

May 22, 2019

To Our Shareholders:

**Disclosure on the Internet in conformity with Laws and
Regulations and the Articles of Incorporations**

**Notes to Consolidated Financial Statements
Notes to Non-Consolidated Financial Statements**

For the 32nd Fiscal Year
April 1, 2018 to March 31, 2019

Net One Systems Co., Ltd.

The Company provides “Notes to Consolidated Financial Statements” and “Notes to Non-Consolidated Financial Statements” to its shareholders by posting them on its website (<https://www.netone.co.jp/>) in accordance with the provisions of laws and regulations and the Articles of Incorporation.

Notes to consolidated financial statements

I. Significant matters related to the basis of preparation of consolidated financial statements

1. Matters related to the scope of consolidation

- | | |
|---|--|
| (1) Number of consolidated subsidiaries | 2 companies |
| Names of consolidated subsidiaries | Net One Partners Co., Ltd.
Net One Next Co., Ltd. |

Xseed Co., Ltd., which was a consolidated subsidiary in the previous fiscal year, was merged and absorbed by the Company as of June 1, 2018 so has been excluded from the scope of consolidation from the fiscal year under review.

Furthermore, Net One Next Co., Ltd. was newly established as of January 4, 2019 so has been included in the scope of consolidation from the fiscal year under review.

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

Names of non-consolidated subsidiaries	Net One Connect G.K. Net One Business Operations G.K. eXtreak, Inc. Net One Systems USA, Inc. Net One Systems Singapore Pte. Ltd.
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(Reason for excluding from the consolidation)

Those non-consolidated subsidiaries are small in size and their total assets, net sales, the profit or loss for the Company's equity interest, and retained earnings for the Company's equity interest do not have a significant effect on the consolidated financial statements.

2. Matters related to application of equity method

- | | |
|--|------|
| (1) Number of associates accounted for using equity method | None |
|--|------|

- (2) Non-consolidated subsidiaries (Net One Connect G.K., Net One Business Operations G.K., eXtreak, Inc., Net One Systems USA, Inc. and Net One Systems Singapore Pte. Ltd.) and affiliates (Asiasoft Solutions Pte. Ltd.) are excluded from the scope of application of the equity method, as their profit or loss for the Company's equity interest and retained earnings for the Company's equity interest do not have a significant effect on the consolidated financial statements and their impact are immaterial as a whole.

(Note) On April 1, 2019, Net One Asia Pte. Ltd changed its company name from Asiasoft Solutions Pte. Ltd.

3. Matters related to accounting policies

(1) Basis and method of valuation for significant assets

I. Securities

Available-for-sale securities

Securities with market value Stated at market value based upon market value on the closing date

(Net unrealized holding gains or losses, net of the applicable income taxes, are directly included in a component of net assets. The cost of securities sold is measured by the moving average method.)

Securities without market value Stated at cost based upon the moving average method, or at cost amortized or accumulated over the maturity based upon the straight-line method

II. Derivatives Stated at market value

III. Inventories

Merchandise Stated at cost based upon the moving average method (The balance sheet amount is adjusted by writing down the book value where the profitability declines.)

Costs on uncompleted construction contracts Stated at cost based upon the specific identification method (The balance sheet amount is adjusted by writing down the book value where the profitability declines.)

(2) Depreciation method for significant depreciable assets

I. Property, plant and equipment (excluding lease assets)

Declining balance method is applied for the Company and its consolidated subsidiaries in Japan.

The major useful lives of assets are:

Buildings 3-23 years

Tools, furniture and fixtures 2-20 years

II. Intangible assets (excluding lease assets)

Straight line method is applied for the Company and its consolidated subsidiaries in Japan.

The major useful lives of assets are:

Software for own use 5 years

Software for sale 3 years

III. Lease assets

Lease assets in finance leases that transfer ownership to the lessee

Lease assets are depreciated using the same manner to the accounting for the non-current assets owned by the Company.

