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Items Disclosed on the Internet Concerning Notice of the 14th Annual General Meeting of Shareholders

Business Report

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2. Major lenders
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4. Financial Auditor
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Sansan, Inc.

Pursuant to the provisions of relevant laws and regulations and Article 14 of the Company's Articles of Incorporation, the items listed above are provided to shareholders by posting them on the Company's website (https://ir.corp-sansan.com/en/ir/stock/meeting.html).

1. Principal offices (as of May 31, 2021)

(1) The Company

Head office: Shibuya-ku, Tokyo

(2) Consolidated subsidiaries

Sansan Global Pte. Ltd.	Singapore
Sansan Corporation	State of Delaware, USA
logmi, Inc.	Shibuya-ku, Tokyo

2. Major lenders (as of May 31, 2021)

(Thousands of yen)

Lenders	Outstanding borrowings
Sumitomo Mitsui Banking Corporation	854,470
Mizuho Bank, Ltd.	740,671
MUFG Bank, Ltd.	368,430
Resona Bank, Limited	200,000
Sumitomo Mitsui Trust Bank, Limited	1,420

3. Share acquisition rights

(1) Share acquisition rights held by the Company's officers at the end of fiscal year under review that have been delivered as consideration for their execution of duties

<table>
<tr><td colspan="2"></td><td>3rd Share Acquisition Rights</td></tr>
<tr><td colspan="2">Date of resolution of issue</td><td>January 9, 2019</td></tr>
<tr><td colspan="2">Number of share acquisition rights</td><td>246,578 units</td></tr>
<tr><td colspan="2">Class and number of shares to be acquired upon exercise of share acquisition rights</td><td>Common shares 246,578 shares
(One share per share acquisition right)</td></tr>
<tr><td colspan="2">Amount to be paid in for share acquisition rights</td><td>Without contribution</td></tr>
<tr><td colspan="2">Value of property to be contributed when share acquisition rights are exercised</td><td>¥3,400 per share acquisition right
(¥3,400 per share)</td></tr>
<tr><td colspan="2">Exercise period</td><td>From February 1, 2021 to January 8, 2029</td></tr>
<tr><td colspan="2">Exercise conditions</td><td>(Note 1)</td></tr>
<tr><td>Status of share acquisition rights held by officers</td><td>Directors
(excluding Directors who are Audit & Supervisory Committee Members and Outside Directors)</td><td>Number of share acquisition rights 27,960 units
Number of shares to be acquired 27,960 shares
Number of holders 2</td></tr>
</table>

(Notes) 1. Terms and conditions of exercise of 3rd Share Acquisition Rights are as follows.

(1) The person to whom the share acquisition rights are allotted (the "share acquisition rights holder") must, at the time of exercise of the share acquisition rights, be holding the position of Director, Audit & Supervisory Board Member, or employee of the Company or a subsidiary of the Company. However, this shall not apply in cases where the person resigns at the expiration of his/her term of office, retires at the mandatory retirement age, or when another justifiable reason is acknowledged by the Board of Directors of the Company.

(2) In the event that the share acquisition rights holder dies, the inheritance of the share acquisition rights shall not be permitted.

(3) Pledging of the share acquisition rights, or the creation of security interests shall not be permitted.

2. The 3rd Share Acquisition Rights held by two Directors were granted while they were serving as employees.

(2) Share acquisition rights delivered during the fiscal year under review to employees, etc. as consideration for their execution of duties

Not applicable.

4. Financial Auditor

(1) Name

KPMG AZSA LLC

(2) Amount of remuneration

(Thousands of yen)

	Amount of remuneration
Amount of remuneration for the Financial Auditor for the fiscal year under review	19,400
Total amount of money and other economic benefits that the Company and its subsidiaries should pay to the Financial Auditor	19,400

(Notes) 1. In the audit agreement between the Company and the Financial Auditor, the amount of remuneration for audit under the Companies Act and audit under the Financial Instruments and Exchange Act are not clearly distinguished. As it is not possible to effectively distinguish them, the total amount of both remunerations is described as the amount of remuneration for the Financial Auditor for the fiscal year under review.

2. The Audit & Supervisory Committee has concluded that the remuneration of the Financial Auditor is appropriate and consented to it after confirming the details of the audit plan of the Financial Auditor, the status of performing duties of financial audits, the suitability of the estimate of remuneration for the Financial Auditor and other factors.

3. Among the principal subsidiaries of the Company, Sansan Global Pte. Ltd. is audited by a financial auditor other than the Company's Financial Auditor.

(3) Details of non-audit services

Not applicable.

(4) Policy on decisions of dismissal or non-reappointment of the Financial Auditor

If deemed necessary by the Audit & Supervisory Committee in cases such as where the Financial Auditor has difficulty in executing audit duties, the Audit & Supervisory Committee shall decide the content of a proposal regarding the dismissal or non-reappointment of the Financial Auditor to be submitted to a general meeting of shareholders.

