

# **Financial Statements**

Year ended March 31, 2021

**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, 2020 and 2021

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
<b>Assets</b>		
Current assets		
Cash and deposits	11,091	10,538
Accounts receivable - trade	5,213	4,933
Work in process	14	16
Supplies	30	31
Accounts receivable - other	6,183	6,324
Income taxes receivable	–	598
Prepaid expenses	664	808
Other	18	156
Allowance for doubtful accounts	(113)	(188)
Total current assets	23,102	23,218
Non-current assets		
Property, plant and equipment		
Buildings	626	619
Accumulated depreciation	(291)	(324)
Buildings, net	335	295
Tools, furniture and fixtures	806	792
Accumulated depreciation	(545)	(552)
Tools, furniture and fixtures, net	261	239
Machinery, equipment and vehicles	37	36
Accumulated depreciation	(17)	(20)
Machinery, equipment and vehicles, net	20	16
Right-of-use assets	481	618
Accumulated depreciation	(91)	(230)
Right-of-use assets, net	389	387
Total property, plant and equipment	1,006	939
Intangible assets		
Goodwill	10,148	8,834
Software	1,637	2,355
Trademark rights	9,126	8,621
Customer-related assets	1,825	1,502
Other	0	0
Total intangible assets	22,738	21,313
Investments and other assets		
Investment securities	* 2,225	* 1,975
Deferred tax assets	873	879
Lease and guarantee deposits	1,039	1,110
Other	11	7
Total investments and other assets	4,149	3,972
Total non-current assets	27,893	26,225
Total assets	50,996	49,444

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
Liabilities		
Current liabilities		
Accounts payable - trade	314	258
Current portion of long-term loans payable	2,487	2,479
Accounts payable - other	7,711	7,750
Accrued expenses	451	438
Income taxes payable	534	374
Accrued consumption taxes	536	505
Advances received	725	869
Deposits received	84	147
Provision for bonuses	600	669
Provision for refund	242	233
Lease obligations	112	115
Other	30	33
Total current liabilities	13,831	13,875
Non-current liabilities		
Long-term loans payable	15,144	10,644
Net defined benefit liability	354	149
Deferred tax liabilities	1,994	1,830
Lease obligations	260	281
Other	11	3
Total non-current liabilities	17,766	12,909
Total liabilities	31,597	26,785
Net assets		
Shareholders' equity		
Capital stock	2,246	2,281
Capital surplus	51	85
Retained earnings	19,079	23,140
Treasury shares	(0)	(0)
Total shareholders' equity	21,376	25,506
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	0	0
Foreign currency translation adjustments	(2,149)	(3,107)
Total accumulated other comprehensive income	(2,149)	(3,107)
Subscription rights to shares	171	259
Total net assets	19,398	22,658
Total liabilities and net assets	50,996	49,444

See the accompanying Notes to Consolidated Financial Statements.

## Consolidated Statements of Income

### SMS CO., LTD. and Its Consolidated Subsidiaries

Fiscal years ended March 31, 2020 and 2021

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Net sales	35,140	35,960
Cost of sales	4,048	3,957
Gross profit	31,091	32,003
Selling, general and administrative expenses	*1 26,156	*1 26,533
Operating income	4,935	5,470
Non-operating income		
Interest income	24	10
Share of profit of entities accounted for using equity method	1,486	1,241
Other	62	88
Total non-operating income	1,573	1,340
Non-operating expenses		
Foreign exchange losses	43	53
Interest expenses	102	90
Other	6	13
Total non-operating expenses	152	157
Ordinary income	6,355	6,653
Extraordinary income		
Gain on sale of non-current assets	1	0
Gain on sale of investment securities	–	*2 70
Gain on sale of businesses	*3 55	–
Total extraordinary income	57	70
Extraordinary losses		
Loss on sale and retirement of non-current assets	*4 23	*4 117
Loss on valuation of investment securities	–	3
Loss on termination of retirement benefit plan	–	*5 121
Loss on cancellation of events	*6 13	*6 11
Total extraordinary losses	37	253
Profit before income taxes	6,375	6,470
Income taxes – current	1,702	1,734
Income taxes – deferred	(87)	(65)
Total income taxes	1,615	1,669
Profit	4,760	4,800
Profit attributable to non-controlling interests	–	–
Profit attributable to owners of parent	4,760	4,800

