

May 24, 2024

## **Matters Not Required to Be Provided in Documents to Be Delivered upon Notice of the Convocation of the 8th Ordinary General Meeting of Shareholders**

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## **Simplex Holdings, Inc.**

Pursuant to laws and regulations as well as Article 16 of the Articles of Incorporation of the Company, the above matters are omitted from the paper copy (documents containing matters subject to the electronic provision measures) sent to shareholders who made a request for delivery of documents.

## **Risk Factors**

Major risks that could materially and adversely affect our group companies' business as of March 31, 2024 are as follows. The risks described below are the ones we (hereinafter referred to as "we" or "the Group") are aware of and believe as of March 31, 2024, and are not the only ones that could occur in operating our business. The forward-looking statements contained in this document are made as of March 31, 2024 unless otherwise specified.

### **1. Risks Related to Our Business and Industry**

#### **(1) Dependence on specific industries**

We depend on existing clients for a large proportion of our revenue, particularly in the form of repeat orders from existing clients in our systems integration business (e.g., feature updates and responses to changes in applicable laws and regulations after system integration) and recurring business from ongoing operations and maintenance services and SaaS solutions. In particular, our existing client base is heavily concentrated in the traditional financial services sector in Japan, particularly clients in the securities and banking industries. The large proportion of our revenue from our existing client base in the domestic financial sector is one of our strengths and characteristic of our business. However, as a result of this industry concentration, any abrupt and substantial change in IT investment trends and the business environment in this sector or any other developments negatively impacting clients in this sector could in turn adversely affect demand from our clients, and our business and results of operations could be materially and adversely affected.

In addition, the financial services sector is highly regulated, and changes in applicable laws and regulations that would require our clients to change the specifications of their existing systems may force our clients to basically incur expenses for such specification changes. The changes may also force us to incur additional costs that we may be unable to pass on to our clients for adapting to our clients' changed compliance requirements, such as costs incurred for preparing documents. Furthermore, our business and results of operations would be adversely impacted by any future changes in laws or regulations that restrict the existing business areas and practices of our financial service clients to whom we offer services and solutions or the ability of our financial service clients to outsource technological solutions such as those that we offer.

To respond to these risks, we will strive to propel the expansion of business areas, not limiting to the financial sector in Japan, which is our medium- to long-term business strategy.

#### **(2) Retaining and acquiring client companies**

As part of our strategy, we seek not only to acquire clients for new projects such as consulting, design and development of new systems but also aim to increase repeat orders and expand recurring business from existing clients by providing additional services and solutions such as SaaS solutions and system operations and maintenance services. Although we make such strategic effort to keep and increase revenues from our existing clients, we may be unable to do so if our services and solutions do not address the needs of our clients effectively or if we are unable to offer competitive pricing even when our services and solutions address the needs of our clients effectively. Existing clients may also decide not to use our services for other reasons, such as their financial condition and changes in their strategy, any of which can result in the termination or cancellation of contracts with us or suspensions or delays of projects. In such a case, our clients may choose not to retain us for new projects or additional stages of existing projects, try to renegotiate the terms of their contracts or terminate or cancel planned projects. When contracts are terminated or not renewed, we lose the anticipated revenues associated with the contracts, and it may take significant time to replace the level of revenues lost.

Based on our business model established in the traditional financial services sector and our know-how about consulting sales, we have been seeking to further expand into new areas in the Cross Frontier Domain, which we define as business areas where technology plays a vital role for clients' business success, including in sectors such as life and non-life insurance and enterprise DX. However, there is no assurance that we will be successful in developing and deploying our services and solutions in a manner attractive to clients in these areas. We may be unable to distinguish ourselves effectively from competitors, some of which may have larger client bases and an established presence in the vertical segments that we target. This may prevent us from increasing revenues as we expected. In addition,

although we seek to obtain more orders for our strategy/DX consulting business from non-financial institutions and for our consulting business that does not link to system development from financial institutions (our existing clients) mainly through Xspear Consulting, Inc., there is no assurance that we will be as successful in expanding our client base as we planned.

Further, part of our strategy is to achieve a high level of profitability in business areas with high barriers to entry in the Cross Frontier Domain. However, if such areas do not develop as we expected or if we are unable to establish a leading position in such areas, we may be unable to expand our client base as we expected, which could result in the loss of anticipated revenue increase.

In addition, we may also need to incur significant sales and marketing expenses, including personnel expenses and research and development expenses, but there is no assurance that our sales and marketing efforts will result in the growth of our client base or an increase in revenue that will allow us to recover such expenses. This could adversely affect our results of operations.

### (3) Responding to technological innovation

Our business strategy is to be actively engaged as our clients' leading technology partner in the full cycle of each project, from consulting to system development and operations and maintenance services. In addition to Financial Frontier Areas, we focus particularly on other areas within the Cross Frontier Domain. However, there is no assurance that we will be able to adapt to changes in clients' needs driven by technological developments in the industries we serve. Such technological developments could trigger a shift in demand away from existing services and solutions to new services and solutions. If we are not able to continue providing solutions in a manner that is responsive to clients' changing technological needs, our ability to develop and maintain a competitive advantage and to expand our business could be adversely affected.

In addition, we may be forced to make significant investments to develop new services and solutions in response to such changing demand. If we are unable to successfully enhance our existing solutions and develop new solutions to meet client requirements or otherwise gain market acceptance, we may not be able to recover our investments, and our business, results of operations, and financial condition would be harmed.

Furthermore, although we do not currently anticipate an abrupt and substantial increase in research and development expenses as of the time of this document, our actual research and development expenses may be higher than initially expected due to changes in our business plan or developments in the technological landscape outside of our control. This may also adversely affect our results of operations.

To respond to these risks, we will make investments to acquire new technologies and carry out research and development activities, and strive to adapt to changes in clients' needs and business environment.

### (4) Competition with other companies

We operate our business, focusing particularly on the Cross Frontier Domain. However, the markets in which we offer our services and solutions are highly competitive. Some competitors, now or in the future, may have greater financial, marketing or other resources than we do. Therefore, they may be more able to innovate and provide new services and solutions faster than we can, or may be able to anticipate the need for services and solutions before we do. In addition, new services and solutions offered by new market entrants with technological expertise may make our offerings less differentiated or less competitive. If our existing or new competitors develop and offer equivalent or better services and solutions than those we offer in areas in which we currently have a more competitive advantage than they do, our offerings may become less competitive, which could adversely affect our results of operations. Furthermore, if more packaged services are available in the marketplace, causing their prices to become more competitive than we expected, this could also materially and adversely affect our results of operations.

To respond to these risks, we will carefully monitor our competitors and continue to evaluate our competitive advantage.

(5) Our medium-term business plan

We have formulated a new medium-term business plan for the three fiscal years (the year ending March 31, 2025 to the year ending March 31, 2027) as part of our effort to achieve further growth by adapting to expected changes in the market environment and needs of our clients and announced the plan in October 2023. Under this medium-term business plan, we aim to achieve sustainable growth and a higher level of profitability by further promoting focus themes, namely domain expansion, deep-diving, and strengthening recruitment and development, set forth in our previous medium-term business plan.

However, such goals and targets set forth in our medium-term business plan are subject to various risk factors and uncertainties discussed in this section, including the following challenges:

- our ability to recruit personnel with high potential and develop and retain sufficient skilled employees that can support our planned growth;
- our ability to expand our client base in our strategy/DX consulting business through Xspear Consulting, Inc.;
- our ability to manage project profitability and avoid unprofitable projects;
- our ability to develop new technologies and solutions that are effective at capturing demand from new and existing clients; and
- our ability to control costs as our revenue scales by managing research and development expenses, amortization of intangible assets, personnel expenses, selling, general and administrative expenses, and other operating expenses so that such expenses increase at a slower pace compared to revenue growth.

