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February 14, 2022

Consolidated Financial Results for the Fiscal Year Ended December 31, 2021 (Under Japanese GAAP)

Company name: MARUKA FURUSATO Corporation
 Listing: Tokyo Stock Exchange
 Securities code: 7128
 URL: <http://www.fm-hd.co.jp/>
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 Scheduled date of annual general meeting of shareholders: March 30, 2022
 Scheduled date to commence dividend payments: March 31, 2022
 Scheduled date to file annual securities report: March 30, 2022
 Preparation of supplementary material on financial results: Yes
 Holding of financial results briefing: Yes (for analysts and institutional investors)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the fiscal year ended December 31, 2021 (from April 1, 2021 to December 31, 2021)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended								
December 31, 2021	74,292	-	1,465	-	2,033	-	1,037	-
December 31, 2020	-	-	-	-	-	-	-	-

Note: Comprehensive profit For the fiscal year ended December 31, 2021: ¥1,145 million [-%]
 For the fiscal year ended December 31, 2020: - million [-%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
Fiscal year ended	Yen	Yen	%	%	%
December 31, 2021	67.11	-	1.6	1.9	2.0
December 31, 2020	-	-	-	-	-

Reference: Share of profit (loss) of entities accounted for using equity method
 For the fiscal year ended December 31, 2021: - million
 For the fiscal year ended December 31, 2020: - million

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
December 31, 2021	108,594	67,361	61.4	2,632.94
December 31, 2020	-	-	-	-

Reference: Equity
 As of December 31, 2021: ¥66,680 million
 As of December 31, 2020: - million

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
December 31, 2021	(853)	(112)	(541)	22,872
December 31, 2020	-	-	-	-

2. Cash dividends

	Annual dividends per share					Total cash dividends (Total)	Payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
Fiscal year ended December 31, 2020	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
December 31, 2020	-	-	-	-	-	-	-	-
December 31, 2021	-	0.00	-	14.50	14.50	370	21.6	1.1
December 31, 2022 (Forecast)	-	10.00	-	81.50	91.50		77.2	

Note: Breakdown of year-end dividends for the fiscal year ending December 31, 2022
Ordinary dividend: ¥31.50, Commemorative dividend: ¥50.00

3. Consolidated earnings forecast for the fiscal year ending December 31, 2022 (from January 1, 2022 to December 31, 2022)

(Percentages indicate year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	yen
Six months ending June 30, 2022 (Cumulative)	77,000	-	1,700	-	1,950	-	1,250	-	49.36
One year ending December 31, 2022	157,000	-	4,100	-	4,600	-	3,000	-	118.46

Note: As the Company was established on October 1, 2021, the fiscal year ended December 31, 2021, was the nine-month irregular period from April 1, 2021 to December 31, 2021 in line with the change of the fiscal year end of Furusato Industries, Ltd. ("Furusato"), the deemed acquiring company. The report does not indicate year-on-year percentage changes. Please see "Proper use of earnings forecasts, and other special matters" for details.

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

Newly included: - companies (-)

Excluded: - companies (-)

(2) Changes in accounting policies, changes in accounting estimates, and restatement

(i) Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Restatement: None

(3) Number of issued shares (common shares)

(i) Total number of issued shares at the end of the period (including treasury shares)

As of December 31, 2021	25,563,814 shares
As of December 31, 2020	- shares

(ii) Number of treasury shares at the end of the period

As of December 31, 2021	238,487 shares
As of December 31, 2020	- shares

(iii) Average number of shares outstanding during the period

Fiscal year ended December 31, 2021	15,458,917 shares
Fiscal year ended December 31, 2020	- shares

Note: The average number of shares outstanding during the period from April 1, 2021 to September 30, 2021 is the weighted-average number of shares outstanding for the respective accounting periods of Furusato (nine months) and Maruka (one month) since the Company was established on October 1, 2021.

The number of treasury shares at the end of the period includes shares of the Company owned by trust accounts of the “board benefit trust” and the “employee stock ownership plan” (235,934 shares as of December 31, 2021).

Shares of the Company owned by trust accounts of the “director stock ownership plan” and the “employee stock ownership plan” are included in the number of treasury shares excluded for the calculation of the weighted-average number of ordinary shares.

* Financial results reports are exempt from audit conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

- Descriptions regarding the future are estimated based on the information that the Company is able to obtain at the present point in time and assumptions which are deemed to be reasonable. However, actual results may be different due to various factors.

