then discussed by the Nominating and Remuneration Committee and reflected in the evaluations of directors, etc.

Medium-Term Management Plan (Diversity Promotion) https://www.kentaku.co.jp/corporate/ir/midplan.html

Indicators and Targets

Medium-term management plan (Diversity promotion edition) KPIs

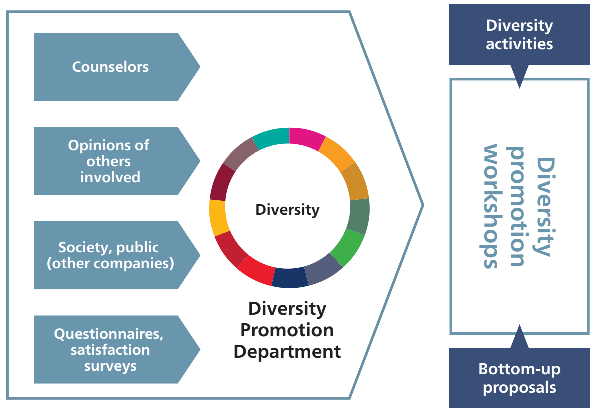
Item	Three-Year Plan		
	FY2021	FY2022	FY2023(Target)
Non-statutory working hours (monthly average)	16.7hours	16.8hours	16.0hours
Rate of taking paid leave	81.6%	83.8%	80.0%
Percentage of male employees taking childcare leave*1	106.6%	119.1%	100.0%
Percentage of female workers	14.8%	15.6%	20.3%
Percentage of female workers hired	18.3%	22.4%	33.6%
Percentage of female management personnel hired*2	5.1%	5.6%	6.0%
Ratio of female executive officers	7.1%	7.1%	6.7%
Employment rate of people with disabilities (Daito Group)	3.04%	3.07%	3.10%

*1 Number of participants within one year/Number of participants who had baby during the period
*2 FY2021:as of April 1st in 2022, FY2022: as of April 1st in 2023, FY2023:as of April 1st in 2024 achieved

Diversity Management and Gender Equality Initiatives

Introduction of the diversity promotion workshop, PERSO-RES

With the aim of fostering a vibrant corporate culture, we have been recruiting employees from all over Japan who are serious about changing and improving the company since October 2021, and regularly hold workshops. By creating opportunities for communication between the head office and branch offices, we regularly gather employee feedback and conduct activities in line with real conditions.



Diversity E-mail News Letter

We send out a monthly e-mail newsletter to all employees with the latest information on diversity with in the Group in an effort to promote awareness.

Irodori Lab

Launched in April 2020, this project promoting the active participation of women aims to achieve the visions of "a company where women can work for many years with enthusiasm" and "a company where each woman can realize their own work style and career".

Diversity Training

We conduct regular training for all employees to promote internal understanding of the purpose and importance of promoting diversity and to foster an organizational culture in which all employees promote diversity management. In FY2022, we held eight training sessions for all employees.

Introduction of the Women's Community Channel

Responding to views gathered via PERSO-RES and women-specific training, in June 2023, we introduced the Women's Community Channel as a means of building ties among women and also exposing women to more women role models to help women employees engage in proactive and long-term career development.

Work-Life Balance Initiatives

Promotion of Men's Participation in Childcare

We have developed a workplace culture that facilitates men's participation in childcare, including mandatory five-day childcare leave. Male employees share their childcare leave experiences on an inhouse information-sharing site.

Handbook for balancing work and nursing care

The handbook that includes useful information about the company systems used when faced to nursing care practices was created and disclosed.

Career development support for women

With the purpose of making smooth return to work from childcare leave, information regarding guardian activities are provided from the time of still being away from work. Right after returned, a training session with supervisors to watch a video that includes senior mom employee's voices is provided so that this program can be shaped to support balancing work and childcare by being close to anxiety. Moreover, an occupation change system was introduced for the female construction managers in April, 2023.

Job switching program
▶ Sustainability Report P.12

Initiatives for the Participation of Diverse Human Resources

Internal System for the Support of Sexual Minorities

Since July 2020, we have applied internal systems sensitive to sexual minorities. By introducing a "familyship" system that treats same-sex couples the same as married couples and a "business name" system that enables employees to use a name of their choice at work, we have created a workplace environment where anyone can feel comfortable regardless of gender identity or sexual orientation.

KENTAKU EST Internal Support Network

In July 2021, we established an internal support network of LGBTQ employees and their allies* to increase supporters of sexual minorities in the Group. We aim to strengthen our support system by organizing regular roundtable discussions, internal awareness-raising activities, and counselling.

*Refers to people who actively support LGBTQ

Career Selection System for New Graduates in Construction Sales Posts

In December 2022, we introduced a system that enables new graduates who have been in construction sales posts to try another sales post from their second year onward. The possibility of the transfer is determined based on the applicant's desired career, their reasons for this, their current qualification status, and their work attitude, as well as an interview with a manager. We are building an environment that opens up diverse career options.

Initiatives for Work-Style Reform

Sound Branch Management Ranking, an Internal Evaluation System

Daito has introduced an evaluation system that focuses not only on operating results and profits, but also on factors essential to sound branch management, such as productivity, talent development, and creation of a pleasant workplace environment. In FY2022, we gave awards to outstanding branches and branch managers and introduced examples of best practices. We also analyzed not just operating results but also processes and environments and shared the strengths and weaknesses of each work site so as to promote improvement activities.

Self-checklist for identifying branch strengths and weaknesses

Medals presented to managers of outstanding branches

External Recognition

The Company has received widespread recognition for its proactive efforts to promote diversity and the empowerment of diverse human resources.

External Evaluations
▶ Sustainability Report P.66

Respecting Individuality

I think that it's important to embrace gender equality and the SDGs and create a work environment that energizes not only women but all employees. Daito has always been strongly aware of its corporate responsibility to society, building a culture which gives all employees the chance to challenge themselves. Workplace improvements like reducing overtime and introducing systems geared to childbirth, childcare, and other elements of personal life have laid the foundations for women's participation, and women are now operating as the linchpins of Daito's growth strategy. The flagship product NEW RiSE is being developed by a team in which three young female employees in their 20s are key members—a real symbol of women's participation. I think it will be essential to create an environment that inspires employees' self-belief so that we realize a society in which employees can work with more confidence.

CHINO Emiko
Manager of Planning Division, Product Development Department
Daito Trust Construction Co., Ltd.

Basic Approach

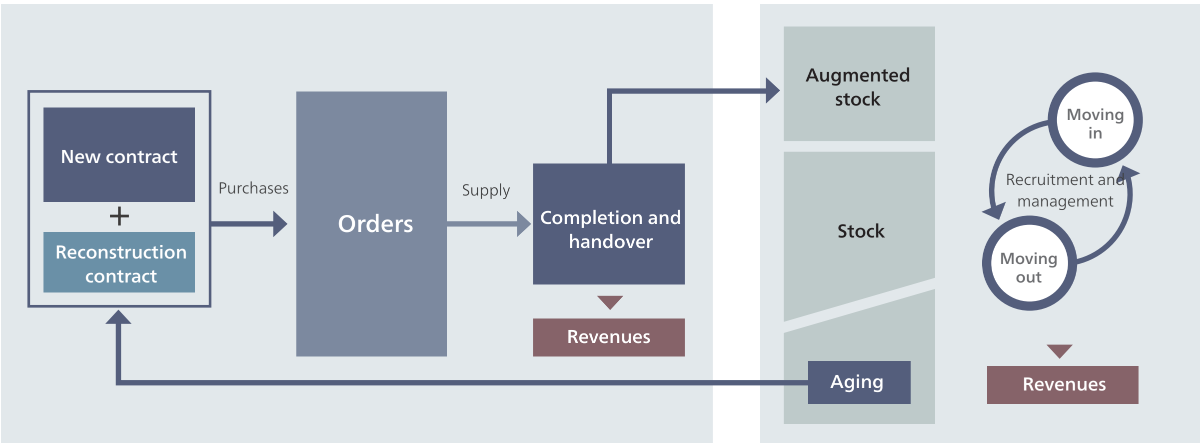
The Daito group will maintain sound financial operations by creating cashflow through sustained profit growth and effective asset utilization, maintaining stable financial foundations based on business characteristics and risk, and strengthening financial governance.

Financial Performance

Performance Analysis

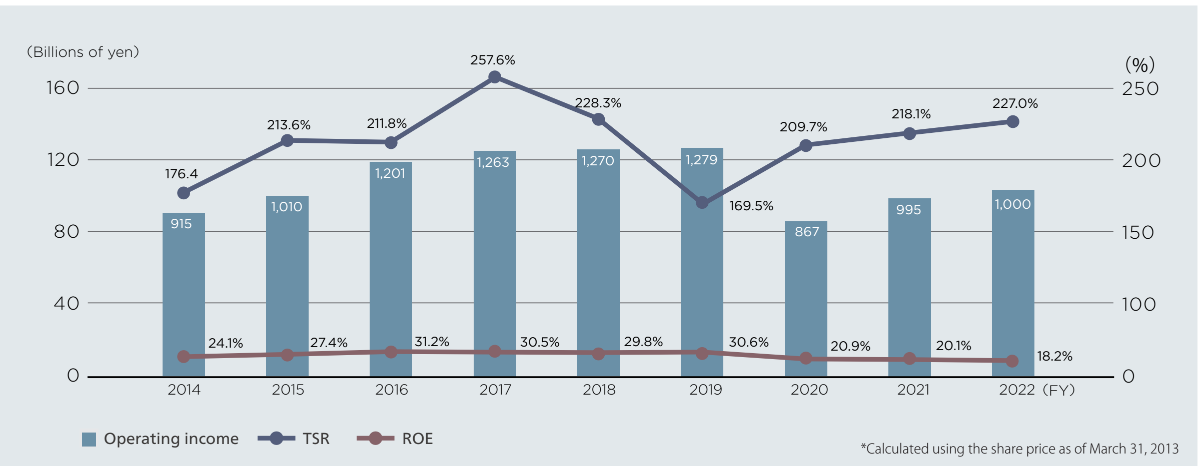
The Daito Group's core businesses—the Construction business and Real Estate business—follow different business models. The Construction business follows a flow-type business model, employing entrustment contracts with property owners in which it manages its work as a booked order up to completion and handover of the building. The Real Estate business, which starts after handover, follows a stock-type business model in which net sales and profits are generated each year through a business that lumps together whole-business leasing with tenant recruitment services and management and operation. As buildings wear out over time, we expect to see an increase in construction contracts. This type of business has good prospects for expanding the stable revenues generated by a flow-and-stock cycle.

Construction business (flow-type model) **Real Estate business (stock-type model)**



Output

Total shareholder return (TSR*)/Operating income/ROE over the past 10 years



*Calculated using the share price as of March 31, 2013

Fund Procurement

In FY2021, the Daito Group created the Daito Trust Green Bond Framework in order to promote environmental management for the realization of a carbon-free society, raising ¥11.0 billion in funds. In FY2022, we created the Green Finance Framework, implementing ¥9.0 billion in green loans. The funds procured have been allocated for the installation of new solar power generation facilities for selling surplus electricity.

Also, with the twin goals of ensuring the means for ongoing stable, yet agile, fund procurement and making our financial foundation more solid, we entered into a commitment line for ¥40.0 billion. In August 2023, we received an A issuer rating ("Stable") for financial soundness from Rating and Investment Information, Inc. (R&I).

Green bonds	Green loans	R&I rating (financial soundness)
¥11.0 billion (issued Dec. 2021)	¥9.0 billion (implemented Jan. 2023)	A (issued Aug. 2023)

Green bonds https://www.kentaku.co.jp/corporate/csr/finance/greenbond.html
Green loans https://www.kentaku.co.jp/corporate/csr/finance/greenloan.html

Cash Allocation

Cash Generated

Net cash provided by operating activities	Free cash flow
¥82.1 billion (FY2022)	¥25.0 billion (FY2022)

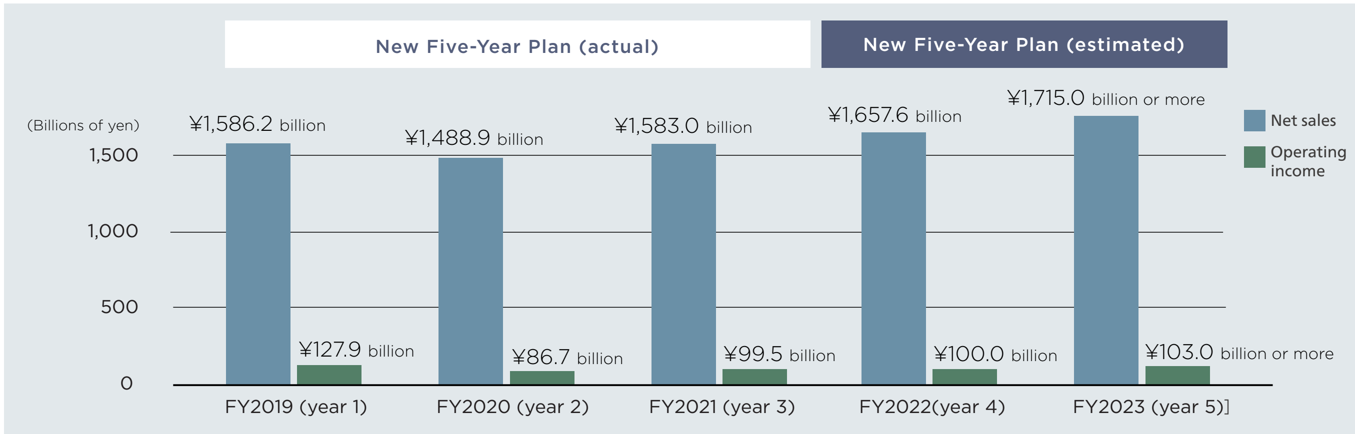
Shareholder Returns

The Daito Group recognizes and practices the return of adequate profits to shareholders as its most important management issue. For dividends, the Company takes the basic stance of providing stable dividends through ongoing reinforcement of its business foundation. Accordingly, it aims to set the payout ratio at 50%, which includes a basic dividend of ¥100 and a profit return based on consolidated business performance.

Future Investment Policy

We invest in strengthening our existing businesses as well as in expanding our business domains. We are currently considering specific investment plans for our next medium-term management plan from FY2024, which we will draw up in FY2023.

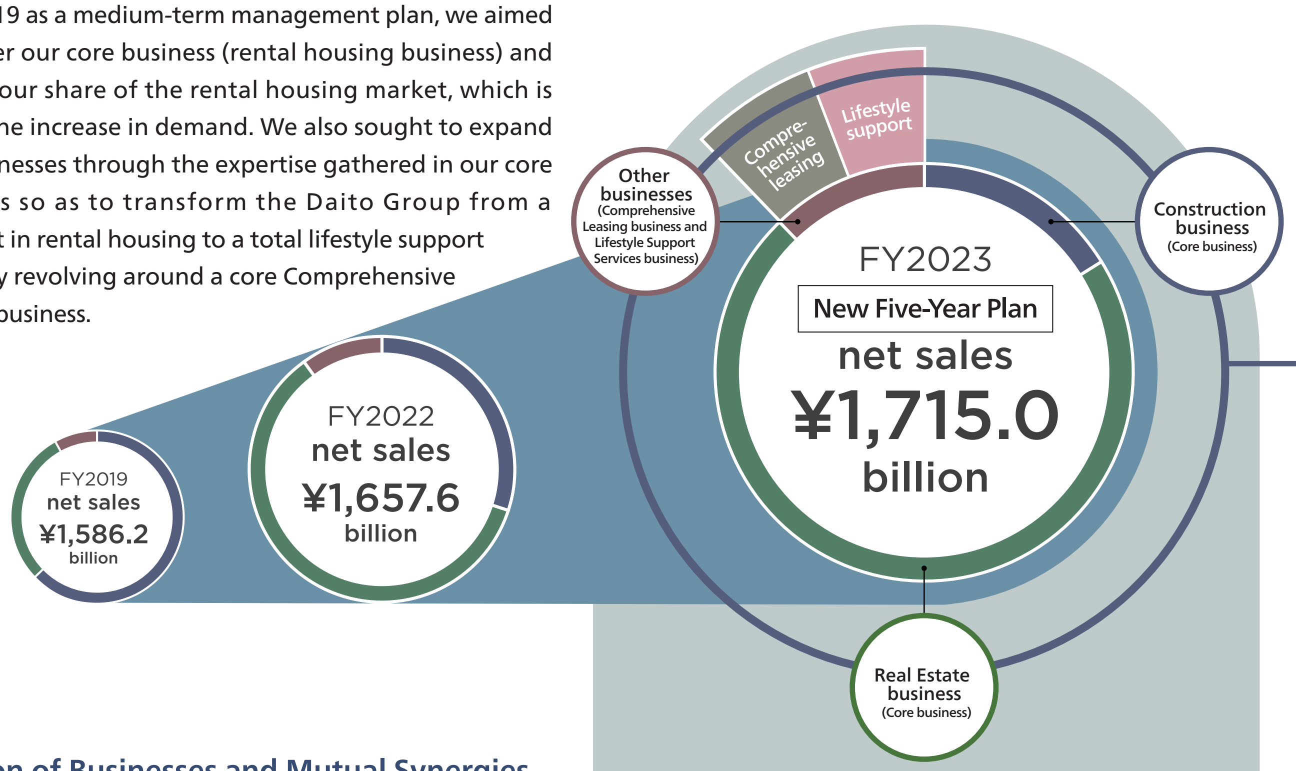
Performance Targets



Transforming Our Business Portfolio

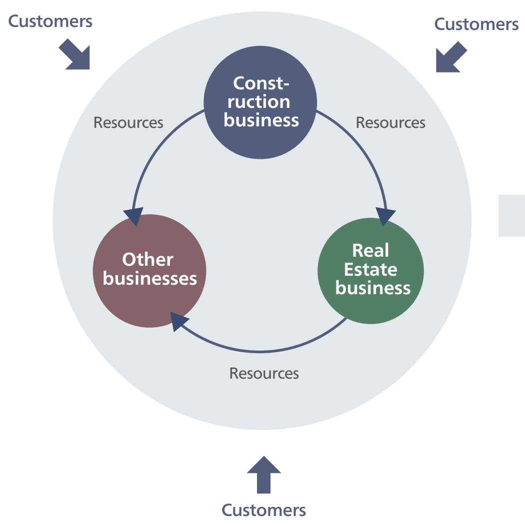
Turning into a Total Lifestyle Support Company

Under the New Five-Year Plan which we announced in April 2019 as a medium-term management plan, we aimed to bolster our core business (rental housing business) and expand our share of the rental housing market, which is tied to the increase in demand. We also sought to expand our businesses through the expertise gathered in our core business so as to transform the Daito Group from a specialist in rental housing to a total lifestyle support company revolving around a core Comprehensive Leasing business.

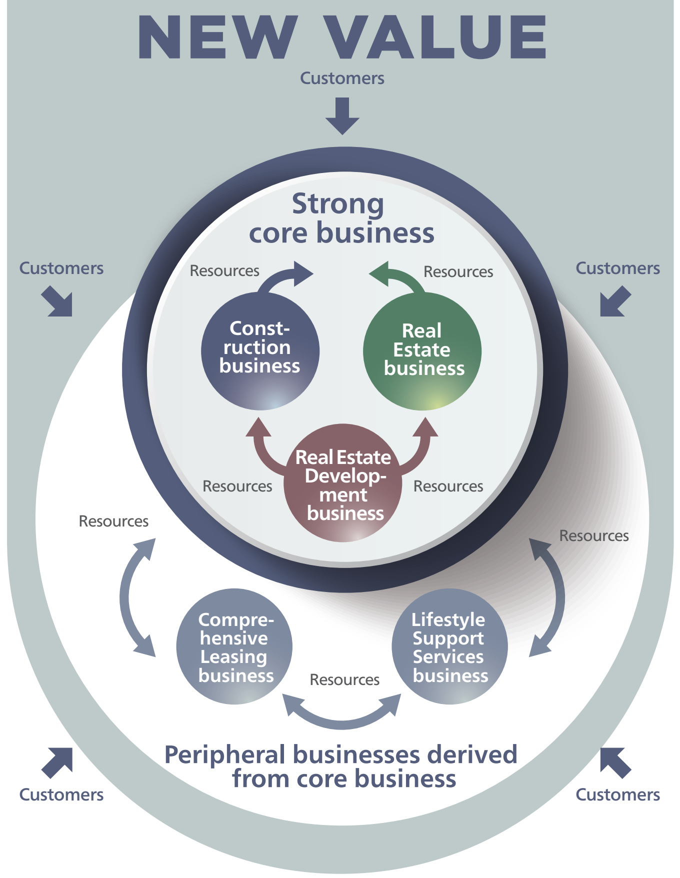


Creation of Businesses and Mutual Synergies by Group Companies

Each Group company discovers its own growth engine and creates an ecosystem providing mutually beneficial effects. In this way, we aim to capture a business model that facilitates sustainable growth as changes in the external environment intensify.



BEFORE: Single-engine business model



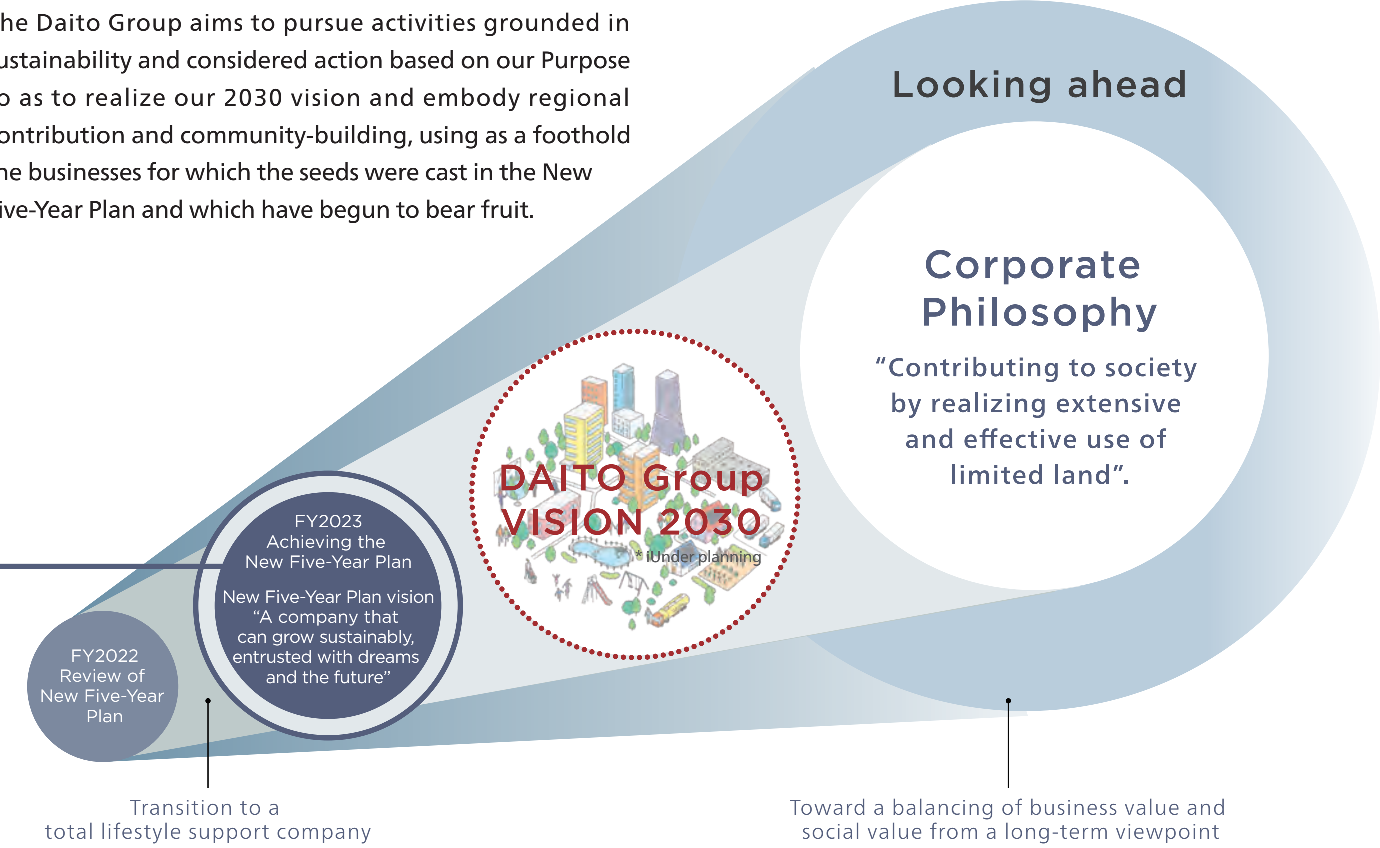
AFTER: Coordinated, multi-engine business model

Strengthening Our Core Business, and Initiatives to Expand New Businesses

	Key measures in FY2022	Important challenges in FY2023
Strengthening our core business	**Construction business** • Recovery and expansion of sales in construction operations • Strengthening and expansion of new marketing channels • Development of products specifically for the environment, disaster prevention, and lifestyles • Establishment of an efficient and effective design and construction system **Real Estate business** • Fortification of the E-Heya Net brand, franchise membership program • Promotion of initiatives and expansion of net sales in the real estate sales business • Improvement in quality control • Improvements in transparency and objectivity of rent reviews	**Construction business** • Expansion of new domains • Improvement of order processing efficiency • Construction period standardization • Promotion of eco-friendly housing **Real Estate business** • Enhanced transactions with real estate companies • Promotion of real estate sales brokerage and management of other companies' buildings • Expansion of energy business • Promotion of digital transformation (DX)
Comprehensive Leasing business	• Promotion of construction development business • Promotion of operations business	• Stable operation of flexible workspaces and reinforcement of branding
Lifestyle Support Services business	• Continual development of a new lifestyle support business • Promotion of nursing care and nursery school business, and energy business	• Promotion of platform business • Promotion of care and nursery school business and energy business

Medium- to Long-Term Road Map

The Daito Group aims to pursue activities grounded in sustainability and considered action based on our Purpose so as to realize our 2030 vision and embody regional contribution and community-building, using as a foothold the businesses for which the seeds were cast in the New Five-Year Plan and which have begun to bear fruit.



