Items Disclosed on the Internet Concerning the Convocation Notice of the 9th Ordinary General Meeting of Shareholders

Consolidated Statement of Changes in Shareholders' Equity

Notes to the Consolidated Financial Statements

Non-consolidated Statement of Changes in Shareholders' Equity

Notes to the Financial Statements

(April 1, 2021, to March 31, 2022)

DIGITAL HEARTS HOLDINGS Co., Ltd.

This document is provided to shareholders by posting it on our website (on the https://www.digitalhearts-hd.com/) in accordance with relevant laws and regulations and the provisions of our Articles of Incorporation.

Consolidated Statement of Changes in Shareholders' Equity

(April 1, 2021 to March 31, 2022)

(Unit: JPY thousand)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Starting balance	300,686	331,509	7,575,673	-2,565,164	5,642,705
Changes during the period					
Dividends from surplus			-313,525		-313,525
Attributable to owners of the parent Current net income			1,780,699		1,780,699
Purchase of treasury stock				-246	-246
Disposal of treasury stock		6,680		19,715	26,396
Capital from retained earnings Transfer to surplus		23,968	-23,968		—
Transactions with non-controlling interests Parent's equity attributable to owners of the parent Change		-362,158			-362,158
Other			2,368		2,368
For items other than shareholders' equity Net changes of items during the period					
Total changes during the period	—	-331,509	1,445,574	19,468	1,133,533
Ending balance	300,686	—	9,021,248	-2,545,696	6,776,238

	Accumulated other comprehensive income			stock acquisition rights	Non-controlling interests	Total net assets
	Other Short-term investment securities Valuation difference	Foreign currency translation Adjustment account	Other Comprehensive income Cumulative total			
Starting balance	581	47,983	48,564	13,363	610,119	6,314,752
Changes during the period						
Dividends from surplus						-313,525
Attributable to owners of the parent Current net income						1,780,699
Purchase of treasury stock						-246
Disposal of treasury stock						26,396
Capital from retained earnings Transfer to surplus						—
Transactions with non-controlling interests Parent's equity attributable to owners of the parent Change						-362,158
Other						2,368
For items other than shareholders' equity Net changes of items during the period	8,339	171,118	179,457	-13,363	-38,040	128,053
Total changes during the period	8,339	171,118	179,457	-13,363	-38,040	1,261,586
Ending balance	8,921	219,101	228,022	—	572,078	7,576,339

Note: Indicated monetary amounts are rounded down to the nearest thousand JPY.

Notes to the Consolidated Financial Statements

1. Notes Concerning the Going-Concern Assumption

Not applicable

2. Notes, etc., Concerning Important Matters Forming the Basis for Preparation of the Consolidated Financial Statements

1. Matters concerning the scope of consolidation

Number of consolidated subsidiaries and major consolidated subsidiaries

Number of consolidated subsidiaries: 27

Names of major companies

DIGITAL HEARTS Co., Ltd.
DIGITAL HEARTS USA Inc.
DIGITAL HEARTS(Shanghai)Co., Ltd.
Aetas, Inc.
FLAME Hearts Co., Ltd.
AGEST, Inc.
ANET Corporation
Orgosoft Co., Ltd.
LOGIGEAR CORPORATION
LOGIGEAR VIETNAM CO., LTD.
LOGIGEAR JAPAN CORPORATION
Red Team Technologies Co., Ltd.
Digital Hearts Linguitronics Taiwan Co., Ltd.
DIGITAL HEARTS CROSS Marketing and Solutions Limited
DIGITAL HEARTS CROSS Shanghai Co., Ltd.
DH & Luminous Media International Corporation
KOL Media Limited
DIGITAL HEARTS CROSS Tokyo Co., Ltd.
MK Partners, Inc.
TPP SOFT, JSC
identity Inc.
DEVELOPING WORLD SYSTEMS LIMITED
DWS North America Inc
CEGB Co., Ltd.

(i) Acquired all shares of identity Inc. on June 30, 2021, making it a wholly-owned subsidiary.

(ii) As a result of the transfer of shares of LOGIGEAR JAPAN CORPORATION, from our consolidated subsidiary LOGIGEAR CORPORATION on December 28, 2021, the Company became a wholly-owned subsidiary.

(iii) As a result of the acquisition of shares of DEVELOPING WORLD SYSTEMS LIMITED by our consolidated subsidiary LOGIGEAR CORPORATION on January 17, 2022, the same company and its subsidiary DWS North America Inc. became consolidated subsidiaries.

(iv) Acquired all shares of CEGB Co., Ltd., on March 31, 2022, making it a wholly-owned subsidiary.

(v) The following subsidiaries changed their trade names as follows.

Current trade name	Former trade name	Date of change of trade name
DH & Luminous Media International Corporation	Metaps & Luminous Media International Corporation	June 4, 2021
DIGITAL HEARTS CROSS Marketing and Solutions Limited	Metaps Entertainment Limited	June 16, 2021
DIGITAL HEARTS CROSS Tokyo Co., Ltd.	Metaps Entertainment Inc.	June 22, 2021
DIGITAL HEARTS CROSS Shanghai Co., Ltd.	Metaps Shanghai Co., Ltd.	July 5, 2021
AGEST, Inc.	DIGITAL HEARTS NETWORKS Co., Ltd.	December 10, 2021

Names of major non-consolidated subsidiaries

DIGITAL HEARTS PLUS Co., Ltd.

Reasons for exclusion from the scope of consolidation

This is because the effects of total assets, net sales, net income (amount corresponding to equity interests), retained earnings (amount corresponding to equity interests), and other factors on the consolidated financial statements are minor and immaterial as a whole.

2. matters concerning the application of the equity method

Number of unconsolidated subsidiaries and affiliates accounted for by the equity method

Not applicable

One affiliate in which an equity interest was sold is excluded from the scope of application of the equity method.

Names of major subsidiaries and affiliates not accounted for by the equity method

Names of unconsolidated subsidiaries not accounted for by the equity method

DIGITAL HEARTS PLUS Co., Ltd.

Reasons for not applying the equity method

This is because the effects of net income (amount corresponding to equity interests) and retained earnings (amount corresponding to equity interests) on the consolidated financial statements are minor and immaterial as a whole.

3. The matters concerning the fiscal year of the Consolidated Subsidiary

[Company with fiscal year-end as of December 31]

DIGITAL HEARTS(Shanghai)Co., Ltd.

LOGIGEAR CORPORATION

DIGITAL HEARTS CROSS Marketing and Solutions Limited

12 other companies

In preparing the consolidated financial statements, two of the aforementioned consolidated subsidiaries use financial statements based on provisional settlement of accounts with a fiscal year end of March 31, and as the difference between the fiscal year-end of LOGIGEAR CORPORATION and 13 other subsidiaries does not exceed three months, consolidated financial statements are based on the regular settlement of accounts at these subsidiaries.