With regard to year-on-year percentage changes of the consolidated earnings forecast for the year ending December 31, 2022, the report does not indicate them due to a change of the date in the fiscal year end of Furusato, the deemed acquiring company, and the fact that the Company was established on October 1, 2021.

- The Company was established on October 1, 2021 as the wholly owning parent company of both Furusato and Maruka Corporation (“Maruka”) through a joint share transfer. As the Company adopted business combination method deeming Furusato as an acquiring company, the consolidated earnings results for the fiscal year ended December 31, 2021 (from April 1, 2021 to December 31, 2021) was calculated based on the consolidated earnings results of Furusato, an acquiring company, (April 1, 2021 to December 31, 2021), combined with the consolidated earnings results of Maruka (from December 1, 2021 to December 31, 2021). The report does not show year-on-year change because the reporting period is the first accounting period of the Company.
- Furusato, a wholly-owned subsidiary of the Company, changed its accounting period to the January-December period from the April-March period in line with the establishment of the Company. According to this change, Furusato’s fiscal year 2021 was from April 1, 2021 to December 31, 2021. As the Company adopted accounting standard for business combination defining Furusato as an acquiring company, the Company had an irregular nine-month accounting period from April 1, 2021 to December 31, 2021.
- Maruka, a wholly-owned subsidiary of the Company, changed its accounting period to the January-December period from the December-November period in line with the establishment of the Company. According to this change, the Company consolidated its results during the 1-month period from December 1, 2021 to December 31, 2021.

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1. Results of Operations

The Company was established on October 1, 2021 as the wholly owning parent company of both Furusato and Maruka through a joint share transfer. As the Company adopted accounting standard for business combination defining Furusato as an acquiring company, the consolidated earnings results for the fiscal year ended December 31, 2021 (from April 1, 2021 to December 31, 2021) was calculated based on the consolidated earnings results of Furusato, an acquiring company, (April 1, 2021 to December 31, 2021), combined with the consolidated earnings results of Maruka (from December 1, 2021 to December 31, 2021). The report does not show year-on-year change because the reporting period is the first accounting period.

(1) Overview of Consolidated Financial Results

During the year ended December 31, 2021, the Japanese economy was picking up following gradual recovery from the severe situation amid the spread of the COVID-19. Meanwhile, we need to pay attention to downside risks to the economy due mainly to the outbreak of the new variant of the virus, supply chain constraints such as semiconductor chip shortage, and trends on raw material prices.

Under this economic situation, in the manufacturing sectors, the industrial production index has shown an upward trend since April 2021, and slightly increased 1.2% year on year in the October-December period. In regard to the orders received for machine tools, domestic and overseas orders increased 57.3% and 78.6% year on year respectively in the October-December period, exceeding the pre-pandemic level in 2019. Meanwhile, with regard to construction-related sectors, the floor area of construction starts increased 16.7% year on year in the October-December period, and housing starts increased 10.8% year on year in the October-December period.

In this business environment, the Company, under the slogan, “‘Why didn’t we think of this?’ one after another”, mainly operates the Machine & Tools Business for manufacturers in Japan and overseas, the Construction Products Business, and the Construction Machinery Business for construction industry mainly in Japan, and the Security Business for business fields of security monitoring. The Company is implementing the platform strategy to strengthen functions and fields needed to provide optimal value to clients.

As a result, consolidated net sales during the period under review were ¥74,292 million. On earnings front, the Company recorded operating profit of ¥1,465 million, ordinary profit of ¥2,033 million, and net profit attributable to owners of parent of ¥1,037 million.

The business environment and overview by segment are as follows:

(Machine & Tools Segment)

Sales of both machinery and tools were steady, reflecting recovery of business environment in the manufacturing sectors, led by automotive industry. As a result, net sales were ¥42,698 million, and operating profit was ¥191 million.

(Construction Products Segment)

Sales in the Construction Products Business and the Piping Products Business were steady due to growing demand for construction and price hike of steel products. Meanwhile, the Housing Equipment Business struggled, mainly affected by supply shortage. As a result, net sales were ¥28,880 million, and operating profit was ¥1,269 million.

(Construction Machinery Segment)

Net sales during the period under review reflected only one-month sales of the Construction Machinery Business of Maruka. Net sales were ¥425 million, and operating loss was ¥32 million because of a decrease in sales from backlog of orders and fewer operating days as the specific factor in December.

