

FINANCIAL SECTION

CONSOLIDATED BALANCE SHEETS

MEDIA DO Co., Ltd. (Formerly, MEDIA DO HOLDINGS Co., Ltd.) and its consolidated subsidiaries

As of February 29, 2020 and February 28, 2019

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Assets			
Current assets			
Cash and deposits (Notes 4 and 17)	¥ 8,090	¥ 7,747	\$ 73,925
Accounts receivable - trade (Note 4)	16,022	12,313	146,417
Other	878	1,159	8,019
Allowance for doubtful accounts	(1)	(1)	(8)
Total current assets	24,989	21,218	228,353
Non-current assets			
Property, plant and equipment			
Buildings	331	349	3,022
Tools, furniture and fixtures	369	778	3,369
Other	14	21	134
Accumulated depreciation	(373)	(638)	(3,408)
Total property, plant and equipment	341	510	3,117
Investments and other assets			
Goodwill (Notes 3 and 18)	5,416	5,807	49,493
Investment securities (Notes 4 and 5)	2,504	2,376	22,885
Shares of associates (Note 4)	455	526	4,154
Guarantee deposits (Note 4)	322	335	2,945
Software	262	193	2,392
Software in progress	38	100	344
Long-term prepaid expenses	5	14	42
Deferred tax assets (Note 10)	166	110	1,518
Allowance for doubtful accounts	(498)	(337)	(4,547)
Other	63	91	577
Total investments and other assets	8,733	9,215	79,803
Total assets	¥34,063	¥30,943	\$311,273

The accompanying notes are an integral part of these financial statements.

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Liabilities			
Current liabilities			
Accounts payable - trade (Note 4)	¥18,248	¥14,481	\$166,754
Current portion of long-term borrowings (Notes 4 and 6)	1,663	1,323	15,195
Income taxes payable	519	357	4,746
Provision for bonuses	203	196	1,853
Provision for point certificates	47	45	426
Provision for bonuses for directors and other officers	—	5	0
Provision for loss on business liquidation	16	—	143
Provision for loss on office closings	—	14	0
Other (Note 6)	700	1,141	6,406
Total current liabilities	21,396	17,562	195,523
Non-current liabilities			
Long-term borrowings (Notes 4 and 6)	6,579	8,740	60,117
Retirement benefit liability (Note 7)	—	54	—
Provision for retirement benefits for directors and other officers	—	39	—
Deferred tax liabilities (Note 10)	177	10	1,618
Other (Note 6)	73	76	665
Total non-current liabilities	6,829	8,919	62,400
Total liabilities	28,225	26,481	257,923
Net assets (Note 11)			
Shareholders' equity			
Share capital (Note 11)	1,900	1,651	17,356
Capital surplus	2,779	2,546	25,392
Retained earnings	665	(90)	6,077
Treasury shares (Note 11)	(1)	(0)	(6)
Total shareholders' equity	5,343	4,107	48,819
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	443	255	4,055
Foreign currency translation adjustment	6	7	50
Total accumulated other comprehensive income	449	262	4,105
Share acquisition rights (Note 8)	48	72	443
Non-controlling interests	(2)	21	(17)
Total net assets	5,838	4,462	53,350
Total liabilities and net assets	¥34,063	¥30,943	\$311,273

The accompanying notes are an integral part of these financial statements.

FINANCIAL SECTION

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

MEDIA DO Co., Ltd. (Formerly, MEDIA DO HOLDINGS Co., Ltd.) and its consolidated subsidiaries

Years ended February 29, 2020 and February 28, 2019

Consolidated Statements of Income

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Net sales	¥65,860	¥50,568	\$601,846
Cost of sales	59,169	44,829	540,698
Gross profit	6,691	5,739	61,148
Selling, general and administrative expenses (Note 12)	4,837	4,271	44,208
Operating profit (Note 18)	1,854	1,468	16,940
Other income (expenses)			
Interest and dividend income	10	12	90
Subsidy income	27	51	245
Share of profit of entities accounted for using equity method	—	20	—
Interest expenses and sales discounts	(42)	(49)	(387)
Provision for allowance for doubtful accounts	(9)	—	(84)
Share of loss of entities accounted for using equity method	(68)	—	(619)
Loss on investments in investment partnership	(1)	(6)	(13)
Gain on sales of non-current assets (Note 13)	1	12	5
Gain on reversal of share acquisition rights	1	4	11
Gain on sales of investment securities	295	9	2,696
Gain on bargain purchase	—	85	—
Loss on retirement of non-current assets (Note 14)	(24)	(11)	(217)
Loss on valuation of investment securities	(180)	(1,217)	(1,647)
Special provision of allowance for doubtful accounts	(151)	(337)	(1,384)
Impairment loss (Note 15)	(56)	(484)	(508)
Special amortization of goodwill (Note 3)	—	(260)	0
Loss on sale of businesses	(32)	—	(294)
Provision for loss on business liquidation	(16)	—	(143)
Other	(9)	(6)	(70)
Profit (loss) before income taxes	1,600	(709)	14,621
Income taxes - current	696	544	6,359
Income taxes - deferred	28	(4)	258
Total income taxes	724	540	6,617
Profit (loss)	876	(1,249)	8,004
Profit (loss) attributable to non-controlling interests	(9)	(6)	(82)
Profit (loss) attributable to owners of parent	¥ 885	¥ (1,243)	\$ 8,086

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Comprehensive Income

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Profit (loss)	¥ 876	¥(1,249)	\$8,004
Other comprehensive income (Note 16)			
Valuation difference on available-for-sale securities	188	199	1,719
Foreign currency translation adjustment	(1)	(2)	(13)
Total other comprehensive income	187	197	1,706
Comprehensive income	1,063	(1,052)	9,710
Comprehensive income attributable to:			
Owners of parent	¥1,072	¥(1,046)	\$9,792
Non-controlling interests	(9)	(6)	(82)

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

MEDIA DO Co., Ltd. (Formerly, MEDIA DO HOLDINGS Co., Ltd.) and its consolidated subsidiaries

