Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

DIGITAL HOLDINGS, Inc. assumes no responsibility for actions taken based on this translation.

(Securities code: 2389)

March 4, 2021

To our shareholders:

Atsushi Nouchi
President and Group CEO
DIGITAL HOLDINGS, Inc.
6, Yonbancho, Chiyoda-ku, Tokyo

Convocation Notice of the 27th Annual General Meeting of Shareholders

You are cordially invited to attend the 27th Annual General Meeting of Shareholders of DIGITAL HOLDINGS, Inc. (the "Company"), which will be held as described below.

In consideration of the current situation of the COVID-19 pandemic, we place our top priority on the safety of our shareholders. Therefore, we strongly ask you to exercise your voting rights in advance and refrain from attending the meeting in person regardless of your physical condition on the day. The meeting will be live streamed on the Internet. Please note that you cannot exercise your voting rights through the live streaming. <u>No souvenir will be handed out to shareholders attending the meeting in person</u>. We highly appreciate your understanding and cooperation.

Please refer to the Reference Documents for the General Meeting of Shareholders, and exercise your voting rights no later than 6 p.m., Thursday, March 25, 2021 (JST).

1. **Date and time:** Friday, March 26, 2021 at 10:00 a.m. (JST)
2. **Place:** Conference room, Head office, DIGITAL HOLDINGS, Inc.
   5th floor, 6 Yonbancho, Chiyoda-ku, Tokyo, Japan
3. **Agenda of the Meeting:**

Matters to be reported:

I. Report on Business Report, Consolidated Financial Statements and audit results of the Consolidated Financial Statements by the Accounting Auditor and the Audit and Supervisory Committee for the 27th Fiscal Term (from January 1, 2020 to December 31, 2020).

II. Report on the Non-Consolidated Financial Statements of DIGITAL HOLDINGS, Inc. for the 27th Fiscal Term (from January 1, 2020 to December 31, 2020).

Proposals to be resolved:

<Company's proposals (Proposal No. 1 and Proposal No. 2)>

Proposal No. 1: Election of Seven (7) Directors (Excluding Directors Who Are Audit and Supervisory Committee Members)

Proposal No. 2: Revision of Remuneration, etc. related to Performance-based Monetary Remuneration, etc. for Executive Directors

<Shareholder's proposal (Proposal No. 3)>

Proposal No. 3: Partial Amendments to the Articles of Incorporation

The Board of Directors of the Company is <u>opposed to Proposal No. 3</u>.

4. Instructions for Exercising Voting Rights

(1) Exercising voting rights in writing

To vote in writing, please indicate your approval or disapproval of the proposals on the enclosed Voting Rights Exercise Form, and return the Form by post to reach us by 6 p.m. Thursday, March 25, 2021 (JST).

(2) Exercising voting rights via the Internet

To vote via the Internet, please access to the “Voting Right Exercise Site (https://www.net-vote.com/)” (Japanese only), which is provided on the enclosed Voting Rights Exercise Form. Follow the instructions and indicate your approval or disapproval by 6 p.m. Thursday, March 25, 2021 (JST). If you want to use your smartphone, you can exercise your voting rights by using QR code (Please refer to the next page for details.)

(3) Handling of duplicate voting

1) If you vote both in writing and via the Internet, we will treat the vote submitted via the Internet as valid.
2) If you vote more than once via the Internet, we will treat the most recent vote as valid.

Request: When attending the meeting in person, you are kindly requested to submit the enclosed Voting Rights Exercise Form to the receptionist at the meeting site. Please bring this Convocation Notice of the 27th Annual General Meeting of Shareholders with you to the meeting.

Notice: The digital documents of the Convocation Notice of the Annual General Meeting of Shareholders and the Reference Documents for the General Meeting of Shareholders are available on the Company’s website (https://digital-holdings.co.jp/).

The English version of the Convocation Notice of the Annual General Meeting of Shareholders and the Reference Documents for the General Meeting of Shareholders are available on the Company’s website (https://digital-holdings.co.jp/en/).

Any amendments to the Reference Documents for the General Meeting of Shareholders, Business Report, Consolidated Financial Statements or Non-consolidated Financial Statements will be posted on the Company website. (https://digital-holdings.co.jp/).

Instructions for Exercising Voting Rights via the Internet

You can exercise your voting rights via the Internet by accessing the Voting Right Exercise Site as instructed below from your PCs or smartphones.

1. Accessing the Voting Right Exercise Site

[Address of Voting Right Exercise Site] https://www.net-vote.com/
Please use the Company's designated voting website above to exercise votes regarding the proposals. Votes can be submitted until 6 p.m. Thursday, March 25, 2021 (JST).

2. How to vote online

[For PC users]

Access the Voting Right Exercise Site at the URL provided above, log in using the login ID and password printed on the enclosed Voting Rights Exercise Form and follow the instructions on the screen to indicate your approval or disapproval of the proposals.

[For smartphone users]

Simply scan the QR code® located on the bottom right of the enclosed Voting Rights Exercise Form. You don't have to enter login ID nor password.

In case you wish to change any of your votes, access the Voting Right Exercise Site at the above URL, log in using the login ID and password printed on the Voting Rights Exercise Form and follow the instructions on the screen to indicate approval or disapproval of the proposal. (QR code® is a registered trademark of DENSO WAVE INCORPORATED).

3. Notes

(1) Any costs arising from accessing the Voting Right Exercise Site shall be borne by shareholders.
(2) Depending on your network environments, you may not be able to exercise your voting rights.
(3) The Voting Right Exercise Site is not accessible via the cellular phones.

Institutional investors can exercise their voting rights through "The Electronic Proxy Voting Platform" operated by ICJ, Inc.

For an inquiry regarding online exercise of the voting rights, please contact the following:

Custody Service Department, IR Japan, Inc.

TEL: 0120-975-960

Business Hours: 9:00 a.m. to 5:00 p.m. (JST) (not available on Saturdays, Sundays and holidays)

Live Streaming of the General Meeting of Shareholders

The 27th Annual General Meeting of Shareholders will be live streamed on the Internet as follows for viewing at home or elsewhere.

1. **Date and time of the live streaming**

   From 10:00 a.m. to the end of the meeting on Friday, March 26, 2021 (JST)

2. **How to watch the live streaming**

   Access the Live Streaming Site at the URL provided below with your "Shareholder ID number" as you will be required to enter it on the authentication screen (login screen) for shareholders. Please be sure to make a note of your "Shareholder ID number" before sending the enclosed Voting Rights Exercise Form by post.

◆**Live Streaming Site**
https://2389.ksoukai.jp

QR code®

◆**Shareholder ID number (9-digit number without hyphen)**
"Shareholder ID number" provided on the enclosed Voting Rights Exercise Form or other such documents as dividend-related documents. (If your ID number is eight (8) digits, add a zero (0) in front of the ID number.)

◆**Password (7-digit number without hyphen)**
"Postal code" of the registered address on the register of shareholders

◆**Viewing test**
You can check your viewing environment in advance at the Live Streaming Site. The test page will be available from 10:00 a.m. Thursday, March 4, 2021 to around 9:30 a.m. Friday, March 26, 2021 (JST).

> For an inquiry regarding how to watch the live streaming, please contact the following (only available on the date of the meeting):
>
> **TEL: 03-4323-4081**
>
> **Available from 9:00 a.m. to the end of the meeting on Friday, March 26, 2021 (JST)**

Shareholders' Comments

To improve communication with shareholders, we are accepting inquiries for the General Meeting of Shareholders (to distinguish from inquiries made by exercising the right to inquire under the Article 314 of the Companies Act, hereinafter the "Comments") through the following methods. Although they will not be regarded as formal statements at the General Meeting of Shareholders, some of the Comments may be featured and answered during the meeting. We highly appreciate your understanding on this matter.

Method 1: Enter your comment at https://digital-holdings.co.jp/contact_ir and send it by 6:00 p.m. Monday, March 22, 2021 (JST).

Method 2: Enter your comment on the comment submission form on the live streaming screen and send it after the opening of the meeting and up until the chairperson declares the acceptance closed.

Matters to Be Noted on the Operation of the General Meeting of Shareholders

- To prevent the spread of COVID-19, the number of seats available at the meeting will be considerably reduced this year from the previous years in order to ensure there is enough space between seats. Therefore, even if you come to the venue on the day, we may refuse your entry.
- Placing the top priory on the safety of our shareholders, our staff will check your body temperature at the reception and if your body temperature is at 37.5 degree Celsius or above, or if you look unwell, we may refuse your entry into the venue.
- All shareholders who attend the meeting in person will be asked to wear a mask. To avoid infection to other shareholders, those who refuse to wear a mask may not be allowed to enter the venue.

- From the perspective of reducing the risk of infection with COVID-19, some officers may attend the meeting via telecommunication means from a remote location.
- As the Q&A session will also be live streamed, if you intend to attend the meeting in person and do not wish that your name be broadcasted, please tell your number on the attendance list without mentioning your name before making a comment.
- In consideration of the privacy of shareholders attending the meeting in person, the live streaming video will be shot from the rear of the venue and limited to showing the area where the chairperson and officers are seated. However, shareholders may inevitably appear in the streaming. We highly appreciate your understanding.
- While watching the live streaming, the video or audio may be distorted depending on the environment of your PC or other device (model, specifications, etc.) or the Internet connection environment (network conditions, connection speed, etc.). Any costs to watch the live streaming, including communication charges, will be borne by shareholders.
- While every effort will be made to ensure the live streaming is available, the live streaming may be suspended or cancelled due to unavoidable circumstances such as deterioration in the communication environment or system failure.
- No souvenir will be handed out to shareholders attending the meeting in person.

Business Report (January 1, 2020 to December 31, 2020)

1. Overview of the Group

(1) Business for the Year Ended December 31, 2020

DIGITAL HOLDINGS, Inc. and its consolidated subsidiaries (hereinafter the “Group”) are surrounded by a business environment where the domestic market is shrinking due to Japan’s declining population accelerated by its aging society with a falling birth rate. However, the recent rapid advances in science, technology and innovation have boosted the trend to realize digital transformation (DX) that transforms conventional products and services as well as business models by leveraging data and digital technologies.

Furthermore, based on the recognition that we will see the realization of “Society 5.0” — a society that aims to achieve a high degree of convergence between cyberspace (virtual space) and physical space (real space), which brings new value to industry and society in ways not previously possible — proposed by the Japanese Cabinet Office, we expect that such progress will further drive the growth of demand for “digital shift” relating to “information, human resources, products and money,” which are what the Group pursues to offer.

With the sights set on the vision of becoming a “true digital shift company committed to creating new value that will be a driver for Society 5.0 as well as resolving social challenges” by 2030, the Group has set a management policy to maximize corporate value and cash flows by leading any and all corporate “digital shift.” As such, “OPT Holding, Inc.” changed its trade name to “DIGITAL HOLDINGS, Inc.” on July 1, 2020.

The Group also aims to expand its business by shifting its main business domain from the Marketing Business, centering on support for clients’ sales promotion, to the Digital Shift-related Businesses, thereby achieving a target of “corporate value of JPY 1 trillion by 2030.”

As a results of business operations based on the above management policy, the Group reported operating results for the fiscal year ended December 31, 2020 (hereinafter the “current fiscal year”) with revenue of JPY 88,768 million (down 1.3% YoY), gross profit of JPY 17,793 million (up 0.4% YoY), operating income of JPY 3,240 million (up 23.0% YoY), EBIT of JPY 6,175 million (up 131.8% YoY) and EBITDA of JPY 7,591 million (up 55.1% YoY).

The full-year operating results for each reporting segment are as follows.

Marketing Business

Marketing Business mainly consists of two sub-segments: Large Corporations, which includes OPT, Inc. and other consolidated subsidiaries providing internet advertising, digital marketing and related services to large-scale companies; and Local SMEs, which includes SoldOut, Inc. and its consolidated subsidiaries providing a variety of digital marketing solutions to small- to mid-sized regional companies.

Operating results of the Marketing Business segment for the current fiscal year were affected especially by the reduction of advertising budgets by certain existing clients and stagnation in new project acquisition due to the impact of the COVID-19 pandemic, which emerged during and after the second quarter of the current fiscal year. Consequently, revenue and gross profit decreased to JPY 82,780 million (down 0.7% YoY) and JPY 13,666 million (down 3.5% YoY), respectively. In spite of working on reducing selling, general and administrative expenses, especially in the Large Corporations sub-segment, operating income amounted to JPY 2,507 million (down 17.2% YoY) with EBIT of JPY 2,441 million (down 6.7% YoY) and EBITDA of JPY 2,951 million (down 14.1% YoY).

Synergy Investment Business

Synergy Investment Business consists of two sub-segments: Business Development Investment, which includes SIGNATE, Inc., which is mainly engaged in the AI business, and the Chinese business; and Financial Investment, which includes, among other businesses, BIG No. 1 Limited Partnership for Investment (changed its name from OPT Ventures No. 1 Limited Partnership for Investment), BIG No. 2 Limited Partnership for Investment (changed its name from OPT Ventures No. 2 Limited Partnership for Investment) and investment businesses managed by OPT America, Inc.

