
TEIKOKU ELECTRIC MFG. CO., LTD.

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

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of TEIKOKU ELECTRIC MFG. CO., LTD.:

Opinion

We have audited the consolidated financial statements of TEIKOKU ELECTRIC MFG. CO., LTD. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside 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 provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Impairment of goodwill	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>As described in Note 3. "SIGNIFICANT ACCOUNTING ESTIMATES" to the consolidated financial statements, the goodwill of ¥160,129 thousand (\$1,446 thousand) included in the consolidated balance sheet as of March 31, 2021 resulted from the acquisition of HYDRODYNE TEIKOKU (INDIA) PVT. LTD. ("HT").</p> <p>The goodwill reflected the future excess earning power based on HT's business plan at the time of the acquisition. HT manufactures and sells canned motor pumps and provides related after-sales service in India. With the COVID-19 pandemic, HT's operating profit for the current fiscal year was far below the operating profit forecast included in the business plan formulated at the time of the acquisition. Accordingly, management recognized that HT's business environment had deteriorated significantly and as a result, determined that there were possible impairment indicators for HT's asset group including goodwill.</p> <p>Management evaluates goodwill for impairment by comparing undiscounted future cash flows of the asset group including goodwill to the respective carrying amount.</p> <p>The future cash flows are based on the mid-term business plan approved by management in the current fiscal year. The estimate of future cash flows depends on key assumptions such as the expected economic growth in the Indian market, which affects the revenue forecast, and the forecasts based on the investment budgets of major customers, among others. These key assumptions also need to reflect the future impact of the COVID-19 pandemic, which increases the degree of uncertainty further.</p> <p>Under the circumstances, careful consideration is required to determine whether the information about the key assumptions and the estimation methods used by management are reasonable. Therefore, we determined the judgments related to impairment loss on goodwill to be a key audit matter.</p>	<p>We performed the following audit procedures to assess management's judgment related to impairment loss on goodwill, among others:</p> <ul style="list-style-type: none"> - We evaluated the consistency between the HT's mid-term business plan used to calculate the undiscounted cash flows and the Group's budget for the year ending March 31, 2022 approved by management. In addition, we evaluated the precision of the budget and mid-term business plan by comparing the prior year budgets and mid-term business plans with actual financial results of the corresponding years. - We tested the expected economic growth in the Indian market, which was included as a key assumption in the budget and mid-term business plan, by holding discussions with management, and comparing it with the expected economic growth data published by external organizations. - We obtained investment and production forecasts published by external organizations for major customers' industries and evaluated the consistency between those forecasts and HT's sales forecasts. - Regarding the HT's sales forecasts where HT had already received orders, we tested the existence of the received orders by matching the orders with sales contracts. - We held discussions with management to determine if management's assumptions were appropriately adjusted to reflect the impact of stagnation of economic activities due to the COVID-19 pandemic.

Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. 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. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of 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 whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as 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.
- 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 relevant ethical requirements regarding independence, and communicate with it 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.

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.

Deloitte Touche Tohmatsu LLC

June 28, 2021
(September 28, 2021 as to Note 15)

TEIKOKU ELECTRIC MFG. CO., LTD.
Consolidated Balance Sheet
March 31, 2021

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2021	2020	2021
CURRENT ASSETS:			
Cash and cash equivalents (Note 12)	¥ 11,810,351	¥ 9,569,763	\$ 106,678
Short-term investments (Notes 4 and 12)	765,724	945,655	6,916
Receivables (Note 12):			
Trade notes	1,181,683	1,359,782	10,674
Trade accounts	6,205,013	6,984,633	56,047
Other	108,903	153,322	984
Allowance for doubtful accounts	(459,877)	(383,658)	(4,154)
Inventories (Note 5)	4,306,926	4,897,617	38,903
Prepaid expenses and other current assets	966,270	204,538	8,728
Total current assets	24,884,993	23,731,652	224,776
PROPERTY, PLANT AND EQUIPMENT:			
Land	1,845,056	1,817,779	16,665
Buildings and structures	8,091,695	7,897,867	73,089
Machinery and equipment	6,082,830	5,954,532	54,944
Lease assets	1,468,561	1,422,706	13,265
Construction in progress	56,876	92,222	514
Other	1,544,281	1,494,551	13,949
Total	19,089,299	18,679,657	172,426
Accumulated depreciation	(10,721,452)	(9,973,175)	(96,842)
Net property, plant and equipment	8,367,847	8,706,482	75,584
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 12)	1,154,052	921,535	10,424
Software	213,895	221,795	1,932
Software in progress	650	32,217	6
Goodwill	160,129	305,412	1,446
Asset for retirement benefits (Note 7)	137,462	66,157	1,242
Deferred tax assets (Note 10)	311,017	408,470	2,809
Other assets	455,006	447,905	4,110
Allowance for doubtful accounts	(53,194)	(63,774)	(480)
Total investments and other assets	2,379,017	2,339,717	21,489
TOTAL	¥ 35,631,857	¥ 34,777,851	\$ 321,849