If these risk factors or uncertainties materialize, it may become difficult for us to implement initiatives set forth in our medium-term business plan or such initiatives may become ineffective for us. In such a case, we may not be able to achieve the targets set forth in our medium-term business plan or may need to revise the medium-term business plan. If we fail to implement our effective initiatives in a timely manner, our business, results of operations and financial condition could be materially and adversely affected.

(6) Talent strategy

One of our central business resources to operate our business is our people. One of our top-priority strategies is to attract and retain talented professionals proficient in both technology and business to meet our client demand. In particular, we target highly qualified new graduates and focus on training new employees so that they will cultivate a diverse skillset. If we are unable to develop employees who can keep pace with the rapid and ongoing changes in technology and the industries we serve, we may not be able to innovate and deliver new services and solutions to fulfill client demand. Although our focus is to hire new graduates, we also face competition in hiring or retaining experienced employees from a broad range of companies. In order to compete with them, we must offer competitive compensation packages and a high-quality work environment to attract, retain and motivate employees. Such competition may add to our recruitment costs, and if they become excessive, we may be unable to cost-effectively hire and retain new graduates with high potential or mid-career employees with market-leading skills to fulfill client demand for our services and solutions. Similarly, our profitability depends on our ability to effectively source and staff people with the right combination of technical and business skills and experience to perform services for our clients, including our ability to transition employees to new assignments on a timely basis. If we are unable to effectively deploy our employees on a timely basis to fulfill the needs of our clients, or if we are unable to well leverage our professionals' skills, it could have an adverse effect on our profitability, the quality of the work performed, and our overall reputation in the recruiting market. Furthermore, deterioration of working conditions and other such factors may cause employees to develop physical and mental problems, which may lead to lower labor productivity or, eventually, the outflow of employees.

To respond to these risks, we consider our talent strategy as one of our key management strategies, and will strive to attract, retain, and develop talented professionals.

(7) Macroeconomic and political situation

Our results of operations are affected by macroeconomic and political conditions. In particular, the economic outlook for Japan, where we operate substantially all of our business, remains highly uncertain and could be adversely affected by a range of economic, social and geopolitical developments. Any economic downturns may add pressure to cause clients to reduce or defer their spending on new initiatives and technologies, and result in clients reducing, delaying or eliminating spending under existing contracts with us, which may negatively affect our business. Moreover, any negative developments affecting foreign markets, including the potential escalation of geopolitical risks, could impact the regional economy in the Asia-Pacific and the global economy more generally. The Japanese economy may also be adversely affected by any future changes in Japan's fiscal and monetary policy, or increases in consumption or other taxes.

Adverse economic conditions in or affecting any of our major operating markets or the global economy due to any of the foregoing factors and beyond may reduce demand for our services and solutions, which could negatively affect our ability to acquire new clients and retain existing clients. Accordingly, adverse economic conditions affecting those and other industries in which our clients operate could negatively affect our business, financial condition and results of operations.

(8) Occurrence of problems related to system development and solutions

In our system development business, we provide services under contracts entered into with clients. The contracts include various service requirements including delivery deadlines, agreed-upon performance and functional requirements, and required service levels. Although we seek to provide services under contract terms, if we fail to comply with them for some reasons, it could reduce our fees to be paid by clients under the contracts or increase the cost to us of meeting the contract terms. The use of new technologies in our offerings can expose us to additional risks if those technologies fail to work as predicted, or if defects or errors (i.e., bugs) are found for some reasons after clients have inspected deployed systems, which could lead to cost overruns, project delays, financial penalties, or damage to our reputation.

Although we have set the maximum amount of liability in the contracts with our clients and obtained insurance to mitigate the risk of liability, our insurance policies may not be sufficient to cover the full amount of liability under our contracts or may not provide any protection in some cases. In such a case, our results of operations could be adversely affected by liability, loss of trust, or other harms.

The technology infrastructure underlying our solutions is inherently complex and may contain material defects or errors. If we or our clients find such defects or errors in our solutions, our reputation, business and results of operations could be materially and adversely affected.

Our solutions may in the future cause delays, disruptions, outages, and other performance problems due to a variety of factors, including infrastructure changes, introductions of new functionality, human or software errors, or other security related incidents. If we are unable to meet committed service levels, whether due to us or the third parties on which we rely for the delivery, maintenance or performance of our solutions, our clients may terminate our solutions. As a result, our business and solutions would be negatively affected through negative publicity, loss of or delay in market acceptance of our platform, loss of competitive position, or claims by clients for losses sustained by them.

(9) Systems provided by third parties

Certain of our services and solutions use software and hardware from various third parties as well as cloud infrastructure services from third parties, and third-party applications. If any of these software, hardware, cloud infrastructure services or applications operated by third parties become unavailable due to loss of license, extended outages, interruptions, or because they are no longer available on commercially reasonable terms, there may be delays in the provisioning of our services and solutions until equivalent technology is either developed by us, or, if available, is identified, obtained and integrated, which could increase our expenses or otherwise harm our business. In addition, any errors or defects in or failures of third-party software, hardware, cloud infrastructure services or applications

could result in errors or defects in or failures of our services and solutions, which could have an adverse and material effect on our reputation, business, financial condition and results of operations although our contracts with clients contain certain disclaimers.

(10) Brands and rumors

We believe that maintaining and enhancing our brand and reputation is critical to our relationships with our existing clients and to our ability to attract new clients. However, our brand and reputation may be negatively impacted by a risk that negative information about us spreads, or actual or alleged illegal activity or conduct, as well as misconduct or inappropriate behavior or activities, by our employees or management. Damage to our brand and reputation could make potential or existing clients reluctant to select us for new engagements or cause existing clients to terminate our services, resulting in a loss of business, and could adversely affect our efforts to recruit and retain new graduates and other talented employees. As a result, it could materially and adversely affect our share price, business, results of operations and financial condition.

In addition, the proliferation of social media increases the risk of rumors and negative perceptions concerning us or our businesses to be widely and swiftly disseminated through various methods such as media reports or comments on online platforms, which may damage our social trust and confidence and impact our ability to recruit and retain highly talented employees.

Maintaining and enhancing our brand may require us to make substantial additional expenditures, and we anticipate that these expenditures will increase as the areas in which we operate become more competitive and as we expand into new areas. Even if these activities yield increased revenue, such increase may not always offset the increased expenses we incur. If we do not successfully maintain and enhance our brand, our business may not grow, and we may have reduced pricing power relative to competitors and could lose clients or fail to attract new clients, all of which would materially and adversely affect our business, results of operations and financial condition.

(11) Future acquisitions and strategic investments

We may in the future seek to acquire or invest in businesses, services, experienced employees or technologies that we believe could complement or expand our services, enhance our technical capabilities or otherwise offer growth opportunities. We may not be able to find and identify desirable acquisition targets in the future. Even if we acquire businesses, we may not be able to successfully integrate the acquired personnel, operations, and technologies, or effectively manage the combined business following the acquisition. An acquired business may also fail to meet our initial expectations. Such cases may adversely affect our business, results of operations and financial condition.

(12) Natural disasters or other unexpected events

We rely on the internet, network, cloud infrastructure, enterprise applications, technology systems and other infrastructure of us and third parties for our development, sales and marketing of our services and solutions and operational support activities. Such systems and operations are vulnerable to damage or interruption from natural disasters, such as earthquakes, volcanoes, typhoons, heavy rain, heavy snow, fires and floods, as well as power losses, telecommunications or other infrastructure failures, cyberattacks, human errors, and other unexpected events. In case of any natural disaster or unexpected event described above, our systems and operations may become unavailable or we may endure delays or lengthy interruptions in our solution development and improvement, which would cause us to be unable to continue our operations, resulting in an adverse effect on our future business and results of operations.

