

Financial Statements

Year ended March 31, 2020

SMS CO., LTD.

Sumitomo Fudosan Shibakoen Tower,
2-11-1, Shibakoen, Minato-ku,
Tokyo, 105-0011, Japan

Consolidated Balance Sheets

SMS CO., LTD. and Its Consolidated Subsidiaries

As of March 31, 2019 and 2020

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Assets		
Current assets		
Cash and deposits	10,703	11,091
Accounts receivable - trade	4,323	5,213
Merchandise and finished goods	1	–
Work in process	13	14
Supplies	36	30
Accounts receivable - other	4,478	6,183
Prepaid expenses	634	664
Other	46	18
Allowance for doubtful accounts	(114)	(113)
Total current assets	20,123	23,102
Non-current assets		
Property, plant and equipment		
Buildings	459	626
Accumulated depreciation	(276)	(291)
Buildings, net	183	335
Tools, furniture and fixtures	749	806
Accumulated depreciation	(498)	(545)
Tools, furniture and fixtures, net	251	261
Machinery, equipment and vehicles	42	37
Accumulated depreciation	(30)	(17)
Machinery, equipment and vehicles, net	12	20
Right-of-use assets	–	481
Accumulated depreciation	–	(91)
Right-of-use assets, net	–	389
Total property, plant and equipment	447	1,006
Intangible assets		
Goodwill	10,574	10,148
Software	1,174	1,637
Trademark rights	9,246	9,126
Customer-related assets	2,088	1,825
Other	0	0
Total intangible assets	23,083	22,738
Investments and other assets		
Investment securities	* 2,048	* 2,225
Deferred tax assets	855	873
Lease and guarantee deposits	880	1,039
Other	30	11
Total investments and other assets	3,814	4,149
Total non-current assets	27,344	27,893
Total assets	47,467	50,996

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	353	314
Current portion of long-term loans payable	2,487	2,487
Accounts payable - other	6,064	7,711
Accrued expenses	529	451
Income taxes payable	623	534
Accrued consumption taxes	435	536
Advances received	583	725
Deposits received	78	84
Provision for bonuses	481	600
Provision for refund	227	242
Lease obligations	–	112
Other	24	30
Total current liabilities	11,891	13,831
Non-current liabilities		
Long-term loans payable	17,632	15,144
Net defined benefit liability	311	354
Deferred tax liabilities	2,078	1,994
Lease obligations	–	260
Other	13	11
Total non-current liabilities	20,037	17,766
Total liabilities	31,928	31,597
Net assets		
Shareholders' equity		
Capital stock	2,208	2,246
Capital surplus	13	51
Retained earnings	14,971	19,079
Treasury shares	(0)	(0)
Total shareholders' equity	17,193	21,376
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	0	0
Foreign currency translation adjustments	(1,834)	(2,149)
Total accumulated other comprehensive income	(1,833)	(2,149)
Subscription rights to shares	179	171
Total net assets	15,539	19,398
Total liabilities and net assets	47,467	50,996

See the accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

SMS CO., LTD. and Its Consolidated Subsidiaries

Fiscal years ended March 31, 2019 and 2020

(Millions of yen)

	Fiscal year ended March 31, 2019		Fiscal year ended March 31, 2020	
Net sales		30,836		35,140
Cost of sales		3,535		4,048
Gross profit		27,301		31,091
Selling, general and administrative expenses	*1	22,558	*1	26,156
Operating income		4,743		4,935
Non-operating income				
Interest income		11		24
Share of profit of entities accounted for using equity method		1,352		1,486
Other		66		62
Total non-operating income		1,430		1,573
Non-operating expenses				
Foreign exchange losses		51		43
Interest expenses		66		102
Arrangement fee		46		–
Other		30		6
Total non-operating expenses		194		152
Ordinary income		5,979		6,355
Extraordinary income				
Gain on sale of non-current assets		1		1
Gain on sale of shares of subsidiaries and associates		6		–
Gain on sale of businesses	*2	–	*2	55
Total extraordinary income		8		57
Extraordinary losses				
Loss on sale and retirement of non-current assets	*3	165	*3	23
Loss on valuation of investment securities		4		–
Loss on business withdrawal	*4	233	*4	–
Loss on cancellation of events	*5	–	*5	13
Other		49		–
Total extraordinary losses		453		37
Profit before income taxes		5,534		6,375
Income taxes – current		1,564		1,702
Income taxes – deferred		(221)		(87)
Total income taxes		1,342		1,615
Profit		4,191		4,760
Profit attributable to non-controlling interests		(25)		–
Profit attributable to owners of parent		4,216		4,760

See the accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

SMS CO., LTD. and Its Consolidated Subsidiaries

Fiscal years ended March 31, 2019 and 2020

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Profit	4,191	4,760
Other comprehensive income		
Valuation difference on available-for-sale securities	0	(0)
Foreign currency translation adjustments	(399)	(310)
Share of other comprehensive income of entities accounted for using equity method	(3)	(4)
Total other comprehensive income (loss)	* (402)	* (315)
Comprehensive income	3,788	4,444
Comprehensive income attributable to:		
Owners of parent	3,806	4,444
Non-controlling interests	(17)	—

See the accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

SMS CO., LTD. and Its Consolidated Subsidiaries

Fiscal years ended March 31, 2019 and 2020

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at April 1, 2018	2,167	3,965	14,545	(0)	20,677
Changes of items during period					
Issuance of new shares	41	41	—	—	82
Dividends of surplus	—	—	(564)	—	(564)
Profit attributable to owners of parent	—	—	4,216	—	4,216
Change in ownership interest of parent due to transactions with non-controlling interests	—	(3,992)	(3,225)	—	(7,218)
Purchase of treasury shares	—	—	—	(0)	(0)
Net changes of items other than shareholders' equity	—	—	—	—	—
Total changes of items during period	41	(3,951)	426	(0)	(3,484)
Balance at March 31, 2019	2,208	13	14,971	(0)	17,193

	Accumulated other comprehensive income			Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Total accumulated other comprehensive income			
Balance at April 1, 2018	0	(1,423)	(1,423)	135	4,252	23,641
Changes of items during period						
Issuance of new shares	—	—	—	—	—	82
Dividends of surplus	—	—	—	—	—	(564)
Profit attributable to owners of parent	—	—	—	—	—	4,216
Change in ownership interest of parent due to transactions with non-controlling interests	—	—	—	—	—	(7,218)
Purchase of treasury shares	—	—	—	—	—	(0)
Net changes of items other than shareholders' equity	0	(410)	(410)	44	(4,252)	(4,618)
Total changes of items during period	0	(410)	(410)	44	(4,252)	(8,102)
Balance at March 31, 2019	0	(1,834)	(1,833)	179	—	15,539

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at April 1, 2019	2,208	13	14,971	(0)	17,193
Changes of items during period					
Issuance of new shares	37	37	—	—	75
Dividends of surplus	—	—	(652)	—	(652)
Profit attributable to owners of parent	—	—	4,760	—	4,760
Change in ownership interest of parent due to transactions with non-controlling interests	—	—	—	—	—
Purchase of treasury shares	—	—	—	(0)	(0)
Net changes of items other than shareholders' equity	—	—	—	—	—
Total changes of items during period	37	37	4,107	(0)	4,183
Balance at March 31, 2020	2,246	51	19,079	(0)	21,376