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, 2020 and 2021

	(Millions of yen)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Profit	4,760	4,800
Other comprehensive income		
Valuation difference on available-for-sale securities	(0)	0
Foreign currency translation adjustments	(310)	(952)
Share of other comprehensive income of entities accounted for using equity method	(4)	(5)
Total other comprehensive income (loss)	* (315)	* (957)
Comprehensive income	4,444	3,843
Comprehensive income attributable to:		
Owners of parent	4,444	3,843
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, 2020 and 2021

(Millions of yen)

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

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

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at April 1, 2020	2,246	51	19,079	(0)	21,376
Changes of items during period					
Issuance of new shares	34	34	—	—	68
Dividends of surplus	—	—	(739)	—	(739)
Profit attributable to owners of parent	—	—	4,800	—	4,800
Purchase of treasury shares	—	—	—	(0)	(0)
Net changes of items other than shareholders' equity	—	—	—	—	—
Total changes of items during period	34	34	4,060	(0)	4,129
Balance at March 31, 2021	2,281	85	23,140	(0)	25,506

	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, 2020	0	(2,149)	(2,149)	171	19,398
Changes of items during period					
Issuance of new shares	—	—	—	—	68
Dividends of surplus	—	—	—	—	(739)
Profit attributable to owners of parent	—	—	—	—	4,800
Purchase of treasury shares	—	—	—	—	(0)
Net changes of items other than shareholders' equity	0	(957)	(957)	88	(869)
Total changes of items during period	0	(957)	(957)	88	3,259
Balance at March 31, 2021	0	(3,107)	(3,107)	259	22,658

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, 2020 and 2021

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Cash flows from operating activities		
Profit before income taxes	6,375	6,470
Depreciation	1,211	1,371
Amortization of goodwill	809	814
Loss (gain) on sale and retirement of non-current assets	21	117
Loss (gain) on sale of investment securities	-	(70)
Loss (gain) on valuation of investment securities	-	3
Share-based remuneration expenses	(10)	81
Loss (gain) on sale of businesses	(55)	-
Share of (profit) loss of entities accounted for using equity method	(179)	240
Increase (decrease) in allowance for doubtful accounts	(0)	79
Increase (decrease) in provision for bonuses	121	82
Increase (decrease) in provision for refund	14	(9)
Increase (decrease) in net defined benefit liability	43	(198)
Foreign exchange losses (gains)	43	53
Interest expenses	102	90
Decrease (increase) in notes and accounts receivable - trade	(910)	208
Increase (decrease) in accrued consumption taxes	101	(30)
Decrease (increase) in accounts receivable - other	(1,626)	(142)
Decrease (increase) in prepaid expenses	(30)	(148)
Increase (decrease) in advances received	176	180
Increase (decrease) in accounts payable - other	1,647	44
Other, net	(308)	64
Subtotal	<u>7,547</u>	<u>9,303</u>
Interest and dividend income received	27	20
Interest expenses paid	(102)	(90)
Income taxes paid	<u>(1,880)</u>	<u>(2,463)</u>
Net cash provided by (used in) operating activities	<u>5,591</u>	<u>6,769</u>
Cash flows from investing activities		
Payments into time deposits	(729)	(218)
Proceeds from withdrawal of time deposits	916	399
Purchase of property, plant and equipment	(419)	(376)
Purchase of intangible assets	(1,186)	(1,659)
Proceeds from sale of investment securities	-	71
Payments for acquisition of businesses	(5)	-
Proceeds from sale of businesses	57	-
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(762)	-
Other, net	1	0
Net cash provided by (used in) investing activities	<u>(2,127)</u>	<u>(1,783)</u>