We have established a crisis management system and taken measures to brace ourselves for such natural disaster or unexpected event. However, if a natural disaster, such as a typhoon, earthquake or tsunami, occurs at significantly larger-scale than expected, devastating people or infrastructure, it could consequently have an adverse impact on our business and results of operations.

In addition, such natural disaster or unexpected event may potentially lead to weak financial condition at our clients and decrease in IT expenditure by our existing and potential clients, which could adversely affect demand for our solutions and services, resulting in an adverse impact on our business and results of operations.

To respond to these risks, we strive to minimize an impact of such natural disaster or unexpected event by preventing or avoiding interruptions in our business with measures such as regularly backing up our data and constantly monitoring our system operations.

## **2. Legal and Regulatory Risks**

### **(1) Our businesses are subject to various laws and regulations**

The businesses that we currently operate, as well as those that we may operate in the future, are subject to a variety of laws and government regulations in Japan and abroad. There is no specific law which regulates design and development of systems for the financial sector we primarily serve. However, our recruitment agency and staffing agency businesses require licenses pursuant to the Act on Securing the Proper Operation of Worker Dispatching Businesses and Protecting Dispatched Workers and the Employment Security Act, and are compliant with these acts. Failure to comply with any of applicable laws and regulations could result in fines, penalties, loss of licenses or permissions to operate some of our businesses, being ordered to suspend operations, litigation and other legal proceedings, and have an adverse and material effect on our reputation.

In addition, most of our clients operate businesses that are highly regulated and are subject to various laws and regulations including the Financial Instruments and Exchange Act, the Banking Act, the Payment Services Act, the Insurance Business Act, and the Act on the Protection of Personal Information. These clients generally need to establish stringent internal control systems to secure compliance with these laws and regulations. As a result, the systems which we design, develop and operate for these clients are required to maintain a particularly high degree of safety and stability. If there is any breach of personal information or other data, systems failures, operational errors, or similar incidents affecting our clients as a result of defects, errors or performance problems in the systems or solutions we provided, we may suffer severe reputational damage, and our results of operations may be adversely affected regardless of whether we were responsible for such incidents.

To respond to these risks, we will communicate with external professionals in a timely and appropriate manner and carefully watch changes in regulatory trends so as to take appropriate actions when such incidents occur.

### **(2) We may become involved in claims, lawsuits, government investigations, and other proceedings that could adversely affect our business, financial condition, and results of operations**

From time to time, we may become involved in various legal proceedings relating to matters incidental to the ordinary course of our business, including intellectual property claims by third parties and litigation and claims by clients for liability resulting from some troubles such as failures and delays in our system development. Such legal proceedings can be time-consuming and cause us to incur significant expenses to defend ourselves against litigation and claims, harm our social trust, and affect our business, results of operations and financial condition depending on how such litigation and claims have turned out.

To respond to these risks, we will communicate with a corporate lawyer and other external professionals in a timely and appropriate manner so as to minimize risks of getting involved in legal proceedings and take appropriate actions when we become involved in them.

### **3. Risks Related to Data Security and Intellectual Property**

#### **(1) Data security**

We are dependent on information technology networks and systems to securely process, transmit and store electronic information and to communicate with clients, alliance partners and vendors. We have effective information management and raise awareness of its importance among employees through training programs. We also take measures to prevent external unauthorized access and cyberattacks, and install and update security measures in our systems to prevent internal data breaches. However, there is no assurance that we entirely eliminate the risk of security incidents involving sensitive or confidential client or internal data handled by us, such as data breaches, data tampering, and unauthorized access. Such security incidents due to some factors could lead to legal liability and loss of trust, resulting in an adverse impact on our results of operations.

Our systems and those of our third-party service providers are vulnerable to computer viruses and cyberattacks that could increase the risk of being targeted by cyber attackers and other cyber criminals when we gain greater visibility or market share. As techniques used to obtain unauthorized access and conduct cyberattacks are constantly changing and evolving, we and our third-party service providers may not anticipate or prevent all such cybersecurity threats.

Security breaches can also occur as a result of non-technical issues, including intentional or inadvertent breaches by our employees or employees of our third-party service providers or any third-party business partners that may have access to our systems or data. We have put in place internal rules, policies and procedures for handling and protecting sensitive or confidential data, and require our people to comply with them. Despite such efforts, if we experience data breaches resulting from human errors or unexpected factors, we may be liable for damage or our business relationships with clients may get worse due to loss of trust from our clients, and we may consequently experience an adverse effect on our business and results of operations.

Further, as we rely on third party and cloud infrastructure in the delivery of our solutions and storage of data, we depend in part on third-party security measures to protect against unauthorized access, cyberattacks and the mishandling of client data. Our contracts with clients contain certain disclaimers for services delivered by our third-party service providers, and we have insurance covering certain security and privacy-related claims, but such insurance may not be sufficient to compensate for all liability that we may incur. If we experience any of the foregoing security breaches or other incidents, our reputation, business, results of operations and financial condition could be adversely impacted.

#### **(2) Intellectual property**

As a general rule, we obtain intellectual property rights, including copyrights and other forms of intellectual property, for our system programs, software and other solutions. Even where we obtain such intellectual property rights, they may not prevent or deter competitors, former employees or other third parties from independently developing services or solutions similar to or duplicative of ours. Further, the steps we take in this regard might not be adequate to prevent or deter infringement or other misappropriation of our intellectual property by competitors, former employees or other third parties, and we might not be able to detect unauthorized use of, or take appropriate and timely steps to enforce, our intellectual property rights. Enforcing our rights might also require considerable time and money, and we may not be successful in enforcing our rights. Any misappropriation of intellectual property that is used in our business, whether licensed to us or owned by us, could have a material adverse effect on our business, financial condition and results of operations.

Litigation brought to protect our intellectual property rights could be costly and time-consuming, and could result in the impairment or loss of portions of our intellectual property. Our failure to secure and protect our intellectual property rights could adversely affect our business, results of operations and financial condition.

Furthermore, although we have established a system that prevents us from infringing intellectual property rights of third parties, we may not be aware if we have infringed on the intellectual property rights of third parties, and these third parties could claim that we are infringing on their intellectual property rights. These claims could be costly and time-consuming to defend. In order to avoid any



infringement of the intellectual property rights of third parties, we may be required to obtain such rights from the third parties, and this measure could adversely affect our results of operations.

#### **4. Financial Risks**

##### **(1) Worsening profitability of the project**

We negotiate and determine fees with our clients by utilizing a range of pricing structures and conditions. Particularly in our system development, we estimate the costs necessary to perform a project, and measure a profit margin based on the estimated costs to ensure that we maintain an acceptable level of profitability for our projects. However, if our internal forecasts and predictions about the costs necessary to perform a project or profitability turn out to be inaccurate, the actually incurred costs could exceed the estimated costs, making the project less profitable.

To respond to these risks, we will step up our efforts to prevent unprofitable projects by, for example, advancing the methods of estimating the costs necessary to develop systems, instituting a more stringent review system, and increasing resources in our quality control division.

In addition, we may be forced to take on projects that negatively impact our profitability due to factors outside of our control, such as competitive factors or as part of our broader strategy to expand into particular industries, or capture additional repeat orders and recurring business.

Furthermore, we have taken adequate measures for our quality control in development processes, but projects could become less profitable due to development issues or other factors.

If any or some of our projects become less profitable due to any of the foregoing risks, our results of operations could be adversely affected.

##### **(2) Internal controls**

We are aware of the necessity of further enhancing our internal control system for our future business operations and the expansion of our business. Delays in building up our internal control system as our business expands could harm our business, results of operations and financial condition. Although we have established and operate an internal control system to ensure the appropriateness of financial reporting pursuant to laws and regulations, we cannot deny the possibility that our financial reporting may have significant deficiencies, and there is no assurance that we can constantly build and operate an effective internal control system in the future. In addition, because an internal control system is subject to inherent limitations, if our internal control system over financial reporting does not work effectively or if it has significant deficiencies, these risks may adversely affect confidence in our financial reporting.

