

Financial Statements

Year ended March 31, 2019

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, 2018 and 2019

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Assets		
Current assets		
Cash and deposits	9,515	10,703
Accounts receivable - trade	4,308	4,323
Merchandise and finished goods	50	1
Work in process	29	13
Supplies	20	36
Accounts receivable - other	3,474	4,478
Prepaid expenses	571	634
Other	12	46
Allowance for doubtful accounts	(224)	(114)
Total current assets	17,759	20,123
Non-current assets		
Property, plant and equipment		
Buildings	413	459
Accumulated depreciation	(252)	(276)
Buildings, net	160	183
Tools, furniture and fixtures	687	749
Accumulated depreciation	(454)	(498)
Tools, furniture and fixtures, net	233	251
Machinery, equipment and vehicles	39	42
Accumulated depreciation	(27)	(30)
Machinery, equipment and vehicles, net	11	12
Total property, plant and equipment	405	447
Intangible assets		
Goodwill	11,539	10,574
Software	1,382	1,174
Trademark rights	9,412	9,246
Customer-related assets	2,368	2,088
Other	0	0
Total intangible assets	24,703	23,083
Investments and other assets		
Investment securities	* 1,721	* 2,048
Deferred tax assets	730	855
Lease and guarantee deposits	746	880
Other	20	30
Total investments and other assets	3,219	3,814
Total non-current assets	28,328	27,344
Total assets	46,087	47,467

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Liabilities		
Current liabilities		
Accounts payable - trade	292	353
Short-term loans payable	8	–
Current portion of long-term loans payable	1,395	2,487
Accounts payable - other	5,061	6,064
Accrued expenses	289	529
Income taxes payable	1,068	623
Accrued consumption taxes	406	435
Advances received	1,183	583
Deposits received	70	78
Provision for bonuses	445	481
Provision for refund	153	227
Other	22	24
Total current liabilities	10,400	11,891
Non-current liabilities		
Long-term loans payable	9,690	17,632
Net defined benefit liability	160	311
Deferred tax liabilities	2,175	2,078
Other	19	13
Total non-current liabilities	12,046	20,037
Total liabilities	22,446	31,928
Net assets		
Shareholders' equity		
Capital stock	2,167	2,208
Capital surplus	3,965	13
Retained earnings	14,545	14,971
Treasury shares	(0)	(0)
Total shareholders' equity	20,677	17,193
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	0	0
Foreign currency translation adjustments	(1,423)	(1,834)
Total accumulated other comprehensive income	(1,423)	(1,833)
Subscription rights to shares	135	179
Non-controlling interests	4,252	–
Total net assets	23,641	15,539
Total liabilities and net assets	46,087	47,467

See the accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income
SMS CO., LTD. and Its Consolidated Subsidiaries
Fiscal years ended March 31, 2018 and 2019

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Net sales	26,611	30,836
Cost of sales	3,289	3,535
Gross profit	23,322	27,301
Selling, general and administrative expenses	*1 19,300	*1 22,558
Operating income	4,021	4,743
Non-operating income		
Foreign exchange gains	29	–
Interest income	8	11
Share of profit of entities accounted for using equity method	950	1,352
Other	58	66
Total non-operating income	1,047	1,430
Non-operating expenses		
Foreign exchange losses	–	51
Interest expenses	48	66
Arrangement fee	–	46
Other	13	30
Total non-operating expenses	61	194
Ordinary income	5,007	5,979
Extraordinary income		
Gain on sales of non-current assets	5	1
Gain on sales of shares of subsidiaries and associates	–	6
Total extraordinary income	5	8
Extraordinary losses		
Impairment loss	3	–
Loss on sales of shares of subsidiaries and associates	*2 28	*2 –
Loss on sales and retirement of non-current assets	*3 31	*3 165
Loss on valuation of investment securities	19	4
Loss on business withdrawal	*4 14	*4 233
Other	–	49
Total extraordinary losses	98	453
Profit before income taxes	4,914	5,534
Income taxes – current	1,707	1,564
Income taxes – deferred	(299)	(221)
Total income taxes	1,408	1,342
Profit	3,506	4,191
Profit attributable to non-controlling interests	145	(25)
Profit attributable to owners of parent	3,361	4,216

