

Electronic provision measures commencement date: June 4, 2025

To All Shareholders:

Other Matters Subject to Measures for Electronic Provision for the
52nd Ordinary General Meeting of Shareholders

(Matters Omitted from the Paper Copy)

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Daikoku Denki Co., Ltd.

(Securities code: 6430)

Notes to the Consolidated Financial Statements

(Notes on significant matters as the basis for preparation of consolidated financial statements)

1. Scope of consolidation

All of the Company's subsidiaries are consolidated.

Number of consolidated subsidiaries:	11 companies
Names of consolidated subsidiaries:	Genki Co., Ltd. DAXEL INC. Daikoku Denki Communications PLUS Co., Ltd. ALOFT Co., Ltd. GLOBAL WISE Co. Riley Inc. LILIUM CO., LTD. Nishimoto Industry Co., Ltd. Stadd Inc. LOGON SYSTEM CO., LTD. Hakone Glass Forest Resort Co., Ltd.

Daikoku Sangyo Co., Ltd. changed its name to Daikoku Denki Communications PLUS Co., Ltd. on April 1, 2024.

LILIUM CO., LTD. became our consolidated subsidiary from this fiscal year following the acquisition of shares by ALOFT Co., Ltd. on April 1, 2024.

Nishimoto Industry Co., Ltd. became our consolidated subsidiary from this consolidated fiscal year following the acquisition of shares on April 2, 2024.

Stadd Inc. and its subsidiary, LOGON SYSTEM CO., LTD., became our consolidated subsidiaries from this fiscal year following our acquisition of shares in Stadd Inc. on August 2, 2024.

Hakone Glass Forest Resort Co., Ltd. was established on August 8, 2024, and became our consolidated subsidiary from this fiscal year.

2. Application of the equity method

Number and names of affiliates not accounted for by the equity method

1 company
Nanaba Co., Ltd.

Reasons for not applying the equity method

Based on its net profit (amount corresponding to equity interest) and retained earnings (amount corresponding to equity interest), etc., excluding this company from the scope of the equity method would have a minor impact on the consolidated financial documents under the companies act and is also immaterial overall, so it has been excluded from the scope of the equity method.

3. Accounting policies

(1) Standards and methods for valuation of significant assets

[1] Securities

Other securities

- | | |
|--|---|
| Items other than stock, etc., with no market value | Fair value method
Valuation differences are recognized directly into net assets; the cost of items sold is calculated based on the moving average method.) |
| Stock, etc., with no market value | Valuation at cost, with cost determined by the moving average method |
- [2] Inventories
- Valuation at cost (method of lowering carrying amount due to decline in profitability)
- | | |
|---|--|
| Merchandise, finished goods, raw materials, work in process | Valuation at cost, with cost determined primarily by the weighted average method |
| Supplies | Valuation at cost, based on the last purchase cost method |
- (2) Method of depreciation for significant depreciable assets
- [1] Property, plant and equipment (excluding leased assets)
- Declining-balance method
- However, buildings acquired on and after April 1, 1998 (excluding facilities attached) and facilities attached and structures acquired on and after April 1, 2016 are depreciated using the straight-line method.
- The useful life of major items is as follows:
- | | |
|-------------------------------|--------------|
| Buildings and structures | 3 - 50 years |
| Tools, furniture and fixtures | 2 - 20 years |
- [2] Intangible assets
- Straight-line method
- However, software is depreciated for sale over the marketable period (3 years) and for internal use over the internal availability period (5 years), using the straight-line method.
- [3] Investment property, etc.
- Straight-line method
- However, assets other than real property are depreciated using the declining balance method.
- The useful life of major items is as follows:
- | | |
|---------------------------------|---------------|
| Buildings | 15 - 47 years |
| Assets other than real property | 3 - 15 years |
- (3) Accounting standards for significant allowances and provisions
- | | |
|--|---|
| Allowance for doubtful accounts | To provide for losses from doubtful accounts including doubtful receivables, the Company accounts for the estimated amounts considered to be uncollectible based on a historical rate of credit losses for normal receivables or after reviewing individual collectability for specific doubtful receivables. |
| Provision for share awards for employees | In order to provide for the stock benefits to employees, etc., pursuant to the "Stock Delivery Regulations," an amount equivalent to the estimated amount of stock benefit obligations as of the end of this consolidated fiscal year is recorded. |
| Provision for bonuses for directors (and other officers) | To provide for expenditure on directors' bonuses, the Company accounts for the corresponding amounts at the end of consolidated fiscal year under review based on the estimated amounts to be paid. |
| Provision for retirement benefits for directors (and other officers) | To provide for expenditure on retirement benefits for directors, the Company accounts for the amounts to be paid at the end of consolidated fiscal year under review in accordance with the internal rules. |

