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Annual Report

(Regulatory filing based on Article 24, Paragraph (1) of the
Financial Instruments and Exchange Act of Japan)

From October 1, 2020 to September 30, 2021

(The 21st Fiscal Year)

Kanamic Network Co., LTD

4-20-3 Ebisu, Shibuya-ku, Tokyo

(E32603)

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【Cover】

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| 【Company name in Japanese】 | Kabushiki Gaisha Kanamikku Nettowa-ku |
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Part I 【Company Information】

Item 1. 【Overview】

1 【Key financial data】

(1) Consolidated financial data

| Fiscal year | | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
|---|--------------------|----------------|----------------|----------------|----------------|----------------|
| Fiscal year end | | September 2017 | September 2018 | September 2019 | September 2020 | September 2021 |
| Net sales | (thousands of yen) | — | — | — | 1,881,444 | 2,080,776 |
| Ordinary profit | (thousands of yen) | — | — | — | 676,999 | 829,941 |
| Profit attributable to owners of parent | (thousands of yen) | — | — | — | 472,699 | 579,583 |
| Comprehensive income | (thousands of yen) | — | — | — | 472,848 | 581,657 |
| Net assets | (thousands of yen) | — | — | — | 1,905,848 | 1,959,242 |
| Total assets | (thousands of yen) | — | — | — | 2,303,003 | 4,395,056 |
| Net assets per share | (yen) | — | — | — | 39.60 | 41.22 |
| Profit per share | (yen) | — | — | — | 9.82 | 12.08 |
| Diluted profit per share | (yen) | — | — | — | — | 11.98 |
| Equity ratio | (%) | — | — | — | 82.8 | 44.5 |
| Return on equity | (%) | — | — | — | 24.8 | 30.0 |
| Price earnings ratio | (times) | — | — | — | 82.3x | 51.0x |
| Cash flows from operating activities | (thousands of yen) | — | — | — | 634,828 | 756,754 |
| Cash flows from investing activities | (thousands of yen) | — | — | — | -103,632 | -216,032 |
| Cash flows from financing activities | (thousands of yen) | — | — | — | -48,130 | 1,458,641 |
| Cash and cash equivalents at end of period | (thousands of yen) | — | — | — | 1,706,530 | 3,710,780 |
| Number of employees | | — | — | — | 77 | 84 |
| (Separately, average number of temporary employees) | | (—) | (—) | (—) | (—) | (—) |

(Note) 1. The Company changed to consolidated financial results from FY 2020, and therefore previous results are not presented.

2. Net sales does not include consumption taxes, etc.

3. Diluted profit per share for FY 2020 is not shown because there were no dilutive securities.

4. Furthermore, because FY 2020 was the first fiscal year in which the Company applied consolidated accounting, ROE for FY 2020 is calculated based on Shareholders' Equity at fiscal year-end.

5. The number of employees includes only full-time employees and excludes temporary employees. The average number of temporary and part-time employees during the fiscal year is shown separately in parenthesis.

(2) Non-consolidated financial data

| Fiscal year | FY 2017 | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
|--|---------------------------|-----------------|----------------|----------------|----------------|
| Fiscal year end | September 2017 | September 2018 | September 2019 | September 2020 | September 2021 |
| Net Sales (thousands of yen) | 1,291,854 | 1,504,408 | 1,685,906 | 1,881,444 | 2,080,776 |
| Ordinary Profit (thousands of yen) | 330,530 | 380,835 | 543,274 | 678,387 | 834,565 |
| Profit (thousands of yen) | 223,212 | 256,731 | 357,915 | 474,297 | 584,682 |
| Share of profit of entities accounted for using equity method (thousands of yen) | — | — | — | — | — |
| Share capital (thousands of yen) | 192,060 | 192,060 | 192,060 | 192,060 | 192,060 |
| Total number of shares issued | 8,022,000 | 16,044,000 | 48,132,000 | 48,132,000 | 48,132,000 |
| Net assets (thousands of yen) | 956,115 | 1,172,610 | 1,490,280 | 1,916,447 | 1,972,866 |
| Total assets (thousands of yen) | 1,298,287 | 1,487,876 | 1,842,807 | 2,313,637 | 4,408,720 |
| Net assets per share (yen) | 19.86 | 24.36 | 30.96 | 39.82 | 41.51 |
| Dividend per share (yen) | 5.00 | 2.50 | 1.00 | 2.00 | 2.50 |
| (Interim dividend per share) | (—) | (—) | (—) | (—) | (—) |
| Profit per share (yen) | 4.70 | 5.33 | 7.44 | 9.85 | 12.19 |
| Diluted profit per share (yen) | 4.64 | — | — | — | 12.09 |
| Equity ratio (%) | 73.6 | 78.8 | 80.9 | 82.8 | 44.6 |
| Return on equity (%) | 26.2 | 24.1 | 26.9 | 27.8 | 30.1 |
| Price earnings ratio (times) | 67.3 | 141.0 | 76.7 | 82.0 | 50.5 |
| Dividend payout ratio (%) | 17.7 | 15.6 | 13.4 | 20.3 | 20.5 |
| Cash flows from operating activities (thousands of yen) | 345,533 | 369,225 | 527,256 | — | — |
| Cash flows from investing activities (thousands of yen) | -136,659 | -193,719 | -135,510 | — | — |
| Cash flows from financing activities (thousands of yen) | -39,629 | -74,038 | -60,215 | — | — |
| Cash and cash equivalents at end of period (thousands of yen) | 788,467 | 889,934 | 1,220,207 | — | — |
| Number of employees | 65 | 63 | 63 | 63 | 70 |
| (Separately, average number of temporary employees) | (2) | (—) | (—) | (—) | (—) |
| Total shareholder return (%) | 161.7 | 384.3 | 292.5 | 414.4 | 317.8 |
| (Benchmark: TOPIX Total Return Index) | (129.3) | (143.3) | (128.4) | (134.7) | (171.7) |
| Highest share price (yen) | 8,650 ○7,780 ※2,350 | 6,340 □2,320 | 2,389 ●626 | 1,222 | 949 |

| | | | | | | |
|--------------------|-------|--------|--------|-------|-----|-----|
| Lowest share price | (yen) | 7,080 | 1,857 | 1,474 | 412 | 566 |
| | | ○2,510 | □1,473 | ●522 | | |
| | | ※1,661 | | | | |

- (Note)
1. Net sales does not include consumption taxes, etc.
 2. Share of profit of entities accounted for using equity method is not shown for the following reasons: there were no subsidiaries prior to FY 2019 and no significant subsidiaries prior to FY 2020; Furthermore, consolidated financial statements were prepared for FY 2020 and FY 2021.
 3. Diluted profit per share for FY 2018, FY 2019, and FY 2020 are not shown because there were no dilutive securities.
 4. A two-for-one stock split, a three-for-one stock split, a two-for-one stock split, and a three-for-one stock split were implemented on November 1, 2016, August 1, 2017, April 1, 2018, and September 1, 2019 respectively. Net assets per share, profit per share, and diluted profit per share are calculated as if all of these stock splits had taken place at the beginning of FY 2017.
 5. Consolidated financial statements were prepared beginning in FY 2020. Therefore, the following are not shown for FY 2020 and FY 2021: Cash flows from operating activities at end of period, Cash flows from investing activities at end of period, Cash flows from financing activities at end of period, and Cash and cash equivalents at end of period.
 6. The number of employees includes only full-time employees and excludes temporary employees. The average number of temporary and part-time employees during the fiscal year is shown separately in parenthesis.
 7. The highest and lowest share prices subsequent to July 18, 2018 are prices quoted on the First Section of the Tokyo Stock Exchange (and Mothers for prices prior to that).
 8. Prices marked with ○ are the highest and lowest share prices on an ex-rights basis relative to the share split (two-to-one split on November 1, 2016)
 9. Prices marked with ※ are the highest and lowest share prices on an ex-rights basis relative to the share split (three-to-one split on August 1, 2017)
 10. Prices marked with □ are the highest and lowest share prices on an ex-rights basis relative to the share split (two-to-one split on April 1, 2018)
 11. Prices marked with ● are the highest and lowest share prices on an ex-rights basis relative to the share split (three-to-one split on September 1, 2019).

2 【History of the Company】

The Company was established in October 2000 in Shinagawa-ku, Tokyo as an application service provider (the current Cloud Service) and information distribution service for the long-term care and healthcare industries. Since then, the Company has grown its business based on a management philosophy of "supporting community-based integrated care for our extremely elderly society with the cloud."

| Date | Summary |
|----------|---|
| Oct 2000 | Kanamic Network Co., LTD. established in Shinagawa-ku, Tokyo (with initial paid-in capital of 10 million yen) as an application service provider (ASP) / information distribution service for the long-term care / healthcare industries. |
| Feb 2001 | Launched CIC, an information sharing system for the long-term care industry |
| Nov 2002 | Launched HAM, a management system for the in-home care industry |
| Aug 2003 | Relocated head office to Nishigotanda, Shinagawa-ku, Tokyo |
| Apr 2006 | Launched system for Community-based Integrated Care Centers |
| May 2006 | Obtained the Privacy Mark certification |
| Sep 2008 | Contracted to provide website services for the Care Work Foundation |
| Jul 2010 | Opened Osaka Sales Office in Suita City, Osaka Prefecture. |
| Aug 2010 | Opened Fukuoka Sales Office in Iizuka City, Fukuoka Prefecture |
| Nov 2010 | Launched TRITRUS, an information sharing system for the healthcare and long-term care industries |
| Jan 2011 | Obtained patent for "long-term care support system" and "long-term care support program" (patent number: 4658225) |
| Jun 2012 | Relocated Fukuoka Sales Office to Hakata-ku, Fukuoka City |
| Sep 2012 | Relocated head office to its current location in Shibuya-ku, Tokyo |
| Feb 2013 | Launched Kanamic Users Network, an association for users |
| Jul 2013 | Relocated Osaka Sales Office to its current location in Yodogawa-ku, Osaka City. |
| May 2014 | Opened Nagoya Sales Office in Naka-ku, Nagoya. |
| Oct 2014 | Relocated Fukuoka Sales Office (within Hakata-ku) to its current location in Hakata-ku, Fukuoka City |
| Sep 2016 | Listed shares on the Mothers market of the Tokyo Stock Exchange (TSE) |
| May 2017 | Opened Chiba Sales Office in Chuo-ku, Chiba City. |
| Jul 2018 | Changed listing to the First Section of TSE |
| Dec 2018 | Established Kanamic (Dalian) Technology Co., Ltd. as a wholly owned subsidiary in Dalian China |
| Jun 2019 | Opened Hiroshima Sales Office in Naka-ku, Hiroshima City. |
| Jun 2019 | Opened Okinawa Sales Office in Naha City, Okinawa Prefecture. |
| Oct 2020 | Chiba Sales Office integrated into Tokyo Sales Office and name of Tokyo Sales Office changed to "Eastern Japan Sales Office". |

3 【Description of Business Activities】

The Group is composed of the Company (Kanamic Network Co., LTD) and one subsidiary (Kanamic (Dalian) Technology Co., Ltd.). Based on a business philosophy of "supporting community-based integrated care (Note 2) for our extremely elderly society (Note 1) with the cloud", the Company provides an ICT (Note 3) platform where medical care, long-term care, and wellness related information can be transmitted inter-organizationally by multidisciplinary professionals. By providing a platform that facilitates "information sharing", "communication", and "utility", the Company has developed a business that strives to provide patients and their families with higher quality medical and long-term care services.

According to the Japanese Government's "2021 Whitepaper on Population Ageing", Japan currently has the highest rate of population ageing in the world and this poses a threat to the future of Japan's social security system given that when population ageing peaks from 2025 to 2030, all members of the baby boomer generation (as defined in Japan), which is a disproportionately numerous demographic, will reach or exceed 75 years of age (an age at which point the ratio of people requiring long-term care services sharply increases). Therefore, the whitepaper holds, an impending explosion in medical care and long-term care cost has become a concern of critical importance. Furthermore, the government has conveyed that, as medium to long term policy goals, it will strive to actualize the following: (1) "a robust economy that gives rise to hope", (2) "childcare support systems that help people dream", and (3) "social security that provides peace of mind". The implementation plan for these policy goals, titled "Japan's Plan for Dynamic Engagement of All Citizens", calls for "improving the long-term care environment" and it is clear that this has been identified as an important objective by the Japanese government as it strives to build a world-class social security system. In light of the foregoing, there is a need for reducing the overdependence on conventional hospitals and nursing homes and to instead develop a "community-based integrated care system" supported by in-home medical care and in-home long-term care, thereby allowing elderly people to live out their later years in their own homes / communities instead of being placed in facility. The Ministry of Health, Labor and Welfare (MHLW) has, via information published on its website, made its intentions to promote the advancement of this "community-based integrated care system" clear.

That said, in order to actualize the community-based integrated care system, in-home care services provided to each patient must be carried out by a team of several, multidisciplinary professionals / organizations (which may include hospitals, home-visit doctors, dentist, pharmacies, home-visit long-term care professionals, care planners (Note 4), and long-term care service providers, all of whom provide different services to the same patient). Therefore, development of a system that allows information to be shared (remotely and in real time) amongst these interdisciplinary/interorganizational team members is critical. In recent years, amid the rapid spread of smartphones, the national government, particularly the MHLW, has, as a policy, been attempting to move the long-term care industry in the direction of going paperless through the use of ICT; And the outlook for ICT use in the industry is strengthening.

That said, care planners and long-term care providers are struggling with work overload and a shortage of human resources (due to the increase in the number of people requiring long-term care services). And in order to realize a more robust system of community-based integrated care, it will be important to improve the efficiency of long-term care providers, accumulate data to augment the knowledge-base of long-term care providers, and develop systems for conveying information about supplies/products necessary for long-term care (clothing products, food products, and daily life products) to long-term care providers. Unfortunately, though, general-purpose search engines (such as Google and other big data providers) are ineffective tools for long-term care providers to obtain this information.

Amid this backdrop, the Company's internet service, known as the "Kanamic Cloud Service (Note 5)" serves as a multidevice (Note 6), solution-driven cloud service focused on "facilitating communication among healthcare and long-term care professionals", "improving efficiency within the long-term care industry", "facilitating knowledge-sharing in the form of big data, etc.", and "amassing collective expertise". While the Company's primary business is developed around this cloud-based service for healthcare and long-term care professionals, the Company also operates an advertisement distribution business which allows advertisers to market products to long-term care professionals/corporations who use the Company's services. The Company also has a track record of participating in industry-academia collaboration through joint research with the Institute of Gerontology at the University of Tokyo as well as Asahikawa Medical University, participating in healthcare and long-term care related projects undertaken by the Ministry of Internal Affairs and Communications (MIC) / MHLW, and participating in regional revitalization projects. Furthermore, the Company provides a versatile ICT platform that can be used for a wide range of projects aimed at supporting long-term care and childcare.

Since the Group is a single-segment business that aims to develop an information sharing platform for the medical and long-term care fields (as well as to conduct related business thereof), the Group operates in a single reportable segment composed of three businesses. Details regarding each of these businesses are provided below.

(1) The Kanamic Cloud Service

① Overview of the Kanamic Cloud Service

As Japan's population continues to age at an extreme pace, the number of long-term care recipients is constantly increasing, and interdisciplinary / interorganizational collaboration in "in-home medical care", "nursing", and "long-term care" will become increasingly important going forward. To address this, a platform that provides a framework for such collaboration is indispensable. Amid this backdrop, the Group provides a "regional communication" cloud service that contributes to the realization of the "community-based integrated care system" that our extremely elderly society requires (by making multidisciplinary communication among local governments, medical associations, and elderly care service providers possible).

The Group provides cloud services mainly to healthcare / long-term care professionals (including municipal government staff, doctors, nurses, care planners, and long-term care service providers).

Growth in User IDs (Kanamic Cloud Service)

| Date | Paying Users | Free Users | Total |
|--------------------|--------------|------------|---------|
| September 30, 2017 | 46,002 | 24,865 | 70,867 |
| September 30, 2018 | 57,487 | 31,324 | 88,811 |
| September 30, 2019 | 70,210 | 36,814 | 107,024 |
| September 30, 2020 | 78,964 | 43,554 | 122,518 |
| September 30, 2021 | 89,267 | 62,874 | 152,141 |

② Key Features of the Kanamic Cloud Service

a) Patent protecting the system

The technology underlying the Kanamic Cloud Service is protected by a patent (No. 4658225).

Under the patent, the system is described as one in which all groups and individuals involved in long-term care (such as medical institutions, Community-based Integrated Care Centers, long-term care providers, long-term care recipients, and the families of long-term care recipients) share healthcare information.

b) Interdisciplinary/interorganizational collaboration service for municipal governments and medical associations.

The Group's cloud service is centered around providing a framework for "community collaboration". These cloud services (such as the system targeting municipal governments' "Community-based Integrated Care Centers" and the information sharing system targeting home-visit doctors / medical associations) make multidisciplinary/multiorganizational communication among regional partners possible. The cloud service is used by municipal governments and medical associations nationwide.

c) Smartphone Support & Big Data Utilization

The Group's cloud services are compatible with multiple devices, such as personal computers, smartphones, and tablets, thereby allowing home-visit doctors and home-visit long-term care professionals to access the Group's cloud service from patients' homes. Additionally, centralized management of data (related to care team collaboration and the management process of care businesses) facilitates big data analytics and allows users to capitalize on their data.

③ Kanamic Cloud Service Lineup

The service lineup for the Kanamic Cloud includes (1) an "information sharing platform" catered to municipalities and medical associations and designed to facilitate communication amongst regional healthcare / long-term care professionals; (2) a "long-term care workflow management system" catered to doctors, home-visit nurses, care planners, and long-term care providers; and (3) a "childcare support system" designed to assist municipalities in their efforts to support childrearing in the community.

Information Sharing Platform

The Group's information sharing platform facilitates multidisciplinary information sharing that transcends organizational lines, thereby facilitating collaboration among professionals in healthcare, nursing, long-term care, and municipal governments in order to make the vision of the "community-based integrated care system" a reality. The

platform's security measures bolster user confidence; And the platform features many tools/functionalities for invigorating multidisciplinary collaboration, including the following: a "closed social network (SNS) tool" (which allows all healthcare and long-term care professionals on a particular patient's care team to post information about the patient's medical situation, which can then be viewed by all related parties, and only by related parties), a "Certification for Long-term Care / ADL Evaluation" tool, a "Drug Dosage Form" tool, and tools related to data analytics / evaluation.

The Group's information sharing platform was developed in Kashiwa City, Chiba Prefecture, through joint research with the Institute of Gerontology at the University of Tokyo, as a model project for "community-based integrated care". And along these lines, the MHLW and the MIC also used information infrastructure powered by this platform in their 2013-2015 model project. The platform is characterized by the fact that it facilitates *interorganizational* sharing of data pertaining to electronic medical records, pharmacy systems, and long-term care systems, etc.

Long-term care operations management system

The Group's long-term care operations management system can be linked to the information-sharing platform described above, allowing long-term care practitioners to create care plans and file paperwork online and automatically share the information with doctors and other service providers in the community. And since the cloud-based system can be easily accessed from the field using a smartphone or tablet, it helps reduce the need for traditional paper-based communication and boosts workflow efficiency. The system also offers options such as centralized management functions for long-term care business head offices and big data analysis. Specific details regarding the system are as follows.

a) System for care planners

This is a system for community-based integrated care centers and care planners (care planners are long-term care support specialists responsible for drafting care plans for those covered by the public long-term care insurance). The system streamlines each step of the long-term care workflow including the initial assessment by the care planners as well as necessary tasks associated with the preparation of assessment checklists, drafting of care plans, billing / insurance claims management, and monitoring.

b) System for home-visit care service providers

This is a system for providers of in-home care services. The system is designed for use in home-visit care, home-visit nursing, home-visit bathing assistance, day care for the elderly, assistive equipment rental / sales, and "*Shōkibo takinō gata kyotaku kaigo*" (facilities providing various long-term care services characterized by the fact that these facilities may only serve a small number of care recipients who typically live in their own homes but visit the facility during the day and stay overnight on an as-needed basis). The system is equipped with functions that support the business operation of home-visit care providers, including the preparation of long-term care plans, record-keeping, monitoring, insurance billing, customer billing, accounts receivables management, and payroll calculation. The system also offers data linkage with other companies' accounting, payroll, and sales management systems. In addition, the system has specialist menu options such as the "Kanaeru Touch" tool for filing long-term care logs on-site via a tablet.

c) System for facility-based care

This system is for operators of long-term care facilities (including "special nursing homes for the elderly", "designated publicly funded facilities providing long-term care to the elderly", "private nursing homes", and "serviced housing for seniors"). This system supports various tasks integral to long-term care facility operations, such as the preparation of service plans, room management, insurance billing, customer billing, and receivables management. It also features special options including a tablet-based care log system, Care Watcher.

Child-rearing support system

The Group leverages the information platform developed in its healthcare and long-term care initiatives to operate a cloud system utilized by specialists partaking in municipalities' child-rearing support activities (such as hospitals, obstetricians / gynecologists, health examination centers, and childcare workers) as well as parents. The system's features include a closed social network that allows exclusive communication among the parties involved, an "electronic mother-child health handbook", a feature for the distribution of government notices (e.g. information on immunization and upcoming events), and a child-rearing diary. Using this system, the working age population (members of which often care for both their elderly parents and their young children) can easily receive information from and engage in two-way communication with their municipal government as well as relevant specialist.

(2) Platform (auxiliary) services

The Group provides advertising services for transmitting useful product/service information to healthcare / long-term care professionals (who use the previously described Kanamic Cloud Service). In addition to the advertising service, the platform also consists of the “webpage creation service” and “other platform services”.

Further Details on the Advertising Service

The Group operates an advertising service consisting of a BtoB business that allows advertisers to place advertisements targeting Kanamic Cloud Service users (doctors, home-visit nurses, care planners, helpers (Note 7), and community-based integrated care centers) and a BtoBtoC business allowing advertisers to place advertisements targeting long-term care service recipients and their families. Advertised products include items such as pharmaceuticals, medical equipment, “health foods”, sanitary products, building materials, and assistive devices used in long-term care.

This service is beneficial to doctors, home visit nurses, and care planners who use Kanamic’s systems because they are extremely busy and have few opportunities to research information on the latest pharmaceuticals and assistive devices for long-term care. Therefore, the Company provides tailored, useful product information in real time.

From the advertiser’s perspective, the Group’s advertisement service is reliable because users of the Group’s cloud services are known to be actively working in healthcare or long-term care. Furthermore, data on each user’s scope of work also allows advertisements to be placed effectively. And the Group strives to make web screens more user friendly in order to increase the number of clicks as well as interaction time for advertisements. The Group also offers marketing support in the form of user meetings and other real-world events as well as online surveys.

In addition to direct dealings with advertisers, the Group also maintains a business alliance with a major advertising agency, which helps it select advertisers that will appeal to its system users.

Webpage creation service

As an ancillary business, the Group produces, operates, and manages websites on contract (mostly through the Care Work Foundation) and also operates and manages a job listing site for the long-term care industry.

Other Platform Services

The Group provides AI / IoT powered systems, fintech (i.e.: receivables factoring and various payment services), services that allow long-term care related equipment / facilities to be used efficiently, and sharing economy services (i.e.: talented recruitment services targeted to the long-term care industry). The Group also provides the "Kanamic Easy Mailing Service" (a business process outsourcing (BPO) service that helps long-term care service providers streamline their billing/receipt issuance operations). Furthermore, the Group provides a service for the sale of physical products to the users of its systems.

(3) Other services

The Group also provides other services including customized development for major customers, projects outsourced from the MHLW and MIC, consulting for regional revitalization projects, and other services ancillary to the Kanamic Cloud Services. The Group is participating in a MIC case-study project aimed at establishing an information-sharing system for specialists across various disciplines within the in-home healthcare and in-home long-term care fields using the MIC’s information platform. The goal is to provide effective and efficient services in these fields. The project also aims to build a platform that enables the sharing and analysis of data across different systems. Kanamic is managing the overall ICT related aspects of the project.

(Note 1) Extremely Elderly Society

Refers to the current situation in Japan, where the aging rate (which is the ratio of the population aged 65 and over to the total population) exceeds 25%

(Note 2) Community-based integrated care

A social infrastructure that provides housing, medical care, long-term care, preventive care, and living assistance in an integrated manner, thereby allowing elderly people to live out their final years in the homes they’ve spent their lives in (as opposed to entering a facility) even if they require long-term care services.

(Note 3) ICT

Stands for Information and Communication Technology

(Note 4) Care planners

Licensed long-term care support specialists who draft care plans and help manage/supervise the care recipient’s overall care experience

(Note 5) Cloud service

A cloud service is a service providing functionality, etc. to the customer via the internet. They are classified into three types: SaaS (software), PaaS (platform), and IaaS (infrastructure).

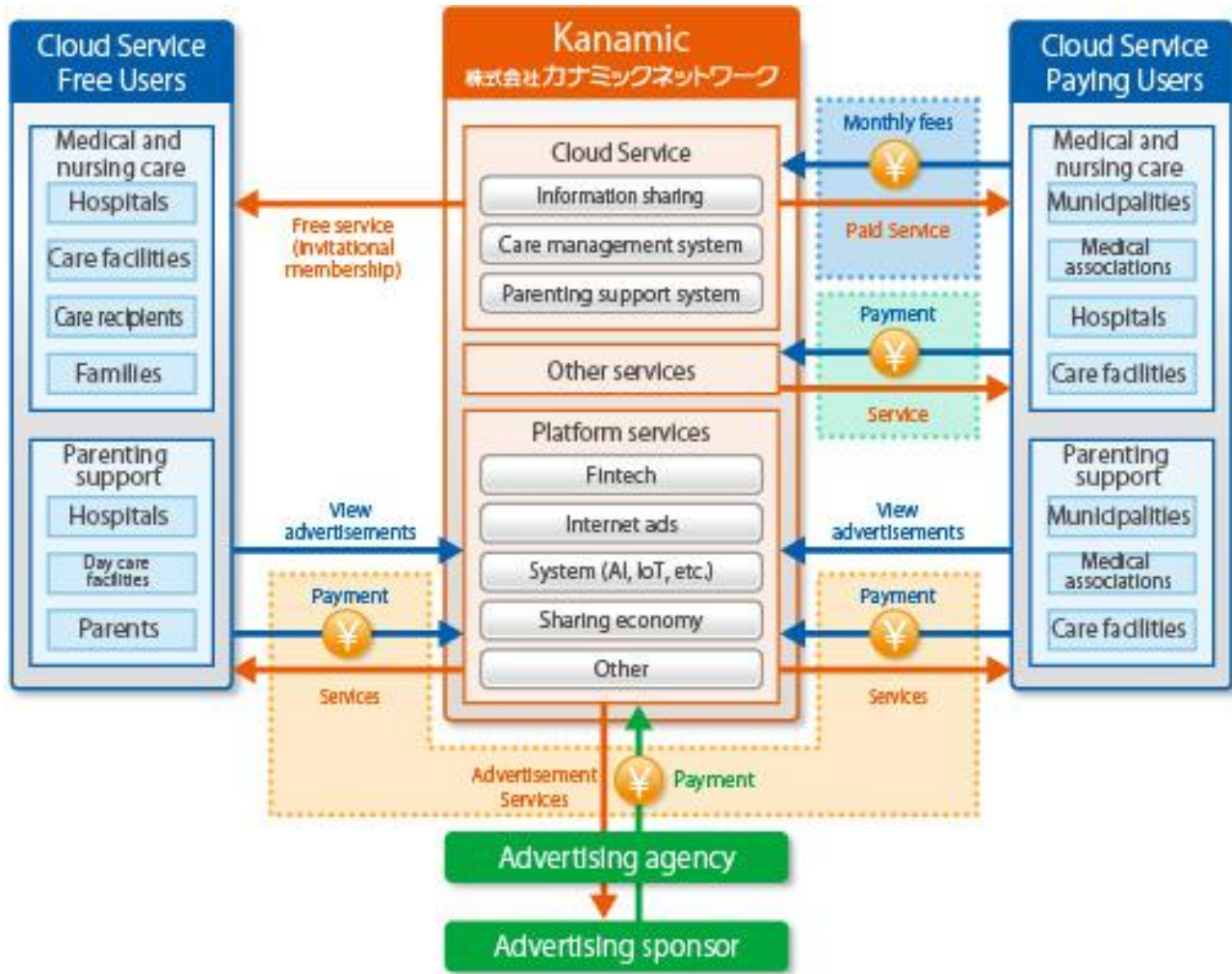
(Note 6) Multidevice

This means content, services, software, etc. can be accessed from various devices. In addition, various types of equipment can be used together in an integrated fashion.