Lease assets in finance leases that do not transfer ownership to the lessee

Lease assets are depreciated using the straight line method over the corresponding lease terms as useful lives with their residual values to be zero.

(3) Basis for significant reserves

I. Allowance for doubtful accounts

The Company and its consolidated subsidiaries recorded allowance for doubtful accounts to provide provision for possible losses on receivables, loans receivable, etc., by the historical uncollectible rate for ordinary receivables and with consideration of individual collectability of specific doubtful receivables from debtors in financial difficulties.

II. Provision for bonuses

The Company and its consolidated subsidiaries recorded provision for bonuses to accrue the amount for bonuses to employees of the Company for the fiscal year.

III. Provision for directors' bonuses

The Company and its consolidated subsidiaries recorded provision for directors' bonuses to accrue the amount for bonuses to Directors and Audit & Supervisory Board Members of the Company for the fiscal year.

(4) Other significant matters related to the basis of preparation of consolidated financial statements

I. Bases for translation of significant foreign currency denominated assets and liabilities into Japanese yen

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the spot exchange rate on the closing date of the accounting period, with translation difference charged to profit or loss.

II. Significant hedge accounting method

a. Hedge accounting method

Deferral hedge accounting is applied. However, monetary claims and liabilities denominated in foreign currencies subject to forward foreign exchange contracts are translated at the foreign exchange rates stipulated in the contract if the forward foreign exchange contract satisfies the requirements for this treatment.
("Furiate-shori")

b. Hedging instruments and hedged items

Hedging instruments: Forward exchange contract

Hedged item: Planned transactions denominated in foreign currencies

c. Hedging policy

The Company employs hedging instruments to manage risk exposure to fluctuations in foreign currency exchange rates for foreign currency denominated payables in connection with the purchase of operating assets in the future pursuant to the internal management regulations which define the transaction limit amount and the transaction authority.

d. Assessment of hedge effectiveness

Assessment of hedge effectiveness is omitted for foreign currency forward exchange contracts since their hedge relationship is deemed highly effective.

III. Method and term of amortization of goodwill

Depending on the source of occurrence, the amortization of goodwill is carried out within a five year period using the straight line method.

IV. Accounting for consumption taxes

Transactions subject to national consumption tax and local consumption tax are recorded at amounts exclusive of consumption taxes, and national and local consumption taxes unqualified for deduction are recorded as expenses for FY2018.

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

II. Notes to changes in representation methods

(Consolidated Balance Sheet)

“Advances paid,” which had been included in “Other” in current assets up until the previous fiscal year, was separately presented from the fiscal year under review because its monetary significance increased.

“Advances paid” for the previous fiscal year was 3,036 million yen.

(Application of “Partial Amendments to Accounting Standard for Tax Effect Accounting”)

The Group has applied the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) effective from the beginning of the fiscal year under review. Accordingly, deferred tax assets were presented under investments and other assets.

III. Note to consolidated balance sheet

Total accumulated depreciation of property, plant and equipment	23,283 million yen
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IV. Notes to consolidated statement of changes in net assets

1. Class and number of issued shares as of March 31, 2019

Class of shares	Number of shares as of March 31, 2019
Common stock	86,000,000

2. Items regarding dividends from surplus during FY2018

Date of resolution	Class of shares	Total cash dividends (million yen)	Cash dividend per share (yen)	Record Date	Effective date
June 14, 2018 Annual Shareholders Meeting	Common stock	1,269	15.00	March 31, 2018	June 15, 2018
October 25, 2018 Board of Directors Meeting	Common stock	1,439	17.00	September 30, 2018	November 16, 2018

3. Among the dividends whose record date is within FY2018, those having effective date in FY2019

To be placed on the agenda of the Annual Shareholders Meeting scheduled for June 13, 2019.

