

Annual Securities Report

The 26th Fiscal Year

From April 1, 2020 to March 31, 2021

Digital Arts Inc.

Annual Securities Report

1. This document is a printed output of the annual securities report under Paragraph 1, Article 24 of the Financial Instruments and Exchange Act with data provided using the Electronic Disclosure for Investors' NETwork (EDINET) as set forth in Article 27-30-2 of the said Act, with the table of contents and page numbers attached.
2. This document includes the Independent Auditors' Audit Report attached to the Annual Securities Report provided using the method described above and the Internal Control Audit Report and the Representation from Management, both of which were provided together with the Annual Securities Report described above, at the end hereof.

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[Cover]

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|------------------------------------|--|
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| [Fiscal Year] | 26th fiscal year (from April 1, 2020 to March 31, 2021) |
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| [Contact Person] | Isao Konishi, General Manager of the Administration Department |
| [Place for Public Inspection] | Tokyo Stock Exchange, Inc. (2-1 Nihonbashikabutocho, Chuo-ku, Tokyo) |

Part I. Corporate Information

Section I. Corporate Summary

1. Financial Highlights

(1) Consolidated Management Indicators, etc.

| Fiscal Year | | 22nd fiscal year | 23rd fiscal year | 24th fiscal year | 25th fiscal year | 26th fiscal year |
|---|---------------|------------------|------------------|------------------|------------------|------------------|
| Year end | | March 2017 | March 2018 | March 2019 | March 2020 | March 2021 |
| Net sales | (Million yen) | 5,058 | 5,116 | 5,841 | 5,641 | 6,825 |
| Ordinary profit | (Million yen) | 1,811 | 1,909 | 2,630 | 2,326 | 2,991 |
| Profit attributable to owners of parent | (Million yen) | 1,125 | 1,281 | 1,961 | 1,590 | 2,059 |
| Comprehensive income | (Million yen) | 1,127 | 1,275 | 1,977 | 1,587 | 2,063 |
| Net assets | (Million yen) | 5,270 | 6,247 | 7,802 | 8,680 | 10,062 |
| Total assets | (Million yen) | 7,380 | 7,928 | 9,859 | 10,852 | 14,856 |
| Net assets per share | (Yen) | 375.07 | 446.43 | 558.33 | 617.27 | 715.79 |
| Basic profit per share | (Yen) | 80.92 | 92.46 | 141.11 | 113.69 | 146.90 |
| Diluted profit per share | (Yen) | 80.68 | 92.13 | 140.80 | 110.83 | 143.45 |
| Capital ratio | (%) | 70.2 | 78.2 | 78.7 | 79.7 | 67.6 |
| Return on equity | (%) | 23.0 | 22.5 | 28.1 | 19.4 | 22.0 |
| Price earnings ratio | (Times) | 37.63 | 44.45 | 64.13 | 41.08 | 65.96 |
| Cash flows from operating activities | (Million yen) | 2,012 | 1,663 | 3,091 | 2,686 | 5,221 |
| Cash flows from investing activities | (Million yen) | (671) | (774) | (908) | 111 | (830) |
| Cash flows from financing activities | (Million yen) | (503) | (293) | (429) | (709) | (671) |
| Cash and cash equivalents at end of period | (Million yen) | 3,298 | 3,826 | 5,569 | 7,651 | 11,382 |
| Number of employees | (Persons) | 194 | 207 | 207 | 236 | 295 |
| [Average number of part-time employees, etc.] | | [30] | [33] | [26] | [22] | [19] |

(Notes) 1. Net sales do not include consumption tax, etc.

2. The figures in parentheses in the number of employees section (which are not included in the totals) indicate the annual average number of part-time employees (temporary staff, etc.).

(2) Financial Data of the Reporting Company

| Fiscal Year | | 22nd fiscal year | 23rd fiscal year | 24th fiscal year | 25th fiscal year | 26th fiscal year |
|--|---------------|------------------|------------------|------------------|------------------|------------------|
| Year end | | March 2017 | March 2018 | March 2019 | March 2020 | March 2021 |
| Net sales | (Million yen) | 5,104 | 5,046 | 5,752 | 5,336 | 6,074 |
| Ordinary profit | (Million yen) | 2,056 | 2,097 | 2,777 | 2,359 | 2,964 |
| Profit | (Million yen) | 1,339 | 860 | 1,784 | 1,613 | 2,044 |
| Share capital | (Million yen) | 713 | 713 | 713 | 713 | 713 |
| Number of issued shares | (Shares) | 14,133,000 | 14,133,000 | 14,133,000 | 14,133,000 | 14,133,000 |
| Net assets | (Million yen) | 5,882 | 6,451 | 7,804 | 8,714 | 10,078 |
| Total assets | (Million yen) | 7,948 | 8,149 | 9,870 | 10,839 | 14,751 |
| Net assets per share | (Yen) | 420.53 | 462.20 | 559.74 | 620.45 | 717.78 |
| Dividend per share | (Yen) | 24 | 28 | 48 | 50 | 55 |
| [Interim dividend per share] | | [10] | [14] | [18] | [25] | [25] |
| Basic profit per share | (Yen) | 96.31 | 62.07 | 128.42 | 115.29 | 145.81 |
| Diluted profit per share | (Yen) | 96.02 | 61.85 | 128.14 | 112.39 | 142.38 |
| Capital ratio | (%) | 73.1 | 78.7 | 78.8 | 80.2 | 68.3 |
| Return on equity | (%) | 24.8 | 14.1 | 25.1 | 19.6 | 21.8 |
| Price earnings ratio | (Times) | 31.62 | 66.21 | 70.47 | 40.51 | 66.46 |
| Dividend payout ratio | (%) | 24.9 | 45.1 | 37.4 | 43.4 | 37.7 |
| Number of employees | (Persons) | 186 | 194 | 201 | 214 | 236 |
| [Average number of part-time employees, etc.] | | [30] | [33] | [26] | [21] | [19] |
| Total shareholder return | (%) | 125.4 | 170.0 | 373.8 | 196.9 | 404.2 |
| [Benchmark index: TOPIX (Tokyo Stock Price Index)] | (%) | [114.7] | [132.9] | [126.2] | [114.2] | [162.3] |
| Year high | (Yen) | 3,450 | 5,060 | 9,560 | 11,240 | 10,990 |
| Year low | (Yen) | 2,120 | 2,701 | 3,980 | 3,625 | 4,345 |

(Notes) 1. Net sales do not include consumption tax, etc.

2. The figures in parentheses in the number of employees section (which are not included in the totals) indicate the annual average number of part-time employees (temporary staff, etc.).

3. Year high and year low indicate price on the Tokyo Stock Exchange (first section).

2. Corporate History

| Month/Year | Description |
|----------------|--|
| June 1995 | Digital Arts Inc. is incorporated (capital: 10 million yen) in Minato-ku, Tokyo and commences operations to develop and market software for the internet |
| August 1998 | Digital Arts Inc. develops the first web filtering software in Japan and launches initiatives to accumulate information on harmful websites |
| January 2000 | Digital Arts Inc. increases capital to 40 million yen |
| January 2000 | Digital Arts Inc. relocates head office to Kita-Aoyama, Minato-ku, Tokyo |
| March 2000 | Digital Arts Inc. increases capital to 491 million yen |
| May 2000 | Digital Arts Inc. launches NET iScope, an internet monitoring service |
| September 2002 | Digital Arts Inc. is listed on Nasdaq Japan of the Osaka Securities Exchange (currently JASDAQ Standard) Digital Arts Inc. increases capital to 552.2 million yen |
| September 2004 | Digital Arts Inc. transfers NET iScope (internet monitoring service) business to shift corporate focus to filtering software |
| October 2004 | Digital Arts Inc. begins operations at Kyushu Branch Office (currently Kyushu Sales Office) |
| February 2005 | Digital Arts Inc. acquires patent in 22 countries and regions for internet access control involving filtering technology |
| March 2005 | Digital Arts Inc. obtains 100% stock share of IQS. Co. Ltd., making the company its subsidiary |
| October 2005 | Digital Arts Inc. relocates head office to Nagatacho, Chiyoda-ku, Tokyo |
| August 2006 | Digital Arts Inc. begins operations at Osaka Sales Office (currently Kansai Sales Office) |
| November 2007 | Digital Arts Inc. begins operations at Nagoya Sales Office (currently Chubu Sales Office) |
| February 2008 | Digital Arts Inc. is certified as a Privacy Mark enterprise |
| January 2009 | Digital Arts Inc. begins operations at Sapporo Sales Office (currently Hokkaido Sales Office) |
| December 2009 | Digital Arts Inc. begins operations at Tohoku Sales Office |
| April 2011 | Digital Arts America, Inc. is established as a US subsidiary Digital Arts Europe Ltd. is established as a UK subsidiary |
| November 2011 | Digital Arts Inc. relocates head office to Otemachi, Chiyoda-ku, Tokyo |
| February 2012 | Digital Arts Inc. is listed on the Second Section of the Tokyo Stock Exchange |
| June 2012 | Digital Arts Investment, Inc. is established as a US subsidiary |
| March 2013 | Digital Arts Inc. is listed on the First Section of the Tokyo Stock Exchange |
| May 2013 | Digital Arts Inc. establishes Polkast Japan, Inc. as a subsidiary Digital Arts Inc. forms the business alliance with Polkast LLC (US) |
| April 2014 | FinalCode, Inc. is established in the US as a local subsidiary |
| November 2015 | Digital Arts Asia Pacific Pte. Ltd. is established as a Singapore subsidiary |
| February 2016 | UK subsidiary changes trade name to FinalCode Europe Ltd. Singapore subsidiary changes trade name to FinalCode Asia Pacific Pte. Ltd. |
| April 2016 | Digital Arts Consulting Inc. is established |
| October 2016 | Digital Arts Inc. begins operations at Chushikoku Sales Office |
| December 2018 | UK subsidiary changes trade name to Digital Arts Europe Limited Singapore subsidiary changes trade name to Digital Arts Asia Pacific Pte. Ltd. |
| March 2020 | Digital Arts Inc. acquires certification for the ISO/IEC 27001:2013 (JIS Q 27001:2014) international standard for information security management systems (ISMS). |
| November 2020 | Digital Arts Inc. acquires certification for the ISO/IEC 27017:2015 (JIS Q 27017:2016) international standard that specializes in cloud security. |

3. Business Summary

The Digital Arts Group is comprised of Digital Arts Inc. and its four consolidated subsidiaries and is principally engaged in internet security, email security, the planning, development, sale, etc. of file encryption and tracking solutions, and information security consulting.

Business positioning of Digital Arts Inc. and its consolidated subsidiaries

| Company name | Principal business |
|-------------------------------------|---|
| Digital Arts Inc. | Planning, development and sale of internet security software and appliance products |
| Digital Arts America, Inc. | Sale of FinalCode (a file encryption and tracking solution) |
| Digital Arts Asia Pacific Pte. Ltd. | Sale of FinalCode (a file encryption and tracking solution) |
| Digital Arts Europe Limited | Sale of FinalCode (a file encryption and tracking solution) |
| Digital Arts Consulting Inc. | Consulting services |

In the world of the Internet, we are endlessly inundated with all kinds of information. Although using the Internet has made it much easier to gather information, methods of controlling information posted on the Internet and providing protection from malicious websites have yet to be established and Internet users run a very high risk of unintentionally encountering problematic websites. Meanwhile, email, though an essential business tool, also poses many security challenges, such as data leakage due to transmission errors, spam and spoofed messages, and risks of virus infection resulting from receiving malicious files. Additionally, personal information, data from outsourcing parties and other electronic data, which are now part of important management assets, are also exposed to growing risks of data leaks due to insiders' unauthorized taking-out of information, theft or loss of devices, email transmission errors and other operational errors.

While many companies and other organizations are facing the challenges and risks outlined above, the Digital Arts Group proposes White Operation, which means protecting customers from unknown threats and attacks with a comprehensive database of domestically searchable URLs and information of email messages from senders that are deemed safe. We are thus striving to expand sales with a focus on i-FILTER Ver. 10, m-FILTER Ver. 5 and FinalCode. The first two products are equipped not only with measures against the leakage of insider data but also with original measures against external attacks, whereas FinalCode supports the encryption and traceability of electronic data. Amid the rapid shift of online services and email environments to the cloud following the spread of teleworking among businesses, the Digital Arts Group is working to expand sales of i-FILTER@Cloud, m-FILTER@Cloud and FinalCode@Cloud for offering the secure use of websites and email in the cloud environment and for accelerating the development of products supporting more extensive security measures.

The Digital Arts Group has no business segments that need to be reported on separately and therefore has only one reportable segment: the Security Business.

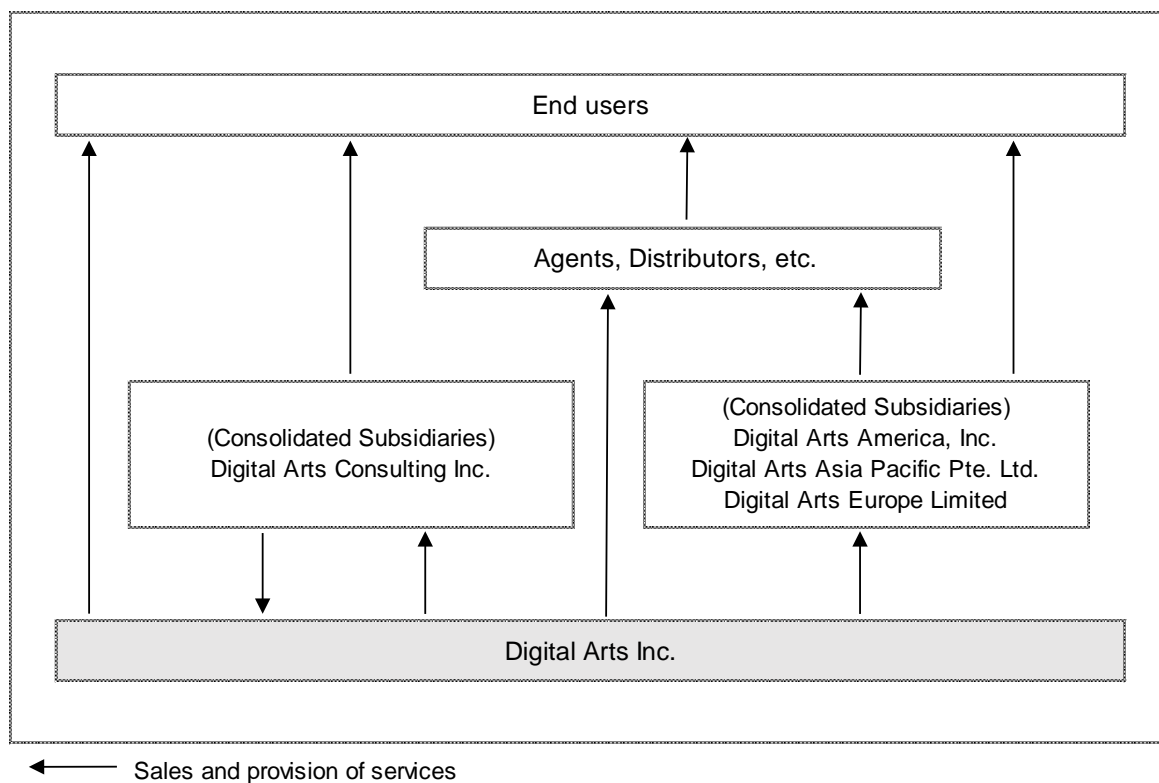
Main Products

| User category | Main products | Company name |
|-------------------|---|---|
| Enterprise Sector | <ul style="list-style-type: none"> - i-FILTER (web security) - m-FILTER (mail security) - D-SPA (DigitalArts Secure Proxy Appliance) (web security appliance) - FinalCode (file encryption and tracking solution) - DigitalArts@Cloud (Comprehensive cloud security covering web browsing, email, files and communication) | Digital Arts Inc. Digital Arts America, Inc. Digital Arts Asia Pacific Pte. Ltd. Digital Arts Europe Limited Digital Arts Consulting Inc. |
| Public Sector | <ul style="list-style-type: none"> - i-FILTER (web security) - m-FILTER (mail security) - D-SPA (DigitalArts Secure Proxy Appliance) (web security appliance) - FinalCode (file encryption and tracking solution) - DigitalArts@Cloud (Comprehensive cloud security covering web browsing, email, files and communication) | Digital Arts Inc. Digital Arts America, Inc. Digital Arts Asia Pacific Pte. Ltd. Digital Arts Europe Limited Digital Arts Consulting Inc. |
| Consumer Sector | <ul style="list-style-type: none"> - i-FILTER (Web filtering software) | Digital Arts Inc. |

Features of Main Products

| Main products | Features |
|---------------------|---|
| i-FILTER | <p>Web filtering to counter information leaks and targeted attacks Web filtering uses a whitelist database to block access to dangerous URLs not registered in the database. It categorizes adult websites and other websites with inappropriate content for working and learning environments and stops users from viewing them in line with the policy of the organization in question.</p> <p>Main Applications</p> <ul style="list-style-type: none"> - Protection against targeted attacks - Protection against watering hole attacks - Protection against phishing - Internet access control - Access log monitoring |
| m-FILTER | <p>m-FILTER possesses email filtering, email archiving and antispam capabilities, protecting against targeted attacks and information leaks such as mis-transmission, promoting internal control through the storage and management of all emails, and improving business efficiency through protection against spam emails.</p> <p>Email filtering is a function that only allows users to receive safe emails, preventing them from receiving targeted emails by storing safe senders in a whitelist database and determining the safety of senders and also identifying fake email attachments and emails. It also stops intentional and accidental information leaks by forwarding messages to a sender's manager for approval or delaying transmission for a certain period.</p> <p>Main Applications</p> <ul style="list-style-type: none"> - Protection against targeted emails - Prevention of e-mail mis-transmission - Email archiving - Protection against spam emails |
| FinalCode | <p>Password-less encryption service for tracking and remotely controlling files Enables designation of file recipients, configuration of permissions, access log monitoring by file owner, permission changes after file distribution and remote file deletion</p> <p>Main Applications</p> <ul style="list-style-type: none"> - Protection against leakage of confidential information - Protection against internal fraud - Protection against supply chain attacks - File encryption and access control - File tracking - Remote file deletion |
| D-SPA | <p>Appliance comprising both hardware and i-FILTER software Pre-built, pre-configured and ready-to-run appliance that saves time and labor by removing the need to select and purchase hardware, operating systems and applications separately</p> |
| DigitalArts@Cloud | <p>Comprehensive cloud security covering web browsing, email, files and communication A solution covering both measures against external attacks and measures against internal leaks and providing automatic encryption of internal business files, control over files offered to outsiders and a communication tool for enhanced operational efficiency in the form of cloud services. An integrated report screen provides a one-stop comprehensive display about the possibilities of external attacks from web browsing, email and files and internal data leaks.</p> <p>Main Applications</p> <ul style="list-style-type: none"> - Web Security - Mail Security - File Security - Voice, Chat and Online Conferencing System |
| i-FILTER (Consumer) | <p>Filtering software mainly for families, libraries, internet cafes, etc. Protects users of smartphones, tablets and computers from dangers of the Internet by restricting access to harmful websites.</p> <p>Main Applications</p> <ul style="list-style-type: none"> - Web filtering - Web usage reporting - Restriction of time spent online |

The Group's business organization chart is as follows.



4. Related Companies

| Company name | Address | Share capital (Million yen) | Principal business | Percentage of voting rights (%) | Relationship |
|---|---|--------------------------------|--------------------|------------------------------------|--|
| (Consolidated Subsidiaries) | | | | | |
| Digital Arts America, Inc. | 4675 Stevens Creek Blvd. Suite 130 Santa Clara, CA 95051, USA | 24 | Security business | 100.0 | Sale of the Company's products Business outsourcing Interlocking directorates |
| Digital Arts Asia Pacific Pte. Ltd. (Note) 1 | 3 Temasek Avenue, #21-00 Centennial Tower, Singapore, 039190 | 227 | Security business | 100.0 | Sale of the Company's products Business outsourcing Interlocking directorates |
| Digital Arts Europe Limited | Centrum House, 36 Station Road, Egham, Surrey TW20 9LF United Kingdom | 23 | Security business | 100.0 | Sale of the Company's products Business outsourcing Interlocking directorates |
| Digital Arts Consulting Inc. (Note) 1 | 1-5-1 Otemachi, Chiyoda-ku, Tokyo, Japan | 73 | Security business | 92.1 | Sale of the Company's products Provision of services Business outsourcing Interlocking directorates |

(Note) 1. Digital Arts Asia Pacific Pte. Ltd. and Digital Arts Consulting Inc. fall under the category of a specified subsidiary.

5. Employment Data

(1) Consolidated Basis

As of March 31, 2021

| Category | Number of employees |
|-------------------|---------------------|
| Security business | 295 (19) |
| Total | 295 (19) |

- (Notes) 1. The figures in parentheses in the number of employees section (which are not included in the totals) indicate the annual average number of part-time employees (temporary staff, etc.).
2. The number of employees increased by 59 from March 31, 2020. The increase is mainly attributable to the hiring of additional employees during the fiscal year for increasing the number of staff serving as consultants at Digital Arts Consulting Inc.
3. Segment information is omitted because the Digital Arts Group operates in one segment only (the security business) and has no other business segments.

(2) The Reporting Company

As of March 31, 2021

| Number of employees | Average age | Average length of service in years | Average annual salary (thousand yen) |
|---------------------|-------------|---------------------------------------|---|
| 236 (19) | 34.6 | 6.0 | 5,568 |

- (Notes) 1. The figures in parentheses in the number of employees section (which are not included in the totals) indicate the annual average number of part-time employees (temporary staff, etc.).
2. Segment information is omitted because the Company operates in one segment only (the security business) and has no other business segments.
3. Average annual salary includes any bonuses and extra wages.

(3) Relationship with Labor Union

A labor union has not been established, but amicable labor-management relations have been maintained.

Section II. Business Summary

1. Management Policy, Operating Environment and Business Issues to Be Considered

Matters concerning the future stated below are based on the Group's assessments as of the end of the fiscal year under review.

(1) Management Policy

Based on our corporate philosophy of "Contributing to a more convenient, comfortable and safer Internet life," the Group aims to provide software to ensure that the benefits of the Internet, which is a great asset for humankind, are used as a positive force.

(2) Management Strategies, etc.

In accordance with the corporate philosophy described above, the Group will accelerate growth by focusing on strengthening its presences as a general security solution provider in the Japanese market.

In September 2017, we released a solution that protects against the leakage of information from within companies and organizations, which has been our core business since our foundation, and that also counters threats from outside such as targeted attacks. Since its release, this solution has not only notched up sales but has also been widely reported as an effective product in many case studies and has also been highly rated as protection against targeted attacks. The Group will continue to concentrate its resources on this business domain and, whilst earning the trust of users and distributors, will seek to achieve a brand change from a manufacturer of filtering software to a general security solution provider.

(3) Objective Indicators for Judging Status of Achievement of Management Goals

The Group has adopted the contract amount growth rate, the net sales growth rate, the operating margin, and return on equity (ROE) as objective indicators for judging the status of achievement of management goals. The Group's contract structure is such that the minimum contract term is one year and, upon contract initiation, the Group receives an amount according to the contract term based on a price schedule established for each product, but the method of recording sales for accounting purposes varies for each product. The component ratio of the type of products where the majority of the contract value is recorded as sales for accounting purposes upon contract initiation used to be high and the contract amount growth rate and the net sales growth rate were similar. However, recently, a change in the weighting of each product that make up our contract amount is evident and the type of products where recognition of most of the contract value is deferred has grown relative to other products and a disparity between the contract amount growth rate and the net sales growth rate has arisen. Since the Group and its distributors conduct sales activities with the aim of achieving growth in the contract amount, we attach importance to the contract amount growth rate as well as to other commonly used management indicators.

(4) Operating Environment and Business and Financial Issues to Be Addressed

In the security industry to which the Group belongs, cyber attacks, including targeted attacks that threaten specific companies, organizations and national institutions, are occurring one after another and, as IT becomes more and more widely used in areas such as virtual currencies, cloud computing, the IoT, AI and 5G, the risks facing companies and organizations are increasing.

Meanwhile, in Japan, against the backdrop of decline in the working population, workstyle reform aimed at improving employee productivity is being promoted under government initiatives. In addition, the COVID-19 pandemic recently accelerated the adoption of teleworking, with many employees suddenly working from home. As a result, demand for cloud-computing products that deliver improvements in business efficiency is growing and there is a pressing need to tighten security.

In this environment, the Group became more widely recognized for its security solution that not only protects against the leakage of information from within companies and organizations, which has been its core business since its foundation in line with its mission as an internet security company, but that also counter threats from outside such as targeted attacks, thus taking its first step as a Japan-made general security solution provider.

The Group believes it has a responsibility to create a society in which anyone can use the Internet with peace of mind by quickly and accurately grasping the issues that need addressing in a rapidly changing world and by offering solutions through the pursuit of "Made in Japan" quality, and we will contribute to the rapidly evolving Internet society in line with this mission.

(i) Stable and continuous growth of existing business

The Group has maintained long-standing relationships and achieved stable and continuous growth by sincerely addressing and meeting the requirements of its users and distributors. We will continue to put our relationships with our users and distributors first and strive to strengthen our products and improve our services with the aim of achieving stable and continuous growth.

(ii) Identification of new needs

As the areas in which IT is used become more widespread with the emergence of virtual currencies, cloud computing, the IoT, AI and 5G, new threats associated with internet use are constantly emerging. In this environment, the Group will put effort into market research and research and development in the belief that it is important to predict potential future needs and to offer new solutions that are the “Only One” of their kind.