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, 2018 and 2019

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Profit	3,506	4,191
Other comprehensive income		
Valuation difference on available-for-sale securities	(0)	0
Foreign currency translation adjustments	(800)	(399)
Share of other comprehensive income of entities accounted for using equity method	(25)	(3)
Total other comprehensive income (loss)	* (825)	* (402)
Comprehensive income	2,680	3,788
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	2,776	3,806
Comprehensive income attributable to non-controlling interests	(95)	(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, 2018 and 2019

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at April 1, 2017	2,153	4,148	11,662	(0)	17,963
Changes of items during period					
Issuance of new shares	14	14	—	—	29
Dividends of surplus	—	—	(478)	—	(478)
Profit attributable to owners of parent	—	—	3,361	—	3,361
Net increase (decrease) due to change in scope of consolidation	—	(197)	—	—	(197)
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	14	(183)	2,882	(0)	2,713
Balance at March 31, 2018	2,167	3,965	14,545	(0)	20,677

	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, 2017	0	(838)	(838)	110	4,347	21,583
Changes of items during period						
Issuance of new shares	—	—	—	—	—	29
Dividends of surplus	—	—	—	—	—	(478)
Profit attributable to owners of parent	—	—	—	—	—	3,361
Net increase (decrease) due to change in scope of consolidation	—	—	—	—	—	(197)
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)	(584)	(584)	25	(95)	(655)
Total changes of items during period	(0)	(584)	(584)	25	(95)	2,058
Balance at March 31, 2018	0	(1,423)	(1,423)	135	4,252	23,641

(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
Net increase (decrease) due to change in scope of consolidation	—	—	—	—	—
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
Net increase (decrease) due to change in scope of consolidation	—	—	—	—	—	—
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

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, 2018 and 2019

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Cash flows from operating activities		
Profit before income taxes	4,914	5,534
Depreciation	965	1,061
Amortization of goodwill	741	807
Loss (gain) on sales and retirement of non-current assets	26	163
Impairment loss	3	-
Loss (gain) on valuation of investment securities	19	4
Loss (gain) on sales of shares of subsidiaries and associates	28	-
Share-based remuneration expenses	33	71
Loss on withdrawal from business	14	233
Share of (profit) loss of entities accounted for using equity method	(106)	(334)
Increase (decrease) in allowance for doubtful accounts	95	(109)
Increase (decrease) in provision for bonuses	126	39
Increase (decrease) in provision for refund	10	74
Increase (decrease) in net defined benefit liability	24	150
Foreign exchange losses (gains)	(29)	51
Interest expenses	48	66
Decrease (increase) in notes and accounts receivable - trade	(279)	(34)
Increase (decrease) in accrued consumption taxes	159	28
Decrease (increase) in accounts receivable - other	(956)	(1,004)
Decrease (increase) in prepaid expenses	182	(64)
Increase (decrease) in advances received	60	(581)
Increase (decrease) in accounts payable - other	806	993
Other, net	(160)	73
Subtotal	6,731	7,225
Interest and dividend income received	11	11
Interest expenses paid	(48)	(62)
Income taxes paid	(1,883)	(2,018)
Net cash provided by (used in) operating activities	4,811	5,156
Cash flows from investing activities		
Payments into time deposits	(998)	(1,047)
Proceeds from withdrawal of time deposits	1,024	982
Purchase of property, plant and equipment	(214)	(216)
Purchase of intangible assets	(707)	(731)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(1,197)	(23)
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(11)	-
Other, net	9	(29)
Net cash provided by (used in) investing activities	(2,095)	(1,066)

(Continued)