If the Audit & Supervisory Committee determines that any of the provisions of Article 340, paragraph (1) of the Companies Act applies with respect to the Financial Auditor, it shall dismiss the Financial Auditor based on a resolution by the Audit & Supervisory Committee. In this case, the Audit & Supervisory Committee Member selected by the Audit & Supervisory Committee shall present a report stating the purport of the dismissal of the Financial Auditor and the reasons therefor to the first general meeting of shareholders convened after the dismissal.

5. System to ensure the properness of business operations (Internal control system)

(1) Overview of decisions on the system to ensure the properness of business operations

Overview of decisions on the system to ensure that the execution of duties by Directors complies with laws and regulations as well as the Articles of Incorporation, and other systems to ensure the properness of business operations of the Company and business operations of the corporate group composed of its subsidiaries (Basic Policy on Internal Control Systems) is as follows.

(i) System to ensure that the execution of duties by Directors and employees complies with laws and regulations as well as the Articles of Incorporation (System for strict compliance with laws and regulations and the Articles of Incorporation)

The Directors and employees shall carry out appropriate corporate activities based on a strong sense of ethics founded on compliance with laws and regulations and other internal rules such as the Articles of Incorporation in accordance with the Company's corporate philosophy and code of conduct, "The Katachi of Sansan."

In addition, internal audits are implemented by the Internal Auditing Department, an independent entity under the direct supervision of the Representative Director & CEO, and the Company shall verify whether business operations are conducted based on laws and regulations, the Articles of Incorporation, internal rules and other regulations, while striving to make improvements wherever necessary when issues are discovered.

(ii) System for storage and management of information related to execution of duties by Directors (Information storage and management system)

The Company shall appropriately prepare, store and manage documents, business forms, various information such as records made in an electronic format based on the Rules on Document Management, after classifying according to level of confidentiality.

In addition, Directors may access these documents and records at any time.

(iii) Rules and other systems for managing risk of loss (Risk management system)

The Company shall appropriately manage a host of potential risks in the Company's business activities through the establishment of internal rules and a response system.

In particular, utmost priority is given to the appropriate handling of personal information, a person is appointed to be in charge of personal information protection, and efforts are made to minimize the risks associated with the management of personal information by establishing internal rules centered on basic regulations for the protection of personal information. Efforts are made to reduce information security risks by appointing a Chief Information Officer with responsibility and authority for information security risks and risk management, and by establishing rules on management of information systems.

Directors shall immediately report to the Audit & Supervisory Committee in the event of any kind of risk arising that may cause a major loss to the Company.

(iv) System to ensure that the duties of the Directors are being carried out efficiently (System for securing efficiency)

Regular meetings comprising Directors are held once a month and extraordinary meetings are convened as needed in order to supervise the status of business execution by discussing and making decisions on important matters in accordance with laws and regulations, the Articles of Incorporation, and the Board of Directors' Rules, and receiving reports from Executive Directors.

The Company shall establish a suitable and efficient decision making system through developing internal rules such as the Board of Directors' Rules, and clarifying areas of responsibility and authority.

Efforts are made to streamline decision making by promoting the digitization of various internal procedures.

(v) System to ensure the properness of business operations of the corporate group composed of the Company and its subsidiaries (Internal control of corporate group)

The Company and its subsidiaries, etc., which comprise the Sansan Group, have held up a policy to carry out appropriate corporate activities based on high ethical standards and to comply with their respective corporate philosophy and code of conduct as well as applicable laws and regulations and internal rules, such as the Articles of Incorporation, and endeavor to develop fair and responsible business to contribute to sustainable growth of the Sansan Group.

In addition, as the basic policy for involvement in management of its subsidiaries, the Company has established the Rules on Management of Subsidiaries and maintains a system in which group governance can function, such as concluding business management agreements with the subsidiaries pursuant to said rules.

The Internal Auditing Department implements regular audits in order to verify if the business operations of the Company and its subsidiaries are in compliance with laws and regulations, the Articles of Incorporation, internal rules, and other regulations.

(vi) Internal control system for financial reporting (System to ensure properness of financial reporting)

In order to secure the properness of financial reporting of the Company and its subsidiaries, the Company shall develop and appropriately operate internal rules, including the Basic Policy on Internal Controls Related to Financial Reporting, based on the Financial Instruments and Exchange Act and other laws and regulations in Japan and overseas that apply to the Company and its subsidiaries.

The Company shall develop and operate a monitoring system for financial reporting and it shall also establish a system for timely and appropriate reporting when internal control system problems or defects are identified through the monitoring system.

In terms of information infrastructure, effective and efficient use of the internal control system is made for financial reporting and the Company shall respond appropriately with respect to general control and application control of that structure.

(vii) Matters related to the Office that assists the duties of the Audit & Supervisory Committee, matters related to the independence of members of that Office, and matters on ensuring the practicability of instructions to those members (Establishing an Office and Office member for the Audit & Supervisory Committee) (Independence of the Office member for the Audit & Supervisory Committee) (Ensuring practicability of instructions to the Office member of the Audit & Supervisory Committee)

The Company shall establish an Office under the direct control of the Audit & Supervisory Committee and an Office member is designated to assist the duties of the Committee's members on a full time basis.