Necessary adjustments are made for consolidation with respect to important transactions occurring between the date of the consolidated settlement of accounts and the date of the consolidated settlement of accounts.

In addition, one company that became a new consolidated subsidiary in the current consolidated fiscal year is included in the scope of consolidation only in the balance sheet as its deemed acquisition date is March 31.

4. Matters concerning accounting policies

Valuation standards and methods for assets

(i) Short-term investment securities

Held-to-maturity securities

Cost method

Available-for-sale securities

a Other than shares without a market price

Fair value method (Valuation difference is directly included in net assets and cost of securities sold is calculated using the moving-average method).

b Shares without a market price

Stated at cost, cost being determined principally by the moving-average method.

(ii) Inventories

Inventories held for ordinary sale

The valuation standard is based on the cost method (the method by which book values are written down to reflect declines in profitability).

a Merchandise
Moving average method

b Work in process
Specific identification method

c Supplies
first-in, first-out method

Method of depreciation of depreciable assets

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

Depreciation is computed by the declining-balance method.

However, the straight-line method is used for buildings and accompanying facilities acquired on or after April 1, 2016.

Major useful lives are as follows.

a Buildings	3 to 18 years
b Vehicles	6 years
c Tools, furniture and fixtures	3 to 20 years

(ii) Intangible fixed assets (excluding lease assets)

Depreciation is computed by the straight-line method.

Software for internal use is depreciated using the straight-line method based on the internal usable period (5 years) and software for market sale is depreciated using the estimated useful period (3 years or less).

(iii) Lease assets

Lease assets under finance leases that do not transfer ownership

Depreciation is computed by the straight-line method based on the assumption that the lease period is the useful life and the residual value is zero.

Accounting standards for allowances

(i) Allowance for doubtful accounts

In order to prepare for losses on doubtful accounts, an allowance for doubtful accounts is calculated based on the actual ratio of bad debts to total receivables in general and on the estimated amount of uncollectible accounts for specific receivables, such as doubtful accounts and claims in bankruptcy or reorganization, after taking into account the possibility of collection on a case-by-case basis.

(ii) Provision for bonuses

Provision for bonuses to be paid to employees is provided for based on the estimated amount of bonuses to be paid.

(iii) Provision for directors' bonuses

Provision for bonuses to be paid to officers is calculated based on the estimated amount of bonuses to be paid.

Method of accounting for retirement benefits

Some consolidated subsidiaries employ a simplified method in calculating net defined benefit liability and net defined benefit cost, using the amount payable for voluntary retirement at the end of the period for retirement benefits as the retirement benefit obligation.

Standard for recording revenues and expenses

In our group, revenue is recorded in the amount of remuneration that is expected to be received upon exchange for the transfer of goods or services to a customer based on the following five-step approach.

For the provision of services, which are the primary transactions of the Group, the obligation of performance is to provide contracted services corresponding to the contents of the agreement. As our performance obligations are fulfilled at the point in time when the services are actually provided, revenues and expenses are recognized.

The payment terms and conditions concerning major transactions within our group are based on the terms and conditions of payment as of the end of the following month after the provision of the obligation of performance, and these terms and conditions do not include important financial factors in the agreements.

Step 1: Identify a Contract with a Customer
Step 2: Identify performance obligations in agreements
Step 3: Calculate the transaction price
Step 4: Allocate transaction prices to performance obligations in agreements
Step 5: Recognize revenues as performance obligations are satisfied or satisfied

(i) Enterprise Business

In the Enterprise Business, we provide System Testing Services, contracted development services, maintenance and operation, and security services that affect security inspection and monitoring.

For Service Provision Transactions under quasi-delegation agreements, which are major services, revenues are recognized as of the point in time when the provision of the services is complete and billing can be made.

For commissioned transactions for which acceptance inspections are required by the customer with respect to the deliverables, revenue is recognized in accordance with the extent of progress of the agreements because the assets of the customer increase in accordance with the progress of the agreements, the customer gains control of the assets, and accordingly the performance obligations of our group are fulfilled. The extent of progress with respect to agreements is calculated based on the ratio of inputs used to fulfill obligations of performance (costs incurred) to the total expected inputs until these obligations are fully satisfied. In addition, for some transactions, the obligation of performance is fulfilled over the life of the agreement. Revenue is calculated by prorating the amount corresponding to the period of the agreement in which the obligation of performance is satisfied.

(ii) Entertainment Business

The Entertainment Business mainly provides domestic debugging services to detect defects, game translation and LQA services, 2D/3D graphics production, marketing support, and other services.

For the debugging business, which is a major service, revenue is recognized as of the point in time when the provision of the service is complete and billing is possible, which is a service provision transaction based on a quasi-delegation agreement.

Other important matters concerning the preparation of consolidated financial statements

(i) Standard for translating important assets or liabilities denominated in foreign currencies into Japanese currency

Monetary assets and liabilities denominated in foreign currencies are converted to yen at the spot exchange rate on the consolidated closing date and the resulting translation adjustments are processed as profit or loss. Assets and liabilities of overseas subsidiaries are converted to yen at the spot exchange rate on the consolidated closing date, and revenues and expenses are converted to yen at the average rate during the period. Exchange differences are included in foreign currency translation adjustment and non-controlling interests in net assets.

(ii) Method of amortization of goodwill and period of amortization

Amortized using the straight-line method over a period of three to ten years.

3. Notes Concerning Changes to Accounting Policies

(Application of the Accounting Standard for Revenue Recognition, etc.)

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020, "Revenue Recognition Accounting Standard" hereinafter) and other standards have been be applied since the beginning of the consolidated fiscal year under review. As a result, revenue is recognized in the amount expected to be received in exchange for the good or service at the point in time when control of a promised good or service is transferred to the customer.

As a result, although previously revenues were recognized at the point in time at which contracted work was completed for contracts received for which the obligation of performance covers a certain period, following the application of this standard revenues are recognized in accordance with fulfillment of performance obligations, except in the cases of contracts received for which the subject periods are very short.

In applying the Accounting Standard for Revenue Recognition and related standards, the Company is employing the provisional handling described in the proviso to Paragraph 84 of the Accounting Standard for Revenue Recognition, by adjusting the amount of the cumulative effects of retroactively applying the new accounting standard prior to the start of the current consolidated fiscal year by retained earnings at the start of the current consolidated fiscal year and applying the new accounting standard beginning with the resulting balance at the start of the period. However, the new accounting standard is not applied retroactively to contracts for which nearly the entire amount of revenues has been recognized in accordance with the previous handling prior to the start of the current consolidated fiscal year, through application of the method described in Paragraph 86 of the Accounting Standard for Revenue Recognition. In addition, for contractual amendments conducted prior to the start of the current consolidated fiscal year to which the method described in Proviso (1) of Paragraph 86 of the Accounting Standard for Revenue Recognition applies, account processing is conducted based on contractual conditions after reflection of all contractual amendments, and the cumulative amount of these effects is adjusted by retained earnings at the start of the current consolidated fiscal year.