Date of declaration	Class of shares	Total cash dividends (million yen)	Dividend resource	Cash dividend per share (yen)	Record Date	Effective date
June 13, 2019 Annual Shareholders Meeting	Common stock	1,693	Retained earnings	20.00	March 31, 2019	June 14, 2019

4. Class and number of shares to be issued upon the exercise of share acquisition rights (excluding those whose exercise period has not yet commenced) as of March 31, 2019

Class of shares	Number of shares as of March 31, 2019
Common stock	210,300

V. Financial instruments

1. Status of financial instruments

(1) Policy on treating financial instruments

With regard to the fund management, the Net One Systems Group (the Group) utilizes highly secure financial assets for temporary surplus funds. Also it is the Group's policy to utilize derivatives to avoid foreign exchange fluctuation risks pertaining to operating debt denominated in foreign currencies and not to use derivatives for speculation.

(2) Details of financial instruments, and risks and risk management system thereof

Notes and accounts receivable-trade, which are operating receivables, are exposed to customer credit risks. To manage these risks, the status of collection of these receivables from counterparties is periodically monitored and the due dates and balances are managed for each counterparty pursuant to the internal management regulations; and efforts trying to identify at an early stage and reduce losses from doubtful accounts caused by their worsened financial positions are made.

Short-term investment securities are commercial papers and jointly managed designated money trusts and are exposed to security issuer credit risks. There are, however, few credit risks because the Group only invests, pursuant to the internal management regulations, in securities issued by entities with high ratings.

Investment securities, mainly consisted of stocks issued by companies with business relations, are exposed to risks of the stock issuers' financial positions. The Group periodically examines the issuers' financial positions and continuously reviews the stock holdings in consideration of relationships with the issuers. In addition to the aforementioned risks, foreign stocks are also exposed to foreign exchange fluctuation risks.

Default risk of accounts payable-trade, which are operating debt and whose due dates are within one year, on due dates, are managed by a timely fund management. Some of accounts payable-trade are denominated in foreign currencies and exposed to foreign exchange fluctuation risks, but these risks are hedged by forward exchange contracts.

Derivatives adopted are forward exchange contracts used for the purpose of hedging foreign exchange fluctuation risks arising from operating debt denominated in foreign currencies. The basic policy on derivatives is determined by the Board of Directors, and the Finance Department executes and manages derivative transactions pursuant to the internal management regulations which define the transaction limit amount and the transaction authority. Regarding hedging instruments and hedged items, hedging policy and method of assessing hedge effectiveness in hedge accounting, please refer to the aforementioned (4) II. "Significant hedge accounting method" in "I. Significant matters related to the basis of preparation of consolidated financial statements, 3. Matters related to accounting policies."

(3) Supplementary explanation to matters regarding fair values of financial instruments

The contracted amounts related to derivatives, mentioned in "2. Matters regarding fair values of financial instruments," in themselves, should not be considered indicative of the market risks associated with the derivatives.

2. Matters regarding fair values of financial instruments

Consolidated balance sheet amounts and fair values as of March 31, 2019, and their variances, of financial instruments, are as follows. However, financial instruments whose fair values are deemed to be extremely difficult to measure are not included (Note 2).

(unit: million yen)

	Consolidated balance sheet amount (*)	Fair value (*)	Variance
(1) Cash and deposits	23,305	23,305	—
(2) Notes and accounts receivable-trade	43,464	43,464	—
(3) Short-term investment securities			
Available-for sale securities	1,999	1,999	—
(4) Advances paid	7,775	7,775	—
(5) Accounts payable-trade	(18,791)	(18,791)	—
(6) Lease obligations	(12,442)	(11,907)	535
(7) Derivatives	89	89	—

(*) The figures in parentheses indicate those posted in liabilities.

(Note) 1. Method of fair value measurement of financial instruments and matters regarding securities and derivatives

(1) Cash and deposits, (2) Notes and accounts receivable-trade and (4) Advances paid

Since these accounts are settled in a short period of time, their fair values are nearly equal to their book values. Therefore, their book values are deemed as their fair values.

