

Annual Securities Report

The 24th Fiscal Year

From April 1, 2018 to March 31, 2019

Digital Arts Inc.

Annual Securities Report

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

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[Company Name]	Digital Arts Inc.
[Title and Name of Representative]	Toshio Dogu, Representative Director, President and CEO
[Address of Head Office]	1-5-1 Otemachi, Chiyoda-ku, Tokyo, Japan
[Phone No.]	03-5220-1160
[Contact Person]	Hidenobu Akazawa, Director, General Manager of the Administration Department
[Contact Address]	1-5-1 Otemachi, Chiyoda-ku, Tokyo, Japan
[Phone No.]	03-5220-6045
[Contact Person]	Hidenobu Akazawa, Director, General Manager of the Administration Department
[Place for Public Inspection]	Tokyo Stock Exchange, Inc. (2-1 Nihonbashikabutocho, Chuo-ku, Tokyo)

Part I. Corporate Information

Section I. Corporate Summary

1. Financial Highlights

(1) Consolidated Management Indicators, etc.

Fiscal Year		20th fiscal year	21st fiscal year	22nd fiscal year	23rd fiscal year	24th fiscal year
Year end		March 2015	March 2016	March 2017	March 2018	March 2019
Net sales	(Thousand yen)	3,402,691	4,000,620	5,058,685	5,116,969	5,841,287
Ordinary profit	(Thousand yen)	910,268	994,311	1,811,279	1,909,377	2,630,963
Profit attributable to owners of parent	(Thousand yen)	531,292	545,983	1,125,043	1,281,924	1,961,276
Comprehensive income	(Thousand yen)	541,796	536,688	1,127,741	1,275,222	1,977,567
Net assets	(Thousand yen)	4,297,919	4,642,033	5,270,339	6,247,602	7,802,894
Total assets	(Thousand yen)	5,749,229	6,133,859	7,380,958	7,928,532	9,859,347
Net assets per share	(Yen)	303.40	329.03	375.07	446.43	558.33
Profit per share, basic	(Yen)	38.27	39.26	80.92	92.46	141.11
Profit per share, diluted	(Yen)	38.19	39.14	80.68	92.13	140.80
Capital ratio	(%)	73.3	74.7	70.2	78.2	78.7
Return on equity	(%)	13.3	12.4	23.0	22.5	28.1
Price earnings ratio	(Times)	31.04	62.35	37.63	44.45	64.13
Cash flows from operating activities	(Thousand yen)	1,355,392	1,027,287	2,012,282	1,663,158	3,091,862
Cash flows from investing activities	(Thousand yen)	-848,019	-441,185	-671,798	-774,868	-908,784
Cash flows from financing activities	(Thousand yen)	-119,893	-187,807	-503,262	-293,407	-429,712
Cash and cash equivalents at end of period	(Thousand yen)	2,074,381	2,443,875	3,298,836	3,826,443	5,569,172
Number of employees	(Persons)	179	192	194	207	207
(Average number of part-time employees, etc.)		(20)	(25)	(30)	(33)	(26)

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

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

(2) Financial Data of the Company

Fiscal Year	20th fiscal year	21st fiscal year	22nd fiscal year	23rd fiscal year	24th fiscal year
Year end	March 2015	March 2016	March 2017	March 2018	March 2019
Net sales (Thousand yen)	3,395,851	4,018,839	5,104,469	5,046,537	5,752,991
Ordinary profit (Thousand yen)	926,126	1,328,681	2,056,138	2,097,906	2,777,431
Profit (Thousand yen)	573,978	840,586	1,339,017	860,611	1,784,866
Share capital (Thousand yen)	713,590	713,590	713,590	713,590	713,590
Number of issued shares (Shares)	14,133,000	14,133,000	14,133,000	14,133,000	14,133,000
Net assets (Thousand yen)	4,415,447	5,063,459	5,882,583	6,451,473	7,804,423
Total assets (Thousand yen)	5,903,495	6,633,333	7,948,956	8,149,757	9,870,395
Net assets per share (Yen)	311.86	359.28	420.53	462.20	559.74
Dividend per share (Yen)	14	15	24	28	48
(Interim dividends per share)	(5)	(7)	(10)	(14)	(18)
Profit per share, basic (Yen)	41.34	60.45	96.31	62.07	128.42
Profit per share, diluted (Yen)	41.26	60.25	96.02	61.85	128.14
Capital ratio (%)	73.4	75.5	73.1	78.7	78.8
Return on equity (%)	14.0	18.0	24.8	14.1	25.1
Price earnings ratio (Times)	28.74	40.50	31.62	66.21	70.47
Dividend payout ratio (%)	33.9	24.8	24.9	45.1	37.4
Number of employees (Persons)	179	186	186	194	201
(Average number of part-time employees, etc.)	(20)	(25)	(30)	(33)	(26)
Total shareholder return (%)	127.1	261.8	327.5	443.0	970.3
(Benchmark index: TOPIX (Tokyo Stock Price Index)) (%)	(130.7)	(116.5)	(133.7)	(154.9)	(147.1)
Year high (Yen)	1,342	2,514	3,450	5,060	9,560
Year low (Yen)	734	1,168	2,120	2,701	3,980

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

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

3. Dividends per share for the 20th fiscal year include the commemorative dividend for the 20th anniversary of the Company's foundation of 4.00 yen.

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

2. Corporate History

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

3. Business Summary

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

Business positioning of Digital Arts Inc. and its consolidated subsidiaries

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

In the world of the Internet, we are endlessly inundated with all kinds of information. Although using the Internet has made it much easier to gather information, ways of controlling and protecting information posted on the Internet have yet to be established and internet users run a very high risk of unintentionally encountering problematic websites. Meanwhile, email, though an essential business tool, also poses many challenges, such as measures to prevent mis-transmission, storage and effective utilization of large amounts of emails, antispam measures and internet security measures. Additionally, files, which are important management assets, are also exposed to risks such as the leakage or unauthorized taking-out of personal information by interested parties within organizations, theft, loss, mis-transmission and other operational errors, and leakage by contractors.

With many companies and other organizations facing the challenges and risks outlined above, the modus operandi of “targeted attacks” that target specific organizations have also become more advanced, diverse and sophisticated in recent years. Information security officers are seeking to combat these attacks by means of multilayer defense, etc. through the adoption of multiple solutions. However, one after another, systems are hacked using a new modus operandi and the damage is escalating.

The Digital Arts Group’s mission as an Internet security company is to provide countermeasures against information leakage from the “inside” of companies and organizations and solutions to combat attacks from the “outside,” such as targeted attacks.

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

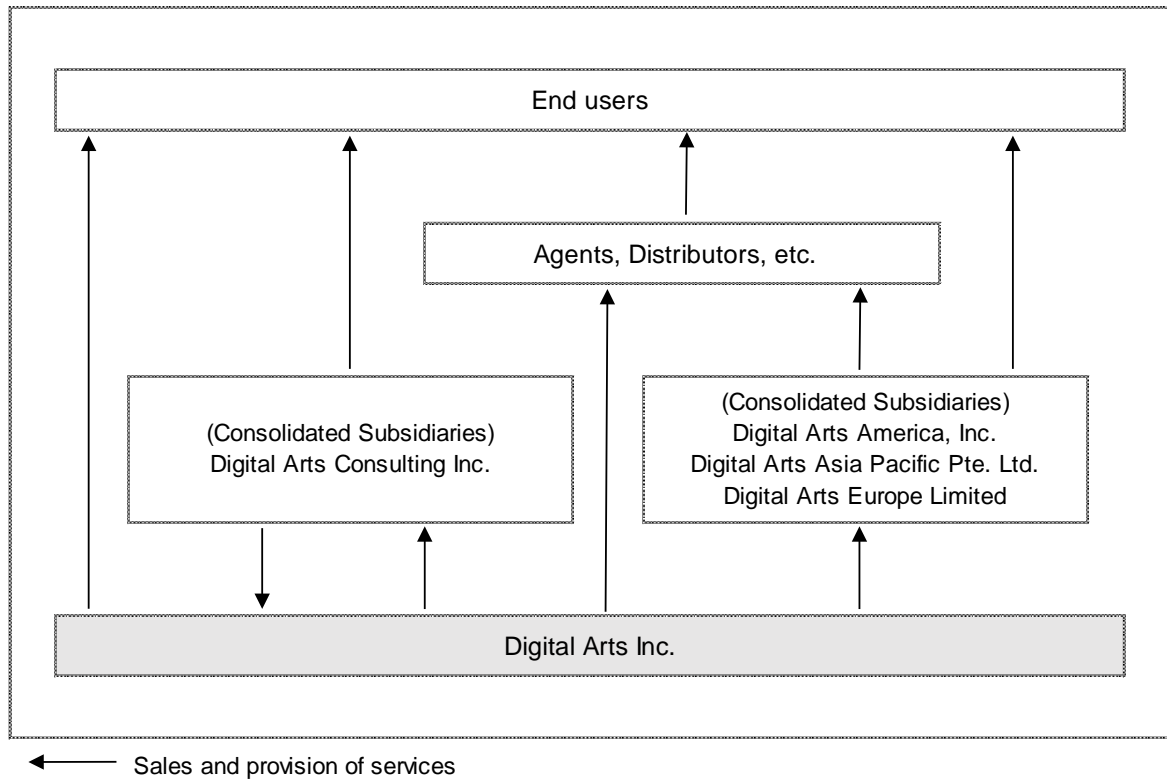
Main Products

User category	Main products	Company name
Enterprise Sector	- i-FILTER (web security) - m-FILTER (mail security) - D-SPA (DigitalArts Secure Proxy Appliance) (web security appliance) - FinalCode (file encryption and tracking solution)	Digital Arts Inc. Digital Arts America, Inc. Digital Arts Asia Pacific Pte. Ltd. Digital Arts Europe Limited Digital Arts Consulting Inc.
Public Sector	- i-FILTER (web security) - m-FILTER (mail security) - D-SPA (DigitalArts Secure Proxy Appliance) (web security appliance) - FinalCode (file encryption and tracking solution)	Digital Arts Inc. Digital Arts America, Inc. Digital Arts Asia Pacific Pte. Ltd. Digital Arts Europe Limited Digital Arts Consulting Inc.
Consumer Sector	- i-FILTER (Web filtering software)	Digital Arts Inc.

Features of Main Products

Main products	Features
i-FILTER	<p>Web filtering to counter information leaks and targeted attacks Web filtering uses a whitelist database to block access to dangerous URLs not registered in the database. It categorizes adult websites and other websites with inappropriate content for working and learning environments and stops users from viewing them in line with the policy of the organization in question.</p> <p>Main Applications</p> <ul style="list-style-type: none"> - Protection against targeted attacks - Protection against watering hole attacks - Protection against phishing - Internet access control - Access log monitoring
m-FILTER	<p>m-Filter possesses email filtering, email archiving and antispam capabilities, protecting against information leaks such as mis-transmission, promoting internal control through the storage and management of all emails and protecting against targeted attacks.</p> <p>Mail filtering is a function that only allows users to receive safe emails, preventing them from receiving targeted emails by storing legitimate senders in a whitelist database and identifying fake email attachments and emails. It also stops intentional and accidental information leaks by forwarding messages to a sender's manager for approval or delaying transmission for a certain period.</p> <p>Main Applications</p> <ul style="list-style-type: none"> - Protection against targeted emails - Protection against business email compromise - Protection against spam emails - Prevention of e-mail mis-transmission - Email archiving
D-SPA	<p>Appliance comprising both hardware and i-FILTER software Pre-built, pre-configured and ready-to-run appliance that saves time and labor by removing the need to select and purchase hardware, operating systems and applications separately</p>
FinalCode	<p>Password-less encryption service for tracking and remotely controlling files Enables designation of file recipients, configuration of permissions, access log monitoring by file owner, permission changes after file distribution and remote file deletion</p> <p>Main Applications</p> <ul style="list-style-type: none"> - Protection against leakage of confidential information - File encryption - File tracking - Protection against internal fraud - Access control - Remote file deletion
i-FILTER (Consumer)	<p>Filtering software mainly for families, internet cafes, libraries, etc. Protects users of smartphones, tablets and computers from dangers of the Internet by restricting access to harmful websites.</p> <p>Main Applications</p> <ul style="list-style-type: none"> - Web filtering - Web usage reporting - Restriction of time spent online

The Group's business organization chart is as follows.



4. Related Companies

Company name	Address	Share capital (thousand yen)	Principal business	Percentage of voting rights (%)	Relationship
(Consolidated Subsidiaries) Digital Arts America, Inc.	3031 Tisch Way, Suite 115, San Jose, CA 95128, USA	24,534	Security business	100.0	Interlocking directorates Business outsourcing
Digital Arts Asia Pacific Pte. Ltd.	3 Temasek Avenue, #34-00 Centennial Tower, Singapore, 039190	227,701	Security business	100.0	Interlocking directorates Business outsourcing
Digital Arts Europe Limited	337 Bath Road, Slough, Berkshire SL1 5PR, United Kingdom	23,981	Security business	100.0	Interlocking directorates Business outsourcing
Digital Arts Consulting Inc.	1-5-1 Otemachi, Chiyoda-ku, Tokyo, Japan	73,000	Security business	86.4	Interlocking directorates Business outsourcing

5. Employment Data

(1) Consolidated Basis

As of March 31, 2019

Category	Number of employees
Security business	207 (26)
Total	207 (26)

- (Notes) 1. The figures in parentheses in the number of employees section above indicate the annual average number of part-time employees (temporary staff, etc.) and these figures are not included in the totals.
2. Segment information is omitted because the Digital Arts Group operates in one segment only (the security business) and has no other business segments.

(2) The Company

As of March 31, 2019

Number of employees	Average age	Average length of service in years	Average annual salary (thousand JPY)
201 (26)	36.1	5.7	6,183

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

(3) Relationship with Labor Union

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

Section II. Business Summary

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

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

(1) Management Policy

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

(2) Management Strategies, etc.

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

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

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

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

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

In the security industry to which the Group belongs, cyber attacks, including targeted attacks that threaten specific companies, organizations and national institutions, are occurring one after another. At the same time, use of IT is becoming more and more widespread in areas such as virtual currencies, cloud computing, the IoT and AI, and the risks facing companies and organizations are not only increasing but are also becoming more diverse and sophisticated.

Meanwhile, in Japan, against the backdrop of decline in the working population, workstyle reform aimed at improving employee productivity is being promoted under government initiatives, and demand for the adoption of cloud computing is growing as part of moves to improve efficiency. There is also mounting concern that Japan will be threatened by targeted attacks in the runup to global events such as the 2019 Rugby World Cup and the 2020 Tokyo Olympic and Paralympic Games and strengthening security has become a matter of great urgency.

In this environment, the Group launched a solution that not only protects against the leakage of information from "inside" companies and organizations, which has been its core business since its foundation in line with its mission as an internet security company, but that also counters threats from "outside" such as targeted attacks, thus taking the first step toward transformation into a general security solution provider.

The Group believes it has a responsibility to create a society in which anyone can use the Internet with peace of mind by quickly and accurately grasping the issues that need addressing in a rapidly changing world and by offering solutions through the pursuit of "Made

in Japan” quality, and we will contribute to the rapidly evolving Internet society in line with this mission.

(i) Stable and continuous growth of existing business

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

(ii) Identification of new needs

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

(iii) Securing and developing human resources

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

(iv) Awareness-raising activities

Smartphones are rapidly becoming more popular and there has been a sharp rise in social issues associated with them. Meanwhile, many adults who give guidance to young people or are involved in their upbringing are bewildered by the rapidly changing times and do not understand the dangers and problems that arise when children used smartphones. To raise awareness of such issues, the Group will provide seminars and lectures upon request in regions throughout Japan and provide information to educate people about smartphones and other mobile devices, and we will also stress the importance of filtering.

2. Business and Other Risks

The Group’s operation is expected to be greatly influenced by the changes in global and domestic economic trends, market growth, and the result of the Group’s business strategies. The Group’s performance, financial standing and stock prices may alter significantly from initial forecasts. Risks that could substantially affect the Group’s performance, financial position and stock prices are as follows. These risk factors and forward-looking statements are being made at the determination of the Group as of the date of submission of this Annual Securities Report (June 26, 2019).

(a) Risks related to the Group’s reliance on distributors to sell flagship products and the change of financial health of these clients

The majority of the Group’s products are sold to users through its distributors. Client sales conditions and changes in management climate (such as M&A or bankruptcy) could lead to a significant fluctuation in the Group’s net sales. The distributors also sell products that are those of the Group’s competitors, and although the Group pursues to drive sales by reaching out effectively to its distributors, there is a risk that the competitors’ products may be prioritized before the Group’s.

Moreover, any changes in the client management climate (such as M&A or bankruptcy) causing delayed or uncollectable payment of debt could also significantly impact the Group’s financial standing.

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

Due to the nature of its sales, the Group’s product sales to public schools and local municipalities may be significantly impacted by fluctuations in the national budget and its distribution to local municipalities, along with budget consumption conditions of these municipalities.

- (c) Risks related to internet regulations, free services provided by NPOs and other organizations, and services mounted on future OSs at no cost
- In the event internet regulations move forward to allow government or NPOs to offer initiatives similar to the Group's web filtering business at low or no cost, the Group may have no choice but to amend the Group's business model and earning model. It is also possible that, in the future, services similar to the Group's web filtering software may be mounted on computer OSs at a very low or no cost, and although the quality of such "service" may be inferior to the web filtering solutions offered by the Group, users may actively choose to use these "services." Such instances may significantly impact the Group's performance and financial standing.
- (d) Risks of specializing in the security business
- The Group is dedicated to the security business, which involves developing and selling web filtering software and email filtering software designed to block problematic contents in the internet. Future declines in security market demands due to deteriorating economic climate and other factors may significantly impact the Group's performance and financial standing.
- (e) Risks associated with the Group's fourth quarter earnings accounting for a large proportion of overall net sales
- There is an inclination that the Group's fourth quarter earnings are higher compared to other quarters in terms of net sales for the full fiscal year. This is mainly attributable to the common practice by private enterprises and public sectors to place orders for IT products in March, at the end of their fiscal year. The Group takes this seasonal factor into account when making its full year plans and is continuing to pursue to maintain and expand the current sales level. However, the Group's performance and financial standing may see a significant impact if the Group fails to acquire orders as planned for the relevant period for any reason, or experiences delays in receiving orders due to matters related to the client and distributors.
- (f) Risks associated with the concentration of the Group's issued and outstanding stocks to specific shareholder(s)
- While the total number of issued and outstanding stocks by Digital Arts Inc. is 14,133,000 shares (including treasury shares) as of March 31, 2019, the number of shares owned by parties other than the members of the board is comparatively low at 11,625,019 shares. For this reason, if there was concentrated ownership of shares by institutional investors from home or abroad, the number of shareholders would decrease due to stocks concentrated to a specific shareholder, and there is the risk of a conflict with delisting standards. In the same way, if stocks are sold intensely and over a short period by institutional investors from home or abroad, the value of stocks may fluctuate greatly.
- (g) Risks associated with the future decline of internet use in business, schools and homes
- The internet is a technology that developed rapidly on a global scale, and today, is considered an indispensable form of information infrastructure. Currently, the Group's net sales is mainly composed of products and services related to the internet, therefore, if the existence of the internet fades or the use of internet declines in the Group's target markets of "Business/Enterprise," "School," "Government," and "Home," this may have a significant impact on the Group's performance and financial standing.
- (h) Limitation in protecting intellectual property rights (including patents)
- The Group takes appropriate measures both domestically and overseas to protect any and all independently developed technology and know-how, however, there are certain areas in the world where the Group's intellectual property rights may have no or limited protection due to legal restrictions. For this reason, the Group may not be able to completely prevent its competitors from analyzing and researching the Group's proprietary technologies and providing similar products to the market. While the Group pays utmost attention to avoid infringing intellectual property rights and copyrights when offering new products and services, there may be a risk at some future point where other parties may deem that the Group is infringing on their intellectual property rights and copyrights.
- (i) Risks associated with the Group's technology obsolescence and deterioration of technological innovation
- The Group conducts development activities to upgrade technology and enhance quality for current/ future products and services. However, if the products and services provided by the Group became obsolete or the Group's technological innovation

deteriorated, the Group may lose its competitive edge against other products and services on the market. This may have a significant impact on the Group's future performance and financial standing.