Operating results of the Synergy Investment Business segment for the current fiscal year were affected especially by a substantial decline in sales from the Chinese cross-border e-Commerce business in the Business Development Investment sub-segment due to the impact of COVID-19 pandemic. Consequently, revenue decreased to JPY 6,065 million (down 8.7% YoY). On the other hand, gross profit and operating income improved significantly to JPY 4,203 million (up 16.8% YoY) and JPY 3,080 million (up 60.7% YoY), respectively, mainly due to the recording of gains on sales of shares in RAKSUL Inc. and Jimoty, Inc. held by the Company as operational investment securities and shares in rakumo Inc. and ENECHANGE Ltd. held by BIG No. 1 Limited Partnership for Investment in the Financial Investment sub-segment. In addition to the above, EBIT and EBITDA improved further to JPY 6,154 million (up 152.6% YoY) and JPY 6,667 million (up 89.3% YoY), respectively, mainly as a result of the recording of non-operating income and extraordinary income due to the recording of investment returns from overseas investment funds as well as the sale of a part of the shares in Commerce One Holdings Inc. held by the Company as investment securities.

In addition, the Company discloses AUM (Assets Under Management) and IRR (Internal Rate of Return) to enhance the transparency of investment returns. At the end of the current fiscal year, AUM was JPY 24,877 million (up 8.3% YoY) mainly due to the increase in prices of listed securities held by the Company, partially offset by the sale of a part of the securities held by the Company. IRR after tax at the end of the current fiscal year was 11.7%, which is a decrease by 0.2 percentage points compared to the end of the previous fiscal year, in relation to the decline in the share price of a listed subsidiary, SoldOut, Inc.

The definitions of AUM and IRR are as follows:

Assets Under Management (AUM)

AUM is defined as aggregate amount of 1) book value of subsidiaries' and affiliates' shares and 2) fair value of operational investment securities and investment securities.

(1) Shares of subsidiaries and affiliates: Stated at book value

(2) Operational investment securities and investment securities: Each security's fair market value is calculated depending on the classification shown below:

- i. Notes or securities of which investment amount is small: Acquisition cost
- ii. Listed companies' shares: Closing price at the end of reporting period
- iii. Securities involved in financing in the recent period: Based on the value of relevant financing
- iv. Other securities: Calculated by using the comparable multiple method, DCF method, or net asset valuation method depending on each company's performance.

Internal Rate of Return (IRR)

Prerequisites for calculation (Un-sold securities are calculated as if they were sold)

- Subject to: Those the Company has invested in from 2003 to the end of December 2020 (including securities of operational investment securities, investment securities, shares of subsidiaries and shares of affiliates)
- The reference date for calculation: December 31, 2020
- Method:
  1. Impaired investment: Calculated as if they were sold at the net asset value after impairment.
  2. Investment involved in financing in the recent period: Calculated as if they were sold at the value of relevant financing.
  3. IPOed investment: Calculated as if they were sold at the market value as of the reference date.
  4. Fund: Calculated with the amount collected until the end of the reporting period and the book value as of the end of reporting period.
  5. Others: Any other investment with no change in their acquisition cost due to sale, impairment, financing, IPO or the like are calculated as if they were sold on the reference date at the acquisition cost.
- Income tax are included.

Corporate function cost of DIGITAL HOLDINGS, Inc.

The Corporate Function of DIGITAL HOLDINGS, Inc. made efforts in reducing selling, general and administrative expenses. As a result, selling, general and administrative expenses in the corporate function for the current fiscal year were JPY 2,326 million, (up 1.6% YoY).

(2) Issues to be Addressed

The following six items are key business and financial issues to be addressed by the Group.

1. Maintain high growth rate in the digital shift business
   While the demand for "digital shift" in Japan has been on the rise, the competition among corporate DX-related services has been increasingly fierce as they are offered by a variety of companies, such as leading IT vendors and consulting firms. The Group intends to achieve high growth rate in the digital shift business by offering services utilizing the client base and marketing know-how cultivated through the conventional Internet advertising business.
2. Improve profitability in the advertising business
   Total Internet advertising expenditures in Japan surpassed television media advertising expenditures for the first time in 2019, and the market size of the Internet advertising business, which is the core domain in the Group's advertising business, has expanded to exceed JPY 2 trillion. Meanwhile, the competition among peers is intensifying. The Group intends to secure profitability by such means as reviewing its operational processes to promote the offshoring and nearshoring of operations and driving the automation of programmatic advertising operations.
3. Secure a certain size of investment in the digital shift business
   The Group plans to acquire companies related to the digital shift business using capital gains arising from investments in Internet-related companies in the Financial Investment sub-segment as funds for acquisition. Investments in digital shift-related companies tend to be valued higher due to their high growth potential. However, we intend to select candidate investees by making full use of knowledge and network of personal contacts that the Group has cultivated in Internet-related industries since its foundation.
4. Reorganize Group's operating structure
   The Group has been working on the reorganization of its operating structure to adapt to changes of business in order to develop and secure human resources capable of supporting the future growth of its core businesses. The Group also intends to reorganize the decision-making process as the Group's businesses are affected by significant advancements in technology.
5. Adapt to changes in the external business environment amid the COVID-19 pandemic
   The Group's operating results, especially in the advertising business, have been adversely affected by decreased demand for advertising caused by constrained consumer activity amid the COVID-19 pandemic. While it is still difficult to predict when the pandemic will be over, the Group has been working on the review of its investment plan and the adoption of new working styles that can flexibly adapt to changes in the social environment. As such, the Group intends to mitigate the impact of the COVID-19 pandemic on its operating results by promoting the reduction of expenses related to office and sales activities.
6. Achieve ROE of 10%
   The Group uses ROE as a key performance indicator to be achieved in order to make decisions with a focus on investment efficiency to improve its profitability and capital efficiency. To this end, the Group intends to give consideration to shareholder return policies such as repurchase of treasury shares taking into account the level of internal reserves, while improving the profitability of its core businesses.

(3) Capital Expenditure

There were no significant capital expenditures.

(4) Financing

The Company has concluded one-year loan commitment agreements with a total value of JPY 10 billion with two correspondent financial institutions in September 2020 in order to secure liquidity on hand to prepare for unforeseen circumstances resulting from the impact of COVID-19 pandemic.

(5) Significant Reorganizations and Other Such Events

1) On June 30, 2020, the Company transferred all the shares in relaido, Inc. it held to CMerTV, Inc. and

excluded relaido, Inc. from the scope of consolidation of the Group.

2) The Company excluded Crossfinity Inc. from the scope of consolidation of the Group because the liquidation was completed on December 16, 2020.

(6) Assets, revenue and income

(Yen in millions, unless otherwise stated)	FY2017	FY2018	FY2019	FY2020
Revenue	82,602	87,216	89,953	88,768
Ordinary income	1,921	1,669	2,833	4,358
Net income attributable to owners of parent	1,011	1,922	1,928	3,750
Net income per share (Yen)	43.95	84.66	84.23	167.86
Total assets	46,127	56,551	61,132	70,443
Net assets	18,813	27,133	32,601	39,072

(Notes) 1. Net income per share is calculated based on the average number of shares issued (total shares issued excluding treasury shares) during each fiscal year.

2. (Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting" and relevant Guidance) "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ statement No. 28, February 16, 2018) and relevant Guidance were applied from the beginning of the 25th Fiscal Term. Deferred tax assets are presented under investments and other assets and deferred tax liabilities are presented under noncurrent liabilities.

(7) Status of Parent Company and Principal Subsidiaries (As of December 31, 2020)

1) Status of Parent Company
Not applicable

2) Status of Principal Subsidiaries

Company Name	Capital (Yen in millions)	Voting rights owned by the Company	Major businesses
OPT, Inc.	100	100.0%	Marketing business
So ldOut, Inc.	600	56.5%	Advertising agency business serving mid-sized and venture companies
SO Technologies, Inc.	45	56.5%	Provides marketing technology to mid-sized companies and small- to mid-sized regional companies
Digital Shift, Inc.	300	100.0%	Support services related to digital shift

(Notes) 1. The Company has 23 consolidated subsidiaries, including those in the table above.
2. The Company does not have any specified wholly owned subsidiaries as defined in the Companies Act.

(8) Major Businesses (As of December 31, 2020)

The Group is comprised of DIGITAL HOLDINGS, Inc. and 23 consolidated subsidiaries as of the end of the fiscal year ended December 31, 2020. It operates the Marketing Business segment and the Synergy Investment Business segment. The Marketing Business provides Internet advertising agency, digital marketing, and related services to large companies and various digital marketing solutions to small to mid-sized regional companies. The Synergy Investment Business provides support to investees, invests in Internet-related venture companies, collects information in the US, develops AI and AI platforms, provides support and educational services to companies for digital shift, and conducts business in China.

Segment	Major businesses
Marketing Business	• Internet advertising, digital marketing, and related services to large-scale companies • Digital marketing solutions to small to mid-sized regional companies
Synergy Investment Business	• Investments in Internet-related venture companies • Information gathering in US • Development of AI and AI platforms • Support and educational services to companies for digital shift

(9) Major Offices (As of December 31, 2020)

1) Main Office

Office	Address
Head Office	Chiyoda-ku, Tokyo

2) Subsidiaries

Company Name	Address
OPT, Inc.	Chiyoda-ku, Tokyo
SoldOut, Inc.	Bunkyo-ku, Tokyo
SO Technologies, Inc.	Bunkyo-ku, Tokyo
Digital Shift, Inc.	Chiyoda-ku, Tokyo

(10) Workforce (As of December 31, 2020)

Number of Employees	Change from Dec. 31, 2019
1,571	+63

(Notes) 1. Part-time, contractors and temporary workers are not counted as employees.
2. Personnel seconded to positions outside of the Group are not counted as employees.

(11) Main Lenders (As of December 31, 2020)

Lender	Amount borrowed (Yen in millions)
Sumitomo Mitsui Banking Corporation	3,564
Mizuho Bank, Ltd.	3,500
MUFG Bank, Ltd.	2,000
Resona Bank, Limited.	983
Syndicated Loan	750

(Note) The syndicated loan is provided by 15-bank syndicate, lead-managed by Sumitomo Mitsui Banking Corporation.

(12) Other Significant Matters Concerning the Group

Not applicable

2. Status of the Company

(1) Matters Concerning Shares (As of December 31, 2020)

1) Total Number of Shares Authorized to Be Issued 86,630,400 shares

2) Total Number of Shares Issued 23,817,700 shares (including 1,623,695 treasury shares)

3) Number of Shareholders 3,310

4) Major Shareholders (Top 10)

Shareholder	Number of Shares Held (Shares)	Ownership of Shares (%)
HIBC Co., Ltd.	4,651,200	20.95%
Custody Bank of Japan, Ltd. (Trust account)	1,669,500	7.52%
Tomohito Ebine	1,036,900	4.67%
The Master Trust Bank of Japan, Ltd. (Trust account)	957,900	4.31%
Atsushi Nouchi	885,000	3.98%
NOMURA PB NOMINEES LIMITED OMNIBUS-MARGIN (CASHPB)	828,600	3.73%
Mynavi Corporation	755,800	3.40%
Goldman Sachs International	721,051	3.24%
The Bank of New York, JASDEC Treaty Account	577,400	2.60%
CGML PB CLIENT ACCOUNT/COLLATERAL	548,350	2.47%

*1. Although the Company holds 1,623,695 treasury shares, it is omitted from the above list of major shareholders.
The treasury shares (1,623,695 shares) do not include the Company's shares held by OPT Group Employee Stock Ownership Plan (171,916 shares).

*2. Ownership of shares is calculated based on shares outstanding (the number of shares issued net of treasury shares) and rounded off to two decimal places.

*3. HIBC Co., Ltd., is an asset management company wholly owned by the Chairman of the Company, Noboru Hachimine.

*4. Time and Space, Ltd, an asset management company wholly owned by the President and Group CEO of the Company, Atsushi Nouchi, holds 390,800 shares of the Company.

*5. Dalton Investments LLC held the following shares as of July 21, 2020, which was reported in the Large Shareholding Report (Change Report) submitted on July 28, 2020. However, the Company could not confirm the number of shares actually held by the entity as of the end of the reporting period. Thus, major shareholders are described based on the register of shareholders at the end of the reporting period. The following table is the summary of the Change Report.

Name or Name of Institution	Address	Number of shares held*
Dalton Investments LLC	1601 Cloverfield Blvd. Suite 5050N, Santa Monica, California, 90404 United State	2,456,900

(Note) The number of shares held is described in the Change Report as of July 28, 2020.

*6. 3D Investment Partners Private Ltd., held the following shares as of July 22, 2019, which was reported in the Large Shareholding Report (Change Report) submitted on July 29, 2019. However, the Company could not confirm the number of shares actually held by the entity as of the end of the reporting period. Thus, major shareholders are described based on the register of shareholders at the end of the reporting period. The following table is the summary of the Change Report.

Name or Name of Institution	Address	Number of shares held*
3D Investment Partners Private Ltd.	250 North Bridge Road #13-01 Raffles City Tower, Singapore 179101	2,268,100

(Note) The number of shares held is described in the Change Report as of July 29, 2019.

5) Other Significant Matters Concerning Shares

There were no significant matters concerning shares.