(Millions of yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Cash flows from financing activities		
Decrease in short-term loans payable	(32)	–
Proceeds from long-term loans payable	973	10,953
Repayments of long-term loans payable	(1,359)	(1,941)
Proceeds from issuance of share acquisition rights	–	4
Proceeds from issuance of shares resulting from exercise of share acquisition rights	17	50
Cash dividends paid	(478)	(557)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(230)	(11,453)
Other, net	2	(0)
Net cash provided by (used in) financing activities	(1,107)	(2,943)
Effect of exchange rate change on cash and cash equivalents	19	(24)
Net increase (decrease) in cash and cash equivalents	1,627	1,122
Cash and cash equivalents at beginning of year	7,140	8,768
Cash and cash equivalents at end of year	* 8,768	* 9,890

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: 39

Names of major consolidated subsidiaries

SMS Career CO., LTD.

SENIOR MARKETING SYSTEM ASIA PTE. LTD.

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, 2019, SMS Medical Ad Sdn. Bhd. and two other companies were included in the scope of consolidation due to acquisition of shares or establishment of new companies.

For the fiscal year ended March 31, 2019, SENIOR MARKETING SYSTEM (THAILAND) CO., LTD. and three other companies were excluded from the scope of consolidation due to completion of liquidation.

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

(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.

(Changes in accounting policies)

The Company has adopted “Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions” (Practical Issue Task Force (“PITF”) No. 36, January 12, 2018) on and after April 1, 2018, and accordingly treats transactions granting employees and others stock acquisition rights, which involve considerations, with vesting conditions in accordance with the “Accounting Standard for Share-based Payment and its Implementation Guidance” (Accounting Standards Board of Japan (“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.

(Changes in presentation)

1. The application of the “Partial Amendments to Accounting Standard for Tax Effect Accounting”

The Company has applied the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) effective from the beginning of the fiscal year ended March 31, 2019. Accordingly, deferred tax assets are presented under investments and other assets and deferred tax liabilities are presented under non-current liabilities.

As a result, ¥353 million of “Deferred tax assets” under “Current assets” in the previously disclosed consolidated balance sheet as of March 31, 2018 is included in ¥730 million of “Deferred tax assets” under “Investments and other assets” in the accompanying consolidated balance sheet as of March 31, 2018.

The Company added disclosures in the notes to the accompanying consolidated financial statements in accordance with Note 8 (except for total amount of valuation allowance) and Note 9 of “Accounting Standard for Tax Effect Accounting” as stipulated in Paragraph 3, 4 and 5 of ASBJ Statement No. 28.

However, the Company omitted the detailed disclosures for the fiscal year ended March 31, 2018 in accordance with the transitional treatment as stipulated in Paragraph 7 of ASBJ Statement No. 28.

2. Consolidated Statements of Income

MIMS group companies previously accounted for a part of expenses incurred in business activities as “Cost of sales.” However, these expenses are included in “Selling, general and administrative expenses” from the fiscal year ended March 31, 2019. While these expenses were previously included in cost of sales due to immateriality, after re-evaluating their nature because their materiality had increased, MIMS group companies changed their accounting and presentation approach to align it with the Company’s in order to carry out consistent group performance management and more appropriate presentation of operational results.

Accordingly, “Cost of sales” was restated to ¥3,289 million and “Selling, general and administrative expenses” was ¥19,300 million in the accompanying consolidated statement of income for the fiscal year ended March 31, 2018.

3. Consolidated Statements of Cash Flows

“Share-based remuneration expenses,” “Interest expenses” and “Loss on withdrawal from business,” which were previously included in other under “Net cash provided by (used in) operating activities,” are presented as separate line items because their materiality had increased. Reclassifications have been made in the prior year’s consolidated financial statements to conform to the classification used in the current year.

As a result, ¥(63) million of “Other” under “Net cash provided by (used in) operating activities” previously shown on the consolidated statement of cash flows for the year ended March 31, 2018 is reclassified to ¥33 million of “Share-based remuneration expenses,” ¥48 million of “Interest expenses,” ¥14 million of “Loss on withdrawal from business” and ¥(160) million of “Other.”