(iii) Securing and developing human resources

The Group recognizes that securing and developing talented human resources is important for its growth in the medium and long term. The Group has therefore been actively seeking to secure talented human resources both through new graduate and mid-career recruitment. However, in view of the difficulties involved in securing human resources from outside the Group, we are also continuing to review our personnel programs especially pay and evaluation and striving to retain talented human resources. It is also a priority for us that existing employees increase their productivity and acquire knowledge and experience and we will seek to develop human resources by supporting employees to gain qualifications and by providing internal training.

(iv) Awareness-raising activities

Smartphones are rapidly becoming more popular and there has been a sharp rise in problems and social issues associated with the Internet and SNS. Meanwhile, many adults who give guidance to young people or are involved in their upbringing do not fully understand the potential dangers and problems that young people face when using smartphones. To tackle this situation, the Group will provide seminars and lectures upon request in regions throughout Japan and provide information to users of smartphones and other mobile devices to help increase their digital literacy, and we will also stress the importance of filtering.

(v) Response to the COVID-19 pandemic

If the COVID-19 pandemic drags on, the business activities of the Group and its distributors may be affected. We will, therefore, give top priority to the health of all our business associates and employees and encourage them to conduct seminars and negotiations online, thus promoting efficient digital sales activities, with the aim of achieving stable and continuous business growth.

2. Business and Other Risks

Material risks recognized by management as risks that could materially affect the financial condition, operating results and cash flows of consolidated companies included in the Business Summary, Financial Information and other sections of this Annual Securities Report are as follows. These forward-looking statements are being made at the determination of the Group as of the date of submission of this Annual Securities Report (June 23, 2021).

(a) Risks related to changes in the sales situation and operating environment of major distributors affecting the Group

The Group’s products are mostly sold to users through its distributors. Client sales conditions and changes in management climate (such as M&A or bankruptcy) could lead to a significant fluctuation in the Group’s net sales. Major distributors also handle the products of the Group’s competitors. The Group, therefore, endeavors to expand net sales by reaching out effectively to distributors. However, there is a risk that competitors’ products may be given preference over the Group’s products. Furthermore, any changes in the sales situation or operating environment (such as M&A or bankruptcy) of major distributors that cause delayed or uncollectable payment of debt could also significantly impact the Group’s performance and financial standing.

(b) Risks associated with changes in the national budget and local government policies affecting the Group’s product sales to schools and local municipalities

The Group’s product sales to public schools and local municipalities may be significantly impacted by fluctuations in the national

budget and its distribution to local municipalities, as well as the budget expenditures of these municipalities.

- (c) Risks related to internet regulations, free services provided by NPOs and other organizations, and services mounted on future OSs at no cost

In the event internet regulations move forward to allow government or NPOs to offer initiatives similar to the Group's web filtering software at low or no cost, the Group may have no choice but to amend the Group's business model and earning model.

It is also possible that, in the future, services similar to the Group's web filtering software may be mounted on computer OSs at a very low or no cost, and although the quality of such "service" may be inferior to the web filtering solutions offered by the Group, users may actively choose to use these "services." Such instances may significantly impact the Group's performance and financial standing.

- (d) Risks of specializing in the security business

The Group is dedicated to the security business, which involves developing and selling web filtering software and email filtering software. Future declines in security market demands due to deteriorating economic climate and other factors may significantly impact the Group's performance and financial standing.

- (e) Risks related to fluctuation in the Group's quarterly net sales results

There is an inclination that the Group's fourth quarter earnings are higher compared to other quarters in terms of net sales for the full fiscal year. This is mainly attributable to the common practice by private enterprises and public sectors to place orders for IT products in March, at the end of their fiscal year. The Group takes this seasonal factor into account when making its full year plans and is continuing to pursue to maintain and expand the current sales level. However, the Group's performance and financial standing may see a significant impact if the Group fails to acquire orders as planned for the relevant period for any reason, or experiences delays in receiving orders due to matters related to the client and distributors. If products for which most of the contract price is subject to deferred revenue recognition account for a higher percentage of total sales than products for which the majority of the contract price is recognized at contract inception or if temporary special demand arises as a result of change in the law or government initiatives, there is a risk that the Group's quarterly financial results will fluctuate.

- (f) Risks associated with laws and regulations

The Group operates on a global scale and conducts business activities appropriately, in compliance with national and regional laws and regulations. However, changes in laws and regulations related to aspects such as imports and exports, product liability, and transfer pricing arrangements as well as legal interpretations by the regulatory authorities may lead to an unforeseeable situation. If the Group spends a significant amount of time and money on complying with such changes, this could impact on the Group's performance and financial standing.

- (g) Risks associated with the future decline of internet use in business, schools and homes

The internet is a technology that developed rapidly on a global scale, and today, is considered an indispensable form of information infrastructure. Currently, the Group's net sales is mainly composed of products and services related to the internet, therefore, if the existence of the internet fades or the use of internet declines in the Group's target markets of "Business/Enterprise," "School," "Government," and "Home," this may have a significant impact on the Group's performance and financial standing.

- (h) Limitation in protecting intellectual property rights (including patents)

The Group takes appropriate measures both domestically and overseas to protect any and all independently developed technology and know-how, however, there are certain areas in the world where the Group's intellectual property rights may have no or limited protection due to legal restrictions. For this reason, the Group may not be able to completely prevent its competitors from analyzing and researching the Group's proprietary technologies and providing similar products to the market. While the Group pays utmost attention to avoid infringing intellectual property rights and copyrights when offering new products and services, there may be a risk at some future point where other parties may deem that the Group is infringing on their intellectual property rights and copyrights.

(i) Risks associated with the Group's technology obsolescence and deterioration of technological innovation

The Group conducts development activities to upgrade technology and enhance quality for current/future products and services. However, if the products and services provided by the Group became obsolete or the Group's technological innovation deteriorated, the Group may lose its competitive edge against other products and services on the market. This may have a significant impact on the Group's future performance and financial standing.

(j) Risks associated with bugs and defects on products offered by the Group

The Group develops and markets various products around the framework of "web filtering software." Countless quality controls are performed in course of developing and marketing software in order to take all possible means to ensure that the program operates properly. However, software bugs (defects) unexpected at the time of launch may be confirmed post-launch, and in such circumstances, the Group promptly releases update patches to correct the issue. However, if such bug issues prevent the Group from providing services, if the Group requires a long period of time to resolve the issue, or if the issue could not be resolved, this could lead to a reduction of sales, goods being returned and to a decline in the Group's credibility, which may significantly impact the Group's business performance and financial standing.

(k) Risks associated with issues in the mainstay system (server) owned by the Group

The Group's services essentially take the form of providing URL and other information from servers administered by the Group. The Group positions these servers as the most critical mainstay system and makes every effort to provide consistent service by taking necessary safeguards, such as server duplication and backups. However, servers are hardware and problems such as unexpected shutdown, malfunction, and loss of material information (such as URL database, client data and technological information that are at the core of the Group's service) may result in service suspension.

The Group's service may also be interrupted due to suspension of business at the facility where the Group's server is located, problems with internet service providers, telecommunication carriers and other cloud services, and information security incidents such as the leakage of information due to hacking attacks and theft of material data. The Group has acquired the Privacy Mark and developed a system in compliance with Information Security Management System (ISMS) requirements. However, in the event the Group's service is suspended due to such issues, this suspension could lead to a decline in the Group's credibility, which may significantly impact the Group's business performance and financial standing.

(l) Reliance on key management, and securing/developing talent

The Group's operation is heavily dependent on key management personnel, such as CEO Toshio Dogu. In the event these management personnel takes an extended leave due to illness or injury, leaves the Group or dies, such factors may have a significant impact on the Group's performance and financial standing. The Group works on securing and developing talent, but failing to secure and develop sufficient talent in the future may adversely affect the Group's competitiveness and efficiency and have a significant impact on the Group's business performance and financial standing.

(m) Risks pertaining to merger and acquisitions, and assignment/acquisition of business rights

Digital Arts Inc. is a public company listed on the First Section of Tokyo Stock Exchange, where CEO Toshio Dogu is the largest shareholder with 2,403,063 shares (which account for approximately 17.1%, including shares held by the shareholders' association made up of directors) out of 14,133,000 issued and outstanding shares (including treasury shares) as of March 31, 2021. As a public company, the possibilities of mergers and acquisitions cannot be denied, and the entire or part of the Group or its business rights may be acquired, merged or assigned at some point in the future. Such factors may significantly impact the Group's performance and financial standing.

Similar impact would be seen if the Group performs mergers and acquisitions, or acquires business rights.

(n) Risks associated with natural disaster, disaster, terrorist activities, war, the spread of infections and power outage

The Group's business performance and business activities may be significantly affected due to unforeseen situations, such as disasters, including earthquakes and other acts of God, terrorist activities or the outbreak of war at home or abroad, and the spread of infections such as influenza and COVID-19. In addition, insufficient power supply due to nationwide/regional power outage or

problems in the buildings where the Group performs its business may cause the Group to suspend its business activities and services, and may, in turn, significantly impact its business performance and financial position.

(o) Risks associated with COVID-19

If the COVID-19 impact prolongs further, the business activities of the Group may be affected. If the Group is forced to suspend business activities due to the emergence of cases of COVID-19 within the Group, this may affect the Group's business performance and financial standing. To address this risk, the Group is working to continue business activities by urging employees to work from home to promote teleworking and by conducting seminars, negotiations and other sales activities online.

3. Analysis of Financial Conditions, Operating Results and Cash Flows by the Management

(1) Overview of operating results, etc.

An overview of the financial condition, operating results and cash flows (hereinafter operating results, etc.) of the Digital Arts Group (Digital Arts Inc. and its consolidated subsidiaries) during the consolidated fiscal year under review is as follows.

(i) Financial condition and operating results

During the consolidated fiscal year under review (April 1, 2020 through March 31, 2021), the circumstances encountered by the Japanese economy were adverse. Economic activity stagnated and contracted due to the COVID-19 pandemic, and as a result consumer spending and corporate earnings continued to decline sharply. Since then, the economy has begun to rally, reflecting the increase in social and economic activities and the government economic package. However, the outlook is very uncertain as a state of emergency was declared for the second time following a resurgence of the pandemic.

In the security industry, in which the Digital Arts Group (the "Group") operates, demand for security products expanded following a series of damaging incidents caused by diversifying cyberattacks, including ransomware and Emotet. Apart from demand from large-sized organizations, new demand for security measures is growing from medium and small-sized enterprises, which were comparatively lagging in these measures.

In the public sector market, the GIGA School Concept envisions the integrated development of an environment with one learning terminal for each school-aged child and with a high-speed, high-capacity communication network. Progress was made in the provision of a terminal to every school-aged child.

Amid these circumstances, for the enterprise sector market, the Group implemented activities for increasing recognition and sales promotion of DigitalArts@Cloud in view of the rapid introduction of cloud technologies to online services and e-mail environments amid the spread of teleworking. The Group worked towards allowing more users to solely view secure websites and receive secure e-mail messages in the cloud environment. The Group also developed the Desk@Cloud communication tool equipped not only with online conferencing and chat features but also with security functions. Thus, it began to offer solutions that achieve not only security but also improved work efficiency. In the public sector market, the Company provided a special version of i-FILTER that caters to needs arising from the GIGA School Concept. At the same time, it ran campaigns, including the provision of free services that conform to the Guidelines on Education Information Security Policy, in its efforts to expand sales from schools.

Demand in the enterprise and public sector markets has rapidly soared for cloud service products, following the spread of COVID-19. A large part of the amount of the contract for traditional mainstay license sales products is recorded as sales in a lump at the time of shipment. For cloud service products, recorded sales are apportioned on a monthly basis throughout the service provision period. Therefore, the proportion of contracts for cloud service products to the total contract amounts grew rapidly in the fiscal year under review, which led to a rise in sales to be deferred to the next fiscal year and onwards. This resulted in the generation of a wider gap between contract amounts and sales.

As a result of the above, the financial condition and operating results for the consolidated fiscal year under review are as follows.

a. Financial condition

(Assets)

Total assets at the end of the consolidated fiscal year under review increased 4,003 million yen from the end of the previous

consolidated fiscal year, to 14,856 million yen. This was due mainly to an increase of 3,730 million yen in cash and deposits.

(Liabilities)

Total liabilities at the end of the consolidated fiscal year under review rose 2,621 million yen from the end of the previous fiscal year, to 4,793 million yen. This was due mainly to an increase of 2,140 million yen in advances received, attributable to an increase in the amount of contracts for which orders were received.

(Net assets)

Net assets at the end of the consolidated fiscal year under review climbed 1,382 million yen from the end of the previous consolidated fiscal year, to 10,062 million yen. This was chiefly due to the posting of a profit attributable to owners of parent.

b. Operating results

Consolidated net sales for the fiscal year under review stood at 6,825 million yen, up 21.0% year on year, operating profit increased 27.9% year on year, to 2,977 million yen, ordinary profit grew 28.6% year on year, to 2,991 million yen, and profit attributable to owners of parent increased 29.5% year on year, to 2,059 million yen.

Overview of Consolidated Business Results

| (Million yen) | | | | |
|---|-------------------------------------|-------------------------------------|--------|----------|
| | Fiscal Year Ended March 31, 2020 | Fiscal Year Ended March 31, 2021 | Change | % Change |
| Net sales | 5,641 | 6,825 | +1,183 | +21.0 |
| Operating profit | 2,328 | 2,977 | +649 | +27.9 |
| Ordinary profit | 2,326 | 2,991 | +664 | +28.6 |
| Profit attributable to owners of parent | 1,590 | 2,059 | +469 | +29.5 |

The following describes business performance in separate markets.

Enterprise Sector Market

In the enterprise sector market, i-FILTER and m-FILTER cloud services have increasingly been used to reduce costs and operations management burdens in response to the spread of COVID-19. In addition, Digital Arts Consulting Inc., a subsidiary offering security consulting services, enjoyed mounting demand and achieved an increase in sales.

Net sales in this market reached 3,984 million yen, up 21.3% year on year.

Public Sector Market

In the public sector market, the Group has traditionally enjoyed excellent recognition and a large market share as a provider of Japan-made security solutions. Under the GIGA School Concept, its track record and reliability have earned high marks, having resulted in significant growth in orders for the i-FILTER series.

As a consequence, net sales in this market stood at 2,408 million yen, up 26.0% year on year.

Consumer Sector Market

In the consumer sector market, the Group focused on collaborating with mobile network carriers and MVNOs and on sales of i-FILTER for Multiple Devices, which can be used on multiple operating systems using a single serial ID. As a result, it attained an increase of users. Meanwhile, net sales tumbled due to revisions to the prices for sales to mobile network carriers.

Net sales in this market amounted to 432 million yen, down 3.0% year on year.

Net sales for the consolidated fiscal year under review (April 1, 2020 - March 31, 2021)

| | Enterprise Sector Market | Public Sector Market | Consumer Sector Market | Total |
|-------------------------------------|--------------------------|----------------------|------------------------|-------------|
| | Million yen | Million yen | Million yen | Million yen |
| Fiscal Year Ended March 31, 2021 | 3,984 | 2,408 | 432 | 6,825 |
| Fiscal Year Ended March 31, 2020 | 3,284 | 1,911 | 445 | 5,641 |

(Figures shown are rounded down to the nearest million yen.)

(ii) State of cash flows

In the consolidated fiscal year under review, cash and cash equivalents increased 3,730 million yen from the end of the previous consolidated fiscal year to 11,382 million yen. Cash flows in each category are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities stood at 5,221 million yen (net cash provided of 2,686 million yen in the previous consolidated fiscal year), chiefly reflecting profit before income taxes of 3,001 million yen and depreciation of 859 million yen.

(Cash flows from investing activities)

Net cash used in investing activities came to 830 million yen (net cash provided of 111 million yen in the previous consolidated fiscal year), mainly due to the purchase of intangible assets.

(Cash flows from financing activities)

Net cash used in financing activities was 671 million yen (net cash used of 709 million yen in the previous consolidated fiscal year), primarily due to dividends paid, although there were proceeds from disposal of treasury shares.

(iii) Results for production, orders received and sales

a. Results of production

| | Fiscal year under review (from April 1, 2020 to March 31, 2021) (million yen) | Change YoY (%) |
|--------------------------|---|----------------|
| Enterprise Sector Market | 3,849 | 120.8 |
| Public Sector Market | 2,387 | 126.8 |
| Consumer Sector Market | 434 | 96.9 |
| Total | 6,671 | 120.9 |

(Notes) 1. Production amounts are based on selling prices.

2. The above amounts do not include consumption tax, etc.

3. Segment information is omitted because the Group operates in one segment only (the security business).

b. Results of orders received

Not applicable as the Group does not build products to order.

c. Results of sales

| | Fiscal year under review (from April 1, 2020 to March 31, 2021) (million yen) | Change YoY (%) |
|--------------------------|---|----------------|
| Enterprise Sector Market | 3,984 | 121.3 |
| Public Sector Market | 2,408 | 126.0 |
| Consumer Sector Market | 432 | 97.0 |
| Total | 6,825 | 121.0 |

(Notes) 1. The above amounts do not include consumption tax, etc.

2. There are no export sales.

3. Segment information is omitted because the Group operates in one segment only (the security business).

4. The results of sales by major customer and the ratio of sales by major customer to total sales in the fiscal year are as follows.

| Customer | Previous fiscal year (from April 1, 2019 to March 31, 2020) | | Fiscal year under review (from April 1, 2020 to March 31, 2021) | |
|--------------------------------------|--|-----------|--|-----------|
| | Amount (million yen) | Ratio (%) | Amount (million yen) | Ratio (%) |
| Daiwabo Information System Co., Ltd. | 1,109 | 20.8 | 1,409 | 23.2 |
| SB C&S Corp. | 1,166 | 21.9 | 1,287 | 21.2 |

(2) Details of analysis and examination concerning the state of operating results, etc. from the perspective of the management

The details of understanding, analysis and examination concerning the state of operating results, etc. for the Group from the perspective of the management are as follows.

Matters concerning the future stated below are based on assessments as of the end of the fiscal year under review.

(i) Significant accounting policies and accounting estimates

The Group's consolidated financial statements were prepared in accordance with Generally Accepted Accounting Principles in Japan (JGAAP). In preparing these consolidated financial statements, the Group was required to make estimates and forecasts that might affect its financial condition, operating results and cash flows at the end of the consolidated fiscal year under review. The Company always bases its estimates and forecasts on assumptions that it believes to be reasonable based on past results and conditions. Due to the uncertain nature of estimates, in some cases actual results may vary from these estimates.

(ii) Details of understanding, analysis and examination concerning the state of operating results, etc. for the fiscal year under review

The Group's operating results, etc. in the consolidated fiscal year under review are as follows.

a. State of operating results, etc.

(Net sales)

Consolidated net sales for the fiscal year under review stood at 6,825 million yen, up 1,183 million yen compared to the previous consolidated fiscal year (an increase of 21.0% year on year).

This increase is largely attributable to growth in orders for the i-FILTER series bolstered by the spread of teleworking in the Enterprise Sector Market, expansion of orders for the i-FILTER series associated with the GIGA School Concept in the Public Sector Market and growth in sales from new customers at Digital Arts Consulting Inc.

(Cost of sales, gross profit)

Cost of sales during the consolidated fiscal year under review stood at 1,946 million yen, up 584 million yen compared to the previous consolidated fiscal year (an increase of 42.9% year on year). Meanwhile, gross profit stood at 4,878 million yen, up 598 million yen

compared to the previous consolidated fiscal year (an increase of 14.0% year on year).

Gross profit surged thanks to a rise in net sales despite an increase in depreciation after the release of a new product and higher personnel expenses mainly due to an increase in consultant personnel for the consolidated fiscal year under review.

(Selling, general and administrative expenses, operating profit)

Selling, general and administrative expenses were 1,900 million yen, down 51 million yen compared to the previous consolidated fiscal year (a fall of 2.6% year on year). Meanwhile, operating profit stood at 2,977 million yen, up 649 million yen compared to the previous consolidated fiscal year (a rise of 27.9% year on year).

For the consolidated fiscal year under review, events outside the offices were cancelled and the practice of working from home was strictly implemented. That led to a decrease in selling, general and administrative expenses and, accordingly, to profitability improvement, resulting in a hike in operating profit.

(Ordinary profit)

In the consolidated fiscal year under review, ordinary profit amounted to 2,991 million yen (an increase of 28.6% year on year), mainly due to the recording of non-operating income such as foreign exchange gains of 7 million yen.

(Profit attributable to owners of parent)

Profit attributable to owners of parent increased 29.5% year on year, to 2,059 million yen.

b. Analysis of objective indicators for judging status of achievement of management goals

The gap between the contract amount growth rate and the net sales growth rate largely reflects a sharp rise in demand for cloud service products in the Enterprise Sector Market and in the Public Sector Market during the consolidated fiscal year under review, attributable to the COVID-19 pandemic.

A large part of the amount of the contract for traditional mainstay license sales products is recorded as sales in a lump at the time of shipment. For cloud service products, recorded sales are apportioned on a monthly basis throughout the service provision period.

For the consolidated fiscal year under review, the contribution of cloud service products to the total contract amounts increased sharply and the portion of net sales deferred to the following consolidated fiscal year and later grew. That has resulted in a large gap between the contract amount and net sales. The contract amount growth rate is substantially higher than the net sales growth rate.

| | Previous fiscal year (from April 1, 2019 to March 31, 2020) | Fiscal year under review (from April 1, 2020 to March 31, 2021) |
|---------------------------------|--|--|
| Contract amount growth rate (%) | (8.6) | 103.1 |
| Net sales growth rate (%) | (3.4) | 21.0 |
| Operating margin (%) | 41.3 | 43.6 |
| Return on equity (ROE) (%) | 19.4 | 22.0 |

c. Analysis of capital resources and liquidity

The Group's basic capital policy is to aim for sustainable improvement in corporate value by comprehensively considering securing enough internal reserves to enable prompt investment in growing areas and returning profits to shareholders.

At the end of the consolidated fiscal year under review, the Group had no outstanding interest-bearing debt whilst cash and cash equivalents stood at 11,382 million yen.

A major component of the Group's demand for working capital is personnel expenses to secure and develop the talented human resources necessary to provide high added value solutions. When allocating internal reserves, the Group will give priority to securing and developing human resources, and we will maintain the stable and continuous growth of existing business while also actively striving to identify new needs.

d. Factors that have a significant impact on operating results

As stated in “Section II. Business Summary 2. Business and Other Risks”

4. Material Contracts Affecting Management of the Company, etc.

Not applicable.

5. Research and Development

The Group’s research and development activities are conducted by the Company’s Development Department, which conducts investigations, comparisons and analysis to improve the usability of the Company’s products and examines ways to improve existing products. The Company’s Development Department also investigates, researches and develops technologies for products and services for coming fiscal years and conducts activities for bringing new products and services to market.

In the consolidated fiscal year under review total research and development expenses were 1 million yen.

Section III. Properties

1. Summary of Capital Investment, etc.

In the consolidated fiscal year under review, the Group made capital investment totaling 49 million yen. This mainly consisted of office equipment work and purchases of computers, servers, and other information equipment.

Meanwhile, the Group made investments in intangible assets totaling 786 million yen, mainly for software development.

2. Major Facilities

Major facilities of the Company are as follows. (The major facilities of the Company are shown because this report omits segment information.)

(1) The Reporting Company

(As of March 31, 2021)

| Branch name (location) | Description of equipment | Book value | | | | | | | Number of employees |
|--|--|------------------------|----------------------|------------------------|--------------------------------------|------------------------|----------------------|----------------------|---------------------|
| | | Buildings | | Vehicles (million yen) | Furniture and fixtures (million yen) | Land | | Total (thousand yen) | |
| | | Area (m ²) | Amount (million yen) | | | Area (m ²) | Amount (million yen) | | |
| Headquarters (Chiyoda-ku, Tokyo) | Administration, development and sales facility | 1,626.42 (1,626.42) | 12 | 14 | 86 | — | — | 114 | 206 (19) |
| Recreational facility (Atami, Shizuoka Prefecture) | Recreational facility | 71.85 | 71 | — | 1 | 10,017.49 | 26 | 98 | — |

- (Notes)
1. The amounts described above do not include consumption taxes, etc.
 2. The figure in parentheses in the Buildings section is included in the total and is the area that is leased.
 3. The figures in parentheses in the number of employees section (which are not included in the totals) indicate the annual average number of part-time employees (temporary staff, etc.).
 4. Other branches are the Hokkaido Sales Office (zero employees), the Tohoku Sales Office (two employees), the Chubu Sales Office (eight employees), the Kansai Sales Office (eleven employees), the Chushikoku Sales Office (three employees), and the Kyushu Sales Office (six employees).
 5. The head office of the reporting company includes a building leased to Digital Arts Consulting Inc., which is a subsidiary of the reporting company.

(2) Domestic Subsidiaries

(As of March 31, 2021)

| Company name | Branch name (location) | Description of equipment | Book value | | Number of employees |
|------------------------------|----------------------------------|-----------------------------------|--------------------------------------|---------------------|---------------------|
| | | | Furniture and fixtures (million yen) | Total (million yen) | |
| Digital Arts Consulting Inc. | Headquarters (Chiyoda-ku, Tokyo) | Administration and sales facility | 7 | 7 | 59 |

- (Notes)
1. The amounts described above do not include consumption taxes, etc.
 2. Digital Arts Consulting Inc. leases the whole building from the reporting company.

(3) Overseas Subsidiaries

(As of March 31, 2021)

| Company name | Branch name (location) | Description of equipment | Book value | | Number of employees |
|-------------------------------------|--------------------------|-----------------------------------|--------------------------------------|---------------------|---------------------|
| | | | Furniture and fixtures (million yen) | Total (million yen) | |
| Digital Arts America, Inc. | Headquarters (USA) | Administration and sales facility | — | — | — |
| Digital Arts Asia Pacific Pte. Ltd. | Headquarters (Singapore) | Administration and sales facility | 0 | 0 | — |
| Digital Arts Europe Limited | Headquarters (UK) | Administration and sales facility | — | — | — |

(Note) The amounts described above do not include consumption taxes, etc.

