

Financial Statements

Year ended March 31, 2023

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, 2022 and 2023

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Assets		
Current assets		
Cash and deposits	14,640	16,965
Accounts receivable - trade	5,842	6,510
Work in process	28	20
Supplies	25	29
Accounts receivable - other	6,757	8,440
Prepaid expenses	665	793
Other	27	67
Allowance for doubtful accounts	(163)	(274)
Total current assets	27,823	32,552
Non-current assets		
Property, plant and equipment		
Buildings	746	845
Accumulated depreciation	(396)	(448)
Buildings, net	350	397
Tools, furniture and fixtures	864	1,024
Accumulated depreciation	(642)	(802)
Tools, furniture and fixtures, net	222	222
Machinery, equipment and vehicles	28	30
Accumulated depreciation	(18)	(23)
Machinery, equipment and vehicles, net	9	7
Right-of-use assets	688	768
Accumulated depreciation	(394)	(509)
Right-of-use assets, net	294	259
Total property, plant and equipment	876	886
Intangible assets		
Goodwill	8,907	10,029
Software	3,013	4,156
Trademark rights	9,581	11,053
Customer-related assets	1,421	1,355
Other	0	0
Total intangible assets	22,923	26,594
Investments and other assets		
Investment securities	* 2,825	* 2,629
Deferred tax assets	975	1,138
Lease and guarantee deposits	1,160	1,298
Total investments and other assets	4,962	5,065
Total non-current assets	28,762	32,546
Total assets	56,585	65,098

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	307	324
Current portion of long-term loans payable	1,999	1,901
Accounts payable - other	8,933	10,566
Accrued expenses	577	682
Income taxes payable	1,674	1,263
Accrued consumption taxes	460	654
Contract liabilities	1,004	1,073
Deposits received	169	180
Provision for bonuses	704	858
Lease obligations	131	152
Other	244	357
Total current liabilities	16,207	18,015
Non-current liabilities		
Long-term loans payable	8,054	6,153
Net defined benefit liability	173	178
Deferred tax liabilities	1,973	2,208
Lease obligations	185	121
Other	0	—
Total non-current liabilities	10,387	8,661
Total liabilities	26,594	26,677
Net assets		
Shareholders' equity		
Capital stock	2,310	2,315
Capital surplus	114	119
Retained earnings	27,699	33,190
Treasury shares	(1)	(1)
Total shareholders' equity	30,123	35,624
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	567	395
Foreign currency translation adjustments	(1,052)	1,917
Total accumulated other comprehensive income	(484)	2,312
Subscription rights to shares	352	484
Total net assets	29,991	38,421
Total liabilities and net assets	56,585	65,098

See the accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

SMS CO., LTD. and Its Consolidated Subsidiaries

Fiscal years ended March 31, 2022 and 2023

(Millions of yen)

	Fiscal year ended March 31, 2022		Fiscal year ended March 31, 2023	
Net sales	*1	38,899	*1	45,667
Cost of sales		4,455		5,566
Gross profit		34,443		40,100
Selling, general and administrative expenses	*2	28,125	*2	32,820
Operating income		6,318		7,279
Non-operating income				
Interest income		12		17
Share of profit of entities accounted for using equity method		1,509		1,526
Other		47		70
Total non-operating income		1,569		1,615
Non-operating expenses				
Foreign exchange losses		43		59
Interest expenses		79		69
Other		38		6
Total non-operating expenses		160		135
Ordinary income		7,726		8,759
Extraordinary income				
Gain on sale of non-current assets		1		0
Gain on reversal of foreign currency translation adjustment		–		50
Total extraordinary income		1		51
Extraordinary losses				
Loss on sale and retirement of non-current assets	*3	15	*3	13
Impairment losses	*4	3		–
Loss on sale of investment securities		–		1
Loss on valuation of investment securities		1		0
Total extraordinary losses		21		15
Profit before income taxes		7,707		8,795
Income taxes – current		2,444		2,575
Income taxes – deferred		(145)		(186)
Total income taxes		2,298		2,389
Profit		5,408		6,406
Profit attributable to non-controlling interests		–		–
Profit attributable to owners of parent		5,408		6,406

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, 2022 and 2023

	(Millions of yen)	
	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Profit	5,408	6,406
Other comprehensive income		
Valuation difference on available-for-sale securities	(0)	(0)
Foreign currency translation adjustments	2,031	2,945
Share of other comprehensive income of entities accounted for using equity method	590	(147)
Total other comprehensive income	* 2,622	* 2,797
Comprehensive income	8,031	9,203
Comprehensive income attributable to:		
Owners of parent	8,031	9,203
Non-controlling interests	—	—

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, 2022 and 2023

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at April 1, 2021	2,281	85	23,140	(0)	25,506
Cumulative effects of changes in accounting policies	—	—	(22)	—	(22)
Restated balance	2,281	85	23,118	(0)	25,484
Changes of items during period					
Issuance of new shares	29	29	—	—	58
Dividends of surplus	—	—	(827)	—	(827)
Profit attributable to owners of parent	—	—	5,408	—	5,408
Purchase of treasury shares	—	—	—	(0)	(0)
Net changes of items other than shareholders' equity	—	—	—	—	—
Total changes of items during period	29	29	4,580	(0)	4,639
Balance at March 31, 2022	2,310	114	27,699	(1)	30,123