(2) Matters Concerning Corporate Officers

1) Matters Concerning Directors (As of December 31, 2020)

Position in Company	Name	Area of Responsibility and Significant Other Positions
Chairman	Noboru Hachimine	Director at SoldOut, Inc. External Director at UT Group Co., Ltd. President and Representative Director at Digital Shift, Inc.
President and Group CEO	Atsushi Nouchi	Representative Director at Bonds Investment Group, Inc.
Director	Shusaku Minoda	
Director	Tomoyuki Mizutani	
Director	Koji Yanagisawa	Director, Executive Vice President & CFO at ZOZO, Inc. External Director at COLOPL, Inc.
Director	Yasuhiro Ogino	Director and CFO at ANDPAD Inc.
Director (Chairman of Audit and Supervisory Committee, full-time)	Fumiyuki Shinomiya	Auditor at OPT, Inc. Auditor at OptDigital, Inc.
Director (Audit and Supervisory Committee member)	Yuki Okabe	Certified Public Accountant
Director (Audit and Supervisory Committee member)	Toshio Yamaue	Lawyer
Director (Audit and Supervisory Committee member)	Masahiro Yamamoto	Certified Public Accountant

(Notes)
1. Directors Tomoyuki Mizutani, Koji Yanagisawa and Yasuhiro Ogino, Director and Chairman of the Audit and Supervisory Committee (full-time), Fumiyuki Shinomiya, and Directors and Audit and Supervisory Committee members Yuki Okabe, Toshio Yamaue and Masahiro Yamamoto are External Directors.
2. Director and Chairman of the Audit and Supervisory Committee (full-time) Fumiyuki Shinomiya had a long career at a financial institution and possesses considerable expertise in finance and accounting.
3. Director and Audit and Supervisory Committee member Yuki Okabe has experience as an auditor at multiple listed companies and possesses considerable expertise in finance and accounting as a Certified Public Accountant (CPA).
4. Director and Audit and Supervisory Committee member Masahiro Yamamoto has experience in supporting numerous companies as a Representative Partner at audit firms and possesses considerable expertise in finance and accounting as a CPA.
5. Former Director Hiroshi Teraguchi and former Director and Audit and Supervisory Committee member Nobuaki Ishizaki terminated their office upon its expiration at the conclusion of the Annual General Meeting of Shareholders held on March 27, 2020.
6. The Company established a full-time Audit and Supervisory Committee position to strengthen audit and oversight functions, improve information gathering and increase audit effectiveness.
7. The Company has designated Directors Tomoyuki Mizutani, Koji Yanagisawa and Yasuhiro Ogino, Director and Chairman of the Audit and Supervisory Committee (full-time) Fumiyuki Shinomiya and Directors and Audit and Supervisory Committee members Yuki Okabe, Toshio Yamaue and Masahiro Yamamoto as independent directors in accordance with the Tokyo Stock Exchange's independence standards and filed a notification to that effect with the Tokyo Stock Exchange.
8. The Company and Directors Shusaku Minoda, Tomoyuki Mizutani, Koji Yanagisawa and Yasuhiro Ogino, Director and Chairman of the Audit and Supervisory Committee (full-time) Fumiyuki Shinomiya and Directors and Audit and Supervisory Committee members Yuki Okabe, Toshio Yamaue and Masahiro Yamamoto have entered into agreements limiting each of the eight (8) Directors' liability for damages under, Article 423, paragraph 1 of the Companies Act to the statutory prescribed minimum liability, pursuant to the Company's Articles of Incorporation.

2) Total Remuneration, etc. for Directors

Subgroup	Number of Recipients	Total Compensation (Yen in millions)
Directors (excluding those who are Audit and Supervisory Committee members) (External Directors' share thereof)	7 (3)	134 (25)
Directors who are Audit and Supervisory Committee members (External Directors' share thereof)	5 (5)	27 (27)
Total (External Directors' share thereof)	12 (8)	161 (52)

(Notes)
1. The above number of recipients includes one (1) Director and one (1) Director and Audit and Supervisory Committee member who terminated their office upon its expiration at the conclusion of the Annual General Meeting of Shareholders held on March 27, 2020.
2. Total remuneration, etc. for Directors does not include salaries earned as employees by Directors who concurrently hold employee positions.
3. The above remuneration includes a JPY 15 million expense recognized in the fiscal year ended December 31, 2020 in

connection with one (1) Director’s restricted stock compensation.

4. At the Annual General Meeting of Shareholders held on March 25, 2016, shareholders passed a resolution to set the remuneration for Directors who are not Audit and Supervisory Committee members at up to JPY 200 million per year. Meanwhile, at the Annual General Meeting of Shareholders held on March 27, 2020, shareholders passed a resolution to set the remuneration for Directors who are Audit and Supervisory Committee members at up to JPY 50 million per year. To award restricted stock grants to Directors (excluding External Directors and Directors who are Audit and Supervisory Committee members), shareholders passed an additional resolution authorizing total Directors’ remuneration of up to JPY 550 million per year at the Annual General Meeting of Shareholders held on March 29, 2018.

3) Matters Concerning External Directors

Position in the Company	Name	Significant Concurrent Positions at Other Entities	Main Activities at the Company
Director	Tomoyuki Mizutani		Mr. Mizutani attended 14 of 17 Board meetings held in 2020. He appropriately spoke up at meetings to ensure the validity and appropriateness of the Board's decision-making from an objective and neutral standpoint independent from management, capitalizing on his wealth of experience and long achievement in corporate management.
Director	Koji Yanagisawa	Director, Executive Vice President & CFO at ZOZO, Inc. External Director at COLOPL, Inc.	Mr. Yanagisawa attended all 13 Board meetings held after his appointment in 2020. He appropriately spoke up at meetings to ensure the validity and appropriateness of the Board's decision-making from an objective and neutral standpoint independent from management, capitalizing on his experience as CFO and others at a growing company as well as broad insight in overall business administration centered on accounting, finance, IR, legal affairs and corporate governance.
Director	Yasuhiro Ogino	Director and CFO at ANDPAD Inc.	Mr. Ogino attended all 13 Board meetings held after his appointment in 2020. He appropriately spoke up at meetings to ensure the validity and appropriateness of the Board's decision-making from an objective and neutral standpoint independent from management, capitalizing on his experience as CFO and others at growing companies as well as broad insight in overall business administration centered on business development and M&A.

Position in the Company	Name	Significant Concurrent Positions at Other Entities	Main Activities at the Company
Director (Chairman of the Audit and Supervisory Committee (full-time))	Fumiyuki Shinomiya	Auditor at OPT, Inc. Auditor at OptDigital, Inc.	Mr. Shinomiya attended all 17 Board meetings and all 14 Audit and Supervisory Committee meetings held in 2020. He appropriately provided valuable perspectives on agenda items and other discussions, capitalizing on his insight and wealth of domestic and international experience, mainly in the financial sector.
Director (Audit and Supervisory Committee member)	Yuki Okabe	CPA	Ms. Okabe attended all 13 Board meeting and all 10 Audit and Supervisory Committee meeting held after her appointment in 2020. She appropriately provided valuable perspectives on agenda items and other discussions, capitalizing on her career as a CPA as well as experience in serving as an auditor at multiple listed companies.
Director (Audit and Supervisory Committee member)	Toshio Yamaue	Lawyer	Mr. Yamaue attended all 17 Board meetings and all 14 Audit and Supervisory Committee meetings held in 2020. He appropriately provided valuable perspectives on agenda items and other discussions from lawyer's perspectives.
Director (Audit and Supervisory Committee member)	Masahiro Yamamoto	CPA	Mr. Yamamoto attended all 13 Board meeting and all 10 Audit and Supervisory Committee meeting held after his appointment in 2020. He appropriately provided valuable perspectives on agenda items and other discussions, capitalizing on his career as a CPA as well as experience in supporting numerous companies as a Representative Partner at audit firms.

(Notes) 1. The Company's relationships with ZOZO, Inc. and COLOPL, Inc., two companies at which Director Mr. Yanagisawa holds positions, do not warrant disclosure.

2. The Company's relationship with ANDPAD Inc., at which Director Mr. Ogino holds a position, does not warrant disclosure.

3. OPT, Inc. and OptDigital, Inc., at which Director and Chairman of the Audit and Supervisory Committee (full-time) Mr. Shinomiya holds positions, are subsidiaries of the Company.

(3) Accounting Auditor

1) Name KPMG AZSA LLC

2) Amount of Compensation

(Yen in millions)

Accounting auditor's compensation for fiscal year ended December 31, 2020	43
Total monetary amount payable to the Accounting Auditor by the Company and its subsidiaries	72

(Notes) 1. The audit agreement between the Company and its Accounting Auditor does not explicitly distinguish the compensation for audit services performed pursuant to the Companies Act from the compensation for audit services performed pursuant to the Financial Instruments and Exchange Act. Given disaggregating compensation between the two types of audit services is not feasible, the Company is disclosing the above total amount as its Accounting Auditor's compensation for the fiscal year ended December 31, 2020.

2. The Audit and Supervisory Committee approved the Accounting Auditor's compensation after performing required verification of the appropriateness of the Accounting Auditor's audit plan, audit performance and basis for calculating estimates of its compensation.

3) Non-Audit Services

The Company paid KPMG AZSA LLC compensation for advisory services.

4) Policy for Dismissal or Non-reappointment of Accounting Auditor

If the Audit and Supervisory Committee decides that the Accounting Auditor needs to be replaced for failure to perform its duties or for other reasons, it shall draft a proposal regarding dismissal or non-reappointment of the Accounting Auditor to be submitted to a general meeting of shareholders. Additionally, if any of the causes for dismissal fall into the provisions of Article 340, paragraph 1 of the Companies Act, the Audit and Supervisory Committee may dismiss the Accounting Auditor with the unanimous consent of all of its members.

If the Accounting Auditor is dismissed, an Audit and Supervisory Committee member selected by the Audit and Supervisory Committee shall report on the dismissal, including the reason(s) for it, at the earliest general meeting of shareholders convened after the dismissal.

3. The Systems and Policies of the Group

(1) System for Ensuring the Appropriateness of Business Operation

1) Controls to Ensure the Company and Its Subsidiaries' Directors and Employees Comply with Laws and Articles of Incorporation in Executing Their Duties

Under the directions and orders of those responsible for Group compliance, the division responsible for the Company's compliance conducts training sessions and prepares and distributes manuals in accordance with the "Group Compliance Rules," working to improve the compliance knowledge of the Directors and employees of the Company and its subsidiaries, and to cultivate a mindset of respect for compliance. Based on the "Group Internal Audit Rules," the Company's Internal Audit Office conducts regular audits of the execution of duties and confirms that the execution of duties complies with laws and the Articles of Incorporation.

2) Controls Related to Retention and Management of Information Concerning Execution of Duties by the Company and Its Subsidiaries' Directors

Regarding information on important decision-making and reports, the Company and its subsidiaries' Directors prepare, retain and manage documents and electronic records in accordance with the "Group Authority Rules," "Group Confidentiality Protection Rules" and "Group Document Management Rules." The Company's subsidiaries keep such information readily accessible if requested to do so by the Company's Audit and Supervisory Committee or their own auditors.

3) Regulations and Other Controls Related to Management of the Company and Its Subsidiaries' Risk of Losses

Based on the "Group Risk Management Basic Guidelines" and "Group Risk Management Rules" established by the Board of Directors, the Company operates the Group Risk Management Committee composed of the Company's corporate officers, mainly those responsible for Group risk, and the Group Risk Management Committee reports on the state of risk management to the Board of Directors on an as-needed basis. The Company's subsidiaries have implemented their own controls for managing risks, including the risk of losses, to the extent needed by their scale, attributes and other relevant circumstances in accordance with the "Group Risk Management Rules."

4) Controls to Ensure the Company and Its Subsidiaries' Directors Execute Their Duties Effectively

The Company and its subsidiaries prepare business plans in accordance with the "Group Rules on Finance and Accounting," explicitly set operating performance targets on a company-wide basis and clarify how they evaluate performance. They pursue improvement in operating efficiency by clearly defining every organizational unit's responsibilities with respect to operating performance. The Company and its subsidiaries also analyze and make decisions on significant management matters in accordance with the "Group Authority Rules," working to ensure operating efficiency.

5) Controls to Ensure the appropriateness of Business Operation of the Group Consisting of the Company and Its Subsidiaries

To ensure Group companies' appropriateness of business operation, the Company supervises its subsidiaries as required based on their respective circumstances in accordance with "Group Authority Rules." Additionally, in the Group Executive Officer meetings held monthly, the Company's Directors and subsidiaries' management teams promote information-sharing and effective communication among Group companies and alignment of Group management policies by exchanging information on important matters affecting the Group as a whole.

6) Matters Concerning Staffing Requested by Audit and Supervisory Committee of the Company to Assist with Its Duties

When the Audit and Supervisory Committee requests staff to assist performing its duties, the Company assigns the needed staff to the Committee.

7) Matters Concerning Assurance that Staff Assigned to Audit and Supervisory Committee Are Independent from Directors and Effectively Supervised

The Company respects the Audit and Supervisory Committee's request on assignment of staff to assist the Audit and Supervisory Committee. Staff that have been ordered to perform auditing tasks by the Audit and Supervisory Committee will not obey to orders or directions from the Company's Directors (excluding

Directors who are Audit and Supervisory Committee members) against the orders from the Audit and Supervisory Committee.

8) System for the Company and Its Subsidiaries' Directors (Excluding Company Directors Who Are Audit and Supervisory Committee Members) and Employees to Report to Chairman of the Audit and Supervisory Committee

   The Company's Directors (excluding Directors who are Audit and Supervisory Committee members) and employees are required to immediately report to the Chairman of the Audit and Supervisory Committee if they become aware of an illegal act or misconduct by a Director (other than a Director who is an Audit and Supervisory Committee member) or if any matter that would cause a material loss on the Company arises or is at risk of arising.

   Additionally, the Company has established an internal reporting channel within the Group. It has created an environment in which misconduct and illegal acts can be reported either directly or indirectly to the Company's full-time Audit and Supervisory Committee member, working to enhance compliance to prevent misconduct and illegal acts throughout the entire Group.

9) Controls to Prevent Retaliation Against Whistleblowers

   The Company prohibits retaliatory treatment for individuals who have reported to the full-time Audit and Supervisory Committee member and promotes universal awareness of this prohibition among its Directors (excluding Directors who are Audit and Supervisory Committee members), employees, its subsidiaries' Directors and employees.