(Note 7) Helper

This is a term used to refer to certified professionals who provide home-visit long-term care services under the long-term care insurance law.

The Company's business structure is shown in the following chart.



*The Company's wholly owned subsidiary in Dalian China, Kanamic (Dalian) Technology Co., Ltd., conducts development activities for the Company's systems.

4 【Information on Subsidiaries and Affiliates】

| Company name | Location | Paid-in capital (thousands of yen) | Principal Business Activities | Ownership of voting rights by the Company (%) | Nature of relationship |
|--|---------------|---------------------------------------|-------------------------------|---|--|
| (Consolidated subsidiary) Kanamic (Dalian) Technology Co., Ltd. | Dalian, China | 10,000 | Systems Development | 100 | Conducts development work for the Company's systems. Some officers are also employees of the Company. |

- (Note) 1. The Group operates in a single reportable segment and, therefore, "segment name" is not included in the "principal business activities" column.
2. The Company has no subsidiaries that are classified as "specified subsidiaries".
3. Separate regulatory filings ("securities registration statement" / regulatory annual report) are not submitted for the subsidiary described above.

5 【Information on Employees】

(1) Consolidated (the Group)

As of September 30, 2021

| |
|---------------------|
| Number of Employees |
| 84 (—) |

(Note) 1. The number of employees includes only full-time employees and excludes temporary employees. The average number of temporary and part-time employees during the fiscal year is shown separately in parenthesis.

2. Segment-related information has been omitted because the Group operates in a single reportable segment.

(2) The Company

As of September 30, 2021

| Number of employees | Average age | Average years of service | Average annual salary (thousands of yen) |
|---------------------|-------------|--------------------------|---|
| 70 (—) | 40.1 | 5.6 | 5,060 |

(Note) 1. The number of employees includes only full-time employees and excludes temporary employees. The average number of temporary and part-time employees during the fiscal year is shown separately in parenthesis.

2. Average annual salary includes overtime and bonuses.

3. Segment-related information has been omitted because the Company operates in a single reportable segment.

(3) Labor union

No labor union is organized within the Group but management and employees are on good terms.

Item 2. 【Business Overview】

1 【Management Policy, Business Environment, and Challenges to be Addressed, etc.】

This report contains forward-looking statements that are based on the Group's judgements as of September 30, 2021.

(1) Business Philosophy

Like a tree that digs its roots into the soil and continues to grow bigger, we always stay rooted in our customers' network and continue to grow together with our customers. As a trailblazer of and testament to this generation, we are always striving to be the best we can be as forerunners of the healthcare / long-term care IT industry.

(2) Key Financial Metrics for Management

Because the Group places an emphasis on profitability, operating profit is the financial metric that the Group monitors most closely. Along these lines, the Group is constantly striving to improve profitability and keeps cost control in mind as it conducts managements activities.

(3) Business Environment (Healthcare / Long-term Care IT Industry)

Japan's changing population demographics (an increase in the ratio of people above the age of 75) is expected to result in an increase in social security spending related to healthcare / long-term care.

In particular, the baby boomer generation (as defined in Japan) will reach 75 years of age in 2025 and the increase in the number of senior citizens is not projected to peak until 2040. As the society ages, the ratio of people requiring long-term care services will increase, and this is expected to cause social security expenditures related to healthcare and long-term care to rise.

With this, the market for healthcare / long-term care related IT systems (the Group's primary area of business) is also expected to grow. Through the provision of a platform serving the entirety of the healthcare and long-term care industry, the Group will continue to contribute to the efficient use of social security resources.

(4) Medium- to long-term business strategy

Thus far, the Group has used Information and Communication Technology (ICT) to contribute to the realization of the "community-based integrated care system needed by our extremely elderly society". This has been achieved through providing a platform which makes interdisciplinary communication possible and targets the entirety of the healthcare and long-term care industry.

Going forward, the Group will further promote regional collaboration in the healthcare and long-term care industries and work to provide useful solutions to patients, long-term care recipients, and all healthcare / long-term care providers.

(5) (Societal) Challenges to be Addressed

In recent years, various societal challenges related to healthcare and long-term care have become apparent. First among these are the challenges faced by elderly patients / long-term care recipients and their families, such as the weakening of family ties and the dropping out of the labor force by some individuals in order to care for elderly family members.

Next are the challenges faced by long-term care providers. These include an industry-wide labor shortage and challenges related to conveying information about the care services they provide to patients and their families. In particular, small and medium-sized long-term care providers (which compose much of the industry) face problems typical of small businesses related to capital expenditure needs, cash management, and payment/billing operations.

Next are the challenges faced by physicians. Because physicians are so busy and because information about patients tends to be incomplete, delays in the recommendation of effective medications as well as the treatment of patients occur.

And there are also challenges faced by nurses and long-term care professionals. These relate to a deterioration in service quality resulting from a dearth of information on the latest treatments as well as a lack of knowledge and experience.

Through the following means, the Group aspires to help overcome the foregoing societal challenges related to healthcare and long-term care.

① Expansion of cloud service business

Dating back to the advent of public long-term care insurance in 2000, the Group has provided a cloud service which supports long-term care billing operations and business management (thereby improving service quality and operational efficiency) while facilitating multidisciplinary coordination amongst local governments, doctors, nurses, and long-term care professionals. The Group's cloud system has thereby contributed to the realization of the "community-based integrated care" framework aspired to by the Japanese government.

Going forward, the Group plans to continue (1) opening new sales offices (beginning with areas where long-term care services are most needed and expanding from there), (2) providing a service firmly rooted in each local community, and (3) laying the infrastructure for efficient and stable long-term care, thereby solving the problem of working age people dropping

out of the labor force in order to care for elderly family members, reinvigorating young people's participation in society, and revitalizing family bonds.

In addition, by further promoting regional collaboration, the Group will make things more convenient for users (including patients, care recipients, and healthcare / long-term care providers) and contribute to the construction of an information sharing platform that supports the entirety of the healthcare / long-term care industry. Moreover, the Group will continue to tailor system development in order to facilitate healthcare / long-term care that appropriately addresses the distinct needs of patients in each of the following settings / phases: (1) acute hospital care, (2) convalescent care (in-facility transitional / recovery care), and (3) in-home care.

② Expansion of new business areas

i Advertisement business

The Group transmits useful information related to healthcare and long-term care through the Kanamic Cloud Service and earns advertising revenue. The advertisements placed on the Group's platform provide information useful to healthcare and long-term care professionals and exposure to this up-to-date information allows healthcare and long-term care professionals to stay abreast of the latest information on pharmaceuticals and assistive equipment used in long-term care. This, in turn, contributes to higher quality healthcare and long-term care.

Going forward, the Group expects that expansion of the in-home medical care / long-term care industry will bolster demand for information provided through advertisements. To address this, the Group believes that it is important to broaden its network of advertisers as well as to work with major advertising agencies to provide information (advertisements) useful to healthcare / long-term care professionals who use the Group's systems.

ii Big data analytics business

The Group has accumulated an enormous amount of healthcare / long-term care-related data through the operation of the Kanamic Cloud Services.

Going forward, societal aging will continue to progress against the backdrop of an increasing life expectancy and declining birthrate. To address this, the Group will use big data analytics (in relation to data that has accumulated in the cloud) to contribute to creating the infrastructure needed for higher quality and more efficient long-term care.

iii Sharing economy related businesses

The Group provides a human resource matching service which matches users of the Kanamic Cloud Service (who are looking to fill staff positions) with job applicants sourced from a human resources database.

Going forward, the Group will contribute to the development of the long-term care industry with a platform capable of meeting all of the needs of long-term care service providers related to assistive equipment, vehicles, facilities, and human resources.

iv Fintech Business

Through the Kanamic Cloud Service, the Group provides a service for efficiently managing billing operations. That said, most insurance claims processing work within the long-term care industry is still conducted by outdated and inefficient methods.

Going forward, the Company will continue to provide billing services and add service lineups related to cash management and novel payment methods, thereby contributing to the efficiency of payment-related operations.

③ Active Pursuit of M&A Opportunities

The Group intends to actively pursue M&A opportunities in order to strengthen and expand its "Contents", "Reach", and "Platform" in line with its corporate purpose of "helping people and communicates with a cloud service for all stages of life". As the Group continue to grow existing businesses organically and pursue new business opportunities, it will embrace M&A as a method of realizing its vision and achieving sustainable growth.

④ Strengthening Data Security / Data Privacy Framework

The Group's Kanamic Cloud Service stores a large amount of data related to patients and care recipients. In light of this, the Group's management considers data security / data privacy, including the protection of personal information, to be topics of material importance. Accordingly, the Group acquired a "Privacy Mark" in May 2006 and the "ASP-SAAS Industry Consortium (ASPIC) Certificate" in December 2017. Moreover, the Group will continue to strengthen its data security / privacy framework through conducting regular in-house trainings and improving security systems, etc.

⑤ Strengthening System Infrastructure

Since the Group primarily provides services powered by cloud technology, the Group's management recognizes that "ensuring the stable operation of the systems underlying these cloud services" is a topic of material importance.

A long-term increase in the elderly population is expected, and this will be accompanied by an increase in the number of long-term care recipients. Thus, adequate server resources will be required to address the increase in the number of system users. And in light of the importance of this topic, the Group will continue to strengthen its systems infrastructure in order to ensure sustained system stability.

⑥ Strengthening corporate governance and internal controls framework

The Group is currently in its growth phase and the Group's management recognizes that further strengthening of the corporate governance and internal controls framework (to provide for a solid foundation upon which the business can continuously grow) is a topic of material importance. As the business expands, the Group will strive to further enhance its internal controls / compliance framework, strengthen its framework for evaluating the suitability of business activities, and conduct more robust financial reporting.

⑦ Employee recruitment and development

The Group believes that it is important to hire (and develop) talented people in order to achieve continuous growth. In particular, the elderly care market is rapidly expanding and many business opportunities are emerging within the industry. And as the company continues to open new sales offices in response, hiring the right sales / customer support personnel is important.

Furthermore, in order to respond to revisions to the long-term care insurance law, hiring systems development personnel is also important.

Therefore, the Group is focused on recruiting and developing such talent.

2 【Risk factors】

Of the business and financial information contained in this regulatory Annual Report, management recognizes the following as risk factors which may have a significant impact on investment decisions.

*This report contains forward-looking statements that are based on the Group's judgements as of September 30, 2021.

(1) Risks related to business environment

① Revisions to the long-term care law

The Kanamic Cloud Service business, which services the long-term care / healthcare industries, is strongly impacted by the long-term care insurance law.

In accordance with Article 2 of the "Supplementary Provisions to the Long-term Care Insurance Law", the Long-term Care Insurance Law is regularly reassessed and revisions are made based on the results of these reassessments. These reassessments are conducted every three years. (For example, as a result of one such assessment, the Long-term Care Insurance Law and the Long-term Care Fee Structure were revised in 2021.) And when the Long-term Care Insurance Law and Long-term Care Fee Structure are revised, it is necessary to conduct systems development work to accommodate the Group's systems to these revisions.

Furthermore, the following changes in market trends are expected to occur within the healthcare and long-term care industries that the Group serves: consolidation of the medical and long-term care industries into an oligopoly composed of a few major corporations (with other service providers contracting/stagnating as an increasing number are driven to closure).

The Group's competitors face the same risk. Therefore, being quicker than competitors in terms of development while striving to differentiate the Group's services and implementing appropriate pricing strategies, can widen the gap with the competition and directly lead to an increase in the Group's market share. Contrarily, should the Group fall behind in terms of development, this could impact business performance of the Group. Changes to market trends may contribute to increased business performance, but if these changes lead to delays in purchases of the Group's services, reductions in usage numbers, or cancellations by the Group's existing customers (customers switching to the services of other vendors etc.), then this could significantly impact business performance for the Group. In order to mitigate these risks, therefore, the Group will stay abreast of all relevant information, participate in committees that advise the government on relevant policy matters (as well as in other relevant organizations), and develop services that are not as easily affected by the Long-term Care Insurance Law.

② Competition from other companies

Currently, there are multiple competitors with cloud service businesses targeting the long-term care and healthcare industries in Japan. And as the market expands, there is a possibility that more companies will consider entering this business in the future.

However, constructing a system targeting the healthcare and long-term care industries requires experience and familiarity with the industry, and, thus, the barriers to entry are high. Specifically, the Group's Kanamic Cloud Service is a billing operations / business management system for the long-term care industry that facilitates multidisciplinary collaboration within the system (communication between local governments, doctors, nurses, and long-term care professionals). The Company has provided this system since 2000, and has thereby contributed to the realization of the "community-based integrated care system" that the government aspires to and has, in the process, gained market edge and increased competitive advantage.

On the other hand, if competition intensifies due to new market entrants, etc., it may have a significant impact on the Group's business performance. In order to mitigate these risks, the Group will continue providing a service firmly rooted in each local community, making things more convenient for users (including patients, care recipients, and healthcare / long-term care providers) and contributing to the construction of an information sharing platform that supports the entirety of the healthcare / long-term care industry.

③ Technological innovation

The Group's services are developed based on internet-related technologies and within the internet-related technology space, constant innovation and introduction of new services is leading to extremely rapid changes. On the hardware side, smartphone usage has become extremely widespread and new services that support new technologies are being developed rapidly. Should the Group struggle to acquire related technological know-how or fail to respond to technological innovation in a timely fashion, the Group's competitiveness may decline. Furthermore, spending on additional systems as well as labor costs, etc. may increase as a result of responding to new technologies, which could exert a significant impact on the Group's business performance. For this reason, the Group is focused on hiring and training engineers as well as in acquiring technologies / know-how related to smartphones.

④ Handling of personal information

The Group acquires personal information from users in the process of operating its services. If such personal information is leaked due to unauthorized third-party access or other unexpected occurrences, public trust in the Group could be damaged and business performance could be significantly impacted. In order to mitigate risk related to the management of personal information, the Group restricts access to information stored in its systems to include only those that are authorized to view the pertaining information. Additionally, the Group has established a Personal Information Management System (PIMS) and conducts relevant employee training. And to further ensure the reliability of the Group's information security framework, it acquired a "Privacy Mark" certificate in May 2006 and renewed the Privacy Mark for the seventh time in May 2020.

⑤ System failures, etc.

The Group's services use the Company's website as the primary mode of transmitting information. Therefore, to promote service reliability and transaction security, the Group's IT infrastructure is designed to withstand component failures. And to strengthen related controls, the Group actively recruits employees with abundant experience in information systems development and operations. Furthermore, the Group has acquired sufficient server capacity to handle expected future increases in the elderly population. If, however, despite these controls, a natural disaster or accident occurs, a human error is committed by an officer or employee of the Group, there is an unauthorized intrusion by third parties (hackers, etc.), or if there is an explosive increase in the number of system users due to increases in the elderly population, then serious problems, such as diminished system functionality (due to component failures or insufficient server capacity), system malfunctions, or system failures may occur. Should any such event materialize, the Group (whose primary means of transmitting information is through its internet website), could be seriously impacted in terms of its ability to provide services to customers and complete business transactions. Such an event might, therefore, have a significant impact on the Group's business performance. In order to mitigate these risks, the Group implements "defense-in-depth", maintains organizational policies, and practices business continuity planning (BCP) in accordance with the Ministry of Economy, Trade and Industry (METI)'s "Cybersecurity Management Guidelines" and METI's "Guidelines on Formulating and Implementing BCPs".

⑥ Intellectual property rights

The Group possesses a patent for the systems that underly the services it provides.

However, with respect to rights which have not yet been acquired, there is no certainty that the Group will be able to acquire these rights in the future. Moreover, there is the possibility that other domestic companies or foreign companies may acquire patents or other intellectual property rights relevant to the Group's area of business and, depending on the specifics, this could result in legal proceedings or complaints against the Group and its businesses, which could have a significant impact on business performance. The Group always takes care to avoid infringing upon intellectual property rights of third parties, but staying fully abreast of intellectual property rights pertaining to the Group's area of business is difficult. And should the Group, as a result, inadvertently infringe upon the intellectual property rights of a third party, it could be subject to claims of damages or issuance of injunctions. Should such a situation arise, it may impact business performance of the Group. In order to mitigate these risks, the Group will continue to innovate, secure patents (and other intellectual property rights), and work with external organizations to remain abreast of other firms' acquisitions of relevant intellectual property rights.

⑧ Seasonality of business performance

In years where the Long-term Care Insurance Law is revised, it is customary for revisions to be implemented in April, and the Group is expected to make corresponding updates to its Cloud Service by this time. Additionally, local governments that operate Community-based Integrated Care Centers (and long-term care providers that have been contracted to perform this function on their behalf) often schedule plans to implement new IT systems for the start of the fiscal year (in April) and demand tends to be biased toward this period. As a result, the Group's business performance tends to experience local peaks in tandem with revisions to the Long-term Care Insurance Law.

Quarterly consolidated financial data for net sales and operating profit for FY 2020 and FY 2021 are shown below.

| | Consolidated results for the previous fiscal year (October 1, 2019 to September 30, 2020) | | | | |
|---|---|--------------------|--------------------|--------------------|-----------------------|
| | Q1 | Q2 | Q3 | Q4 | Fiscal Year (Total) |
| Net sales (thousands of yen) (composition ratio) | 419,625 (22.3%) | 489,173 (26.0%) | 456,801 (24.3%) | 515,844 (27.4%) | 1,881,444 (100.0%) |
| Operating Profit (thousands of yen) (composition ratio) | 100,232 (15.3%) | 197,101 (30.2%) | 168,493 (25.7%) | 188,644 (28.8%) | 654,473 (100.0%) |

| | Consolidated results for the fiscal year under review (October 1, 2020 to September 30, 2021) | | | | |
|---|---|--------------------|--------------------|--------------------|-----------------------|
| | Q1 | Q2 | Q3 | Q4 | Fiscal Year (Total) |
| Net sales (thousands of yen) (composition ratio) | 533,473 (25.6%) | 509,784 (24.5%) | 512,090 (24.6%) | 525,427 (25.3%) | 2,080,776 (100.0%) |
| Operating Profit (thousands of yen) (composition ratio) | 203,951 (24.2%) | 214,747 (25.5%) | 218,976 (26.0%) | 204,129 (24.3%) | 841,805 (100.0%) |

If major changes to seasonality occur as a result of changes to the business environment, or if the Group becomes unable to appropriately cope with existing seasonality, the Group's business performance could be impacted. That said, the Group has established a framework for appropriately managing seasonal fluctuations, and, in the future, the Group will, through expanding its service lineup, become less susceptible to these fluctuations.

⑨ Research and Development

The Group carries out R&D activities related to the use of the IoT cloud in “community-based integrated care” and the development of globally deployable “remote-medicine” solutions. If the implementation and uptake of these technologies does not proceed as expected, it may affect the business performance of the Group. In order to mitigate this risk, the Group will continue to make R&D investments on a continual basis and advance collaborations with external partners.

(2) Organizational risks

① Dependence on a specific individual

Minoru Yamamoto, Chairman of the Board of Directors of the Company, is the founder of the Company and, dating back to the establishment of the Company, he has, as a director, played a role in setting management policies, proposing and deciding business strategies, and executing business strategies.

If, for some reason, it becomes difficult for him to continue carrying out the business of the Company, the business performance of the Group could be impacted. In order to mitigate this risk, the Group is developing a management framework that does not overly depend on him (through measures such as the granting of representation rights to persons other than him).

② Matters related to being a small organization, matters related to recruiting / training employees, and matters related to safety controls

As of September 30, 2021, the Group is a small organization with 84 employees and its internal control framework is structured in accordance with this. In order to improve the convenience of users of the Kanamic Cloud Service, it will be necessary to continually provided added value to the existing system; And recruiting / training employees who can assist in doing so is essential for future business growth.

As the Group's business grows, the Group is committed to recruiting / training employees and strengthening its internal control framework as appropriate. However, if the Group fails to hire necessary personal, business performance may be impacted. Furthermore, should an outbreak in COVID 19 or other pandemic pathogen occur, the impact of the resulting restrictions on the activities of employees may be very large given that the Group is a small organization. There is a

possibility that this may impact the performance of the business. In order to mitigate these risks, the Group is working to strengthen its employee recruitment / training mechanism as well as safety controls through (1) actively capitalizing on external resources and (2) proactively implementing “remote work” for employees.

③ Internal controls framework

Appropriate functioning of the internal controls framework is indispensable for the sustained growth of the Group, but should internal controls be rendered insufficient as a result of business expansion, the Group may be unable to properly manage business operations and this may exert a significant impact on the Group's business performance. In order to mitigate this risk, the Group works to ensure the appropriateness of operations, the reliability of its financial reports, and its compliance with applicable laws / regulations as well as internal rules.

④ Compliance

The Group has established a "code of ethics" in order to comply with laws / regulations, other pertaining rules, and social norms; And the Group works to ensure that its officers and employees are familiarized with this code of ethics. However, a situation may emerge in which, due to the rapid expansion of the business, etc., the compliance framework is unable to develop quickly enough. And should a violation of applicable laws or pertaining regulations occur, the trust of users of the Group's systems as well as the trust of the Group's business partners may be lost. It is also possible that such an event could result in a lawsuit being filed against the Group. Should this occur, it may affect business performance. In order to reduce this risk, the Group continuously works to strengthen its compliance framework through employee training and other means.

⑤ Safety and soundness of the Group's services

The Group's Kanamic Cloud Service is a system that enables information sharing across organizational boundaries and among professionals from various disciplines, such as medical care, nursing, long-term care, and municipalities. And due to advanced security measures, users of the service can feel confident in using the system. Despite this, however, there remains the risk that leakage of personal information could occur due to the actions of users, that users could transmit information in a manner such that the soundness of the system is damaged, or that illegal acts could be carried out by users of the system. The Group has prohibited this behavior via the system's “terms of use” and the Group has taken actions to limit the scope of its liability; But should a situation emerge where the Group is held legally liable or where the group is not legally liable but the reputation of its brand is damaged, then business performance of the Group may be impacted.

Furthermore, the Group's “platform services” include internet advertising services and homepage development services, and should any problems which results in reputational damage emerge in connection with these services, business performance could be impacted. In order to mitigate this risk, the Group has established a framework for inspecting usage rights and examining suitability with respect to potential advertisement content, and the Group will continue to strengthen this framework going forward.

⑥ Dependence on a particular service

The Group provides the Kanamic Cloud Service, the “platform services”, and “other services”. Currently, the Kanamic Cloud Service accounts for a large proportion of overall sales for the Group, rendering the Group dependent upon this service. Given this service's positioning as the Group's primary service, if the Kanamic Cloud Service (1) deviates from the needs of customers or (2) loses its advantage over competitors, there may be a significant impact to the Group's business performance. To mitigate these risks, the Group is actively working toward increasing structural stability via income diversification in the form of expansion of the “platform services” and the development of new services and businesses to serve as major components of the Group.

⑦ Risks associated with expanding into new businesses

The Group is expanding into new businesses that capitalize on existing systems. But when rolling out new businesses, there is the risk that (1) initial plans break down and capital invested is lost and that (2) systems development does not proceed as expected. Such occurrences may affect the business performance of the Group. In order to reduce these risks, the Group has established a framework for formulating systems development plans for new tools/functionalities and managing the progress thereof in an appropriate and efficient manner.

(3) Other risks

① Use of borrowed funds / return on investments

In anticipation of future service expansion, the Group may raise funds for the purpose of investing in systems (and related equipment), covering hiring costs for personnel expansion, and covering advertising costs, etc.

However, due to the rapidity of changes in the industry to which the Group belongs, even if the funds are used as planned

by the Group, it may not be possible to achieve expected return on investments. In order to mitigate this risk, the Group actively collects industry information via participation in advisory bodies (to relevant government authorities) and other relevant organizations.

② Dividend policy

The Company regards the return of profits to shareholders as a topic of material importance. That said, in order to realize the return of profits to shareholders over the long term, the Group finds it necessary to maintain ample internal reserves and proactively develop the business ahead of anticipated changes to the business environment. That is, the Group is currently in a growth phase, so by retaining ample internal reserves, the Group aims to strengthen its financial position and invest in business growth in a manner that leads to the greatest return of profits to shareholders. Along these lines, the Group's basic approach is to comprehensively consider both the adequacy of internal reserves and the objective of returning profits to its shareholders while responding flexibly to financial conditions and market trends.

Based on this policy, the Group adopted a payout ratio of 20% or more as its dividend target for FY 2020 onward. But if the business is unable to expand according to plans as a result of a sudden change to the business environment, there is a risk that it may not be possible to meet this target payout ratio. In order to mitigate this risk, the Group proactively gathers information regarding developments in the business environment and crafts and executes business plans to respond to these developments.

③ Litigation risks

No lawsuit which significantly impacted business performance has ever been filed against the Group. Furthermore, the Group does not perceive that such litigation is imminent. However, in the event that a lawsuit (such as one asserting infringement of intellectual property rights) should be filed against the Group and the resulting judgment proves disadvantageous to the Group, the business performance and financial position of the Group may be impacted. In order to mitigate this risk, the Group works with external organizations to remain abreast of intellectual property rights owned by other companies.

④ Risk of impairment of non-current assets

The Group possesses non-current assets, including office tools, furniture, and fixtures as well as software. There is an underlying risk that these assets may become impaired. Therefore, the Group appropriately applies impairment accounting rules to these non-current assets. Going forward, however, deterioration in the value of assets may impact the business performance of the Group.

⑤ Risk of corporate bonds remaining unconverted until maturity

The Company issued convertible bonds (CBs) with a total face value of roughly 2 billion yen on August 4, 2021. If the CBs are not fully converted into shares (as a result of the Company's share price trending below the conversion price, etc.), then unconverted portions will mature on August 4, 2026 and the remaining face value will need to be repaid to the bondholder at this time. Should this occur, refinancing with alternative funding methods may become necessary.

Considering that fluctuations in share price are influenced by a range of factors, the Group recognizes that there is a reasonable possibility that this risk will materialize. And in order to mitigate this risk, the Group will strive to diversify capital procurement methods.

