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Starting date of the electronic provision measure June 5, 2024

11th Ordinary General Meeting of Shareholders
Other Matters Subject to the Electronic Provision Measures
(Matters omitted from the delivery document)

Consolidated Statement of Changes in shareholder' Equity

Notes to Consolidated Financial Statements

Statement of Changes in shareholder' Equity

Notes to the Financial Statements

(From April 1, 2023 to March 31, 2024)

DIGITAL HEARTS HOLDINGS Co., Ltd.

Consolidated Statement of
Changes in Shareholders' Equity

(From April 1, 2023 to March 31, 2024)

(Unit: JPY thousand)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the start of the period	300,686	393,678	9,427,957	-1,838,397	8,283,925
Changes during the period					
Dividends from surplus			-467,620		-467,620
Attributable to shareholder of parent company Current net income			176,927		176,927
Purchase of treasury stock					—
Disposal of treasury stock		4,232		20,063	24,295
Change in ownership interest of parent due to transactions with non-controlling interests		-331,556			-331,556
Net changes in items other than shareholders' equity					—
Total changes during the period	—	-327,324	-290,692	20,063	-597,953
Balance at end of current period	300,686	66,354	9,137,264	-1,818,333	7,685,971

	Accumulated other comprehensive income			stock acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at the start of the period	-86,528	609,357	522,828	6,345	661,421	9,474,520
Changes during the period						
Dividends from surplus						-467,620
Attributable to shareholder of parent company Current net income						176,927
Purchase of treasury stock						—
Disposal of treasury stock						24,295
Change in ownership interest of parent due to transactions with non-controlling interests						-331,556
Net changes in items other than shareholders' equity	-20,615	227,603	206,987	-6,345	-224,847	-24,204
Total changes during the period	-20,615	227,603	206,987	-6,345	-224,847	-622,158
Balance at end of current period	-107,144	836,960	729,816	—	436,573	8,852,361

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

Notes to Consolidated Financial Statements

1. Notes Regarding the Going-Concern Assumption

Not applicable

2. Notes on Important Matters Forming the Basis for Preparation of Consolidated Financial Statements

(1) Matters concerning the scope of consolidation

① Numbers of consolidated subsidiary and names of major consolidated subsidiary

23 consolidated subsidiary

Names of major companies

DIGITAL HEARTS Co., Ltd.
AGEST, Inc.
DIGITAL HEARTS USA Inc.
DIGITAL HEARTS(Shanghai)Co., Ltd.
Aetas, Inc.
FLAME Hearts Co., Ltd.
DIGITAL HEARTS Seoul Co., Ltd.
LOGIGEAR CORPORATION
AGEST Vietnam Co., Ltd.
Digital Hearts Linguitronics Taiwan Co., Ltd.
DIGITAL HEARTS CROSS Marketing and Solutions Limited
DIGITAL HEARTS CROSS Shanghai Co., Ltd.
DH & Luminous Media International Corporation
DIGITAL HEARTS CROSS Tokyo Co., Ltd.
MK Partners, Inc.
TPP SOFTWARE COMPANY LIMITED
identity Inc.
DEVELOPING WORLD SYSTEMS LIMITED
DWS North America, Inc.
CEGB Co., Ltd.
GPC K.K

In this consolidated fiscal year, LOGIGEAR VIETNAM CO., LTD., a consolidated subsidiary, changed its name to AGEST Vietnam Co., Ltd. on October 20, 2023.

② Names of major non-consolidated subsidiary

DIGITAL HEARTS Plus Co., Ltd.

Reasons for exclusion from the scope of consolidation

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

(2) Matters concerning the application of the equity method

① Number of unconsolidated subsidiary or affiliates to which the equity method is applied and the names of major companies

One unconsolidated subsidiary or affiliate to which the equity method is applied

Names of major companies and JetSynthesys Digital Services Private Limited

JetSynthesys Digital Services Private Limited has been included in equity-method affiliates because it has become an affiliate as a result of the acquisition of new shares of JetSynthesys Digital Services Private Limited during the current consolidated fiscal year.

② Names of major non-consolidated subsidiary and affiliates to which the equity method is not applied

Names of non-consolidated subsidiary to which the equity method is not applied

DIGITAL HEARTS Plus Co., Ltd.

Grounds for not applying the equity method

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

(3) Matters concerning the fiscal year of consolidated subsidiary

[Company ending December 31]

DIGITAL HEARTS(Shanghai)Co., Ltd.