The supervisory authority over that Office member is to belong exclusively to the Audit & Supervisory Committee and the appointment, transfer, performance evaluation, disciplinarian action, and other matters regarding the member require the approval of, and prior notification to, the Audit & Supervisory Committee.

(viii) System for submitting reports to the Audit & Supervisory Committee, which includes the system for Directors and employees to report to the Audit & Supervisory Committee (System for reporting to the Audit & Supervisory Committee)

Directors and employees shall promptly inform the Audit & Supervisory Committee of any matter that may have a significant impact on the Company and the implementation status of internal audits as well as legal matters, and provide necessary reports and information in response to requests from the Audit & Supervisory Committee.

The Company shall formulate rules for a Whistle-Blower System and ensure the operation of an appropriate reporting system based on the stipulations of the Whistle-Blower System. The Company shall not treat any Director or employee unfavorably on the basis of that

Director or employee using the System to give a report to the Audit & Supervisory Committee.

(ix) Other: Systems for ensuring the effectiveness of audits by the Audit & Supervisory Committee (Systems for ensuring the effectiveness of audits by the Audit & Supervisory Committee)

The Representative Director & CEO shall meet regularly with the Audit & Supervisory Committee and Financial Auditor to exchange opinions and communicate effectively.

The Audit & Supervisory Committee shall meet regularly with the Financial Auditor, cooperate with the Internal Auditing Department, and exchange information at all times.

Payments of costs incurred in the process of executing the duties of the Audit & Supervisory Committee member shall be addressed upon a request for payment.

(2) Overview of operational status of the system to ensure the properness of business operations

The Company has established and implemented an internal control system based on the aforementioned Basic Policy on Internal Control Systems. An overview of its operational status is as follows.

During the fiscal year under review, the Company held 17 meetings of the Board of Directors. Outside Directors that have no conflict of interest with the Company were always in attendance to ensure that Directors executed their duties lawfully and to improve the efficiency of the Directors' execution of duties, and exchanged opinions with the Executive Directors. In addition, the Company held 13 meetings of the Audit & Supervisory Committee, which is composed of four Outside Directors. The Company has established the Office member dedicated to the Audit & Supervisory Committee, who provides reports regarding the status of internal audit implementation, as well as reports and information as requested by the Audit & Supervisory Committee. Furthermore, with regard to the Board of Directors, in addition to the aforementioned meetings of the Board of Directors held, there were six resolutions in writing, which were deemed to be equivalent to resolutions by a meeting of the Board of Directors in accordance with the provisions of Article 370 of the Companies Act and Article 24 of the Articles of Incorporation of the Company.

With regard to the system for complying with laws and regulations and ensuring the appropriateness of business operations, annual comprehensive audits of all the departments of head office continued to be set up with the 14th Internal Audit Plan made a core part of those activities, and internal audits aimed at contributing to establishing and strengthening group-wide systems have been implemented through a process of identifying issues based on a close examination from a chronological perspective. Audit results are explained to the audited divisions and the status of improvement is examined. In addition, efforts are made to further enhance the internal control system through cooperation with the Audit & Supervisory Committee and other measures.

With regard to risk management, a list of accidents and emergencies with the potential to cause the leakage of personal information is reported to the Board of Directors on a monthly basis, and every effort is made to identify potential risks. Employees, including temporary employees receive training on protecting personal information in order to deepen knowledge and understanding of the appropriate handling of personal information. Also, both permanent employees and contract employees are encouraged to acquire certification as Protection of Individual Information Person, and the Company is keeping record of such certification acquirement. Furthermore, with regard to the development of basic regulations for the protection of personal information, and checking the status of its implementation, audits are implemented in accordance with the annual audit plan that is formulated by the person in charge of the protection of personal information. With regard to other matters concerning information security of the Company, vulnerability and penetration tests are implemented, and vulnerability countermeasures are taken from an objective perspective.

With regard to the subsidiary management system, the Company has entered into business management agreements with Sansan Global Pte. Ltd. and logmi, Inc., which are under the scope of consolidation, in accordance with the Rules on Management of Subsidiaries, and while keeping track of the status of business operations through a requirement to provide prior approval for important management decisions, the Company has dispatched officers as outside directors to each company, and is sharing issues and providing guidance and assistance in the area of practical management. In the case of Sansan Global Pte. Ltd., which is a local corporation overseas, the Company secures the suitability of proper business operations from the perspective of the Company and the subsidiary by requiring that it has an audit undertaken by a local audit firm.

With regard to the internal control system for financial reporting, the Internal Auditing Department implemented evaluation in accordance with the internal controls evaluation annual plan pursuant to the Basic Policy on Internal Controls Related to Financial Reporting, one of the Company's internal rules. As a result of implementing roll-forward procedures for each of the evaluation items based on evaluations provided during the period, it was confirmed that the internal controls for the fiscal year under review were effective.