Realizing sustainability management

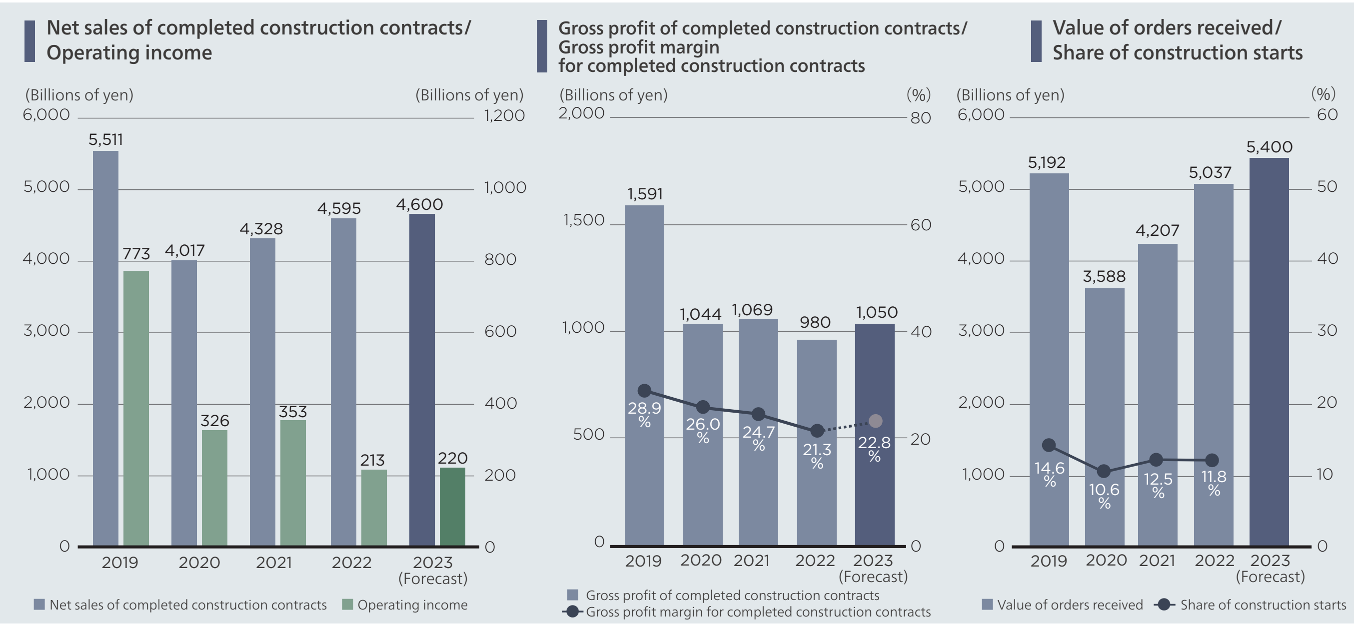
Business Overview

We propose optimal rental housing business plans tailored to landowners' needs after research and analysis of the location, the surrounding environment, and tenant needs. We provide high quality, highly durable rental buildings using our integrated system to practice thorough and consistent quality management ranging from purchasing materials used in construction to design, construction, and inspection at completion.

Main Group companies:	Daito Trust Construction Co., Ltd., Daito Construction Co., Ltd., Daito Steel Co., Ltd.

Review of FY2022

Net sales of completed construction contracts increased by 6.2% year on year to ¥459.5 billion mainly due to steady progress in construction. The gross profit margin for completed projects decreased by 3.4 percentage points from the previous fiscal year to 21.3% due to the impact of soaring prices of imported timber and other factors. The value of orders received was ¥503.7 billion (up 19.7% year on year), and orders in hand as of March 31, 2023, rose 1.5% up year on year to ¥721.8 billion.



Major policies	Related material issues	Assessment
Core businesses Recovery and expansion of construction orders	Talent/ organization 3	△ • Due to the impact of skyrocketing prices for construction materials, sales topped the previous year but failed to recover to pre-pandemic levels
Core businesses / Comprehensive Leasing business Strengthening and expansion of new marketing channels	Land/ assets 5	○ • Contracts were expanded through tie-ups with financial institutions and professional service providers and through digital marketing promotion • Channels were expanded by making Rising Force Corporation (now Daito Kentaku Asset Solution, Ltd.) a consolidated subsidiary
Core businesses / Lifestyle Support business Development of products specifically for the environment, disaster prevention, and lifestyles	Rental housing 6	○ • Robust sales for ZEH*1 rental housing; successfully commercialization of the first domestic LCCM*2 rental housing complex • Commercialization of disaster-prevention-conscious rental housing
Core businesses Establishment of an efficient and effective design and construction system	Talent/ organization 3 Land/ assets 5	△ • More workplace injuries at construction sites • Strengthening systems and promoting DX at construction sites and in supervision work boosted operating efficiency

*1 An abbreviation of Net Zero Energy House which brings annual primary energy consumptions such as air conditioning, hot water, lighting, and ventilation to the break-even point as ZEH increases thermal insulation performance and energy efficiency through energy generation by solar power.
*2 A registered trademark of Institute for Built Environment and Carbon Neutral for SDGs. We use the term by following the licensing arrangement.

Business Plans for FY2023

Lifestyle changes triggered by the COVID-19 pandemic have provided an opportunity to take a new look at sales methods and we have continued to introduce innovations in work styles, sales methods, and other areas.
In marketing areas, we will work to diversify marketing channels and enhance sales personnel so as to expand orders . We also established the Real Estate Development Headquarter in FY2023 so as to promote the handling of constructed buildings in non-residential areas such as inhouse development projects, commercial facilities, and logistics facilities, aiming to expand our business domains.
In technology areas, we will aim to level out construction periods across the year, strengthen our construction system, and constrain costs.
We will also engage proactively in eco-friendly rental housing initiatives such as net zero energy housing (ZEH) to help resolve social issues.

Important challenges	Related material issues	Major policies
Core businesses / Comprehensive Leasing business New domain expansion	Land/ assets 5	• Strengthen real estate development sector • Diversify sales methods by using digital marketing, and inside sales
Core businesses Improvement of order processing efficiency	Talent/ organization 3	• Improve operational efficiency by improving contract quality • Reduce work caused by a decline in cancellations
Core businesses Construction period leveling	Talent/ organization 3 Corporate governance 4	• Constrain costs and bolster the system by spreading construction site operations more equally over the various months • Enhance hiring and training of technical staff and boost engagement
Core businesses / Lifestyle Support business Promotion of eco-friendly rental housing	Rental housing 6	• Enhance development of products geared to the environment, disaster prevention, and lifestyles, as well as to the times and to technologies • Strengthen sales of environmentally friendly rental housing including ZEH rental housing

Contribution to Achieving the New Five-Year Plan

Strengthening of the real estate development sector

We will focus on three areas in FY2023 so as to strengthen and expand new growth areas: sales of rental housing with land attached; rental housing purchasing, renovation, and resale; and strengthening and expanding our non-residential sector. For sales of rental housing with land attached, we acquire land in the three major metropolitan areas and elsewhere and build rental housing, which we then sell on to real estate companies, funds, general investors, and our own customers, according to the scale. While it means holding land and building assets for a while, we conclude a sales contract with the buyer when we acquire the land, so there is no risk of carrying inventory.


Build and land set sales example in Tokyo

Leveling out of construction periods

Until now, construction periods have been concentrated in March and September, the peak construction completion months, which has made it expensive to secure technical personnel and arrange partner companies. Going ahead, given the decline in construction workers and the advance of workstyle reforms on construction sites, it will be vital to coordinate the timing of construction starts and completion to level construction out across the year. Resolving this issue will reduce costs and ensure a good gross profit margin for completed projects. Leveling out construction operations will also open the way for systematic production and transport so that we can reduce seasonality for partner companies and increase building quality.

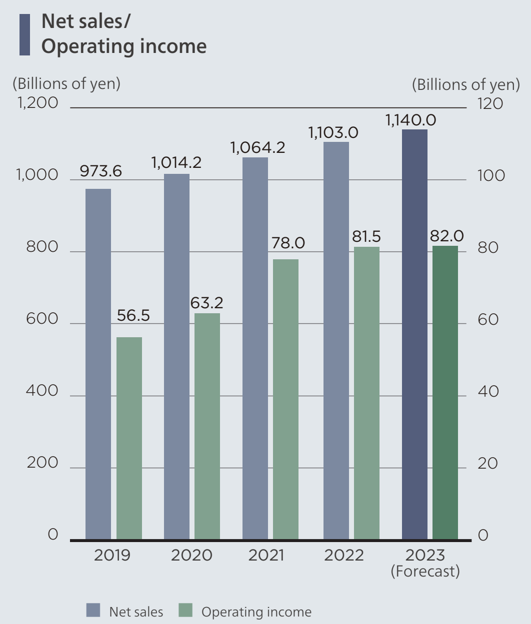
Business Overview

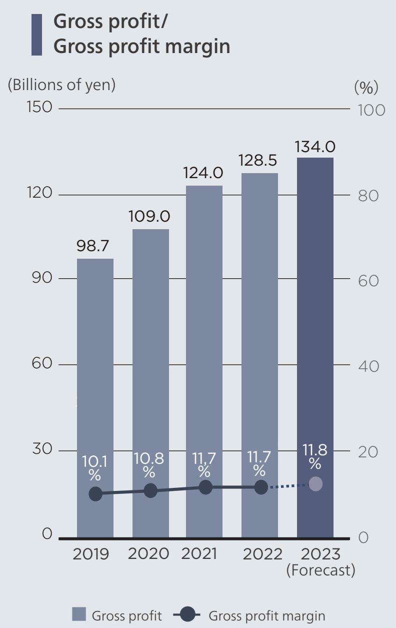
We maintain high occupancy rates by providing unique tenant services while executing tenant recruitment. We not only manage and operate our rental housing businesses by collecting rent, managing buildings and contracts, etc., we also deliver long-term peace of mind and secure, stable management by handling all aspects of rental management on behalf of owners, such as by dealing with balance fluctuation risks accompanying business.

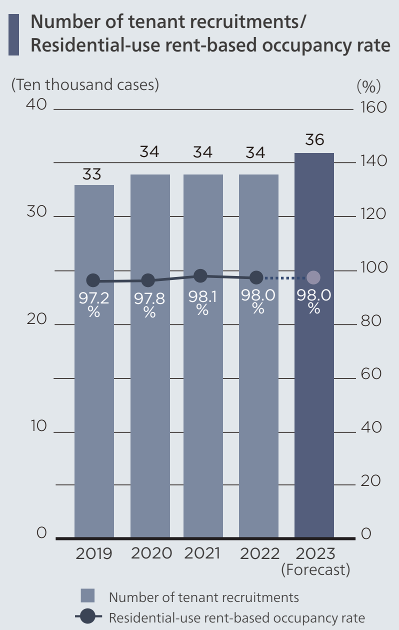
Main Group companies: Daito Kentaku Partners Co., Ltd., Daito Kentaku Leasing Co., Ltd., Housecom Co., Ltd., House Leave Co., Ltd., Sailboat.Inc.

Review of FY2022

Against the backdrop of an increase in whole-building leases and record-high level occupancy rates thanks to our Lease Management Trust System, net sales increased by 3.6% year on year to ¥1,103 billion. Contributing factors included an increase in rental income from whole-building leasing company Daito Kentaku Partners Co., Ltd. and an expansion of revenues earned by House Leave Co., Ltd., which provides services that do not require a guarantor. Furthermore, the number of tenant recruitments fell by 0.3% year on year to 341,000 due to high occupancy rates at Daito-managed properties and the according scarcity of unoccupied units for which recruitment was possible. As a result, the March 2023 occupancy rate for residential properties reached 98.0% (down 0.1p year on year).







Major policies	Related material issues	Assessment
Core businesses Fortification of the E-Heya Net brand, franchise membership promotion	Society 2	△ • More DRM cases, residential property vacancy rates maintain a record high • Number of franchises increase but target not reached
Core businesses / Comprehensive Leasing business Promotion of initiatives and expansion of net sales in the real estate sales businesses	Land/assets 5, Rental housing 6	○ • Robust real estate sales brokerage takes business into the black
Core businesses Improvement in quality control	Rental housing 6	○ • Increased management entrustment of buildings constructed by other companies • Increase in asset staff (dedicated contact points for owners) and appropriate personnel deployment
Core businesses Improvements in transparency and objectivity of rent reviews	Land/assets 5	○ • Introduction of AI-based rent review system

Business Plans for FY2023

We have come to recognize the stability of the stock business—which draws on more than 1.2 million rental housing units—once again after the business in the wake of COVID-19. Where the pandemic saw demand shift out into the suburbs, it is now gradually returning to city centers. Thanks to our strong tenant recruitment capacity and marketing power based on accumulated data, we maintain high occupancy rates while also continuing to provide high-quality living spaces and services tailored to tenants' lifestyles.

In the real estate brokerage field, we aim to expand our branch network, encourage more E-Heya Net franchises, and boost recognition of the E-Heya Net brand. We will also promote the real estate sales brokerage business, aiming to further increase sales.

In the management field, we aim to provide owner support for sound rental management, strengthen transactions with real estate companies, expand energy business, and promote DX so as to become an optimal partner chosen by customers in terms of rental management, lifestyles, business, and local community.

Important challenges	Related material issues	Major policies
Core businesses Enhancement of transactions with real estate companies	Society 2	• Enhancement of the profile and outreach of the E-Heya Net brand • Expansion of branches, franchises included
Core businesses Promotion of real estate sales brokerage and management of buildings constructed by other companies	Land/assets 5, Rental housing 6	• Stronger relations with financial institutions and providers of professional services, etc. • Expansion of purchase, renovation, and resale business for detached houses
Core businesses / Lifestyle Support business Expansion of energy business	Environment 1, Living/lifestyles 7	• Expansion of rental housing with attached stores with solar power systems and EVs • Development of a car-sharing business using our EV fleet
Core businesses / Lifestyle Support business Promotion of DX	Land/assets 5, Living/lifestyles 7	• Expansion of membership and sales of ruum as a platform useful in daily life • Embed the rent review AI system and promote an electronic contract system, etc.

Contribution to Achieving the New Five-Year Plan

Strengthening of Group synergies through rental property data linkage

In August 2023, Daito Kentaku Partners Co., Ltd. launched two services aimed at bringing about the further digital transformation of the real estate industry and optimizing the value provided to real estate companies and tenants. DK PORTAL provides real estate companies with information on vacancies, etc., in real time. Data linkage is offered via KIMA Room, a real estate workload support service which digitalizes rental work. KIMA Room is provided by wholly owned subsidiary Sailboat Inc., which develops systems for rental real estate companies. These services will increase opportunities to place tenants in rental properties managed by the company. Going forward, we will pursue the creation of Group synergies and expansion of DX PORTAL functions.

Rent Appraisal AI

We are pursuing digitalization geared to the "new normal," introducing an electronic contract system as part of our DX promotion. The rent appraisal AI collects a huge amount of rental housing market data previously input manually and determines those items that need to be reflected in rent-setting, systematizing operations and mathematical analysis. The aim is to embed this system so that reviews can be conducted by anyone easily, quickly, and accurately and produce the same results, reducing workload. In the meantime, it's aiming at more objective and efficient marketing by utilizing the accumulated data and know-how.

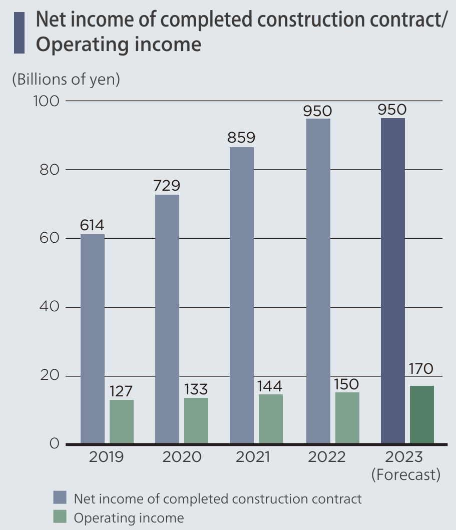
Business Overview

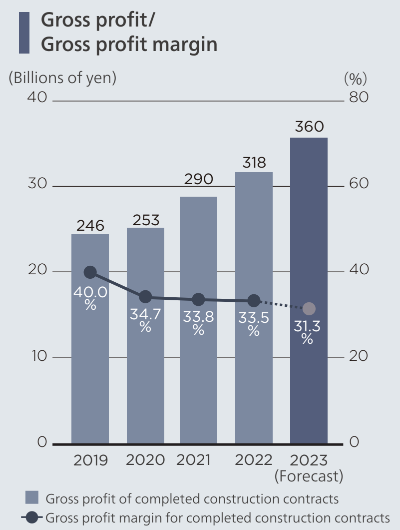
Group companies with specialist functions work with our Construction business and Real Estate business to provide lifestyle support services that bring peace of mind and comfort to every aspect of tenants' lifestyles, as well as various services responding to owners' land utilization needs.

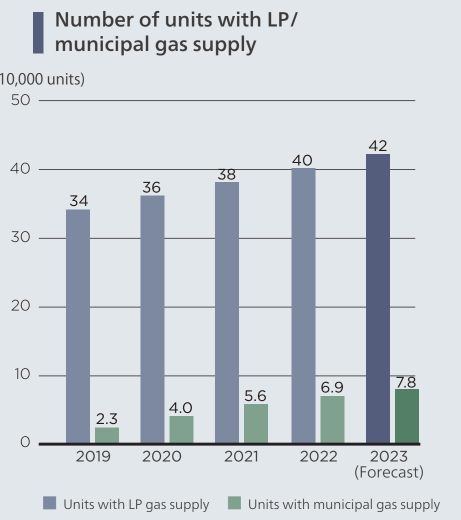
Main Group companies:	Care Partner Co., Ltd., Gaspal Co., Ltd., Daito Corporate Service Co., Ltd., House Payment Co., Ltd., HOUSEGUARD SSI, Daito Finance Co., Ltd., Daito Mirai Trust Co., Ltd., Daito Kentaku Asset Solution Co., Ltd., INVALANCE Ltd., JustCo DK (Japan) Co., Ltd., Lopicma Co., Ltd., Daito Asia Development Pte. Ltd., Daito Asia Development (Malaysia) Sdn. Bhd., Daito Asia Development (Malaysia) II Sdn. Bhd.

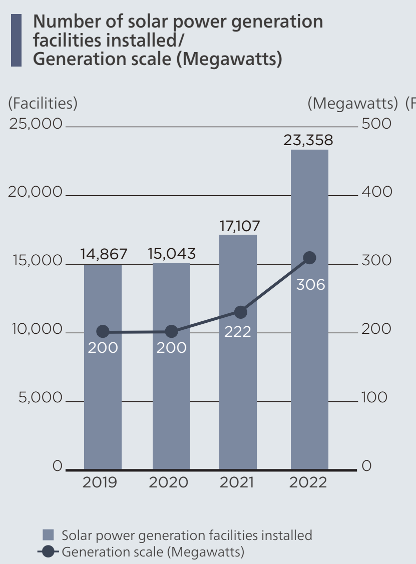
Review of FY2022

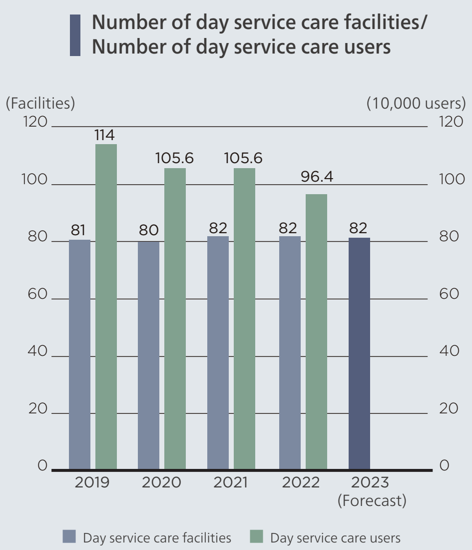
With COVID-19 now in hand, occupancy rates in our Malaysian hotels improved and the total number of meters in operation in our gas supply business increased, lifting sales by 10.6% year-on-year to ¥95 billion and operating income by 4.4% year-on-year to ¥15 billion.

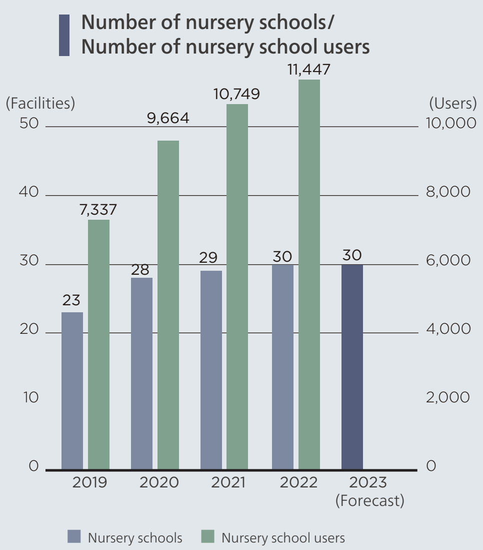












Major policies	Related material issues	Assessment
Comprehensive Leasing business Promotion of operations business	Land/ assets 5	△ • Full-scale flexible workspace business operations launched • Trend toward pandemic recovery in Malaysian hotel business
Lifestyle Support business Promotion of nursing care and nursery school business, and energy business	Living/ lifestyles 7	○ • Secured greater profit than last year for both LP and municipal gas supply • In-house nursery school opened • Kizuna Care Ltd. made part of the Group to strengthen home visit nursing care business

Business Policies for FY2023

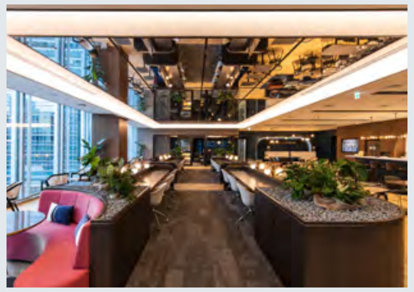
In the hotel and nursing care businesses which have been hard hit by The COVID-19 pandemic, we will focus on improving the revenues by capturing the user's changed needs due to the pandemic. We will also strengthen and expand our flexible workspace business and investment-purpose condominium business as new revenue pillars, as well as providing asset management services geared to increasingly diverse asset utilization and management needs, aiming to fortify and expand our business domains.

Important challenges	Related material issues	Major policies
Comprehensive Leasing business Stable operation of flexible workspaces and branding enhancement	Living/ lifestyles 7	• Pursuit of promotion and sales activities • Enhancement of branding through differentiation from rival companies
Core businesses / Lifestyle Support business Promotion of platform business	Land/ assets 5	• Provision of the comprehensive asset service platform Asset Transformation
Lifestyle Support business Expand and promote nursing care, nursery school, and energy businesses	Living/ lifestyles 7	• Strengthen partnerships within the Group • Recover from the decline in day service user numbers caused by COVID-19 • Expand gas business

Contribution to Achieving the New Five-Year Plan

Flexible workspace business

JustCo DK Japan Co., Ltd. has set up large-scale coworking spaces in Shibuya Hikarie, JR Shinjuku Miraina Tower, and Gran Tokyo South Tower, all leading Tokyo high-grade office buildings directly connected to rail terminal stations. Featuring high-quality brand furnishings and cutting-edge technologies like face recognition systems that enable users to get down to work with a greater sense of fulfilment and satisfaction, the aim is to provide pleasant premium office spaces.