⑥ Dilution through CBs / warrants

The Company has issued CBs and warrants. As of September 30, 2021, the number of shares underlying the equity options attached to the CBs is 2,408,767 and the number of shares underlying the warrants is 4,800,000, for a total of 7,208,767 shares. This is equivalent to 15.0% of the total number of issued shares. If these CBs/warrants are converted/exercised, dilution may occur with respect to earnings per share and voting rights.

3 【Management’s Analysis of Financial Position, Operating Results and Cash Flows】

(1) Overview of operating results, etc.

① Operating results

During the fiscal year ended September 30, 2021 (the fiscal year under review), the economic activity of households and businesses has been restrained due to the effects of COVID-19 (both domestically and internationally). Amid this tough economic climate, the domestic economy has seen some pick-up, but the tempo of this recovery is weakening.

The following can be said about the business environment in which the Group operates: the aging of Japan’s extremely elderly population is resulting in an increase in long-term care costs, increase in the number of long-term care recipients, and an increase in the number of long-term care service providers. Amid this, the overall expansion of the long-term care industry continues. Furthermore, the 2021 revision to the long-term care insurance law called for a strengthened response to infectious disease outbreaks and other disasters. And, in order to spearhead the development of a framework which facilitates high-quality and efficient long-term care services, the revisions also called for the advancement of the “community-based integrated care” framework, increased utilization of ICT, expansion of the long-term care labor force, and the promotion of science-based long-term care through the use of MHLW’s “Long-term care Information system For Evidence” (LIFE) database, which is composed of the following databases: VISIT (“monitoring & eValuation for rehabilitation ServiCes for long-Term care”) database and CHASE (Care, HeAlth Status & Events) database.

Because the Group provides a service which facilitates “community-based integrated care” (the Government’s framework for collaboration amongst healthcare and long-term care providers), the Group participates in joint-projects with various government ministries / agencies and the Group works to develop its systems in line with national policy. Furthermore, the group endeavors to stay prepared to respond to revisions to the long-term care insurance law, to update its systems in a timely manner, and to reduce the workload of users of its systems, thereby improving user convenience. Through case studies conducted through MIC’s “Project to Support the Creation of IoT Services”, the Group promotes the collaborative utilization of various data with the Kanamic Cloud Service. And through the “Tokyo Interprofessional Communication Portal Site” (a system implemented at the prefectural-level as opposed to the traditional municipality-level), the Group has helped propel the implementation of “in-home care” on a broader scale. The Group leverages know-how it has cultivated (in healthcare and long-term care communications) through its experience with the “Kanamic Cloud Service” in order to contribute to the promotion of regional-based communication in medical care and elderly care. In addition to the aforementioned projects in support of the advancement of long-term care, the Group, as an initiative in support of the realization of “a comprehensive care framework for all generations”, uses its “child-rearing support system” to help municipalities improve the efficiency of operations related to assisting community members with raising children. Furthermore, the Group carried out joint research with Asahikawa Medical University (a national university highly experienced in remote medicine) for the purpose of “building a model for the global deployment of community-based integrated care via the use of remote medicine and remote caregiving powered by IoT cloud technology.

As new undertakings, the Group launched the following two services: (1) “Kanamic Easy Web Statements” and (2) “Kanamic Easy Mailing Service”. These cloud-powered, digital transformation (DT) solutions will help long-term care service providers streamline their billing/receipt issuance operations, with the former allowing bills/receipts to be transmitted entirely over the internet and the latter providing a business process outsourcing (BPO) service for sending bills/receipts by postal mail. The Group also continued to expand upon its platform service offerings via strengthened digital media / advertisement contents, a database-powered talent matching service, services related to the sale of physical products to healthcare / long-term care providers, IoT cloud services for assisted living facilities, and services provided through business alliances. Furthermore, the Group issued convertible bonds and warrants in order to finance future M&A activities aimed at expanding the business.

Along with the expansion of the Group’s platform, an increasing amount of data is amassing in the Group’s systems. And the Group uses big data analytics to develop AI services for extracting care efficacy evidence (which is needed by the national government, municipalities, and insurance companies) and conducts research activities aimed at providing solutions to patients, long-term care recipients and healthcare / long-term care providers.

The group’s primary clients are long-term care service providers and due to the COVID-19 pandemic, some long-term care services providers have been subject to certain restrictions. However, the impact of this on the Group is minor at this time.

As a result of the above, operating results for the fiscal year ended September 30, 2021 (the fiscal year under review), were as follows: the Group recorded net sales of 2,080,776 thousand yen (up 199,332 thousand yen (10.6%) from the previous fiscal year), operating profit of 841,805 thousand yen (up 187,332 thousand yen (28.6%) from the previous fiscal year), ordinary profit of 829,941 thousand yen (up 152,941 thousand yen (22.6%) from the previous fiscal year), and profit attributable to owners of parent of 579,583 thousand yen (up 106,883 thousand yen (22.6%) from the previous fiscal year).

② Financial position

(Assets)

As of September 30, 2021 (as of the end of the fiscal year under review), the Group's total assets stood at 4,395,056 thousand yen (up 2,092,052 thousand yen from the previous fiscal year). This was mainly accounted for by a 2,004,250 thousand yen net increase in cash and cash equivalents (mainly from proceeds from the issuance of CBs and the net cash provided by operating activities), a 57,501 thousand yen increase in software (related to the addition of new functionalities to the Kanamic Cloud Service), and a 41,447 thousand yen increase in tools, furniture and fixtures stemming from capital expenditures thereof.

(Liabilities)

As of September 30, 2021 (as of the end of the fiscal year under review), the Group's total liabilities stood at 2,435,814 thousand yen (up 2,038,658 thousand yen from the previous fiscal year). This was mainly accounted for by the issuance of 2,003,866 thousand yen in CBs during the fiscal year under review.

(Changes in Net Assets)

As of September 30, 2021 (as of the end of the fiscal year under review), the Group's total net assets stood at 1,959,242 thousand yen (up 53,394 thousand yen from the previous fiscal year). This was mainly accounted for by the net effect of a 579,583 thousand yen increase in retained earnings (from profit attributable to owners of the parent), a decrease of 96,261 thousand yen in retained earnings (due to dividends paid), and a 436,465 thousand yen increase in treasury shares.

③ Cash flows

As of September 30, 2021 (as of the end of the fiscal year under review), the Group's cash and cash equivalents (hereinafter referred to as "cash") stood at 3,710,780 thousand yen.

(Cash flows from operating activities)

Net cash provided by operating activities was 756,754 thousand yen (versus 634,828 the previous fiscal year). The primary sources of cash inflow were as follows: 830,670 thousand yen in profit before income taxes and 135,665 thousand yen stemming from depreciation (a noncash item). The primary source of cash outflow was 228,049 thousand yen in income taxes paid.

(Cash flows from investing activities)

Net cash used in investing activities was 216,032 thousand yen (versus 103,632 thousand yen the previous fiscal year). The primary sources of cash outflow were as follows: 54,216 thousand yen for the purchase of property, plant and equipment (in relation to new services and additional servers) and 168,243 thousand yen for the purchase of intangible assets (in relation to the addition of new functionalities to the Kanamic Cloud Service).

(Cash flows from financing activities)

Net cash provided by financing activities was 1,458,641 thousand yen (versus 48,130 thousand yen used by financing activities the previous fiscal year). The primary source of cash inflow was 1,987,375 thousand yen in proceeds from issuance of CBs (which were issued to finance future M&A activities aimed at expanding the business). The primary sources of cash outflow were 436,640 thousand yen for the purchase of treasury shares and 96,261 thousand yen in dividends paid.

④ Production, Orders Received, and Sales

i Production

This information is not disclosed as it does not align with the nature of the Group's services.

ii Orders Received

This information is not disclosed as it does not align with the nature of the Group's services.

iii Sales

Sales by service during the fiscal year ended September 30, 2021 are as follows.

| Name of Service | Sales (thousands of yen) | YoY (%) |
|-----------------------|--------------------------|---------|
| Kanamic Cloud Service | 1,857,874 | 113.1 |
| Platform Services | 143,626 | 95.7 |
| Other Services | 79,275 | 89.5 |
| Total | 2,080,776 | 110.6 |

- (Note) 1. Because the Group operates in a single reportable segment, sales are shown on a by-service basis.
2. The figures above do not include consumption taxes.

(2) Management's analysis of operating results, etc.

Information on management's analysis of the Group's operating results is as follows.

Any forward-looking statements contained herein are based on judgments of the Group's management as of September 30, 2021.

① Analysis of financial position and operating results

(Analysis of financial position)

As of September 30, 2021 (as of the end of the fiscal year under review), the Group's total assets stood at 4,395,056 thousand yen. Notably, cash and deposits increased, primarily due to cash flow from financing activities. Furthermore, as a result of sustained capital expenditure, the uptrend in software assets and the uptrend in tools, furniture, and fixtures continued.

As of September 30, 2021 (as of the end of the fiscal year under review), the Group's total liabilities stood at 2,435,814 thousand yen. With the exceptions of the increases in total liabilities stemming from the issuance of convertible bonds and the increase stemming from income taxes payable (income taxes payable increased from the previous fiscal year due to an increase in profit attributable to owners of parent), the trend in liabilities continued to be maintained at a certain level.

As of September 30, 2021 (as of the end of the fiscal year under review), the Group's total net assets stood at 1,959,242 thousand yen. Apart from the decreasing impact to net assets stemming from the acquisition of treasury shares, there was a continuation of the current trend whereby the increase in net assets is roughly equal to the difference obtained by subtracting dividends paid from profit attributable to owners of parent.

(Analysis of operating results)

For the fiscal year ended September 30, 2021 (the fiscal year under review), the Group recorded net sales of 2,080,776 thousand yen. This mainly came from contracts to provide the Kanamic Cloud Service, which is the Group's primary service. Since the Group operates in a single reportable segment, segment information is omitted; But net sales figures for each service area are provided below.

i Kanamic Cloud Service

The Kanamic Cloud Service is mainly a recurring revenue business. As a result of recurring revenue from existing customers combined with continued acquisition of new customers, net sales for the Kanamic Cloud Service came in at 1,857,874 thousand yen (up 215,096 thousand yen (13.1%) from the previous fiscal year).

ii Platform Services

Platform Services include the production, operation, and management of websites of long-term care providers through directly solicited contracts as well as through the Care Work Foundation. These website services provide a stable base income. Platform Services also include an advertising service and services provided through the Group's information sharing platform, such as the sale of products intended for use against COVID-19. Unfortunately, competition within the COVID-19 countermeasure products space has intensified and net sales for the Platform Services came in at 143,626 thousand yen (down 6,465 thousand yen (4.3%) from the previous fiscal year).

iii Other Services

Contracts to undertake development work for large customers were obtained, but contracts from municipalities decreased due to COVID-19, and net sales for Other Services came in at 79,275 thousand yen (down 9,298 thousand yen (10.5%) from the previous fiscal year).

Net sales increased. That said, due to an increase in the cost of purchased goods as well as production expenses for each service, cost of sales came in at 292,749 thousand yen (up 25,372 thousand yen versus the previous fiscal year). The net result of the foregoing was that gross profit came in at 1,788,026 thousand yen (up 173,959 thousand yen (10.8%) from the previous fiscal year).

Experimentation and research expenses decreased because Joint Research with Asahikawa Medical University was in its final year and selling, general and administrative expenses also decreased due to efficiency improvements (such as the use of

telework and remote conferencing amid the COVID-19 pandemic), with selling, general and administrative expenses coming in at 946,221 thousand yen (down 13,372 thousand yen from the previous fiscal year). The net result of the foregoing was that operating profit came in at 841,805 thousand yen (up 187,332 thousand yen (28.6%) from the previous fiscal year).

Foreign exchange gains increased by 796 thousand yen; but subsidy income decreased by 17,748 thousand yen, causing total non-operating income to come in at 5,255 thousand yen (down 17,837 thousand yen from the previous fiscal year). Due to financing expenses of 16,920 thousand yen arising from the issuance of CBs and warrants, total non-operating expenses came in at 17,120 thousand yen (up 16,553 thousand yen from the previous fiscal year). As a result of the foregoing, ordinary profit came in at 829,941 thousand yen (up 152,941 thousand yen (22.6%) from the previous fiscal year). With regards to extraordinary income, the Group recorded a “gain on sale of non-current assets” of 728 thousand yen (arising from the sale of vehicles). There were no extraordinary losses.

As a result of the foregoing, profit before income taxes came in at 830,670 thousand yen (up 153,670 thousand yen (22.7%) from the previous fiscal year), total income taxes came in at 251,087 thousand yen (up 46,786 thousand yen from the previous fiscal year), and profit attributable to owners of parent came in at 579,583 thousand yen (up 106,883 thousand yen (22.6%) from the previous fiscal year).

② Analysis of cash flows, capital resources, and liquidity

The Group’s funding needs primarily relate to working capital needs (including production costs as well as selling, general and administrative expenses) and the need for capital to satisfy capital expenditures. The Group’s primary source of funding is cash flows from operating activities.

Cash flows for the fiscal year ended September 30, 2021 (the fiscal year under review) were primarily composed of cash flows from financing activities (proceeds from the issuance of convertible bonds aimed at funding M&A activities) and cash flows from operating activities (cash flows stemming from profit before income taxes). Primarily as a result of the aforementioned cash flows, net increase in cash and cash equivalents came in at 2,004,250 thousand yen.

The Group has secured sufficient cash on hand and believes that it has partially met its funding needs in relation to future business expansion and M&A activities. From the next fiscal year onward, the Group will continue to procure funds via the exercise of warrants against it.

③ Important accounting estimates and assumptions used for making these estimates

The consolidated financial statements of the Group are prepared in accordance with generally accepted accounting principles of Japan. And the preparation of such financial statements requires the use of estimates that affect management’s decisions regarding the application of accounting policies as well as the reported amounts of assets / liabilities and the reported amounts of revenues / expenses. In rendering these estimates, management takes previous results into account and records amounts that it believes to be reasonable. But due to the inherently uncertain nature of estimates, in some cases actual results may vary from estimates. Important accounting principles are detailed in “*Item 5: Financial Information, 1. Consolidated Financial Statements, etc. (1) Consolidated Financial Statements (Significant Matters Serving as Basis for Preparation of Consolidated Financial Statements)*”. That said, some accounting principle are also detailed below because they have been deemed to exert a particular influence upon decisions regarding important accounting estimates.

• Impairment of non-current assets

Non-current assets (and groups of assets) with indications of impairment shall be treated as follows: when the book value of these non-current assets exceeds the estimated future cash flows (undiscounted) for the assets, book value shall be reduced to the recoverable value and such reduction shall be recorded as an impairment loss.

The recognition of impairment of non-current assets as well as the estimation of future cash flows thereof (which are used in calculating the recoverable value) are affected by uncertainties about future changes in economic conditions.

And it is possible that impairment losses will arise in the future.

The Group perceives that the COVID-19 pandemic has not exerted any significant impact on estimates made in the course of the preparation of the consolidated financial statements.

④ Rational indicators for judging the degree of progress made towards achieving management objectives, plans, and targets

Thus far, the Group has used Information and Communication Technology (ICT) to contribute to the realization of the “community-based integrated care system needed by our extremely elderly society”. This has been achieved through providing a platform which makes interdisciplinary communication possible and targets the entirety of the healthcare and long-term care industry.

Going forward, the Group will use big data analytics and other services to further advance community-based collaboration

within the healthcare and long-term care industries; and the Group will continue providing effective solutions to patients, long-term care recipients and healthcare / long-term care providers.

Because the Group places an emphasis on profitability, operating profit is the financial metric that the Group monitors most closely. Operating profit for the fiscal year ended September 30, 2021 (the fiscal year under review) came in at 841,805 thousand yen, representing an achievement rate of 115.3% versus the initial target of 730,000 thousand yen. The factors contributing to this result are detailed in “(2) *Management’s analysis of operating results, etc.*, ① *Analysis of financial position and operating results*”.

The target for the fiscal year ending September 30, 2022 (the next fiscal year) is 930,000 thousand yen (a 10.5% increase from the fiscal year under review). The Company will capitalize on increased regional cooperation within the healthcare and long-term care fields to propel sales efforts and work in unison with the national government as well as municipalities as it strives to strengthen business performance.

4 **【Important Legal and Contractual Matters】**

Not applicable matters to report.

5 【Research and Development】

The Group carries out research and development aimed at strengthening network infrastructure for collaboration/coordination within the in-home medical care, nursing, and long-term care industries. These research and development activities are primarily conducted in conjunction with the Institute of Gerontology at the University of Tokyo and they aim to strengthening the functionality of network systems which facilitate seamless, multiprofessional collaboration among home-visit doctors, nurses, and long-term care staff.

Furthermore, the Group conducted joint research with Asahikawa Medical University for the purpose of "building a model for the global deployment of community-based integrated care via the use of remote medicine and remote caregiving powered by IoT cloud technology".

As a result of these research and development activities, research and development expenses for the fiscal year ended September 30, 2021 (the fiscal year under review) came in at 4,323 thousand yen.

Item 3. 【Property and Equipment】

1 【Overview of Capital Expenditures】

Capital expenditures for the fiscal year ended September 30, 2021 (the fiscal year under review) totaled 227,675 thousand yen (169,471 thousand yen of which went to enhancements of software functionality of the Kanamic Cloud Service).

Since the Group operates in a single reportable segment, segment information is omitted.

There were no significant acquisitions, disposals or sales of property or equipment during the fiscal year under review.

2 【Key Property and Equipment】

(1) The Company

Key information related to property and equipment is provided below.

As of September 30, 2021

| Site name (location) | Segment name | Facility type / purpose | Book value (thousands of yen) | | | | | Number of employees |
|--|-----------------|------------------------------------|-------------------------------|----------|-------------------------------------|----------|---------|------------------------|
| | | | Buildings | Vehicles | Tools, furniture and fixtures | Software | Total | |
| Head office (Shibuya-ku, Tokyo) | — | Head office and Sales office | 1,978 | 4,363 | 63,227 | 395,243 | 464,812 | 49 |
| Osaka Sales Office (Yodogawa-ku, Osaka) | — | Sales office | 455 | — | 224 | — | 679 | 8 |
| Fukuoka Sales Office (Hakata-ku, Fukuoka) | — | Sales office | 1,889 | — | 3,940 | — | 5,829 | 7 |
| Nagoya Sales Office (Naka-ku, Nagoya) | — | Sales office | 1,817 | — | 270 | — | 2,088 | 2 |

(Note) 1. Consumption tax is not included in the amounts above.

2. The buildings housing the aforementioned head office and sales offices are leased. Annual rent expenses totaled 68,700 thousand yen.

3. Book values represent amounts prior to adjustments to eliminate unrealized profits on intracompany transactions.

(2) Overseas subsidiaries

As of August 31, 2021 2021年8月31日現在

| Company name | Site name (location) | Segment name | Facility type / purpose | Book value (thousands of yen) | | | | | Number of employees |
|--|-----------------------------------|-----------------|-------------------------------|-------------------------------|----------|-------------------------------------|----------|-------|------------------------|
| | | | | Buildings | Vehicles | Tools, furniture and fixtures | Software | Total | |
| Kanamic (Dalian) Technology Co., Ltd. | Head office (Dalian, China) | — | Other facilitie s | — | — | 911 | 4 | 915 | 14 |

(Note) Consumption tax is not included in the amounts above.

3 【Plans for Additions / Disposals of Property and Equipment】

(1) Additions of key facilities, etc.

No applicable matters to report.

(2) Disposals of key facilities, etc.

No applicable matters to report.

Item 4. 【Other Matters Related to the Company】**1 【Share-related Information, etc.】****(1) 【Total number of shares, etc.】****① 【Total authorized shares】**

| Class | Total number of shares authorized to be issued |
|---------------|--|
| Common shares | 158,400,000 |
| Total | 158,400,000 |

② 【Issued shares】

| Class | Number of issued shares as of end of fiscal year (September 30, 2021) | Number of issued shares as of filing date (December 23, 2021) | Name of stock exchange on which the Company is listed | Comments |
|---------------|---|---|---|---|
| Common shares | 48,132,000 | 48,132,000 | Tokyo Stock Exchange (first section) | The number of shares constituting one trading unit is 100 shares. |
| Total | 48,132,000 | 48,132,000 | — | — |

(2) 【Information on Stock Options, etc.】

① 【Description of Stock Option Scheme】

No applicable matters to report.

② 【Shareholder rights plan】

No applicable matters to report.

③ 【Information on other Stock Acquisition Rights】

Details regarding convertible bonds issued in accordance with the Companies Act are as follows.

| 1st Series Unsecured Convertible Bonds with Stock Acquisition Rights (Maturing 2026) | |
|--|--|
| Resolution Dates | 2021年7月15日及び2021年7月19日 July 15, 2021 and July 19, 2021 |
| Total number of attached stock acquisition rights* | 20 |
| Number held by Company* | — |
| Number of shares underlying the attached stock acquisition rights* | 2,408,767 ordinary shares (Note) |
| Amount to be paid-in to exercise attached stock acquisition rights (yen)* | None |
| Exercise Period for attached stock acquisition rights* | From August 5, 2021 to July 21, 2026 |
| Share issue price and additional paid-in capital per share in the event of issuance of shares through exercise of attached stock acquisition rights* | Issue Price: 830.3 (Note) Additional paid-in capital per share: 415.15 (Note) |
| Conditions for exercising attached stock acquisition rights* | The attached stock acquisition rights may not be exercised in part. Moreover, in the event that the Company purchases the Convertible Bonds and extinguishes the Bonds, the attached stock acquisition rights may no longer be exercised. |
| Matters relating to the transfer of attached stock acquisition rights* | Pursuant to Article 254-2 and 3 of the Companies Act, the convertible bonds may neither be split into component parts (into stock acquisition rights and bonds) nor be transferred separately. |
| Matters relating to the granting of stock acquisition rights in connection with organizational restructurings* | — |
| Details regarding assets to be contributed upon the exercise of attached stock acquisition rights, and information on price calculation* | Upon the exercise of each of the attached stock acquisition rights, the Bonds they were affixed to shall be contributed. And the amount of assets to be contributed upon the exercise of each Stock Acquisition Right shall be equal to the face value of each Bond. |
| Amount of outstanding Convertible Bonds (thousands of yen)* | 2,003,866 [2,003,733] |

* The above figures represent values as of September 30, 2021 (the last day of the fiscal year under review). For items in which there were changes between September 30, 2021 and November 30, 2021 (the last day of the month prior to the filing date of this report), values as of November 30, 2021 are provided in the brackets. Values which are not specified with brackets did not change during this period.

(Note) The number of shares underlying the attached stock acquisition rights is calculated by dividing the total face value of the bonds (2,000,000 thousand yen) by the initial conversion price of 830.3 yen. That said, the conversion price may be revised once (and only once) on February 13, 2023 (hereinafter the “revision date”). If the value calculated by multiplying the average closing price for common shares of the Company in ordinary trading on the Tokyo Stock Exchange (“TSE”) for five consecutive trading days ending on Feb 6, 2023 (hereinafter “the determination date”) by 1.00 (calculated to 2 decimal places with the last digit rounded up to 1 decimal place) is lower than the initial conversion price by more than 1 yen, then the conversion price shall be revised to the “determination date price”, effective from the “revision date” onward. However, the minimum post-revision conversion price shall be set to 615 yen.

Details regarding warrants issued in accordance with the Companies Act are as follows.

| 3rd series Stock Acquisition Rights (Moving Strike Warrants) | |
|--|--|
| Resolution Date | 2021年7月15日及び2021年7月19日 July 15, 2021 and July 19, 2021 |
| Total number of warrants* | 48,000 |
| Warrants held by the Company | — |
| Number of shares underlying the warrants* | 4,800,000 ordinary shares |
| Amount to be paid-in to exercise warrants (yen)* | 615 (note) |
| Exercise period for the warrants* | From August 5, 2021 to August 5, 2024 |
| Share issue price and additional paid-in capital per share in the event of issuance of shares through exercise of warrants | Share issue price: 615 (note) Additional paid-in capital: 307.5 (note) |
| Conditions for exercising warrants* | Warrants may not be exercised in part. |
| Matters relating to the transfer of warrants* | Transfers of warrants are subject to approval by the Board of Directors of the Company |
| Matters relating to the granting of warrants in connection with organizational restructurings* | — |

* The above figures represent values as of September 30, 2021 (the last day of the fiscal year under review). There were no items in which there were changes between September 30, 2021 and November 30, 2021 (the last day of the month prior to the filing date of this report). Therefore, values as of November 30, 2021 are omitted.

(Note) The aforementioned exercise represents the initial exercise. Whenever warrants are exercised, the exercise price shall be revised to an amount equivalent to 93%, (calculation shall be made to the second decimal place, then rounded up to one decimal place), of the closing price for the Company's common stock in the ordinary trading session at the Tokyo Stock Exchange on the trade date immediately preceding the effective date of the exercise request (or, if no closing price is quoted on that date, the closing price of the date immediately preceding that). If, however, this revised exercise price falls below 615 yen, the exercise price shall be set to 615 yen.

(3) 【Status of exercise of Moving Strike Convertible Bonds】

No applicable matters to report.

(4) 【Changes in Total Number of Issued Shares and Changes in Share Capital】

| 年月日Date | Change in total number of issued shares | Total number of issued shares after change | Change in share capital (thousands of yen) | Share capital after change (thousands of yen) | Change in capital surplus (thousands of yen) | Capital surplus after change (thousands of yen) |
|-------------------------------|---|--|--|---|--|---|
| November 1, 2016 (Note 1) | 1,187,000 | 2,374,000 | — | 180,060 | — | 120,060 |
| November 16, 2016 (Note 2) | 300,000 | 2,674,000 | 12,000 | 192,060 | 12,000 | 132,060 |
| August 1, 2017 (Note 3) | 5,348,000 | 8,022,000 | — | 192,060 | — | 132,060 |
| April 1, 2018 (Note 4) | 8,022,000 | 16,044,000 | — | 192,060 | — | 132,060 |
| September 1, 2019 (Note 5) | 32,088,000 | 48,132,000 | — | 192,060 | — | 132,060 |

- (Note) 1. By resolution of the Board of Directors held on October 11, 2016, a two-to-one stock split was conducted on November 1, 2016.
2. Increases were the result of the exercise of share acquisition rights.
3. By resolution of the Board of Directors held on July 11, 2017, a three-to-one stock split was conducted on August 1, 2017.
4. By resolution of the Board of Directors held on March 6, 2018, a two-to-one split stock split was conducted on April 1, 2018.
5. By resolution of the Board of Directors held on August 9, 2019, a three-to-one stock split was conducted on September 1, 2019.

(5) 【Shareholdings by shareholder category】

As of September 30, 2021

| Category | Shareholdings by category (Number of shares per trading unit: 100) | | | | | | | Number of shares held in quantities less than one unit (shares) | |
|-------------------------------------|--|------------------------|--|--------------------|----------------------|-------------|---------------------|---|--------|
| | National and local governments | Financial institutions | Financial instruments business operators | Other institutions | Foreign shareholders | | Individuals / Other | | Total |
| | | | | | Non-individuals | Individuals | | | |
| Number of shareholders | — | 14 | 33 | 42 | 71 | 19 | 10,920 | 11,099 | — |
| Number of shares held (trade units) | — | 96,884 | 16,011 | 116,466 | 48,799 | 91 | 202,961 | 481,212 | 10,800 |
| Ratio to total shares (%) | — | 20.13 | 3.33 | 24.20 | 10.14 | 0.02 | 42.18 | 100.00 | — |

- (Note) Of 710,906 shares of treasury stock, 7,109 trading units are included in “Individuals / Other”, and 6 shares are included in “Number of shares held in quantities less than one unit”.