The resulting impacts on profit, loss, retained earnings, and starting balances in the current consolidated fiscal year were minor.

Due to the application of the Accounting Standard for Revenue Recognition and related standards, "Notes and accounts receivable-trade," which had been indicated under "Current assets" on the Consolidated Balance Sheet for the previous consolidated fiscal year, has been indicated as "Notes and accounts receivable-trade and contract assets" starting with the current consolidated fiscal year.

(Application of the Accounting Standard for Fair Value Measurement etc.)

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019). The Accounting Standard for Fair Value Measurement and related standards have been applied since the start of the current consolidated fiscal year. Pursuant to the provisional handling described in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the new accounting policies provided for in the Accounting Standard for Fair Value Measurement and related standards have been applied to future accounts. This change has had no effect on the consolidated financial statements.

4. Notes Concerning Accounting Estimates

(Evaluation of goodwill)

1. the amount recorded in the consolidated financial statements for the current consolidated fiscal year

Amount of goodwill recorded in the consolidated financial statements	JPY 4,763,421 thousand
Enterprise Business (LOGIGEAR CORPORATION, identity Inc.)	JPY 1,972,682 thousand
Entertainment Business (DIGITAL HEARTS CROSS Marketing and Solutions Limited (formerly Metaps Entertainment Limited))	JPY 1,584,430 thousand

2. information on the contents of important accounting estimates corresponding to the identified items

Method by which the amount recorded in the consolidated financial statements for the current consolidated fiscal year is calculated

Our group groups assets according to the categories of management accounting based on business units. If the total amount of undiscounted future cash flows from an asset group for which there is an indication of impairment falls below the book value of the asset group, the book value of the asset group is reduced to the recoverable amount and the amount of the reduction is recognized as impairment loss.

For asset groups for which indications of impairment have been identified, it was determined that impairment losses were not recognized if the total amount of undiscounted future cash flows and the book value were compared and the resulting undiscounted future cash flows exceeded the book value. As indicated in the notes to 11. Impairment loss, for other asset groups for which it is deemed that some impairment loss should be recognized, the recoverable amount of the asset group is recognized as an impairment loss with a value in use of zero.

Major assumptions used in the calculation of amounts recorded in the financial statements for the current consolidated fiscal year

As for whether there is any indication of impairment of goodwill, the Group assesses whether there is a marked decline in excess profitability based on the comparison of the business plan and results at the time of the acquisition of the subject subsidiary and the most recent business plan. In assessing excess profitability, estimates of future cash flows in business plans are made based on certain assumptions about future projections and other matters. These assumptions take into account future uncertainties.

While the impact of COVID-19 continues to be uncertain from the following consolidated fiscal year, future cash flows are estimated based on the assumption that its impact is limited.

3. the effects on the consolidated financial statements for the following consolidated fiscal year;

Signs of impairment are carefully examined in identifying signs of impairment and recognizing impairment losses, and the aforementioned estimate of undiscounted future cash flows is judged to be reasonable. However, any changes to the conditions and assumptions on which these estimates are based due to changes in the market environment or other factors could have a material impact on the consolidated financial statements from the following consolidated fiscal year onward.

5. Notes to the Consolidated Balance Sheet

Accumulated depreciation directly deducted from assets

Property, plant and equipment	JPY 952,949 thousand
Buildings	JPY 281,667 thousand
Vehicles	JPY 870 thousand
Tools, furniture and fixtures	JPY 639,321 thousand
Lease assets	JPY 31,090 thousand

6. Notes to the Consolidated Statement of Changes in Shareholders' Equity

1. matters concerning shares outstanding

Type of shares	Starting of the current consolidated fiscal year	Increase	Decrease	End of current consolidated fiscal year
Common stock	23,890,800	—	—	23,890,800

2. matters concerning dividends

Dividends paid

Resolution	Type of shares	Total amount of dividends (JPY in thousand)	Per share Amount of dividends (JPY)	Record date	Effective date
May 11, 2021 Board of Directors	common stock	151,293	7.00	March 31, 2021	June 9, 2021
November 9, 2021 Board of Directors	common stock	162,231	7.50	September 30, 2021	December 6, 2021

Of the dividends for which the record date belongs to the current consolidated fiscal year, those for which the effective date of the dividend falls in the following consolidated fiscal year

Resolution	Type of shares	Source of dividends	Total amount of dividends (JPY in thousand)	Per share Amount of dividends (JPY)	Record date	Effective date
May 12, 2022 Board of Directors	common stock	Retained earnings	162,230	7.50	March 31, 2022	June 10, 2022

7. Notes Concerning Financial Instruments

1. matters concerning the status of financial instruments;

Policy on efforts toward financial instruments

In principle, the Group's policy is to invest excess funds in safe financial assets and refrain from engaging in speculative transactions with respect to the management of funds, unless there is a reasonable grounds for doing so. In principle, the Group's policy is to raise funds through self-financing for working capital and minor capital investments and through borrowings from banks and other financial institutions and issuance of bonds for investments that require large amounts of funds.

Contents of financial instruments and their risks and risk-management systems

(i) Notes and accounts receivable-trade, which are trade receivables, are exposed to the credit risk of customers. With respect to these risks, the Group regularly ascertains the credit standing of client companies and endeavors to mitigate these risks by ascertaining the balance of receivables as needed in accordance with rules governing the management of credits.

(ii) Investment securities, which comprise available-for-sale securities, are exposed to the risk of market price fluctuations and other risks. The Group regularly assesses the fair value of these securities, the financial standing of issuers, and other factors and continuously reviews the status of their holdings.

(iii) Lease and guarantee deposits are mainly lease and guarantee deposits accompanying the lease of business offices. While these assets are exposed to the credit risks of the parties to which they are leased, the Group endeavors to ascertain the credit standing of the parties to whom it is leased and to ascertain the credit standing of the parties in question when entering into a lease agreement.

(iv) Accounts payable-other, which are operating debts, are mostly due within one year. While these assets are exposed to liquidity risks, our group mitigates these risks through budgetary management of cash flow and other means.

(v) While borrowings are exposed to the risk of fluctuations in interest rates, risks are managed by enabling the Group to flexibly accommodate changes in interest rates through borrowing periods of a short period of time and by ascertaining interest rate trends and other relevant factors at any time.

Supplemental explanations regarding matters concerning the fair value of financial instruments

Fair values of financial instruments include values based on market prices and values reasonably calculated where no market price is available. As variable factors are incorporated in the calculation of these values, these values may vary by adopting different assumptions.