(Continued)



(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Cash flows from financing activities		
Repayments of long-term loans payable	(2,488)	(4,507)
Repayments of lease obligations	(78)	(60)
Proceeds from issuance of share acquisition rights	8	12
Proceeds from issuance of shares resulting from exercise of share acquisition rights	70	64
Cash dividends paid	(644)	(732)
Other, net	(0)	(0)
Net cash provided by (used in) financing activities	(3,132)	(5,224)
Effect of exchange rate change on cash and cash equivalents	270	(110)
Net increase (decrease) in cash and cash equivalents	602	(348)
Cash and cash equivalents at beginning of the year	9,890	10,493
Cash and cash equivalents at end of the year	* 10,493	* 10,144

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: 38

Names of major consolidated subsidiaries

SENIOR MARKETING SYSTEM ASIA PTE. LTD.

Medica Asia (Holdco) Limited

MIMS Pte. Ltd.

MIMS (Shanghai) Ltd.

KIMS Co., Ltd.

Medica Asia Australia (Holdco) Pty Limited

MIMS Australia Pty Ltd.

MIMS (NZ) Limited and other

Effective January 1, 2021, SMS Career CO., LTD., Zweig Co., Ltd., WorkAmbitious Co., Ltd., and WILLONE Co., Ltd. were merged into the Company through an absorption-type merger in which the Company was the surviving company and were dissolved; thus, the Company excluded them from the scope of consolidation for the fiscal year ended March 31, 2021.

In addition, eHealthWise Pty Ltd. and PT. MEETDOCTOR were excluded from the scope of consolidation due to the completion of their liquidation. The Company included MEL SUPPORT SERVICES, INC. in the scope of consolidation for the fiscal year ended March 31, 2021 due to it being newly established.

#### 2. Application of equity method

##### (1) 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 30 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

###### 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

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.

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.

(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, September 29, 2020) 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

(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 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) Amortization of goodwill – method and period of amortization

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

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

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

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

a. Accounting treatment of consumption taxes

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

b. Consolidated taxation system

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

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

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

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

**(Significant accounting estimates)**

1. Valuation of intangible assets

The Company recognized intangible assets of ¥21,313 million, including goodwill of ¥8,834 million and trademark right of ¥8,621 million, in the consolidated balance sheet as of March 31, 2021. 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 17 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 and operating expenses in the next fiscal year, the growth rate, 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.

**(Accounting standards and guidance issued but not yet applied)**

1. Accounting standard for revenue recognition

- “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020)
- “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 26, 2021)
- “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

The above comprehensive accounting standard and guidance relate to revenue recognition. Revenues are recognized using

the following 5-step model.

- Step 1: Identify the contract with a customer
- Step 2: Identify performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

(2) Scheduled date of application

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

(3) Effect of application

The effect of application of the aforementioned standard and guidance on the Company's consolidated financial statements is immaterial.

2. Accounting Standards for Fair Value Measurement

- "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019)
- "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 4, 2019)
- "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019)
- "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, July 4, 2019)
- "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, March 31, 2020)

(1) Overview

Considering that the IASB and the FASB (US) provide detailed guidance on fair value measurements that is almost identical (IFRS 13 by IASB and Topic 820 by FASB), the ASBJ issued "Accounting Standard for Fair Value Measurement" and other standards and guidance in an effort to harmonize Japanese GAAP with international accounting standards mainly with respect to the guidance and disclosure of the fair value of financial instruments.

As a basic policy in developing these standards, the ASBJ adopted the provisions of IFRS 13 in order to improve the comparability of financial statements between domestic and foreign entities by using a uniform measurement method. In addition, in consideration of accounting practices in Japan, other treatment for individual items shall be prescribed to the extent that the comparability between financial statements is not significantly impaired.

(2) Scheduled date of application

The Company will apply the aforementioned standards and guidance from the beginning of the fiscal year ending March 31, 2022.

(3) Effect of application of the new accounting standard

The effect of application of the aforementioned standards and guidance on the Company's consolidated financial statements is immaterial.

