Items subject to measures for electronic provision when convening the 19th Annual General Meeting of Shareholders

Notes to the Consolidated Financial Statements

Notes to the Non-Consolidated Financial Statements

(From November 1, 2022 to October 31, 2023)

Management Solutions Co., Ltd.

In accordance with laws and regulations and the provisions of Article 15 of the Articles of Incorporation of the Company, the above items will not be included in documents delivered to shareholders who have requested the delivery of paper-based documents (documents included in items subject to measures for electronic provision).

Notes to the Consolidated Financial Statements

(Notes, etc. Relating to Significant Matters Forming the Basis for the Preparation of the Consolidated Financial Statements)

1. Matters relating to the scope of consolidation

Number of consolidated subsidiaries 4

Names of consolidated subsidiaries

TETRA communications Inc.

Management Solutions (Shanghai) Co., Ltd.

MSOL-TW

MSOL Inc.

2. Matters relating to the fiscal years, etc. of consolidated subsidiaries

The settlement date for consolidated subsidiary TETRA communications Inc. is August 31. Financial statements as of this date are used for the preparation of the consolidated financial statements, and any necessary consolidated adjustments are carried out with regard to significant transactions arising between this date and the settlement date for the consolidated accounts.

The settlement date for consolidated subsidiary Management Solutions (Shanghai) Co., Ltd. is December 31. Financial statements based on a provisional settlement of accounts performed on the settlement date for the consolidated accounts are used for the preparation of the consolidated financial statements.

Settlement dates for other consolidated subsidiaries are the same as the consolidated settlement date.

3. Matters relating to accounting policies

(1) Valuation standards and methods for significant assets

Securities

Other securities

Securities, etc. without a market price

At cost using the moving-average method

(2) Methods of depreciation and amortization for significant depreciable assets

(i) Property, plant and equipment

The declining balance method is used. However, for buildings (excluding facilities attached to buildings) and for facilities attached to buildings and structures acquired in or after April 2016, the straight-line method is used.

Overseas consolidated subsidiaries use the straight-line method.

Useful life is defined mainly as follows.

Buildings	10-15 years
Vehicles	4 years
Tools, furniture and fixtures	3-10 years

In accordance with the provisions of the Corporation Tax Act, assets of small depreciable value with an acquisition cost of 100,000 yen or more and less than 200,000 yen are depreciated evenly over three years.

(ii) Intangible assets

The straight-line method is used.

Years of depreciation are defined mainly as follows.

Customer-related intangible assets	20 years
Software (for own use)	3-5 years (usable period within company)

(3) Standards for recognition of revenue and expenses

The Group mainly provides project management support services.

Performance obligations take the form of the service being provided in accordance with the contract with the client.

Revenue is recognized evenly over the period of the contract.

(4) Other significant matters for the preparation of the consolidated financial statements

(i) Standards for the conversion of foreign currency-denominated assets or liabilities into Japanese yen

Foreign currency-denominated monetary receivables and payables are converted to Japanese yen at the spot exchange rate on the consolidated settlement date, with the translation adjustment being treated as profit or loss. Assets and liabilities of overseas subsidiaries, etc. are converted into Japanese yen at the spot exchange rate on the consolidated settlement date, and revenue and expenses are converted into Japanese yen at the average rate for the period, with the translation adjustment being included in the foreign currency translation adjustment and non-controlling interests of the net assets section.

(ii) Amortization method and period for goodwill

Goodwill is amortized evenly over seven years.

(Notes on Changes in Accounting Policies)

(Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter "Fair Value Measurement Implementation Guidance") at the beginning of the fiscal year under review, and the new accounting policies stipulated in the Fair Value Measurement Implementation Guidance are applied into the future in accordance with the transitional measures set out in Paragraph 27-2 of the Fair Value Measurement Implementation Guidance. This has no impact on the consolidated financial statements.