3. Plans for Capital Investment, Disposals of Properties, etc.

(1) New Construction of Important Facilities, etc.

None in particular

(2) Retirement of Important Facilities, etc.

None in particular

Section IV. Information on the Reporting Company

1. Stock Information

(1) Total Number of Shares, etc.

(i) Total Number of Shares

| Classification | Total number of shares authorized to be issued (shares) |
|----------------|---|
| Common share | 45,036,000 |
| Total | 45,036,000 |

(ii) Issued Shares

| Classification | Number of shares issued as of the end of fiscal year (shares) (March 31, 2021) | Number of shares issued as of the filing date (shares) (June 23, 2021) | Listed stock exchange | Description |
|----------------|--|--|------------------------------------|--------------------------------------|
| Common share | 14,133,000 | 14,133,000 | Tokyo Stock Exchange First Section | Number of shares in trading unit 100 |
| Total | 14,133,000 | 14,133,000 | — | — |

(Note) The figures in the “Number of shares issued as of the filing date” column do not include the number of shares issued upon the exercise of share acquisition rights between June 1, 2021 and the filing date of this Annual Securities Report.

(2) Information on the Share Acquisition Rights, etc.

(i) Details of Stock Option Plans

Share acquisition rights issued in accordance with the Companies Act are as follows.

i) Resolution of the Board of Directors Meeting held on November 12, 2015

| | As of the end of the fiscal year (March 31, 2021) | As of the end of the month before the filing date (May 31, 2021) |
|---|---|--|
| Category and number of persons subject to grants | Four directors, 151 employees | |
| Number of share acquisition rights | 1,568 | 1,559 |
| Number of share acquisition rights that are own share options | — | — |
| Class of shares to be acquired upon exercise of share acquisition rights | Common share | Same as on the left |
| Number of shares to be acquired upon exercise of share acquisition rights | 156,800 shares | 155,900 shares |
| Amount to be paid upon exercise of share acquisition rights | 2,034 yen per share | Same as on the left |
| Exercise period of share acquisition rights | From July 1, 2017 to May 31, 2027 | Same as on the left |
| Issue price for shares that will be issued through the exercise of share acquisition rights and the amount capitalized as common shares | Issue price: 2,036 yen Amount capitalized as common shares: 1,018 yen | Same as on the left |
| Conditions for exercise of share acquisition rights | (Note 2) | Same as on the left |
| Matters regarding transfer of share acquisition rights | Any transfer of share acquisition rights is subject to approval by the Board of Directors of the Company. | Same as on the left |
| Matters regarding substitute payment | — | — |
| Matters regarding grant of share acquisition rights accompanying reorganization | (Note 5) | Same as on the left |

(Notes) 1. The share acquisition rights were issued with a charge of 200 yen per share acquisition right.

2. Conditions for exercise of share acquisition rights

(1) Share acquisition rights can be exercised up to the percentage of the allocated share acquisition rights specified in

each item below by each holder of share acquisition rights only if operating profit reaches the level specified in each item below in the fiscal year ended March 31, 2017, the fiscal year ended March 31, 2018, or the fiscal year ended March 31, 2019.

- (a) If operating profit exceeds 1.5 billion yen, 20% of share acquisition rights can be exercised.
- (b) If operating profit exceeds 2.0 billion yen, 50% of share acquisition rights can be exercised.
- (c) If operating profit exceeds 2.5 billion yen, 100% of share acquisition rights can be exercised.

In the items above, the operating profit stated in the consolidated statements of income in the Company's annual securities report (or the statements of income if no consolidated statements of income are prepared) shall be referenced. If the concept of items to be referenced changes significantly due to the application of the International Financial Reporting Standards, etc. indicators to be referenced shall be determined by the Board of Directors. Any fraction of less than one share acquisition right arising in the number of the share acquisition rights that can be exercised by each holder of share acquisition rights when calculating the percentage that can be exercised shall be rounded down.

- (2) The holder of the share acquisition rights must continue to be a director or an employee of the Company to exercise share acquisition rights. Provided, however, this provision shall not apply to holders who have retired due to expiration of their terms of office, or holders who have retired upon reaching the mandatory retirement age or for other legitimate reasons that the Board of Directors may deem appropriate.
 - (3) Exercise of the share acquisition rights by heirs of holders of the share acquisition rights shall not be permitted.
 - (4) Share acquisition rights may not be exercised when doing so would cause the total number of shares of the Company outstanding after exercise of such rights to exceed the number of shares authorized at the time of the exercise.
 - (5) Share acquisition rights may not be exercised in less than one unit.
3. The number of shares granted shall be adjusted according to the following formula if the Company conducts a stock split (includes allotment of the common shares of the Company without consideration; hereinafter the same) or a stock consolidation after the allotment date of the share acquisition rights. Provided, however, that such adjustment shall be made only with respect to the number of shares to be issued upon exercise of the share acquisition rights that have not yet been exercised at the time of adjustment, and any fraction less than one share arising from the adjustment shall be rounded down. Number of shares granted after adjustment = Number of shares granted before adjustment x Ratio of split (or consolidation) If the Company performs a merger or company split, or reduces its share capital, or any other similar matter where the adjustment of the number of shares granted becomes necessary, after the allotment date of the share acquisition rights, the number of shares granted shall, to a reasonable extent, be adjusted as appropriate.
4. The value of assets to be contributed upon exercise of the share acquisition rights shall be an amount obtained by multiplying the amount to be paid in per share (the "Exercise Price") by the number of shares granted. The Exercise Price shall be 2,034 yen, which is equal to the closing price of the Company's stock in regular trading on the Tokyo Stock Exchange on November 11, 2015, which is the day before the date of the resolution of the Board of Directors concerning the issuance of the share acquisition rights.

- (1) If the Company conducts a stock split or stock consolidation, the Exercise Price shall be adjusted according to the following formula, and any fraction less than one yen resulting from the adjustment shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{1}{\text{Ratio of split (or consolidation)}}$$

- (2) If the Company issues new common shares or disposes of its treasury shares at a price below the market price of its common shares (excluding the case of the issuance of new shares and the disposal of treasury shares upon exercise of share acquisition rights and the transfer of treasury shares through the exchange of shares), the Exercise Price shall be adjusted according to the following formula, and any fraction less than one yen resulting from the adjustment shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{\text{Number of shares outstanding} + \frac{\text{Number of shares newly issued} \times \text{Amount to be paid per share}}{\text{Market price per share prior to the issuance}}}{\text{Number of shares outstanding} + \text{Number of shares newly issued}}$$

In the above formula, the "number of shares outstanding" shall be the amount obtained by subtracting the number of treasury shares pertaining to the common shares of the Company from the total number of shares outstanding pertaining to the common shares of the Company. If the Company undertakes the disposal of treasury shares pertaining to its common shares, the "number of shares to be newly issued" shall be read as the "number of treasury shares to be disposed of."

- (3) If the Company performs a merger with another company, company split, or any other similar matter where the adjustment of the Exercise Price becomes necessary, after the allotment date of the share acquisition rights, the Company may, to a reasonable extent, adjust the Exercise Price as appropriate.
5. If the Company conducts a merger (limited to the case where the Company is dissolved due to the merger), an absorption-type or incorporation-type company split, or a share exchange or transfer (collectively, the "Reorganization"), the Company shall, in each of the above cases, allot share acquisition rights of the relevant company from among those listed in "a"

through “e” of Article 236, Paragraph 1, Item 8 of the Companies Act (the “Reorganized Company”) to the holders of the share acquisition rights as of the effective date of the relevant Reorganization. Provided, however, that the foregoing shall be on the condition that the allotment of such share acquisition rights by the Reorganized Company in accordance with each of the following items is stipulated in an absorption-type merger agreement, a consolidation-type merger agreement, an absorption-type company split agreement, an incorporation-type company split plan, a share exchange agreement or a share transfer plan.

- (1) Number of share acquisition rights of the Reorganized Company to be allotted
The same number as the number of share acquisition rights held by the holder of the share acquisition rights shall be allotted in each case.
- (2) Class of shares of the Reorganized Company to be issued upon exercise of share acquisition rights
Common shares of the Reorganized Company
- (3) Number of shares of the Reorganized Company to be issued upon exercise of share acquisition rights
To be determined as follows, taking the terms and conditions of the Reorganization into consideration.
If the Company conducts Reorganization with respect to common shares of the Company after the allotment date, the number of shares granted shall be adjusted according to the following formula and any fraction of less than one share resulting from the adjustment shall be rounded down.
Number of shares granted after adjustment = Number of shares granted before adjustment x Ratio of split (or consolidation)
- (4) Value of assets to be contributed upon exercise of each share acquisition right
The value of assets to be contributed upon exercise of each share acquisition right to be allotted shall be the amount obtained by multiplying the exercise price after Reorganization, obtained through adjustment taking into consideration, among other matters, the terms and conditions of the Reorganization, by the number of shares of the Reorganized Company to be issued upon exercise of each of such share acquisition rights as determined in accordance with (3) above.
- (5) Exercise period of share acquisition rights
From and including the later of the commencement date of the period during which the share acquisition rights may be exercised as provided for separately or the effective date of the Reorganization, to and including the expiration date of the period during which the share acquisition rights may be exercised as provided for separately.
- (6) Matters concerning share capital and legal capital surplus to be increased due to issuance of shares upon exercise of share acquisition rights
To be determined as follows.
 - (i) The amount by which the stated share capital increases through the issuance of shares upon the exercise of share acquisition rights shall be one-half (1/2) of the upper limit of the increase in the amounts of stated share capital and other items calculated pursuant to the provisions of Article 17, Paragraph 1 of the Company Accounting Ordinance. Any fraction of less than one yen arising from the calculation shall be rounded up.
 - (ii) The amount by which the legal capital surplus increases through the issuance of shares upon the exercise of share acquisition rights shall be the upper limit of the increase in the amounts of stated share capital and other items described in (i) above, less the increase in the amount of stated share capital set out in (i) above.
- (7) Restriction on acquisition of share acquisition rights by transfer
Any acquisition of share acquisition rights by transfer shall be subject to approval by resolution of the Board of Directors of the Company.
- (8) Clause on the acquisition of share acquisition rights
If a proposal for a merger agreement under which the Company is to be the dissolving company, a company split agreement or a company split plan under which the Company is to be the splitting company, or a share exchange agreement or share transfer plan under which the Company is to be a wholly-owned subsidiary is approved by resolution of the general meeting of shareholders (or if a resolution is made by the Company’s Board of Directors in the case when the approval of the Company’s general meeting of shareholders is not required), the Company may acquire all share acquisition rights without consideration on a date to be separately determined by the Board of Directors of the Company.

ii) Resolution of the Board of Directors Meeting held on November 10, 2016

| | As of the end of the fiscal year (March 31, 2021) | As of the end of the month before the filing date (May 31, 2021) |
|---|---|--|
| Category and number of persons subject to grants | Three directors, 96 employees | |
| Number of share acquisition rights | 3,069 | 3,037 |
| Number of share acquisition rights that are own share options | – | – |
| Class of shares to be acquired upon exercise of share acquisition rights | Common share | Same as on the left |
| Number of shares to be acquired upon exercise of share acquisition rights | 306,900 shares | 303,700 shares |
| Amount to be paid upon exercise of share acquisition rights | 2,639 yen per share | Same as on the left |
| Exercise period of share acquisition rights | From July 1, 2018 to May 31, 2028 | Same as on the left |
| Issue price for shares that will be issued through the exercise of share acquisition rights and the amount capitalized as common shares | Issue price: 2,663 yen Amount capitalized as common shares: 1,332 yen | Same as on the left |
| Conditions for exercise of share acquisition rights | (Note 2) | Same as on the left |
| Matters regarding transfer of share acquisition rights | Any transfer of share acquisition rights is subject to approval by the Board of Directors of the Company. | Same as on the left |
| Matters regarding substitute payment | – | – |
| Matters regarding grant of share acquisition rights accompanying reorganization | (Note 5) | Same as on the left |

(Notes) 1. The share acquisition rights were issued with a charge of 2,400 yen per share acquisition right.

2. Conditions for exercise of share acquisition rights

(1) Share acquisition rights can be exercised up to the percentage of the allocated share acquisition rights specified in each item below by each holder of share acquisition rights only if operating profit reaches the level specified in each item below in the fiscal year ended March 31, 2018, the fiscal year ended March 31, 2019, or the fiscal year ended March 31, 2020.

(a) If operating profit exceeds 2.0 billion yen, 20% of share acquisition rights can be exercised.

(b) If operating profit exceeds 2.5 billion yen, 50% of share acquisition rights can be exercised.

(c) If operating profit exceeds 2.8 billion yen, 100% of share acquisition rights can be exercised.

In the items above, the operating profit stated in the consolidated statements of income in the Company's annual securities report (or the statements of income if no consolidated statements of income are prepared) shall be referenced. If the concept of items to be referenced changes significantly due to the application of the International Financial Reporting Standards, etc. indicators to be referenced shall be determined by the Board of Directors. Any fraction of less than one share acquisition right arising in the number of the share acquisition rights that can be exercised by each holder of share acquisition rights when calculating the percentage that can be exercised shall be rounded down.

(2) The holder of the share acquisition rights must continue to be a director or an employee of the Company to exercise share acquisition rights. Provided, however, this provision shall not apply to holders who have retired due to expiration of their terms of office, or holders who have retired upon reaching the mandatory retirement age or for other legitimate reasons that the Board of Directors may deem appropriate.

(3) Exercise of the share acquisition rights by heirs of holders of the share acquisition rights shall not be permitted.

(4) Share acquisition rights may not be exercised when doing so would cause the total number of shares of the Company outstanding after exercise of such rights to exceed the number of shares authorized at the time of the exercise.

(5) Share acquisition rights may not be exercised in less than one unit.

3. The number of shares granted shall be adjusted according to the following formula if the Company conducts a stock split (includes allotment of the common shares of the Company without consideration; hereinafter the same) or a stock consolidation after the allotment date of the share acquisition rights. Provided, however, that such adjustment shall be made only with respect to the number of shares to be issued upon exercise of the share acquisition rights that have not yet been exercised at the time of adjustment, and any fraction less than one share arising from the adjustment shall be rounded down. Number of shares granted after adjustment = Number of shares granted before adjustment x Ratio of split (or consolidation) If the Company performs a merger or company split, or reduces its share capital, or any other similar matter where the adjustment of the number of shares granted becomes necessary, after the allotment date of the share acquisition rights, the

number of shares granted shall, to a reasonable extent, be adjusted as appropriate.

4. The value of assets to be contributed upon exercise of the share acquisition rights shall be an amount obtained by multiplying the amount to be paid in per share (the “Exercise Price”) by the number of shares granted. The Exercise Price shall be 2,639 yen, which is equal to the closing price of the Company’s stock in regular trading on the Tokyo Stock Exchange on November 9, 2016, which is the day before the date of the resolution of the Board of Directors concerning the issuance of the share acquisition rights.

- (1) If the Company conducts a stock split or stock consolidation, the Exercise Price shall be adjusted according to the following formula, and any fraction less than one yen resulting from the adjustment shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{1}{\text{Ratio of split (or consolidation)}}$$

- (2) If the Company issues new common shares or disposes of its treasury shares at a price below the market price of its common shares (excluding the case of the issuance of new shares and the disposal of treasury shares upon exercise of share acquisition rights and the transfer of treasury shares through the exchange of shares), the Exercise Price shall be adjusted according to the following formula, and any fraction less than one yen resulting from the adjustment shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{\text{Number of shares outstanding} + \frac{\text{Number of shares newly issued} \times \text{Amount to be paid per share}}{\text{Market price per share prior to the issuance}}}{\text{Number of shares outstanding} + \text{Number of shares newly issued}}$$

In the above formula, the “number of shares outstanding” shall be the amount obtained by subtracting the number of treasury shares pertaining to the common shares of the Company from the total number of shares outstanding pertaining to the common shares of the Company. If the Company undertakes the disposal of treasury shares pertaining to its common shares, the “number of shares to be newly issued” shall be read as the “number of treasury shares to be disposed of.”

- (3) If the Company performs a merger with another company, company split, or any other similar matter where the adjustment of the Exercise Price becomes necessary, after the allotment date of the share acquisition rights, the Company may, to a reasonable extent, adjust the Exercise Price as appropriate.
5. If the Company conducts a merger (limited to the case where the Company is dissolved due to the merger), an absorption-type or incorporation-type company split, or a share exchange or transfer (collectively, the “Reorganization”), the Company shall, in each of the above cases, allot share acquisition rights of the relevant company from among those listed in “a” through “e” of Article 236, Paragraph 1, Item 8 of the Companies Act (the “Reorganized Company”) to the holders of the share acquisition rights as of the effective date of the relevant Reorganization. Provided, however, that the foregoing shall be on the condition that the allotment of such share acquisition rights by the Reorganized Company in accordance with each of the following items is stipulated in an absorption-type merger agreement, a consolidation-type merger agreement, an absorption-type company split agreement, an incorporation-type company split plan, a share exchange agreement or a share transfer plan.
- (1) Number of share acquisition rights of the Reorganized Company to be allotted
The same number as the number of share acquisition rights held by the holder of the share acquisition rights shall be allotted in each case.
- (2) Class of shares of the Reorganized Company to be issued upon exercise of share acquisition rights
Common shares of the Reorganized Company
- (3) Number of shares of the Reorganized Company to be issued upon exercise of share acquisition rights
To be determined as follows, taking the terms and conditions of the Reorganization into consideration.
If the Company conducts Reorganization with respect to common shares of the Company after the allotment date, the number of shares granted shall be adjusted according to the following formula and any fraction of less than one share resulting from the adjustment shall be rounded down.
Number of shares granted after adjustment = Number of shares granted before adjustment x Ratio of split (or consolidation)
- (4) Value of assets to be contributed upon exercise of each share acquisition right
The value of assets to be contributed upon exercise of each share acquisition right to be allotted shall be the amount obtained by multiplying the exercise price after Reorganization, obtained through adjustment taking into consideration, among other matters, the terms and conditions of the Reorganization, by the number of shares of the Reorganized Company to be issued upon exercise of each of such share acquisition rights as determined in accordance with (3) above.
- (5) Exercise period of share acquisition rights
From and including the later of the commencement date of the period during which the share acquisition rights may be exercised as provided for separately or the effective date of the Reorganization, to and including the expiration date of the period during which the share acquisition rights may be exercised as provided for separately.
- (6) Matters concerning share capital and legal capital surplus to be increased due to issuance of shares upon exercise of

share acquisition rights

To be determined as follows.

- (i) The amount by which the stated share capital increases through the issuance of shares upon the exercise of share acquisition rights shall be one-half (1/2) of the upper limit of the increase in the amounts of stated share capital and other items calculated pursuant to the provisions of Article 17, Paragraph 1 of the Company Accounting Ordinance. Any fraction of less than one yen arising from the calculation shall be rounded up.
 - (ii) The amount by which the legal capital surplus increases through the issuance of shares upon the exercise of share acquisition rights shall be the upper limit of the increase in the amounts of stated share capital and other items described in (i) above, less the increase in the amount of stated share capital set out in (i) above.
- (7) Restriction on acquisition of share acquisition rights by transfer
Any acquisition of share acquisition rights by transfer shall be subject to approval by resolution of the Board of Directors of the Company.
- (8) Clause on the acquisition of share acquisition rights
If a proposal for a merger agreement under which the Company is to be the dissolving company, a company split agreement or a company split plan under which the Company is to be the splitting company, or a share exchange agreement or share transfer plan under which the Company is to be a wholly-owned subsidiary is approved by resolution of the general meeting of shareholders (or if a resolution is made by the Company's Board of Directors in the case when the approval of the Company's general meeting of shareholders is not required), the Company may acquire all share acquisition rights without consideration on a date to be separately determined by the Board of Directors of the Company.

iii) Resolution of the Board of Directors Meeting held on February 16, 2018

| | As of the end of the fiscal year (March 31, 2021) | As of the end of the month before the filing date (May 31, 2021) |
|---|---|--|
| Category and number of persons subject to grants | Three directors, 151 employees | |
| Number of share acquisition rights | 11,309 | – |
| Number of share acquisition rights that are own share options | – | – |
| Class of shares to be acquired upon exercise of share acquisition rights | Common share | Same as on the left |
| Number of shares to be acquired upon exercise of share acquisition rights | 1,130,900 shares | – |
| Amount to be paid upon exercise of share acquisition rights | 3,400 yen per share | Same as on the left |
| Exercise period of share acquisition rights | From July 1, 2021 to May 31, 2028 | Same as on the left |
| Issue price for shares that will be issued through the exercise of share acquisition rights and the amount capitalized as common shares | Issue price: 3,401 yen Amount capitalized as common shares: 1,701 yen | Same as on the left |
| Conditions for exercise of share acquisition rights | (Note 2) | Same as on the left |
| Matters regarding transfer of share acquisition rights | Any transfer of share acquisition rights is subject to approval by the Board of Directors of the Company. | Same as on the left |
| Matters regarding substitute payment | – | – |
| Matters regarding grant of share acquisition rights accompanying reorganization | (Note 5) | Same as on the left |

(Notes) 1. The share acquisition rights were issued with a charge of 100 yen per share acquisition right.

2. Conditions for exercise of share acquisition rights

- (1) Holders of share acquisition rights can exercise the share acquisition rights allocated to each of them only if the operating profit of the Company exceeds 4 billion yen in the fiscal year ended March 31, 2021.

In the items above, the operating profit stated in the consolidated statements of income in the Company's annual securities report (or the statements of income if no consolidated statements of income are prepared) shall be referenced. If the concept of items to be referenced changes significantly due to the application of the International Financial Reporting Standards, etc. indicators to be referenced shall be determined by the Board of Directors.

- (2) The holder of the share acquisition rights must continue to be a director or an employee of the Company to exercise share acquisition rights. Provided, however, this provision shall not apply to holders who have retired due to expiration of their terms of office, or holders who have retired upon reaching the mandatory retirement age or for other legitimate reasons that the Board of Directors may deem appropriate.

- (3) Exercise of the share acquisition rights by heirs of holders of the share acquisition rights shall not be permitted.

- (4) Share acquisition rights may not be exercised when doing so would cause the total number of shares of the Company outstanding after exercise of such rights to exceed the number of shares authorized at the time of the exercise.

- (5) Share acquisition rights may not be exercised in less than one unit.

3. The number of shares granted shall be adjusted according to the following formula if the Company conducts a stock split (includes allotment of the common shares of the Company without consideration; hereinafter the same) or a stock consolidation after the allotment date of the share acquisition rights. Provided, however, that such adjustment shall be made only with respect to the number of shares to be issued upon exercise of the share acquisition rights that have not yet been exercised at the time of adjustment, and any fraction less than one share arising from the adjustment shall be rounded down. Number of shares granted after adjustment = Number of shares granted before adjustment x Ratio of split (or consolidation) If the Company performs a merger or company split, or reduces its share capital, or any other similar matter where the adjustment of the number of shares granted becomes necessary, after the allotment date of the share acquisition rights, the number of shares granted shall, to a reasonable extent, be adjusted as appropriate.

4. The value of assets to be contributed upon exercise of the share acquisition rights shall be an amount obtained by multiplying the amount to be paid in per share (the "Exercise Price") by the number of shares granted.

The Exercise Price shall be 3,400 yen, which is equal to the closing price of the Company's stock in regular trading on the Tokyo Stock Exchange on February 15, 2018, which is the day before the date of the resolution of the Board of Directors concerning the issuance of the share acquisition rights.

- (1) If the Company conducts a stock split or stock consolidation, the Exercise Price shall be adjusted according to the following formula, and any fraction less than one yen resulting from the adjustment shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{1}{\text{Ratio of split (or consolidation)}}$$

- (2) If the Company issues new common shares or disposes of its treasury shares at a price below the market price of its common shares (excluding the case of the issuance of new shares and the disposal of treasury shares upon exercise of share acquisition rights and the transfer of treasury shares through the exchange of shares), the Exercise Price shall be adjusted according to the following formula, and any fraction less than one yen resulting from the adjustment shall be rounded up.

$$\text{Exercise price after adjustment} = \text{Exercise price before adjustment} \times \frac{\text{Number of shares outstanding} + \frac{\text{Number of shares newly issued} \times \text{Amount to be paid per share}}{\text{Market price per share prior to the issuance}}}{\text{Number of shares outstanding} + \text{Number of shares newly issued}}$$

In the above formula, the “number of shares outstanding” shall be the amount obtained by subtracting the number of treasury shares pertaining to the common shares of the Company from the total number of shares outstanding pertaining to the common shares of the Company. If the Company undertakes the disposal of treasury shares pertaining to its common shares, the “number of shares to be newly issued” shall be read as the “number of treasury shares to be disposed of.”