(Consolidated balance sheets)

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

	(Millions of yen)	
	As of March 31, 2018	As of March 31, 2019
Investment securities (shares)	1,707	2,038

(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, 2018	Fiscal year ended March 31, 2019
Salaries and allowance	6,621	7,871
Advertising expenses	3,413	4,106
Amortization of goodwill	741	807
Depreciation	966	1,061
Business consignment expenses	2,575	2,545
Legal welfare expenses	961	1,246
Rents	1,122	1,284
Provision for bonuses	266	389
Retirement benefit expenses	41	95
Provision of allowance for doubtful accounts	146	39

(Note) Due to changes in presentation, the amounts included in “Cost of sales” in the previously disclosed consolidated statement of income for the fiscal year ended March 31, 2018 are reclassified to relevant expense accounts as follows: ¥754 million to “Salaries and allowance,” ¥72 million to “Business consignment expenses” and ¥57 million to “Legal welfare expenses.”

*2 Loss on sales of shares of subsidiaries and associates is as follows:

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Losses mainly on sale of shares of SMS Medicare Service CO., LTD.		-

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

	(Millions of yen)	
	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Buildings	8	0
Tools, furniture and fixtures	2	0
Machinery, equipment and vehicles	2	8
Software	17	155
Total	31	165

*4 Loss on business withdrawal is as follows:

Fiscal year ended March 31, 2018

The loss is incurred in connection with business withdrawal of “purenurse,” a catalog mail order business operated by SMS Career CO., LTD.

Fiscal year ended March 31, 2019

The breakdown of loss on business withdrawal 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.

(Consolidated statements of comprehensive income)

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

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
(Millions of yen)		
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	(800)	(412)
Reclassification adjustments	–	12
Foreign currency translation adjustments	(800)	(399)
Share of other comprehensive income of entities accounted for using equity method:		
Amount arising during the year	(25)	(3)
Reclassification adjustments	–	–
Share of other comprehensive income of entities accounted for using equity method	(25)	(3)
Total other comprehensive income (loss)	(825)	(402)

(Consolidated statements of changes in net assets)

Fiscal year ended March 31, 2018

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

(Shares)

	Number of shares at beginning of year	Increase	Decrease	Number of shares at end of year
Issued shares:				
Common stock (Note 1)	43,382,600	38,400	–	43,421,000
Total	43,382,600	38,400	–	43,421,000
Treasury shares:				
Common stock (Note 2)	113	42	–	155
Total	113	42	–	155

(Notes) 1. The Company implemented a 2-for-1 stock split effective July 1, 2018. The figures above are those before the stock split.

2. Increase in issued shares (38,400 shares) is due to the exercise of subscription rights to shares.
3. Increase in treasury shares (42 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 year (Millions of yen)
			Beginning of year	Increase	Decrease	End of year	
The Company (Parent company)	August 2011 No.7 Stock Option	Common stock	6,400	–	–	6,400	0
	July 2012 No.8 Stock Option	Common stock	57,600	–	43,200	14,400	4
	July 2013 No.9 Stock Option	Common stock	62,400	–	4,800	57,600	24
	July 2014 No.10 Stock Option	Common stock	200,000	–	–	200,000	90
	July 2016 No.11 Stock Option	Common stock	18,000	–	–	18,000	11
	July 2016 No.12 Stock Option	Common stock	206,000	–	2,000	204,000	1
	May 2017 No.13 Stock Option	Common stock	–	159,000	1,000	158,000	2
Total		–	550,400	159,000	51,000	658,400	135

- (Notes) 1. The stock options above will be exercisable in the following schedule: No. 7 Stock Option on August 19, 2016; No.8 Stock Option on July 20, 2017; No.9 Stock Option on July 18, 2018; No.10 Stock Option on July 17, 2021; No.11 Stock Option on July 20, 2019; No.12 Stock Option on July 1, 2019; and No.13 Stock Option on July 1, 2020.
2. Decreases are due to the exercise and the expiration of subscription rights to shares.
 3. The Company implemented a 2-for-1 stock split effective July 1, 2018. The figures above are those before the stock split.