	Accumulated other comprehensive income			Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Total accumulated other comprehensive income			
Balance at April 1, 2019	0	(1,834)	(1,833)	179	—	15,539
Changes of items during period						
Issuance of new shares	—	—	—	—	—	75
Dividends of surplus	—	—	—	—	—	(652)
Profit attributable to owners of parent	—	—	—	—	—	4,760
Change in ownership interest of parent due to transactions with non-controlling interests	—	—	—	—	—	—
Purchase of treasury shares	—	—	—	—	—	(0)
Net changes of items other than shareholders' equity	(0)	(315)	(315)	(7)	—	(323)
Total changes of items during period	(0)	(315)	(315)	(7)	—	3,859
Balance at March 31, 2020	0	(2,149)	(2,149)	171	—	19,398

See the accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows
SMS CO., LTD. and Its Consolidated Subsidiaries
Fiscal years ended March 31, 2019 and 2020

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Cash flows from operating activities		
Profit before income taxes	5,534	6,375
Depreciation	1,061	1,211
Amortization of goodwill	807	809
Loss (gain) on sale and retirement of non-current assets	163	21
Loss (gain) on valuation of investment securities	4	-
Share-based remuneration expenses	71	(10)
Loss on withdrawal from business	233	-
Loss (gain) on sale of businesses	-	(55)
Share of (profit) loss of entities accounted for using equity method	(334)	(179)
Increase (decrease) in allowance for doubtful accounts	(109)	(0)
Increase (decrease) in provision for bonuses	39	121
Increase (decrease) in provision for refund	74	14
Increase (decrease) in net defined benefit liability	150	43
Foreign exchange losses (gains)	51	43
Interest expenses	66	102
Decrease (increase) in notes and accounts receivable - trade	(34)	(910)
Increase (decrease) in accrued consumption taxes	28	101
Decrease (increase) in accounts receivable - other	(1,004)	(1,626)
Decrease (increase) in prepaid expenses	(64)	(30)
Increase (decrease) in advances received	(581)	176
Increase (decrease) in accounts payable - other	993	1,647
Other, net	73	(308)
Subtotal	7,225	7,547
Interest and dividend income received	11	27
Interest expenses paid	(62)	(102)
Income taxes paid	(2,018)	(1,880)
Net cash provided by (used in) operating activities	5,156	5,591
Cash flows from investing activities		
Payments into time deposits	(1,047)	(729)
Proceeds from withdrawal of time deposits	982	916
Purchase of property, plant and equipment	(216)	(419)
Purchase of intangible assets	(731)	(1,186)
Payments for acquisition of businesses	-	(5)
Proceeds from sale of businesses	-	57
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(23)	(762)
Other, net	(29)	1
Net cash provided by (used in) investing activities	(1,066)	(2,127)

(Continued)

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Cash flows from financing activities		
Proceeds from long-term loans payable	10,953	–
Repayments of long-term loans payable	(1,941)	(2,488)
Repayments of lease obligations	–	(78)
Proceeds from issuance of share acquisition rights	4	8
Proceeds from issuance of shares resulting from exercise of share acquisition rights	50	70
Cash dividends paid	(557)	(644)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(11,453)	–
Other, net	(0)	(0)
Net cash provided by (used in) financing activities	(2,943)	(3,132)
Effect of exchange rate change on cash and cash equivalents	(24)	270
Net increase (decrease) in cash and cash equivalents	1,122	602
Cash and cash equivalents at beginning of the year	8,768	9,890
Cash and cash equivalents at end of the year	* 9,890	* 10,493

See the accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

(Significant matters forming the basis for the preparation of consolidated financial statements)

1. Matters related to the scope of consolidation

Number of consolidated subsidiaries: 43

Names of major consolidated subsidiaries

SMS Career CO., LTD.
SENIOR MARKETING SYSTEM ASIA PTE. LTD.
Medica Asia (Holdco) Limited
MIMS Pte. Ltd.
MIMS (Shanghai) Ltd.
KIMS Limited
Medica Asia Australia (Holdco) Pty Ltd
MIMS Australia Pty Ltd
MIMS (NZ) Limited and other

For the fiscal year ended March 31, 2020, CCM International Limited and three other companies were included in the scope of consolidation due to acquisition of shares or establishment of new companies.

2. Application of equity method

(1) Number of affiliates accounted for using equity method: 3

Name of major affiliate
M3 Career, Inc.

3. Fiscal year of consolidated subsidiaries

The fiscal year-end of SMS Career CO., LTD., SMS Support Service CO., LTD., SMS Financial Service CO., LTD., Zweig Co., Ltd., WorkAmbitions Co., Ltd., and WILLONE Co., Ltd. is March 31, which is the same as the Company's fiscal year-end.

The fiscal year-end of consolidated subsidiaries other than those above is December 31. Since the difference in fiscal year-ends is not more than three months, financial statements as of December 31 are used in preparing the consolidated financial statements. For significant transactions that occurred in the period from their fiscal year-end to the Company's fiscal year-end, necessary adjustments have been made upon consolidation.

4. Matters related to the accounting policies

(1) Basis and method of valuation of significant assets

a. Securities

Available-for-sale securities

Available-for-sale securities without a determinable market value are stated at cost determined by the moving-average method.

b. Inventories

Merchandise and finished goods, work in process and supplies

Inventories are mainly measured at cost determined by the weighted-average method. (The amounts on the consolidated balance sheets are calculated using a method of writing down the book value due to decreased profitability.)

(2) Depreciation and amortization method of significant depreciable assets

a. Property, plant and equipment

Property, plant and equipment is depreciated using the declining-balance method. Buildings and accompanying fixtures and structures acquired on or after April 1, 2016 are depreciated using the straight-line method.

Major useful lives are as follows:

Buildings	6 to 15 years
Tools, furniture and fixtures	3 to 9 years
Machinery, equipment and vehicles	2 to 5 years

b. Intangible assets

Intangible assets are amortized using the straight-line method.

Major useful lives are as follows:

Software	Estimated period of internal use (within 5 years)
Trademark rights	Not amortized
Customer-related assets	12 years

c. Right-of-use assets

Right-of-use assets are depreciated using the straight-line method.

(3) Basis of significant allowances and provisions

a. Allowance for doubtful accounts

For normal trade receivables, allowance for doubtful accounts is provided at an amount determined based on the historical experience of bad debt. For certain receivables such as doubtful receivables, uncollectible amounts are individually estimated.

b. Provision for bonuses

Provision for bonuses is provided for the payment of employees' bonuses based on the estimate of future payments attributed to the fiscal year.

c. Provision for refund

In order to meet refund payments due to applicants' resignation based on the refund clause stipulated in job placement contracts between the Company and clients, provision for refund is provided at an amount estimated based on historical experience.

(4) Methods for significant hedge accounting

a. Hedge accounting method

Deferral hedge accounting is applied. For interest rate swaps, special accounting treatment is applied if the criteria for special accounting treatment are met. For currency swaps, the allocation method is applied if the criteria for the allocation method are met.

b. Hedging instruments and hedged items

Hedging instruments: Interest rate swaps and currency swaps

Hedged items: Long-term loans payable and associated interest denominated in foreign currencies

c. Hedge policy

As a policy, the Company uses interest rate swaps and currency swaps in order to mitigate and avoid interest rate fluctuation risk and foreign exchange fluctuation risk.

d. Method of evaluating hedge effectiveness

Hedge effectiveness is evaluated by comparing the total changes in values of hedging instruments and hedged items for the periods from the commencement of hedge contracts to the evaluation dates. For interest rate swaps which meet the criteria for special accounting treatment, the evaluation of hedge effectiveness is omitted.