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

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

(k) Risks associated with inability to deliver services due to issues in the mainstay system (server) owned by the Group

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

The Group's service may also be interrupted due to suspension of business at the facility where the Group's server is located, problems with internet service providers and telecommunication carriers, and leakage of information due to hacking attacks and theft of material data. The Group has acquired the Privacy Mark and continues to take necessary measures for information security and preventing data loss, however, in the event the Group's service is suspended regardless of its duration, this suspension could lead to a decline in the Group's credibility, which may significantly impact the Group's business performance and financial standing.

(l) Reliance on key management, and securing/developing talented technical experts and key personnel

The Group's operation is heavily dependent on key management personnel, such as CEO Toshio Dogu. In the event these management personnel takes an extended leave due to illness or injury, leaves the Group or dies, such factors may have a significant impact on the Group's performance and financial standing. Moreover, the Group's success and growth rely heavily on talented technical experts and key personnel, and while the Group consistently works on securing and developing key talents, failing to secure and develop technical experts and key personnel in the future may have a significant impact on the Group's growth, business performance and financial standing.

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

Digital Arts Inc. is a public company listed on the First Section of Tokyo Stock Exchange, where CEO Toshio Dogu is the largest shareholder with 2,496,316 shares (which account for approximately 17.7%, including shares held by the shareholders' association made up of directors) out of issued and outstanding stocks of 14,133,000 shares (including treasury shares) as of March 31, 2019. As a public company, the possibilities of mergers and acquisitions cannot be denied, and the entire or part of the Group or its business rights may be acquired, merged or assigned at some point in the future. Such factors may significantly impact the Group's performance and financial standing.

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

(n) Risks associated with natural disaster, disaster, terrorist activities, war, biological viruses, and power outage

The Group's business performance and business activities may be significantly affected due to unforeseen situations, such as disasters, including earthquakes and other acts of God, domestic terrorist activities, outbreak of war at home or abroad, and epidemic of biological viruses, such as malignant influenza. In addition, insufficient power supply due to nationwide/ regional power outage or problems in the buildings where the Group performs its business may cause the Group to suspend its business activities and services, and may, in turn, significantly impact its business performance and financial position.

(o) Risk of fluctuation in the Group's quarterly financial results affecting the stock price

The trend of the Group's quarterly financial results may not be consistent with the trend of its operating results over the medium and long term.

The main causes of fluctuation in the Group's quarterly financial results are as follows.

- Seasonal factors, acquisition of large projects over a number of years
- Postponement of the time at which sales are recorded as a result of changes in the sales mix
- Sales associated with temporary special demand as a result of changes in the law or government-led initiatives

3. Analysis of financial conditions, operating results and cash flows by the management

(1) Overview of operating results, etc.

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

(i) Financial condition and operating results

During the consolidated fiscal year under review (April 1, 2018 – March 31, 2019), the Japanese economy saw a continued recovery in employment and corporate income amid the turnaround in consumer spending and capital investment. Meanwhile, the outlook for the world economy remains uncertain given concern about the intensifying trade war between the United States and China and about political management of the U.S. administration and mounting geopolitical risks.

In the security industry where the Digital Arts Group (hereinafter "the Group") operates, demand is expanding amid successive cases of diversifying cyberattacks including ransomware. Apart from demand from large-sized organizations as conventionally main sources of demand, demand for the new introduction of security measures is growing from medium- and small-sized enterprises, which are comparatively lagging in such measures. Amid the spread of IoT, AI and other technologies and the implementation of the work style reform, security personnel need to address increasingly diversifying and sophisticating risks. Accordingly, demand for security services will continue to expand.

Under these circumstances, the Group's domestic operations continuously endeavored to expand sales of i-FILTER Ver. 10 and m-FILTER Ver. 5 in the enterprise sector and public sector markets in a bid to offer solutions for a secure Internet environment to customers of all sizes. In addition, the Group launched a cloud service for i-FILTER and m-FILTER in May 2018 in light of a rapid shift to cloud-based web services and email environment. The Group will open a prospect of viewing webpages without anxiety and reading email messages without hesitation in the cloud environment. FinalCode added support for a browser view feature highly awaited by existing users and prospective customers. This feature enables outside users receiving encrypted files to view them without installing any client software. The Group will continue its efforts to enhance the features of the product for boosting its sales. In the consumer sector market, smartphones are increasingly used not only by senior high schoolers but by junior high schoolers or younger children. In view of that, the Act on Development of an Environment that Provides Safe and Secure Internet Use for Young People was revised on February 1, 2018. This revision toughened enforcement of the introduction of filtering to young people, which had been compulsory before the revision. The Group continued to work with mobile network carriers and mobile virtual network operations (MVNOs) to further promote i-FILTER for smartphones.

Outside Japan, marketing operations have been limited to FinalCode. The Group carried out its reorganization in a bid to globally promote the Digital Arts brand in the future as it does in the Japanese market as a general security solution provider.

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

a. Financial Condition

Assets

Total assets at the end of the consolidated fiscal year under review increased 1,930,814 thousand yen from the end of the previous consolidated fiscal year, to 9,859,347 thousand yen. This chiefly reflected increases of 1,742,729 thousand yen in cash and deposits, 104,579 thousand yen in property, plant and equipment, and 125,658 thousand yen in intangible assets.

Liabilities

Total liabilities at the end of the consolidated fiscal year under review rose 375,522 thousand yen from the end of the previous

fiscal year, to 2,056,452 thousand yen. This was due chiefly to increases of 308,048 thousand yen in advances received, 25,281 thousand yen in income taxes payable, and 15,911 thousand yen in provision for bonuses.

Net assets

Net assets at the end of the consolidated fiscal year under review climbed 1,555,292 thousand yen from the end of the previous consolidated fiscal year, to 7,802,894 thousand yen. This was due mainly to an increase of 1,526,325 thousand yen in retained earnings.

b. Operating results

Consolidated net sales for the fiscal year under review stood at 5,841,287 thousand yen, up 14.2% year on year. In terms of profit, while the Group incurred costs from reorganization and other initiatives after a revision of its overseas strategy in the first half, the more focused application of management resources began to produce the effect of improving profitability in the third quarter. Operating profit rose 38.2% year on year to 2,629,092 thousand yen, ordinary profit climbed 37.8% to 2,630,963 thousand yen, and profit attributable to owners of parent surged 53.0% to 1,961,276 thousand yen.

The following describes business performance in separate markets.

Enterprise Sector Market

In this market, a mainstay product of m-FILTER attained healthy sales after steadily gaining renewals of contracts from the preceding consolidated fiscal year. FinalCode introduced the highly demanded Browser View feature. That gave impetus to the acquisition of deals after a temporary stagnation, and the Group made one of the largest deals ever. With regard to i-FILTER Ver. 10 and m-FILTER Ver. 5 as high-end models for which marketing activities were geared up earlier in the consolidated fiscal year under review, active promotion helped increase recognition of their product features and a certain quantity of new orders were received. More large-scale contracts, which have a greater contribution to sales, were won in the public sector market, but potential contracts also exist in the enterprise sector market. In the next fiscal year, the Group will strive to expand sales of new products in earnest, taking advantage of its experience in the public sector market. Chiefly due to shortages in security personnel, the use of cloud services is increasing to reduce the burden of security. Sales of cloud service products account for increasing percentages of sales in the Company's entire product lineup. Sales of licenses are posted when they are shipped, but sales of cloud service are posted monthly during the period when the service is provided. As a result, the balance of advances received expanded. The balance will be posted from the next consolidated fiscal year.

Net sales in this market reached 3,133,580 thousand yen, up 4.1% year on year.

Public Sector Market

In this market, the Company has earned high recognition and market share as a security provider with a focus on internal data leakage. Highly regarded for its track record and reliability, it bolstered its presence as a general security solution provider in the market earlier than in the enterprise sector market as i-FILTER Ver. 10 and m-FILTER Ver. 5, which provide advanced security measures, including those against targeted attacks, sold well. Similar to the enterprise sector market, the use of cloud services increased, and sales of cloud service products accounted for a larger percent. As a result, sales to be posted from the next consolidated fiscal year expanded.

As a consequence, net sales in this market stood at 2,191,579 thousand yen, up 26.5% year on year.

Consumer Sector Market

In this market, the Group focused its efforts on collaboration with mobile network carriers and MVNOs and on sales of i-FILTER for Multiple Devices, which can be used on multiple operating systems with a single serial ID. Advances in the introduction of filtering amid widespread use of smartphones among young people and strong direct sales of multi-year packages and i-FILTER for Multiple Devices, which can be used on several terminals, contributed to sales growth.

Net sales in this market amounted to 516,127 thousand yen, up 37.4% year on year.

Net sales for the consolidated fiscal year under review (April 1, 2018 - March 31, 2019)

	Enterprise Sector Market	Public Sector Market	Consumer Sector Market	Total
	Million yen	Million yen	Million yen	Million yen
Fiscal Year Ended March 31, 2019	3,133	2,191	516	5,841
Fiscal Year Ended March 31, 2018	3,009	1,732	375	5,116

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

(ii) State of Cash Flows

In the consolidated fiscal year under review, cash and cash equivalents increased 1,742,729 thousand yen from the end of the previous consolidated fiscal year to 5,569,172 thousand yen. Cash flows in each category are as follows:

(Cash flows from operating activities)

Net cash provided by operating activities stood at 3,091,862 thousand yen (net cash provided of 1,663,158 thousand yen in the previous consolidated fiscal year), chiefly reflecting a profit before income taxes of 2,563,232 thousand yen and depreciation of 662,496 thousand yen.

(Cash flows from investing activities)

Net cash used in investing activities came to 908,784 thousand yen (net cash used of 774,868 thousand yen in the previous consolidated fiscal year) mainly due to the purchase of intangible assets.

(Cash flows from financing activities)

Net cash used in financing activities was 429,712 thousand yen (net cash used of 293,407 thousand yen in the previous consolidated fiscal year) primarily due to dividends paid.

(iii) Results for Production, Orders Received and Sales

a. Results of production

	Fiscal year under review (from April 1, 2018 to March 31, 2019) (thousand yen)	Change YoY (%)
Enterprise Sector Market	2,941,590	103.1
Public Sector Market	2,138,782	124.6
Consumer Sector Market	513,893	136.5
Total	5,594,266	113.1

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

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

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

b. Results of orders received

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

c. Results of sales

	Fiscal year under review (thousand yen)	Change YoY (%)
Enterprise Sector Market	3,133,580	104.1
Public Sector Market	2,191,579	126.5
Consumer Sector Market	516,127	137.4
Total	5,841,287	114.2

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

2. There are no export sales.

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

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

Customer	Previous consolidated fiscal year (April 1, 2017 – March 31, 2018)		Fiscal 2019 (from April 1, 2018 to March 31, 2019)	
	Amount (thousand yen)	Ratio (%)	Amount (thousand yen)	Ratio (%)
SB C&S Corp.	1,037,408	20.3	1,247,566	21.4
Daiwabo Information System Co., Ltd.	976,669	19.1	1,160,228	19.9

(Note) SoftBank Commerce & Service Corp. changed its trade name to SB C&S Corp. on January 1, 2019.

(2) Details of analysis and examination concerning the state of operating results and the like from the perspective of the management
The details of understanding, analysis and examination concerning the state of operating results and the like for the Group from the perspective of the management are as follows.

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

(i) Significant accounting policies and accounting estimates

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

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

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

a. State of operating results, etc.

Net sales

Consolidated net sales for the fiscal year under review stood at 5,841,287 thousand yen, up 724,317 thousand yen compared to the previous consolidated fiscal year (an increase of 14.2% year on year).

This was mainly due to sales of high-end models i-FILTER Ver.10 and m-FILTER Ver.5 to the public sector market and the revision of the Act on Development of an Environment that Provides Safe and Secure Internet Use for Young People and tougher enforcement of the introduction of filtering for young people, which had been compulsory before the revision, in the consumer sector market

(Cost of sales, gross profit)

Cost of sales in the consolidated fiscal year under review was 1,059,444 thousand yen, down 15,992 thousand yen compared to the previous consolidated fiscal year (a decrease of 1.5% year on year). Meanwhile, gross profit stood at 4,781,842 thousand yen, up 740,310 thousand yen compared to the previous consolidated fiscal year (an increase of 18.3% year on year).

The gross margin improved, reflecting a decrease in personnel expenses mainly due to a decrease in consultant personnel, despite an increase in depreciation after the release of a new product.

(Selling, general and administrative expenses, operating profit)

Selling, general and administrative expenses were 2,152,750 thousand yen, up 14,135 thousand yen compared to the previous consolidated fiscal year (an increase of 0.7% year on year).

In Japan, selling, general and administrative expenses were more or less unchanged from the year-ago level, reflecting the selection and concentration of management resources following revision of the Group's overseas strategy despite higher personnel expenses mainly as a result of an increase in personnel.

As a result, operating profit was 2,629,092 thousand yen, up 726,175 thousand yen from the previous consolidated fiscal year (an increase of 38.2% year on year).

Ordinary profit

In the consolidated fiscal year under review, ordinary profit amounted to 2,630,963 thousand yen (an increase of 37.8% year on year), mainly due to the recording of non-operating income such as miscellaneous income of 1,759 thousand yen and gain on forfeiture of unclaimed dividends of 1,168 thousand yen and non-operating expenses such as foreign exchange losses of 2,224 thousand yen.

Profit attributable to owners of parent

In the consolidated fiscal year under review, profit attributable to owners of parent was 1,961,276 thousand yen (an increase of 53.0% year on year) due to a fall in total income taxes to 598,869 thousand yen, mainly reflecting the curbing of tax expenses through the liquidation of a subsidiary, despite the recording of extraordinary losses including loss on liquidation of subsidiaries of 56,135 thousand yen and loss on valuation of shares of subsidiaries of 7,156 thousand yen.

b. Analysis of capital resources and liquidity

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

At the end of the consolidated fiscal year under review, the Group had no outstanding interest-bearing debt whilst cash and cash equivalents stood at 5,569,172 thousand yen.

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

c. Factors that have a significant impact on operating results

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

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

Not applicable.

5. Research and Development

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

In the consolidated fiscal year under review total research and development expenses were 13,176 thousand yen.

Section III. Properties

1. Summary of Capital Investment, etc.

In the consolidated fiscal year under review, the Group made capital investment totaling 171,188 thousand yen. This mainly consisted of purchases of servers and other information equipment used in various services and at each branch and the acquisition of a recreational facility for company employees.

Meanwhile, the Group made investments in intangible assets totaling 721,570 thousand yen, mainly for software development.

2. Major Facilities

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

(1) The Company

(As of March 31, 2019)

Branch name (location)	Description of equipment	Book value						Total (thousand yen)	Number of employees
		Buildings		Vehicles (thousand yen)	Furniture and fixtures (thousand yen)	Land			
		Area (m ²)	Amount (thousand yen)			Area (m ²)	Amount (thousand yen)		
Headquarters (Chiyoda-ku, Tokyo)	Administration, development and sales facility	1,596.54 (1,596.54)	17,098	7,703	116,469	—	—	141,271	178 (26)
Recreational facility (Atami, Shizuoka Prefecture)	Recreational facility	71.85	72,912	—	—	10,017.49	26,254	99,167	—

- (Notes)
- The amounts described above do not include consumption taxes, etc.
 - The figure in parentheses in the Buildings section is included in the total and is the area that is leased.
 - The figures in parentheses in the number of employees section indicate the annual average number of part-time employees (temporary staff, etc.) and these figures are not included in the totals.
 - Other branches are the Hokkaido Sales Office (one employee), the Tohoku Sales Office (two employees), the Chubu Sales Office (five employees), the Kansai Sales Office (nine employees), the Chushikoku Sales Office (two employees), and the Kyushu Sales Office (four employees).
 - The head office of the Company includes a building leased to Digital Arts Consulting Inc., which is a subsidiary of the Company.

(2) Domestic Subsidiaries

(As of March 31, 2019)

Name of company	Branch name (location)	Description of equipment	Book value		Number of employees
			Furniture and fixtures (thousand yen)	Total (thousand yen)	
Digital Arts Consulting Inc.	Headquarters (Chiyoda-ku, Tokyo)	Administration and sales facility	806	806	5

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

(3) Overseas Subsidiaries

(As of March 31, 2019)

Name of company	Branch name (location)	Description of equipment	Book value		Number of employees
			Furniture and fixtures (thousand yen)	Total (thousand yen)	
Digital Arts America, Inc.	Headquarters (San Jose, CA, USA)	Administration and sales facility	—	—	1
Digital Arts Asia Pacific Pte. Ltd.	Headquarters (Singapore)	Administration and sales facility	327	327	—
Digital Arts Europe Limited	Headquarters (Berkshire, UK)	Administration and sales facility	—	—	—

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

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

(1) New Construction of Important Facilities, etc.

None in particular

(2) Retirement of Important Facilities, etc.

None in particular

Section IV. Information on the Company

1. Stock Information

(1) Total Number of Shares, etc.