Consolidated statement of changes in equity

(From June 1, 2020 to May 31, 2021)

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	6,236,650	3,977,043	344,184	–	10,557,879
Changes during period					
Issuance of new shares	76,295	76,295			152,591
Purchase of treasury shares				(262)	(262)
Profit attributable to owners of parent			182,654		182,654
Net changes in items other than shareholders' equity					–
Total changes during period	76,295	76,295	182,654	(262)	334,983
Balance at end of period	6,312,946	4,053,338	526,839	(262)	10,892,863

	Accumulated other comprehensive income			Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of period	–	(15,921)	(15,921)	10,663	–	10,552,621
Changes during period						
Issuance of new shares						152,591
Purchase of treasury shares						(262)
Profit attributable to owners of parent						182,654
Net changes in items other than shareholders' equity	1,622,129	17,052	1,639,181	55,223	2,888	1,697,292
Total changes during period	1,622,129	17,052	1,639,181	55,223	2,888	2,032,276
Balance at end of period	1,622,129	1,130	1,623,260	65,886	2,888	12,584,898

(Note) Amounts less than ¥1 thousand are rounded down.

Notes to consolidated financial statements

1. Notes regarding significant accounting policies for preparation of consolidated financial statements

(1) Disclosure of scope of consolidation

(i) Consolidated subsidiaries

- Number of consolidated subsidiaries: 3
- Names of consolidated subsidiaries:
  Sansan Global Pte. Ltd.
  Sansan Corporation
  logmi, Inc.

(ii) Unconsolidated subsidiaries

4th Share Acquisition Rights Trust

Reasons for exclusion from scope of consolidation

4th Share Acquisition Rights Trust is excluded from the scope of consolidation because of its smallness in scale, and because its net assets, net sales, profit or loss (amount corresponding to equity interest), retained earnings (amount corresponding to equity interest), etc. do not have a significant impact on the consolidated financial statements.

(iii) Disclosure of change in scope of consolidation

logmi, Inc. is included in the scope of consolidation effective from the fiscal year under review due to the purchase of 70.1% of that company's shares outstanding.

(iv) Disclosure about fiscal years, etc. of consolidated subsidiaries

The balance sheet date of the financial statements of all consolidated subsidiaries coincides with the balance sheet date of the consolidated financial statements of the Company.

(2) Disclosure about application of equity method

(i) Affiliates accounted for using equity method

- Number of affiliates accounted for using equity method: 3
- Names of affiliates:
  Creative Survey, Inc.
  SATORI, Inc.
  EventHub Co., Ltd.

(ii) Unconsolidated subsidiaries not accounted for using equity method

4th Share Acquisition Rights Trust is excluded from the scope of application of equity method because its profit or loss (amount corresponding to equity interest), retained earnings (amount corresponding to equity interest), etc. have an immaterial impact on the consolidated financial statements, and it is not significant as a whole.

(iii) Disclosure of changes in scope of application of equity method

EventHub, Co., Ltd. is included in the scope of affiliates accounted for using the equity method effective from the fiscal year under review due to the purchase of that company's shares.

(iv) Special notes regarding procedures for applying equity method

If any of the companies to which the equity method is applied has a balance sheet date that differs from the consolidated balance sheet date, then the financial statements for the most recent fiscal year of that company are used.

(3) Disclosure of accounting policies

(i) Accounting policy for measuring significant assets

a. Other securities (available-for-sale securities)

Securities with fair value: Stated at the quoted market price prevailing at the end of the fiscal year. Net unrealized gains or losses on these securities are reported as a separate component of net assets at a net-of-tax amount. Cost of sales is determined using the moving-average method.

Securities without fair value: Stated at cost using the moving-average method

b. Inventories

Work in process: Stated at cost using the identified cost method (consolidated balance sheet amounts are determined based on the method of writing down the book value in accordance with the declining in profitability of assets)

(ii) Accounting policy for depreciation of significant assets

a. Property, plant and equipment (excluding leased assets)

Facilities attached to buildings, structures and some tools, furniture and fixtures acquired on or after April 1, 2016 are depreciated using the straight-line method, and other property, plant and equipment are depreciated using the declining-balance method.

b. Intangible assets (excluding leased assets)

Amortized using the straight-line method. Software for internal use is amortized using the straight-line method over its useful life as internally determined (3 to 5 years).

c. Leased assets

- Leased assets related to finance lease transactions that transfer ownership

  Leased assets related to finance lease transactions that transfer ownership are depreciated by the same approach as the depreciation method applied to non-current assets owned by lessee.

- Leased assets related to finance lease transactions that do not transfer ownership

  Leased assets related to finance lease transactions that do not transfer ownership are depreciated using the straight-line method assuming the lease periods as useful lives without residual value.

(iii) Accounting policy for deferred assets

Share issuance costs

Share issuance costs are fully recognized as expenses when incurred.