Provision for product warranties	To provide for product warranty costs accrued after sales, the Company accounts for the estimated amount of the costs.
Provisions for quality warranties	To provide for quality assurance expenses incurred after the sale of products, the estimated amount of such expenses is recorded.

(4) Accounting methods for retirement benefits

[1] Method of attributing expected retirement benefits to periods of service

In calculating the retirement benefit obligation, the Company attributes expected retirement benefits to periods of service up to the fiscal year under review, on a plan benefit formula basis.

[2] Actuarial gains and losses and past service costs

Actuarial gains and losses are recognized in the respective succeeding years on a straight-line basis over a certain number of years (10 years) within the average remaining service period of employees at the time of accrual in each consolidated fiscal year.

Past service costs are recognized on a straight-line basis over a certain number of years (10 years) within the average remaining service period of employees at the time of accrual.

(5) Accounting standards for significant revenues and expenses

Relating to revenue from contracts with customers of the Company and its consolidated subsidiaries, major performance obligations and the normal time for satisfying the performance obligations (the normal time of recognizing revenue) in the main businesses are as follows:

[1] Information Systems Business

The Information Systems Business engages primarily in the development, manufacturing, and distribution of computer systems for pachinko halls, prize and customer management systems, and information disclosure systems.

Among these, for a performance obligation involving product installation, the Company recognizes revenue at the time of inspection as a performance obligation is generally judged to have been met at the time of inspection when the customer obtains control of the service.

For a performance obligation involving no product installation, the Company recognizes revenue at the time of shipment of merchandise since control of goods is judged to be transferred to the customer at the time of shipment because of the normal period of time from shipment to inspection when control of merchandise is transferred to the customer.

[2] Amusement Business

The Amusement Business engages in the development, manufacturing, and distribution of display units and control units for pachinko machines, the planning, development, manufacturing, and distribution of pachislot machines, and the distribution of parts used for game machines.

Among these, for the sale of merchandise, mainly in the sale of products, the Company recognizes revenue at the time of shipment of merchandise since control is judged to be transferred to the customer at the time of shipment because of the normal period of time from shipment to inspection when control of products is transferred to the customer.

For development projects, the Company recognizes revenue when a performance obligation is satisfied since control over customers is continuously transferred.

(6) Amortization method and period of goodwill

Goodwill is amortized using the straight-line method over a 5 to 10-year period.

(Changes in Accounting Policies)

Application of "Accounting Standards for Corporate Tax, Resident Tax, and Business Tax, etc."

We have applied the "Accounting Standard for Corporate Tax, Resident Tax, and Business Tax, etc." (ASBJ Statement No. 27, October 28, 2022; hereinafter the "2022 Revised Standards") and other standards from the beginning of this fiscal year.

With regard to the amendment to the accounting classification of income taxes (taxation of other comprehensive income), we follow the transitional treatment set out in the proviso to Paragraph 20-3 of the 2022 Revised Accounting Standards and the transitional treatment set out in the proviso to Paragraph 65-2(2) of the "Guidelines for the Implementation of Accounting Standards for Tax Effect Accounting" (ASBJ Guidance No. 28, October 28, 2022; hereinafter the "2022 Revised Implementation Guidance"). The change in accounting policy has no impact on the consolidated financial statements.