JustCo GranTokyo South Tower

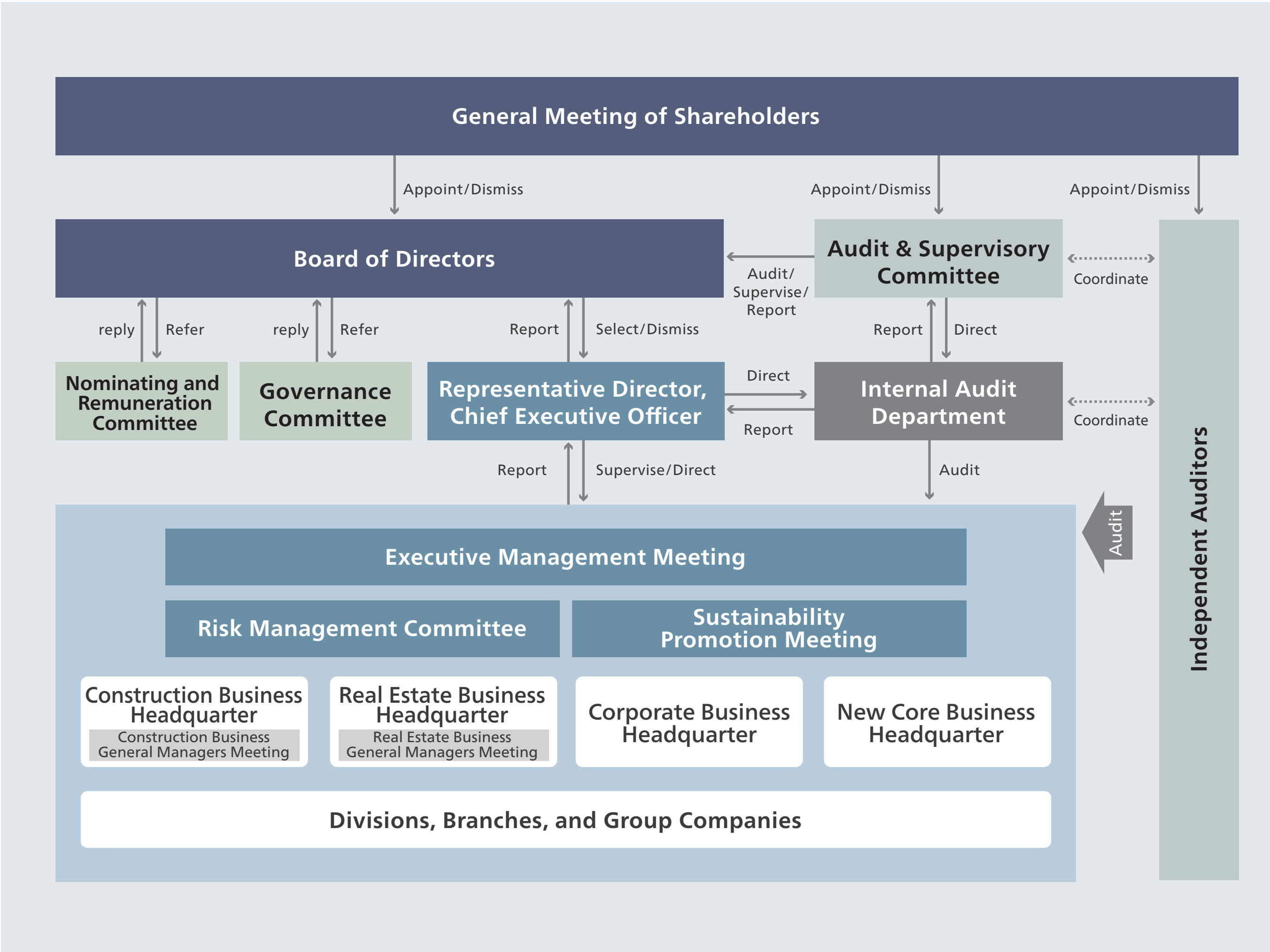
Laundromat business (E-Heya Laundromat)

With the times changing in the direction of more dual-income households and greater hygiene awareness, laundromat demand is growing. Noting these market trends, the Gaspal Group entered the laundromat business in FY2021. The laundromats not only serve the role of making daily life more comfortable, they are also designed for disaster-preparedness, such as providing meals and electricity in times of disaster. Using LP gas as a resource, the laundromats support enriched lifestyles for local residents.

Basic Policy

Our basic policies and goals for corporate governance are maximizing the corporate value of the Daito Group for our shareholders and all other stakeholders, and making our management more efficient and transparent. To do so, we focus on upholding business ethics and legal compliance, developing and enhancing our governance system, and ensuring management objectivity and rapid decision-making. In June 2023, we made the transition to a "Company with an Audit & Supervisory Committee" with the aim of speeding up decision-making by enabling important decisions on business execution to be delegated to directors, shifting the focus of the Board of Directors to supervision of Group management, and strengthening Board of Directors supervisory functions by granting Board of Directors voting rights to Audit & Supervisory Committee members.

Corporate Governance System (as of June 28, 2023)



Main Bodies' Roles

Board of Directors

The Board of Directors comprises 12 directors, seven inhouse and five outside, four of whom are members of the Audit & Supervisory Committee. The outside directors join the other members in discussing the Company's basic policies in relation to management strategy and management planning, etc., based on an open exchange of views. The Board also considers social issues that should be addressed in promoting the Company's business, as well as means of doing so. Once every quarter, the Board receives reports from individual directors on the status of business execution in their respective areas and reports on progress with management issues, monitoring management status. Board members offer observations and views on these reports where necessary. In FY2022, the Board of Directors met 14 times, deliberating on the various business strategies as well as key items such as the transition to a "Company with an Audit & Supervisory Committee," creation of a Group Purpose, and creation of measures to prevent the recurrence of inappropriate accounting treatment.

Audit & Supervisory Committee

Established on June 27, 2023, the Audit & Supervisory Committee comprises four members, three of whom are independent outside directors. Two become standing members. The committee monitors, supervises, and audits the legality and appropriate-ness of directors' execution of business based on Audit & Supervisory Committee regulations and the relevant in-house regulations.

Nominating and Remuneration Committee

A freestanding committee, the Nominating and Remuneration Committee comprises the Re-presentative Director and outside directors who are not Audit & Supervisory members. One outside director serves as the chairperson. The committee deliberates and reports back on issues referred from the Board of Directors, as well as considering and making proposals on basic policies for nominations and compensation as well as succession planning. Committee roles are: (1) aggregating and reporting the results of executive directors' mutual evaluations; (2) deliberating and reporting in relation to nominations; and (3) deliberating and reporting in relation to compensation. It met 11 times in FY2022, discussing the management system for the next fiscal year and reviewing compensation policies, etc.

Governance Committee

The Governance Committee is a freestanding commi-ttee comprising the Representative Director, two other internal directors, and all outside directors, one of whom serves as the chairperson. It focuses on considering and making proposals on the ongoing strengthening of Group governance, including basic policies on corporate governance and improvement of the effectiveness of the Board of Directors as a whole. In FY2022, the Governance Committee met 12 times to monitor measures to prevent the recurrence of inappropriate accounting and consider institutional design changes, etc.

Executive Management Meeting

Chaired by the CEO and comprising the general manager of each business headquarters and executive officers appointed by the chair, the Executive Management Meeting realizes policies decided upon by the Board of Directors and discusses measures for issues spanning multiple fields of business. Meeting results are reported to each member of the Board of Directors, a mechanism that enables specific issues and problems at work sites to be quickly identified and dealt with.

Evaluating the Effectiveness of the Board of Directors

The Daito Group aims to improve the Board of Directors' function while also lifting corporate value. Once each year, a self-assessment and self-analysis are performed regarding the Board's effectiveness. With our transition to a "Company with an Audit & Supervisory Committee," the 2023 self-evaluation and analysis will be conducted around December, with the results disclosed on our website and elsewhere.Execution outline and results in FY2022 are as follows.

Outline

Period	Aug.–Sep. 2022
How	Survey using statistics, prepared by an external organization (anonymous survey)
Survey coverage	All directors and Audit and Supervisory Board members
Major items on survey	Board of Directors roles, composition, operation/Board discussions/the Board's supervisory function/support system for the Board of Directors and Audit and Supervisory Board members/dialogue with shareholders (investors)/operation of the Governance Committee/officer training/personal initiatives/others

Results

Based on the outcome of the survey analysis, the results were discussed at the Board of Directors and Governance Committee, and generally affirmative evaluations were obtained regarding the roles, operation, composition, etc. of the Board of Directors. In this way, we have verified that the effectiveness of the Board of Directors is being ensured. On the other hand, views were also expressed and shared on issues that need to be addressed in order to raise the Board's effectiveness. Among these are discussions concerning medium- to long-term management strategy and strengthening of the Group's internal controls.
In light of these evaluations, the Company will respond promptly after the Board of Directors and Governance Committee have fully examined these issues, and it will continually promote initiatives that produce a better functioning Board of Directors.

Succession Plan

The current CEO and the Nominating and Remuneration Committee spearhead the creation of a succession plan for our next CEO. Candidates are chosen from a talent pool based on personnel requirements laid down by the committee regarding candidates' ability to execute CEO duties and their management qualities, etc. The next CEO is selected from these candidates based on wide-ranging discussion at the committee that factors in, for example, the results of executive directors' mutual evaluations and the management environment.
We have set an upper age limit of 65 for inhouse directors and made it a rule that once directors have stepped down or resigned upon reaching that limit, they cannot take another post within the group (advisor, counsellor, etc.). We are working to eliminate hereditary employment by disallowing the hire of relatives within two degrees of kinship of executive officers.

1. Deliberation and Determination of Human Resource Requirements
2. CEO narrows down candidates
3. Committee narrows down candidates
4. Final decision Report to the Board of Directors

Director's Compensation System

Basic Policy on Director Compensation

We have adopted a simple compensation system for our directors (excluding directors on the Audit & Supervisory Committee) designed to incentivize them to contribute to the medium- to long-term enhancement of corporate value to achieve the Company's management policy. Compensation is set at a level that enables us to maintain the speed of the Company's corporate reforms and to gain and maintain excellent human resources to contribute to sustainable growth. Specifically, our basic policy is that compensation for directors (excluding directors on the Audit & Supervisory Committee and outside directors) is set in the proportion of 1:0.6:0.6 for basic compensation, bonuses, and stock compensation (if the company meets 100% of its business performance targets). In future, we aim to set the proportion at 1:2–3:2–3.
Compensation for outside directors (excluding directors on the Audit & Supervisory Committee) comprises basic compensation and stock compensation, However, remuneration is not linked to performance considering their roles are to supervise the business executors appropriately.

Basic Policy on Officer Remuneration (Excluding Audit & Supervisory Committee Members)

- Incentive systems to strongly promote the achievement of the Company's management policy
- Strengthening the awareness of contribution to improvement in corporate performance and enhancement of corporate value
- Sharing of common interests with shareholders and investors
- Competitive compared with the remuneration level of similar scale enterprises in Japan and at a level to gain and maintain excellent human resources
- Remuneration determination process with high transparency and objectivity and fulfilling accountability to stakeholders

As of FY2023, we have added non-financial indicators for the performance-linked component of director compensation. For the business year ending March 2025, we have adopted "rate of ZEH provision," "rate of Greenhouse gas emissions," "percentage of female management personnel," "employee engagement score," and "penetration rate of compliance efforts" as KPIs. These indicators will be reviewed at the end of each target period, when the appropriate non-financial indicators will be adopted for that particular point in time, thereby establishing a compensation system that balances the advance of business activities and the realization of a sustainable society.

Composition of Officer Remuneration

		Fixed	Change		
		Basic compensation (Determined by rank and responsibilities)	Bonus (Determined based on achieving targets such as single-year materiality)	Stock compensation	
				Performance-linked compensation	Non-performance tracking
Upper limit		Basic compensation and bonuses = ¥2 billion		¥1.9 billion/3 years	
Condition		—	¥20.0 billion profit attributable to owners of the parent and certain performance achieved	ROE of 20% or more and payout ratio of 50% or more.	
Malus and clawback clauses*		—	●	●	●
Recipients	Executive directors	●	●	●	●
	Outside directors (excluding Audit and Supervisory Committee members)	●	—	—	●
	Directors (Audit and Supervisory Committee members)	●	—	—	—

* Clauses that allow a company to reduce or recover all or part of the remuneration paid to a director in the case of a serious performance revision or where director misconduct is discovered.

Management

Directors

TAKEUCHI Kei

Representative Director,
Chief Executive Officer
General Manager of
Construction Business Headquarter
Member of Nominating and
Remuneration Committee
Member of Governance Committee

MORI Yoshihiro

Director, Managing Executive Officer
General Manager of
Real Estate Business Headquarter
President and Representative Director of
Daito Kentaku Partners Co., Ltd.
Member of Governance Committee

TATE Masafumi

Director, Senior Executive Officer
General Manager of
Design Management Department

OKAMOTO Tsukasa

Director, Senior Executive Officer
General Manager of Finance and
Accounting Department

Directors

AMANO Yutaka

Director, Senior Executive Officer
General Manager of
Real Estate Development Headquarter

TANAKA Yoshimasa

Director, Senior Executive Officer
General Manager of
Corporate Business Headquarter

IRITANI Atsushi

Outside Director
Chairman of Nominating and
Remuneration Committee
Chairman of Governance Committee

SASAKI Mami

Outside Director
Member of Nominating and
Remuneration Committee
Member of Governance Committee

Directors (Audit & Supervisory Committee Members)

KAWAI Shuji

Director, Standing Audit &
Supervisory Committee Member
Member of Governance Committee

MATSUSHITA Masa

Outside Director,
Standing Audit &
Supervisory Committee Member
Chairman of Audit &
Supervisory Committee
Member of Governance Committee

SHODA Takashi

Outside Director,
Audit &Supervisory Committee Member
Member of Governance Committee

KOBAYASHI Kenji

Outside Director,
Audit & Supervisory Committee Member
Member of Governance Committee

Board of Directors' Skills Matrix

	Name	Expertise /Experience	Corporate management	Business strategy/ Marketing	Technology/ R&D/Quality control	Finance/ Accounting	Sustainability	Governance/ Compliance/ Risk management	International/ Overseas business
Directors	TAKEUCHI Kei	—	●	●	●				
	MORI Yoshihiro	—	●	●			●		
	TATE Masafumi	—	●		●		●		
	OKAMOTO Tsukasa	Certified public accountant				●		●	
	AMANO Yutaka	—		●	●				
	TANAKA Yoshimasa	—		●			●		
	Outside IRITANI Atsushi	Lawyer(Former prosecutor)/Certified public accountant				●	●	●	●
	Outside SASAKI Mami	Formerly in foreign financial institution management				●	●	●	●
Directors (Audit & Supervisory Committee members)	KAWAI Shuji	—	●			●		●	●
	Outside MATSUSHITA Masa	Lawyer Former company manager	●			●		●	●
	Outside SHODA Takashi	Former company manager	●		●			●	●
	Outside KOBAYASHI Kenji	Certified public accountant Company manager	●			●		●	●

Note: The above list is based on each person's experience and includes areas in which they can demonstrate greater expertise, and does not necessarily represent all of the knowledge possessed by each person.

Executive Officer

TAKEUCHI Kei
President and Chief Executive Officer
General Manager of Construction Business Headquarter

MORI Yoshihiro
Managing Executive Officer
General Manager of Real Estate Business Headquarter

TATE Masafumi
Senior Executive Officer
General Manager of
Design Management Department

OKAMOTO Tsukasa
Senior Executive Officer
General Manager of Finance and
Accounting Department

AMANO Yutaka
Senior Executive Officer
General Manager of
Real Estate Development Headquarter

TANAKA Yoshimasa
Senior Executive Officer
General Manager of
Corporate Business Headquarter

UCHIDA Kanitsu
Senior Executive Officer
General Manager of New Core
Business Headquarter

KAWAHARA Eiji
Senior Executive Officer
President and Representative Director of
Daito Kentaku Leasing Co., Ltd.

MATSUFUJI Jun
Senior Executive Officer
General Manager of Central Japan Construction
Business Headquarter

SHIRASAKI Takeshi
Senior Executive Officer
General Manager of East Japan Construction
Business Headquarter

OKAMOTO Eiji
Senior Executive Officer
General Manager of West Japan Construction
Business Headquarter

SUZUKI Takashi
Executive Officer
General Manager of Tokai Area Construction
Business Department

YAMADA Shoji
Executive Officer
General Manager of Chukyo Area Construction
Business Department

KOISHIKAWA Masayuki
Executive Officer
General Manager of
Sales Management Department

NAKAMURA Kouichi
Executive Officer
Manager of East Japan Construction
Business Headquarter

SHIBATA Tetsuya
Executive Officer
Managing Director of
Daito Kentaku Leasing Co., Ltd.

IZUMI Kazuhiro
Executive Officer
General Manager of
Construction Management Department

TAKENAKA Kunihiro
Executive Officer
Manager of Central Japan Construction
Business Headquarter

NONAKA Kouichi
Executive Officer
General Manager of
Risk Management Supervisory Department

MATSUKAWA Taizou
Executive Officer
Managing Director of
Daito Kentaku Partners Co., Ltd.

ARIMATSU Yukiko
Executive Officer
Director of Daito Kentaku Leasing Co., Ltd.

KITAHARA Seiichirou
Executive Officer
Director of Daito Kentaku Leasing Co., Ltd.

KAKUTANI Seiji
Executive Officer
General Manager of North Kyushu and
Okinawa Area ConstructionBusiness
Department

TANAKA Hitoshi
Executive Officer
Manager of West Japan Construction
Business Headquarter

MATSUMOTO Tomoyoshi
Executive Officer
Managing Director of
Daito Kentaku Partners Co., Ltd.

TAKAHASHI Yutaka
Executive Officer
President and Representative Director of
INVALANCE Ltd.

NAKAJIMA Masamoto
Executive Officer
General Manager of
Group Auditing Department

Initiatives toward enhanced internal controls (measures preventing recurrence)

The Company has discussed and drawn up measures to prevent the recurrence of the inappropriate accounting treatment discovered at a consolidated subsidiary in April 2022 and has set up a company-wide team to promote the above measures, working to strengthen Group internal controls. Going ahead too, in addition to measures to prevent recurrence, we will pursue initiatives to strengthen Group internal controls as a priority management issue, with senior management spearheading medium- to long-term efforts to build a control environment so that the above measures do not lose substance.

Status of engagement in measures to prevent recurrence (FY2022)

Review of accounting department structure and control environment

▶Separate the person in charge of budget management from the person in charge of accounting

Rules were formulated to prohibit accounting department employees from holding concurrent positions in other departments and to separate the person in charge of budget management from the person in charge of accounting in the Company and in main Group companies.

▶Clarify criteria for estimating allowances and the assurances required for the approval process for payments

Clear guidelines were created on allowance estimation standards, etc., so as to standardize and clarify operational procedures.

▶Increase compliance awareness in the accounting department

Three training sessions were held for accounting department employees to raise their awareness of compliance and prevent the occurrence of fraud.

Review of the control environment for officers and other management departments

▶Enhance officers' understanding of international controls and accounting procedures

The Company has reminded all staff about our internal system for protecting whistleblowers and about internal and external whistleblower hotlines, while the Representative Director and other top management have been communicating the message that whistleblowers are thoroughly protected, encouraging use of the whistleblower system.

▶Strengthen internal audits of head office departments

A new Auditing Supervisory Department has been established to increase the frequency of audits of head office departments and Group companies and audit personnel numbers have been increased. A new supervisory department has also been set up solely to promote internal control.

▶Remind employees about the internal whistleblower hotline and encourage its appropriate use

Four training sessions have been held for top management at the Company and main Group companies on internal controls and the prevention of inappropriate accounting.

Outside Director's Perspective

Since improper accounting treatment was discovered in April 2022, the Company has worked with external experts to analyze the root cause, prevent a recurrence, and strengthen the internal governance of the Daito Group as a whole. As an outside Audit and Supervisory Board Member since 2021, and a Director and Audit & Supervisory Committee Member since 2023, I myself have engaged in monitoring and verification in close communication with the Accounting Auditor.

In FY2022, an implementation plan was steadily actioned by a management execution team drawn primarily from management departments. Specifically, the Finance and Accounting Department, Risk Management Supervisory Department, and Integrity Promotion Department were all made Group-wide organizations, building a framework for stronger internal controls and enhancing internal education and whistle-blowing. This has led to a marked increase in internal whistle-blowing and increased the chances of early problem-solving and the discovery of new issues.

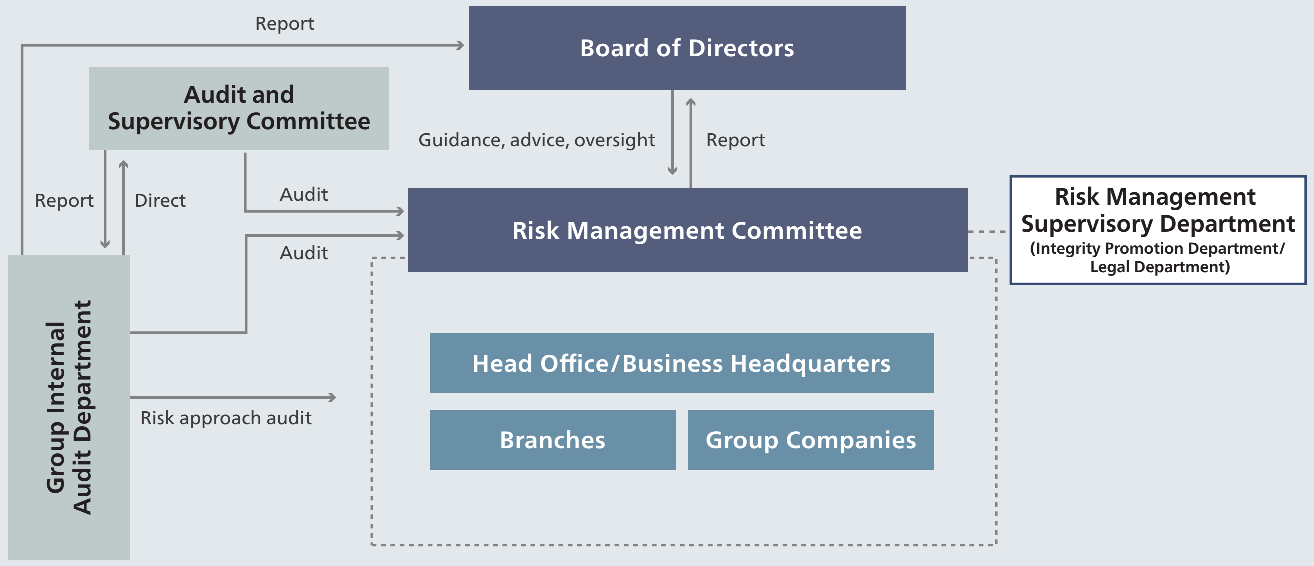
Internal controls need to be verified and strengthened not just once but on an ongoing basis. Rather than simply preventing the recurrence of individual incidents and dealing with these in management departments, the issue going forward will be for directors and all employees to have a strong sense of their own departments as key internal control departments and operate and enhance their respective accountability processes.

MATSUSHITA Masa
Outside Director,
Standing Audit & Supervisory Committee Member
Chairman of Audit & Supervisory Committee
Member of Governance Committee

Strengthening of risk management

Chaired by the CEO, the Risk Management Committee meets annually to identify, evaluate, and review risks important to Group management, reports on which are regularly received from business departments and Group companies. Coordinating with these departments and companies, the committee formulates countermeasures, and monitors the status of management on a quarterly basis, providing direction where necessary. Particularly important management and business risks are also intensively monitored by the Board of Directors, which receives regular reports on them. Where an issue occurs that has or could have a material impact on the Company, this is reported to the Board of Directors, which provides the necessary direction. The standing Audit & Supervisory members and the Group Internal Audit Department attend committee meetings, engaging in independent auditing and supervising of the overall risk management structure and status.

Risk Management System



Compliance

Compliance Promotion Structure

The Group Compliance Promotion Meeting convenes regularly to discuss compliance-related matters such as employee education and concerns. It also monitors the state of legal compliance and directs that revisions and other changes are made as appropriate. In addition to the internal reporting hotline set up in the Integrity Promotion Department, which promotes compliance, an external hotline has been established for the use of law offices and all employees at Group companies, and we strive for early discovery and correction of wrongful behavior. The Integrity Promotion Department also spearheads regular compliance-related training and information provision for executive officers and employees. In this way, we raise employees' compliance awareness and prevent misconduct.

Group Compliance Promotion Meeting

Comprising risk management executive officers and Group company members, the Group Compliance Promotion Meeting discusses compliance-related matters and countermeasures and responses to risk management-related matters, promoting compliance initiatives across the Group as a whole.

Integrity Promotion Department

The Integrity Promotion Department formulates our Code of Conduct for all Group employees and works to instill the Code in all employees. It also spearheads compliance training and other compliance education, working to raise employees' compliance awareness and prevent misconduct.

Daito Group Basic Policy on Compliance

We ensure compliance in all aspects of our business activity on the basis of two compliance standards: 1) the Daito Group Code of Conduct, which lays out the conduct standards and guidelines that all Group employees should follow, and 2) "Daito Gohatto Nana-kajo," Daito Group 7 Prohibition Rules, which, as one of a series of standards within the Daito Group, specifies matters that are especially prohibited.

Daito Group Code of Conduct/Daito Prohibition 7 Articles https://www.kentaku.co.jp/corporate/ir/governance/compliance.html

Risk Management

In regards to compliance measures, it is critical to nip potential problems in the bud. The Daito Group has introduced an internal whistleblowing system with the aim of discovering legal violations and misconduct within the organization at an early point and redress these ourselves so as to enhance our compliance management and contribute to maintaining a sound workplace environment. We have established whistleblowing hotlines not only inhouse but also at an independent external institution (a law firm/Free-dial) for the use of all stakeholders, including Group executive officers and employees, partner companies, and business partners. In the case of a whistleblowing report, the Integrity Promotion Department directs the relevant depart-ments to investigate and develop and implement countermeasures, while an executive officer appointed by the Board of Directors to handle compliance checks the operational status of the whistleblowing system and reports back to the Board as necessary. We have a system in place to protect whistleblowers that includes ensuring whistleblower anonymity in the course of investigations as well as the confidentiality of investigation content. We also operate employee support measures such as "Integrity cards" that provide guidelines when employees are unsure what to do and hearings and questionnaires on the work environment and harassment, linking these to early discovery of violations and misconduct.

Basic Policy on Antisocial Forces

We are deeply conscious of the social importance of eliminating from society antisocial forces or groups that threatens public order and safety. From the perspective of corporate social responsibility and compliance, we have laid down the following basic policy in order to eliminate antisocial forces:

(1) We shall reject all relationships, including business transactions, with antisocial forces and groups such as crime syndicates that threaten public order and safety.
(2) We shall resolutely oppose antisocial forces and, in cooperation with legal firms, police authorities, and other outside specialists, pursue legal action as a whole organization from top management down.
(3) We shall reject all illegal and unreasonable demands and shall in no circumstances engage in backdoor dealings or provides funds.