- (3) If the Company performs a merger with another company, company split, or any other similar matter where the adjustment of the Exercise Price becomes necessary, after the allotment date of the share acquisition rights, the Company may, to a reasonable extent, adjust the Exercise Price as appropriate.
5. If the Company conducts a merger (limited to the case where the Company is dissolved due to the merger), an absorption-type or incorporation-type company split, or a share exchange or transfer (collectively, the “Reorganization”), the Company shall, in each of the above cases, allot share acquisition rights of the relevant company from among those listed in “a” through “e” of Article 236, Paragraph 1, Item 8 of the Companies Act (the “Reorganized Company”) to the holders of the share acquisition rights as of the effective date of the relevant Reorganization. Provided, however, that the foregoing shall be on the condition that the allotment of such share acquisition rights by the Reorganized Company in accordance with each of the following items is stipulated in an absorption-type merger agreement, a consolidation-type merger agreement, an absorption-type company split agreement, an incorporation-type company split plan, a share exchange agreement or a share transfer plan.
- (1) Number of share acquisition rights of the Reorganized Company to be allotted
The same number as the number of share acquisition rights held by the holder of the share acquisition rights shall be allotted in each case.
 - (2) Class of shares of the Reorganized Company to be issued upon exercise of share acquisition rights
Common shares of the Reorganized Company
 - (3) Number of shares of the Reorganized Company to be issued upon exercise of share acquisition rights
To be determined as follows, taking the terms and conditions of the Reorganization into consideration.
If the Company conducts Reorganization with respect to common shares of the Company after the allotment date, the number of shares granted shall be adjusted according to the following formula and any fraction of less than one share resulting from the adjustment shall be rounded down.
Number of shares granted after adjustment = Number of shares granted before adjustment x Ratio of split (or consolidation)
 - (4) Value of assets to be contributed upon exercise of each share acquisition right
The value of assets to be contributed upon exercise of each share acquisition right to be allotted shall be the amount obtained by multiplying the exercise price after Reorganization, obtained through adjustment taking into consideration, among other matters, the terms and conditions of the Reorganization, by the number of shares of the Reorganized Company to be issued upon exercise of each of such share acquisition rights as determined in accordance with (3) above.
 - (5) Exercise period of share acquisition rights
From and including the later of the commencement date of the period during which the share acquisition rights may be exercised as provided for separately or the effective date of the Reorganization, to and including the expiration date of the period during which the share acquisition rights may be exercised as provided for separately.
 - (6) Matters concerning share capital and legal capital surplus to be increased due to issuance of shares upon exercise of share acquisition rights
To be determined as follows.
 - (i) The amount by which the stated share capital increases through the issuance of shares upon the exercise of share acquisition rights shall be one-half (1/2) of the upper limit of the increase in the amounts of stated share capital and other items calculated pursuant to the provisions of Article 17, Paragraph 1 of the Company Accounting Ordinance. Any fraction of less than one yen arising from the calculation shall be rounded up.
 - (ii) The amount by which the legal capital surplus increases through the issuance of shares upon the exercise of share acquisition rights shall be the upper limit of the increase in the amounts of stated share capital and other items

described in (i) above, less the increase in the amount of stated share capital set out in (i) above.

- (7) Restriction on acquisition of share acquisition rights by transfer
Any acquisition of share acquisition rights by transfer shall be subject to approval by resolution of the Board of Directors of the Company.
- (8) Clause on the acquisition of share acquisition rights
If a proposal for a merger agreement under which the Company is to be the dissolving company, a company split agreement or a company split plan under which the Company is to be the splitting company, or a share exchange agreement or share transfer plan under which the Company is to be a wholly-owned subsidiary is approved by resolution of the general meeting of shareholders (or if a resolution is made by the Company's Board of Directors in the case when the approval of the Company's general meeting of shareholders is not required), the Company may acquire all share acquisition rights without consideration on a date to be separately determined by the Board of Directors of the Company.
6. The share acquisition rights are now invalid since non-fulfillment of the vesting conditions was confirmed on May 28, 2021.

(ii) Information on Shareholder Rights Plans

Not applicable.

(iii) Status of Share Acquisition Rights and Other Plans

Not applicable.

(3) Information on Moving Strike Convertible Bonds, etc.

Not applicable.

(4) Changes in the Total Number of Issued Shares and the Amount of Share Capital and Other

| Date | Change in the total number of issued shares | Balance of the total number of issued shares | Change in common stock (million yen) | Balance of share capital (million yen) | Change in legal capital surplus (million yen) | Balance of legal capital surplus (million yen) |
|----------------------|---|--|--------------------------------------|--|---|--|
| April 1, 2013 (Note) | 13,991,670 | 14,133,000 | — | 713 | — | 700 |

(Note) The Company conducted a 100-for-1 common shares split on April 1, 2013 based on a resolution at the meeting of the Board of Directors held on February 28, 2013. This stock split increased the number of shares outstanding to 14,133,000 shares, an increase of 13,991,670 shares.

(5) Shareholders Composition

As of March 31, 2021

| Category | Status of shares (one unit of stock: 100 shares) | | | | | | | | Number of shares less than one unit (shares) |
|------------------------------------|--|-----------------------|---|-------------------|----------------------------|-------------|------------------------|---------|--|
| | Government and municipality | Financial institution | Financial instruments business operator | Other institution | Foreign corporations, etc. | | Individuals and others | Total | |
| | | | | | Non-individuals | Individuals | | | |
| Number of share-holders | — | 25 | 35 | 28 | 190 | 6 | 4,039 | 4,323 | — |
| Share ownership (units) | — | 35,124 | 2,113 | 9,952 | 51,265 | 12 | 42,767 | 141,233 | 9,700 |
| Ownership percentage of shares (%) | — | 24.87 | 1.49 | 7.05 | 36.30 | 0.01 | 30.28 | 100.00 | — |

(Note) Of 104,462 treasury shares, 1,044 units are included in the "Individuals and others" column, while 62 shares are included in the "Number of shares less than one unit" column.

(6) Major Shareholders

As of March 31, 2021

| Name | Address | Share ownership (shares) | Ratio (%) of the number of owned shares to the total number of outstanding shares (excluding treasury shares) |
|---|--|--------------------------|---|
| Toshio Dogu | Minato-ku, Tokyo | 2,403,063 | 17.13 |
| Custody Bank of Japan, Ltd. (Trust Account) | 1-8-12 Harumi, Chuo-ku, Tokyo | 1,431,200 | 10.20 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 2-11-3 Hamamatsucho, Minato-ku, Tokyo | 959,500 | 6.84 |
| DAM Corporation | 1-3-1 Minami-Aoyama, Minato-ku, Tokyo | 710,000 | 5.06 |
| BNYMSANV RE BNYMSANVDUB RE BNYMGO UCITS ETF SOLUTIONS PLC (Standing proxy: MUFG Bank, Ltd.) | 33 SIR JOHN ROGERSON'S QUAY DUBLIN 2 IRELAND (2-7-1 Marunouchi, Chiyoda-ku, Tokyo) | 646,902 | 4.61 |
| THE BANK OF NEW YORK, NON-TREATY JASDEC ACCOUNT (Standing proxy: MUFG Bank, Ltd.) | 225 LIBERTY STREET, NEW YORK, NEW YORK 10286, USA (2-7-1 Marunouchi, Chiyoda-ku, Tokyo) | 420,000 | 2.99 |
| BNYM AS AGT/CLTS 10 PERCENT (Standing proxy: MUFG Bank, Ltd.) | 240 GREENWICH STREET, NEW YORK, NEW YORK 10286, U.S.A. (2-7-1 Marunouchi, Chiyoda-ku, Tokyo) | 262,243 | 1.87 |
| THE BANK OF NEW YORK MELLON 140044 (Standing proxy: Settlement & Clearing Services Department, Mizuho Bank, Ltd.) | 240 GREENWICH STREET, NEW YORK, NY 10286, U.S.A. (2-15-1 Konan, Minato-ku, Tokyo) | 258,800 | 1.84 |
| NORTHERN TRUST CO.(AVFC) RE MONDRIAN INTERNATIONAL SMALL CAP EQUITY FUND, L.P.(Standing proxy: HSBC Tokyo Branch, Custody Service Department) | 50 Bank Street Canary Wharf London E14 5NT, UK (3-11-1 Nihonbashi, Chuo-ku, Tokyo) | 248,400 | 1.77 |
| JPMBL RE NOMURA INTERNATIONAL PLC 1 COLL EQUITY (Standing proxy: MUFG Bank, Ltd.) | 1 ANGEL LANE LONDON - NORTH OF THE THAMES UNITED KINGDOM EC4R 3AB (2-7-1 Marunouchi, Chiyoda-ku, Tokyo) | 229,378 | 1.64 |
| Total | — | 7,569,486 | 53.96 |

(Notes) 1. The number of shares held by Mr. Toshio Dogu includes his shares of stock in Digital Arts Inc.'s officers' shareholding association.

2. The number of shares pertaining to the trust services of Custody Bank of Japan, Ltd. (Trust Account) could not be confirmed by the Company and is, therefore, omitted.

3. The number of shares pertaining to the trust services of Master Trust Bank of Japan, Ltd. (Trust Account) could not be confirmed by the Company and is, therefore, omitted.

4. In addition to the forgoing, the Company holds 104,462 treasury shares.

5. The content of reports on large shareholders whose shareholdings could not be confirmed as of March 31, 2021 (change reports) is as follows.

(1) A report on large shareholders (change report) naming SBI Securities Co., Ltd. as joint holder was submitted on August 7, 2020 by Rheos Capital Works Inc., but this change is not taken into consideration in “Major Shareholders” above as the Company cannot confirm the actual number of shares held as of March 31, 2021.

The content of this report on large shareholders is as shown below.

| Name | Address | Number of share certificates, etc. held (shares) | Ownership ratio of share certificates (%) |
|--------------------------|--------------------------------------|--|---|
| Rheos Capital Works Inc. | 1-11-1 Marunouchi, Chiyoda-ku, Tokyo | 828,700 | 5.86 |
| SBI SECURITIES Co., Ltd. | 1-6-1 Roppongi, Minato-ku, Tokyo | 37,640 | 0.27 |
| Total | — | 866,340 | 6.13 |

(2) A report on large shareholders (change report) naming Nomura International plc and Nomura Asset Management Co., Ltd. as joint holders was submitted on January 7, 2021 by Nomura Securities Co., Ltd., but this change is not taken into consideration in “Major Shareholders” above as the Company cannot confirm the actual number of shares held as of March 31, 2021.

The content of this report on large shareholders is as shown below.

| Name | Address | Number of share certificates, etc. held (shares) | Ownership ratio of share certificates (%) |
|-----------------------------------|---|--|---|
| Nomura Securities Co., Ltd. | 3-11-1 Nihonbashi, Chuo-ku, Tokyo, Japan | (800) | (0.01) |
| NOMURA INTERNATIONAL PLC | 1 Angel Lane, London EC4R 3AB, United Kingdom | 307,786 | 2.18 |
| Nomura Asset Management Co., Ltd. | 2-2-1 Toyosu, Koto-ku, Tokyo, Japan | 348,200 | 2.46 |
| Total | — | 655,186 | 4.64 |

(3) A report on large shareholders (change report) naming Sumitomo Mitsui Trust Asset Management Co., Ltd. and Nikko Asset Management Co., Ltd. as joint holders was submitted on February 4, 2021 by Sumitomo Mitsui Trust Asset Management Co., Ltd., but this change is not taken into consideration in “Major Shareholders” above as the Company cannot confirm the actual number of shares held as of March 31, 2021.

The content of this report on large shareholders is as shown below.

| Name | Address | Number of share certificates, etc. held (shares) | Ownership ratio of share certificates (%) |
|--|--|--|---|
| Sumitomo Mitsui Trust Asset Management Co., Ltd. | 1-1-1 Shibakoen, Minato-ku, Tokyo, Japan | 549,900 | 3.89 |
| Nikko Asset Management Co., Ltd. | 9-7-1 Akasaka, Minato-ku, Tokyo, Japan | 287,200 | 2.03 |
| Total | — | 837,100 | 5.92 |

(7) Information on Voting Rights

(i) Issued Shares

As of March 31, 2021

| Category | Number of shares (shares) | Number of voting rights | Description |
|---|---------------------------|-------------------------|-------------|
| Shares without voting right | — | — | — |
| Shares with restricted voting right (treasury shares, etc.) | — | — | — |
| Shares with restricted voting right (others) | — | — | — |
| Shares with full voting right (treasury shares, etc.) | Common shares 104,400 | — | — |
| Shares with full voting right (others) | Common shares 14,018,900 | 140,189 | — |
| Shares less than one unit | Common shares 9,700 | — | — |
| Number of issued shares | 14,133,000 | — | — |
| Total number of voting rights | — | 140,189 | — |

(ii) Treasury Shares, etc.

As of March 31, 2021

| Name of shareholder | Address | Number of shares held under own name | Number of shares held under the name of others | Total shares held (shares) | Ownership percentage to the total number of issued shares (%) |
|---------------------|--|--------------------------------------|--|----------------------------|---|
| Digital Arts Inc. | 1-5-1 Otemachi, Chiyoda-ku, Tokyo, Japan | 104,400 | — | 104,400 | 0.7 |
| Total | — | 104,400 | — | 104,400 | 0.7 |

2. Information on Acquisition, etc. of Treasury Shares

Class of shares Acquisition of common share under Article 155(vii) of the Companies Act

(1) Acquisition of treasury shares resolved at the general meeting of shareholders

Not applicable.

(2) Acquisition of treasury shares resolved at the Board of Directors meetings

Not applicable.

(3) Details of acquisition of treasury shares not based on the resolutions of the general meeting of shareholders or the Board of Directors meetings.

| Category | Number of shares (shares) | Total amount (yen) |
|--|---------------------------|--------------------|
| Treasury shares acquired during this fiscal year | 20 | 207,400 |
| Treasury shares acquired during the current period | 34 | 332,860 |

(Note) Treasury shares acquired during the current period do not include the number of shares acquired through purchases of shares constituting less than one full unit between June 1, 2021 and June 23, 2021.

(4) Status of the disposition and holding of acquired treasury shares

| Category | Current business year | | Current period | |
|--|---------------------------|--------------------------------|---------------------------|--------------------------------|
| | Number of shares (shares) | Total disposition amount (yen) | Number of shares (shares) | Total disposition amount (yen) |
| Acquired treasury shares which were offered to subscribers | — | — | — | — |
| Acquired treasury shares which were canceled | — | — | — | — |
| Acquired treasury shares which were transferred due to merger, share exchange, share issuance or company split | — | — | — | — |
| Other (Note) | 11,600 | 37,998,937 | 4,100 | 13,436,228 |
| Total number of treasury shares held | 104,462 | — | 100,396 | — |

(Notes) 1. “Other” for the current business year and current period represents the exercise of share acquisition rights.

2. Total number of treasury shares held in the current period does not include the number of shares held through the exercise of share acquisition rights or purchases of shares constituting less than one full unit between June 1, 2021 and June 23, 2021.

3. Dividend Policy

We aim to continuously increase our corporate value and also consider the return of profits to shareholders to be an important management goal. From this perspective, we have decided to make decisions on dividends of surplus, etc. based on our operating environment and the following policy.

Our basic policy is to continuously provide a stable dividend, and we aim to achieve a consolidated dividend payout ratio of at least 30%, comprehensively taking into consideration such factors as the results of our operations and financial condition each fiscal year and our future prospects.

We will use our internal reserves to strengthen our financial condition, invest in business areas with future growth potential and to finance capital expenditures and R&D spending.

Our Articles of Incorporation state that we may, by resolution of the Board of Directors, pay interim dividends with a record date of September 30 each year, and our dividend forecast for the year ending March 31, 2022 is 65 yen per share (which includes an interim dividend of 30 yen).

Dividends of surplus for the current business year are as shown below.

| Resolution date | Total amount of dividends (million yen) | Dividend per share (yen) |
|---|--|--------------------------|
| Resolution of the Board of Directors Meeting held on October 29, 2020 | 350 | 25 |
| Resolution of the Annual General Shareholders Meeting held on June 22, 2021 | 420 | 30 |

4. Corporate Governance

(1) Corporate Governance

(i) Corporate Governance Policy

The Company's corporate governance policy consists of "engaging in speedy decision-making and clarifying the roles and responsibilities incidental to this," "maintaining objective checking systems both internally and externally" and "ensuring timely and fair disclosure" and we will endeavor to continue maintaining and strengthening this approach in the future.

(ii) Overview of the corporate governance structure and reasons for its adoption

A. Overview of the corporate governance structure

We transitioned to a company with an Audit & Supervisory Board based on a resolution of the 21st Annual General Meeting of Shareholders held on June 24, 2016. We have set up the Audit & Supervisory Board composed of a major of Outside Directors. Directors who are Audit & Supervisory Board Members including Outside Directors have expertise in fields such as finance, law and business management to conduct audits not only on legality but also on appropriateness.

The status of major activities is as follows.

(1) Board of Directors

The Board of Directors is comprised of the following six Directors, of whom three (50%) are Outside Directors. As business execution body, it holds meetings once a month in principle to make decisions on important matters that are fundamental to management.

Toshio Dogu (Chairman, Representative Director, President & CEO, Internal Director)

Takuya Matsumoto (Internal Director)

Kiyoto Inomata (Standing Audit & Supervisory Board Member, Internal Director)

Hidekazu Kubokawa (Audit & Supervisory Board Member, Outside Director)

Masataka Uesugi (Audit & Supervisory Board Member, Outside Director)

Chise Kuwayama (Audit & Supervisory Board Member, Outside Director)

(2) Audit & Supervisory Board

The Audit & Supervisory Board is comprised of the following four Directors (one of whom is a Standing Audit & Supervisory Board Member), three of whom are Outside Directors. It holds meetings once a month in principle to deliberate important matters specified in the Audit & Supervisory Board Rules in accordance with the Standards for Audits and Supervision by the Audit & Supervisory Board and endeavors to strengthen audits and supervision.

Kiyoto Inomata (Chairman, Standing Audit & Supervisory Board Member, Internal Director)

Hidekazu Kubokawa (Audit & Supervisory Board Member, Outside Director)

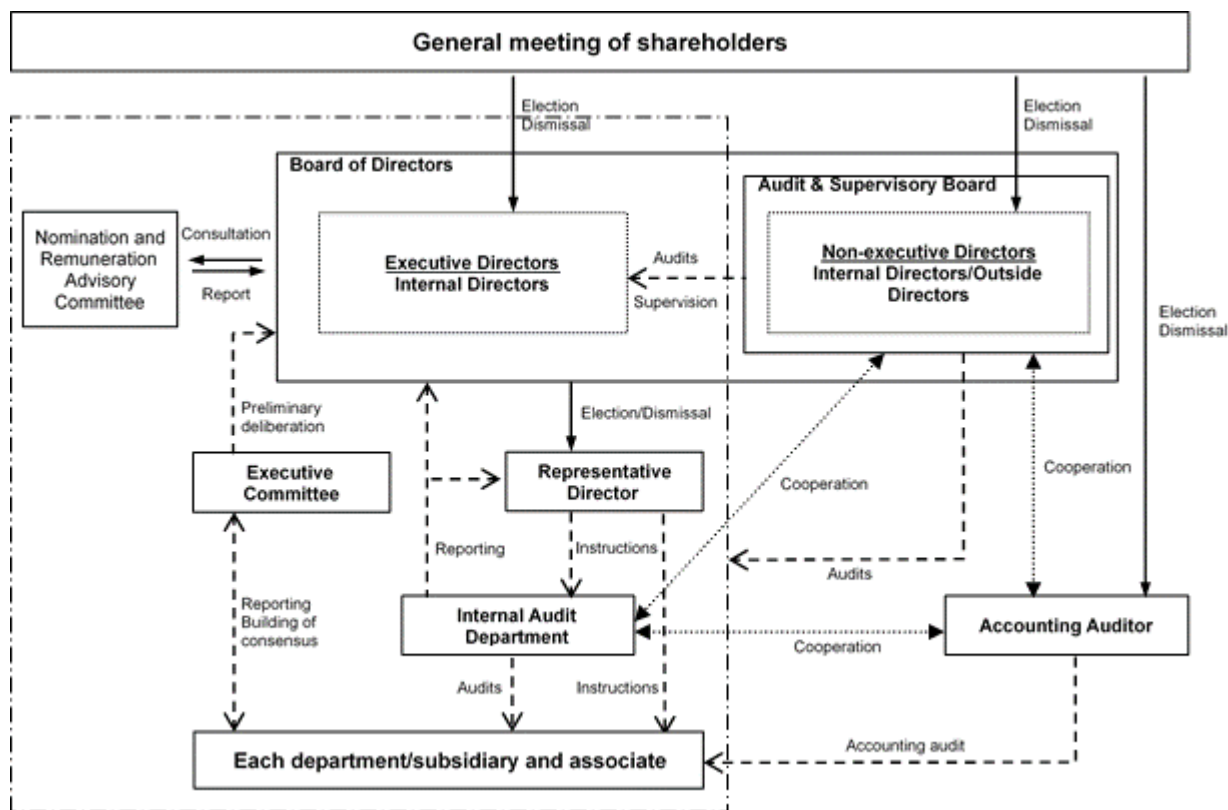
Masataka Uesugi (Audit & Supervisory Board Member, Outside Director)

Chise Kuwayama (Audit & Supervisory Board Member, Outside Director)

(3) Other

The Company holds meetings of the Executive Committee once a month. Serving as a body preceded by the Board of Directors, it consists of the Representative Director, Directors (excluding Directors who are Audit & Supervisory Board Members) and General Managers of individual Departments. It determines individual management strategies based on the prior deliberations and decision-making of the Board of Directors and reviews the status of business execution. In addition, it holds meetings of the Management Reporting and Liaison Committee once a week in principle. Composed of General Managers of separate Departments and Sections and higher-ranking members, it reports on the state of progress of operations in each division and builds consensus. These meeting bodies clarify their respective roles and responsibilities and seek to enrich discussions at the Board of Directors and give shape to its decisions. We have also established functional departments responsible for clarifying the segregation of duties and ensuring checks and balances to maintain corporate governance.

An overview of the Group’s management organization and systems for maintaining corporate governance are as shown in the following figure.



(Note) The Executive Committee includes the Management Reporting and Liaison Committee.

B. Reasons for adoption of the corporate governance structure

The Board of Directors and the Executive Committee are responsible for most of the important decision-making related to execution of the Company’s business. The Board of Directors, which consists of six Directors, three of whom are Outside Directors, holds meetings in principle once a month and also meets on an ad hoc basis whenever necessary. To complement managerial judgments on other important matters, the Executive Committee, which consists of the Representative Director, Directors (excluding Directors who are Audit & Supervisory Board Members) and General Managers of individual Departments, holds meetings once a month to make decisions related to business execution and to review the status of business execution.

Directors who are Audit & Supervisory Board Members receive reports on the status of execution of duties from Directors (excludes Directors who are Audit & Supervisory Board Members) and from employees, etc., asks them for explanations where necessary and views important resolution documentation in accordance with the audit policy and audit plan, etc. specified by the Audit & Supervisory Board. They work closely with the Accounting Auditor, the Internal Audit Department and others to maintain and improve the efficiency of corporate management and ensure legality. We believe, therefore, that this structure allows us to ensure management objectivity.

We adopted our current structure based on the judgment that it further strengthens corporate governance by rationalizing decision-making and execution of duties by Directors and ensuring effective audits and supervision.

(iii) Other matters related to corporate governance

A. Status of development of internal control system

a. Systems to ensure that the Group’s Directors and employees execute duties in compliance with laws and regulations and the Articles of Incorporation

(1) The Group considers compliance to be its highest priority and establishes rules relating to compliance to ensure that the Group’s officers and employees execute their duties in compliance with laws and regulations and the Articles of Incorporation and healthy social norms, implements initiatives such as providing training and a whistleblowing system, and develops systems under which any problems that arise are reported to the Company’s Board of Directors and Audit & Supervisory Board.

- (2) The Company is required to convene a meeting of the Board of Directors once a month, in principle, and on an ad hoc basis whenever necessary. At meetings of the Board of Directors, the Company makes decisions about the execution of the Group's important business and also supervises the execution of duties by Directors. The Company also seeks to ensure that Directors and employees comply with laws and regulations, the Articles of Incorporation, various regulations and stipulated business processes and it also works to strengthen risk management system and seeks to enhance internal control systems.
 - (3) The Company establishes the Internal Audit Department and builds a system of internal control through internal audits. The Internal Audit Department regularly conducts internal audits of the Group's business management and all its business activities, evaluates and verifies the state of compliance with laws and regulations, the Articles of Incorporation, various rules and stipulated business processes and reports to the Company's Board of Directors and to the Audit & Supervisory Board in a timely manner.
 - (4) For the purpose of strengthening independence, objectivity and accountability of the Board of Directors' functions related to Directors' nomination, remuneration and others, the Company sets up a voluntary Nomination and Remuneration Advisory Committee consisting of independent Outside Directors and other committee members as an advisory body subordinate to the Board of Directors. In response to consultation from the Board of Directors, the Nomination and Remuneration Advisory Committee discusses matters related to determination of candidates for Directors, selection of the Representative Directors and Directors with portfolio and remuneration of Directors and others and submits a report on the results to the Board of Directors.
- b. Systems for storage and management of information relating to the execution of duties by the Company's Directors
- (1) In accordance with the Document Management Rules, the Company records, stores and manages information relating to the execution of duties by Directors in the form of paper or electronic means, including the minutes of meetings of the Board of Directors and other important meetings and documents approved by each Director in accordance with the Rules on Administrative Authority. Directors may view these documents, etc. at any time.
 - (2) To ensure the effectiveness of internal audits, the Company establishes rules setting out the management method and storage period of important documents (including electronic media) relating to the execution of duties by Directors and stores and manages them in accordance with these rules.
- c. Rules and other systems relating to management of loss risks of the Group
- (1) To establish systems relating to management of loss risks of the Group, the Company establishes rules relating to the Group's risk management and raises awareness of these rules among Directors and employees.
 - (2) The Company establishes the Internal Audit Department. It regularly examines the appropriateness of the audit items and audit methods used in the Group's business audits and revises audit items and audit methods if necessary.
- d. Systems to ensure the effective and efficient execution of duties by the Group's Directors
- (1) To ensure the effective and efficient execution of duties by Directors, the Group formulates a business plan every fiscal year and verifies progress through monthly performance assessments.
 - (2) Regarding the execution of routine duties by Directors, the Board of Directors delegates authority for the execution of duties to employees in accordance with the Rules on Administrative Authority and Rules on the Segregation of Duties and these employees assume responsibility for efficient execution of the delegated duties.
- e. Systems for reporting to the Company matters related to the execution of duties by the Group's Directors
- (1) The Company conducts internal audits of its individual divisions and subsidiaries performed by the Internal Audit Department in accordance with the Internal Audit Rules, establishes internal control systems within the Group, and reports on the nature and frequency of risks within individual divisions and subsidiaries and their impact on the Company and others to the Board of Directors and the Audit & Supervisory Board of the Company in a timely manner.
 - (2) The Company makes it mandatory for each Group company to regularly report to the Company on its operating results, financial condition and certain other important matters related to management.
- f. Matters related to Directors and employees to assist the duties of the Audit & Supervisory Board
- Upon a request from the Audit & Supervisory Board for the assignment of employees required to assist the duties of the Audit & Supervisory Board, the Company promptly assigns the appropriate personnel.
- g. Matters related to the independence of Directors and employees required to assist the duties of the Audit & Supervisory Board from Directors (excludes said Directors and Directors who are Audit & Supervisory Board Members) and matters for ensuring the effectiveness of instructions to Directors and employees required to assist the duties of the Audit & Supervisory Board
- (1) Employees required to assist the duties of the Audit & Supervisory Board are only under the command of the Audit & Supervisory

Board with respect to the work they are instructed to do by the Audit & Supervisory Board.