LOGIGEAR CORPORATION

DIGITAL HEARTS CROSS Marketing and Solutions Limited

Other 15 companies

In preparing the consolidated financial statements, among the aforementioned consolidated subsidiary, the AGEST, Inc. and five other companies use financial statements based on a provisional settlement of accounts with a settlement date of March 31. For LOGIGEAR CORPORATION and eleven other companies, consolidated settlement of accounts is conducted based on the official settlement of accounts for the subsidiary in question as the differences in the settlement date do not exceed three months.

Any material transaction occurring between the date of the consolidated settlement of accounts and the date of the consolidated financial statements is adjusted as required for consolidation.

In addition, starting with the current consolidated fiscal year, the settlement date of accounts for AGEST, Inc. of consolidated subsidiary has been changed from March 31 to December 31, the settlement date for CEGB Co., Ltd. has been changed from October 31 to December 31, and the settlement date for GPC K.K has been changed from July 31 to December 31. In preparing the consolidated financial statements, the AGEST, Inc. uses financial statements based on provisional settlement of accounts. As CEGB Co., Ltd. and GPC K.K have long used financial statements based on provisional settlement of accounts where the consolidated closing date is considered the closing date, this change in settlement of accounts has no effect on the consolidated financial statements.

(4) Matters concerning accounting policies

① Valuation standard and method for assets

(i) Short-term investment securities

Held-to-maturity debt securities

Cost method

Available-for-sale securities

a Securities other than those for which there is no market price

Stated at fair value (all unrealized gains and losses are included in net assets and cost of securities sold is calculated using the moving-average method).

(b) Shares, etc. without a market price

Stated primarily at cost determined by the moving-average method.

Contributions to limited liability partnerships for investment businesses and similar partnerships (which are deemed to be securities under paragraph (2) of Article 2 of the Financial Instruments and Exchange Act) are accounted for on a net basis using the most recent financial statements available according to the reporting date of the settlement of accounts as prescribed in the partnership agreement as a basis.

(ii) Inventories

Inventories held for ordinary sale

Valuation basis is based on the cost method (method of writing down the book value due to a decrease in profitability).

a Products

Moving average method

b Work in process

Individual method

c Supplies

first-in, first-out method

② Method of depreciation of depreciable assets

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

The declining-balance method is used.

Provided, however, that buildings and accompanying facilities acquired on or after April 1, 2016, are depreciated using the straight-line method.

The main useful lives are as follows.

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

(ii) Intangible fixed assets (excluding lease assets)

Straight-line method is used.

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

(iii) Lease assets

Lease assets related to finance lease transactions that do not transfer ownership

Depreciation is computed by the straight-line method over the lease term as the useful life and the residual value as zero.

③ Accounting standard for allowances

(i) Allowance for doubtful accounts

An allowance for doubtful accounts is provided for the estimated amount of uncollectible accounts based on the achievements or result ratio for ordinary receivables and upon consideration of the collectability of individual accounts for doubtful accounts and certain receivables, such as claims in bankruptcy or reorganization.

(ii) Provision for bonuses

To be appropriated for the payment of bonuses to employees, an amount based on the estimated amount of bonuses to be paid is provided.

(iii) Provision for directors' bonuses

To be appropriated for the payment of bonuses to officers, an amount is recorded based on the estimated amount of bonuses to be paid.

④ Accounting method for retirement benefits

Some consolidated subsidiary use the simplified method in which the amount that would be required if all employees voluntarily terminated their employment at the end of the period for retirement benefits is made a retirement benefit obligation in computing net defined benefit liability and retirement benefit cost.

⑤ Standard for recording revenues and expenses

In accordance with the following five-step approach, our grouping records revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the transfer of goods and services to customer or client.

The provision of services, which are the major transactions of our group, is based on our performance obligations to provide contracted services in accordance with the contents of the agreement. As our performance obligations will be satisfied at the time when services are actually provided, revenue and expenses are recognized at this time.

The payment terms and conditions applicable to our major transactions constitute the payment terms at the end of the following month after the provision of performance obligations and do not include any material financial factors in the agreements.

Step 1 : Identifying contracts with customer or client
Step 2 : Identify performance obligations in contracts
Step 3 : Calculate the transaction price
Step 4 : Allocate the transaction price to the performance obligations in the agreement
Step 5 : Recognize revenue at the point in time of satisfaction or as the performance obligations are satisfied

(i) Enterprise Business

Enterprise Business provide QA solutions, such as system testing, security-testing, and compliance support, as well as IT services such as dispatch of engineers and system maintenance and operation support, and other services.

Service transactions under quasi-proxy agreements, which are major services, are recognized revenue when the provision of services is completed and billable.