In addition, with regard to the amendments related to the review of the treatment in consolidated financial statements when profits or losses arising from the sale of subsidiary shares, etc., between consolidated companies are deferred for tax purposes, the 2022 Revised Implementation Guidelines have been applied from the beginning of this fiscal year. This change in accounting policy has been applied retroactively, and the consolidated financial statements for the previous fiscal year reflect this retroactive application. The change in accounting policy has no impact on the consolidated financial statements for the previous fiscal year.

(Notes on accounting estimates)

Recoverability of deferred tax assets

(1) Amount stated in the consolidated financial statements for the consolidated fiscal year under review

Deferred tax assets 863,420 thousand yen

(2) Details of significant accounting estimates relating to the items recognized

[1] Method of calculation for estimates

For deductible temporary difference and loss carryforwards, the recoverability of deferred tax assets is assessed by taxable income, tax plans, etc. based on future profitability.

[2] Major assumptions used in calculating estimates

Taxable income is estimated based on business plans that contain the projection of future sales volume, etc. of products and goods by consolidated companies.

[3] Effect on the consolidated financial statements for the next consolidated fiscal year

Any changes in assumptions used in the calculation of the initial estimates due to changes in economic conditions, etc. may have a material effect on the estimated future taxable income, possibly resulting in a reduction of deferred tax assets and the recording of a tax expense.

Impairment of non-current assets

(1) Amount stated in the consolidated financial statements for the consolidated fiscal year under review

(Thousands of yen)

	Fiscal year ended March 31, 2025
Property, plant and equipment	11,184,981
Intangible assets (excluding goodwill)	3,785,088
Goodwill	1,072,257
Impairment losses	686,250

(2) Details of significant accounting estimates relating to the items recognized

In accordance with accounting standards for impairment of non-current assets, the Group applies accounting procedures to reduce the book value of fixed assets that are no longer expected to recover their investment amount due to a decline in profitability to their recoverable amount.

In implementing accounting procedures, we consider whether or not to recognize impairment losses when there are indications of impairment due to continuous operating losses, a significant drop in market price, a significant deterioration in the business environment, a change in use, etc. When considering whether to recognize impairment losses, we use estimated future cash flows based on business plans, etc., and if it is determined that impairment losses should be recognized, we record the amount by which the book value exceeds the recoverable amount as an impairment losses. The recoverable amount is determined by the higher of the net selling price or value in use.

The Group recorded an impairment loss of 686,250 thousand yen in the current fiscal year (158,346 thousand yen in the previous fiscal year), the asset category incurred the main impairment losses of 599,194 thousand yen is goodwill at GLOBAL WISE Co.

GLOBAL WISE Co. continues to incur operating losses after amortization of goodwill, and as a result of reviewing its future business plans, including the transformation of its business portfolio, it is now expected to fall short of the plan set at the time of the share acquisition, and so there are indications of impairment. As a result, we considered whether or not we should recognize impairment losses, and as the undiscounted future cash flows were less than the book value, we recorded impairment losses.

The future cash flows used in measuring impairment losses are estimated based on business plans. In addition, the discount rate used in calculating value in use is calculated based on the weighted average cost of capital.

The business plans used in accounting for impairment losses include key assumptions such as expected sales growth and expected increases or decreases in labor costs, etc. These key assumptions may be affected by market fluctuations, industry growth potential and competitive environment, customer trends, etc., and involve uncertainty in estimates. Therefore, if it becomes necessary to review these key assumptions, this may have a significant impact on the occurrence of impairment losses in the following fiscal year and thereafter.

(Additional Information)

Employee Stock Ownership Plan (ESOP) Trust

At the Board of Directors meeting held on February 13, 2025, the Company resolved to introduce an employee stock incentive plan (hereinafter the "Plan" and the trust established for the introduction of the Plan is referred to as the "RS Trust") for the Company's employees and certain employees of its subsidiaries (collectively referred to as the "Employees").

The purpose of introducing the Plan is to enhance employee benefits, foster a sense of belonging among employees, have them feel involved in management, and raise awareness of the company's performance and stock price increases, thereby improving employee engagement and increasing the company's medium- to long-term corporate value.