2. matters concerning the fair value of financial instruments;

Carrying amounts, fair values, and differences between these values are summarized in the consolidated balance sheet as follows. Shares that do not have a market price are not included in the following table (see Note 3).

(Unit: JPY thousand)

	Amount recorded in the consolidated balance sheet	Fair value	Difference
Short-term investment securities and investment securities			
Held-to-maturity securities	34,506	34,506	—
Available-for-sale securities	10,051	10,051	—

(Note 1) Matters concerning the method by which the fair value of financial instruments is calculated

1. assets

Cash and deposits, notes and accounts receivable-trade

As these securities are settled in a short period of time, their fair value approximates their book value, so notes are omitted.

2. liabilities

Short-term loans payable and accounts payable-other

As these securities are settled in a short period of time, their fair value approximates their book value, so notes are omitted.

(Note 2) Matters concerning the calculation of fair values of financial instruments

Short-term investment securities and investment securities

Notes on securities classified as held-to-maturity are summarized below.

The carrying amounts, fair values, and differences between these amounts for each type of held-to-maturity bonds are summarized below. There were no bonds to be held-to-maturity that were sold during the current consolidated fiscal year.

(Unit: JPY thousand)

Category	Type	Amount recorded in the consolidated balance sheet	Fair value	Difference
Fair value does not exceed book value on consolidated balance sheet	Other	34,506	34,506	—
Total		34,506	34,506	—

The amount of sales of Available-for-sale securities in the current consolidated fiscal year was JPY47,955 thousand and the total amount of loss on sales was JPY695 thousand. The carrying amounts, acquisition costs, and differences between these amounts of available-for-sale securities by type are as follows.

(Unit: JPY thousand)

Category	Type	Amount recorded in the consolidated balance sheet	Acquisition cost	Difference
Securities whose carrying amount exceeds their acquisition cost	Corporate bonds	10,051	10,000	51
Total		10,051	10,000	51

(Note 3) Shares without a market price

(Unit: JPY thousand)

Category	Amount recorded in the consolidated balance sheet
Unlisted stocks	144,194
Shares of unconsolidated subsidiaries	22,350
Contributions to the silent partnership	60,000

(*) These securities are not included in "Available-for-sale securities".

(Note 4) Planned redemption amounts after the consolidated closing date of securities with maturity

(Unit: JPY thousand)

	Within 1 year	Due after one year Within 5 years	Due after five years Within 10 years	More than 10 years
Short-term investment securities and investment securities				
Held-to-maturity securities	34,506	—	—	—
Available-for-sale securities with maturities	10,000	—	60,000	—
Total	44,506	—	60,000	—

3. The matters concerning the breakdown of the fair values of financial instruments by appropriate category

Fair values of financial instruments are classified into three levels according to the observability and importance of inputs used in the calculation of fair values:

Fair value at Level 1: Fair value calculated at (unadjusted) market price in an active market for the same asset or liability

Fair value of Level 2: Fair value calculated using inputs that can be directly or indirectly observed other than Level 1 inputs

Fair value of Level 3: Fair value calculated using important unobservable inputs

If you use multiple inputs that have a material impact on the calculation of fair value, the fair value is classified into the levels to which these inputs belong, with the lowest priority in the calculation of fair value.

Financial assets and financial liabilities measured at fair value on the consolidated balance sheet

(Unit: JPY thousand)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Short-term investment securities and investment securities				
Investment securities				
Corporate bonds	—	10,051	—	10,051

Financial assets and financial liabilities that are not stated at fair value on the consolidated balance sheet

(Unit: JPY thousand)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Short-term investment securities and investment securities				
Short-term investment securities				
Other	—	34,506	—	34,506

(Note) Explanation of valuation techniques used in determining fair value and inputs

Short-term investment securities and investment securities

Securities with short remaining periods are stated at fair value as their fair values approximate their fair values. Bonds held are classified into Level 2 fair values as they are not traded frequently in the market and are not considered to be quoted prices in an active market.

8. Notes Concerning Revenue Recognition

1. information on the breakdown of revenues from contracts with customers

(Unit: JPY thousand)

	Reportable segments		Total
	Enterprise Business	Entertainment Business	
System Testing	4,954,022	—	4,954,022
IT Service and Security	6,537,502	—	6,537,502
Domestic Debugging	—	12,123,492	12,123,492
Global and others	—	5,563,771	5,563,771
Revenue from contracting with customers	11,491,525	17,687,264	29,178,789
Other income	—	—	—
Net sales to external customers	11,491,525	17,687,264	29,178,789

2. information that forms the basis for understanding the revenues from agreements with customers

In our group, revenue is recorded in the amount of remuneration that is expected to be received upon exchange for the transfer of goods or services to a customer based on the following five-step approach.

For the provision of services, which are the primary transactions of the Group, the obligation of performance is to provide contracted services corresponding to the contents of the agreement. As our performance obligations are fulfilled at the point in time when the services are actually provided, revenues and expenses are recognized.

The payment terms and conditions concerning major transactions within our group are based on the terms and conditions of payment as of the end of the following month after the provision of the obligation of performance, and these terms and conditions do not include important financial factors in the agreements.

Step 1: Identify a Contract with a Customer
Step 2: Identify performance obligations in agreements
Step 3: Calculate the transaction price
Step 4: Allocate transaction prices to performance obligations in agreements
Step 5: Recognize revenues as performance obligations are satisfied or satisfied

Enterprise Business

In the Enterprise Business, we provide System Testing Services, contracted development services, maintenance and operation, and security services that affect security inspection and monitoring.

For Service Provision Transactions under Quasi-Delegation Agreements, which are major services, revenues are recognized as of the point in time when the provision of the services is complete and billing can be made.

For commissioned transactions for which acceptance inspections are required by the customer with respect to the deliverables, revenue is recognized in accordance with the extent of progress of the agreements because the assets of the customer increase in accordance with the progress of the agreements, the customer gains control of the assets, and accordingly the performance obligations of our group are fulfilled. The extent of progress with respect to agreements is calculated based on the ratio of inputs used to fulfill obligations of performance (costs incurred) to the total expected inputs until these obligations are fully satisfied. In addition, for some transactions, the obligation of performance is fulfilled over the life of the agreement. Revenue is calculated by prorating the amount corresponding to the period of the agreement in which the obligation of performance is satisfied.

Entertainment Business

The Entertainment Business mainly provides domestic debugging services to detect defects, game translation and LQA services, 2D/3D graphics production, marketing support, and other services.

For the debugging business, which is a major service, revenue is recognized as of the point in time when the provision of the service is complete and billing is possible, which is a service provision transaction based on a quasi-delegation agreement.