(5) Accounting treatments for retirement benefit

a. The method of attributing expected benefit to periods

The straight-line method is used as the method of attributing expected benefit to periods through the fiscal year-end in calculating the projected benefit obligations.

b. The method of recognizing actuarial gain or loss

Actuarial gain or loss is charged to income in the fiscal year when such gain or loss is incurred.

(6) Basis of translation of significant assets and liabilities denominated in foreign currencies into Japanese yen

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates prevailing as of the fiscal year-end, and resulting gains and losses are included in income.

Assets and liabilities of overseas consolidated subsidiaries are translated into yen at the year-end exchange rates, and income and expenses are translated into yen at average exchange rates during the year. Differences arising from the translations are included in "Foreign currency translation adjustments" and "Non-controlling interests" under net assets.

(7) Amortization of goodwill – method and period of amortization

Goodwill is amortized over its effective period, not exceeding 20 years, on a straight-line basis.

(8) Cash and cash equivalents in consolidated statements of cash flows

The Company considers cash on hand, readily available deposits, and all easily convertible short-term instruments with a maturity of three months or less when purchased that are exposed to insignificant risk of changes in value to be cash and cash equivalents.

(9) Other significant matters for preparation of consolidated financial statements

a. Accounting treatment of consumption taxes

Consumption taxes are accounted for by the tax-excluded method.

b. Consolidated taxation system

The Company and certain consolidated subsidiaries have applied the consolidated taxation system, with the Company being a parent company under the system.

c. Tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system

In accordance with the Act for Partial Revision of the Income Tax Act, etc. (Act No. 8 of 2020, hereinafter the “Act”) promulgated in March 2020, the consolidated taxation system was revised and a shift is made to the group tax sharing system, which will be effective for fiscal years beginning on or after April 1, 2022.

In accordance with paragraph 3 of “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (Practical Issue Task Force (“PITF”) No. 39, March 31, 2020), as to the provisions in which the separate taxation system was revised, the Company and certain consolidated subsidiaries apply the tax provisions in effect prior to the Act in calculating deferred tax assets and liabilities instead of the provisions prescribed in paragraph 44 of “Implementation Guidance on Tax Effect Accounting” (Accounting Standards Board of Japan (“ASBJ”) Guidance No. 28, February 16, 2018).

(Changes in accounting policies)

Certain overseas consolidated subsidiaries adopting International Financial Reporting Standards (“IFRSs”) have applied IFRS 16 “Leases” (IFRS 16, January 13, 2016) from the fiscal year ended March 31, 2020. Thus, in principle, all leases as a lessee are recognized on the consolidated balance sheets as assets and liabilities.

In applying IFRS 16, the Company has taken the transitional approach of recognizing the cumulative effect of the application of this standard at the date of initial application.

As a result, the Company recognized ¥389 million of right-of-use assets (net) under property, plant and equipment, ¥112 million of lease obligations under current liabilities and ¥260 million of lease obligations under non-current liabilities on the consolidated balance sheets.

The impact of this change on profit or loss for the fiscal year ended March 31, 2020 is immaterial.

(Accounting standards and guidance issued but not yet applied)

1. Accounting standard for revenue recognition

- “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 31, 2020)

(1) Overview

The above comprehensive accounting standard and guidance relate to revenue recognition. Revenues are recognized using the following 5-step model.

Step 1: Identify the contract with a customer

Step 2: Identify 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 (or as) the entity satisfies a performance obligation

(2) Scheduled date of application

The Company plans to apply the aforementioned standard and guidance from the beginning of the fiscal year ending March 31, 2022.

(3) Effect of application

The effect of application of the aforementioned standard and guidance on the Company’s consolidated financial statements is under evaluation.

2. Accounting standard for disclosure of accounting estimates

- “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020)

(1) Overview

The purpose of this accounting standard is to disclose information that contributes to the understanding of users of the financial statements regarding accounting estimates recorded in the current fiscal year that entail the risk of having a material effect on the financial statements in the following year.

(2) Scheduled date of application

The Company plans to apply the aforementioned standard from the end of the fiscal year ending March 31, 2021.

(Additional information)

1. Accounting estimates regarding the impact of the COVID-19 pandemic

Based on the most recent information available at time of the preparation of the financial statements, the Company estimated the recoverability of deferred tax assets and impairment of intangible assets including goodwill under the assumption that the impact of the COVID-19 pandemic on economic activities would be contained by September 2020.

2. Practical solution on transactions granting employees and others stock acquisition rights, which involve considerations, with vesting conditions

The Company adopted “Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions” (PITF No. 36, January 12, 2018) on and after April 1, 2018. Accordingly, the Company accounts for transactions granting employees and others stock acquisition rights, which involve considerations, with vesting conditions in accordance with “Accounting Standard for Share-based Payment and its Implementation Guidance” (ASBJ Statement No. 8, December 27, 2005).

Regarding the application of PITF No. 36, the Company follows the transitional treatment as stipulated in Paragraph 10 (3) of PITF No. 36 and continues to apply the previous accounting treatment for transactions granting employees and others stock acquisition rights before the date of the application of PITF No. 36.

(Consolidated balance sheets)

* Investment in non-consolidated subsidiaries and affiliates included in investment securities is as follows:

	(Millions of yen)	
	As of March 31, 2019	As of March 31, 2020
Investment securities (shares)	2,038	2,215

(Consolidated statements of income)

*1 Major items and amounts included in selling, general and administrative expenses are as follows:

	(Millions of yen)	
	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Salaries and allowance	7,871	9,860
Advertising expenses	4,106	4,714
Amortization of goodwill	807	809
Depreciation	1,061	1,211
Business consignment expenses	2,545	2,543
Legal welfare expenses	1,246	1,478
Rents	1,284	1,458
Provision for bonuses	389	521
Retirement benefit expenses	95	98
Provision of allowance for doubtful accounts	39	34

*2 Gain on sale of businesses is as follows:

Fiscal year ended March 31, 2020

The gain recognized under extraordinary income is due to transfer of an educational business by WILLONE Co., Ltd., a

consolidated subsidiary of the Company.

*3 Loss on sale and retirement of non-current assets is as follows:

	(Millions of yen)	
	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Buildings	0	8
Tools, furniture and fixtures	0	4
Machinery, equipment and vehicles	8	–
Software	155	11
Total	165	23

*4 Loss on business withdrawal is as follows:

The breakdown of loss on business withdrawal under extraordinary losses for the fiscal year ended March 2019 is as follows:

	(Millions of yen)
Loss on withdrawal of overseas subsidiary's business (Note)	135
Loss on withdrawal of publishing business	55
Other	43
Total	233

(Note) It mainly includes ¥125 million of loss on software impairment in connection with the liquidation of SENIOR MARKETING SYSTEM SDN.BHD.

*5 Loss on cancellation of events is as follows:

For the fiscal year ended March 31, 2020, loss on cancellation of events is the loss incurred by the Company as a result of canceling recruitment events hosted by the Company due to the COVID-19 pandemic.