(3) Short-term investment securities

Fair values of commercial papers and jointly managed designated money trusts whose maturities are within three months from the acquisition are nearly equal to their book values. Therefore, their book values are deemed as their fair values.

(5) Accounts payable-trade

Since the account is settled in a short period of time, the fair value is nearly equal to the book value. Therefore, the book value is deemed as the fair value.

(6) Lease obligations

The total amount of lease obligations (current liabilities) and lease obligations (non-current liabilities) is presented.

The fair value is the discounted present value of total principal and interest using an assumed interest rate on equivalent new lease transactions.

(7) Derivatives

I. Derivatives to which hedge accounting is not applied: None.

II. Derivatives to which hedge accounting is applied: Contracted amounts or notional amounts defined in contracts as of consolidated balance sheet date for each hedge accounting method are as follows:

(unit: million yen)

Hedge accounting method	Type of derivatives	Major hedged items	As of March 31, 2019			
			Contracted amounts	Of the contracted amounts, those over 1 year	Fair value	Fair value measurement method
Deferral hedge accounting method	Purchased forward exchange contracts—U.S. dollar	Accounts payable-trade	15,398	—	89	Based on prices provided by counterparty financial institutions
“ <i>Furiate-shori</i> ” method	Purchased forward exchange contracts—U.S. dollar	Accounts payable-trade	4,747	—	(*)	
Total			20,145	—	89	

(*) Forward exchange contracts under designated hedge accounting (“*Furiate-shori*”) method are accounted for together with accounts payable-trade designated as a hedged item, their fair values are included in the corresponding amount of accounts payable-trade.

(Note) 2. Financial instruments whose fair values are deemed to be extremely difficult to measure

(unit: million yen)

Classification	Consolidated balance sheet amount
Unlisted equity securities (*)	730

(*) The fair value of unlisted equity securities is not disclosed because their market price is not available and the Company deems it extremely difficult to measure their fair value.

(Note) 3. Scheduled redemption amounts of monetary claims or short-term investment securities with maturity after the consolidated balance sheet date

(unit: million yen)

	Within 1 year
Cash and deposits	23,305
Notes and accounts receivable-trade	43,464
Short-term investment securities	2,000
Total	68,770

VI. Note regarding per share information

Net assets per share	787.69 yen
Profit per share	105.28 yen

VII. Note regarding significant subsequent events

Business combination through acquisition

At the Board of Directors meeting held on March 22, 2019, the Company resolved to acquire additional shares of Net One Asia Pte. Ltd. (former company name: Asiasoft Solutions Pte. Ltd.) and make it a subsidiary, entering into a share transfer agreement on April 17, 2019 and acquiring the shares on the same date.

(1) Outline of business combination

I. Name of the acquired company and its business content

Name of acquired company: Net One Asia Pte. Ltd. (former company name: Asiasoft Solutions Pte. Ltd.)

Business content: Construction and operation of ICT infrastructure in the ASEAN region

II. Main reasons for business combination

Net One Asia Pte. Ltd. (former company name: Asiasoft Solutions Pte. Ltd.), established in 2008, is an ICT-based integrator with a business targeting the ASEAN region. With locations in Singapore, Malaysia, and Indonesia, said company has strengths in cloud technology/consulting capabilities in a multi-vendor environment.

In order to launch the ASEAN business, the Group entered into a capital alliance with said company in September 2016 to expand collaboration. By making said company a subsidiary, the Group will position it as a strategic subsidiary of the Group in the ASEAN region and aim to further expand business.

III. Date of business combination

April 17, 2019

IV. Legal form of business combination

Acquisition of shares

V. Name of company after combination

No change

VI. Percentage of voting rights acquired

Percentage of voting rights immediately before the business combination: 42.0%

Additional percentage of voting rights acquired on date of business combination: 9.0%

Percentage of voting rights after acquisition: 51.0%

VII. Main basis determining company to be acquired

Due to the Company's acquisition of shares in exchange for cash.