For commissioned transactions for which the acceptance inspection of a customer or client is required with respect to deliverables, revenue is recognized in accordance with the progress of the agreement because the customer or client's assets increase as the agreement progresses and the customer or client gains control of the asset and, accordingly, the Group's performance obligations are satisfied. The extent to which agreements are in progress is calculated based on the percentage of inputs used to satisfy performance obligations (costs incurred) to the total inputs expected to be in satisfaction of those performance obligations in full. In addition, for some transactions the performance obligations are satisfied over the term of the agreement, and revenue is recorded ratably over the term of the agreement in which the performance obligations are satisfied.

(ii) Entertainment Business

Entertainment Business mainly provides domestic debugging services for detecting the bug or defect of game software, translation and LQA of games, 2D/3D graphics production, marketing support, and other services.

Domestic debugging services, which are the major services, are service transactions conducted under quasi-delegated agreements, and revenue is recognized when the provision of services is completed and billable.

⑥ Other important matters for preparation of consolidated financial statements

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

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the spot exchange rate on the consolidated closing date and any translation difference is accounted for as profit or loss. Assets and liabilities of foreign subsidiary are translated into Japanese yen at the spot exchange rate on the consolidated closing date, and revenues and expenses are translated into Japanese yen at the average rate during the period. Foreign exchange differences are included in foreign currency translation adjustments and non-controlling interests in net assets.

(ii) Amortization method and period of goodwill

Amortized using the straight-line method over 5 to 10 years.

3. Notes on Accounting Estimates

(Valuation of goodwill)

(1) Amount recorded in the consolidated financial statements for the current consolidated fiscal year

Recorded amount of goodwill in the consolidated financial statements		JPY2,313,341 thousand
Of which	Enterprise Business（identity Inc.）	JPY1,161,532 thousand
	Entertainment Business（DIGITAL HEARTS CROSS Marketing and Solutions Limited）	JPY446,278 thousand

(2) Information on the contents of important accounting estimates pertaining to identified items

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

Our corporate group groups assets in accordance with the categories of administrative accounts based on businesses units. If the total amount of undiscounted future cash flows from this asset group is less than the book value of the asset group for which an indication of impairment exists, the book value is written down to the recoverable amount and the reduction amount is recorded as an Impairment losses.

In the current consolidated fiscal year, it was determined that no Impairment losses was recognized for asset groups for which indicators of impairment were identified, where the total undiscounted future cash flows were compared to the book value and where the undiscounted future cash flows exceeded the book value. 9. For asset-groups for which it is determined that certain Impairment losses should be recognizedAs indicated in the notes to the Impairment losses, the recoverable amount is calculated based on the value in use. The Impairment losses is recognized by discounting future cash fl ows at 9.6%.

② Major assumptions used in calculating the amount recorded in the consolidated financial statements for the current consolidated fiscal year

For indicators of goodwill impairment, the Company reviews whether there is a significant decline in excess earnings power based on a comparison of the planned businesses at the time of acquisition of the subject subsidiary to the achievements or result and the most recent businesses plan. In assessing excess earnings power, estimates of future cash-flows under businesses planning are based on certain assumptions regarding future expectations and other factors. These assumptions reflect future uncertainties.

(3) Effect on the consolidated financial statements for the following consolidated fiscal year

We consider this issue carefully when identifying indicators of impairment and recognizing Impairment losses, and while we believe that the aforementioned estimates of undiscounted future cash flows are reasonable, changes in conditions or assumptions underlying these estimates due to changes in market conditions or other factors could materially impact the consolidated financial statements for the following consolidated fiscal year and beyond.

4. Notes to the Consolidated Balance Sheet

Accumulated depreciation deducted directly from assets

Property, plant and equipment	JPY1,372,569 thousand
Buildings	JPY375,808 thousand
Vehicles	JPY721 thousand
Tools, furniture and fixtures	JPY954,501 thousand
Lease assets	JPY41,537 thousand

5. Notes to the Consolidated Statement of Changes in shareholder' Equity

(1) Matters concerning shares outstanding

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

(2) Matters concerning dividends

① Cash dividends paid

Resolution	Type of shares	Total amount of dividends (JPY in thousand)	Per share Dividends (JPY)	Record date	Effective date
May 11, 2023 Board of directors	common stock	233,716	10.50	March 31, 2023	June 12, 2023
November 9, 2023 Board of directors	common stock	233,903	10.50	September 30, 2023	December 5, 2023

② Dividends for which the record date falls in the current consolidated fiscal year and the effective date falls in the following consolidated fiscal year

Resolution	Type of shares	Source of dividends	For dividends Total amount (JPY in thousand)	Per share Dividends (JPY)	Record date	Effective date
May 9, 2024 Board of directors	common stock	Retained earnings	233,895	10.50	March 31, 2024	June 11, 2024

6. Notes on Financial Instruments

(1) Matters concerning the status of financial instruments

① Policy on financial instruments

Our policy on fund management is to invest surplus funds in safe financial assets and not engage in speculative transactions in these assets in principle unless there are reasonable grounds for doing so. In addition, in principle, the Company's policy is to raise funds through self-financing for working capital and small amounts of capital investments and through loans from banks and other financial institutions and corporate bonds when making investments that require a large amount of funds.