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
LIABILITIES AND EQUITY	2021	2020	2021
CURRENT LIABILITIES:			
Short-term bank loans (Notes 6 and 12)	¥ 320,000	¥ 451,339	\$ 2,890
Current portion of long-term lease obligations	102,111	129,368	922
Payables (Note 12):			
Trade notes	529,664	774,029	4,784
Trade accounts	1,339,567	1,357,479	12,100
Notes and accounts payable	518,096	975,540	4,680
Income taxes payable (Note 12)	298,244	944,515	2,694
Accrued expenses	916,922	802,602	8,282
Advances received	1,353,700	1,059,235	12,228
Other current liabilities	338,467	331,724	3,057
Total current liabilities	5,716,771	6,825,831	51,637
LONG-TERM LIABILITIES:			
Long-term debt (Note 6)	180,843	227,252	1,634
Liability for retirement benefits (Note 7)	499,064	478,537	4,508
Deferred tax liabilities (Note 10)	153,929	1,126	1,390
Other long-term liabilities	246,332	194,096	2,225
Total long-term liabilities	1,080,168	901,011	9,757
CONTINGENT LIABILITIES (Note 13)			
EQUITY (Notes 8 and 15):			
Common stock – authorized, 69,200,000 shares; issued, 20,423,438 shares in 2021 and 20,408,138 shares in 2020	3,132,977	3,123,491	28,299
Capital surplus	3,321,206	3,311,720	29,999
Retained earnings	22,555,471	20,998,541	203,735
Treasury stock – at cost, 784,654 shares in 2021 and 730,614 shares in 2020	(1,000,920)	(927,793)	(9,041)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	481,827	254,551	4,352
Foreign currency translation adjustments	194,284	223,729	1,755
Defined retirement benefit plans	(16,289)	(69,272)	(147)
Total	28,668,556	26,914,967	258,952
Noncontrolling interests	166,362	136,042	1,503
Total equity	28,834,918	27,051,009	260,455
TOTAL	¥ 35,631,857	¥ 34,777,851	\$ 321,849

See notes to consolidated financial statements.

TEIKOKU ELECTRIC MFG. CO., LTD.

Consolidated Statement of Income Year Ended March 31, 2021

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2021</u>	<u>2020</u>	<u>2021</u>
NET SALES	¥ 19,910,021	¥ 23,576,096	\$ 179,839
COST OF SALES	<u>12,422,114</u>	<u>14,138,972</u>	<u>112,204</u>
Gross profit	7,487,907	9,437,124	67,635
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 9 and 11)	<u>5,224,993</u>	<u>5,686,358</u>	<u>47,195</u>
Operating income	<u>2,262,914</u>	<u>3,750,766</u>	<u>20,440</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	58,810	52,285	531
Interest expense	(19,018)	(28,291)	(172)
Foreign exchange gain (loss) – net	26,282	(76,074)	238
Employment adjustment subsidy	73,768		666
Loss on liquidation of subsidiaries		(21,809)	
Other – net	<u>91,121</u>	<u>175,745</u>	<u>823</u>
Other income (expenses) – net	<u>230,963</u>	<u>101,856</u>	<u>2,086</u>
INCOME BEFORE INCOME TAXES	<u>2,493,877</u>	<u>3,852,622</u>	<u>22,526</u>
INCOME TAXES (Notes 9 and 10):			
Current	(17,186)	426,133	(155)
Deferred	<u>163,983</u>	<u>230,844</u>	<u>1,481</u>
Total income taxes	<u>146,797</u>	<u>656,977</u>	<u>1,326</u>
NET INCOME	<u>2,347,080</u>	<u>3,195,645</u>	<u>21,200</u>
NET INCOME ATTRIBUTE TO NONCONTROLLING INTERESTS	<u>22,451</u>	<u>40,394</u>	<u>203</u>
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	<u>¥ 2,324,629</u>	<u>¥ 3,155,251</u>	<u>\$ 20,997</u>
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Note 2.p):			
Basic net income	¥118.08	¥159.85	\$1.07
Cash dividends applicable to the year	36.00	36.00	0.33

See notes to consolidated financial statements.

TEIKOKU ELECTRIC MFG. CO., LTD.

Consolidated Statement of Comprehensive Income Year Ended March 31, 2021

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2021</u>	<u>2020</u>	<u>2021</u>
NET INCOME	<u>¥ 2,347,080</u>	<u>¥ 3,195,645</u>	<u>\$ 21,200</u>
OTHER COMPREHENSIVE INCOME (LOSS) (Note 14):			
Unrealized gain (loss) on available-for-sale securities	227,276	(109,813)	2,053
Foreign currency translation adjustments	(21,576)	(176,520)	(195)
Defined retirement benefit plans	<u>52,983</u>	<u>(10,281)</u>	<u>479</u>
Total other comprehensive income (loss)	<u>258,683</u>	<u>(296,614)</u>	<u>2,337</u>
COMPREHENSIVE INCOME	<u>¥ 2,605,763</u>	<u>¥ 2,899,031</u>	<u>\$ 23,537</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥2,575,443	¥2,872,861	\$23,263
Noncontrolling interests	30,320	26,170	274

See notes to consolidated financial statements.

TEIKOKU ELECTRIC MFG. CO., LTD.
**Consolidated Statement of Changes in Equity
Year Ended March 31, 2021**

	Thousands	Thousands of Yen								
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for- Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2019	19,762,555	¥ 3,123,491	¥ 3,311,720	¥ 18,383,679	¥ (809,770)	¥ 364,364	¥ 386,024	¥ (58,991)	¥ 114,072	¥ 24,814,589
Cumulative effect of accounting change				(6,800)					(4,199)	(10,999)
BALANCE, APRIL 1, 2019	19,762,555	3,123,491	3,311,720	18,376,879	(809,770)	364,364	386,024	(58,991)	109,873	24,803,590
Net income attributable to owners of the parent				3,155,251						3,155,251
Cash dividends, ¥27.00 per share				(533,589)						(533,589)
Purchase of treasury stock (Note 8)	(85,031)				(118,023)					(118,023)
Net change in the year						(109,813)	(162,295)	(10,281)	26,169	(256,220)
BALANCE, MARCH 31, 2020	19,677,524	3,123,491	3,311,720	20,998,541	(927,793)	254,551	223,729	(69,272)	136,042	27,051,009
Net income attributable to owners of the parent				2,324,629						2,324,629
Cash dividends, ¥39.00 per share				(767,699)						(767,699)
Purchase of treasury stock (Note 8)	(38,740)				(73,127)					(73,127)
Issuance of new shares		9,486	9,486							18,972
Net change in the year						227,276	(29,445)	52,983	30,320	281,134
BALANCE, MARCH 31, 2021	<u>19,638,784</u>	<u>¥ 3,132,977</u>	<u>¥ 3,321,206</u>	<u>¥ 22,555,471</u>	<u>¥ (1,000,920)</u>	<u>¥ 481,827</u>	<u>¥ 194,284</u>	<u>¥ (16,289)</u>	<u>¥ 166,362</u>	<u>¥ 28,834,918</u>