**(Changes in presentation)**

1. Application of accounting standard for disclosure of accounting estimates

The Company applied "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) from the fiscal year ended March 31, 2021, and accordingly provided notes on significant accounting estimates in the consolidated financial statements.

In the notes, the details for the fiscal year ended March 31, 2020 are omitted in accordance with the transitional treatment prescribed in the provision of Paragraph 11 of ASBJ Statement No. 31.

**(Additional information)**

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

Although it is difficult to accurately estimate the future status and timing of containment of the COVID-19 pandemic, the Company estimated the recoverability of deferred tax assets and impairment of non-current assets for the fiscal year ended March 31, 2021 under the assumption that the impact of the pandemic would be limited.

**(Consolidated balance sheets)**

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

	(Millions of yen)	
	As of March 31, 2020	As of March 31, 2021
Investment securities (shares)	2,215	1,969

**(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, 2020	Fiscal year ended March 31, 2021
Salaries and allowance	9,860	10,433
Advertising expenses	4,714	4,979
Amortization of goodwill	809	814
Depreciation	1,211	1,371
Business consignment expenses	2,543	2,452
Legal welfare expenses	1,478	1,641
Rents	1,458	1,487
Provision for bonuses	521	588
Retirement benefit expenses	98	80
Provision of allowance for doubtful accounts	34	74

\*2 Gain on sale of investment securities

Fiscal year ended March 31, 2021

The gain recognized under extraordinary income is due to the sale of shares of one unlisted issue.

\*3 Gain on sale of businesses

Fiscal year ended March 31, 2020

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

\*4 Loss on sale and retirement of non-current assets is as follows:

	(Millions of yen)	
	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Buildings	8	40
Tools, furniture and fixtures	4	21
Software	11	55
Total	23	117

\*5 Loss on termination of retirement benefit plan

Fiscal year ended March 31, 2021

The Company resolved to terminate retirement benefit plans of certain consolidated subsidiaries upon their merger and dissolution. Thus, loss on termination of retirement benefit plans was recognized under extraordinary losses when the plans were actually terminated.

\*6 Loss on cancellation of events

For the fiscal year ended March 31, 2020 and 2021, loss on cancellation of events is the loss incurred by the Company as a result of canceling recruitment events hosted by the Company due to the COVID-19 pandemic.

**(Consolidated statements of comprehensive income)**

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

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
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	(310)	(952)
Reclassification adjustments	–	–
Foreign currency translation adjustments	(310)	(952)
Share of other comprehensive income of entities accounted for using equity method:		
Amount arising during the year	(4)	(5)
Reclassification adjustments	–	–
Share of other comprehensive income of entities accounted for using equity method	(4)	(5)
Total other comprehensive income (loss)	(315)	(957)

**(Consolidated statements of changes in net assets)**

Fiscal year ended March 31, 2020

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

(Shares)

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

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

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

## 2. Matters regarding subscription rights to shares

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

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

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

## 3. Matters regarding dividends

### (1) Dividend payment

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

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

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



Fiscal year ended March 31, 2021

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)	87,057,600	52,000	–	87,109,600
Total	87,057,600	52,000	–	87,109,600
Treasury shares:				
Common stock (Note 2)	445	46	–	491
Total	445	46	–	491

(Note 1) Increase in issued shares (52,000 shares) is due to the exercise of subscription rights to shares.

(Note 2) Increase in treasury shares (46 shares) is due to the acquisition of treasury shares.