(2) Acquisition cost of the acquired company and breakdown by type of consideration

Consideration for the acquisition of common stock before the business combination	Cash	3,500,000 Singapore dollars
Consideration for the additional acquisition	Cash	311,000 Singapore dollars
Acquisition cost		3,811,000 Singapore dollars

(3) Content and amount of main acquisition-related expenses

Advisory fees and commissions: 1 million yen

(4) Amount of goodwill occurred, cause of occurrence, amortization method, and amortization period

Undetermined at this time.

- (5) Amount of assets accepted and liabilities assumed on business combination date and main breakdown

Undetermined at this time.

Notes to non-consolidated financial statements

I. Significant accounting policies

1. Basis and method of valuation for assets

(1) Securities

I. Subsidiaries and affiliates

Stated at cost based upon the moving average method

II. Available-for-sale securities

Securities with market value

Stated at market value based upon market value on the closing date

(Net unrealized holding gains or losses, net of the applicable income taxes, are directly included in a component of net assets. The cost of securities sold is measured by the moving average method.)

Securities without market value

Stated at cost based upon the moving average method, or at cost amortized or accumulated over the maturity based upon the straight-line method

(2) Derivatives

Stated at market value

(3) Inventories

I. Merchandise

Stated at cost based upon the moving average method (The balance sheet amount is adjusted by writing down the book value where the profitability declines.)

II. Costs for uncompleted construction contracts

Stated at cost based upon the specific identification method (The balance sheet amount is adjusted by writing down the book value where the profitability declines.)

2. Depreciation method for non-current assets

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

Declining balance method is applied.

The major useful lives of assets are:

Buildings 3-23 years

Tools, furniture and fixtures 2-20 years

(2) Intangible assets (excluding lease assets)

Straight line method is applied.

The major useful-lives of assets are:

Software for own use 5 years

Software for sale 3 years

(3) Lease assets

I. Lease assets in finance leases that transfer ownership to the lessee

Lease assets are depreciated using the same manner to the accounting for the non-current assets owned by the Company.

II. Lease assets in finance leases that do not transfer ownership to the lessee

Lease assets are depreciated using the straight line method over the corresponding lease terms as useful lives with their residual values to be zero.

3. Basis for reserves

(1) Allowance for doubtful accounts

Allowance for doubtful accounts is recorded to provide provisions for possible losses on receivables based on the historical uncollectible rate for ordinary receivables and on an estimate of individual collectability of specific doubtful receivables from debtors in financial difficulties.

(2) Provision for bonuses

Provision for bonuses is recorded to accrue the amount for bonuses to employees of the Company for the fiscal year.

(3) Provision for directors' bonuses

Provision for directors' bonuses is recorded to accrue the amount for bonuses to Directors and Audit & Supervisory Board Members of the Company for the fiscal year.

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

(1) Bases for translation of foreign currency denominated assets and liabilities into Japanese yen

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the spot exchange rate on the closing date of the accounting period, with translation difference charged to profit or loss.

(2) Hedge accounting method

I. Hedge accounting method

Deferral hedge accounting is applied. However, monetary claims and liabilities denominated in foreign currencies subject to forward foreign exchange contracts are translated at the foreign exchange rates stipulated in the contract if the forward foreign exchange contract satisfies the requirements for this treatment.

("Furiate-shori")

II. Hedging instruments and hedged items

Hedging instruments: Forward exchange contract

Hedged item: Planned transactions denominated in foreign currencies

III. Hedging policy

The Company employs hedging instruments to manage risk exposure to fluctuations in foreign currency exchange rates for foreign currency denominated payables in connection with the purchase of operating assets in the future pursuant to the internal management regulations which define the transaction limit amount and the transaction authority.

IV. Assessment of hedge effectiveness

Assessment of hedge effectiveness is omitted for foreign currency forward exchange contracts since their hedge relationship is deemed highly effective.

(3) Accounting for consumption taxes

Transactions subject to national consumption tax and local consumption tax are recorded at amounts exclusive of consumption taxes, and national and local consumption taxes unqualified for deduction are recorded as expenses for FY2018.