The Plan is an incentive plan in which the RS Trust is established using monetary contributions from the Company, the RS Trust acquires the Company's common stock (hereinafter "DAIKOKU Shares"), and the DAIKOKU Shares are delivered through the RS Trust based on points granted to employees who meet certain requirements. The points will be granted according to the employee's position, etc., in accordance with the Stock Delivery Regulations established by the Company's Board of Directors, and the number of DAIKOKU Shares delivered to each employee will be determined by the number of points granted. In addition, the DAIKOKU Shares to be delivered shall be subject to transfer restrictions until retirement by entering into a transfer restriction agreement between the Company and each employee.

The accounting treatment for the trust agreement is in compliance with the "Practical Treatment of Transactions in Which

DAIKOKU Shares are delivered to Employees, etc. through the Trust" (Practical Solution Report No. 30, March 26, 2015).

As a result, the DAIKOKU Shares acquired through the RS Trust are recorded as "treasury shares" of 848,584 thousand yen in the consolidated balance sheets at the end of the current fiscal year.

Additionally, the impact of trust fees and other expenses relating to the establishment of the RS Trust in the current fiscal year on profit and loss is negligible.

The DAIKOKU Shares held by the RS Trust (313,600 shares) are accounted for as "treasury stock" and are therefore included in the treasury shares deducted when calculating the average number of shares during the period in calculating net profit per share.

(Notes on consolidated balance sheet)

Accumulated depreciation of tangible fixed assets, etc.

Property, plant and equipment	11,530,042	thousand yen
Investments and other assets (investment property, etc.)	369,004	thousand yen

(Notes on consolidated statement of income)

The balance of inventories as of the end of the fiscal year is the amount after lowering the carrying amount due to a decline in profitability. A loss on valuation of inventories of 80,972 thousand yen is included in cost of sales.

(Notes on consolidated statement of changes in equity)

1. Type and number of shares issued as of the consolidated fiscal year-end

Common stock 14,797,232 shares

2. Dividends of surplus during the consolidated fiscal year under review

Dividends paid

Resolution	Type of share	Total cash dividends (thousand yen)	Cash dividends per share (yen)	Record date	Effective date
May 15, 2024 Board of Directors	Common stock	1,478,266	100.00	March 31, 2024	June 12, 2024
November 14, 2024 Board of Directors	Common stock	591,838	40.00	September 30, 2024	December 6, 2024

3. Of dividends with the record date in the consolidated fiscal year under review, those whose effective date falls in the next consolidated fiscal year

Resolution	Type of share	Total cash dividends (thousand yen)	Source of dividend	Cash dividends per share (yen)	Record date	Effective date
May 15, 2025 Board of Directors	Common stock	1,183,676	Retained earnings	80.00	March 31, 2025	June 12, 2025

(Notes on financial instruments)

1. Status of financial instruments

For fund management purposes, the Company group uses deposits etc. only and raises funds with borrowings from banks and other financial institutions.

The Company mitigates the customer credit risk associated with notes and accounts receivable - trade, in accordance with the credit management rules. Investment securities consist mainly of stock and listed stocks are marked to market on a quarterly basis.

2. Fair value information of financial instruments

The amount recorded in the consolidated balance sheet as of March 31, 2025, fair value, and their difference are as follows:

(Thousand yen)			
	Consolidated balance sheet amount	Fair value	Difference
Investment securities (Note 2)			
Other securities	113,940	113,940	-
Total assets	113,940	113,940	-

(Notes)1. “Cash and deposits,” “notes receivable - trade,” “electronically recorded monetary claims - operating,” “accounts receivable - trade,” “contract assets,” “notes and accounts payable - trade,” “electronically recorded obligations - operating,” “accounts payable - other,” “accrued expenses,” “income taxes payable,” and “contract liabilities” are omitted as they are settled in cash in a short period of time and thus fair value approximates to their carrying amounts.