(Notes on Changes in Presentation Methods)

(Consolidated Income Statement)

"Gain on sale of investment securities" (53 thousand yen in the previous fiscal year) and "Surrender value of insurance policies" (113 thousand yen in the previous fiscal year), which were included in "Other" under "Non-operating income" in the previous fiscal year, are stated separately in the fiscal year under review due to their increased importance.

(Note on Accounting Estimates)

Valuation of goodwill and customer-related intangible assets associated with TETRA communications Inc.

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

(Units: thousands of yen)

	Fiscal year under review
Goodwill	334,140
Customer-related intangible assets	185,680

2. Information on significant accounting estimates for identified items

With regard to goodwill and customer-related intangible assets identified at the time of the acquisition by the Company of 80% of the shares of TETRA communications Inc. on November 2, 2021, the amount remaining after amortizing the years of the effective period that had already passed was recorded on the consolidated balance sheet.

In cases where there are indications of impairment, the Group makes a decision as to whether to recognize an impairment loss by comparing the total value of undiscounted future cash flows obtainable from the asset or asset group to the book value. With regard to TETRA communications Inc. asset groups, because the amount recorded for goodwill and customer-related intangible assets associated with the acquisition of shares of TETRA communications Inc. is large in relative terms, it was deemed to be indicative of impairment and the total value of undiscounted future cash flows obtainable from this asset group was compared to book value. However, because undiscounted future cash flows were higher than the book value the recognition of an impairment loss was not judged to be necessary.

Undiscounted future cash flows are based on the business plan approved by the managers of the business, and are calculated in accordance with such assumptions as future growth rates in net sales and profit margins. The main assumptions incorporated into the business plan are based on information available as of the end of the fiscal year and on certain assumptions judged to be reasonable by the Group, but in the event of sudden changes in the business environment and other developments, impairment losses may arise in the following fiscal year.

(Notes on the Consolidated Balance Sheet)

1. Accumulated depreciation of property, plant and equipment 248,638 thousand yen

2. Balance of contract liabilities in "Other" in current liabilities 6,495 thousand yen

(Notes on the Consolidated Statement of Changes in Equity)

1. Total number of shares issued and outstanding as of the end of the fiscal year under review

Common shares 16,816,800 shares

(Notes) 1. Due to the exercise of share acquisition rights, the total number of shares issued and outstanding has increased by 16,200 shares.

2. Due to the issuing of new shares for the restricted share-based remuneration plan, the total number of shares issued and outstanding has increased by 10,100 shares.

2. Matters relating to dividends of surplus

(1) Dividends paid, etc.

Resolution	Class of shares	Total dividends	Dividend per share	Record date	Effective date
Board of Directors, December 14, 2022	Common shares	33,140 thousand yen	2 yen	October 31, 2022	January 12, 2023

(2) For dividends with a record date associated with the fiscal year under review, those for which the effective date is in the following fiscal year

Resolution	Class of shares	Total dividends	Source of funding for dividends	Dividend per share	Record date	Effective date
Board of Directors, December 14, 2023	Common shares	298,624 thousand yen	Retained earnings	18 yen	October 31, 2023	January 12, 2024

(Notes on Financial Instruments)

1. Matters relating to financial instruments

(1) Policy on financial instruments

The Group procures funds (mainly through bank borrowings and issuance of corporate bonds) in accordance with the business plan for carrying out the Consulting Business. Management of short-term excess funds is restricted to highly secure bank deposits. Group policy is to not engage in derivatives transactions.

(2) Content and risks of financial instruments

We are exposed to customer credit risks through accounts receivable - trade, which are operating receivables. Lease deposits and guarantee deposits are exposed to credit risk associated with the institution holding the deposit.

Accounts payable - trade, accounts payable - other, accrued expenses, income taxes payable, and accrued consumption taxes that are operating payables are due in less than one year. Loans payable are entered into mainly with the objective of procuring funds for the Consulting Business, and the longest maturity for loans payable is eight years from the accounts settlement date.