(6) 【Major shareholders】

As of September 30, 2021

| Name or title | Address | Number of shares held (shares) | Shares held as a percentage of total issued shares excluding treasury shares (%) |
|--|--|--------------------------------|--|
| SHO Co., Ltd. | 4-3-35 Roppongi, Minato-ku, Tokyo | 11,380,000 | 23.99 |
| Takuma Yamamoto | Minato-ku, Tokyo | 6,684,000 | 14.09 |
| The Master Trust Bank of Japan (Trust Account) | 2-11-3 Hamamatsucho, Minato-ku, Tokyo | 3,608,900 | 7.61 |
| JPMBL RE NOMURA INTERNATIONAL PLC1 COLL EQUITY (Standing Proxy: MUFG Bank, Ltd.) | 1 Angel Lane London EC4R 3AB (2-7-1 Marunouchi, Chiyoda-ku, Tokyo, Settlements Division) | 2,220,714 | 4.68 |
| Custody Bank of Japan, Ltd. (Trust Account) | 1-8-12 Harumi, Chuo-ku, Tokyo Tokyo | 2,106,400 | 4.44 |
| Nomura Trust & Banking Co., Ltd. (Trust Account) | 2-2-2 Otemachi, Chiyoda-ku, Tokyo | 1,914,800 | 4.03 |
| Custody Bank of Japan, Ltd. (Trust Account 9) | 1-8-12 Harumi, Chuo-ku, Tokyo | 1,607,400 | 3.38 |
| Yoko Yamamoto | Minato-ku, Tokyo | 1,400,000 | 2.95 |
| Minoru Yamamoto | Minato-ku, Tokyo | 900,000 | 1.89 |
| Credit Suisse International (Standing Proxy: Credit Suisse Securities Co., Ltd., Securities Management Department) | One Cabot Square. London E14 4QJ (Izumi Garden Tower, 1-6-1 Roppongi, Minato-ku, Tokyo) | 858,000 | 1.80 |
| Total | — | 32,680,214 | 68.91 |

(Note) 1. Of the shareholdings above, the following shares are held through trusts:

| | |
|--|------------|
| The Master Trust Bank of Japan (Trust Account) | 3,608,900株 |
| Custody Bank of Japan, Ltd. (Trust Account) | 2,106,400株 |
| Nomura Trust & Banking Co., Ltd. (Trust Account) | 1,914,800株 |
| Custody Bank of Japan, Ltd. (Trust Account 9) | 1,607,400株 |

2. According to the “Report of Change” pertaining to the “Report of Possession of Large Volume” made public on April 22, 2019, Sumitomo Mitsui DS Asset Management Co., Ltd. owned the following shares as of April 15, 2019. However, the number of shares actually owned as of September 30, 2021 cannot be confirmed by the Company, so the holdings are not included in the above table regarding major shareholders. The details contained in the “Report of Change” made in relation to the “Report of Possession of Large Volume” are as stated below. Also note that on September 1, 2019, the Company conducted a stock split at a ratio of 3-for-1, but the figures presented reflect the actual number of shares held before the stock split.

| Name or Title | Address | Number of Shares Held | Shareholding Ratio (%) |
|---|-------------------------------|-----------------------|------------------------|
| Sumitomo Mitsui DS Asset Management Co., Ltd. | 2-5-1 Atago, Minato-ku, Tokyo | 740,700 | 4.62 |

3. According to the “Report of Change” pertaining to the “Report of Possession of Large Volume” made public on September 19, 2019, JP Morgan Asset Management Co., Ltd. and its co-owners JP Morgan Securities Co., Ltd. and JP Morgan Securities PLC owned the following shares as of September 13, 2019. However, the number of shares actually owned as of September 30, 2021 cannot be confirmed by the Company, so the holdings are not included in the above table regarding major shareholders. The details contained in the “Report of Change” made in relation to the “Report of Possession of Large Volume” are as stated below.

| Name or Title | Address | Number of Shares Held | Shareholding Ratio |
|--------------------------------------|--|-----------------------|--------------------|
| JP Morgan Asset Management Co., Ltd. | 2-7-3 Marunouchi, Chiyoda-ku, Tokyo | 2,178,200 | 4.53 |
| JP Morgan Securities Co., Ltd. | 2-7-3 Marunouchi, Chiyoda-ku, Tokyo | 29,400 | 0.06 |
| JP Morgan Securities PLC | 25 London, UK E14 5JP Canary Wharf, Bank Street 25 | 9,280 | 0.02 |

4. According to the “Report of Change” pertaining to the “Report of Possession of Large Volume” made public on September 13, 2021, Credit Suisse Securities Co., Ltd. and its co-owners Credit Suisse AG and Credit Suisse International owned the following shares as of September 6, 2021. However, the number of shares actually owned as of September 30, 2021 cannot be confirmed by the Company, so the holdings are not included in the above table regarding major shareholders. The details contained in the “Report of Change” made in relation to the “Report of Possession of Large Volume” are as stated below.

| Name or Title | Address | Number of Shares Held | Shareholding Ratio |
|------------------------------------|--|-----------------------|--------------------|
| Credit Suisse Securities Co., Ltd. | 1-6-1 Roppongi, Minato-ku, Tokyo | 5,500,000 | 10.39 |
| Credit Suisse AG | Paradeplatz 8 8001 Zurich, Switzerland | 56,840 | 0.12 |
| Credit Suisse International | One Cabot Square. London E14 4QJ | 2,662,576 | 5.33 |

5. According to the “Report of Change” pertaining to the “Report of Possession of Large Volume” made public on October 5, 2021, Nomura Securities Co., Ltd. and its co-owners Nomura International PLC and Nomura Asset Management Co., Ltd. owned the following shares as of September 29, 2021. However, the number of shares actually owned as of September 30, 2021 cannot be confirmed by the Company, so the holdings are not included in the above table regarding major shareholders. The details contained in the “Report of Change” made in relation to the “Report of Possession of Large Volume” are as stated below.

| Name or Title | Address | Number of Shares Held | Shareholding Ratio |
|-----------------------------------|---|-----------------------|--------------------|
| Nomura Securities Co., Ltd. | 1-13-1 Nihonbashi, Chuo-ku, Tokyo | 355,834 | 0.74 |
| Nomura International PLC | 1 Angel Lane, London EC4R 3AB, United Kingdom | 2,211,040 | 4.59 |
| Nomura Asset Management Co., Ltd. | 2-2-1 Toyosu, Koto-ku, Tokyo | 3,907,700 | 8.12 |

(7) 【Voting rights】

① 【Issued shares】

As of September 30, 2021

| Classification | Number of shares | Number of voting rights | Comments |
|--|----------------------------|-------------------------|---------------------------|
| Shares with no voting rights | — | — | — |
| Shares with restricted voting rights (treasury shares, etc.) | — | — | — |
| Shares with restricted voting rights (others) | — | — | — |
| Shares with full voting rights (treasury shares, etc.) | Ordinary Shares 710,900 | — | — |
| Shares with full voting rights (others) | Ordinary Shares 47,410,300 | 474,103 | Trading Unit = 100 Shares |
| Number of shares held in quantities less than one unit | Ordinary Shares 10,800 | — | — |
| Total number of issued shares | 48,132,000 | — | — |
| Total number of voting rights | — | 474,103 | — |

② 【Treasury shares】

As of September 30, 2021

| Name or title of shareholder | Address of shareholder | Number of shares held under own name | Number of shares held under the names of others | Total number of shares held | Shares held as a percentage of total issued shares (%) |
|------------------------------|---------------------------------|--------------------------------------|---|-----------------------------|--|
| Kanamic Network Co.,LTD | 4-20-3 Ebisu, Shibuya-ku, Tokyo | 710,900 | — | 710,900 | 1.4 |
| Total | — | 710,900 | — | 710,900 | 1.4 |

2 【Acquisitions of Treasury Stock】

【Class of shares, etc.】 Acquisition of common shares which falls under Article 155, Item 3 of the Companies Act of Japan

(1) 【Acquisitions of Treasury Shares resolved at the General Meeting of Shareholders】

No applicable matters to report.

(2) 【Acquisitions of Treasury Shares resolved at Meetings of the Board of Directors】

Acquisition under Article 156 of the Companies Act, as applied pursuant to paragraph 3, Article 165, of the same Act.

| Category | Number of shares | Total amount (yen) |
|--|------------------|--------------------|
| Resolution of the Board of Directors (July 15, 2021) (Acquisition period: July 16, 2021 to July 16, 2021) | 952,300 | 500,000,000 |
| Treasury shares acquired before the fiscal year ended September 30, 2021 | — | — |
| Treasury stock acquired during the fiscal year ended September 30, 2021 | 709,700 | 436,465,500 |
| Total number (and value) of remaining shares to be acquired as per resolution | — | — |
| Ratio unpurchased as of September 30, 2021 (%) | — | — |
| Treasury shares acquired during the current period | — | — |
| Ratio unpurchased as of the filing date of this report (%) | — | — |

(Note) 1. The acquisition of treasury shares was completed prior to the filing date of this report. Therefore, the ratio unpurchased as of the filing date of this report is omitted.

2. The acquisition period / shares acquired are provided on a trade date basis.

3. Purchase of treasury shares by "Off-Auction Own Share Repurchase Trading (ToSTNeT-3)"

(3) 【Acquisitions of Treasury Shares not based on resolution of General Meeting of Shareholders or Board of Directors】

No applicable matters to report.

(4) 【Dispositions and holdings of acquired treasury shares】

| Category | Fiscal year ended September 30, 2021 | | Current period | |
|---|--------------------------------------|---|------------------|---|
| | Number of shares | Total amount disposed (thousands of yen) | Number of shares | Total amount disposed (thousands of yen) |
| treasury shares for which subscribers were solicited | — | — | — | — |
| treasury shares that were cancelled | — | — | — | — |
| treasury shares transferred in connection with merger, share exchange, share delivery, or company split | — | — | — | — |
| Other (-) | — | — | — | — |
| Number of treasury shares held | 710,906 | — | 710,906 | — |

(Note) The number of treasury shares held for the current period does not account for share purchases of less than one trading unit which occurred between December 1, 2021 and the filing date of this Annual Report.

3 【Dividend Policy】

The Company regards the return of profits to shareholders as a topic of material importance. That said, in order to realize the return of profits to shareholders over the long term, the Company finds it necessary to maintain ample internal reserves and proactively develop the business ahead of anticipated changes to the business environment. That is, the Company is currently in a growth phase, so by retaining ample internal reserves, the Company aims to strengthen its financial position and invest in business growth in a manner that leads to the greatest return of profits to shareholders. Along these lines, the Company's basic approach is to comprehensively consider both the adequacy of internal reserves and the objective of returning profits to its shareholders while responding flexibly to financial conditions and market trends. For the time being, the Company has adopted a payout ratio of 20% or more as its dividend target. Based upon this dividend policy, the Company has set the dividend for the Company's 21st fiscal year to 2.50 yen per common share. (Internal reserves will be used to prepare for future business expansion and for systems development activities).

In principle, the Company intends to pay dividends once per year in the form of a fiscal year-end dividend. And matters related to dividends are decided by the General Meeting of Shareholders. That said, the Company's Articles of Incorporation prescribe (in according to the provisions of Article 454, Paragraph 5 of the Companies Act) that the payment of an interim dividend may be conducted by resolution of the Board of Directors.

(Note) The dividend for the fiscal year ended September 30, 2021 (the fiscal year under review) is as follows.

| Resolution date | Total amount of dividend (thousands of yen) | Dividend per share (yen) |
|---|--|--------------------------|
| December 22, 2021 (Resolution of the Ordinary General Meeting of Shareholders) | 118,552 | 2.50 |

4 【Corporate Governance and Other Matters】

(1) 【Overview of Corporate Governance】

① Basic views on corporate governance

The Company's system of corporate governance provides a framework for each director to swiftly execute his / her duties in accordance with the decision-making of the Board of Directors. And although the Company is a small organization with a small number of employees, the Company has drafted internal rules and operations manuals; and the Company carries out business activities in accordance with these rules. Furthermore, oversight of management decisions and business activities is conducted through an audit function consisting of regular supervisory audits as well as internal audits.

The Company has positioned corporate governance as a system for enabling functional management; and the Company is committed to strengthening and enhancing its system of corporate governance based on a recognition that corporate governance is indispensable for affecting continuous improvements to enterprise value. In addition, in order to remain accountable to shareholders, the Company promptly and appropriately discloses relevant information and conducts management activities in a fashion that ensures transparency and fairness in decision-making. Furthermore, the Company has vigorously implemented a system of compliance based on sound ethical standards; and the Company continues to earn the trust of stakeholders (including shareholders, investors, and clients) as it expands its business.

The organizations and business decision-making bodies (under the Companies Act) include the following: the General Meeting of Shareholders (the highest body) and the Board of Directors (composed of directors elected at the General Meeting of Shareholders and positioned as the highest decision-making body). Furthermore, the corporate auditors (who are also elected at the General Meeting of Shareholders) strengthen the corporate governance framework by auditing the activities of the Board of Directors.

② Description of the Company's system of corporate governance and reasons for adopting this system

A. Overview of system of corporate governance

The Company's system of corporate governance is structured around the following bodies: the Board of Directors (the management decision-making body), the Audit & Supervisory Board (a management oversight body), a committee equivalent to a Nominating Committee (there is no regulatory requirement to establish this body and the Company has done so voluntarily), and a committee equivalent to a Compensation Committee (there is no regulatory requirement to establish this body and the Company has done so voluntarily). The Board of Directors is led by Takuma Yamamoto (Representative Director and President); and the Board of Directors is comprised of the following nine members: Takuma Yamamoto, Minoru Yamamoto (Chairman), Yoko Yamamoto (Vice Chairman), Keiji Yamamoto (Director and Vice President), Ryuta Ishikawa (Director), Kenya Wakabayashi (Director), Tadao Kakizoe (External Director), Shinji Fukukawa (External Director), and Kazuo Futagawa (External Director).

The Audit & Supervisory Board is chaired by Kyoichi Oyo (full-time corporate auditor) and is comprised of the following 3 members: Kyoichi Oyo, Toshio Imatani (external corporate auditor), and Tsunehisa Chiba (corporate auditor).

The voluntarily established committee equivalent to the Nominating Committee is chaired by Takuma Yamamoto (Representative Director and President) and consist of the following three members: Takuma Yamamoto, Tadao Kakizoe (External Director), and Shinji Fukukawa (External Director).

The voluntarily established committee equivalent to the Compensation Committee is chaired by Takuma Yamamoto (Representative Director and President) and consist of the following three members: Takuma Yamamoto, Tadao Kakizoe (External Director), and Shinji Fukukawa (External Director).

B. Reasons for adopting this system of corporate governance

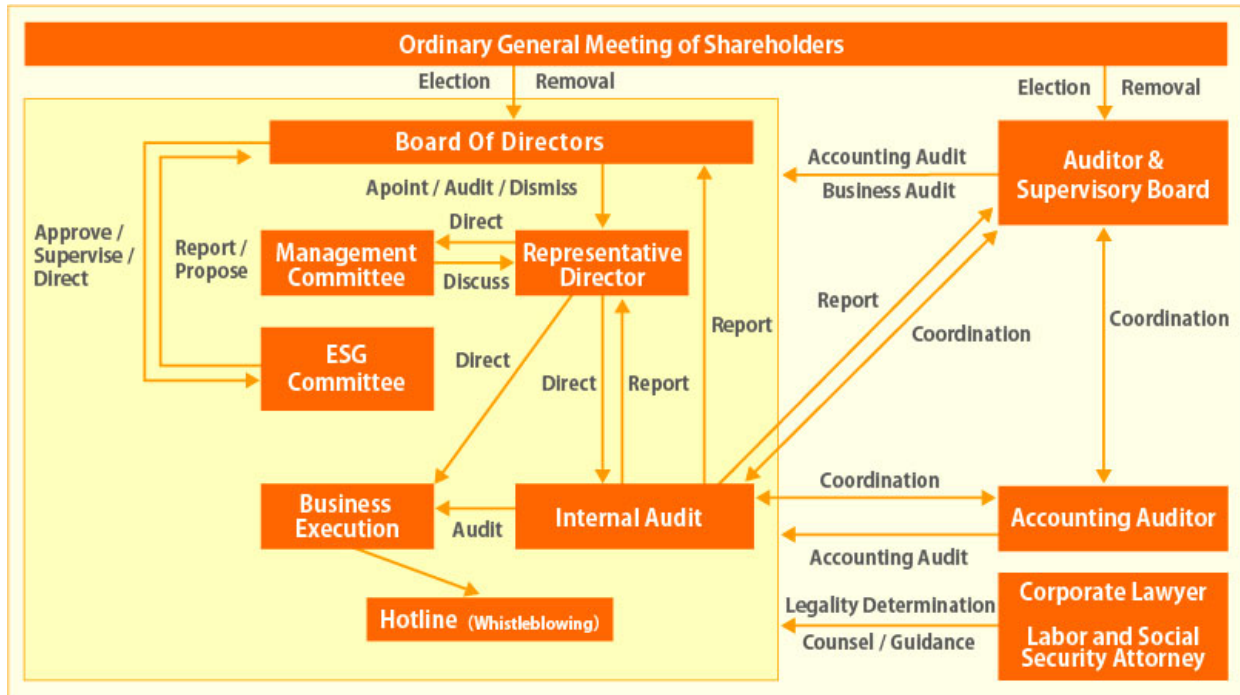
In order to provide for sufficient oversight of the Board of Directors, the Company has appointed three external directors. Furthermore, two of the three corporate auditors are external corporate auditors. None of the five external directors / auditors have conflicts of interest with normal shareholders of the Company (including conflicts of interest due to personal relationships, capital relationships, or business relationships). And the external directors have been registered as Independent Directors (as defined by the Regulations of the Tokyo Stock Exchange). External directors draw from knowledge stemming from many years of managerial experience in order to appropriately carry out oversight of the Board of Directors. Some external directors also sit on the Nominating Committee and the Compensation Committee thereby ensuring objectivity, transparency, and timeliness with respect to the appointment, dismissal, evaluation, and compensation setting of directors. The Board of Directors meets at least once per month and the term of office for directors is set to one year in order to promote clarity of responsibilities and to provide for a system of management which is capable of promptly responding to changes in the business environment.

All corporate auditors (including external corporate auditors) attend meetings of the Board of Directors and monitor

directors' execution of duties in an unbiased and independent manner. As appropriate and on a regular basis, corporate auditors liaise internally with the Internal Audit Office (which conducts internal audits) and externally with the Accounting Auditor.

The Company judges that its system of corporate governance adequately facilitates auditory oversight of compliance with relevant laws / regulations, compliance with the Company's articles of incorporation, and compliance with internal rules. Furthermore, the Company judges that its system of corporate governance provides for sufficient audit / oversight of management. Therefore, the currently adopted system is deemed a sufficient system of corporate governance.

C. Corporate Governance Structure



③ Others matters related to corporate governance

A. Internal controls, risk management, and framework for ensuring the appropriateness of operations of the Company's subsidiaries.

The Company has stipulated "basic policies relating to internal control systems" via a resolution of the Board of Directors. These policies are outlined below.

- i. System to ensure that duties of directors and employees are executed in compliance with relevant laws / regulations as well as in compliance with the Company's Articles of Incorporation.
 - a. The Board of Directors shall generally meet once a month, in the presence of the corporate auditors, and conduct a supervisory overview of the execution of managerial duties by directors.
 - b. The Board of Directors shall include independent external directors in order to strengthen oversight over the legality / appropriateness of the Board of Director's decision-making / execution of duties, thereby ensuring transparency and soundness of management.
 - c. The Board of Directors shall establish a "Code of Ethics" and a "Code of Compliance" and it shall thoroughly ensure that both directors and employees are fully aware of and comply with relevant laws / regulations as well as with the Articles of Incorporation.
 - d. The Board of Directors shall stipulate (in the "Code of Ethics" and in the "Policy Pertaining to the Avoidance of Criminal Organizations") that the Company shall be prohibited from having any relation whatsoever with "antisocial forces" (hereinafter, "criminal organizations"), and this policy shall be vigorously adhered to.
 - e. To prevent improper behavior before it occurs and to strengthen compliance with relevant laws / regulations, a whistleblower system will be established in accordance with the Company's "Whistleblower Policy". Whistleblowers shall be free to use the whistleblower system to report relevant matters independently of the chain of command and receive consultation thereof; And a strong emphasis shall be placed on protecting whistleblowers from reprisals.
 - f. Corporate auditors shall do the following (in accordance with the "Standards for Audits" stipulated by the Audit & Supervisory Board): corporate auditors shall attend meetings of the Board of Directors, corporate auditors shall audit the execution of duties by directors, and—in the event that corporate auditors detect problems related to the Company's compliance system—they shall express these views and demand that plans for remedying the problems be drafted.
 - g. In accordance with the "Policy for Internal Audits", the Internal Audit Office (an organization under the direct supervision of the Representative Director) shall conduct audits to assess whether each department properly carries out its duties in a manner which conforms with applicable laws / regulations, which conforms with the Articles of

- Incorporation, and which conforms with other applicable rules. Furthermore, the Internal Audit Office shall, in accordance with the "Policy for Internal Audits", assess the suitability and efficiency of internal controls. Following their audits, the Internal Audit Office shall report their findings to the representative director.
- ii. System for the retention and management of information related to the execution of duties by directors
 - a In accordance with applicable laws, regulations, and the "Document Management Policy", the Company shall appropriately retain and manage the following information for the stipulated period of time: information related to the General Meeting of Shareholders, minutes for meetings of the Board of Directors, and important information related to the execution of duties by Directors.
 - b These documents shall be kept ready for directors and corporate auditors to view them as needed.
 - iii. Policies and Other Measures concerning Management of Risks
 - a The Board of Directors shall position risk management as a topic of material importance for management. Furthermore, the Board of Directors shall, in accordance with the "Risk Management Guidelines", identify, analyze, and evaluate risks as well as formulate plans for addressing them. In doing so, the Board of Directors shall strive to strengthen the risk management framework.
 - b When a serious risk emerges, the Company shall promptly respond in accordance with the "Crisis Management Plan" (in an effort to minimize losses to the greatest extent possible).
 - c Confidential information shall be handled with the upmost care and personal information shall be appropriately safeguarded, in accordance with the "Privacy Policy".
 - iv. System for ensuring the efficient execution of duties by directors
 - a The duties and authorities of directors and employees (with respect to both decision-making and business execution) shall be clarified within the "Guidelines for Delegating Responsibilities" and the "Guidelines for Delegating Authority". Moreover, the Company shall establish a framework for facilitating the proper delegation of duties and authorities.
 - b Important decisions regarding management policies and management strategies shall be rendered in consultation with the management committee (a committee comprised of all full-time directors).
 - c The Company shall establish a framework whereby directors can relay management policies to employees and employees can appropriately relay important information to directors.
 - d The Board of Directors shall formulate medium-term management plans, formulate annual business plans, and clarify business targets. Furthermore, it shall oversee progress thereof (through receiving regular reports regarding the extent to which all executive directors (up to and including the representative director) are appropriately carrying out duties in pursuit of achieving these targets.
 - v. System to ensure the appropriateness of the activities of the Group (the group comprising the Company and its subsidiaries)
 - a The company shall construct a group-wide compliance system based on its business philosophy and code of ethics.
 - b The Company shall exercise necessary managerial authority over each group company (in a manner reflective of that group company's particular characteristics and in line with the "Guidelines for the Management of Affiliated Companies"). Furthermore, the Company shall require each group company to report to the Company on a regular basis (regarding operating results and other important information).
 - c The Internal Audit Department shall regularly audit the operations of each group company.
 - vi. Matters related to employees assigned to assist a corporate auditor in his/her duties (via the request of the said corporate auditor) and matters related to the independence of any such employees from directors
 - a Employees assigned to assist a corporate auditor (via the request of the said corporate auditor), shall be appointed as "auditor assistants".
 - b "Auditor assistants" are subject to the Company's "rules of employment", but the authority to direct / instruct "auditor assistants" shall rest with the corporate auditors.

- vii. System for directors and employees to make reports to corporate auditors and other matters regarding reports to corporate auditors
 - a Directors and employees shall deliver reports regarding the execution of business upon the request of a corporate auditor.
 - b If a director or employee discovers the occurrence of serious violations of laws / regulations, serious violations of the articles of incorporation, or fraudulent activity, this must be promptly reported to the corporate auditors. Moreover, should an employee become aware of any matter which carries the risk of causing significant damages to the Company, this must be promptly reported to the corporate auditors.
 - c The "Whistleblower Policy" stipulates that anyone who reports information to the corporate auditors shall be protected from reprisals thereof.
 - d The Internal Audit Office shall submit an "annual plan for internal audits" as well as an "audit report" (a progress report on the execution of audits) to the Audit & Supervisory Board. In addition, the Audit & Supervisory Board may (as needed) request the Internal Audit Office to carry out additional audits or to draft plans for improvements.
 - viii. Other systems to ensure corporate auditors can conduct audits effectively.
 - a Corporate auditors shall be permitted to attend meetings of the Board of Directors, meetings of the Management Committee, and other important meetings. Furthermore, corporate auditors shall be entitled to receive reports regarding the execution of business.
 - b The Company shall, upon the request of a corporate auditor, bear costs incurred by the corporate auditor in the execution of the corporate auditor's duties.
 - c Corporate auditors shall receive regular updates from the accounting firm serving as the Accounting Auditor (with respect to the results of accounting audits) and regularly exchange opinions with the Accounting Auditor. Furthermore, corporate auditors shall, where necessary, serve as observers to audits conducted by the Accounting Auditor. Furthermore, corporate auditors shall maintain lines of communication with the certified public accountants who carry out the pertaining audit work on behalf of the Accounting Auditor. Moreover, corporate auditors shall strive for a high degree of mutual cooperation with the accounting firm serving as the Accounting Auditor.
- B. Overview of agreement to limit liability of external directors
- Based on Article 427, Paragraph (1) of the Companies Act, the Company previously entered into contracts with its external directors, to limit their liability under Article 423, Paragraph (1) of the Companies Act. This agreement is premised, however, upon the pertaining Director acting in good faith and not committing "gross negligence".
- C. Overview of liability insurance policy covering directors
- The Company has entered into a Directors' Liability Insurance Policy with an insurance company (as provided for in Article 430-3, paragraph (1) of the Companies Act), which covers all Directors and Corporate Auditors. This policy covers any damages, legal fees, etc. that arise as a result of an insured Director or Auditor's liability in relation to the execution of his or her duties, or claims related to the pursuit of such liability. The insurance premiums are not paid by the covered persons themselves.
- D. Basic policy regarding and status of efforts to prevent dealings with "antisocial forces" (hereinafter, "criminal organizations")
- i. Basic policy for preventing dealings with criminal organizations
 - The Company will under no circumstances conduct any dealings with criminal organizations. The Company will never provide funds to or offer profit to criminal organizations. If the Company receives unreasonable demands from criminal organizations, it shall collaborate with relevant authorities to resolutely defend itself from being victimized by the criminal organization.
 - ii. Efforts to prevent dealings with criminal organizations
 - a The Company has made its stance on criminal organizations clear via its code of ethics, which applies to all employees.
 - b Furthermore, the Company has laid out its framework for preventing any and all dealings with criminal organizations via its "Rules for Responding to Criminal Organizations" and "Manual for Identifying Criminal Organizations".
 - c Examination of clients / partners to ensure they are not criminal organizations
 - d The Company collects information obtained through external partners to determine whether clients / partners are

- criminal organizations.
- e To prepare against any demands from criminal organizations, the Company will establish, in advanced, strong relationships with relevant external parties including the police, the National Center for Removal of Antisocial Forces, and lawyers, etc.
- E. Acquisition of treasury shares
- The Company has stipulated in its Articles of Incorporation that it may acquire treasury shares by resolution of the Board of Directors. This is to allow the acquisition of treasury shares through market trading in order for the Company to exercise agile capital policy in response to changes in the management environment.
- F. Requisite number of directors
- The Company stipulates in its Articles of Incorporation that there are to be up to 10 directors
- G. Quorum for resolutions to appoint directors
- The Company stipulates in its Articles of Incorporation that a resolution of the General Meeting of Shareholders on the appointment of directors requires the attendance of shareholders holding one third or more of the total shareholder voting rights, and the approval of shareholders possessing more than one half of the voting rights of those attending.
- Cumulative voting shall not be used.
- H. Quorum for special resolution of the General Meeting of Shareholders
- The Company stipulates in its Articles of Incorporation that special resolutions of the General Meeting of Shareholders (as set forth in Article 309, Paragraph 2 of the Companies Act) requires the attendance of shareholders holding one third or more of shareholder voting rights, and the approval of shareholders holding two thirds or more of voting rights of those attending. This aims to ensure that the General Meeting of Shareholders runs smoothly.
- I. Exemption of liability for directors and corporate auditors
- The Company, pursuant to Article 426, Paragraph 1 of the Companies Act, stipulates in its Articles of Incorporation that it may, by resolution of the Board of Directors, exempt directors and corporate auditors from liabilities as set forth in Article 423, Paragraph 1 of the Companies Act, to the extent permitted by applicable laws / regulations, so that directors and corporate auditors can fully perform their expected roles.
- J. Provisions regarding interim dividends
- The Company's Articles of Incorporation prescribe (in according to the provisions of Article 454, Paragraph 5 of the Companies Act) that the payment of an interim dividend may be conducted by resolution of the Board of Directors. In this case, dividends would be paid to shareholders or registered pledgees listed or recorded in the latest shareholder registry on March 31 of each year. This provision makes it possible to return profits to shareholders flexibly.