10) Matters Concerning Policy Pertaining to Prepayment or Reimbursement of Expenses Related to Execution of Duties by Audit and Supervisory Committee Members of the Company or Handling of Other Expenses or Liabilities Related to Said Duties' Execution

   When billed in advance for necessary expenses related to execution of Audit and Supervisory Committee members' duties, the Company promptly pays the billed charges.

11) Other System to Ensure Effectiveness of Audit and Supervisory Committee's Audits

   Directors of the Company (excluding Directors who are Audit and Supervisory Committee members) endeavor to make the audit system function more efficiently by promoting deeper understanding about the audit system and creating an audit-friendly environment within the Company. Furthermore, the Representative Director notifies Audit and Supervisory Committee members of Board of Directors meeting dates, details, etc. in advance and promotes appropriate communication and effective performance of audit work to ensure that the Audit and Supervisory Committee's audits are conducted effectively.

12) System to Ensure Reliability of Financial Reporting

   To ensure the reliability of its financial reporting, and effective and appropriate reporting on internal controls in accordance with the Financial Instruments and Exchange Act, the Company has established the "Basic Policy for Building Internal Controls Systems," and implements and operates internal controls over financial reporting accordingly. It also continually evaluates whether its internal controls are functioning properly and modifies them as needed.

13) System to Eradicate Antisocial Forces

   The Company has established the "Group Rules on Response to Anti-Social Forces" containing required provisions on severing relations with anti-social forces (as defined in the "Guideline for How Companies Prevent Damage from Anti-Social Forces" issued by the Ministerial Meeting Concerning Measures Against Crime) pursuant to the "Group Compliance Basic Policy." Such rules and regulations mandate that the Company sever all relations with anti-social forces and respond organizationally to any illicit demands by anti-social forces. Additionally, the Company is a long-standing member of the Special Anti-Violence Countermeasures Federation of the Metropolitan Police Department. It also builds cooperative relationships with lawyers and other concerned external organizations, and incorporates an anti-social forces clause into its contracts with new suppliers and customers.

(2) Overview of Implementation Status of Controls to Ensure Appropriateness of Business Operation

1) Execution of Directors' Duties

In the fiscal year ended December 31, 2020, the Board of Directors met 17 times and made management decisions. The Board of Directors instituted Board of Directors Regulations and other internal regulations to ensure that Directors act in accordance with laws, government regulations and the Company's Articles of Incorporation.

2) Execution of Duties by Directors Who Are Audit and Supervisory Committee Members

In addition to conducting audits pursuant to audit plans formulated at Audit and Supervisory Committee meetings, Directors who are Audit and Supervisory Committee members oversee Directors' execution of their duties through such means as attending important meetings, including Board of Directors meetings, and regularly exchanging information with the Accounting Auditor and Internal Audit Office.

3) Risk Management and Compliance

The Company works to strengthen the risk management system to reduce risk, facilitate risk prevention, and take prompt action should a risk materialize, and in addition to establishing the "Group Risk Management Basic Guidelines" and the "Group Risk Management Rules," it has established the Group Risk Management Committee. Furthermore, the Company works to enhance awareness among the Directors and employees of the Company and its subsidiaries by creating the "Group Compliance Guidelines" and the "Group Compliance Rules," establishing the Group Compliance Committee, and getting the department in charge of compliance in the Company to create manuals and guidelines, and plan, conduct and administrate trainings.

The Company has established and operates a group management system that respects the independence of the SoldOut Group, which operates under its parent company, SoldOut, Inc., the Company's subsidiary listed on the First Section of the Tokyo Stock Exchange.

(3) Policy for Determination of Dividends from Retained Earnings

As its dividend policy, the Company aims to pay dividends equivalent to 20% of net income attributable to owners of parent before amortization of goodwill so it can internally retain earnings to fund investments, including business and human-resource investments needed to strengthen its management team and boost earnings in pursuit of further growth in its corporate value over the medium to long term. For the fiscal year ended December 31, 2020, the Company's Board of Directors passed a resolution authorizing a dividend of JPY 35.00 per share on February 10, 2021.

Monetary values presented in this Business Report are rounded down to the nearest whole unit in which they are presented; percentages and other numbers are rounded off to one decimal places.

Consolidated balance sheet

(As of December 31, 2020)

(Yen in millions)

Account	Amount	Account	Amount
Assets		Liabilities	
Current assets	63,372	Current liabilities	19,629
Cash and deposits	27,054	Accounts payable-trade	12,750
Notes and accounts receivable-trade	14,663	Short-term loans payable	1,500
Operational investment securities	20,701	Current portion of long-term loans payable	1,236
Inventories	9		
Other	956	Income taxes payable	772
Allowance for doubtful accounts	(12)	Provision for bonuses	328
		Other	3,042
Noncurrent assets	7,070		
Property, plant and equipment	798	Noncurrent liabilities	11,740
Buildings and structures	582	Long-term loans payable	8,091
Other	215	Deferred tax liabilities	3,437
		Asset retirement obligations	208
Intangible assets	1,527	Other	3
Goodwill	156	Total liabilities	31,370
Other	1,370	Net assets	
		Shareholders' equity	21,043
Investments and other assets	4,745	Capital stock	8,212
Shares of affiliates	408	Capital surplus	3,972
Investment securities	3,331	Retained earnings	10,557
Lease and guarantee deposits	876	Treasury shares	(1,698)
Other	158	Accumulated other comprehensive income	10,050
Allowance for doubtful accounts	(28)	Valuation difference on available-for-sale securities	9,969
		Foreign currency translation adjustment	80
		Subscription rights to shares	0
		Non-controlling interests	7,978
		Total net assets	39,072
Total assets	70,443	Total liabilities and net assets	70,443

(Note) The amounts presented above are rounded down to the nearest whole million yen.

Consolidated statement of income

(From January 1, 2020 to December 31, 2020)

(Yen in millions)

Account	Amount	
Revenue		88,768
Cost of sales		70,975
Gross profit		17,793
Selling, general and administrative expenses		14,552
Operating income		3,240
Non-operating income		
Investment gain on equity method	34	
Gain on investments in partnership	1,104	
Other	104	1,244
Non-operating expenses		
Interest expenses	26	
Commission fee	50	
Other	50	126
Ordinary income		4,358
Extraordinary income		
Gain on change in equity	41	
Gain on sales of investment securities	1,896	
Gain on transfer of business	115	
Other	5	2,059
Extraordinary loss		
Loss on retirement of noncurrent assets	35	
Impairment loss	32	
Loss on valuation of investment securities	67	
Loss on sales of investment securities	87	
Other	43	267
Net income before taxes and other adjustments		6,150
Income taxes-current	1,512	
Income taxes-deferred	(63)	1,448
Net income		4,702
Net income attributable to non-controlling interests		951
Net income attributable to owners of parent		3,750

(Note) The amounts presented above are rounded down to the nearest whole million yen.

Consolidated statement of changes in net assets

(From January 1, 2020 to December 31, 2020)

(Yen in millions)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of year	8,212	3,924	6,936	(698)	18,375
Changes of items during the period					
Dividends from surplus			(389)		(389)
Net income attributable to owners of parent			3,750		3,750
Purchase of treasury shares				(1,000)	(1,000)
Changes in ownership interest in subsidiaries		6			6
Change in scope of consolidation		41			41
Change in scope of equity method			258		258
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	47	3,620	(1,000)	2,668
Balance at end of year	8,212	3,972	10,557	(1,698)	21,043

	Accumulated other comprehensive income			Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of year	8,593	225	8,819	0	5,405	32,601
Changes of items during the period						
Dividends from surplus						(389)
Net income attributable to owners of parent						3,750
Purchase of treasury shares						(1,000)
Changes in ownership interest in subsidiaries						6
Change in scope of consolidation						41
Change in scope of equity method						258
Net changes of items other than shareholders' equity	1,375	(145)	1,230	—	2,572	3,803
Total changes of items during the period	1,375	(145)	1,230	—	2,572	6,471
Balance at end of year	9,969	80	10,050	0	7,978	39,072

(Note) The amounts presented above are rounded down to the nearest whole million yen.

Notes to Consolidated Financial Statements

1. Significant matters that form the basis of preparing consolidated financial statements:

(1) Scope of consolidation

1) Status of consolidated subsidiaries

- Number of consolidated subsidiaries: 23 consolidated subsidiaries
- Names of consolidated subsidiaries

OPT, Inc.
SoldOut, Inc.
Heartlass, Inc.
ConnectOm, Inc.
Platform ID, Inc.
Demand Side Science, Inc.
SO Technologies, Inc.
Growth Gear Co., Ltd.
MEDIA ENGINE INC.
Bonds Investment Group, Inc.
BIG No. 1 Limited Partnership for Investment
BIG No. 2 Limited Partnership for Investment
SIGNATE Inc.
OPT Incubate Inc.
IMJ FENOX PTE. LTD. No.2
OPT China Limited
OPT Shenzhen (China)
OPT China, Inc.
OPT America, Inc.
OPT SEA Pte., Ltd.
Digital Shift, Inc.
OptDigital, Inc.
RePharmacy, Inc.

OptDigital, Inc. and RePharmacy, Inc. are included in the scope of consolidation because they were newly established in the fiscal year ended December 31, 2020.

relaido, Inc. was excluded from the scope of consolidation because the Company sold shares it held in relaido, Inc.

Crossfinity Inc. was excluded from the scope of consolidation because the liquidation was completed in the fiscal year ended December 31, 2020.

Internet-Utilization association was excluded from the scope of consolidation because the liquidation was completed in the fiscal year ended December 31, 2020.

As of April 1, 2020, Digital Shift Academy, Inc. changed its trade name to Digital Shift, Inc. Also, as of July 1, 2020, OPT Ventures, Inc., OPT Ventures No. 1 Limited Partnership for Investment and OPT Ventures No. 2 Limited Partnership for Investment changed their names to Bonds Investment Group, Inc., BIG No. 1 Limited Partnership for Investment and BIG No. 2 Limited Partnership for Investment, respectively.

2) Status of major non-consolidated subsidiaries

Not applicable

(2) Application of equity method accounting

1) Status of equity-method affiliates

- Number of equity-method affiliates: Two affiliates
- Names of equity-method affiliates
  GENERATE INC.
  PharmaShift Co., Ltd.

Jimoty, Inc. was excluded from the scope of equity method accounting as the Company sold a part of the shares it held.
PharmaShift Co., Ltd. is included in the scope of consolidation as it was newly established as a joint venture with MEDICAL SYSTEM NETWORK Co., Ltd. in the fiscal year ended December 31, 2020.

2) Status of major non-consolidated subsidiaries and affiliates not subject to the equity method

- Name of non-consolidated subsidiaries and affiliates in this category
  Non-consolidated subsidiary: Not applicable
  Affiliates: Shenzhen Tianxi E-Commerce Co., Ltd.
  Kejusi Shenzhen Technology Co., Ltd.
- Reasons for not applying the equity method
  Non-consolidated subsidiaries and affiliates not subject to equity method were excluded from the scope of equity method because they have a minor impact on the consolidated financial statements in terms of the Company's pro rata shares of net income or loss and retained earnings even if they are excluded from the scope, and have no significance as a whole.

(3) Special notes to procedures for application of equity method accounting

Since the financial closing dates of GENERATE INC. and PharmaShift Co., Ltd., equity method affiliates, are March 31, we used the financial statements based on the provisional settlement of accounts on the consolidated closing date.

(4) Fiscal years of consolidated subsidiaries

The financial closing dates of OPT SEA Pte., Ltd. and MEDIA ENGINE INC. are November 30. In preparing the consolidated financial statements, we used the financial statements based on the provisional settlement of accounts on the consolidated closing date for MEDIA ENGINE INC., whereas for OPT SEA Pte., Ltd., we used the financial statements at its closing date and significant transactions between consolidated companies before the consolidated closing date are adjusted as required for consolidation.

Other consolidated subsidiaries have the same fiscal year-end as the consolidated closing date.

(5) Matters on accounting policies

1) Valuation standards and methods for significant assets

A. Securities

Shares of subsidiaries and affiliates
Stated at cost using the moving-average method.

Available-for-sale securities (including operational investment securities)

- Those with market value:

Stated at fair value based on the market prices and the like on the fiscal year-end. (The related valuation differences are directly debited or credited to the net assets and the cost of securities sold is calculated using the moving average method.)

- Those without market value:

Stated at cost using the moving-average method.

- Investment in limited partnership for investment:

Stated at an amount calculated using the method where the amount equivalent to the Company's equity interests in the partnership is added to or subtracted from the partnership's gains or losses based on the most recent financial statements available.

B. Inventories

- Merchandise and Work in process:

Mainly stated at cost using the FIFO method. (The balance sheet value is calculated by writing down the book value based on decreased profitability.)

- Supplies:

Mainly stated at cost using the specific cost method. (The balance sheet value is calculated by writing down the book value based on decreased profitability.)

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

A. Property, plant and equipment (excluding leased assets)

Mainly subject to the declining-balance method.

However, buildings (excluding equipment attached to buildings) acquired on or after April 1, 1998 and equipment attached to buildings and structures acquired on or after April 1, 2016 are subject to the straight-line method.

The straight-line method is adopted by overseas consolidated subsidiaries. Primary useful lives are as indicated below:

Buildings and structures:	5 to 18 years.
Other:	2 to 15 years.

B. Intangible assets (excluding leased assets)

Subject to the straight-line method.

Software for internal use is subject to the straight-line method based on the period available for internal use (mainly, five years).