(Consolidated statements of comprehensive income)

* Reclassification adjustments and tax effects in connection with other comprehensive income

	(Millions of yen)	
	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Valuation difference on available-for-sale securities:		
Amount arising during the year	0	(0)
Reclassification adjustments	–	–
Amount before tax effects	0	(0)
Tax effects	(0)	0
Valuation difference on available-for-sale securities	0	(0)
Foreign currency translation adjustments:		
Amount arising during the year	(412)	(310)
Reclassification adjustments	12	–
Foreign currency translation adjustments	(399)	(310)
Share of other comprehensive income of entities accounted for using equity method:		
Amount arising during the year	(3)	(4)
Reclassification adjustments	–	–
Share of other comprehensive income of entities accounted for using equity method	(3)	(4)
Total other comprehensive income (loss)	(402)	(315)

(Consolidated statements of changes in net assets)

Fiscal year ended March 31, 2019

1. Matters regarding class and number of issued shares and class and number of treasury shares

(Shares)

	Number of shares at beginning of the year	Increase	Decrease	Number of shares at end of the year
Issued shares:				
Common stock (Notes 1 and 2)	43,421,000	43,577,800	–	86,998,800
Total	43,421,000	43,577,800	–	86,998,800
Treasury shares:				
Common stock (Notes 1 and 3)	155	217	–	372
Total	155	217	–	372

(Notes) 1. The Company implemented a 2-for-1 stock split effective July 1, 2018.

- Increase in issued shares (43,577,800 shares) is due to the stock split (43,421,000 shares) and the exercise of subscription rights to shares (156,800 shares).
- Increase in treasury shares (217 shares) is due to the stock split (155 shares) and the acquisition of treasury shares (62 shares).

2. Matters regarding subscription rights to shares

Classification	Description of subscription rights to shares	Class of shares subject to subscription rights to shares	Number of shares subject to subscription rights to shares (shares)				Balance at end of the year (Millions of yen)
			Beginning of the year	Increase	Decrease	End of the year	
The Company (Parent company)	August 2011 No.7 Stock Option (Note 1)	Common stock	6,400	6,400	12,800	–	–
	July 2012 No.8 Stock Option (Note 1)	Common stock	14,400	14,400	28,800	–	–
	July 2013 No.9 Stock Option (Note 1)	Common stock	57,600	57,600	115,200	–	–
	July 2014 No.10 Stock Option (Note 1)	Common stock	200,000	200,000	–	400,000	114
	July 2016 No.11 Stock Option (Note 1)	Common stock	18,000	18,000	–	36,000	18
	July 2016 No.12 Stock Option (Note 1)	Common stock	204,000	204,000	–	408,000	1
	May 2017 No.13 Stock Option (Note 1)	Common stock	158,000	158,000	–	316,000	2
	July 2018 No.14 Stock Option	Common stock	–	180,000	–	180,000	43
Total	–	658,400	838,400	156,800	1,340,000	179	

(Notes) 1. The Company implemented a 2-for-1 stock split effective July 1, 2018.

- The stock options above are exercisable in the following schedule: No.10 Stock Option on July 17, 2021; No.11 Stock Option on July 20, 2019; No.12 Stock Option on July 1, 2019; No.13 Stock Option on July 1, 2020, and No.14 Stock Option on July 1, 2021.

- Decreases are due to the exercise of subscription rights to shares.

3. Matters regarding dividends

(1) Dividend payment

Resolution	Class	Dividend amount (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 21, 2018	Common stock	564	13	March 31, 2018	June 22, 2018

(Note) The Company implemented a 2-for-1 stock split effective July 1, 2018. The dividend per share above is the amount before the stock split. The dividend per share reflecting the stock split is ¥6.5.

(2) Of the dividends whose record date belongs to the fiscal year ended March 31, 2019, the dividends whose effective date falls in the fiscal year ending March 31, 2020

Resolution	Class	Resource	Dividend amount (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 19, 2019	Common stock	Retained earnings	652	7.5	March 31, 2019	June 20, 2019

4. Matters regarding significant changes in the amount of shareholders' equity

None to report.

Fiscal year ended March 31, 2020

1. Matters regarding class and number of issued shares and class and number of treasury shares

(Shares)

	Number of shares at beginning of the year	Increase	Decrease	Number of shares at end of the year
Issued shares:				
Common stock (Note 1)	86,998,800	58,800	–	87,057,600
Total	86,998,800	58,800	–	87,057,600
Treasury shares:				
Common stock (Note 2)	372	73	–	445
Total	372	73	–	445

(Notes) 1. Increase in issued shares (58,800 shares) is due to the exercise of subscription rights to shares.

2. Increase in treasury shares (73 shares) is due to the acquisition of treasury shares.

2. Matters regarding subscription rights to shares

Classification	Description of subscription rights to shares	Class of shares subject to subscription rights to shares	Number of shares subject to subscription rights to shares (shares)				Balance at end of the year (Millions of yen)
			Beginning of the year	Increase	Decrease	End of the year	
The Company (Parent company)	July 2014 No.10 Stock Option	Common stock	400,000	–	–	400,000	138
	July 2016 No.11 Stock Option	Common stock	36,000	–	9,800	26,200	14
	July 2016 No.12 Stock Option	Common stock	408,000	–	253,000	155,000	0
	May 2017 No.13 Stock Option	Common stock	316,000	–	–	316,000	2
	July 2018 No.14 Stock Option	Common stock	180,000	–	–	180,000	4
	August 2019 No.15 Stock Option	Common stock	–	254,000	–	254,000	10
Total		–	1,340,000	254,000	262,800	1,331,200	171

(Notes) 1. The stock options above are exercisable in the following schedule: No.10 Stock Option on July 17, 2021; No.11 Stock Option on July 20, 2019; No.12 Stock Option on July 1, 2019; No.13 Stock Option on July 1, 2020, No.14 Stock Option on July 1, 2021, and No.15 Stock Option on July 1, 2022.

2. Decreases are due to the exercise and the expiration of subscription rights to shares.

3. Matters regarding dividends

(1) Dividend payment

Resolution	Class	Dividend amount (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 19, 2019	Common stock	652	7.5	March 31, 2019	June 20, 2019

(2) Of the dividends whose record date belongs to the fiscal year ended March 31, 2020, the dividend whose effective date falls in the fiscal year ending March 31, 2021.

Resolution	Class	Resource	Dividend amount (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 19, 2020	Common stock	Retained earnings	739	8.5	March 31, 2020	June 22, 2020

(Consolidated statements of cash flows)

* Reconciliation of cash and cash equivalents in the consolidated statements of cash flows to accounts and amounts in the accompanying consolidated balance sheets

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Cash and deposits	10,703	11,091
Time deposits with maturity in excess of three months	(812)	(598)
Cash and cash equivalents	9,890	10,493

(Leases)

(As a lessee)

1. Finance leases

Finance leases that do not transfer ownership

(1) Details of leased assets

Property, plant and equipment

Certain overseas consolidated subsidiaries have applied IFRS 16 “Leases” from the beginning of the fiscal year ended March 31, 2020. As a result of the application of IFRS 16, the Company has recognized amounts such as office rents of the consolidated subsidiaries as right-of-use assets.

(2) Depreciation method of leased assets

The depreciation method of leased assets is stated in “Significant matters forming the basis for the preparation of consolidated financial statements, 4. Matters related to the accounting policies, (2) Depreciation and amortization method of significant depreciable assets.”

2. Operating leases

Disclosure is omitted due to immateriality.

(Financial instruments)

1. Status of financial instruments

(1) Policy on financial instruments

As a policy, the Company generally operates its business using funds provided by operating activities, and invests temporary surplus funds in very safe financial instruments. The Company does not enter into financial transactions for trading or speculative purposes.