	Thousands of U.S. Dollars (Note 1)								
	Accumulated Other Comprehensive Income								
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for- Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2020	\$ 28,213	\$ 29,913	\$ 189,672	\$ (8,380)	\$ 2,299	\$ 2,021	\$ (626)	\$ 1,229	\$ 244,341
Net income attributable to owners of the parent			20,997						20,997
Cash dividends, \$0.35 per share			(6,934)						(6,934)
Purchase of treasury stock (Note 8)				(661)					(661)
Issuance of new shares	86	86							172
Net change in the year					2,053	(266)	479	274	2,540
BALANCE, MARCH 31, 2021	\$ 28,299	\$ 29,999	\$ 203,735	\$ (9,041)	\$ 4,352	\$ 1,755	\$ (147)	\$ 1,503	\$ 260,455

See notes to consolidated financial statements.

TEIKOKU ELECTRIC MFG. CO., LTD.

Consolidated Statement of Cash Flows Year Ended March 31, 2021

	Thousands of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
OPERATING ACTIVITIES:			
Income before income taxes	¥ 2,493,877	¥ 3,852,622	\$ 22,526
Adjustments for:			
Income taxes – paid	(661,602)	(998,847)	(5,976)
Depreciation and amortization	978,232	1,107,011	8,836
Amortization of goodwill	151,646	163,311	1,370
Foreign exchange (loss) gain – net	(12,731)	18,642	(115)
Loss (gain) on sales of investment securities	19,551	(45,414)	177
Changes in assets and liabilities:			
Decrease (increase) in notes and accounts receivable	961,868	(328,837)	8,688
Decrease in inventories	543,429	703,033	4,908
(Decrease) in notes and accounts payable	(271,348)	(708,943)	(2,451)
Changes in asset or liability for retirement benefits	25,568	15,018	231
Other – net	(638,907)	(305,265)	(5,771)
Net cash provided by operating activities	<u>3,589,583</u>	<u>3,472,331</u>	<u>32,423</u>
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(492,556)	(664,555)	(4,449)
Proceeds from sales of investment securities	79,817	257,388	721
Purchases of intangible assets	(62,002)	(135,198)	(560)
Purchases of investment securities	(3,716)	(3,821)	(34)
Payment into time deposits	(733,527)	(783,560)	(6,626)
Proceeds from withdrawal of time deposits	924,986	43,816	8,355
Other – net	11,590	25,743	105
Net cash used in investing activities	<u>(275,408)</u>	<u>(1,260,187)</u>	<u>(2,488)</u>
FINANCING ACTIVITIES:			
(Decrease) increase in short-term bank loans – net	(130,238)	136,065	(1,176)
Payments of lease obligations	(135,213)	(174,491)	(1,221)
Repurchases of treasury stock	(73,127)	(118,022)	(661)
Dividends paid	(767,699)	(533,589)	(6,934)
Net cash used in financing activities	<u>(1,106,277)</u>	<u>(690,037)</u>	<u>(9,992)</u>
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	32,690	(110,920)	295
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,240,588	1,411,187	20,238
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>9,569,763</u>	<u>8,158,576</u>	<u>86,440</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>¥ 11,810,351</u>	<u>¥ 9,569,763</u>	<u>\$ 106,678</u>

See notes to consolidated financial statements.

TEIKOKU ELECTRIC MFG. CO., LTD.

Notes to Consolidated Financial Statements Year Ended March 31, 2021

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards ("IFRS").

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2020 consolidated financial statements to conform to the classifications used in 2021.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Consolidation** – The consolidated financial statements as of March 31, 2021, include the accounts of the Company and all of its 12 (14 in 2020) subsidiaries (together, the "Group").

Foreign subsidiaries (except for HYDRODYNE TEIKOKU (INDIA) PVT. LTD.) are consolidated using the financial statements as of December 31 because the difference between the closing date of the subsidiaries and that of the Company did not exceed three months. Significant transactions have been adjusted in consolidation.

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated.

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is amortized on a straight-line basis over a period of five years.

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.

b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements – Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements" the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

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

Cash equivalents include time deposits, certificates of deposit, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

d. Marketable and Investment Securities – Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities, for which there is a positive intent and ability to hold to maturity, are reported at amortized cost; and (2) available-for-sale securities, which are not classified as held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

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

e. Allowance for Doubtful Accounts – The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

f. Inventories – Inventories are stated at the lower of cost, determined by the average cost method, or net selling value for the Company and its domestic subsidiaries and at the lower of cost, determined by the first-in, first-out method, or net selling value for foreign subsidiaries.

g. Property, Plant and Equipment – Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries other than buildings acquired on or after April 1, 1998, is computed using the declining-balance method, while depreciation of property, plant and equipment of its consolidated foreign subsidiaries is mainly computed using the straight-line method at rates based on estimated useful lives of the assets. Buildings of the Company and its consolidated domestic subsidiaries acquired on or after April 1, 1998, and building improvements and structures of the Company and its consolidated domestic subsidiaries acquired on or after April 1, 2016, are depreciated using the straight-line method. The range of useful lives is principally from 15 to 50 years for buildings and structures, and from 7 to 12 years for machinery and equipment. The useful lives for lease assets are the terms of the respective leases.