(i) Total Number of Shares

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

(ii) Issued Shares

Classification	Number of shares issued as of the end of fiscal year (shares) (March 31, 2019)	Number of shares issued as of the filing date (shares) (June 26, 2019)	Stock exchange on which the Company is listed	Description
Common stock	14,133,000	14,133,000	Tokyo Stock Exchange First Section	Number of shares in trading unit 100
Total	14,133,000	14,133,000	—	—

(Note) The figures in the “Number of shares issued as of the filing date” column do not include the number of shares issued upon the exercise of share acquisition rights between June 1, 2019 and the filing date of this Annual Securities Report.

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

(i) Details of Stock Option Plans

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

i) Resolution of the Annual General Shareholders Meeting held on June 24, 2009

	As of the end of the fiscal year (March 31, 2019)	As of the end of the month before the filing date (May 31, 2019)
Category and number of persons subject to grants	Three directors, 80 employees	
Number of share acquisition rights	81	—
Number of share acquisition rights that are own share options	—	—
Class of shares to be acquired upon exercise of share acquisition rights	Common stock	—
Number of shares to be acquired upon exercise of share acquisition rights	8100 (Note 1)	—
Amount to be paid upon exercise of share acquisition rights	593 yen per share (Note 1)	—
Exercise period of share acquisition rights	From May 26, 2012 To June 24, 2019	—
Issue price for shares that will be issued through the exercise of share acquisition rights and the amount capitalized as common stock	Issue price: 593 yen (Note 1) Amount capitalized as common stock: 297 yen (Note 1)	—
Conditions for exercise of share acquisition rights	(Note 2)	—
Matters regarding transfer of share acquisition rights	Any transfer of share acquisition rights is subject to approval by the Board of Directors of the Company.	—
Matters regarding substitute payment	—	—
Matters regarding grant of share acquisition rights accompanying reorganization	(Note 5)	—

(Notes) 1. The Company conducted a 100-for-1 common stock split on April 1, 2013. The number of shares to be acquired upon exercise of share acquisition rights, the amount to be paid in, the issue price and the amount capitalized as common stock described in the above table have been adjusted accordingly.

2. Conditions for exercise of share acquisition rights

- (1) Holders of share acquisition rights are required to have the rank of an officer (includes a company auditor) or an employee at the Company or a subsidiary or an associate of the Company at the time of exercising the share acquisition rights.

- (2) Holders of share acquisition rights must, at the time of exercising the rights, not be subject to salary reduction or stricter disciplinary action provided for in the rules of employment of the Company or a subsidiary or an associate of the Company from the grant date of the share acquisition rights relating to such exercise.
 - (3) No share acquisition rights shall be exercised partially.
 - (4) If holders of share acquisition rights waive the share acquisition rights, the relevant share acquisition rights may not be exercised thereafter.
 - (5) Other conditions are in accordance with the provisions of the Share Acquisition Right Allotment Agreement.
3. If the Company conducts a stock split or a stock consolidation of shares of common stock of the Company after the date on which the share acquisition rights are to be issued (the “Issue Date”), the number of shares granted shall be adjusted in accordance with the following formula (with any fraction of less than one share resulting from such adjustment rounded down), and the total number of shares to be issued upon exercise of the share acquisition rights shall be the number obtained by multiplying the number of shares granted after adjustment by the total number of share acquisition rights that have not been exercised or cancelled as of such stock split or a stock consolidation.

Number of shares granted after adjustment = Number of shares granted before adjustment x Ratio of split or consolidation

If the Company reduces its capital, performs a merger or company split or for other unavoidable reasons it is necessary to adjust the number of shares granted after the issue date, the Company shall, to a reasonable extent, adjust the number of shares granted, taking into consideration the terms and conditions of the capital reduction, merger or company split, and other relevant factors, and the total number of shares to be issued upon exercise of the share acquisition rights shall be the number obtained by multiplying the number of shares granted after adjustment by the total number of share acquisition rights that have not been exercised or cancelled as of such capital reduction, merger or company split.

4. The amount to be paid upon exercise of each share acquisition right shall be the amount obtained by multiplying the amount to be paid in per share issued or transferred through the exercise of each share acquisition right (the “Paid-In Amount”) by the number of shares granted.

The Paid-In Amount shall be the average closing price in ordinary trading of common stock of the Company on the Hercules market of the Osaka Securities Exchange on each day (excluding the day on which no transaction was made) in the month prior to the month in which the issue date falls, with any fraction of less than one yen rounded up. However, if this price is less than the closing price on the issue date (if there is no transaction made on that day, then the closing price of the latest date prior to the issue date on which a transaction was made), the paid-in amount shall be the closing price on the issue date.

If any of the reasons shown below arise after the issue date, the paid-in amount shall be adjusted accordingly.

- (1) If the Company conducts a stock split or a stock consolidation of shares of common stock of the Company, the paid-in amount shall be adjusted in accordance with the following formula and any fraction of less than one yen arising from such adjustment shall be rounded up.

$$\text{Amount to be paid in after adjustment} = \text{Paid-in amount before adjustment} \times \frac{1}{\text{Ratio of split or consolidation}}$$

- (2) If the Company issues new shares or disposes of treasury shares (excluding any issuance through the exercise of the share acquisition rights or subscription rights as stipulated in Article 280-19 of the Commercial Code before revision issued on April 1, 2002) at a price below the market price, the Paid-In Amount shall be adjusted in accordance with the formula set forth below and any fraction of less than one yen arising from such adjustment shall be rounded up.

$$\text{Paid-in amount after adjustment} = \frac{\text{Paid-in amount before adjustment} \times \left(\text{Number of shares outstanding} + \frac{\text{Number of shares newly issued} \times \text{Amount to be paid per share}}{\text{Market price}} \right)}{\text{Number of shares outstanding} + \text{Number of shares newly issued}}$$

For the formula set forth above, the “Number of shares outstanding” means the number of outstanding shares of the Company minus the number of treasury shares held by the Company, and if the Company disposes of treasury shares, the “Number of shares newly issued” shall be read as the “Number of treasury shares disposed.”

- (3) If the Company makes an allotment of a different class of shares without contribution to common shareholders or distributes shares of another company to common shareholders or for other unavoidable reasons it is necessary to adjust the exercise price, the Company shall, to a reasonable extent, adjust the exercise price, taking into consideration the terms and conditions of the allotment or distribution, etc. and other relevant factors.
5. If the Company conducts a merger (limited to the case where the Company is dissolved due to the merger), an absorption-type or incorporation-type company split, or a share exchange or transfer (collectively, the “Reorganization”), the Company shall, in each of the above cases, allot share acquisition rights of the relevant company from among those listed in “a” through “e” of Article 236, Paragraph 1, Item 8 of the Companies Act (the “Reorganized Company”) to the holders of the share acquisition rights remaining unexercised as of the effective date of the relevant Reorganization (the

“Remaining Share Acquisition Rights”). In this case, the Remaining Share Acquisition Rights shall be cancelled, and the Reorganized Company shall newly issue share acquisition rights. Provided, however, that the foregoing shall be on the condition that the allotment of such share acquisition rights by the Reorganized Company in accordance with each of the following items is stipulated in an absorption-type merger agreement, a consolidation-type merger agreement, an absorption-type company split agreement, an incorporation-type company split plan, a share exchange agreement or a share transfer plan.

- (1) Number of share acquisition rights of the Reorganized Company to be allotted
A number equal to the number of the share acquisition rights held by the holder of the Remaining Share Acquisition Rights shall be allotted to such holder
- (2) Class of shares of the Reorganized Company to be issued upon exercise of share acquisition rights
Common stock of the Reorganized Company
- (3) Number of shares of the Reorganized Company to be issued upon exercise of share acquisition rights
To be determined as follows, taking into consideration, among other matters, the terms and conditions of the Reorganization.
If the Company conducts Reorganization with respect to common shares of the Company after the date on which share acquisition rights for subscription are allotted (the “Allotment Date”), the number of shares granted shall be adjusted according to the following formula and any fraction of less than one share resulting from the adjustment shall be rounded down.
$$\text{Number of shares granted after adjustment} = \text{Number of shares granted before adjustment} \times \text{Ratio of split or consolidation}$$
- (4) Value of assets to be contributed upon exercise of each share acquisition right
The value of assets to be contributed upon exercise of each share acquisition right to be allotted shall be the amount obtained by multiplying the amount to be paid after Reorganization, obtained through adjustment of the exercise price taking into consideration, among other matters, the terms and conditions of the Reorganization, by the number of shares of the Reorganized Company to be issued upon exercise of each of such share acquisition rights as determined in accordance with (3) above.
- (5) Exercise period of share acquisition rights
From and including the later of the commencement date of the period during which the share acquisition rights may be exercised as provided for separately or the effective date of the Reorganization, to and including the expiration date of the period during which the share acquisition rights may be exercised as provided for separately.
- (6) Matters concerning share capital and legal capital surplus to be increased due to issuance of shares upon exercise of share acquisition rights
To be determined as follows.
 - (i) The amount by which the stated share capital increases through the issuance of shares upon the exercise of share acquisition rights shall be one-half (1/2) of the upper limit of the increase in the amounts of stated share capital and other items calculated pursuant to the provisions of Article 40, Paragraph 1 of the Company Accounting Ordinance, and any fraction of less than one yen arising from the calculation shall be rounded up.
 - (ii) The amount by which the legal capital surplus increases through the issuance of shares upon the exercise of share acquisition rights shall be the upper limit of the increase in the amounts of stated share capital and other items described in (i) above, less the increase in the amount of stated share capital set out in (i) above.
- (7) Restriction on acquisition of share acquisition rights by transfer
Any acquisition of share acquisition rights by transfer shall be subject to approval by resolution of the Board of Directors of the Reorganized Company.
- (8) Clause on the acquisition of share acquisition rights
If a proposal for a merger agreement under which the Company is to be the dissolving company, a company split agreement or a company split plan under which the Company is to be the splitting company, or a share exchange agreement or share transfer plan under which the Company is to be a wholly-owned subsidiary is approved by resolution of the general meeting of shareholders (or if a resolution is made by the Company’s Board of Directors or a decision is made by representative corporate officers in the case when a resolution made by the Company’s general meeting of shareholders is not required), the Company may acquire share acquisition rights without consideration on a date to be separately determined by the Board of Directors of the Company.

ii) Resolution of the Board of Directors of November 12, 2015

	As of the end of the fiscal year (March 31, 2019)	As of the end of the month before the filing date (May 31, 2019)
Category and number of persons subject to grants	Four directors, 151 employees	
Number of share acquisition rights	2,504	2,504
Number of share acquisition rights that are own share options	–	–
Class of shares to be acquired upon exercise of share acquisition rights	Common stock	Same as on the left
Number of shares to be acquired upon exercise of share acquisition rights	250,400 shares	250,400 shares
Amount to be paid upon exercise of share acquisition rights	2,034 yen per share	Same as on the left
Exercise period of share acquisition rights	From July 01, 2017 To May 31, 2027	Same as on the left
Issue price for shares that will be issued through the exercise of share acquisition rights and the amount capitalized as common stock	Issue price: 2,036 yen Amount capitalized as common stock: 1,018 yen	Same as on the left
Conditions for exercise of share acquisition rights	(Note 2)	Same as on the left
Matters regarding transfer of share acquisition rights	Any transfer of share acquisition rights is subject to approval by the Board of Directors of the Company.	Same as on the left
Matters regarding substitute payment	–	–
Matters regarding grant of share acquisition rights accompanying reorganization	(Note 5)	Same as on the left

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

2. Conditions for exercise of share acquisition rights

(1) Share acquisition rights can be exercised up to the percentage of the allocated share acquisition rights specified in each item below by each holder of share acquisition rights only if operating profit reaches the level specified in each item below in the fiscal year ending March 31, 2017, the fiscal year ending March 31, 2018, or the fiscal year ending March 31, 2019.

(a) If operating profit exceeds ¥1.5 billion, 20% of share acquisition rights can be exercised.

(b) If operating profit exceeds ¥2.0 billion, 50% of share acquisition rights can be exercised.

(c) If operating profit exceeds ¥2.5 billion, 100% of share acquisition rights can be exercised.

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

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

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

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

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

3. The number of shares granted shall be adjusted according to the following formula if the Company conducts a stock split (includes allotment of the common shares of the Company without consideration; hereinafter the same) or a stock consolidation after the allotment date of the share acquisition rights. Provided, however, that such adjustment shall be made only with respect to the number of shares to be issued upon exercise of the share acquisition rights that have not yet been exercised at the time of adjustment, and any fraction less than one share arising from the adjustment shall be rounded down.

Number of shares granted after adjustment = Number of shares granted before adjustment x Ratio of split (or consolidation)

If the Company performs a merger or company split, or reduces its share capital, or any other similar matter where the

adjustment of the number of shares granted becomes necessary, after the allotment date of the share acquisition rights, the number of shares granted shall, to a reasonable extent, be adjusted as appropriate.

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

The Exercise Price shall be 2,034 yen, which is equal to the closing price of the Company’s stock in regular trading on the Tokyo Stock Exchange on November 11, 2015, which is the day before the date of the resolution of the Board of Directors concerning the issuance of the share acquisition rights.

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

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

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

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

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

- (3) If the Company performs a merger with another company, company split, or any other similar matter where the adjustment of the Exercise Price becomes necessary, after the allotment date of the share acquisition rights, the Company may, to a reasonable extent, adjust the Exercise Price as appropriate.
5. If the Company conducts a merger (limited to the case where the Company is dissolved due to the merger), an absorption-type or incorporation-type company split, or a share exchange or transfer (collectively, the “Reorganization”), the Company shall, in each of the above cases, allot share acquisition rights of the relevant company from among those listed in “a” through “e” of Article 236, Paragraph 1, Item 8 of the Companies Act (the “Reorganized Company”) to the holders of the share acquisition rights as of the effective date of the relevant Reorganization. Provided, however, that the foregoing shall be on the condition that the allotment of such share acquisition rights by the Reorganized Company in accordance with each of the following items is stipulated in an absorption-type merger agreement, a consolidation-type merger agreement, an absorption-type company split agreement, an incorporation-type company split plan, a share exchange agreement or a share transfer plan.

- (1) Number of share acquisition rights of the Reorganized Company to be allotted
The same number as the number of share acquisition rights held by the holder of the share acquisition rights shall be allotted in each case.
- (2) Class of shares of the Reorganized Company to be issued upon exercise of share acquisition rights
Common stock of the Reorganized Company
- (3) Number of shares of the Reorganized Company to be issued upon exercise of share acquisition rights
To be determined as follows, taking the terms and conditions of the Reorganization into consideration.
If the Company conducts Reorganization with respect to common shares of the Company after the Allotment Date, the number of shares granted shall be adjusted according to the following formula and any fraction of less than one share resulting from the adjustment shall be rounded down.
Number of shares granted after adjustment = Number of shares granted before adjustment x Ratio of split (or consolidation)
- (4) Value of assets to be contributed upon exercise of each share acquisition right
The value of assets to be contributed upon exercise of each share acquisition right to be allotted shall be the amount obtained by multiplying the exercise price after Reorganization, obtained through adjustment taking into consideration, among other matters, the terms and conditions of the Reorganization, by the number of shares of the Reorganized Company to be issued upon exercise of each of such share acquisition rights as determined in accordance with (3) above.
- (5) Exercise period of share acquisition rights
From and including the later of the commencement date of the period during which the share acquisition rights

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

iii) Resolution of the Board of Directors of November 10, 2016

	As of the end of the fiscal year (March 31, 2019)	As of the end of the month before the filing date (May 31, 2019)
Category and number of persons subject to grants	Three directors, 96 employees	
Number of share acquisition rights	7,754	7,729
Number of share acquisition rights that are own share options	–	–
Class of shares to be acquired upon exercise of share acquisition rights	Common stock	Same as on the left
Number of shares to be acquired upon exercise of share acquisition rights	775,400 shares	772,900 shares
Amount to be paid upon exercise of share acquisition rights	2,639 yen per share	Same as on the left
Exercise period of share acquisition rights	From July 1, 2018 To May 31, 2028	Same as on the left
Issue price for shares that will be issued through the exercise of share acquisition rights and the amount capitalized as common stock	Issue price: 2,663 yen Amount capitalized as common stock: 1,332 yen	
Conditions for exercise of share acquisition rights	(Note 2)	Same as on the left
Matters regarding transfer of share acquisition rights	Any transfer of share acquisition rights is subject to approval by the Board of Directors of the Company.	Same as on the left
Matters regarding substitute payment	–	–
Matters regarding grant of share acquisition rights accompanying reorganization	(Note 5)	Same as on the left

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

2. Conditions for exercise of share acquisition rights

- (1) Share acquisition rights can be exercised up to the percentage of the allocated share acquisition rights specified in each item below by each holder of share acquisition rights only if operating profit reaches the level specified in each item below in the fiscal year ending March 31, 2018, the fiscal year ending March 31, 2019, or the fiscal year ending March 31, 2020.
- (a) If operating profit exceeds ¥2.0 billion, 20% of share acquisition rights can be exercised.
- (b) If operating profit exceeds ¥2.5 billion, 50% of share acquisition rights can be exercised.
- (c) If operating profit exceeds ¥2.8 billion, 100% of share acquisition rights can be exercised.

In the items above, the operating profit stated in the consolidated statements of income in the Company's annual

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

- (2) The holder of the share acquisition rights must continue to be a director or an employee of the Company to exercise share acquisition rights. Provided, however, this provision shall not apply to holders who have retired due to expiration of their terms of office, or holders who have retired upon reaching the mandatory retirement age or for other legitimate reasons that the Board of Directors may deem appropriate.
 - (3) Exercise of the share acquisition rights by heirs of holders of the share acquisition rights shall not be permitted.
 - (4) Share acquisition rights may not be exercised when doing so would cause the total number of shares of the Company outstanding after exercise of such rights to exceed the number of shares authorized at the time of the exercise.
 - (5) Share acquisition rights may not be exercised in less than one unit.
3. The number of shares granted shall be adjusted according to the following formula if the Company conducts a stock split (includes allotment of the common shares of the Company without consideration; hereinafter the same) or a stock consolidation after the allotment date of the share acquisition rights. Provided, however, that such adjustment shall be made only with respect to the number of shares to be issued upon exercise of the share acquisition rights that have not yet been exercised at the time of adjustment, and any fraction less than one share arising from the adjustment shall be rounded down.

Number of shares granted after adjustment = Number of shares granted before adjustment x Ratio of split (or consolidation)

If the Company performs a merger or company split, or reduces its share capital, or any other similar matter where the adjustment of the number of shares granted becomes necessary, after the allotment date of the share acquisition rights, the number of shares granted shall, to a reasonable extent, be adjusted as appropriate.