(2) Types of financial instruments, related risk and risk management

Accounts receivable - trade and accounts receivable - other are exposed to the credit risk of customers; however, the risk is limited because most of these receivables are due within two months. In accordance with the Company’s credit management policy, the Company manages such risk by monitoring due dates and outstanding balances by customer and evaluating their credit status.

Accounts payable - other and income taxes payable have payment due dates within one year, in general. Current liabilities including these payables are exposed to liquidity risk at time of settlement. However, the Company avoids such risk by reviewing the cash management plan on a monthly basis.

Long-term loans payable are primarily for share acquisitions related to M&A transactions. The Company manages interest rate fluctuation risk and the foreign exchange fluctuation risk of each contract by using derivative transactions such as interest rate swaps and currency swaps as hedging instruments, except for those of some syndicated loans payable.

(3) Supplemental information regarding fair value of financial instruments

The fair value of financial instruments is based on their market prices, if available. Where there is no market price available, fair value is reasonably estimated. As the estimation of fair value incorporates variable factors, the fair value may vary when different assumptions are applied.

2. Matters regarding fair value of financial instruments

The carrying amount, fair value and the difference between them are as follows. Financial instruments for which fair value is extremely difficult to estimate are excluded from the following table (See Note 2 below).

As of March 31, 2019

(Millions of yen)

	Carrying amount	Fair value	Difference
(1) Cash and deposits	10,703	10,703	—
(2) Accounts receivable - trade	4,323	4,323	—
Allowance for doubtful accounts (*1)	(114)	(114)	—
	4,209	4,209	—
(3) Accounts receivable - other	4,478	4,478	—
Total assets	19,391	19,391	—
(4) Long-term loans payable (*2)	20,120	20,090	(29)
(5) Accounts payable - other	6,064	6,064	—
(6) Income taxes payable	623	623	—
Total liabilities	26,809	26,779	(29)
Derivative transactions	—	—	—

(*1) The amount is presented as allowance for doubtful accounts receivable - trade.

(*2) The amount includes current portion of long-term loans payable.

As of March 31, 2020

(Millions of yen)

	Carrying amount	Fair value	Difference
(1) Cash and deposits	11,091	11,091	—
(2) Accounts receivable - trade	5,213	5,213	—
Allowance for doubtful accounts (*1)	(113)	(113)	—
	5,099	5,099	—
(3) Accounts receivable - other	6,183	6,183	—
Total assets	22,374	22,374	—
(4) Long-term loans payable (*2)	17,632	17,644	11
(5) Accounts payable - other	7,711	7,711	—
(6) Income taxes payable	534	534	—
Total liabilities	25,878	25,890	11
Derivative transactions	—	—	—

(*1) The amount is presented as allowance for doubtful accounts receivable - trade.

(*2) The amount includes current portion of long-term loans payable.

(Notes) 1. Measurement method of fair value of financial instruments and information on securities

Assets

(1) Cash and deposits, (2) Accounts receivable - trade, (3) Accounts receivable - other

Since these items are settled in a short period of time, their carrying amount approximates fair value. Since it is extremely difficult to estimate credit risk of each receivable, the Company estimates the fair value of accounts receivable - trade by deducting allowance for doubtful receivables from the carrying amount, considering that allowance for doubtful accounts approximates the amount of credit risk.

Liabilities

(4) Long-term loans payable (including current portion)

For loans payable whose interest is fixed rate or fixed using interest rate swaps, the fair value is calculated by discounting the total of principal and interest classified by the remaining period to the maturity using an assumed interest rate applicable to a similar type of new borrowings. For loans payable with variable interest rate, the fair value is measured in the same manner as those with fixed interest rate using TIBOR as of the balance sheet date.

(5) Accounts payable - other, (6) Income taxes payable

Since these items are settled in a short period of time, their carrying amount approximates fair value.

Derivative transactions

Interest rate swaps under the special accounting treatment and currency swaps under the allocation method are accounted for as an integral component of long-term loans payable designated as hedged items. Thus, their fair value is included in those of the loans payable.

2. Financial instruments whose fair value is extremely difficult to determine

(Millions of yen)

Classification	As of March 31, 2019	As of March 31, 2020
Investment securities		
Unlisted shares	2,048	2,225

These securities are not included in the table above, as there were no market prices available and it is extremely difficult to determine the fair value.

3. Maturity analysis for financial assets and securities with contractual maturities

As of March 31, 2019

(Millions of yen)

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	10,662	–	–	–
Accounts receivable - trade	4,323	–	–	–
Accounts receivable - other	4,478	–	–	–
Total	19,464	–	–	–

As of March 31, 2020

(Millions of yen)

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and deposits	11,035	–	–	–
Accounts receivable - trade	5,213	–	–	–
Accounts receivable - other	6,183	–	–	–
Total	22,432	–	–	–

4. Maturity analysis for bonds, long-term loans payable, leases payable and other interest-bearing debts and other interest-bearing debts

As of March 31, 2019

(Millions of yen)

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term loans payable	–	–	–	–	–	–
Long-term loans payable	2,487	2,487	2,487	2,394	2,301	7,961
Total	2,487	2,487	2,487	2,394	2,301	7,961

As of March 31, 2020

(Millions of yen)

	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Short-term loans payable	–	–	–	–	–	–
Long-term loans payable	2,487	2,487	2,394	2,301	2,301	5,660
Total	2,487	2,487	2,394	2,301	2,301	5,660

(Securities)

1. Impairment of securities

Fiscal year ended March 31, 2019

The disclosure is omitted due to immateriality.

Fiscal year ended March 31, 2020

None to report.

2. Available-for-sale securities sold during the fiscal year

Fiscal year ended March 31, 2019

None to report.

Fiscal year ended March 31, 2020

None to report.

(Derivative transactions)

1. Derivatives transactions for which hedge accounting has not been applied

None to report.

2. Derivatives transactions for which hedge accounting has been applied

(1) Currency-related

As of March 31, 2019

(Millions of yen)

Hedge accounting method	Transaction	Main hedged item	Contract amount	Contract amount over one year	Fair value
Allocation method	Currency swaps Receive: U.S. dollar/ Pay: Yen	Long-term loans payable	12,012	7,807	(Note)

(Note) Currency swaps under the allocation method are accounted for as an integral component of long-term loans payable designated as hedged items. Thus, their fair value is included in those of the loans payable.

As of March 31, 2020

(Millions of yen)

Hedge accounting method	Transaction	Main hedged item	Contract amount	Contract amount over one year	Fair value
Allocation method	Currency swaps Receive: U.S. dollar/ Pay: Yen	Long-term loans payable	12,012	6,606	(Note)

(Note) Currency swaps under the allocation method are accounted for as an integral component of long-term loans payable designated as hedged items. Thus, their fair value is included in those of the loans payable.

(2) Interest rate-related

As of March 31, 2019

(Millions of yen)

Hedge accounting method	Transaction	Main hedged item	Contract amount	Contract amount over one year	Fair value
Special accounting treatment	Interest rate swaps Receive: Floating / Pay: Fixed	Long-term loans payable	12,012	7,807	(Note)

(Note) Interest rate swaps under special accounting treatment are accounted for as an integral component of long-term loans payable designated as hedged items. Thus, their fair value is included in those of the loans payable.

As of March 31, 2020

(Millions of yen)

Hedge accounting method	Transaction	Main hedged item	Contract amount	Contract amount over one year	Fair value
Special accounting treatment	Interest rate swaps Receive: Floating / Pay: Fixed	Long-term loans payable	12,012	6,606	(Note)

(Note) Interest rate swaps under special accounting treatment are accounted for as an integral component of long-term loans payable designated as hedged items. Thus, their fair value is included in those of the loans payable.