Years ended February 29, 2020 and February 28, 2019

	Millions of yen				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at March 1, 2018	¥ 928	¥1,831	¥ 1,273	¥(0)	¥4,032
Changes during period					
Issuance of new shares - exercise of share acquisition rights	518	517			1,035
The issuance of restricted shares	34	34			68
Dividends of surplus			(120)		(120)
Profit (loss) attributable to owners of parent			(1,243)		(1,243)
Purchase of treasury shares				(0)	(0)
Increase by share exchanges	171	164			335
Change in ownership interest of parent due to transactions with non-controlling interests		(0)			(0)
Net changes in items other than shareholders' equity					—
Total changes during period	723	715	(1,363)	(0)	75
Balance at February 28, 2019	¥1,651	¥2,546	¥ (90)	¥(0)	¥4,107
Changes during period					
Issuance of new shares - exercise of share acquisition rights	249	249			498
The issuance of restricted shares					
Dividends of surplus			(130)		(130)
Profit (loss) attributable to owners of parent			885		885
Purchase of treasury shares				(1)	(1)
Increase by share exchanges					
Change in ownership interest of parent due to transactions with non-controlling interests		(16)			(16)
Net changes in items other than shareholders' equity					—
Total changes during period	249	233	755	(1)	1,236
Balance at February 29, 2020	¥1,900	¥2,779	¥ 665	¥(1)	¥5,343

	Millions of yen					
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income	Share acquisition rights	Non-controlling interests	Total net assets
Balance at March 1, 2018	¥ 56	¥ 9	¥ 65	¥100	¥ 22	¥ 4,219
Changes during period						
Issuance of new shares - exercise of share acquisition rights						1,035
The issuance of restricted shares						68
Dividends of surplus						(120)
Profit (loss) attributable to owners of parent						(1,243)
Purchase of treasury shares						(0)
Increase by share exchanges						335
Change in ownership interest of parent due to transactions with non-controlling interests						(0)
Net changes in items other than shareholders' equity	199	(2)	197	(28)	(1)	168
Total changes during period	199	(2)	197	(28)	(1)	243
Balance at February 28, 2019	¥255	¥ 7	¥262	¥ 72	¥ 21	¥ 4,462
Changes during period						
Issuance of new shares - exercise of share acquisition rights						498
The issuance of restricted shares						
Dividends of surplus						(130)
Profit (loss) attributable to owners of parent						885
Purchase of treasury shares						(1)
Increase by share exchanges						
Change in ownership interest of parent due to transactions with non-controlling interests						(16)
Net changes in items other than shareholders' equity	188	(1)	187	(24)	(23)	140
Total changes during period	188	(1)	187	(24)	(23)	1,376
Balance at February 29, 2020	¥443	¥ 6	¥449	¥ 48	¥ (2)	¥ 5,838

	Thousands of U.S. dollars (Note 1)				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at February 28, 2019	\$15,083	\$23,265	\$ (825)	\$(3)	\$37,520
Changes during period					
Issuance of new shares - exercise of share acquisition rights	2,273	2,273			4,546
The issuance of restricted shares					
Dividends of surplus			(1,184)		(1,184)
Profit (loss) attributable to owners of parent			8,086		8,086
Purchase of treasury shares				(3)	(3)
Increase by share exchanges					
Change in ownership interest of parent due to transactions with non-controlling interests		(146)			(146)
Net changes in items other than shareholders' equity					—
Total changes during period	2,273	2,127	6,902	(3)	11,299
Balance at February 29, 2020	\$17,356	\$25,392	\$ 6,077	\$(6)	\$48,819

	Thousands of U.S. dollars (Note 1)					
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income	Share acquisition rights	Non-controlling interests	Total net assets
Balance at February 28, 2019	\$2,336	\$ 63	\$2,399	\$ 658	\$ 191	\$40,768
Changes during period						
Issuance of new shares - exercise of share acquisition rights						4,546
The issuance of restricted shares						
Dividends of surplus						(1,184)
Profit (loss) attributable to owners of parent						8,086
Purchase of treasury shares						(3)
Increase by share exchanges						
Change in ownership interest of parent due to transactions with non-controlling interests						(146)
Net changes in items other than shareholders' equity	1,719	(13)	1,706	(215)	(208)	1,283
Total changes during period	1,719	(13)	1,706	(215)	(208)	12,582
Balance at February 29, 2020	\$4,055	\$ 50	\$4,105	\$ 443	\$(17)	\$53,350

The accompanying notes are an integral part of these financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

MEDIA DO Co., Ltd. (Formerly, MEDIA DO HOLDINGS Co., Ltd.) and its consolidated subsidiaries

Years ended February 29, 2020 and February 28, 2019

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Cash flows from operating activities			
Profit (loss) before income taxes	¥ 1,600	¥ (709)	\$ 14,621
Depreciation	345	401	3,153
Amortization of goodwill	462	781	4,225
Gain on bargain purchase	—	(85)	—
Increase in allowance for doubtful accounts	161	336	1,468
Increase in provision for bonuses	31	51	282
Increase in provision for point certificates	2	3	19
Interest and dividend income	(10)	(12)	(90)
Subsidy income	(27)	(51)	(244)
Interest expenses	42	49	387
Impairment loss	56	484	508
Gain on sales of investment securities	(295)	(7)	(2,696)
Loss on valuation of investment securities	180	1,217	1,647
Loss on investments in investment partnerships	1	6	13
Share of loss (profit) of entities accounted for using equity method	68	(20)	619
Gain on reversal of share acquisition rights	(1)	(4)	(11)
Increase in trade receivables	(3,843)	(3,698)	(35,122)
(Decrease) increase in advances received	(6)	25	(55)
Decrease (increase) in inventories	44	(57)	405
Increase in prepaid expenses	(26)	(43)	(237)
Decrease in long-term prepaid expenses	8	10	73
Increase in trade payables	3,756	4,610	34,321
Increase in accounts payable - other	66	65	600
(Decrease) increase in deposits received	(511)	378	(4,667)
Increase (decrease) in accrued consumption taxes	68	(32)	620
Increase in consumption taxes refund receivable	(223)	(155)	(2,037)
Other, net	40	(396)	367
Subtotal	1,988	3,147	18,169
Interest and dividends received	11	4	100
Subsidies received	22	32	204
Interest paid	(41)	(49)	(382)
Income taxes paid	(556)	(676)	(5,083)
Income taxes refund	505	—	4,616
Net cash provided by (used in) operating activities	1,929	2,458	17,624
Cash flows from investing activities			
Purchase of property, plant and equipment	(25)	(129)	(233)
Purchase of intangible assets	(303)	(366)	(2,766)
Proceeds from sales of investment securities	333	13	3,046
Purchase of investment securities	(86)	(68)	(784)
(Payments for) proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	(27)	26	(249)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	32	—	291
Purchase of shares of subsidiaries and associates	—	(13)	—
Proceeds from sale of businesses	5	—	46
Payments of guarantee deposits	(13)	(2)	(123)
Refund of guarantee deposits received	9	57	79
Other, net	(2)	0	(15)
Net cash provided by (used in) investing activities	(77)	(482)	(708)
Cash flows from financing activities			
Proceeds from long-term borrowings	—	1,200	—
Repayments of long-term borrowings	(1,822)	(2,523)	(16,650)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(30)	—	(271)
Proceeds from issuance of shares resulting from exercise of share acquisition rights	475	1,011	4,341
Proceeds from issuance of restricted shares	—	68	—
Dividends paid	(130)	(120)	(1,184)
Purchase of treasury shares	(0)	(0)	(3)
Net cash provided by (used in) financing activities	(1,507)	(364)	(13,767)
Effect of exchange rate change on cash and cash equivalents	(2)	7	(19)
Net increase (decrease) in cash and cash equivalents	343	1,619	3,130
Cash and cash equivalents at beginning of period	7,747	5,686	70,795
Increase in cash and cash equivalents resulting from share exchanges	—	442	—
Cash and cash equivalents at end of period (Note 17)	¥ 8,090	¥ 7,747	\$ 73,925