② Contents and risks associated with financial instruments and the risk management system

(i) Notes and accounts receivable-trade, accounts receivable-trade, and contract assets-are exposed to customer or client credit risks. With respect to these risks, the Company regularly ascertains the credit standing of customer or client enterprise and mitigates risks through ascertaining the balance of receivables from time to time in accordance with rules on credit management.

(ii) Investment securities are available-for-sale securities and are subject to risks of fluctuations in market prices. The Group regularly reviews its holdings by ascertaining fair values and the financial condition of issuers and other factors.

(iii) Lease and guarantee deposits consist mainly of lease and guarantee deposits arising from the lease of businesses stations. While these instruments are exposed to the credit risk of the lender, the credit standing of the lender is ascertained when entering into a lease and efforts are made to ascertain the credit standing of the lender as needed.

(iv) Accounts payable-other, which are trade payables, are mostly due within one year. While these expose us to liquidity risks, our group mitigates these risks through budgetary management of cash flows and other means.

(v) While borrowings are exposed to the risk of fluctuations in interest rates, the Group manages risks by allowing the Company to flexibly accommodate changes in interest rates through adjusting the term of its borrowings to a short period of time and by ascertaining interest rate trends and other factors from time to time.

③ Supplemental explanation on matters concerning the fair value of financial instruments

Fair values of financial instruments include values based on market prices and, in the absence of quoted market prices, reasonably estimated values. As variable factors are incorporated in calculating this value, the value may change due to the adoption of different assumptions and other factors.

(2) Fair values of financial instruments

The carrying amounts, fair values, and differences between the above amounts are reviewed below. Shares with no quoted market price are not included in the following table (see Note 3).

(Unit: JPY thousand)

	Carrying amount	Fair value	Difference
Short-term investment securities and investment securities			
Held-to-maturity debt securities	42,549	42,549	—
Available-for-sale securities	290,010	290,010	—

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

(1) Assets

Cash and deposits, notes and accounts receivable-trade and contract assets

Notes are omitted because their fair values approximate their carrying amounts due to their short maturities.

(2) Liabilities

Short-term loans payable and accounts payable-other

Notes are omitted because their fair values approximate their carrying amounts due to their short maturities.

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

Short-term investment securities and investment securities

Notes on securities by purpose of holding are as follows.

(1) The carrying amounts and fair values of held-to-maturity debt securities by type and the differences between these amounts are as follows. There were no held-to-maturity bonds sold during the current consolidated fiscal year.

(Unit: JPY thousand)

Category	Type	Carrying amount	Fair value	Difference
Securities whose fair value does not exceed their carrying amount on the consolidated balance sheet	Other	42,549	42,549	—
Total		42,549	42,549	—

(2) The amounts recorded in the consolidated balance sheet, acquisition costs, and differences between the above amounts for available-for-sale securities by type are as follows. There were no other securities sold during the current consolidated fiscal year.

(Unit: JPY thousand)

Category	Type	Carrying amount	Acquisition cost	Difference
Securities for which book value does not exceed acquisition cost	Shares	290,010	446,722	-156,711
Total		290,010	446,722	-156,711

(Note 3) Shares, etc. without market price

(Unit: JPY thousand)

Category	Carrying amount
Unlisted stocks	1,146,967
Shares of unconsolidated subsidiary and shares of affiliates	289,461
Investments in silent partnership	66,988

(※) These are not included in [Available-for-sale securities].

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

(Unit: JPY thousand)

	Within one year	Due after one year Within five years	Due after five years Within 10 years	Due after ten years
Short-term investment securities and investment securities				
Held-to-maturity debt securities	42,549	—	—	—
Available-for-sale securities with maturities	—	—	60,000	—
Total	42,549	—	60,000	—

(3) Matters concerning the breakdown of fair values of financial instruments by appropriate category

The fair values of financial instruments are classified into the following three levels depending on the observability and significance of the inputs used in determining fair values:

Level 1 fair value : Fair value determined by using quoted prices in active markets for identical assets or liabilities (unadjusted)

Level 2 fair value : Fair value calculated using directly or indirectly observable inputs other than Level 1 inputs

Level 3 fair value : Fair value calculated using significant unobservable inputs

If multiple inputs are used that significantly affect the calculation of fair value, then fair value is classified into the level that has the lowest priority in determining fair value within the level to which those inputs belong.