##### **(3) Significant borrowings, fluctuations in interest rates, and violations of financial covenants**

We may require additional funds for investments in our future growth and working capital to operate our business. However, our capital-raising activities could be negatively impacted by changes in the financial and securities markets, interest rate trends, supply and demand of funds and other circumstances. If we may not be able to timely obtain additional financing on terms favorable to us when required, our business, results of operations and financial condition could be adversely affected.

We have entered into syndicated loan agreements with financial institutions and financed significant amounts of money. As of March 31, 2024, the ratio of our interest-bearing liabilities to total assets under IFRS was 21.3%. If interest rates rise due to future developments in the financial markets, our financial condition and cash flows may be negatively impacted. The syndicated loan agreements subject us to certain financial covenants, and any failure to comply with these covenants could result in the acceleration of our outstanding indebtedness with the consent of a number of lenders. Such failure could also lead to immediate repayments of borrowings or other adverse consequences, which could adversely affect our financial condition and liquidity.

##### **(4) Impairment risk**

As of March 31, 2024, we recorded goodwill of ¥36,476 million in the consolidated statements of financial position, resulting from the absorption-type merger in connection with the fund exit on

December 1, 2016, and also held property, plant and equipment and intangible assets. If the profitability of our businesses related to these non-current assets declines in the future, we may be required to recognize impairment losses in the amount of the difference between the fair value and the carrying amount of such assets, which will negatively affect our results of operations and financial condition. The goodwill we recognize is wholly allocated to the Company's single segment as a single cash-generating unit. In the impairment testing of goodwill conducted each fiscal year, we confirm that the recoverable amount exceeds the carrying amount.

## **5. Risks Related to our Ordinary Stock**

Exercise of share acquisition rights or our issuance of additional shares could lower the market price of our shares and result in substantial dilution

Our business depends heavily on our ability to recruit and retain skilled people proficient in both technology and business. We, therefore, grant our officers and employees share acquisition rights as an incentive, and intend to continue granting them. When such share acquisition rights are exercised in the future, our issuance of additional shares could lower the market price of our shares held by our current shareholders and result in dilution of the ratio of voting rights. As of March 31, 2024, there are a total of 2,457,675 shares issuable upon the exercise of outstanding share acquisition rights, which represent 4.2% of our issued and outstanding shares of 58,182,950 shares.

## Share Acquisition Rights

### 1. Share acquisition rights granted to and held by officers of the Company as compensation for the execution of their duties as of March 31, 2024

		4th Series Share Acquisition Right	5th Series Share Acquisition Right
Resolution date of issuance		March 15, 2017	June 7, 2018
Number of share acquisition rights		1,725	98
Class and number of shares to be delivered upon exercise of share acquisition rights		172,500 shares of ordinary stock (100 shares per share acquisition right) (Note 1)	9,800 shares of ordinary stock (100 shares per share acquisition right) (Note 1)
Amount paid in for share acquisition rights		No payment is required in exchange for share acquisition rights	No payment is required in exchange for share acquisition rights
Amount to be paid in upon exercise of share acquisition rights		¥50,000 per share acquisition right (¥500 per share) (Note 1)	¥50,000 per share acquisition right (¥500 per share) (Note 1)
Exercise period of share acquisition rights		June 1, 2019 to March 13, 2027	June 19, 2020 to June 6, 2028
Conditions for exercise of share acquisition rights		(Note 2)	(Note 2)
Officer shareholding status	Directors (excluding Directors who are Audit and Supervisory Committee Members)	Number of share acquisition rights: 1,725 Number of shares to be delivered: 172,500 Number of shareholders: 2	Number of share acquisition rights: 98 Number of shares to be delivered: 9,800 Number of shareholders: 1
	Directors who are Audit and Supervisory Committee Members	—	—

Notes: 1. In accordance with a resolution of the board of directors' (hereinafter referred to as "Board of Directors") meeting held on June 24, 2021, the Company conducted a 100-for-1 ordinary stock split effective on July 10, 2021. As a result, "Class and number of shares to be delivered upon exercise of share acquisition rights" and "Amount to be paid in upon exercise of share acquisition rights" were adjusted.

#### 2. Conditions for exercise of share acquisition rights

- (i) Share acquisition rights issued to holders of share acquisition rights are vested six times in total for each series as shown in the table below. (The number of share acquisition rights to be vested is determined by multiplying the number of share acquisition rights issued to holders of share acquisition rights on the date of allotment by the vesting percentage. Share acquisition rights less than one share are rounded down.)

Target share acquisition rights	Vesting date and number of shares vested or to be vested
4th Series Share Acquisition Right	(a) The number of shares equivalent to 28% of the number of shares granted was vested on June 1, 2019. (b) The number of shares equivalent to 14% of the number of shares granted was vested and will be vested on June 1 every year during the period from June 1, 2020 to June 1, 2023. (c) The remaining number of shares will be vested on June 1, 2024.
5th Series Share Acquisition Right	(a) The number of shares equivalent to 28% of the number of shares granted was vested on June 19, 2020. (b) The number of shares equivalent to 14% of the number of shares granted was vested and will be vested on June 19 every year during the period from June 19, 2021 to June 19, 2024. (c) The remaining number of shares will be vested on June 19, 2025.

If any of the following reasons applies, the vesting percentage will be changed as follows:

- (1) If the position of a holder of share acquisition rights in the Group becomes lower than the position as of the date of allotment, the vesting percentage on and after the date on which the position becomes lower shall be the vesting percentage shown above or less and determined by the Board of Directors of the Company at its reasonable discretion.
- (2) If the holder of share acquisition rights loses his or her position as either a director, executive officer or employee in the Group, or if the holder deceases, the vesting percentage on and after the date on which the holder loses his or her position or deceases shall be zero.

- (ii) Notwithstanding 1) above, if the holder of share acquisition rights leaves the Group and the Board of Directors approves vesting, all the remaining share acquisition rights that have been issued to the holder but have not been vested at that point of time shall be vested.
  - (iii) The holder of share acquisition rights may exercise vested share acquisition rights within the scope of the vested rights.
  - (iv) The holder of share acquisition rights cannot dispose of the share acquisition rights through transfer, pledge or any other ways.
- 2. Share acquisition rights granted to employees and other workers as compensation for the execution of their duties during the current fiscal year  
Not applicable
- 3. Other matters concerning share acquisition rights  
Not applicable

## Consolidated Statements of Changes in Equity

Fiscal year (from April 1, 2023 to March 31, 2024)

(Millions of yen)

	Equity attributable to owners of parent				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Other components of equity
					Share acquisition rights
Balance at April 1, 2023	1,013	26,903	13,587	(0)	313
Profit	–	–	6,194	–	–
Other comprehensive income	–	–	–	–	–
Comprehensive income	–	–	6,194	–	–
Exercise and forfeiture of share acquisition rights	176	250	–	–	(75)
Purchase of treasury shares	–	–	–	(0)	–
Dividends	–	–	(1,431)	–	–
Share-based payment transactions	–	–	–	–	12
Total transactions with owners	176	250	(1,431)	(0)	(62)
Balance at March 31, 2024	1,189	27,153	18,350	(0)	250

	Equity attributable to owners of parent			
	Other components of equity			Total
	Exchange differences on translation of foreign operations	Financial assets measured at fair value through other comprehensive income	Total	
Balance at April 1, 2023	25	143	481	41,984
Profit	–	–	–	6,194
Other comprehensive income	12	(32)	(20)	(20)
Comprehensive income	12	(32)	(20)	6,173
Exercise and forfeiture of share acquisition rights	–	–	(75)	351
Purchase of treasury shares	–	–	–	(0)
Dividends	–	–	–	(1,431)
Share-based payment transactions	–	–	12	12
Total transactions with owners	–	–	(62)	(1,068)
Balance at March 31, 2024	37	111	399	47,089

Note: Amounts less than a million yen are rounded off to the nearest million yen.

