



## HIKARI TSUSHIN Social Finance Framework

February 2024

### 1. Introduction

#### 1.1 Company Overview

Since its establishment, Hikari Tsushin has been involved in the sale and promotion of various products and services to our customers, striving to contribute to society by supporting the growth of all of our stakeholders with measures that include: (1) improving customer convenience, (2) making valuable contributions to partners and clients, (3) enhancing the living standard of our employees, and (4) increasing our shareholder's value.

Our company and our group make our core business stock business where continuous revenue is expected from usage fees, etc., after the sale of goods and services, and aim to contribute to stakeholders including customers, business partners, shareholders, employees and society, etc., through diffusing various goods and services widely to individual and corporate customers. As part of our stock business, we offer a wide range of products and services such as communication line services, home water delivery, electricity, insurance, industry-specific IT solutions, payment solutions, mobile phones, and office automation equipment. Hikari Tsushin manages the group overall as a holding company and conducts various business through each subsidiary.

#### Products and Services (examples)



Electricity



Delivery  
water



Communic  
ation line



Insurance



Mobile  
phone

#### 1.2 Management Principles and Management Vision

Our group's management principles is "Contribute to stakeholders by providing products and services that meet the needs of the times" and "Follow the true nature of our company as we respond in a timely and appropriate manner to those changes, and take a medium- to long-term perspective to propose and implement strategies aligned with the circumstances of the times, in order to improve our sustainable corporate value" and its management vision is to aim for "Secure

stable earnings and stable profit growth based on recurring profit”.

Management Principles
<ul style="list-style-type: none"><li>- Contribute to stakeholders by providing products and services that meet the needs of the times</li><li>- Follow the true nature of our company as we respond in a timely and appropriate manner to those changes, and take a medium- to long-term perspective to propose and implement strategies aligned with the circumstances of the times, in order to improve our sustainable corporate value</li></ul>
Management Vision
<ul style="list-style-type: none"><li>- Secure stable earnings and stable profit growth based on recurring profit</li></ul>

## 2. Hikari Tsushin Group’s Initiatives towards Sustainability

### 2.1 Philosophy on Sustainability

Our company and our group recognize that addressing issues related to sustainability, such as consideration of global environmental issues such as climate change, respect for human rights, consideration of the health and working environment of employees, fair and appropriate treatment, fair and appropriate transactions with business partners, and crisis management in response to natural disasters, are important management issues that lead not only to a reduction in risk but also to profit opportunities, and will proactively address these issues from the perspective of improving corporate value over the medium to long term.

Recognizing that the formulation of management policies and the establishment of governance that lead to the sustainable improvement of our group's corporate value, as well as the timely and appropriate review of these policies, will serve as the foundation for our group's sustainability initiatives, we established the Basic Policy on Sustainability Initiatives in December 2021.

Our group recognizes that building a system that adapts to changes in the business environment is an important issue for the sustainable improvement of our group's corporate value, and has set the following items as basic items in its sustainability initiatives from this perspective.

1. Revenue Structure/Risk Diversification
  - Business model centered on recurring profit, which is long-term, stable earnings
  - A system that does not depend on a specific target (business, product, customer, business partner, sales channel, etc.)
2. Pursue Capital Efficiency
  - Pursue high capital efficiency by avoiding focusing management resources on businesses with poor capital efficiency

- Improving capital efficiency with continual cost reduction and cash flow improvement regardless of business performance
- 3. Human Resource Development
  - Employees who are capable of delivering results have greater authority regardless of age, gender, nationality or educational background
  - Employees can try as many times as they want
  - Creating a working environment that allows employees to focus on their work
- 4. Speedy Management
  - Swift decision-making with a flatter organizational hierarchy and delegation to departments
- 5. Governance
  - Pursuing the best corporate governance

## 2.2 Initiatives for Environment, Social and Governance

In cooperation with local communities and experts, our group undertakes the following environment, social and governance initiatives.