C. Leased assets

- Leased assets from non-ownership-transfer finance lease transactions:

Subject to the straight-line method where the lease term is the useful life, and the residual value is the guaranteed residual value if the relevant lease agreement stipulates residual value guarantee, or otherwise, residual value is zero.

3) Standards for recognition of significant allowances

A. Allowance for doubtful accounts

To prepare for losses from receivables, uncollectible amounts are estimated and recognized, for ordinary receivables, by the actual bad debt ratio based on losses in the past, or for doubtful receivables and other certain receivables, by taking into consideration the collectability of individual receivable accounts.

B. Provision for bonuses

In terms of provision for bonuses, the amount accrued in the fiscal year for the estimated payout to employees is recognized to prepare for payments of bonuses to employees.

4) Standard for translating significant assets or liabilities denominated in foreign currencies into Japanese yen

Assets and liabilities of overseas subsidiaries are translated into the Japanese yen based on the spot exchange rate as of the closing date while their earnings and expenses are translated into the Japanese yen based on the average rate. The translation differences are included in and recognized as foreign currency translation adjustment under net assets.

5) Amortization method and period for goodwill

Goodwill is regularly amortized over a reasonable period, which we estimate case-by-case based on the duration of its effect.

6) Other significant matters that form the basis of preparing consolidated financial statements

A. Accounting procedures for consumption taxes

The accounting procedures for national and local consumption taxes are subject to the tax-excluded method. Non-deductible national and local consumption taxes are expensed for the current fiscal year.

B. Application of the consolidated taxation system

The Company and its certain consolidated subsidiaries have adopted the consolidated taxation system. With respect to items subject to the review under the non-consolidated taxation system conducted to coincide with the transition to the group tax sharing system established under the “Act Partially Amending the Income Tax Act” (Act No. 8 of 2020), we have not adopted the provisions of paragraph 44 of the “Guidance on Accounting Standard for Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018) in accordance with the treatment set out in paragraph 3 of the “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (PITF No. 39, March 31, 2020). Accordingly, the amounts of deferred tax assets and deferred tax liabilities have been calculated based on the provisions of tax laws in effect before the revision.

2. Notes to additional information

(Accounting estimates relating to the impact of the spread of COVID-19)

With respect to the impact of the spread of COVID-19 on the business the Group operates, the recent operating results have been adversely affected, especially in the advertising business. The impact of COVID-19 on accounting estimates is likely to remain even after January 2021. Under such circumstances, however, the Group has been working on the development of new businesses. Based on the business plan prepared on the premise of such efforts, the Group makes accounting estimates for the recoverability of deferred tax assets.

Due to many uncertainties about the impact of the spread of COVID-19, if the future circumstances differ from the above assumption, the Group's financial position and operating results may be affected.

(Sale of shares of a material subsidiary)

The Company transferred all the shares it held in its consolidated subsidiary, relaido, Inc., effective June 30, 2020, and recognized loss on sales of investment securities of JPY 87 million under extraordinary loss. Please refer to "7. Notes to business combination, etc." for details of the sales of the shares.

3. Notes to consolidated balance sheet

(1) Breakdown of inventories

	(Yen in millions)
Merchandise	0
Work in process	9
Supplies	0

(2) Commitment line agreements and financial covenants, etc.

1) The Company has concluded loan commitment agreements with Sumitomo Mitsui Banking Corporation. The undrawn committed borrowing facilities under these agreements is as follows:

	(Yen in millions)
Total loan commitment	5,000
Undrawn committed borrowing facilities	—
Difference	5,000

The above commitment line agreements are subject to the following financial covenants:

A. The total net assets in the balance sheet of the Company at each fiscal year-end shall be equivalent to at least 60% of the total net assets in the balance sheet at the most recent fiscal year-end.

B. The sum of cash and deposits and operational investment securities in the balance sheet of the Company at each fiscal year-end and interim fiscal-year end shall be equivalent to at least 50% of the sum of cash and deposits and operational investment securities in the balance sheet at the most recent fiscal year-end.

2) The Company has concluded loan commitment agreements with Mizuho Bank, Ltd. The undrawn committed borrowing facilities under these agreements is as follows:

	(Yen in millions)
Total loan commitment	5,000
Undrawn committed borrowing facilities	—
Difference	5,000

The above commitment line agreements are subject to the following financial covenants:

A. The total net assets in the consolidated balance sheet shall be at least 50% of the total net assets in the consolidated balance sheet at the end of the fiscal year ended December 31, 2019.

(3) Syndicated loan agreement and financial covenants, etc.

The syndicated loan agreement of JPY 5,000 million (loan balance as of December 31, 2020 was JPY 750 million) concluded by the Company in August 2016 is subject to financial covenants. The requirements of the covenants are as follows:

A. The total net assets in the consolidated balance sheet at each fiscal year-end shall be equivalent to at least 75% of the total net assets in the consolidated balance sheet at the end of the fiscal year ended December 31, 2015 or equivalent to at least 75% of the total net assets in the consolidated balance sheet at the most recent fiscal year-end, whichever is higher.

B. The Group shall not report operating loss in the consolidated statement of income at each fiscal year-end for two consecutive fiscal years.

(4) Accumulated depreciation of property, plant and equipment

	(Yen in millions)
Accumulated depreciation	349

The above accumulated depreciation includes JPY 0 million of impairment loss on property, plant and equipment.

4. Notes to consolidated statement of changes in net assets

(1) Matters concerning class and total number of shares issued and class and number of treasury shares

Class of stock	As of Jan. 1, 2020	Additions	Subtractions	As of Dec. 31, 2020
Shares issued				
Common shares	23,817,700 shares	—	—	23,817,700 shares
Treasury shares				
Common shares	917,705 shares	705,990 shares	—	1,623,695 shares

(2) Matters concerning subscription rights to shares

Category	Type	Class of underlying stock	Number of shares underlying stock options				Balance as of Dec. 31, 2020 (Yen in millions)
			As of Jan. 1, 2020	Additions	Subtractions	As of Dec. 31, 2020	
Consolidated subsidiaries	Subscription rights to shares granted as stock options	Common shares	—	—	—	—	0
Total			—	—	—	—	0

(3) Matters concerning dividend

1) Amount of dividend distribution

Resolution	Class of stock	Total dividend distribution (Yen in millions)	Dividend per share (Yen)	Record date	Effective date
February 12, 2020 Board of Directors Meeting	Common shares	389	17.0	December 31, 2019	March 6, 2020

2) Dividends with a record date in the fiscal year ended December 31, 2020, but with an effective date in the following fiscal year

Scheduled resolution date	Class of stock	Dividend funding source	Total dividend distribution (Yen in millions)	Dividend per share (Yen)	Record date	Effective date
February 10, 2021 Board of Directors Meeting	Common shares	Retained earnings	776	35.0	December 31, 2020	March 5, 2021

5. Notes on financial instruments

(1) Matters concerning financial instruments

1) Policy for financial instruments

The Group invests into financial assets focusing on safety and liquidity given own cash flows and financial market conditions. When borrowing funds or otherwise raising capital, the Group takes stability, cost-efficiency and flexibility into consideration in selecting funding instruments.

The Group manages investment businesses that invest in securities for investment purposes through dedicated business units.

2) Nature of financial instruments and associated risks

Notes and accounts receivable-trade, which are trade receivables, are exposed to customer credit risk. With respect to this risk, the Group has staff that manage receivable collection schedules and receivable balances on a customer-by-customer basis and periodically assess major customers' credit status in accord with regulations regarding the Group's credit management. Trade receivables denominated in foreign currencies are exposed to currency risk. Investment securities are mainly stocks of companies with which the Company has business relationships. They are exposed to the risk of market price fluctuations. Operational investment securities and investment securities other than the aforementioned investment securities held by the Group are mainly stocks and equity interests in partnerships and other such entities. The Group holds these securities for purely investment purposes or to advance its businesses. Listed stocks among these securities are exposed to the risk of market price fluctuations. Unlisted stocks among these securities are exposed to the following two risks because unlisted companies tend to be more sensitive than listed companies to changes in the economic environment and other such developments as a result of having less stable financial and earnings foundations and being more constrained in terms of management resources.

a. The Group has no assurance of earning any capital gains from its investments.

b. The Group may incur capital losses on its investments.

Accounts payable-trade, which are trade payables, are mostly payable within one year. Trade payables denominated in foreign currencies are exposed to currency risk.

Short-term loans payable and long-term loans payable are mostly funding needed for working capital, among other purposes.

3) Risk-management regime for financial instruments

- Management of credit risk (risk associated with counterparties' contractual nonperformance, etc.)

For trade receivables, the Group conducts credit screenings when it starts doing business with a new customer, continually monitors receivables' collection status and reviews credit limits when necessary in accordance with its credit management regulations.

- Management of market risks (foreign currency risk, interest rate fluctuation risk, etc.)

For operational investment securities and other investment securities, the Group periodically checks market values and assesses the issuer's (or counterparties') financial condition and continually reviews and, as necessary, adjusts its holdings in light of market conditions and/or its relationship with the counterparty.

- Management of liquidity risk in connection with financing (risk of inability to repay borrowings on the due date)

The Group manages liquidity risk through such means as having its finance staff prepare and update cash flow schedules on a timely basis.

4) Supplemental information on the fair value of financial instruments

The fair value of financial instruments includes values based on market prices and values reasonably calculated if no market price is available. The latter calculation incorporates variables and are therefore subject to change in response to changes in underlying assumptions.

(2) Matters concerning financial instruments' fair value

The book value and fair value of financial instruments in the consolidated balance sheet as of December 31, 2020 (the consolidated balance sheet date for the current fiscal year) and their differences are as follows. The table omits financial instruments for which fair value is extremely difficult to determine (see Note 2).

(Yen in millions)

	Carrying amount in the consolidated balance sheet	Fair value	Difference
(1) Cash and deposits	27,054	27,054	—
(2) Notes and accounts receivable-trade	14,663	14,663	—
(3) Operational investment securities and investment securities	17,323	17,323	—
Total assets	59,040	59,040	—
(1) Accounts payable-trade	12,750	12,750	—
(2) Short-term loans payable	1,500	1,500	—
(3) Long-term loans payable (including current portion thereof)	9,328	9,323	(4)
Total liabilities	23,578	23,573	(4)

(Note 1) Matters concerning fair-value measurement method of financial instruments and securities

Assets

(1) Cash and deposits and (2) notes and accounts receivable-trade

Because these assets all have short-term maturities, their fair value approximates their book value. Their fair value is therefore measured at their respective book value.

(3) Operational investment securities and investment securities

As a general rule, the fair value of stocks is based on prices traded at the stock exchange.

Liabilities

(1) Accounts payable-trade and (2) short-term loans payable

Because these liabilities have short-term maturities, their fair value approximates their book value. Their fair value is therefore measured at their book value.

(3) Long-term loans payable (including current portion thereof)

The fair value of long-term loans payable is measured by discounting the total amount of principal and interest at an interest rate that incorporates a benchmark rate (e.g., government bond yield) plus a credit spread.

(Note 2) Financial instruments for which fair value is extremely difficult to determine

(Yen in millions)

Type	Carrying amount on consolidated balance sheet
Operational investment securities and investment securities*1 Unlisted stocks	4,061
Equity interests in investment limited partnerships and similar partnerships	2,647
Affiliates' shares*2 Unlisted stocks	408
Total	7,117

(*1) These financial instruments have no market prices and their fair value is extremely difficult to determine. They are therefore omitted from "(3) Operational investment securities and investment securities."

(*2) Affiliates' shares have no market prices and their fair value is extremely difficult to determine. They are therefore not included in the above table.

(Note 3) Post-reporting-date maturity schedule for monetary receivables

(Yen in millions)

Type	Within 1 year	1-5 years	5-10 years	Over 10 years
(1) Cash and deposits	27,054	—	—	—
(2) Notes and accounts receivable–trade	14,663	—	—	—
Total	41,717	—	—	—

(Note 4) Post-reporting-date repayment schedule for loans payable

(Yen in millions)

Type	Within 1 year	1-5 years	5-10 years	Over 10 years
(2) Short-term loans payable	1,500	—	—	—
(3) Long-term loans payable	1,236	8,038	42	9
Total	2,736	8,038	42	9

6. Notes to per-share information

Net assets per share	¥1,401.00
Net income per share	¥167.86

7. Notes to business combination, etc.

Business divestiture

(Sale of shares of a subsidiary)

The Board of Directors of the Company, at its meeting held on June 18, 2020, resolved to transfer all the shares the Company held in its consolidated subsidiary, relaido, Inc. (hereinafter “relaido”) to CMerTV, Inc. (hereinafter “CMerTV”) and concluded a Share Purchase and Sale Agreement with CMerTV on the same date. After that, the Company sold all the shares to CMerTV on June 30, 2020.

(1) Overview of the business divestiture

1) Name of the buyer

CMerTV, Inc.

2) Name and business description of the divested subsidiary

Name of the subsidiary: relaido, Inc.
Business description: Video advertising distribution platform business

3) Reason for the business divestiture

relaido is a wholly-owned consolidated subsidiary, which operates the video advertising distribution business to promote the supply of and support for video advertising under the Group’s Marketing Business segment. While the video advertising market in Japan is rapidly expanding, the market environment is changing day by day and the competition is getting increasingly fierce. As such, we have been seeking the possibility of collaboration with a partner with which we can expect to generate synergistic effects.

Under such circumstances, after careful consideration from various angles, we reached the conclusion that creating an environment where the Company and CMerTV, which operates the video advertising distribution platform business, work together to aim for the growth of video business will lead to the growth and enhancement of competitiveness of both companies.