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

The Exercise Price shall be 2,639 yen, which is equal to the closing price of the Company’s stock in regular trading on the Tokyo Stock Exchange on November 09, 2016, which is the day before the date of the resolution of the Board of Directors concerning the issuance of the share acquisition rights.

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

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

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

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

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

- (3) If the Company performs a merger with another company, company split, or any other similar matter where the adjustment of the Exercise Price becomes necessary, after the allotment date of the share acquisition rights, the Company may, to a reasonable extent, adjust the Exercise Price as appropriate.
5. If the Company conducts a merger (limited to the case where the Company is dissolved due to the merger), an absorption-type or incorporation-type company split, or a share exchange or transfer (collectively, the “Reorganization”), the Company shall, in each of the above cases, allot share acquisition rights of the relevant company from among those listed in “a” through “e” of Article 236, Paragraph 1, Item 8 of the Companies Act (the “Reorganized Company”) to the holders of the share acquisition rights as of the effective date of the relevant Reorganization. Provided, however, that the

foregoing shall be on the condition that the allotment of such share acquisition rights by the Reorganized Company in accordance with each of the following items is stipulated in an absorption-type merger agreement, a consolidation-type merger agreement, an absorption-type company split agreement, an incorporation-type company split plan, a share exchange agreement or a share transfer plan.

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

iv) Resolution of the Board of Directors of February 16, 2018

	As of the end of the fiscal year (March 31, 2019)	As of the end of the month before the filing date (May 31, 2019)
Category and number of persons subject to grants	Three directors, 151 employees	
Number of share acquisition rights	12,940	12,827
Number of share acquisition rights that are own share options	–	–
Class of shares to be acquired upon exercise of share acquisition rights	Common stock	Same as on the left
Number of shares to be acquired upon exercise of share acquisition rights	1,294,000 shares	1,282,700 shares
Amount to be paid upon exercise of share acquisition rights	3,400 yen per share	Same as on the left
Exercise period of share acquisition rights	From July 01, 2021 To May 31, 2028	Same as on the left
Issue price for shares that will be issued through the exercise of share acquisition rights and the amount capitalized as common stock	Issue price: 3,401 yen Amount capitalized as common stock: 1,701 yen	Same as on the left
Conditions for exercise of share acquisition rights	(Note 2)	Same as on the left
Matters regarding transfer of share acquisition rights	Any transfer of share acquisition rights is subject to approval by the Board of Directors of the Company.	Same as on the left
Matters regarding substitute payment	–	–
Matters regarding grant of share acquisition rights accompanying reorganization	(Note 5)	Same as on the left

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

2. Conditions for exercise of share acquisition rights

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

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

- (2) The holder of the share acquisition rights must continue to be a director or an employee of the Company to exercise share acquisition rights. Provided, however, this provision shall not apply to holders who have retired due to expiration of their terms of office, or holders who have retired upon reaching the mandatory retirement age or for other legitimate reasons that the Board of Directors may deem appropriate.
- (3) Exercise of the share acquisition rights by heirs of holders of the share acquisition rights shall not be permitted.
- (4) Share acquisition rights may not be exercised when doing so would cause the total number of shares of the Company outstanding after exercise of such rights to exceed the number of shares authorized at the time of the exercise.
- (5) Share acquisition rights may not be exercised in less than one unit.

3. The number of shares granted shall be adjusted according to the following formula if the Company conducts a stock split (includes allotment of the common shares of the Company without consideration; hereinafter the same) or a stock consolidation after the allotment date of the share acquisition rights. Provided, however, that such adjustment shall be made only with respect to the number of shares to be issued upon exercise of the share acquisition rights that have not yet been exercised at the time of adjustment, and any fraction less than one share arising from the adjustment shall be rounded down.

Number of shares granted after adjustment = Number of shares granted before adjustment x Ratio of split (or consolidation)

If the Company performs a merger or company split, or reduces its share capital, or any other similar matter where the adjustment of the number of shares granted becomes necessary, after the allotment date of the share acquisition rights, the number of shares granted shall, to a reasonable extent, be adjusted as appropriate.

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

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

- (1) If the Company conducts a stock split or stock consolidation, the Exercise Price shall be adjusted according to the

following formula, and any fraction less than one yen resulting from the adjustment shall be rounded up.

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

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

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

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

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

Accounting Ordinance. Any fraction of less than one yen arising from the calculation shall be rounded up.

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

(ii) Information on Shareholder Rights Plans

Not applicable.

(iii) Status of share acquisition rights and other plans

Not applicable.

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

Not applicable.

(4) Changes in the Total Number of Issued Shares and the Amount of Common Stock and Other

Date	Change in the total number of issued shares	Balance of the total number of issued shares	Change in common stock (thousand yen)	Balance of common stock (thousand yen)	Change in capital reserve (thousand yen)	Balance of capital reserve (thousand yen)
April 1, 2013 (Note 1)	13,991,670	14,133,000	—	713,590	—	700,222

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

(5) Shareholders Composition

As of March 31, 2019

Category	Status of shares (one unit of stock: 100 shares)								Number of shares less than one unit (shares)
	Government and municipality	Financial institution	Financial instruments business operator	Other institution	Foreign corporations, etc.		Individuals and others	Total	
					Non-individuals	Individuals			
Number of shareholders	—	25	23	20	170	6	3,440	3,684	—
Share ownership (units)	—	40,387	3,623	10,213	42,548	43	44,448	141,262	6,800
Ownership percentage of shares (%)	—	28.59	2.56	7.23	30.12	0.03	31.47	100.00	—

(Note) Of 232,320 treasury shares, 2,323 units are included in the “Individuals and others” column, while 20 shares are included in the “Number of shares less than one unit” column.

(6) Major Shareholders

As of March 31, 2019

Name	Address	Share ownership (shares)	Ratio (%) of the number of owned shares to the total number of outstanding shares (excluding treasury shares)
Toshio Dogu	Minato-ku, Tokyo	2,496,316	17.96
Japan Trustee Services Bank, Ltd. (Trust Account)	1-8-11 Harumi, Chuo-ku, Tokyo	1,917,800	13.80
DAM Corporation	1-3-1 Minami-Aoyama, Minato-ku, Tokyo	680,000	4.89
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	637,400	4.59
State Street London Care of State Street Bank and Trust, Boston SSBTC A/C UK London Branch Clients - United Kingdom (Standing proxy: HSBC Tokyo Branch, Custody Service Department)	One Lincoln Street, Boston MA USA 02111 (3-11-1 Nihonbashi, Chuo-ku, Tokyo)	460,100	3.31
Japan Trustee Services Bank, Ltd. (Trust Account 9)	1-8-11 Harumi, Chuo-ku, Tokyo	405,800	2.92
Government of Norway (Standing proxy: Citibank N.A., Tokyo Branch)	Bankplassen 2, 0107 Oslo 1 Oslo 0107 No (6-27-30 Shinjuku, Shinjuku-ku, Tokyo)	354,713	2.55
The Bank of New York Mellon 140044 (Standing proxy: Settlement & Clearing Services Department of Mizuho Bank, Ltd.)	240 Greenwich Street, New York, NY 10286, U.S.A. (2-15-1 Konan, Minato-ku, Tokyo)	232,700	1.67
Northern Trust Co. (AVFC) Re Mondrian International Small Cap Equity Fund, L.P. (Standing proxy: HSBC Tokyo Branch, Custody Service Department)	50 Bank Street Canary Wharf London E14 5NT, UK (3-11-1 Nihonbashi, Chuo-ku, Tokyo)	208,600	1.50
Japan Trustee Services Bank, Ltd. (Trust Account 5)	1-8-11 Harumi, Chuo-ku, Tokyo	205,900	1.48
Total	—	7,599,329	54.67

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

2. The number of shares pertaining to the trust services of Japan Trustee Services Bank, Ltd. (Trustee Account) could not be confirmed by the Company and is, therefore, omitted.
3. The number of shares pertaining to the trust services of Master Trust Bank of Japan, Ltd. (Trust Account) could not be confirmed by the Company and is, therefore, omitted.
4. The number of shares pertaining to the trust services of Japan Trustee Services Bank, Ltd. (Trust Account 9) is 405,800 shares.
5. The number of shares pertaining to the trust services of Japan Trustee Services Bank, Ltd. (Trust Account 5) is 205,900 shares.
6. In addition to the forgoing, the Company holds 232,320 treasury shares.

7. The content of reports on large shareholders whose shareholdings could not be confirmed as of March 31, 2019 (change reports) is as follows.

- (1) A report on large shareholders (change report) naming Columbia Management Investment Advisers, LLC and Threadneedle Asset Management Ltd. as joint holders was submitted on December 20, 2018 by Attorney Moegi Shirakawa, but this change is not taken into consideration in “Major Shareholders” above as the Company cannot confirm the actual number of shares held as of March 31, 2019.

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

Name	Address	Number of share certificates, etc. held (shares)	Ownership ratio of share certificates (%)
Columbia Management Investment Advisers, LLC	225 Franklin Street, Boston, MA 02110, United States	292,500	2.07
Threadneedle Asset Management Ltd.	Cannon Place, 78 Cannon Street, London, EC4N 6AG, United Kingdom	255,737	1.81
Total	—	548,237	3.88

- (2) A report on large shareholders (change report) naming Sumitomo Mitsui Trust Asset Management Co., Ltd. and Nikko Asset Management Co., Ltd. as joint holders was submitted on December 20, 2018 by Sumitomo Mitsui Trust Bank, Limited, but this change is not taken into consideration in “Major Shareholders” above as the Company cannot confirm the actual number of shares held as of March 31, 2019.

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

Name	Address	Number of share certificates, etc. held (shares)	Ownership ratio of share certificates (%)
Sumitomo Mitsui Trust Asset Management Co., Ltd.	1-1-1 Shibakoen, Minato-ku, Tokyo	345,800	2.45
Nikko Asset Management Co., Ltd.	9-7-1 Akasaka, Minato-ku, Tokyo	523,800	3.71
Total	—	869,600	6.15

- (3) A report on large shareholders (change report) naming Mondrian Investment Partners Limited was submitted on February 27, 2019 by Nagashima Ohno & Tsunematsu, but this change is not taken into consideration in “Major Shareholders” above as the Company cannot confirm the actual number of shares held as of March 31, 2019.

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

Name	Address	Number of share certificates, etc. held (shares)	Ownership ratio of share certificates (%)
Mondrian Investment Partners Limited	Fifth Floor, 10 Gresham Street, London, EC2V 7JD, United Kingdom	533,500	3.77
Total	—	533,500	3.77

(7) Information on Voting Rights

(i) Issued Shares

As of March 31, 2019

Category	Number of shares (shares)	Number of voting rights	Description
Shares without voting right	—	—	—
Shares with restricted voting right (treasury shares, etc.)	—	—	—
Shares with restricted voting right (others)	—	—	—
Shares with full voting right (treasury shares, etc.)	Common stock 232,300	—	—
Shares with full voting right (others)	Common stock 13,893,900	138,939	—
Shares less than one unit	Common stock 6,800	—	—
Number of issued shares	14,133,000	—	—
Total number of voting rights	—	138,939	—

(ii) Treasury Shares, etc.

As of March 31, 2019

Name of shareholder	Address	Number of shares held under own name	Number of shares held under the name of others	Total shares held (shares)	Ownership percentage to the total number of issued shares (%)
Digital Arts Inc.	1-5-1 Otemachi, Chiyoda-ku, Tokyo, Japan	232,300	—	232,300	1.6
Total	—	232,300	—	232,300	1.6

2. Information on Acquisition, etc. of Treasury Shares

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

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

Not applicable.

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

Not applicable.

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

Category	Number of shares (shares)	Total amount (yen)
Treasury shares acquired during this fiscal year	2	10,060
Treasury shares acquired during the current period	—	—

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

Category	Current business year		Current period	
	Number of shares (shares)	Total disposition amount (yen)	Number of shares (shares)	Total disposition amount (yen)
Acquired treasury shares which were offered to subscribers	—	—	—	—
Acquired treasury shares which were canceled	—	—	—	—
Acquired treasury shares which were transferred due to merger, share exchange or company split	—	—	—	—
Other (Note)	15,700	20,741,623	8,100	10,701,659
Total number of treasury shares held	232,320	—	224,220	—

(Note) "Other" for the current business year and current period represents the exercise of share acquisition rights.

3. Dividend Policy

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

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

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

Our Articles of Incorporation state that we may, by resolution of the Board of Directors, pay interim dividends with a record date of September 30 each year, and our dividend forecast for the year ending March 31, 2020 is 50 yen per share (which includes an interim dividend of 25 yen).

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

Resolution date	Total amount of dividends (thousand yen)	Dividend per share (yen)
Resolution of the Board of Directors Meeting held on October 30, 2018	250,203	18
Resolution of the Annual General Shareholders Meeting held on Monday, June 24, 2019	417,020	30

4. Corporate Governance

(1) Corporate Governance

(i) Corporate Governance Policy

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

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

A. Overview of the corporate governance structure

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

The status of major activities is as follows.

(1) Board of Directors

The Board of Directors is comprised of the following six Directors, of whom two (33%) are Outside Directors. As the highest decision-making body, the Board of Directors is convened once a month, in principle, to make decisions on important matters that are fundamental to management.

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

Hidenobu Akezawa (Internal Director)

Takuya Matsumoto (Internal Director)

Shuji Wakai (Standing Audit & Supervisory Board Member, Internal Director)

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

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

(2) Audit & Supervisory Board

The Audit & Supervisory Board is comprised of the following three Directors (one of whom is a Standing Audit & Supervisory Board Member), two of whom are Outside Directors. The Audit & Supervisory Board deliberates important matters specified in the Audit & Supervisory Board Rules and endeavors to strengthen audits and supervision.

Shuji Wakai (Chairman, Standing Audit & Supervisory Board Member, Internal Director)

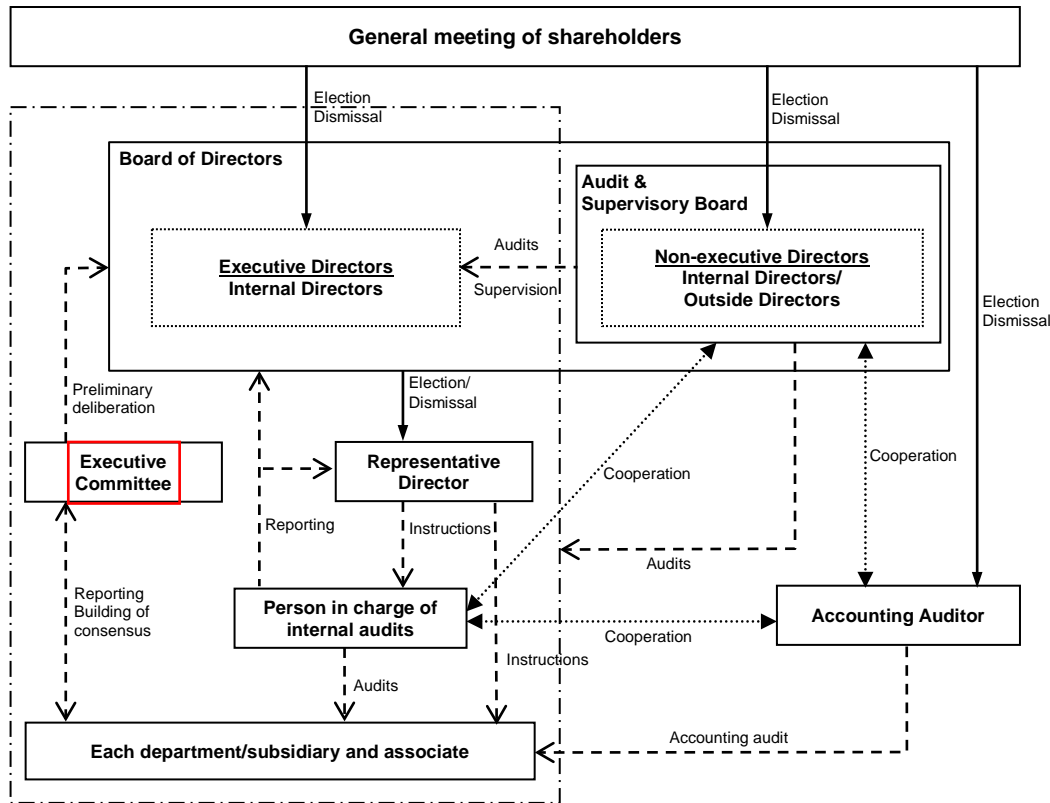
Hidekazu Kubokawa (Audit & Supervisory Board Member, Outside Director)

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

(3) Other

The Company convenes the Executive Committee, which is comprised of the Representative Director, Directors (excluding Directors who are Audit & Supervisory Board Members) and the General Managers of each Department, once a month, as a body preceded by the Board of Directors, to determine individual management strategies based on the prior deliberations and decision-making of the Board of Directors. The Company also convenes the Management Reporting and Liaison Committee, which is comprised of the General Managers of each Department and Section and higher-ranking members, once a week to report on the state of progress of operations in each division and to build consensus. Through these meeting bodies, we clarify individual roles and responsibilities and seek to give shape to the decisions made at meetings of the Board of Directors. We have also established functional departments responsible for clarifying the segregation of duties and ensuring checks and balances to maintain corporate governance.

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



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

B. Reasons for adoption of the corporate governance structure

The Board of Directors and the Executive Committee are responsible for most of the important decision-making related to execution of the Company's business. The Board of Directors, which is comprised of six Directors, two of whom are Outside Directors, convenes, in principle, once monthly and also meets on an ad hoc basis whenever necessary. To complement managerial judgments on other important matters, the Executive Committee, which is comprised of the Representative Director, Directors (excluding Directors who are Audit & Supervisory Board Members) and General Managers of departments, etc., convenes once a month to make decision related to business execution and also to confirm the status of business execution.