2. The amount of stock, etc. with no market value recorded on the consolidated balance sheet are as follows:

(Thousand yen)	
Classification	Consolidated balance sheet amount
Investment securities (unlisted stocks)	182,210
Shares of subsidiaries and associates	766,137

3. Breakdown by the appropriate classifications of fair value of financial instruments, etc.

The Company classifies the fair value of financial instruments into the following three levels according to the observability and importance of the inputs used in calculating fair value:

Level 1 fair value: the fair value calculated using the (unadjusted) market price in the active market for the same asset or liability

Level 2 fair value: the fair value calculated using inputs that are other than those used for Level 1 and directly or indirectly observable

Level 3 fair value: the fair value calculated using significant and unobservable inputs

If a number of inputs with a significant effect on fair value calculation are used, the Company classifies the fair value into the level of the lowest priority in fair value calculation of all the levels that they belong to.

Financial instruments stated in the consolidated balance sheet at fair value

(Thousand yen)

	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Other securities				
Stocks	113,940	-	-	113,940
Total assets	113,940	-	-	113,940

(Note) Explanations on the valuation approach used in fair value calculation and the inputs associated with fair value calculation

Investment securities

The fair value of stocks is classified into Level 1 as they are listed stocks traded on the active market and measured using market prices on the active market.

(Notes on revenue recognition)

1. Breakdown of revenue from contracts with customers

(Thousand yen)

	Business segment			Other (Note 1)	Total
	Information Systems Business	Amusement Business	Total		
Products etc. for pachinko halls	45,261,698	-	45,261,698	-	45,261,698
Services	6,865,064	-	6,865,064	-	6,865,064
Display/control units, etc. for games machine manufacturers	-	1,553,743	1,553,743	-	1,553,743
Parts/other	-	2,847,316	2,847,316	788,467	3,635,783
Revenue from contracts with customers	52,126,762	4,401,060	56,527,822	788,467	57,316,290
Other revenue (Note 2)	-	-	-	99,419	99,419
Sales to external customers	52,126,762	4,401,060	56,527,822	887,887	57,415,710

(Notes)1. The "Other" segment is not included in any business segment.

2. "Other revenue" is lease income and others based on accounting standards for lease transactions.

2. Information as the basis for understanding revenue

The Company group recognizes revenue based on the following five-step approach:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Calculate the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when or as satisfying a performance obligation

The main businesses of the Company group consist of the "information systems business" and the "amusement business." Revenues arising from these businesses are recorded according to contracts with customers. Information to understand revenue from contracts with customers is as listed in "(5) Accounting standards for significant revenues and expenses" in "3. Accounting policies."

3. Information as the basis for understanding the amount of revenue for the consolidated fiscal year under review and next consolidated fiscal years

(1) Balances of contract assets and contract liabilities, etc.

(Thousand yen)

	Fiscal year ended March 31, 2025	
	Balance at beginning of period	Balance at end of period
Receivables arising from contracts with customers	8,952,974	7,179,153
Contract assets	244,437	203,755
Contract liabilities	103,859	57,472

Of the revenue recognized for the consolidated fiscal year under review, the amount included in contract liabilities at the beginning of the fiscal year is 103,052 thousand yen.

Contract assets consist mainly of the development contracts in the amusement business, part or all of the performance obligations for which are fulfilled at the end of the fiscal year and associated with an unclaimed consideration allocated to the Company and its consolidated subsidiaries. Contract assets are transferred to receivables arising from contracts with customers at the point of time when a claim on a payment by the customer becomes unconditional. Contract liabilities represent consideration received in advance of contract performance and consist mainly of advances received in connection with development contracts in the amusement business. Contract liabilities are reduced as revenue is recognized.

(2) Transaction prices allocated to remaining performance obligations

The breakdown of total transaction prices allocated to the unsatisfied (or partially unsatisfied) portion of performance obligations, by the estimated period of revenue recognition as of the end of the consolidated fiscal year under review is as follows: The transaction prices are those associated with unsatisfied performance obligations mainly in the development projects of the amusement business.

(Thousand yen)

	Fiscal year ended March 31, 2025
Within 1 year	489,885
Over 1 year	-
Total	489,885

(Notes on real property for lease, etc.)

1. Status of real property for lease, etc.

The Company owns condominiums for rent (including land) in Tokyo and Nagoya, Aichi Prefecture. The Company also leases its museum in Hakone-machi, Ashigarashimo-gun, Kanagawa Prefecture.