	Accumulated other comprehensive income			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Total accumulated other comprehensive income		
Balance at April 1, 2021	0	(3,107)	(3,107)	259	22,658
Cumulative effects of changes in accounting policies	—	—	—	—	(22)
Restated balance	0	(3,107)	(3,107)	259	22,636
Changes of items during period					
Issuance of new shares	—	—	—	—	58
Dividends of surplus	—	—	—	—	(827)
Profit attributable to owners of parent	—	—	—	—	5,408
Purchase of treasury shares	—	—	—	—	(0)
Net changes of items other than shareholders' equity	567	2,055	2,622	92	2,715
Total changes of items during period	567	2,055	2,622	92	7,354
Balance at March 31, 2022	567	(1,052)	(484)	352	29,991

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at April 1, 2022	2,310	114	27,699	(1)	30,123
Changes of items during period					
Issuance of new shares	4	4	—	—	9
Dividends of surplus	—	—	(915)	—	(915)
Profit attributable to owners of parent	—	—	6,406	—	6,406
Purchase of treasury shares	—	—	—	(0)	(0)
Net changes of items other than shareholders' equity	—	—	—	—	—
Total changes of items during period	4	4	5,491	(0)	5,500
Balance at March 31, 2023	2,315	119	33,190	(1)	35,624

	Accumulated other comprehensive income			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustments	Total accumulated other comprehensive income		
Balance at April 1, 2022	567	(1,052)	(484)	352	29,991
Changes of items during period					
Issuance of new shares	—	—	—	—	9
Dividends of surplus	—	—	—	—	(915)
Profit attributable to owners of parent	—	—	—	—	6,406
Purchase of treasury shares	—	—	—	—	(0)
Net changes of items other than shareholders' equity	(171)	2,969	2,797	131	2,929
Total changes of items during period	(171)	2,969	2,797	131	8,430
Balance at March 31, 2023	395	1,917	2,312	484	38,421

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, 2022 and 2023

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Cash flows from operating activities		
Profit before income taxes	7,707	8,795
Depreciation	1,649	1,977
Amortization of goodwill	833	919
Loss (gain) on sale and retirement of non-current assets	14	12
Impairment losses	3	-
Loss (gain) on sale of investment securities	-	1
Loss (gain) on valuation of investment securities	1	0
Share-based remuneration expenses	91	126
Loss (gain) on reversal of foreign currency translation adjustment	-	(50)
Share of (profit) loss of entities accounted for using equity method	(262)	45
Increase (decrease) in allowance for doubtful accounts	(36)	93
Increase (decrease) in provision for bonuses	4	106
Increase (decrease) in net defined benefit liability	7	(18)
Foreign exchange losses (gains)	43	59
Interest expenses	79	69
Decrease (increase) in notes and accounts receivable - trade	(750)	(324)
Increase (decrease) in accrued consumption taxes	(49)	179
Decrease (increase) in accounts receivable - other	(428)	(1,649)
Decrease (increase) in prepaid expenses	152	(114)
Increase (decrease) in contract liabilities	54	(60)
Increase (decrease) in accounts payable - other	1,169	1,523
Other, net	213	(105)
Subtotal	10,498	11,586
Interest and dividend income received	15	22
Interest expenses paid	(80)	(70)
Income taxes paid	(616)	(3,034)
Net cash provided by (used in) operating activities	9,818	8,504
Cash flows from investing activities		
Payments into time deposits	(171)	(459)
Proceeds from withdrawal of time deposits	95	227
Purchase of property, plant and equipment	(212)	(286)
Purchase of intangible assets	(1,800)	(2,628)
Proceeds from sale of investment securities	-	0
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(618)
Other, net	9	0
Net cash provided by (used in) investing activities	(2,079)	(3,763)

(Continued)

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Cash flows from financing activities		
Repayments of long-term loans payable	(3,070)	(2,013)
Repayments of lease obligations	(126)	(128)
Proceeds from issuance of share acquisition rights	7	6
Proceeds from issuance of shares resulting from exercise of share acquisition rights	52	8
Cash dividends paid	(849)	(915)
Other, net	(0)	(0)
Net cash provided by (used in) financing activities	(3,987)	(3,043)
Effect of exchange rate change on cash and cash equivalents	229	345
Net increase (decrease) in cash and cash equivalents	3,981	2,043
Cash and cash equivalents at beginning of the year	10,144	14,126
Cash and cash equivalents at end of the year	* 14,126	* 16,170

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

(1) Number of consolidated subsidiaries: 39

Names of major consolidated subsidiaries

SENIOR MARKETING SYSTEM ASIA PTE. LTD.

MIMS PTE. LTD.

MIMS MEDICA SDN. BHD.

MIMS (SHANGHAI) LIMITED.

KIMS CO., LTD.