(2) 【Information on Directors】

① List of Directors

Male: 11 Female: 1 (Percent Female: 8.3%)

| Title and position | Name | Date of birth | Career summary | Term | Number of Company shares held |
|---|-------------------|-------------------|--|----------|-------------------------------|
| Chairman | Minoru Yamamoto | December 18, 1953 | Oct. 2000 Kanamic Network Established Representative Director and President Jan. 2007 Chairman (current position) Jan. 2010 Director at ASP-SaaS-IoT Cloud Consortium (current position) Sep. 2014 Representative Director of SHO Co., Ltd. (current position) Apr. 2019 Representative Director of SHO Co., Ltd. (current position) | (Note) 3 | 900,000 |
| Representative Director and Vice Chairwoman | Yoko Yamamoto | May 17, 1950 | Jun. 1992 Joined Kibousha Co., Ltd. Oct. 2002 Joined Kanamic Network Director and Vice President Jan. 2007 Representative Director and President Sep. 2014 Representative Director and Vice Chairwoman (current position) | (Note) 3 | 1,400,000 |
| Representative Director and President | Takuma Yamamoto | February 11, 1978 | Apr. 2000 Joined Fujitsu System Solutions Ltd. (currently Fujitsu Ltd.) May. 2005 Joined Kanamic Network Executive Director Jan. 2007 Senior Executive Director Apr. 2011 Joint researcher, The Institute of Gerontology, University of Tokyo Apr. 2012 Visiting Researcher, National Cancer Center Sep. 2014 Representative Director and President of Kanamic Network (current position) | (Note) 3 | 6,684,000 |
| Director and Vice President, General Manager of the Sales Department, General Manager of the Planning and Production Department | Keiji Yamamoto | July 8, 1982 | Apr. 2005 Joined Amana Images Inc. (currently Amana Inc.) Nov. 2008 Joined Kanamic Network Feb. 2014 Director and Section Manager of the Planning and Production Section Mar. 2014 Director and General Manager of the Planning and Production Department Sep. 2014 Executive Director and General Manager of the Planning and Production Department Dec. 2019 Director and Vice President, General Manager of the Sales Department, and General Manager of the Planning and Production Department (current position) | (Note) 3 | 722,000 |
| Director General Manager of the Development Department | Ryuta Ishikawa | July 18, 1972 | Apr. 1995 Joined Nippon Computer Kaihatsu Ltd. Jul. 2001 Joined Fujitsu System Solutions Ltd. (currently Fujitsu Ltd.) Apr. 2009 Joined Kanamic Network General Manager of the Development Department Feb. 2014 Director and General Manager of the Development Department (current position) | (Note) 3 | 180,000 |
| Director General Manager of the Administration Department | Kenya Wakabayashi | April 22, 1969 | Jun. 1999 Joined SFCG Co., Ltd. Jun. 2006 Executive Officer and General Manager of the Accounting Department | (Note) 3 | 510 |

| | | | | | |
|--|--|--|--|--|--|
| | | | Jun. 2007 Joined IFIS Japan Ltd. Director of the Management Department Dec. 2015 Joined Kanamic Network Manager, Administration Department Dec. 2017 General Manager of the Administration Department Dec. 2018 Director and General Manager of the Administration Department (current position) | | |
|--|--|--|--|--|--|

| Title and position | Name | Date of birth | Career summary | Term | Number of Company shares held |
|--------------------|-----------------|------------------------------|--|----------|-------------------------------|
| Director | Tadao Kakizoe | 1941年4月10日 April 10, 1941 | Jul. 1975 Joined the National Cancer Center Jan. 1992 Director of the National Cancer Center Hospital Jul. 1992 Director of the National Cancer Center Central Hospital Apr. 2002 President of the National Cancer Center Mar. 2007 Chairman of Japan Cancer Society (current role) Apr. 2007 President Emeritus, National Cancer Center Jun. 2009 Specially Appointed Professor, Graduate School of Nursing, St. Luke's International University Jun. 2011 External Director, Terumo Corporation Jun. 2011 External Director, Nippon Television Network Corporation (currently Nippon Television Holdings, Inc.) (current position) Feb. 2014 Director, Kanamic Network | (Note) 3 | 180,000 |
| Director | Shinji Fukukawa | March 8, 1932 | Apr. 1955 Joined the Ministry of International Trade and Industry Jun. 1986 Administrative Vice Minister, Ministry of International Trade and Industry Dec. 1988 Advisor, Global Industrial and Social Progress Research Institute (current position) Nov. 2002 Japan Industrial Partners, Inc. (current position) Mar. 2003 Toyo University Incorporated Educational Institution Dec. 2011 Chairman, Jetstar Japan Co., Ltd. Dec. 2012 Chairman of Toyo University Incorporated Educational Institution Jun. 2014 Director, KDDI Corporation Jul. 2014 Director, Kanamic Network (current position) Apr. 2015 Chairman Emeritus, Jetstar Japan Co., Ltd. Jul. 2016 Corporation Management Committee, KPMG AZSA LLC Jul. 2017 Public Interest Oversight Board, KPMG AZSA LLC Dec. 2018 Chancellor of Toyo University Incorporated Educational Institution (current position) | (Note) 3 | 180,000 |
| Director | Kazuo Futagawa | December 2, 1956 | Apr. 1980 Joined the Ministry of Health, Labour and Welfare | (Note) 3 | — |

| | | | | | | |
|--|--|--|-----------|--|--|--|
| | | | Sep. 2012 | Secretariat, Ministry of Health, Labor and Welfare | | |
| | | | Jul. 2014 | Health Policy Bureau, Ministry of Health, Labor and Welfare | | |
| | | | Oct. 2015 | Vice Minister, Ministry of Health, Labor and Welfare | | |
| | | | Jul. 2017 | Retired from Ministry of Health, Labor and Welfare | | |
| | | | Aug. 2018 | Special Advisor to the Cabinet for Social Security Reform Policy | | |
| | | | Jun. 2020 | Director, Toray Industries, Inc. (current position) | | |
| | | | Dec. 2020 | Director, Kanamic Network (current position) | | |

| Title and position | Name | Date of birth | Career summary | | Term | Number of Company shares held |
|-----------------------------|-----------------|------------------|----------------|--|----------|-------------------------------|
| Full-time Corporate Auditor | Kyoichi Oyo | October 30, 1954 | Apr. 1978 | Joined the Ministry of Finance August | (Note) 4 | — |
| | | | Aug. 2009 | Head of Tohoku Local Finance Bureau's Finance Department, Ministry of Finance | | |
| | | | Sep. 2010 | General Manager of the Planning Department, Second Association of Regional Banks | | |
| | | | Dec. 2019 | Corporate Auditor, Kanamic Network (current position) | | |
| Corporate Auditor | Toshio Imatani | August 31, 1941 | Jun. 1999 | Executive Officer, Tokyo Leasing Corporation (currently Tokyo Century Corporation) | (Note) 4 | 180,000 |
| | | | Dec. 2017 | Corporate Auditor, Kanamic Network (current position) | | |
| 監査役 Corporate Auditor | Tsunchisa Chiba | August 17 1962 | Apr. 1989 | Registered Attorney (Tokyo Bar Association) | (Note) 4 | — |
| | | | Apr. 1989 | Gotanda Law Firm | | |
| | | | Oct. 1996 | Obtained masters in international law law from Albert Ludwig University of Freiburg, Germany | | |
| | | | Dec. 1996 | Re-registered as Attorney (Tokyo Bar Association) | | |
| | | | Dec. 1996 | Joined Gotanda Law Firm (current position) | | |
| | | | Jul. 2016 | Standing Statutory Auditor, Kanamic Network | | |
| Total | | | | | | 10,426,510 |

- (Note) 1. Directors Tadao Kakizoe, Shinji Fukukawa, and Kazuo Futagawa are External Directors.
2. Corporate Auditors Kyoichi Oyo and Toshio Imatani are External Corporate Auditors.
3. The term of office shall expire at the end of the Ordinary General Meeting of Shareholders for the last fiscal year ending within one year after election at the Ordinary General Meeting of Shareholders held on December 22, 2021.
4. The term of office shall expire at the end of the Ordinary General Meeting of Shareholders for the last fiscal year ending within four years after election at the Ordinary General Meeting of Shareholders held on December 20, 2019.
5. Minoru Yamamoto (Chairman) is the spouse of Yoko Yamamoto (Representative Director and Vice Chairwoman)
6. Yoko Yamamoto (Representative Director and Vice Chairwoman) is the spouse of Minoru Yamamoto (Chairman).
7. Takuma Yamamoto (Representative Director and President) is the eldest son of Minoru Yamamoto (Chairman) and Yoko Yamamoto (Representative Director and Vice Chairwoman).
8. Keiji Yamamoto (Director and Vice President, General Manager of the Sales Department, and General Manager of the Planning and Production Department) is the second son of Minoru Yamamoto (Chairman) and Yoko Yamamoto (Representative Director and Vice Chairwoman).

② Overview of external directors

The Company has three External Directors and two External Corporate Auditors

Tadao Kakizoe (external director) holds 180,000 shares of the Company. Apart from this he has no personal, capital, or transactional relationship with the Company. He concurrently holds other positions such as the Chairman of the Japan Cancer Society; but there is no personal, capital, or transactional relationship between the organizations where he holds concurrent positions and the Company.

Shinji Fukukawa (external director) holds 180,000 shares of the Company. Apart from this he has no personal, capital, or transactional relationship with the Company. He concurrently serves as the Chancellor of Toyo University Incorporated Educational Institution; but there is no personal, capital, or transactional relationship between the organization where he holds a concurrent position and the Company.

There is no personal, capital, or transactional relationship between Kazuo Futagawa (external director) and the Company.

There is no personal, capital, or transactional relationship between Kyoichi Oyo (external corporate auditor) and the Company.

Toshio Imatani (external corporate auditor) holds 180,000 shares of the Company. Apart from this he has no personal, capital, or transactional relationship with the Company.

None of the external directors or external auditors have personal relationships or transactional relationships with the Company. Furthermore, as relates to capital relationships, none of them are major shareholders and it is judged that none of them have conflicts of interest with ordinary shareholders. In light of the foregoing, it is judged that the five current external directors and auditors have independence from the Company.

There were 16 meetings of the Board of Directors during the fiscal year ended September 30, 2021 (the fiscal year under review); and the attendance rate of external directors (excluding external directors who retired during the fiscal year under review) was 97.8% and the attendance rate of external corporate auditors was 100%.

There were 13 meetings of The Audit & Supervisory Board; and the attendance rate of outside corporate auditors was 100%.

The external directors of the Company bring knowledge and experiences to the table that differ from internal directors. As a result, external directors allow the Company to adopt a broader perspective through their participation in making decisions, their evaluation of and advice regarding the decision-making process itself, and their execution of effective oversight over the management team.

Similarly, external corporate auditors work to promote the independence and neutrality of the auditory function. That is, external corporate auditors express unbiased auditory opinions from a neutral standpoint, thereby increasing the efficacy of corporate audits. Their high degree of independence as well as their specialized knowledge allows them to adequately perform the objective and appropriate supervisory / auditory functions expected of them, and they greatly contribute to the efficacy of the Company's corporate governance.

The Company has not stipulated a specific set of rules for evaluating the independence of potential candidates for external director / external corporate auditor, but the Company appoints individuals that it deems to possess the character, knowledge, and ability to (1) observe the duty of care a director owes to the Company, (2) not be biased toward the interest of management or specific stakeholders, (3) and to make objective, fair, and impartial.

③ Matters regarding coordination of (1) supervision / audit carried out by external directors / external auditors, (2) corporate audit, (3) and accounting audit; And matters regarding relationship between external directors / external corporate auditors and the Internal Controls Department

In order to provide for a system in which external directors and external corporate auditors can accurately and effectively supervise and monitor management from an independent standpoint, external directors / external corporate auditors coordinate with the Internal Audit Department as well as the Accounting Auditor, and a system for the provision of materials / explanations related to management on an as needed basis has been established. Furthermore, in order to allow this system to operate smoothly, the full-time corporate auditor works closely with the Internal Audit Department to collect necessary information from each department within the company. In this manner, the Company supports the independent activities of external directors and external corporate auditors.

(3) 【Audits】

① Audits carried out by Audit & Supervisory Board Members (corporate auditors)

The Company has adopted a corporate audit system and established an Audit & Supervisory Board. The Audit & Supervisory Board consists of three members (including two outside corporate auditors), one of whom is a full-time corporate auditor. The Audit & Supervisory Board meets once a month to exchange information and hold necessary discussions on important matters related to audits. And based on the audit policy and audit plan decided by the Audit & Supervisory Board, each corporate auditor attends meetings of the Board of Directors in order to audit the structure of the proceedings, audit the content of resolutions, and actively expresses opinions. Corporate auditors also communicate with the heads of each department in accordance with the audit policy and audit plan. In addition to attending meetings of the Board of Directors, full-time corporate auditors also participate in other internal company meetings as necessary and, in accordance with the audit plan, receive reports from the heads of each department as well as from the Internal Audit Office.

One or more individuals who possess considerable knowledge of finance and accounting have been appointed to The Audit & Supervisory Board. Corporate Auditor Kyoichi Oyo has many years of experience garnered through work in financial regulations (worked at the Ministry of Finance) and through operational work on behalf of the Association of Regional Banks. Corporate Auditor Toshio Imatani has many years of experience in finance. Corporate Auditor Tsunehisa Chiba has many years of experience in law. Each of these corporate auditors has considerable knowledge of finance and accounting.

The Company held 13 meetings of the Audit & Supervisory Board during the fiscal year ended September 30, 2021 (the fiscal year under review), and the record of attendance for each corporate auditor is as follows:

| Name | Position | Rate of attendance |
|-----------------|-----------------------------|--------------------|
| Kyoichi Oyo | Full-time corporate auditor | 13/13 (100%) |
| Toshio Imatani | Corporate auditor | 13/13 (100%) |
| Tsunehisa Chiba | Corporate auditor | 13/13 (100%) |

The primary matters considered at meetings of the Audit & Supervisory Board include the following: audit policy, audit methodology / items, the status of execution of duties by directors, the status of the maintenance and operation of the internal control system, the audit methodology deployed by the Accounting Auditor, and the appropriateness of audit results.

In addition, the activities of the full-time corporate auditor include the following: attending important internal company meetings, meeting with the Representative Director, inspecting important “decision memos”, and monitoring the development / operation of internal control systems as appropriate. The activities of part-time corporate auditors include attending important meetings (such as meetings of the Board of Directors) and expressing fair and objective opinions regarding all aspects of management. At regular meetings of the Audit & Supervisory Board, information is exchanged and thoughts related to audit work are conveyed through mutual reporting on the status of duties.

② Information on internal audits

The Internal Audit Office (consisting of two individuals) is responsible for internal audits and reports directly to the Representative Director. Internal audits are conducted to examine each department and each sales office in accordance with an “internal audit plan” (a plan approved by the Representative Director). One purpose of internal audits is to ensure the validity and efficiency of operations. Results of internal audits are reported to the Representative Director in the form of an internal audit report; and, based on these results, the Representative Director gives instructions to departments in need of improvements. The Internal Audit Office is then tasked with tracking progress made on such improvements.

In order to improve the efficiency and quality of audit activities, the Internal Audit Office (which conducts internal audits) cooperates with corporate auditors as well as the Accounting Auditor on a daily basis (in inspecting reports and through accompanying them during on-site audits, etc.). In addition, as they consider plans for improvement, the Internal Audit Office regularly exchanges information with the other parties and fosters an environment in which all parties are aware of problems identified through each parties’ audit work. Through this, improvements to the efficiency and quality

of each parties' audit work are affected.

③ Information on accounting audits

a . Name of accounting auditor
KPMG AZSA LLC

b . Consecutive period for which the above accounting auditor has conducted audits
FY 2014 – FY 2021

c . Certified public accountants who performed the work on behalf of the accounting auditor
Hiroki Nakayama, “Designated Limited Liability Partner”
Yasuhito Kawaguchi, “Designated Limited Liability Partner”

d . Number of assistants who supported the audit work
Certified public accountants: 3
Other: 4

e . Policy regarding the selection of the Accounting Auditor and reason for selecting the aforementioned corporation as the Accounting Auditor

In selecting the Accounting Auditor, the Audit & Supervisory Board makes an evaluation based on the “practical guidelines for evaluating and selecting Accounting Auditors” (published by the Japan Audit & Supervisory Board Members Association). In doing so, the Audit & Supervisory Board comprehensively evaluates factors such as the Accounting Auditor’s quality controls, the Accounting Auditor’s independence and skills, the Accounting Auditor’s organizational structure as relates to audit work, the reasonability of audit plans / audit fees, and the actual performance of the Accounting Auditor.

In the event that the Accounting Auditor is judged unable to sufficiently execute its duties (or in any other circumstance in which it is deemed necessary), the Audit & Supervisory Board shall decide on a proposal for the dismissal (or non-reappointment) of the Accounting Auditor (to be placed on the agenda for the General Meeting of Shareholders).

If it is at any point determined that any of the various items under Article 340, Paragraph 1 of the Companies Act apply to the Accounting Auditor, then the Audit & Supervisory Board will, upon consensus of all members, dismiss the accounting auditor. In this case, a corporate auditor selected by the Audit & Supervisory Board will report the fact that the Accounting Auditor was dismissed and explain the reason for the dismissal at the first General Meeting of Shareholders to be convened after the dismissal.

f . Evaluation of the Accounting Auditor by the Audit & Supervisory Board

The Audit & Supervisory Board carried out an assessment of the Accounting Auditor (KPMG AZSA LLC) in accordance with its aforementioned selection policy and determined that KPMG AZSA LLC has been appropriately conducting the following: (1) communication with managers, corporate auditors, the accounting department, and the Internal Audit Office, (2) group-wide audits, (3) measures to address the risk of fraud. Therefore, the Audit & Supervisory Board deems KPMG AZSA LLC to be qualified to act as the Accounting Auditor.

④ Accounting Auditor fees

a . Fees paid to KPMG AZSA LLC’s certified public accounts, etc.

| Classification | Fiscal year ended September 30, 2020 | | Fiscal year ended September 30, 2021 | |
|----------------|--|--|--|--|
| | Fees for audit & attestation services (thousands of yen) | Fees for non-audit services (thousands of yen) | Fees for audit & attestation services (thousands of yen) | Fees for non-audit services (thousands of yen) |
| The Company | 18,630 | — | 19,320 | — |
| Subsidiaries | — | — | — | — |
| 計 Total | 18,630 | — | 19,320 | — |

b . Fees paid to organizations which belong to the same network as KPMG AZSA LLC (excluding (a.)).
No applicable matters to report.

c . Other material fees paid in relation to audit & attestation services

No applicable matters to report.

d . Policy for determining audit fees

The audit fees are decided through deliberations with the Accounting Auditor and with the consent of the Audit & Supervisory Board, taking into consideration such factors as the scope of the audit (as laid out in the audit plan presented by the Accounting Auditor) and the amount of time required to complete the audit.

e . Reasons for which the Audit & Supervisory Board consented to the accounting auditor fees

Based on the Japan Audit & Supervisory Board Members Association's "practical guidelines on working with accounting auditors", the Audit & Supervisory Board assessed the time needed to complete the audit outlined in the auditing plan, trends in audit fees, past audit plans (versus actual results), and the appropriateness of the fees proposed by the Accounting Auditor. After consideration of these factors, the Audit & Supervisory Board consented to the accounting auditor fees in accordance with Article 399, Paragraph 1 of the Companies Act.

(4) 【Director Compensation】

① Director compensation policy and calculation method

At the 15th Ordinary General Meeting of Shareholders, which was held on December 24th, 2015, approval was obtained to compensate directors of the Company in an amount which is not more than 500 million yen annually (this amount does not include the portion of compensation which accounts for employee salary for Directors who concurrently serve as employees) and to compensate corporate auditors in an amount which is not more than 30 million yen annually. As of the filing date of this report, nine directors and three corporate auditors are in scope for compensation in accordance with these limits.

Furthermore, at the 21st Ordinary General Meeting of Shareholders held on December 22, 2021, it was resolved to compensate directors of the Company through the granting of restricted stock in an amount which falls within the aforementioned limitations (in an amount which is no more than 500 million yen annually, not including the portion of compensation which accounts for employee salary for Directors who concurrently serve as employees). The total number of common shares issued or disposed in connection with this shall not exceed 150,000 shares annually. That said, the upper limit of the total number of said common shares shall be adjusted, in a reasonable manner, according to the ratio of any stock split (including the allotment of the Company's common shares without any contribution) or reverse stock split that should occur (become effective) following this resolution. As of the time of this filing, six directors are in scope for compensation in accordance with these limits (external directors are not in scope).

In anticipation of the approval of the introduction of the restricted stock compensation system at the 21st Ordinary General Meeting of Shareholders held on December 22, 2021, the Board of Directors resolved, at the meeting held on November 15, 2021, to change the “policy regarding decisions on compensation for individual directors” (conditional upon the approval of the introduction of the restricted stock compensation system at the 21st Ordinary General Meeting of Shareholders held on December 22, 2021). The Board of Directors has confirmed, moreover, that the compensation for each individual director for the current fiscal year is consistent with this policy.

The policy regarding decisions on compensation for individual Directors is as follows.

a. Basic Policy

The basic policy is for compensation of Company Directors to sufficiently function as incentive for affecting sustained growth in enterprise value and for the level of compensation paid to individual Directors to be appropriate in light of their responsibilities, degree of contribution to the Company, and position.

Compensation of directors shall consist of fixed compensation (monetary compensation) and equity compensation (non-monetary compensation). However, remuneration of External Directors shall consist only of fixed compensation (monetary compensation), in consideration of their particular roles.

b. Policy on fixed compensation (monetary compensation)

Fixed compensation (monetary compensation) for each individual director shall be decided based upon that Director's responsibilities, degree of contribution to the Company, and position. And the determination shall be made in light of comprehensive consideration of the Company's financial results and employee salaries.

Fixed compensation (monetary compensation) for directors shall fall within the annual limits approved by the General Meeting of Shareholders and shall be divided into and paid as fixed monthly installments.

c. Policy on equity compensation (non-monetary compensation)

For the purpose of providing directors (excluding External Directors) with incentive for affecting medium and long-term growth in enterprise value, stock of the Company will be granted to Eligible Directors (to an extent that falls within the limits approved by the General Meeting of Shareholders).

The monetary value / number of shares of the Company to be granted to each individual director (excluding External Directors)—or the monetary value of the shares to be granted measured as a percentage of fixed compensation—as well as other terms/conditions, including the timing of the allocation, shall be decided by the Board of Directors in light of considerations including the Director's position, the Director's responsibilities, the Director's years of service, and the Company's financial results.

d. Matters regarding the delegation of authority to decide on compensation

Decisions regarding the compensation for each individual Director shall be delegated to the President of the Company (through a resolution of the Board of Directors). Having been delegated this authority, the President shall serve as the Chair of a compensation committee composed of himself and two external directors (there is no legal/regulatory requirement to establish this committee but, rather, it is established voluntarily). This voluntarily established compensation committee will make decisions on each individual Director's compensation. And the

authority of this voluntarily established compensation committee shall be to determine the fixed compensation amount for each individual Director.

② Details regarding compensation decision

Compensation amounts for directors are to be determined by the voluntarily established compensation committee (chaired by the President of the Company and composed of the President and two external directors (Tadao Kakizoe and Shinji Fukukawa)) and these amounts are to be subsequently reported to the Board of Directors.

At the meeting of the voluntarily established Compensation Committee held on December 22, 2021, amounts for base compensation of directors were decided upon; and these amounts were reported to the meeting of the Board of Directors held on the same day.

③ Total amount of compensation by director category, compensation type, and number of eligible directors

| Category | Total compensation amount (thousands of yen) | Total amount of compensation by type (thousands of yen) | | | Number of eligible directors |
|--|--|---|---------------------|--|------------------------------|
| | | fixed compensation | equity compensation | subtotal for non-monetary compensation | |
| Directors (excluding external directors) | 181,400 | 181,400 | — | — | 6 |
| Corporate auditors (excluding external corporate auditors) | 4,420 | 4,420 | — | — | 1 |
| External directors | 25,240 | 25,240 | — | — | 6 |
| Total | 211,060 | 211,060 | — | — | 13 |

(Note) 1. This table includes one external director who vacated his position as of the conclusion of the 20th Ordinary General Meeting of Shareholders held on December 18, 2020

2. The above amount does not include the portion of compensation which accounts for employee salary (of Directors who concurrently serve as employees)

3. All equity compensation came in the form of restricted share compensation. The introduction of a restricted stock compensation system was approved at the 21st Ordinary General Meeting of Shareholders held on December 22, 2021, but no equity compensation was paid during the fiscal year ended September 30, 2021 (the fiscal year under review).