2. Fair value information of real property for lease, etc.

(Thousand yen)

Consolidated balance sheet amount	Fair value
3,898,776	4,789,399

(Notes) 1. The consolidated balance sheet amount is after deducting accumulated depreciation and impairment from cost of acquisition.

2. The fair value at the end of the consolidated fiscal year under review is the amount calculated by the Company based mainly on the “standards for real estate appraisal” (including adjustments using indicators, etc.).

(Notes on per-share information)

- | | |
|-------------------------|--------------|
| 1. Net assets per share | 3,127.07 yen |
| 2. Profit per share | 526.84 yen |

(Notes on significant subsequent events)

Not applicable.

Notes to the Non-Consolidated Financial Statements

(Notes on significant accounting policies)

1. Standards and methods for valuation of assets

(1) Securities

Shares in subsidiaries and affiliates

Valuation at cost, with cost determined by the moving average method

Other securities

Fair value method

Items other than stock, etc., with no market value

Stock, etc., with no market value

(Valuation differences are recognized directly into net assets; the cost of items sold is calculated based on the moving average method.)

Valuation at cost, with cost determined by the moving average method

(2) Inventories

Valuation at cost (method of lowering carrying amount due to decline in profitability)

Merchandise, finished goods, raw materials, work in process

Valuation at cost, with cost determined primarily by the weighted average method

Supplies

Valuation at cost, based on the last purchase cost method

2. Method of depreciation for fixed assets

Property, plant and equipment (excluding leased assets)

Declining-balance method

However, buildings acquired on and after April 1, 1998 (excluding facilities attached and facilities attached and structures acquired on and after April 1, 2016 are depreciated using the straight-line method.

The useful life of major items is as follows:

Buildings 6 - 50 years

Tools, furniture and fixtures 2 - 20 years

Intangible assets

Straight-line method

However, software is depreciated for sale over the marketable period (3 years) and for internal use over the internal availability period (5 years), using the straight-line method.

Investment property, etc.

Straight-line method

However, assets other than real property are depreciated using the declining balance method.

The useful life of major items is as follows:

Buildings 3 - 47 years

Assets other than real property 3 - 15 years

3. Accounting standards for allowances and provisions

Allowance for doubtful accounts

To provide for losses from doubtful accounts including doubtful receivables, the Company accounts for the estimated amounts considered to be uncollectible based on a historical rate of credit losses for normal receivables or after reviewing individual collectability for specific doubtful receivables.

Provision for share awards for employees

In order to provide for the stock benefits to employees, etc., pursuant to the "Stock Delivery Regulations," an amount equivalent to the estimated amount of stock benefit obligations as of the end of the current fiscal year is recorded.

Provision for bonuses for directors (and other officers)

To provide for expenditure on directors' bonuses, the Company accounts for the corresponding amounts at the end of the fiscal year under review based on the estimated amounts to be paid.

Provision for retirement benefits	<p>To provide for employee retirement benefits, the Company accounts for the allowance based on the estimated amounts of retirement benefit obligation and pension assets at the end of the fiscal year under review.</p> <p>[1] Method of attributing expected retirement benefits to periods of service</p> <p>In calculating the retirement benefit obligation, the Company attributes expected retirement benefits to periods of service up to the end of the fiscal year under review, on a plan benefit formula basis.</p> <p>[2] Actuarial gains and losses and past service costs</p> <p>Actuarial gains and losses are recognized from the respective succeeding years using the straight-line method over a certain number of years (10 years) within the average remaining service period of employees and allocated proportionally at the time of accrual in each fiscal year.</p> <p>Past service costs are recognized on a straight-line basis over a certain number of years (10 years) within the average remaining service period of employees at the time of accrual.</p>
Provision for retirement benefits for directors (and other officers)	<p>To provide for expenditure on retirement benefits for Directors, the Company accounts for the amounts to be paid at the end of the fiscal year under review in accordance with the internal rules.</p>
Provision for product warranties	<p>To provide for product warranty costs accrued after sales, the Company accounts for the estimated amount of the costs.</p>
Provisions for quality warranties	<p>To provide for quality assurance expenses incurred after the sale of products, the estimated amount of such expenses is recorded.</p>

4. Accounting standards for significant revenues and expenses

Relating to revenue from contracts with customers of the Company, major performance obligations and the normal time for satisfying the performance obligations (the normal time of recognizing revenue) in the main businesses are as follows:

[1] Information Systems Business

The Information Systems Business engages primarily in the development, manufacturing, and distribution of computer systems for pachinko halls, prize and customer management systems, and information disclosure systems.