## Notes to Consolidated Financial Statements

### Notes to significant matters as the basis of preparation of consolidated financial statements

1. Basis of preparation of consolidated financial statements  
Consolidated financial statements of the Group are prepared based on International Financial Reporting Standards (“IFRS”), in accordance with Article 120, paragraph (1) of the Regulation on Corporate Accounting. The consolidated financial statements omit part of the disclosure items required under IFRS, in accordance with the second sentence of the paragraph.
2. Scope of consolidation  
Number of consolidated subsidiaries: 6  
Name of principal consolidated subsidiaries: Simplex Inc.  
Xspear Consulting, Inc.  
Deep Percept Inc.  
Simplex Global Inc.  
Simplex U.S.A., Inc.  
Simplex Consulting Hong Kong, Limited
3. Application of equity method
  - (1) Number of non-consolidated subsidiaries and associates accounted for by the equity method: 2  
Name of principal companies: SBI Simplex Solutions Co., Ltd.  
CIRCULATION Co., Ltd.  
Note: As the Company newly acquired shares of CIRCULATION Co., Ltd. (Securities code: 7379), which is listed on the Tokyo Stock Exchange Growth Market, in the current fiscal year, the company is newly included in associates accounted for by the equity method.
  - (2) Special notes regarding procedures for applying the equity method  
If any of the companies to which the equity method is applied has a balance sheet date that differs from that of the Company, financial statements based on the provisional settlement of accounts carried out as of the consolidated balance sheet date are used to prepare the consolidated financial statements.
4. Significant accounting policies
  - (1) Valuation standards and methods for financial instruments
    - 1) Financial assets
      - (i) Initial recognition and measurement  
The Group classifies financial assets into financial assets that are measured at fair value through profit or loss, or through other comprehensive income; or financial assets measured at amortized cost. The classification is made at the time of initial recognition.  
All financial assets are measured at fair value plus any transaction costs, except for those classified as financial assets measured at fair value through profit or loss.  
Financial assets that meet both of the following conditions are classified as financial assets measured at amortized cost:
        - The assets are held within a business model whose objective is to hold the assets in order to collect contractual cash flows.
        - The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.Financial assets other than those measured at amortized cost are classified as financial assets measured at fair value.  
For equity financial assets measured at fair value other than those held for trading, which are required to be measured at fair value through profit or loss, the Group individually designates whether they will be measured at fair value through profit or loss or measured at fair value through other comprehensive income, and applies such designation consistently.
      - (ii) Subsequent measurement  
After the initial recognition, financial assets are measured according to their classification as follows:

(a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method.

(b) Financial assets measured at fair value

Changes in the fair value of financial assets measured at fair value are recognized as profit or loss for the current fiscal year, provided, however, that changes in the fair value of equity financial assets designated as measured at fair value through other comprehensive income are recognized as other comprehensive income. Dividends received from such financial assets are recognized in finance income as profit or loss for the current fiscal year.

(iii) Impairment losses on financial assets

For the financial assets measured at amortized costs, the Group recognizes allowance for doubtful accounts for expected credit losses.

The Group assesses whether the credit risk associated with each financial asset has increased significantly since the initial recognition at the end of each fiscal year. If the credit risk has not increased significantly since the initial recognition, the Group recognizes the 12-month expected credit loss in allowance for doubtful accounts. However, if the credit risk has increased significantly since the initial recognition, the Group recognizes an amount equal to the lifetime expected credit loss as allowance for doubtful accounts.

In principle, the credit risk is deemed to have increased significantly when contractual payments are more than 30 days past due. However, when assessing whether or not the credit risk has increased significantly, the Group considers reasonably available and supportable information (credit investigations, ratings, etc.), as well as past-due information.

When the credit risk associated with a financial asset is judged to be low at the end of a fiscal year, the Group assesses that the credit risk associated with the financial asset has not increased significantly since the initial recognition.

However, for trade receivables and contract assets that do not contain a significant financial component, the Group always recognizes the allowance for doubtful accounts at an amount equal to the lifetime expected credit loss, regardless of whether the credit risk has increased significantly since the initial recognition.

In addition, if there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof, the Group directly reduces the total carrying amount of the financial asset.

The provision for the allowance for doubtful accounts for financial assets is recognized as profit or loss for the current fiscal year. If an event occurs that reduces the allowance for doubtful accounts, the reversal of allowance for doubtful accounts is recognized as profit or loss for the current fiscal year.

(iv) Derecognition of financial assets

Financial assets are derecognized if the contractual rights to receive cash flows from the financial assets expire, or if the Group has transferred substantially all the risks and rewards of ownership of the financial assets. If the Group retains control of a transferred asset, the asset and any liability associated with the asset is recognized to the extent of its continuing involvement.

2) Financial liabilities

(i) Initial recognition and measurement

The Group classifies financial liabilities into financial liabilities measured at fair value through profit or loss or financial liabilities measured at amortized cost. The classification is made at the time of initial recognition.

All financial liabilities are measured at fair value at initial recognition. However, financial liabilities measured at amortized cost are measured at the amount less any directly attributable transaction costs.

(ii) Subsequent measurement

After the initial recognition, financial liabilities are measured according to their classification as follows:

(a) Financial liabilities measured at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss include financial liabilities held for trading or designated as financial liabilities measured at fair value through profit or loss at initial recognition. After initial recognition, such financial liabilities are measured at fair value and subsequent changes in fair value are recognized as profit or loss for the current fiscal year.

(b) Financial liabilities measured at amortized cost

After initial recognition, financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method.

Amortization using the effective interest method as well as gains and losses arising from derecognition are recognized as part of finance costs in profit or loss for the current fiscal year.

(iii) Derecognition of financial liabilities

The Group derecognizes the financial liability when a financial liability is extinguished, that is, the obligations specified in a contract are discharged, cancelled or expired.

3) Presentation of financial assets and liabilities

Financial assets and financial liabilities offset each other with the net amount presented in the consolidated statements of financial position only if the Group has a legal right to offset and has the intention to either settle amounts on a net basis or to realize the assets and settle the liabilities simultaneously.

(2) Valuation standards and methods for inventories

Inventories consist of work in process which is the cost actually incurred from all ongoing transactions.

(3) Depreciation method for property, plant and equipment

As the Group uses the cost model to measure property, plant and equipment, an item of property, plant and equipment is carried at its cost less accumulated depreciation and impairment losses.

Its cost includes any costs directly attributable to the acquisition of assets, demolition and removal costs, land restoration costs, and borrowing costs that should be capitalized.

Depreciation expense for each asset except for land and construction in progress, which commence when the assets are available for their intended use, are computed using the straight-line method over the following estimated useful lives of the assets:

- Buildings and structures 1 to 39 years
- Tools, furniture and fixtures 4 to 15 years

The estimated useful lives, residual values and depreciation methods of assets are reviewed each fiscal year, and any changes are applied prospectively as a change in an accounting estimate.

(4) Amortization method for intangible assets

As the Group uses the cost model to measure intangible assets, an intangible asset is carried at its cost less accumulated amortization and impairment losses.

Expenditures for development activities are recognized as intangible assets when the Group can reliably measure the amount, will likely enjoy economic benefits in the future as a result of such development activities, has the intention and resources sufficient enough to complete the development activities and use or sell deliverables.

Intangible assets, other than those with indefinite useful lives, are amortized using the straight-line method based primarily on their estimated useful lives from the date the assets become available for use. Amortization charges allocated to each accounting period are recognized as profit or loss for the current fiscal year. The estimated useful lives of major assets are as follows:

- Identifiable assets 7 to 8 years
- Other 5 years

There are no intangible assets with indefinite useful lives.