2. Matters regarding subscription rights to shares

Classification	Description of subscription rights to shares	Class of shares subject to subscription rights to shares	Number of shares subject to subscription rights to shares (shares)				Balance at end of the year (Millions of yen)
			Beginning of the year	Increase	Decrease	End of the year	
The Company (Parent company)	July 2014 No.10 Stock Option	Common stock	400,000	–	–	400,000	162
	July 2016 No.11 Stock Option	Common stock	26,200	–	6,200	20,000	11
	July 2016 No.12 Stock Option	Common stock	155,000	–	37,000	118,000	0
	May 2017 No.13 Stock Option	Common stock	316,000	–	293,400	22,600	0
	July 2018 No.14 Stock Option	Common stock	180,000	–	1,000	179,000	17
	August 2019 No.15 Stock Option	Common stock	254,000	–	1,000	253,000	14
	July 2020 No.16 Stock Option	Common stock	–	200,000	–	200,000	52
Total	–	1,331,200	200,000	338,600	1,192,600	259	

(Notes) 1. The stock options above are exercisable in the following schedule: No.10 Stock Option on July 17, 2021; No.11 Stock Option on July 20, 2019; No.12 Stock Option on July 1, 2019; No.13 Stock Option on July 1, 2020, No.14 Stock Option on July 1, 2021, No.15 Stock Option on July 1, 2022, and No.16 Stock Option on July 1, 2023.

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

3. Matters regarding dividends

(1) Dividend payment

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

(2) Of the dividends whose record date belongs to the fiscal year ended March 31, 2021, the dividend whose effective date falls in the fiscal year ending March 31, 2022.

Resolution	Class	Resource	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	Retained earnings	827	9.5	March 31, 2021	June 21, 2021

**(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, 2020	Fiscal year ended March 31, 2021
Cash and deposits	11,091	10,538
Time deposits with maturity in excess of three months	(598)	(394)
Cash and cash equivalents	10,493	10,144

**(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, 2020	As of March 31, 2021
Due within one year	6	833
Due after one year	24	895
Total	31	1,729

## (Financial instruments)

### 1. Status of financial instruments

#### (1) Policy on financial instruments

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

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

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

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

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

#### (3) Supplemental information regarding fair value of financial instruments

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

### 2. Matters regarding fair value of financial instruments

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

As of March 31, 2020

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

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

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

As of March 31, 2021

(Millions of yen)

	Carrying amount	Fair value	Difference
(1) Cash and deposits	10,538	10,538	–
(2) Accounts receivable - trade	4,933	4,933	–
Allowance for doubtful accounts (*1)	(188)	(188)	–
	4,744	4,744	–
(3) Accounts receivable - other	6,324	6,324	–
Total assets	21,607	21,607	–
(4) Long-term loans payable (*2)	13,124	13,119	(4)
(5) Accounts payable - other	7,750	7,750	–
(6) Income taxes payable	374	374	–
Total liabilities	21,249	21,245	(4)
Derivative transactions	–	–	–

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

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

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

Assets

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

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

Liabilities

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

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

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

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

Derivative transactions

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

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

(Millions of yen)

Classification	As of March 31, 2020	As of March 31, 2021
Investment securities		
Unlisted shares	2,225	1,975

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, 2020

(Millions of yen)

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

As of March 31, 2021

(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	10,452	–	–	–
Accounts receivable - trade	4,933	–	–	–
Accounts receivable - other	6,324	–	–	–
Total	21,710	–	–	–

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, 2020

(Millions of yen)

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

As of March 31, 2021

(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	2,479	2,390	2,101	1,901	1,901	2,350
Total	2,479	2,390	2,101	1,901	1,901	2,350

**(Securities)**

1. Impairment of securities

Fiscal year ended March 31, 2020

None to report.

Fiscal year ended March 31, 2021

The disclosure is omitted due to immateriality.

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

Fiscal year ended March 31, 2020

None to report.