4) Date of the business divestitures

June 30, 2020

5) Other matters including legal form of business divestiture

A share transfer in which consideration is limited to cash or other properties

(2) Overview of accounting treatments applied

1) Amount of gain or loss on the transfer

	(Yen in millions)
Loss on sales of investment securities	87

2) Appropriate book value and breakdown of assets and liabilities of the business transferred

The transfer price is not disclosed in accordance with the non-disclosure agreement concluded between the parties concerned. Therefore, we refrain from providing this information.

3) Accounting treatments

The difference between consolidated book value and sales price of shares in relaido is recorded as loss on sales of investment securities under extraordinary loss.

(3) Reporting segment of the divested business

Marketing Business

(4) Approximate amounts of profit or loss of the divested business included in consolidated statement of income for the fiscal year ended December 31, 2020

	(Yen in millions)
Revenue	145
Operating loss	(144)

8. Notes to significant subsequent events

(Sale of operational investment securities)

The Board of Directors of the Company, at its meeting held on February 3, 2021, resolved to sell shares the Company held in RAKSUL INC. (Securities code: 4384, First Section of the Tokyo Stock Exchange) and sold the shares on February 4, 2021 as follows:

(1) Details of the sale

1) Issue: Common shares of RAKSUL INC.
2) Number of shares sold: 2,836,100 shares
3) Number of shares held after the sales: 0 shares

(2) Future outlook

As a result of the sale of the shares, the Company will record revenue of JPY 11,355 million and operating income of JPY 9,553 million in the fiscal year ending December 31, 2021.

(Repurchase of treasury shares)

The Board of Directors of the Company, at its meeting held on February 10, 2021, resolved that the Company would repurchase its own shares pursuant to Article 156 of the Companies Act as applied pursuant to Article 165, paragraph 3 of the same act.

(1) Reason for the repurchase of treasury shares

To improve returns to shareholders by improving capital efficiency and implementing flexible capital policies

(2) Details of the repurchase

1) Class of shares to be repurchased: Common shares of the Company
2) Total number of shares to be repurchased: Up to 650,000 shares (2.93% of the total number of shares issued, excluding treasury shares)
3) Total repurchase amount: Up to JPY 1 billion
4) Period of repurchase: From February 12, 2021 to June 30, 2021
5) Method of repurchase: Market purchase on the Tokyo Stock Exchange

Reference)

Total number of shares issued and number of treasury shares as of December 31, 2020:

- Total number of shares issued (excluding treasury shares): 22,194,005 shares
- Number of treasury shares: 1,623,695 shares

Balance sheet

(As of December 31, 2020)

(Yen in millions)

Account	Amount	Account	Amount
Assets		Liabilities	
Current assets	38,117	Current liabilities	7,423
Cash and deposits	20,231	Short-term loans payable	1,000
Accounts receivable-trade	447	Current portion of long-term loans payable	1,233
Operational investment securities	15,986		
Advances paid	102	Accounts payable	416
Short-term loans receivable from subsidiaries and associates	300	Deposits received from subsidiaries and associates	3,748
Accounts receivable - other	515		
Other	712	Accrued expenses	74
Allowance for doubtful accounts	(178)	Income taxes payable	657
		Deposits received	240
Noncurrent assets	8,407	Provision for bonuses	31
Property, plant and equipment	169	Other	21
Buildings and structures	105		
Tools, furniture and fixtures	64	Noncurrent liabilities	11,559
Intangible assets	72	Long-term loans payable	8,000
Trademark right	6	Deferred tax liabilities	3,507
Software	62	Asset retirement obligations	52
Software in progress	2	Other	0
Other	1	Total liabilities	18,982
Investments and other assets	8,164	Net assets	
Investment securities	1,205	Shareholders’ equity	17,765
Shares of subsidiaries and associates	4,765	Capital stock	8,212
Investments in other securities of subsidiaries and associates	1,647	Capital surplus	3,423
		Legal capital surplus	3,423
Long-term prepaid expenses	4	Retained earnings	7,827
Lease and guarantee deposits	541	Retained earnings brought forward	7,827
Other	0	Treasury shares	(1,698)
		Valuation and translation adjustments	9,776
		Valuation difference on available-for-sale securities	9,776
		Total net assets	27,541
Total assets	46,524	Total liabilities and net assets	46,524

(Note) The amounts presented above are rounded down to the nearest whole million yen.

Statement of income

(From January 1, 2020 to December 31, 2020)

(Yen in millions)

Account	Amount	
Revenue		5,546
Cost of sales		2,505
Gross profit		3,041
Selling, general and administrative expenses		592
Operating income		2,448
Non-operating income		
Interest income	5	
Gain on investments in investment partnerships	484	
Gain on reversal of allowance for doubtful accounts	132	
Other	32	654
Non-operating expenses		
Interest expenses	25	
Commission fee	50	
Other	0	76
Ordinary income		3,026
Extraordinary income		
Gain on sales of investment securities	1,718	
Recoveries of written off receivables	100	
Gain on liquidation of subsidiaries	657	2,475
Extraordinary loss		
Loss on valuation of investment securities	67	
Loss on sales of shares of subsidiaries	292	
Loss on valuation of shares of subsidiaries	144	
Other	7	511
Net income before income taxes		4,990
Income taxes-current	924	
Income taxes-deferred	(61)	863
Net income		4,126

(Note) The amounts presented above are rounded down to the nearest whole million yen.

Statement of changes in net assets

(From January 1, 2020 to December 31, 2020)

(Yen in millions)

	Shareholders' equity				
	Capital stock	Capital surplus		Retained earnings	
		Legal capital surplus	Total capital surplus	Other retained earnings Retained earnings brought forward	Total retained earnings
Balance at beginning of year	8,212	3,423	3,423	4,089	4,089
Changes of items during period					
Dividends from surplus				(389)	(389)
Net income (loss)				4,126	4,126
Purchase of treasury shares					
Net changes of items other than shareholders' equity					
Total changes of items during the period	—	—	—	3,737	3,737
Balance at end of year	8,212	3,423	3,423	7,827	7,827

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of year	(698)	15,027	8,460	8,460	23,488
Changes of items during period					
Dividends from surplus		(389)			(389)
Net income (loss)		4,126			4,126
Purchase of treasury shares	(1,000)	(1,000)			(1,000)
Net changes of items other than shareholders' equity			1,315	1,315	1,315
Total changes of items during the period	(1,000)	2,737	1,315	1,315	4,053
Balance at end of year	(1,698)	17,765	9,776	9,776	27,541

(Note) The amounts presented above are rounded down to the nearest whole million yen.

Notes to Non-Consolidated Financial Statements

1. Notes to significant accounting policies

(1) Valuation standards and methods for significant assets

1) Valuation standards and methods for securities

A. Shares of subsidiaries and affiliates

Stated at cost using the moving-average method.

B. Available-for-sale securities (including operational investment securities)

• Those with market value:

Stated at fair value based on the market prices and the like on the fiscal year-end. (The related valuation differences are directly debited or credited to the net assets and the cost of securities sold is calculated using the moving average method.)

• Those without market value:

Stated at cost using the moving-average method.

• Investment in limited partnership for investment:

Stated at an amount calculated using the method where the amount equivalent to the Company's equity interests in the partnership is added to or subtracted from the partnership's gains or losses based on the most recent financial statements available.

(2) Depreciation/amortization methods for noncurrent assets

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

Mainly subject to the declining-balance method.

However, buildings (excluding equipment attached to buildings) acquired on or after April 1, 1998 and equipment attached to buildings and structures acquired on or after April 1, 2016 are subject to the straight-line method.

Primary useful lives are as indicated below:

Buildings and structures:	5 to 18 years
Tools, furniture and fixtures:	4 to 6 years

2) Intangible assets (excluding leased assets)

Subject to the straight-line method.

Software for internal use is subject to the straight-line method based on the period available for internal use (mainly, five years).

(3) Standards for recognition of significant allowances

1) Allowance for doubtful accounts

To prepare for losses from receivables, uncollectible amounts are estimated and recognized, for ordinary receivables, by the actual bad debt ratio based on losses in the past, or for doubtful receivables and other certain receivables, by taking into consideration the collectability of individual receivable accounts.

2) Provision for bonuses

In terms of provision for bonuses, the amount accrued in the fiscal year for the estimated payout to employees is recognized to prepare for payments of bonuses to employees.

(4) Other significant matters that form the basis of preparing financial statements

1) Accounting procedures for consumption taxes

The accounting procedures for national and local consumption taxes are subject to the tax-excluded method. Non-deductible national and local consumption taxes are expensed for the fiscal year.

2) Application of the consolidated taxation system

The Company has adopted the consolidated taxation system. With respect to items subject to the review under the non-consolidated taxation system conducted to coincide with the transition to the group tax sharing system established under the "Act Partially Amending the Income Tax Act" (Act No. 8 of 2020), we have not adopted the provisions of paragraph 44 of the "Guidance on Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) in accordance with the treatment set out in paragraph 3 of the "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (PITF No. 39, March 31, 2020). Accordingly, the amounts of deferred tax assets and deferred tax liabilities have been calculated based on the provisions of tax laws in effect before the revision.

(5) Changes to significant matters that form the basis of preparing financial statements

Not applicable

2. Notes to additional information

(Accounting estimates relating to the impact of the spread of COVID-19)

With respect to the impact of the spread of COVID-19 on the business the Company operates, the recent operating results have been adversely affected, especially in the advertising business. The impact of COVID-19 on accounting estimates is likely to remain even after January 2021. Under such circumstances, however, the Company has been working on the development of new businesses. Based on the business plan prepared on the premise of such efforts, the Company makes accounting estimates for the recoverability of deferred tax assets.

Due to many uncertainties about the impact of the spread of COVID-19, if the future circumstances differ from the above assumption, the Company's financial position and operating results may be affected.

(Sale of shares of a material subsidiary)

The Company transferred all the shares it held in its consolidated subsidiary, relaido, Inc., effective June 30, 2020, and recognized extraordinary loss of JPY 292 million. Please refer to "9. Notes to business combination, etc." in the Notes to Non-Consolidated Financial Statements for details of the sales of the shares.

3. Notes to balance sheet

(1) Commitment line agreements and financial covenants, etc.

The Company has concluded loan commitment agreements with two correspondent banks in order to secure liquidity on hand to prepare for unforeseen circumstances resulting from the impact of COVID-19 pandemic.

For details, please refer to "3. Notes to consolidated balance sheet (2) Commitment line agreements and financial covenants, etc." in the Notes to Consolidated Financial Statements.

(2) Syndicated loan agreement and financial covenants, etc.

The Company borrowed a total of JPY 5,000 million (loan balance as of December 31, 2020 was JPY 750 million) through a syndicated loan lead-managed by Sumitomo Mitsui Banking Corporation in August 2016 in order to finance business.

For details, please refer to "3. Notes to consolidated balance sheet (3) Syndicated loan agreement and financial covenants, etc." in the Notes to Consolidated Financial Statements.

(3) Monetary receivables from and monetary payables to subsidiaries and associates (excluding those presented as separate line items)

	(Yen in millions)
Short-term monetary receivables	1,560
Short-term monetary payables	198

(4) Accumulated depreciation of property, plant and equipment

	(Yen in millions)
Accumulated depreciation	258

4. Notes to statement of income

(1) Transactions with subsidiaries and associates

	(Yen in millions)
Operating transactions	
Revenue	2,800
Non-operating transactions	5

(2) Gain on liquidation of subsidiaries

Gain on liquidation of subsidiaries is resulting from the completion of the liquidation of a consolidated subsidiary Crossfinity, Inc.

5. Notes to statement of changes in net assets

Matters concerning class and number of treasury shares

Class of stock	As of Jan. 1, 2020	Additions	Subtractions	As of Dec. 31, 2020
Treasury shares				
Common shares	917,705 shares	705,990 shares	— shares	1,623,695 shares

6. Notes to deferred tax accounting matters

Breakdown of deferred tax assets and deferred tax liabilities by main cause

	(Yen in millions)
Deferred tax assets	
Allowance for doubtful accounts	54
Provision for bonuses	9
Asset retirement obligations	14
Long-term accounts receivable - other	168
Loss on valuation of investment securities	1,077
Adjustment of investments’ book value	96
Loss on liquidation of subsidiaries	92
Enterprise taxes payable	36
Loss brought forward	42
Other	53
Subtotal deferred tax assets	1,645
Valuation allowance	(837)
Total deferred tax assets	807
Deferred tax liabilities	
Valuation difference on available-for-sale securities	(4,314)
Total deferred tax liabilities	(4,314)
Net deferred tax assets	(3,507)

7. Notes to transactions with related party

(1) Subsidiaries, etc.

Type	Name of company	Address	Capital stock or equity stake (Yen in millions)	Business	Percentage of voting rights holding (held)
Subsidiary	OPT, Inc.	Chiyoda-ku, Tokyo	100	Marketing Business	100.00% (—)

Type	Name of company	Relationship with related party	Nature of transaction	Transaction amount (Yen in millions)	Account	Fiscal year-end balance (Yen in millions)
Subsidiary	OPT, Inc.	Director interlock Management involvement CMS transactions	Management consulting fee	2,133	Accounts receivable - trade	414
			Borrowing of funds via CMS (Note 2)	—	Deposits received from subsidiaries and associates	3,024
			Payment of interest (Note 3)	0	—	—

(Notes) 1. Transaction amounts do not include consumption and other taxes.
2. For borrowing transactions through the CMS (cash management system), only fiscal year-end balances are presented because balances frequently change.
3. For transaction amount, interest rates are rationally determined based on market interest rates and other relevant factors.