- (2) The Company will listen to the opinions of the Audit & Supervisory Board before determining matters such as personnel transfers and personnel evaluations of employees required to assist the duties of the Audit & Supervisory Board.

h. Systems for reporting to the Audit & Supervisory Board

- (1) The Company's Directors report the status of execution of their duties at meetings of the Board of Directors attended by Audit & Supervisory Board Members and other important meetings as and when necessary.
- (2) The Directors and employees of the Group report to the Company's Audit & Supervisory Board any violations of laws and regulations and any fact that might be damaging to the Company immediately upon discovery thereof.
- (3) The division in charge of the Group's whistleblowing system regularly reports to the Audit & Supervisory Board the status of whistleblowing reports by Group officers and employees.

i. Systems to ensure that persons are not treated disadvantageously for making reports to the Audit & Supervisory Board Members

The Company does not permit Group officers or employees who have made reports to the Audit & Supervisory Board to be treated disadvantageously and makes this known to all officers and employees of the Group.

j. Matters regarding policy on handling advance payment or repayment of expenses resulting from execution of duties by Audit & Supervisory Board Members (only expenses related to the execution of duties of the Audit & Supervisory Board) or other expenses or debts arising from said execution of duties

If the Company receives a request for advance payment, etc., of expenses under the provisions of Article 399-2, Paragraph 4 of the Companies Act in relation to the performance of duties by a Member of the Audit & Supervisory Board, the Company, after discussions at the division in charge, immediately settles said expenses or debts, except where it is determined that said costs or debts were not necessary for the performance of duties by a Member of the Audit & Supervisory Board.

k. Other systems used to ensure that the Audit & Supervisory Board can conduct audits effectively

- (1) The Representative Director regularly holds meetings with the Audit & Supervisory Board to exchange views on matters such as issues to be addressed by the Company, the status of development of the environment for audits by Audit & Supervisory Board Members and important audit-related issues.
- (2) The Audit & Supervisory Board, the Internal Audit Department and the Accounting Auditor seek to improve the quality of audits by strengthening their cooperation through the mutual exchange of information and opinions where necessary.

l. Systems for eliminating antisocial forces

The Group maintains a firm stance to respond, as an organization, to any unjustified demands by antisocial forces and develops internal systems so that it does not have any business relationship or any other relationship whatsoever with antisocial forces.

B. Status of improvement of risk management system

The Company establishes Risk Management Rules and exercises integrated management in relation to business risks that might arise as a result of its business activities to prevent risks and deal with any risks that arise.

As a body preceded by the Board of Directors, the Executive Committee quickly grasps and discusses business risks, including the possibility of risks emerging, and makes reports to the Board of Directors where necessary.

The Audit & Supervisory Board conducts audits to assess whether the Board of Directors makes policy decisions and conducts monitoring and supervision in relation to business risks in an appropriate manner.

C. Status of development of systems for ensuring the appropriateness of operations of subsidiaries

The Company and Group companies have formulated a Corporate Code of Conduct based on the Group's management philosophy and make group-wide efforts to increase the corporate value of the entire group.

Regarding the business management of Group companies, Directors of the parent company serve concurrently as Directors of subsidiaries and are involved in important decision-making and gain an understanding of important information relating to their business. The Audit & Supervisory Board and persons in charge of internal audits also monitor Group companies and the Affiliated Company Management Rules stipulate systems through which Group companies seek approval from and report to the Company.

D. Quorum of Directors

The Articles of Incorporation of the Company stipulate that the Company shall have not more than six Directors (excluding Audit &

Supervisory Board Members) and that it shall have not more than four Directors who are Audit & Supervisory Board Members.

E. Requirements for resolutions of the election of Directors

The Articles of Incorporation of the Company stipulate that resolutions for the election of the Directors shall be made by a majority of voting rights of the shareholders in attendance who hold one-third (1/3) or more of the total voting rights of the shareholders who can exercise such rights. The Articles of Incorporation of the Company stipulate that resolutions for the election of Directors shall not be by cumulative voting.

F. Decision-making body for acquisition of treasury shares

To facilitate a flexible capital policy, the Articles of Incorporation of the Company stipulate that the Company may, by the resolution of the Board of Directors, acquire its own shares pursuant to Article 165, Paragraph 2 of the Companies Act.

G. Interim dividends

The Articles of Incorporation of the Company stipulate that the Company may, by a resolution of the Board of Directors, pay interim dividends with a record date of September 30 of each year, pursuant to Article 454, Paragraph 5 of the Companies Act. The aim is to enable flexibility in regard to return of profit to shareholders.

H. Content and outline of agreements for limitation of liability

In accordance with the provisions of Article 427, Paragraph 1 of the Companies Act, the Company concludes agreements with Directors who are Audit & Supervisory Board Members to limit the liability for damages pursuant to Article 423, Paragraph 1 of the Companies Act. The maximum amount of liability for compensation of damages under these agreements is the amount set forth in laws and regulations. Limitation of liability is allowed only if a Director who is an Audit & Supervisory Board Member was performing the duties said to be the cause of damages, in good faith and without gross negligence.

I. Exemption of Directors from liability

The Articles of Incorporation of the Company stipulate that the Company may, by resolution of the Board of Directors, exempt any Director prescribed in Article 423, Paragraph 1 of the Companies Act (including former directors) from liabilities to the extent provided in laws and regulations, for the reasonable limitation of Directors' liability.

J. Requirement for special resolutions of general shareholders meetings

The Articles of Incorporation of the Company stipulate that a special resolution of general meetings of shareholders as stipulated in Article 309, Paragraph 2 of the Companies Act shall be adopted by a two-thirds (2/3) majority vote of shareholders present at the meeting, at which shareholders representing at least one-third (1/3) of the total voting rights of all shareholders who are entitled to vote are present. The purpose is to relax the quorum for special resolutions at general meetings of shareholders to ensure the meetings proceed smoothly.

(2) Officers

(i) List of Officers

Men: 5 persons, Women: 1 person (Women's percentage to total number of officers: 17%)

| Title | Name | Date of birth | Business experience | | Term of office | Share ownership (shares) |
|---|------------------|-------------------|--|---|----------------|--------------------------|
| Representative Director, President and CEO | Toshio Dogu | February 17, 1968 | October 1997 October 2003 March 2005 November 2005 December 2006 April 2011 June 2012 May 2013 October 2013 October 2013 April 2014 November 2014 April 2015 November 2015 April 2016 April 2016 September 2016 April 2017 April 2018 October 2019 February 2020 | Representative Director, President & CEO, Digital Arts Inc. General Manager-Corporate Planning Director, IQS' Co., Ltd. Representative Director, President & CEO, IQS' Co., Ltd. Representative Director, President & CEO, DAM Corporation (incumbent) Director, President & CEO, Digital Arts America, Inc. (incumbent) Director, Digital Arts Investment, Inc. Representative Director, President & CEO, Polkast Japan LLC Representative Director, President & CEO, DA Corporation (incumbent) Representative Director, President & CEO, DM Corporation (incumbent) Director, President & CEO, FinalCode, Inc. Representative Director, President & CEO, General Manager-Sales, Digital Arts Inc. Representative Director, President & CEO, General Manager-Sales, General Manager-FinalCode Business Director, Digital Arts Asia Pacific Pte. Ltd. (incumbent) Representative Director, President & CEO, General Manager-Sales, Digital Arts Inc. Representative Director, Chairman, Digital Arts Consulting Inc. (incumbent) Director, Digital Arts Europe Limited (incumbent) Representative Director, President & CEO, General Manager-Sales, General Manager-Marketing, General Manager-Corporation Planning, Digital Arts Inc. Representative Director, President & CEO, General Manager-Sales, General Manager-Marketing Representative Director, President & CEO, General Manager-Sales, General Manager-Marketing, General Manager-Corporation Planning, General Manager- Administration Representative Director, President and CEO (incumbent) | (Note 2) | 2,403,063 |
| Director, General Manager-Development | Takuya Matsumoto | November 4, 1976 | April 1999 April 2003 April 2014 October 2016 June 2017 December 2017 April 2018 October 2019 | Joined COMAS Co., Ltd. Joined Digital Arts Inc., Development Associate General Manager-Development General Manager-Development Director, General Manager-Development Director, General Manager-Development, General Manager-New Development Director, General Manager-Development (incumbent) Director, Digital Arts Consulting Inc. (incumbent) | (Note 2) | 3,042 |
| Director (Audit & Supervisory Board Member) | Kiyoto Inomata | July 7, 1967 | April 1995 January 2003 July 2004 November 2005 April 2006 June 2007 June 2008 April 2011 April 2015 June 2020 June 2020 | Joined Tokyo Gas Co., Ltd. Personnel Dept. (Dispatched to Digital Arts Inc. for management training) Seconded to Energy Advance Co., Ltd. (currently Tokyo Gas Engineering Solutions Corporation) Joined Digital Arts Inc., Corporate Planning Deputy General Manager- Development General Manager-Corporate Planning Director, IQS' Co., Ltd. General Manager-Internal Audit, Digital Arts Inc. Associate General Manager-Development, General Manager-Quality Assurance Director (Audit & Supervisory Board Member), Digital Arts Inc. (incumbent) Auditor, Digital Arts Consulting Inc. (incumbent) | (Note 3) | 108 |

| Title | Name | Date of birth | Business experience | | Term of office | Share ownership (shares) |
|---|-------------------|-------------------|---|--|----------------|--------------------------|
| Director (Audit & Supervisory Board Member) | Hidekazu Kubokawa | February 20, 1953 | November 1976 July 1986 February 1989 March 2000 June 2005 June 2006 June 2016 | Joined Chuo Audit Corporation (currently PricewaterhouseCoopers Aarata LLC) Founded Kubokawa CPA Office (currently Yotsuya Partners Accounting Firm), Representative Partner (incumbent) Outside Audit & Supervisory Board Member, SoftBank Corp. Japan (currently SoftBank Group Corp.) Outside Auditor, Digital Arts Inc. Outside Corporate Auditor, Kyoritsu Printing Co., Ltd. (incumbent) Outside Auditor, Pado Corporation Outside Director (Audit & Supervisory Board Member), Digital Arts Inc. (incumbent) | (Note 3) | 3,433 |
| Director (Audit & Supervisory Board Member) | Masataka Uesugi | July 31, 1965 | April 1995 April 1999 September 2000 June 2003 June 2003 December 2013 November 2014 March 2015 March 2016 June 2016 | Joined Emori Kawamori Atsumi Law Office Founded Uesugi Law Office Partner of Amlec Law and Accounting Firm Outside Auditor, Digital Arts Inc. Outside Auditor, Commerce One Holdings Inc. (incumbent) Outside Audit & Supervisory Board Member, Ceres Inc. (incumbent) Outside Audit & Supervisory Board Member, Aiming Inc. (incumbent) Senior Partner, Sakurada Dori Partners (incumbent) Director (Audit & Supervisory Committee Member), Fullcast Holdings Co., Ltd. (incumbent) Outside Director (Audit & Supervisory Board Member), Digital Arts Inc. (incumbent) | (Note 3) | 3,433 |
| Director (Audit & Supervisory Board Member) | Chise Kuwayama | May 2, 1971 | April 1995 November 2004 August 2008 March 2015 March 2021 June 2021 | Joined Dai-ichi Mutual Life Insurance Company (currently, The Dai-ichi Life Insurance Co., Ltd.) Joined Tohmatsu & Co. (currently, Deloitte Touche Tohmatsu LLC) Registered as a certified public accountant Outside Standing Audit and Supervisory Board Member, Ceres Inc. Outside Director (Full-time Audit and Supervisory Board Member), Ceres Inc. (incumbent) Outside Director (Audit & Supervisory Board Member), Digital Arts Inc. (incumbent) | (Note 4) | — |
| Total | | | | | | 2,413,079 |

- (Notes) 1. Audit & Supervisory Board Members Hidekazu Kubokawa, Masataka Uesugi and Chise Kuwayama are Outside Directors.
2. The term of office shall expire at the conclusion of the Annual General Meeting of Shareholders pertaining to the last business year ending within one (1) year after the conclusion of the Annual General Meeting of Shareholders held on June 22, 2021.
3. The term of office shall expire at the conclusion of the Annual General Meeting of Shareholders pertaining to the last business year ending within two (2) years after the conclusion of the Annual General Meeting of Shareholders held on June 19, 2020.
4. The term of office shall expire at the conclusion of the Annual General Meeting of Shareholders pertaining to the last business year ending within one (1) year after the conclusion of the Annual General Meeting of Shareholders held on June 22, 2021.
5. The number of shares held includes shares of stock in Digital Arts Inc.'s officers' shareholding association.
6. The Company has elected a substitute for a Director who is an Audit & Supervisory Board Member stipulated in Article 329, Paragraph 3 of the Companies Act in advance to prepare for cases where the number of Directors who are Audit & Supervisory Board Members falls below the number stipulated by laws and regulations. The career history of the substitute for a Director who is an Audit & Supervisory Board Member is as follows.

| Name | Date of birth | Business experience | | Share ownership (shares) |
|--------------|----------------|---|---|--------------------------|
| Komei Sasaki | March 15, 1966 | August 1999 May 2003 June 2004 April 2005 March 2015 June 2016 | Partner Attorney, Tokyo Ginza Law Office Partner of Amlec Law and Accounting Firm Outside Auditor, TAKE AND GIVE NEEDS Co., Ltd. Director, Junior College Accreditation Association (currently Japan Association for College Accreditation) (incumbent) Senior Partner, Sakurada Dori Partners (incumbent) Outside Director, TAKE AND GIVE NEEDS Co., Ltd. (incumbent) | — |

(ii) Information about Outside Officers

The Company has two Outside Directors.

Outside Director Hidekazu Kubokawa holds 3,433 shares of the Company's stock as of March 31, 2021, but there are no other special interests between Mr. Kubokawa and the Company. Mr. Kubokawa is a Representative Partner of Yotsuya Partners Accounting Firm but there are no special interests between Yotsuya Partners Accounting Firm and the Company.

Outside Director Masataka Uesugi holds 3,433 shares of the Company's stock as of March 31, 2021, but there are no other special interests between Mr. Uesugi and the Company. Mr. Uesugi is a Partner of Sakurada Dori Partners but there are no special interests between Sakurada Dori Partners and the Company.

Outside Director Chise Kuwayama holds no shares of the Company's stock as of March 31, 2021 and has no special interests in the Company.

The Company elects Outside Directors to ensure the objectivity and neutrality of supervisory functions of management. While the Company has not established standards or a policy for judging the independence of Outside Directors, it refers to the requirements for independence stipulated by the Tokyo Stock Exchange when electing Outside Directors. The Outside Directors have the function of auditing the execution of duties by Directors from the perspectives of legality and appropriateness, based on their independence and specialist knowledge.

(iii) Mutual Collaboration between Audits or Supervision by Outside Officers, Audits by the Audits & Supervisory Board and Account Audits and Relationship with Internal Control Department

Together with Directors who are Standing Audit & Supervisory Board Members, the Outside Directors receive detailed reports on important events and risk factors as part of the results of internal audits conducted on a regular basis by Internal Auditors.

In the case of the accounting auditor's audit of quarterly and annual financial statements, Audit & Supervisory Board Members are required to receive detailed reports on the status of audits from the certified public accountants who performed the operations and assistants involved in the audit operations. Internal Auditors report the status of internal controls, etc. to Outside Directors via the Board of Directors where necessary. The Company has registered Messrs. Hidekazu Kubokawa, Masataka Uesugi and Chise Kuwayama with the Tokyo Stock Exchange as independent officers as defined by the Tokyo Stock Exchange.

(3) Information about Audits

(i) Information about Audits of Audit & Supervisory Board Members

The Company's organization for audits of Audit & Supervisory Board Members is comprised of four Audit & Supervisory Board Members.

Standing Audit & Supervisory Board Member Kiyoto Inomata has long been working for corporate departments and the Internal Audit Department. He is familiar with overall matters of the Group's businesses and has extensive knowledge of business management.

Audit & Supervisory Board Member Hidekazu Kubokawa is a certified public accountant and tax accountant, Audit & Supervisory Board Member Masataka Uesugi is an attorney, and Chise Kuwayama is a certified public accountant.

In the fiscal year under review, the Company held meetings of the Audit & Supervisory Board once a month, in principle. Attendance of individual Audit & Supervisory Board Members was as follows.

| | Name | Number of meetings convened | Number of meetings attended |
|---|-------------------|-----------------------------|-----------------------------|
| Standing Audit & Supervisory Board Member | Kiyoto Inomata | 8 | 8 |
| Outside Audit & Supervisory Board Member | Hidekazu Kubokawa | 13 | 13 |
| Outside Audit & Supervisory Board Member | Masataka Uesugi | 13 | 13 |

Important matters considered at meetings of the Audit & Supervisory Board included the formulation of audit plans, the preparation of audit reports, evaluation of re-appointment of the Accounting Auditor, and agreement on fees paid to the Accounting Auditor.

Important activities carried out by Audit & Supervisory Board Members included gathering information about the implementation status of internal audits from those in charge, exchanging opinions with/ gathering information from the Accounting Auditor, requesting reports from other relevant departments where necessary, and gathering information about the status of execution of the Company's business.

(ii) Information about Internal Audits

The Company's Internal Audit Department consists of one person in charge of internal audits.

When conducting internal audits, the person in charge of internal audits is required to formulate an annual plan and conduct audits based upon collaboration and the exchange of opinions with the accounting auditor and Audit & Supervisory Board Members. The person in charge of internal audits is required to prepare a report on the audit results, report the results to the Representative Director and also report them to Audit & Supervisory Board Members.

(iii) Information about Accounting Audit

A. Name of audit corporation

BDO Sanyu & Co.

B. Tenure

21 years

C. Certified public accountants who execute operations

Mr. So Nomura

Mr. Koji Kumagai

D. Composition of assistants with audit operations

Assistants with the Company's accounting audit operations mainly comprise three certified public accountants, three persons who have passed accountant examinations and one other person.

E. Policy and reasons for selection of audit corporation

If the accounting auditor has committed a serious violation or breach of laws and regulations such as the Companies Act or the Certified Public Accountants Act or if it is deemed difficult for the accounting auditor to conduct an audit properly, the Audit & Supervisory Board examines dismissing or not reappointing the accounting auditor. If, as a result of its examination, the Audit & Supervisory Board judges that it is appropriate to dismiss or not to reappoint the accounting auditor, the Audit & Supervisory Board puts forward a proposal for the dismissal or non-reappointment of the accounting auditor to the general meeting of shareholders. The Audit & Supervisory Board also examines each period whether reappointment of the accounting auditor is appropriate and whether the status of execution of duties, the audit systems, independence, etc. of the accounting auditor are appropriate. If as a result of its examination, no major problems are found, the Audit & Supervisory Board conducts an evaluation of the accounting auditor and judges that reappointment is appropriate.

F. Evaluation of audit corporation by Audit & Supervisory Board

The Company's Audit & Supervisory Board conducts an evaluation of the audit corporation by receiving reports from the audited executive divisions, asking the audit corporation about results of inspections by the supervisory authorities and its internal quality control systems and comprehensively examining whether the audit corporation maintains the quality of audits and conducts audits properly through witnessing onsite audits.

(iv) Audit Fees

A. Fees paid to certified public accountants, etc.

| Category | Previous fiscal year | | Fiscal year under review | |
|---------------------------|---------------------------------------|---|---------------------------------------|---|
| | Fees for audit services (million yen) | Fees for non-audit services (million yen) | Fees for audit services (million yen) | Fees for non-audit services (million yen) |
| Reporting company | 19 | — | 19 | — |
| Consolidated subsidiaries | — | — | — | — |
| Total | 19 | — | 19 | — |

B. Fees paid to other accountants belonging to the same network as the certified public accountants, etc. (excluding A.)

Not applicable.

C. Details of other major fees for audit and attestation services

Not applicable.

D. Policy on determination of audit fees

Regarding the Company's policy on determination of audit fees for certified public accountants, etc., the Company requests only audit services, and audit fees are determined in an appropriate manner, taking into consideration factors such as the duration of the audit, the Company's business scale and the characteristics of its operations.

E. Reasons why the Audit & Supervisory Board consented to the fees, etc. of the accounting auditor

The Audit & Supervisory Board gave consent for the fees, etc. of the accounting auditor proposed by the Board of Directors under Article 399, Paragraphs 1 and 3 of the Companies Act, because, having confirmed the status of execution of duties and actual fees of the accounting auditor in the previous business year by obtaining necessary materials and asking for reports from the Board of Directors, relevant internal divisions and the accounting auditor and having examined the content of the audit plan and the appropriateness of the basis for calculation of estimated fees for the current business year, it judged these fees, etc. to be appropriate.

(4) Compensation to Directors and Executive Officers

(i) Matters Related to Policy for Determining the Amount and Method of Calculation of Compensation to Directors and Executive Officers

According to the Company's basic policy on remuneration for its Directors (excluding those who are Audit & Supervisory Board Members), a remuneration system must function as an incentive to continuously increase the corporate value as a whole and remuneration for each Director is to be determined at an appropriate level in consideration of their duties. Specifically, the base remuneration for the Company's Directors is fixed on a monthly basis. The Company pays remuneration in overall consideration of the Company's business results, status of management, social circumstances, degree of contribution according to their duties, number of years of service and the levels of remuneration at other companies. The Company's non-monetary remuneration for Directors include (1) the provision of share acquisition rights for the Company's common shares, and (2) the allotment of shares subject to transfer restrictions for a predetermined period and the Company's rules on events for acquisition without contribution (hereinafter referred to as "Shares with Restrictions on Transfer"). In consultation with the Board of Directors, the Nomination and Remuneration Advisory Committee discusses the policy on determination and builds a consensus in the committee. The Board of Directors then makes a decision. The remuneration amount of a Director who is an Audit & Supervisory Board Member is fixed remuneration that takes into consideration factors such as whether the post is full-time or part-time, duties and authority. It is not linked to corporate performance and is determined by resolution of the Audit & Supervisory Board.

Details about the amount of remuneration for individual Directors (excluding Directors who are Audit & Supervisory Board Members) are determined by the President and Representative Director in accordance with a resolution adopted by the Board of Directors to delegate this authority to the President and Representative Director. To ensure the fairness and transparency of the examination process, the Nomination and Remuneration Advisory Committee discusses the proposal on remuneration created by the President and Representative Director within the remuneration limit approved by the General Meeting of Shareholders at the request of the Board of Directors. On the basis of the views coordinated by the committee, the President and Representative Director makes a decision.

The remuneration limit for Directors (excluding Directors who are Audit & Supervisory Board Members) is set at 300 million yen per year, excluding the portion of the employee salary for Directors serving as employees, according to a resolution adopted by the 21st Annual Shareholders' Meeting on June 24, 2016. As of the close of this Annual Shareholders' Meeting, the Company had two Directors, excluding Directors who are Audit & Supervisory Board Members.

Apart from the remuneration mentioned above, a resolution has been adopted according to which the total monetary remuneration claims to Directors (excluding Directors who are Audit & Supervisory Board Members) as remuneration concerned with the Shares with Restrictions on Transfer are capped at 50 million yen per year in overall consideration of the degree of contribution and other factors. With a commission of authority, the Board of Directors makes decisions on the actual allotment of Shares with Restrictions on Transfer

in overall consideration of the degree of contribution to the Company and other factors of individual Directors concerned.

The Company's 21st Annual Shareholders' Meeting on June 24, 2016 adopted a resolution to set the limit of remuneration for Directors who are Audit & Supervisory Board Members at 100 million yen per year. As of the close of this Annual Shareholders' Meeting, the Company had three Directors who were Audit & Supervisory Members, including two Outside Directors.

(ii) Total Amount of Remuneration, etc. for Each Executive Officer Category, Total Amount of Remuneration, etc. by Type and Number of Executive Officers

| Category of officers | Total amount of remuneration (million yen) | Total amount of remuneration, etc. by type (million yen) | | Number of eligible officers |
|--|--|--|---------------|-----------------------------|
| | | Basic remuneration | Stock options | |
| Directors (excludes Audit & Supervisory Board Members and Outside Directors) | 56 | 56 | — | 2 |
| Directors who are Audit & Supervisory Board Members (excludes Outside Directors) | 12 | 12 | — | 2 |
| Outside Directors | 7 | 7 | — | 2 |

(iii) Total Amount of Remuneration Paid by Group to Each Officer

Not stated because there are no persons whose total amount of consolidated remuneration, etc. is 100 million yen or more.

(iv) Employees Salary of Officers Who also Hold Employee Posts

| Total amount (million yen) | Officers who also hold employee posts (people) | Description |
|----------------------------|--|--|
| 14 | 1 | Salary as consideration for services rendered. |

(5) Information on Shareholdings

Not applicable.

Section V. Financial Information

1. Method of Preparation of Consolidated Financial Statements and Non-consolidated Financial Statements

(1) The consolidated financial statements of the Company are prepared in compliance with the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976).