Fiscal year ended March 31, 2021

(Millions of yen)

	Sales proceeds	Gain	Loss
(1) Equity securities	71	70	—
(2) Debt securities			
a. Government bonds and municipal bonds	—	—	—
b. Corporate bonds	—	—	—
c. Other	—	—	—
(3) Other	—	—	—
Total	71	70	—

**(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, 2020

(Millions of yen)

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

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

As of March 31, 2021

(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	5,405	(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, 2020

(Millions of yen)

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

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

As of March 31, 2021

(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	Long-term loans payable	12,012	5,405	(Note)
	Receive: Floating / Pay: Fixed				

(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, 2020	Fiscal year ended March 31, 2021
Balance at beginning of the year	311	354
Service cost	69	96
Interest cost	2	2
Actuarial gain or loss	26	(19)
Retirement benefits paid	(22)	(20)
Decrease due to termination of retirement benefit plan	–	(255)
Other	(32)	(8)
Balance at end of the year	354	149

##### (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, 2020	As of March 31, 2021
Unfunded retirement benefit obligations	354	149
Net defined benefit liability	354	149

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

(Millions of yen)

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Service cost	69	96
Interest cost	2	2
Amortization of actuarial gain or loss	26	(19)
Total retirement benefit expenses	98	79

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

	As of March 31, 2020	As of March 31, 2021
Discount rate	1.0%	3.1%

**(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, 2020	Fiscal year ended March 31, 2021
Share-based compensation expenses included in general and administrative expenses	(10)	81

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

(1) Outline of stock options

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



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

	No.16 Stock Option
Position and number of grantees	2 directors, 24 employees
Number of options granted (Notes 1 and 2)	200,000 shares
Date of grant	July 29, 2020
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>
Service period	–
Exercise period	July 1, 2023 – June 30, 2028

(Note 1) It is converted and stated as number of shares.

(Note 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.

(Note 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.

(Note 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.

(Note 5) Actual operating income is calculated by adding the amount of share-based remuneration expenses stated in Notes to Consolidated Financial Statements to the amount of operating income on the Consolidated Statements of Income contained in the Annual Securities Report for the fiscal year ending March 31, 2022.

(Note 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 ending March 31, 2023.

(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, 2021. 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, 2020	400,000	–	–
Granted	–	–	–
Forfeited	–	–	–
Vested	–	–	–
Outstanding at March 31, 2021	400,000	–	–
Vested:			
Outstanding at March 31, 2020	–	26,200	155,000
Vested	–	–	–
Exercised	–	6,200	37,000
Forfeited	–	–	–
Outstanding at March 31, 2021	–	20,000	118,000

	No.13 Stock Option	No.14 Stock Option	No.15 Stock Option
Non-vested:			
Outstanding at March 31, 2020	316,000	180,000	254,000
Granted	–	–	–
Forfeited	284,600	1,000	1,000
Vested	31,400	–	–
Outstanding at March 31, 2021	–	179,000	253,000
Vested:			
Outstanding at March 31, 2020	–	–	–
Vested	31,400	–	–
Exercised	8,800	–	–
Forfeited	–	–	–
Outstanding at March 31, 2021	22,600	–	–

	No.16 Stock Option
Non-vested:	
Outstanding at March 31, 2020	–
Granted	200,000
Forfeited	–
Vested	–
Outstanding at March 31, 2021	200,000
Vested:	
Outstanding at March 31, 2020	–
Vested	–
Exercised	–
Forfeited	–
Outstanding at March 31, 2021	–

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	–	3,390	2,968
Fair unit value (date of grant)	422	569	3

	No.13 Stock Option	No.14 Stock Option	No.15 Stock Option
Exercise price	1,528	1,978	2,544
Average market price of the stock at the time of exercise	2,878	–	–
Fair unit value (date of grant)	8	969	792

	No.16 Stock Option
Exercise price	2,322
Average market price of the stock at the time of exercise	–
Fair unit value (date of grant)	879

(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. 16 Stock Option granted for the fiscal year ended March 31, 2021 are as follows:

#### No.16 Stock Option

a. Valuation technique      Black-Scholes Model

b. Major assumptions and estimation method

	No.16 Stock Option
Volatility of stock price (Note 1)	39.73%
Estimated remaining period to maturity (Note 2)	5.43 years
Estimated dividend (Note 3)	¥8.5 per share
Risk-free interest rate (Note 4)	(0.121)%

(Note 1) The volatility of stock price is estimated based on the actual stock prices from February 26, 2015 to July 29, 2020.

(Note 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.