### Environment

<b>1) Forest maintenance activity</b> Considering that a forest with a high function to conserve water source creates a high-quality water resource and generates a rich dietary life, we are maintaining forests by thinning, etc. to create healthy forests.	<b>5) Non-possession</b> Tangible fixed assets accounted for 1.7% of the total assets as of the end of the fiscal year ended March 2023.
<b>2) Mt. Fuji clean-up activity</b> We regularly participate in clean-up activities held by local communities and specialists to protect the environment surrounding Mt. Fuji.	<b>6) Reuse</b> <ul style="list-style-type: none"> <li>- When purchasing furniture and fixtures, used items are selected in principle.</li> <li>- Reused shelves are available for employees to share stationery and office supplies, and this reduces the number of new items purchased and waste.</li> </ul>
<b>3) PET bottle weight reduction</b> We reduced the weight of plastics bottle by 20% compared to conventional bottles. We now use fewer plastics by installing these new bottles in 97% of the products.	<b>7) Paperless</b> <ul style="list-style-type: none"> <li>- Other efforts include promoting paperless meetings including the meetings of the Board of Directors.</li> <li>- Encourage suppliers to digitize invoices and other mailed items.</li> </ul>
<b>4) Provision of water to welfare facilities</b> To effectively utilize home delivery water that Premium Water's users did not receive and help to improve welfare, we provide local welfare facilities for the disabled with water servers and home delivery water free of charge.	

## Society

<b>1) Promotion of diversity</b> <p>Through a thorough performance-based evaluation, the Group practices a fair performance evaluation that is free from bias based on age, gender, nationality and educational background.</p>	<b>5) Various systems</b> <p>The Group created a work environment that allows employees to work comfortably by developing systems including flextime, childcare leave and shortened work hours, and support systems for returning to work after childbirth. The Group promotes health improvement activities including subsidizing vaccination through the Group's health insurance association.</p>
<b>2) Meritocracy</b> <p>Based on the idea that experience makes people grow, we give employees countless opportunities to tackle challenges, and highly evaluate those who deliver results. Those who can make achievements gain a greater authority and are promoted to executive positions.</p>	<b>6) Setting up an opinion-box system</b> <p>We have established a system that allows employees to directly pass on their opinions, concerns, etc. to the management and executives while either disclosing their identity or doing so anonymously.</p>
<b>3) Respect for human rights</b> <p>The Group respects human rights and the basic rights of workers, and strives to eliminate unfair discrimination, harassment, forced labor, and child labor. The Group focuses on allowing employees to perform activities in good mental and physical health by establishing a counseling desk for employees to talk about any troubles and worries that they may have.</p>	<b>7) Economic contributions</b> <p>The Group runs businesses all over Japan, and its continuous profit growth leads to economic growth of the entire society, job creations in a broad range of fields and revitalization of local communities.</p>
<b>4) Working hours</b> <p>Long work hours and working on holidays are prohibited in principle.</p>	<b>8) Contribution to local government</b> <ul style="list-style-type: none"> <li>- The Group donates to Toshima-ku (head office location) some of the shareholder benefit items given by companies in which the Group invests. In December 2022, the Group received a letter of appreciation from the Toshima Ward Residents Council of Social Welfare.</li> <li>- The Group donates used stamps to Toshima-ku Residents Council of Social Welfare. (Used stamps are turned into money and used as funds for the welfare businesses.)</li> <li>- The Group regularly cleans the vicinity of Ikebukuro Station in Toshima-ku.</li> <li>- The Group supports the NPO Ecocap Promotion Association that collects plastic caps of PET (plastic) bottles to raise money for vaccinations.</li> </ul>