Among these, for a performance obligation involving product installation, the Company recognizes revenue at the time of inspection as a performance obligation is generally judged to have been met at the time of inspection when the customer obtains control of the service.

For a performance obligation involving no product installation, the Company recognizes revenue at the time of shipment of merchandise since control of goods is judged to be transferred to the customer at the time of shipment because of the normal period of time from shipment to inspection when control of merchandise is transferred to the customer.

[2] Amusement Business

The Amusement Business engages in the development, manufacturing, and distribution of display units and control units for pachinko machines, the planning, development, manufacturing, and distribution of pachislot machines, and the distribution of parts used for game machines.

Among these, for the sale of merchandise, mainly in the sale of products, the Company recognizes revenue at the time of shipment of merchandise since control is judged to be transferred to the customer at the time of shipment because of the normal period of time from shipment to inspection when control of products is transferred to the customer.

For development projects, the Company recognizes revenue when a performance obligation is satisfied since control over customers is continuously transferred.

(Notes on accounting estimates)

Recoverability of deferred tax assets

- (1) Amount stated in the non-consolidated financial statements for the fiscal year under review

Deferred tax assets	640,522 thousand yen
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- (2) Details of significant accounting estimates relating to the items recognized

Omitted as it is the same as the content listed in the Notes to the Consolidated Financial Statements.

Evaluation of shares of subsidiaries and associates

- (1) Amount stated in the non-consolidated financial statements for the fiscal year under review

Shares of subsidiaries and associates	2,880,129 thousand yen
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Loss on valuation of shares of subsidiaries and associates	224,539 thousand yen
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- (2) Details of significant accounting estimates relating to the items recognized

With regard to shares of subsidiaries and associates that do not have a market price, if the actual value of the shares has declined significantly due to a deterioration in the financial condition of the relevant company or a decrease in excess earning power, we will record an evaluation loss down to the actual value, unless there is sufficient evidence that the shares can be recovered.

The assessment of whether there is a decline in the excess earning power of associates and of the recoverability of the actual value of shares of subsidiaries and associates when such value has significantly declined is based on business plans and other relevant information, which incorporate key assumptions such as expected sales growth and changes in labor costs. These key assumptions may be affected by factors such as market fluctuations, the growth potential and competitive environment of the industries in which we invest, and customer trends, and as they involve estimation uncertainty, if it becomes necessary to revise these key assumptions, this may have an impact on the financial documents under the companies act for the following fiscal year.

(Notes on balance sheet)

1. Accumulated depreciation of tangible fixed assets, etc.

Property, plant and equipment	11,169,944 thousand yen
Investments and other assets (investment property, etc.)	404,692 thousand yen

2. Receivables from and liabilities to affiliates (excluding those presented by classification)

Short-term receivables from affiliates	326,745 thousand yen
Short-term liabilities to affiliates	332,039 thousand yen

(Notes on statement of income)

Transactions with affiliates

Business transactions

Net sales	205,867 thousand yen
Purchases	934,215 thousand yen
Selling, general and administrative expenses	84,114 thousand yen
Non-business transactions	125,542 thousand yen

(Notes on statement of changes in equity)

Type and number of shares of treasury shares as of the end of the fiscal year under review

Common stock	314,879 shares
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(Notes on tax effect accounting)