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

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

(iii) Other matters related to corporate governance

A. Status of development of internal control system

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

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

- (2) The Company is required to convene a meeting of the Board of Directors once a month, in principle, and on an ad hoc basis whenever necessary. At meetings of the Board of Directors, the Company makes decisions about the execution of the Group's important business and also supervises the execution of duties by Directors. The Company also seeks to ensure that Directors and employees comply with laws and regulations, the Articles of Incorporation, various regulations and stipulated business processes and it also works to strengthen risk management system and seeks to enhance internal control systems.
- (3) The Company appoints persons in charge of internal audits and builds internal control systems through internal audits. Persons in charge of internal audits regularly conduct internal audits of the Group's business management and all its business activities, evaluates and verifies compliance with laws and regulations, the Articles of Incorporation, various rules and stipulated business processes and reports to the Company's Board of Directors and Audit & Supervisory Board in a timely manner.
- b. Systems for storage and management of information relating to the execution of duties by the Company's Directors
- (1) In accordance with the Document Management Rules, the Company records, stores and manages information relating to the execution of duties by Directors in the form of paper or electronic means, including the minutes of meetings of the Board of Directors and other important meetings and documents approved by each Director in accordance with the Rules on Administrative Authority. Directors may view these documents, etc. at any time.
- (2) To ensure the effectiveness of internal audits, the Company establishes rules setting out the management method and storage period of important documents (including electronic media) relating to the execution of duties by Directors and stores and manages them in accordance with these rules.
- c. Rules and other systems relating to management of loss risks of the Group
- (1) To establish systems relating to management of loss risks of the Group, the Company establishes rules relating to the Group's risk management and raises awareness of these rules among Directors and employees.
- (2) The Company appoints persons in charge of internal audits, and the persons in charge of internal audits regularly examine the appropriateness of the audit items and audit methods used in the Group's business audits and revise audit items and audit method where necessary.
- d. Systems to ensure the effective and efficient execution of duties by the Group's Directors
- (1) To ensure the effective and efficient execution of duties by Directors, the Group formulates a business plan every fiscal year and verifies progress through monthly performance assessments.
- (2) Regarding the execution of routine duties by Directors, the Board of Directors delegates authority for the execution of duties to employees in accordance with the Rules on Administrative Authority and Rules on the Segregation of Duties and these employees assume responsibility for efficient execution of the delegated duties.
- e. Systems for reporting to the Company matters related to the execution of duties by the Group's Directors
- (1) The Company conducts internal audits of each division and subsidiary of the Company by persons in charge of internal audits at the Company in accordance with the Internal Audit Rules, establishes internal control systems within the Group, and reports the nature and frequency of risks within each division and subsidiary and the impact on the Company, etc. to the Board of Directors and Audit & Supervisory Board of the Company in a timely manner.
- (2) The Company makes it mandatory for each Group company to regularly report to the Company on its operating results, financial condition and certain other important matters related to management.
- f. Matters related to Directors and employees to assist the duties of the Audit & Supervisory Board
- Upon a request from the Audit & Supervisory Board for the assignment of employees required to assist the duties of the Audit & Supervisory Board, the Company promptly assigns the appropriate personnel.
- g. Matters related to the independence of Directors and employees required to assist the duties of the Audit & Supervisory Board from Directors (excludes said Directors and Directors who are Audit & Supervisory Board Members) and matters for ensuring the effectiveness of instructions to Directors and employees required to assist the duties of the Audit & Supervisory Board
- (1) Employees required to assist the duties of the Audit & Supervisory Board are only under the command of the Audit & Supervisory Board with respect to the work they are instructed to do by the Audit & Supervisory Board.
- (2) The Company will listen to the opinions of the Audit & Supervisory Board before determining matters such as personnel transfers and personnel evaluations of employees required to assist the duties of the Audit & Supervisory Board.
- h. Systems for reporting to the Audit & Supervisory Board
- (1) The Company's Directors report the status of execution of their duties at meetings of the Board of Directors attended by Audit

& Supervisory Board Members and other important meetings as and when necessary.

(2) The Directors and employees of the Group report to the Company's Audit & Supervisory Board any violations of laws and regulations and any fact that might be damaging to the Company immediately upon discovery thereof.

(3) The division in charge of the Group's whistleblowing system regularly reports to the Audit & Supervisory Board the status of whistleblowing reports by Group officers and employees.

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

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

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

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

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

(1) The Representative Director regularly holds meetings with the Audit & Supervisory Board to exchange views on matters such as issues to be addressed by the Company, the status of development of the environment for audits by Audit & Supervisory Board Members and important audit-related issues.

(2) The Audit & Supervisory Board, persons in charge of internal audits and the accounting auditor seek to improve the quality of audits by strengthening cooperation with each other, including exchanging information and opinions where necessary.

l. Systems for eliminating antisocial forces

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

B. Status of improvement of risk management system

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

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

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

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

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

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

D. Quorum of Directors

The Articles of Incorporation of the Company stipulate that the Company shall have not more than six Directors (excluding Audit & Supervisory Board Members) and that it shall have not more than four Directors who are Audit & Supervisory Board Members.

E. Requirements for resolutions of the election of Directors

The Articles of Incorporation of the Company stipulate that resolutions for the election of the Directors shall be made by a majority

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

They further state that a resolution on the dismissal of a Director shall be made with the approval of a majority of the voting rights of shareholders who are present and hold a majority of the total voting rights of the shareholders who can exercise such rights.

F. Decision-making body for acquisition of treasury shares

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

G. Interim dividends

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

H. Content and outline of agreements for limitation of liability

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

I. Exemption of Directors from liability

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

J. Requirement for special resolutions of general shareholders meetings

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

(2) Officers

(i) List of Officers

Men: 6 persons, Women: – person (Women's percentage to total number of officers: –%)

Title	Name	Date of birth	Business experience	Term of office	Share ownership (shares)
Representative Director, President & CEO, General Manager-Sales, General Manager-Marketing	Toshio Dogu	February 17, 1968	<p>October 1997 Representative Director, President & CEO, Digital Arts Inc.</p> <p>October 2003 General Manager-Corporate Planning</p> <p>March 2005 Director, IQS' Co., Ltd.</p> <p>November 2005 Representative Director, President & CEO, IQS' Co., Ltd.</p> <p>December 2006 Representative Director, President & CEO, DAM Corporation (incumbent)</p> <p>April 2011 Director, President & CEO, Digital Arts America, Inc. (incumbent)</p> <p>June 2012 Director, Digital Arts Investment, Inc. (incumbent)</p> <p>May 2013 Representative Director, President & CEO, Polkast Japan LLC</p> <p>October 2013 Representative Director, President & CEO, DA Corporation (incumbent)</p> <p>October 2013 Representative Director, President & CEO, DM Corporation (incumbent)</p> <p>April 2014 Director, President & CEO, FinalCode, Inc.</p> <p>November 2014 Representative Director, President & CEO, General Manager- Sales, Digital Arts Inc.</p> <p>April 2015 Representative Director, President & CEO, General Manager- Sales, General Manager-FinalCode Business</p> <p>November 2015 Director, Digital Arts Asia Pacific Pte. Ltd. (incumbent)</p> <p>April 2016 Representative Director, President & CEO, General Manager- Sales, Digital Arts Inc.</p> <p>April 2016 Representative Director, Chairman, Digital Arts Consulting Inc. (incumbent)</p> <p>September 2016 Director, Digital Arts Europe Limited (incumbent)</p> <p>April 2017 Representative Director, President & CEO, General Manager-Sales, General Manager-Marketing, General Manager-Corporation Planning, Digital Arts Inc.</p> <p>April 2018 Representative Director, President & CEO, General Manager-Sales, General Manager-Marketing (incumbent)</p>	(Note 2)	2,496,316

Title	Name	Date of birth	Business experience		Term of office	Share ownership (shares)
Director, General Manager-Administration, General Manager-Corporate Planning	Hidenobu Akazawa	September 12, 1975	<p>April 1999 December 2004</p> <p>July 2014</p> <p>June 2015</p> <p>November 2015</p> <p>April 2016</p> <p>September 2016</p> <p>January 2017</p> <p>April 2017</p> <p>April 2017</p> <p>April 2018</p> <p>November 2018</p>	<p>Joined Nippon Life Insurance Company</p> <p>Joined Shin Nihon & Co. (currently Ernst & Young ShinNihon LLC)</p> <p>Joined Digital Arts Inc., General Manager-Administration</p> <p>Director, General Manager-Administration</p> <p>Director, Digital Arts Asia Pacific Pte. Ltd. (incumbent)</p> <p>Director, Digital Arts Consulting Inc. (incumbent)</p> <p>Director, Digital Arts Europe Limited (incumbent)</p> <p>Director, General Manager-Administration, General Manager-Corporate Planning, Digital Arts Inc.</p> <p>Director, General Manager-Administration</p> <p>Director and CFO, FinalCode, Inc.</p> <p>Director, General Manager-Administration, General Manager-Corporate Planning, General Manager-Human Resources, Digital Arts Inc.</p> <p>Director, General Manager-Administration, General Manager-Corporate Planning, Digital Arts Inc. (incumbent)</p>	(Note 2)	77
Director, General Manager-Development	Takuya Matsumoto	November 4, 1976	<p>April 1999</p> <p>April 2003</p> <p>April 2014</p> <p>October 2016</p> <p>June 2017</p> <p>December 2017</p> <p>April 2018</p>	<p>Joined COMAS Co., Ltd.</p> <p>Joined Digital Arts Inc., Development</p> <p>Associate General Manager-Development</p> <p>General Manager-Development</p> <p>Director, General Manager-Development</p> <p>Director, General Manager-Development, General Manager-New Development</p> <p>Director, General Manager-Development (incumbent)</p>	(Note 2)	2,969
Director (Audit & Supervisory Board Member)	Shuji Wakai	April 8, 1936	<p>April 1959</p> <p>December 1987</p> <p>June 1997</p> <p>June 2000</p> <p>March 2005</p> <p>April 2016</p> <p>June 2016</p>	<p>Joined Tokyo Denki Kagaku Kogyo K.K. (currently TDK Corporation)</p> <p>Representative Director, President and CEO, TDK Core Co., Ltd. (currently Creative Core Co., Ltd.)</p> <p>Auditor, TDK Corporation</p> <p>Standing Auditor, Digital Arts Inc.</p> <p>Auditor, IQS' Co., Ltd.</p> <p>Auditor, Digital Arts Consulting Inc. (incumbent)</p> <p>Director (Audit & Supervisory Board Member), Digital Arts Inc. (incumbent)</p>	(Note 3)	2,115

Title	Name	Date of birth	Business experience		Term of office	Share ownership (shares)
Director (Audit & Supervisory Board Member)	Hidekazu Kubokawa	February 20, 1953	November 1976 July 1986 February 1989 March 2000 June 2005 June 2006 June 2016	Joined Chuo Audit Corporation (currently PricewaterhouseCoopers Aarata LLC) Founded Kubokawa CPA Office (currently Yotsuya Partners Accounting Firm), Representative Partner (incumbent) Outside Audit & Supervisory Board Member, SoftBank Corp. Japan (currently SoftBank Group Corp.) (incumbent) Outside Auditor, Digital Arts Inc. Outside Corporate Auditor, Kyoritsu Printing Co., Ltd. (incumbent) Outside Auditor, Pado Corporation Outside Director (Audit & Supervisory Board Member), Digital Arts Inc. (incumbent)	(Note 3)	3,250
Director (Audit & Supervisory Board Member)	Masataka Uesugi	July 31, 1965	April 1995 April 1999 September 2000 June 2003 December 2013 November 2014 March 2015 March 2016 June 2016	Joined Emori Kawamori Atsumi Law Office Founded Uesugi Law Office Partner of Amlec Law and Accounting Firm Outside Auditor, Digital Arts Inc. Outside Audit & Supervisory Board Member, Ceres Inc. (incumbent) Outside Audit & Supervisory Board Member, Aiming Inc. (incumbent) Senior Partner, Sakurada Dori Partners (incumbent) Director (Audit & Supervisory Committee Member), Fullcast Holdings Co., Ltd. (incumbent) Outside Director (Audit & Supervisory Board Member), Digital Arts Inc. (incumbent)	(Note 3)	3,250
Total						2,507,981

- (Notes) 1. Audit & Supervisory Board Members Hidekazu Kubokawa and Masataka Uesugi are Outside Directors.
2. The term of office shall expire at the conclusion of the Annual General Meeting of Shareholders pertaining to the last business year ending within one (1) year after the conclusion of the Annual General Meeting of Shareholders held on June 24, 2019.
3. The term of office shall expire at the conclusion of the Annual General Meeting of Shareholders pertaining to the last business year ending within one (2) year after the conclusion of the Annual General Meeting of Shareholders held on June 22, 2018.
4. The number of shares held includes shares of stock in Digital Arts Inc.'s officers' shareholding association.
5. The Company has elected a substitute for a Director who is an Audit & Supervisory Board Member stipulated in Article 329, Paragraph 3 of the Companies Act in advance to prepare for cases where the number of Directors who are Audit & Supervisory Board Members falls below the number stipulated by laws and regulations. The career history of the substitute for a Director who is an Audit & Supervisory Board Member is as follows.

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

(ii) Information about Outside Officers

The Company has two Outside Directors.

Outside Director Hidekazu Kubokawa holds 3,250 shares of the Company's stock as of March 31, 2019, but there are no other special interests between Mr. Kubokawa and the Company. Mr. Kubokawa is a Representative Partner of Yotsuya Partners Accounting Firm but there are no special interests between Yotsuya Partners Accounting Firm and the Company.

Outside Director Masataka Uesugi holds 3,250 shares of the Company's stock as of March 31, 2019, but there are no other special interests between Mr. Uesugi and the Company. Mr. Uesugi is a Partner of Sakurada Dori Partners but there are no special interests between Sakurada Dori Partners and the Company.

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

(iii) Supervision, Audit, Internal Audit by Outside Directors and Outside Audit & Supervisory Board Members, Audit of Audit & Supervisory Board Members, Collaboration with Accounting Auditor and Relationship with Internal Control Divisions

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

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

(3) [Information about Audits]

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

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

Standing Audit & Supervisory Board Member Shuji Wakai has many years of experience of accounting and finance operations at TDK Corporation and has considerable knowledge about finance and accounting.

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

(ii) Information about Internal Audits

The Company's organization for internal audits is comprised of one person in charge of internal audits.

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

(iii) Information about Accounting Audit

A. Name of audit corporation

BDO Sanyu & Co.

B. Certified public accountants who execute operations

Mr. Nobuhito Iwata

Mr. Koji Kumagai

C. Composition of assistants with audit operations

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

D. Policy and reasons for selection of audit corporation

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

E. Evaluation of audit corporation by Audit & Supervisory Board

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

(iv) Audit Fees

A. Fees paid to certified public accountants, etc.

Category	Previous fiscal year		Fiscal year under review	
	Fees for audit services (thousand yen)	Fees for non-audit services (thousand yen)	Fees for audit services (thousand yen)	Fees for non-audit services (thousand yen)
Filing Company	19,500	—	19,500	—
Consolidated subsidiaries	—	—	—	—
Total	19,500	—	19,500	—

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

Not applicable.

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

Not applicable.

D. Policy on determination of audit fees

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

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

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

(4) Compensation to Directors and Executive Officers

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

The Company does not have a policy for determining the amount and method of calculation of compensation to Directors and Executive Officers, but it determines the amount of compensation for Directors and Directors who are Audit & Supervisory Board Members separately within the limits of the total amounts of compensation approved for each respectively by the General Meeting of Shareholders.

The remuneration limit for Directors (excludes Directors who are Audit & Supervisory Board Members) is set at 300 million yen per year based on a resolution of the Annual Shareholders' Meeting held on June 24, 2016, and a proposal to set the maximum total amount of monetary compensation claims to be delivered to Directors (excludes Directors who are Audit & Supervisory Board Members) of the Company as remuneration related to restricted stock at 50 million yen per year was approved at the 24th Annual Shareholders' Meeting of the Company held on June 24, 2019 as a separate amount from this remuneration amount for Directors (excludes Directors who are Audit & Supervisory Board members). The remuneration limit for Directors who are Audit & Supervisory Board Members is set at 100 million yen per year based on a resolution of the Annual Shareholders' Meeting held on June 24, 2016.

The remuneration amount of each Director (excludes Directors who are Audit & Supervisory Board Members) is determined by the Board of Directors within the scope of the remuneration limit approved at the Annual Shareholders' Meeting, taking contribution to corporate performance and the status of execution of duties into consideration. The remuneration amount of each Director who is an Audit & Supervisory Board Member is fixed remuneration that takes duties and authority into consideration and is not linked to corporate performance and it is determined by resolution of the Audit & Supervisory Board.

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

Category of officers	Total amount of remuneration (thousand yen)	Total amount of remuneration, etc. by type (thousand yen)		Number of eligible officers
		Basic remuneration	Stock options	
Directors (excludes Audit & Supervisory Board Members and Outside Directors)	42,400	42,400	—	3
Directors who are Audit & Supervisory Board Members (excludes Outside Directors)	8,400	8,400	—	1
Outside Officers	7,200	7,200	—	2

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

Not stated because there are no persons whose total amount of consolidated remuneration, etc. is JPY100 million or more.

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

Total amount (thousand yen)	Officers who also hold employee posts (people)	Description
31,983	2	Salary as consideration for services rendered.

(5) Information on Shareholdings

Not applicable.