(3) Risk management structure for financial instruments

(i) Management of credit risks (risks associated with non-performance of agreements, etc. with business partners)

In accordance with the Company's internal credit management regulations, for operating receivables the Administration Division monitors the status of main business partners on a regular basis with the objective of the early identification and mitigation of concerns about recovery caused by deterioration, in their financial position, etc., in addition to managing payment dates and balances for each client. Consolidated subsidiaries are managed in the same way in accordance with the Company's internal credit management regulations.

(ii) Management of liquidity risks associated with funds procurement (risk of becoming unable to make payments due on payment dates)

The Company manages liquidity risk by having the Administration Division draw up and update fund-raising plans in a timely manner based on reports from each department, as well as by maintaining liquidity on hand equivalent to at least two months of consolidated net sales.

(4) Supplementary explanation of matters relating to the fair value, etc. of financial instruments

Because measurements of fair value for financial instruments incorporate variable factors, the adoption of different assumptions may lead to fluctuations in these values.

2. Matters relating to fair value, etc. of financial instruments

The amount for financial instruments recorded in the balance sheet as of October 31, 2023, their fair values, and the differences, are as follows. Because investment securities of 7,400 thousand yen recorded in the balance sheet consists of securities, etc. without a market price, it has not been included. In addition, because cash and deposits, accounts receivable - trade, accounts payable, accounts payable - other, accrued expenses, income taxes payable, and accrued consumption taxes are settled in a short period of time their fair value is similar to the book value, and a note has therefore been omitted.

(Units: thousands of yen)

	Amount recorded in the balance sheet	Fair value	Difference
(1) Lease deposits and guarantee deposits	472,230	454,572	(17,658)
Total assets	472,230	454,572	(17,658)
(1) Long-term loans payable (*)	650,749	646,254	(4,494)
Total liabilities	650,749	646,254	(4,494)

*1 Includes current portion of long-term loans payable.

3. Matters relating to the breakdown, etc. of fair value of financial instruments by level

The fair value of financial instruments is classified into one of the following three levels according to the observability and significance of inputs used to measure fair value.

Level 1 fair value: In cases where observable inputs are used to measure fair value, those in which fair value is based on market prices quoted in an active market in relation to the assets or liabilities for which the fair value measurement is being made

Level 2 fair value: In cases where observable inputs are used to measure fair value, those in which inputs other than those used for Level 1 are used to measure fair value

Level 3 fair value: Cases where fair value is measured using inputs that are not observable

In cases where multiple inputs that have a significant effect on the fair value measurement are used, the fair value is classified at the level of the lowest-priority input that is significant to the entire measurement.

(1) Financial instruments recorded on the consolidated balance sheet at fair value

Not applicable.

(2) Financial instruments other than those recorded on the consolidated balance sheet at fair value

Category	Fair value (Thousands of yen)			
	Level 1	Level 2	Level 3	Total
Lease deposits and guarantee deposits	-	454,572	-	454,572
Total assets	-	454,572	-	454,572
Long-term loans payable	-	646,254	-	646,254
Total liabilities	-	646,254	-	646,254

(Note) Explanation of valuation techniques used to measure fair value and of the inputs associated with the measurement of fair value

Lease deposits and guarantee deposits

The fair value of these is classified as Level 2, with fair value measured by creating a reasonable estimate of the period from contract, etc. to return, deriving the present value by discounting future cash flows over this period by the yield from government bonds, etc., and deducting an allowance for doubtful accounts.

Long-term loans payable

The fair value of long-term loans payable is classified as Level 2, with fair value measured using the discounted cash flow method based on an interest rate that takes into account the total of principal and interest, the time to maturity of the liability and the credit risk.

(Notes on Revenue Recognition)

1. Information on disaggregation of revenue from contracts with customers

Because the Group only has the single segment of the Consulting Business it omits the presentation of results by segment, but information on disaggregated revenue from contracts with customers is as follows.