- h. Long-Lived Assets** – The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.
- i. Software** – Software for internal use is amortized using the straight-line method over the estimated usable life. The estimated usable life is 5 years.
- j. Retirement and Pension Plans** – The liabilities (assets) for retirement benefits of employees are accounted for based on projected benefit obligations and plan assets at the consolidated balance sheet date. The actuarial differences are mainly amortized from the next year using the decline-balance method over 10 years, which is within the average remaining service period. The prior service costs are mainly amortized using the declining-balance method over 10 years, which is within the average remaining service period.

Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus is recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

- k. Research and Development Costs** – Research and development costs are charged to income as incurred.
- l. Leases** – Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the balance sheet.
- m. Income Taxes** – The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.
- n. 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 balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.
- o. Foreign Currency Financial Statements** – The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the 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. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.
- p. 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.

The weighted-average number of common shares outstanding used in the computation were 19,686,204 and 19,738,389 for the fiscal years ended March 31, 2021 and 2020, respectively.

Diluted net income per share is not presented because there are no potentially dilutive securities outstanding.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

- q. Accounting Changes and Error Corrections** – Under ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections," accounting treatments are required as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.

r. New Accounting Pronouncements

On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

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

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

The Company expects to apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

3. SIGNIFICANT ACCOUNTING ESTIMATES

- Impairment of goodwill

(1) Carrying amounts

Goodwill ¥160,129 thousand (\$1,446 thousand)

(2) Information on the significant accounting estimate

In April 2017, the Company acquired HYDRODYNE TEIKOKU (INDIA) PVT. LTD. ("HT") in order to enter the petrochemical market in India and expand its business in the market.

The goodwill included in the consolidated balance sheet as of March 31, 2021 resulted from the acquisition of HT and it was reflected the future excess earning power based on HT's business plan. With the COVID-19 pandemic, HT's operating profit for the current fiscal year was far below the operating profit forecast included in the business plan formulated at the time of the acquisition.

Accordingly, the Company determined that there were possible impairment indicators for HT's asset group including goodwill.

Management evaluates goodwill for impairment by comparing undiscounted future cash flows of the asset group including goodwill to the respective carrying amount.

The total amount of undiscounted future cash flows exceeded the carrying amount of the asset group and, therefore, the Company determined that no impairment loss was recognized.

If the Company significantly changes the business plans used in this estimate, this may have a material impact on recognition of impairment loss and measurement of the amount of impairment loss for the following fiscal year.

4. SHORT-TERM INVESTMENTS AND INVESTMENT SECURITIES

Short-term investments and investment securities as of March 31, 2021 and 2020, consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Current:			
Time deposits other than cash equivalents	<u>¥ 765,724</u>	<u>¥ 945,655</u>	<u>\$ 6,916</u>
Total	<u>¥ 765,724</u>	<u>¥ 945,655</u>	<u>\$ 6,916</u>
Non-current:			
Marketable equity securities	<u>¥ 1,150,325</u>	<u>¥ 917,808</u>	<u>\$ 10,391</u>
Unquoted equity securities	<u>3,727</u>	<u>3,727</u>	<u>33</u>
Total	<u>¥ 1,154,052</u>	<u>¥ 921,535</u>	<u>\$ 10,424</u>

The costs and aggregate fair values of marketable and investment securities at March 31, 2021 and 2020, were as follows:

		Thousands of Yen		
		Cost	Unrealized Gains	Unrealized Losses
<u>March 31, 2021</u>				
Securities classified as:				
Available-for-sale:				
Equity securities		¥454,225	¥702,261	¥(6,161)
				¥1,150,325
		Thousands of Yen		
		Cost	Unrealized Gains	Unrealized Losses
<u>March 31, 2020</u>				
Securities classified as:				
Available-for-sale:				
Equity securities		¥549,876	¥415,709	¥(47,777)
				¥917,808
		Thousands of U.S. Dollars		
		Cost	Unrealized Gains	Unrealized Losses
<u>March 31, 2021</u>				
Securities classified as:				
Available-for-sale:				
Equity securities		\$4,103	\$6,343	\$(56)
				\$10,390

Available-for-sale securities sold during the years ended March 31, 2021 and 2020, were as follows:

	Thousands of Yen		Thousands of U.S. Dollars
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Proceeds from sales	¥ 79,817	¥257,386	\$ 721
(Loss) gain on sales	(19,551)	45,414	(177)

5. INVENTORIES

Inventories at March 31, 2021 and 2020, consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Finished products	¥ 1,382,087	¥ 1,682,330	\$ 12,484
Work in process	1,377,567	1,494,943	12,443
Raw materials and supplies	<u>1,547,272</u>	<u>1,720,344</u>	<u>13,976</u>
Total	<u>¥ 4,306,926</u>	<u>¥ 4,897,617</u>	<u>\$ 38,903</u>

6. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2021 and 2020, consisted of notes to banks and bank overdrafts. The annual interest rates applicable to the short-term bank loans ranged from 0.33% to 0.58% and 0.33% to 3.92% at March 31, 2021 and 2020, respectively.

Long-term debt at March 31, 2021 and 2020, consisted of the following:

	Thousands of Yen		Thousands of U.S. Dollars
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Long-term loans	¥ 73,990	¥ 70,560	\$ 668
Obligations under finance leases	<u>208,964</u>	<u>286,060</u>	<u>1,888</u>
Total	282,954	356,620	2,556
Less current portion	<u>(102,111)</u>	<u>(129,368)</u>	<u>(922)</u>
Long-term debt, less current portion	<u>¥ 180,843</u>	<u>¥ 227,252</u>	<u>\$ 1,634</u>

The annual average interest rate applicable to long-term loan was 8.90% at March 31, 2021 and 2020.