MEDICA ASIA AUSTRALIA (HOLDCO) PTY LIMITED

MIMS AUSTRALIA PTY LTD

MIMS (NZ) LIMITED

MEDICA ASIA (HOLDCO) LIMITED and others

SENIOR MARKETING SYSTEM SDN. BHD. was excluded from the scope of consolidation due to the completion of its liquidation. The Company included CWC Care with Care GmbH and Care Forward GmbH in the scope of consolidation for the fiscal year ended March 31, 2023 due to the acquisition of their shares.

2. Application of equity method

Number of affiliates accounted for using equity method: 3

Name of major affiliate

M3 Career, Inc. and others

3. Fiscal year of consolidated subsidiaries

Of the consolidated subsidiaries of the Company, the fiscal year-end of Medica Asia (Holdco) Limited and its 33 consolidated subsidiaries 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

Inventories

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 carrying amount due to decreased profitability.)

(2) Depreciation and amortization method of significant depreciable assets

a. Property, plant and equipment (excluding right-of-use assets)

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.

(4) Accounting treatment for retirement benefits

a. Method of attributing expected benefit to periods

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

b. 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.

(5) Basis for recognition of significant revenue and expenses

In accordance with the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020), the Group recognizes revenue based on the following five steps:

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

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

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

Step 5: Recognize revenue when (or as) a performance obligation is satisfied.

The Group mainly engages in the following businesses: (a) placement and recruiting services for medical care and elderly care professionals in the career field, (b) management support platform services for elderly care operators, (c) medical marketing services overseas, (d) clinical decision support services overseas, (e) health and productivity management platform services in the area of business development (Specific Health Guidance), (f) health and productivity management platform services in the area of business development (Remote Occupational Health), and (g) problem-solving platform services in the area of business development.

The revenue recognition policy for each of the major revenue categories is summarized below. The amount of variable consideration included in revenue is not material. The promised amount of consideration does not include a significant financing component since it is generally received within one year.

a. Placement and recruiting services

The Group provides placement and recruiting services mainly to medical and elderly care service providers seeking appropriate professionals for their services. In these transactions, the Group is obligated, under contracts, to provide services resulting in individual employment. Since the performance obligations are satisfied at a point in time when each applicant is hired as an employee, the Group recognizes relevant revenue at the same point in time.

b. Management support platform services

The Group provides a variety of management support services, with functions including insurance billing, mainly to elderly care service providers through cloud computing. In these transactions, the Group is obligated to provide a platform environment to care providers who become members based on a membership application. Since the performance obligations are satisfied over time, the Group recognizes relevant revenue over the contract period.

c. Medical marketing services

The Group provides a variety of marketing support services to medical and healthcare service providers, mainly overseas, according to their needs. In these transactions, the Group is obligated, under contracts, to provide healthcare professionals with medical and healthcare information through various channels including publications, websites, and events. Since the performance obligations are satisfied when the services are rendered in accordance with individual contracts, the Group recognizes relevant revenue when the services are rendered.

d. Clinical decision support services

The Group provides database solutions to detect prescription errors primarily to healthcare institutions overseas. In these transactions, the Group is obligated, under contracts, to provide healthcare professionals with access to the databases to ensure that there are no prescription errors. Since the performance obligations are satisfied over time, the Group recognizes relevant revenue over the contract period.

e. Health and productivity management platform services (Specific Health Guidance)

The Group provides health insurance associations with ICT-based health guidance services. In these transactions, the Group is obligated, under contracts, to provide nutrition specialist guidance to participants in health insurance associations. Since the performance obligations are satisfied when the nutrition specialist guidance services are rendered, the Group recognizes relevant revenue at the same point in time.

f. Health and productivity management platform services (Remote Occupational Health)

The Group provides human resources departments of entities with ICT-based occupational health services. In these transactions, the Group is obligated, under contracts, to support overall industrial health services including health guidance by industrial physicians and implementation of stress checks. Since the performance obligations are satisfied over time, the Group recognizes relevant revenue over the contract period.

g. Problem-solving platform services

The Group provides elderly persons and their families (“end users”) with referral services by introducing affiliated service providers to solve issues and problems specific to the aging society. In these transactions, the Group is obligated, primarily under contracts, to provide an intermediary function to introduce affiliated service providers to end users through the Company’s platform. Since the performance obligation is satisfied at a point in time when an end user enters into a contract with a service provider, the Group recognizes relevant revenue at the same point in time.

(6) Basis for translation of significant assets or 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” under net assets.

(7) 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

It is the Company’s policy to use 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.

(Hedging related items to which “Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR” is applied)

The special treatment stipulated in the “Practical Solution on the Treatment of Hedge Accounting for Financial

Instruments that Reference LIBOR” (PITF No. 40, March 17, 2022) is applied to all hedging related items when applicable. The following are hedging related items to which PITF No. 40 is applied.

Hedge accounting method: Deferral hedge accounting
Hedging instruments: Interest rate swaps and currency swaps
Hedged items: Long-term loans payable and associated interest denominated in foreign currencies
Type of hedging transaction: Transactions to fix cash flows

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

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

(9) 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.