(Units: thousands of yen)

	Fiscal year under review (From November 1, 2022 to October 31, 2023)
Consulting, etc. Other services	15,672,680 1,258,607
Revenue from contracts with customers	16,931,288
Other revenue	-
Net sales to external customers	16,931,288

2. Basic information for understanding revenue from contracts with customers

This is as presented in (Notes, etc. relating to significant matters forming the basis for the preparation of the consolidated financial statements), 3. Matters relating to accounting policies (3) Standards for recognition of revenue and expenses.

3. Information for understanding amounts of revenue in the consolidated fiscal year under review and from the following consolidated fiscal year onward

(1) Contract balance

Receivables from transactions with customers and the balance of contract liabilities are as follows.

(Units: thousands of yen)

	Fiscal year under review
Receivables from contracts with customers	2,189,331
Contract liabilities	6,495

(2) Transaction price allocated to remaining performance obligations

The Company and consolidated subsidiaries apply a practical expedient to notes on transaction prices allocated to remaining performance obligations, such that notes are not presented for contracts with a duration initially expected to be less than one year.

(Notes on Per Share Information)

Net assets per share	253.55 yen
Net income per share	97.74 yen

(Notes on Significant Subsequent Events)

At a meeting held on December 14, 2023, the Board of Directors resolved to establish MSOL Digital Co., Ltd. as a new company ("the New Company") by means of an incorporation-type company split ("the Split") coming into effect on January 5, 2024, with the New Company inheriting the rights and obligations associated with the Digital Business of the Company ("the Business").

1. Purpose of the Split

The Company has concluded that the Business should be spun out as an independent corporation through the transfer of the Business to the New Company by means of a simplified incorporation-type company split, thus enabling agile management and effective use of management resources to accelerate the growth of the business.

Through the Split, the Company seeks to further strengthen business expansion and to increase corporate value.

2. Main points of the Split

(1) Timetable for the Split

Date of Board of Directors resolution	December 14, 2023
Effective date	January 5, 2024

Because the Split satisfies the requirements for a simplified incorporation-type split based on the provisions of Article 805 of the Companies Act, it can be implemented without obtaining the approval of a general meeting of shareholders.

(2) Method used for the Split

Simplified incorporation-type split in which the Company is the company splitting and the New Company is the company succeeding, with the New Company becoming a wholly owned subsidiary of the Company.

(3) Details of the allotment in relation to the Split

The company succeeding will issue 10,000 common shares, all of which will be allotted to the Company.

(4) Treatment of share acquisition rights or corporate bonds with share acquisition rights accompanying the Split

The Company will not issue share acquisition rights or corporate bonds with share acquisition rights.

(5) Changes in capital resulting from the Split

There are no changes in the capital of the Company resulting from the Split.

(6) Rights and obligations inherited by the New Company

The New Company will inherit assets, liabilities, and accompanying rights and obligations related to the Business of the Company, within the extents set out in the Split plan, on the date on which the Split comes into effect. Liabilities will be inherited using the concomitant assumption method.

(7) Prospects for performance of obligations

In the judgment of the Company, there is no prospect of problems with performance of obligations in relation to the liabilities that will be borne by the New Company following the Split.

3. Overview of the companies involved in the Split

		Company splitting (as of October 31, 2023)	Company to be established (scheduled for January 5, 2024)
(1)	Name	Management Solutions Co., Ltd.	MSOL Digital Co., Ltd.
(2)	Location	9-7-1 Akasaka, Minato-ku, Tokyo	9-7-1 Akasaka, Minato-ku, Tokyo
(3)	Name and role of representative	Shinya Takahashi, President and CEO	Kosei Sakamoto, President and CEO
(4)	Nature of business	Project management consulting and project management software sales	Support for digital transformation, and agile management
(5)	Capital	668,592 thousand yen	10,000 thousand yen
(6)	Date established	July 1, 2005	January 5, 2024
(7)	Number of shares issued and outstanding	16,816,800 shares	10,000 shares
(8)	Fiscal year-end	October 31	December 31