(2) The non-consolidated financial statements of the Company are prepared in compliance with the Ordinance on Terminology, Forms, and Preparation Methods of Financial Statements (Ordinance of the Ministry of Finance No. 59 of 1963; hereinafter referred to as the “Ordinance on Non-Consolidated Financial Statements”).

Because the Company is classified as a company that prepares its financial statements pursuant to special provisions, the non-consolidated financial statements are prepared as provided in Article 127 of the Ordinance on Non-Consolidated Financial Statements.

(3) The figures in the Company's consolidated financial statements, individual items and other figures have been traditionally expressed in thousands of yen. From the consolidated fiscal year under view onwards, the figures are expressed in millions of yen.

2. Audit Certification

The Company underwent an audit by BDO Sanyu & Co. of the consolidated financial statements for the consolidated fiscal year (from April 1, 2020 to March 31, 2021) and the non-consolidated financial statements for the fiscal year (from April 1, 2020 to March 31, 2021) in compliance with the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

3. Specific Efforts to Secure the Appropriateness of the Consolidated Financial Statements, etc.

The Company has undertaken specific measures to secure the appropriateness of its consolidated financial statements, etc. The Company is a member of the Financial Accounting Standards Foundation (FASF) and endeavors to gather information to properly understand accounting standards and develop systems that enable it to ensure the appropriateness of consolidated financial statements.

The Company also actively participates in seminars held by the FASF.

1. Consolidated Financial Statements

(1) Consolidated Financial Statements

(i) Consolidated Balance Sheet

(Million yen)

| | Fiscal 2020 (As of March 31, 2020) | Fiscal 2021 (As of March 31, 2021) |
|--|---------------------------------------|---------------------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 7,651 | 11,382 |
| Notes and accounts receivable - trade | 994 | 1,268 |
| Finished goods | 0 | 0 |
| Supplies | 0 | 3 |
| Other | 85 | 70 |
| Total current assets | 8,733 | 12,725 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings | 215 | 220 |
| Accumulated depreciation | (115) | (127) |
| Buildings, net | 100 | 92 |
| Vehicles | 17 | 18 |
| Accumulated depreciation | (12) | (4) |
| Vehicles, net | 4 | 14 |
| Tools, furniture and fixtures | 443 | 469 |
| Accumulated depreciation | (325) | (369) |
| Tools, furniture and fixtures, net | 117 | 99 |
| Land | 26 | 26 |
| Construction in progress | 0 | 0 |
| Total property, plant and equipment | 249 | 233 |
| Intangible assets | | |
| Software | 1,331 | 1,274 |
| Other | 79 | 128 |
| Total intangible assets | 1,410 | 1,403 |
| Investments and other assets | | |
| Investment securities | 102 | 102 |
| Deferred tax assets | 85 | 123 |
| Shares of subsidiaries and associates | *1 1 | - |
| Other | 269 | 268 |
| Total investments and other assets | 458 | 493 |
| Total non-current assets | 2,118 | 2,130 |
| Total assets | 10,852 | 14,856 |

(Million yen)

| | Fiscal 2020 (As of March 31, 2020) | Fiscal 2021 (As of March 31, 2021) |
|--|---------------------------------------|---------------------------------------|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 32 | 32 |
| Income taxes payable | 469 | 688 |
| Provision for bonuses | 119 | 194 |
| Advances received | 1,229 | 3,370 |
| Other | 274 | 456 |
| Total current liabilities | 2,125 | 4,743 |
| Non-current liabilities | | |
| Asset retirement obligations | 45 | 48 |
| Other | 0 | 1 |
| Total non-current liabilities | 46 | 50 |
| Total liabilities | 2,172 | 4,793 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 713 | 713 |
| Capital surplus | 972 | 963 |
| Retained earnings | 7,340 | 8,699 |
| Treasury shares | (380) | (342) |
| Total shareholders' equity | 8,646 | 10,034 |
| Accumulated other comprehensive income | | |
| Foreign currency translation adjustment | 6 | 7 |
| Total accumulated other comprehensive income | 6 | 7 |
| Share acquisition rights | 18 | 8 |
| Non-controlling interests | 9 | 12 |
| Total net assets | 8,680 | 10,062 |
| Total liabilities and net assets | 10,852 | 14,856 |

(ii) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Consolidated Statement of Income

(Million yen)

| | Fiscal 2020 (from April 1, 2019 to March 31, 2020) | Fiscal 2021 (from April 1, 2020 to March 31, 2021) |
|---|--|--|
| Net sales | 5,641 | 6,825 |
| Cost of sales | 1,361 | 1,946 |
| Gross profit | 4,280 | 4,878 |
| Selling, general and administrative expenses | *1, *2 1,952 | *1, *2 1,900 |
| Operating profit | 2,328 | 2,977 |
| Non-operating income | | |
| Interest income | 0 | 0 |
| Foreign exchange gains | – | 7 |
| Commission income | 0 | – |
| Gain on forfeiture of unclaimed dividends | 0 | 1 |
| Subsidy income | 0 | 3 |
| Miscellaneous income | 1 | 1 |
| Total non-operating income | 4 | 14 |
| Non-operating expenses | | |
| Foreign exchange losses | 4 | – |
| Miscellaneous loss | 0 | 0 |
| Total non-operating expenses | 5 | 0 |
| Ordinary profit | 2,326 | 2,991 |
| Extraordinary income | | |
| Gain on reversal of share acquisition rights | 0 | 9 |
| Gain on sales of non-current assets | – | *3 3 |
| Total extraordinary income | 0 | 12 |
| Extraordinary losses | | |
| Loss on retirement of non-current assets | *4 0 | *4 0 |
| Loss on valuation of golf club membership | 1 | – |
| Loss on liquidation of subsidiaries | – | *5 2 |
| Total extraordinary losses | 1 | 2 |
| Profit before income taxes | 2,326 | 3,001 |
| Income taxes - current | 740 | 977 |
| Income taxes - deferred | (4) | (37) |
| Total income taxes | 735 | 939 |
| Profit | 1,590 | 2,062 |
| Profit (loss) attributable to non-controlling interests | (0) | 2 |
| Profit attributable to owners of parent | 1,590 | 2,059 |

Consolidated Statement of Comprehensive Income

(Million yen)

| | Fiscal 2020 (from April 1, 2019 to March 31, 2020) | Fiscal 2021 (from April 1, 2020 to March 31, 2021) |
|--|--|--|
| Profit | 1,590 | 2,062 |
| Other comprehensive income | | |
| Foreign currency translation adjustment | (2) | 1 |
| Total other comprehensive income | *1 (2) | *1 1 |
| Comprehensive income | 1,587 | 2,063 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 1,588 | 2,061 |
| Comprehensive income attributable to non-controlling interests | (0) | 2 |

(iii) Consolidated Statement of Changes in Equity

Fiscal 2020 (from April 1, 2019 to March 31, 2020)

(Million yen)

| | Shareholders' equity | | | | | Accumulated other comprehensive income | | Share acquisition rights | Non-controlling interests | Total net assets |
|---|----------------------|-----------------|-------------------|-----------------|----------------------------|---|--|--------------------------|---------------------------|------------------|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity | Foreign currency translation adjustment | Total accumulated other comprehensive income | | | |
| Balance at beginning of period | 713 | 827 | 6,518 | (306) | 7,752 | 8 | 8 | 23 | 18 | 7,802 |
| Changes during period | | | | | | | | | | |
| Dividends of surplus | | | (768) | | (768) | | | | | (768) |
| Change in ownership interest of parent due to transactions with non-controlling interests | | (0) | | | (0) | | | | | (0) |
| Profit attributable to owners of parent | | | 1,590 | | 1,590 | | | | | 1,590 |
| Disposal of treasury shares | | 144 | | 226 | 370 | | | | | 370 |
| Purchase of treasury shares | | | | (299) | (299) | | | | | (299) |
| Net changes in items other than shareholders' equity | | | | | | (2) | (2) | (5) | (8) | (16) |
| Total changes during period | – | 144 | 822 | (73) | 893 | (2) | (2) | (5) | (8) | 877 |
| Balance at end of period | 713 | 972 | 7,340 | (380) | 8,646 | 6 | 6 | 18 | 9 | 8,680 |

Fiscal 2021 (from April 1, 2020 to March 31, 2021)

(Million yen)

| | Shareholders' equity | | | | | Accumulated other comprehensive income | | Share acquisition rights | Non-controlling interests | Total net assets |
|---|----------------------|-----------------|-------------------|-----------------|----------------------------|---|--|--------------------------|---------------------------|------------------|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity | Foreign currency translation adjustment | Total accumulated other comprehensive income | | | |
| Balance at beginning of period | 713 | 972 | 7,340 | (380) | 8,646 | 6 | 6 | 18 | 9 | 8,680 |
| Changes during period | | | | | | | | | | |
| Dividends of surplus | | | (700) | | (700) | | | | | (700) |
| Change in ownership interest of parent due to transactions with non-controlling interests | | | | | – | | | | | – |
| Profit attributable to owners of parent | | | 2,059 | | 2,059 | | | | | 2,059 |
| Disposal of treasury shares | | (8) | | 37 | 29 | | | | | 29 |
| Purchase of treasury shares | | | | (0) | (0) | | | | | (0) |
| Net changes in items other than shareholders' equity | | | | | | 1 | 1 | (9) | 2 | (5) |
| Total changes during period | – | (8) | 1,358 | 37 | 1,387 | 1 | 1 | (9) | 2 | 1,382 |
| Balance at end of period | 713 | 963 | 8,699 | (342) | 10,034 | 7 | 7 | 8 | 12 | 10,062 |

(iv) Consolidated Statement of Cash Flows

(Million yen)

| | Fiscal 2020 (from April 1, 2019 to March 31, 2020) | Fiscal 2021 (from April 1, 2020 to March 31, 2021) |
|---|--|--|
| Cash flows from operating activities | | |
| Profit before income taxes | 2,326 | 3,001 |
| Depreciation | 805 | 859 |
| Loss on valuation of golf club membership | 1 | – |
| Increase (decrease) in provision for bonuses | (8) | 74 |
| Interest income | (0) | (0) |
| Foreign exchange losses (gains) | 3 | (9) |
| Gain on reversal of share acquisition rights | (0) | (9) |
| Loss on retirement of non-current assets | 0 | 0 |
| Loss (gain) on sales of non-current assets | – | (3) |
| Loss (gain) on liquidation of subsidiaries | – | 2 |
| Decrease (increase) in trade receivables | 181 | 1,867 |
| Decrease (increase) in inventories | (1) | (2) |
| Increase (decrease) in trade payables | 9 | 0 |
| Increase (decrease) in accounts payable - other | (7) | 15 |
| Decrease (increase) in other current assets | 5 | 9 |
| Increase (decrease) in other current liabilities | (31) | 165 |
| Other, net | 11 | 6 |
| Subtotal | 3,297 | 5,977 |
| Interest and dividends received | 1 | 0 |
| Income taxes paid | (612) | (757) |
| Net cash provided by (used in) operating activities | 2,686 | 5,221 |
| Cash flows from investing activities | | |
| Decrease (increase) in time deposits | 600 | – |
| Purchase of property, plant and equipment | (45) | (48) |
| Proceeds from sale of property, plant and equipment | – | 6 |
| Purchase of intangible assets | (740) | (787) |
| Proceeds from redemption of securities | 300 | – |
| Liquidation of subsidiaries | – | (1) |
| Other, net | (3) | – |
| Net cash provided by (used in) investing activities | 111 | (830) |
| Cash flows from financing activities | | |
| Proceeds from disposal of treasury shares | 366 | 28 |
| Purchase of treasury shares | (300) | (0) |
| Purchase of shares from non-controlling shareholders | (7) | – |
| Dividends paid | (767) | (699) |
| Net cash provided by (used in) financing activities | (709) | (671) |
| Effect of exchange rate change on cash and cash equivalents | (5) | 10 |
| Net increase (decrease) in cash and cash equivalents | 2,082 | 3,730 |
| Cash and cash equivalents at beginning of period | 5,569 | 7,651 |
| Cash and cash equivalents at end of period | *1 7,651 | *1 11,382 |

Notes

(Notes on the premise of a going concern)

Not applicable.

(Significant matters that serve as the basis for the preparation of consolidated financial statements)

1. Matters related to the scope of consolidation

(1) Number of consolidated subsidiaries: 4

Names of consolidated subsidiaries

Digital Arts Consulting Inc.

Digital Arts America, Inc.

Digital Arts Asia Pacific Pte. Ltd.

Digital Arts Europe Limited

(2) Names, etc. of non-consolidated subsidiaries

Not applicable.

Liquidation of Digital Arts Investment, Inc., which was a non-consolidated subsidiary in the previous consolidated fiscal year, was completed in the consolidated fiscal year under review.

2. Matters related to the application of the equity method

(1) Number of non-consolidated subsidiaries to which the equity method is applied: —

(2) Names, etc. of non-consolidated subsidiaries to which the equity method is not applied

Not applicable.

Liquidation of Digital Arts Investment, Inc., which was a non-consolidated subsidiary in the previous consolidated fiscal year, was completed in the consolidated fiscal year under review.

3. Fiscal years of consolidated subsidiaries

The fiscal year end of all consolidated subsidiaries is the same as the end of the consolidated fiscal year.

4. Matters related to accounting policies

(1) Valuation standards and valuation methods for significant assets

A. Securities

(a) Bonds held for maturity

The amortized cost method (interest method) is applied.

(b) Shares of subsidiaries and associates

The moving average cost method is applied.

B. Inventories

(a) Finished goods

The gross average cost method is applied. (The balance sheet amount is calculated by the book value write-down method based on reduction in profitability.)

- (2) Depreciation/amortization method for significant depreciable/amortizable assets
- A. Property, plant and equipment
- The declining balance method is applied.
- The useful life and the residual value are calculated based on the same standards as those set out in the Corporation Tax Act. The straight-line method is applied for facilities attached to buildings acquired on April 1, 2016 or later.
- B. Intangible assets
- The straight-line method is applied.
- The straight-line method based on the availability period in the company (five years) is used for software in the company. For software for sale in the market, a method based on estimated sales quantities (or revenue) or the remaining lifetime (three years) is used.
- C. Long-term prepaid expenses
- The straight-line method is applied.
- The amortization period is calculated based on the same standards as those set out in the Corporation Tax Act.
- (3) Standards for recognition of significant allowances
- A. Provision for bonuses
- For the payment of employees' bonuses, of the estimated payment amount, the amount to be paid in the consolidated fiscal year under review is posted.
- (4) Standards for translating significant assets or liabilities that are in foreign currency into yen
- Monetary claims and obligations in foreign currency are translated into yen using the spot exchange rate on the consolidated settling day, and translation adjustments are treated as a profit or loss. Assets and liabilities at overseas subsidiaries, etc. are translated into yen using the spot exchange rate on the consolidated settling day. Revenue and expense are translated into yen using the average rate during the period, and translation adjustments are included in the foreign currency translation adjustment in net assets.
- (5) Scope of funds in the consolidated statement of cash flows
- Funds in the consolidated statement of cash flows (cash and cash equivalents) consist of cash on hand, deposits that can be withdrawn as needed, and short-term investments that can be realized easily and only have insignificant value fluctuation risk and whose redemption date arrives within three months of the acquisition date.
- (6) Other significant matters that serve as a basis for the preparation of consolidated financial statements
- A. Treatment of consumption tax
- Consumption tax and local consumption tax are excluded from accounting. Non-recoverable consumption tax and local consumption tax are treated as expenses in the consolidated fiscal year under review.

(Issued but not yet adopted accounting standards)

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)

(1) Overview

An entity is required to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To recognize revenue in accordance with these basic principles, an entity applies the following five steps:

(i) Identify the contract with the customer.

(ii) Identify the performance obligations in the contract.

(iii) Calculate the value of the transaction.

(iv) Allocate the transaction value to the performance obligations in the contract.

(v) Recognize the revenue when the corresponding performance obligation has been satisfied or is going to be satisfied.

(2) Scheduled date of application

The Company and its consolidated subsidiaries will apply the accounting standard from the beginning of the consolidated fiscal year ending March 31, 2022.

(3) Impacts of the application of the relevant accounting standards

Application of the Accounting Standard for Revenue Recognition and others has minor impacts on the consolidated financial statements at the moment.

(Changes in presentation methods)

(Consolidated statement of income)

Subsidy income, which was included in miscellaneous income under non-operating income in the previous consolidated fiscal year, began to be presented independently in the consolidated fiscal year under review because it became more important than before. Consolidated financial statements for the previous consolidated fiscal year were reclassified to reflect this change in presentation methods.

As a result, the 2 million yen, which was presented as miscellaneous income under non-operating income in the consolidated statement of income for the previous consolidated fiscal year, has been reclassified into 0 million yen as subsidy income and 1 million yen as miscellaneous income.

(A change in unit used for presentation)

In the consolidated fiscal year under review, amounts of money began to be presented in millions of yen instead of the previous thousands of yen.

(Consolidated balance sheet)

*1. The item related to non-consolidated subsidiaries is as follows.

| | Fiscal 2020 (As of March 31, 2020) | Fiscal 2021 (As of March 31, 2021) |
|---------------------------------------|---------------------------------------|---------------------------------------|
| Shares of subsidiaries and associates | 1 | - |

(Consolidated statement of income)

*1. The major items of selling, general and administrative expenses and the amounts are as follows.

| | Fiscal 2020 (from April 1, 2019 to March 31, 2020) | Fiscal 2021 (from April 1, 2020 to March 31, 2021) |
|-------------------------|--|--|
| Advertising expenses | 207 | 168 |
| Salaries and allowances | 580 | 631 |
| Provision for bonuses | 64 | 110 |

(Changes in presentation methods)

Commission expenses were presented as a principal item for the previous consolidated fiscal year. They are not presented as such for the consolidated fiscal year under review. This reflects deterioration of their significance in terms of amount. For information, 108 million yen was recorded as commission expenses for the previous consolidated fiscal year.

*2. Total amount of research and development expenses included in general and administrative expenses are as follows.

| | Fiscal 2020 (from April 1, 2019 to March 31, 2020) | Fiscal 2021 (from April 1, 2020 to March 31, 2021) |
|--|--|--|
| | 0 | 1 |

*3. The details of gain on sales of non-current assets are as follows.

| | Fiscal 2020 (from April 1, 2019 to March 31, 2020) | Fiscal 2021 (from April 1, 2020 to March 31, 2021) |
|----------|--|--|
| Vehicles | - | 3 |

*4. The details of loss on retirement of non-current assets are as follows.

| | Fiscal 2020 (from April 1, 2019 to March 31, 2020) | Fiscal 2021 (from April 1, 2020 to March 31, 2021) |
|-------------------------------|--|--|
| Tools, furniture and fixtures | 0 | 0 |

*5. Details of the loss on liquidation of subsidiaries are as follows.

Fiscal 2020 (from April 1, 2019 to March 31, 2020)

Not applicable.

Fiscal 2021 (from April 1, 2020 to March 31, 2021)

The loss on liquidation of subsidiaries resulted from the completion of the liquidation of Digital Arts Investment, Inc.

(Consolidated statements of comprehensive income)

*1. Reclassification adjustment and tax effect related to other comprehensive income

(Million yen)

| | Fiscal 2020 (from April 1, 2019 to March 31, 2020) | Fiscal 2021 (from April 1, 2020 to March 31, 2021) |
|--|--|--|
| Foreign currency translation adjustment | | |
| Amount that occurred in the fiscal year under review | (2) | 1 |
| Reclassification adjustment | — | — |
| Before tax effect adjustment | (2) | 1 |
| Tax effect | — | — |
| Foreign currency translation adjustment | (2) | 1 |
| Total other comprehensive income | (2) | 1 |

(Consolidated statement of changes in equity)

Fiscal 2020 (from April 1, 2019 to March 31, 2020)

1. Class and number of issued shares and class and number of treasury shares

| | Number of shares at beginning of consolidated fiscal year under review | Increase in number of shares during consolidated fiscal year under review | Decrease in number of shares during consolidated fiscal year under review | Number of shares at end of consolidated fiscal year under review |
|----------------------|--|---|---|--|
| Issued shares | | | | |
| Common shares | 14,133,000 | — | — | 14,133,000 |
| Total | 14,133,000 | — | — | 14,133,000 |
| Treasury shares | | | | |
| Common shares (Note) | 232,320 | 49,422 | 165,700 | 116,042 |
| Total | 232,320 | 49,422 | 165,700 | 116,042 |

(Note) An increase in the number of common shares in treasury shares, 49,422, is due to an increase of 49,400 due to the purchase of treasury shares based on a resolution of the Board of Directors and an increase of 22 due to the purchase of shares constituting less than one full unit. A decrease in the number of treasury shares, 165,700, is due to the exercise of stock options.

2. Matters related to share acquisition rights and treasury share acquisition rights

| Category | Breakdown of share acquisition rights | Class of shares to be acquired upon exercise of share acquisition rights | Number of shares to be acquired upon exercise of share acquisition rights | | | | Amount at end of fiscal year under review (million yen) |
|------------------------------------|---|--|---|--|--|---------------------------------|---|
| | | | Beginning of fiscal year under review | Increase during fiscal year under review | Decrease during fiscal year under review | End of fiscal year under review | |
| Reporting company (parent company) | Share acquisition rights as stock options | — | — | — | — | — | 18 |
| Total | | — | — | — | — | — | 18 |

3. Matters related to dividends

(1) Dividends paid

| Resolution | Class of shares | Total amount of dividends (million yen) | Dividend per share (yen) | Record date | Effective date |
|--|-----------------|---|--------------------------|--------------------|------------------|
| Annual shareholders' meeting on June 24, 2019 | Common shares | 417 | 30 | March 31, 2019 | June 25, 2019 |
| Board of Directors meeting on October 29, 2019 | Common shares | 351 | 25 | September 30, 2019 | December 3, 2019 |

(2) Of dividends whose record date is in the consolidated fiscal year under review, those whose effective date in the next consolidated fiscal year

| Resolution | Class of shares | Total amount of dividends (million yen) | Financial source of dividends | Dividend per share (yen) | Record date | Effective date |
|---|-----------------|---|-------------------------------|--------------------------|----------------|----------------|
| Annual shareholders' meeting on June 19, 2020 | Common shares | 350 | Retained earnings | 25 | March 31, 2020 | June 22, 2020 |

Fiscal 2021 (from April 1, 2020 to March 31, 2021)

1. Class and number of issued shares and class and number of treasury shares

| | Number of shares at beginning of consolidated fiscal year under review | Increase in number of shares during consolidated fiscal year under review | Decrease in number of shares during consolidated fiscal year under review | Number of shares at end of consolidated fiscal year under review |
|----------------------|--|---|---|--|
| Issued shares | | | | |
| Common shares | 14,133,000 | — | — | 14,133,000 |
| Total | 14,133,000 | — | — | 14,133,000 |
| Treasury shares | | | | |
| Common shares (Note) | 116,042 | 20 | 11,600 | 104,462 |
| Total | 116,042 | 20 | 11,600 | 104,462 |

(Note) An increase in the number of common shares in treasury shares, 20, is due to the purchase of shares constituting less than one full unit. A decrease in the number of treasury shares, 11,600, is due to the exercise of stock options.

2. Matters related to share acquisition rights and treasury share acquisition rights

| Category | Breakdown of share acquisition rights | Class of shares to be acquired upon exercise of share acquisition rights | Number of shares to be acquired upon exercise of share acquisition rights | | | | Amount at end of fiscal year under review (million yen) |
|------------------------------------|---|--|---|--|--|---------------------------------|---|
| | | | Beginning of fiscal year under review | Increase during fiscal year under review | Decrease during fiscal year under review | End of fiscal year under review | |
| Reporting company (parent company) | Share acquisition rights as stock options | — | — | — | — | — | 8 |
| Total | | — | — | — | — | — | 8 |

3. Matters related to dividends

(1) Dividends paid

| Resolution | Class of shares | Total amount of dividends (million yen) | Dividend per share (yen) | Record date | Effective date |
|--|-----------------|---|--------------------------|--------------------|------------------|
| Annual shareholders' meeting on June 19, 2020 | Common shares | 350 | 25 | March 31, 2020 | June 22, 2020 |
| Board of Directors meeting on October 29, 2020 | Common shares | 350 | 25 | September 30, 2020 | December 2, 2020 |

(2) Of dividends whose record date is in the consolidated fiscal year under review, those whose effective date in the next consolidated fiscal year

| Resolution | Class of shares | Total amount of dividends (million yen) | Financial source of dividends | Dividend per share (yen) | Record date | Effective date |
|---|-----------------|---|-------------------------------|--------------------------|----------------|----------------|
| Annual shareholders' meeting on June 22, 2021 | Common shares | 420 | Retained earnings | 30 | March 31, 2021 | June 23, 2021 |

(Consolidated statement of cash flows)

*1. Cash and cash equivalents at the end of the fiscal year and their relationships with items in the consolidated balance sheets

| | Fiscal 2020 (from April 1, 2019 to March 31, 2020) | Fiscal 2021 (from April 1, 2020 to March 31, 2021) |
|---------------------------|--|--|
| Cash and deposit account | 7,651 | 11,382 |
| Cash and cash equivalents | 7,651 | 11,382 |

(Lease transactions)

Not applicable.

(Financial instruments)

1. Matters related to the status of financial instruments

(1) Policy on financial instruments

The Group's fund management is centered on short-term deposits. The Group also invests in government bonds, which are very safe and highly rated corporate and other bonds.

(2) Description of financial instruments and their risks

Notes and accounts receivable-trade, operating receivables, are exposed to customers' credit risk.

Securities and investment securities are public and corporate bonds and are exposed to risks of fluctuations in market price.

(3) Risk management system related to financial instruments

(i) Credit risk (risk related to business connections' contract non-performance) management

The sales management section and administrative department of the Company regularly monitor the status of operating receivables at the main trading partners under the Company's credit management regulations and control the due dates and balances for individual partners. In this way, the Company strives to identify concerns over collections caused by deterioration in partners' financial situation early and mitigate them. The Company conducts similar credit management at consolidated subsidiaries under its credit management regulations.