Annual maturities of long-term loan and lease obligations as of March 31, 2021, for the next five years and thereafter was as follows:

<u>Year Ending March 31</u>	<u>Thousands of Yen</u>	<u>Thousands of U.S. Dollars</u>
2022	¥ 102,111	\$ 922
2023	58,012	524
2024	26,151	236
2025	79,188	715
2026	4,964	45
2027 and thereafter	<u>12,528</u>	<u>114</u>
Total	<u>¥ 282,954</u>	<u>\$ 2,556</u>

7. RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries have severance payment plans for employees. Under most circumstances, employees terminating their 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.

In addition, the Company have set an employee's retirement benefit trust to a lump-sum severance payment.

The Company has contributory funded defined benefit pension plans and unfunded retirement benefit plans for employees. Other consolidated subsidiaries have unfunded retirement benefit plans.

- (1) The changes in defined benefit obligation for the years ended March 31, 2021 and 2020, were as follows:

	Thousands of Yen		Thousands of U.S. Dollars
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Balance at beginning of year	¥ 1,639,486	¥ 1,597,875	\$ 14,809
Current service cost	132,292	123,211	1,195
Interest cost	10,314	8,045	93
Actuarial gains	(1,975)	(15,528)	(18)
Benefits paid	(89,772)	(72,974)	(811)
Others	803	(1,143)	7
Balance at end of year	<u>¥ 1,691,148</u>	<u>¥ 1,639,486</u>	<u>\$ 15,275</u>

- (2) The changes in plan assets for the years ended March 31, 2021 and 2020, were as follows:

	Thousands of Yen		Thousands of U.S. Dollars
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Balance at beginning of year	¥ 1,227,106	¥ 1,213,996	\$ 11,084
Expected return on plan assets	24,542	24,280	222
Actuarial losses (gains)	53,876	(44,316)	487
Contributions from the employer	47,886	46,246	432
Benefits paid	(23,864)	(13,100)	(216)
Balance at end of year	<u>¥ 1,329,546</u>	<u>¥ 1,227,106</u>	<u>\$ 12,009</u>

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

	Thousands of Yen		Thousands of U.S. Dollars
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Funded defined benefit obligation	¥ 1,396,304	¥ 1,364,071	\$ 12,612
Plan assets	<u>(1,329,546)</u>	<u>(1,227,106)</u>	<u>(12,009)</u>
Total	66,758	136,965	603
Unfunded defined benefit obligation	<u>294,844</u>	<u>275,415</u>	<u>2,663</u>
Net liability arising from defined benefit obligation	<u>¥ 361,602</u>	<u>¥ 412,380</u>	<u>\$ 3,266</u>

	Thousands of Yen		Thousands of U.S. Dollars
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Liability for retirement benefits	¥ 499,064	¥ 478,536	\$ 4,508
Asset for retirement benefits	<u>(137,462)</u>	<u>(66,157)</u>	<u>(1,242)</u>
Net liability arising from defined benefit obligation	<u>¥ 361,602</u>	<u>¥ 412,379</u>	<u>\$ 3,266</u>

- (4) The components of net periodic benefit costs for the years ended March 31, 2021 and 2020, were as follows:

	Thousands of Yen		Thousands of U.S. Dollars
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Service cost	¥ 132,292	¥ 123,211	\$ 1,195
Interest cost	10,314	8,045	93
Expected return on plan assets	(24,542)	(24,280)	(222)
Recognized actuarial losses	<u>20,494</u>	<u>13,973</u>	<u>186</u>
Net periodic benefit costs	<u>¥ 138,558</u>	<u>¥ 120,949</u>	<u>\$ 1,252</u>

- (5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2021 and 2020, were as follows:

	Thousands of Yen		Thousands of U.S. Dollars
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Actuarial losses (gains)	<u>¥ 76,345</u>	<u>¥ (14,815)</u>	<u>\$ 690</u>
Total	<u>¥ 76,345</u>	<u>¥ (14,815)</u>	<u>\$ 690</u>

- (6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2021 and 2020, were as follows:

	Thousands of Yen		Thousands of U.S. Dollars
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Unrecognized actuarial gains	<u>¥ (23,471)</u>	<u>¥ (99,816)</u>	<u>\$ (212)</u>
Total	<u>¥ (23,471)</u>	<u>¥ (99,816)</u>	<u>\$ (212)</u>

(7) Plan assets

a. Components of plan assets

Plan assets as of March 31, 2021 and 2020, consisted of the following:

	<u>2021</u>	<u>2020</u>
Domestic debt investments	42%	43%
Domestic equity investments	15	8
Foreign debt investments	19	20
Foreign equity investments	16	8
General account assets of life insurance	6	6
Cash and cash equivalents	<u>2</u>	<u>15</u>
Total	<u>100%</u>	<u>100%</u>

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, 2021 and 2020, are set forth as follows:

	<u>2021</u>	<u>2020</u>
Discount rate	0.72~0.77%	0.68~0.70%
Expected rate of return on plan assets	2.00%	2.00%

(9) Defined contribution plans

The amount of required contribution to the defined contribution plans of the Company were ¥20,718 thousand (\$187 thousand) and ¥20,087 thousand for the years ended March 31, 2021 and 2020, respectively.

8. EQUITY

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

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the 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.

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

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

c. *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.