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

II. Notes to changes in representation methods

(Non-consolidated Balance Sheet)

“Advances paid,” which had been included in “Other” in current assets up until the previous fiscal year, was separately presented from the fiscal year under review because its monetary significance increased.

“Advances paid” for the previous fiscal year was 3,046 million yen.

(Application of “Partial Amendments to Accounting Standard for Tax Effect Accounting”)

The Group has applied the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) effective from the beginning of the fiscal year under review. Accordingly, deferred tax assets were presented under investments and other assets.

III. Notes to non-consolidated balance sheet

1. Total accumulated depreciation of property, plant and equipment

23,131 million yen

2. Monetary claims and liabilities to subsidiaries and associates

Short term monetary claims 719 million yen

Short term monetary liabilities 1,257 million yen

3. Guarantee of obligations of subsidiaries and associates

A guarantee is offered for the following subsidiary’s obligation to its specified supplier.

Net One Partners Co., Ltd. 2,236 million yen

IV. Note to non-consolidated statement of income

Transactions with subsidiaries and associates

Transactions relating to the Company’s operation

Net sales 1,329 million yen

Purchase 8,362 million yen

Selling, general and administrative expenses 1,653 million yen

Transactions not relating to the Company’s operation 1,383 million yen

V. Note to non-consolidated statement of changes in net assets

Class and number of treasury shares as of March 31, 2019

Class of shares	Number of shares as of March 31, 2019
Common stock	1,328,696

VI. Notes regarding tax effect accounting

1. Breakdown of major reason for deferred tax assets and deferred tax liabilities (as of March 31, 2019)

(unit: million yen)

Deferred tax assets	
Provision for bonuses	1,128
Depreciation for tools, furniture and fixtures	919
Accounts receivable-other	211
Accrued enterprise tax	201
Asset retirement obligations	127
Software	99
Loss on valuation of investment securities	50
Loss on valuation of inventories	16
Other	338
Sub-total deferred tax assets	<u>3,094</u>
Valuation allowance	<u>(447)</u>
Total deferred tax assets	<u>2,646</u>
Deferred tax liabilities	
Asset retirement cost	(76)
Deferred gains or losses on hedges	(12)
Valuation difference on available-for-sale securities	(0)
Total deferred tax liabilities	<u>(89)</u>
Net deferred tax assets	<u>2,557</u>

2. Breakdown of significant items that lead to a significant difference between statutory tax rate and effective tax rate after adoption of tax effect accounting.

This note has been omitted as the difference between the statutory tax rate and the effective tax rate after adoption of tax effect accounting is 5% or less of the statutory tax rate.

VII. Notes regarding transactions with related parties

Subsidiaries

(unit: million yen)

Classification	Company name	Percentage of voting rights holding (held)	Relationship	Transaction	Amount of transaction	Account	As of March 31, 2019
Subsidiary	Net One Partners Co., Ltd.	Holding directly 100.0%	<ul style="list-style-type: none">• Partial outsourcing of back-office operations• Guarantee of obligations• 1 dispatched officer	Partial outsourcing of back-office operations (Note 1)	1,126	Other current assets	102
				Guarantee of obligations (Note 2)	2,236	—	—

Terms and conditions of transactions and the policy of determining the terms and conditions of the transactions:

- (Notes) 1. Terms and conditions are determined considering the details and descriptions of outsourcing deals and contracts.
2. Guarantee of obligations is provided for the obligations of specific suppliers. The guarantee fees are not collected.
3. The above indicated amount of transaction is exclusive of consumption taxes.

VIII. Note regarding per share information

Net assets per share	718.09 yen
Profit per share	88.50 yen

IX. Note regarding significant subsequent events

Business combination through acquisition

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(4) Amount of goodwill occurred, cause of occurrence, amortization method, and amortization period

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(5) Amount of assets accepted and liabilities assumed on business combination date and main breakdown

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