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MEDIA DO Co., Ltd. (Formerly, MEDIA DO HOLDINGS Co., Ltd.) and its consolidated subsidiaries

Years ended February 29, 2020 and February 28, 2019

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of MEDIA DO Co., Ltd. (the "Company," formerly, MEDIA DO HOLDINGS Co., Ltd.) and its consolidated subsidiaries (collectively, the "Group") have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards ("IFRS").

The accompanying consolidated financial statements have been reformatted and translated into English with some expanded explanations from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act.

As explained in Note 22 "Significant Subsequent Events," on June 1, 2020, the Company merged with the former MEDIA DO Co., Ltd., its consolidated subsidiary, in an absorption-type merger with the Company as the surviving company. Further, the Company changed its business name to MEDIA DO Co., Ltd. on the same date. Please see Note 22 "Significant Subsequent Events" for details.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at February 29, 2020, which was ¥109.43 to U.S.\$1.00. The translations should not be construed as representations of what the Japanese yen amounts have been, could have been or could in the future be when converted into U.S. dollars at this or any other rate of exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation

Consolidated financial statements include the accounts of the Company and 10 significant subsidiaries and two associates accounted for by the equity method.

Under the control or influence concept, those companies in which the Company, either directly or indirectly, is able to exercise control over operations are consolidated, and those companies over which the Company has the ability to exercise significant influence are accounted for using the equity method. Investment in one associate which is not accounted for by the equity method is excluded from the scope of the equity method since profit or loss (for the holding interest) and retained earnings (for the holding interest) are insignificant, and the impact is insignificant as a whole.

Two of the Company's subsidiaries have a fiscal year-end of December 31. Significant transactions occurring from January 1 to February 28/29 are adjusted in these consolidated financial statements.

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Significant subsidiaries and associates as of February 29, 2020 are as follows:

Company name	Share capital (Millions of yen)	Ownership interest (%)	Main business
Consolidated subsidiaries:			
The former MEDIA DO Co., Ltd.	100	100.0 (Direct)	eBook agency
Digital Publishing Initiatives Japan Co., Ltd.	10	100.0 (Direct)	Copyright management
MEDIA DO INTERNATIONAL, INC.	(Thousands of U.S. dollars) 2,473	100.0 (Direct)	eBook agency
Flier Inc.	71	100.0 (Direct)	Text summary site operation
ARTRA ENTERTAINMENT INC.	10	100.0 (Direct)	Coloring, eComics
MEDIA DO TECH TOKUSHIMA Co., Ltd.	45	100.0 (Direct)	Operation outsourcer
J-Comic Terrace Corporation	95	70.5 (Direct)	Online eBook distribution
JIVE Ltd.	10	100.0 (Direct)	Planning, editing, publishing, and sales of books and magazines
MyAnimeList, LLC.	(Thousands of U.S. dollars) 1,246	100.0 (Indirect)	Anime/manga community site operation
MangaNews Inc.	11	100.0 (Direct)	Manga review site operation
Associates accounted for by the equity method:			
A.I. Squared, Inc.	186	20.1 (Direct)	Various IT services and consulting using artificial intelligence (AI)
TEC INFORMATION CORP.	230	25.0 (Direct)	Software development

LINE Book Distribution Inc., an associate of the Company, is not accounted for by the equity method due to insignificance.

As stated in Note 21 "Business Combinations," on March 1, 2019 the Company carried out an absorption-type merger between its wholly owned subsidiaries: the former Digital Publishing Initiatives Japan Co., Ltd. (the former "DPIJ") as the surviving company and the former MEDIA DO Co., Ltd. as the dissolving company. On the same date, the former DPIJ changed its business name to the former MEDIA DO Co., Ltd. Further, on the same date, the Company established a new wholly-owned company named Digital Publishing Initiatives Japan Co., Ltd. as shown on the list above.

(b) Securities

Equity securities issued by subsidiaries and associates which are not consolidated nor accounted for by the equity method are stated at moving-average cost. Available-for-sale securities with readily available market values are stated at market value based on the average prices for a period of one month before the balance sheet date. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Costs of securities sold are determined by the moving-average method.

Available-for-sale securities with no readily available market values are stated at moving-average cost. Investment in partnerships is stated at the amount equivalent to the holding share of the partnerships' assets.

(c) Property, plant and equipment (excluding leased assets)

Property, plant and equipment of the Group are carried at cost. Depreciation is mainly computed using the straight-line method. The useful lives of major assets are as follows:

Buildings	8 to 18 years
Tools, furniture and fixtures	3 to 10 years

(d) Intangible assets (excluding leased assets)

Internal-use software is amortized using the straight-line method over a useful life of 3 to 5 years. Capitalized digital content is amortized using the straight-line method over a useful life of 1 to 2 years.

(e) Leased assets

Leased assets under finance lease transactions which do not transfer ownership to the lessee are depreciated to a residual value of zero based on the straight-line method over a useful life period corresponding to the lease contract period.

(f) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at the amount determined based on the historical experience of bad debt with respect to ordinary receivables and an estimate of uncollectible amounts determined by reference to specific doubtful receivables of customers experiencing financial difficulties.

For the years ended February 29, 2020 and February 28, 2019, the Company provided provisions for its holding convertible bond-type bonds with share acquisition rights at the amount deemed to be uncollectible, and recorded as special provision for allowance for doubtful accounts in the consolidated statements of income.