Section V. Financial Information

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

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

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

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

2. Audit Certification

The Company underwent an audit by BDO Sanyu & Co. of the consolidated financial statements for the consolidated fiscal year (from April 1, 2018 to March 31, 2019) and the non-consolidated financial statements for the fiscal year (from April 1, 2018 to March 31, 2019) in compliance with the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

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

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

1. Consolidated Financial Statements

(1) Consolidated Financial Statements

(i) Consolidated Balance Sheet

(Thousand yen)

	Fiscal 2018 (As of March 31, 2018)	Fiscal 2019 (As of March 31, 2019)
Assets		
Current assets		
Cash and deposits	4,426,443	6,169,172
Notes and accounts receivable - trade	1,125,067	1,172,515
Securities	–	299,968
Finished goods	695	290
Other	155,443	87,863
Total current assets	5,707,649	7,729,809
Non-current assets		
Property, plant and equipment		
Buildings	130,140	205,990
Accumulated depreciation	(96,596)	(104,980)
Buildings, net	33,543	101,009
Vehicles	17,519	17,519
Accumulated depreciation	(4,718)	(9,816)
Vehicles, net	12,800	7,703
Tools, furniture and fixtures	361,367	416,174
Accumulated depreciation	(251,204)	(290,055)
Tools, furniture and fixtures, net	110,163	126,119
Land	–	26,254
Total property, plant and equipment	156,508	261,087
Intangible assets		
Software	971,257	1,044,163
Other	314,637	367,390
Total intangible assets	1,285,895	1,411,553
Investments and other assets		
Investment securities	403,347	103,002
Deferred tax assets	73,884	80,886
Shares of subsidiaries and associates	*1 32,788	*1 1,097
Other	268,459	271,910
Total investments and other assets	778,479	456,896
Total non-current assets	2,220,882	2,129,537
Total assets	7,928,532	9,859,347

(Thousand yen)

	Fiscal 2018 (As of March 31, 2018)	Fiscal 2019 (As of March 31, 2019)
Liabilities		
Current liabilities		
Accounts payable - trade	22,106	22,744
Income taxes payable	305,391	330,672
Provision for bonuses	112,280	128,192
Advances received	917,210	1,225,258
Other	278,936	303,494
Total current liabilities	1,635,924	2,010,363
Non-current liabilities		
Asset retirement obligations	44,360	45,444
Other	645	645
Total non-current liabilities	45,005	46,089
Total liabilities	1,680,930	2,056,452
Net assets		
Shareholders' equity		
Share capital	713,590	713,590
Capital surplus	825,560	827,730
Retained earnings	4,991,931	6,518,256
Treasury shares	(327,671)	(306,939)
Total shareholders' equity	6,203,410	7,752,637
Accumulated other comprehensive income		
Foreign currency translation adjustment	(4,703)	8,499
Total accumulated other comprehensive income	(4,703)	8,499
Share acquisition rights	33,812	23,587
Non-controlling interests	15,082	18,169
Total net assets	6,247,602	7,802,894
Total liabilities and net assets	7,928,532	9,859,347

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

Consolidated Statement of Income

(Thousand yen)

	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Net sales	5,116,969	5,841,287
Cost of sales	1,075,437	1,059,444
Gross profit	4,041,531	4,781,842
Selling, general and administrative expenses	*1,*2 2,138,614	*1,*2 2,152,750
Operating profit	1,902,917	2,629,092
Non-operating income		
Interest income	1,071	1,079
Foreign exchange gains	3,503	–
Commission income	212	198
Gain on forfeiture of unclaimed dividends	945	1,168
Miscellaneous income	1,003	1,759
Total non-operating income	6,736	4,204
Non-operating expenses		
Foreign exchange losses	–	2,224
Miscellaneous loss	276	108
Total non-operating expenses	276	2,333
Ordinary profit	1,909,377	2,630,963
Extraordinary income		
Gain on reversal of share acquisition rights	3,193	2,135
Gain on sales of non-current assets	*3 1,498	–
Gain on liquidation of subsidiaries	2,607	–
Total extraordinary income	7,299	2,135
Extraordinary losses		
Loss on retirement of non-current assets	*4 10,204	*4 4,374
Loss on valuation of golf club membership	–	2,200
Loss on liquidation of subsidiaries	–	*5 56,135
Loss on valuation of shares of subsidiaries	–	7,156
Total extraordinary losses	10,204	69,866
Profit before income taxes	1,906,472	2,563,232
Income taxes - current	577,834	605,870
Income taxes - deferred	44,881	(7,001)
Total income taxes	622,715	598,869
Profit	1,283,756	1,964,363
Profit attributable to non-controlling interests	1,832	3,087
Profit attributable to owners of parent	1,281,924	1,961,276

Consolidated Statement of Comprehensive Income

(Thousand yen)

	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Profit	1,283,756	1,964,363
Other comprehensive income		
Foreign currency translation adjustment	(8,534)	13,203
Total other comprehensive income	*1 -8,534	*1 13,203
Comprehensive income	1,275,222	1,977,567
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,273,389	1,974,480
Comprehensive income attributable to non-controlling interests	1,832	3,087

(iii) Consolidated Statement of Changes in Equity

Fiscal 2018 (from April 1, 2017 to March 31, 2018)

(Thousand yen)

	Shareholders' equity					Accumulated other comprehensive income		Share acquisition rights	Non-controlling interests	Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of period	713,590	778,435	4,098,920	(410,665)	5,180,280	3,830	3,830	81,152	5,075	5,270,339
Changes in items during period										
Dividends of surplus			(387,675)		(387,675)					(387,675)
Change in ownership interest of parent due to transactions with non-controlling interests		(2,174)			(2,174)				8,174	6,000
Profit attributable to owners of parent			1,281,924		1,281,924					1,281,924
Change in scope of consolidation			(1,238)		(1,238)					(1,238)
Disposal of treasury shares		49,299		83,552	132,852					132,852
Purchase of treasury shares				(558)	(558)					(558)
Net changes in items other than shareholders' equity						(8,534)	(8,534)	(47,340)	1,832	(54,042)
Total changes in items during period	–	47,125	893,010	82,994	1,023,130	(8,534)	(8,534)	(47,340)	10,007	977,262
Balance at end of period	713,590	825,560	4,991,931	(327,671)	6,203,410	(4,703)	(4,703)	33,812	15,082	6,247,602

Fiscal 2019 (from April 1, 2018 to March 31, 2019)

(Thousand yen)

	Shareholders' equity					Accumulated other comprehensive income		Share acquisition rights	Non-controlling interests	Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of period	713,590	825,560	4,991,931	(327,671)	6,203,410	(4,703)	(4,703)	33,812	15,082	6,247,602
Changes in items during period										
Dividends of surplus			(444,592)		(444,592)					(444,592)
Change in ownership interest of parent due to transactions with non-controlling interests					–					–
Profit attributable to owners of parent			1,961,276		1,961,276					1,961,276
Change in scope of consolidation			9,641		9,641					9,641
Disposal of treasury shares		2,170		20,741	22,912					22,912
Purchase of treasury shares				(10)	(10)					(10)
Net changes in items other than shareholders' equity						13,203	13,203	(10,225)	3,087	6,065
Total changes in items during period	–	2,170	1,526,325	20,731	1,549,227	13,203	13,203	(10,225)	3,087	1,555,292
Balance at end of period	713,590	827,730	6,518,256	(306,939)	7,752,637	8,499	8,499	23,587	18,169	7,802,894

(iv) Consolidated Statement of Cash Flows

(Thousand yen)

	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Cash flows from operating activities		
Profit before income taxes	1,906,472	2,563,232
Depreciation	573,514	662,496
Loss on valuation of golf club membership	–	2,200
Increase (decrease) in provision for bonuses	(53,466)	15,911
Interest income	(1,071)	(1,079)
Foreign exchange losses (gains)	(5,387)	2,878
Interest expenses	77	–
Gain on reversal of share acquisition rights	(3,193)	(2,135)
Loss on valuation of shares of subsidiaries	–	7,156
Loss on retirement of non-current assets	10,204	4,374
Loss (gain) on sales of non-current assets	(1,498)	–
Decrease (increase) in trade receivables	80,820	298,266
Decrease (increase) in inventories	(166)	404
Increase (decrease) in trade payables	4,117	450
Increase (decrease) in accounts payable - other	(3,622)	(34,743)
Decrease (increase) in other current assets	(13,078)	85,102
Increase (decrease) in other current liabilities	(75,396)	45,582
Other	(23,051)	19,598
Subtotal	2,395,273	3,669,697
Interest and dividends received	1,389	1,390
Interest paid	(77)	–
Income taxes paid	(733,426)	(579,225)
Net cash provided by (used in) operating activities	1,663,158	3,091,862
Cash flows from investing activities		
Purchase of property, plant and equipment	(103,913)	(167,827)
Proceeds from sale of property, plant and equipment	7,660	–
Purchase of intangible assets	(671,817)	(741,907)
Other	(6,797)	950
Net cash provided by (used in) investing activities	(774,868)	(908,784)
Cash flows from financing activities		
Proceeds from disposal of treasury shares	98,291	14,822
Purchase of treasury shares	(558)	(10)
Proceeds from issuance of share acquisition rights	1,413	–
Proceeds from share issuance to non-controlling shareholders	0	–
Dividends paid	(387,554)	(444,524)
Other payments	(4,999)	–
Net cash provided by (used in) financing activities	(293,407)	(429,712)
Effect of exchange rate change on cash and cash equivalents	(1,465)	(2,267)
Net increase (decrease) in cash and cash equivalents	593,417	1,751,098
Cash and cash equivalents at beginning of period	3,298,836	3,826,443
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	(65,811)	(8,369)
Cash and cash equivalents at end of period	*1 3,826,443	*1 5,569,172

Notes

(Notes on the premise of a growing concern)

There are no applicable matters.

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

1. Matters related to the scope of consolidation

(1) Number of consolidated subsidiaries: 4

Names of consolidated subsidiaries

Digital Arts Consulting Inc.

Digital Arts America, Inc.

Digital Arts Asia Pacific Pte. Ltd.

Digital Arts Europe Limited

(Changes in scope of consolidation)

The liquidation of FinalCode, Inc. was completed in the consolidated fiscal year under review, and it has been excluded from the scope of consolidation.

Digital Arts America, Inc. has been included in the scope of consolidation in the consolidated fiscal year under review due to its increased importance.

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

Non-consolidated subsidiaries

Digital Arts Investment, Inc.

(Reason for exclusion from scope of consolidation)

The non-consolidated subsidiary is a small company. Its total assets, net sales, profit, retained earnings or other items do not have any significant effect on the consolidated financial statements.

2. Matters related to the application of the equity method

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

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

Non-consolidated subsidiaries

Digital Arts Investment, Inc.

(Reason why the equity method is not applied)

The non-consolidated subsidiary's effect on profit, retained earnings and other items is minor and insignificant. The non-consolidated subsidiary as a whole is not significant.

3. Fiscal years of consolidated subsidiaries

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

4. Matters related to accounting policies

(1) Valuation standards and valuation methods for significant assets

A. Securities

(a) Bonds held for maturity

The amortized cost method (interest method) is applied.

(b) Shares of subsidiaries and associates

The moving average cost method is applied.

B. Inventories

(a) Finished goods

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

(2) Depreciation/amortization method for significant depreciable/amortizable assets

A. Property, plant and equipment

The declining balance method is applied.

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

B. Intangible assets

The straight-line method is applied.

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

C. Long-term prepaid expenses

The straight-line method is applied.

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

(3) Standards for recognition of significant allowances

A. Provision for bonuses

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

(4) Standards for translating significant assets or liabilities that are in foreign currency into yen

Monetary claims and obligations in foreign currency are translated into yen using the spot exchange rate on the consolidated settling day, and translation adjustments are treated as a profit or loss. Assets and liabilities at overseas subsidiaries, etc. are translated into yen using the spot exchange rate on the consolidated settling day. Revenue and expense are translated into yen using the average rate during the period, and translation adjustments are included in the foreign currency translation adjustment in net assets.

(5) Scope of funds in the consolidated statement of cash flows

Funds in the consolidated statement of cash flows (cash and cash equivalents) consist of cash on hand, deposits that can be withdrawn as needed, and short-term investments that can be realized easily and only have insignificant value fluctuation risk and whose redemption date arrives within three months of the acquisition date.

(6) Other significant matters that serve as a basis for the preparation of consolidated financial statements

A. Treatment of consumption tax

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

(Change in accounting policy)

(Application of Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions)

Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions (PITF No. 36; January 12, 2018), etc. has been applied from April 1, 2018, and the accounting for transactions granting employees and others stock acquisition rights which involve considerations with vesting conditions are subject to the Accounting Standard for Share-based Payment (ASBJ Statement No. 8; December 27, 2005), etc.

The application of PITF No. 36 is subject to the transitional treatment provided for in Paragraph 10 (3) of PITF No. 36, and the

accounting before the application of PITF No. 36 is applied to transactions granting employees and others stock acquisition rights which involve considerations with vesting conditions before the applied day of PITF No. 36.

(Issued but not yet Adopted Accounting Standards)

Accounting Standard for Revenue Recognition

Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018)

Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)

(1) Overview

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

- (i) Identify the contract with the customer.
- (ii) Identify the performance obligations in the contract.
- (iii) Calculate the value of the transaction.
- (iv) Allocate the transaction value to the performance obligations in the contract.
- (v) Recognize the revenue when the corresponding performance obligation has been satisfied or is going to be satisfied.

(2) Scheduled date of application

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

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

The impacts of adopting Accounting Standard for Revenue Recognition on the consolidated financial statements are being evaluated.

Changes in presentation methods

(Changes as a result of application of Partial Amendments of Accounting Standard for Tax Effect Accounting)

Partial Amendments of Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018) have been applied from the beginning of the fiscal 2019. Accordingly, deferred tax assets were presented under investments and other assets, and deferred tax liabilities were presented under non-current liabilities.

As a result, deferred tax assets of 58,408 thousand yen presented under current assets in the consolidated balance sheet for fiscal 2018 are included in deferred tax assets of 73,884 thousand yen under investments and other assets.

(Consolidated balance sheet)

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

	(Thousand yen)	
	Fiscal 2018 (As of March 31, 2018)	Fiscal 2019 (As of March 31, 2019)
Shares of subsidiaries and associates	32,788	1,097

(Consolidated statement of income)

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

	(Thousand yen)	
	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Advertising expenses	287,617	290,527
Salaries and allowances	657,248	626,386
Provision for bonuses	53,043	70,766
Commission expenses	111,194	108,709

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

	(Thousand yen)	
	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
	15,210	13,176

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

	(Thousand yen)	
	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Vehicles	1,498	-

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

	(Thousand yen)	
	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Buildings	5,738	-
Tools, furniture and fixtures	4,465	3,163
Software	-	1,211

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

Fiscal 2018 (from April 1, 2017 to March 31, 2018)

There are no applicable matters.

Fiscal 2019 (from April 1, 2018 to March 31, 2019)

The loss on liquidation of subsidiaries is a loss as a result of completion of the liquidation of FinalCode, Inc.

(Consolidated statements of comprehensive income)

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

	(Thousand yen)	
	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Foreign currency translation adjustment:		
Amount that occurred in the fiscal year under review	(8,534)	2,214
Reclassification adjustment	-	10,989
Before tax effect adjustment	(8,534)	13,203
Tax effect	-	-
Foreign currency translation adjustment	(8,534)	13,203
Total other comprehensive income	(8,534)	13,203

(Consolidated statement of changes in equity)

Fiscal 2018 (from April 1, 2017 to March 31, 2018)

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

	Number of shares at beginning of consolidated fiscal year under review	Increase in number of shares during consolidated fiscal year under review	Decrease in number of shares during consolidated fiscal year under review	Number of shares at end of consolidated fiscal year under review
Issued shares				
Common shares	14,133,000	-	-	14,133,000
Total	14,133,000	-	-	14,133,000
Treasury shares				
Common shares (Note)	311,175	143	63,300	248,018
Total	311,175	143	63,300	248,018

(Note) An increase in the number of common shares in treasury shares, 143, is due to the purchase of treasury shares. A decrease in the number of treasury shares, 63,300, is due to the exercise of stock options.

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

Classification	Breakdown of share acquisition rights	Class of shares underlying share acquisition rights	Number of shares underlying share acquisition rights				Amount at end of fiscal year under review (thousand yen)
			Beginning of fiscal year under review	Increase during fiscal year under review	Decrease during fiscal year under review	End of fiscal year under review	
Reporting company (parent company)	Share acquisition rights as stock options	-	-	-	-	-	33,812
Total		-	-	-	-	-	33,812

3. Matters related to dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (thousand yen)	Dividends per share (yen)	Record date	Effective date
Annual shareholders' meeting on June 23, 2017	Common shares	193,505	14	March 31, 2017	June 26, 2017
Board of Directors meeting on October 30, 2017	Common shares	194,169	14	September 30, 2017	December 4, 2017

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

Resolution	Class of shares	Total amount of dividends (thousand yen)	Financial source of dividends	Dividend per share (yen)	Record date	Effective date
Annual shareholders' meeting on June 22, 2018	Common shares	194,389	Retained earnings	14	March 31, 2018	June 25, 2018

Fiscal 2019 (from April 1, 2018 to March 31, 2019)

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

	Number of shares at beginning of consolidated fiscal year under review	Increase in number of shares during consolidated fiscal year under review	Decrease in number of shares during consolidated fiscal year under review	Number of shares at end of consolidated fiscal year under review
Issued shares				
Common shares	14,133,000	—	—	14,133,000
Total	14,133,000	—	—	14,133,000
Treasury shares				
Common shares (Note)	248,018	2	15,700	232,320
Total	248,018	2	15,700	232,320

(Note) An increase in the number of common shares in treasury shares, 2, is due to the purchase of treasury shares. A decrease in the number of treasury shares, 15,700, is due to the exercise of stock options.

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

Classification	Breakdown of share acquisition rights	Class of shares underlying share acquisition rights	Number of shares underlying share acquisition rights				Amount at end of fiscal year under review (thousand yen)
			Beginning of fiscal year under review	Increase during fiscal year under review	Decrease during fiscal year under review	End of fiscal year under review	
Reporting company (parent company)	Share acquisition rights as stock options	—	—	—	—	—	23,587
Total		—	—	—	—	—	23,587

3. Matters related to dividends

(1) Dividends paid

Resolution	Class of shares	Total amount of dividends (thousand yen)	Dividend per share (yen)	Record date	Effective date
Annual shareholders' meeting on June 22, 2018	Common shares	194,389	14	March 31, 2018	June 25, 2018
Board of Directors meeting on October 30, 2018	Common shares	250,203	18	September 30, 2018	December 4, 2018

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

Resolution	Class of shares	Total amount of dividends (thousand yen)	Financial source of dividends	Dividend per share (yen)	Record date	Effective date
Annual shareholders' meeting on June 24, 2019	Common shares	417,020	Retained earnings	30	March 31, 2019	June 25, 2019

(Consolidated statement of cash flows)

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

	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Cash and deposit account	4,426,443 thousand yen	6,169,172 thousand yen
Time deposits whose deposit period is more than three months	(600,000)	(600,000)
Securities	—	—
Cash and cash equivalents	3,826,443	5,569,172

(Lease transactions)

There are no applicable matters.

(Financial instruments)

1. Matters related to the status of financial instruments

(1) Policy on financial instruments

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

(2) Description of financial instruments and their risks

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

Securities and investment securities are short-term investments in investment trusts and public and corporate bonds and are exposed to the market price fluctuation risk.

(3) Risk management system related to financial instruments

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

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

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

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

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

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

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

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

The market prices of financial instruments are based on market prices and rationally calculated prices if no market prices are available. The calculated prices include variable factors, which may change if different assumptions are used.

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

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

Fiscal 2018 (As of March 31, 2018)

	Consolidated balance sheet amount (thousand yen)	Market price (thousand yen)	Difference (thousand yen)
(1) Cash and deposits	4,426,443	4,426,443	—
(2) Notes and accounts receivable - trade	1,125,067	1,125,067	—
(3) Investment securities			
Bonds held for maturity	403,347	404,943	1,595
Total assets	5,954,858	5,956,453	1,595
(1) Income taxes payable	305,391	305,391	—
Total liabilities	305,391	305,391	—

Fiscal 2019 (As of March 31, 2019)

	Consolidated balance sheet amount (thousand yen)	Market price (thousand yen)	Difference (thousand yen)
(1) Cash and deposits	6,169,172	6,169,172	—
(2) Notes and accounts receivable - trade	1,172,515	1,172,515	—
(3) Securities and investment securities			
Bonds held for maturity	402,971	404,079	1,107
Total assets	7,744,658	7,745,766	1,107
(1) Income taxes payable	330,672	330,672	—
Total liabilities	330,672	330,672	—

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

Assets

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

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

(3) Securities and investment securities

The market prices of public and corporate bonds are presented by financial institutions, etc. As for investment trusts, the market prices are similar to the book values, because their yields are similar to those of deposits and their investment results are distributed in the short term. Thus, their market prices are close to their book values and are deemed to be their book values.