① Financial assets and financial liabilities as stated on the consolidated balance sheet at fair value

(Unit: JPY thousand)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Short-term investment securities and investment securities				
Investment securities				
Shares	290,010	—	—	290,010

② Financial assets and financial liabilities that are not recorded in the consolidated balance sheet at fair value

(Unit: JPY thousand)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Short-term investment securities and investment securities				
Short-term investment securities				
Other	—	42,549	—	42,549

Note: Explanation of valuation techniques and inputs used in determining fair values

Short-term investment securities and investment securities

For securities with short-term remaining maturities, the fair value is calculated based on the book value as the fair value is assumed to approximate the book value. In addition, listed stocks are valued using quoted prices and, as they are traded in active markets, their fair values are classified as Level 1 fair values.

7. Notes on Revenue Recognition

(1) Breakdown of revenues from contracts with customer or client

(Unit: JPY thousand)

	Reportable segments		Total
	Enterprise Business	Entertainment Business	
Revenue from contracts with customer or client	19,674,196	19,116,001	38,790,197
Other income	—	—	—
Net sales to external customer or client	19,674,196	19,116,001	38,790,197

(2) Basis for understanding the revenues from contracts with customer or client

In accordance with the following five-step approach, our grouping records revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the transfer of goods and services to customer or client.

The provision of services, which are the major transactions of our group, is based on our performance obligations to provide contracted services in accordance with the contents of the agreement. As our performance obligations will be satisfied at the time when services are actually provided, revenue and expenses are recognized at this time.

The payment terms and conditions applicable to our major transactions constitute the payment terms at the end of the following month after the provision of performance obligations and do not include any material financial factors in the agreements.

Step 1 : Identifying contracts with customer or client
Step 2 : Identify performance obligations in contracts
Step 3 : Calculate the transaction price
Step 4 : Allocate the transaction price to the performance obligations in the agreement
Step 5 : Recognize revenue at the point in time of satisfaction or as the performance obligations are satisfied

① Enterprise Business

Enterprise Business provide QA solutions, such as system testing, security-testing, and compliance support, as well as IT services such as dispatch of engineers and system maintenance and operation support, and other services.

Service transactions under quasi-proxy agreements, which are major services, are recognized revenue when the provision of services is completed and billable.

For commissioned transactions for which the acceptance inspection of a customer or client is required with respect to deliverables, revenue is recognized in accordance with the progress of the agreement because the customer or client's assets increase as the agreement progresses and the customer or client gains control of the asset and, accordingly, the Group's performance obligations are satisfied. The extent to which agreements are in progress is calculated based on the percentage of inputs used to satisfy performance obligations (costs incurred) to the total inputs expected to be in satisfaction of those performance obligations in full. In addition, for some transactions the performance obligations are satisfied over the term of the agreement, and revenue is recorded ratably over the term of the agreement in which the performance obligations are satisfied.

② Entertainment Business

Entertainment Business mainly provides domestic debugging services for detecting the bug or defect of game software, translation and LQA of games, 2D/3D graphics production, marketing support, and other services.

Domestic debugging services, which are the major services, are service transactions conducted under quasi-delegated agreements, and revenue is recognized when the provision of services is completed and billable.

(3) Information concerning the relationship between the fulfillment of the obligation to perform under contracts with customer or client and the cash flow from said contracts and the amount and timing of revenue expected to be recognized from contracts with customer or client existing at the end of the current consolidated fiscal year in the following consolidated fiscal year and beyond

① Contract assets and contract liabilities

Notes and accounts receivable-trade and contract assets-arising from contracts with customer or client fall under "Notes and accounts receivable-trade and contract assets." The amounts of contractual assets and contractual liabilities as well as the amounts of revenue recognized from performance obligations that have been satisfied in previous periods were immaterial at the end of the previous consolidated fiscal year and in the current consolidated fiscal year. Disclosure of contractual liabilities is omitted because the balances are immaterial and no material changes have been experienced.

② Transaction price allocated to the remaining performance obligation

As there are no material transactions with an individual expected contractual term of more than one year in our group, information on remaining performance obligations is omitted using the practical expedient. In addition, there are no material amounts in the consideration arising from contracts with customer or client that are not included in the transaction prices.

8. Notes on per share information

(1) net assets per share amount JPY377.80

(2) net income per share JPY7.94

9. Notes on Impairment losses

In this consolidated fiscal year, we and our consolidated subsidiary recorded Impairment losses on the following asset-groups.