(g) Provision for point certificates

As to the amount of points purchased in advance by customers to download or view content, the provision for point certificates is provided for the balance of unused points at the fiscal year-end at the amount of points expected to be used in the future.

(h) Provision for bonuses

The provision for employees' bonuses is provided at the estimated amounts which the Company is obligated to pay to employees after the fiscal year-end based on services provided for the year.

(i) Provision for loss on business liquidation

Certain domestic consolidated subsidiaries provide the provision for loss on business liquidation based on a reasonable estimate.

(j) Translation of foreign currencies

Available-for-sale securities denominated in foreign currencies are translated into Japanese yen at the year-end spot exchange rates, and translation differences are included in valuation difference on available-for-sale securities under net assets.

The balance sheets of overseas consolidated subsidiaries are translated into Japanese yen at the spot exchange rate on the year-end closing date except that net assets accounts are translated at historical rates and the statements of income are translated at the average exchange rate for the fiscal year. Translation differences are included in foreign currency translation adjustment under net assets.

(k) Goodwill

Goodwill is amortized equally within a period of 5 to 20 years by the straight-line method.

(l) Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments, generally with original maturities of three months or less that are readily convertible into known amounts of cash and are not exposed to significant risk of changes in value.

(m) Consumption taxes

The accounting method for national and local consumption taxes is based on the tax-exclusive method.

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(n) Accounting standards and guidance issued but not yet applied

“Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 29, March 31, 2020) and “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 31, 2020)

(1) Overview

The International Accounting Standards Board (“IASB”) and the Financial Accounting Standards Board (“FASB”) in the United States conducted a joint project to clarify the comprehensive principles for recognizing revenues and published the “Revenue from Contracts with Customers” (IFRS 15 by IASB and Topic 606 by FASB) in May 2014. IFRS 15 will be applied from a fiscal period beginning on or after January 1, 2018 and Topic 606 will be applied from a fiscal period beginning on or after December 15, 2017. Under these circumstances, ASBJ also developed a comprehensive accounting standard for revenue recognition and published a new standard together with its implementation guidance.

As a basic policy for the development of the new standard, ASBJ determined to adopt the core principles of IFRS 15 to enhance the comparability of financial statements, which is one of the benefits of ensuring consistency with IFRS 15. In addition, for any practical issue to be considered in Japan, ASBJ is supposed to add alternative treatment to the extent that comparability is not impaired.

(2) Scheduled date of adoption

The Company expects to adopt the aforementioned standard and guidance from the beginning of the year ending February 28, 2023.

(3) Effect of adoption

The effect of adoption of the aforementioned standard and guidance on the Company’s consolidated financial statements is under evaluation.

“Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30, July 4, 2019) and “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, July 4, 2019)

(1) Overview

IASB and FASB provide detailed guidance on fair value measurements that is almost identical (IFRS 13 by IASB and Topic 820 by FASB). In order to improve comparability with the provisions of these international accounting standards, ASBJ has developed accounting standards for the calculation of fair value, which have been published along with the applicable guidelines.

The basic policy of ASBJ in developing accounting standards for the calculation of fair value is to basically incorporate all the provisions of IFRS 13 to improve the comparability of financial statements between domestic and foreign companies by using a uniform calculation method. However, in consideration of the practices that have been taken in Japan, other treatments for individual items are to be prescribed to the extent that they do not significantly impair comparability between financial statements.

(2) Scheduled date of adoption

The Company expects to adopt the aforementioned standard and guidance from the beginning of the year ending February 28, 2023.

(3) Effect of adoption

The effect of adoption of the aforementioned standard and guidance on the Company’s consolidated financial statements is under evaluation.

(o) Change in presentation

Upon application of “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) from the beginning of the year ended February 29, 2020, the Company and its subsidiaries changed the presentation of deferred tax assets and deferred tax liabilities, such that deferred tax assets and deferred tax liabilities are classified as part of “Investments and other assets” and “non-current liabilities,” respectively.

As a result, ¥132 million of deferred tax assets, which was previously included in “Other” under “Current assets,” is included in “Deferred tax assets” under “Investments and other assets” in the consolidated balance sheets.

3. GOODWILL

Goodwill arises from the acquisition of interests in subsidiaries and associates. Most of the Company’s goodwill resulted from the acquisition of the former DPIJ in March 2017. The amortization of goodwill is included in selling, general and administrative expenses.

For the year ended February 28, 2019, in connection with recognizing loss on valuation of investments in associates on its unconsolidated financial statements, the Company recorded lump-sum special amortization of goodwill in the amount of ¥260,433 thousand in accordance with the “Practical Guideline for Consolidation Procedures for Preparation of Consolidated Financial Statements” (Paragraph 32, Report No. 7, Accounting System Committee of the Japanese Institute of Certified Public Accountants, last revised on November 28, 2014).

4. FINANCIAL INSTRUMENTS

(a) Qualitative information on financial instruments

(1) Policy for financial instruments

The Group invests excess funds other than those necessary for its business operations in highly stable financial instruments such as short-term bank deposits. As a policy, the Group finances funds by bank loans.

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

Operating receivables such as accounts receivable–trade are exposed to credit risk. To mitigate such risk, the Group reviews customers’ credit status by monitoring their credit conditions in accordance with the credit management rules, while monitoring the due dates and balances by customer.

Investment securities mainly consist of shares of companies with business relationships or capital tie-ups. The Group has a policy to hold them in the medium-to-long term. The Group regularly reviews the issuers’ financial conditions and continuously evaluates the holding status taking the business relationship into account.

Operating payables such as accounts payable–trade are mostly due within three months and exposed to liquidity risk. The Group manages such risk by preparing the cash management plan on a monthly basis and checking account balances on a daily basis.

Long-term borrowings are mainly made for the purpose of mergers and acquisitions. They are variable interest rate borrowings and exposed to interest rate fluctuation risk.

In addition, there is a risk that the Company may be required to make early repayments of certain borrowings due to infringement of financial covenants.

(3) Concentration of credit risk of financial instruments

As of February 29, 2020, over 60.0% of operating receivables are from five major customers.

(4) Supplemental information on fair values of financial instruments

Fair values of financial instruments include values based on market prices and values which are reasonably calculated in case market prices are not readily available. Since certain assumptions are used for the calculation, values may vary when different assumptions are applied.