(Retirement benefit)

1. Summary of retirement benefit plans

The Group has only a lump-sum payment plan.

2. Defined benefit plan

(1) Reconciliation between beginning balance and ending balance of projected benefit obligations

	(Millions of yen)	
	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Balance at beginning of the year	160	311
Service cost	82	69
Interest cost	0	2
Actuarial gain or loss	12	26
Retirement benefits paid	(39)	(22)
Other	94	(32)
Balance at end of the year	311	354

(2) Reconciliation between the ending balance of projected benefit obligations and net defined benefit liability recorded on the consolidated balance sheets

	(Millions of yen)	
	As of March 31, 2019	As of March 31, 2020
Unfunded retirement benefit obligations	311	354
Net defined benefit liability	311	354

(3) The components of retirement benefit expenses and their amounts

	(Millions of yen)	
	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Service cost	82	69
Interest cost	0	2
Amortization of actuarial gain or loss	12	26
Total retirement benefit expenses	95	98

(4) The major assumptions used for the actuarial calculation (weighted average)

	As of March 31, 2019	As of March 31, 2020
Discount rate	0.1%	1.0%

(Stock options)

1. The amount of costs incurred for the stock option plans and the account recorded are as follows:

(Millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Share-based compensation expenses included in general and administrative expenses	71	(10)

2. Outline, number and status of changes in number of stock options

(1) Outline of stock options

	No.10 Stock Option	No.11 Stock Option	No.12 Stock Option
Position and number of grantees	1 director	3 directors	3 directors, 40 employees
Number of options granted (Notes 1 and 2)	400,000 shares	36,000 shares	412,000 shares
Date of grant	July 17, 2014	August 9, 2016	August 9, 2016
Vesting condition	The grantee shall be in the position of director of the Company. This shall not apply in cases where the grantee resigned the position due to expiration of the term of office or other legitimate reasons. Other terms and conditions shall be stipulated in the contract for allotment of subscription rights to shares.	The grantee shall be in the position of director of the Company. This shall not apply in cases where the grantee resigned the position due to expiration of the term of office or other legitimate reasons. Other terms and conditions shall be stipulated in the contract for allotment of subscription rights to shares.	Only when EBITDA for the fiscal year ended March 31, 2019 (Note 3) exceeds (a), (b), or (c) stated below, subscription rights to shares shall become exercisable. Of the subscription rights allotted to each grantee, the number of rights which become exercisable (“exercisable ratio”) shall be determined as follows: (a) EBITDA exceeds ¥4,977 million: exercisable ratio is 10% (b) EBITDA exceeds ¥6,462 million: exercisable ratio is 50% (c) EBITDA exceeds ¥8,216 million: exercisable ratio is 100% Other terms and conditions shall be stipulated in the contract for allotment of subscription rights to shares.
Service period	July 17, 2014 – July 16, 2021	August 9, 2016 – July 19, 2019	–
Exercise period	July 17, 2021 – July 16, 2024	July 20, 2019 – July 19, 2026	July 1, 2019 – June 30, 2024

	No.13 Stock Option	No.14 Stock Option	No.15 Stock Option
Position and number of grantees	2 directors, 44 employees	2 directors, 45 employees	2 directors, 64 employees
Number of options granted (Notes 1 and 2)	318,000 shares	180,000 shares	254,000 shares
Date of grant	June 19, 2017	August 7, 2018	September 3, 2019
Vesting condition	<p>Only when operating income for the fiscal year ending March 31, 2020 exceeds (a), (b), or (c) stated below, subscription rights to shares shall become exercisable. Of the subscription rights allotted to each grantee, the number of rights which become exercisable (“exercisable ratio”) shall be determined as follows:</p> <p>(a) Operating income exceeds ¥4,853 million: exercisable ratio is 10%</p> <p>(b) Operating income exceeds ¥6,301 million: exercisable ratio is 50%</p> <p>(c) Operating income exceeds ¥8,011 million: exercisable ratio is 100%</p> <p>Other terms and conditions shall be stipulated in the contract for allotment of subscription rights to shares.</p>	<p>Only when EBITDA for the fiscal year ending March 31, 2021 (Note 4) exceeds (a), (b), or (c) stated below, subscription rights to shares shall become exercisable. Of the subscription rights allotted to each grantee, the number of rights which become exercisable (“exercisable ratio”) shall be determined as follows:</p> <p>(a) EBITDA exceeds ¥7,670 million: exercisable ratio is 10%</p> <p>(b) EBITDA exceeds ¥8,764 million: exercisable ratio is 50%</p> <p>(c) EBITDA exceeds ¥9,958 million: exercisable ratio is 100%</p> <p>Other terms and conditions shall be stipulated in the contract for allotment of subscription rights to shares.</p>	<p>Only when actual operating income for the fiscal year ending March 31, 2022 (Note 5) exceeds (a), (b), or (c) stated below, subscription rights to shares shall become exercisable. Of the subscription rights allotted to each grantee, the number of rights which become exercisable (“exercisable ratio”) shall be determined as follows:</p> <p>(a) Actual operating income exceeds ¥6,408 million: exercisable ratio is 10%</p> <p>(b) Actual operating income exceeds ¥7,322 million: exercisable ratio is 70%</p> <p>(c) Actual operating income exceeds ¥8,319 million: exercisable ratio is 100%</p> <p>Other terms and conditions shall be stipulated in the contract for allotment of subscription rights to shares.</p>
Service period	–	–	–
Exercise period	July 1, 2020 – June 30, 2025	July 1, 2021 – June 30, 2026	July 1, 2022 – June 30, 2027

- (Notes)
1. It is converted and stated as number of shares.
 2. The Company implemented a 2-for-1 stock split effective January 1, 2015. In addition, the Company implemented another 2-for-1 stock split effective July 1, 2018. The number of shares above represents those after these stock splits.
 3. EBITDA is calculated by adding the amounts of depreciation and amortization of goodwill on the Consolidated Statements of Cash Flows to the amount of operating income on the Consolidated Statements of Income for the fiscal year ended March 31, 2019.
 4. EBITDA is calculated by adding the amounts of depreciation and amortization of goodwill on the Consolidated Statements of Cash Flows, and the amount of share-based remuneration expenses described in Notes to Consolidated Financial Statements to the amount of operating income on the Consolidated Statements of Income for the fiscal year ending March 31, 2021.
 5. Actual operating income is calculated by adding the amount of share-based remuneration expenses stated in Notes to Consolidated Financial Statements to the amount of operating income on the Consolidated Statements of Income contained in the Annual Securities Report for the fiscal year ending March 31, 2022.