(1) Outline of the asset-group for which Impairment losses has been recognized

Location	Application	Type	Amount (JPY in thousand)
United States (LOGIGEAR CORPORATION)	—	Goodwill	483,622
	Properties for businesses	Tools, furniture and fixtures	595
		Software	124,682
		Intangible fixed assets (Other)	2,846
United Kingdom (DEVELOPING WORLD SYSTEMS LIMITED)	—	Goodwill	391,144
	Properties for businesses	Tools, furniture and fixtures	3,379
		Software	26
		Intangible fixed assets (Other)	13,489
United States (MK Partners, Inc.)	—	Goodwill	46,373
	Properties for businesses	Buildings and accompanying facilities	3,285
Total			1,069,446

(2) Background to the Impairment losses

LOGIGEAR CORPORATION, our consolidated subsidiary, has provided software-testing services to companies in the United States for many years. However, profitability continued to be lower than expected due to factors such as delays in new orders caused by the prolonged COVID-19 impact in the United States. Furthermore, even in foreign businesses, such as DEVELOPING WORLD SYSTEMS LIMITED and the shift to the subsidiary of MK Partners, Inc., we were unable to achieve results and generate synergies as anticipated at the time of acquisition. As a result of revisions to businesses plans going forward, we recorded Impairment losses on property for businesses and goodwill arising from the acquisition of shares.

(3) Grouping method

In applying impairment accounting, our Group groups assets according to the classification of management accounting based on businesses units.

(4) Method of calculating the recoverable amount

The recoverable amount is calculated based on the value in use and calculated by discounting future cash flows by 9.6%.

10. Notes on Office relocation expenses

This is a Head office relocation expenses of the domestic subsidiary.

11. Notes on Penalties

Expenses arising from the transfer of the head office of an overseas subsidiary.

12. Notes on Loss on businesses Restructuring

Personnel reduction costs related to foreign subsidiary are charged to Extraordinary losses.

Statement of Changes in shareholder' Equity

(From April 1, 2023 to March 31, 2024)

(Unit: JPY thousand)

	Shareholders' equity					
		Capital surplus			Retained earnings	
	Capital stock	Legal capital surplus	Other Capital surplus	Total capital surplus	Other Retained earnings Retained earnings brought forward	Retained earnings Total
Balance at the start of the period	300,686	300,686	3,171,727	3,472,413	1,509,106	1,509,106
Changes during the period						
Dividends from surplus					-467,620	-467,620
Current net income					1,857,021	1,857,021
Disposal of treasury stock			4,232	4,232		—
Decrease due to company split			-439,069	-439,069		—
Net changes in items other than shareholders' equity						—
Total changes during the period	—	—	-434,837	-434,837	1,389,401	1,389,401
Balance at end of current period	300,686	300,686	2,736,889	3,037,576	2,898,508	2,898,508

	Shareholders' equity		Valuation and translation adjustments		stock acquisition rights	Total net assets
	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at the start of the period	-1,838,397	3,443,809	-86,519	-86,519	6,345	3,363,635
Changes during the period						
Dividends from surplus		-467,620				-467,620
Current net income		1,857,021				1,857,021
Disposal of treasury stock	20,063	24,295				24,295
Decrease due to company split		-439,069				-439,069
Net changes in items other than shareholders' equity			-20,615	-20,615	-6,345	-26,960
Total changes during the period	20,063	974,627	-20,615	-20,615	-6,345	947,666
Balance at end of current period	-1,818,333	4,418,436	-107,134	-107,134	—	4,311,302

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

Notes to the Financial Statements

1. Notes Regarding the Going-Concern Assumption

Not applicable

2. Notes on Matters Relating to Important Accounting Policies

(1) Valuation standard and method for marketable securities

① Shares of subsidiary and affiliates

Stated at cost determined by the moving-average method.

② Available-for-sale securities

Securities other than those for which there is no market price

Stated at fair value (all unrealized gains and losses are included in net assets and cost of securities sold is calculated using the moving-average method).

Shares, etc., without market price

Stated primarily at cost determined by the moving-average method.

Contributions to limited liability partnerships for investment businesses and similar partnerships (which are deemed to be securities under paragraph (2) of Article 2 of the Financial Instruments and Exchange Act) are accounted for on a net basis using the most recent financial statements available according to the reporting date of the settlement of accounts as prescribed in the partnership agreement as a basis.

(2) Method of depreciation of noncurrent assets

① Property, plant and equipment

The declining-balance method is used.

Provided, however, that buildings and accompanying facilities acquired on or after April 1, 2016, are depreciated using the straight-line method.

The main useful lives are as follows.

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

② Intangible fixed assets

Straight-line method is used.

Software for internal use is depreciated using the straight-line method over its estimated useful life (five years).

(3) Accounting standard for allowances

① Allowance for doubtful accounts

To provide for losses from doubtful accounts on claims owing to subsidiary, an amount deemed necessary based on the financial position of the companies in question is recorded.

