

* NOTE

(1) Changes in the State of Material Subsidiaries during the Period: None

Newly included: – (Name) – Excluded: – (Name) –

(2) Adoption of Special Accounting Methods for Preparation of Quarterly Consolidated Financial Statements: Yes

Note: For details, please refer to “(3) Notes Regarding Quarterly Consolidated Financial Results (Application of special accounting methods for presenting quarterly consolidated financial statements)” under “2. Quarterly Consolidated Financial Statement and Important Notes” on page 10 of the attached materials.

(3) Changes in Accounting Principles, Changes in Accounting Estimates, and Retrospective Restatements

(a) Changes in accounting principles accompanying the amendment of accounting standards: None

(b) Changes other than those in (a) above: None

(c) Changes in accounting estimates: None

(d) Retrospective restatements: None

(4) Number of Shares Issued (Common shares)

(a) Number of shares issued at the end of the period (including treasury shares)

First Quarter of Fiscal 2022	24,077,510 shares	Fiscal 2021	24,077,510 shares
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(b) Number of treasury shares at the end of the period

First Quarter of Fiscal 2022	1,256,834 shares	Fiscal 2021	1,096,640 shares
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(c) Average number of shares issued during the period

First Quarter of Fiscal 2022	22,940,753 shares	First Quarter of Fiscal 2021	23,295,707 shares
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* These consolidated financial results are not included in the scope of quarterly audits by certified public accountants or audit corporations.

* Explanation of the Appropriate Use of Performance Forecasts and Other Related Items

(Caution concerning future descriptions etc.)

The above estimate has been compiled based on information available at the time this disclosure was made. The actual earnings are subject to change from the estimated values due to various factors. For assumed conditions underlying the earnings forecast and cautionary statements in using the earnings forecast, please refer to “Explanation Regarding Future Estimate Information such as Consolidated Financial Performance Estimates” on page 5

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Note: This document has been translated from the original Japanese version for reference purposes only. In the event of any discrepancy between this translated document and the original Japanese version, the original shall prevail.
The original disclosure in Japanese was released on August 5, 2022 at 13:30 (GMT+9).
The Company assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising from the translation.

1. Qualitative Information Regarding Results of the First Quarter for Fiscal 2022

(1) Explanation Regarding Consolidated Operating Results

During the first three months of the fiscal year under review, the global economy overall started to show signs of recovery, even though some sectors stalled amid the uncertain environment, including COVID-19 and increasing geopolitical risk. The Japanese economy also showed signs of an improvement in business overall as economic activity normalized. The business environment surrounding TOPY INDUSTRIES, LIMITED (the “Group”), meanwhile, remained uncertain, as rises in the price of coal, energy, other raw materials, and logistics, etc., continued, in addition to the lockdowns in China and the decrease in auto production due to supply shortages of semiconductors, among other factors.

Under these circumstances, the Group launched its new Medium-term Management Plan, TOPY Active & Challenge 2025, which will cover the period from FY2022 to 2025. We have set the four areas of promote segment management, strengthen overseas profitability, strengthen domestic business base, and contribute to decarbonization as the Group Basic Strategy, and we are implementing measures to strengthen profitability utilizing the business foundation established in the previous Medium-term Management Plan. Moreover, under the new Medium-term Management Plan, we have established measures based on the newly formulated Basic Sustainability Policy and materiality (key issues) to promote sustainability management that leverages our strengths to create new value and solve social issues.

The financial results for the first three months of the fiscal year under review include consolidated net sales of ¥75,000 million (up 34.6% year on year), mainly due to optimization of sales prices in response a rise in prices of raw materials and energy. As for profit, given the impact of a decrease in sales volume of automobile wheels and rising costs due to increases in the price of coal, a fuel for power generation, among other factors, the Group posted an operating loss of ¥569 million (compared to an operating loss of ¥874 million in the same period of the previous year), and an ordinary loss of ¥358 million (compared to an ordinary loss of ¥796 million in the same period of the previous year). The profit attributable to owners of parent was ¥388 million (compared to loss attributable to owners of parent of ¥1,112 million in the same period of the previous year).

Performance by Segment

From the first quarter of the current fiscal year, the Group has changed the name of the reportable segment previously referred to as Science to Business Development.

This is a change to the segment name, and there is no impact of the financial results of the segment.

(Steel Business)

In the steel industry, demand for steel materials for construction remained strong. In addition, the price of steel scrap, the main raw material, declined, even though the prices of energy and other raw materials remained high.