The residual value, useful lives and amortization methods of intangible assets are reviewed each fiscal year and revised as needed.



(5) Leases

The Group assesses whether a contract is, or contains, a lease at the time the contract is entered into. A contract is determined to be or contain a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

If a contract is determined to be or contain a lease, a right-of-use asset and lease liabilities are recognized on the commencement date of the lease. Lease liabilities are measured at the present value of the total amount of lease payable, and a right-of-use asset is measured at cost consisting of the amount of the initial measurement of the lease liabilities adjusted by lease payments made at or before the commencement date, any initial direct costs incurred by the lessee, and the costs for restoration obligations, etc., required by the lease agreement.

After initial recognition, the right-of-use asset is depreciated using the straight-line method over the estimated useful life. The lease liabilities are measured subsequently using an amount that reflects interest on the lease liability, lease payments made, and if applicable, any reassessment of lease liabilities or modifications to lease conditions.

Lease payments are apportioned between finance costs and repayment of lease liabilities based on the interest method, and financial costs are recognized as profit or loss for the current fiscal year.

For short-term leases with a lease term of 12 months or less and leases of low-value underlying assets, however, right-of-use assets and lease liabilities are not recognized, and lease payments are recognized as an expense on either a straight-line method basis or another systematic basis over the lease term.

(6) Goodwill

Goodwill is measured at acquisition cost less accumulated impairment losses.

Goodwill is not amortized but tested for impairment at least annually and whenever there is an indication of impairment, based on a cash-generating unit.

(7) Impairment losses on non-financial assets

At the end of each fiscal year, the Company reviews the carrying amount of non-financial assets excluding inventories and deferred tax assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated. Recoverable amounts of goodwill and intangible assets with indefinite useful lives or those not yet available for use are estimated at the same time each year.

The recoverable amount of an asset or a cash-generating unit is the higher of value in use or fair value less costs of disposal. In calculating the value in use, the estimated future cash flows are discounted to their present value by using a pretax discount rate that reflects the time value of money and risks specific to the asset. Assets that are not tested individually for impairment are integrated into the smallest cash-generating unit that generates cash inflows through continuing use that are largely independent of those from other assets or groups of assets. At the time of goodwill impairment testing, cash-generating units to which goodwill is allocated are integrated so that impairment testing is conducted in a manner that reflects the smallest unit with which goodwill can be associated. Goodwill acquired in a business combination is allocated to each cash-generating unit that is expected to benefit from synergies of the combination.

The corporate assets of the Group do not independently generate cash inflows. If there is an indication of impairment in a corporate asset, the recoverable amount is determined for the cash-generating unit to which the corporate asset belongs.

Impairment losses are recognized as profit or loss for the current fiscal year when the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. Impairment loss recognized for a cash-generating unit is first allocated to reduce the carrying amount of goodwill allocated to the unit, and subsequently allocated to reduce other assets of the unit on a pro-rata basis, based on the carrying amount of each asset in the unit.

Impairment losses recognized for goodwill are not reversed. Impairment loss recognized in prior periods for other assets is assessed at the end of each fiscal year to determine whether there is any indication that such impairment losses may no longer exist or may have decreased. If any change has been made to the estimate used to determine the recoverable amount of an asset, an impairment loss for the asset is reversed. The impairment loss will be reversed up to the extent that the increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the

carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years.

(8) Basis for significant provisions

A provision is recognized when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. A provision is discounted to the present value of estimated future cash flows using a pre-tax rate reflecting the time value of money and the risks specific to the liability. Unwinding of the discounted amount with the passage of time is recognized in finance costs as profit or loss for the current fiscal year.

1) Asset retirement obligations

The estimated amount of restoration costs is recognized for lease contracts for rented offices for which the Group has obligations to restore the site to its original condition at the end of the contract. The payments for these obligations are expected to be incurred upon the expiry of the lease terms of these rented offices, but are affected by future business plans and other factors.

2) Provision for loss on development

To provide for future losses associated with contracted orders received, the estimated amount of such losses at the end of the current fiscal year is recognized. The future losses are calculated based on the estimated total cost for each project, but are affected by unexpected extra man-hours and other factors.

3) Provision for paid absences

The amount estimated for paid absences is recognized in the provision for paid absences based on the rates of paid absences actually taken in the past. The rate of paid absences actually taken is affected by changing in the Group's work environment and other factors.

4) Provision for bonuses

To provide for bonuses to be paid to employees and officers, the estimated amount of such bonuses is recognized as provision for bonuses.

(9) Employee benefits

Short-term employee benefits are not discounted and are recognized as profit or loss for the current fiscal year in an amount expected to be paid in exchange for employees' service rendered during an accounting period.

The Group recognizes the estimated amount of bonuses and paid absences to be paid as a liability if it has a legal or constructive obligation to pay them and the amount of such obligation can be estimated reliably.

(10) Basis for revenue

The Group recognizes revenues at an amount reflecting the amount of consideration to which the Group expects to be entitled in exchange for transferring the goods or services to the customer, based on the following five-step approach:

Step 1: Identify contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the separate performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

1) Rendering of services

Transactions in which revenue is generated through rendering of services include strategy/DX consulting, system integration, operation services and other services. Revenues from contracted strategy/DX consulting and system integration are recognized, if the consideration can be estimated reasonably, based on the percentage of the accumulated actual cost to the estimated total cost at the end of fiscal year. In addition, revenues from operation services are recognized over the period for which such services are rendered.

## 2) Net presentation

For a transaction in which the Group as a principal of the transaction has the function to increase the added value of goods or services themselves and bears significant risks associated with the transaction, revenue is presented at the total amount of transactions with customers, or on a gross basis, in the consolidated statement of profit or loss. Revenue for the following transactions, however, is presented on a net basis in the consolidated statement of profit or loss by deducting the costs from the total amount of transactions with customers.

- Transactions in which the Group, as an agent, makes arrangements for other third parties to sell goods or provide services.
- Transactions in which the Group is involved as a principal of the transaction but neither has functions to increase the added value of goods or services provided in the transaction nor bears significant risks associated with the transaction.

## (11) Foreign currency translation

### 1) Foreign currency transactions

Foreign currency transactions are translated into the functional currency of each entity of the Group by using the spot exchange rate at the date of the transaction.

Foreign currency monetary assets and liabilities at the end of the fiscal year are translated into the functional currency using the spot exchange rate at the end of the fiscal year.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency using the exchange rate at the date when the fair value was measured.

Translation differences arising from translations or settlements are recognized as profit or loss, provided, however, that translation differences arising from financial assets measured through other comprehensive income are recognized as other comprehensive income.

### 2) Financial statements of foreign operations

Assets and liabilities of foreign operations are translated into Japanese yen using the spot exchange rate at the end of the fiscal year, while income and expenses are translated into Japanese yen using average exchange rates during the fiscal year. Translation differences arising from translation of financial statements of foreign operations are recognized as other comprehensive income. Translation differences of foreign operations are recognized as profit or loss during the period in which the foreign operations were disposed of.

## **Notes to changes in accounting policies**

The Group's significant accounting policies applied in these consolidated financial statements are the same as those for the previous fiscal year except for IAS 12 *Income Taxes* (clarification of accounting for deferred tax related to assets and liabilities arising from a single transaction). These accounting policies have no material impact on the Group's consolidated financial statements.

### Notes to accounting estimates

In preparing IFRS-compliant consolidated financial statements, the management is required to make judgments, estimates and assumptions that may affect the application of accounting policies and the amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

Such estimates and underlying assumptions are reviewed on an ongoing basis. The effects of the review of accounting estimates are recognized in the accounting period in which the review was conducted and future accounting periods.