Compliance Education

The Integrity Promotion Department spearheads compliance training for all employees on issues such as harassment and information security, promoting employees' understanding of compliance. We regularly provide compliance information through the inhouse mail magazine "Compliance Newsletter" so as to foster compliance awareness and prevent misconduct. In FY2022, we held six training sessions for all employees.

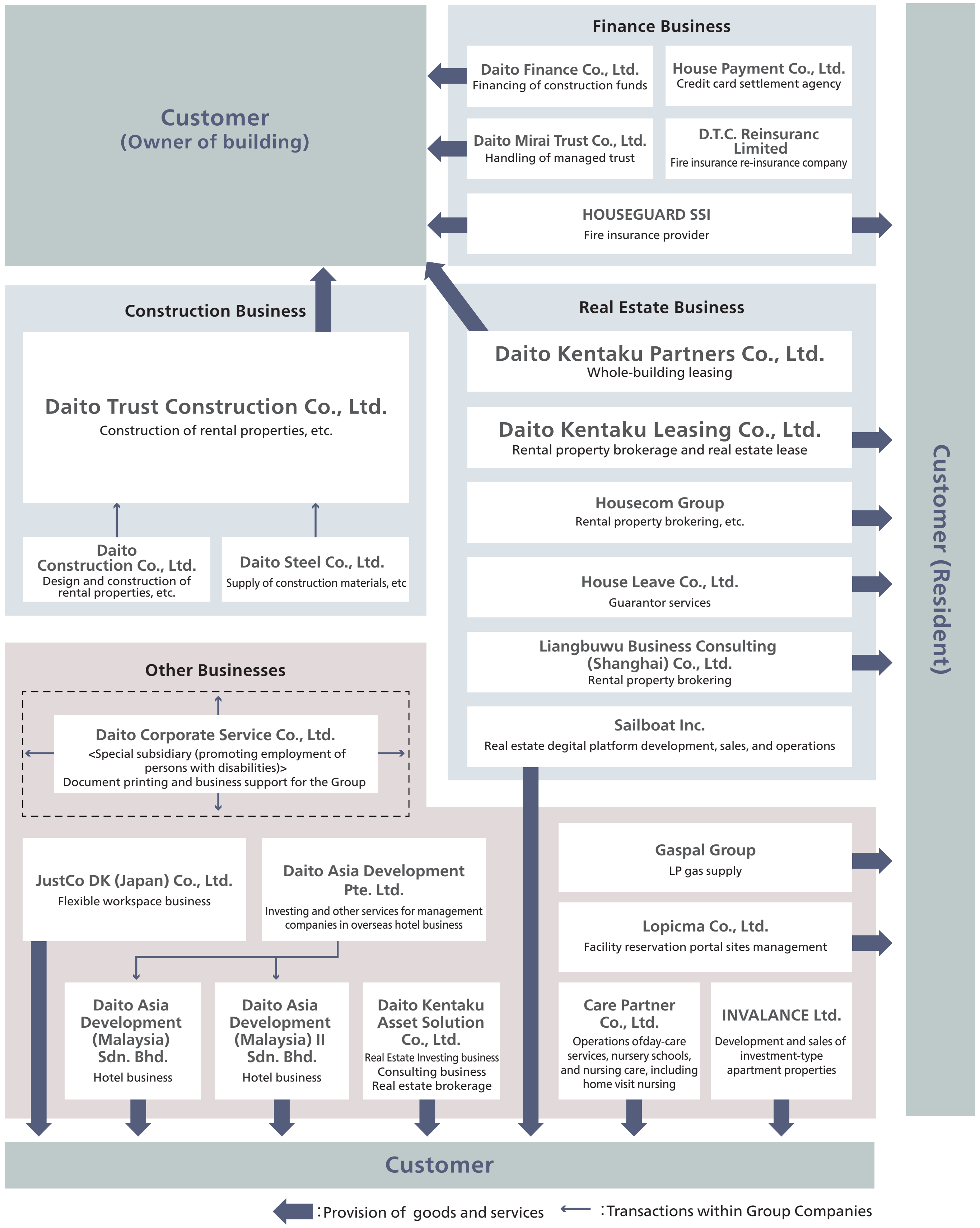
Company Information

Outline (As of March 31, 2023)

Company Name: Daito Trust Construction Co., Ltd.
Head Office: 2-16-1, Konan, Minato-ku, Tokyo 108-8211, Japan

Established: June 20, 1974
Capital: ¥29,060 million
Number of Employees: 17,851 (consolidated basis)

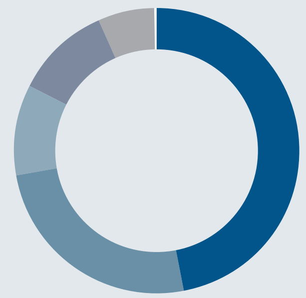
Main Group (As of March 31, 2023)



Stock Data (As of March 31, 2023)

Number of shares authorized	329,541,100 shares
Number of shares issued	68,918,979 shares
Number of Shareholders	20,130
Fiscal year	April 1 to March 31
Trading unit	100shares
Stock exchange listing	Tokyo Stock Exchange (Prime Market) Nagoya Stock Exchange (Premier Market) Securities Code: 1878
Transfer agent	Mitsubishi UFJ Trust and Banking Corporation
Contact information	Stock Transfer Agency Division, Mitsubishi UFJ Trust and Banking Corporation 1-1 Nikkou-cho, Fuchu-shi, Tokyo 137-8081, Japan Tel: 0120-232-711 (toll-free number in Japan only)
Method of public notice	Public notices are posted on the Company's website. http://www.kentaku.co.jp/e//ir/index.html However, in the event that it is impossible to issue an electric notice due to an accident or any other unavoidable reasons, the public notices will be posted on the *Nihon Keizai Shimbun* newspaper.

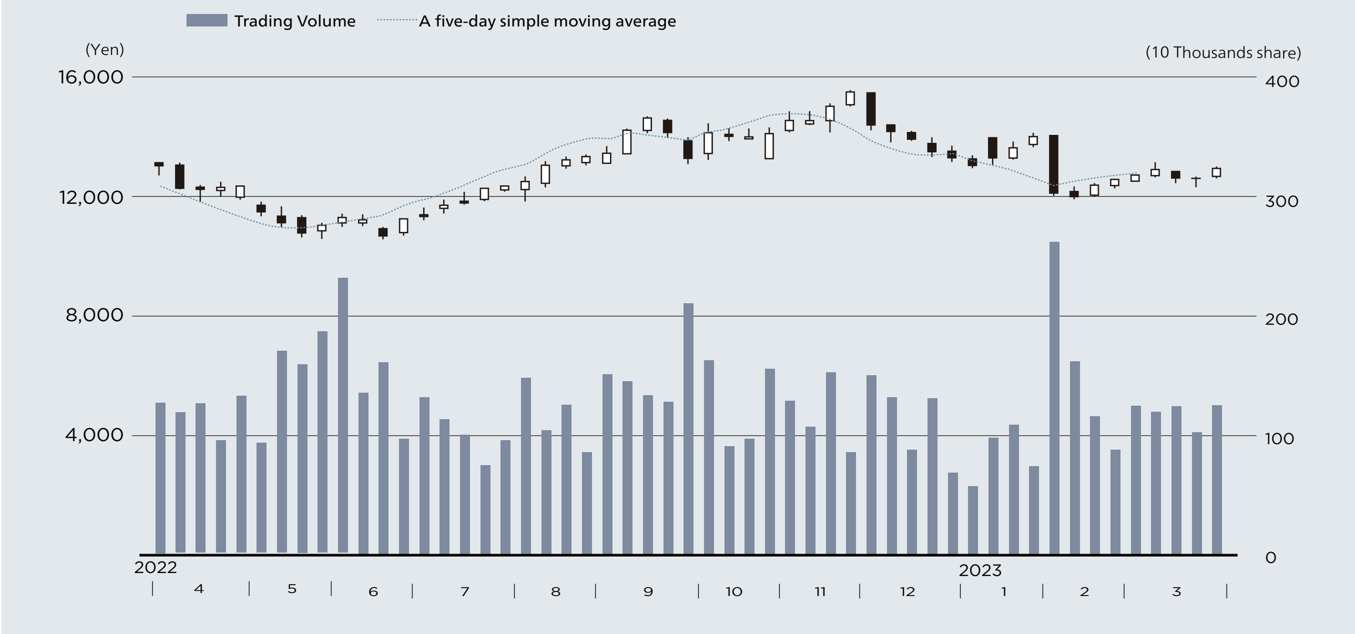
Breakdown of Shareholders (As of March 31, 2023)



Overseas corporations	32,363,739 (46.96%)
Financial institutions	17,572,223 (25.50%)
Individuals and others	7,010,548 (10.17%)
Domestic corporations	7,476,166 (10.85%)
Financial instruments firms	4,454,619 (6.46%)
Treasury stock	41,684 (0.06%)

Largest Shareholders (As of March 31, 2023)

Shareholders	Number of shares (thousand)	Percentage held (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	10,301	14.96
SSBTC Client Omnibus Account	4,644	6.74
Custody Bank of Japan, Ltd. (Trust account)	3,751	5.45
Hikari Tsushin, Inc.	3,480	5.05
Cooperative Daito Trust Construction's Shareholiding Association	1,680	2.44
Sumitomo Realty & Development Co., Ltd.	1,606	2.33
STATE STREET BANK AND TRUST COMPANY 505001	1,404	2.04
BNYMSANV AS AGENT/CLIENTS LUX UCITS NONTREATY 1	1,285	1.87
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST	1,231	1.79
Daito Trust Construction Employees Shareholding Association	1,134	1.65



Consolidated Financial Section 2023

Contents

Note:
Consolidated Financial Section contains audited English-language financial statements in which certain items have been changed for the convenience of overseas readers.

Consolidated Balance Sheet

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries
March 31, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2023	2022	2023
ASSETS			
Current assets:			
Cash and bank deposits (Notes 6 and 19)	¥ 267,133	¥ 259,134	$ 2,000,546
Money held in trust (Note 19)	11,500	12,500	86,122
Marketable securities (Notes 4, 6 and 19)	3,999	3,101	29,948
Accounts receivable (Notes 19 and 25)	58,154	54,610	435,512
Operating loans (Note 19)	106,970	113,329	801,093
Real estate property for sale (Notes 6)	27,439	6,780	205,489
Inventories (Notes 6 and 7)	36,835	37,604	275,855
Prepaid expenses-whole-building lease and other expenses (Note 26)	74,267	72,347	556,182
Other current assets	34,363	29,863	257,342
Allowance for doubtful accounts	(688)	(785)	(5,152)
Total current assets	619,976	588,487	4,642,971
Property, plant and equipment (Notes 8, 9 and 18):			
Land (Note 6)	78,013	76,979	584,235
Buildings and structures, net (Note 6)	61,894	60,392	463,521
Machinery and equipment, net	48,286	36,320	361,611
Furniture and fixtures, net	1,753	2,057	13,128
Lease assets, net (Note 18)	947	640	7,092
Other, net	486	1,237	3,639
Total property, plant and equipment	191,382	177,627	1,433,250
Investments and other assets:			
Investment securities (Notes 4, 19 and 20)	50,409	47,155	377,510
Subordinated bonds and subordinated trust beneficiary rights (Notes 5 and 19)	5,119	6,915	38,335
Goodwill (Note 26)	11,356	11,337	85,044
Intangible assets	23,223	25,168	173,915
Deferred tax assets (Note 15)	100,109	95,104	749,711
Other assets (Note 6)	66,965	60,129	501,497
Allowance for doubtful accounts (Note 19)	(6,632)	(6,045)	(49,666)
Total investments and other assets	250,548	239,763	1,876,342
Total assets	¥ 1,061,909	¥ 1,005,879	$ 7,952,587

See notes to consolidated financial statements.

Consolidated Balance Sheet (continued)

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries
March 31, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2023	2022	2023
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term bank loans (Notes 6 and 10)	¥ 1,026	¥ —	$ 7,683
Current portion of long-term bank loans (Notes 6, 10 and 19)	11,558	13,008	86,557
Current portion of bonds (Note 10)	50	80	374
Current portion of long-term lease obligations (Note 18)	310	169	2,321
Accounts payable (Notes 19 and 25)	50,141	36,479	375,503
Advances received-construction contracts (Note 25)	41,772	39,466	312,828
Income taxes payable (Note 19)	19,638	22,903	147,068
Advances received-whole-building lease and other (Notes 25 and 26)	116,610	119,761	873,286
Accrued employees' bonuses	15,906	25,218	119,119
Provision for warranties for completed construction	1,251	1,376	9,368
Provision for construction losses (Note 1 (o))	793	—	5,938
Deposits received (Note 19)	8,502	9,071	63,671
Other current liabilities	42,878	44,402	321,111
Total current liabilities	310,439	311,938	2,324,863
Long-term liabilities:			
Long-term bank loans (Notes 6,10 and 19)	67,318	70,582	504,141
Bonds (Note 10)	11,000	11,050	82,378
Long-term lease obligations (Note 18)	611	388	4,575
Liability for retirement benefits (Note 11)	17,636	15,471	132,075
Provision for repair of whole-building lease system (Notes 1 (p) and 26)	207,185	187,469	1,551,598
Deposits received for guarantee (Note 19)	30,807	31,306	230,712
Deferred tax liabilities	428	446	3,205
Other long-term liabilities	11,548	11,437	86,482
Total long-term liabilities	346,537	328,152	2,595,199
Total liabilities	656,976	640,091	4,920,062
Net assets (Note 12):			
Common stock-authorized, 329,541 thousand shares; issued, 68,918 thousand shares in 2023 and 68,918 thousand shares in 2022	29,060	29,060	217,628
Capital surplus	34,540	34,540	258,668
Retained earnings	352,811	319,133	2,642,185
Treasury stock-at cost, 728 thousand shares in 2023 and 619 thousand shares in 2022	(10,973)	(12,852)	(82,176)
Total shareholders' equity	405,439	369,882	3,036,313
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	2,309	2,825	17,291
Deferred gain (loss) on derivatives under hedge accounting	(156)	127	(1,168)
Land revaluation surplus	(7,584)	(7,584)	(56,796)
Foreign currency translation adjustments	4,298	(1,737)	32,187
Defined retirement benefit plans	(2,957)	(2,054)	(22,144)
Total accumulated other comprehensive income	(4,090)	(8,424)	(30,629)
Stock acquisition rights (Note 13)	180	322	1,348
Non-controlling interests	3,403	4,007	25,484
Total net assets	404,933	365,787	3,032,524
Total liabilities and net assets	¥ 1,061,909	¥ 1,005,879	$ 7,952,587

See notes to consolidated financial statements.

Consolidated Statement of Income

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries
March 31, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2023	2022	2023
Net sales (Note 25):			
Construction contracts (Note 1 (t))	¥ 459,572	¥ 432,831	$ 3,441,713
Real estate	1,103,002	1,064,230	8,260,331
Other	95,051	85,941	711,832
Total net sales	1,657,626	1,583,003	12,413,884
Cost of sales:			
Construction contracts	361,531	325,849	2,707,488
Real estate	974,455	940,146	7,297,648
Other	63,190	56,865	473,226
Total cost of sales	1,399,178	1,322,860	10,478,379
Gross profit	258,448	260,142	1,935,505
Selling, general and administrative expenses (Note 16)	158,447	160,548	1,186,602
Operating income	100,000	99,594	748,895
Non-operating income :			
Interest income	475	313	3,557
Dividend income	406	422	3,040
Commission fee	3,039	2,709	22,758
Equity gains of affiliated companies	357	623	2,673
Miscellaneous income	2,711	1,761	20,302
Total non-operating income	6,989	5,829	52,340
Non-operating expenses:			
Interest expense (Note 10)	428	433	3,205
Commission paid	487	666	3,647
Foreign exchange loss	762	164	5,706
Miscellaneous expenses	1,413	487	10,581
Total non-operating expenses	3,092	1,752	23,155
Ordinary income	103,898	103,671	778,087
Extraordinary profit			
Gain on sales of fixed assets (Note 17)	212	49	1,587
Gain on sales of investment securities (Note 4)	15	1	112
Gain on sales of securities of affiliated companies	—	10	—
Total extraordinary profit	228	61	1,707
Extraordinary loss			
Loss on sales of fixed assets (Note 17)	492	327	3,684
Impairment loss (Note 14)	1,795	183	13,442
Casualty loss	2	4	14
Total extraordinary loss	2,290	515	17,149
Income before income taxes	101,836	103,217	762,645
Income taxes (Note 15):			
Current	36,314	42,110	271,953
Deferred	(4,263)	(8,450)	(31,925)
Total income taxes	32,051	33,660	240,028
Net income	69,785	69,557	522,616
Net income attributable to:			
Non-controlling interests	(575)	(22)	(4,306)
Owners of the parent	¥ 70,361	¥ 69,580	$ 526,930

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries
March 31, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2023	2022	2023
Net income	¥ 69,785	¥ 69,557	$ 522,616
Other comprehensive income (Note 21):			
Unrealized gain (loss) on available-for-sale securities	(515)	(811)	(3,856)
Deferred gain (loss) on derivatives under hedge accounting	(283)	(140)	(2,119)
Foreign currency translation adjustments	6,036	4,069	45,203
Defined retirement benefit plans	(903)	(131)	(6,762)
Total other comprehensive income (loss)	4,333	2,985	32,449
Comprehensive income	¥ 74,119	¥ 72,543	$ 555,073
Total comprehensive income attributable to:			
Owners of the parent	¥ 74,695	¥ 72,570	$ 559,387
Non-controlling interests	(575)	(27)	(4,306)

See notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries
March 31, 2023

	Millions of Yen				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance at April 1, 2021	¥ 29,060	¥ 34,540	¥ 266,899	¥ (15,352)	¥ 315,148
Cumulative effects of changes in accounting policy			16,224		16,224
Cash dividends paid, ¥487 per share			(33,537)		(33,537)
Net income attributable to owners of the parent			69,580		69,580
Purchase of treasury stock				(28)	(28)
Disposal of treasury stock				2,528	2,528
Changes in the parent's ownership interest due to transactions with non-controlling interests			(32)		(32)
Net change in items other than those in shareholders' equity					
Balance at April 1, 2022	29,060	34,540	319,133	(12,852)	369,882
Cumulative effects of changes in accounting policy					—
Cash dividends paid, ¥532 per share			(36,638)		(36,638)
Net income attributable to owners of the parent			70,361		70,361
Purchase of treasury stock				(865)	(865)
Disposal of treasury stock			(36)	2,743	2,706
Changes in the parent's ownership interest due to transactions with non-controlling interests			(7)		(7)
Net change in items other than those in shareholders' equity					
Balance at March 31, 2023	¥ 29,060	¥ 34,540	¥ 352,811	¥ (10,973)	¥ 405,439

	Thousands of U.S. Dollars				
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance at April 1, 2022	$ 217,628	$ 258,668	$ 2,389,972	$ (96,248)	$ 2,770,029
Cumulative effects of changes in accounting policy					—
Cash dividends paid, $3.98 per share			(274,380)		(274,380)
Net income attributable to owners of the parent			526,930		526,930
Purchase of treasury stock				(6,477)	(6,477)
Disposal of treasury stock			(269)	20,542	20,265
Changes in the parent's ownership interest due to transactions with non-controlling interests			(52)		(52)
Net change in items other than those in shareholders' equity					
Balance at March 31, 2023	$ 217,628	$ 258,668	$ 2,642,185	$ (82,176)	$ 3,036,313

See notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets (continued)

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries
March 31, 2023

Millions of Yen

	Accumulated Other Comprehensive Income								
	Unrealized Gain on Available-for-Sale Securities	Deferred Gain on Derivatives under Hedge Accounting	Land Revaluation Surplus	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total Accumulated Other Comprehensive Income	Stock Acquisition Rights	Non-controlling Interests	Total Net Assets
Balance at April 1, 2021	¥ 3,636	¥ 267	¥ (7,584)	¥ (5,807)	¥ (1,927)	¥ (11,414)	¥ 389	¥ 4,084	¥ 308,207
Cumulative effects of changes in accounting policy									16,224
Cash dividends paid, ¥487 per share									(33,537)
Purchase of treasury stock									(28)
Disposal of treasury stock									2,528
Changes in the parent's ownership interest due to transactions with non-controlling interests									(32)
Net change in items other than those in shareholders' equity	(811)	(140)	—	4,069	(127)	2,990	(66)	(77)	2,846
Balance at April 1, 2022	2,825	127	(7,584)	(1,737)	(2,054)	(8,424)	322	4,007	365,787
Cumulative effects of changes in accounting policy									—
Cash dividends paid, ¥532 per share									(36,638)
Net income attributable to owners of the parent									70,361
Purchase of treasury stock									(865)
Disposal of treasury stock									2,706
Changes in the parent's ownership interest due to transactions with non-controlling interests									(7)
Net change in items other than those in shareholders' equity	(515)	(283)	—	6,036	(903)	4,333	(142)	(603)	3,588
Balance at March 31, 2023	¥ 2,309	¥ (156)	¥ (7,584)	¥ 4,298	¥ (2,957)	¥ (4,090)	¥ 180	¥ 3,403	¥ 404,933

Thousands of U.S. Dollars (Note 3)

	Accumulated Other Comprehensive Income								
	Unrealized Gain on Available-for-Sale Securities	Deferred Gain on Derivatives under Hedge Accounting	Land Revaluation Surplus	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total Accumulated Other Comprehensive Income	Stock Acquisition Rights	Non-controlling Interests	Total Net Assets
Balance at April 1, 2022	$ 21,156	$ 951	$ (56,796)	$ (13,008)	$ (15,382)	$ (63,086)	$ 2,411	$ 30,008	$ 2,739,361
Cumulative effects of changes in accounting policy									—
Cash dividends paid, $3.98 per share									(274,380)
Net income attributable to owners of the parent									526,930
Purchase of treasury stock									(6,477)
Disposal of treasury stock									20,265
Changes in the parent's ownership interest due to transactions with non-controlling interests									(52)
Net change in items other than those in shareholders' equity	(3,856)	(2,119)	—	45,203	(6,762)	32,449	(1,063)	(4,515)	26,870
Balance at March 31, 2023	$ 17,291	$ (1,168)	$ (56,796)	$ 32,187	$ (22,144)	$ (30,629)	$ 1,348	$ 25,484	$ 3,032,524

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries
March 31, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2023	2022	2023
Operating activities:			
Income before income taxes	¥ 101,836	¥ 103,217	$ 762,645
Adjustments for:			
Depreciation and amortization	16,649	16,182	124,683
Impairment losses	1,795	183	13,442
Amortization of goodwill	766	887	5,736
Interest and dividend income	(881)	(735)	(6,597)
Interest expense	428	433	3,205
(Gain) or loss on sales of investment securities	(15)	(1)	(112)
(Gain) or loss on sales of securities of affiliated companies	—	(10)	—
Equity gains of affiliated companies	(357)	(623)	(2,673)
Changes in operating assets and liabilities			
Decrease (increase) in accounts receivable	(3,486)	(2,725)	(26,106)
Decrease (increase) in real estate property for sale	(20,426)	(1,345)	(152,969)
Decrease (increase) in inventories	774	(3,762)	5,796
Decrease (increase) in prepaid expenses-whole-building lease and other	(1,359)	(977)	(10,177)
Decrease (increase) in operating loans	6,158	8,100	46,116
Increase (decrease) in accounts payable	13,648	8,894	102,209
Increase (decrease) in advances receivedwhole-building lease and other	(3,200)	3,225	(23,964)
Increase (decrease) in advances received-construction contracts	2,305	(1,347)	17,262
Increase (decrease) in deposits received for guarantee	(502)	(906)	(3,759)
Increase in accrued expense	(2,208)	3,246	(16,535)
Increase in allowance for doubtful accounts	489	614	3,662
Increase (decrease) in accrued employees' bonuses	(9,312)	4,846	(69,737)
Increase in liability for retirement benefits	864	434	6,470
Increase in provision for repair of whole-building lease system	19,716	17,690	147,652
Other	1,206	(1,194)	9,031
Subtotal	124,888	154,329	935,280
Interest and dividends received	1,433	1,483	10,731
Interest paid	(422)	(404)	(3,160)
Income taxes paid	(43,796)	(42,925)	(327,986)
Net cash provided by operating activities	¥ 82,102	¥ 112,483	$ 614,858

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows (continued)

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries
March 31, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2023	2022	2023
Investing activities:			
Proceeds from time deposits	¥ 15,307	¥ 199	$ 114,633
Payments for time deposits	(35,776)	(275)	(267,924)
Proceeds from money held in trust	1,000	1,000	7,488
Purchases of marketable and investment securities	(10,161)	(4,168)	(76,095)
Proceeds from sales and redemption of marketable and investment securities	3,100	1,500	23,215
Payments for purchase of property, plant and equipment	(22,716)	(11,392)	(170,119)
Payments for purchase of intangible assets	(5,203)	(5,962)	(38,965)
Payment for acquisition of shares of a subsidiary resulting in changes in scope of consolidation (Note 24)	(1,337)	—	(10,012)
Proceeds from sales and redemption of investment securities	2,149	3,291	16,093
Proceeds from sales of affiliated companies' shares	—	10	—
Other	(3,455)	(3,715)	(25,874)
Net cash used in investing activities	(57,093)	(19,511)	(427,566)
Financing activities:			
Repayments of short-term bank loans	1,026	(690)	7,683
Proceeds from long-term bank loans	9,316	1,329	69,767
Repayments of long-term bank loans	(14,584)	(13,526)	(109,218)
Proceeds from issuing bonds	—	11,000	—
Dividends paid	(36,638)	(33,537)	(274,380)
Repurchase of treasury stock	(865)	(28)	(6,477)
Proceeds from disposal of treasury stock	2,000	1,806	14,977
Dividends paid to non-controlling interests	(51)	(33)	(381)
Repayment of lease obligations	(186)	(195)	(1,392)
Redemption of bonds	(80)	(140)	(599)
Other	—	(72)	—
Net cash used in financing activities	(40,063)	(34,089)	(300,029)
Foreign currency translation adjustments on cash and cash equivalents	2,542	1,182	19,036
Net increase (decrease) in cash and cash equivalents	(12,512)	60,064	(93,701)
Cash and cash equivalents, beginning of year	258,825	198,760	1,938,328
Cash and cash equivalents, end of year (Note 24)	¥ 246,312	¥ 258,825	$ 1,844,619

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Daito Trust Construction Co., Ltd. and Consolidated Subsidiaries
March 31, 2023

1. Summary of Significant Accounting Polices

a. Basis of Presentation

The accompanying consolidated financial statements of Daito Trust Construction Co., Ltd. (the "Company") and its 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, and are compiled from the consolidated financial statements prepared by the Company as required by Japanese Financial Instruments and Exchange Act.