4. Fixed compensation amounts and equity compensation amounts are determined (fixed) at the moment of a resolution regarding the payment (the Company does not implement a system of performance-based compensation in which the amounts vary with operating results).

⑤ Total compensation for each director (by name)

No directors were compensated in an amount which totaled more than 100 million yen, so this information is not included.

(5) 【Information on shareholdings】

① Criteria for classifying shareholdings

The Company does not have rigid criteria for classifying its shareholdings but the broad categories are as follows:

(Shares held purely for investment purposes)

Shares held solely for investment purposes (shares held for the purpose of generating capital gains through changes in share prices or for generating income through dividends)

(Shares held for strategic purposes)

Shares other than those held purely for investment purposes (shares held for building/maintaining/strengthening business relationships, etc.)

The Company's general policy is to refrain from holding listed shares (whether for investment purposes or for strategic purposes), and the Company has no holdings of listed shares as of the date of this filing.

If it becomes necessary, however, to hold any listed shares, the Board of Directors will carefully scrutinize whether the purpose of holding the shares is appropriate and whether the benefits and risks associated with holding the shares are commensurate with the cost of capital thereof. Upon verifying the suitability of the shares, the Board of Directors will make a rational decision about whether to hold the shares and disclose information thereof as appropriate.

② Shareholdings

A. Shares held purely for investment purposes

No applicable matters to report.

B. Shares held for purposes other than pure investment

- Shareholding policy and method of verifying the rationality of shareholdings

No applicable matters to report.

- Number of shares and value thereof recorded on the Company's balance sheet

No applicable matters to report.

- Number of shares and value thereof recorded on the Company's balance sheet broken down by name of the issuer

No applicable matters to report.

C. Shares reclassified from "shares held purely for investment purposes" to "shares held for purposes other than pure investment" during the fiscal year ended September 30, 2021 (the fiscal year under review).

No applicable matters to report.

D. Shares reclassified from "shares held for purposes other than pure investment" to "shares held purely for investment purposes" during the fiscal year ended September 30, 2021 (the fiscal year under review).

No applicable matters to report.

Item 5. 【Financial Information】

1. About the method of preparation of the consolidated financial statements and the non-consolidated financial statements

- (1) The Company's consolidated financial statements are prepared in conformity with the "Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Order No. 28 of 1976)".
- (2) The Company's non-consolidated financial statements are prepared in conformity with the "Regulation on Terminology, Forms, and Preparation Methods of Financial Statements (Ordinance of the Ministry of Finance of Japan No. 59 of 1963; hereinafter, "the Regulation on Financial Statements").

Because it is a "company in scope for submitting financial statements in accordance with the special provisions of the Regulations on Financial Statements", the Company prepares its non-consolidated financial statements pursuant to the provisions of Article 127 of the Regulation on Financial Statements.

2. Attestation (audit of financial statements)

The Company's consolidated financial statements and non-consolidated financial statements for the fiscal year under review (from October 1, 2020 to September 30, 2021) were audited by KPMG AZSA LLC, in accordance with Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

3. Special efforts to ensure the appropriateness of the consolidated financial statements, etc.

The Company makes special efforts to ensure the appropriateness of its consolidated financial statements and other financial reports. Specifically, in order to accurately grasp accounting standards and appropriately respond to revisions to those standards, the Company maintains membership in the Financial Accounting Standards Foundation (FASF), subscribes to "technical magazines" for finance/ accounting, and actively participates in seminars hosted by companies that offer support services for financial disclosures.

1 【Consolidated Financial Statements, etc.】

(1) 【Consolidated Financial Statements】

① 【Consolidated balance sheets】

(Thousands of yen)

| | As of September 30, 2020 | As of September 30, 2021 |
|-------------------------------------|--------------------------|--------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 1,706,530 | 3,710,780 |
| Accounts receivable - trade | 74,151 | 85,820 |
| Work in process | 6,526 | 164 |
| Supplies | 95 | 87 |
| Prepaid expenses | 43,642 | 30,764 |
| Other | 33,978 | 47,666 |
| Allowance for doubtful accounts | -13,493 | -16,363 |
| Total current assets | 1,851,431 | 3,858,920 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings, net | 7,440 | 6,140 |
| Vehicles, net | 16,737 | 4,363 |
| Tools, furniture and fixtures, net | 27,127 | 68,574 |
| Total property, plant and equipment | *51,304 | *79,078 |
| Intangible assets | | |
| Software | 306,201 | 363,702 |
| Other | 76 | 76 |
| Total intangible assets | 306,277 | 363,779 |
| Investments and other assets | | |
| Investments in capital | 500 | 500 |
| Distressed receivables | 256 | 480 |
| Long-term prepaid expenses | 1,063 | 214 |
| Deferred tax assets | 35,062 | 33,866 |
| Leasehold and guarantee deposits | 42,873 | 42,732 |
| Insurance funds | 14,490 | 15,964 |
| Allowance for doubtful accounts | -256 | -480 |
| Total investments and other assets | 93,989 | 93,278 |
| Total non-current assets | 451,571 | 536,136 |
| Total assets | 2,303,003 | 4,395,056 |

(Thousands of yen)

| | As of September 30, 2020 | As of September 30, 2021 |
|--|--------------------------|--------------------------|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 22,725 | 8,830 |
| Accounts payable - other | 65,844 | 87,872 |
| Accrued expenses | 8,506 | 8,714 |
| Income taxes payable | 129,194 | 152,361 |
| Accrued consumption taxes | 57,149 | 31,569 |
| Advances received | 40,464 | 61,498 |
| Deposits received | 8,094 | 11,019 |
| Provision for bonuses | 31,227 | 30,136 |
| Asset retirement obligations | 16,000 | 16,000 |
| Other | 5,940 | 11,830 |
| Total current liabilities | 385,146 | 419,833 |
| Non-current liabilities | | |
| Bonds with share acquisition rights | — | 2,003,866 |
| Asset retirement obligations | 11,209 | 11,314 |
| Other | 800 | 800 |
| Total non-current liabilities | 12,009 | 2,015,981 |
| Total liabilities | 397,155 | 2,435,814 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 192,060 | 192,060 |
| Capital surplus | 132,060 | 132,060 |
| Retained earnings | 1,582,485 | 2,065,807 |
| Treasury shares | -478 | -436,943 |
| Total shareholders' equity | 1,906,127 | 1,952,983 |
| Accumulated other comprehensive income | | |
| Foreign currency translation adjustment | -278 | 1,795 |
| Total accumulated other comprehensive income | -278 | 1,795 |
| Share acquisition rights | — | 4,464 |
| Total net assets | 1,905,848 | 1,959,242 |
| Total liabilities and net assets | 2,303,003 | 4,395,056 |

② 【Consolidated statements of income and comprehensive income】

【Consolidated statements of income】

(Thousands of yen)

| | Fiscal year ended September 30, 2020 | Fiscal year ended September 30, 2021 |
|--|---|---|
| Net sales | 1,881,444 | 2,080,776 |
| Cost of sales | 267,377 | 292,749 |
| Gross profit | 1,614,066 | 1,788,026 |
| Selling, general and administrative expenses | *1,*2 959,593 | *1,*2 946,221 |
| Operating profit | 654,473 | 841,805 |
| Non-operating income | | |
| Interest income | 33 | 78 |
| Interest on securities | — | 133 |
| Foreign exchange gains | 1,540 | 2,336 |
| Subsidy income | 19,347 | 1,599 |
| Miscellaneous income | 2,172 | 1,108 |
| Total non-operating income | 23,093 | 5,255 |
| Non-operating expenses | | |
| Financing expenses | — | 16,920 |
| Miscellaneous losses | 566 | 199 |
| Total non-operating expenses | 566 | 17,120 |
| Ordinary profit | 676,999 | 829,941 |
| Extraordinary income | | |
| Gain on sale of non-current assets | — | *3 728 |
| Total extraordinary income | — | 728 |
| Profit before income taxes | 676,999 | 830,670 |
| Income taxes - current | 207,959 | 249,891 |
| Income taxes - deferred | -3,659 | 1,195 |
| Total income taxes | 204,300 | 251,087 |
| Profit | 472,699 | 579,583 |
| Profit attributable to owners of parent | 472,699 | 579,583 |

【Consolidated statements of comprehensive income】

(Thousands of yen)

| | Fiscal year ended September 30, 2020 | Fiscal year ended September 30, 2021 |
|--|---|---|
| Profit | 472,699 | 579,583 |
| Other comprehensive income | | |
| Foreign currency translation adjustment | 148 | 2,074 |
| Total other comprehensive income | *148 | *2,074 |
| Comprehensive income | 472,848 | 581,657 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 472,848 | 581,657 |
| Comprehensive income attributable to non-controlling interests | — | — |

③ 【Consolidated statements of changes in net assets】

Previous Fiscal Year (from October 1, 2019 to September 30, 2020)

(Thousands of yen)

| | Shareholders' equity | | | | |
|--|----------------------|-----------------|-------------------|-----------------|----------------------------|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of period | 192,060 | 132,060 | 1,166,638 | -478 | 1,490,280 |
| Changes during period | | | | | |
| Dividends of surplus | | | -48,130 | | -48,130 |
| Profit attributable to owners of parent | | | 472,699 | | 472,699 |
| Change in scope of consolidation | | | -8,721 | | -8,721 |
| Change in scope of consolidation - foreign currency translation adjustment | | | | | - |
| Net changes in items other than shareholders' equity | | | | | - |
| Total changes during period | - | - | 415,846 | - | 415,846 |
| Balance at end of period | 192,060 | 132,060 | 1,582,485 | -478 | 1,906,127 |

| | Accumulated other comprehensive income | | Share Acquisition Rights | Total net assets |
|--|---|--|--------------------------|------------------|
| | Foreign currency translation adjustment | Total accumulated other comprehensive income | | |
| Balance at beginning of period | - | - | - | 1,490,280 |
| Changes during period | | | - | |
| Dividends of surplus | | - | - | -48,130 |
| Profit attributable to owners of parent | | - | - | 472,699 |
| Purchase of treasury shares | - | - | - | - |
| Change in scope of consolidation | | - | - | -8,721 |
| Change in scope of consolidation - foreign currency translation adjustment | -427 | -427 | - | -427 |
| Net changes in items other than shareholders' equity | 148 | 148 | - | 148 |
| Total changes during period | -278 | -278 | - | 415,568 |
| Balance at end of period | -278 | -278 | - | 1,905,848 |

Current Fiscal Year (from October 1, 2020 to September 30, 2021)

(Thousands of yen)

| | Shareholders' equity | | | | |
|--|----------------------|-----------------|-------------------|-----------------|----------------------------|
| | Share capital | Capital surplus | Retained earnings | Treasury shares | Total shareholders' equity |
| Balance at beginning of period | 192,060 | 132,060 | 1,582,485 | -478 | 1,906,127 |
| Changes during period | | | | | |
| Dividends of surplus | | | -96,261 | | -96,261 |
| Profit attributable to owners of parent | | | 579,583 | | 579,583 |
| Purchase of treasury shares | | | | -436,465 | -436,465 |
| Change in scope of consolidation | | | | | - |
| Change in scope of consolidation - foreign currency translation adjustment | | | | | - |
| Net changes in items other than shareholders' equity | | | | | - |
| Total changes during period | - | - | 483,321 | -436,465 | 46,856 |
| Balance at end of period | 192,060 | 132,060 | 2,065,807 | -436,943 | 1,952,983 |

| | Accumulated other comprehensive income | | Share acquisition rights | Total net assets |
|--|---|--|--------------------------|------------------|
| | Foreign currency translation adjustment | Total accumulated other comprehensive income | | |
| Balance at beginning of period | -278 | -278 | - | 1,905,848 |
| Changes during period | | | | |
| Dividends of surplus | | - | | -96,261 |
| Profit attributable to owners of parent | | - | | 579,583 |
| Purchase of treasury shares | | - | | -436,465 |
| Change in scope of consolidation | | - | | - |
| Change in scope of consolidation - foreign currency translation adjustment | | - | | - |
| Net changes in items other than shareholders' equity | 2,074 | 2,074 | 4,464 | 6,538 |
| Total changes during period | 2,074 | 2,074 | 4,464 | 53,394 |
| Balance at end of period | 1,795 | 1,795 | 4,464 | 1,959,242 |

④ 【Consolidated statements of cash flows】

(Thousands of yen)

| | Fiscal year ended September 30, 2020 | Fiscal year ended September 30, 2021 |
|--|---|---|
| Cash flows from operating activities | | |
| Profit before income taxes | 676,999 | 830,670 |
| Depreciation | 134,883 | 135,665 |
| Increase (decrease) in allowance for doubtful accounts | 798 | 3,094 |
| Interest income | -33 | -78 |
| Interest income on securities | — | -133 |
| Subsidy income | -19,347 | -1,599 |
| Loss (gain) on sale of non-current assets | — | -728 |
| Decrease (increase) in trade receivables | 13,763 | -11,327 |
| Decrease (increase) in inventories | -6,175 | 6,370 |
| Increase (decrease) in trade payables | 17,474 | -14,097 |
| Increase (decrease) in provision for bonuses | 1,453 | -1,243 |
| Other, net | 10,765 | 36,535 |
| Subtotal | 830,581 | 983,126 |
| Interest received | 33 | 78 |
| Income taxes paid | -215,133 | -228,049 |
| Subsidies received | 19,347 | 1,599 |
| Net cash provided by (used in) operating activities | 634,828 | 756,754 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | -11,780 | -54,216 |
| Proceeds from sale of property, plant and equipment | — | 7,690 |
| Purchase of intangible assets | -90,653 | -168,243 |
| Payments of leasehold and guarantee deposits | -1 | -54 |
| Proceeds from refund of leasehold and guarantee deposits | 276 | 265 |
| Purchase of insurance funds | -1,473 | -1,473 |
| Net cash provided by (used in) investing activities | -103,632 | -216,032 |
| Cash flows from financing activities | | |
| Proceeds from issuance of bonds with share acquisition rights | — | 1,987,375 |
| Proceeds from issuance of share acquisition rights | — | 4,168 |
| Purchase of treasury shares | — | -436,640 |
| Dividends paid | -48,130 | -96,261 |
| Net cash provided by (used in) financing activities | -48,130 | 1,458,641 |
| Effect of exchange rate change on cash and cash equivalents | 1,737 | 4,886 |
| Net increase (decrease) in cash and cash equivalents | 484,802 | 2,004,250 |
| Cash and cash equivalents at beginning of period | 1,220,207 | 1,706,530 |
| Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation | 1,521 | — |
| Cash and cash equivalents at end of period | 1,706,530 | 3,710,780 |

【Notes on the Consolidated Financial Statements】

(Significant matters related to the preparation of the consolidated financial statements)

1. Scope of consolidation

Number of consolidated subsidiaries: 1

Name of consolidated subsidiary: Kanamic (Dalian) Technology Co., Ltd.

2. Matters Related to the application of the equity method

No applicable matters to report.

3. Accounting period of consolidated subsidiaries

The consolidated subsidiary has an accounting period ending December 31.

In preparing the consolidated financial statements, the Company uses provisional financial results tabulated as of August 31, 2021. However, adjustments necessary for consolidation are made for significant transactions recorded in the period between this date and the end date of the consolidated accounting period.

4. Matters related to the accounting policies

(1) Valuation standards / methodology for significant assets

Inventories

A. Work in progress

They are recorded at cost based on the specific identification method (the carrying value on the consolidated balance sheet incorporates write-downs to the book value in reflection of declines in profitability).

B. Supplies

They are recorded at cost using the last purchase price method (the carrying value on the consolidated balance sheet incorporates write-downs to the book value in reflection of declines in profitability).

(2) Depreciation and amortization methods for significant depreciable and amortizable assets

A. Property, plant and equipment

The declining balance method is applied.

However, the straight-line method is applied for facilities attached to buildings acquired after April 1, 2016.

Useful lives of assets are principally as follows:

Buildings: 10-15 years

Vehicles: 4-6 years

Tools, furniture and fixtures: 3-8 years

B. Intangible assets

The straight-line method is applied.

The amortization period is as follows:

Software (for in-house use): 5 years (in-house useful life)

(3) Accounting standards for significant provisions

A. Distressed receivables

To provide for potential losses due to uncollectable receivables, the Company records an estimated bad debt allowance based on historical rates for general receivables (with highly doubtful receivables being evaluated individually based on the recoverability from specific customers).

B. Provision for bonuses

To provide for bonus payments, an amount corresponding to the current portion of estimated bonus payments to employees is recorded.

(4) Important income and expense accounting standards

The percentage-of-completion method (whereby the percentage of completion is estimated by the incurred cost) is applied to contracts for which outcomes are deemed certain and the completed-contract method is applied to other contracts.

- (5) Standard for translation of significant foreign currency-denominated assets and liabilities to Japanese yen
 - Monetary claims and liabilities denominated in foreign currency are translated into yen at the spot exchange rate prevailing on the consolidated closing date, and the difference arising from such translation is recorded as profits or losses. The assets and liabilities of overseas subsidiaries are translated into yen at the spot exchange rate prevailing on the consolidated closing date, and their revenues and expenses are translated into yen at the average exchange rate during the fiscal year, with the differences arising from such translation included in the foreign currency translation adjustment account under net assets.

- (6) Scope of cash and cash equivalents in the consolidated statement of cash flows
 - Cash and cash equivalents consist of cash on hand, deposits drawable at any time, and any short-term investments that are only exposed to negligible risk of change in value and are redeemable in three months or less from each acquisition date.

- (7) Other significant matters related to the preparation of the consolidated financial statements
 - Accounting for consumption taxes
 - Consumption tax and local consumption tax are accounted for by the tax-exclusion method

(Significant accounting estimates)

(Impairment of non-current assets)

(1) Amounts posted to consolidated financial statements for the fiscal year under review

(Unit: thousands of yen)

| | Year ended September 30, 2021 |
|----------------------------------|----------------------------------|
| Property, plant and equipment | 79,078 |
| Intangible assets | 363,779 |

(2) Information on significant accounting estimates for identified items

Whenever there are indications that a non-current asset may be impaired, the Group evaluates the assets or asset group based on estimated future cash flows. However, assumptions about economic and business conditions that underpin this calculation of recoverable value are subject to change such that impairment losses arise in the future.

(Accounting standards not yet applied)

- 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 31, 2020)

(1) Overview

These are comprehensive accounting standards for revenue recognition. Revenue will be recognized based on application of the following five steps:

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

(2) Scheduled date of application

The Company will begin applying the aforementioned accounting standards at the beginning of the fiscal year ending September 30, 2022.

(3) Effect of application of the aforementioned accounting standards

The Company is currently evaluating the effect of applying the Accounting Standard for Revenue Recognition on its financial statements.

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

(1) Overview

To improve comparability with International accounting standards, “Accounting Standard for Fair Value Measurement” and “Implementation Guidance on Accounting Standard for Fair Value Measurement” (hereinafter referred to as “Accounting Standards for Fair Value Measurement”) were developed and they provide guidance on calculating market value. Accounting standards for fair value measurement are applied to the market prices of the following items:

- Financial instruments under “Accounting Standard for Financial Instruments”
- Inventories held for sales and trading purposes under “Accounting Standard for Measurement of Inventories”

(2) Scheduled date of application

The Company will begin applying the aforementioned accounting standards at the beginning of the fiscal year ending September 30, 2022.

(3) Effect of application of the aforementioned accounting standards

The Company is currently evaluating the effect of applying the aforementioned accounting standards on its consolidated financial statements.

(Changes in presentation)

(Application of the “Accounting Standard for Disclosure of Accounting Estimates”)

The Company began applying the Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020) in the fiscal year ended September 30, 2021 (the fiscal year under review), and notes regarding accounting estimates are included in the consolidated financial statements.

However, in accordance with the transitional treatment stipulated in the proviso of paragraph 11 of the accounting standard in question, these notes do not contain information about the fiscal year ended September 30, 2020.

(Consolidated balance sheet)

※ Accumulated depreciation of property, plant and equipment

| | Fiscal year ended September 30, 2020 (As of September 30, 2020) | Fiscal year ended September 30, 2021 (As of September 30, 2021) |
|---|---|---|
| Accumulated depreciation of property, plant and equipment | 167,169 thousand yen | 161,358 thousand yen |

(Consolidated statement of income)

※ 1 Major expense items and amounts included under selling, general and administrative expenses are as follows.

| | Fiscal year ended September 30, 2020 (October 1, 2019 to September 30, 2020) | Fiscal year ended September 30, 2021 (October 1, 2020 to September 30, 2021) |
|---|---|---|
| Employees' salaries | 245,130 thousand yen | 255,873 thousand yen |
| Remuneration for directors (and other officers) | 205,110 " | 211,060 " |
| Rent expenses on land and buildings | 65,973 " | 63,678 " |
| Legal welfare expenses | 52,291 " | 54,027 " |
| Provision for bonuses | 27,936 " | 26,013 " |
| Depreciation | 23,416 " | 21,035 " |
| Provision of allowance for doubtful accounts | 1,340 " | 3,094 " |

※ 2 Total R&D expense included under SGA expenses and manufacturing expenses is as follows.

| | Fiscal year ended September 30, 2020 (October 1, 2019 to September 30, 2020) | Fiscal year ended September 30, 2021 (October 1, 2020 to September 30, 2021) |
|--|---|---|
| | 35,280 thousand yen | 4,323 thousand yen |

※ 3 Gain on sale of non-current assets is as follows.

| | Fiscal year ended September 30, 2020 (October 1, 2019 to September 30, 2020) | Fiscal year ended September 30, 2021 (October 1, 2020 to September 30, 2021) |
|----------|---|---|
| Vehicles | — thousand yen | 728 thousand yen |
| Total | — thousand yen | 728 thousand yen |

(Consolidated statements of comprehensive income)

※ Reclassification adjustment and income tax relating to other comprehensive income

| | Fiscal year ended September 30, 2020 (October 1, 2019 to September 30, 2020) | Fiscal year ended September 30, 2021 (October 1, 2020 to September 30, 2021) |
|--|---|---|
| Foreign currency translation adjustment: | | |
| Amount: | 148 thousand yen | 2,074 thousand yen |
| Total other comprehensive income | 148 thousand yen | 2,074 thousand yen |

(Consolidated statements of changes in net assets)

Previous Fiscal Year (from October 1, 2019 to September 30, 2020)

1. Type and number of issued shares and treasury shares

| | Number of shares at beginning of period | Increase during period | Decrease during period | Number of shares at end of period |
|-----------------|---|------------------------|------------------------|-----------------------------------|
| Issued shares | | | | |
| Common shares | 48,132,000 | — | — | 48,132,000 |
| Treasury shares | | | | |
| Common shares | 1,206 | — | — | 1,206 |

2. Dividends

(1) Dividends paid

| (Resolution) | Type of shares | Total amount of dividends (thousands of yen) | Dividend per share (yen) | Record date | Effective date |
|--|----------------|--|--------------------------|--------------------|-------------------|
| Ordinary General Meeting of Shareholders held on December 20, 2019 | Common shares | 48,130 | 1.00 | September 30, 2019 | December 23, 2019 |

(2) Dividends for which the record date falls in the fiscal year ended September 30, 2020 and the effective date falls in the next fiscal year

| (Resolution) | Type of shares | Source of dividends | Total amount of dividends (thousands of yen) | Dividend per share (yen) | Record date | Effective date |
|--|----------------|---------------------|--|--------------------------|--------------------|-------------------|
| Ordinary General Meeting of Shareholders held on December 18, 2020 | Common shares | Retained earnings | 96,261 | 2.00 | September 30, 2020 | December 21, 2020 |

Current Fiscal Year (from October 1, 2020 to September 30, 2021)

1. Type and number of issued shares and treasury shares

| | Number of shares at beginning of period | Increase during period | Decrease during period | Number of shares at end of period |
|-----------------|---|------------------------|------------------------|-----------------------------------|
| Issued shares | | | | |
| Common shares | 48,132,000 | — | — | 48,132,000 |
| Treasury shares | | | | |
| Common shares | 1,206 | 709,700 | — | 710,906 |

(Note) The increase in the number of treasury shares is due to acquisitions of treasury shares made pursuant to a resolution of the Board of Directors.

2. Share acquisition rights

| Classification | Description | Type of shares underlying acquisition rights | Number of shares underlying the share acquisition rights | | | | Balance at end of period (thousands of yen) |
|---------------------------------|-------------------------------------|--|--|------------------------|------------------------|---------------|---|
| | | | Beginning of period | Increase during period | Decrease during period | End of period | |
| Filing company (parent company) | 3rd series stock acquisition rights | Common shares | — | 4,800,000 | — | 4,800,000 | 4,464 |
| Total | | — | — | 4,800,000 | — | 4,800,000 | 4,464 |

(Note) The increase in the 3rd serious stock acquisition rights during the fiscal year ended September 30, 2021 (the fiscal year under review) is a result of the issuance of these stock acquisition rights.

3. Dividends

(1) Dividends paid

| (Resolution) | Type of shares | Total amount of dividends (thousands of yen) | Dividend per share (yen) | Record date | Effective date |
|--|----------------|--|--------------------------|--------------------|-------------------|
| Ordinary General Meeting of Shareholders held on December 18, 2020 | Common shares | 96,261 | 2.00 | September 30, 2020 | December 21, 2020 |

(2) Dividends for which the record date falls in the fiscal year ended September 30, 2021 and the effective date falls in the next fiscal year

| (Resolution) | Type of shares | Source of dividends | Total amount of dividends (thousands of yen) | Dividend per share (yen) | Record date | Effective date |
|--|----------------|---------------------|--|--------------------------|--------------------|-------------------|
| Ordinary General Meeting of Shareholders held on December 22, 2021 | Common shares | Retained earnings | 118,552 | 2.50 | September 30, 2021 | December 23, 2021 |

(Consolidated statement of cash flows)

※ Reconciliation of year-end balance of cash and cash equivalents and items in the consolidated balance sheet

| | Fiscal year ended September 30, 2020 (October 1, 2019 to September 30, 2020) | Fiscal year ended September 30, 2021 (October 1, 2020 to September 30, 2021) |
|---------------------------|---|---|
| Cash and deposits account | 1,706,530 thousand yen | 3,710,780 thousand yen |
| Cash and cash equivalents | 1,706,530 thousand yen | 3,710,780 thousand yen |

(Financial instruments)

1. Financial instruments

(1) Policy on use of financial instruments

The Group's policy is to manage funds in highly safe financial assets such as bank deposits and finance mainly through bank borrowings. The Group does not trade derivatives except for as hedging instruments.

(2) Details on financial instruments and the risks thereof

Accounts receivable-trade and leasehold & guarantee deposits are exposed to credit risk from clients.

Accounts payable-trade and accounts payable-other are paid within six months.

CBs were issued to finance future M&A activities aimed at expanding the business. The CBs will mature within 5 years.

(3) Risk management system for financial instruments

① Management of credit risks (risks pertaining to customers' non-performance of contracts)

The Company conducts regular monitoring of the status of trade receivables from key customers, manages monthly settlement dates and balances for each customer, and works to identify and mitigate doubtful accounts receivables resulting from deterioration in financial conditions of customers as early as possible.

② Management of liquidity risk pertaining to fund procurement (risks of inability to make payments on due dates)

The Group manages liquidity risk through the timely drafting/updating of cash flow plans and the maintenance of cash on hand.

2. Matters concerning the fair value of financial instruments

The amounts recorded on the consolidated balance sheet, their fair values, and the differences between them are as follows. Items for which fair value is extremely difficult to determine are not included (refer to (Note 2)).