(2) Corporate officers and individual shareholders

Not applicable

8. Notes to per-share information

Net assets per share	¥1,240.94
Net income per share	¥184.68

9. Notes to business combination, etc.

Business divestiture

(Sale of shares of a subsidiary)
Overview of accounting treatments applied
Amount of gain or loss on the transfer

	(Yen in millions)
Loss on sales of shares of subsidiaries	292

As the content other than above is identical to that in “7. Notes to business combination, etc.” in the Notes to Consolidated Financial Statements, the information is omitted.

10. Notes to significant subsequent events

As the content is identical to that in “8. Notes to significant subsequent event” in the Consolidated Financial Statements. For details, therefore, please refer to the said item.

Certified Copy of Audit and Supervisory Committee's Audit Report

AUDIT REPORT

We, the Audit and Supervisory Committee of DIGITAL HOLDINGS, Inc. ("the Company"), have audited the performance of duties by Directors and Executive Officers during the 27th fiscal year from January 1, 2020 to December 31, 2020. We report the method and results as follows.

1. Method and details of audit

We, the Audit and Supervisory Committee, have received reports from Directors, employees and others on a regularly basis on the details of the board resolutions with respect to items prescribed in Article 399-13, paragraph 1, item i (b) and (c) of the Companies Act, and the status of the establishment and operation of the system established based on such board resolutions (internal control system), sought explanations, whenever the necessity arose, and expressed our opinions.
Additionally, we conducted audits as follows.

(1) In coordination with the Company's internal audit staff, we attended important meetings, received reports from Directors, employees and others regarding the execution of their job duties, requested explanations as needed, inspected documents, including documentation of significant decisions, and investigated the status of operations and property at the Company's Head Office and other major places of business, all in compliance with auditing standards prescribed by the Audit and Supervisory Committee and in accordance with audit policies, audit plans and an agreed-upon division of duties. We also communicated and exchanged information with subsidiaries' Directors, Auditors and other personnel and, as needed, received reports from subsidiaries on their operations.

(2) In addition to monitoring and examining whether the Accounting Auditor maintained an independent position and performed auditing appropriately, we received reports from the Accounting Auditor on the performance of its duties and requested explanations when necessary. In addition, we received notice from the Accounting Auditor that "The systems for ensuring the proper performance of duties" (set forth in each item of Article 131 of the Regulations of Corporate Financial Calculation) are organized in accordance with the "Standards for Quality Control of Audit" (Business Accounting Council, October 28, 2005) and other relevant standards, and sought explanations whenever necessity arose.

Based on the above methods, we examined the business report, financial statements (balance sheet, statement of income, statement of changes in net assets, notes to financial statements), supporting schedules, and consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in net assets and notes to consolidated financial statements) for the fiscal year under review.

2. Results of audit

(1) Results of audit of business report, etc.

i) In our opinion, the business report and accompanying schedules fairly represent the condition of the Company in accordance with the laws, regulations and Articles of Incorporation of the Company.

ii) We have determined that there were no serious occurrences of dishonest or false activity or violations of any laws, regulations or the Company's Articles of Incorporation by any Directors or Executive Officers in carrying out their duties.

iii) We believe the details of resolutions of the Board of Directors regarding the internal control system are appropriate. We found no matters of note with respect to the description on the business report as well as the execution of duties of Executive Officers regarding the internal control system.

(2) Results of audit of financial statements and accompanying schedules

In our opinion, the audit method and audit results received from the Accounting Auditor KPMG AZSA LLC are appropriate.

(3) Results of audit of consolidated financial statements

In our opinion, the audit method and audit results received from the Accounting Auditor KPMG AZSA LLC are appropriate.

February 19, 2021

Audit and Supervisory Committee of DIGITAL HOLDINGS, Inc.

Chairman of the Audit and Supervisory Committee (Full-time)	Fumiyuki Shinomiya (Seal)
Audit and Supervisory Committee member (Full-time)	Yuki Okabe (Seal)
Audit and Supervisory Committee member	Toshio Yamaue (Seal)
Audit and Supervisory Committee member	Masahiro Yamamoto (Seal)

Notes to the Reader of Audit Report:

1. The Audit Report herein is the English translation of the Audit Report as required by the Companies Act.
2. Audit and Supervisory Committee members Mr. Fumiyuki Shinomiya, Ms. Yuki Okabe, Mr. Toshio Yamaue and Mr. Masahiro Yamamoto are External Directors as provided for in Article 2, item 15 and Article 331, paragraph 6 of the Companies Act.

Reference Documents for the General Meeting of Shareholders

<Company's proposals (Proposal No. 1 and Proposal No. 2)>

Proposal No. 1: Election of Seven (7) Directors (Excluding Directors Who Are Audit and Supervisory Committee Members)

The terms of office of all the current six (6) Directors (excluding Directors who are Audit and Supervisory Committee members; the same shall apply hereinafter in this proposal) will expire at the conclusion of this Annual General Meeting of Shareholders.

In that regard, the Company proposes to increase the number of Directors by one (1) to further enhance the management system and elect seven (7) Directors.

As for this proposal, the Audit and Supervisory Committee of the Company has agreed that all the candidates are qualified to serve as Directors.

The candidates for Director are as follows:

<table>
<tr><th>Candidate No.</th><th>Name
(Date of birth)</th><th colspan="2">Career Summary and Position in the Company
(Significant concurrent positions)</th><th>Number of the Company's Shares Owned</th></tr>
<tr><td rowspan="2">1</td><td>Noboru Hachimine
(June 22, 1967)</td><td>Apr. 1991
Mar. 1994

Jun. 2016
Mar. 2017
Mar. 2020

Apr. 2020</td><td>Joined Mori Building Co., Ltd.
Established Deca Legs Ltd. (currently DIGITAL HOLDINGS, Inc.) and assumed the position as President
Outside Director, UT Group Co., Ltd. (current position)
Director, SoldOut, Inc. (current position)
Chairman, OPT Holding, Inc. (currently DIGITAL HOLDINGS, Inc.) (current position)
President and Representative Director, Digital Shift, Inc. (current position)</td><td>4,651,200</td></tr>
<tr><td colspan="4">[Reasons for nomination as candidate for Director]
Mr. Noboru Hachimine has long been demonstrating excellent leadership and driving growth in the Group's corporate value. He has been nominated because he is well-qualified to continue to build an operational foundation for the realization of sustainable Group-wide growth and to improve corporate value over the medium to long term.</td></tr>
<tr><td rowspan="2">2</td><td>Atsushi Nouchi
(December 21, 1967)</td><td>Apr. 1991
Oct. 1996
Mar. 1999
Feb. 2015

Mar. 2017
Mar. 2020</td><td>Joined Mori Building Co., Ltd.
Joined OPT, Inc. (currently DIGITAL HOLDINGS, Inc.)
Director, OPT, Inc.
CEO, OPT Ventures, Inc. (currently Bonds Investment Group, Inc.) (current position)
Vice President and Group COO, OPT Holding, Inc.
President and Group CEO, OPT Holding, Inc. (current position)</td><td>1,275,800</td></tr>
<tr><td colspan="4">[Reasons for nomination as candidate for Director]
Mr. Atsushi Nouchi is well-versed in all aspects of the Company's operations and has been driving growth in the Group's corporate value through strong leadership, decisiveness and executive capabilities. He has been nominated because he is well-qualified to continue to build an operational foundation for the realization of sustainable Group-wide growth and to improve corporate value over the medium to long term.</td></tr>
<tr><td rowspan="2">3</td><td>*
Daisuke Kanazawa
(September 4, 1980)</td><td>Sep. 2005
Jan. 2008
Jan. 2010
Apr. 2013
Apr. 2015

Apr. 2017

Apr. 2019
Apr. 2020</td><td>Joined OPT, Inc.
General Manager of Sales Department, OPT, Inc.
General Manager of Sales Division, OPT, Inc.
Executive Officer, OPT, Inc.
President, Representative Director and CEO, OPT, Inc. (current position)
Senior Executive Officer, OPT Holding, Inc. (currently DIGITAL HOLDINGS, Inc.)
Group Executive Officer, OPT Holding, Inc. (current position)
Director, OptDigital, Inc. (current position)</td><td>49,300</td></tr>
<tr><td colspan="4">[Reasons for nomination as candidate for Director]
Mr. Daisuke Kanazawa has been engaged in marketing throughout his career since he joined OPT, Inc. in 2005 and has long been leading the execution of operations in the Company's core business domains through strong leadership, decisiveness and executive capabilities by serving in such positions as Representative Director at OPT, Inc. and Group Executive Officer of the Company. He has been newly nominated for Director because he is considered to be the best qualified for the position of Chief Operating Officer (COO) in order for the Group to achieve a target of corporate value of JPY 1 trillion in the future.</td></tr>
</table>

Candidate No.	Name (Date of birth)	Career Summary and Position in the Company (Significant concurrent positions)	Number of the Company's Shares Owned
4	Shusaku Minoda (July 20, 1951)	Apr. 1974 Joined The Industrial Bank of Japan (currently Mizuho Bank, Ltd.) Jun. 1998 Manager of Business Promotion Arrangement Office, Mizuho Bank, Ltd. Apr. 2000 Manager of Syndication, Mizuho Bank, Ltd. Apr. 2002 Manager of Syndication, Mizuho Corporate Bank (currently Mizuho Bank, Ltd.) Apr. 2004 Managing Executive Officer, Supervisor of Syndicated Finance Business Unit, Supervisor of Syndicated Finance & Loan Trading Compliance, and Group Supervisor, Mizuho Bank, Ltd. Apr. 2006 Managing Executive Officer, Supervisor of Global Syndication Unit and Global Products Unit, Mizuho Bank, Ltd. Jul. 2007 Managing Director and Co-Chief Executive Officer, Kohlberg Kravis Roberts & Co. (KKR) Japan Sep. 2007 Director, KKR Capital Markets (KCM) Jan. 2008 President, KKR Japan Apr. 2009 Director, Toys“R”US Japan May 2013 Chairman, KKR Japan Sep. 2014 Company Advisor, OPT Holding,Inc. (currently DIGITAL HOLDINGS, Inc.) Mar. 2015 Director, OPT Holding,Inc. (current position)	10,000
	[Reasons for nomination as candidate for Director] Mr. Shusaku Minoda has vast experience in the financial sector both in Japan and overseas. He also possesses extensive experience and broad insight as a high-ranking corporate executive. He has been nominated to offer opinions and advice to the Company's management from various perspectives.		
5	Tomoyuki Mizutani (August 16, 1964)	Apr. 1988 Joined Recruit Co., Ltd. (currently Recruit Holdings Co., Ltd.) Apr. 1997 Editor-in-Chief, “Tech Being” Apr. 2001 Editor-in-Chief, “Recruit Navi Career” (currently “RikuNavi NEXT”) Apr. 2002 Editor-in-Chief, “Being” (Kanto region edition) Apr. 2004 Corporate Executive Officer (responsible for Human Resource (HR) Division) of Recruit Holdings Co., Ltd. Apr. 2006 Director, Recruit HR Marketing Co., Ltd. (currently Recruit Jobs Co., Ltd.) Apr. 2007 Director and Corporate Executive Officer (responsible for HR, administration, corporate communication) of Recruit Holdings Co., Ltd. Apr. 2011 President, Recruit Agent Co., Ltd. Oct. 2012 First President, Recruit Career Co., Ltd. Apr. 2015 Advisor, Recruit Holdings Co., Ltd. Apr. 2016 Advisor, Japan Executive Search and Recruitment Association (current position) Mar. 2017 External Director, OPT Holding,Inc. (currently DIGITAL HOLDINGS, Inc.) (current position)	10,000
	[Reasons for nomination as candidate for Director] Mr. Tomoyuki Mizutani has spent much of his career at Recruit Co., Ltd. (currently Recruit Holdings Co., Ltd.), mainly in the HR business domain. He was active in multiple high-ranking executive positions, including as a Corporate Executive Officer (responsible for HR Division) at Recruit and the first President of Recruit Career Co., Ltd. Outside of the Recruit Group, he has been active in a wide range of activities with HR and societal-contribution themes, including cultivation of social entrepreneurs. In addition to such extensive experience, he possesses broad insight. He has been nominated to offer opinions and advice to ensure appropriate, sound management decision-making from an independent and objective standpoint.		