## Governance

<b>1) Remuneration of executive directors</b> <p>Remuneration of executive directors is determined based on indices including operating profit in order to incentivize executive directors to improve the intrinsic corporate value from a long-term perspective and to achieve performance targets from a short-term perspective. In June 2022, the Investment Audit Committee and the Compensation Committee were established to strengthen governance.</p>	<b>3) Risk management</b> <p>As part of our response to the basic policy for internal control determined by the Board of Directors, we hold regular meetings to gather internal risk information and report to the Audit and Supervisory Committee.</p>
<b>2) Listed stock investments</b> <p>The Group complies with a certain degree of financial discipline (securing funds for repayment of interest-bearing debt for the next three years as cash reserves) and has established a committee (Investment Audit Committee), with a majority independent outside directors as members to develop an external monitoring system.</p>	<b>4) Information Security/Business Continuity Plan</b> <p>To manage the personal information of our customers and employees properly, we are trying to establish a system that allows us to comply with laws and regulations, prevent breaches of contracts, gather and manage information, and propose an appropriate operational procedures. In addition, we have set crisis management rules for the risks that would occur in our daily business operations and the risks caused by external factors such as disasters, and are creating a BCP system.</p>

## 2.3 Initiatives for Financial Inclusion in BusinessPartner Group

### **About BusinessPartner**

BusinessPartner Co., Ltd., a consolidated subsidiary of our company, is the financial institution that operating business centered on lease and finance, but also carried out various financial activities. By creating and providing only one financial service, the company supports medium to small sized companies. Through its business activities, it aims to contribute to society while maximizing its corporate value.

The BusinessPartner Group conducts business in emerging countries such as Cambodia and Malaysia where financial services are immature, so that even individuals who have difficulty in accessing funding can use essential goods such as mobile phones, motorcycles, automobiles, and others to enrich their lives.

### **BusinessPartner Group's Management Philosophy, Corporate Slogan and Management Policy**

The BusinessPartner Group believes that growth of employees is most important factor for its business. Its management philosophy says that "Establishment of organizational structure for the sustainable growth" and "Creating a workplace environment that helps every employee growth." Based on this philosophy, its corporate slogan is defined as "being honest and humble", "requiring strict discipline and freedom of expression within the organization" and "constantly contemplating change."

#### **Management Philosophy**

We put employee growth first,  
and aim to enhance corporate value that contributes to society by implementing  
"Establishment of organizational structure for the sustainable growth" and  
"Creating a workplace environment that helps every employee growth."

In addition, the BusinessPartner Group has set forth the following four management policy for its business, and has separately established and adheres to the "Basic Policy on Internal Controls" and "Basic Action Policy" to implement the management policy.

### **Management Policy**

1. We aim to be an enterprise blessed with the most support of customers
2. We aim to be trustworthy company from the customer in the society
3. We do the best that we can to maximize our corporate value
4. We strive to improve the lives of our employee's circumstance

In order to contribute to the creation of a prosperous society, the group actively engages in social contribution initiatives and aim to become a corporate group with a clear presence in society and the market.

### **Major Overseas Group Companies and Initiatives of BusinessPartner**

BusinessPartner Group, through its group companies Active People's Microfinance Institution and JCL Credit Leasing, assists individuals in Cambodia and Malaysia in enhancing their quality of life and economic circumstances.

#### **■ Active People's Microfinance Institution Plc.**



Active People's Microfinance Institution is based in Phnom Penh and have branches located throughout Cambodia. Its services include microfinance and installment loans for motorcycles, used cars, and mobile phones. According to its research, the company hold the top market share in motorcycle installment loans in Cambodia.

In recent years, the number of vehicle registrations in Cambodia has seen a significant increase, driven by robust economic growth and a growing middle-income population. Motorcycles, in particular, account for 84.9% of these registrations. One reason for the popularity of motorcycles in Cambodia is the limited availability of public transportation options such as buses and trains, which are often expensive. Additionally, automobile manufacturing is limited, leading to high import costs and tariffs. Consequently, motorcycles have become an affordable means of transportation for many.

However, it is important to note that as of 2022, Cambodia remains classified as a Least Developed Country, indicating its status as one of the poorest developing nations. Nearly half of the rural population lives in poverty, lacking access to essential services like education and healthcare. Motorcycles play a crucial role in facilitating access to schools and hospitals for these individuals.