9. TAXES RELATED TO ERRORS

In the fiscal year ended March 31, 2020, the Company completed liquidation of its consolidated subsidiary, JINAN DADI CANNED MOTOR PUMP MAINTENANCE CO., LTD. and "Loss on liquidation of subsidiaries" was recognized in other expenses at ¥21,809 thousand. With this liquidation, the Company reversed a part of the estimated taxes related to the error which was identified in its consolidated subsidiary, DALIAN TEIKOKU CANNED MOTOR PUMP CO., LTD. and its sub-subsidiaries in the fiscal year ended March 31, 2019, as well as additional and overdue taxes recorded as income tax payable in the previous fiscal year. As a result, selling, general and administrative expenses decreased by ¥285,689 thousand and income taxes decreased by ¥459,527 thousand.

In the fiscal year ended March 31, 2021, the Company completed liquidations of its consolidated subsidiaries, CHENGDU DADI CANNED MOTOR PUMP MAINTENANCE CO., LTD. and WUXI DADI CANNED MOTOR PUMP MAINTENANCE CO., LTD. With these liquidations, the Company reversed the estimated taxes related to this error as well as additional and overdue taxes recorded as income tax payable in the previous fiscal year. As a result, selling, general and administrative expenses decreased by ¥391,443 thousand (\$3,536 thousand), current tax expenses decreased by ¥582,174 thousand (\$5,259 thousand) and deferred tax expenses increased by ¥112,258 thousand (\$1,014 thousand).

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.6% for the years ended March 31, 2021 and 2020.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2021 and 2020, are as follows:

	Thousands of Yen		Thousands of U.S. Dollars
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Deferred tax assets:			
Accrued bonuses	¥ 153,564	¥ 152,187	\$ 1,387
Inventories	93,760	68,295	847
Accrued enterprise tax	13,375	20,259	121
Unrealized intercompany profits	61,272	72,041	553
Liability for retirement benefits	372,713	367,908	3,367
Loss on valuation of golf club membership	5,542	5,542	50
Impairment loss	39,997	39,997	361
Other	203,350	217,368	1,837
Less valuation allowance	<u>(60,707)</u>	<u>(60,707)</u>	<u>(548)</u>
Total	<u>882,866</u>	<u>882,890</u>	<u>7,975</u>
Deferred tax liabilities:			
Undistributed earnings of foreign subsidiaries	389,701	256,938	3,520
Reserve for advanced depreciation of non-current assets	71,427	73,988	645
Net unrealized gain on available-for-sale securities	214,273	113,381	1,936
Other	<u>50,377</u>	<u>31,239</u>	<u>455</u>
Total	<u>725,778</u>	<u>475,546</u>	<u>6,556</u>
Net deferred tax assets	<u>¥ 157,088</u>	<u>¥ 407,344</u>	<u>\$ 1,419</u>

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 year ended March 31, 2021, with the corresponding figures for 2020, is as follows:

	<u>2021</u>	<u>2020</u>
Normal effective statutory tax rate	30.6%	30.6%
Expenses not deductible for income tax purposes	0.4	0.1
Income not taxable for income tax purposes	(0.1)	(0.1)
Lower income tax rates applicable to income in certain foreign countries	(4.8)	(3.0)
Amortization of goodwill	1.9	1.3
Effect of liquidation of subsidiaries	(22.8)	(11.8)
Valuation allowance	-	(1.2)
Other – net	<u>0.7</u>	<u>1.1</u>
Actual effective tax rate	<u>5.9%</u>	<u>17.1%</u>

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥403,438 thousand (\$3,644 thousand) and ¥523,165 thousand for the years ended March 31, 2021 and 2020, respectively.

12. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group uses financial instruments, mainly long-term debt including bank loans, based on its capital financing plan. Cash surpluses, if any, are invested in low risk financial assets. Short-term bank loans are used to fund the Group's ongoing operations.

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

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. The Group manages its credit risk from receivables on the basis of internal guidelines. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are controlled by netting against the balance of payables in the same foreign currency and exchanging into yen timely monitoring market trends so as not to increase assets in foreign currencies excessively. Investment securities, mainly equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations. Such investments are managed by monitoring market values and the financial position of issuers on a regular basis.

Payment terms of payables, such as trade notes and trade accounts, are less than one year. Although payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are netted against the balance of receivables denominated in the same foreign currency as noted above.

(3) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead.

(a) Fair value of financial instruments

The carrying amounts, fair values and unrealized gain (loss) as of March 31, 2021 and 2020, are as follows. Note that financial instruments whose fair value cannot be reliably determined are not included (see (b)).

	Thousands of Yen		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
<u>March 31, 2021</u>			
Cash and cash equivalents	¥ 11,810,351	¥ 11,810,351	
Receivables:			
Trade notes	1,181,683	1,181,683	
Trade accounts	6,205,013	6,205,013	
Allowance for doubtful accounts*	(455,186)	(455,186)	
Receivables – net	6,931,510	6,931,510	
Short-term investments and investment securities	1,916,049	1,916,049	
Total	¥ 20,657,910	¥ 20,657,910	
Payables:			
Trade notes	¥ 529,664	¥ 529,664	
Trade accounts	1,339,567	1,339,567	
Short-term bank loans	320,000	320,000	
Income taxes payable	298,244	298,244	
Total	¥ 2,487,475	¥ 2,487,475	