3. information on the relationship between the fulfillment of the obligation of performance under agreements with customers and the cash flows from these agreements and the amount and timing of revenue expected to be recognized in and after the next consolidated fiscal year from the contract with customers as of the end of the current consolidated fiscal year;

Amount of contractual assets and contractual liabilities

Receivables arising from agreements with customers are classified as [Notes and accounts receivable-trade]. At the end of the previous consolidated fiscal year and the current consolidated fiscal year, the amounts of contractual assets and contractual liabilities and the amounts of revenues recognized from performance obligations satisfied in previous periods are immaterial. Contract liabilities are omitted because the balance thereof is immaterial and no material changes have occurred.

Transaction prices allocated to the remaining performance obligations

As there are no material transactions in which the estimated term of individual agreements exceeds one year, information on the remaining performance obligations is omitted using the convenience method of comparison. In addition, there are no important amounts that are not included in the transaction prices among the remuneration arising from agreements with customers.

9. Notes Concerning Per Share Information

1. the amount of net assets per share; JPY 323.81

2. net income per share; JPY 82.35

The basis for calculating net income per share is as follows.

Net income attributable to owners of the parent	JPY 1,780,699 thousand
Net income attributable to owners of the parent related to common stocks	JPY 1,780,699 thousand
Average number of common stocks during the period	21,624,407 shares

10. Notes Concerning Important Subsequent Events

Transactions under common control

(Organizational restructuring between subsidiaries)

We resolved, at a meeting of the Board of Directors held on November 9, 2021, to implement organizational restructuring of our consolidated subsidiaries.

1. the absorption-type company split agreement corresponding to the organizational restructuring of the subsidiaries; and the spot dividend;

With AGEST, Inc. (formerly DIGITAL HEARTS NETWORKS Co., Ltd.), as our core company, we will proceed with Group organizational restructuring with the aim of accelerating the growth of our Enterprise Business, which is our focus business.

With respect to this organizational restructuring, no shares will be allotted or any other consideration will be issued, and there will be no change to the capital stock of each subsidiary. This organizational restructuring is a restructuring of subsidiaries under our umbrella, and it is expected that this restructuring will not impact our consolidated financial condition, such as assets and liabilities.

The outline of this organizational restructuring implemented on April 1, 2022, is as follows.

Absorption-type company split where AGEST, Inc., is the successor to the absorption-type company split

(i) Names of the subject business and the contents of the business

Business name: DIGITAL HEARTS Co., Ltd.'s Enterprise Business

Business contents: System Testing, provision of security services, and more

(ii) Date of business combination

April 1, 2022

(iii) Legal form of the business combination

Absorption-type company split with DIGITAL HEARTS Co., Ltd., and AGEST, Inc., as the successor to the absorption-type company split

(iv) Company name after the business combination

AGEST, Inc.

Making AGEST, Inc., a wholly-owned subsidiary through the payment of a dividend in kind

We made AGEST, Inc., a wholly-owned subsidiary through the distribution of all shares of DIGITAL HEARTS Co., Ltd., which are directly held by our consolidated subsidiary, to us on April 1, 2022.

2. an outline of the accounting treatment to be implemented;

In accordance with the Accounting Standard for Business Combinations (ASBJ Statement No. 21, January 16, 2019) and the Guidance on the Accounting Standard for Business Combinations and the Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, January 16, 2019), these transactions are processed as transactions under common control.

11. Notes Concerning Impairment Loss

During the current consolidated fiscal year, we and our consolidated subsidiaries recorded impairment losses on the following asset groups.

1. an outline of the asset group for which the impairment loss was recognized;

Location	Application	Type	Amount (JPY in thousand)
South Korea (Orgosoft Co., Ltd.)	―	Goodwill	9,333
Chuo-ku, Tokyo (Aetas, Inc.)	―	Goodwill	2,823
Total			12,156

2. the background to the impairment loss;

Impairment loss is recognized because the expected revenue at the time of acquisition is no longer expected.

3. a breakdown of impairment losses

Goodwill	JPY 12,156 thousand
Total	JPY 12,156 thousand

4. Method of grouping

In applying impairment accounting, our group groups assets according to the categories of management accounting based on business units.

5. Method for calculating the recoverable amount

The recoverable amount is measured based on the assumption that the value in use is zero.

12. Notes Concerning Head Office Transfer Costs of Subsidiaries

Head office transfer expenses incurred by a subsidiary in South Korea.

13. Notes Concerning Organizational Restructuring Expenses

In order to reinforce the effectiveness of our Enterprise Business and expedient decision-making, we set up new offices and record related expenses as organizational restructuring expenses.

14. Notes Concerning Business Combinations

(Determination of provisional treatment concerning a business combination)

Business combinations between us, DIGITAL HEARTS CROSS Marketing and Solutions Limited (formerly Metaps Entertainment Limited), conducted on March 29, 2021, had been provisionally accounted for in the previous consolidated fiscal year, but have been finalized in the current consolidated fiscal year.

As a result of reviewing the initial allocation of acquisition costs in accordance with the finalization of this provisional accounting treatment, there was no impact on the amount of goodwill, which was provisionally calculated at the end of the previous consolidated fiscal year.

(Business combinations through acquisition)

We acquired all the outstanding shares of identity Inc. and made it a subsidiary in accordance with a resolution adopted at a meeting of the Board of Directors held on May 11, 2021.

1. An outline of the business combination;

Names of the acquired companies and the contents of their businesses

Name of acquired company	identity inc.
Main lines of business	IT Human Resources Platform Business, IT Resources Support Business, and IT Human Resources Hiring Support Business

Major reasons for the business combination

To expand the pool of engineers.

Date of business combination

June 30, 2021

Legal form of the business combination

Acquisition of shares in exchange for cash

Company name after the business combination

Not changed.

Percentage of voting rights acquired

100%

Major grounds for determining the acquiring company

This was due to the acquisition of shares in exchange for cash.

2. The period of performance of the acquired company included in the consolidated financial statements;

July 1, 2021, to March 31, 2022

3. The details of the acquisition cost and the type of consideration given to the acquired company

Consideration for acquisition (cash and deposits)	JPY 1,600,000 thousand
Acquisition cost	JPY 1,600,000 thousand

4. The details and amounts of major transaction-related expenses

Advisory expenses	JPY 5,450 thousand

5. The amount of goodwill arising, the cause for the occurrence, the method by which the goodwill is amortized, and the amortization period;

Amount of goodwill

JPY 1,602,114 thousand

While provisional accounting procedures were conducted during the first quarter of the consolidated fiscal year, the allocation of acquisition costs was completed at the end of the current consolidated fiscal year and the amount of goodwill has been finalized.

Causes of occurrence

These are mainly future excess earning power expected from future business development.