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.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to present them in a form which is more familiar to readers outside Japan.

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

b. Principle of Consolidation and Accounting for Investments in Affiliates

The accompanying consolidated financial statements include the accounts of the Company and significant subsidiaries over which substantial control is exerted through either majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is also eliminated.

The consolidated financial statements as of March 31, 2023, include the accounts of the Company and its 46 (32 in 2022) significant subsidiaries. Due to Housecom Corporation's transition to a holding company structure, Housecom Higashi Tokyo Corporation, Housecom Nishi Tokyo Corporation, Housecom Higashi Kanagawa Corporation, Housecom Nishi Kanagawa Corporation, Housecom Chiba Corporation, Housecom Saitama Corporation, Housecom Kanto Corporation, Housecom Shizuoka Corporation, Housecom Tokai Corporation, Housecom Shizuoka, Ryukyu Housecom Corporation, and Housecom Communications Corporation, newly established during the fiscal year ended March 31, 2023 are included in the scope of consolidation.

Rising Force Co., Ltd. (currently known as Daitokentaku Asset Solution Co., Ltd.), Sailboat, Inc. and Kizuna Care Ltd., newly acquired during the fiscal year ended March 31, 2023 are included in the scope of consolidation.

Furthermore, Rising Force Co., Ltd. changed its name to Daito Kentaku Asset Solutions Co., Ltd. .

Investments in affiliates (companies over which the Group has the ability to exercise significant influence) are accounted for by the equity method.

Investments in 3 (3 in 2022) associated companies (companies over which the Group has the ability to exercise significant influence), CRS BLVD |,LC, Solasto Corporation and Bulksafety Co., Ltd. are accounted for by the equity method.

Investments in an affiliate, Shinagawa Energy Service Co., Ltd., was excluded from the scope of equity-method affiliates because its net profit (amount corresponding to the Company's equity interest) and retained earnings (amount corresponding to the Company's equity interest) is small and does not have a material effect on the consolidated financial statements as a whole. If the equity method of accounting had been applied to the investments in those companies, the effect on the accompanying consolidated financial statements would not be material.

For consolidation purposes, JustCo DK Japan, whose fiscal year-end falls on December 31, is consolidated using its financial statements as of its fiscal year-end. Rising Force Co., Ltd. (currently known as Daitokentaku Asset Solution Co., Ltd.) and Kizuna Care Ltd., whose fiscal year-ends fall on November 30, are consolidated based on provisional financial statements as of March 31 and February 28 respectively. Oversea subsidiaries, whose fiscal year- ends fall on December 31, are consolidated using their financial statements as of their respective fiscal year-ends. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the period from their balance sheet dates through March 31 have been adjusted, if necessary.

c. Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income. The accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the consolidated balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

d. Cash and Cash Equivalents

Cash and cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value.

Cash and cash equivalents include time deposits and certificates of deposit, both of which mature within three months of the date of acquisition.

e. Real Estate Property for Sale and Inventories

Construction projects in progress, real estate property for sale and real estate inventory are stated at cost determined specifically by project. Materials and other inventories are mainly stated at the lower of cost, determined by the moving-average method, or net selling value.

f. Marketable and Investment Securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:

(1) Held-to-maturity securities are reported at the amount calculated by the straight-line method.

(2) Securities classified as other securities other than securities without quoted market prices are stated at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of accumulated other comprehensive income. Cost of securities sold is determined by the moving average method.

(3) Securities without quoted market price classified as other securities are stated at cost determined by the moving-average method.

g. Property, Plant and Equipment

Property, plant and equipment are stated at net of accumulated depreciation and accumulated impairment losses, if any. Depreciation of property, plant and equipment of the Company and its consolidated subsidiaries is computed substantially by the declining-balance method based on the estimated useful lives of the assets, while the straight-line method is applied to buildings acquired on or after April 1, 1998, building improvements and structures acquired on or after April 1, 2016, principal machinery and equipment, and all property and equipment of consolidated foreign subsidiaries. The range of useful lives is principally from 3 to 60 years for buildings and structures, from 8 to 22 years for machinery and equipment, and from 2 to 20 years for furniture and fixtures. Leased assets are depreciated using the straight-line method over the estimated useful lives of assets which are the term of the respective leases.

h. Intangible Assets (except for Leased Assets)

Intangible assets are amortized by using the straight-line method over the estimated useful lives of assets.

i. Impairment Loss

The Group reviews its property, plant and equipment for impairment whenever events or changes in circumstance indicate that the carrying amount of an asset or asset group may not be recoverable. If the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group, the impairment loss would be measured as the amount that the carrying amount of the asset less its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

j. Goodwill

The difference between the acquisition cost and net assets at the time of acquisition is amortized principally over 20 years on a straight-line basis.

k. Land Revaluation

Under the "Law of Land Revaluation", the Company elected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 2002. The resulting land revaluation excess represents unrealized appreciation of land and is stated, net of income taxes, as a component of accumulated other comprehensive income. There was no effect on the consolidated statement of income. Continuous readjustment is not permitted unless the land value significantly declines subsequently such that the amount of the decline in value should be removed from the land revaluation excess amount.

Investments in an affiliate, Shinagawa Energy Service Co., Ltd., was excluded from the scope of equity-method affiliates because its net profit (amount corresponding to the Company's equity interest) and retained earnings (amount corresponding to the Company's equity interest) is small and does not have a material effect on the consolidated financial statements as a whole. If the equity method of accounting had been applied to the investments in those companies, the effect on the accompanying consolidated financial statements would not be material.

For consolidation purposes, JustCo DK Japan, whose fiscal year-end falls on December 31, is consolidated using its financial statements as of its fiscal year-end. Rising Force Co., Ltd. (currently known as Daitokentaku Asset Solution Co., Ltd.) and Kizuna Care Ltd., whose fiscal year-ends fall on November 30, are consolidated based on provisional financial statements as of March 31 and February 28 respectively. Oversea subsidiaries, whose fiscal year- ends fall on December 31, are consolidated using their financial statements as of their respective fiscal year-ends. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the period from their balance sheet dates through March 31 have been adjusted, if necessary.

c. Foreign Currency Transactions

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the consolidated balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income. The accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the consolidated balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

d. Cash and Cash Equivalents

Cash and cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value.

Cash and cash equivalents include time deposits and certificates of deposit, both of which mature within three months of the date of acquisition.

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Construction projects in progress, real estate property for sale and real estate inventory are stated at cost determined specifically by project. Materials and other inventories are mainly stated at the lower of cost, determined by the moving-average method, or net selling value.

f. Marketable and Investment Securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:

(1) Held-to-maturity securities are reported at the amount calculated by the straight-line method.

(2) Securities classified as other securities other than securities without quoted market prices are stated at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of accumulated other comprehensive income. Cost of securities sold is determined by the moving average method.

(3) Securities without quoted market price classified as other securities are stated at cost determined by the moving-average method.

g. Property, Plant and Equipment

Property, plant and equipment are stated at net of accumulated depreciation and accumulated impairment losses, if any. Depreciation of property, plant and equipment of the Company and its consolidated subsidiaries is computed substantially by the declining-balance method based on the estimated useful lives of the assets, while the straight-line method is applied to buildings acquired on or after April 1, 1998, building improvements and structures acquired on or after April 1, 2016, principal machinery and equipment, and all property and equipment of consolidated foreign subsidiaries. The range of useful lives is principally from 3 to 60 years for buildings and structures, from 8 to 22 years for machinery and equipment, and from 2 to 20 years for furniture and fixtures. Leased assets are depreciated using the straight-line method over the estimated useful lives of assets which are the term of the respective leases.

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Intangible assets are amortized by using the straight-line method over the estimated useful lives of assets.

i. Impairment Loss

The Group reviews its property, plant and equipment for impairment whenever events or changes in circumstance indicate that the carrying amount of an asset or asset group may not be recoverable. If the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group, the impairment loss would be measured as the amount that the carrying amount of the asset less its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

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The difference between the acquisition cost and net assets at the time of acquisition is amortized principally over 20 years on a straight-line basis.

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w. Derivatives and Hedging Activities

The Group uses derivative financial instruments to manage its exposure to fluctuations in foreign currency exchange rates. Foreign exchange forward contracts are utilized by the Group to reduce foreign currency exchange risk. The Group does not enter into derivatives for speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income; and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts entered into hedge foreign exchange exposure for imports are measured at fair value and the unrealized gains or losses are recognized in income. Forward contracts entered into forecasted (or committed) transactions are also measured at fair value but the unrealized gains or losses are deferred until the underlying transactions are completed.

Accounts payable denominated in foreign currencies for which foreign exchange forward contracts are used to hedge the foreign currency fluctuations are translated at the contracted rate if the forward contracts qualify for hedge accounting.

x. Consumption Tax

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes. Consumption taxes paid not offset by consumption taxes received in accordance with the Consumption Tax Act of Japan are principally charged to income when incurred.

y. Per Share Information

Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding warrants at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statement of changes in net assets are dividends paid during the fiscal year.

z. Significant Accounting Estimates

(1) Provision for repair of whole-building lease system

(a) Amounts presented in the consolidated financial statements for the years ended March 31, 2023 and 2022

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Provision for repair of whole-building lease system	¥ 207,185	¥ 187,469	$ 1,551,598

(b) Information on accounting estimates and assumptions that may have a significant impact on the consolidated financial statements

1) Method of measurement

Based on the whole-building lease contracts, the restoration and repair costs expected to be incurred in the future are recorded as a provision at the fiscal year-end.

2) Significant assumptions

Significant assumptions to measure costs expected to occur in the future include the timing and frequency of occurrences, the amount of restoration and repair that will occur, and unit price for each component of construction projects. Each assumption is based on the management's best judgments reflecting historical experiences and various factors that are believed to be reasonable under the circumstances.

3) Impact on the consolidated financial statements for the year ending March 31, 2024

A rise in the costs of raw materials required for restoration and repair may lead to an increase of provisions for repair of whole-building lease contracts. Estimates on the timing and frequency of occurrences over a long period of time, as well as the timing of facilities' breakdown and durability of raw materials, are subject to high uncertainty, and future results may differ from these estimates, resulting in an increase or reversal of provisions.

(2) Revenues recognized based on the fulfillment of performance obligations over a certain period of time for construction contracts

(a) Amounts presented in the consolidated and non-consolidated financial statements for the years ended March 31, 2023 and 2022 are as follows:

1) Amounts presented in consolidated financial statements

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Sales recorded under the method of recognizing revenue based on the fulfillment of performance obligations over a certain period of time	¥ 449,208	¥ 423,883	$ 3,364,097

Notes: Of these amounts, the amounts related to construction in progress as of the end of the fiscal years ended March 31, 2023 and 2022 were ¥68,381 million ($512,102 thousand) and ¥59,116 million, respectively.

2) Amounts presented in the Company's financial statements

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Sales recorded by the method of recognizing revenue based on the fulfillment of performance obligations over a certain period of time	¥ 452,564	¥ 425,655	$ 3,389,230

Notes: Of these amounts, the amounts related to construction in progress as of the end of the fiscal years ended for March 31, 2023 and 2022 were ¥69,460 million ($520,182 thousand) and ¥59,559 million, respectively.

(b) Information on accounting estimates and assumptions that may have a significant impact on the consolidated financial statements

1) Method of measurement

With respect to revenue from construction contracts excluding short-term contracts, the Group applies the method of "recognizing revenue based on the fulfillment of performance obligations over a certain period of time", estimates the total construction revenue, the total construction cost, and the progress toward complete satisfaction of a performance obligations. The progress is calculated by the ratio of costs incurred to the total construction cost (Input Method), and the revenue recognized is calculated by multiplying the degree of progress toward completion by the total amount of the construction contract.

2) Significant assumptions

Significant assumptions to measure the total construction cost include the per unit price of raw material such as lumber, and purchase order price to be placed to business partners. Each assumption is based on the management's best judgments reflecting the most up to date purchase order and negotiations with business partners and various factors that are believed to be reasonable under the circumstances.

3) Impact on the consolidated financial statements for the year ending March 31, 2024

Estimates based on the management's judgments reflecting the most up to date purchase order of raw material, negotiations with business partners and various factors are subject to uncertainty. Therefore, any change in estimates may result in a significant impact on the revenue from the construction in the next fiscal year.

2. Accounting Change

(1) Change in accounting policies

(a) Application of Accounting Standard for Fair Value Measurement

"Accounting Standard for Fair Value Measurement" ((ASBJ Statement No. 31, June 17, 2021), hereinafter "Fair Value Measurement Standard") has been adopted from the beginning of the current fiscal year, and new accounting policies prescribed by the Fair Value Measurement Standard will be adopted prospectively in accordance with the transitional treatment prescribed in Paragraph 27-2 of the Accounting Standard for Financial Instrument. There is no impact of application of Accounting Standard for Fair Value Measurement on consolidated financial statements for the fiscal year ended March 31, 2023.

(2) Change in presentation

(a) Consolidated Balance Sheet

Real estate for sale, which was included in Inventories under Current assets in the previous fiscal year, is separately presented in the current fiscal year due to its increased importance in terms of amount. To reflect this change in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, ¥44,384 million presented as Inventories under Current assets in the consolidated balance sheets for the previous fiscal year has been reclassified as Real estate property for sale of ¥6,780 million and Inventories of ¥37,604 million.

(b) Consolidated Statement of Income

Foreign exchange loss, which was included in Miscellaneous expenses under Non-operating expenses in the previous fiscal year, has become significant in terms of amount, It is separately presented as an independent account from the current fiscal year due to its increased importance in terms of amount. To reflect this change in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, Miscellaneous expenses of ¥652 million included in Non-operating expenses has been reclassified to Foreign exchange loss of ¥164 million and Miscellaneous expenses of ¥487 million in the consolidated statements of income for the previous fiscal year.

(c) Consolidated Statement of Cash Flows

Decrease (increase) in real estate property for sale, which was included in Decrease (increase) in other inventories in Cash flows from operating activities in the previous fiscal year, is presented as a separate line item in the current fiscal year due to its increased importance in terms of amount. To reflect this change in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, in the consolidated statements of cash flows for the previous fiscal year, ¥5,107 million presented as Decrease (increase) in inventories are reclassified as Decrease (increase) in real estate property for sale of (¥1,345) million and Decrease (increase) in inventories of (¥3,762) million.

3. U.S. Dollar Amounts

Translation of Japanese yen amounts into U.S. dollar amounts are included solely for convenience, as a matter of arithmetic computation only, at the rate of ¥133.53 = U.S.$1.00, the approximate rate of exchange prevailing on March 31, 2023. The inclusion of such amounts is not intended to imply that yen amounts have been or could be readily converted, realized or settled in U.S. dollars at the above or any other rate.

4. Marketable and Investment Securities

(1) Held-to-maturity debt securities

Information on held-to-maturity debt securities was omitted because there were no held-to-maturity debt securities for the fiscal years ended March 31, 2023 and 2022.

(2) Available-for-sale securities

Information on available-for-sale securities for the fiscal years ended March 31, 2023 and 2022, was as follows:

	Millions of Yen		
March 31, 2023	Carrying amount	Acquisition cost	Difference
Securities whose carrying amount exceeds acquisition cost:			
Equity securities	¥ 18,343	¥ 16,078	¥ 2,265
Bonds			
Government bonds	—	—	—
Corporate bonds	3,904	3,900	4
Other bonds	—	—	—
Other securities	7,657	6,212	1,445
Subtotal	¥ 29,905	¥ 26,190	¥ 3,714
Securities whose carrying amount does not exceed acquisition cost:			
Equity securities	¥ 251	¥ 334	¥ (83)
Bonds			
Government bonds	—	—	—
Corporate bonds	5,329	5,388	(58)
Other bonds	285	300	(14)
Other securities			
Subtotal	¥ 5,866	¥ 6,022	¥ (156)
Total	¥ 35,771	¥ 32,213	¥ 3,558

March 31, 2022	Millions of Yen Carrying amount		Acquisition cost		Difference	
Securities whose carrying amount exceeds acquisition cost:						
Equity securities	¥	19,373	¥	16,076	¥	3,296
Bonds						
Government bonds		—		—		—
Corporate bonds		1,301		1,300		1
Other bonds		—		—		—
Other securities		5,575		4,743		831
Subtotal	¥	26,250	¥	22,120	¥	4,129
Securities whose carrying amount does not exceed acquisition cost:						
Equity securities	¥	189	¥	218	¥	(29)
Bonds						
Government bonds		—		—		—
Corporate bonds		2,808		2,813		(5)
Other bonds		290		300		(9)
Other securities		2,663		2,673		(9)
Subtotal	¥	5,952	¥	6,005	¥	(53)
Total	¥	32,202	¥	28,126	¥	4,076

March 31, 2023	Thousands of U.S. Dollars Carrying amount		Acquisition cost		Difference	
Securities whose carrying amount exceeds acquisition cost:						
Equity securities	$	137,369	$	120,407	$	16,962
Bonds						
Government bonds		—		—		—
Corporate bonds		29,236		29,206		29
Other bonds		—		—		—
Other securities		57,342		46,521		10,821
Subtotal	$	223,957	$	196,135	$	27,813
Securities whose carrying amount does not exceed acquisition cost:						
Equity securities	$	1,879	$	2,501	$	(621)
Bonds						
Government bonds		—		—		—
Corporate bonds		39,908		40,350		(434)
Other bonds		2,134		2,246		(104)
Other securities						
Subtotal	$	43,930	$	45,098	$	(1,168)
Total	$	267,887	$	241,241	$	26,645

(3) Sales of available-for-sale securities

The proceeds, gains and losses on sales of available-for-sale securities for the fiscal years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		
March 31, 2023	Proceeds	Realized Gains	Realized Losses
Equity securities	¥ 199	¥ 15	¥ —
Total	¥ 199	¥ 15	¥ —
March 31, 2022			
Equity securities	¥ 4	¥ 1	¥ —
Total	¥ 4	¥ 1	¥ —

	Thousands of U.S. Dollars		
March 31, 2023	Proceeds	RealizedGains	RealizedLosses
Equity securities	$ 1,490	$ 112	$ —
Total	$ 1,490	$ 112	$ —

(4) Impairment losses on securities

There were no impairment losses on securities recognized for the fiscal years ended March 31,2023 and 2022.

(5) Investment in associated company

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Investment Securities	¥ 17,691	¥ 17,592	$ 132,487
(Investment amount relating to the co-ownership of the associated company)	2,662	2,460	19,935

5. Subordinated Bonds and Subordinated Trust Beneficiary Rights

The Company mediates the extension of apartment loans to customers who order construction of rental housing.

As for these loans, financial institutions establish SPEs and the loans are securitized by the SPEs.

When the customers use these loans, the Company is required to purchase the subordinated bonds or subordinated trust beneficiary rights issued by the SPEs in accordance with the agreement with certain financial institutions.

Details of the subordinated bonds and subordinated trust beneficiary rights are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Subordinated bonds and subordinated trust beneficiary rights	¥ 5,119	¥ 6,915	$ 38,335
Subscription ratio of subordinated bonds and subordinated trust beneficiary rights	6.17%	6.17%	6.17%
Date of maturity	November 2034—February 2043	November 2034—February 2043	November 2034—February 2043
Loan balance of SPEs	¥ 18,792	¥ 22,783	$ 140,732
Outstanding bonds of SPEs	¥ 18,810	¥ 22,801	$ 140,867
Number of SPEs	6	7	6

Notes: The subscription ratio of the subordinated bonds and subordinated trust beneficiary rights is the ratio of the subordinated bonds and subordinated trust beneficiary rights balance attributable to the Company to the total amount of the bonds when issued.

6. Pledged Assets and Secured Liabilities

The carrying amounts of pledged assets and secured liabilities were as follows:

	Millions of Yen		Thousands of U.S. Dollars
Pledged assets	2023	2022	2023
Time deposits	¥ 120	¥ 120	$ 898
Real estate property for sale	1,338	2,022	10,020
Buildings	86	41	644
Land	359	55	2,688
Guarantee deposits	9,095	7,934	68,112
Total	¥ 10,998	¥ 10,175	$ 82,363

	Millions of Yen		Thousands of U.S. Dollars
Secured liabilities	2023	2022	2023
Current portion of long-term bank loans	156	1,011	1,168
Long-term bank loans	363	625	2,718
Total	¥ 519	¥ 1,636	$ 3,886

Notes: 1. Time deposits, real estate for sale, buildings and land are pledged as collateral for short-term bank loans, current portion of long-term bank loans and long-term bank loans as of March 31, 2023 and 2022.
2. Marketable securities and guarantee deposits are pledged as collateral for other required by the Building Lots and Buildings Transaction Business Law, and the Act for Secure Execution of Defect Warranty Liability, and those pledged for the purpose of extending payment due dates for customs and consumption tax and insurance payments in accordance with the Trust Business Act and the Insurance Business Act, and payment for Settlement of Electricity Transaction as of March 31, 2023 and 2022.

7. Inventories

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

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Construction projects in progress	¥ 13,712	¥ 13,660	$ 102,688
Real estate inventory	11,166	15,358	83,621
Materials	11,276	8,093	84,445
Merchandise	680	492	5,092
Total	¥ 36,835	¥ 37,604	$ 275,855

8. Property, Plant and Equipment

1) Accumulated depreciation of property, plant, and equipment as of March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Accumulated depreciation for property, plant and equipment	¥ 92,464	¥ 82,944	$ 692,458

2) National subsidy received for property, plant and equipment are booked as reduction from the acquisition costs. The details on the reduction entry as of March 31,2023 and 2022, were as follows.

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Buildings and structures	¥ —	¥ 811	$ —
Machinery and equipment	—	66	—
Total	¥ —	¥ 877	$ —

9. Investment Property

The Group owns certain rental properties such as office buildings, apartments, car parking spaces and hotels. A portion of the rental office buildings where the Company and some consolidated subsidiaries use as their offices are included in "Properties that partially contain rental properties." The rental income, operating expenses, and gain on sales and disposal for those rental properties were ¥7,914 million ($59,267 thousand), ¥3,156 million ($23,635 thousand) and ¥178 million ($1,333 thousand), respectively, for the year ended March 31, 2023. The rental income, operating expenses and gain on sales and disposal for those rental properties were ¥7,582 million, ¥2,884 million and ¥5 million, respectively, for the year ended March 31, 2022.

The carrying amounts, changes in such balances and market prices of such properties are as follows:

(1) Rental properties

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2022	Decrease	March 31, 2023	March 31, 2023
¥ 26,066	¥ (39)	¥ 26,027	¥ 22,588

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2021	Decrease	March 31, 2022	March 31, 2022
¥ 26,339	¥ (272)	¥ 26,066	¥ 22,669

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
April 1, 2022	Decrease	March 31, 2023	March 31, 2023
$ 195,207	$ (292)	$ 194,915	$ 169,160

(2) Properties that partially contain rental properties

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2022	Decrease	March 31, 2023	March 31, 2023
¥ 51,861	¥ (510)	¥ 51,351	¥ 133,556

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2021	Decrease	March 31, 2022	March 31, 2022
¥ 52,433	¥ (571)	¥ 51,861	¥ 132,574

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
April 1, 2022	Decrease	March 31, 2023	March 31, 2023
$ 388,384	$ (3,819)	$ 384,565	$ 1,000,194

Notes:
1. Carrying amount recognized in the consolidated balance sheet is net of accumulated depreciation and accumulated impairment losses, if any.
2. Decrease during the fiscal year ended March 31, 2022, primarily represents the recognition of depreciation of ¥213 million.
3. Increase during the fiscal year ended March 31, 2023, primarily represents the acquisition of certain rental properties of ¥812 million ($6,081 thousand); and decrease primarily represents disposal by sale of rental properties of ¥587 million ($4,396 thousand) and the recognition of depreciation of ¥234 million ($1,752 thousand).
4. Increase during the fiscal year ended March 31, 2022, primarily represents the acquisition of properties that partially contain rental properties of ¥101 million; and decrease primarily represents the recognition of depreciation of ¥673 million.
5. Increase during the fiscal year ended March 31, 2023, primarily represents the acquisition of properties that partially contain rental properties of ¥131 million($981 thousand); and decrease primarily represents the recognition of depreciation of ¥642 million ($4,807 thousand).
6. Fair value of major properties as of March 31, 2023 is based on real estate survey reports (Fair value calculation in principle based on "Basic Policy on Price Survey for Financial Statements") issued by the real estate appraiser, a third party.