	Thousands of Yen		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
<u>March 31, 2020</u>			
Cash and cash equivalents	¥ 9,569,763	¥ 9,569,763	
Receivables:			
Trade notes	1,359,783	1,359,783	
Trade accounts	6,984,633	6,984,633	
Allowance for doubtful accounts*	<u>(356,920)</u>	<u>(356,920)</u>	
Receivables – net	7,987,496	7,987,496	
Short-term investments and investment securities	<u>1,863,462</u>	<u>1,863,462</u>	
Total	<u>¥ 19,420,721</u>	<u>¥ 19,420,721</u>	
Payables:			
Trade notes	¥ 774,029	¥ 774,029	
Trade accounts	1,357,479	1,357,479	
Short-term bank loans	451,339	451,339	
Income taxes payable	<u>944,515</u>	<u>944,515</u>	
Total	<u>¥ 3,527,362</u>	<u>¥ 3,527,362</u>	
	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
<u>March 31, 2021</u>			
Cash and cash equivalents	\$ 106,678	\$ 106,678	
Receivables:			
Trade notes	10,674	10,674	
Trade accounts	56,047	56,047	
Allowance for doubtful accounts*	<u>(4,111)</u>	<u>(4,111)</u>	
Receivables – net	62,610	62,610	
Short-term investments and investment securities	<u>17,308</u>	<u>17,308</u>	
Total	<u>\$ 186,596</u>	<u>\$ 186,596</u>	
Payables:			
Trade notes	\$ 4,784	\$ 4,784	
Trade accounts	12,100	12,100	
Short-term bank loans	2,890	2,890	
Income taxes payable	<u>2,694</u>	<u>2,694</u>	
Total	<u>\$ 22,468</u>	<u>\$ 22,468</u>	

Note: * Allowance for doubtful accounts associated with trade notes and accounts receivable is deducted.

Cash and Cash Equivalents

The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

Short-term Investments and Investment Securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments and investment trusts. Short-term investments consist of time deposits other than cash equivalents. The carrying values of these short-term investments approximate fair value because of their short maturities. Fair value information for short-term investments and investment securities by classification is included in Note 4.

Receivables

The fair values of receivables are measured at the amount to be received at maturity, which reflects credit risk by allowance for doubtful accounts.

Payables, Short-Term Bank Loans, and Income Taxes Payable

The carrying values of these items approximate fair value because of their short maturities.

(b) *Carrying amount of financial instruments whose fair value cannot be reliably determined*

	Thousands of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Investments in equity instruments that do not have a quoted market price in an active market	¥3,727	¥3,727	\$33

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

		Thousands of Yen			
		Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
<u>March 31, 2021</u>					
Cash and cash equivalents	¥ 11,810,351				
Receivables:					
Trade notes	1,181,683				
Trade accounts	6,205,013				
Short-term investments and investment securities:					
Time deposits other than cash equivalents	765,724				
Total	¥ 19,962,771				

		Thousands of Yen			
		Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
<u>March 31, 2020</u>					
Cash and cash equivalents	¥ 9,569,763				
Receivables:					
Trade notes	1,359,782				
Trade accounts	6,984,633				
Short-term investments and investment securities:					
Time deposits other than cash equivalents	945,655				
Total	¥ 18,859,834				
		Thousands of U.S. Dollars			
		Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
<u>March 31, 2021</u>					
Cash and cash equivalents	\$ 106,678				
Receivables:					
Trade notes	10,674				
Trade accounts	56,047				
Short-term investments and investment securities:					
Time deposits other than cash equivalents	6,916				
Total	\$ 180,315				

13. CONTINGENT LIABILITIES

(1) Trade Notes Endorsed

At March 31, 2021, contingent liabilities for notes endorsed with recourse totaled ¥749,131 thousand (\$6,767 thousand).

(2) Improper Performance Tests

The Company identified that certain models of canned motor pumps sold had been shipped under improper performance tests, and the Company is under discussions with the customers for technical and other compensation. The consolidate financial results may be affected depending on the outcome of negotiations, but it is not possible to reasonably estimate financial impact at this time and the impact is not reflected in the consolidated financial statements for March 31, 2021.

14. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2021 and 2020, were as follows:

	Thousands of Yen		Thousands of U.S. Dollars
	<u>2021</u>	<u>2020</u>	<u>2021</u>
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥ 308,618	¥ (112,985)	\$ 2,788
Reclassification adjustments to profit or loss	<u>19,550</u>	<u>(45,414)</u>	<u>176</u>
Amount before income tax effect	328,168	(158,399)	2,964
Income tax effect	<u>(100,892)</u>	<u>48,586</u>	<u>(911)</u>
Total	<u>¥ 227,276</u>	<u>¥ (109,813)</u>	<u>\$ 2,053</u>
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (21,576)	¥ (176,520)	\$ (195)
Amount before income tax effect	<u>(21,576)</u>	<u>(176,520)</u>	<u>(195)</u>
Total	<u>¥ (21,576)</u>	<u>¥ (176,520)</u>	<u>\$ (195)</u>
Defined retirement benefit plans:			
Adjustments arising during the year	¥ 55,851	¥ (28,788)	\$ 505
Reclassification adjustments to profit or loss	<u>20,494</u>	<u>13,973</u>	<u>185</u>
Amount before income tax effect	76,345	(14,815)	690
Income tax effect	<u>(23,362)</u>	<u>4,534</u>	<u>(211)</u>
Total	<u>¥ 52,983</u>	<u>¥ (10,281)</u>	<u>\$ 479</u>
Total other comprehensive income (loss)	<u>¥ 258,683</u>	<u>¥ (296,614)</u>	<u>\$ 2,337</u>

15. SUBSEQUENT EVENT

Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2021, was approved at the Company's shareholders' meeting held on June 29, 2021:

	Thousands of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥18 (\$0.16) per share	¥353,498	\$3,193

16. 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 Group mainly produces and sells pumps. Production headquarters and manufacturing subsidiaries are responsible for manufacturing and purchasing. The sales headquarter and sales subsidiaries are responsible for sales. In addition, a specific subsidiary produces and sells electronic components.