(Security Segment)

Net sales were ¥2,287 million, and operating profit was ¥0 million due to fading demand for measures against the COVID-19.

(2) Overview of Consolidated Financial Position

(Total assets)

As of December 31, 2021, total assets were ¥108,594 million. According to a breakdown, total current assets were ¥78,378 million including cash and deposits of ¥24,172 million, trade notes and accounts receivables of ¥29,347 million, etc. Total fixed assets were ¥30,215 million, including tangible fixed assets of ¥20,484 million, intangible assets of ¥2,541 million, and investment and other assets of ¥7,189 million.

(Total liabilities)

As of December 31, 2021, total liabilities were ¥41,233 million. According to a breakdown, total current liabilities were ¥39,513 million including trade notes and accounts payables of ¥17,057 million, and electronically recorded obligations – operating of ¥14,761 million. Total fixed liabilities were ¥1,720 million.

(Net assets)

As of December 31, 2021, net assets were ¥67,361 million. This was attributed to shareholders' equity of ¥64,778 million and valuation and translation adjustments of ¥1,901 million including valuation difference on available-for-sale securities of ¥1,545 million.

(3) Overview of Consolidated Cash Flows

(Cash flows)

Cash and cash equivalents (hereinafter referred to as “cash”) as of December 31, 2021 were ¥22,872 million due to an increase from new consolidation, a decrease in cash from operating activities and also decreases in cash from investment activities and financing activities.

The breakdowns of consolidated cash flows for the reporting period are as follows:

(Net cash from operating activities)

Net cash used in operating activities was ¥853 million, primarily resulting from an increase in trade notes and accounts receivables of ¥2,596 million, and an increase in trade notes and accounts payables of ¥1,008 million.

(Net cash from investing activities)

Net cash used in investing activities totaled ¥112 million, mainly resulting from purchases of tangible fixed assets of ¥434 million, purchase of intangible fixed assets of ¥131 million, and proceeds from redemption of securities of ¥300 million.

(Net cash from financing activities)

Net cash used in financing activities was ¥541 million. This was mainly owing to cash dividends payment of ¥516 million, and repayments of long-term loans of ¥28 million.

(Reference) Cash flow-related indicators

	1st Fiscal year ended December 31, 2021
Equity-to-asset ratio (%)	61.4
Equity-to-asset ratio based on market value (%)	56.1
Ratio of interest-bearing debt to cash flow (years)	-
Interest coverage ratio (times)	-

Equity-to-asset ratio: Equity / total assets

Equity-to-asset ratio based on market value: Total market value of stock / total assets

Ratio of interest-bearing debt to cash flow: Interest-bearing debt / cash flows from operating activities

Interest coverage ratio: cash flows from operating activities / interest payment

Note:

1. All indicators are calculated using consolidated financial figures.
2. Total market capitalization was computed based on the closing stock price at the end of the period multiplied by the number of outstanding shares at the end of the period after deducting treasury shares.
3. Operating cash flows represent cash flows from operating activities on the consolidated statements of cash flows. Interest-bearing debts represent all debts on the consolidated financial position for which interest is paid. In addition, interest payment represents amount of interest paid on the consolidated statements of cash flows.
4. As operating cash flow was negative during the period under review, the ratio of interest-bearing debt to cash flow and the interest coverage ratio were omitted.

(4) Earnings Forecast for fiscal 2022, ending December 31, 2022

Regarding the consolidated earnings forecast for the year ending December 31, 2022, the Company expects net sales of ¥157,000 million, operating profit of ¥4,100 million, ordinary profit of ¥4,600 million, and net profit attributable to owners of parent of ¥3,000 million.

(5) Basic Policy for Distribution of Profits, Dividends for fiscal 2021 and Dividends Forecasts for fiscal 2022

The Company regards our dividend policy as one of the critical management issues. The Company aims to distribute the returns to shareholders based on the performance and, at the same time, continue to secure the internal capital resources for active investment in the area with the growing potential which will contribute to the growth of shareholders' value over the long term.

The target annual dividend payout ratio is approximately 35% of consolidated net profit. Also, the Company aims to maintain ¥15 of dividends as minimum for the stable dividend returns to our shareholders.

Note: Amount is rounded up by ¥0.5.