1. Breakdown of significant reasons for the recording of deferred tax assets and deferred tax liabilities:

Deferred tax assets		
Provision for bonuses	67,750	thousand yen
Loss on valuation of inventories	145,259	thousand yen
Allowance for doubtful accounts	4,002,759	thousand yen
Impairment losses	118,447	thousand yen
Provision for retirement benefits for directors (and other officers)	142,626	thousand yen
Loss on valuation of membership	89,563	thousand yen
Other	706,177	thousand yen
Deferred tax assets - Subtotal	<u>5,272,584</u>	<u>thousand yen</u>
Valuation allowance	<u>-4,610,004</u>	<u>thousand yen</u>
Total deferred tax assets	<u>662,579</u>	<u>thousand yen</u>
Deferred tax liabilities		
Removal costs of asset retirement obligations	-11,069	thousand yen
Valuation difference on available-for-sale securities	<u>-10,987</u>	<u>thousand yen</u>
Total deferred tax liabilities	<u>-22,056</u>	<u>thousand yen</u>
Deferred tax assets - net	<u>640,522</u>	<u>thousand yen</u>

2. Accounting procedures for income and local taxes or tax effect accounting related to the taxes

The Company uses the Group aggregation method, and conforms to the Practical Solution on the Accounting and Disclosure under the Group Tax Sharing System (ASBJ PITF No. 42, August 12, 2021) in implementing accounting procedures and disclosure for income and local taxes or tax effect accounting related thereto.

3. Adjustment of deferred tax assets and deferred tax liabilities due to changes in tax rates of income taxes

The "Act to Partially Amend the Income Tax Act, etc." (Act No. 13 of 2025) was passed by the Diet on March 31, 2025, and a "Special Defense Corporate Tax" will be levied from business years beginning on or after April 1, 2026.

In response to the enactment, the effective statutory tax rate for deferred tax assets and deferred tax liabilities relating to temporary differences, etc., that are expected to be resolved in or after the fiscal year beginning on or after April 1, 2026, has been changed from 30.6% to 31.5%.

As a result of this change, deferred tax assets (amount after deducting deferred tax liabilities) for the current fiscal year increased by 926 thousand yen, income taxes-deferred decreased by 1,240 thousand yen, and valuation difference on available-for-sale securities decreased by 313 thousand yen.

(Transactions with related parties)

1. Subsidiaries and affiliates, etc.

Attribute	Company name	Ratio of voting rights (%)	Relationship	Detail of transaction	Amount of transaction (Thousand yen)	Account	Balance at end of period (Thousand yen)
Subsidiary	DAXEL INC.	Direct ownership 100.00	Financial participation Interlocking directors	Lending of funds (Note) 1 Repayment of funds	490,000 285,852	Long-term loans receivable	11,971,837
Subsidiary	GLOBAL WISE Co.	Direct ownership 98.27	Financial participation Interlocking directors	Lending of funds (Note) 1	-	Long-term loans receivable	798,189
Subsidiary	Genki Co., Ltd.	Direct ownership 100.00	Financial participation Interlocking directors	Lending of funds (Note) 2 Interest on loans receivable	300,000 2,004	Long-term loans receivable	300,000
Subsidiary	Nishimoto Industry Co., Ltd.	Direct ownership 99.90	Financial participation Interlocking directors	Lending of funds (Note) 2 Interest on loans receivable	300,000 1,208	Long-term loans receivable	300,000
Subsidiary	LILIUM CO., LTD.	Indirect 100.00	Financial participation Interlocking directors	Lending of funds (Note) 1	70,000	Long-term loans receivable	70,000

(Notes) 1. The lending of funds is free of interest.

2. Interest on loans is determined rationally in consideration of market interest rates.

3. The Company has recorded an allowance for doubtful accounts (11,971,837 thousand yen) for long-term loans receivables extended to DAXEL INC.

4. The Company has recorded an allowance for doubtful accounts (495,832 thousand yen) for long-term loans receivable extended to GLOBAL WISE Co.

2. Officers and Individual Major Shareholders, etc.

Attribute	Name	Ratio of voting rights (%)	Relationship	Detail of transaction	Amount of transaction (Thousand yen)	Account	Balance at end of period (Thousand yen)
Officers and immediate family members	Shinji Kayamori	Direct ownership 3.44	Full-time Advisor of the Company (Senior Advisor)	Salary payment	10,881	-	-

(Notes on per-share information)

1. Net assets per share 3,059.63 yen
2. Profit per share 520.49 yen

(Notes on significant subsequent events)

Not applicable.