(iv) Accounting policy for significant provisions

a. Allowance for doubtful accounts

To prepare for losses from bad debts, an estimated uncollectible amount is provided by using the historical rate of credit loss in the case of general receivables, or based on individual consideration of collectibility in the case of specific receivables such as highly doubtful receivables.

b. Provision for bonuses

A reserve for the employee bonus payment is provided by recording the estimated amounts of the future payments attributed to the fiscal year under review.

(v) Method and period for amortization of goodwill

Goodwill is amortized over a ten-year period using the straight-line method.

(vi) Accounting policy for foreign currency translation

Monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rate prevailing as of the consolidated balance sheet date, and differences arising from the foreign exchange are recognized as gains or losses. Assets and liabilities of the foreign subsidiaries are translated into Japanese yen at the spot exchange rate prevailing as of the consolidated balance sheet date, while revenues and expenses of foreign subsidiaries are translated into Japanese yen at the average exchange rate during the fiscal year under review. Differences arising from these translations are included in foreign currency translation adjustment under net assets.

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

Accounting policy for consumption taxes

Transactions subject to consumption taxes and local consumption taxes are recorded at amounts exclusive of consumption taxes in the consolidated statement of income.

2. Notes regarding changes in presentation

Changes in accordance with adoption of "Accounting Standard for Disclosure of Accounting Estimates"

The "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) has been applied from the fiscal year under review, and notes regarding accounting estimates are included in notes to consolidated financial statements.

3. Notes regarding accounting estimates

Recoverability of deferred tax assets

(1) Amounts recorded in the consolidated financial statements for the fiscal year under review

Deferred tax assets ¥158,294 thousand (before offset)

(2) Other information to assist understanding of the content of estimates

Deferred tax assets have been calculated using estimates of the future timing at which taxable income will be generated and the amounts thereof based on business plans. Those estimates may be affected by uncertain future changes in economic conditions, etc. If the timing at when taxable income is actually generated and the amounts thereof differ from the estimates, the amount of deferred tax assets recognized in the consolidated financial statements for the next fiscal year may be significantly affected.

Valuation of goodwill

(1) Amounts recorded in the consolidated financial statements for the fiscal year under review

Goodwill ¥185,662 thousand

(2) Other information to assist understanding of the content of estimates

In the case where a test is made for indicators of impairment and indicators of impairment are identified, the Company determines whether recognition of impairment loss on goodwill is necessary or not by calculating the undiscounted future cash flows for the period corresponding to the remaining goodwill amortization period based on the business plan and comparing that with the carrying amount. If it is determined that recognition of impairment loss is necessary, the carrying amount of that goodwill is reduced to the recoverable amount and the amount of the reduction is recognized as the impairment loss. In the fiscal year under review, indicators of impairment were not identified for goodwill.

This estimate could be affected by such unpredictable changes as the business environment in the future, and if the estimated future cash flow were to deteriorate, it may become necessary to recognize impairment loss in the consolidated financial statements in the following fiscal year.

Valuation of investment securities

(1) Amounts recorded in the consolidated financial statements for the fiscal year under review

Investment securities ¥2,270,696 thousand (unlisted stocks)

(2) Other information to assist understanding of the content of estimates

The Company determines whether or not there is any impairment of excess earning power when making a valuation by grasping the state of investment achievement by performing an actual-result comparison on the business plan that was formulated at the time of investment and considering the external economic environment, etc. to assess the attainability of future business plans. As it was determined that there was no impairment of excess earning power in the fiscal year under review, a loss on valuation was not recognized.

In the event that the investee's actual results, etc. falls below the plan formulated at the time of investment, excess earning power will be deemed to have been impaired, and impairment accounting may be performed.

4. Notes regarding changes in accounting estimates

Changes in the useful lives of property, plant and equipment

From the fiscal year under review, the Company has changed its estimates of the useful lives of some property, plant and equipment from three years to five years. This change was made to change the useful lives of facilities attached to buildings and tools, furniture and fixtures primarily related to the head office to better reflect reality in light of actual utilization of the office and relevant assets. As a result of this change, operating profit, ordinary profit and profit before income taxes for the fiscal year ended May 31, 2021 are each ¥105,386 thousand higher than they would have been under the previous estimates of useful lives.

5. Additional information

Accounting estimates associated with the spread of COVID-19

Regarding the impact of the novel coronavirus disease (COVID-19), it is difficult to accurately estimate how it will spread in the future, when it will end, etc. In the next fiscal year, based on the assumption that the economic impact of the spread of COVID-19 will continue until the end of the fiscal year ending May 31, 2022, accounting estimates, such as the recoverability of deferred tax assets, were made.