② Provision for bonuses

To be appropriated for the payment of bonuses to employees, an amount based on the estimated amount of bonuses to be paid is provided.

③ Provision for directors' bonuses

To be appropriated for the payment of bonuses to officers, an amount is recorded based on the estimated amount of bonuses to be paid.

(4) Standard for recording revenue

The Company applies the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and other standards. Revenue is recognized in the amount expected to be received in exchange for the good or service at the point in time when control of a promised good or service is transferred to the customer or client.

Our revenues are comprised of management guidance fees and outsourcing fees from subsidiary. Under management guidance fees and outsourcing fees, provision of contracted services to subsidiary in accordance with the details of the contract is an obligation to fulfill the obligation of fulfilling our performance obligations as of the time that services are actually provided, and therefore revenue is recognized at this point in time.

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

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

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the spot exchange rate on the balance sheet date and any foreign exchange gains or losses are accounted for as gains or losses.

3. Notes on Accounting Estimates

(Valuation of stocks of subsidiaries and affiliates)

(1) Amount recorded in the financial statements of the fiscal year: JPY6,939,909 thousand
(including JPY1,263,119 thousand for DIGITAL HEARTS CROSS Marketing and Solutions Limited and JPY1,605,450 thousand for identity Inc.)

(2) Information on the contents of important accounting estimates pertaining to identified items

① How to calculate the amount recorded in the financial statements of the fiscal year

Shares of subsidiaries and associates held by us are shares with no market price. Shares of subsidiaries and associates are acquired at a higher price than net assets because the amount equivalent to goodwill is included in stocks of some affiliates. In assessing whether or not an appraisal loss is required, if the actual value decreases markedly from the book value, the amount is written down to the actual value and recorded as a loss on valuation of stocks of subsidiaries and affiliates.

In this fiscal year, it was determined that no loss on valuation of stocks of subsidiaries and affiliates is recognized if the actual value is compared with the book value and there is no marked decrease. If it is determined that a loss on valuation of stocks of some of its subsidiaries and affiliates should be recognized, the amount thereof is reduced to the actual value as indicated in the Extraordinary losses to the income statement and the amount thereof is recognized as loss on valuation of stocks of subsidiaries and affiliates.

② Major assumptions used in calculating the amounts recorded in the financial statements of the fiscal year

Determination of the decline in the real value of shares of subsidiaries and affiliates and determination of the likelihood of recovery are examined based on comparisons between the planned businesses at the time of acquisition of the subject subsidiary and the achievements or result and the updated businesses plan. In formulating an businesses plan, estimates are made based on certain assumptions regarding future expectations and other factors. These assumptions reflect future uncertainties.

(3) Effect on the financial statements for the following fiscal year

While the Company is carefully studying the need for valuation losses on stocks of subsidiaries and affiliates and believes that the aforementioned estimates of real value are reasonable, changes in conditions or assumptions underlying these estimates due to changes in market conditions or other factors could materially impact the financial statements subsequent to the following fiscal year.

4. Notes to the Balance Sheet

(1) Accumulated depreciation deducted directly from assets

Property, plant and equipment	JPY74,313 thousand
Buildings	JPY42,284 thousand
Tools, furniture and fixtures	JPY32,028 thousand

(2) Guarantee obligations

Guarantee obligations for purchase settlement transactions at subsidiaries and affiliates are as follows.

DIGITAL HEARTS CROSS Tokyo Co., Ltd.	JPY700,000 thousand

(3) Monetary claims and monetary liabilities to subsidiaries and affiliates

Monetary claims or monetary liabilities owing to these affiliates, other than those indicated separately, are as follows.

Short-term monetary claims on subsidiaries and affiliates	JPY382,848 thousand
Short-term monetary liabilities to subsidiaries and affiliates	JPY21,108 thousand

5. Notes to the Income Statement

Transactions with subsidiaries and affiliates

Operating transactions (share of revenue)	JPY5,383,103 thousand
Operating transactions (expenditures)	JPY124,697 thousand
Transactions other than operating transactions (income portion)	JPY21,033 thousand
Transactions other than operating transactions (expenditures)	JPY12,538 thousand

6. Notes to Statement of Changes in shareholder' Equity

Matters concerning treasury stock

Type of shares	Beginning of the fiscal year	Increase	Decrease	End of this fiscal year
Common stock Corporation	1,632,090	733	17,812	1,615,011

(Outline of grounds for change)

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

Increase due to the acquisition of shares subject to transfer restrictions at no cost from retirees 733 shares

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

Disposal of treasury shares by board of directors resolution 17,812 shares

7. Notes on Tax Effect Accounting

Breakdown of major causes of deferred tax assets and deferred tax liabilities

(Unit: JPY thousand)