(Significant accounting estimates)

(Valuation of intangible assets)

The Company recognized intangible assets of ¥26,594 million (¥22,923 million as of March 31, 2022), including goodwill of ¥10,029 million (¥8,907 million as of March 31, 2022) and trademark right of ¥11,053 million, (¥9,581 million as of March 31, 2022), in the consolidated balance sheet as of March 31, 2023. These intangible assets are mostly the result of the acquisition of MIMS group.

MIMS group engages in business to provide marketing support services to medical and healthcare-related entities across 18 countries and territories in regions such as Asia and Oceania. The Company did not recognize an impairment loss for the asset group related to MIMS group since the total undiscounted future cash flows of the asset group exceeded its carrying amount when the impairment test was performed. The undiscounted future cash flows of the asset group were estimated based on factors such as the business plan for the next fiscal year approved by the Board of Directors, the growth rate over subsequent fiscal years, and the recoverable amount after the expiration of the useful life. Key assumptions used in estimating undiscounted future cash flows are net sales in the next fiscal year and the rate of return used to calculate the recoverable amount after the expiration of the useful life.

The Company believes that the fair value estimates used in testing the asset group related to MIMS group for impairment are reasonable; however, changes in estimates due to unpredictable future changes in circumstances, which could cause a decline in future cash flows or fair value, could have an adverse impact on these valuations, and may result in the Company recognizing an impairment loss of goodwill or other intangible assets.

(Consolidated balance sheets)

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

	(Millions of yen)	
	As of March 31, 2022	As of March 31, 2023
Investment securities (shares)	2,822	2,629

(Consolidated statements of income)

*1. Revenue from contracts with customers

For net sales, revenue from contracts with customers and other revenue are not separately presented. The amounts of revenue from contracts with customers is disclosed in (Revenue recognition), 1. Information on disaggregation of revenue from contracts with customers.

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

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Salaries and allowance	10,911	12,216
Advertising expenses	5,592	7,075
Amortization of goodwill	833	919
Depreciation	1,649	1,977
Business consignment expenses	2,316	2,644
Legal welfare expenses	1,695	1,922
Rents	1,686	1,796
Provision for bonuses	564	702
Retirement benefit expenses	29	8
Provision of allowance for doubtful accounts	21	126

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

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Buildings	–	10
Tools, furniture and fixtures	14	1
Software	1	1
Total	15	13

*4. Impairment losses

Fiscal year ended March 31, 2022

The disclosure is omitted due to immateriality.

Fiscal year ended March 31, 2023

None to report.

(Consolidated statements of comprehensive income)

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

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Valuation difference on available-for-sale securities:		
Amount arising during the year	(0)	(1)
Reclassification adjustments	—	0
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	2,031	2,995
Reclassification adjustments	—	(50)
Foreign currency translation adjustments	2,031	2,945
Share of other comprehensive income of entities accounted for using equity method:		
Amount arising during the year	590	(147)
Reclassification adjustments	—	—
Share of other comprehensive income of entities accounted for using equity method	590	(147)
Total other comprehensive income	2,622	2,797

(Consolidated statements of changes in net assets)

Fiscal year ended March 31, 2022

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)	87,109,600	38,200	—	87,147,800
Total	87,109,600	38,200	—	87,147,800
Treasury shares:				
Common stock (Note 2)	491	70	—	561
Total	491	70	—	561

(Notes) 1. The increase in issued shares (38,200 shares) is due to the exercise of subscription rights to shares.

2. The increase in treasury shares (70 shares) is due to the buyback of fractional shares of less than one unit.

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)	Subscription rights to shares as stock options	—	—	—	—	—	352
Total		—	—	—	—	—	352

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 18, 2021	Common stock	827	9.5	March 31, 2021	June 21, 2021

(2) Of dividends whose record date is in the fiscal year ended March 31, 2022, those whose effective date is in the fiscal year ending March 31, 2023

Resolution	Class	Resource	Dividend amount (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 24, 2022	Common stock	Retained earnings	915	10.5	March 31, 2022	June 27, 2022

Fiscal year ended March 31, 2023

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)	87,147,800	5,700	—	87,153,500
Total	87,147,800	5,700	—	87,153,500
Treasury shares:				
Common stock (Note 2)	561	80	—	641
Total	561	80	—	641

(Notes) 1. The increase in issued shares (5,700 shares) is due to the exercise of subscription rights to shares.