(Note 3) An amount of the actual dividend for the fiscal year ended March 31, 2020 is used for the assumption.

(Note 4) This rate is the yield of Japanese government bonds maturing on December 20, 2025 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, 2020	As of March 31, 2021
Deferred tax assets:		
Enterprise tax payable	52	38
Provision for bonuses	140	149
Provision for refund	74	71
Legal welfare expenses payable	17	18
Accounts payable - other	–	28
Allowance for doubtful accounts	20	38
Excess depreciation and amortization	221	249
Bad debt expenses	–	26
Loss on retirement of non-current assets	–	12
Provision for retirement benefits	74	-
Incidental costs of share acquisition	149	49
Loss carryforward	688	72
Other	143	130
Subtotal	1,583	886
Valuation allowance	(703)	-
Total deferred tax assets	880	886
Offset by deferred tax liabilities	(7)	(7)
Deferred tax assets, net	873	879
Deferred tax liabilities:		
Trademark right	1,994	1,830
Other	7	7
Total deferred tax liabilities	2,001	1,837
Offset by deferred tax assets	(7)	(7)
Deferred tax liabilities, net	1,994	1,830

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

	As of March 31, 2020	As of March 31, 2021
Statutory tax rate	30.62%	30.62%
Special corporation tax credit granted upon increase in salary and bonus payments	(3.68)%	(3.99)%
Amortization of goodwill and other	4.98%	4.90%
Share of profit/loss of entities accounted for using equity method	(7.14)%	(5.87)%
Other	0.56%	0.16%
Effective tax rate	25.34%	25.80%

## (Asset retirement obligations)

Fiscal year ended March 31, 2020

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

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

Fiscal year ended March 31, 2021

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 ¥251 million, of which the amount recognized as expenses for the fiscal year ended March 31, 2021 is ¥39 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, 2020

#### 1. Information by products and services

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

#### 2. Information by geographical areas

##### (1) Net sales

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

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

##### (2) Property, plant and equipment

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

#### 3. Information on major customers

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

Fiscal year ended March 31, 2021

#### 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
30,812	5,147	35,960

(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
408	530	939

## 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, 2020

None to report.

Fiscal year ended March 31, 2021

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, 2021, M3 Career, Inc. was a major affiliate of the Company and its condensed financial information is as follows:

	(Millions of yen)	
	M3 Career, Inc.	
	2020	2021
Total current assets	5,775	4,795
Total non-current assets	1,132	1,092
Total current liabilities	2,526	1,983
Total non-current liabilities	81	74
Total net assets	4,300	3,830
Net sales	15,393	13,536
Profit before income taxes	4,046	3,696
Profit	2,950	2,544



**(Amounts per share)**

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Net assets per share (Yen)	220.86	257.14
Profit per share (Yen)	54.69	55.13
Diluted profit per share (Yen)	54.45	54.86

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

	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021
Profit per share:		
Profit attributable to owners of parent (Millions of yen)	4,760	4,800
Amount not attributable to common stock shareholders (Millions of yen)		
Profit attributable to common stock owners of parent (Millions of yen)	4,760	4,800
Weighted average number of shares (Shares)	87,033,325	87,085,303
Diluted profit per share:		
Adjustment to profit attributable to owners of parent (Millions of yen)	–	–
Increase in number of common stock (Shares)	396,895	419,406
[Of which, exercise of subscription rights to shares (Shares)]	[396,895]	[419,406]
Details of potential shares excluded from calculation of diluted profit per share due to no dilutive effect	<p>No.13 Subscription rights to shares based on the resolution of the Board of Directors' meeting held on May 29, 2017: Common stock 284,400 shares</p> <p>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</p> <p>No.15 Subscription rights to shares based on the resolution of the Board of Directors' meeting held on August 19, 2019: Common stock 254,000 shares</p>	<p>No.14 Subscription rights to shares based on the resolution of the Board of Directors' meeting held on July 18, 2018: Common stock 161,100 shares</p> <p>No.15 Subscription rights to shares based on the resolution of the Board of Directors' meeting held on August 19, 2019: Common stock 253,000 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>

**(Significant subsequent events)**

None to report.