6. Notes to the consolidated balance sheet

Accumulated depreciation of property, plant and equipment: ¥578,006 thousand

7. Notes to the consolidated statement of changes in equity

(1) Class and number of shares of issued shares as of the end of the fiscal year under review

Common shares: 31,183,645 shares

(2) Class and number of shares of treasury shares

Common shares: 40 shares

(3) Class and number of shares to be acquired upon exercise of the share acquisition rights (excluding those for which the first day of the exercise period has not arrived) in the fiscal year under review

Common shares: 805,829 shares

8. Notes regarding financial instruments

(1) Matters relating to financial instruments

(i) Policies for financial instruments

The policy of the Group is to limit its investment of funds to short-term deposits, mainly those with no risk on loss of principal, and the Group does not make speculative transactions, including derivative transactions. Financing requirements shall be met by using the Company's own capital or borrowing funds from financial institutions.

(ii) Descriptions of financial instruments and risks associated therewith

Investment securities mainly consist of securities of companies with which a business relationship has been established and are exposed to market fluctuation risk.

Leasehold deposits are mainly leasehold deposits for the head office and exposed to the credit risk of lessors.

Accounts payable classified as operating payables are all due within one year. Long-term borrowings are mainly taken out to fund working capital and investment capital requirements and the longest maturity from the date of the balance sheet is three years and six months.

(iii) System for managing risks associated with financial instruments

a. Credit risk management (risks associated with non-performance of contract by counterparties)

For investment securities, financial conditions of issuers are assessed on a regular basis.

For leasehold deposits, the responsible department monitors statuses as necessary to seek for an early identification of collectability concern in order to mitigate risk of non-performance caused by deteriorated financial condition of counterparties and other factors.

b. Management of liquidity risks associated with fund procurement (risks associated with non-repayment on due date)

The administrative division manages liquidity risk by preparing and renewing cash management plans in a timely manner while maintaining liquidity in hand.

(iv) Supplemental information on fair values of financial instruments

The fair values of financial instruments include the value based on market prices and reasonably estimated values if there are no market prices. Because the calculation of such values incorporates variable factors, the values may vary in case where different assumptions, etc. are used.

(2) Matters relating to fair value of financial instruments

The table below shows the amounts of financial instruments recorded in the consolidated balance sheet and their fair values as of May 31, 2021, as well as their differences. Financial instruments whose fair value is deemed to be extremely difficult to determine are not included (see Note 3).

(Thousands of yen)

	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and deposits	12,389,111	12,389,111	–
(2) Accounts receivable - trade	571,096	571,096	–
(3) Investment securities	5,871,435	5,871,435	–
(4) Leasehold deposits	702,472	699,789	(2,682)
Total assets	19,534,115	19,531,433	(2,682)
(1) Accounts payable - trade	195,216	195,216	–
(2) Accounts payable - other	1,175,172	1,175,172	–
(3) Short-term borrowings	200,000	200,000	–
(4) Long-term borrowings	1,964,991	1,965,499	507
Total liabilities	3,535,380	3,535,888	507

(Notes) 1. Long-term borrowings include the current portion of long-term borrowings.

2. Method of computing the fair value of financial instruments

Assets

(1) Cash and deposits and (2) Accounts receivable - trade

These instruments can be settled within short term and their fair value is roughly equal to book value, therefore their fair value is stated at book value.

(3) Investment securities

In principle, the values of listed shares in investment securities are based on quoted market prices.

(4) Leasehold deposits

Fair value of leasehold deposits is stated at the net present value, which is calculated by discounting the future estimated refund from leasehold deposits by a reasonable interest rate.

Liabilities

(1) Accounts payable - trade, (2) Accounts payable - other and (3) Short-term borrowings

These instruments can be settled within short term and their fair value is roughly equal to book value, therefore their fair value is stated at book value.

(4) Long-term borrowings

Fair value of long-term borrowings is stated at the net present value, which is calculated by discounting the total amount of principal and interest by the applicable interest rate based on the assumption that a similar borrowing is newly executed.

3. Financial instruments whose fair value is deemed to be extremely difficult to determine

(Thousands of yen)

Category	Consolidated balance sheet amount
Investment securities	
Unlisted stocks	2,270,696
Investments in investment limited partnerships	202,815

These items are not presented as fair value disclosure item since they have no market prices and their fair values are deemed extremely difficult to determine.

9. Notes regarding per share information

(1) Net assets per share ¥403.57

(2) Basic earnings per share ¥5.86

10. Notes regarding significant events after reporting period

Purchase of investment securities

The Company used ¥1,900,000 thousand to acquire 1,900 shares of Class A preferred stock issued by Fringe81 Co., Ltd. through third-party allotment on June 30, 2021, based on the resolution at the meeting of the Board of Directors that took place on May 19, 2021.

The total amount of funds required for acquiring the Class A preferred stock is provided through borrowing from financial institutions.

Issuance of share acquisition rights (compensatory stock options)

At the meeting of the Board of Directors held on July 14, 2021, the Company resolved to issue the 6th Share Acquisition Rights to Directors and Executive Officers of the Company in accordance with the provisions of Articles 236, 238, and 240 of the Companies Act.