(2) Number and status of changes in number of stock options

The following tables are based on the stock options that existed for the fiscal year ended March 31, 2020. The number of stock options is converted and stated as the number of shares.

a. Number of stock options

(Shares)

	No.10 Stock Option	No.11 Stock Option	No.12 Stock Option
Non-vested:			
Outstanding at March 31, 2019	400,000	36,000	408,000
Granted	–	–	–
Forfeited	–	–	204,000
Vested	–	36,000	204,000
Outstanding at March 31, 2020	400,000	–	–
Vested:			
Outstanding at March 31, 2019	–	–	–
Vested	–	36,000	204,000
Increase due to stock split	–	–	–
Exercised	–	9,800	49,000
Forfeited	–	–	–
Outstanding at March 31, 2020	–	26,200	155,000

	No.13 Stock Option	No.14 Stock Option	No.15 Stock Option
Non-vested:			
Outstanding at March 31, 2019	316,000	180,000	–
Granted	–	–	254,000
Forfeited	–	–	–
Vested	–	–	–
Outstanding at March 31, 2020	316,000	180,000	254,000
Vested:			
Outstanding at March 31, 2019	–	–	–
Vested	–	–	–
Increase due to stock split	–	–	–
Exercised	–	–	–
Forfeited	–	–	–
Outstanding at March 31, 2020	–	–	–

b. Price information of stock options

(Yen)

	No.10 Stock Option	No.11 Stock Option	No.12 Stock Option
Exercise price	736	1,205	1,190
Average market price of the stock at the time of exercise	–	2,381	2,647
Fair unit value (date of grant)	422	569	3

	No.13 Stock Option	No.14 Stock Option	No.15 Stock Option
Exercise price	1,528	1,978	2,544
Average market price of the stock at the time of exercise	–	–	–
Fair unit value (date of grant)	8	969	792

(Note) The Company implemented a 2-for-1 stock split effective January 1, 2015. In addition, the Company implemented another 2-for-1 stock split effective July 1, 2018. The number of shares above represents those after these stock splits.

3. Methods to estimate fair values of stock options

The methods to estimate fair values of No. 15 Stock Option granted for the fiscal year ended March 31, 2020 are as follows:

No.15 Stock Option

a. Valuation technique Black-Scholes Model

b. Major assumptions and estimation method

	No.15 Stock Option
Volatility of stock price (Note 1)	40.96%
Estimated remaining period to maturity (Note 2)	5.33 years
Estimated dividend (Note 3)	¥7.5 per share
Risk-free interest rate (Note 4)	(0.368)%

(Notes) 1. The volatility of stock price is estimated based on the actual stock prices from May 7, 2014 to September 3, 2019.

2. Since it is difficult to make reliable estimates due to insufficient historical data, the remaining period was calculated based on the assumption that the rights were exercised in the middle of each exercise period.

3. An amount of the actual dividend for the fiscal year ended March 31, 2019 is used for the assumption.

4. This rate is the yield of Japanese government bonds maturing on December 20, 2024 as of the date of valuation.

4. Method of estimating number of stock options vested

Since it is difficult to reasonably estimate the number of stock options that will expire in the future, only the number of options that has been forfeited is reflected.

(Tax-effect accounting)

1. Major components of deferred tax assets and deferred tax liabilities

(Millions of yen)

	As of March 31, 2019	As of March 31, 2020
Deferred tax assets:		
Enterprise tax payable	79	52
Provision for bonuses	119	140
Provision for refund	81	74
Legal welfare expenses payable	14	17
Allowance for doubtful accounts	24	20
Excess depreciation and amortization	205	221
Provision for retirement benefits	64	74
Incidental costs of share acquisition	142	149
Loss carryforward	585	688
Other	186	143
Subtotal	1,504	1,583
Valuation allowance	(640)	(703)
Total deferred tax assets	864	880
Offset by deferred tax liabilities	(9)	(7)
Deferred tax assets, net	855	873
Deferred tax liabilities:		
Customer-related assets	2,078	1,994
Valuation difference on available-for-sale securities	0	0
Other	9	6
Total deferred tax liabilities	2,087	2,001
Offset by deferred tax assets	(9)	(7)
Deferred tax liabilities, net	2,078	1,994

2. Reconciliation between the statutory tax rate and the effective tax rate reflected in the consolidated statements of income

	As of March 31, 2019	As of March 31, 2020
Statutory tax rate	30.62%	30.62%
Special corporation tax credit granted upon increase in salary and bonus payments	(4.01)%	(3.68)%
Amortization of goodwill and other	5.77%	4.98%
Share of profit/loss of entities accounted for using equity method	(7.48)%	(7.14)%
Other	(0.63)%	0.56%
Effective tax rate	24.26%	25.34%

(Asset retirement obligations)

Fiscal year ended March 31, 2019

The Group has obligations to restore assets to their original state on leaving the properties based on real estate lease contracts for office spaces, which are asset retirement obligations. Instead of recognizing asset retirement obligations, the Group reasonably estimates the amounts which would not be recoverable at the end of the lease periods and recognizes expenses for the year by amortizing the amounts of lease deposits over the expected periods of use.

The total amount of restoration costs is estimated to be ¥191 million, of which the amount recognized as expenses for the fiscal year ended March 31, 2019 is ¥34 million.

Fiscal year ended March 31, 2020

The Group has obligations to restore assets to their original state on leaving the properties based on real estate lease contracts for office spaces, which are asset retirement obligations. Instead of recognizing asset retirement obligations, the Group reasonably estimates the amounts which would not be recoverable at the end of the lease periods and recognizes expenses for the year by amortizing the amounts of lease deposits over the expected periods of use.

The total amount of restoration costs is estimated to be ¥232 million, of which the amount recognized as expenses for the fiscal year ended March 31, 2020 is ¥35 million.

(Segment information and other)

【Segment information】

Overview of reportable segments

The Company and its consolidated subsidiaries consist of a single business, which aims to build information infrastructure suitable for the aging society, and operations incidental thereto.

Accordingly, there is no segment information to be disclosed and as such the disclosure is omitted.

【Related information】

1. Information by products and services

The Company and its consolidated subsidiaries consist of a single business, which aims to build information infrastructure suitable for the aging society, and operations incidental thereto. Accordingly, there is no segment information to be disclosed and as such the disclosure is omitted.

2. Information by geographical areas

(1) Net sales

(Millions of yen)		
Japan	Other	Total
25,372	5,464	30,836

(Note) The amount of net sales is classified by country and region based on customers' location.

(2) Property, plant and equipment

(Millions of yen)		
Japan	Other	Total
322	125	447

3. Information on major customers

Information on major customers is omitted since there is no single customer with 10% or more of the amount of net sales presented in the consolidated statements of income.

Fiscal year ended March 31, 2020

1. Information by products and services

The Company and its consolidated subsidiaries consist of a single business, which aims to build information infrastructure suitable for the aging society, and operations incidental thereto. Accordingly, there is no segment information to be disclosed and as such the disclosure is omitted.

2. Information by geographical areas

(1) Net sales

(Millions of yen)		
Japan	Other	Total
29,863	5,276	35,140

(Note) The amount of net sales is classified by country and region based on customers' location.

(2) Property, plant and equipment

(Millions of yen)		
Japan	Other	Total
443	562	1,006

3. Information on major customers

Information on major customers is omitted since there is no single customer with 10% or more of the amount of net sales presented in the consolidated statements of income.

【Information on impairment loss of non-current assets by reportable segment】

The disclosure is omitted since there is only one segment in the Group.

【Information on amortization of goodwill and balance of unamortized goodwill by reportable segment】

The disclosure is omitted since there is only one segment in the Group.

【Information on negative goodwill incurred by reportable segment】

None to report.

【Related party transactions】

1. Related party transactions

Transactions between the Company and related parties

Fiscal year ended March 31, 2019

None to report.

Fiscal year ended March 31, 2020

None to report.