Given these circumstances, the Group worked to optimize steel sales prices in response to the costs of steel scrap, energy, and other raw materials and to sell products with high profit margins. As a result, net sales increased to ¥26,387 million (up 75.0% year on year), and operating profit increased to ¥199 million (compared to an operating loss of ¥493 million in the same period of the previous year).

(Automotive & Industrial Machinery Components Business)

In the automotive industry, production volume decreased significantly from the level in the same period of the previous year in Japan due to the impact of the supply shortage of semiconductors, etc. and lockdowns in China. In the construction machinery industry, demand decreased in Japan, but remained strong in the United States and Southeast Asia. Demand for mining machinery remained strong due to rising resource prices.

Given these conditions, the Group worked to optimize sales prices in response to the rises in the costs of energy, and other raw materials in addition to steadily winning demand for parts for the undercarriages of construction machinery and ultra-large wheels for mining trucks. As a result, net sales totaled ¥43,948 million (up 16.2% year on year). However, operating profit stood at ¥607 million (down 38.0% year on year), impacted significantly by the decrease in sales volume of automobile wheels.

(Power Business)

The business environment remained challenging in the power business as improvements in electricity sale prices trailed the continued rise in the price of coal, a fuel for power generation.

As a result, net sales stood at ¥3,089 million (up 118.4% year on year) and the operating loss was ¥557 million (compared to an operating loss of ¥429 million in the same period of the previous year).

(Business Development Business)

The Group manufactures and sells synthetic mica and crawler robots. In the synthetic mica business, the Group steadily captured the recovery in demand for cosmetics overseas. Reflecting this situation, net sales rose 32.9% year on year, to ¥283 million with an operating profit amounting to ¥61 million (compared to an operating loss of ¥81 million in the same period of the previous fiscal year).

(Leasing Business)

In the leasing business, operating profit was ¥178 million (up 2.7% year on year).

(Others)

The Group operates a civil engineering and construction business, sports club OSSO, and other businesses. Net sales came to ¥1,290 million (up 7.6% year on year) and operating profit was ¥128 million (up 387.2% year on year).

(2) Explanation Regarding Financial Position

Total assets at the end of the first quarter of the consolidated fiscal year under review stood at ¥290,092 million, an increase of ¥7,896 million from the end of the previous consolidated fiscal year. This was mainly due to increases of ¥4,144 million in notes and accounts receivable - trade and contract assets and ¥1,900 million in merchandise and finished goods.

Total liabilities were ¥174,941 million, an increase of ¥6,449 million compared with the end of the previous consolidated fiscal year. This was caused mainly by increases of ¥10,490 million in short-term borrowings, but decreases of ¥2,914 in notes and accounts payable - trade.

Total net assets came to ¥115,150 million, an increase of ¥1,447 million from the end of the previous consolidated fiscal year. This was mainly due to an increase of ¥2,267 million in foreign currency translation adjustments, but a decrease of ¥647 million in valuation difference on available-for-sale securities.

(3) Explanation Regarding Future Estimate Information such as Consolidated Financial Performance Estimates

While the outlook for the global economy is uncertain, with concerns over resumed spread of COVID-19, a rise in geopolitical risks, including the prolonged situation in Ukraine, and fluctuations in financial and capital markets amid monetary tightening among other factors, the moderate recovery in economic activity is expected to continue. As for the business environment surrounding the Group, there are some concerns about the rises in prices of coal, energy, and other raw materials and the persistence of short supplies of components, including semiconductors. However, the price of steel scrap is expected to remain lower than initial forecasts. In addition, a recovery in automotive production and progress in optimization of sales prices are expected.

The consolidated financial forecasts for the fiscal year ending March 31, 2023 (April 1, 2022 to March 31, 2023) have not been changed from those announced on May 11, 2022. This decision has been made based on information available to the Group as of the date of issuance of this release. The actual results may vary from the forecast due to various factors that will arise in the future.

2. Quarterly Consolidated Financial Statements and Important Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2022	As of June 30, 2022
Assets		
Current assets		
Cash and deposits	21,037	22,508
Notes and accounts receivable - trade, and contract assets	60,545	64,690
Merchandise and finished goods	27,734	29,635
Work in process	6,336	7,484
Raw materials and supplies	21,368	21,995
Other	7,483	7,560
Allowance for doubtful accounts	(86)	(89)
Total current assets	144,420	153,785
Non-current assets		
Property, plant and equipment		
Buildings and structures	95,234	96,080
Accumulated depreciation	(66,774)	(67,777)
Buildings and structures, net	28,460	28,303
Machinery, equipment and vehicles	220,159	223,236
Accumulated depreciation	(174,205)	(177,342)
Machinery, equipment and vehicles, net	45,953	45,893
Land	15,339	15,503
Leased assets	2,175	1,536
Accumulated depreciation	(1,315)	(952)
Leased assets, net	859	583
Construction in progress	2,729	2,956
Other	41,682	42,749
Accumulated depreciation	(39,686)	(40,588)
Other, net	1,995	2,160
Total property, plant and equipment	95,338	95,401
Intangible assets		
Other	3,440	3,465
Total intangible assets	3,440	3,465
Investments and other assets		
Investment securities	27,506	26,457
Long-term loans receivable	204	207
Deferred tax assets	1,834	673
Retirement benefit asset	397	397
Other	9,143	9,784
Allowance for doubtful accounts	(89)	(80)
Total investments and other assets	38,996	37,440
Total non-current assets	137,775	136,307
Total assets	282,195	290,092