As for short-term fund management, the Company only uses bank deposits and investments in highly rated funds to avoid as much credit risk as possible.

(ii) Market risk (interest-rate fluctuation risk, etc.) management

The Company determines its fund management portfolio while expecting its financing needs, and avoids market risk as much as possible.

(iii) Management of liquidity risk in financing (risk of failure to pay on due dates)

The Company manages liquidity risk chiefly by having the administrative department create financial plans in a timely manner.

(4) Additional information on matters related to the market prices of financial instruments, etc.

The market prices of financial instruments are based on market prices and rationally calculated prices if no market prices are available.

The calculated prices include variable factors, which may change if different assumptions are used.

2. Matters related to the market prices of financial instruments, etc.

Consolidated balance sheet amounts, market prices and differences between them are as follows:

Fiscal 2020 (As of March 31, 2020)

| | Consolidated balance sheet amount (million yen) | Market price (million yen) | Difference (million yen) |
|---|---|----------------------------|--------------------------|
| (1) Cash and deposits | 7,651 | 7,651 | — |
| (2) Notes and accounts receivable - trade | 994 | 994 | — |
| (3) Securities and investment securities | | | |
| Bonds held for maturity | 102 | 101 | (0) |
| Total assets | 8,748 | 8,748 | (0) |
| (1) Income taxes payable | 469 | 469 | — |
| Total liabilities | 469 | 469 | — |

Fiscal 2021 (As of March 31, 2021)

| | Consolidated balance sheet amount (million yen) | Market price (million yen) | Difference (million yen) |
|---|---|----------------------------|--------------------------|
| (1) Cash and deposits | 11,382 | 11,382 | — |
| (2) Notes and accounts receivable - trade | 1,268 | 1,268 | — |
| (3) Securities and investment securities | | | |
| Bonds held for maturity | 102 | 102 | (0) |
| Total assets | 12,752 | 12,752 | (0) |
| (1) Income taxes payable | 688 | 688 | — |
| Total liabilities | 688 | 688 | — |

(Notes) 1. Matters related to calculation methods for the market prices of financial instruments

Assets

(1) Cash and deposits, (2) Notes and accounts receivable - trade

They are settled in the short term, and their market prices are similar to their book values. Thus, the market prices are deemed to be their book values.

(3) Securities and investment securities

The market prices of public and corporate bonds are presented by financial institutions, etc.

For information on securities according to holding purposes, refer to the note on securities.

Liabilities

(1) Income taxes payable

They are settled in the short term, and their market prices are similar to their book values. Thus, the market prices are deemed to be their book values.

2. Monetary claims and securities with maturity periods to be redeemed after the consolidated closing date

Fiscal 2020 (As of March 31, 2020)

(Million yen)

| | Within a year | More than a year, within five years | More than five years, within 10 years | More than 10 years |
|--|---------------|-------------------------------------|---------------------------------------|--------------------|
| Cash and deposits | 7,651 | — | — | — |
| Notes and accounts receivable - trade | 994 | — | — | — |
| Securities and investment securities | | | | |
| Bonds held for maturity | | | | |
| (1) Government bonds, local government bonds | — | — | — | — |
| (2) Corporate bonds | — | — | 100 | — |
| Total | 8,646 | — | 100 | — |

Fiscal 2021 (As of March 31, 2021)

(Million yen)

| | Within a year | More than a year, within five years | More than five years, within 10 years | More than 10 years |
|--|---------------|-------------------------------------|---------------------------------------|--------------------|
| Cash and deposits | 11,382 | — | — | — |
| Notes and accounts receivable - trade | 1,268 | — | — | — |
| Securities and investment securities | | | | |
| Bonds held for maturity | | | | |
| (1) Government bonds, local government bonds | — | — | — | — |
| (2) Corporate bonds | — | 100 | — | — |
| Total | 12,650 | 100 | — | — |

(Securities)

Bonds held for maturity

Fiscal 2020 (As of March 31, 2020)

(Million yen)

| | Classification | Consolidated balance sheet amount | Market price | Difference |
|--|--|-----------------------------------|--------------|------------|
| Market price exceeds consolidated balance sheet amount | (1) Government bonds, local government bonds, etc. | — | — | — |
| | (2) Corporate bonds | — | — | — |
| | (3) Other | — | — | — |
| | Subtotal | — | — | — |
| Market price does not exceed consolidated balance sheet amount | (1) Government bonds, local government bonds, etc. | — | — | — |
| | (2) Corporate bonds | 102 | 101 | (0) |
| | (3) Other | — | — | — |
| | Subtotal | 102 | 101 | (0) |
| Total | | 102 | 101 | (0) |

Fiscal 2021 (As of March 31, 2021)

(Million yen)

| | Classification | Consolidated balance sheet amount | Market price | Difference |
|--|--|-----------------------------------|--------------|------------|
| Market price exceeds consolidated balance sheet amount | (1) Government bonds, local government bonds, etc. | — | — | — |
| | (2) Corporate bonds | — | — | — |
| | (3) Other | — | — | — |
| | Subtotal | — | — | — |
| Market price does not exceed consolidated balance sheet amount | (1) Government bonds, local government bonds, etc. | — | — | — |
| | (2) Corporate bonds | 102 | 102 | (0) |
| | (3) Other | — | — | — |
| | Subtotal | 102 | 102 | (0) |
| Total | | 102 | 102 | (0) |

(Derivatives transactions)

Previous consolidated fiscal year (from April 1, 2019 to March 31, 2020) and consolidated fiscal year under review (from April 1, 2020 to March 31, 2021)

The Group did not conduct any derivatives transactions.

(Retirement benefits)

1. Outline of the retirement benefits system

The Company and its consolidated subsidiaries have a defined contribution pension plan.

2. Retirement benefit expenses

Fiscal 2020 (from April 1, 2019 to March 31, 2020)

The amount that was required for contribution to the defined contribution pension plan was 22 million yen.

Fiscal 2021 (from April 1, 2020 to March 31, 2021)

The amount that was required for contribution to the defined contribution pension plan was 27 million yen.

(Stock options)

1. Amount posted as profit due to the forfeiture of unexercised stock options

| | Fiscal 2020 (from April 1, 2019 to March 31, 2020) | Fiscal 2021 (from April 1, 2020 to March 31, 2021) |
|--|--|--|
| Gain on reversal of share acquisition rights | 0 | 9 |

2. Description of stock options, their scale and changes

(1) Description of stock options

| | 2015 stock options | 2016 stock options |
|--|--|--|
| Company name | Reporting company | Same as on the left |
| Category and number of persons subject to grants | Four directors, 151 employees | Three directors, 96 employees |
| Stock options by class of shares (Note) | Common shares 350,100 shares | Common shares 848,000 shares |
| Grant date | November 27, 2015 | December 13, 2016 |
| Vesting conditions | <p>Being a director or an employee of the reporting company and not being subject to salary reduction or stricter disciplinary action provided for in the rules of employment of the reporting company from the grant date (November 27, 2015) to the vesting date (July 1, 2017)</p> <p>Share acquisition rights can be exercised up to the percentage of the allocated share acquisition rights specified in each item below by each holder of share acquisition rights only if operating profit reaches the level specified in each item below in the fiscal year ended March 31, 2017, the fiscal year ended March 31, 2018, or the fiscal year ended March 31, 2019.</p> <p>(i) If operating profit exceeds 1.5 billion yen, 20% of share acquisition rights can be exercised</p> <p>(ii) If operating profit exceeds 2.0 billion yen, 50% of share acquisition rights can be exercised</p> <p>(iii) If operating profit exceeds 2.5 billion yen, 100% of share acquisition rights can be exercised</p> <p>In the items above, the operating profit stated in the consolidated statements of income in the Company's annual securities report (or the statements of income if no consolidated statements of income are prepared) shall be referenced. If the concept of items to be referenced changes significantly due to the application of the International Financial Reporting Standards, etc. indicators to be referenced shall be determined by the Board of Directors.</p> | <p>Being a director or an employee of the reporting company and not being subject to salary reduction or stricter disciplinary action provided for in the rules of employment of the reporting company from the grant date (December 13, 2016) to the vesting date (July 1, 2018)</p> <p>Share acquisition rights can be exercised up to the percentage of the allocated share acquisition rights specified in each item below by each holder of share acquisition rights only if operating profit reaches the level specified in each item below in the fiscal year ended March 31, 2018, the fiscal year ended March 31, 2019, or the fiscal year ended March 31, 2020.</p> <p>(i) If operating profit exceeds 2.0 billion yen, 20% of share acquisition rights can be exercised</p> <p>(ii) If operating profit exceeds 2.5 billion yen, 50% of share acquisition rights can be exercised</p> <p>(iii) If operating profit exceeds 2.8 billion yen, 100% of share acquisition rights can be exercised</p> <p>In the items above, the operating profit stated in the consolidated statements of income in the Company's annual securities report (or the statements of income if no consolidated statements of income are prepared) shall be referenced. If the concept of items to be referenced changes significantly due to the application of the International Financial Reporting Standards, etc. indicators to be referenced shall be determined by the Board of Directors.</p> |
| Requisite service period | No requisite service periods are determined. | No requisite service periods are determined. |
| Exercise period | From the vesting date to May 31, 2027. The person must continue to be a director or an employee of the Company to exercise share acquisition rights. | From the vesting date to May 31, 2028. The person must continue to be a director or an employee of the Company to exercise share acquisition rights. |

| | |
|--|--|
| | 2018 stock options |
| Company name | Reporting company |
| Category and number of persons subject to grants | Three directors, 151 employees |
| Stock options by class of shares (Note) | Common shares 1,413,300 shares |
| Grant date | March 5, 2018 |
| Vesting conditions | <p>Being a director or an employee of the reporting company and not being subject to salary reduction or stricter disciplinary action provided for in the rules of employment of the reporting company from the grant date (March 5, 2018) to the vesting date (July 1, 2021)</p> <p>Each holder of share acquisition rights can exercise the share acquisition rights allocated to them only if operating profit exceeds 4.0 billion yen in the fiscal year ended March 31, 2021.</p> <p>In the items above, the operating profit stated in the consolidated statements of income in the Company's annual securities report (or the statements of income if no consolidated statements of income are prepared) shall be referenced. If the concept of items to be referenced changes significantly due to the application of the International Financial Reporting Standards, etc. indicators to be referenced shall be determined by the Board of Directors.</p> |
| Requisite service period | No requisite service periods are determined. |
| Exercise period | <p>From the vesting date to May 31, 2028.</p> <p>The person must continue to be a director or an employee of the Company to exercise share acquisition rights.</p> |

(2) Scale of stock options and related changes

The stock options below are those that existed in the fiscal year under review (fiscal year ended March 31, 2021). The number of stock options has been converted to the number of shares.

(i) Number of stock options

| | 2015 stock options | 2016 stock options | 2018 stock options |
|-------------------------|--------------------|--------------------|--------------------|
| Before vesting (shares) | | | |
| As of March 31, 2020 | – | 372,300 | 1,188,300 |
| Granted | – | – | – |
| Forfeited | – | 372,300 | 57,400 |
| Vested | – | – | – |
| Yet to be vested | – | – | 1,130,900 |
| After vesting (shares) | | | |
| As of March 31, 2020 | 160,000 | 316,900 | – |
| Vested | – | – | – |
| Exercised | 2,800 | 8,800 | – |
| Forfeited | 400 | 1,200 | – |
| Yet to be exercised | 156,800 | 306,900 | – |

(ii) Unit price information

| | 2015 stock options | 2016 stock options | 2018 stock options |
|--|--------------------|--------------------|--------------------|
| Exercise price (yen) | 2,034 | 2,639 | 3,400 |
| Average stock price when exercised (yen) | 8,819 | 8,500 | – |
| Fair unit value (grant date) (yen) | 2 | 24 | 1 |

3. Method for estimating the number of stock options vested

It is basically difficult to reasonably estimate the number of stock options to be forfeited, and only the actual number of stock options forfeited is reflected.

(Additional information)

Transactions granting employees and others stock acquisition rights which involve considerations with vesting conditions before the applied day of Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions (PITF No. 36; January 12, 2018) are still accounted for using the previously adopted accounting treatment in accordance with Paragraph 10 (3) of PITF No. 36.

1. Overview of stock acquisition rights which involve considerations with vesting conditions

Notes are omitted because the same description is given in “2. Description of stock options, their scale and changes” above.

2. Outline of accounting treatment adopted

When share acquisition rights are issued, the amount paid in on the issuance of share acquisition rights will be recorded as share acquisition rights in net assets. When share acquisition rights are exercised, and new shares are issued, the amount paid in on the issuance of share acquisition rights and the amount paid in on the exercise of share acquisition rights will be transferred to share capital and legal capital surplus, respectively.

When share acquisition rights have lapsed, the amount that corresponds to the lapse will be recorded as profit within that accounting period.

(Tax effect accounting)

1. Breakdown of key factors contributing to deferred tax assets and deferred tax liabilities

| | Fiscal 2020 (As of March 31, 2020) | Fiscal 2021 (As of March 31, 2021) |
|---|---------------------------------------|---------------------------------------|
| Deferred tax assets | | |
| Enterprise taxes payable | 24 | 37 |
| Provision for bonuses | 36 | 59 |
| Accrued social insurance premiums | 5 | 8 |
| Non-deductible depreciation expenses | 0 | 0 |
| Asset retirement obligations | 12 | 14 |
| Loss carryforwards | 44 | 48 |
| Loss on valuation of golf club membership | 1 | 1 |
| Loss on valuation of shares of subsidiaries | 2 | - |
| Other | 1 | 1 |
| Total deferred tax assets | 129 | 171 |
| Valuation allowance (Note) | (44) | (48) |
| Total deferred tax assets | 85 | 123 |

(Note) The valuation allowance increased by 4 million yen. This increase was a result of an increase in the valuation allowance related to tax loss carryforwards at consolidated subsidiaries.

2. Reconciliation of the statutory tax rate and the actual effective tax rate

Notes are omitted because the difference between the statutory tax rate and the effective tax rate is 5% or less of the statutory tax rate for the consolidated fiscal year under review and for the previous consolidated fiscal year.

(Asset retirement obligations)

Asset retirement obligations posted in the consolidated balance sheets

(1) Outline of the asset retirement obligations

Obligations of restoration related to lease agreements at the head office and other offices

(2) Method for calculation of the asset retirement obligations

The period of use is estimated to be one to 15 years from the acquisition. The discount rate is 0.15% to 1.73%. The amount of asset retirement obligations is calculated based on those assumptions.

(3) Increase/decrease in the asset retirement obligations

| | (Million yen) | |
|--|--|--|
| | Fiscal 2020 (from April 1, 2019 to March 31, 2020) | Fiscal 2021 (from April 1, 2020 to March 31, 2021) |
| Balance at beginning of fiscal year | 45 | 45 |
| Increase due to purchase of property, plant and equipment | - | 2 |
| Adjustment due to passage of time | 0 | 0 |
| Balance at end of fiscal year | 45 | 48 |

(Segment information, etc.)

Segment information

Previous consolidated fiscal year (from April 1, 2019 to March 31, 2020) and consolidated fiscal year under review (from April 1, 2020 to March 31, 2021)

The Group has only one segment, which is the security business, and segment information is omitted.

Related information

Fiscal 2020 (from April 1, 2019 to March 31, 2020)

1. Information by product/service

The Group has only one product and service category, and information by product/service is omitted.

2. Information by region

(1) Net sales

Sales to external customers in Japan are more than 90% of net sales in the consolidated statements of income, and information by region is omitted.

(2) Property, plant and equipment

The amount of property, plant and equipment in Japan is more than 90% of the amount of property, plant and equipment in the consolidated balance sheets, and information on property, plant and equipment is omitted.

3. Information by major customer

The Group engages in only one segment, the security business.

| | (Million yen) |
|--------------------------------------|---------------|
| Customer name | Net sales |
| SB C&S Corp. | 1,166 |
| Daiwabo Information System Co., Ltd. | 1,109 |

Fiscal 2021 (from April 1, 2020 to March 31, 2021)

1. Information by product/service

The Group has only one product and service category, and information by product/service is omitted.

2. Information by region

(1) Net sales

Sales to external customers in Japan are more than 90% of net sales in the consolidated statements of income, and information by region is omitted.

(2) Property, plant and equipment

The amount of property, plant and equipment in Japan is more than 90% of the amount of property, plant and equipment in the consolidated balance sheets, and information on property, plant and equipment is omitted.

3. Information by major customer

The Group engages in only one segment, the security business.

(Million yen)

| Customer name | Net sales |
|--------------------------------------|-----------|
| Daiwabo Information System Co., Ltd. | 1,409 |
| SB C&S Corp. | 1,287 |

Information on impairment loss in non-current assets by reporting segment

Not applicable.

Information on amortization of goodwill and unamortized balance by reporting segment

Not applicable.

Information on gain on bargain purchase by reporting segment

Not applicable.

(Related party information)

Transactions with related parties

Transactions between the company submitting consolidated financial statements and related parties

Officers and major individual shareholders of the company submitting consolidated financial statements

Fiscal 2020 (from April 1, 2019 to March 31, 2020)

Not applicable.

Fiscal 2021 (from April 1, 2020 to March 31, 2021)

Not applicable.

(Special purpose companies subject to disclosure)

Not applicable.

(Per share information)

| | Fiscal 2020 (from April 1, 2019 to March 31, 2020) | Fiscal 2021 (from April 1, 2020 to March 31, 2021) |
|--------------------------|--|--|
| Net assets per share | 617.27 yen | 715.79 yen |
| Profit per share | 113.69 yen | 146.90 yen |
| Diluted profit per share | 110.83 yen | 143.45 yen |

(Note) Base for calculating profit per share and diluted profit per share

| Item | Fiscal 2020 (from April 1, 2019 to March 31, 2020) | Fiscal 2021 (from April 1, 2020 to March 31, 2021) |
|---|--|--|
| Profit per share | | |
| Profit attributable to owners of parent (million yen) | 1,590 | 2,059 |
| Amount not attributable to common shareholders (million yen) | — | — |
| Profit attributable to owners of parent related to common shares (million yen) | 1,590 | 2,059 |
| Average number of common shares during the term | 13,991,859 | 14,022,503 |
| Diluted profit per share | | |
| Adjustment of profit attributable to owners of parent (million yen) | — | — |
| Increase in the number of common shares | 361,483 | 337,562 |
| (Of the increase, the number of share acquisition rights) (shares) | (361,483) | (337,562) |
| Outline of potential shares that are not included in the calculation of the diluted profit per share because they do not have any diluting effects | Share acquisition rights Resolution on November 10, 2016 Number of potential shares: 372,300 Resolution on February 16, 2018 Number of potential shares: 1,188,300 | Share acquisition rights Resolution on February 16, 2018 Number of potential shares: 1,130,900 |

(Significant subsequent events)

Not applicable.

(v) Consolidated Supplementary Schedules

Bonds Schedule

Not applicable.

Borrowings Schedule

Not applicable.

Asset Retirement Obligations Schedule

The amount of asset retirement obligations at both the beginning and end of fiscal 2021 are less than 1% of the combined total of liabilities and net assets at the beginning and end of fiscal 2021, and so have been omitted in accordance with Article 92-2 of the Regulations for Consolidated Financial Statements.

(2) Other

Quarterly information in the consolidated fiscal year under review, etc.

| (Cumulative period) | First quarter | Second quarter | Third quarter | Fiscal year under review |
|---|---------------|----------------|---------------|--------------------------|
| Net sales (Million yen) | 1,413 | 3,101 | 4,750 | 6,825 |
| Profit before income taxes (Million yen) | 498 | 1,325 | 1,992 | 3,001 |
| Profit attributable to owners of parent (Million yen) | 334 | 908 | 1,363 | 2,059 |
| Profit per share (Yen) | 23.86 | 64.84 | 97.22 | 146.90 |

| (Accounting period) | First quarter | Second quarter | Third quarter | Fourth quarter |
|------------------------|---------------|----------------|---------------|----------------|
| Profit per share (Yen) | 23.86 | 40.98 | 32.38 | 49.67 |

2. Financial Statements of the Reporting Company

(1) Financial Statements

(i) Balance Sheet

(Million yen)

| | Fiscal 2020 (As of March 31, 2020) | Fiscal 2021 (As of March 31, 2021) |
|---------------------------------------|---------------------------------------|---------------------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 7,517 | 11,191 |
| Notes and accounts receivable - trade | *1 916 | *1 1,150 |
| Finished goods | 0 | 0 |
| Supplies | 0 | 3 |
| Prepaid expenses | 63 | 62 |
| Other | *1 3 | *1 6 |
| Total current assets | 8,502 | 12,415 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings | 100 | 92 |
| Vehicles | 4 | 14 |
| Tools, furniture and fixtures | 112 | 92 |
| Land | 26 | 26 |
| Construction in progress | 0 | 0 |
| Total property, plant and equipment | 245 | 226 |
| Intangible assets | | |
| Software | 1,331 | 1,273 |
| Software in progress | 79 | 128 |
| Telephone subscription right | 0 | 0 |
| Total intangible assets | 1,411 | 1,402 |
| Investments and other assets | | |
| Investment securities | 102 | 102 |
| Shares of subsidiaries and associates | 153 | 139 |
| Investments in capital | 0 | 0 |
| Long-term prepaid expenses | 26 | 25 |
| Leasehold and guarantee deposits | 186 | 186 |
| Deferred tax assets | 154 | 197 |
| Other | 56 | 56 |
| Total investments and other assets | 680 | 706 |
| Total non-current assets | 2,336 | 2,335 |
| Total assets | 10,839 | 14,751 |

(Million yen)

| | Fiscal 2020 (As of March 31, 2020) | | Fiscal 2021 (As of March 31, 2021) | |
|---|---------------------------------------|---------------|---------------------------------------|---------------|
| Liabilities | | | | |
| Current liabilities | | | | |
| Accounts payable - trade | *1 | 7 | *1 | 14 |
| Accounts payable - other | *1 | 126 | *1 | 131 |
| Accrued expenses | | 41 | | 53 |
| Income taxes payable | | 469 | | 670 |
| Accrued consumption taxes | | 77 | | 175 |
| Advances received | | 1,223 | | 3,366 |
| Deposits received | | 13 | | 15 |
| Provision for bonuses | | 119 | | 194 |
| Total current liabilities | | 2,077 | | 4,623 |
| Non-current liabilities | | | | |
| Asset retirement obligations | | 45 | | 48 |
| Other | | 0 | | 1 |
| Total non-current liabilities | | 46 | | 50 |
| Total liabilities | | 2,124 | | 4,673 |
| Net assets | | | | |
| Shareholders' equity | | | | |
| Share capital | | 713 | | 713 |
| Capital surplus | | | | |
| Legal capital surplus | | 700 | | 700 |
| Other capital surplus | | 274 | | 265 |
| Total capital surplus | | 974 | | 965 |
| Retained earnings | | | | |
| Other retained earnings | | | | |
| Retained earnings brought forward | | 7,389 | | 8,732 |
| Total retained earnings | | 7,389 | | 8,732 |
| Treasury shares | | (380) | | (342) |
| Total shareholders' equity | | 8,696 | | 10,069 |
| Share acquisition rights | | 18 | | 8 |
| Total net assets | | 8,714 | | 10,078 |
| Total liabilities and net assets | | 10,839 | | 14,751 |

(ii) Statement of Income

(Million yen)

| | Fiscal 2020 (from April 1, 2019 to March 31, 2020) | Fiscal 2021 (from April 1, 2020 to March 31, 2021) |
|--|--|--|
| Net sales | *1 5,336 | *1 6,074 |
| Cost of sales | | |
| Beginning finished goods inventory | 0 | 0 |
| Cost of Internet service | 1,098 | *1 1,274 |
| Total | 1,098 | 1,274 |
| Transfer to other account | 0 | 0 |
| Ending finished goods inventory | 0 | 0 |
| Cost of finished goods sold | 1,098 | 1,273 |
| Gross profit | 4,238 | 4,801 |
| Selling, general and administrative expenses | *1, *2 1,881 | *1, *2 1,854 |
| Operating profit | 2,357 | 2,947 |
| Non-operating income | | |
| Interest income | 0 | *1 0 |
| Interest on securities | 0 | 0 |
| Commission income | *1 3 | *1 4 |
| Foreign exchange gains | - | 6 |
| Gain on forfeiture of unclaimed dividends | 0 | 1 |
| Subsidy income | 0 | 2 |
| Miscellaneous income | 1 | 1 |
| Total non-operating income | 7 | 17 |
| Non-operating expenses | | |
| Foreign exchange losses | 5 | - |
| Commission for purchase of treasury shares | 0 | - |
| Total non-operating expenses | 5 | - |
| Ordinary profit | 2,359 | 2,964 |
| Extraordinary income | | |
| Gain on sales of non-current assets | - | *3 3 |
| Gain on reversal of share acquisition rights | 0 | 9 |
| Total extraordinary income | 0 | 12 |
| Extraordinary losses | | |
| Loss on liquidation of subsidiaries | - | 2 |
| Loss on retirement of non-current assets | *4 0 | *4 0 |
| Loss on valuation of golf club membership | 1 | - |
| Loss on valuation of shares of subsidiaries | 14 | 13 |
| Total extraordinary losses | 16 | 15 |
| Profit before income taxes | 2,343 | 2,961 |
| Income taxes - current | 739 | 958 |
| Income taxes - deferred | (8) | (42) |
| Total income taxes | 730 | 916 |
| Profit | 1,613 | 2,044 |