Fiscal year ended September 30, 2020 (as of September 30, 2020)

| | Amount recorded on consolidated balance sheet (thousands of yen) | Fair value (thousands of yen) | Difference (thousands of yen) |
|--------------------------------------|--|-------------------------------|-------------------------------|
| (1) Cash and deposits | 1,706,530 | 1,706,530 | — |
| (2) Accounts receivable - trade | 74,151 | 74,151 | — |
| (3) Distressed receivables | 256 | | |
| Allowance for doubtful accounts* | -256 | | |
| | — | — | — |
| (4) Leasehold and guarantee deposits | 31,908 | 31,592 | -315 |
| Assets total | 1,812,590 | 1,812,274 | -315 |
| (1) Accounts payable - trade | 22,725 | 22,725 | — |
| (2) Accounts payable - other | 65,844 | 65,844 | — |
| Liabilities total | 88,569 | 88,569 | — |

(*)Allowance for doubtful accounts for distressed receivables are deducted.

Fiscal year ended September 30, 2021 (as of September 30, 2021)

| | Amount recorded on consolidated balance sheet (thousands of yen) | Fair value (thousands of yen) | Difference (thousands of yen) |
|---|--|-------------------------------|-------------------------------|
| (1) Cash and deposits | 3,710,780 | 3,710,780 | — |
| (2) Accounts receivable - trade | 85,820 | 85,820 | — |
| (3) Distressed receivables | 480 | | |
| Allowance for doubtful accounts* | -480 | | |
| | — | — | — |
| (4) Leasehold and guarantee deposits | 31,908 | 31,592 | -315 |
| Assets total | 3,828,509 | 3,828,193 | -315 |
| (1) Accounts payable - trade | 8,830 | 8,830 | — |
| (2) Accounts payable - other | 87,872 | 87,872 | — |
| (3) Bonds with share acquisition rights (convertible bonds) | 2,003,866 | 2,051,400 | 47,533 |
| Liabilities total | 2,100,568 | 2,148,102 | 47,533 |

(*) Allowance for doubtful accounts for distressed receivables are deducted.

(Note) 1. Methodology for calculating the fair value of financial instruments

Assets

(1) Cash and deposits, (2) accounts receivable—trade

As these items are settled in a short period of time, their fair value is roughly equal to their book value and therefore determined based on the relevant book value.

(3) Distressed receivables

For Distressed receivables, the estimated uncollectable amount is calculated based on the amount expected to be recoverable based on collateral/guarantees, etc. The fair value is close to the value in the consolidated balance sheet on the closing date minus the current estimated uncollectable amount. This difference is taken as the fair value.

(4) Leasehold and guarantee deposits

The fair value of leasehold and guarantee deposits is taken as the present value discounted at an interest rate based upon an appropriate index

Liabilities

(1) Accounts payable – trade, (2) Accounts payable - other

As these items are settled in a short period of time, their fair value is roughly equal to their book value and therefore determined based on the relevant book value.

(3) Bonds with share acquisition rights (convertible bonds)

Calculation of fair value is based on the prices provided by the financial institutions that the Company traded with.

2. Financial instruments for which fair value is extremely difficult to determine

(Unit: thousands of yen)

| Classification | Year ended September 30, 2020 (As of September 30, 2020) | Year ended September 30, 2021 (As of September 30, 2021) |
|----------------------------------|--|--|
| Investments in capital | 500 | 500 |
| Leasehold and guarantee deposits | 10,965 | 10,824 |

Investments in capital has no market prices and it is deemed extremely difficult to determine its fair value. Therefore, it is not subjected to fair value disclosure.

Some leasehold and guarantee deposits are not included in "(4) Leasehold and guarantee deposits" because a collection schedule cannot be predicted and it is deemed extremely difficult to determine their fair value.

3. Collection schedule for monetary claims after the consolidated closing date

Year ended September 30, 2020 (as of September 30, 2020)

| | 1 year or less (thousands of yen) | 1–5 years (thousands of yen) | 5–10 years (thousands of yen) | Over 10 years (thousands of yen) |
|----------------------------------|--------------------------------------|---------------------------------|----------------------------------|-------------------------------------|
| Cash and deposits | 1,706,530 | — | — | — |
| Accounts receivable–trade | 74,151 | — | — | — |
| Leasehold and guarantee deposits | 31,908 | — | — | — |
| Total | 1,812,590 | — | — | — |

For 256 thousand yen in distressed receivables and 10,965 thousand yen in leasehold and guarantee deposits, a collection schedule cannot be clearly ascertained. Therefore, they are not included in the collection schedule.

Year ended September 30, 2021 (as of September 30, 2021)

| | 1 year or less (thousands of yen) | 1–5 years (thousands of yen) | 5–10 years (thousands of yen) | Over 10 years (thousands of yen) |
|----------------------------------|--------------------------------------|---------------------------------|----------------------------------|-------------------------------------|
| Cash and deposits | 3,710,780 | — | — | — |
| Accounts receivable–trade | 85,820 | — | — | — |
| Leasehold and guarantee deposits | 31,908 | — | — | — |
| Total | 3,828,509 | — | — | — |

For 480 thousand yen in distressed receivables and 10,824 thousand yen in leasehold and guarantee deposits, a collection schedule cannot be clearly ascertained. Therefore, they are not included in the collection schedule.

4. Repayment schedule for corporate bonds, long-term borrowings, leases, and other interest-bearing debt after the consolidated closing date

Year ended September 30, 2021 (as of September 30, 2021)

| | 1 year or less (thousands of yen) | 1–5 years (thousands of yen) | 5–10 years (thousands of yen) | Over 10 years (thousands of yen) |
|--|--------------------------------------|---------------------------------|----------------------------------|-------------------------------------|
| Bonds with share acquisition rights (convertible bonds) | — | 2,003,866 | — | — |
| Total | — | 2,003,866 | — | — |

(Tax-effect accounting)

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

| | Year ended September 30, 2020 (As of September 30, 2020) | Year ended September 30, 2021 (As of September 30, 2021) |
|---------------------------------|--|--|
| Deferred tax assets | | |
| Provision for bonuses | 9,186 thousand yen | 8,634 thousand yen |
| Allowance for doubtful accounts | 4,210 " | 5,157 " |
| Accrued expenses | 1,322 " | 1,234 " |
| Enterprise taxes payable | 8,341 " | 8,285 " |
| Depreciation | 1,242 " | 1,066 " |
| Asset retirement obligations | 8,331 " | 8,363 " |
| Other | 3,439 " | 1,939 " |
| Deferred tax assets total | 36,073 thousand yen | 34,682 thousand yen |
| Deferred tax liabilities | | |
| Asset retirement cost | -1,010 thousand yen | -815 thousand yen |
| Deferred tax liabilities total | -1,010 thousand yen | -815 thousand yen |
| Net deferred tax assets | 35,062 thousand yen | 33,866 thousand yen |

2. Reconciliation between the statutory effective tax rate and the actual effective tax rate after application of tax-effect accounting

Previous Fiscal Year (from October 1, 2019 to September 30, 2020)

Difference between the statutory effective tax rate and the actual effective tax rate after application of tax-effect accounting is not more than five percent of the statutory effective tax rate, and therefore this note is omitted.

Current Fiscal Year (from October 1, 2020 to September 30, 2021)

Difference between the statutory effective tax rate and the actual effective tax rate after application of tax-effect accounting is not more than five percent of the statutory effective tax rate, and therefore this note is omitted.

(Asset retirement obligations)

Asset retirement obligations recorded on the consolidated balance sheet

A Overview of relevant asset retirement obligations

Asset retirement obligations primarily consist of restoration obligations, etc., related to real estate lease contracts for buildings

B Calculation methodology for pertaining asset retirement obligations

Estimate a potential usage period (of 1-15 years depending on length of contract and useful life of building) and calculate asset retirement obligations using a discount rate of 0.13% to 1.13%

C Increase (decrease) in asset retirement obligations

| | Fiscal year ended September 30, 2020 (October 1, 2019 to September 30, 2020) | Fiscal year ended September 30, 2021 (October 1, 2020 to September 30, 2021) |
|--------------------------------|---|---|
| Balance at beginning of period | 27,104 thousand yen | 27,209 thousand yen |
| Adjustment for passage of time | 104 " | 105 " |
| Balance at end of period | 27,209 thousand yen | 27,314 thousand yen |

(Segment information)

【Segment information】

Since the Group operates in a single reportable business segment (which aims to develop an information sharing platform for the medical and long-term care fields as well as to conduct related business thereof), segment information is omitted.

【Related Information】

Fiscal Year ended September 30, 2020 (October 1, 2019 to September 30, 2020)

1. Information by product and service

(Unit: thousands of yen)

| | Kanamic Cloud Service | Platform Services | Other Services | Total |
|---------------------------------|-----------------------|-------------------|----------------|-----------|
| Net sales to external customers | 1,642,778 | 150,092 | 88,573 | 1,881,444 |

2. Information by region

(1) Net Sales

Since there were no sales to overseas customers, this item is omitted.

(2) Property, plant and equipment

This information has been omitted because the amount of property, plant and equipment located in Japan accounts for over 90% of property, plant and equipment recorded on the consolidated balance sheet.

3. Information by major customer (customer name)

Since there were no customers who account for 10% or more of net sales, this item is omitted.

Fiscal Year ended September 30, 2021 (October 1, 2020 to September 30, 2021)

1. Information by product and service

(Unit: thousands of yen)

| | Kanamic Cloud Service | Platform Services | Other Services | Total |
|---------------------------------|-----------------------|-------------------|----------------|-----------|
| Net sales to external customers | 1,857,874 | 143,626 | 79,275 | 2,080,776 |

2. Information by region

(1) Net Sales

Since there were no sales to overseas customers, this item is omitted.

(2) Property, plant and equipment

This information has been omitted because the amount of property, plant and equipment located in Japan accounts for over 90% of property, plant and equipment recorded on the consolidated balance sheet.

3. Information by major customer (customer name)

Since there were no customers who account for 10% or more of net sales, this item is omitted.

【Impairment losses on non-current assets by reportable segment】

Fiscal Year ended September 30, 2020 (October 1, 2019 to September 30, 2020)

No applicable matters to report.

Fiscal Year ended September 30, 2021 (October 1, 2020 to September 30, 2021)

No applicable matters to report.

【Amortization of goodwill and unamortized balance by reportable segment】

Fiscal Year ended September 30, 2020 (October 1, 2019 to September 30, 2020)

No applicable matters to report.

Fiscal Year ended September 30, 2021 (October 1, 2020 to September 30, 2021)

No applicable matters to report.

【Negative goodwill (bargain purchase amount) arising by reportable segment】

Fiscal Year ended September 30, 2020 (October 1, 2019 to September 30, 2020)

No applicable matters to report.

Fiscal Year ended September 30, 2021 (October 1, 2020 to September 30, 2021)

No applicable matters to report.

【Related parties】

1 . Business Transactions with related parties

(1) Business transactions between the Company and related parties

No applicable matters to report.

(2) Business transactions between consolidated subsidiaries and related parties

No applicable matters to report.

2 . Notes concerning the parent company and significant affiliates

No applicable matters to report.

(Per-share information)

| | Fiscal year ended September 30, 2020 (October 1, 2019 to September 30, 2020) | Fiscal year ended September 30, 2021 (October 1, 2020 to September 30, 2021) |
|--------------------------|---|---|
| Net assets per share | 39.60 yen | 41.22 yen |
| (Basic) profit per share | 9.82 yen | 12.08 yen |
| Diluted profit per share | — yen | 11.98 yen |

(Note) 1. Diluted profit per share for FY 2020 is not shown because there were no dilutive securities.

2. The basis for the calculation of basic profit per share and diluted profit per share is detailed as follows:

| | Fiscal year ended September 30, 2020 (October 1, 2019 to September 30, 2020) | Fiscal year ended September 30, 2021 (October 1, 2020 to September 30, 2021) |
|--|---|---|
| (Basic) profit per share | | |
| Profit attributable to owners of parent (thousands of yen) | 472,699 | 579,583 |
| Amount not attributable to common shareholders (thousands of yen) | — | — |
| Profit attributable to owners of parent with respect to common shares (thousands of yen) | 472,699 | 579,583 |
| Average number of common shares during period | 48,130,794 | 47,981,077 |
| Diluted profit per share | | |
| Adjustment on profit attributable to owners of parent (thousands of yen) | — | -92 |
| (Of which interest on securities (after tax equivalent deduction) (thousands of yen)) | (—) | (-92) |
| Increase in common shares (number of shares) | — | 391,685 |
| (Of which bonds with share acquisition rights (number of shares)) | (—) | (382,762) |
| (Of which share acquisition rights (number of shares)) | (—) | (8,923) |
| Overview of residual shares not included in calculation of diluted profit per share because they have no dilutive effect | — | — |

3. The basis for the calculation of net assets per share and diluted profit per share is detailed as follows:

| | Year ended September 30, 2020 (As of September 30, 2020) | Year ended September 30, 2021 (As of September 30, 2021) |
|---|--|--|
| Total net assets (thousands of yen) | 1,905,848 | 1,959,242 |
| Amount deducted from total net assets (thousands of yen) | — | 4,464 |
| (Of which share acquisition rights (thousands of yen)) | (—) | (4,464) |
| Net assets pertaining to common shares at end of period (thousands of yen) | 1,905,848 | 1,954,778 |
| Number of common shares at end of period used for the calculation of net assets per share | 48,130,794 | 47,421,094 |

(Significant subsequent events)

(Introduction of Restricted Stock Compensation System)

The Company, at the meeting of its Board of Directors held on November 2, 2021, resolved to introduce a "Restricted Stock Compensation System" (hereinafter, "the System"). Furthermore, a proposal related to the implementation of "the System" was submitted to the 21st Ordinary General Meeting of Shareholders held on December 22, 2021, and this proposal was approved.

1. Purpose of implementing the system

Through "the System", directors (excluding external directors and hereinafter referred to as "Eligible Directors") are granted restricted shares with the aim of providing them with incentive to strive to affect sustainable improvement in the Company's enterprise value, while also further promoting shared interests with the Company's shareholders.

2. Overview of "the System"

(1) Amount of Compensation to Eligible Directors / Number of Shares Conferred to them

Under "the System", "claims to compensation" (which are worth a specified monetary amount) will be paid to "Eligible Directors", and then the "Eligible Directors" to whom the Company pays the "claims to compensation" will use the entirety of these "claims to compensation" as "investment assets in kind" to purchase common shares from the Company. At the 15th Ordinary General Meeting of Shareholders, which was held on December 24th, 2015, approval was obtained to compensate directors of the Company in an amount which is not more than 500 million yen annually (this amount does not include the portion of compensation which accounts for employee salary for Directors who concurrently serve as employees) and to compensate corporate auditors in an amount which is not more than 30 million yen annually. As of the filing date of this report, nine directors and three corporate auditors are in scope for compensation in accordance with these limits. Furthermore, at the 21st Ordinary General Meeting of Shareholders held on December 22, 2021, it was resolved to compensate directors of the Company through the conferring of restricted stock in an amount which falls within the aforementioned limitations (in an amount which is no more than 500 million yen annually, not including the portion of compensation which accounts for employee salary for Directors who concurrently serve as employees), with the total number of common shares issued or disposed in connection with this not exceeding 150,000 shares annually. That said, the upper limit of the total number of said common shares shall be adjusted, in a reasonable manner, according to the ratio of any stock split (including the allotment of the Company's common shares without any contribution) or reverse stock split that should occur (become effective) following this resolution. As of the time of this filing, six directors are in scope for restricted share compensation within these limits (external directors are not in scope).

(2) Allocation agreement

Upon issuance or disposal of common shares of the Company, it will be required that the Company enter into a restricted stock allocation agreement (hereinafter "the allocation agreement") with "Eligible Directors", and the allocation agreement shall stipulate the following: (1) a certain period (hereinafter the "Transfer Restriction Period") during which transfer of the shares to a third party, posting of the shares as collateral, or any other form of disposal of the shares is prohibited and (2) an allowance for the acquisition of the shares by the Company (without payment for them) in the event certain circumstances arise. In order to ensure that shares cannot be transferred, posted as collateral, or disposed of by any other means during the "transfer restriction period", the allocated shares will be held in dedicated accounts at Nomura Securities Co., Ltd. (opened by the Eligible Employees) during the "transfer restriction period".

(Disposal of Treasury Shares as Restricted Stock Compensation)

The Company, at the meeting of its Board of Directors held today, resolved to dispose of treasury shares as restricted stock compensation (hereinafter the "Disposal of Treasury Stock"). Details are provided as follows:

1 . Overview of disposal

- ① Date of Disposal: January 21, 2022
- ② Class and number of shares to be disposed: Common shares of the company, 35,100 shares
- ③ Disposal price: 473 yen per share
- ④ Total value of shares to be disposed: 16,602,300 yen
- ⑤ Recipients of the shares to be disposed:
 - Directors (excluding external directors): 5 people, 12,600 shares
 - Employees: 10 people, 22,500 shares
- ⑥ Other details: A notice regarding the disposal of treasury shares has been filed pursuant to the Financial Instruments and Exchange Act

2 . Purpose and Reason for Disposal

The purpose is as stated above in *(Introduction of Restricted Stock Compensation System)*

⑥ 【Consolidated supplementary financial schedule】

【Schedule of corporate bonds】

| Company | Name of bond | Issue date | Balance at beginning of period (thousands of yen) | Balance at end of period (thousands of yen) | Interest rate (%) | Collateral | Date of maturity |
|---------------------------|---|----------------|---|---|-------------------|------------|------------------|
| Kanamic Network Co., LTD. | 1st Series Unsecured Convertible Bonds with Stock Acquisition Rights Maturing 2026 (Note: 1, 2) | August 4, 2021 | — | 2,003,866 (—) | 0.0 | None | August 4, 2026 |
| Total | — | — | — | 2,003,866 (—) | — | — | — |

(Note) 1. Figures showed in parenthesis are amounts to be redeemed within one year.

2. Information on the convertible bonds is provided below:

| Issue | First Series Convertible Bonds |
|--|--------------------------------------|
| Type of shares to be issued upon conversions | Common shares |
| Issue price of attached share acquisition rights (yen) | No charge |
| Issue price of shares (yen) | 830.3 |
| Total issue amount (thousands of yen) | 2,004,000 |
| Total issue amount for shares issued upon the exercise of attached share acquisition rights (thousands of yen) | — |
| Percentage of share acquisition rights granted (%) | 100 |
| Exercise period for attached share acquisition rights | From August 5, 2021 to July 21, 2026 |

(Note) When receiving a request from a person who intends to exercise the attached share acquisition rights, then in place of a payment owned to such a person at maturity of the bonds, it will be deemed that such a person has contributed this amount upon exercise of the rights. Whenever share acquisition rights are exercised, it shall automatically be deemed that such a request has been received.

3. Redemption amounts within five years of the consolidated closing date are shown below.

| within 1 year (thousands of yen) | 1-2 years (thousands of yen) | 2-3 years (thousands of yen) | 3-4 years (thousands of yen) | 4-5 years (thousands of yen) |
|----------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|
| — | — | — | — | 2,003,866 |

【Asset retirement obligations】

The schedule of asset retirement obligations is omitted from record in these financial statements as the matters that must be recorded in this statement are disclosed as a note in conformity with Article 15-23 of the Regulations on Consolidated Financial Statements.

(2) 【Other】

Quarterly information for the fiscal year ended September 30, 2021

| (Cumulative) | First Quarter | Second Quarter | Third Quarter | Fiscal Year |
|--|---------------|----------------|---------------|-------------|
| Net sales (thousands of yen) | 533,473 | 1,043,257 | 1,555,348 | 2,080,776 |
| Profit before income taxes (thousands of yen) | 206,801 | 423,430 | 642,749 | 830,670 |
| Profit attributable to owners of parent (thousands of yen) | 143,646 | 295,155 | 445,985 | 579,583 |
| Profit per share (yen) | 2.98 | 6.13 | 9.27 | 12.08 |

| (Quarterly) | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|------------------------|---------------|----------------|---------------|----------------|
| Profit per share (yen) | 2.98 | 3.15 | 3.13 | 2.81 |

2 【Non-Consolidated Financial Statements, etc.】

(1) 【Non-consolidated Financial Statements】

① 【Non-consolidated balance sheet】

(Thousands of yen)

| | As of September 30, 2020 | As of September 30, 2021 |
|---|--------------------------|--------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 1,693,987 | 3,685,505 |
| Accounts receivable - trade | 74,151 | 85,820 |
| Work in process | 7,332 | 164 |
| Supplies | 95 | 87 |
| Prepaid expenses | 42,842 | 29,955 |
| Other | 33,978 | 47,666 |
| Allowance for doubtful accounts | -13,493 | -16,363 |
| Total current assets | 1,838,894 | 3,832,836 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings | 7,440 | 6,140 |
| Vehicles | 16,737 | 4,363 |
| Tools, furniture and fixtures | 25,855 | 67,663 |
| Total property, plant and equipment | 50,032 | 78,167 |
| Intangible assets | | |
| Software | 321,637 | 395,243 |
| Other | 76 | 76 |
| Total intangible assets | 321,714 | 395,319 |
| Investments and other assets | | |
| Investments in capital | 500 | 500 |
| Investments in capital of subsidiaries and associates | 10,000 | 10,000 |
| Distressed receivables | 256 | 480 |
| Long-term prepaid expenses | 729 | 62 |
| Deferred tax assets | 35,062 | 33,866 |
| Leasehold and guarantee deposits | 42,213 | 42,003 |
| Insurance funds | 14,490 | 15,964 |
| Allowance for doubtful accounts | -256 | -480 |
| Total investments and other assets | 102,996 | 102,396 |
| Total non-current assets | 474,742 | 575,884 |
| Total assets | 2,313,637 | 4,408,720 |

(Thousands of yen)

| | As of September 30, 2020 | As of September 30, 2021 |
|---|--------------------------|--------------------------|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | *22,156 | * 7,213 |
| Accounts payable - other | * 68,118 | * 91,486 |
| Accrued expenses | 8,506 | 8,714 |
| Income taxes payable | 129,016 | 152,361 |
| Accrued consumption taxes | 57,149 | 31,569 |
| Advances received | 40,464 | 61,498 |
| Deposits received | 7,829 | 10,999 |
| Provision for bonuses | 30,000 | 28,200 |
| Asset retirement obligations | 16,000 | 16,000 |
| Other | 5,940 | 11,830 |
| Total current liabilities | 385,181 | 419,872 |
| Non-current liabilities | | |
| Bonds with share acquisition rights | — | 2,003,866 |
| Asset retirement obligations | 11,209 | 11,314 |
| Other | 800 | 800 |
| Total non-current liabilities | 12,009 | 2,015,981 |
| Total liabilities | 397,190 | 2,435,854 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 192,060 | 192,060 |
| Capital surplus | | |
| Legal capital surplus | 132,060 | 132,060 |
| Capital surplus total | 132,060 | 132,060 |
| Retained earnings | | |
| Legal retained earnings | 220 | 220 |
| Other retained earnings | | |
| Retained earnings brought forward | 1,592,585 | 2,081,006 |
| Retained earnings total | 1,592,805 | 2,081,226 |
| Treasury shares | -478 | -436,943 |
| Shareholders' equity total | 1,916,447 | 1,968,402 |
| Share acquisition rights | — | 4,464 |
| Net assets total | 1,916,447 | 1,972,866 |
| Liabilities and net assets total | 2,313,637 | 4,408,720 |

② 【Non-consolidated statements of income】

(Thousands of yen)

| | Fiscal year ended September 30, 2020 | Fiscal year ended September 30, 2021 |
|--|---|---|
| Net sales | 1,881,444 | 2,080,776 |
| Cost of sales | 272,066 | 296,028 |
| Gross profit | 1,609,378 | 1,784,748 |
| Selling, general and administrative expenses | *1, *2 953,712 | *1, *2 938,641 |
| Operating profit | 655,666 | 846,106 |
| Non-operating income | | |
| Interest income | 17 | 21 |
| Interest on securities | — | 133 |
| Foreign exchange gains | 1,722 | 2,700 |
| Subsidy income | 19,347 | 1,599 |
| Miscellaneous income | 2,172 | 1,099 |
| Total non-operating income | 23,260 | 5,554 |
| Non-operating expenses | | |
| Financing expenses | — | 16,920 |
| Miscellaneous losses | 538 | 174 |
| Total non-operating expenses | 538 | 17,095 |
| Ordinary profit | 678,387 | 834,565 |
| Extraordinary income | | |
| Gain on sale of non-current assets | — | *3 728 |
| Total extraordinary income | — | 728 |
| Profit before income taxes | 678,387 | 835,294 |
| Income taxes - current | 207,748 | 249,416 |
| Income taxes - deferred | -3,659 | 1,195 |
| Total income taxes | 204,089 | 250,611 |
| Profit | 474,297 | 584,682 |

【Schedule of cost of sales】

| Category | Note | Fiscal Year ended September 30, 2020 (October 1, 2019 to September 30, 2020) | | Fiscal Year ended September 30, 2021 (October 1, 2020 to September 30, 2021) | |
|-------------------------------------|------|---|------------|---|------------|
| | | Amount (thousands of yen) | % of total | Amount (thousands of yen) | % of total |
| I Materials | | — | | — | |
| II Labor | | 25,828 | 16.2 | 31,124 | 14.1 |
| III Other Manufacturing Cost | * 1 | 133,321 | 83.8 | 189,449 | 85.9 |
| Total manufacturing costs | | 159,150 | 100.0 | 220,573 | 100.0 |
| Beginning work-in-process inventory | | 396 | | 7,332 | |
| Ending work-in-process inventory | | 7,332 | | 164 | |
| Cost of products manufactured | | 152,213 | | 227,742 | |
| Labor cost | | 7,078 | | 10,105 | |
| Cost of purchased goods | | 99,711 | | 122,345 | |
| Outsourcing expenses | | 10,786 | | 9,676 | |
| Amortization of software | | 110,552 | | 116,115 | |
| Transfer to other account | * 2 | 108,275 | | 189,955 | |
| Cost of sales | | 272,066 | | 296,028 | |

Method of cost accounting
Individual cost accounting

* 1 Major components of other manufacturing cost are as follows:

| Fiscal Year ended September 30, 2020 (thousands of yen) | | Fiscal Year ended September 30, 2021 (thousands of yen) | |
|---|---------|---|---------|
| Outsourcing expenses | 124,388 | Outsourcing expenses | 178,915 |
| Rent expenses on land and buildings | 5,481 | Rent expenses on land and buildings | 6,741 |
| Depreciation | 1,744 | Depreciation | 2,317 |

※ 2 Transfer to other account was comprised mainly of the following:

| Fiscal Year ended September 30, 2020 (thousands of yen) | | Fiscal Year ended September 30, 2021 (thousands of yen) | |
|---|---------|---|---------|
| Software | 108,275 | Software | 189,955 |

③ 【Non-consolidated statements of changes in net assets】

Previous Fiscal Year (from October 1, 2019 to September 30, 2020)

(Unit: thousands of yen)

| | Shareholders' equity | | | | | | | |
|--|----------------------|-----------------------|-----------------------|-------------------|--|-------------------------|-----------------|----------------------------|
| | Share capital | Capital surplus | | Retained earnings | | | Treasury shares | Total shareholders' equity |
| | | Legal capital surplus | Total capital surplus | Legal reserve | Other retained earnings Retained earnings brought forward | Total retained earnings | | |
| Balance at beginning of period | 192,060 | 132,060 | 132,060 | 220 | 1,166,418 | 1,166,638 | -478 | 1,490,280 |
| Changes during period | | | | | | | | |
| Dividends of surplus | | | — | | -48,130 | -48,130 | | -48,130 |
| Profit | | | — | | 474,297 | 474,297 | | 474,297 |
| Purchase of treasury shares | | | — | | | — | | — |
| Net changes in items other than shareholders' equity | | | — | | | — | | — |
| Total changes during period | — | — | — | — | 426,166 | 426,166 | — | 426,166 |
| Balance at end of period | 192,060 | 132,060 | 132,060 | 220 | 1,592,585 | 1,592,805 | -478 | 1,916,447 |

| | Share Acquisition Rights | Total net assets |
|--|--------------------------|------------------|
| Balance at beginning of period | — | 1,490,280 |
| Changes during period | | |
| Dividends of surplus | | -48,130 |
| Profit | | 474,297 |
| Purchase of treasury shares | | — |
| Net changes in items other than shareholders' equity | | — |
| Total changes during period | — | 426,166 |
| Balance at end of period | — | 1,916,447 |

Current Fiscal Year (from October 1, 2020 to September 30, 2021)

(Unit: Thousands of yen)

| | Shareholders' equity | | | | | | | |
|--|----------------------|-----------------------|-----------------------|-------------------|--|-------------------------|-----------------|----------------------------|
| | Share capital | Capital surplus | | Retained earnings | | | Treasury shares | Total shareholders' equity |
| | | Legal capital surplus | Total capital surplus | Legal reserve | Other retained earnings Retained earnings brought forward | Total retained earnings | | |
| Balance at beginning of period | 192,060 | 132,060 | 132,060 | 220 | 1,592,585 | 1,592,805 | -478 | 1,916,447 |
| Changes during period | | | | | | | | |
| Dividends of surplus | | | — | | -96,261 | -96,261 | | -96,261 |
| Profit | | | — | | 584,682 | 584,682 | | 584,682 |
| Purchase of treasury shares | | | — | | | — | -436,465 | -436,465 |
| Net changes in items other than shareholders' equity | | | — | | | — | | — |
| Total changes during period | — | — | — | — | 488,421 | 488,421 | -436,465 | 51,955 |
| Balance at end of period | 192,060 | 132,060 | 132,060 | 220 | 2,081,006 | 2,081,226 | -436,943 | 1,968,402 |

| | Share Acquisition Rights | Total net assets |
|--|--------------------------|------------------|
| Balance at beginning of period | — | 1,916,447 |
| Changes during period | | |
| Dividends of surplus | | -96,261 |
| Profit | | 584,682 |
| Purchase of treasury shares | | -436,465 |
| Net changes in items other than shareholders' equity | 4,464 | 4,464 |
| Total changes during period | 4,464 | 56,419 |
| Balance at end of period | 4,464 | 1,972,866 |

【Notes to non-consolidated financial statements】

(Important accounting policies)

1. Valuation standard and methodology for securities

(1) Shares of subsidiaries and associates

Stated at cost using the moving average method.