FINANCIAL SECTION

(b) Fair values of financial instruments

	Millions of yen		
	2020		
	Carrying value	Fair value	Difference
1) Cash and deposits	¥ 8,090	¥ 8,090	¥—
2) Accounts receivable–trade	16,022	16,022	—
3) Investment securities			
Available-for-sale securities	767	767	—
Total assets	¥24,879	¥24,879	¥—
1) Accounts payable–trade	¥18,248	¥18,248	¥—
2) Long-term borrowings, including current portion	8,241	8,241	—
Total liabilities	¥26,489	¥26,489	¥—

	Millions of yen		
	2019		
	Carrying value	Fair value	Difference
1) Cash and deposits	¥ 7,747	¥ 7,747	¥—
2) Accounts receivable–trade	12,313	12,313	—
3) Investment securities			
Available-for-sale securities	658	658	—
Total assets	¥20,718	¥20,718	¥—
1) Accounts payable–trade	¥14,481	¥14,481	¥—
2) Long-term borrowings, including current portion	10,063	10,063	—
Total liabilities	¥24,544	¥24,544	¥—

	Thousands of U.S. dollars		
	2020		
	Carrying value	Fair value	Difference
1) Cash and deposits	\$ 73,925	\$ 73,925	\$—
2) Accounts receivable–trade	146,417	146,417	—
3) Investment securities			
Available-for-sale securities	7,007	7,007	—
Total assets	\$227,349	\$227,349	\$—
1) Accounts payable–trade	\$166,754	\$166,754	\$—
2) Long-term borrowings, including current portion	75,312	75,312	—
Total liabilities	\$242,066	\$242,066	\$—

Notes: 1. Fair value measurement of financial instruments

Assets:

1) Cash and deposits and 2) Accounts receivable–trade

The carrying value is deemed as the fair value since it is scheduled to be settled in a short period of time.

3) Investment securities

The fair value is based on the price at securities exchanges.

Liabilities:

1) Accounts payable–trade

The carrying value is deemed as the fair value since it is scheduled to be settled in a short period of time.

2) Long-term borrowings, including current portion

The fair value approximates the carrying value since these borrowings bear variable interest rates which reflect market rates in a short period of time. Thus, the carrying value is deemed as the fair value. The current portion of long-term borrowings is included in long-term borrowings.

2. The following financial instruments are not included in the table above since their fair value is extremely difficult to determine.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Investment securities:			
Unlisted securities	¥ 270	¥ 236	\$ 2,464
Convertible bond-type bonds with share acquisition rights	1,468	1,481	13,413
Shares of associates	455	526	4,154
Guarantee deposits	322	334	2,945

With regard to unlisted securities, convertible bond-type bonds with share acquisition rights and shares of associates, their market prices are not readily available and it is extremely difficult to determine their fair value.

As to guarantee deposits, their future cash flows cannot be estimated and it is extremely difficult to determine their fair value.

(c) The redemption schedule for monetary claims

	Millions of yen			
	2020			
	Due within 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
1) Cash and deposits	¥ 8,090	¥—	¥—	¥—
2) Accounts receivables–trade	16,022	—	—	—
Total	¥24,112	¥—	¥—	¥—

	Millions of yen			
	2019			
	Due within 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
1) Cash and deposits	¥ 7,747	¥—	¥—	¥—
2) Accounts receivables–trade	12,313	—	—	—
Total	¥20,060	¥—	¥—	¥—

	Thousands of U.S. dollars			
	2020			
	Due within 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
1) Cash and deposits	\$ 73,925	\$—	\$—	\$—
2) Accounts receivables–trade	146,417	—	—	—
Total	\$220,342	\$—	\$—	\$—

Please see Note 6 “Long-Term Borrowings and Lease Obligations,” for long-term borrowings.

5. SECURITIES

(a) Available-for-sale securities

Securities with carrying values exceeding acquisition costs

	Millions of yen			Millions of yen		
	2020			2019		
	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
1) Equity securities	¥ 588	¥ 23	¥565	¥ 324	¥ 45	¥279
2) Bonds						
Corporate bonds	1,027	957	70	1,041	957	84
3) Other	—	—	—	52	50	2
Total	¥1,615	¥980	¥635	¥1,417	¥1,052	¥365

FINANCIAL SECTION

Thousands of U.S. dollars

	2020		
	Carrying value	Acquisition cost	Difference
1) Equity securities	\$ 5,370	\$ 208	\$5,162
2) Bonds			
Corporate bonds	9,383	8,742	641
3) Other	—	—	—
Total	\$14,753	\$8,950	\$5,803

Securities with carrying values not exceeding acquisition costs

Millions of yen

	2020			2019		
	Carrying value	Acquisition cost	Difference	Carrying value	Acquisition cost	Difference
1) Equity securities	¥275	¥1,675	¥(1,400)	¥435	¥1,652	¥(1,217)
2) Bonds						
Corporate bonds	441	441	—	441	441	—
3) Other	174	180	(6)	83	88	(5)
Total	¥890	¥2,296	¥(1,406)	¥959	¥2,181	¥(1,222)

Thousands of U.S. dollars

	2020		
	Carrying value	Acquisition cost	Difference
1) Equity securities	\$2,507	\$15,304	\$(12,797)
2) Bonds			
Corporate bonds	4,030	4,030	—
3) Other	1,594	1,648	(54)
Total	\$8,131	\$20,982	\$(12,851)

(b) Available-for-sale securities sold

Millions of yen

	2020			2019		
	Sales proceeds	Gain	Loss	Sales proceeds	Gain	Loss
Equity securities	¥333	¥292	¥—	¥7	¥9	¥2

Thousands of U.S. dollars

	2020		
	Sales proceeds	Gain	Loss
Equity securities	\$3,046	\$2,671	\$—

(c) Impairment loss on securities

For the year ended February 29, 2020, the Company recognized an impairment loss of ¥180 million (\$1,647 thousand) on investment securities (available-for-securities).

For the year ended February 28, 2019, the Company recognized an impairment loss of ¥1,529 million on investment securities (available-for-sale securities: ¥1,217 million and shares of subsidiaries and associates: ¥312 million).

For securities whose fair value is extremely difficult to determine, an impairment loss is recognized when their actual value significantly declines due to deterioration of financial conditions or other reasons after taking into account collectibility.