(9)	Major shareholders and percentage of shares held	United Trust Co., Ltd. The Master Trust Bank of Japan Limited (trust account) Shinya Takahashi Custody Bank of Japan, Ltd. (trust account) Junichi Fukushima Miki Takahashi Custody Bank of Japan, Ltd. (trust B account) SSBTC CLIENT OMNIBUS ACCOUNT Toshinari Goto BBH(LUX)FOR FIDELITY FUNDS-PACIFIC POOL	21.7% 11.9% 10.6% 10.2% 2.7% 1.9% 1.8% 1.5% 1.25% 1.2%	Management Solutions Co., Ltd.	100%

(Note) Percentage of shares held is calculated after excluding 226,541 treasury shares held by the Company.

4. Overview of business to be spun off

(1) Nature of business to be spun off

Digital Business

(2) Operating results of the business to be spun off (fiscal year ended October 31, 2023)

	Business to be spun off (millions of yen)	Business as a whole (millions of yen)	Ratio (%)
Net sales	1,649	16,931	9.7

(3) Asset and liability items and amounts related to the spin-off (as of October 31, 2023)

Assets		Liabilities	
Item	Book value (millions of yen)	Item	Book value (millions of yen)
Current assets	50	Current Liabilities	-
Non-current assets	-	Non-current liabilities	-
Total	50	Total	-

*Because these figures are calculated on the basis of the balance sheet as of October 31, 2023, the actual amounts arising from the Split will be the above amounts after adjustments made for changes up to the date on which it comes into effect.

Notes to the Non-Consolidated Financial Statements

(Notes on Matters Relating to Significant Accounting Policies)

1. Valuation standards and methods for significant assets

(1) Valuation standards and methods for securities

(i) Shares of subsidiaries

At cost using the moving-average method

(ii) Other securities

Securities, etc. without a market price

At cost using the moving-average method

2. Depreciation method for non-current assets

(1) Property, plant and equipment

The declining balance method is used. However, for buildings (excluding facilities attached to buildings) and for facilities attached to buildings acquired in or after April 2016, the straight-line method is used.

Useful life is defined mainly as follows.

Buildings	10-15 years
Tools, furniture and fixtures	3-10 years

(2) Intangible assets

The straight-line method is used.

Years of depreciation are defined mainly as follows.

Software (for own use)	3-5 years (usable period within company)

3. Standards for recognition of revenue and expenses

The Company mainly provides project management support services.

Performance obligations take the form of the service being provided in accordance with the contract with the client.

Revenue is recognized evenly over the period of the contract.

4. Other significant matters for the preparation of the non-consolidated financial statements

Standards for the conversion of foreign currency-denominated assets or liabilities into Japanese yen

Foreign currency-denominated monetary receivables and payables are converted to Japanese yen at the spot exchange rate on the non-consolidated settlement date, with the translation adjustment being treated as profit or loss.

(Notes on Changes in Accounting Policies)

(Implementation Guidance on Accounting Standard for Fair Value Measurement)

The Company applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter "Fair Value Measurement Implementation Guidance") at the beginning of the fiscal year under review, and the new accounting policies stipulated in the Fair Value Measurement Implementation Guidance are applied into the future in accordance with the transitional measures set out in Paragraph 27-2 of the Fair Value Measurement Implementation Guidance. This has no impact on the non-consolidated financial statements.

(Notes on Changes in Presentation Methods)

(Non-Consolidated Income Statement)

"Surrender value of insurance policies" (113 thousand yen in the previous fiscal year), which was included in "Other" under "Non-operating income" in the previous fiscal year, is stated separately in the fiscal year under review due to its increased importance.

(Note on Accounting Estimates)

Valuation of shares of subsidiaries and associates of TETRA communications Inc.