10. Short-Term Bank Loans, Long-Term Bank Loans and Corporate Bonds

The weighted-average interest rate for the balance of short-term bank loans as of March 31, 2023 was 0.28%, and for the balance of short-term bank loans as of March 31, 2022 was not applicable as there were no short-term bank loans as of March 31, 2022 The weighted-average interest rates for the balance of current portion of long-term loans from banks as of March 31, 2023 and 2022 were 0.45% and 0.45%, respectively.

(1) Long-term bank loans as of March 31, 2023 and 2022, consist of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Loans from banks due on various dates	¥ 78,876	¥ 83,591	$ 590,698
Total	78,876	83,591	590,698
Less current portion	(11,558)	(13,008)	(86,557)
Long-term bank loans, less current portion	¥ 67,318	¥ 70,582	$ 504,141

(2) Annual maturities of long-term bank loans, excluding finance leases (see Note 18 "Leases"), subsequent to March 31, 2023, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2024	¥ 11,558	$ 86,557
2025	11,335	84,887
2026	48,874	366,015
2027	1,018	7,623
2028	1,018	7,623
2029 and thereafter	5,071	37,976
Total	¥ 78,876	$ 590,698

Notes: As is customary in Japan, the Company and a certain consolidated subsidiary maintain substantial deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Company and a certain consolidated subsidiary have never been requested to provide any additional collateral.

In addition, the Company entered into committed loan facility agreements totaling ¥119,107 million ($891,986 thousand) with 11 Japanese banks and a syndicated commitment line agreement totaling ¥40,000 million ($299,558 thousand) with 4 Japanese banks. Loan balance is ¥26 million ($194 thousand) under the committed loan facility agreements as of March 31, 2023.

(3) Annual maturities of corporate bonds as of March 31, 2023 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2024	¥ 50	$ 374
2025	—	—
2026	—	—
2027	—	—
2028	—	—
2029 and thereafter	11,000	82,378
Total	¥ 11,050	$ 82,752

(4) The carrying amounts, changes in such balances and the details of each corporate bond are as follows:

March 31, 2023

			Millions of Yen				
Company Name	Name of Corporate Bonds	Issuing date	April 1, 2022	March 31, 2023	Interest Rate (%)	Collateral Status	Maturity Date
Daito Trust Construction Co., Ltd.	1st Unsecured Corporate Bond	December 2, 2021	¥ 11,000	¥ 11,000	0.5	Unsecured	December 2, 2031
Invalance Ltd.	4th Unsecured Corporate Bond	March 9, 2018	20	—	0.5	Unsecured	March 20, 2023
Invalance Ltd.	5th Unsecured Corporate Bonds (Notes 1)	July 13, 2018	30	10 (10)	0.3	Unsecured	July 28, 2023
Invalance Ltd.	7th Unsecured Corporate Bonds (Notes 1)	October 31, 2018	80	40 (40)	0.6	Unsecured	October 31, 2023
Total	(Notes 1)	—	¥ 11,130	¥ 11,050 (50)	—	—	—

Notes: 1. The amount stated inside the brackets as of March 31, 2023 are amounts maturing within one year.

March 31, 2023

			Thousands of U.S. Dollars				
Company Name	Name of Corporate Bonds	Issuing date	April 1, 2022	March 31, 2023	Interest Rate (%)	Collateral Status	Maturity Date
Daito Trust Construction Co., Ltd.	1st Unsecured Corporate Bond	December 2, 2021	$ 82,378	$ 82,378	0.5	Unsecured	December 2, 2031
Invalance Ltd.	4th Unsecured Corporate Bond	March 9, 2018	149	-	0.5	Unsecured	March 20, 2023
Invalance Ltd.	5th Unsecured Corporate Bonds (Notes 1)	July 13, 2018	224	74 (74)	0.3	Unsecured	July 28, 2023
Invalance Ltd.	7th Unsecured Corporate Bonds (Notes 1)	October 31, 2018	599	299 (299)	0.6	Unsecured	October 31, 2023
Total	(Notes 1)	—	$ 83,352	$ 82,752 (374)	—	—	—

Notes: 1. The amount stated inside the brackets as of March 31, 2023, are amounts maturing within one year.

11. Retirement and Pension Plans

The Company and certain consolidated subsidiaries have severance payment plans for employees. Under most circumstances, employees terminating employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

(1) The changes in defined benefit obligation for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Balance at beginning of year	¥ 46,020	¥ 43,964	$ 344,641
Current service cost	3,110	3,331	23,290
Interest cost	51	9	381
Actuarial losses	1,521	1,089	11,390
Benefits paid	(2,665)	(2,375)	(19,958)
Balance at end of year	¥ 48,038	¥ 46,020	$ 359,754

(2) The changes in plan assets for the years ended March 31, 2023, and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Balance at beginning of year	¥ 30,684	¥ 29,283	$ 229,791
Expected return on plan assets	460	414	3,444
Actuarial losses (gains)	(1,129)	(128)	(8,455)
Contributions from the employer	2,432	2,739	18,213
Benefits paid	(1,920)	(1,625)	(14,378)
Balance at end of year	¥ 30,526	¥ 30,684	$ 228,607

(3) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Funded defined benefit obligation	¥ 34,741	¥ 33,290	$ 260,173
Plan assets	(30,526)	(30,684)	(228,607)
Total	4,214	2,606	31,558
Unfunded defined benefit obligation	13,297	12,730	99,580
Net liability arising from defined benefit obligation	¥ 17,511	¥ 15,336	$ 131,139

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Liability for retirement benefits	¥ 17,636	¥ 15,471	$ 132,075
Asset for retirement benefits	(124)	(135)	(928)
Net liability arising from defined benefit obligation	¥ 17,511	¥ 15,336	$ 131,139

(4) The components of net periodic benefit costs for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Service cost	¥ 3,110	¥ 3,331	$ 23,290
Interest cost	51	9	381
Expected return on plan assets	(460)	(414)	(3,444)
Recognized actuarial losses	1,349	1,022	10,102
Amortization of prior service cost	—	4	—
Net periodic benefit costs	¥ 4,051	¥ 3,952	$ 30,337

(5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Prior service cost	¥ —	¥ 4	$ —
Actuarial losses (gains)	(1,301)	(195)	(9,743)
Total	¥ (1,301)	¥ (190)	$ (9,743)

(6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Unrecognized prior service cost	¥ —	¥ —	$ —
Unrecognized actuarial gains	(4,259)	(2,958)	(31,895)
Total	¥ (4,259)	¥ (2,958)	$ (31,895)

(7) Plan assets

(a) Components of plan assets

Plan assets as of March 31, 2023 and 2022, consist of the following:

	2023	2022
Debt investments	25.2%	37.3%
Equity investments	33.5%	24.7%
Cash and cash equivalents	11.2%	7.2%
General accounts	20.8%	21.7%
Others	9.3%	9.1%
Total	100.0%	100.0%

(b) Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(8) Assumptions used for the years ended March 31, 2023 and 2022, were set forth as follows:

	2023	2022
Discount rate	0.2%	0.1%
Expected rate of return on plan assets	1.5%	1.5%
Expected rate of future salary increases	2.1%	2.0%

12. Net Assets

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

(1) Dividends

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

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

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

(a) Dividends paid during the year ended March 31, 2023

Resolution date	Types of shares	Total dividends (Millions of Yen)	Total dividends (Thousands of U.S. Dollars)	Dividends per share (Yen)	Dividends per share (U.S. Dollars)	Record date	Effective date
June 28, 2022	Common stock	¥ 18,938	$ 141,825	¥ 275	$ 2.05	March 31, 2022	June 29, 2022
October 27, 2022	Common stock	17,700	132,554	257	1.92	September 30, 2022	November 18, 2022

Notes: 1) The total dividends resolved at the shareholders' meeting on June 28, 2022 includes the amount of ¥186 million ($1,392 thousand), which is for shares held by ESOP trust for which the reintroduction was resolved by the Board of Directors on November 24, 2020 and for shares held by BIP trust that the introduction was resolved at annual general meeting on June 25, 2019.

2) The total dividends resolved by the Board of Directors on October 27, 2022 includes the amount of ¥165 million ($1,235 thousand), which is for shares held by ESOP trust that the reintroduction was resolved by the Board of Directors on November 24, 2020 and for shares held by BIP trust that the introduction was resolved at the annual general meeting of shareholders on June 25, 2019.

(2) Increases/Decreases and Transfer of Common Stock, Reserve and Surplus

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

(a) Information on shares issued, outstanding and treasury stock

Fiscal year ended March 31, 2023	Shares as of April 1, 2022 (Thousands)	Increase in shares during the fiscal year (Thousands)	Decrease in shares during the fiscal year (Thousands)	Shares as of March 31, 2023 (Thousands)
Shares issued:				
Common Stock	68,918	—	—	**68,918**
Treasury Stock:				
Common Stock (Notes 1,2,3,4 and 5)	728	67	176	**619**

Notes: 1. Increase of 67 thousand shares consisted of 2 thousand shares from purchase of shares less than standard unit, and 65 thousand shares from acquiring shares associated with Board Incentive Plan (BIP)

2. Decrease of 176 thousand shares consisted of 13 thousand shares from distribution of stock to Board of Directors associated with BIP, 12 thousand shares from sale of shares less than standard unit and 150 thousand shares due to sales of shares from Employee Stock Ownership Plan (ESOP) to the Company's shareholding association according to the introduction decision resolved at the Board of Directors meeting held on November 24, 2020.

3. Shares held by the trust, 425 thousand shares as of April 1, 2022, decreased by 51 thousand shares during the fiscal year, to 373 thousand shares as of March 31, 2023, and were not included in the calculation of the number of shares of treasury stock.

4. Shares held by Employee Stock Ownership Plan (ESOP), 629 thousand shares as of April 1, 2022, decreased by 150 thousand shares during the fiscal year, to 478 thousand shares as of March 31, 2023, and were included in calculating the number of shares of treasury stock. Employee Stock Ownership Plan (ESOP) was introduced in accordance with the decision resolved at the Board of Directors meeting held on November 24, 2020.

5. Shares held by Board Incentive Plan (BIP), 47 thousand shares as of April 1,2022 according to the introduction decision resolved at the Shareholders meeting held on June 25, 2019, increase of 65 thousand shares due to the purchase at the stock market, decrease of 13 thousand shares due to distribution to the directors, and 99 thousand shares as of March 31, 2023, were included in the calculation of the number of shares of treasury stock.

(3) Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

The Company and certain consolidated subsidiaries have set up a "Trust under Employee Stock Ownership Plan" (the "ESOP trust") and a "Trust for employees receiving in-kind benefit by stock" (the "J-ESOP") to improve the employees' benefit program, increase corporate value by enhancing awareness of the Company's results and stock price, and enhance employees' motivation and morale.

In addition, the Company has set up a "Board Incentive Plan" (the "BIP") to better interrelate the director's remuneration plan, the Company's performance, and shareholder's value so that the directors will be motivated to contribute to the Company's performance and increase corporate value by holding ownership shares of the Company. The Group believes that this will improve the mindset of the directors to share same value with the shareholder in relation to the Group's performance.

Trust Contracts Concluded Before April 1, 2014

J-ESOP

The implementation of a new employee incentive plan J-ESOP was resolved at the Board of Directors' Meeting held on July 4, 2011. Under the J-ESOP, employees are granted shares of the Company's stock when they become vested in accordance with the Share-based Benefits Regulations established by the Company and certain consolidated subsidiaries. The Company and certain consolidated subsidiaries grant points to selected employees based on their performance and achievements. Employees who have met certain requirements will receive the number of shares of the Company' stock corresponding to their points obtained (one share to one point). Shares to be granted to employees are acquired for both current and future benefits with the money held in a trust and separately managed as trust assets. With the J-ESOP, the Company and certain consolidated subsidiaries expect to enhance employees' morale and motivation to dedicate themselves to improving business performance and corporate value over the medium-term.

The Company's stock held by the above trusts as of March 31, 2023 and 2022, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
J-ESOP	¥ 4,461	¥ 5,386	$ 33,408

	Thousands of Shares	
	2023	2022
J-ESOP	373	425

The Company's stock held by the trusts is therefore presented as "Treasury Stock" and as a deduction to shareholders' equity in the consolidated balance sheet and consolidated net assets (or statement of changes in net assets).

However, such stock is excluded from treasury stock in calculating EPS of common stock and fully diluted EPS of common stock.

Trust Contracts Concluded On or After April 1, 2014

ESOP trust

The implementation of an employee incentive plan ESOP trust was resolved at the Board of Directors' Meeting held on November 24, 2015 and November 24, 2020, aiming to increase the Company's corporate value over the medium to long-term. The Company has set up a trust for employees that are members of the "Daito Trust Construction Co., Ltd. Employee Stock Ownership Plan," who are eligible under certain requirements to be beneficiaries. During the designated acquisition period, the ESOP trust purchased from stock exchanges, the number of shares of the Company's stock which is expected to be acquired by the Daito Trust Construction Co., Ltd. Employee Stock Ownership Plan from the ESOP trust over five years after its establishment. Since the acquisition, the ESOP trust has sold shares of the Company's stock to Daito Trust Construction Co., Ltd. Employee Stock Ownership Plan on a certain day of every month. As for the termination of the ESOP trust, where an increase in the stock price will have generated trust earnings on the sales of the shares of the Company's stock, money held in the trust will be distributed to the employees as beneficiaries based on their contribution ratio. When a decrease in the stock price will have caused losses on the sales of the shares of the Company's stock, resulting in obligations related to trust assets, the employees will not be obligated to make additional contributions because the Company will settle those obligations in a lump sum with the bank in accordance with a guarantee clause in the loan agreement.

The Company's stock held by the above trust as of March 31, 2023 and 2022, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
ESOP trust	¥ 4,592	¥ 6,038	$ 34,389

	Thousands of Shares	
	2023	2022
ESOP trust	478	629

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Long-term debt	¥ 3,200	¥ 5,600	$ 23,964

The Company's stock held by the above trusts also has the same rights as a normal stock, e.g., voting and rights to dividends, as the stock does not meet the definition of treasury stock under the Companies Act. To calculate the available amounts of dividends as stipulated under Clause 2 of Article 461 of the Companies Act, the Company's stock held by the trusts is not deducted for the same reason.

Trust Contracts Concluded On or After April 1, 2014

BIP

The implementation of a new director incentive plan BIP was resolved at the general shareholders meeting held on June 25, 2019. Under the BIP, the directors are granted shares of the Company's stock or similar value of money upon their achievement of their performance indicators. The period for this new director incentive plan is from the year ended March 31, 2020 to the year ended March 31, 2022 and subsequently every three years. In the board of directors' meeting held as on July 26, 2022, it was resolved to continue three more years. Upper limit of ¥1,900 million ($14,229 thousand) is set on director's remuneration to be paid in each period. The directors who have achieved their performance indicators will only be subject to this incentive plan. The trust period will be three years. During the trust period, the points will be granted to directors but during the subjected three years, the maximum for total points granted to an individual director will be 210,000 points (210,000 shares). At the end of the subjected period, the trust will convert the points into shares of the Company's stock or similar value of money. Also, the Company plans to, at the end of the trust period, set up a new trust, amend the existing trust contract or create an additional trust contract to retain this incentive plan.

The Company's stock held by the above trust as of March 31, 2023 and 2022, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
BIP	¥ 1,302	¥ 657	$ 9,750

	Thousands of Shares	
	2023	2022
BIP	99	47

The Company's stock held by the above trusts also has the same rights as a normal stock, e.g., voting and rights to dividends, as the stock does not meet the definition of treasury stock under the Companies Act. To calculate the available amounts of dividends as stipulated under Clause 2 of Article 461 of the Companies Act, the Company's stock held by the trusts is not deducted for the same reason.

13. Stock Options

The Company

The stock options outstanding as of March 31, 2023, were as follows:

Stock Option	Grantees	Number of Options Granted	Grant Date	Exercise Price	Exercise Period
2013 Stock Option (A)	11 directors	7,900 shares	2013.6.17	¥ 1 ($ 0.01)	From June 18, 2013 to June 17, 2043
2014 Stock Option (A)	6 directors	5,200 shares	2014.6.17	¥ 1 ($ 0.01)	From June 18, 2014 to June 17, 2044
2015 Stock Option (A)	7 directors	4,200 shares	2015.6.16	¥ 1 ($ 0.01)	From June 17, 2015 to June 16, 2045
2015 Stock Option (B)	7 directors	8,200 shares	2015.6.16	¥ 1 ($ 0.01)	From June 17, 2018 to June 16, 2023
2016 Stock Option (A)	9 directors	3,800 shares	2016.6.16	¥ 1 ($ 0.01)	From June 17, 2016 to June 16, 2046
2016 Stock Option (B)	9 directors	7,000 shares	2016.6.16	¥ 1 ($ 0.01)	From June 17, 2019 to June 16, 2024
2017 Stock Option (A)	10 directors	11,600 shares	2017.6.16	¥ 1 ($ 0.01)	From June 17, 2017 to June 16, 2047
2017 Stock Option (B)	10 directors	7,000 shares	2017.6.16	¥ 1 ($ 0.01)	From June 17, 2020 to June 16, 2025
2018 Stock Option (A)	8 directors	2,800 shares	2018.6.15	¥ 1 ($ 0.01)	From June 16, 2018 to June 15, 2048
2018 Stock Option (B)	8 directors	6,200 shares	2018. 6.15	¥ 1 ($ 0.01)	From June 16, 2021 to June 15, 2026
2019 Stock Option (A)	9 directors	16,000 shares	2019.6.14	¥ 1 ($ 0.01)	From June 15, 2019 to June 14, 2049
2019 Stock Option (B)	9 directors	9,400 shares	2019.6.14	¥ 1 ($ 0.01)	From June 15, 2022 to June 14, 2027

The stock option activity for the years ended March 31, 2023, and 2022, is as follows:

Year Ended March 31, 2023	2013 Stock Option (A) (Shares)	2014 Stock Option (A) (Shares)	2015 Stock Option (A) (Shares)	2015 Stock Option (B)
Non-vested				
March 31, 2022—Outstanding	—	—	—	—
Granted	—	—	—	—
Canceled	—	—	—	—
Vested	—	—	—	—
March 31, 2023—Outstanding	—	—	—	—
Vested				
March 31, 2022—Outstanding	600	700	1,100	1,800
Vested	—	—	—	—
Exercised	—	—	—	1,800
Canceled	—	—	—	—
March 31, 2023—Outstanding	600	700	1,100	—
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1
	($ 0.01)	($ 0.01)	($ 0.01)	($ 0.01)
Average stock price at exercise	—	—	—	—
	—	—	—	—
Fair value price at grant date	¥ 7,444	¥ 9,361	¥ 10,328	¥ 10,667
	($ 55.74)	($ 70.10)	($ 77.34)	($ 79.88)

Year Ended March 31, 2023	2016 Stock Option(A) (Shares)	2016 Stock Option(B)	2017 Stock Option(A) (Shares)	2017 Stock Option(B)
Non-vested				
March 31, 2022—Outstanding	—	—	—	—
Granted	—	—	—	—
Canceled	—	—	—	—
Vested	—	—	—	—
March 31, 2023—Outstanding	—	—	—	—
Vested				
March 31, 2022—Outstanding	1,100	1,400	1,000	2,100
Vested	—	—	—	—
Exercised	—	1,400	—	600
Canceled	—	—	—	—
March 31, 2023—Outstanding	1,100	—	1,000	1,500
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1
	($ 0.01)	($ 0.01)	($ 0.01)	($ 0.01)
Average stock price at exercise	—	¥ 12,850	—	¥ 14,480
	—	($ 96.23)	—	($ 108.44)
Fair value price at grant date	¥ 13,013	¥ 13,044	¥ 15,384	¥ 15,119
	($ 97.45)	($ 97.68)	($ 115.21)	($ 113.22)

Year Ended March 31, 2023	2018 Stock Option(A) (Shares)	2018 Stock Option(B)	2019 Stock Option(A) (Shares)	2019 Stock Option(B)
Non-vested				
March 31, 2022—Outstanding	—	—	—	9,400
Granted	—	—	—	—
Canceled	—	—	—	—
Vested	—	—	—	—
March 31, 2023—Outstanding	—	—	—	9,400
Vested				
March 31, 2022—Outstanding	1,200	1,300	2,800	0
Vested	—	—	—	9,400
Exercised	—	1,300	—	7,200
Canceled	—	—	—	—
March 31, 2023—Outstanding	1,200	—	2,800	2,200
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1
	($ 0.01)	($ 0.01)	($ 0.01)	($ 0.01)
Average stock price at exercise	—	¥ 14,337	—	¥ 12,465
	—	($ 107.36)	—	($ 93.34)
Fair value price at grant date	¥ 15,054	¥ 15,246	¥ 11,452	¥ 10,951
	($ 112.73)	($ 114.17)	($ 85.76)	($ 82.01)

Consolidated subsidiary
Housecom Corporation

Stock has been restated, as appropriate, to reflect two-for-one stock split effective April 1, 2018. The stock options outstanding as of March 31, 2023, were as follows:

Stock Option	Grantees	Number of Options Granted	Grant Date	Exercise Price	Exercise Period
2014 Stock Option	1 director	31,000 shares	2014.5.30	¥ 1 ($ 0.01)	From May 31, 2014 to May 30, 2044
2015 Stock Option	2 directors	11,200 shares	2015.6.5	¥ 1 ($ 0.01)	From June 6, 2015 to June 5, 2045
2016 Stock Option	2 directors	11,400 shares	2016.6.2	¥ 1 ($ 0.01)	From June 4, 2016 to June 3, 2046
2017 Stock Option	2 directors	10,600 shares	2017.5.31	¥ 1 ($ 0.01)	From June 2, 2017 to June 1, 2047

The stock option activity for the years ended March 31, 2023 and 2022, is as follows:

	2014 Stock Option	2015 Stock Option	2016 Stock Option	2017 Stock Option
Year Ended March 31, 2023	(Shares)			
Non-vested				
March 31, 2022—Outstanding	—	—	—	—
Granted	—	—	—	—
Canceled	—	—	—	—
Vested	—	—	—	—
March 31, 2023—Outstanding	—	—	—	—
Vested				
March 31, 2022—Outstanding	31,000	11,200	11,400	10,600
Vested	—	—	—	—
Exercised	—	—	—	—
Canceled	—	—	—	—
March 31, 2023—Outstanding	31,000	11,200	11,400	10,600
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1
	($ 0.01)	($ 0.01)	($ 0.01)	($ 0.01)
Average stock price at exercise	¥ —	¥ —	¥ —	¥ —
	($ —)	($ —)	($ —)	($ —)
Fair value price at grant date	¥ 269	¥ 655	¥ 595	¥ 827
	($ 2.01)	($ 4.90)	($ 4.45)	($ 6.19)

14. Impairment Loss

The Group recognized impairment losses on the following asset groups for the fiscal year ended March 31, 2023

Location	Main Purpose of Use	Type of Assets	Millions of Yen	Thousands of U.S. Dollars
Lopikuma	Systems	Goodwill; Software	¥ 818	$ 6,125
the Company	Database	Software	430	3,220
Daito Kentaku Leasing	Branch Store	Software; Buildings and structures; Furniture and fixture	219	1,640
Daito Kentaku .Base Toranomon	Branch Store	Buildings and structures; Furniture and fixture	179	1,340
JustCo DK Japan	Branch Store	Buildings and structures; Furniture and fixture	114	853
Housecom Corporation	Branch Store	Buildings and structures; Furniture and fixture	31	232
Care Partner Moriguchi Centre	Branch office	Buildings and structures; Furniture and fixture	1	7

(1) Asset grouping

The Group classified property, plant and equipment as grouping unit based on cash flow generated from assets of reportable segments (construction business, real estate business and finance business) and other businesses. The construction business is grouped by branch office, the real estate business is grouped by property or branch store and the finance and other business are grouped by subsidiary or facility.

(2) Impairment loss recognition

As for software and goodwill owned by Lopikuma, Lopikuma determined closure of its partial business. Therefore, the carrying amount of related assets was reduced to zero and the reduced amount was recognized as impairment loss under extraordinary loss in the consolidated statement of income.

As for software owned by the Company, the Company determined the disposal. Therefore, the carrying amount of the software was reduced to zero and the reduced amount was recognized as impairment loss under extraordinary loss in the consolidated statement of income.

As for other branches and offices, income from operating activity had been continuously negative or disposition of assets probably occurred. Their carrying amount was reduced to recoverable amount when the recoverable amount was lower than carrying amount and the reduced amount was recognized as impairment loss under the extraordinary loss in the consolidated statement of income.

The details of impairment loss are as follows:

Goodwill	¥ 535 million ($ 4,006 thousand)
Software	¥ 307 million ($ 2,299 thousand)
Buildings and structures	¥ 468 million ($ 3,504 thousand)
Furniture and fixtures	¥ 53 million ($ 396 thousand)
Construction in progress	¥ 221 million ($ 1,655 thousand)
Software in progress	¥ 208 million ($ 1,557 thousand)

(3) Measurement for recoverable amount

The recoverable amount is measured based on the value in use but there is no expected cash flow in the future, so the recoverable amount is assessed as zero.