6. LONG-TERM BORROWINGS AND LEASE OBLIGATIONS

Long-term borrowings as of February 29, 2020 and February 28, 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unsecured long-term borrowings, weighted-average interest rates of 0.44% and 0.46% in 2020 and 2019, maturing through 2027	¥8,242	¥10,063	\$75,312
Less: amounts due within one year	1,663	1,323	15,195
Long-term borrowings	¥6,579	¥ 8,740	\$60,117

Lease obligations, maturing through 2021, are included in "Other" under current liabilities and non-current liabilities as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Amount included in Other under current liabilities	¥3	¥3	\$27
Amount included in Other under non-current liabilities	1	4	11

The redemption schedule for long-term borrowings and lease obligations

Millions of yen

	2020					
	Due within 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Long-term borrowings	¥1,663	¥1,174	¥1,019	¥1,000	¥1,000	¥2,386
Lease obligations	3	1	—	—	—	—

Thousands of U.S. dollars

	2020					
	Due within 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Long-term borrowings	\$15,195	\$10,726	\$9,313	\$9,135	\$9,135	\$21,808
Lease obligations	27	11	—	—	—	—

7. RETIREMENT BENEFITS

(a) Outline of the retirement benefit plan

The Company and certain consolidated subsidiaries have adopted the defined contribution plan. Certain consolidated subsidiaries participate in the Smaller Enterprise Retirement Allowance Mutual Aid ("SERAMA") Scheme.

A consolidated subsidiary, which had the defined benefit plan applying the simplified method, was excluded from the scope of consolidation in the year ended February 29, 2020.

(b) Defined benefit plan applying the simplified method

(1) Movement in retirement benefit liability for plans applying the simplified method

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at beginning of the year	¥ 54	¥—	\$ 491
Retirement benefit expenses	4	—	35
Increase due to newly consolidated subsidiaries	—	54	—
Decrease due to exclusion from consolidation	(58)	—	(526)
Balance at end of the year	¥ —	¥54	\$ —

FINANCIAL SECTION

(2) Reconciliation from retirement benefit obligation and plan assets to retirement benefit liability

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Funded retirement benefit obligation	¥—	¥54	\$—
Plan assets	—	(0)	—
Retirement benefit liability at end of the year	—	54	—
Retirement benefit liability	—	54	—
Retirement benefit liability at end of the year	¥—	¥54	\$—

(3) Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Retirement benefit expenses calculated using the simplified method	¥4	¥—	\$35

(c) Defined contribution plan

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Contributions paid to the defined contribution plan	¥25	¥22	\$225
Contributions paid to SERAMA	11	15	104
Total	¥36	¥37	\$329

8. STOCK OPTIONS

The Company adopts stock options as a strong incentive for management and employees to perform at a higher level, which will rapidly improve corporate value of the Company in the fast-growing eBook market. For each stock option, the vesting condition and exercise period are strategically determined in detail, with consultation of an independent third-party professional, based on the very high-level performance target in a short run.

The following summarizes the status of the Company's stock options.

(a) Outline of stock options

	2012 stock option	2013 stock option	2015 stock option
	The 8th share acquisition rights	The 10th share acquisition rights	The 14th share acquisition rights
Date of resolution	Board of Directors' meeting held on February 20, 2012	General shareholders' meeting held on May 22, 2012 Board of Directors' meeting held on February 15, 2013	Board of Directors' meeting held on July 22, 2015
Grantee	3 directors of the Company 2 auditors of the Company 39 employees of the Company	14 employees of the Company	3 directors of the Company 6 employees of the Company
Number of stock options by class of shares (Note 1)	Common share 384,000 shares	Common share 88,000 shares	Common share 50,000 shares
Date of grant	February 25, 2012	February 25, 2013	August 10, 2015
Exercise period	From February 26, 2014 to February 25, 2022	From February 26, 2015 to February 25, 2023	From May 31, 2018 to August 9, 2023

	2016 treasury stock option	2016 stock option	2017 stock option
	The 15th share acquisition rights	The 16th share acquisition rights	The 17th share acquisition rights
Date of resolution	Board of Directors' meeting held on April 7, 2016	Extraordinary shareholders' meeting held on October 28, 2016	Extraordinary shareholders' meeting held on July 31, 2017
Grantee	FIBC Co., Ltd. (Note 2)	5 directors of the Company 5 auditors of the Company 1 external collaborator	4 directors of the Company 15 employees of the Company 2 directors of subsidiaries 12 employees of subsidiaries FIBC Co., Ltd. (Note 2)
Number of stock options by class (Note 1)	Common share 1,059,000 shares	Common share 1,500,000 shares	Common share 496,500 shares
Date of grant	April 25, 2016	November 16, 2016	August 17, 2017
Exercise period	From April 26, 2016 to April 25, 2019	From March 1, 2019 to June 30, 2019	From June 1, 2020 to December 30, 2020

Notes: 1. The number of stock options presents the number of respective shares. For 2012 and 2013 stock options, the number of shares is calculated after the stock splits carried out on September 14, 2013 (100-for-1), March 1, 2014 (2-for-1), and December 1, 2014 (2-for-1).
2. FIBC Co., Ltd. is an asset management company held by Yasushi Fujita, President and Chief Executive Officer of the Company.

(b) Number of stock options and treasury stock options

	2012 stock option	2013 stock option	2015 stock option
	The 8th share acquisition rights	The 10th share acquisition rights	The 14th share acquisition rights
Non-vested (shares)			
February 28, 2019 – Outstanding	—	—	46,000
Granted	—	—	—
Expired	—	—	—
Vested	—	—	46,000
February 29, 2020 – Outstanding	—	—	—
Vested (shares)			
February 28, 2019 – Outstanding	6,400	6,800	—
Vested	—	—	—
Exercised	—	—	2,000
Expired	1,200	—	—
February 29, 2020 – Outstanding	5,200	6,800	44,000

	2016 treasury stock option	2016 stock option	2017 stock option
	The 15th share acquisition rights	The 16th share acquisition rights	The 17th share acquisition rights
Non-vested (shares)			
February 28, 2019 – Outstanding	—	1,493,500	487,500
Granted	—	—	—
Expired	—	—	11,500
Vested	—	1,493,500	—
February 29, 2020 – Outstanding	—	—	476,000
Vested (shares)			
February 28, 2019 – Outstanding	338,500	—	—
Vested	—	—	—
Exercised	338,500	1,493,500	—
Expired	—	—	—
February 29, 2020 – Outstanding	—	—	—

The number of stock options expired in the table shows the actual number of stock options expired, since it is difficult to estimate the number of stock options which will expire in the future on a reasonable basis.

For unexercised and expired stock options, the Company recognized a gain on reversal of share acquisition rights in the amounts of ¥1 million (\$11 thousand) and ¥4 million for the years ended February 29, 2020 and February 28, 2019, respectively.