Depreciation method and amortization period

Straight-line method over 10 years

6. The amounts of assets received and liabilities assumed on the date of the business combination; and the major breakdown thereof;

Current assets	JPY 409,853 thousand
Noncurrent assets	JPY 50,753 thousand
Total assets	JPY 460,606 thousand
current liabilities	JPY 294,325 thousand
Noncurrent liabilities	JPY 168,395 thousand
Total liabilities	JPY 462,721 thousand

7. Contents of conditional acquisition remuneration as prescribed in the Business Combination Agreement and accounting policies for the current consolidated fiscal year and beyond

Contents of conditional acquisition consideration

Calculations are based on the level of achievement of performance and other factors within 37 months after closing.

Accounting policies applicable to the current consolidated fiscal year and beyond

With respect to the increase in goodwill resulting from the payment of conditional acquisition costs, the acquisition cost is adjusted to reflect the assumption that it was paid at the time the business was acquired, and the amount of goodwill and the amortization of goodwill are adjusted.

8. The estimated amount of the impact on the consolidated income statement for the current consolidated fiscal year if the Business Combination is assumed to be completed on the start date of the consolidated fiscal year, and the method for calculating this impact

This information is not indicated, as it is difficult to calculate the approximate amount for the current consolidated fiscal year.

(Business combinations through acquisition)

In accordance with a resolution adopted at a meeting of the Board of Directors held on December 17, 2021, our consolidated subsidiary LOGIGEAR CORPORATION acquired all of the outstanding shares of DEVELOPING WORLD SYSTEMS LIMITED and made it a subsidiary.

1. An outline of the business combination;

Names of the acquired companies and the contents of their businesses

Name of acquired company	DEVELOPING WORLD SYSTEMS LIMITED
Main lines of business	Support for introduction of Oracle products, maintenance, and operation support business

Major reasons for the business combination

To enhance ERP domains.

Date of business combination

January 17, 2022 (deemed acquisition date: January 1, 2022)

Legal form of the business combination

Acquisition of shares in exchange for cash

Company name after the business combination

Not changed.

Percentage of voting rights acquired

100%

Major grounds for determining the acquiring company

This was due to the acquisition of shares by LOGIGEAR CORPORATION, our consolidated subsidiary, in exchange for cash.

2. The period of performance of the acquired company included in the consolidated financial statements;

January 1, 2022, to March 31, 2022

3. The details of the acquisition cost and the type of consideration given to the acquired company

While disclosure of the acquisition price is refrained, due diligence by a third party is conducted and the fair and appropriate amount is determined through consultation with the parties

4. Contents and amounts of major acquisition-related expenses

Advisory fees and commissions	JPY 29,340 thousand

5. The amount of goodwill arising, the cause for the occurrence, the method by which the goodwill is amortized, and the amortization period

Amount of goodwill arising

JPY 619,095 thousand

Causes of occurrence

These are mainly future excess earning power expected from future business development.

Depreciation method and amortization period

Straight-line method over seven years

6. The amount of assets received and liabilities assumed on the date of the business combination and the main contents thereof

Current assets	JPY 624,867 thousand
Noncurrent assets	JPY 2,597 thousand
Total assets	JPY 627,465 thousand
current liabilities	JPY 310,866 thousand
Noncurrent liabilities	JPY 429 thousand
Total liabilities	JPY 311,296 thousand

7. Contents of conditional acquisition remuneration as prescribed in the Business Combination Agreement and accounting policies for the current consolidated fiscal year and beyond

Contents of conditional acquisition consideration

Calculations are based on the level of achievement of performance and other factors for 39 months after closing.

Accounting policies applicable to the current consolidated fiscal year and beyond

With respect to the increase in goodwill resulting from the payment of conditional acquisition costs, the acquisition cost is adjusted to reflect the assumption that it was paid at the time the business was acquired, and the amount of goodwill and the amortization of goodwill are adjusted.

8. The estimated amount of the impact on the consolidated income statement for the current consolidated fiscal year if the Business Combination is assumed to be completed on the start date of the consolidated fiscal year, and the method for calculating this impact

This information is not indicated, as it is difficult to calculate the approximate amount for the current consolidated fiscal year.

(Business combinations through acquisition)

We acquired all the shares outstanding of CEGB Co., Ltd., and made it a subsidiary in accordance with a resolution adopted at a meeting of the Board of Directors held on February 18, 2022.

1. An outline of the business combination;

Names of the acquired companies and the contents of their businesses

Name of acquired company	CEGB Co., Ltd.
Main lines of business	Introduction and operation consulting of SAP, system development support, and more

Major reasons for the business combination

To enhance ERP domains.

Date of business combination

March 31, 2022

Legal form of the business combination

Acquisition of shares in exchange for cash

Company name after the business combination

Not changed.

Percentage of voting rights acquired

100%

Major grounds for determining the acquiring company

This was due to the acquisition of shares in exchange for cash.

2. The period of performance of the acquired company included in the consolidated financial statements;

There is no period for the performance of the acquired company as included in the consolidated financial statements.

3. The details of the acquisition cost and the type of consideration given to the acquired company; and

While disclosure of the acquisition price is refrained, due diligence by a third party is conducted and the fair and appropriate amount is determined through consultation with the parties

4. Contents and amounts of major acquisition-related expenses

Advisory fees and commissions JPY 25,800 thousand

5. The amount of goodwill arising, the cause for the occurrence, the method by which the goodwill is amortized, and the amortization period;

Amount of goodwill arising

JPY 169,594 thousand

Causes of occurrence

These are mainly future excess earning power expected from future business development.

Depreciation method and amortization period

Straight-line method over five years

6. The amount of assets received and liabilities assumed on the date of the business combination and the main contents thereof;

Current assets	JPY 170,461 thousand
Noncurrent assets	JPY 3,361 thousand
Total assets	JPY 173,822 thousand
current liabilities	JPY 168,333 thousand
Noncurrent liabilities	JPY 169,674 thousand
Total liabilities	JPY 338,007 thousand

7. Estimated amount of the impact on the consolidated income statement for the current consolidated fiscal year if the business combination were assumed to be completed on the start date of the consolidated fiscal year and the method for calculating this amount

This information is not indicated, as it is difficult to calculate the approximate amount for the current consolidated fiscal year.