The Group recognized impairment losses on the following asset groups for the fiscal year ended March 31, 2022

Location	Main Purpose of Use	Type of Assets	Millions of Yen
Daito Kentaku Partners's Nagoya Building	Branch office	Buildings and structures; Furniture and equipment	¥ 155
Housecom and its Subsidiary	Branch store	Buildings and structures; Furniture and fixture; and Other (Investment in other assets)	22
Care Partner Takamatsu Nursing Centre	Branch office	Buildings and structures; Furniture and fixture	4

15. Income Taxes

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 30.6% and 30.6% for the fiscal years ended March 31, 2023, and 2022, respectively.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities as of March 31, 2023, and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Deferred tax assets:			
Loss on devaluation of investment securities	¥ 52	¥ 146	$ 389
Allowance for doubtful accounts	2,338	2,096	17,509
Unrealized profit of assets	1,355	1,989	10,147
Accrued expenses	3,562	2,975	26,675
Accrued enterprise taxes	1,265	1,548	9,473
Depreciation	1,772	1,455	13,270
Accrued employees' bonuses	4,997	7,777	37,422
Provision for warranties for completed construction	383	421	2,868
Retirement benefit for employees	5,462	4,792	40,904
Provision for repair of whole-building lease system	63,440	57,403	475,099
Deferred cleaning revenue	5,689	5,682	42,604
Tax loss carryforwards	1,633	991	12,229
Others	10,462	10,417	78,349
Total of tax loss carryforwards and temporary differences	102,416	97,696	766,988
Less valuation allowance for tax loss carryforwards	(1,000)	(962)	(7,488)
Less valuation allowance for temporary differences	(509)	(290)	(3,811)
Total valuation allowance	(1,509)	(1,252)	(11,300)
Deferred tax assets	100,907	96,443	755,687
Deferred tax liabilities:			
Reserve for special depreciation	(0)	(182)	0
Unrealized gain on available-for-sale securities	(984)	(1,217)	(7,369)
Others	(240)	(386)	(1,797)
Deferred tax liabilities	(1,225)	(1,786)	(9,173)
Net deferred tax assets	¥ 99,681	¥ 94,657	$ 746,506

As of March 31, 2023, the valuation allowance increased by ¥256 million ($1,917 thousand). This was mainly due to a increase in the subsidiaries' valuation allowance for temporary differences.

The expiration of tax loss carryforwards and net deferred tax assets as of March 31, 2023, and 2022, were as follows:

	Millions of Yen						
March 31, 2023	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	¥ 7	¥ 19	¥ 34	¥ 33	¥ —	¥ 1,538	¥ 1,633
Less valuation allowances for tax loss carryforwards	(7)	(19)	(34)	(33)	—	(905)	(1,000)
Net deferred tax assets relating to tax loss carryforwards	—	—	—	—	—	633	633

	Millions of Yen						
March 31, 2022	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	—	¥ 7	¥ 13	¥ 24	¥ 36	¥ 910	¥ 991
Less valuation allowances for tax loss carryforwards	—	(7)	(13)	(24)	(36)	(881)	(962)
Net deferred tax assets relating to tax loss carryforwards	—	—	—	—	—	28	28

	Thousands of U.S. Dollars						
March 31, 2023	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	$ 52	$ 142	$ 254	$ 247	$ —	$ 11,518	$ 12,229
Less valuation allowances for tax loss carryforwards	(52)	(142)	(254)	(247)	—	(6,777)	(7,488)
Net deferred tax assets relating to tax loss carryforwards	—	—	—	—	—	4,740	4,740

As of March 31, 2023, deferred tax assets of ¥633 million ($4,740 thousand) have been recognized for tax loss carryforwards of ¥1,633 million ($12,229 thousand). The net amount of deferred tax assets related to operating loss carryforwards was determined to be recoverable due to expected future taxable income, and no valuation allowance was provided. Deferred tax assets and liabilities were included in the consolidated balance sheets as of March 31, 2023 and 2022 as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Non-current assets–Deferred tax assets	¥ 100,109	¥ 95,104	$ 749,711
Long-term liabilities-Deferred tax liabilities	(428)	(446)	(3,205)

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the years ended March 31, 2023 and 2022, is as follows:

	2023	2022
Normal effective statutory tax rate	30.6%	30.6%
Expenses not deductible for income tax purposes	0.9	1.3
Inhabitant tax on per capita basis	0.5	0.5
Valuation allowance	0.4	0.4
Others, net	(0.9)	(0.2)
Actual effective tax rate	31.5%	32.6%

16. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses charged to income for the years ended March 31, 2023, and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Employees' salary expenses	¥ 64,537	¥ 62,329	$ 483,314
Provision for employees' bonus	10,546	19,384	78,978
Retirement benefit expenses	2,494	2,399	18,677
Research and development costs	1,706	1,712	12,776

17. Extraordinary Profit(Loss)

The main components of extraordinary profit (loss) were gain and loss on sales of fixed assets. The details of gain and loss of fixed assets for the years ended March 31, 2023, and 2022, consisted of the following:

Gain on sales of fixed assets	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Tangible fixed assets			
Building and structures	¥ 173	¥ 3	$ 1,295
Machinery and equipment	33	44	247
Furniture and fixtures	—	0	—
Other assets	5	0	37
Land	—	1	—
Total fixed assets	¥ 212	¥ 49	$ 1,587

Loss on sales of fixed assets	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Tangible fixed assets			
Building and structures	¥ 431	¥ 295	$ 3,227
Machinery and equipment	41	11	307
Other assets	4	1	29
Intangible fixed assets	15	19	112
Total fixed assets	¥ 492	¥ 327	$ 3,684

18. Leases

(a) Lessee

The minimum rental commitments under noncancelable operating leases as of March 31, 2023, and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Due within one year	¥ 599,884	¥ 574,015	$ 4,492,503
Due after one year	1,845,161	1,812,430	13,818,325
Total	¥ 2,445,046	¥ 2,386,446	$ 18,310,836

Lease payments fixed by contract with regard to the whole-building lease system are included in the above-mentioned minimum rental commitments as of March 31, 2023 and 2022, as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Due within one year	¥ 596,419	¥ 570,164	$ 4,466,554
Due after one year	1,842,938	1,808,547	13,801,677
Total	¥ 2,439,357	¥ 2,378,711	$ 18,268,231

(b) Lessor

The minimum rental commitments under noncancelable operating leases as of March 31, 2023, and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Due within one year	¥ 1,319	¥ 1,319	$ 9,877
Due after one year	13,380	11,645	100,202
Total	¥ 14,699	¥ 12,964	$ 110,080

Annual maturities of lease obligations subsequent to March 31, 2023, were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2024	¥ 310	$ 2,321
Subtotal	¥ 310	$ 2,321
Due after one year:		
2025	170	1,273
2026	129	966
2027	143	1,070
2028	53	396
2029 and thereafter	116	868
Subtotal	¥ 611	$ 4,575
Total	¥ 921	$ 6,897

19. Financial Instruments

(1) Group Policy for Financial Instruments

The Group uses financial instruments, primarily loans from banks and corporate bonds, based on its capital financing plan for construction business. As a matter of policy, the Group only uses derivatives to hedge the foreign exchange risk on the payment for imported construction materials, not for speculative purposes.

(2) Nature and Extent of Risks Arising from Financial Instruments and Risk Management for Financial Instruments

Money held in trust has been set up to separately manage tenancy deposits. The Group manages such trust assets as short-term deposits and low risk securities. These are exposed to variable risks, including issuers' credit, interest rate, and market. However, the Group periodically monitors the financial condition of issuers and the market value of debt securities.

Receivables such as trade notes and accounts receivable are exposed to customer credit risk. The Group decreases the risk by starting construction after customer financing is fixed.

Marketable and investment securities, and equity instruments, are exposed to variable risks, including issuers' credit, interest rate, and market. The Group periodically monitors the financial condition of the issuers of marketable investment securities. An ongoing review of securities held, is performed by taking into consideration the market as well as the relationship with the trading counterparties.

Short-term investments are time deposits that mature or become due after more than three months from the date of acquisition.

Subordinated bonds and subordinated trust beneficiary rights are financial instruments issued by an SPE established by a financial institution. The financial institution securitized the apartment loans of customers who order the Company to construct an apartment building for rent using the SPE. Subordinated bonds and subordinated trust beneficiary rights are exposed to the credit risk of the debtor of the apartment loan. The Group manages the credit risk by monitoring repayments of the loan.

Operating loans, mainly loans for customers' construction financing (i.e., bridge loans until financial institutions execute a long-term loan and secondary loan for long-term loan) are exposed to customer credit risk. The Group thoroughly enforces credit risk management, which includes periodic monitoring of the financial condition of customers to mitigate the risk of uncollectible loans.

Payment terms of payables, such as accounts payable, income taxes payable, and deposits received, are generally less than one year.

Corporate bonds are issued with fixed interest rate, and the funds are raised for capital expenditure.

Loans from banks are exposed to market risk from changes in interest rates. The Group performs continuous monitoring of market fluctuations.

Derivatives are forward foreign currency exchange contracts, which are used to manage exposure to market risks from changes in foreign currency exchange rate payables.

(3) Fair Values of Financial Instruments

The computation of fair value of financial instruments incorporates variable factors, thus the fair value could vary depending on the different assumptions.

Furthermore, the contract amount stated in the notes on derivative transactions does not represent to the market risk of derivative transactions.

(a) Fair value of financial instruments

	Millions of Yen		
March 31, 2023	Carrying Amount	Fair Value	Difference
Marketable and investment securities:			
Investments in an associated company	¥ 14,795	¥ 20,164	¥ 5,369
Available-for-sale securities	29,068	29,068	—
Subordinated bonds and subordinated trust beneficiary rights	5,119	5,119	—
Operating loans	106,970		
Allowance for doubtful accounts (Notes 4)	(325)		
	106,645	106,658	13
Total assets	¥ 155,628	¥ 161,010	¥ 5,382
Current portion of corporate bonds and corporate bonds	11,050	10,529	(520)
Current portion of long-term bank loans and long-term bank loans	78,876	78,876	—
Deposits received for guarantees	30,807	30,570	(237)
Total liabilities	¥ 120,734	¥ 119,976	¥ (757)
Derivative transactions (Notes 5)	¥ (225)	¥ (225)	¥ —

March 31, 2022	Millions of Yen Carrying Amount	Fair Value	Difference
Marketable and investment securities:			
Investments in an associated company	¥ 14,931	¥ 31,423	¥ 16,491
Available-for-sale securities	26,056	26,056	—
Subordinated bonds and subordinated trust beneficiary rights	6,915	6,915	—
Operating loans	113,329		
Allowance for doubtful accounts (Notes 4)	(373)		
	112,956	113,283	326
Total assets	¥ 160,860	¥ 177,678	¥ 16,818
Current portion of corporate bonds and corporate bonds	11,130	10,979	(150)
Current portion of long-term bank loans and long-term bank loans	83,591	83,591	—
Deposits received for guarantees	31,306	31,153	(152)
Total liabilities	¥ 126,027	¥ 125,724	¥ (302)
Derivative transactions (Notes 5)	¥ 183	¥ 183	¥ —

March 31, 2023	Thousands of U.S. Dollars Carrying Amount	Fair Value	Difference
Marketable and investment securities:			
Investments in an associated company	$ 110,799	$ 151,007	$ 40,208
Available-for-sale securities	217,688	217,688	—
Subordinated bonds and subordinated trust beneficiary rights	38,335	38,335	—
Operating loans	801,093		
Allowance for doubtful accounts (Notes 4)	(2,433)		
	798,659	798,756	97
Total assets	$ 1,165,490	$ 1,205,796	$ 40,305
Current portion of corporate bonds and corporate bonds	82,752	78,851	(3,894)
Current portion of long-term bank loans and long-term bank loans	590,698	590,698	—
Deposits received for guarantees	230,712	228,937	(1,774)
Total liabilities	$ 904,171	$ 898,494	$ (5,669)
Derivative transactions (Notes 5)	$ (1,685)	$ (1,685)	$ —

Notes: 1. The fair value of cash, cash deposit and money held in trust are omitted, because they are cash, settled in a short term, their fair value is approximately equal to the carrying amount.
2. The fair value of accounts receivable arising from the construction projects in progress is omitted, because it is settled in a short term, its fair value is approximately equal to the carrying amount.
3. The carrying amounts of the securities without quoted market price in the consolidated balance sheet are as follows:

	Millions of Yen 2023	2022	Thousands of U.S. Dollars 2023
Non-marketable investment securities	¥ 7,882	¥ 6,807	$ 59,027
Investment in LLC	2,662	2,460	19,935

As the above carrying amounts do not have quoted market price and it is difficult to determine the fair values, those items have been excluded from the tables showing the fair values of financial instruments.
4. Operating loans are presented net of the allowance for bad debts.
5. Derivatives transactions are presented net of accounts receivable or accounts payable.
6. The fair value of the construction payable, corporate tax payable and guarantee deposits are omitted, because they are settled in a short term, their fair value is approximately equal to the carrying amount.

(4) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Millions of Yen					
March 31, 2023	Due in 1 Year or Less	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years	Due after 5 Years
Cash and bank deposits	¥ 267,133	¥ —	¥ —	¥ —	¥ —	¥ —
Money held in trust	11,500	—	—	—	—	—
Accounts receivable	58,154	—	—	—	—	—
Marketable and investment securities:						
Held-to-maturity securities	—	—	—	—	—	—
Corporate bonds	4,000	800	8	1,300	3,200	—
Others	—	—	—	—	—	300
Subordinated bonds and subordinated trust beneficiary rights	738	—	—	—	—	4,446
Operating loans	24,807	5,476	5,552	5,565	5,493	60,073
Total	¥ 366,333	¥ 6,276	¥ 5,560	¥ 6,865	¥ 8,693	¥ 64,819

	Millions of Yen					
March 31, 2022	Due in 1 Year or Less	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years	Due after 5 Years
Cash and bank deposits	¥ 259,134	¥ —	¥ —	¥ —	¥ —	¥ —
Money held in trust	12,500	—	—	—	—	—
Accounts receivable	54,610	—	—	—	—	—
Marketable and investment securities:						
Held-to-maturity securities	—	—	—	—	—	—
Corporate bonds	3,100	1,000	—	8	—	—
Others	—	—	—	—	—	300
Subordinated bonds and subordinated trust beneficiary rights	—	—	—	—	—	7,069
Operating loans	30,764	5,517	5,303	5,104	4,970	61,668
Total	¥ 360,108	¥ 6,517	¥ 5,303	¥ 5,112	¥ 4,970	¥ 69,038

March 31, 2023	Thousands of U.S. Dollars					
	Due in 1 Year or Less	Due after 1 Year through 2 Years	Due after 2 Years through 3 Years	Due after 3 Years through 4 Years	Due after 4 Years through 5 Years	Due after 5 Years
Cash and bank deposits	$2,000,546	$ —	$ —	$ —	$ —	$ —
Money held in trust	86,122	—	—	—	—	—
Accounts receivable	435,512	—	—	—	—	—
Marketable and investment securities:						
Held-to-maturity securities	—	—	—	—	—	—
Corporate bonds	29,955	5,991	59	9,735	23,964	—
Others	—	—	—	—	—	2,246
Subordinated bonds and subordinated trust beneficiary rights	5,526	—	—	—	—	33,295
Operating loans	185,778	41,009	41,578	41,676	41,136	449,883
Total	$2,743,450	$ 47,000	$ 41,638	$ 51,411	$ 65,101	$ 485,426

Please see Note 10 "Short-Term Bank Loans, Long-Term Bank Loans and Corporate Bonds" for annual maturities of long-term bank loans.

(5) Breakdown of fair value of financial instruments by level

Fair values of financial instruments are categorized into three levels as described below based on the observability and the materiality of the inputs used in the fair value measurement.

Level 1: Fair values measured using quoted prices of identical assets or liabilities in active markets among observable valuation inputs

Level 2: Fair values measured using inputs other than inputs included within Level 1 among observable valuation inputs

Level 3: Fair values measured using unobservable valuation inputs

When several inputs that have significant impact on fair value measurement are used and those inputs are categorized into different levels, the fair value is categorized into the lowest hierarchy level for fair value measurement among those in which each of the inputs belongs.

(a) Financial assets and liabilities at fair value on the consolidated balance sheets

March 31, 2023	Millions of Yen			
	Level 1	Level 2	Level 3	Total
Marketable and investment securities:				
Available-for-sale securities:				
Stock	¥ 11,891	¥ —	¥ —	¥ 11,891
Corporate bonds	—	9,234	—	9,234
Others	—	7,942	—	7,942
Subordinated bonds and subordinated trust beneficiary rights	—	5,119	—	5,119
Total assets	¥ 11,891	¥ 22,296	¥ —	¥ 34,187
Derivative transactions	¥ —	¥ (225)	¥ —	¥ (225)

March 31, 2022	Millions of Yen			
	Level 1	Level 2	Level 3	Total
Marketable and investment securities:				
Available-for-sale securities:				
Stock	¥ 13,416	¥ —	¥ —	¥ 13,416
Corporate bonds	—	4,109	—	4,109
Others	—	8,529	—	8,529
Subordinated bonds and subordinated trust beneficiary rights	—	6,915	—	6,915
Total assets	¥ 13,416	¥ 19,555	¥ —	¥ 32,971
Derivative transactions	¥ —	¥ 183	¥ —	¥ 183

March 31, 2023	Thousands of U.S. Dollars			
	Level 1	Level 2	Level 3	Total
Marketable and investment securities:				
Available-for-sale securities:				
Stock	$ 89,051	$ —	$ —	$ 89,051
Corporate bonds	—	69,152	—	69,152
Others	—	59,477	—	59,477
Subordinated bonds and subordinated trust beneficiary rights	—	38,335	—	38,335
Total assets	$ 89,051	$ 166,973	$ —	$ 256,024
Derivative transactions	$ —	$ (1,685)	$ —	$ (1,685)

(b) Financial assets and liabilities which are not stated at fair value on the consolidated balance sheet.

	Millions of Yen			
March 31, 2023	Level 1	Level 2	Level 3	Total
Marketable and investment securities:				
Available-for-sale securities				
Investments in an associated company	¥ 20,164	¥ —	¥ —	¥ 20,164
Operating loans	—	106,658	—	106,658
Total assets	¥ 20,164	¥ 106,658	¥ —	¥ 126,823
Corporate bonds including current portion	—	10,529	—	10,529
Long-term loans including current portion	—	78,876	—	78,876
Deposit received for guarantees	—	30,570	—	30,570
Total liabilities	¥ —	¥ 119,976	¥ —	¥ 119,976

	Millions of Yen			
March 31, 2022	Level 1	Level 2	Level 3	Total
Marketable and investment securities:				
Available-for-sale securities				
Investments in an associated company	¥ 31,423	¥ —	¥ —	¥ 31,423
Operating loans	—	113,283	—	113,283
Total assets	¥ 31,423	¥ 113,283	¥ —	¥ 144,706
Corporate bonds including current portion	—	10,979	—	10,979
Long-term loans including current portion	—	83,591	—	83,591
Deposit received for guarantees	—	31,153	—	31,153
Total liabilities	¥ —	¥ 125,724	¥ —	¥ 125,724

	Thousands of U.S. Dollars			
March 31, 2023	Level 1	Level 2	Level 3	Total
Marketable and investment securities:				
Available-for-sale securities				
Investments in an associated company	$ 151,007	$ —	$ —	$ 151,007
Operating loans	—	798,756	—	798,756
Total assets	$ 151,007	$ 798,756	$ —	$ 949,771
Corporate bonds including current portion	—	78,851	—	78,851
Long-term loans including current portion	—	590,698	—	590,698
Deposit received for guarantees	—	228,937	—	228,937
Total liabilities	$ —	$ 898,494	$ —	$ 898,494

Notes: Explanation on the valuation methods and input used for computation of fair value

Marketable and investment securities

The publicly listed stock and corporate bonds are measured at quoted market prices. The fair value of publicly listed stock traded on active markets, is categorized as Level 1. The fair value of corporate bonds and other investments, which have lesser trading frequency, is categorized as Level 2.

Subordinated bonds and subordinated trust beneficiary rights

The fair value of subordinated bonds and subordinated trust beneficiary rights measured at present value calculated by using interest rate that is observable, is categorized as Level 2.

Derivative transactions

The fair value of forward exchange contracts measured at present value calculated by using an exchange rate that is observable, is categorized as Level 2.

Operating loans

The fair value of operating loans with floating rates approximates its carrying amount and is categorized as Level 2, because the rate reflects market interest rates within a short period of time except if there are significant changes in credit conditions of borrowers. Operating loans with fixed rates consist of short-term bridge loans and long-term loans. The fair value of operating loans with fixed rates approximates its carrying amount is categorized as Level 2, because the rate reflects market interest rates. The fair value of long-term loans measured at present value calculated by using discount rates corresponding to the remaining period of the loan and credit risk, is categorized as Level 2.

Corporate bonds including current portion

The fair value of corporate bonds including current portion issued by the Company issued is measured at the value calculating by the statical price for over the counter bond transactions published by Japan Securities Dealers Association, is classified as Level 2.

Long-term loans including current portion

The fair value of long-term loans including current portion measured at present value by discounting the total amounts of principal and interest payments related to the debt at the discount rate corresponding to similar loan periods and credit risks, is categorized as Level 2.

Deposits received for guarantees

The fair value of deposits received for guarantees measured at present value calculated by maturity periods to collection and discount rate with credit risks, is categorized as Level 2.

20. Derivatives

Derivative Transactions to which hedge accounting is applied

	Millions of Yen			
March 31, 2023	Hedged Item	Contract Amount	Contract Amount Due after 1 Year	Fair Value
Foreign currency forward contracts:				
Buying U.S.$	Forecasted transactions	¥ 15,908	¥ 1,224	¥ (225)

	Millions of Yen			
March 31, 2022	Hedged Item	Contract Amount	Contract Amount Due after 1 Year	Fair Value
Foreign currency forward contracts:				
Buying U.S.$	Forecasted transactions	¥ 1,025	¥ —	¥ 183

	Thousands of U.S. Dollars			
March 31, 2023	Hedged Item	Contract Amount	Contract Amount Due after 1 Year	Fair Value
Foreign currency forward contracts:				
Buying U.S.$	Forecasted transactions	$ 119,134	$ 9,166	$ (1,685)

Notes: The contract or notional amounts of derivatives which are shown in the above table neither represent the amounts exchanged by the parties nor measure the Group's exposure to credit or market risk.

21. Other Comprehensive Income (Loss)

The components of other comprehensive income (loss) for the fiscal years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Unrealized gain (loss) on available-for-sale securities:			
Gains arising during the year	¥ (758)	¥ 627	$ (5,676)
Reclassification adjustments to profit or loss	(15)	(1,654)	(112)
Amount before income tax effect	(773)	(1,027)	(5,788)
Income tax effect	257	215	1,924
Total	¥ (515)	¥ (811)	$ (3,856)
Deferred gain (loss) on derivatives under hedge accounting:			
Gains arising during the year	¥ (436)	¥ (201)	$ (3,265)
Reclassification adjustments to profit or loss	—	—	—
Amount before income tax effect	(436)	(201)	(3,265)
Income tax effect	153	61	1,145
Total	¥ (283)	¥ (140)	$ (2,119)

21. Other Comprehensive Income (Loss) (continued)

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 6,036	¥ 4,069	$ 45,203
Reclassification adjustments to profit or loss	—	—	—
Amount before income tax effect	6,036	4,069	45,203
Income tax effect	—	—	—
Total	¥ 6,036	¥ 4,069	$ 45,203
Defined retirement benefit plans:			
Adjustments arising during the year	¥ (2,651)	¥ (1,207)	$ (19,853)
Reclassification adjustments to profit or loss	1,349	1,017	10,102
Amount before income tax effect	(1,301)	(190)	(9,743)
Income tax effect	398	58	2,980
Total	(903)	(131)	(6,762)
Total other comprehensive income (loss)	¥ 4,333	¥ 2,985	$ 32,449

22. Amounts Per Share

(1) Net Income Per Share

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the fiscal years ended March 31, 2023 and 2022, are as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2023	Net Income Attributable to Owners of the Parent	Weighted- Average Shares	EPS	
Basic EPS-Net income available to common shareholders to attributable to Owners of the parent	¥ 70,361	68,241	¥ 1,031.06	$ 7.72
Effect of dilutive securities				
Stock option		19		
Stock option of consolidated subsidiary	¥ (1)			
Diluted EPS-Net income for computation	¥ 70,359	68,261	¥ 1,030.75	$ 7.71
Year Ended March 31, 2022				
Basic EPS-Net income available to common shareholders	¥ 69,580	68,120	¥ 1,021.43	
Effect of dilutive securities				
Stock option		26		
Stock option of consolidated subsidiary	¥ (1)			
Diluted EPS-Net income for computation	¥ 69,578	68,148	¥ 1,021.00	

(2) Net Assets Per Share

The net asset value per share ("NAVPS") as of March 31, 2023 and 2022, is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
As of March 31, 2023	Net Assets Attributable to Owners of the Company	Number of shares of common stock used for NAVPS computation	NAVPS	
NAVPS-Net assets available to common shareholders	¥ 405,810	68,299	¥ 5,941.66	$ 44.49
As of March 31, 2022				
NAVPS-Net assets available to common shareholders	¥ 366,844	68,190	¥ 5,379.73	

23. Subsequent Events

Appropriation of Retained Earnings

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the fiscal year ended March 31, 2023, was approved at a shareholders' meeting of the Company held on June 27, 2023:

Resolution date	Types of shares	Total dividends (Millions of Yen)	Total dividends (Thousands of U.S. Dollars)	Dividends per share (Yen)	Dividends per share (U.S. Dollars)	Record date	Effective date
June 27, 2023	Common stock	¥ 17,839	$ 133,595	¥ 259	$ 1.93	March 31, 2023	June 28, 2023

Notes: The total dividends approved at a shareholders' meeting on June 27, 2023, includes the amount of ¥149 million ($1,115 thousand), which is for shares held by ESOP trust reintroduced was by resolution of the Board of Directors on November 24, 2020, and for shares held by BIP trust that the introduction was resolved in annual general meeting on June 25, 2019.