2. The increase in treasury shares (80 shares) is due to the buyback of fractional shares of less than one unit.

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 (Note 2)	End of the year	
The Company (Parent company)	Subscription rights to shares as stock options	—	—	—	—	—	484
Total		—	—	—	—	—	484

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 24, 2022	Common stock	915	10.5	March 31, 2022	June 27, 2022

(2) Of dividends whose record date is in the fiscal year ended March 31, 2023, those whose effective date is in the fiscal year ending March 31, 2024

Resolution	Class	Resource	Dividend amount (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Ordinary General Meeting of Shareholders held on June 23, 2023	Common stock	Retained earnings	1,307	15.0	March 31, 2023	June 26, 2023

(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, 2022	Fiscal year ended March 31, 2023
Cash and deposits	14,640	16,965
Time deposits with maturity in excess of three months	(514)	(795)
Cash and cash equivalents	14,126	16,170

(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." 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

Future minimum lease payments under non-cancellable operating leases are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Due within one year	996	68
Due after one year	68	—
Total	1,064	68

(Financial instruments)

1. Status of financial instruments

(1) Policy on financial instruments

It is the Company's policy to generally operate its business using funds provided by operating activities, and to invest 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 the time of settlement. However, the Company avoids such risk by reviewing its 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

Variable factors are incorporated into measurements of fair value of financial instruments. 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:

As of March 31, 2022

(Millions of yen)

	Carrying amount	Fair value	Difference
Long-term loans payable (*1)	10,053	10,000	(53)
Liabilities, total	10,053	10,000	(53)
Derivative transactions	—	—	—

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

(*2) The disclosure is omitted for cash. The disclosure is also omitted for deposits, accounts receivable - trade, accounts receivable - other, accounts payable - other, and income taxes payable since their fair value approximates their carrying amount due to their short maturities.

(*3) Equity securities without market prices are not included in the table above. Their carrying amount is as follows:

Classification	Carrying amount
Investment securities	
Unlisted equity securities	2,825

As of March 31, 2023

(Millions of yen)

	Carrying amount	Fair value	Difference
Long-term loans payable (*1)	8,054	7,950	(103)
Liabilities, total	8,054	7,950	(103)
Derivative transactions	—	—	—

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

(*2) The disclosure is omitted for cash. The disclosure is also omitted for deposits, accounts receivable - trade, accounts receivable - other, accounts payable - other, and income taxes payable since their fair value approximates their carrying

amount due to their short maturities.

(*3) Equity securities without market prices are not included in the table above. Their carrying amount is as follows:

Classification	Carrying amount
Investment securities	
Unlisted equity securities	2,629

(Note 1) Maturity analysis for financial assets and securities with contractual maturities

As of March 31, 2022

(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	14,635	–	–	–
Accounts receivable - trade	5,842	–	–	–
Accounts receivable - other	6,757	–	–	–
Total	27,234	–	–	–

As of March 31, 2023

(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	16,959	–	–	–
Accounts receivable - trade	6,510	–	–	–
Accounts receivable - other	8,440	–	–	–
Total	31,911	–	–	–

(Note 2) Maturity analysis for bonds, long-term loans payable, leases payable and other interest-bearing debts

As of March 31, 2022

(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
Long-term loans payable	1,999	1,901	1,901	1,901	1,300	1,050
Total	1,999	1,901	1,901	1,901	1,300	1,050

As of March 31, 2023

(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
Long-term loans payable	1,901	1,901	1,901	1,300	700	350
Total	1,901	1,901	1,901	1,300	700	350

3. Matters regarding fair value hierarchy of financial instruments

The Company classifies the fair value of financial instruments into three categories depending on whether inputs for a fair value measurement are observable or significant.

Level 1 fair value: Fair value measured by using quoted prices in active markets as observable inputs for assets or liabilities subject to a fair value measurement

Level 2 fair value: Fair value measured by using observable inputs other than those for Level 1

Level 3 fair value: Fair value measured by using unobservable inputs

When multiple inputs of different categories are used in measuring fair value, the Company classifies the fair value into a category to which the lowest priority is assigned.

(1) Financial instruments measured at fair value in the consolidated balance sheet

Fiscal year ended March 31, 2022

None to report.

Fiscal year ended March 31, 2023

None to report.

(2) Financial instruments other than those measured at fair value in the consolidated balance sheet

Fiscal year ended March 31, 2022

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Long-term loans payable	–	10,000	–	10,000
Liabilities, total	–	10,000	–	10,000

Fiscal year ended March 31, 2023

(Millions of yen)

Classification	Fair value			
	Level 1	Level 2	Level 3	Total
Long-term loans payable	–	7,950	–	7,950
Liabilities, total	–	7,950	–	7,950

(Note) Explanation of valuation techniques and inputs used for fair value measurement

Long-term loans payable (including current portion)

The fair value of loans payable is measured at the present value calculated by discounting the aggregate amount of principal and interest at the interest rate reflecting the remaining period of each loan payable and credit risk. The fair value is classified as Level 2.

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, etc. designated as hedged items. Thus, their fair value is included in that of the loans payable.

(Securities)

1. Impairment of securities

Fiscal year ended March 31, 2022

The disclosure is omitted due to immateriality.

Fiscal year ended March 31, 2023

The disclosure is omitted due to immateriality.

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

Fiscal year ended March 31, 2022

None to report.

Fiscal year ended March 31, 2023

The disclosure is omitted due to immateriality.