From ¥0.01 to ¥0.49; ¥0.5

From ¥0.51 to ¥0.99; ¥1.0

The amount of annual dividend paid for the reporting period is planned to be resolved to be ¥14.50 per share. The total dividends payment will be ¥370 million and the Payout Ratio calculated from the profit attributable to owners of parent of ¥1,037 is higher than 35%. Meanwhile the Payout Ratio indicated on the cover page is 21.6%. The difference is due to the difference of average number of shares used in calculations.

The average number of shares used to calculate the dividend per share is 25,299,532 shares, while the average number of shares (weighted-average) used to calculate basic earnings per share is 15,458,917 shares as explained in note of (3)Number of issued shares (common shares) above, like "The average number of shares outstanding during the period from April 1, 2021 to September 30, 2021 is the weighted-average number of shares outstanding for the respective accounting periods of Furusato (nine months) and Maruka (one month) since the Company was established on October 1, 2021".

Basic earnings per share calculated by respective numbers of shares are ¥41.01 and ¥67.11. And the dividends of ¥14.50 divided by respective EPSs are 35.3% and 21.6% respectively.

The company is planning to pay the annual dividends of ¥91.50 (including the commemorative dividends of ¥50.00) based on the earnings forecasts.

2. Selection of Accounting Standards

The Company compiled its consolidated financial statements in accordance with the generally accepted accounting principles and accounting standards in Japan (Japanese GAAP) taking into consideration availability to compare with competitors in Japan. The Company is preparing to adopt international reporting standards (IFRS) in consideration of various domestic and international circumstances.

2. Consolidated Financial Statements and Primary Notes

(1) Consolidated Statement of Financial Position

	Millions of Yen	
	December 31,	
	2021	
	Amounts	
Assets		
Current assets:		
Cash and deposits	¥	24,172
Notes and accounts receivable-trade		29,347
Electronically recorded monetary claims-operating		9,003
Investments in leases		204
Merchandise and finished goods		8,304
Work in process		1,499
Raw materials and supplies		408
Other		5,447
Allowance for doubtful accounts		(8)
Total current assets		78,378
Non-current assets:		
Property, plant and equipment:		
Buildings and structures		14,688
Accumulated depreciation		(7,030)
Buildings and structures, net		7,657
Machinery, equipment and vehicles		4,274
Accumulated depreciation		(3,360)
Machinery, equipment and vehicles, net		914
Tools, furniture and fixtures		1,722
Accumulated depreciation		(1,241)
Tools, furniture and fixtures, net		480
Assets for rent		2,648
Accumulated depreciation		(1,540)
Assets for rent, net		1,107
Leased assets		230
Accumulated depreciation		(122)
Leased assets, net		107
Land		9,952
Construction in progress		263
Total property, plant and equipment		20,484
Intangible assets:		
Goodwill		259
Trade right		1,280
Other		1,001
Total intangible assets		2,541
Investments and other assets:		
Investment securities		4,074
Retirement benefit asset		1,178
Deferred tax assets		363
Other		1,662
Allowance for doubtful accounts		(90)
Total investments and other assets		7,189
Total non-current assets		30,215
Total assets	¥	108,594

Note: All figures are rounded down to the nearest million yen.

	Millions of Yen	
	December 31,	
	2021	
	Amounts	
Liabilities		
Current liabilities:		
Notes and accounts payable-trade	¥	17,057
Electronically recorded obligations-operating		14,761
Lease obligations		214
Short-term borrowings		496
Current portion of long-term borrowings		25
Income taxes payable		781
Provision for bonuses		457
Provision for bonuses for directors		37
Provision for product warranties		67
Other		5,613
Total current liabilities		39,513
Non-current liabilities:		
Long-term borrowings		378
Lease obligations		108
Deferred tax liabilities		760
Provision for retirement benefits for directors		67
Provision for share-based remuneration for directors		34
Retirement benefit liability		99
Other		269
Total noncurrent liabilities		1,720
Total liabilities		41,233
Net Assets		
Shareholders' equity:		
Share capital		5,000
Capital surplus		28,270
Retained earnings		31,829
Treasury shares		(321)
Total shareholders' equity		64,778
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities		1,545
Deferred gains or losses on hedges		(3)
Foreign currency translation adjustment		137
Remeasurements of defined benefit plans		222
Total accumulated other comprehensive income		1,901
Non-controlling interests		681
Total net assets		67,361
Total liabilities and net assets	¥	108,594

Note: All figures are rounded down to the nearest million yen.