6th Share Acquisition Rights

Number of share acquisition rights	200 units
Class and number of shares to be acquired upon exercise of share acquisition rights	Common shares of the Company, 20,000 shares (100 shares per share acquisition right)
Issuance price of share acquisition rights	¥109,000 per share acquisition right
Exercise price of share acquisition rights	¥837,000 per share acquisition right
Issuance price and additional paid-in capital in the event of issuance of shares upon exercise of share acquisition rights	Issuance price: ¥8,370 per share Additional paid-in capital: ¥4,185 per share
Allotment date of share acquisition rights	August 24, 2021
Persons subject to allotment of share acquisition rights	6 Directors of the Company 13 Executive Officers of the Company
Exercise period of share acquisition rights	From September 1, 2022 to August 23, 2031
Exercise conditions of share acquisition rights	*

* 1. The person to whom the share acquisition rights are allotted (the "share acquisition rights holder") may exercise his or her share acquisition rights only if the amount of net sales in the Company's consolidated statement of income for the fiscal year ending May 31, 2022 has exceeded ¥20,386 million.

2. The share acquisition rights holders are required to have a position in the Company or a subsidiary and associate of the Company as Director, Audit & Supervisory Board Member or employee at the time of exercising the share acquisition rights. However, this shall not apply in the event of resignation due to the expiration of the term of office, mandatory retirement, or when a justifiable reason is acknowledged at a meeting of the Board of Directors.
3. In the event the share acquisition rights holder dies, inheritance shall not be recognized.
4. Pledging of share acquisition rights, or the creation of security interests shall not be permitted.
5. The share acquisition rights may not be exercised if, in so doing, the total number of the Company's issued shares at that time would exceed the total number of authorized shares.
6. It shall not be possible to exercise fractions less than one unit of the share acquisition rights.

Sale of investment securities

The Company sold shares it held of WingArc1st Inc. on July 20, 2021, pursuant to the resolution of the Board of Directors on July 14, 2021.

(1) Reason for sale of investment securities

To improve efficiency of assets held.

(2) Details of sale of investment securities

(i) Shares sold	Part of the Company's holding of shares of WingArc1st Inc.
(ii) Timing of gain on sale of investment securities arising	Fiscal year ending May 31, 2022

(iii) Gain on sale of investment securities (expected amount)	¥979 million

Non-consolidated statement of changes in equity

(From June 1, 2020 to May 31, 2021)

(Thousands of yen)

	Shareholders' equity							
		Capital surplus		Retained earnings				
				Other retained earnings				
	Share capital	Legal capital surplus	Total capital surplus	Voluntary retained earnings	Retained earnings brought forward	Total retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	6,236,650	3,977,043	3,977,043	150,073	238,347	388,421	–	10,602,115
Changes during period								
Issuance of new shares	76,295	76,295	76,295					152,591
Purchase of treasury shares							(262)	(262)
Profit					490,598	490,598		490,598
Net changes in items other than shareholders' equity								–
Total changes during period	76,295	76,295	76,295	–	490,598	490,598	(262)	642,927
Balance at end of period	6,312,946	4,053,338	4,053,338	150,073	728,946	879,019	(262)	11,245,043

	Valuation and translation adjustments		Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at beginning of period	–	–	10,663	10,612,778
Changes during period				
Issuance of new shares				152,591
Purchase of treasury shares				(262)
Profit				490,598
Net changes in items other than shareholders' equity	1,622,129	1,622,129	55,223	1,677,352
Total changes during period	1,622,129	1,622,129	55,223	2,320,280
Balance at end of period	1,622,129	1,622,129	65,886	12,933,059

(Note) Amounts less than ¥1 thousand are rounded down.

Notes to non-consolidated financial statements

1. Notes regarding matters relating to significant accounting policies

(1) Accounting policy for measuring assets

(i) Shares of subsidiaries and affiliates

Stated at cost using the moving-average method

(ii) Other securities (available-for-sale securities)

Securities with fair value:	Stated at the quoted market price prevailing at the end of the fiscal year. Net unrealized gains or losses on these securities are reported as a separate component of net assets at a net-of-tax amount. Cost of sales is determined using the moving-average method.
Securities without fair value:	Stated at cost using the moving-average method

(iii) Inventories

Work in process:	Stated at cost using the identified cost method (balance sheet amounts are determined based on the method of writing down the book value in accordance with the declining in profitability of assets)

(2) Accounting policy for depreciation of assets

(i) Property, plant and equipment (excluding leased assets)

Facilities attached to buildings, structures and some tools, furniture and fixtures acquired on or after April 1, 2016 are depreciated using the straight-line method, and other property, plant and equipment are depreciated using the declining-balance method.

(ii) Intangible assets (excluding leased assets)

Amortized using the straight-line method.

Software for internal use is amortized using the straight-line method over its useful life as internally determined (3 years).

(iii) Leased assets

- Leased assets related to finance lease transactions that transfer ownership

  Leased assets related to finance lease transactions that transfer ownership are depreciated by the same approach as the depreciation method applied to non-current assets owned by lessee.
- Leased assets related to finance lease transactions that do not transfer ownership

  Leased assets related to finance lease transactions that do not transfer ownership are depreciated using the straight-line method assuming the lease periods as useful lives without residual value.