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

Liabilities

(1) Income taxes payable

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

(Note) 2. Monetary claims and securities with maturity periods to be redeemed after the consolidated closing date
Fiscal 2018 (As of March 31, 2018)

(Thousand yen)

	Within a year	More than a year, within five years	More than five years, within 10 years	More than 10 years
Cash and deposits	4,426,443	—	—	—
Notes and accounts receivable - trade	1,125,067	—	—	—
Investment securities				
Bonds held for maturity				
(1) Government bonds, local government bonds	—	300,000	—	—
(2) Corporate bonds	—	—	100,000	—
Total	5,551,510	300,000	100,000	—

Fiscal 2019 (As of March 31, 2019)

(Thousand yen)

	Within a year	More than a year, within five years	More than five years, within 10 years	More than 10 years
Cash and deposits	6,169,172	—	—	—
Notes and accounts receivable - trade	1,172,515	—	—	—
Securities and investment securities				
Bonds held for maturity				
(1) Government bonds, local government bonds	300,000	—	—	—
(2) Corporate bonds	—	—	100,000	—
Total	7,641,687	—	100,000	—

(Securities)

Bonds held for maturity

Fiscal 2018 (As of March 31, 2018)

(Thousand yen)

	Type	Consolidated balance sheet amount	Market value	Difference
Market price exceeds consolidated balance sheet amount	(1) Government bonds, local government bonds, etc.	299,869	300,840	970
	(2) Corporate bonds	103,477	104,103	625
	(3) Other	—	—	—
	Subtotal	403,347	404,943	1,595
Market price does not exceed consolidated balance sheet amount	(1) Government bonds, local government bonds, etc.	—	—	—
	(2) Corporate bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	—	—	—
Total		403,347	404,943	1,595

Fiscal 2019 (As of March 31, 2019)

(Thousand yen)

	Type	Consolidated balance sheet amount	Market value	Difference
Market price exceeds consolidated balance sheet amount	(1) Government bonds, local government bonds, etc.	299,968	300,180	211
	(2) Corporate bonds	103,002	103,899	896
	(3) Other	—	—	—
	Subtotal	402,971	404,079	1,107
Market price does not exceed consolidated balance sheet amount	(1) Government bonds, local government bonds, etc.	—	—	—
	(2) Corporate bonds	—	—	—
	(3) Other	—	—	—
	Subtotal	—	—	—
Total		402,971	404,079	1,107

(Derivatives transactions)

Previous consolidated fiscal year (from April 1, 2017 to March 31, 2018) and consolidated fiscal year under review (from April 1, 2018 to March 31, 2019)

The Group did not conduct any derivatives transactions.

(Retirement benefits)

1. Outline of the retirement benefits system

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

2. Defined contribution plan

The amount the Company and its consolidated subsidiaries are required to contribute to the defined contribution pension was 17,511 thousand yen in fiscal 2018 (from April 1, 2017 to March 31, 2018) and 19,928 thousand yen in fiscal 2019 (from April 1, 2018 to March 31, 2019).

(Stock options)

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

	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Gain on reversal of share acquisition rights	3,193	2,135

2. Description of stock options, their scale and changes

(1) Description of stock options

	2009 stock options	2010 stock options
Company	Reporting company	Same as left
Classification and number of persons subject to grants	Three directors 90 employees One employee at a subsidiary	Three directors 80 employees
Stock options by class of shares (Note)	Common shares 99,700 shares	Common shares 99,300 shares
Grant date	June 12, 2009	June 8, 2010
Vesting conditions	Being an officer (an officer includes a company auditor) or an employee at the reporting company or a subsidiary or an associate of the reporting company and not being subject to salary reduction or stricter disciplinary action provided for in the rules of employment of the reporting company or a subsidiary or an associate of the reporting company from the grant date (June 12, 2009) to the vesting date (May 30, 2011) The vesting dates are as follows: (i) May 30, 2011 for a third of the stock options (ii) May 30, 2012 for a third of the stock options (iii) May 30, 2013 for a third of the stock options	Being an officer (an officer includes a company auditor) or an employee at the reporting company or a subsidiary or an associate of the reporting company and not being subject to salary reduction or stricter disciplinary action provided for in the rules of employment of the reporting company or a subsidiary or an associate of the reporting company from the grant date (June 8, 2010) to the vesting date (May 26, 2012) The vesting dates are as follows: (i) May 26, 2012 for a third of the stock options (ii) May 26, 2013 for a third of the stock options (iii) May 26, 2014 for a third of the stock options
Requisite service period	(i) May 30, 2009 to May 29, 2011 for a third of the stock options (ii) May 30, 2009 to May 29, 2012 for a third of the stock options (iii) May 30, 2009 to May 29, 2013 for a third of the stock options These periods correspond to (i), (ii), and (iii) of the vesting conditions.	(i) May 26, 2010 to May 25, 2012 for a third of the stock options (ii) May 26, 2010 to May 25, 2013 for a third of the stock options (iii) May 26, 2010 to May 25, 2014 for a third of the stock options These periods correspond to (i), (ii), and (iii) of the vesting conditions.
Exercise period	From the vesting date to June 24, 2018. The person needs to continue to be an officer (an officer includes a company auditor) or an employee of the Company or a subsidiary or an associate of the Company until the exercise of stock options.	From the vesting date to June 24, 2019. The person needs to continue to be an officer (an officer includes a company auditor) or an employee of the Company or a subsidiary or an associate of the Company until the exercise of stock options.

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

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

(Note) The Company conducted a 100-for-1 common stock split on April 1, 2013. In the description above, the number of shares has been converted to the number of shares after the stock split.

(2) Scale of stock options and related changes

The stock options below are those that existed in the fiscal year under review (fiscal year ended March 31, 2019). The number of stock options has been converted to the number of shares.

(i) Number of stock options

	2009 stock options	2010 stock options	2015 stock options	2016 stock options	2018 stock options
Before vesting (shares)					
As of March 31, 2018	–	–	235,500	820,200	1,413,300
Granted	–	–	–	–	–
Forfeited	–	–	17,500	44,800	119,300
Vested	–	–	–	–	–
Yet to be vested	–	–	218,000	775,400	1,294,000
After vesting (shares)					
As of March 31, 2018	15,200	8,200	34,400	–	–
Vested	–	–	–	–	–
Exercised	13,700	–	2,000	–	–
Forfeited	1,500	100	–	–	–
Yet to be exercised	–	8,100	32,400	–	–

(Note) The Company conducted a 100-for-1 stock split on April 1, 2013. The number of stock options is the number after the stock split.

(ii) Unit price information

	2009 stock options	2010 stock options	2015 stock options	2016 stock options	2018 stock options
Exercise price (yen)	785	593	2,034	2,639	3,400
Average stock price when exercised (yen)	4,460	–	5,676	–	–
Fair unit value (grant date) (yen)	(i) 572 yen (ii) 586 yen (iii) 599 yen (Note) 1	(i) 375 yen (ii) 386 yen (iii) 396 yen (Note) 1	2	24	1

(Notes) 1. The vesting conditions and requisite service period for each fiscal year in (1) Description of stock options in the Description of stock options, their scale and changes correspond to (i), (ii) and (iii) above.

2. The Company conducted a 100-for-1 stock split on April 1, 2013. The numbers in the unit price information are those after the stock split.

3. Method for estimating the number of stock options vested

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

(Additional information)

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

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

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

2. Outline of accounting treatment adopted

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

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

(Tax effect accounting)

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

	Fiscal 2018 (As of March 31, 2018)	Fiscal 2019 (As of March 31, 2019)
Deferred tax assets		
Enterprise taxes payable	16,525	17,831
Provision for bonuses	34,380	39,252
Accrued social insurance premiums	5,104	5,889
Non-deductible depreciation expenses	659	246
Share-based remuneration expenses	2,593	799
Asset retirement obligations	10,707	11,629
Unrealized gains on non-current assets	9,146	-
Loss carryforwards	224,332	37,706
Loss on valuation of golf club membership	2,051	1,362
Loss on valuation of shares of subsidiaries	-	2,191
Other	2,397	1,683
Total deferred tax assets	307,899	118,592
Valuation allowance (Note)	(224,332)	(37,706)
Total deferred tax assets	83,567	80,886
Deferred tax liabilities		
Unrealized losses	(9,682)	-
Total deferred tax liabilities	(9,682)	-
Net deferred tax assets	73,884	80,886

(Note) The valuation allowance decreased by 186,626 thousand yen. This decrease was mainly a result of a decrease in the valuation allowance related to tax loss carryforwards at consolidated subsidiaries.

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

	Fiscal 2018 (As of March 31, 2018)	Fiscal 2019 (As of March 31, 2019)
Statutory effective tax rate	30.85 %	30.62 %
(Adjustment)		
Inhabitant tax on a per capita basis	0.47	0.35
Items that are not permanently deductible, such as entertainment expense	0.33	0.25
Changes in valuation allowance	(2.76)	(7.28)
Differences in tax rate from the parent company's statutory tax rate	(0.54)	0.35
Effect of de-consolidation of subsidiaries	2.09	-
Utilization of loss carryforwards	(1.94)	-
Effect of tax rate changes	6.06	-
Other	(1.90)	(0.93)
Percentage of income tax payment, etc. after the application of tax effect accounting	32.66	23.36

(Asset retirement obligations)

Asset retirement obligations posted in the consolidated balance sheets

(1) Outline of the asset retirement obligations

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

(2) Method for calculation of the asset retirement obligations

The period of use is estimated to be eight to 15 years from the acquisition. The discount rate is 0.12% to 1.73%. The amount of asset retirement obligations is calculated based on those assumptions.

(3) Increase/decrease in the asset retirement obligations

	(Thousand yen)	
	Fiscal 20108	Fiscal 2019
	(from April 1, 2017 to March 31, 2018)	(from April 1, 2018 to March 31, 2019)
Balance at beginning of fiscal year	43,937	44,360
Increase due to purchase of property, plant and equipment	-	655
Adjustment due to passage of time	422	428
Balance at end of fiscal year	44,360	45,444

(Segment information, etc.)

Segment information

Previous consolidated fiscal year (from April 1, 2017 to March 31, 2018) and consolidated fiscal year under review (from April 1, 2018 to March 31, 2019)

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

Related information

Fiscal 2018 (from April 1, 2017 to March 31, 2018)

1. Information by product/service

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

2. Information by region

(1) Net sales

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

(2) Property, plant and equipment

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

3. Information by major customer

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

(Thousand yen)

Customer name	Net sales
SoftBank Commerce & Service Corp.	1,037,408
Daiwabo Information System Co., Ltd.	976,669

Fiscal 2019 (from April 1, 2018 to March 31, 2019)

1. Information by product/service

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

2. Information by region

(1) Net sales

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

(2) Property, plant and equipment

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

3. Information by major customer

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

(Thousand yen)

Customer name	Net sales
SB C&S Corp.	1,247,566
Daiwabo Information System Co., Ltd.	1,160,228

(Note) The name of SoftBank Commerce & Service Corp. changed to SB C&S Corp. on January 1, 2019.

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

There are no applicable matters.

Information on amortization of goodwill and unamortized balance by reporting segment

There are no applicable matters.

Information on gain on bargain purchase by reporting segment

There are no applicable matters.

(Related party information)

Transactions with related parties

Transactions between the company submitting consolidated financial statements and related parties

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

Fiscal 2018 (from April 1, 2017 to March 31, 2018)

Type	Company name or name	Address	Capital or investment (thousand yen)	Business or occupation	Holding (held) rate of voting rights (%)	Relationship with related party	Transaction	Amount of transaction (thousand yen)	Item	Balance at end of fiscal year (thousand yen)
Officer	Toshio Dogu	—	—	Representative Director of the Company	(Held) Direct 17.9	Exercise of stock options	Exercise of stock options	28,443	—	—

(Notes) 1. The exercise of share acquisition rights issued by resolution at the annual shareholders' meeting held on June 21, 2007, in the fiscal year under review is described above. The amount of transaction is the number of shares granted as a result of the exercise of stock options in the fiscal year under review multiplied by the amount paid per share.

2. The holding (held) rate of voting rights is calculated based on the number of issued shares less the number of treasury shares.

Fiscal 2019 (from April 1, 2018 to March 31, 2019)

There are no applicable matters.

(Special purpose companies subject to disclosure)

There are no applicable matters.

(Per share information)

	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Net assets per share	446.43 yen	558.33 yen
Profit per share	92.46 yen	141.11 yen
Diluted profit per share	92.13 yen	140.80 yen

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

Item	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Profit per share		
Profit attributable to owners of parent (thousand yen)	1,281,924	1,961,276
Amount not attributable to common shareholders (thousand yen)	—	—
Profit attributable to owners of parent related to common shareholders (thousand yen)	1,281,924	1,961,276
Average number of common shares during the term	13,864,531	13,898,934
Diluted profit per share		
Adjustment of profit attributable to owners of parent (thousand yen)	—	—
Increase in the number of common shares	49,616	30,455
(Of the increase, the number of share acquisition rights) (shares)	(49,616)	(30,455)
Outline of potential shares that are not included in the calculation of the diluted profit per share because they do not have any diluting effects	Share acquisition rights Resolution on November 12, 2015 Number of potential shares: 235,500 Resolution on November 10, 2016 Number of potential shares: 820,200 Resolution on February 16, 2018 Number of potential shares: 1,413,300	Share acquisition rights Resolution on November 12, 2015 Number of potential shares: 218,000 Resolution on November 10, 2016 Number of potential shares: 775,400 Resolution on February 16, 2018 Number of potential shares: 1,294,000

(Significant subsequent events)

There are no applicable matters.

(v) Consolidated Supplementary Schedules

Bonds Schedule:

There are no applicable matters.

Borrowings Schedule

There are no applicable matters.

Asset Retirement Obligations Schedule

The amount of asset retirement obligations at both the beginning and end of fiscal 2019 are less than 1% of the combined total of liabilities and net assets at the beginning and end of fiscal 2019, and so have been omitted in accordance with Article 92-2 of the Regulations for Consolidated Financial Statements.

(2) Other

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

(Cumulative period)	First quarter	Second quarter	Third quarter	Fiscal year under review
Net sales (Thousand yen)	1,217,767	2,764,121	4,166,963	5,841,287
Profit before income taxes (Thousand yen)	293,654	1,039,573	1,674,333	2,563,232
Profit attributable to owners of parent (Thousand yen)	175,279	992,118	1,418,552	1,961,276
Profit per share (Yen)	12.61	71.39	102.07	141.11

(Accounting period)	First quarter	Second quarter	Third quarter	Fourth quarter
Profit per share (Yen)	12.61	58.77	30.68	39.04

2. Financial Statements of the Registrant

(1) Financial Statements

(i) Balance Sheet

(Thousand yen)

	Fiscal 2018 (As of March 31, 2018)	Fiscal 2019 (As of March 31, 2019)
Assets		
Current assets		
Cash and deposits	4,191,007	5,982,081
Notes and accounts receivable - trade	* 1,241,893	* 1,143,621
Securities	–	299,968
Finished goods	695	290
Advance payments - trade	24,718	807
Prepaid expenses	88,459	65,278
Other	* 89,948	* 20,523
Total current assets	5,636,722	7,512,572
Non-current assets		
Property, plant and equipment		
Buildings	33,543	101,009
Vehicles	12,800	7,703
Tools, furniture and fixtures	106,265	124,985
Land	–	26,254
Total property, plant and equipment	152,609	259,953
Intangible assets		
Software	736,951	1,043,645
Software in progress	282,373	367,199
Telephone subscription right	190	190
Other	23,671	15
Total intangible assets	1,043,186	1,411,051
Investments and other assets		
Investment securities	403,347	103,002
Shares of subsidiaries and associates	291,081	168,585
Investments in capital	10	10
Long-term prepaid expenses	26,050	28,890
Leasehold and guarantee deposits	181,212	182,990
Deferred tax assets	354,960	145,913
Other	60,576	57,426
Total investments and other assets	1,317,238	686,818
Total non-current assets	2,513,034	2,357,823
Total assets	8,149,757	9,870,395

(Thousand yen)

	Fiscal 2018 (As of March 31, 2018)	Fiscal 2019 (As of March 31, 2019)
Liabilities		
Current liabilities		
Accounts payable - trade	* 115,570	* 19,236
Accounts payable - other	* 112,754	* 151,964
Accrued expenses	55,736	52,604
Income taxes payable	290,757	329,703
Accrued consumption taxes	37,402	99,125
Advances received	906,313	1,215,782
Deposits received	22,464	23,273
Provision for bonuses	112,280	128,192
Total current liabilities	1,653,279	2,019,882
Non-current liabilities		
Asset retirement obligations	44,360	45,444
Other	645	645
Total non-current liabilities	45,005	46,089
Total liabilities	1,698,284	2,065,972
Net assets		
Shareholders' equity		
Share capital	713,590	713,590
Capital surplus		
Legal capital surplus	700,222	700,222
Other capital surplus	127,511	129,682
Total capital surplus	827,734	829,905
Retained earnings		
Other retained earnings		
Retained earnings brought forward	5,204,006	6,544,279
Total retained earnings	5,204,006	6,544,279
Treasury shares	(327,671)	(306,939)
Total shareholders' equity	6,417,660	7,780,835
Share acquisition rights	33,812	23,587
Total net assets	6,451,473	7,804,423
Total liabilities and net assets	8,149,757	9,870,395

(ii) Statement of Income

(Thousand yen)

	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Net sales	*2 5,046,537	*2 5,752,991
Cost of sales		
Beginning finished goods inventory	528	695
Cost of Internet service	*2 1,060,531	*2 1,028,520
Total	1,061,060	1,029,215
Transfer to other account	*1 35	*1 14
Ending finished goods inventory	695	290
Cost of finished goods sold	1,060,330	1,028,910
Gross profit	3,986,207	4,724,081
Selling, general and administrative expenses	*2, *3 1,898,597	*3 1,949,449
Operating profit	2,087,609	2,774,631
Non-operating income		
Interest income	176	182
Interest on securities	894	896
Commission income	*2 2,612	*2 2,598
Foreign exchange gains	5,345	–
Gain on forfeiture of unclaimed dividends	945	1,168
Miscellaneous income	322	834
Total non-operating income	10,297	5,678
Non-operating expenses		
Foreign exchange losses	–	2,878
Total non-operating expenses	–	2,878
Ordinary profit	2,097,906	2,777,431
Extraordinary income		
Gain on sales of non-current assets	*4 1,498	–
Gain on reversal of share acquisition rights	3,193	2,135
Gain on liquidation of subsidiaries	2,607	–
Distribution from the liquidation of subsidiaries	–	37,257
Total extraordinary income	7,299	39,393
Extraordinary losses		
Loss on retirement of non-current assets	*5 10,204	*5 4,374
Loss on valuation of golf club membership	–	2,200
Loss on valuation of shares of subsidiaries	916,198	219,860
Total extraordinary losses	926,403	226,434
Profit before income taxes	1,178,802	2,590,390
Income taxes - current	562,761	596,476
Income taxes - deferred	(244,570)	209,047
Total income taxes	318,190	805,523
Profit	860,611	1,784,866