Non-consolidated Statement of Changes in Shareholders' Equity

(April 1, 2021 to March 31, 2022)

(Unit: JPY thousand)

	Shareholders' equity					
		Capital surplus			Retained earnings	
					Other Retained earnings	
	Capital stock	Legal capital surplus	Other Capital surplus	Capital surplus Total	Retained earnings brought forward Retained earnings	Retained earnings Total
Starting balance	300,686	300,686	2,740,678	3,041,364	2,806,195	2,806,195
Changes during the period						
Dividends from surplus					-313,525	-313,525
Current net income					232,219	232,219
Purchase of treasury stock						
Disposal of treasury stock			6,680	6,680		
Items other than shareholders' equity Net changes of items during the period						
Total changes during the period	—	—	6,680	6,680	-81,305	-81,305
Ending balance	300,686	300,686	2,747,359	3,048,045	2,724,889	2,724,889

	Shareholders' equity		Valuation and translation adjustments		stock acquisition rights	Total net assets
	Treasury stock	Total shareholders' equity	Other Short-term investment securities Valuation difference	Evaluation and translation Total difference		
Starting balance	-2,565,164	3,583,081	581	581	13,363	3,597,026
Changes during the period						
Dividends from surplus		-313,525				-313,525
Current net income		232,219				232,219
Purchase of treasury stock	-246	-246				-246
Disposal of treasury stock	19,715	26,396				26,396
Items other than shareholders' equity Net changes of items during the period			8,308	8,308	-13,363	-5,054
Total changes during the period	19,468	-55,156	8,308	8,308	-13,363	-60,211
Ending balance	-2,545,696	3,527,924	8,890	8,890	—	3,536,815

Note: Indicated monetary amounts are rounded down to the nearest thousand JPY.

Notes to the Financial Statements

1. Notes Concerning the Going-Concern Assumption

Not applicable

2. Notes Concerning Matters Concerning Significant Accounting Policies

1. The Valuation Standard and Method for Securities

Stocks of subsidiaries and affiliates

Stated at cost determined by the moving-average method.

Available-for-sale securities

Other than shares without a market price

Fair value method (Valuation difference is directly included in net assets and cost of securities sold is calculated using the moving-average method).

Shares without a market price

Stated at cost, cost being determined principally by the moving-average method.

For investments in limited liability partnerships for investment businesses and similar partnerships (those deemed to be securities under paragraph (2) of Article 2 of the Financial Instruments and Exchange Act), the amount corresponding to equity interests is incorporated in a net amount based on the most recent financial statements available as of the settlement report date as prescribed in the partnership agreement.

2. The method of depreciation for noncurrent assets

Property, plant and equipment

Depreciation is computed by the declining-balance method.

However, the straight-line method is used for buildings and accompanying facilities acquired on or after April 1, 2016.

Major useful lives are as follows.

Buildings	6 to 15 years
Vehicles	6 years
Tools, furniture and fixtures	3 to 15 years

Intangible fixed assets

Depreciation is computed by the straight-line method.

Software for internal use is depreciated using the straight-line method over its internal usable period (5 years).

3. The standards for recording provisions

Allowance for doubtful accounts

Allowance for doubtful accounts is provided for in an amount deemed necessary in light of the financial condition of the Company in order to provide for losses arising from doubtful accounts receivable from subsidiaries.

Provision for bonuses

Provision for bonuses to be paid to employees is provided for based on the estimated amount of bonuses to be paid.

Provision for directors' bonuses

Provision for bonuses to be paid to officers is calculated based on the estimated amount of bonuses to be paid.

4. The standard for recording revenues

Under the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020), etc., revenue is recognized in the amount expected to be received in exchange for the good or service at the point in time when control of a promised good or service is transferred to the customer.

Our revenues come from management guidance fees and outsourcing fees from subsidiaries. For the management guidance fees and outsourcing fees, the provision of contracted work corresponding to the contents of agreements with subsidiaries is an obligation of performance. As our performance obligations are fulfilled at the time the work is actually provided, revenue is recognized at this point in time.

5.Other important matters forming the basis for preparation of financial statements

Standard for translating assets and liabilities denominated in foreign currencies into Japanese currency

Monetary assets and liabilities denominated in foreign currencies are converted to yen at the spot exchange rate at the end of the fiscal year, and exchange differences are processed as profit or loss.

3. Notes Concerning Changes to Accounting Policies

(Application of the Accounting Standard for Revenue Recognition)

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29 , March 31, 2020; "Revenue Recognition Accounting Standard" hereinafter) and other standardsHave been be applied since the beginning of the current fiscal year. As a result, revenue is recognized in the amount expected to be received in exchange for the good or service at the point in time when control of a promised good or service is transferred to the customer.

As a result, although previously revenues were recognized at the point in time at which contracted work was completed for contracts received for which the obligation of performance covers a certain period, following the application of this standard revenues are recognized in accordance with fulfillment of performance obligations, except in the cases of contracts received for which the subject periods are very short.

In applying the Accounting Standard for Revenue Recognition and related standards, the Company is employing the provisional handling described in the proviso to Paragraph 84 of the Accounting Standard for Revenue Recognition, by adjusting the amount of the cumulative effects of retroactively applying the new accounting standard prior to the start of the current fiscal year by retained earnings at the start of the current fiscal year and applying the new accounting standard beginning with the resulting balance at the start of the period. However, the new accounting standard is not applied retroactively to contracts for which nearly the entire amount of revenues has been recognized in accordance with the previous handling prior to the start of the current fiscal year, through application of the method described in Paragraph 86 of the Accounting Standard for Revenue Recognition. In addition, for contractual amendments conducted prior to the start of the current fiscal year to which the method described in Proviso (1) of Paragraph 86 of the Accounting Standard for Revenue Recognition applies, account processing is conducted based on contractual conditions after reflection of all contractual amendments, and the cumulative amount of these effects is adjusted by retained earnings brought forward from the start of the current fiscal year.

This change has had no effect on profit, loss, retained earnings brought forward, or the beginning balance of the current fiscal year.

(Application of the Accounting Standard for Fair Value Measurement etc.)

The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019). The Accounting Standard for Fair Value Measurement and related standards have been applied since the start of the current fiscal year. Pursuant to the provisional handling described in Paragraph 19 of the Accounting Standard for Fair Value Measurement and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the new accounting policies provided for in the Accounting Standard for Fair Value Measurement and related standards have been applied to future accounts. This change has had no effect on the financial statements.

4. Notes Concerning Accounting Estimates

(Valuation of stocks of subsidiaries and affiliates)

1. The amount recorded in the financial statements for the current fiscal year: JPY 8,769,250 thousand;

   (Of this, LOGIGEAR CORPORATION JPY 1,633,642 thousand; DIGITAL HEARTS CROSS Marketing and Solutions Limited (formerly Metaps Entertainment Limited) JPY 2,219,760 thousand; identity Inc. JPY 1,605,450 thousand)

2. Information on the contents of important accounting estimates corresponding to the identified items

   Method by which the amount recorded in the financial statements for the current fiscal year is calculated

   Shares of subsidiaries and associates held by the Company are stocks with no market price. Shares of some subsidiaries and associates are purchased at a higher price than net assets because they include the amount corresponding to goodwill. In determining whether or not there is a need for valuation loss, if the real value declines markedly from the book value, the value is reduced to net asset value and the resulting reduction is recognized in loss on valuation of shares of subsidiaries and affiliates.