(3) Accounting policy for deferred assets

Share issuance costs

Share issuance costs are fully recognized as expenses when incurred.

(4) Accounting policy for provisions

(i) Allowance for doubtful accounts

To prepare for losses from bad debts, an estimated uncollectible amount is provided by using the historical rate of credit loss in the case of general receivables, or based on individual consideration of collectibility in the case of specific receivables such as highly doubtful receivables.

(ii) Provision for bonuses

A reserve for the employee bonus payment is provided by recording the estimated amounts of the future payments attributed to the fiscal year under review.

(5) Other significant matters for the basis of preparation of non-consolidated financial statements

Accounting policy for consumption taxes

Transactions subject to consumption taxes and local consumption taxes are recorded at amounts exclusive of consumption taxes in the statement of income.

2. Notes regarding changes in presentation

Changes in accordance with adoption of "Accounting Standard for Disclosure of Accounting Estimates"

The "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No. 31, March 31, 2020) has been applied from the fiscal year under review, and notes regarding accounting estimates are included in notes to non-consolidated financial statements.

3. Notes regarding accounting estimates

Recoverability of deferred tax assets

(1) Amounts recorded in the non-consolidated financial statements for the fiscal year under review

Deferred tax assets	¥158,294 thousand (before offset)

(2) Other information to assist understanding of the content of estimates

This information is omitted as it is the same as that provided in notes regarding accounting estimates for the consolidated financial statements.

Valuation of investment securities and shares of subsidiaries and associates

(1) Amounts recorded in the non-consolidated financial statements for the fiscal year under review

Investment securities	¥158,141 thousand (unlisted stocks)
Shares of subsidiaries and associates	¥2,858,159 thousand

(2) Other information to assist understanding of the content of estimates

This information is omitted as it is the same as that provided in notes regarding accounting estimates for the consolidated financial statements.

4. Notes regarding changes in accounting estimates

Changes in the useful lives of property, plant and equipment

From the fiscal year under review, the Company has changed its estimates of the useful lives of some property, plant and equipment from three years to five years. This change was made to change the useful lives of facilities attached to buildings, and tools, furniture and fixtures primarily related to the head office to better reflect reality in light of actual utilization of the office and relevant assets.
As a result of this change, operating profit, ordinary profit and profit before income taxes for the fiscal year ended May 31, 2021 are each ¥105,386 thousand higher than they would have been under the previous estimates of useful lives.

5. Additional information

Accounting estimates associated with the spread of COVID-19

Regarding the impact of COVID-19, it is difficult to accurately estimate how it will spread in the future, when it will end, etc. In the next fiscal year, based on the assumption that the economic impact of the spread of COVID-19 will continue until the end of the fiscal year ending May 31, 2022, accounting estimates, such as the recoverability of deferred tax assets, were made.

6. Notes to the non-consolidated balance sheet

(1) Accumulated depreciation of property, plant and equipment ¥577,040 thousand

(2) Monetary receivables from, and monetary payables to, subsidiaries and associates

Short-term monetary receivables:	¥29,115 thousand
Short-term monetary payables:	¥13,710 thousand

7. Notes to the non-consolidated statement of income

Transactions with subsidiaries and associates

Transactions relating to the Company’s operation	
Net sales:	¥18,712 thousand
Cost of sales:	¥3,600 thousand
Selling, general and administrative expenses:	¥100,857 thousand
Amount of non-operating transactions	¥1,192 thousand

8. Notes to the non-consolidated statement of changes in equity

Class and number of shares of treasury shares as of the end of the fiscal year under review

Common shares:	40 shares

9. Notes regarding tax effect accounting

Breakdown of deferred tax assets by major cause of accrual

	(Thousands of yen)
Deferred tax assets	
Excess depreciation	517,625
Provision for bonuses	109,338
Loss on valuation of shares of subsidiaries and associates	80,683
Accrued business tax	38,465
Tax loss carryforward	1,560,694
Other	117,905
Subtotal deferred tax assets	2,424,714
Valuation allowance for tax loss carryforward	(1,560,694)
Valuation allowance for total deductible temporary differences	(705,725)
Subtotal valuation allowance	(2,266,420)
Total deferred tax assets	158,294
Deferred tax liabilities	
Valuation difference on available-for-sale securities	729,584
Total deferred tax liabilities	729,584
Net deferred tax liabilities	571,290

10. Notes regarding per share information

(1) Net assets per share	¥414.74
(2) Basic earnings per share	¥15.75

11. Notes regarding significant events after reporting period

Purchase of investment securities

The Company used ¥1,900,000 thousand to acquire 1,900 shares of Class A preferred stock issued by Fringe81 Co., Ltd. through third-party allotment on June 30, 2021, based on the resolution at the meeting of the Board of Directors that took place on May 19, 2021.

The total amount of funds required for acquiring the Class A preferred stock is provided through borrowing from financial institutions.

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