Detailed Statement of Cost of Internet Service

Classification	Note number	Fiscal 2018 (from April 1, 2017 to March 31, 2018)		Fiscal 2019 (from April 1, 2018 to March 31, 2019)	
		Amount (thousand yen)	Composition rate (%)	Amount (thousand yen)	Composition rate (%)
I. Material cost		167,246	10.6	179,986	10.6
II. Labor cost	*1	673,889	42.7	668,153	39.4
III. Expenses	*2	738,164	46.7	848,375	50.0
Total expenses		1,579,300	100.0	1,696,515	100.0
Transfer to other account	*3	518,768		667,995	
Cost of Internet service		1,060,531		1,028,520	

(Notes)

Fiscal 2018 (from April 1, 2017 to March 31, 2018)		Fiscal 2019 (from April 1, 2018 to March 31, 2019)	
*1 Major items in labor cost	(Thousand yen)	*1 Major items in labor cost	(Thousand yen)
Salaries and allowances	436,416	Salaries and allowances	425,274
Legal welfare expenses	83,748	Legal welfare expenses	88,208
Bonuses	58,635	Bonuses	57,372
Provision for bonuses	43,088	Provision for bonuses	57,425
Other salaries	46,772	Other salaries	33,372
*2 Major items in expenses	(Thousand yen)	*2 Major items in expenses	(Thousand yen)
Outsourcing expenses	113,130	Outsourcing expenses	100,459
Depreciation	381,528	Depreciation	484,645
Rent expenses	98,510	Rent expenses	93,946
*3 Major items in transfer to other account	(Thousand yen)	*3 Major items in transfer to other account	(Thousand yen)
Selling, general and administrative expenses	40,049	Selling, general and administrative expenses	34,115
Non-current assets	478,718	Non-current assets	633,880
Total	518,768	Total	667,995
4. Costing method		4. Costing method	
The job order cost system based on actual costs is employed for the Company's costing.		Same as left	

(iii) Statement of Changes in Equity

Fiscal 2018 (from April 1, 2017 to March 31, 2018)

(Thousand yen)

	Shareholders' equity								Share acquisition rights	Total net assets
	Share capital	Capital surplus			Retained earnings		Treasury shares	Total shareholders' equity		
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings	Total retained earnings				
Balance at beginning of period	713,590	700,222	78,212	778,435	4,731,069	4,731,069	(410,665)	5,812,429	70,154	5,882,583
Changes in items during period										
Dividends of surplus					(387,675)	(387,675)		(387,675)		(387,675)
Profit					860,611	860,611		860,611		860,611
Disposal of treasury shares			49,299	49,299			83,552	132,852		132,852
Purchase of treasury shares							(558)	(558)		(558)
Net changes in items other than shareholders' equity									(36,341)	(36,341)
Total changes in items during period	-	-	49,299	49,299	472,936	472,936	82,994	605,230	(36,341)	568,889
Balance at end of period	713,590	700,222	127,511	827,734	5,204,006	5,204,006	(327,671)	6,417,660	33,812	6,451,473

Fiscal 2019 (from April 1, 2018 to March 31, 2019)

(thousand yen)

	Shareholders' equity								Share acquisition rights	Total net assets
	Share capital	Capital surplus			Retained earnings		Treasury shares	Total shareholders' equity		
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings	Total retained earnings				
Balance at beginning of period	713,590	700,222	127,511	827,734	5,204,006	5,204,006	(327,671)	6,417,660	33,812	6,451,473
Changes in items during period										
Dividends of surplus					(444,592)	(444,592)		(444,592)		(444,592)
Profit					1,784,866	1,784,866		1,784,866		1,784,866
Disposal of treasury shares			2,170	2,170			20,741	22,912		22,912
Purchase of treasury shares							(10)	(10)		(10)
Net changes in items other than shareholders' equity									(10,225)	(10,225)
Total changes in items during period	-	-	2,170	2,170	1,340,273	1,340,273	20,731	1,363,175	(10,225)	1,352,950
Balance at end of period	713,590	700,222	129,682	829,905	6,544,279	6,544,279	(306,939)	7,780,835	23,587	7,804,423

Notes

(Notes on the premise of a growing concern)

There are no applicable matters.

(Significant accounting policies)

1. Asset valuation standards and valuation method

(1) Valuation standards and valuation methods for securities

Bonds held for maturity

The amortized cost method (interest method) is applied.

Shares of subsidiaries and associates

The moving average cost method is applied.

(2) Valuation standards and valuation method for inventories

Finished goods

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

2. Depreciation method for non-current assets

(1) Property, plant and equipment

The declining balance method is applied.

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

(2) Intangible assets

Intangible assets are amortized using the straight-line method.

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

(3) Long-term prepaid expenses

The straight-line method is applied.

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

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

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

4. Standards for reporting allowances

Provision for bonuses

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

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

Treatment of consumption tax

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

(Change in accounting policy)

(Application of Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions)

Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions (PITF No. 36; January 12, 2018), etc. has been applied from April 1, 2018, and the accounting for transactions granting employees and others stock acquisition rights which involve considerations with vesting conditions are subject to the Accounting Standard for Share-based Payment (ASBJ Statement No. 8; December 27, 2005), etc.

The application of PITF No. 36 is subject to the transitional treatment provided for in Paragraph 10 (3) of PITF No. 36, and the accounting before the application of PITF No. 36 is applied to transactions granting employees and others stock acquisition rights which involve considerations with vesting conditions before the applied day of PITF No. 36.

(Changes in presentation methods)

(Changes as a result of application of Partial Amendments of Accounting Standard for Tax Effect Accounting)

Partial Amendments of Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018) have been applied from the beginning of fiscal 2019. Accordingly, deferred tax assets were presented under investments and other assets, and deferred tax liabilities were presented under non-current liabilities.

As a result, deferred tax assets of 58,408 thousand yen presented under current assets in the balance sheet for fiscal 2018 are included in deferred tax assets of 354,960 thousand yen under investments and other assets.

(Additional information)

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

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

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

2. Outline of accounting treatment adopted

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

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

(Balance sheet)

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

	(Thousand yen)	
	Fiscal 2018 (As of March 31, 2018)	Fiscal 2019 (As of March 31, 2019)
Short-term monetary claims	201,797	10,665
Short-term monetary liabilities	105,247	36,239

(Matters related to income statement)

*1. A breakdown of finished goods transfer to other account is as follows.

	(Thousand yen)	
	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Transfer to selling, general and administrative expenses	35	14

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

	(Thousand yen)	
	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Operating transactions		
Net sales	132,000	121,682
Purchase of goods	127,857	133,611
Outsourcing	11,735	-
Transactions other than operating transactions	2,400	2,400

*3. Selling expenses accounted for approximately 12.5% and 15.2% of total selling, general and administrative expenses in fiscal 2018 and fiscal 2019 respectively while the share of general and administrative expenses was 87.5% in fiscal 2018 and 84.8% in fiscal 2019. The major items of selling, general and administrative expenses and the amounts are as follows.

	(Thousand yen)	
	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Advertising expenses	215,665	272,571
Salaries and allowances	565,332	555,832
Provision for bonuses	53,043	70,766
Depreciation	41,163	53,705

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

	(Thousand yen)	
	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Vehicles	1,498	-

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

	(Thousand yen)	
	Fiscal 2018 (from April 1, 2017 to March 31, 2018)	Fiscal 2019 (from April 1, 2018 to March 31, 2019)
Buildings	5,738	-
Tools, furniture and fixtures	4,465	3,163
Software	-	1,211

(Securities)

Information about shares of subsidiaries and associates (the carrying amount in fiscal 2019 was 168,585 thousand yen and the carrying amount in fiscal 2018 was 291,081 thousand yen) is omitted as these shares do not have market value and it is considered extremely difficult to calculate their fair market values.

(Tax effect accounting)

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

	(Thousand yen)	
	Fiscal 2018 (As of March 31, 2018)	Fiscal 2019 (As of March 31, 2019)
Deferred tax assets		
Enterprise taxes payable	16,525	17,831
Provision for bonuses	34,380	39,252
Accrued social insurance premiums	5,104	5,889
Non-deductible depreciation expenses	659	246
Share-based remuneration expenses	2,593	799
Asset retirement obligations	10,707	11,629
Loss on valuation of golf club membership	2,051	1,362
Loss on valuation of shares of subsidiaries	280,540	67,321
Other	2,397	1,580
Net deferred tax assets	<u>354,960</u>	<u>145,913</u>

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

	(Thousand yen)	
	Fiscal 2018 (As of March 31, 2018)	Fiscal 2019 (As of March 31, 2019)
Statutory effective tax rate	30.85 %	– %
(Adjustment)		
Inhabitant tax on a per capita basis	0.74	–
Items that are not permanently deductible, such as entertainment expense	0.53	–
Utilization of loss carryforwards	(3.14)	–
Other	(1.99)	–
Percentage of income tax payment, etc. after the application of tax effect accounting	<u>26.99</u>	<u>–</u>

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

(Significant subsequent events)

There are no applicable matters.

(iv) Supplementary Schedules

Itemized Account of Property, Plant and Equipment, etc.

(Thousand yen)

Classes of assets	Balance at beginning of period	Net increase in current period	Net decrease in current period	Depreciation in current period	Balance at end of period	Accumulated depreciation
Property, plant and equipment						
Buildings	33,543	75,849	—	8,383	101,009	104,980
Vehicles	12,800	—	—	5,097	7,703	9,816
Tools, furniture and fixtures	106,265	70,155	2,088	49,346	124,985	286,117
Land	—	26,254	—	—	26,254	—
Total property, plant and equipment	152,609	172,259	2,088	62,827	259,953	400,914
Intangible assets						
Software	736,951	782,217	—	475,523	1,043,645	—
Software in progress	282,373	710,411	625,584	—	367,199	—
Telephone subscription right	190	—	—	—	190	—
Other	23,671	—	—	23,655	15	—
Total intangible assets	1,043,186	1,492,628	625,584	499,179	1,411,051	—

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

(Thousand yen)

Software	Commercial software (DigitalArts@Cloud)	212,288	Commercial software (FinalCode)	155,636
	Commercial software (m-FILTER)	142,127	Commercial software (i-FILTER)	136,310
Software in progress	Commercial software (i-FILTER)	391,591	Commercial software (m-FILTER)	94,827
	Commercial software (FinalCode)	87,712	Commercial software (i-FILTER)	61,643

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

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

Itemized Account of Allowances

(Thousand yen)

Classification	Balance at beginning of period	Net increase in current period	Net decrease in current period	Balance at end of period
Provision for bonuses	112,280	128,192	112,280	128,192

(2) Details of major assets and liabilities

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

(3) Other

There are no applicable matters.

Section VI. Stock Information of the Registrant

Fiscal year	From April 1 to March 31
Annual general meeting of shareholders	During June
Record date	March 31
Record date for distribution of surplus	September 30 and March 31
Number of shares constituting one unit	100 shares
Purchase and sale of shares less than one unit Handling office Transfer agent Forward office Purchasing and selling fee	There are no applicable matters.
Method of public notice	The Company posts notices in electronic format. However, in the event online announcement becomes impossible due to unavoidable circumstances, announcements will be published in the Nihon Keizai Shimbun. Notices are posted on the Company's website: http://www.daj.jp/ir/stock/notification/
Special benefit for shareholders	There are no applicable matters.

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

Section VII. Reference Information on the Company

1. Information on Parent entities of the Registrant

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

2. Other Reference Information

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

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

23rd fiscal year (from April 1, 2017 to March 31, 2018) Submitted to the Director-General of Kanto Local Finance Bureau on June 25, 2018

(2) Internal Control Report and accompanying documents

Submitted to the Director-General of Kanto Local Finance Bureau on June 25, 2018

(3) Quarterly Report and Confirmation Letter

Quarterly accounting period

For the first quarter of the 24th fiscal year (April 1, 2018 to June 30, 2018) Submitted to the Director-General of Kanto Local Finance Bureau on August 9, 2018

For the second quarter of the 24th fiscal year (July 1, 2018 to September 30, 2018) Submitted to the Director-General of Kanto Local Finance Bureau on November 9, 2018

For the third quarter of the 24th fiscal year (October 1, 2018 to December 31, 2018) Submitted to the Director-General of Kanto Local Finance Bureau on February 8, 2019

(4) Extraordinary Report

Submitted to the Director-General of Kanto Local Finance Bureau on June 25, 2018

An extraordinary report pursuant to the provisions of Item (ix)-2 (result of exercising voting rights at the general meeting of shareholders), Paragraph (2), Article 19 of the Cabinet Office Ordinance on the Disclosure of Corporate Affairs, etc.

Part II. Information Concerning Guarantors of the Registrant

There are no applicable matters.

Independent Auditors' Audit Report and Internal Control Audit Report

June 25, 2019

The Board of Directors
Digital Arts Inc.

BDO Sanyu & Co.

Designated and Engagement Partner	Certified Public Accountant	Nobuhito Iwata	Seal
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Designated and Engagement Partner	Certified Public Accountant	Koji Kumagai	Seal
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[Audit of Financial Statements]

To conduct audit certification as prescribed in the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements of Digital Arts Inc. for the consolidated fiscal year from April 1, 2018 to March 31, 2019 included in the Financial Information, namely, the consolidated balance sheet, the consolidated statements of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows, significant matters that serve as a basis for the preparation of consolidated financial statements, other notes and consolidated supplementary schedules.

Management's Responsibilities for the Consolidated Financial Statements

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

Auditor's Responsibilities

We are responsible for expressing an opinion on consolidated financial statements from an independent standpoint, based on the results of audits that we conduct. We have conducted the audit in accordance with audit standards that are generally considered fair and reasonable in Japan. Pursuant to such audit standards, we are required to prepare audit plans and conduct audits based on such plans, so that we can obtain reasonable assurance as to whether or not consolidated financial statements are free of any material misstatements.

When conducting audit, we go through the procedures of obtaining audit evidence for figures and disclosures presented in consolidated financial statements. Subject to our judgment, the audit procedures are selected and implemented, based on an assessment of the risk of any serious misstatements in consolidated financial statements due to frauds or errors. We do not audit financial statements to express an opinion on the effectiveness of internal control. Nevertheless, to implement risk assessments, we examine internal control as it pertains to the preparation and appropriate presentation of consolidated financial statements, thereby ensuring that an appropriate audit procedure program is formulated depending on situations. Audits include efforts to examine what is presented comprehensively as consolidated financial statements, including accounting policies adopted by management, the application method thereof, as well as accounting estimates made by management.

We consider that audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Digital Arts Inc. and its consolidated subsidiaries as of March 31, 2019, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles for consolidated financial statements generally accepted in Japan.

Internal Control Audit

To conduct audit certification as prescribed in the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the internal control report of Digital Arts Inc. dated March 31, 2019.

Management Responsibilities for Internal Control Reports

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

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

Auditor's Responsibilities

We are responsible for expressing an opinion on internal control reports from an independent standpoint, based on the results of audits that we conduct. We have conducted the internal control audit in accordance with internal control audit standards over internal reporting that are generally considered fair and reasonable in Japan. Pursuant to internal control audit standards pertaining to financial reporting, we are required to prepare audit plans and conduct audits based on such plans, so that we can obtain reasonable assurance as to whether or not internal control reports are free of any serious misstatements.

When conducting internal control audits, we go through the procedures of obtaining audit evidence on the evaluation results of internal control over financial reporting in internal control reports. Subject to our judgment, such audit procedures for internal control audits are selected and implemented, based on the materiality of impacts on the reliability of financial reports. Internal control audits include efforts to examine what is presented comprehensively as internal control reports, including the scope of internal control over financial reports and statements by management with regard to evaluation procedures and results thereof.

We consider that audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit opinion

We consider that the aforementioned internal control report, in which Digital Arts Inc. indicates that effective internal control is maintained pertaining to financial reporting as of March 31, 2019, properly reflects the evaluation results of internal control over financial reporting in all important respects, in compliance with internal control evaluation standards over financial reporting that are generally considered fair and reasonable in Japan.

Interest related

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

(Notes) 1. The above is an electronic copy of what is described in the original audit report kept by the company that submits securities reports, separately.

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

Internal Control Audit Report by Independent Auditors

June 25, 2019

The Board of Directors
Digital Arts Inc.

BDO Sanyu & Co.

Designated and Engagement Partner	Certified Public Account	Nobuhito Iwata	Seal
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Designated and Engagement Partner	Certified Public Account	Koji Kumagai	Seal
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To conduct audit certification as prescribed in the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the financial statements of Digital Arts Inc. for the 24th fiscal year starting from April 1, 2018 to March 31, 2019 included in the Financial Information, namely, the balance sheet, the income statement, the statement of changes in equity, significant accounting policies, the notes to specific items, and the annexed detailed statements thereto.

Management's Responsibilities for the Financial Statements

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

Auditor's Responsibilities

We are responsible for expressing an opinion on financial statements from an independent standpoint, based on the results of audits that we conduct. We have conducted the audit in accordance with audit standards that are generally considered fair and reasonable in Japan. Pursuant to such audit standards, we are required to prepare audit plans and conduct audits based on such plans, so that we can obtain reasonable assurance as to whether or not financial statements are free of any material misstatements.

When conducting audit, we go through the procedures of obtaining audit evidence for figures and disclosures presented in financial statements. Subject to our judgment, the audit procedures are selected and implemented, based on an assessment of the risk of any serious misstatements in financial statements due to frauds or errors. We do not audit financial statements to express an opinion on the effectiveness of internal control. Nevertheless, to implement risk assessments, we examine internal control as it pertains to the preparation and appropriate presentation of financial statements, thereby ensuring that an appropriate audit procedure program is formulated depending on situations. Audits include efforts to examine what is presented comprehensively as financial statements, including accounting policies adopted by management, the application method thereof, as well as accounting estimates made by management.

We consider that audit evidence that we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit opinion

We consider that the aforementioned financial statements properly reflect the financial position of Digital Arts Inc. as of March 31, 2019, as well as its financial results in the fiscal year that ended on the same day, in all important respects, in compliance with the Generally Accepted Accounting Principles of Japan.

Interest related

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

(Notes) 1. The above is an electronic copy of what is described in the original audit report kept by the company that submits securities reports, separately.

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