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income
(Consolidated Statement of Income)

	Millions of Yen	
	Year from April 1, 2021 to December 31, 2021	
	Amounts	
Net sales	¥	74,292
Cost of sales		62,551
Gross profit		11,741
Selling, general and administrative expenses:		10,275
Operating profit		1,465
Non-operating profit:		
Interest income		6
Dividend income		69
Purchase discounts		344
Surrender value of insurance policies		89
Rent income		45
Foreign exchange gains		13
Other		57
Total non-operating profit		627
Non-operating expenses:		
Interest expenses		0
Rental cost		5
Amortization of organization expenses		35
Other		17
Total non-operating expenses		59
Ordinary profit		2,033
Extraordinary income:		
Gain on sales of investment securities		91
Gain on sale of non-current assets		1
Total extraordinary income		92
Extraordinary loss:		
Loss on valuation of investments in capital of subsidiaries and associates		31
Loss on abolishment of stock ownership plan		40
Total extraordinary loss		72
Profit before income taxes		2,053
Income taxes-current		821
Income taxes-deferred		177
Total income taxes		999
Profit		1,054
Profit attributable to non-controlling interests		16
Profit attributable to owners of parent	¥	1,037

Note: All figures are rounded down to the nearest million yen.

(Consolidated Statement of Comprehensive Income)

	Millions of Yen	
	Year from April 1, 2021 to December 31, 2021	
	Amounts	
Profit	¥	1,054
Other comprehensive income :		
Valuation difference on available-for-sale securities		10
Deferred gains or losses on hedges		(0)
Foreign currency translation adjustment		45
Remeasurements of defined benefit plans		34
Total other comprehensive income		90
Comprehensive income:		1,145
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent		1,144
Comprehensive income attributable to non-controlling interests	¥	1

Note: All figures are rounded down to the nearest million yen.

(3) Consolidated Statement of Changes in Shareholders' Equity

Year Ended December 31, 2021 (from April 1, 2021 to December 31, 2021)

(Millions of Yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total
Balance at April 1, 2021	5,232	5,997	31,307	(85)	42,451
Changes of items during the period					
Increase by share transfers	(232)	22,358		(280)	21,845
Dividends of surplus			(515)		(515)
Profit attributable to owners of parent			1,037		1,037
Purchases of treasury stock				(6)	(6)
Cancellation of treasury shares		(50)		50	-
Purchase of additional shares of consolidated subsidiaries		(34)			(34)
Net changes in items other than shareholders' equity					
Total changes of items during the period	(232)	22,273	521	(236)	22,326
Balance at December 31, 2021	5,000	28,270	31,829	(321)	64,778

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at at April 1, 2021	1,357	-	-	204	1,561	248	44,261
Changes of items during the period							
Increase by share transfers							21,845
Dividends of surplus							(515)
Profit attributable to owners of parent							1,037
Purchases of treasury stock							(6)
Cancellation of treasury shares							-
Purchase of additional shares of consolidated subsidiaries							(34)
Net changes in items other than shareholders' equity	188	(3)	137	17	339	432	772
Total changes of items during the period	188	(3)	137	17	339	432	23,099
Balance at December 31, 2021	1,545	(3)	137	222	1,901	681	67,361

(4) Consolidated Statement of Cash Flows

	Millions of Yen	
	Year from April 1, 2021 to December 31, 2021	
	Amounts	
Cash flows from operating activities:		
Profit before income taxes	¥	2,053
Depreciation		748
Amortization of goodwill		41
Increase (decrease) in provision for bonuses for directors		2
Increase (decrease) in retirement benefit liability		3
Decrease (increase) in retirement benefit asset		(128)
Increase (decrease) in provision for bonuses		(282)
Increase (decrease) in allowance for doubtful accounts		14
Interest and dividends income		(75)
Interest expenses		0
Loss (gain) on sales of investment securities		(91)
Loss (gain) on sale of property, plant and equipment		1
Loss on valuation of investments in capital		31
Loss (gain) on cancellation of insurance policies		(89)
Loss (gain) on abolishment of stock ownership plan		40
Decrease (increase) in trade receivables		(2,596)
Decrease (increase) in inventories		(1,293)
Increase (decrease) in trade payables		1,008
Other		(260)
Subtotal		(871)
Interest and dividend income received		78
Interest paid		(0)
Income taxes paid		(60)
Net cash provided by (used in) operating activities		(853)
Cash flows from investing activities:		
Proceeds from redemption of securities		300
Purchase of property, plant and equipment		(434)
Purchase of intangible assets		(131)
Proceeds from sales of investment securities		61
Other		91
Net cash provided by (used in) investing activities		(112)
Cash flows from financing activities:		
Net increase (decrease) in short-term borrowings		(14)
Repayments of long-term borrowings		(28)
Proceeds from long-term borrowings		23
Purchase of treasury shares		(6)
Dividends paid		(516)
Net cash provided by (used in) financing activities		(541)
Effect of exchange rate change on cash and cash equivalents		16
Net increase (decrease) in cash and cash equivalents		(1,491)
Cash and cash equivalents at beginning of the period		14,093
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation		10,270
Cash and cash equivalents at end of the period	¥	22,872