Furthermore, motorcycles also support livelihoods in Cambodia, particularly for those

engaged in agriculture and small businesses. Owning a motorcycle provides them with a means to easily transport agricultural produce to distant markets and access job opportunities in remote areas, thereby increasing their income.

Active People's Microfinance Institution aims to improve the quality of life and economic conditions of individuals, sole proprietors, and others in Cambodia by providing microfinance options and support for purchasing motorcycles.

### **Vision and Mission of Active People's Microfinance Institution**

#### **A. Vision**

- We aim to be a leading financial institution by providing excellent services and growing steadily.

#### **B. Mission**

- We improve the lives of Cambodians by participating and providing credit by adhering to a financial business partnership.

#### **C. Institution's slogan**

- We listen to you, think with you to create the best solution for your success.

#### **D. Guidelines**

- AP will provide financial services to the general Cambodian regardless of status.
- AP will provide more flexible and convenient financial services.
- AP is committed to respecting and prioritizing its customers.
- AP is committed to adhering to our work ethic and standards to ensure reliability.
- AP is committed to providing the best services and relationships to all citizens.
- AP is an educational institution that exchanges and shares appropriate information to contribute to staff development, training, as well as to improving policies and systems.

#### **E. Practical Code of AP**

- Avoiding excessive debt: We will provide credit according to the customer's ability to repay and find ways to avoid over-indebtedness as much as possible. Employee ethics: We are highly educated and adhere to a highly ethical attitude, respecting customers from all circumstances by all levels of staff.
- Freedom of choice: Customers have the right to choose our products and services that suit their business or needs.
- Feedback Response Mechanism: We will take feedback and respond to the most appropriate.

## ■ JCL Credit Leasing Sdn Bhd.

In Kuala Lumpur, Malaysia, the company specializes in providing installment loans and financing services for personal motorcycles, mobile phones, used cars, and more. Our business operations adhere to all relevant laws and regulations. Notably, it has been chosen as one of the pioneering eight companies in Malaysia authorized to accept online loan applications, a practice that was previously restricted. As a result, the company now exclusively operates through online platforms.

As Malaysia continues its efforts to develop its financial infrastructure and promote financial inclusion, such as achieving a high rate of bank account ownership, there are still challenges in ensuring access to financial services for individuals who do not have access to formal financial institutions. This includes foreign workers, their families, and individuals residing in rural areas. Addressing these challenges requires the provision of affordable financial services and the enhancement of financial literacy.

Malaysia has a relatively young population, with a median age of 30.4 as of 2022. However, the unemployment rate among young workers stands at around 10%, which is significantly higher than the overall unemployment rate across different age groups. Additionally, income disparities persist due to variations in generation, region, and nationality.

To address these issues and enable broader financial access for individuals, including those with below-average incomes, JCL Credit Leasing Sdn Bhd. offers installment loans and financing services for personal motorcycles, mobile phones, used cars, and other products in Kuala Lumpur, Malaysia.



## JCL Credit Leasing's Vision, Management Policy, etc.

### **Vision**

We place the highest priority on the growth of our employees. We are aiming to enhance our corporate value to contribute to society by implementing "a system that enables continuous growth" and "a culture that encourages learning."

### **Management Policies**

1. JCL is aiming to become a customer orientated organization.
2. JCL is aiming to become an organization that is trusted by the public.
3. JCL is aiming to become an organization that could improve living quality of all staffs by maintaining work-life balance.

### **Code of Conduct**

1. Always think and act from the customers' perspective.
2. Work on self development actively.
3. Always have a heart of gratitude.

### **Corporate Social Responsibility (CSR)**

*"At JCL, we are committed to building a better future for our communities, children, and country. We place the emphasis on social investment through our commitment to sustainable development, the impact of which is felt for many years to come.*

*We have worked tirelessly to innovate, build and service. We are building and uplifting our communities to help ensure they are healthy, educated, and cared for. We are committed to being part of building a better future for our communities, our children, and our environment. CSR activities can help forge a stronger bond between employees and corporations, boost morale, and aid both employees and employers in feeling more connected to the world around us."*

## ■ Active People's Leasing (LAO) Company Limited



In Vientiane, Laos, the company is actively involved in the mobile phone leasing business for individual customers.