**【Consolidated statements schedules】****【Details of bonds】**

None to report.

**【Details of loans payable】**

Classification	Balance at beginning of the year (Millions of yen)	Balance at end of the year (Millions of yen)	Average interest rate (%)	Repayment date
Short-term loans payable	–	–	–	–
Current portion of long-term loans payable	2,487	2,479	0.45	–
Long-term loans payable (excluding current portion)	15,144	10,644	0.34	From 2022 to 2028
Total	17,632	13,124	–	–

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

	(Millions of yen)			
	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years
Long-term loans payable	2,390	2,101	1,901	1,901

**【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, 2020 to March 31, 2021.

### **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 18, 2021

**Ernst & Young ShinNihon LLC**

**Tokyo, Japan**

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

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

#### **Audit of Financial Statements**

##### **Opinion**

Pursuant to Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements included in the Financial Section, namely, the consolidated balance sheet, and the consolidated statements of income, comprehensive income, changes in net assets and cash flows, the significant matters forming the basis for the preparation of consolidated financial statements, the other notes and consolidated supplementary schedules of SMS CO., LTD. ("the Company") for the fiscal year from April 1, 2020 to March 31, 2021.

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, 2021, and the results of their operations and their cash flows for the year then ended in accordance 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 period. 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 recognized intangible assets of ¥21,313 million, including goodwill of ¥8,834 million and trademark right of ¥8,621 million, in its consolidated balance sheet as of March 31, 2021. These intangible assets are mostly the result of the acquisition of MIMS group.</p> <p>As described in (Significant accounting estimates) under Notes to Consolidated Financial Statements, MIMS group engages in business to provide marketing support services to medical and healthcare-related entities across 17 countries and territories in regions such as Asia and Oceania. The Company did not recognize an impairment loss on the asset group related to MIMS group since the total undiscounted future cash flows generated from the asset group exceeded its carrying amount when the impairment test was performed.</p> <p>The undiscounted future cash flows 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.</p> <p>Key assumptions used in estimating undiscounted future cash flows are: net sales and operating expenses in the next fiscal year, the growth rate, and the rate of return used to calculate the recoverable amount after the expiration of the useful life.</p> <p>These key assumptions are subject to uncertainty due to the impact from changes in the business environment including the status of the COVID-19 pandemic, and require management to exercise judgement. Therefore, we determined that the valuation of intangible assets is a key audit matter.</p>	<p>We performed the following audit procedures on the estimate of total undiscounted future cash flows used in testing intangible assets related to MIMS group for impairment:</p> <ul style="list-style-type: none"> <li>• We compared the period for estimating future cash flows to the remaining useful lives of major assets.</li> <li>• We considered whether the future cash flows were consistent with the business plan approved by the Board of Directors.</li> <li>• We compared prior year business plans with actual performance in order to assess the appropriateness of management's process for the estimate.</li> <li>• We inquired of management regarding the rationale for the key assumptions, which are net sales and operating expenses in the next fiscal year, the growth rate, and the rate of return used to calculate the recoverable amount after the expiration of the useful life, taking into consideration the impact of COVID-19.</li> <li>• Of these key assumptions, we compared the growth rate and the rate of return used to calculate the recoverable amount after the expiration of the useful life with publicly available external data.</li> <li>• We tested the rate of return used to calculate the recoverable amount after the expiration of the useful life by engaging valuation experts from our network firm.</li> <li>• We evaluated the sensitivity of future cash flows to the growth rate and the rate of return used to calculate the recoverable amount after the expiration of the useful life.</li> </ul>

### 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 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 period 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, 2021 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, 2021 is effectively maintained, presents fairly, in all material respects, the results of the assessment of internal control over financial reporting in accordance 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.

**Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan**

Our firm and its designated engagement partners do not have any interest in the Company and its subsidiaries which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

(End of Report)