Note: All figures are rounded down to the nearest million yen.

(5) Notes to Consolidated Financial Statements

(Notes on premise of a going concern)

Not applicable

(Changes in accounting policies)

(Accounting standard for revenue recognition and other accounting changes)

The Company has been implementing the Accounting Standard for Revenue Recognition (Accounting Standards Board of Japan Statement No. 29, issued on March 31, 2020, hereinafter "Accounting Standard for Revenue Recognition") since the beginning of this fiscal year. The new standard recognizes revenues for goods or services based on the amount estimated to be received in exchange for such goods or services at the point when control of the promised goods or services is transferred to the client.

The main changes involved are described below.

(1) Recognizing revenue for agent transactions

For certain transactions that only involve the Company as an agent in providing goods or services to a customer, the entire amount received as compensation from the client was previously recognized as revenue, but now only the difference between the amount received from the client and the amount paid to the supplier is recognized as revenue.

(2) Revenue recognition on transaction price

With respect to revenue recognition related to transaction prices, the Company recorded the amount of money generated from rebate contracts with major distributors based on the degree of achievement of sales amounts as selling, general and administrative expenses. However, the Company has changed its method of calculating the transaction price of such contracts to reflect the impact of variable compensation. In addition, the Company has also changed its method of calculating sales discounts, which had been recorded at the time of collection of sales proceeds, to reflect the effect of variable compensation.

(3) Revenue recognition for construction contract

In the past, construction contracts related to the Security Business were recognized as revenue based on the completed contract method because the degree of completion could not be reasonably estimated. However, for transactions in which the consideration for the performed portion of the contract is guaranteed, the Company has changed its method of recognizing revenue based on the cost recovery method when the performance obligation is expected to be satisfied within a certain period of time and the costs incurred in satisfying the performance obligation are expected to be recovered.

The Company has been implementing the Accounting Standard for Revenue Recognition transitionally, in accordance with the provision in Article 84 of the standard, by calculating the cumulative effect of retroactively applying the new policy from before the beginning of this fiscal year, adjusting the retained earnings at the beginning of this fiscal year, and applying the new policy to the remaining balance at the beginning of this fiscal year.

However, applying the method stipulated in Paragraph 86 of the Accounting Standard for Revenue Recognition, the Company does not retroactively apply the new accounting policy to the contracts almost all of whose revenue was recognized in compliance with the conventional method before the beginning of the year under review. Furthermore, using the method specified in explanatory note (1) of Article 86 in the standard, retained earnings at the beginning of this fiscal year are adjusted by the cumulative monetary effect of contract terms and conditions effective after applying all contractual changes made before the beginning of this fiscal year.

As a result, during the year ended December 31, 2021, net sales decreased by ¥1,026 million, cost of sales by ¥744 million, SG&A expenses by ¥66 million, operating profit by ¥215 million, and ordinary profit and profit attributable to owners of parent decreased by ¥3 million, respectively. There was almost no impact on net assets per share and net profit attributable to owners of parent per share.

(Application of Accounting Standards for Calculation of Fair Value, etc.)

The "Accounting Standard for Measurement of Fair Value" (ASBJ Statement No. 30, July 4, 2019, hereinafter referred to as the "Accounting Standard for Measurement of Fair Value") was applied since the beginning of this fiscal year. And, in accordance with the transitional treatment prescribed in Paragraph 19 of the Accounting Standard for Measurement of Fair Value and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the Company has applied the new accounting policies prospectively. There was no impact of this change on the consolidated financial statements of this fiscal year.

(Segment Information)

1. Outline of business segments reported

The business segments reported are the segments of the Company for which separate financial information is available and for which operating profit/loss amounts are evaluated regularly by executive management in deciding how to allocate resources and in assessing performance.