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

(Units: thousands of yen)

	Fiscal year under review
Shares of subsidiaries and associates	680,000

2. Information on significant accounting estimates for identified items

The Company acquired 80% of the shares of TETRA communications Inc. on November 2, 2021, and recorded the amount paid at the time of the acquisition on the balance sheet.

Shares of subsidiaries and associates are carried on the non-consolidated balance sheet at acquisition cost, but in cases where there has been a remarkable decline in actual value, revealed by comparing the acquisition price to the actual value after taking into account excess earnings potential, etc., an impairment must be recorded.

In order to confirm whether the excess earning potential expected at the time of the acquisition of the shares can be realized into the future, the Company has conducted a comparative analysis of the business plan at the time of the acquisition and actual results, as well as investigating whether or not there has been a remarkable decline in excess earnings potential based on business plans for the future, before coming to a judgment that it is not necessary to record an impairment for the shares in question.

(Notes on the Non-Consolidated Balance Sheet)

1. Accumulated depreciation of property, plant and equipment — 240,603 thousand yen
2. Monetary receivables and monetary payables relating to subsidiaries and associates (excluding those displayed separately)

Short-term monetary receivables	53,449 thousand yen
Short-term monetary payables	21,316 thousand yen

(Note on the Non-Consolidated Income Statement)

Transactions with subsidiaries and associates

Operating transactions	
Net sales	1,200 thousand yen
Cost of sales	113,313 thousand yen
Selling, general and administrative expenses	30,265 thousand yen
Non-operating transactions	71,999 thousand yen

(Notes on the Non-Consolidated Statement of Changes in Equity)

Number of treasury stock at the end of the fiscal year under review

Common shares	226,541 shares

(Notes on Tax Effect Accounting)

Breakdown of deferred tax assets by main sources

Deferred tax assets		
Accrued enterprise tax	44,536	thousand yen
Accrued business office tax	5,487	thousand yen
Prepaid expenses	4,984	thousand yen
Loss on valuation of investment securities	55,146	thousand yen
Loss on valuation of shares of subsidiaries and associates	2,362	thousand yen
Asset retirement obligations	24,592	thousand yen
Share-based payment expenses	7,485	thousand yen
Deferred tax assets subtotal	144,595	thousand yen
Valuation allowance	(82,100)	thousand yen
Deferred tax assets total	62,494	thousand yen
Deferred tax assets (net)	62,494	thousand yen

(Notes on Transactions with Related Parties)
Subsidiaries and associates, etc.

Type	Name of company, etc.	Voting rights, etc. holding or held (%)	Relationship	Transaction details	Transaction amount (thousands of yen)	Account title	Balance at the end of fiscal year (thousands of yen)
Subsidiary	TETRA communications Inc.	Holding 80%, directly	Management guidance	Receipt of management guidance fee (Note 1)	6,000	-	-
Subsidiary	Management Solutions (Shanghai) Co., Ltd.	Holding 80%, directly	Management guidance Concurrent roles of officers	Receipt of management guidance fee (Note 1)	9,999	-	-
				Receipt of dividends (Note 2)	56,000	Accounts receivable	50,400

(Notes) 1. With regard to management guidance fee, this is determined through discussions that take into account its reasonableness as consideration.
2. Dividends are determined by taking into account factors such as the net income, retained earnings, and dividend payout ratio of Management Solutions (Shanghai) Co., Ltd. and approved by the board of directors and shareholders.

(Notes on Revenue Recognition)
(Basic information for understanding revenue from contracts with customers)
Because this is the same as in basic information for understanding revenue from contracts with customers in "(Notes on Revenue Recognition)" in the consolidated notes, it has been omitted here.

(Notes on Per-share Information)
1. Net assets per share 255.01 yen
2. Net income per share 102.07 yen

(Notes on Significant Subsequent Events)
Because this is the same as in "(Notes on Significant Subsequent Events)" in the Notes to the Consolidated Financial Statements, it has been omitted here.