Detailed Statement of Cost of Internet Service

| Category | Note number | Fiscal 2020 (from April 1, 2019 to March 31, 2020) | | Fiscal 2021 (from April 1, 2020 to March 31, 2021) | |
|---------------------------|-------------|---|----------------------|---|----------------------|
| | | Amount (million yen) | Composition rate (%) | Amount (million yen) | Composition rate (%) |
| I. Material cost | | 32 | 1.8 | 46 | 2.3 |
| II. Labor cost | *1 | 691 | 37.1 | 716 | 34.4 |
| III. Expenses | *2 | 1,138 | 61.1 | 1,318 | 63.3 |
| Total expenses | | 1,863 | 100.0 | 2,082 | 100.0 |
| Transfer to other account | *3 | 764 | | 808 | |
| Cost of Internet service | | 1,098 | | 1,274 | |

(Note)

| Fiscal 2020 (from April 1, 2019 to March 31, 2020) | | Fiscal 2021 (from April 1, 2020 to March 31, 2021) | |
|---|-----|--|-----|
| *1 Major items in labor cost (Million yen) | | *1 Major items in labor cost (Million yen) | |
| Salaries and allowances | 429 | Salaries and allowances | 463 |
| Legal welfare expenses | 88 | Legal welfare expenses | 89 |
| Bonuses | 71 | Bonuses | 32 |
| Provision for bonuses | 55 | Provision for bonuses | 83 |
| Other salaries | 35 | Other salaries | 38 |
| *2 Major items in expenses (Million yen) | | *2 Major items in expenses (Million yen) | |
| Outsourcing expenses | 92 | Outsourcing expenses | 95 |
| Depreciation | 753 | Depreciation | 807 |
| Rent expenses | 93 | Rent expenses | 93 |
| *3 Major items in transfer to other account (Million yen) | | *3 Major items in transfer to other account (Million yen) | |
| Selling, general and administrative expenses | 32 | Selling, general and administrative expenses | 36 |
| Non-current assets | 732 | Non-current assets | 771 |
| Total | 764 | Total | 80 |
| 4. Costing method The job order cost system based on actual costs is employed for the Company's costing. | | 4. Costing method Same as on the left | |

(iii) Statement of Changes in Equity

Fiscal 2020 (from April 1, 2019 to March 31, 2020)

(Million yen)

| | Shareholders' equity | | | | | | | | Share acquisition rights | Total net assets |
|--|----------------------|-----------------------|-----------------------|-----------------------|-------------------------|-------------------------|-----------------|----------------------------|--------------------------|------------------|
| | Share capital | Capital surplus | | | Retained earnings | | Treasury shares | Total shareholders' equity | | |
| | | Legal capital surplus | Other capital surplus | Total capital surplus | Other retained earnings | Total retained earnings | | | | |
| Balance at beginning of period | 713 | 700 | 129 | 829 | 6,544 | 6,544 | (306) | 7,780 | 23 | 7,804 |
| Changes during period | | | | | | | | | | |
| Dividends of surplus | | | | | (768) | (768) | | (768) | | (768) |
| Profit | | | | | 1,613 | 1,613 | | 1,613 | | 1,613 |
| Disposal of treasury shares | | | 144 | 144 | | | 226 | 370 | | 370 |
| Purchase of treasury shares | | | | | | | (299) | (299) | | (299) |
| Net changes in items other than shareholders' equity | | | | | | | | | (5) | (5) |
| Total changes during period | - | - | 144 | 144 | 844 | 844 | (73) | 916 | (5) | 910 |
| Balance at end of period | 713 | 700 | 274 | 974 | 7,389 | 7,389 | (380) | 8,696 | 18 | 8,714 |

Fiscal 2021 (from April 1, 2020 to March 31, 2021)

(Million yen)

| | Shareholders' equity | | | | | | | | Share acquisition rights | Total net assets |
|--|----------------------|-----------------------|-----------------------|-----------------------|-------------------------|-------------------------|-----------------|----------------------------|--------------------------|------------------|
| | Share capital | Capital surplus | | | Retained earnings | | Treasury shares | Total shareholders' equity | | |
| | | Legal capital surplus | Other capital surplus | Total capital surplus | Other retained earnings | Total retained earnings | | | | |
| Balance at beginning of period | 713 | 700 | 274 | 974 | 7,389 | 7,389 | (380) | 8,696 | 18 | 8,714 |
| Changes during period | | | | | | | | | | |
| Dividends of surplus | | | | | (700) | (700) | | (700) | | (700) |
| Profit | | | | | 2,044 | 2,044 | | 2,044 | | 2,044 |
| Disposal of treasury shares | | | (8) | (8) | | | 37 | 29 | | 29 |
| Purchase of treasury shares | | | | | | | (0) | (0) | | (0) |
| Net changes in items other than shareholders' equity | | | | | | | | | (9) | (9) |
| Total changes during period | - | - | (8) | (8) | 1,343 | 1,343 | 37 | 1,372 | (9) | 1,363 |
| Balance at end of period | 713 | 700 | 265 | 965 | 8,732 | 8,732 | (342) | 10,069 | 8 | 10,078 |

Notes

(Notes on the premise of a going concern)

Not applicable.

(Significant accounting policies)

1. Asset valuation standards and valuation method

(1) Valuation standards and valuation methods for securities

Bonds held for maturity

The amortized cost method (interest method) is applied.

Shares of subsidiaries and associates

The moving average cost method is applied.

(2) Valuation standards and valuation method for inventories

Finished goods

The gross average cost method is applied. (The balance sheet amount is calculated by the book value write-down method based on reduction in profitability.)

2. Depreciation method for non-current assets

(1) Property, plant and equipment

The declining balance method is applied.

The useful life and the residual value are calculated based on the same standards as those set out in the Corporation Tax Act. The straight-line method is applied for facilities attached to buildings acquired on April 1, 2016 or later.

(2) Intangible assets

The straight-line method is applied.

The straight-line method based on the availability period in the company (five years) is used for software in the company. For software for sale in the market, a method based on estimated sales quantities (or revenue) or the remaining lifetime (three years) is used.

(3) Long-term prepaid expenses

The straight-line method is applied.

The amortization period is calculated based on the same standards as those set out in the Corporation Tax Act.

3. Standards for translating assets or liabilities that are in foreign currency into yen

Monetary claims and obligations in foreign currency are translated into yen using the spot exchange rate on the settling day, and translation adjustments are treated as a profit or loss.

4. Standards for reporting allowances

Provision for bonuses

For the payment of employees' bonuses, of the estimated payment amount, the amount to be paid in the fiscal year under review is posted.

5. Other significant matters that serve as the basis for the preparation of financial statements

Treatment of consumption tax

Consumption tax and local consumption tax are excluded from accounting. Non-recoverable consumption tax and local consumption tax are treated as expenses in the fiscal year under review.

(Changes in presentation methods)

(Statement of income)

For the previous fiscal year, proceeds from miscellaneous income were included in non-operating income. From the fiscal year under review onwards, they are presented independently because of their growing importance. To reflect this change in presentation methods, the non-consolidated financial statements for the previous fiscal year have been modified.

As a result, the non-consolidated statement of income for the previous fiscal year used to present 2 million yen as proceeds from miscellaneous income as part of non-operating income. Now, subsidy income stands at 0 million yen and proceeds from miscellaneous income at 1 million yen.

(A change in unit used for presentation)

From the fiscal year under review onwards, amounts are presented no longer in thousands of yen but in millions of yen.

(Additional information)

Transactions granting employees and others stock acquisition rights which involve considerations with vesting conditions before the applied day of Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions (PITF No. 36; January 12, 2018) are still accounted for using the previously adopted accounting treatment in accordance with Paragraph 10 (3) of PITF No. 36.

1. Overview of stock acquisition rights which involve considerations with vesting conditions

Notes are omitted because the same information is given in Section V. Financial Information 1. Consolidated Financial Statements, Notes (Stock options).

2. Outline of accounting treatment adopted

When share acquisition rights are issued, the amount paid in on the issuance of share acquisition rights will be recorded as share acquisition rights in net assets. When share acquisition rights are exercised, and new shares are issued, the amount paid in on the issuance of share acquisition rights and the amount paid in on the exercise of share acquisition rights will be transferred to share capital and legal capital surplus, respectively.

When share acquisition rights have lapsed, the amount that corresponds to the lapse will be recorded as profit within that accounting period.

(Balance sheet)

*1. Monetary claims and monetary liabilities in relation to subsidiaries and associates (excluding those presented on balance sheet)

| | (Million yen) | |
|---------------------------------|---------------------------------------|---------------------------------------|
| | Fiscal 2020 (As of March 31, 2020) | Fiscal 2021 (As of March 31, 2021) |
| Short-term monetary claims | 2 | 5 |
| Short-term monetary liabilities | 13 | 9 |

(Matters related to income statement)

*1. Transactions in relation to subsidiaries and associates are included as follows.

| | (Million yen) | |
|--|---|---|
| | Fiscal 2020 (from April 1, 2019 to March 31, 2020) | Fiscal 2021 (from April 1, 2020 to March 31, 2021) |
| Operating transactions | | |
| Net sales | 8 | 5 |
| Purchase of goods | — | 2 |
| Selling, general and administrative expenses | 21 | 81 |
| Transactions other than operating transactions | 3 | 5 |

*2. Selling expenses accounted for approximately 12.2% and 10.3% of total selling, general and administrative expenses in fiscal 2020 and fiscal 2021 respectively while the share of general and administrative expenses was 87.8% in fiscal 2020 and 89.7% in fiscal 2021.

The major items of selling, general and administrative expenses and the amounts are as follows.

| | (Million yen) | |
|-------------------------|---|---|
| | Fiscal 2020 (from April 1, 2019 to March 31, 2020) | Fiscal 2021 (from April 1, 2020 to March 31, 2021) |
| Advertising expenses | 206 | 167 |
| Salaries and allowances | 570 | 619 |
| Provision for bonuses | 64 | 110 |
| Depreciation | 51 | 48 |

*3. The details of gain on sales of non-current assets are as follows.

| | (Million yen) | |
|----------|---|---|
| | Fiscal 2020 (from April 1, 2019 to March 31, 2020) | Fiscal 2021 (from April 1, 2020 to March 31, 2021) |
| Vehicles | - | 3 |

*4. The details of loss on retirement of non-current assets are as follows.

| | (Million yen) | |
|-------------------------------|---|---|
| | Fiscal 2020 (from April 1, 2019 to March 31, 2020) | Fiscal 2021 (from April 1, 2020 to March 31, 2021) |
| Tools, furniture and fixtures | 0 | 0 |

(Securities)

Information about shares of subsidiaries and associates (the carrying amount in fiscal 2021 was 139 million yen and the carrying amount in fiscal 2020 was 153 million yen) is omitted as these shares do not have market value and it is considered extremely difficult to calculate their fair market values.

(Tax effect accounting)

1. Breakdown of key factors contributing to deferred tax assets and deferred tax liabilities

| | (Million yen) | |
|---|---------------------------------------|---------------------------------------|
| | Fiscal 2020 (As of March 31, 2020) | Fiscal 2021 (As of March 31, 2021) |
| Deferred tax assets | | |
| Enterprise taxes payable | 24 | 37 |
| Provision for bonuses | 36 | 59 |
| Accrued social insurance premiums | 5 | 8 |
| Non-deductible depreciation expenses | 0 | 0 |
| Asset retirement obligations | 12 | 14 |
| Loss on valuation of golf club membership | 1 | 1 |
| Loss on valuation of shares of subsidiaries | 71 | 73 |
| Other | 1 | 1 |
| Net deferred tax assets | 154 | 197 |

2. Reconciliation of the statutory tax rate and the actual effective tax rate

Notes are omitted because the difference between the statutory tax rate and the effective tax rate is 5% or less of the statutory tax rate.

(Significant subsequent events)

Not applicable.

(iv) Supplementary Schedules

Itemized Account of Property, Plant and Equipment, etc.

(Million yen)

| Classes of assets | Balance at beginning of period | Net increase in current period | Net decrease in current period | Depreciation in current period | Balance at end of period | Accumulated depreciation |
|-------------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------|--------------------------|
| Property, plant and equipment | | | | | | |
| Buildings | 100 | 4 | – | 12 | 92 | 127 |
| Vehicles | 4 | 18 | 3 | 4 | 14 | 4 |
| Tools, furniture and fixtures | 112 | 22 | 0 | 43 | 92 | 361 |
| Land | 26 | – | – | – | 26 | – |
| Construction in progress | 0 | – | 0 | – | 0 | – |
| Total property, plant and equipment | 245 | 45 | 3 | 60 | 226 | 492 |
| Intangible assets | | | | | | |
| Software | 1,331 | 736 | – | 795 | 1,273 | – |
| Software in progress | 79 | 771 | 721 | – | 128 | – |
| Telephone subscription right | 0 | – | – | – | 0 | – |
| Total intangible assets | 1,411 | 1,508 | 721 | 795 | 1,402 | – |

(Notes) 1. Major increases during the current period are as follows:

(Million yen)

| | | | | |
|----------------------|---|-----|---|-----|
| Software | Commercial software (i-FILTER) | 212 | Commercial software (DigitalArts@Cloud) | 210 |
| | Commercial software (m-FILTER) | 146 | Commercial software (i-FILTER) | 76 |
| Software in progress | Commercial software (DigitalArts@Cloud) | 308 | Commercial software (i-FILTER) | 222 |
| | Commercial software (m-FILTER) | 103 | Commercial software (i-FILTER) | 61 |

2. Major decreases during the current period are as follows:

(Software in progress) Decrease indicates transfer to software account due to completion.

Itemized Account of Allowances

(Million yen)

| Category | Balance at beginning of period | Net increase in current period | Net decrease in current period | Balance at end of period |
|-----------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------|
| Provision for bonuses | 119 | 194 | 119 | 194 |

(2) Details of major assets and liabilities

The presentation of this information is omitted due to the ongoing preparation of consolidated financial statements.

(3) Other

Not applicable.

Section VI. Stock Information of the Reporting Company

| | |
|--|--|
| Fiscal year | From April 1 to March 31 |
| Annual general meeting of shareholders | During June |
| Record date | March 31 |
| Record date for distribution of surplus | September 30 and March 31 |
| Number of shares constituting one unit | 100 shares |
| Purchase and sale of shares less than one unit | Not applicable. |
| Handling office | |
| Transfer agent | |
| Forward office | |
| Purchasing and selling fee | |
| Method of public notice | The Company posts notices in electronic format. However, in the event online announcement becomes impossible due to unavoidable circumstances, announcements will be published in the Nihon Keizai Shimbun. Notices are posted on the Company's website: http://www.daj.jp/ir/stock/notification/ |
| Special benefit for shareholders | Not applicable. |

(Note) Holders of shares constituting less than one trading unit do not have any rights except the rights granted by the items listed in Article 189, Paragraph 2 of the Companies Act, the right to make a request pursuant to Article 166, Paragraph 1 of the Companies Act, and the right for allotment of shares for subscription or share acquisition rights for subscription in proportion to the number of shares owned.

Section VII. Reference Information on the Reporting Company

1. Information on Parent Entities of the Reporting Company

The Company does not have a Parent Company, etc. as specified in Article 24-7 (1) of the Financial Instruments and Exchange Act.

2. Other Reference Information

The Company submitted the following documents between the first day of the fiscal year under review and the day of submitting the securities report.

(1) Annual Securities Report and documents attached, and Confirmation Letter

25th fiscal year (from April 1, 2019 to March 31, 2020) Submitted to the Director-General of Kanto Local Finance Bureau on June 22, 2020

(2) Internal Control Report and accompanying documents

Submitted to the Director-General of Kanto Local Finance Bureau on June 22, 2020

(3) Quarterly Report and Confirmation Letter

Quarterly accounting period

For the first quarter of the 26th fiscal year (April 1, 2020 to June 30, 2020) Submitted to the Director-General of Kanto Local Finance Bureau on August 7, 2020

For the second quarter of the 26th fiscal year (July 1, 2020 to September 30, 2020) Submitted to the Director-General of Kanto Local Finance Bureau on November 9, 2020

For the third quarter of the 26th fiscal year (October 1, 2020 to December 31, 2020) Submitted to the Director-General of Kanto Local Finance Bureau on February 10, 2021

Part II. Information Concerning Guarantors of the Reporting Company

Not applicable.

Independent Auditors' Audit Report and Internal Control Audit Report

June 22, 2021

The Board of Directors
Digital Arts Inc.

BDO Sanyu & Co.

Tokyo Office

Designated and
Engagement Partner Certified Public Accountant So Nomura Seal

Designated and
Engagement Partner Certified Public Accountant Koji Kumagai Seal

[Audit of Financial Statements]

Audit Opinion

To conduct audit certification as prescribed in the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements of Digital Arts Inc. for the consolidated fiscal year from April 1, 2020 to March 31, 2021 included in the Financial Information, namely, the consolidated balance sheet, the consolidated statements of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows, significant matters that serve as a basis for the preparation of consolidated financial statements, other notes and consolidated supplementary schedules.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Digital Arts Inc. and its consolidated subsidiaries as of March 31, 2021, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles for consolidated financial statements generally accepted in Japan.

Basis for Opinion

We have conducted the audit in accordance with audit standards that are generally considered fair and reasonable 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 consider that audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Issues of the Audit

Key issues of the audit mean issues that we deem particularly important from a professional perspective in auditing consolidated financial statements for the consolidated fiscal year under review. The key issues of the audit are what were addressed in the process of implementing an audit of all consolidated financial statements and forming audit comments. They do not mean that we state our own view on them.

| Assessment of commercial software of Digital Arts Inc. | |
|--|--|
| Details of key issues of the audit and reasons for decision | How our audit addressed the issues |
| <p>The corporate group headed by Digital Arts Inc. (hereinafter referred to as "the Company") engages mainly in planning, development and sales of Web security, email security, file encryption and tracking solutions as well as data security consulting. Commercial software is the principal products of all these businesses. They are recorded in the <i>software</i> account in the <i>software in progress</i> account included in others as part of intangible assets on the consolidated balance sheet. As of the end of the consolidated fiscal year under review, the Company's <i>software</i> stood at 1,273 million yen, the <i>software in progress</i> at 128 million yen, a large proportion of which is made up by commercial software.</p> <p>Given that the assessment of commercial software is based on the future prospect of earning revenue, it is influenced by the projected sales revenue for the following and subsequent fiscal years.</p> <p>The projected sales revenue is considered to involve subjective judgments of management and to be highly uncertain. Sales of products for which a large part of the contract amounts carried forward have been on the rise in recent years in comparison with those of the conventional type of products for which most of the contract amount is recorded as sales in accounting. It is hence possible that the forecast of sales revenue may be inaccurate and that projected sales revenue may vary significantly if the COVID-19 pandemic expands and lasts long to affect business activities of the Group and sales agents.</p> <p>For these reasons, we have selected it as a key issue of the audit.</p> | <p>We mainly carried out the following audit procedures to discuss the assessment of commercial software.</p> <ul style="list-style-type: none"> - We evaluated internal control related to the assessment of commercial software and <i>software in progress</i>. - We examined the reasonableness of sales forecasts by product, which is included in the Company's sales plan approved by the Board of Directors, which serves as a basis of the future projected sales revenue, after interviewing members of the management about the preconditions for it. - We compared the Company's sales plans for past years and results to study the level of achievement. - We discussed the evaluation of uncertainty attributable to the management, including whether or not alternative assumptions for future projected sales revenue should be adopted. |

Responsibilities of Management and Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and appropriate presentation of consolidated financial statements in accordance with the Generally Accepted Accounting Principles of Japan. Such responsibilities include the establishment and implementation of internal control that management determines is necessary for the preparation and appropriate presentation of consolidated financial statements that are free of any material misstatements due to frauds or errors.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with generally accepted accounting principles of Japan. The Audit & Supervisory Board is responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group'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 our 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. These audit procedures are selected and performed, depending on the auditor's judgment. Obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain an understanding of internal control relevant to the audit in order to assess the risk and design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group'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 Group'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 Group to cease to continue as a going concern.

- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with auditing standards generally accepted in Japan, 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group 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 Board regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

We define those matters discussed with the Audit & Supervisory Board which are deemed particularly important in the audit of the consolidated financial statements for the consolidated fiscal year under review as key issues of the audit and state them in the audit report. However, we do not state matters in the case where publication of these matters is prohibited by laws, ordinances or suchlike or in the very rare case that we judge that they should not be reported on the grounds of reasonably expected disadvantages from the reporting in the audit report that would exceed the public interest.

[Internal Control Audit]

Audit Opinion

To conduct audit certification as prescribed in the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the internal control report of Digital Arts Inc. dated March 31, 2021.

We consider that the aforementioned internal control report, in which Digital Arts Inc. indicates that effective internal control is maintained pertaining to financial reporting as of March 31, 2021, properly reflects the evaluation results of internal control over financial reporting in all important respects, in compliance with internal control evaluation standards over financial reporting that are generally considered fair and reasonable in Japan.

Basis for Opinion

We have conducted the internal control audit in accordance with internal control audit standards over internal reporting that are generally considered fair and reasonable in Japan. Our responsibilities under the auditing standards for internal control over financial reporting 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 the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We consider that audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management and the Audit & Supervisory Board for the Internal Control Report

Management is responsible for the establishment and implementation of internal control as it pertains to financial reporting, as well as the preparation and appropriate presentation of internal control reports, in accordance with internal control evaluation standards over financial reporting that are considered generally fair and reasonable in Japan.

The Audit & Supervisory Board is responsible for overseeing and examining the design and operation of internal control over financial reporting.

It may not be possible, however, to fully prevent or identify the presentation of misstatements due to internal control over financial reporting.

Auditor's Responsibilities for the Audit of Internal Control

Our objectives are to obtain reasonable assurance about whether the internal control report is free from material misstatement based on our audit of internal control and to issue an auditor's report that includes our opinion.

As part of our 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 procedures to obtain audit evidence about the results of the assessments of internal control over financial reporting in the internal control report. The procedures for the audit of the internal control report are selected and performed, depending on the auditor's judgment, based on significance of effect on the reliability of financial reporting.
- Evaluate the overall presentation of the internal control report, including the appropriateness of the scope, procedures and result of the assessments that management presents.
- Obtain sufficient appropriate audit evidence about the results of the assessments of internal control over financial reporting in the internal control report. We are responsible for the direction, supervision and performance of the audit of the internal control report. We remain solely responsible for our audit opinion.

We communicate with the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of our audit of internal control, the results thereof, material weaknesses in internal control identified during our audit of internal control, and those that were remediated.

We also provide the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, 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 Related

There is not any conflict of interest between the Company and its consolidated subsidiaries and BDO Sanyu & Co. or its Engagement Partners which should be disclosed under the provisions of the Certified Public Accountants Act.

(Notes) 1. The above is an electronic copy of what is described in the original audit report that is separately stored by the Company.

2. XBRL data are not within the scope of audits.

Internal Control Audit Report by Independent Auditors

June 22, 2021

The Board of Directors
Digital Arts Inc.

BDO Sanyu & Co.

Tokyo Office

Designated and
Engagement Partner Certified Public Accountant So Nomura Seal

Designated and
Engagement Partner Certified Public Accountant Koji Kumagai Seal

Audit Opinion

To conduct audit certification as prescribed in the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the financial statements of Digital Arts Inc. for the 26th fiscal year starting from April 1, 2020 to March 31, 2021 included in the Financial Information, namely, the balance sheet, the income statement, the statement of changes in equity, significant accounting policies, the notes to specific items, and the annexed detailed statements thereto.

We consider that the aforementioned financial statements properly reflect the financial position of Digital Arts Inc. as of March 31, 2021, as well as its financial results in the fiscal year that ended on the same day, in all important respects, in compliance with the Generally Accepted Accounting Principles of Japan.

Basis for Opinion

We have conducted the audit in accordance with audit standards that are generally considered fair and reasonable in Japan. Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Financial Statements” section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We consider that audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Issues of the Audit

Key issues of the audit mean issues that the auditor deems particularly important from the perspective of a professional specialist in auditing financial statements for the fiscal year under review. The key issues of the audit are what were addressed in the process of implementing an audit of all financial statements and forming audit comments. They do not mean that the we state our own view on them.

Assessment of Commercial Software

The statement of the details about the key issues of the audit, reasons for the decision and how our audit addressed the issues is omitted, given that it is identical with that on the key issues of the audit in the audit report on the consolidated financial statements (i.e. assessment of commercial software of Digital Arts Inc.).

Responsibilities of Management and Audit & Supervisory Board for the Financial Statements

Management is responsible for the preparation and appropriate presentation of financial statements in accordance with the Generally Accepted Accounting Principles of Japan. Such responsibilities include the establishment and implementation of internal control that management determines is necessary for the preparation and appropriate presentation of financial statements that are free of any material misstatements due to frauds or errors.

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern,

disclosing, as applicable, matters related to going concern in accordance with generally accepted accounting principles of Japan. The Audit & Supervisory Board is responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 financial statements.

As part of our 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. These audit procedures are selected and performed, depending on the auditor's judgment. Obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- We do not audit financial statements to express an opinion on the effectiveness of internal control. Nevertheless, to implement risk assessments, we examine internal control as it pertains to the preparation and appropriate presentation of financial statements, thereby ensuring that an appropriate audit procedure program is formulated depending on situations.
- 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 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 Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the financial statements are in accordance with auditing standards generally accepted in Japan, the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

We define those matters discussed with the Audit & Supervisory Board which are deemed particularly important in the audit of the financial statements for the fiscal year under review as key issues of the audit and state them in the audit report. However, we do not state the matters in the case where publication of these matters is prohibited by laws, ordinances or suchlike or in the very rare case that we judge that they should not be reported on the grounds of reasonably expected disadvantages from the reporting in the audit report that would exceed the public interest.

Interest Related

There is not any conflict of interest between the company and BDO Sanyu & Co. or its Engagement Partners which should be disclosed under the provisions of the Certified Public Accountants Act.

(Notes) 1. The above is an electronic copy of what is described in the original audit report that is separately stored by the Company.

2. XBRL data are not within the scope of audits.