2. Notes on parent company or major affiliates

Summary of financial information of major affiliates

As of and for the fiscal year ended March 31, 2020, M3 Career, Inc. was a major affiliate of the Company and its condensed financial information is as follows:

	(Millions of yen)	
	M3 Career, Inc.	
	2019	2020
Total current assets	5,411	5,775
Total non-current assets	1,156	1,132
Total current liabilities	2,458	2,526
Total non-current liabilities	88	81
Total net assets	4,020	4,300
Net sales	13,709	15,393
Profit before income taxes	3,726	4,046
Profit	2,704	2,950

(Amounts per share)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Net assets per share (Yen)	176.55	220.86
Profit per share (Yen)	48.51	54.69
Diluted profit per share (Yen)	48.24	54.45

(Note) The basis for calculating profit per share and diluted profit per share is as follows:

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Profit per share:		
Profit attributable to owners of parent (Millions of yen)	4,216	4,760
Amount not attributable to common stock shareholders (Millions of yen)	–	–
Profit attributable to common stock owners of parent (Millions of yen)	4,216	4,760
Weighted average number of shares (Shares)	86,934,982	87,033,325
Diluted profit per share:		
Adjustment to profit attributable to owners of parent (Millions of yen)	–	–
Increase in number of common stock (Shares)	475,622	396,895
[Of which, exercise of subscription rights to shares (Shares)]	[475,622]	[396,895]
Details of potential shares excluded from calculation of diluted profit per share due to no dilutive effect	No.12 Subscription rights to shares based on the resolution of the Board of Directors' meeting held on July 20, 2016: Common stock 204,000 shares No.13 Subscription rights to shares based on the resolution of the Board of Directors' meeting held on May 29, 2017: Common stock 316,000 shares No.14 Subscription rights to shares based on the resolution of the Board of Directors' meeting held on July 18, 2018: Common stock 180,000 shares	No.13 Subscription rights to shares based on the resolution of the Board of Directors' meeting held on May 29, 2017: Common stock 284,400 shares No.14 Subscription rights to shares based on the resolution of the Board of Directors' meeting held on July 18, 2018: Common stock 180,000 shares No.15 Subscription rights to shares based on the resolution of the Board of Directors' meeting held on August 19, 2019: Common stock 254,000 shares

(Note) The Company implemented a 2-for-1 stock split effective July 1, 2018. Net assets per share, profit per share, diluted profit per share, weighted average number of shares, increase in number of common stock, and potential shares excluded from calculation of diluted profit per share due to no dilutive effect are calculated on the assumption that the stock split was executed at the beginning of the fiscal year ended March 31, 2019.

(Significant subsequent events)

None to report.

【Consolidated statements schedules】

【Details of bonds】

None to report.

【Details of loans payable】

Classification	Balance at beginning of the year (Millions of yen)	Balance at end of the year (Millions of yen)	Average interest rate (%)	Repayment date
Short-term loans payable	—	—	—	—
Current portion of long-term loans payable	2,487	2,487	0.46	—
Long-term loans payable (excluding current portion)	17,632	15,144	0.34	From 2021 to 2028
Total	20,120	17,632	—	—

- (Notes) 1. The average interest rate represents the weighted-average rate applicable to the balance at end of the year.
 2. The five-year repayment schedule of long-term loans payable (excluding current portion) subsequent to the fiscal year end is as follows:

(Millions of yen)

	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
Long-term loans payable	2,487	2,394	2,301	2,301

【Details of asset retirement obligations】

For asset retirement obligations, instead of recording liabilities for asset retirement obligations, the Group reasonably estimates the amounts which would not be recoverable at the end of the lease periods and recognizes expenses for the year by amortizing the amounts of lease deposits over the expected periods of use.

Thus, there is nothing to report.

TRANSLATION

This is a translation of the original Independent Auditors' Report filed under the Financial Instruments and Exchange Act, prepared in the Japanese language. This report is presented merely as supplemental information. Ernst & Young ShinNihon LLC has not audited the English language version of the consolidated financial statements of SMS Co., LTD. for the fiscal year from April 1, 2019 to March 31, 2020.

Independent Auditor's Report on the Consolidated Financial Statements and Internal Control over Financial Reporting

To the Board of Directors of
SMS CO., LTD.

June 19, 2020

Ernst & Young ShinNihon LLC

Tokyo, Japan

Designated Engagement Partner, Certified Public Accountant
Hisafumi Nomoto (Seal)

Designated Engagement Partner, Certified Public Accountant
Keiichi Wakimoto (Seal)

Audit of Financial Statements

Opinion

Pursuant to Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements included in the Financial Section, namely, the consolidated balance sheet, and the consolidated statements of income, comprehensive income, changes in net assets and cash flows, the significant matters forming the basis for the preparation of consolidated financial statements, the other notes and consolidated supplementary schedules of SMS CO., LTD. ("the Company") for the fiscal year from April 1, 2019 to March 31, 2020.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of SMS CO., LTD. and its consolidated subsidiaries as at March 31, 2020, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in 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 Company and its consolidated subsidiaries in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Audit & 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 designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern. The Audit & Supervisory Committee is responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Company'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. 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, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Company'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 Company'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 Company to cease to continue as a going concern.
- Evaluate 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 in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information or business activities of the Company and its consolidated subsidiaries 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 & 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 & Supervisory Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Audit of Internal Control

Opinion

Pursuant to Article 193-2, Paragraph 2 of the Financial Instruments and Exchange Act, we have audited management's report on internal control over financial reporting for the consolidated financial statements as at March 31, 2020 of SMS CO., LTD.

In our opinion, management's report on internal control referred to above, which represents that the internal control over financial reporting of the consolidated financial statements of SMS CO., LTD. and its consolidated subsidiaries as at March 31, 2020 is effectively maintained, presents fairly, in all material respects, the results of the assessment of internal control over financial reporting in conformity with assessment standards for internal control over financial reporting generally accepted in Japan.

Basis for Opinion

We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Internal Control section of our report. We are independent of the Company and its consolidated subsidiaries in accordance with the ethical requirements that are relevant to our audit of internal control in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Audit & Supervisory Committee for Management's Report on Internal Control

Management is responsible for designing and operating internal control over financial reporting, and for the preparation and fair presentation of its report on internal control in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

The Audit & Supervisory Committee is responsible for monitoring and verifying the design and operation of internal control over financial reporting.

Internal control over financial reporting may not prevent or detect misstatements fully.

Auditor's Responsibilities for the Audit of Internal Control

Our objectives are to obtain reasonable assurance about whether management's report on internal control as a whole is free from material misstatement and to issue an auditor's report that includes our opinion.

As part of an audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Perform audit procedures to obtain audit evidence about the results of the assessment of internal control over financial reporting in management's report on internal control. The procedures selected depend on the auditor's judgment, including the materiality of the effect on the reliability of financial reporting.
- Examine representations on the scope, procedures and results of the assessment of internal control over financial reporting made by management and evaluate the overall presentation of management's report on internal control.
- Obtain sufficient appropriate audit evidence regarding the results of the assessment of internal control over financial reporting in management's report on internal control. We are responsible for the direction, supervision and performance of the audit of the report on internal control. We remain solely responsible for our audit opinion.

We communicate with the Audit & Supervisory Committee regarding, among other matters, the planned scope and timing of the internal control audit, significant deficiencies in internal control requiring disclosure that we identify during our audit and the results of corrections thereof.

We also provide the Audit & Supervisory Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of internal control in Japan, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Conflicts of Interest

Our firm and its designated engagement partners do not have any interest in the Company and its subsidiaries which should be disclosed in accordance with the Certified Public Accountants Act.

(End of Report)