(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, 2022

(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	4,204	(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, 2023

(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	3,003	(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, 2022

(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	4,204	(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, 2023

(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	3,003	(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

Some overseas subsidiaries of the Company have 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, 2022	Fiscal year ended March 31, 2023
Balance at beginning of the year	149	173
Service cost	33	36
Interest cost	0	0
Actuarial gain or loss	(3)	(28)
Retirement benefits paid	(14)	(18)
Other	8	14
Balance at end of the year	173	178

(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, 2022	As of March 31, 2023
Unfunded retirement benefit obligations	173	178
Net defined benefit liability	173	178

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

	(Millions of yen)	
	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Service cost	33	36
Interest cost	0	0
Amortization of actuarial gain or loss	(3)	(28)
Total retirement benefit expenses	29	8

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

	As of March 31, 2022	As of March 31, 2023
Discount rate	3.5%	5.7%

(Stock options)

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

(Millions of yen)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Share-based remuneration expenses included in general and administrative expenses	91	126

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 representative director	3 directors (excluding outside directors)	3 directors (excluding outside 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 (excluding outside directors), 44 employees	2 directors (excluding outside directors), 45 employees	2 directors (excluding outside directors), 64 employees
Number of options granted (Notes 1 and 2)	318,000 shares	180,000 shares	254,000 shares
Date of grant	June 21, 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

	No. 16 Stock Option	No. 17 Stock Option	No. 18 Stock Option
Position and number of grantees	2 directors (excluding outside directors), 24 employees	2 directors (excluding outside directors), 25 employees	2 directors (excluding outside directors), 27 employees
Number of options granted (Notes 1 and 2)	200,000 shares	183,000 shares	192,000 shares
Date of grant	July 29, 2020	July 28, 2021	July 27, 2022
Vesting condition	<p>Only when actual operating income for the fiscal year ending March 31, 2023 (Note 6) exceeds (a) or (b) 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 ¥6,647 million: exercisable ratio is 10%</p> <p>(b) Actual operating income exceeds ¥7,237 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, 2024 (Note 7) 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 ¥7,390 million: exercisable ratio is 10%</p> <p>(b) Actual operating income exceeds ¥8,444 million: exercisable ratio is 70%</p> <p>(c) Actual operating income exceeds ¥9,594 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, 2025 (Note 8) 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 ¥8,532 million: exercisable ratio is 10%</p> <p>(b) Actual operating income exceeds ¥9,750 million: exercisable ratio is 70%</p> <p>(c) Actual operating income exceeds ¥11,077 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, 2023 – June 30, 2028	July 1, 2024 – June 30, 2029	July 1, 2025 – June 30, 2030

- (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 ended 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 ended March 31, 2022.
 6. 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 ended March 31, 2023.
 7. 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, 2024.

8. 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, 2025.

(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, 2023. 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, 2022	–	–	–
Granted	–	–	–
Forfeited	–	–	–
Vested	–	–	–
Outstanding at March 31, 2023	–	–	–
Vested:			
Outstanding at March 31, 2022	400,000	20,000	91,000
Vested	–	–	–
Exercised	–	–	3,000
Forfeited	–	–	–
Outstanding at March 31, 2023	400,000	20,000	88,000

	No. 13 Stock Option	No. 14 Stock Option	No. 15 Stock Option
Non-vested:			
Outstanding at March 31, 2022	–	–	252,000
Granted	–	–	–
Forfeited	–	–	226,800
Vested	–	–	25,200
Outstanding at March 31, 2023	–	–	–
Vested:			
Outstanding at March 31, 2022	17,800	11,500	–
Vested	–	–	25,200
Exercised	1,400	400	900
Forfeited	–	–	–
Outstanding at March 31, 2023	16,400	11,100	24,300

	No. 16 Stock Option	No. 17 Stock Option	No. 18 Stock Option
Non-vested:			
Outstanding at March 31, 2022	200,000	183,000	–
Granted	–	–	192,000
Forfeited	–	–	–
Vested	–	–	–
Outstanding at March 31, 2023	200,000	183,000	192,000
Vested:			
Outstanding at March 31, 2022	–	–	–
Vested	–	–	–
Exercised	–	–	–
Forfeited	–	–	–
Outstanding at March 31, 2023	–	–	–

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	–	–	3,140
Fair unit value (date of grant)	422.0	568.5	3.0

	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	3,205	3,270	3,134
Fair unit value (date of grant)	7.5	969.0	792.0

	No. 16 Stock Option	No. 17 Stock Option	No. 18 Stock Option
Exercise price	2,322	3,290	2,951
Average market price of the stock at the time of exercise	–	–	–
Fair unit value (date of grant)	879.0	901.0	1,091.0

(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 value of stock options

The methods to estimate fair value of No. 18 Stock Option granted for the fiscal year ended March 31, 2023 are as follows:

No. 18 Stock Option

a. Valuation technique Black-Scholes Model

b. Major assumptions and estimation method

	No. 18 Stock Option
Volatility of stock price (Note 1)	38.85%
Estimated remaining period to maturity (Note 2)	5.4 years
Estimated dividend (Note 3)	¥10.5 per share
Risk-free interest rate (Note 4)	0.011 %

(Notes) 1. The volatility of stock price is estimated based on the actual stock prices from February 20, 2017 to July 27, 2022.

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, 2022 is used for the assumption.

4. This rate is the yield of Japanese government bonds maturing on December 20, 2027 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.