(Millions of yen)

	As of March 31, 2022	As of June 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	33,731	30,816
Electronically recorded obligations - operating	15,552	16,350
Short-term borrowings	22,807	33,298
Lease liabilities	158	125
Income taxes payable	891	531
Other	14,055	14,684
Total current liabilities	87,196	95,807
Non-current liabilities		
Bonds payable	37,000	37,000
Long-term borrowings	26,228	25,870
Lease liabilities	235	207
Deferred tax liabilities	6,190	4,477
Provision for corporate officers' retirement benefits	163	135
Provision for share awards for directors (and other officers)	23	23
Provision for retirement benefits for directors (and other officers)	25	7
Reserve for repairs	324	358
Retirement benefit liability	9,155	9,206
Asset retirement obligations	346	347
Other	1,603	1,500
Total non-current liabilities	81,296	79,134
Total liabilities	168,492	174,941
Net assets		
Shareholders' equity		
Share capital	20,983	20,983
Capital surplus	18,606	18,606
Retained earnings	62,114	62,042
Treasury shares	(2,287)	(2,513)
Total shareholders' equity	99,417	99,118
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	9,990	9,343
Deferred gains or losses on hedges	19	39
Foreign currency translation adjustment	1,692	3,960
Remeasurements of defined benefit plans	1,537	1,541
Total accumulated other comprehensive income	13,240	14,884
Non-controlling interests	1,045	1,146
Total net assets	113,703	115,150
Total liabilities and net assets	282,195	290,092

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
Quarterly Consolidated Statements of Income
(For the Three-month Period)

(Millions of yen)

	Three months ended June 30, 2021	Three months ended June 30, 2022
Net sales	55,737	75,000
Cost of sales	48,658	66,273
Gross profit	7,078	8,726
Selling, general and administrative expenses	7,953	9,295
Operating loss	(874)	(569)
Non-operating income		
Interest income	22	32
Dividend income	353	360
Foreign exchange gains	30	595
Share of profit of entities accounted for using equity method	—	31
Other	66	145
Total non-operating income	472	1,166
Non-operating expenses		
Interest expenses	118	150
Share of loss of entities accounted for using equity method	176	—
Other	98	87
Total non-operating expenses	393	238
Ordinary profit (loss)	(796)	358
Extraordinary income		
Gain on sale of non-current assets	0	7
Gain on sale of investment securities	—	55
Total extraordinary income	0	62
Extraordinary losses		
Loss on sale of non-current assets	3	—
Loss on retirement of non-current assets	28	69
Business structural reform expenses	—	76
Total extraordinary losses	31	145
Profit (loss) before income taxes	(826)	275
Income taxes	261	(152)
Profit (loss)	(1,088)	427
Profit attributable to non-controlling interests	23	39
Profit (loss) attributable to owners of parent	(1,112)	388

Quarterly Consolidated Statements of Comprehensive Income
(For the Three-month Period)

(Millions of yen)

	Three months ended	
June 30, 2021	Three months ended	
June 30, 2022		
Profit (loss)	(1,088)	427
Other comprehensive income		
Valuation difference on available-for-sale securities	1,048	(639)
Deferred gains or losses on hedges	(10)	20
Foreign currency translation adjustment	1,624	1,900
Remeasurements of defined benefit plans, net of tax	9	3
Share of other comprehensive income of entities accounted for using equity method	397	422
Total other comprehensive income	3,068	1,706
Comprehensive income	1,979	2,134

(3) Notes Regarding Quarterly Consolidated Financial Results

(Note related to going-concern assumption)

Not applicable.

(Note on significant changes in the amount of shareholders' equity)

Not applicable.

(Application of special accounting methods for presenting quarterly consolidated financial statements)

Tax expenses were calculated by multiplying the rationally estimated effective tax rate after applying tax effect accounting to profit before income taxes for the consolidated fiscal year, which includes the current first quarter under review, by profit before income taxes for the first quarter