2. Valuation standard and methodology for Inventories

(1) Work in progress

They are recorded at cost based on the specific identification method (the carrying value on the non-consolidated balance sheet incorporates write-downs to the book value in reflection of declines in profitability).

(2) Supplies

They are recorded at cost using the last purchase price method (the carrying value on the non-consolidated balance sheet incorporates write-downs to the book value in reflection of declines in profitability).

3. Depreciation and amortization methods for non-current assets

(1) Property, plant and equipment

The declining balance method is applied.

However, the straight-line method is applied for facilities attached to buildings acquired after April 1, 2016.

Buildings: 10-15 years

Vehicles: 4-6 years

Tools, furniture and fixtures: 3-8 years

(2) Intangible assets

The straight-line method is applied.

The amortization period is as follows:

Software (for in-house use): 5 years (in-house useful life)

4. Standard for translation of foreign currency-denominated assets and liabilities to Japanese yen

Monetary claims and liabilities denominated in foreign currency are translated into yen at the spot exchange rate prevailing on the closing date, and the difference arising from such translation is recorded as profits or losses.

5. Accounting standards for provisions

(1) Distressed receivables

To provide for potential losses due to uncollectable receivables, the Company records an estimated bad debt allowance based on historical rates for general receivables (with highly doubtful receivables being evaluated individually based on the recoverability from specific customers).

(2) Provision for bonuses

To provide for bonus payments, an amount corresponding to the current portion of estimated bonus payments to employees is recorded

6. Income and expense accounting standards

The percentage-of-completion method (whereby the percentage of completion is estimated by the incurred cost) is applied to contracts for which outcomes are deemed certain and the completed-contract method is applied to other contracts.

7. Other significant matters related to the preparation of the non-consolidated financial statements

Accounting for consumption taxes

Consumption tax and local consumption tax are accounted for by the tax-exclusion method

(Significant accounting estimates)

(Impairment of non-current assets)

(1) Amounts posted to non-consolidated financial statements for the fiscal year under review

(Unit: thousands of yen)

| | Year ended September 30, 2021 |
|----------------------------------|----------------------------------|
| Property, plant and equipment | 78,167 |
| Intangible assets | 395,319 |

(2) Information on significant accounting estimates for identified items

This information is provided under *Consolidated Financial Statements* **【Notes on the Consolidated Financial Statements(significant accounting estimates)】** and is therefore omitted.

(Changes in presentation)

Application of the Accounting Standard for Disclosure of Accounting Estimates

The Company began applying the Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31, March 31, 2020) in the fiscal year ended September 30, 2021 (the fiscal year under review), and notes regarding accounting estimates are included in the non-consolidated financial statements.

However, in accordance with the transitional treatment stipulated in the proviso of paragraph 11 of the accounting standard in question, these notes do not contain information about the fiscal year ended September 30, 2020.

(Non-consolidated balance sheet)

※ Monetary claims and liabilities to subsidiaries and associates (excluding items displayed separately)

| | Fiscal year ended September 30, 2020 (As of September 30, 2020) | Fiscal year ended September 30, 2021 (As of September 30, 2021) |
|---------------------------------|--|---|
| Short-term monetary liabilities | 10,555 thousand yen | 6,628 thousand yen |

(Non-consolidated statement of income)

※ 1 Major expense items and amounts included under selling, general and administrative expenses are as follows.

| | Fiscal year ended September 30, 2020 (October 1, 2019 to September 30, 2020) | Fiscal year ended September 30, 2021 (October 1, 2020 to September 30, 2021) |
|--|---|---|
| Employees' salaries | 242,741 thousand yen | 253,016 thousand yen |
| Remuneration for directors (and other officers) | 205,110 " | 211,060 " |
| Rent expenses on land and buildings | 65,973 " | 63,678 " |
| Legal welfare expenses | 51,629 " | 53,022 " |
| Provision for bonuses | 27,804 " | 25,468 " |
| Depreciation | 23,304 " | 20,900 " |
| Provision of allowance for doubtful accounts | 1,340 " | 3,094 " |
| Approximate composition ratios | | |
| Sales expenses | 4.3 % | 4.7% |
| eneral and administrative expenses | 95.7 " | 95.3 " |

※ 2 Total R&D expense included under SGA expenses are as follows

| | Fiscal year ended September 30, 2020 (October 1, 2019 to September 30, 2020) | Fiscal year ended September 30, 2021 (October 1, 2020 to September 30, 2021) |
|--|---|---|
| | 35,280 thousand yen | 4,323 thousand yen |

※ 3 Gain on sale of non-current assets is as follows.

| | Fiscal year ended September 30, 2020 (October 1, 2019 to September 30, 2020) | Fiscal year ended September 30, 2021 (October 1, 2020 to September 30, 2021) |
|----------|---|---|
| Vehicles | — thousand yen | 728 thousand yen |
| Total | — thousand yen | 728 thousand yen |

(Marketable securities)

Investments in capital of subsidiaries and associates have been omitted because they have no market prices and it is deemed extremely difficult to determine their fair value.

The balance sheet values for investments in capital of subsidiaries and associates for which fair value is extremely difficult to determine are as follows:

(Unit: Thousands of yen)

| Classification | Year ended September 30, 2020 (As of September 30, 2020) | Year ended September 30, 2021 (As of September 30, 2021) |
|---|---|---|
| Investments in capital of subsidiaries and associates | 10,000 | 10,000 |

(Tax-effect accounting)

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

| | Year ended September 30, 2020 (As of September 30, 2020) | Year ended September 30, 2021 (As of September 30, 2021) |
|---------------------------------|--|--|
| Deferred tax assets | | |
| Provision for bonuses | 9,186 thousand yen | 8,634 thousand yen |
| Allowance for doubtful accounts | 4,210 " | 5,157 " |
| Accrued expenses | 1,322 " | 1,234 " |
| Enterprise taxes payable | 8,341 " | 8,285 " |
| Depreciation | 1,242 " | 1,066 " |
| Asset retirement obligations | 8,331 " | 8,363 " |
| Other | 3,439 " | 1,939 " |
| Deferred tax assets total | 36,073 thousand yen | 34,682 thousand yen |
| Deferred tax liabilities | | |
| Asset retirement cost | -1,010 thousand yen | -815 thousand yen |
| Deferred tax liabilities total | -1,010 thousand yen | -815 thousand yen |
| Net deferred tax assets | 35,062 thousand yen | 33,866 thousand yen |

2. Reconciliation between the statutory effective tax rate and the actual effective tax rate after application of tax-effect accounting

Previous Fiscal Year (from October 1, 2019 to September 30, 2020)

Difference between the statutory effective tax rate and the actual effective tax rate after application of tax-effect accounting is not more than five percent of the statutory effective tax rate, and therefore this note is omitted.

Current Fiscal Year (from October 1, 2020 to September 30, 2021)

Difference between the statutory effective tax rate and the actual effective tax rate after application of tax-effect accounting is not more than five percent of the statutory effective tax rate, and therefore this note is omitted.

(Significant subsequent events)

(Introduction of Restricted Stock Compensation System)

This information is provided under *Consolidated Financial Statements* **【Notes on the Consolidated Financial Statements(significant subsequent events)】** and is therefore omitted.

(Disposal of Treasury Shares as Restricted Stock Compensation)

This information is provided under *Consolidated Financial Statements* **【Notes on the Consolidated Financial Statements(significant subsequent events)】** and is therefore omitted.

④ 【Non-consolidated supplementary financial schedule】

【Schedule of property, plant and equipment and intangible assets】

(Unit: Thousands of yen)

| Classification | Type of asset | Balance at beginning of period | Increase during period | Decrease during period | Depreciation during period | Balance at end of period | Accumulated depreciation |
|-------------------------------|-------------------------------|--------------------------------|------------------------|------------------------|----------------------------|--------------------------|--------------------------|
| Property, plant and equipment | Buildings | 7,440 | — | — | 1,299 | 6,140 | 39,303 |
| | Vehicles | 16,737 | — | 6,961 | 5,412 | 4,363 | 13,781 |
| | Tools, furniture and fixtures | 25,855 | 57,974 | 0 | 16,165 | 67,663 | 106,722 |
| | Total | 50,032 | 57,974 | 6,961 | 22,877 | 78,167 | 159,807 |
| Intangible assets | Software | 321,637 | 189,955 | — | 116,349 | 395,243 | 872,844 |
| | Other | 76 | — | — | — | 76 | — |
| | Total | 321,714 | 189,955 | — | 116,349 | 395,319 | 872,844 |

(Note) The increase in software for the fiscal year ended September 30, 2021 (the fiscal year under review) is due to in-house development of software aimed at enhancing the functionality of the Kanamic Cloud Service.

【Schedule of provisions】

(Unit: Thousands of yen)

| Classification | Balance at beginning of period | Increase during period | Decrease during period | Balance at end of period |
|---------------------------------|--------------------------------|------------------------|------------------------|--------------------------|
| Allowance for doubtful accounts | 13,750 | 3,221 | 127 | 16,844 |
| Provision for bonuses | 30,000 | 28,200 | 30,000 | 28,200 |

(2) 【Detail regarding major assets and liabilities】

This information has been omitted because the Company prepares consolidated financial statements.

(3) 【Other】

There are no applicable matters to report.

Item 6. 【Administrative Guidance for Shareholders】

| | |
|--|---|
| Fiscal year | From October 1 to September 30 |
| Annual General Meeting of Shareholders | Within three months after the conclusion of each fiscal year |
| Fiscal year end | September 30 |
| Record dates for dividends of surplus | March 31 September 30 |
| Number of shares constituting one trading unit | 100 |
| Purchase of shares in less than one unit | |
| Handling office | (Special account) Stock Transfer Agent Department, Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo |
| Transfer agent | (Special account) Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo |
| Forwarding office | — |
| Purchasing fee | Separately specified fee equivalent to brokerage costs |
| Method of public notice | Public notice is given by electronic means. However, in the event accidents or other unavoidable reasons prevent public notice by electronic means, the notice can be made by publication in The Nihon Keizai Shimbun. URL for public notice: https://www.kanamic.net/ |
| Special benefits for shareholders | ①200,000 JPY worth of JCB gift cards gifted (by lottery) to 10 shareholders recorded in Registry of Shareholders as of September 30th of each year who hold 100 or more shares. ②200,000 JPY worth of JCB gift cards gifted (by lottery) to 3 shareholders who have held 100 or more shares continuously for 1 year or longer (recorded in the company's year end/interval Registry of Shareholders with the same shareholder number for at least 3 consecutive times) |

(Note) The Company's Articles of Incorporation stipulate that shareholder of the Company are not entitled to exercise rights pertaining to shares held in less than one trading unit, with the exception of the following rights:

- (1) Rights listed in Article 189, Paragraph 2 of the Companies Act
- (2) The right to request acquisition of shares that have acquisition clauses attached
- (3) The right to receive allotment of offered shares and offered share acquisition rights

Item 7. 【Reference Information on the Company】

1 【Information on the Parent Company】

The Company has no parent company as stipulated in Article 24-7, Paragraph 1 of the Financial Instruments and Exchange Act.

2 【Other reference information】

The Company filed the following documents between the start of the fiscal year under review and the filing of this Annual Securities Report.

- (1) Annual Securities Report and documents attached thereto, and Confirmation Letter thereof
For the 20th fiscal year (October 1, 2019 to September 30, 2020) and submitted to the Director-General of the Kanto Local Finance Bureau on December 21, 2020
- (2) Internal Control Report and documents attached thereto
For the 20th fiscal year (October 1, 2019 to September 30, 2020) and submitted to the Director-General of the Kanto Local Finance Bureau on December 21, 2020
- (3) Quarterly Securities Report and Confirmation Letter thereof
For the first quarter of the 21st fiscal year (October 1, 2020 to December 31, 2020) and submitted to the Director-General of the Kanto Local Finance Bureau on December 21, 2020

For the second quarter of the 21st fiscal year (January 1, 2021 to March 31, 2021) and submitted to the Director-General of the Kanto Local Finance Bureau on December 21, 2020

For the third quarter of the 21st fiscal year (April 1, 2021 to June 30, 2021) and submitted to the Director-General of the Kanto Local Finance Bureau on December 21, 2020
- (4) Extraordinary Reports
Extraordinary report pursuant to Article 19, Paragraph 2, Item 9-2 of the Cabinet Office Order on Disclosure of Corporate Affairs (“Result of exercise of voting rights at a general shareholders’ meeting”).
Submitted to the Director-General of the Kanto Local Finance Bureau on December 21, 2020.
- (5) Share Buyback Report
Reported for the period of July 16, 2021 to July 16, 2021 and submitted to the Director-General of the Kanto Local Finance Bureau on August 6, 2021.
- (6) Securities registration statement (capital increase through general offering) and attached documents
Submitted to the Director-General of the Kanto Local Finance Bureau on July 15, 2021.
- (7) Filed a statement of amendment to the securities registration statement.
Submitted to the Director-General of the Kanto Local Finance Bureau on July 16, 2021.
This statement of amendment pertained to the securities registration filed on July 15, 2021.

Part II 【Information about the Guarantors of the Company】

There are no applicable matters to report.

Independent Auditor's Report and Internal Controls Audit
Report (English Translation of Document Originally Issued
in Japanese)

December 23, 2021

To the Board of Directors of Kanamic Network Co., LTD

KPMG AZSA LLC

Tokyo Office

Designated Limited
Liability Partner
and Engagement
Partner

Certified Public
Accountant

Hiroki Nakayama

Designated Limited
Liability Partner
and Engagement
Partner

Certified Public
Accountant

Yasuhito Kawaguchi

< Audit of Financial Statements >

Opinion

Pursuant to Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements of Kanamic Network Co., LTD, which are included in "Financial Information" for the fiscal year from October 1, 2020 to September 30, 2021 and comprise the consolidated balance sheets, the consolidated statement of income, the consolidated statements of comprehensive income, the consolidated statements of changes in net assets, the consolidated statements of cash flows, significant matters related to the preparation of the consolidated financial statements, other notes, and the consolidated supplementary financial schedules.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Kanamic Network Co., LTD and its consolidated subsidiary as of September 30, 2021 and its consolidated financial performance and consolidated cash flows for the fiscal year which ended on that date are presented in conformity with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are 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 auditing of financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Considerations

Key audit considerations are those matters the auditor, as a professional expert, considers to be particularly important in auditing the consolidated financial statements for the fiscal year ended September 30, 2021. These key audit considerations are matters addressed during the course of the audit of the consolidated financial statements as a whole and in forming our audit opinion, and it is not our intention to express individual opinions on these matters.

| Appropriateness of Kanamic Network Co., LTD's Cost Accounting Related to Software Development Work | |
|--|--|
| Key audit consideration and reasons for decision | Audit response |
| <p>Kanamic Network Co., Ltd. had recorded 363,702 thousand yen of software in its consolidated balance sheet as of the fiscal year ended September 30, 2021. This mainly consisted of software developed by the Group for internal use and accounted for 8.3% of the Group's total assets.</p> <p>In addition, Kanamic Network Co., Ltd. recorded 292,749 thousand yen in cost of sales in its consolidated statement of income. This was mainly comprised of amortization cost for software intended for internal use as well as cost related to constructing software environments for customers.</p> <p>In treating these development costs (costs related to developing software for in-house use and building software environments for customers), it is necessary to calculate individual costs with appropriate cost accounting. Kanamic Network Co., Ltd. applies actual cost accounting through the use of job costing.</p> <p>Depending on their purpose, calculated costs will be capitalized as intangible non-current assets and then expensed through depreciation or the entire amount will be expensed upon the completion of provision of service. If direct cost elements (such as labor cost / outsourcing expenses) are not properly aggregated by job, or if indirect cost elements (such as labor cost / overhead costs born across multiple jobs) are not properly apportioned, then there is a risk that software may be overstated or understated on the consolidated balance sheets as well as a risk that cost of sales could be overstated or understated on the consolidated statements of income.</p> <p>As a result, we judged that cost accounting for software development work is a key matter of consideration in auditing the consolidated financial statements for the fiscal year ended September 30, 2021.</p> | <p>In considering the appropriateness of Kanamic Network Co., LTD's cost accounting for software development work, we mainly performed the following audit procedures.</p> <p>(1) Evaluation of Internal Controls</p> <p>We evaluated the design / operational effectiveness of internal controls pertaining to the process of cost accounting for software development work.</p> <p>(2) Evaluation of the reasonableness of Kanamic Network Co., LTD's cost accounting</p> <p>In evaluating the reasonableness of Kanamic Network Co., LTD's cost accounting for software development work, we performed the following audit procedures.</p> <ul style="list-style-type: none"> • Of the jobs initiated during the fiscal year ended September 30, 2021, we selected samples, such as jobs whose monetary value exceeded a certain materiality threshold. For these jobs, we acquired an understanding of development objectives through reading the minutes of meetings regarding progress on the development work, reviewing internal memos, reviewing contracts, and making inquiries. And we examined the validity of the units that were initially determined in appropriately aggregating cost. • From jobs that were capitalized as assets following the completion of development work and jobs that were expensed following the completion of the provision of service, we selected samples whose importance exceeded certain materiality thresholds. For these samples, we compared initial estimated cost with actual costs, and where there was a large divergence, we evaluated the validity of the tabulated costs by making inquiries and examining related documents. • We reviewed the list of development jobs at the end of the fiscal year, and we made inquiries and examined related documents pertaining to jobs whose budgets had been revised due to delays in development work, jobs whose development methods had been altered, and jobs that had deviated from the budget, thereby examining the validity of the tabulated costs. • Direct costs and indirect costs incurred during the fiscal year ended September 30, 2021 were extracted using a statistical method and examined against documentation and cost element allocations were recalculated to confirm that calculations were conducted appropriately. |

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan and for designing and implementing such internal controls as management determines is necessary to enable the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to its status as a going concern.

The Audit & Supervisory Board is responsible for overseeing the directors' execution of duties relating to the design and operating effectiveness 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 misstatements, 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 decisions of users of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also do the following:

- We identify and assess the risks of material misstatements in the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgement. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- We obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- We 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 regarding this premise, 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.
- We evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as 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.
- We 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 audit of the Group. 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 and 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.

Of the matters discussed with the Audit & Supervisory Board, we identify key considerations in auditing the consolidated financial statements for the fiscal year under review, and include them in the report. However, if the publication of such matters is prohibited by law, or if we determine that such matters should not be reported because the disadvantages, however limited they may be, of reporting them in the audit report could reasonably be expected to outweigh the public benefit, we do not include such matters in the report.

< Audit of Internal Controls over Financial Reporting >

Opinion

Pursuant to Article 193-2, Section 2 of the Financial Instruments and Exchange Act of Japan, we have audited the "Management's Report on Internal Control over Financial Reporting of Kanamic Network Co., Ltd. as of September 30, 2021" (hereinafter the "Management's Report").

In our opinion, the Management's Report referred to above, which represents that the internal control over financial reporting of Kanamic Network Co., Ltd. is effective as of September 30, 2021, presents fairly, in all material respects, the result of management's assessment of internal control over financial reporting in accordance with standards for assessment of internal control over financial reporting generally accepted in Japan.

Basis for Opinion

We conducted our audit of internal control over financial reporting in accordance with auditing standards for internal control over

financial reporting generally accepted in Japan. Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of Internal Control over Financial Reporting” section of our report. We are independent of the Company and its consolidated subsidiaries in accordance with the ethical responsibilities that are relevant to our auditing of financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management and the Audit & Supervisory Board for the Management’s Report

Management is responsible for designing and implementing internal control over financial reporting and for the preparation and fair presentation of the Management’s Report in accordance with standards for assessment of internal control over financial reporting generally accepted in Japan.

The Audit & Supervisory Board is responsible for overseeing and verifying the design and operating effectiveness of internal controls over financial reporting.

Internal controls over financial reporting may not completely prevent or detect financial reporting misstatements.

Auditor’s Responsibilities for the Audit of Internal Controls over Financial Reporting

Our objectives are to obtain reasonable assurance about whether the Management’s Report is free from material misstatements and to issue an auditor’s report that includes our opinion from an independent standpoint.

As part of an audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also do the following:

- Perform audit procedures to obtain audit evidence relating to the result of management’s assessment of internal control over financial reporting in the Management’s Report. The procedures selected depend on the auditor’s judgement and considerations regarding material effects on the reliability of financial reporting.
- Consider the overall presentation of the Management’s Report with regard to the scope, procedures, and result of the assessment of internal control over financial reporting, including descriptions by management.
- Obtain sufficient, appropriate audit evidence regarding the result of management’s assessment of internal control over financial reporting in the Management’s Report. We are responsible for the direction, supervision, and performance of the audit of the Management’s 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 the audit of internal controls over financial reporting, the results of the audit of internal control over financial reporting, any significant deficiencies that must be disclosed in internal control that we identify, the results of corrective measures for such significant deficiencies, and other matters required by auditing standards for internal control.

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.

Shared Interest

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

(Note) 1 The above is a translation of a digitization of the text contained in the original copy of the Independent Auditors’ Report (which was issued only in Japanese and is separately stored by the Company).

2 XBRL data is not included in the scope of the audit.

Independent Auditor's Report (English Translation of Document
Originally Issued in Japanese)

December 23, 2021

To the Board of Directors of Kanamic Network Co., LTD

KPMG AZSA LLC
Tokyo Office

Designated Limited
Liability Partner
and Engagement
Partner

Certified Public
Accountant

Hiroki Nakayama

Designated Limited
Liability Partner
and Engagement
Partner

Certified Public
Accountant

Yasuhito Kawaguchi

Opinion

Pursuant to Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act, we have audited the non-consolidated financial statements of Kanamic Network Co., LTD, which are included in "Financial Information" for the fiscal year from October 1, 2020 to September 30, 2021 and comprise the non-consolidated balance sheets, the non-consolidated statements of income, the non-consolidated statement of changes in net assets, important accounting policies, other notes, and non-consolidated supplementary financial schedules.

In our opinion, the accompanying non-consolidated financial statements present fairly, in all material respects, the financial position of Kanamic Network Co., LTD as of September 30, 2021 and its financial performance for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Non-Consolidated Financial Statements" section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our auditing of financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Considerations

Key audit considerations are those matters the auditor, as a professional expert, considers to be particularly important in auditing the financial statements for the fiscal year ended September 30, 2021. These key audit considerations are matters addressed during the course of the audit of the financial statements as a whole and in forming our audit opinion, and it is not our intention to express individual opinions on these matters.

Appropriateness of Kanamic Network Co., LTD's cost accounting for software development work

The reasons that we determined this matter to be a key audit consideration and our response thereof are the same as described in the Auditor's Report for the consolidated financial statements, so we have omitted further description here.

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

Management is responsible for the preparation and fair presentation of these non-consolidated financial statements in accordance

with accounting principles generally accepted in Japan and for designing and implementing such internal controls as management determines is necessary to enable the preparation and fair presentation of non-consolidated financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the non-consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to its status as a going concern.

The Audit & Supervisory Board is responsible for overseeing the directors' execution of duties relating to the design and operating effectiveness of the controls over the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Non-Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the non-consolidated financial statements as a whole are free from material misstatements, 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 decisions of users of these non-consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatements in the non-consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the non-consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the non-consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the non-consolidated financial statements, including the disclosures, and whether the non-consolidated 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 and 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.

Of the matters discussed with the Audit & Supervisory Board, we identify key considerations in auditing the non-consolidated financial statements for the fiscal year under review, and include them in the report. However, if the publication of such matters is prohibited by law, or if we determine that such matters should not be reported because the disadvantages, however limited they may be, of reporting them in the audit report could reasonably be expected to outweigh the public benefit, we do not include such matters in the report.

Shared Interest

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

-
- (Note) 1 The above is a translation of a digitization of the text contained in the original copy of the Independent Auditor's Report (which was issued in Japanese only and is separately stored by the Company).
2 XBRL data is not included in the scope of the audit.

Disclaimer: This document (including both the “annual securities report” (referred to as “annual report” within the document) as well as the documents originally issued by the independent auditor) have been translated from the Japanese version for reference purposes only. In the event of any discrepancy whatsoever between this translated document and the Japanese version, the Japanese version shall prevail in any and all instances. The Company assumes no responsibility whatsoever for this translation, the accuracy of this translation, or for direct, indirect or any other forms of damages arising from the translation.