3. Matters regarding dividend

(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 22, 2017	Common stock	477	11	March 31, 2017	June 23, 2017

(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 ¥5.5.

(2) Of the dividends whose record date belongs to the fiscal year ended March 31, 2018, the dividend whose effective date falls in the fiscal year ended March 31, 2019.

Resolution	Class	Resource	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	Retained earnings	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.

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 year	Increase	Decrease	Number of shares at end of 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 year (Millions of yen)
			Beginning of year	Increase	Decrease	End of 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 will be 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 dividend

(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 dividend 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

On September 28, 2018, the Company acquired additional shares of Medica Asia (Holdco) Limited, a consolidated subsidiary of the Company. Due to this acquisition of shares from non-controlling interests, capital surplus decreased by ¥3,992 million and retained earnings also decreased by ¥3,225 million for the fiscal year ended March 31, 2019. As a result, capital surplus amounted to ¥13 million and retained earnings to ¥14,971 million as of March 31, 2019.

(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

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Cash and deposits	9,515	10,703
Time deposits with maturity in excess of three months	(747)	(812)
Cash and cash equivalents	8,768	9,890

(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. Because estimations of fair value incorporate 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, 2018

(Millions of yen)

	Carrying amount	Fair value	Difference
(1) Cash and deposits	9,515	9,515	–
(2) Accounts receivable - trade	4,308	4,308	–
Allowance for doubtful accounts (*1)	(224)	(224)	–
	4,084	4,084	–
(3) Accounts receivable - other	3,474	3,474	–
Total assets	17,074	17,074	–
(4) Long-term loans payable (*2)	11,086	11,046	(39)
(5) Accounts payable - other	5,061	5,061	–
(6) Income taxes payable	1,068	1,068	–
Total liabilities	17,216	17,176	(39)
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, 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.

(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 as of March 31, 2019, 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, 2018	As of March 31, 2019
Investment securities		
Unlisted shares	1,721	2,048

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, 2018

(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	9,447	–	–	–
Accounts receivable -trade	4,308	–	–	–
Accounts receivable -other	3,474	–	–	–
Total	17,230	–	–	–

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	–	–	–

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, 2018

(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	8	–	–	–	–	–
Long-term loans payable	1,395	1,395	1,395	1,395	1,298	4,204
Total	1,404	1,395	1,395	1,395	1,298	4,204

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

(Securities)

1. Impairment of securities

Fiscal year ended March 31, 2018

The disclosure is omitted due to immateriality.

Fiscal year ended March 31, 2019

The disclosure is omitted due to immateriality.

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

Fiscal year ended March 31, 2018

None to report.

Fiscal year ended March 31, 2019

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, 2018

(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	9,009	(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, 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.

(2) Interest rate-related

2018

(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: Fix	Long-term loans payable	12,012	9,009	(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, 2019

(Millions of yen)

Hedge accounting	Transaction	Main hedged	Contract amount	Contract	Fair value
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method		item		amount over one year	
Special accounting treatment	Interest rate swaps Receive: Floating / Pay: Fix	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.

(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, 2018	Fiscal year ended March 31, 2019
Balance at beginning of year	135	160
Service cost	38	82
Interest cost	0	0
Actuarial gain or loss	2	12
Retirement benefits paid	(16)	(39)
Other	-	94
Balance at end of year	160	311

(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, 2018	As of March 31, 2019
Unfunded retirement benefit obligations	160	311
Net defined benefit liability	160	311

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

	(Millions of yen)	
	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Service cost	38	82
Interest cost	0	0
Amortization of actuarial gain or loss	2	12
Total retirement benefit expenses	41	95

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

	As of March 31, 2018	As of March 31, 2019
Discount rate	0.1%	0.1%

(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, 2018	Fiscal year ended March 31, 2019
Share-based compensation expenses included in general and administrative expenses	33	71