(This part is intentionally left blank)

(Tax-effect accounting)

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

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Deferred tax assets:		
Enterprise tax payable	86	87
Provision for bonuses	135	184
Refund liabilities	71	82
Legal welfare expenses payable	19	21
Accounts payable - other	37	1
Allowance for doubtful accounts	37	50
Excess depreciation and amortization	290	372
Bad debt expenses	25	24
Share-based remuneration expenses	51	51
Loss carryforward	82	132
Other	151	146
Total deferred tax assets	988	1,155
Offset by deferred tax liabilities	(12)	(17)
Deferred tax assets, net	975	1,138
Deferred tax liabilities:		
Trademark right	1,973	2,208
Other	12	17
Total deferred tax liabilities	1,986	2,225
Offset by deferred tax assets	(12)	(17)
Deferred tax liabilities, net	1,973	2,208

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

	As of March 31, 2022	As of March 31, 2023
Statutory tax rate	30.62%	30.62%
Special corporation tax credit granted upon increase in salary and bonus payments	—	(2.42)%
Amortization of goodwill and other	4.22%	4.17%
Share of profit/loss of entities accounted for using equity method	(6.00)%	(5.32)%
Other	0.98%	0.11%
Effective tax rate	29.82%	27.16%

3. Accounting treatment of corporation tax/local corporation tax and related tax effect accounting

Effective from the fiscal year ended March 31, 2023, the Company and certain domestic consolidated subsidiaries have applied the group tax sharing system. Accordingly, the Company has followed the “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (PITF No. 42, August 12, 2021) with regard to the accounting treatment and disclosures of corporation tax/local corporation tax and related tax effect accounting.

(Asset retirement obligations)

Fiscal year ended March 31, 2022

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 ¥258 million, of which the amount recognized as expenses for the fiscal year ended March 31, 2022 is ¥49 million.

Fiscal year ended March 31, 2023

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 ¥278 million, of which the amount recognized as expenses for the fiscal year ended March 31, 2023 is ¥46 million.

(Revenue recognition)

1. Information on disaggregated revenue from contracts with customers

Fiscal year ended March 31, 2022

	Name of business					Total
	Career		Elderly care operators	Overseas	Business development	
	Elderly care	Medical care				
Japan	10,487	13,011	7,192	–	1,844	32,536
Other	–	–	–	6,362	–	6,362
Revenue from contracts with customers	10,487	13,011	7,192	6,362	1,844	38,899
Other revenue	–	–	–	–	–	–
Net sales to outside customers	10,487	13,011	7,192	6,362	1,844	38,899

Fiscal year ended March 31, 2023

	Name of business					Total
	Career		Elderly care operators	Overseas	Business development	
	Elderly care	Medical care				
Japan	12,676	14,585	8,362	–	2,227	37,851
Other	–	–	–	7,815	–	7,815
Revenue from contracts with customers	12,676	14,585	8,362	7,815	2,227	45,667
Other revenue	–	–	–	–	–	–
Net sales to outside customers	12,676	14,585	8,362	7,815	2,227	45,667

2. Information forming the basis for understanding revenue from contracts with customers

The disclosure is omitted since the same information is disclosed in Notes to Consolidated Financial Statements, (Significant matters forming the basis for the preparation of consolidated financial statements), 4. Matters related to the accounting policies, (5) Basis for recognition of significant revenue and expenses.

3. Information on the relationship between satisfaction of performance obligations based on contracts with customers and cash flows from the contracts, and information on amounts of revenue expected to be recognized from contracts with customers that exist as of the end of the current fiscal year and the expected timing of revenue recognition after the end of the current fiscal year

(1) Balances of contract assets and contract liabilities

Contract assets represent a right to consideration to be received in exchange for satisfying a performance obligation, other than for receivables. The Group has no applicable transactions, and therefore, contract assets are not accounted for in the consolidated balance sheet.

Contract liabilities, presented as “contract liabilities” in the consolidated balance sheet, represent an advanced receipt of consideration before satisfying a performance obligation. The balance of contract liabilities as of April 1, 2021 and 2022 is recognized as revenue for the fiscal year ended March 31, 2022 and 2023, respectively.

(2) Transaction prices allocated to remaining performance obligations

The disclosure is omitted since there are no significant transactions with expected individual contract periods exceeding one year. In addition, all significant considerations arising from contracts with customers are included in transaction prices.

(Segment and other information)

[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]

Fiscal year ended March 31, 2022

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 area

(1) Net sales

(Millions of yen)		
Japan	Other	Total
32,536	6,362	38,899

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

(2) Property, plant and equipment

(Millions of yen)		
Japan	Other	Total
441	435	876

3. Information on major customers

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

Fiscal year ended March 31, 2023

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 area

(1) Net sales

(Millions of yen)		
Japan	Other	Total
37,851	7,815	45,667

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

(2) Property, plant and equipment

(Millions of yen)

Japan	Other	Total
474	411	886

3. Information on major customers

Information on major customers is omitted since no single customer accounts for 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, 2022

None to report.