Therefore, the Group's reportable segments consist of "Pumps" and "Electronic components." "Pumps" consists of the manufacture and sale of motor pumps for chemical and other. "Electronic components" consists of the manufacture and sale of automotive electrical components and industrial equipment substrates.

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

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies." Income by reportable segment is operating income.

(3) Information about Sales, Profit (Loss), Assets, Liabilities and Other Items

Thousands of Yen					
2021					
Reportable Segment					
	Pumps	Electronic Components	Total	Other	Consolidated
Sales:					
Sales to external customers	¥ 17,895,057	¥ 1,584,426	¥ 19,479,483	¥ 430,538	¥ 19,910,021
Total	<u>¥ 17,895,057</u>	<u>¥ 1,584,426</u>	<u>¥ 19,479,483</u>	<u>¥ 430,538</u>	<u>¥ 19,910,021</u>
Segment profit (loss)	¥ 2,237,246	¥ (41,353)	¥ 2,195,893	¥ 67,021	¥ 2,262,914
Segment assets	33,076,982	1,986,442	35,063,424	568,433	35,631,857
Other:					
Depreciation	849,325	119,662	968,987	9,245	978,232
Amortization of goodwill	151,646		151,646		151,646
Increase in property, plant and equipment and intangible assets	607,287	782	608,069	4,037	612,106
Thousands of Yen					
2020					
Reportable Segment					
	Pumps	Electronic Components	Total	Other	Consolidated
Sales:					
Sales to external customers	¥ 21,061,631	¥ 1,965,767	¥ 23,027,398	¥ 548,698	¥ 23,576,096
Total	<u>¥ 21,061,631</u>	<u>¥ 1,965,767</u>	<u>¥ 23,027,398</u>	<u>¥ 548,698</u>	<u>¥ 23,576,096</u>
Segment profit	¥ 3,542,636	¥ 106,506	¥ 3,649,142	¥ 101,624	¥ 3,750,766
Segment assets	32,072,376	2,121,755	34,194,131	583,720	34,777,851
Other:					
Depreciation	930,284	167,984	1,098,268	8,743	1,107,011
Amortization of goodwill	163,311		163,311		163,311
Increase in property, plant and equipment and intangible assets	779,300	9,242	788,542	5,127	793,669
Thousands of U.S. Dollars					
2021					
Reportable Segment					
	Pumps	Electronic Components	Total	Other	Consolidated
Sales:					
Sales to external customers	\$ 161,639	\$ 14,311	\$ 175,950	\$ 3,889	\$ 179,839
Total	<u>\$ 161,639</u>	<u>\$ 14,311</u>	<u>\$ 175,950</u>	<u>\$ 3,889</u>	<u>\$ 179,839</u>
Segment profit (loss)	\$ 20,208	\$ (373)	\$ 19,835	\$ 605	\$ 20,440
Segment assets	298,771	17,943	316,714	5,135	321,849
Other:					
Depreciation	7,671	1,081	8,752	84	8,836
Amortization of goodwill	1,370		1,370		1,370
Increase in property, plant and equipment and intangible assets	5,485	7	5,492	37	5,529

Note: "Other" consists of operating segments which are not included in the reportable segments, such as special equipment, health food and worker dispatch business.

(4) Information about Products and Services

Thousands of Yen				
2021				
	Pumps	Electronic Components	Other	Total
Sales to external customers	¥17,895,057	¥1,584,426	¥430,538	¥19,910,021

Thousands of Yen				
2020				
	Pumps	Electronic Components	Other	Total
Sales to external customers	¥21,061,631	¥1,965,767	¥548,698	¥23,576,096

Thousands of U.S. Dollars				
2021				
	Pumps	Electronic Components	Other	Total
Sales to external customers	\$161,639	\$14,311	\$3,889	\$179,839

(5) Information about Geographical Areas

a. Sales

Thousands of Yen						
2021						
	Asia and Oceania		Americas			
	China	Other	United States	Other	Other	Total
Japan	¥7,734,312	¥5,150,725	¥2,878,020	¥3,335,020	¥423,713	¥388,231
						¥19,910,021

Thousands of Yen						
2020						
	Asia and Oceania		Americas			
	China	Other	United States	Other	Other	Total
Japan	¥8,207,317	¥7,109,793	¥3,256,040	¥3,892,183	¥338,318	¥772,445
						¥23,576,096

Thousands of U.S. Dollars						
2021						
	Asia and Oceania		Americas			
	China	Other	United States	Other	Other	Total
Japan	\$69,861	\$46,524	\$25,996	\$30,124	\$3,827	\$3,507
						\$179,839

Note: Sales are classified by country or region based on the location of customers.

b. *Property, plant and equipment*

Thousands of Yen				
2021				
Japan	Asia and Oceania	Americas	Other	Total
¥7,153,219	¥901,865	¥278,705	¥34,058	¥8,367,847

Thousands of Yen				
2020				
Japan	Asia and Oceania	Americas	Other	Total
¥7,412,862	¥964,048	¥290,995	¥38,577	¥8,706,482

Thousands of U.S. Dollars				
2021				
Japan	Asia and Oceania	Americas	Other	Total
\$64,612	\$8,146	\$2,517	\$309	\$75,584

(6) Information about Major Customers

2021		
Name of Customers	Thousands of Yen Sales	Related Segment Name
Mitsubishi Electric Corporation	¥1,747,470	Pumps, Electronic components

2020		
Name of Customers	Thousands of Yen Sales	Related Segment Name
Mitsubishi Electric Corporation	¥2,125,137	Pumps, Electronic components

2021		
Name of Customers	Thousands of U.S. Dollars Sales	Related Segment Name
Mitsubishi Electric Corporation	\$15,784	Pumps, Electronic components

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