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

(1) Outline of stock options

	No.7 Stock Option	No.8 Stock Option	No.9 Stock Option
Position and number of grantees	4 directors, 9 employees	5 directors, 9 employees	4 directors, 13 employees
Number of options granted (Notes 1 and 2)	108,800 shares	182,400 shares	201,600 shares
Date of grant	August 19, 2011	July 20, 2012	July 18, 2013
Vesting condition	The grantee shall be in the position of director or employee of the Company or its associates. This shall not apply in cases where the grantee resigned the position due to expiration of the term of office, retired due to the age of retirement 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 or employee of the Company or its associates. This shall not apply in cases where the grantee resigned the position due to expiration of the term of office, retired due to the age of retirement 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 or employee of the Company or its associates. This shall not apply in cases where the grantee resigned the position due to expiration of the term of office, retired due to the age of retirement or other legitimate reasons. Other terms and conditions shall be stipulated in the contract for allotment of subscription rights to shares.
Service period	August 19, 2011 – August 18, 2016	July 20, 2012 – July 19, 2017	July 18, 2013 – July 17, 2018
Exercise period	August 19, 2016 – August 18, 2021	July 20, 2017 – July 19, 2022	July 18, 2018 – July 17, 2023

	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	<p>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.</p> <p>Other terms and conditions shall be stipulated in the contract for allotment of subscription rights to shares.</p>	<p>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.</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 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:</p> <p>(a) EBITDA exceeds ¥4,977 million: exercisable ratio is 10%</p> <p>(b) EBITDA exceeds ¥6,462 million: exercisable ratio is 50%</p> <p>(c) EBITDA exceeds ¥8,216 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	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
Position and number of grantees	2 directors, 44 employees	2 directors, 45 employees
Number of options granted (Notes 1 and 2)	318,000 shares	180,000 shares
Date of grant	June 19, 2017	August 7, 2018
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>
Service period	–	–
Exercise period	July 1, 2020 – June 30, 2025	July 1, 2021 – June 30, 2026

- (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.

(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, 2019. The number of stock options is converted and stated as the number of shares.

a. Number of stock options

(Shares)

	No.7 Stock Option	No.8 Stock Option	No.9 Stock Option
Non-vested:			
Outstanding at March 31, 2018	–	–	57,600
Granted	–	–	–
Increase due to stock split (Note 1)	–	–	57,600
Forfeited	–	–	–
Vested	–	–	115,200
Outstanding at March 31, 2019	–	–	–
Vested:			
Outstanding at March 31, 2018	6,400	14,400	–
Vested	–	–	115,200
Increase due to stock split (Note 1)	6,400	14,400	–
Exercised	12,800	28,800	115,200
Forfeited	–	–	–
Outstanding at March 31, 2019	–	–	–

	No.10 Stock Option	No.11 Stock Option	No.12 Stock Option
Non-vested:			
Outstanding at March 31, 2018	200,000	18,000	204,000
Granted	–	–	–
Increase due to stock split (Note 1)	200,000	18,000	204,000
Forfeited	–	–	–
Vested	–	–	–
Outstanding at March 31, 2019	400,000	36,000	408,000
Vested:			
Outstanding at March 31, 2018	–	–	–
Vested	–	–	–
Increase due to stock split	–	–	–
Exercised	–	–	–
Forfeited	–	–	–
Outstanding at March 31, 2019	–	–	–

	No.13 Stock Option	No.14 Stock Option
Non-vested:		
Outstanding at March 31, 2018	158,000	–
Granted	–	180,000
Increase due to stock split (Note 1)	158,000	–
Forfeited	–	–
Vested	–	–
Outstanding at March 31, 2019	316,000	180,000
Vested:		
Outstanding at March 31, 2018	–	–
Vested	–	–
Increase due to stock split	–	–
Exercised	–	–
Forfeited	–	–
Outstanding at March 31, 2019	–	–

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

b. Price information of stock options

(Yen)

	No.7 Stock Option	No.8 Stock Option	No.9 Stock Option
Exercise price	107	234	372
Average market price of the stock at the time of exercise	2,389	1,980	1,914
Fair unit value (date of grant)	56	147	229