Of items for which the management made estimates and judgments, those that have significant effects on the amounts recognized in the consolidated financial statements are as follows:

1. Valuation and impairment test of goodwill

The Group tests goodwill for impairment at a certain time of each fiscal year, or whenever there is an indication of impairment. The recoverable amount of the impairment test is calculated based on value in use.

The value in use reflects previous results and the external environment, and is calculated by discounting the estimated cash flows, which are based on business plans approved by management and the permanent growth rate of 0.7% after the business plans end, to their present value using the discount rate of 8.4% that is based on the pre-tax weighted-average cost of capital for the cash-generating unit. The major assumptions made in the business plans are the recurring rate and repeat order rate among others.

Although there is a risk that impairment losses will be incurred if the major assumptions used for the impairment test are changed, the value in use is sufficiently above the carrying amount of the cash-generating unit and there is a low probability of the value in use falling below the carrying amount even if the major assumptions used for the impairment test were to change to a reasonably foreseeable extent.

2. Estimate of total costs for revenue recognition

As described in “Notes to Consolidated Financial Statements, Notes to significant matters as the basis of preparation of consolidated financial statements, 4. Disclosure of accounting policies, (10) Basis for revenue,” the Group recognizes revenues from contracted strategy/DX consulting and system integration out of its total revenues based on progress toward complete satisfaction of the performance obligations because the performance obligations are satisfied over time.

Revenues recognized based on progress out of its total revenues recorded for the current fiscal year are presented separately in “Strategy/DX Consulting” and “System Integration” of “Notes to Consolidated Financial Statements, Notes to revenue recognition, 1. Disaggregation of revenue.”

Progress is measured using the input method (cost comparison method) based on the cost incurred by project, and the estimated total costs underlying the input method include estimated man-hour costs including outsourcing expenses.

As the Group provides design, development, consulting and other services according to the needs of our clients, projects greatly differ from one another, and unexpected man-hours may be required depending on the work progress. Therefore, the estimated total costs underlying the input method, especially the estimated man-hour costs involve certain uncertainties. The Group’s judgments about such uncertainties have significant effects on the amounts of revenues recognized based on progress.

### Notes to consolidated statements of financial position

1. Accumulated depreciation of property, plant and equipment  
¥2,934 million
2. Accumulated depreciation of right-of-use assets  
¥4,494 million

**Notes to consolidated statements of changes in equity**

1. Class and total number of issued shares at the end of the current fiscal year  
Ordinary stock 58,182,950 shares

2. Dividends

(1) Dividends paid

Resolution	Class of shares	Sources of dividends	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors meeting held on May 24, 2023	Ordinary stock	Retained earnings	1,431	25	March 31, 2023	June 2, 2023

- (2) Dividends whose record date is in the current fiscal year, but whose effective date is in the following fiscal year are as follows:

Resolution	Class of shares	Sources of dividends	Total amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
Board of Directors meeting held on May 22, 2024	Ordinary stock	Retained earnings	2,444	42	March 31, 2024	June 3, 2024

- (3) Class and number of shares to be delivered upon exercise of share acquisition rights at the end of the current fiscal year (excluding rights whose exercise period has not commenced yet)  
Ordinary stock 2,457,675 shares

## Notes to financial instruments

### 1. Financial instruments

#### (1) Capital management

The Group has managed its capital with the aim of maximizing its corporate value through sustained growth.

The Group has financed investment in businesses and other initiatives towards achieving the aim basically with own capital, but has financed those that cannot be funded solely with own capital through borrowing or other methods, comprehensively taking into account other funding alternatives.

The Group has secured sufficient capital to cover the risk taken, and has sought to enhance and make effective use of its capital, has maintained an adequate capital cost by placing emphasis on the balance between financial stability and capital cost.

Equity ratio, which is an important indicator for managing capital, is as follows. Equity is total equity attributable to owners of parent, and equity ratio is calculated by dividing equity by total liabilities and equity.

Equity	¥47,089 million
Total of liabilities and equity	¥79,248 million
Equity ratio	59.4%

#### (2) Financial risk management

The Group is exposed to financial risks (credit risk, liquidity risk and interest rate risk) in the course of operating activities and conducts risk management to mitigate these financial risks.

#### (3) Credit risk management

Credit risks are risks that result in financial losses incurred by the Group when a customer goes into default for contractual obligations. Regarding the Group's notes and accounts receivable-trade, etc., if all or part of a receivable cannot be recovered, or is judged to be extremely unlikely to be recovered, it is deemed to be in default.

The Group has managed credit risks by setting the upper limit on orders received from a customer based on its order-received management rules.

The Group's receivables are mainly from financial institutions which are its customers.

The Group does not have any credit risk overly concentrated in a single counterparty.

The carrying amount of financial assets, net of accumulated impairment loss, presented in the consolidated financial statements represents the Group's maximum exposure to credit risk of financial assets without taking into account the value of the collateral obtained.

The Group has allocated allowance for doubtful accounts with respective customers according to the recoverability of trade receivables assessed based on customers' credit conditions.

#### (4) Liquidity risk management

Liquidity risk is the risk that the Group becomes unable to meet its repayment obligations on financial liabilities that are due.

The Group has managed liquidity risk by preparing appropriate repayment funds, securing credit facilities that are available to use at any time from financial institutions, and by continuously monitoring projected and actual cash flows.

#### (5) Interest rate risk management

The Group's interest rate risk is attributable mainly to interest-bearing liabilities. Of borrowings, those on variable interest rate may be subject to changes in future cash flows caused by the fluctuation of market interest rates. Those on fixed interest rate may be subject to changes in fair value caused by the fluctuation of market interest rates.

To mitigate interest rate fluctuation risks, the Group has constrained the interest rate risk by appropriately adjusting the split between variable and fixed interest rates.

#### (6) Price fluctuation risk management

The Group's price fluctuation risk is attributable mainly to securities in an active market.

The Group has recognized that a 10% rise in share prices during the current fiscal year will cause

accumulated other comprehensive income (before tax effect) to increase ¥94 million from the amount as of March 31, 2024 by changes in the fair value.

2. Fair value of financial instruments

(1) Fair value of financial instruments

Carrying amounts and fair values of financial instruments as of March 31, 2024 are as follows:

(Millions of yen)

	Carrying amount	Fair value
<b>Assets:</b>		
Financial assets measured at amortized cost		
Cash and cash equivalents	13,731	13,731
Trade and other receivables	10,093	10,093
Other financial assets	2,282	2,282
Financial assets measured at fair value through other comprehensive income		
Other financial assets	3,078	3,078
<b>Total</b>	<b>29,183</b>	<b>29,183</b>
<b>Liabilities:</b>		
Financial liabilities measured at amortized cost		
Trade and other payables	2,837	2,837
Borrowings	16,906	16,906
Other financial liabilities	2	2
<b>Total</b>	<b>19,745</b>	<b>19,745</b>

(2) Calculation method of fair values

The calculation method of fair values of financial instruments is as follows:

Financial instruments measured at amortized cost

*Cash and cash equivalents, trade and other receivables, trade and other payables, and other financial liabilities*

They are stated at carrying amount as their fair values approximate their carrying amounts due to the short settlement period.

*Other financial assets and borrowings*

They are stated at carrying amount as their fair value approximates their carrying amount as they reflect market interest rates in a short period.

Financial instruments measured at fair value through other comprehensive income

*Other financial assets*

The fair values of shares with active market are determined by their market values at the end of the fiscal year. The fair values of shares without active market for which observable inputs are available are determined using the inputs directly or indirectly. The fair values of shares for which observable inputs are not available are determined by the adjusted book value method.

(3) Financial instruments measured at fair value

For financial instruments measured at fair value, their measured fair values are classified into Level 1 to Level 3 based on the observability and significance of the inputs used for the measurement.