   In the current fiscal year, it was judged that there is no significant decrease in the net asset value vs. the book value but that no loss on valuation of stocks of subsidiaries and affiliates is recognized. Other than the above, any loss on valuation of stocks of some subsidiaries and affiliates deemed to need to be recognized was written down to net asset value and the resulting reduction was recognized as loss on valuation of stocks of subsidiaries and affiliates, as recorded in extraordinary loss on the income statement.

   Major assumptions used in the calculation of amounts recorded in the financial statements for the current fiscal year

   Determination of the decline in the real value of shares in subsidiaries and affiliates and assessment of the possibility of recovery are conducted based on a comparison of the business plan and results at the time of acquisition of the subject subsidiary and the latest business plan. In formulating business plans, estimates are made based on certain assumptions concerning future projections and other matters. These assumptions take into account future uncertainties.

   While the effects of COVID-19 continue to be uncertain from the following fiscal year, future cash flows are estimated based on the assumption that their effects are limited.

3. The effects on the financial statements for the following fiscal year

   Determination of the necessity of loss on valuation of shares in subsidiaries and affiliates is examined carefully and the aforementioned estimate of real value is judged to be reasonable. If any of the conditions or assumptions underlying these estimates change due to changes in the market environment or other factors, the financial statements for the following fiscal year or later may be seriously affected.

5. Notes to the Balance Sheet

1. the accumulated depreciation that is directly deducted from the assets

Property, plant and equipment	JPY 72,701 thousand
Buildings	JPY 25,167 thousand
Vehicles	JPY 870 thousand
Tools, furniture and fixtures	JPY 46,664 thousand

2. Monetary claims and monetary debts against affiliates

Monetary claims or monetary debts owing to these affiliates, other than those classified as indicated, are summarized below.

Short-term monetary claims on subsidiaries and affiliates	JPY 605,569 thousand
Short-term loans payable to subsidiaries and affiliates	JPY 2,445,169 thousand

6. Notes to the Income Statement

Transactions with subsidiaries and affiliates

Operating transactions (income portion)	JPY 1,737,409 thousand
Operating transactions (expenses)	JPY 53,314 thousand
Transactions other than operating transactions (income portion)	JPY 10,400 thousand
Transactions other than operating transactions (expenses)	JPY 5,030 thousand

7. Notes to the Statement of Changes in Shareholders' Equity

Matters concerning treasury stock

Type of shares	Beginning of the current fiscal year	Increase	Decrease	End of current fiscal year
Common stock	2,277,431	104	17,504	2,260,031

(Summary of event for change)

The breakdown of the increase in the number of treasury shares is as follows.

Increase from purchase of odd-lot shares	104 shares

The breakdown of the decrease in the number of treasury shares is as follows.

Disposal of treasury stock as resolved at a meeting of the Board of Directors as of July 16, 2021	17,504 shares

8. Notes Concerning Tax-Effect Accounting

Breakdown of major contributing factors to the generation of deferred tax assets and deferred tax liabilities

(Unit: JPY thousand)

Deferred tax assets	
Provision for bonuses	2,660
Investment securities	29,797
Share-based compensation expenses	22,413
Shares of subsidiaries and associates	477,431
Impairment loss	16,461
Allowance for doubtful accounts	385,116
Other	29,734
Subtotal of deferred tax assets	963,615
Valuation allowance	-892,345
Total deferred tax assets	71,270
Deferred tax liabilities	
Valuation difference on available-for-sale securities	3,923
Total deferred tax liabilities	3,923
Net deferred tax assets	67,346

9. Notes Concerning Transactions with Related Parties

Subsidiaries and affiliates

Type	Company name Or name	Ownership of voting rights (Owned) Percentage (%)	With related parties Relationship	Transaction details	Amount of transactions (JPY in thousand)	Account	Ending balance (JPY in thousand)
subsidiary	DIGITAL HEARTS Co., Ltd.	(Owned) Direct 100.0	Concurrent position of officer Management guidance Borrowing of funds Fiduciary obligation of business	For management guidance fees Received (Notes) 1	913,791	Accounts receivable - other	181,778
				Fiduciary obligation of business (Notes) 2	504,000		
				Borrowing of funds	2,435,000	Short-term loans payable	2,435,000
				Interest expenses paid (Notes) 3	5,030	Accrued expenses	5,030
subsidiary	FLAME Hearts Co.,Ltd.	(Owned) Direct 100.0	Concurrent position of officer Management guidance Loans of funds Fiduciary obligation of business	For management guidance fees Received (Notes) 1	41,891	Accounts receivable - other	2,615
				Fiduciary obligation of business (Notes) 2	18,000		
				Collection of funds	50,000	Affiliated companies Long-term loans receivable (Notes) 4	1,760,000
				Interest income (Notes) 3	6,832	Other (Current assets)	4,756
subsidiary	LOGIGEAR CORPORATION	(Owned) Direct 85.5	Concurrent position of officer Loans of funds	Fund lending	575,000	Affiliated companies Long-term loans receivable	575,000

				Interest income (Notes) 3	1,729	Other (Current assets)	1,729
subsidiary	identity Inc.	(Owned) Direct 100.0	Concurrent position of officer Loans of funds	Fund lending	213,000	Other (Current assets)	213,000
				Interest income (Notes) 3	535	Other (Current assets)	535
subsidiary	DIGITAL HEARTS CROSS Marketing and Solutions Limited	(Owned) Direct 100.0	Concurrent position of officer Loans of funds	Fund lending	118,000	Other (Current assets)	118,000
				Interest income (Notes) 3	325	Other (Current assets)	325

Notes: 1. Consulting fees for management are determined reasonably after comprehensively taking the costs of providing services into account.

2. Fiduciary obligation fees and outsourcing fees are determined reasonably taking personnel expenses and other factors into account.

3. The interest rates on loans and borrowings of funds are reasonably determined taking market interest rates and other factors into account.

4. Allowance for doubtful accounts of JPY1,257,729 thousand and reversal of allowance for doubtful accounts of JPY95,226 thousand are recorded for loans to subsidiaries.

Officers and major individual shareholders

Type	Company name Or name	As voting rights Owned (owned) Percentage (%)	Related parties Relationship to	Transaction details	Amount of transactions (JPY in thousand)	Account	Ending balance (JPY in thousand)
Officers	Eiichi Miyazawa	(Owned) Direct 42.47	The Company Director and Chairman	Disposal of treasury stock (Note)	14,998	—	—

Note: This was due to the allocation of treasury shares accompanying a transfer-restricted stock-based compensation plan.

10. Notes Concerning Per Share Information

1. the amount of net assets per share; JPY 163.50

2. net income per share; JPY 10.73

11. Notes Concerning Significant Subsequent Events

Notes are omitted because the same contents are indicated in the notes to the consolidated financial statements.