<table>
<tr><th>Candidate No.</th><th>Name
(Date of birth)</th><th colspan="2">Career Summary and Position in the Company
(Significant concurrent positions)</th><th>Number of the Company's Shares Owned</th></tr>
<tr><td rowspan="2">6</td><td>Koji Yanagisawa
(May 19, 1971)</td><td>Apr. 1995
May 1999

May 2005
Feb. 2006

Jun. 2008

Apr. 2009
Dec. 2015
Apr. 2017

Mar. 2020</td><td>Joined The Fuji Bank, Limited (currently Mizuho Bank, Ltd.)
Joined NTT DATA INSTITUTE OF MANAGEMENT CONSULTING, Inc.
Joined Mizuho Securities Co., Ltd.
Full-time Statutory Auditor, START TODAY CO., LTD. (currently ZOZO, Inc.)
Director and General Manager of Strategic Planning and Business Administration Division, START TODAY CO., LTD.
Director and CFO, START TODAY CO., LTD.
External Director, COLOPL, Inc. (current position)
Director, Executive Vice President & CFO, START TODAY CO., LTD. (current position)
External Director, OPT Holding,Inc. (currently DIGITAL HOLDINGS, Inc.) (current position)</td><td>0</td></tr>
<tr><td colspan="4">[Reasons for nomination as candidate for Director]
With his experience as CFO and others at a growing company, Mr. Koji Yanagisawa possesses broad insight in overall business administration centered on accounting, finance, IR, legal affairs, and corporate governance. He has been nominated to offer opinions and advice to ensure appropriate, sound management decision-making from an independent and objective standpoint.</td></tr>
<tr><td rowspan="2">7</td><td>Yasuhiro Ogino
(September 29, 1973)</td><td>Aug. 2005
Jan. 2008

Jun. 2008
Dec. 2008

Dec. 2009
Nov. 2011

Feb. 2012
Jun. 2012
May 2017
Apr. 2018
Mar. 2020

Apr. 2020</td><td>Joined Macromill, Inc.
Executive Officer (in charge of Finance and Accounting Headquarters), Macromill, Inc.
Joined J-Magic K.K.
Director, CFO, General Manager of Administration Management Division, J-Magic K.K.
Joined mixi, Inc.
Executive General Manager of the Administrative Headquarter, mixi, Inc.
Executive Officer, mixi, Inc.
Director, mixi, Inc.
Representative Director, SMART HEALTH Inc.
Executive Officer, mixi, Inc.
External Director, OPT Holding,Inc. (currently DIGITAL HOLDINGS, Inc.) (current position)
Director and CFO, OCT Inc. (currently ANDPAD Inc.) (current position)</td><td>0</td></tr>
<tr><td colspan="4">[Reasons for nomination as candidate for Director]
With his experience as CFO and others at growing companies, Mr. Yasuhiro Ogino possesses abundant insight in overall business administration centered on business development and M&A. He has been nominated to offer opinions and advice to ensure appropriate, sound management decision-making from an independent and objective standpoint.</td></tr>
</table>

(Notes)
1. New candidates for Director are indicated by an asterisk (*).
2. None of the candidates has any special interests in the Company or vice versa.
3. Messrs. Tomoyuki Mizutani, Koji Yanagisawa and Yasuhiro Ogino are External Director candidates.
4. Mr. Tomoyuki Mizutani is currently an External Director of the Company; he will have served as an External Director for four years as of the conclusion of the 27th Annual General Meeting of Shareholders. Messrs. Koji Yanagisawa and Yasuhiro Ogino will have served as External Directors for one year as of the conclusion of the said meeting.
5. If Messrs. Shusaku Minoda, Tomoyuki Mizutani, Koji Yanagisawa and Yasuhiro Ogino are reappointed, the Company plans to renew each of the existing agreements with them pursuant to the provisions of Article 427, paragraph 1 of the Companies Act. The agreements limit their liability for damages under Article 423, paragraph 1 of the Companies Act to the minimum liability stipulated in Article 425, paragraph 1 of the same act.
6. The Company has concluded Directors and Officers liability insurance (D&O insurance) contracts, under which corporate officers of the Company and its subsidiaries and their spouses or legal heirs are the insured. The D&O insurance contracts cover the insured against loss caused by compensation claim and the like filed in connection with the execution of duties by the insured during the coverage period. The insurance premiums are fully paid by the Company.
7. Messrs. Tomoyuki Mizutani, Koji Yanagisawa and Yasuhiro Ogino meet the independent director requirements of the Tokyo Stock Exchange, Inc. If reappointed, they will continue to serve as independent directors.
8. The number of the Company's shares owned by Mr. Noboru Hachimine includes 4,651,200 shares owned by HIBC Co., Ltd., an asset management company wholly owned by Mr. Hachimine.
9. The number of the Company's shares owned by Mr. Atsushi Nouchi includes 390,800 shares owned by Time & Space, an asset management company wholly owned by Mr. Nouchi.

Proposal No. 2: Revision of Remuneration, etc. related to Performance-based Monetary Remuneration, etc. for Executive Directors

The amount of remuneration, etc. for Directors (excluding Directors who are Audit and Supervisory Committee members) of the Company was approved to be up to JPY 200 million per year (not including employee salaries for Directors who concurrently serve as employees) at the 22nd Annual General Meeting of Shareholders held on March 25, 2016. Also, at the 24th Annual General Meeting of Shareholders held on March 29, 2018, the amount of remuneration, etc. paid separately from the amount of the aforementioned remuneration, etc. to Directors (excluding Outside Directors and Directors who are Audit and Supervisory Committee members) to award restricted stock grants was approved to be up to JPY 550 million per year (not including employee salaries for Directors who concurrently serve as employees).

This time, as part of the revision of the remuneration system for corporate officers, the Company proposes to introduce a new performance-based monetary remuneration plan for Executive Directors of the Company (hereinafter the “Plan”), separately from the aforementioned amounts of previously approved remuneration, etc. for Directors. The purpose of this Plan is to offer Executive Directors of the Company incentives connected to the Company’s three fiscal years between the fiscal years ending December 31, 2021 and 2023 in order to increase their motivation to contribute to improving business performance over the medium to long term, as well as to further promote shared value with shareholders.

Subject to the approval and adoption of this proposal as proposed, the Company will abolish the provisions concerning the amount of remuneration, etc. paid to award restricted stock grants and no longer award restricted stock grants in accordance with the provisions concerning the amount of such remuneration, etc., except for grants already awarded.

The calculation and payment procedures for the performance-based monetary remuneration to be paid to Executive Directors of the Company under this Plan are described below. The total remuneration amount shall be up to JPY 600 million per year, which is deemed reasonable by comprehensively considering the aforementioned purpose as well as various factors such as contributions to the Company made by its Executive Directors. However, because the performance-based monetary remuneration under this Plan will be paid collectively as remuneration for the fiscal year following the respective fiscal year linked to the incentive, in practice, the total amount of the performance-based monetary remuneration to be paid to the Company’s Executive Directors under this Plan will be equivalent to up to JPY 200 million per fiscal year. The total amount of the performance-based monetary remuneration under this Plan shall not include employee salaries for Directors who concurrently serve as employees.

The Audit and Supervisory Committee of the Company considers the content of this Plan appropriate as the decisions on the payment of the performance-based monetary remuneration under this Plan were made by comprehensively considering various factors such as contributions to the Company made by its Executive Directors.

The Company currently has two (2) Executive Directors. If Proposal No. 1 “Election of Seven (7) Directors (Excluding Directors Who Are Audit and Supervisory Committee Members)” is approved and adopted as proposed, the Company will have three (3) Executive Directors. However, the performance-based monetary remuneration will not be paid to Mr. Noboru Hachimine under this Plan.

Calculation and payment procedures for the performance-based monetary remuneration

1. Payment conditions

   (1) The remuneration shall be paid on condition that the market capitalization of the Company (*) will be at least (i) JPY 200 billion or (ii) JPY 150 billion at one point during a period from the first date of taking office as a Director for each Executive Director after the conclusion of this General Meeting of Shareholders to the end of the fiscal year ending December 31, 2023 (hereinafter the "Applicable Period").

   * The "market capitalization of the Company" indicates the amount to be calculated using the following formula on a given day during the Applicable Period:

     (Total number of shares of the Company's common stock issued – Number of treasury shares of common stock held by the Company) × Closing price of ordinary transactions of the Company's common stock on the Tokyo Stock Exchange

   (2) The remuneration shall not be paid if an Executive Director loses his/her position determined by the Board of Directors of the Company or dies during the Applicable Period.

2. Payment amount

   The following amount, up to the limit of JPY 600 million per year in total, shall be paid under this Plan.

   - If the payment condition described in 1. (1) (i) above is met, the amount shall be fourfold the amount of fixed monetary remuneration to be paid to each Executive Director as a Director of the Company in the first fiscal year of taking office as a Director during the Applicable Period.
   - If the payment condition described in 1. (1) (ii) above is met (except in cases where the payment condition described in 1. (1) (i) above is met), the amount shall be four-thirds (4/3) of the amount of fixed monetary remuneration to be paid to each Executive Director as a Director of the Company in the first fiscal year of taking office as a Director during the Applicable Period (the amount shall be rounded down to the nearest whole number).

     Provided, however, that if the first fiscal year of taking office as a Director during the Applicable Period is either the fiscal year ending December 31, 2022 or 2023, the amount shall be two-thirds (2/3) or one-third (1/3) of either of the above applicable amounts, respectively (the amount shall be rounded down to the nearest whole number).

<Shareholder's proposal (Proposal No. 3)>

Proposal No. 3 is a proposal submitted by a shareholder LIM Japan Event Master Fund (hereinafter the "Proposing Shareholder").

We quote herein the original text of the outline of and the reasons for such proposal submitted in writing by the Proposing Shareholder in relation to the exercise of shareholder's right to make a proposal. The opinion of the Board of Directors of the Company on the shareholder's proposal is also included herein following the shareholder's proposal.

Proposal No. 3: Partial Amendments to the Articles of Incorporation

1. Outline of the proposal

We propose to establish a new Chapter and Article in the Articles of Incorporation of the Company as follows:

(Underlines denote amendments)

Current Articles of Incorporation	Proposed Amendments
(Newly established)	Chapter VIII Control of Listed Subsidiaries Article 43 (Control of Listed Subsidiaries) With regard to listed subsidiaries that the Company controls as a parent company, in order to review whether it is appropriate to maintain them as listed subsidiaries from the perspective of maximizing the corporate value and improving capital efficiency of the entire Group, the Company shall deliberate on matters concerning such subsidiaries at the Board of Directors meeting and disclose, among other things, the details of such deliberations in a Corporate Governance Report to be submitted to a financial instruments exchange. The matters to be deliberated by the Board of Directors are as follows: (1) whether the Company has ensured the effectiveness of its governance structure; (2) whether the Company has secured a system that enables it to collect information necessary to manage risks of the entire Group and make prior discussion thereon based on the premise that independent decision-making by its listed subsidiaries is guaranteed; and (3) whether there is any rational reason for maintaining such subsidiaries as listed subsidiaries (including review on consistency with the Group-wide business portfolio strategy, and on whether benefits from maintaining them as listed subsidiaries exceed associated restrictions and costs).

2. Reasons for the proposal

According to a press release issued by a listed subsidiary of the Company SoldOut, Inc. (hereinafter, "SoldOut") on July 21, 2020, an employee of SoldOut was arrested for being involved in a violation of the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices. The series of media reports over the case said that the employee had been arrested on suspicion of involvement in an illegal advertorial for the efficacy of health foods. It was nothing less than a scandal that would tarnish the credibility of the Group, whose core business is marketing, and its major customers and possibly adversely affect its corporate value.

The Proposing Shareholder believes that the cause of this scandal was mainly rooted in the malfunction of group governance between the Company and SoldOut, which are in the so-called "parent-child listing" relationship. The Company, which has dispatched its officer to the subsidiary as a director, should be held accountable for failing to supervise its subsidiary as the parent company. SoldOut's customer base and services it offers differ from those of the Company. As such, in the first place, it is questionable whether there is any synergistic effect in keeping such a subsidiary under the Group. If the Company intends to concentrate its management resources on the "digital shift" business, it should give a serious consideration, from the perspective of the "Group-wide business portfolio strategy," to whether it should maintain SoldOut as its listed subsidiary.

Accordingly, the Proposing Shareholder proposes to amend the Company's Articles of Incorporation based on the belief that, in order to enhance the Company's corporate value and improve its group governance, it is necessary to urge the Company to perform a regular "review" to assess whether to maintain its listed subsidiaries, as proposed in a report by the "Corporate Governance System Study Group (2nd Term)" compiled by the Ministry of Economy, Trade and Industry on June 28, 2019, and incorporate the provisions on a system to ensure the Company's accountability for the results of such a review to shareholders in the Articles of Incorporation of the Company.

[Opinion of the Board of Directors of the Company on Proposal No. 3]

The Company's Board of Directors is <u>opposed to Proposal No. 3</u>.
With regard to last year's arrest of an employee of the Company's listed subsidiary SoldOut, Inc. (hereinafter "SoldOut") on suspicion of involvement in an illegal advertorial for the efficacy of health foods, we believe that although SoldOut has its own system to make management decisions and perform risk management independently as a listed company, the Company, as its parent company holding the majority of its voting rights, should have provided employees of the Group companies with more thorough education on compliance. From now on, subject to the approval at the general meeting of shareholders of SoldOut, the Company will dispatch additional one (1) officer to the subsidiary as an auditor to strengthen its system to collect information necessary for risk management and make prior discussion thereon. In addition, SoldOut itself has been working on strengthening its governance system by increasing the percentage of outside directors in its board of directors to clarify its supervisory function on business execution. We have been discussing whether the Company should maintain SoldOut as its listed subsidiary at great length. The focus of the Company's Group-wide business portfolio strategy lies on shifting its core from the Marketing Business to the Digital Shift-related Businesses. As such, what we have to do now is to keep a close eye on SoldOut's recently announced growth strategy and how it will be implemented in the future. In the first place, the Proposing Shareholder's proposal merely calls for securing the Group-wide risk management system, reviewing whether to maintain listed subsidiaries and disclosing the details thereof, and therefore, is not contradictory to the Company's efforts and approach mentioned above. Of course, the Company will continue to comply with the "Practical Guidelines for Group Governance Systems," which is also mentioned by the Proposing Shareholder. However, matters to be considered on the governance of listed subsidiaries in terms of both business portfolio strategy and risk management are not limited to what the guidelines require. Thus, we believe that the Company should make flexible and agile decisions, rather than stipulating in its Article of Incorporation in a uniform and fixed manner, on the details of such matters, including what to disclose and the timing and method of disclosure, and after careful consideration by the Board of Directors, taking into account dialogue with our shareholders and investors, disclose them through various means of disclosure such as Corporate Governance Report. We have therefore reached the conclusion that it is not appropriate to establish the new provisions in the Article of Incorporation of the Company in accordance with the shareholder's proposal.