### 3. Social Finance Framework

This social finance framework (hereinafter the “Framework”) has been formulated based on the following principles and guidelines. We will raise funds through social bonds or social loans in accordance with the Framework.

- Social Bond Principles 2023 (hereinafter “SBP”) by International Capital Market Association (ICMA)
- Social Loan Principles 2023 by the Loan market Association (LMA), the Loan Syndications & Trading Association (LSTA) and the Asia Pacific Loan Market Association (APLMA)
- Social Bond Guidelines 2021 by Financial Services Agency of Japan

#### 3.1 Use of Proceeds

Proceeds raised under the Framework will be used for new expenditures or refinancing with respect to the following eligible projects through group companies. In the case of refinancing, it covers expenditures on eligible projects executed within 36 months prior to the time of funding.

Project Category	SBP Category	Eligible Social Projects	Target Populations	SDGs
Financial Services for Individuals, micro business and SMEs in Emerging Economies	Access to essential services (Financing and financial services) / SME financing and microfinance	<p>Funds for financial services (Including loans, installment sales, and leases) for micro, small and medium enterprises, including individuals and sole proprietorships, in emerging countries with immature financial services</p> <p>&lt; Project Example &gt;</p> <ul style="list-style-type: none"> <li>• Provision of financial services such as installment sales of mobile phones, leasing and installment sales of motorcycles, autos and farm equipment, and microfinance, to individuals and micro, small and medium enterprises, in emerging countries such as Cambodia and Malaysia through BusinessPartner group.</li> <li>- In Malaysia, people with below-average income are targeted.</li> </ul>	Individuals and micro, small and medium enterprises with difficulty in accessing financial services in emerging countries where financial services are immature	  

## 3.2 Process for Project Evaluation and Selection

In the selection of eligible projects, the group company implementing the projects will be responsible for the selection. Hikari Tsushin, Inc. receives the information necessary for project evaluation from the group company, and evaluates the eligibility of the project, then gives final approval.

In evaluating the eligibility of projects, the group company implementing the projects will ensure that it complies with various laws and regulations required by the national and local governments of its location, and that sufficient deterrence has been taken against the possibility of significant adverse social effects such as money laundering, terrorist financing, and multiple indebtedness issues. In cases where Hikari Tsushin, Inc. determines that efforts to mitigate such adverse effects are insufficient, the project will be excluded from the intended use of proceeds.

## 3.3 Management of Proceeds

The net proceeds will be allocated to eligible projects through group companies and managed within those group companies. As long as the proceeds are outstanding, Hikari Tsushin, Inc. will conduct regular monitoring at least once a year to ensure that an equivalent or greater amount of funds raised in accordance with the Framework is allocated to eligible projects.

During the period before allocation or in case of unallocated funds, they will be managed as cash or cash equivalents.

## 3.4 Reporting

### **Allocation Reporting**

As long as the proceeds are outstanding, the following items will be disclosed on our company website (or to lenders in the case of loans) annually. If a significant change occurs in the allocation status from the plan at the time of funding, we will disclose that on our company website (or to lenders in the case of loans) appropriately.

- Allocated amount for each eligible project, including percentage of new expenditures and refinancing
- Unallocated amount
- Outstanding amount of proceeds

### **Impact Reporting**

As long as the proceeds are outstanding, the following items related to the social impact of eligible projects will be disclosed on our company website (or to lenders in the case of loans) annually to the extent feasible and reasonably practicable.

<b>Project Category</b>	<b>Output</b>	<b>Outcome</b>	<b>Impact</b>
Financial Services for Individuals, micro business and SMEs in Emerging Economies	Number and amount of financial services for each type of service by target country	Number of people benefiting from the services received, such as access to communication and transportation (categorized by income level - above or below average)	Improvement of living standards of people and economic revitalization in emerging countries