	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	–	–	–
Fair unit value (date of grant)	422	569	3

	No.13 Stock Option	No.14 Stock Option
Exercise price	1,528	1,978
Average market price of the stock at the time of exercise	–	–
Fair unit value (date of grant)	8	25

(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. 14 stock option granted for the fiscal year ended March 31, 2019 are as follows:

No.14 Stock Option

a. Valuation technique Monte Carlo simulation

b. Major assumptions and estimation method

	No.14 Stock Option
Volatility of stock price (Note 1)	47.07%
Estimated remaining period to maturity (Note 2)	5.4 years
Estimated dividend (Note 3)	¥6.5 per share
Risk-free interest rate (Note 4)	(0.05)%

(Notes) 1. The volatility of stock price is estimated based on the actual stock prices from March 14, 2013 to August 7, 2018.

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, 2018 is used for the assumption. The Company implemented a 2-for-1 stock split effective July 1, 2018. The dividend per share above represents those after the stock split.

4. Yield of Japanese government bonds corresponding to the estimated remaining period.

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, 2018	As of March 31, 2019
Deferred tax assets:		
Enterprise tax payable	82	79
Provision for bonuses	101	119
Provision for refund	53	81
Legal welfare expenses payable	14	14
Allowance for doubtful accounts	34	24
Amortization of software	191	205
Provision for retirement benefits	53	64
Incidental costs of share acquisition	93	142
Loss carryforward	406	585
Other	21	186
Subtotal	1,054	1,504
Valuation allowance	(323)	(640)
Total deferred tax assets	730	864
Offset by deferred tax liabilities	—	(9)
Deferred tax assets, net	730	855
Deferred tax liabilities:		
Customer-related assets	2,175	2,078
Valuation difference on available-for-sale securities	0	0
Other	—	9
Total deferred tax liabilities	2,175	2,087
Offset by deferred tax assets	—	(9)
Deferred tax liabilities, net	2,175	2,078

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

	As of March 31, 2018	As of March 31, 2019
Statutory tax rate	The disclosure is omitted	30.62%
Special corporation tax credit granted upon increase in salary and bonus payments	because the difference between the statutory tax rate and the effective tax rate reflected in the consolidated statements of income is 5% or less of the statutory tax rate.	(4.01)%
Amortization of goodwill and other		5.77%
Share of profit/loss of entities accounted for using equity method		(7.48)%
Other		(0.63)%
Effective tax rate		24.26%

(Business combinations)

Transaction under common control

Additional acquisition of subsidiary's shares

1. Overview of business combination

(1) Name of acquired company and description of its business

Name of acquired company: Medica Asia (Holdco) Limited
Business description: Holding company

(2) Date of business combination

September 28, 2018

(3) Legal form of business combination

Share acquisition from non-controlling interests

(4) Company name after business combination

No change to the name of the company

(5) Matters regarding overview of business combination

The Company additionally acquired the remaining 40% of voting rights of Medica Asia (Holdco) Limited, thereby making it a wholly owned consolidated subsidiary of the Company. Through this acquisition, the Company aims to expedite the decision-making process and create further synergy in the Group in order to enhance its corporate value.

2. Overview of the accounting treatment applied

Among transactions under common control, the Company treated this transaction as a transaction with non-controlling interests in accordance with the "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21) and the "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10).

3. Matters regarding additional acquisition of subsidiary's shares

Breakdown of the acquisition cost and type of consideration

Consideration for acquisition	Cash and deposits	¥	11,453 million
Acquisition cost		¥	11,453 million

4. Matters regarding changes in the ownership interest of parent due to transactions with non-controlling interests

(1) Major reason for changes in capital surplus (including retained earnings)

Additional acquisition of subsidiary's shares

(2) The amounts decreased in capital surplus and retained earnings through the transaction with non-controlling interests

Capital surplus	¥	3,992 million
Retained earnings	¥	3,225 million

(Asset retirement obligations)

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.