24. Supplemental Cash Flow Information

(1) The reconciliation of cash and bank deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of March 31, 2023, and 2022

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Cash and bank deposits	¥ 267,133	¥ 259,134	$ 2,000,546
Fixed term deposit with maturities more than 3 months	(20,821)	(309)	(155,927)
Cash and cash equivalents	¥ 246,312	¥ 258,825	$ 1,844,619

(2) The details of a newly joined consolidated subsidiary through acquisition of shares for the fiscal year ended March 31, 2023.

Rising Force Co. Ltd., currently named Daito Kentaku Asset Solutions Co., Ltd., Sailboat Inc. and Kizuna Care Ltd. became newly consolidated subsidiaries through the acquisition of shares. The details of its assets and liabilities at the commencement of consolidation, acquisition cost of shares and net consideration paid were as follows:

	Millions of Yen
	2023
Current assets	¥ 618
Non-current assets	543
Goodwill	1,400
Current liabilities	(205)
Non-current liabilities	(539)
Acquisition cost of shares	1,818
Cash and cash equivalents	(480)
Net consideration paid	1,337

25. Revenue Recognition

(1) Information on disaggregated revenue from contracts with customers

The disaggregated information on revenue from contracts with customer is disclosed in Note 26 "Segment Information".

(2) Basis information for understanding the revenue from contracts with customers

Performance obligations and timings of revenue recognition for each business are as follows. The contract consideration does not include significant financing components and is collected within one year after the performance obligations are fulfilled.

(a) Construction Business

The Group mainly undertakes construction projects for rental apartments and rental condominiums based on the construction contracts. Because the performance obligation is satisfied over time through construction, the revenue is recognized based on the progress toward complete satisfaction of the performance obligations in accordance with the construction contract.

The progress is calculated by using the ratio of cost incurred to the total construction cost because based on the content and nature of the performance obligation in the construction contract, the cost incurred appropriately represents the progress toward complete satisfaction of the performance obligation. With respect to short-term renovation construction contract, the Group applies an alternative treatment that recognizes revenue when the performance obligation is fully satisfied.

The Group usually provides important integrated services based on contracts with customers. The promised services are treated as a performance obligation as whole, and there is no allocation arising from the transaction price.

Under the construction contract, the Group has a performance obligation to provide repair work free for defects that occur within a specified period after handing over the construction. The performance obligation is that the repair work will be performed in accordance with the specifications set forth in the contract with the customer. As this assurance is provided to customers, it is recorded as a provision

(b) Real Estate Business

1) Revenue from Completed Construction

It is mainly described in (2) (a) Construction Business.

2) Revenue from Intermediary Business

Based on the request from the customer, the Group provides intermediary services by brokering rental properties for prospective tenants then receives brokerages. Since the performance obligation is satisfied when the rental contract is concluded, fees based on the brokerage service contract are recognized as revenue when the rental contract is signed.

3) Revenue from Electric Power Business

The Group supplies electricity, generated mainly by renewable energy power generation equipment installed at the Group's managed properties to customers under the power supply contracts. The performance obligation extends through the supply of electricity. Since the performance obligation is satisfied over time, fees are recognized as revenue based on the progress toward satisfaction of the performance obligation in accordance with the power supply contract. The progress is calculated by using the amount of power supplied as an indicator.

(c) Other Business:

1) Revenue from Energy Business

The Group supplies gas, through gas facilities installed at the Group's properties, to customers based on the gas supply contracts with customers. Since the performance obligation is satisfied over time through the supply of gas, revenue is recognized based on the progress toward satisfaction of the performance obligation in accordance with the gas supply contract. The progress is calculated by using the amount of gas supplied as an indicator.

2) Revenue from Day Care and Child Care Business

The Group operates day service centers and provides services such as nursing care, bathing assistance, and taxi service based on the contracts with customers.

The Group operates childcare facilities and provides childcare services based on childcare usage contracts with customers. Since the performance obligation is satisfied over the contract period, revenue is recognized based on the progress of satisfaction of the performance obligation. The progress is calculated by aggregating the services provided as of the end of the month.

3) Revenue from Hotel Business

The Group operates hotels and provides accommodation or meals based on requests from customers. Since the performance obligation related to the provision of accommodation under the customer request is satisfied over time, revenue is recognized based on the progress toward satisfaction of the performance obligation. The progress is calculated based on the service content during the stay. With respect to the provision of meals, since the performance obligation is satisfied at the point when the meal is provided, revenue is recognized when the meal is provided

4) Revenue from Condominium Investment Business

The Group mainly sells condominiums for the purpose of investment and has the performance obligation to handover the property to the customer under the real estate sales contract. The performance is fully satisfied at the time of handing over the property. Therefore, revenue is recognized at the time of handing over the property under the real estate sales contract.

(3) Information on relationship between the fulfilment of the performance obligation for the contracts with customers and related cash flow; information on the timing of revenue recognition; and information on revenue estimated to be recognized after next fiscal year based on the contracts with customers existing as of the end of current fiscal year.

(a) Balance of Contract Assets and Contract Liabilities

The balances for receivables arising from contracts with customers, contract assets and contract liabilities at the beginning and end of the fiscal year ended March 31, 2023 are as follows.

On the consolidated balance sheet, receivables arising from contracts with customers and contract assets are included in accounts receivable, and contract liabilities are included in construction advance receipts and advances received.

	Millions of Yen	
March 31, 2023	Balance as of the beginning of the fiscal year	Balance as of the end of the fiscal year
Receivables arising from contracts with customers	¥ 37,802	¥ 39,406
Contract assets	16,794	19,098
Contract liabilities	39,690	41,999

	Millions of Yen	
March 31, 2022	Balance as of the beginning of the fiscal year	Balance as of the end of the fiscal year
Receivables arising from contracts with customers	¥ 40,435	¥ 37,802
Contract assets	12,335	16,794
Contract liabilities	41,039	39,690

	Thousands of U.S. Dollars	
March 31, 2023	Balance as of the beginning of the fiscal year	Balance as of the end of the fiscal year
Receivables arising from contracts with customers	$ 283,097	$ 295,109
Contract assets	125,769	143,024
Contract liabilities	297,236	314,528

Contract assets are mainly receivables from construction contracts with customers that are not yet billed to customers, although related performance obligations have been satisfied as of the end of the fiscal year ended March 31, 2023. When the Group's right to the consideration stated in the contracts is unconditional, the contract assets are reclassified to receivables, meanwhile, the consideration for construction contracts will be billed to customers then received in accordance with payment terms of the contracts.

Contract liabilities are mainly advances received from construction contracts with customers related to performance obligations that are not fully satisfied (or partially unsatisfied). Under the payment terms in these contracts, performance obligations are satisfied over time or at the time when fully filled. As the performance obligations are satisfied, contract liabilities will be reclassified to revenue.

Roughly, the 90% of the contract liability balance as of the beginning of the fiscal year has been recognized as revenue during fiscal year ended March 31, 2023.

(b) Transaction Price Allocated to the Remaining Performance Obligation

The total amount of transaction price allocated to the remaining performance obligations is ¥721,422 million ($5,402,696 thousand) as of the end of the fiscal year ended March 31, 2023. Such performance obligations related to the uncompleted part of projects in the construction business are expected to be recognized as revenue within approximately two years after the end of current fiscal year.

The total amount of transaction price allocated to the remaining performance obligations is ¥709,920 million as of the end of the fiscal year ended March 31, 2022. Such performance obligations related to the uncompleted part of projects in the construction business are expected to be recognized as revenue within approximately two years after the end of the fiscal year ended March 31, 2022.

26. Segment Information

Under ASBJ Statement No. 17, “Accounting Standard for Segment Information Disclosures,” and ASBJ Guidance No. 20, “Guidance on Accounting Standard for Segment Information Disclosures”, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(1) Description of Reportable Segments

The Group’s reportable segments are those for which separate financial information is available and regular evaluation by the Company’s management is being performed in order to decide how resources are allocated among the Group.

The Company is engaged in the construction of apartments to foster effective utilization by customers. Daito Kentaku Partners Co., Ltd., a consolidated subsidiary, enters into whole-building leases as a “Lease management trust system” whereby it rents all apartments from landowners and subleases them to tenants. Daito Finance Corporation provides operating loans to landowners to fund construction projects. The Company creates management strategies and develops business activities for these operations.

Therefore, the Group consists of three reportable segments as follows:

Construction: civil engineering, construction, and other related business
Real estate: whole-building lease, rent, agency, guarantee of tenant and management business
Finance: construction finance business for landowners until financial institution executes long-term loans

(2) Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 1 “Summary of Significant Accounting Policies”.

(3) Information on sales, profit (loss), assets and other Items and disaggregation of revenue

Millions of Yen

	2023							
	Reportable Segment							
	Construction	Real estate	Finance	Subtotal	Other	Total	Reconciliations	Consolidated
Net sales:								
Revenue from construction	¥ 459,572	¥ 36,862	¥ —	¥ 496,434	¥ —	¥ 496,434	¥ —	¥ 496,434
Revenue from intermediary business	—	23,337	—	23,337	—	23,337	—	23,337
Revenue from electric power business	—	8,672	—	8,672	—	8,672	—	8,672
Revenue from energy business	—	—	—	—	38,287	38,287	—	38,287
Revenue from daycare service and childcare business	—	—	—	—	14,977	14,977	—	14,977
Revenue from hotel business	—	—	—	—	5,285	5,285	—	5,285
Revenue from investment condominium business	—	—	—	—	16,478	16,478	—	16,478
Other	—	14,687	147	14,834	4,748	19,582	—	19,582
(Revenue from contracts with customers)	459,572	83,559	147	543,278	79,778	623,057	—	623,057
Revenue from whole-building lease system	—	991,029	—	991,029	—	991,029	—	991,029
Revenue from warranty business	—	19,168	—	19,168	—	19,168	—	19,168
Revenue from real estate business	—	6,930	—	6,930	—	6,930	—	6,930
Revenue from insurance business	—	—	8,349	8,349	—	8,349	—	8,349
Revenue from investment condominium business	—	—	—	—	3,692	3,692	—	3,692
Other	—	2,315	2,280	4,595	803	5,399	—	5,399
(Other revenue)	—	1,019,443	10,630	1.030,073	4,496	1,034,569	—	1,034,569
Sales to external customers	¥ 459,572	¥ 1,103,002	¥ 10,777	¥ 1,573,352	¥ 84,274	¥ 1,657,626	¥ —	¥ 1,657,626
Intersegment sales or transfers	4,488	4,965	16,402	25,856	699	26,555	(26,555)	—
Total	¥ 464,061	¥ 1,107,968	¥ 27,179	¥ 1,599,208	¥ 84,973	¥ 1,684,182	¥ (26,555)	¥ 1,657,626
Segment profit (loss)	¥ 21,323	¥ 81,565	¥ 4,445	¥ 107,334	¥ 10,643	¥ 117,977	¥ (17,976)	¥ 100,000
Segment assets	125,014	380,030	133,203	638,249	180,638	818,888	243,021	1,061,909
Other:								
Depreciation (Notes 5)	5,013	7,351	92	12,457	3,989	16,446	202	16,649
Increase in property, plant and equipment and intangible assets (Notes 5)	1,624	19,056	46	20,727	7,745	28,472	314	28,787
Amortization of goodwill	—	61	—	61	704	766	—	766
Impairment losses of assets	609	251	—	860	934	1,795	—	1,795
Goodwill as of March 31, 2023	—	1,592	—	1,592	9,763	11,356	—	11,356

(3) Information on sales, profit (loss), assets and other Items and disaggregation of revenue (continued)

Millions of Yen

	2022							
	Reportable Segment							
	Construction	Real estate	Finance	Subtotal	Other	Total	Reconciliations	Consolidated
Net sales:								
Revenue from construction	¥ 432,831	¥ 33,271	¥ —	¥ 466,102	¥ —	¥ 466,102	¥ —	¥ 466,102
Revenue from intermediary business	—	23,633	—	23,633	—	23,633	—	23,633
Revenue from electric power business	—	7,466	—	7,466	—	7,466	—	7,466
Revenue from energy business	—	—	—	—	34,612	34,612	—	34,612
Revenue from daycare service and childcare business	—	—	—	—	14,835	14,835	—	14,835
Revenue from hotel business	—	—	—	—	1,350	1,350	—	1,350
Revenue from investment condominium business	—	—	—	—	16,344	16,344	—	16,344
Other	—	10,331	149	10,481	4,528	15,009	—	15,009
(Revenue from contracts with customers)	432,831	74,702	149	507,683	71,671	579,355	—	579,355
Revenue from whole-building lease system	—	962,662	—	962,662	—	962,662	—	962,662
Revenue from warranty business	—	18,312	—	18,312	—	18,312	—	18,312
Revenue from real estate business	—	6,590	—	6,590	—	6,590	—	6,590
Revenue from insurance business	—	—	7,738	7,738	—	7,738	—	7,738
Revenue from investment condominium business	—	—	—	—	3,450	3,450	—	3,450
Other	—	1,962	2,151	4,114	779	4,893	—	4,893
(Other revenue)	—	989,527	9,890	999,417	4,229	1,003,647	—	1,003,647
Sales to external customers	¥ 432,831	¥ 1,064,230	¥ 10,040	¥ 1,507,101	¥ 75,901	¥ 1,583,003	¥ —	¥ 1,583,003
Intersegment sales or transfers	1,498	4,289	15,399	21,187	484	21,672	(21,672)	—
Total	¥ 434,329	¥ 1,068,520	¥ 25,439	¥ 1,528,289	¥ 76,386	¥ 1,604,675	¥ (21,672)	¥ 1,583,003
Segment profit (loss)	¥ 35,312	¥ 78,012	¥ 4,576	¥ 117,900	¥ 9,873	¥ 127,774	¥ (28,179)	¥ 99,594
Segment assets	118,919	354,837	135,375	609,132	162,062	771,195	234,684	1,005,879
Other:								
Depreciation (Notes 5)	5,985	6,366	125	12,477	3,467	15,945	237	16,182
Increase in property, plant and equipment and intangible assets (Notes 5)	2,032	11,009	118	13,160	5,757	18,918	457	19,376
Amortization of goodwill	—	152	—	152	734	887	—	887
Impairment losses of assets	—	178	—	178	4	183	—	183
Goodwill as of March 31, 2022	—	790	—	790	10,547	11,337	—	11,337

(3) Information on sales, profit (loss), assets and other Items and disaggregation of revenue (continued)

Thousands of U.S. Dollars

	2023							
	Reportable Segment							
	Construction	Real estate	Finance	Subtotal	Other	Total	Reconciliations	Consolidated
Net sales:								
Revenue from construction	$ 3,441,713	$ 276,057	$ —	$ 3,717,771	$ —	$ 3,717,771	$ —	$ 3,717,771
Revenue from intermediary business	—	174,769	—	174,769	—	174,769	—	174,769
Revenue from electric power business	—	64,944	—	64,944	—	64,944	—	64,944
Revenue from energy business	—	—	—	—	286,729	286,729	—	286,729
Revenue from daycare service and childcare business	—	—	—	—	112,162	112,162	—	112,162
Revenue from hotel business	—	—	—	—	39,579	39,579	—	39,579
Revenue from investment condominium business	—	—	—	—	123,402	123,402	—	123,402
Other	—	109,990	1,100	111,091	35,557	146,648	—	146,648
(Revenue from contracts with customers)	3,441,713	625,769	1,100	4,068,583	597,453	4,666,045	—	4,666,045
Revenue from whole-building lease system	—	7,421,770	—	7,421,770	—	7,421,770	—	7,421,770
Revenue from warranty business	—	143,548	—	143,548	—	143,548	—	143,548
Revenue from real estate business	—	51,898	—	51,898	—	51,898	—	51,898
Revenue from insurance business	—	—	62,525	62,525	—	62,525	—	62,525
Revenue from investment condominium business	—	—	—	—	27,649	27,649	—	27,649
Other	—	17,336	17,074	34,411	6,013	40,432	—	40,432
(Other revenue)	—	7,634,561	79,607	7,714,169	33,670	7,747,839	—	7,747,839
Sales to external customers	$ 3,441,713	$ 8,260,331	$ 80,708	$11,782,760	$ 631,124	$12,413,884	$ —	$12,413,884
Intersegment sales or transfers	33,610	37,182	122,833	193,634	5,234	198,869	(198,869)	—
Total	$ 3,475,331	$ 8,297,521	$ 203,542	$11,976,394	$ 636,358	$12,612,761	$ (198,869)	$12,413,884
Segment profit (loss)	$ 159,686	$ 610,836	$ 33,288	$ 803,819	$ 79,704	$ 883,524	$ (134,621)	$ 748,895
Segment assets	936,224	2,846,027	997,551	4,779,817	1,352,789	6,132,614	1,819,973	7,952,587
Other:								
Depreciation (Notes 5)	37,542	55,051	688	93,289	29,873	123,163	1,512	124,683
Increase in property, plant and equipment and intangible assets (Notes 5)	12,162	142,709	344	155,223	58,001	213,225	2,351	215,584
Amortization of goodwill	—	456	—	456	5,272	5,736	—	5,736
Impairment losses of assets	4,560	1,879	—	6,440	6,994	13,442	—	13,442
Goodwill as of March 31, 2023	—	11,922	—	11,922	73,114	85,044	—	85,044

Notes:
1. "Other" includes LP gas supply business, aged care business and investment condominium business, which are excluded from the reportable segments.
2. Adjustments and eliminations for segment profit of ¥17,976 million ($134,621 thousand) and ¥28,179 million include intersegment eliminations of ¥452 million ($3,385 thousand) and ¥1,921 million, and the corporate expenses not allocated to each business segment of ¥17,524 million ($131,236 thousand) and ¥26,258 million for the years ended March 31, 2023 and 2022, respectively. Corporate expenses are primarily the Company's general administration expenses.
3. Adjustments and eliminations for segment assets of ¥243,021 million ($1,819,973 thousand) and ¥234,684 million include intersegment eliminations of ¥20,295 million ($151,988 thousand) and ¥15,300 million, and the corporate expenses not allocated to each business segment of ¥263,317 million ($1,971,968 thousand) and ¥249,984 million for the years ended March 31, 2023 and 2022, respectively. Corporate assets primarily consist of the Group's surplus fund (cash and band deposits), the Group's long-term (investment securities) held by the Company and other assets associated with administrative departments of the Company.
4. Consolidated amounts of segment profit as mentioned above correspond to the amounts of operating income in the consolidated statement of income.
5. The depreciation and increase in property, plant and equipment and intangible assets include the amortization and increase of long-term prepaid expenses.

27. Additional Information

(1) Information and products and service information

The information is omitted because the same information is disclosed in Note 26 "Segment Information".

(2) Geographical information

(a) Net sales

The information is omitted because sales from external customers in Japan account for over 90% of net sales stated in the consolidated statement of income.

(b) Property, plant and equipment

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Japan	¥ 166,075	¥ 153,394	$ 1,243,728
Other countries	25,307	24,233	189,522
Total	¥ 191,382	¥ 177,627	$ 1,433,250

(3) Related party transactions

(a) Transactions with related parties.

1) The Company has related party transaction with its directors and main shareholders for the fiscal year ended March 31, 2023, as follows.

Relations	Name	Location	Amount of Capital	Nature of Business	Ownership ratio of voting shares	Relationship with the related party	Nature of transactions	Transaction amount (Millions of yen)	Transaction amount (Thousands of US dollars)	Account as of March 31, 2023 (Millions of yen)	Account as of March 31, 2023 (Thousands of US dollars)
Director	Toshiaki Yamaguchi	—	—	Attorney	—	—	Lawyer's remuneration	35	262	—	—

Note: Business transactions with related parties are carried out on an arm's-length basis similar to third party transactions.

The Company had no related party transaction with its directors and main shareholders for the fiscal year ended March 31, 2022.

2) The information is omitted because there were no transactions between the Company's subsidiaries and related parties for the fiscal years ended March 31, 2023 and 2022.

(b) Notes to the Company's parent company or significant related companies

1) This information is omitted because there is no applicable information on the Company's parent for the fiscal years ended March 31, 2023, and 2022.

2) Condensed financial information is omitted because there is no applicable information on any of the Company's significant related companies for the fiscal years ended March 31, 2023, and 2022.

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Independent Auditor's Report

The Board of Directors
Daito Trust Construction Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Daito Trust Construction Co., Ltd. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as at March 31, 2023, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Recognition of revenue as performance obligations are satisfied over time in the construction business	
Description of Key Audit Matter	Auditor's Response
DAITO TRUST CONSTRUCTION CO., LTD. (the "Company") and its consolidated subsidiaries are engaged in construction, real estate, finance, and other businesses. In the construction business, the Company is mainly engaged in the construction of rental apartments and condominiums. As described in Note 1 (t) "Significant Revenue and Expenses," with the exception of short-term building and repair work, the Company and its consolidated	We mainly performed the following audit procedures in assessing the adequacy of the estimates of total construction costs under the method of satisfying performance obligations and recognizing revenue over time. (1) Evaluation of internal controls

subsidiaries apply the method of recognizing revenue as performance obligations are satisfied over time (cost-based input method is applied for estimates of progress toward satisfaction of the performance obligation) for construction contracts.

Of net sales of ¥459,572 million ($3,441,713 thousand*) in the construction business for the fiscal year ended March 31, 2023, the Company recorded revenue from construction contracts of ¥452,564 million ($3,389,230 thousand*) under the method of recognizing revenue as performance obligations satisfied over time. Of this amount, the amount related to construction in progress as of the end of the fiscal year was ¥69,460 million ($520,182 thousand*), accounting for 15.1% of revenue from the construction business.

In applying the method of recognizing revenue as performance obligations are satisfied over time, revenues from construction contracts are determined by multiplying total construction revenue by the degree of progress toward satisfaction of performance obligations, which is based on total construction costs and corresponds to costs actually incurred up until the end of the fiscal year. Accordingly, it is necessary to reasonably estimate total construction revenue, total construction costs, and progress toward satisfaction of performance obligations as of the end of the fiscal year.

For estimates of total construction costs, it is necessary to consider the effect of changes in different components, including building material and labor costs, which involve a high degree of complexity and uncertainty. Additionally, uncertainty regarding estimates of total construction cost is increasing further due to a rise in material costs and outsourcing expenses.

Based on the above, in the Company's application of the method of recognizing revenue as performance obligations are satisfied over time, we determined the estimates of total construction costs are of particular significance for the fiscal year ended March 31, 2023 and, accordingly, that this is a key audit matter.

* The translation of Japanese yen amounts into U.S. dollar amounts has been made on the basis described in Note 3 to the consolidated financial statements.

We evaluated the design and operation of the following internal controls of the Company related to the estimates of total construction costs.

- Control to ensure reliability by requiring that operating budgets upon which estimates of the total construction costs are based are prepared by responsible personnel in the construction division with specialized knowledge, and that necessary approvals have been obtained for such budgets
- Control to confirm that each component of total construction costs is compiled and calculated in detail based on objective prices such as internally-approved projected unit prices and third-party quotations
- IT application controls related to restrictions for entering orders and assessment results, and automated calculations of progress toward completion of construction, and IT general controls on which these IT application controls are based
- Control in which management in the construction division regularly monitors construction progress

(2) Evaluation of the reasonableness of estimates of total construction costs

For construction in progress as of the end of the fiscal year, we identified construction contracts in which there was either quantitatively or qualitatively material uncertainty over the estimate of total construction costs in light of factors such as construction contract amount, profit (loss) on construction, construction details, and the status of construction (including construction projects for which there were large discrepancies with the average of similar projects in the past for comparisons between construction progress and progress against planned construction periods and comparisons between contract amounts and estimates of total construction costs), and performed the following procedures. In identifying the aforementioned construction contracts, we took into consideration unusual construction progress detected using a progress anomaly detection tool*.

- We agreed estimates of total construction costs to operating budgets upon which the estimates are based, and considered whether the estimates were consistent with construction deliverables set forth in construction contracts, whether the

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estimated costs were calculated by aggregating amounts by type of construction, whether key construction items were not omitted, and whether any unusual amounts of adjustment items were not included in the operating budget.
- We made inquiries of personnel responsible for construction management about construction progress, determinations of whether changes were needed to be made to total construction costs, as well as the reasons for those construction projects in which there were large discrepancies with the average of similar projects in the past based on data analysis. In order to evaluate the reasonableness of their responses, we referenced the corresponding work schedules and amounts of expenses incurred.
- We inspected operating budgets and agreed material estimated costs for items that have not yet been ordered to documents such as quotations and the like from construction material suppliers and business partners that form the basis for the aforementioned estimated costs.
- For imported construction materials, we considered whether cost variances generated in cost calculations based on the planned unit prices were included in actual costs incurred and total construction costs.
- We inspected the details of requests and approvals of additional costs in operating budgets subsequent to the close of the fiscal year ended March 31, 2023, and considered whether there were any construction contracts in which total construction costs should be revised at the end of the fiscal year.
- We performed on-site observations for certain construction projects and considered the consistency of construction progress with work schedules for on-site management and the status of construction progress.
- We evaluated the estimation processes for total construction costs by comparing the Company's previous estimates of total construction costs with actual amounts or revised estimates.

* Tool that detects abnormal progress for construction contracts in which the method of recognizing revenue as performance obligations are satisfied over time has been applied based on forecasts of progress toward completion of

	construction using machine learning, as well as forecasts of loss-generating contracts and detects any abnormalities in timing of costs being incurred.

Other Information

The other information comprises the information included in the Annual Report that contains audited consolidated financial statements but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for preparation and disclosure of the other information. The Audit and Supervisory Committee is responsible for overseeing the Group's reporting process of the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management, the Audit and Supervisory Committee 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 Audit and Supervisory Committee is 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 Audit and Supervisory Committee 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 Audit and Supervisory Committee 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.

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

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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.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2023 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

September 22, 2023

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