Level 1: Market prices of identical assets or liabilities in active markets

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

Level 3: Fair value calculated from valuation techniques including unobservable inputs

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets measured at fair value through other comprehensive income				
Other financial assets	943	2,007	128	3,078
Total	943	2,007	128	3,078

Transfers between fair value hierarchy levels are recognized on the day on which the event or changes in the situation that forced the transfer occur. During the current fiscal year, no important transfers took place between fair value hierarchy levels.

### Notes to revenue recognition

#### 1. Disaggregation of revenue

Disaggregation of revenue by major regional market, service category, and timing of revenue recognition is as follows. There is no revenue other than revenue from contracts with clients.

(Millions of yen)

	Strategy/DX Consulting	System Integration	Operation Service	Other	Total
Major regional markets					
Japan	4,206	24,417	12,078	7	40,708
Total	4,206	24,417	12,078	7	40,708
Timing of revenue recognition					
Goods transferred at a point in time	–	–	–	7	7
Services transferred over time	4,206	24,417	12,078	–	40,701
Total	4,206	24,417	12,078	7	40,708

For contracts (mainly in the Operation service category) that explicitly state that the performance obligations are satisfied over time, the consideration corresponding to the period is recognized as revenue. For contracts (mainly in the Strategy/DX Consulting and System Integration categories) with performance obligations that are not satisfied over time, if the consideration can be reasonably estimated, the total costs to complete the project are reliably estimated and revenue is recognized based on the percentage of the accumulated actual costs to the estimated total costs at the end of the period.

#### 2. Basic information to understand revenue

This information is as described in “Notes to significant matters as the basis of preparation of consolidated financial statements , 4. Significant accounting policies, (10) Basis for revenue.”

#### 3. Contract balance

The ending balances of receivables arising from contracts with clients, contract assets, and contract liabilities are as follows:

Receivables arising from contracts with clients	¥5,314 million
Contract assets	¥4,779 million
Contract liabilities	¥389 million

In the consolidated statements of financial position, contract assets are included in “Trade and other receivables,” and contract liabilities are included in “Trade and other payables.” Contract assets mainly represent revenues recognized upon the fulfillment of performance obligations of Strategy/DX Consulting and System Integration. Contract assets are transferred to receivables upon client acceptance. Contract liabilities mainly represent advances received from clients.



Revenues recognized in the current fiscal year that were included in the balance of contract liabilities at the beginning of the current fiscal year amounted to ¥193 million.

**Notes to per-share information**

Equity attributable to owners of parent per share	¥809.33
Basic earnings per share	¥107.54

**Notes to significant subsequent events**

Not applicable

## Non-consolidated Statements of Changes in Net Assets

Fiscal year (from April 1, 2023 to March 31, 2024)

(Millions of yen)

	Shareholders' equity								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	1,013	913	25,776	26,689	2,642	2,642	(0)	30,345	30,345
Changes during period									
Dividends of surplus	–	–	–	–	(1,431)	(1,431)	–	(1,431)	(1,431)
Profit	–	–	–	–	3,351	3,351	–	3,351	3,351
Exercise of share acquisition rights	176	176	–	176	–	–	–	351	351
Purchase of treasury shares	–	–	–	–	–	–	(0)	(0)	(0)
Total changes during period	176	176	–	176	1,920	1,920	(0)	2,271	2,271
Balance at end of period	1,189	1,089	25,776	26,865	4,562	4,562	(0)	32,616	32,616

Note: Amounts less than a million yen are rounded off to the nearest million yen.

## Notes to Non-consolidated Financial Statements

### Notes to significant accounting policies

1. Valuation standards and methods for assets  
Valuation standards and methods for securities
  - (1) Shares of subsidiaries and associates  
Shares of subsidiaries and associates are carried at cost determined by the moving average method.
  - (2) Available-for-sale securities  
Non-marketable securities  
Non-marketable securities classified as available-for-sale securities are carried at cost determined by the moving average method.
2. Basis for provisions  
Provisions for bonuses  
To provide for bonuses to be paid to employees and officers, the estimated amount of such bonuses is recognized as provision for bonuses.
3. Basis for revenue and expenses  
The Company recognizes revenue at an amount expected to be entitled in exchange for promised goods or services at the time when control over the goods or service is transferred to the customer.

### Notes to balance sheet

1. Receivables from and payables to subsidiaries and associates

Short-term receivables	¥487 million
Short-term payables	¥27 million
2. Assets pledged as collateral and liabilities secured  
Not applicable
3. Guarantee obligations  
The Company guarantees borrowings of ¥16,950 million made by Simplex Inc.

### Notes to statement of income

Volume of transaction with subsidiaries and associates

1. Volume of operating transaction

Net sales	¥7,207 million
Selling, general and administrative expenses	¥(4,630) million
2. Volume of non-operating transaction – million

### Notes to non-consolidated statements of changes in net assets

Class and number of treasury shares as of March 31, 2024

Ordinary stock      147 shares

## Notes to tax effect accounting

Breakdown of major factors for deferred tax assets and deferred tax liabilities

Deferred tax assets	(Millions of yen)
Accrued enterprise tax	18
Accrued expenses	35
Provision for bonuses	224
Loss on valuation of shares of subsidiaries and associates	88
Other	0
<b>Subtotal of deferred tax assets</b>	<b>365</b>
Valuation allowance	(88)
<b>Total deferred tax assets</b>	<b>277</b>

## Notes to related party transactions

### 1. Subsidiaries

Type	Company name	Ratio of voting rights holding	Relationship with the related party	Summary of transaction	Transaction amount (Millions of yen)	Account	Balance at end of period (Millions of yen)
Subsidiary	Simplex Inc.	Holding Direct: 100%	Consigning and undertaking consigned services, sharing concurrent positions by officers, seconding employees, and receiving dividends	Receiving office rental income	255	–	–
				Undertaking consigned management services, etc.	2,891	–	–
				Providing business management guidance	700	–	–
				Receiving share of expenses for seconded employees	4,259	Accounts receivable - other	363
				Paying share of expenses for seconded employees	234	Accounts payable - other	25
				Receiving dividends	3,283	–	–
				Providing financial guarantees (Note)	16,950	–	–
	Xspear Consulting, Inc.	Holding Direct: 100%	Consigning and undertaking consigned service, sharing concurrent positions by officers, and seconding employees	Undertaking consigned management services, etc.	180	–	–
			Receiving share of expenses for seconded employees	859	Accounts receivable - other	125	

Policy for determining prices and terms and conditions

Prices are determined through discussions between the Company and subsidiaries in view of service details.

Note: The Company guarantees a syndicated loan made by Simplex Inc.

## 2. Officers

Name	Ratio of voting rights held	Relationship with the related party	Summary of transaction	Transaction amount (Millions of yen) (Note)	Account	Balance at end of period (Millions of yen)
Masataka Soda	Held Direct: 0.0%	Director and Vice President	Exercise of share acquisition rights	12	—	—
Keisuke Enosawa	Held Direct: 0.2%	Director	Exercise of share acquisition rights	3	—	—

Note: The table above shows share acquisition rights exercised during the current fiscal year. The transaction amount presented is determined by multiplying the number of shares exercised by the amount paid in per share.

### Notes to revenue recognition

Revenues of the Company, a pure holding company, are a business management guidance fee, a management support service fee, and dividend income from its subsidiary. The Company's performance obligations are to provide the business management guidance and management support service to its subsidiary based on the details of the agreement entered into with the subsidiary. The Company recognizes revenues at the time when the business management guidance and management support service are provided because the Company's performance obligations are satisfied at that time. The Company recognizes dividend income on the effective date of dividends.

### Notes to per-share information

- |                             |         |
|-----------------------------|---------|
| 1. Net assets per share     | ¥560.57 |
| 2. Basic earnings per share | ¥58.19  |

### Notes to significant subsequent events

Not applicable