Based on the lease contracts, the Group has paid deposits, which normally cover significant portion of restoration costs, and recorded the amounts as lease and guarantee deposits. 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 deposits over the expected periods of use.

For the estimate, the Group assumes the expected periods of use to be a lease period from the commencement of real estate lease contracts to the end of the lease term.

The total amount assumed to be non-recoverable as of March 31, 2019 is ¥191 million, of which the amount recognized as expenses for the fiscal year ended March 31, 2019 is ¥34 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】

Fiscal year ended March 31, 2018

1. Information on 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
21,502	5,109	26,611

(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
228	176	405

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, 2019

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.

【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, 2018

None to report.

Fiscal year ended March 31, 2019

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, 2019, M3 Career, Inc. was a major affiliate of the Company and its condensed financial information is as follows:

(Millions of yen)

	M3 Career, Inc.	
	2018	2019
Total current assets	4,140	5,411
Total non-current assets	1,197	1,156
Total current liabilities	1,848	2,458
Total non-current liabilities	95	88
Total net assets	3,393	4,020
Net sales	10,879	13,709
Profit before income taxes	2,843	3,726
Profit	2,010	2,704

(Amounts per share)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Net assets per share (Yen)	221.72	176.55
Profit per share (Yen)	38.72	48.51
Diluted profit per share (Yen)	38.57	48.24

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

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Profit per share:		
Profit attributable to owners of parent (Millions of yen)	3,361	4,216
Amount not attributable to common stock shareholders (Millions of yen)	–	–
Profit attributable to common stock owners of parent (Millions of yen)	3,361	4,216
Weighted average number of shares (Shares)	86,815,332	86,934,982
Diluted profit per share:		
Adjustment to profit attributable to owners of parent (Millions of yen)	–	–
Increase in number of common stock (Shares)	335,137	475,622
[Of which, exercise of subscription rights to shares (Shares)]	[335,137]	[475,622]
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 367,200 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.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

(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, 2018.

(Significant subsequent events)

None to report.

【Consolidated statements schedules】

【Details of bonds】

None to report.

【Details of loans payable】

Classification	Balance at beginning of year (Millions of yen)	Balance at end of year (Millions of yen)	Average interest rate (%)	Repayment date
Short-term loans payable	8	—	0.00	—
Current portion of long-term loans payable	1,395	2,487	0.45	—
Long-term loans payable (excluding current portion)	9,690	17,632	0.35	From 2020 to 2028
Total	11,094	20,120	—	—

- (Notes) 1. The average interest rate represents the weighted-average rate applicable to the balance at end of 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	2,487	2,394	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 deposits over the expected periods of use.

Thus, there is nothing to report.

【Other】

Quarterly information for the fiscal year ended March 31, 2019

Year-to-date data	First quarter	Second quarter	Third quarter	Fiscal year ended March 31, 2019
Net sales (Millions of yen)	8,067	15,040	22,024	30,836
Profit before income taxes (Millions of yen)	2,092	2,866	3,160	5,534
Profit attributable to owners of parent (Millions of yen)	1,644	2,157	2,390	4,216
Profit per share (Yen)	18.94	24.84	27.51	48.51

Quarterly data	First quarter	Second quarter	Third quarter	Fourth quarter
Profit per share (Yen)	18.94	5.90	2.67	21.00

(Note) The Company implemented a 2-for-1 stock split effective July 1, 2018. Profit per share is calculated on the assumption that the stock split was executed at the beginning of the fiscal year ended March 31, 2018.

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, 2018 to March 31, 2019.

Independent Auditors' Report

June 19, 2019

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

Ernst & Young ShinNihon LLC

Designated and Engagement Partner, Certified Public Accountant

Hisafumi Nomoto (Seal)

Designated and Engagement Partner, Certified Public Accountant

Keiichi Wakimoto (Seal)

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. for the fiscal year from April 1, 2018 to March 31, 2019.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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, 2019, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Conflicts of Interest

We have no interest in the Company which should be disclosed in compliance with the Certified Public Accountants Act.