Deferred tax assets	
Provision for bonuses	918
Investment securities	62,601
Share-based compensation expenses	17,380
Shares of subsidiaries and associates	2,344,111
Loss carryforwards	69,224
Allowance for doubtful accounts	406,168
Other	8,389
Subtotal deferred tax assets	2,908,794
Valuation allowance	-2,827,003
Total deferred tax assets	81,790

8. Notes on transactions with related parties

Subsidiary and affiliates

Type	Company name or name	Percentage of voting rights held (owned) (%)	Relationship with affiliated party	Transaction details	Transaction amount (JPY in thousand)	Account	Ending balance (JPY in thousand)
subsidiary	DIGITAL HEARTS Co., Ltd.	(Owned) Direct 100.0	Concurrent position of officer Management guidance Borrowing of funds Commissioned business	To management guidance fees Received (Note) 1	1,003,972	Accounts receivable - other	119,941
				Commissioned business (Note) 2	300,684		
				Borrowing of funds	400,000	—	—
				Repayment of funds	3,385,000		
				Interest expenses paid (Note) 3	11,169	—	—
subsidiary	FLAME Hearts Co., Ltd.	(Owned) Direct 100.0	Concurrent position of officer Management guidance Loan of funds Commissioned business	Loan of funds	280,000	Affiliated companies Long-term loans receivable (Note) 4	1,760,000
				Collection of funds	200,000		
				Interest income (Note) 3	8,157	Other (Current assets)	5,813
subsidiary	LOGIGEAR CORPORATION	(Owned) Indirect 100.0	Concurrent position of officer Loan of funds	Collection of funds	855,000	—	—
				Interest income (Note) 3	7,487	—	—
subsidiary	identity Inc.	(Owned) Direct 100.0	Concurrent position of officer Loan of funds	Collection of funds	113,000	—	—
				Interest income (Note) 3	128	—	—
subsidiary	DIGITAL HEARTS CROSS Tokyo Co., Ltd.	(Owned) Indirect 100.0	Concurrent position of officer Loan of funds	Loan of funds	140,000	Other (Current assets)	140,000
				Interest income (Note) 3	120	Other (Current assets)	120
subsidiary	DIGITAL HEARTS Seoul Co., Ltd.	(Owned) Direct 100.0	Concurrent position of officer Loan of funds	Loan of funds	319,420	Affiliated companies Long-term loans receivable (Note) 4	319,420
				Collection of funds	189,000		
				Interest income (Note) 3	3,605	Other (Current assets)	2,154
subsidiary	AGEST, Inc.	(Owned) Direct 100.0	Concurrent position of officer Management guidance Borrowing of funds Commissioned business	Repayment of funds	500,000	—	—
				Interest expenses paid (Note) 3	1,369	—	—
subsidiary	CEGB Co., Ltd.	(Owned) Indirect 100.0	Concurrent position of officer Loan of funds	Collection of funds	144,000	—	—
				Interest income (Note) 3	1,235	—	—

Notes: 1. Management guidance fees are reasonably determined upon consultation between the two parties upon comprehensively taking into account the costs of providing services and other factors.
2. Fiduciary obligation fees and subcontracting fees are reasonably determined upon taking into account personnel costs and other factors.
3. The interest rate on loans and borrowings of funds is reasonably determined by taking market interest rates and other factors into account.
4. An allowance for doubtful accounts of JPY1,326,480 thousand, a provision for doubtful accounts of JPY154,225 thousand, and a reversal of allowance for doubtful accounts of JPY79,500 thousand are recorded against loans to subsidiary.

Executives and Individuals: Major shareholder

Type	Company Name Or Name	Percentage of voting rights held (owned) (%)	Relationship with affiliated party	Transaction details	Transaction amount (JPY in thousand)	Account	Ending balance (JPY in thousand)
Officers	Eiichi Miyazawa	(owned) Direct 42.31	Director and Chairman of the Company	Disposal of treasury stock (Note)	4,999	–	–

Note: This resulted from the allocation of treasury stock in conjunction with share-based compensation plans subject to transfer restrictions.

9. Notes on Revenue Recognition

Information that provides a basis for understanding revenues arising from contracts with customers are as described in [2. Notes on Matters Relating to Important Accounting Policies(4) Standard for recording revenue.

10. Notes to per 1 shares

(1) net assets per share amount	JPY193.54
(2) net income per share	JPY83.39

11. Notes on Loss on Valuation of Shares of Affiliated Companies

Loss on valuation of stocks of subsidiaries and affiliates recorded in Extraordinary losses resulted from impairment losses on stocks of LOGIGEAR CORPORATION consolidated subsidiary.