Fiscal year ended March 31, 2023

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, 2023, M3 Career, Inc. was a major affiliate of the Company and its condensed financial information is as follows:

(Millions of yen)

	M3 Career, Inc.	
	2022	2023
Total current assets	5,695	5,898
Total non-current assets	2,957	2,244
Total current liabilities	2,479	2,520
Total non-current liabilities	592	416
Total net assets	5,580	5,205
Net sales	14,093	14,538
Profit before income taxes	4,545	4,544
Profit	3,125	3,182

(Amounts per share)

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Net assets per share (Yen)	340.10	435.29
Profit per share (Yen)	62.07	73.51
Diluted profit per share (Yen)	61.77	73.13

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

	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023
Profit per share:		
Profit attributable to owners of parent (Millions of yen)	5,408	6,406
Amount not attributable to common stock shareholders (Millions of yen)	–	–
Profit attributable to common stock owners of parent (Millions of yen)	5,408	6,406
Weighted average number of shares (Shares)	87,131,740	87,148,889
Diluted profit per share:		
Adjustment to profit attributable to owners of parent (Millions of yen)	–	–
Increase in number of common stock (Shares)	428,588	448,332
[Of which, exercise of subscription rights to shares (Shares)]	[428,588]	[448,332]
Details of potential shares excluded from calculation of diluted profit per share due to no dilutive effect	<p>No. 15 Subscription rights to shares based on the resolution of the Board of Directors' meeting held on August 19, 2019: Common stock 226,800 shares</p> <p>No. 16 Subscription rights to shares based on the resolution of the Board of Directors' meeting held on July 13, 2020: Common stock 200,000 shares</p> <p>No. 17 Subscription rights to shares based on the resolution of the Board of Directors' meeting held on July 12, 2021: Common stock 183,000 shares</p>	<p>No. 17 Subscription rights to shares based on the resolution of the Board of Directors' meeting held on July 12, 2021: Common stock 183,000 shares</p> <p>No. 18 Subscription rights to shares based on the resolution of the Board of Directors' meeting held on July 11, 2022: Common stock 192,000 shares</p>

(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	1,999	1,901	0.32	–
Long-term loans payable (excluding current portion)	8,054	6,153	0.34	From 2024 to 2028
Total	10,053	8,054	–	–

- (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	1,901	1,901	1,300	700

[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, 2022 to March 31, 2023.

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 23, 2023

Ernst & Young ShinNihon LLC

Tokyo, Japan

Designated Engagement Partner, Certified Public Accountant
Ryo Kayama (Seal)

Designated Engagement Partner, Certified Public Accountant
Kiyoto Tanaka (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, 2022 to March 31, 2023.

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, 2023, 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current fiscal year. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of intangible assets related to MIMS group	
Description of Key Audit Matter	Auditor's Response
<p>The Company recorded intangible assets of ¥26,594 million, including goodwill of ¥10,029 million and trademark right of ¥11,053 million, in its consolidated balance sheet as of March 31, 2023. These amounts are mostly the result of the acquisition of MIMS group.</p> <p>As described in (Significant accounting estimates) in the Notes to Consolidated Financial Statements, MIMS group engages in business to provide marketing support services to medical and healthcare-related entities in 18 countries and regions including Asia and Oceania. As a result of an impairment test, the Company did not recognize an impairment loss for the asset group to which MIMS group belongs since the total undiscounted future cash flows from the asset group exceeded the carrying amount.</p> <p>Undiscounted future cash flows are estimated based on the business plan for the next fiscal year approved by the Board of Directors, the growth rate over subsequent fiscal years, the recoverable amounts after the remaining useful lives and other factors.</p> <p>Key assumptions used in estimating undiscounted future cash flows are net sales in the next fiscal year and the rate of return used to calculate the recoverable amount after the remaining useful life.</p> <p>These key assumptions are subject to uncertainty due to the impact from changes in the business environment, and require management's judgement. Therefore, we determined that the valuation of intangible assets is a key audit matter.</p>	<p>With regard to the Company's estimate of total undiscounted future cash flows used in conducting the impairment test of intangible assets related to MIMS group, we mainly performed the following audit procedures:</p> <ul style="list-style-type: none"> • We compared the estimation period for future cash flows to the remaining useful lives of major assets. • We considered whether the future cash flows are consistent with the business plan approved by the Board of Directors. • We compared prior year business plans with subsequent actual results in order to assess the effectiveness of management's estimation process. • We made inquiries of management regarding the rationale for key assumptions, which are net sales in the next fiscal year and the rate of return used to calculate the recoverable amount after the remaining useful life, and compared the key assumptions with publicly available external data. • We involved a valuation expert from our network firm to assess the rate of return used to calculate the recoverable amount after the remaining useful life. • We evaluated the sensitivity of future cash flows to net sales in the next fiscal year and the rate of return used to calculate the recoverable amount after the remaining useful life.

Other Information

The other information comprises the information included in the Annual Securities Report that contains audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for preparation and disclosure of the other information. 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.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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.

From the matters communicated with the Audit & Supervisory Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current fiscal year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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, 2023 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, 2023 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)