The Company comprises of four segments, the “Machinery & Tools Segment”, the “Construction Products Segment”, “Construction Machinery Segment”, and the “Security Segment”, which are segmented by supplies, products and services the Company provides.

Segments are as follows:

Business segments reported	Segment overview
Machinery & Tools Segment	Sales of machinery, tools and consumable products for manufactures in Japan and overseas
Construction Products Segment	Sales of products including in-house manufacturing products for construction sectors, sales of housing equipment
Construction Machinery Segment	Sales and rental of construction machinery, rental of construction machinery with operators
Security Segment	Introduction of physical security system, sales of devices, providing subscription business and others

*Physical security: Security measures that are designed to deny unauthorized access to facilities, equipment and resources and to protect personnel and property from damage or harm among information security.

2. Information on net sales, operating profit (loss), assets, liabilities and other items by business segment reported

Year Ended December 31, 2021 (from April 1, 2021 to December 31, 2021)

(Millions of Yen)

	Business segment reported					Adjustment (*1)	Total amounts on the consolidated statements of income (*2)
	Machinery & Tools	Construction Products	Construction Machinery	Security	Total		
Net sales							
To customers	¥ 42,698	¥ 28,880	¥ 425	¥ 2,287	¥ 74,292	¥ -	¥ 74,292
Intersegment	937	13	-	12	963	(963)	-
Total	43,635	28,893	425	2,300	75,255	(963)	74,292
Operating profit (loss)	191	1,269	(32)	0	1,428	36	1,465
Assets	53,881	26,075	6,163	1,537	87,658	20,936	108,594
Other items							
Depreciation and amortization	329	350	19	47	747	1	748
Amortization of goodwill	14	-	-	27	41	-	41
Increase in tangible and intangible fixed assets	¥ 208	¥ 271	¥ 12	¥ 72	¥ 565	¥ 0	¥ 590

Note:

1. Adjustment

(1) Adjustment of operating profit amounted to ¥36 million includes elimination of intersegment transaction of ¥39 million, adjustment of inventory of ¥3 million and adjustment of noncurrent assets of ¥1 million.

(2) Adjustment of assets amounted to ¥20,936 million includes elimination of intersegment transaction of -¥412 million and corporate assets not allocated to each business segment reported of ¥21,348 million. The majority of corporate assets are surplus funds, long-term investment funds and assets in Administration section, which do not belong to each business segment reported.

(3) The majority of adjustment of depreciation and amortization of ¥1 million do not belong to business segments reported.

2. Segment operating profit is adjusted with operating profit on the consolidated statements of income.

(Earnings Per Share)

	Fiscal year ended December 31, 2021 (From April 1, 2021 to December 31, 2021)
Net assets per share	2,632.94 yen
Basic earnings per share	67.11 yen

Note:

1. Diluted earnings per share are omitted because there are no latent shares such as bonds with stock acquisition rights.
2. For the calculation of basic earnings per share, shares of the Company owned by a trust account are included in the number of treasury shares excluded for the calculation of the average number of shares outstanding. And for the calculation of Net Assets per share, they are included in the number of treasury shares excluded from the number of shares outstanding at the end of the fiscal year.
For the fiscal year ended December 31, 2021, the excluded number of treasury shares from the average number of shares outstanding for the calculation of basic earnings per share is 267 thousand shares.
For the fiscal year ended December 31, 2021, the excluded number of treasury shares from the number of shares outstanding for the calculation of Net Assets per share is 235 thousand shares.
3. Basis for calculating net assets per share is as follows:

(Millions of yen)

	Fiscal year ended December 31, 2021 (From April 1, 2021 to December 31, 2021)
Total net assets as reported in the consolidated balance sheets	67,361
Amount to be deducted from total net assets	681
(of which, non-controlling interest)	(681)
Net assets pertaining to common stock shareholders	66,680
Number of common stock shares outstanding as of December 31, 2021 used to calculate net assets per share (thousands of shares)	25,325

4. Basis for calculating basic earnings per share is as follows:

(Millions of yen)

	Fiscal year ended December 31, 2021 (From April 1, 2021 to December 31, 2021)
Net profit attributable to owners of parent	1,037
Net profit not pertaining to common stock shareholders	-
Net profit attributable to owners of parents pertaining to common stock shareholders	1,037
Average number of common stock shares outstanding during the period (thousands of shares)	15,458

(Significant Subsequent Event)

None