FINANCIAL SECTION

(c) Price of options

	2012 stock option The 8th share acquisition rights		2013 stock option The 10th share acquisition rights		2015 stock option The 14th share acquisition rights	
	Yen	U.S. dollars	Yen	U.S. dollars	Yen	U.S. dollars
Exercise price	¥250	\$2.28	¥250	\$2.28	¥1,843	\$16.84
Average stock price at exercise	—		—		3,830	35.00
Fair value on the date of grant	—		—		10.00	0.09

	2016 treasury stock option The 15th share acquisition rights		2016 stock option The 16th share acquisition rights		2017 stock option The 17th share acquisition rights	
	Yen	U.S. dollars	Yen	U.S. dollars	Yen	U.S. dollars
Exercise price	¥1,388	\$12.68	¥ 1	\$ 0.01	¥ 850	\$7.77
Average stock price at exercise	2,973	27.17	3,205	29.29	—	—
Fair value on the date of grant	33.03	0.30	7.50	0.07	100.87	0.92

Regarding 2012 and 2013 stock options, the prices are calculated after the stock splits carried out on September 14, 2013 (100-for-1), March 1, 2014 (2-for-1), and December 1, 2014 (2-for-1). In addition, the fair values on the date of grant are not reasonably estimated for these stock options since the Company's shares have not yet listed at the stock exchange on the grant date of 2012 and 2013 stock options. Thus, for these stock options, the fair value on the date of grant presents the intrinsic value of respective option.

According to ASBJ Statement No. 8, the intrinsic value for an unlisted company's stock option is calculated by subtracting an exercise price from the value of the company's shares. The Company applied both the transaction-based approach and the discounted cash flow ("DCF") method to estimate the value of the Company's shares on the date of grant. As a result, the estimated value of the Company's shares was equal to the paid-in amount upon exercise of the share acquisition rights; therefore, the intrinsic value resulted in zero. Thus, the fair value of stock options is to be zero.

The breakdown of share acquisition rights on the consolidated balance sheets is as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Share acquisition rights as stock option	¥48	¥61	\$443
Share acquisition rights as treasury stock option	—	11	—
Total	¥48	¥72	\$443

9. ASSET RETIREMENT OBLIGATIONS

The Company recognizes asset retirement obligations primarily related to future restoration obligation under real estate leases for buildings such as offices.

The Company calculates its asset retirement obligations by assuming the occupancy period to be 2 to 10 years and applying discount rates of 0.0% to 0.6%.

Changes in asset retirement obligations, included in "Other" under current liabilities, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Balance at beginning of the year	¥64	¥ 58	\$582
Increase due to acquisition of property, plant and equipment	—	27	—
Adjustments due to the passage of time	0	0	0
Decrease due to performance of asset retirement obligations	—	(21)	—
Balance at end of the year	¥64	¥ 64	\$582

10. INCOME TAXES

Significant components of deferred tax assets and liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Excess depreciation	¥ 58	¥ 97	\$ 530
Accrued enterprise tax	32	24	294
Loss on valuation of investment securities and investments in associates	603	508	5,509
Asset retirement obligations	20	20	178
Provision for point certificates	14	15	130
Provision for bonuses	64	62	589
Excess allowance for doubtful accounts	163	114	1,488
Tax loss carryforwards	280	291	2,558
Impairment loss	30	—	277
Other	26	7	232
Subtotal	1,290	1,138	11,785
Valuation allowance	(1,091)	(908)	(9,970)
Total deferred tax assets	199	230	1,815
Deferred tax liabilities:			
Cost capitalized corresponding to asset retirement obligations	(14)	(16)	(124)
Valuation difference on available-for-sale securities	(196)	(113)	(1,790)
Other	0	(1)	0
Total deferred tax liabilities	(210)	(130)	(1,914)
Net deferred tax assets	¥ (11)	¥ 100	\$ (99)

(a) Reconciliation between the statutory tax rate and the effective tax rate

	2020	2019
Statutory tax rate	30.6%	—%
Adjustments:		
Permanent differences such as entertainment expenses	0.1	—
Inhabitants' tax	0.6	—
Amortization of goodwill	7.1	—
Share of loss of entities accounted for using equity method	1.3	—
Change in valuation allowance	7.0	—
Gain on sales of investment securities	1.5	—
Loss on valuation of investment securities	(3.3)	—
Other	0.1	—
Effective tax rate	45.2%	—%

11. NET ASSETS

Under the Companies Act of Japan ("the Act"), the entire amount paid for new shares is required to be designated as share capital. However, a company may, by resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus. The legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

The Act provides that an amount equal to at least 10% of the amount to be disbursed as distributions of capital surplus (other than additional paid-in capital) and retained earnings (other than legal earnings reserve) be transferred to additional paid-in capital and the legal earnings reserve, respectively, until the total of additional paid-in capital and the legal earnings reserve equals 25% of the share capital account.

Such distributions can be made at any time by resolution of the shareholders' meeting, or by resolution of the Board of Directors if certain conditions are met.

FINANCIAL SECTION

Under the Act, additional paid-in capital and the legal earnings reserve may not be distributed as dividends; the Act allows all additional paid-in capital and all legal earnings reserve to be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

The following tables summarize the dividends paid for the years ended February 29, 2020 and February 28, 2019:

2020							
Resolution	Class of share	Total amount of dividends		Dividends per share		Record date	Effective date
		(Millions of yen)	(Thousands of U.S. dollars)	(Yen)	(U.S. dollars)		
Board of Directors' meeting held on April 25, 2019	Common share	¥130	\$1,184	¥10.50	\$0.10	February 28, 2019	May 13, 2019

2019							
Resolution	Class of share	Total amount of dividends		Dividends per share		Record date	Effective date
		(Millions of yen)	(Yen)	(U.S. dollars)	(U.S. dollars)		
Board of Directors' meeting held on April 26, 2018	Common share	¥120		¥10.50		February 28, 2018	May 15, 2018

Dividends with a record date during the year ended February 29, 2020, but with an effective date subsequent to the year ended February 29, 2020, are as follows:

Resolution	Class of share	Total amount of dividends		Source	Dividends per share		Record date	Effective date
		(Millions of yen)	(Thousands of U.S. dollars)		(Yen)	(U.S. dollars)		
Board of Directors' meeting held on April 23, 2020	Common share	¥184	\$1,684	Retained earnings	¥13.0	\$0.12	February 29, 2020	May 12, 2020

As of February 29, 2020 and February 28, 2019, the number of the Company's authorized shares is 44,329,600 share. The following table summarizes the number of shares of common shares, issued and outstanding, and treasury shares:

	Number of shares	
	2020	2019
Common shares, issued and outstanding:		
At the beginning of the year	12,341,100	11,389,200
Increase due to exercise of stock options	1,834,000	762,100
Increase due to issuance of new shares in connection with the share exchange with Tokushima Data Service Co., Ltd.	—	161,900
Increase due to issuance of new shares in connection with granting shares with certain transfer restrictions	—	27,900
At the end of the year	14,175,100	12,341,100
Treasury shares:		
At the beginning of the year	152	89
Increase due to purchase of odd lot shares	1,684	63
At the end of the year	1,836	152

12. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Major items of selling, general and administrative expenses are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Salaries and wages	¥1,189	¥959	\$10,868
Commissions	967	745	8,836
Retirement benefit expenses	31	29	280
Amortization of goodwill	462	781	4,225
Bonuses and provision for bonuses	330	257	3,019

13. GAIN ON SALES OF NON-CURRENT ASSETS

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Digital content	¥—	¥12	\$—
Buildings	1	0	5
Total	¥ 1	¥12	\$ 5

14. LOSS ON RETIREMENT OF NON-CURRENT ASSETS

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Software	¥ 0	¥ 7	\$ 3
Software under development	22	2	195
Tools, furniture and fixtures	0	2	0
Leased assets	2	—	19
Total	¥24	¥11	\$217

15. IMPAIRMENT LOSS

For the years ended February 29, 2020 and February 28, 2019, the Company recognized an impairment loss as follows:

For the year ended February 29, 2020

Company	Location	Use of assets	Type	Millions of yen	Thousands of U.S. dollars
The former MEDIA DO Co., Ltd.	Head Office, Chiyoda-ku, Tokyo	Business assets	Tools, furniture and fixtures	¥56	\$508

As the profitability of these assets has declined due to its limited useful life, the Company reduced its book value to zero and recognized the amount of ¥56 million (\$508 thousand) as an impairment loss.

For the year ended February 28, 2019

Company	Location	Use of assets	Type	Millions of yen
The former MEDIA DO Co., Ltd.	Head Office, Chiyoda-ku, Tokyo	Business assets	Software under development	¥314
The former DPIJ	Head Office, Chiyoda-ku, Tokyo	Business assets	Software under development	170

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As there is no longer a plan for future use of these assets, the Company reduced its book value to zero and disposed them. Thus, the total amount of ¥484 million was recognized as an impairment loss.

The Group classifies its holding assets primarily based on the grouping used for managerial accounting purposes.

Measuring the recoverable amount at the value of use, the Company deems the recoverable amount to be zero since the values measured based on the future cash flows were zero for the assets impaired for the years ended February 29, 2020 and February 28, 2019.

16. OTHER COMPREHENSIVE INCOME

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Valuation difference on available-for-sale securities:			
Amounts incurred for the year	¥ 405	¥(221)	\$ 3,702
Reclassification adjustments	(134)	508	(1,225)
Before tax effect adjustment	271	287	2,477
Tax effect	(83)	(88)	(758)
Valuation difference on available-for-sale securities	188	199	1,719
Foreign currency translation adjustment:			
Amounts incurred for the year	(1)	(2)	(13)
Other comprehensive income, total	¥ 187	¥ 197	\$ 1,706

17. CASH FLOW STATEMENTS

Reconciliations of cash and cash equivalents in the consolidated statements of cash flows to accounts and amounts in the accompanying consolidated balance sheets as of February 29, 2020 and February 28, 2019, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cash and deposits	¥8,090	¥7,747	\$73,925
Time deposits with maturity in excess of three months	—	—	—
Cash and cash equivalents	¥8,090	¥7,747	\$73,925

For the year ended February 29, 2020, MyAnimeList, LLC. and JIVE Ltd. newly became consolidated subsidiaries of the Company due to share acquisition. The breakdown of assets and liabilities at the beginning of consolidation and the reconciliation between the acquisition cost and the amount paid for the acquisition is as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2020	2020
MyAnimeList, LLC.			
Current assets	¥ 103		\$ 941
Non-current assets	1		10
Goodwill	29		269
Current liabilities	(12)		(113)
Acquisition cost of a newly consolidated subsidiary due to share acquisition	121		1,107
Balance of cash and cash equivalents of the newly consolidated subsidiary	(101)		(920)
Difference: Amount paid for the acquisition	¥ (20)		\$ (187)

	Millions of yen		Thousands of U.S. dollars
	2020	2020	2020
JIVE Ltd.			
Current assets	¥ 5		\$ 46
Goodwill	2		17
Current liabilities	(1)		(5)
Acquisition cost of a newly consolidated subsidiary due to share acquisition	6		58
Difference: Amount paid for the acquisition	¥(6)		\$(58)

For the year ended February 29, 2020, the Company sold all shares of Tokushima Data Service Co., Ltd. to TEC INFORMATION CORP., an associate of the Company. The breakdown of assets and liabilities at the time of sale and the reconciliation between the sale price and net proceeds from the sale is as follows:

	Millions of yen	Thousands of U.S. dollars
	2020	2020
Tokushima Data Service Co., Ltd.		
Current assets	¥ 580	\$5,298
Non-current assets	47	428
Current liabilities	(102)	(929)
Non-current liabilities	(98)	(893)
Gain on sales of investment securities	3	25
Sale price	430	3,929
Balance of cash and cash equivalents	(398)	(3,638)
Difference: Net proceeds from the sale	¥ 32	\$ 291

For the year ended February 28, 2019, J-Comic Terrace Corporation and Tokushima Data Service Co., Ltd. newly became consolidated subsidiaries of the Company due to share acquisition. The breakdown of assets and liabilities at the beginning of consolidation and the reconciliation between the acquisition cost and net proceeds from the acquisition is as follows:

	Millions of yen
	2019
J-Comic Terrace Corporation	
Current assets	¥ 47
Non-current assets	1
Gain on bargain purchase	(25)
Current liabilities	(13)
Non-current liabilities	—
Non-controlling interests	(10)
Acquisition cost of a newly consolidated subsidiary due to share acquisition	0
Balance of cash and cash equivalents of the newly consolidated subsidiary	(26)
Difference: Net proceeds from the acquisition	¥ 26

	Millions of yen
	2019
Tokushima Data Service Co., Ltd.	
Current assets	¥ 579
Non-current assets	72
Gain on bargain purchase	(58)
Current liabilities	(158)
Non-current liabilities	(92)
Acquisition cost of a newly consolidated subsidiary due to share acquisition	343
Balance of cash and cash equivalents of the newly consolidated subsidiary	(443)
Issue price of the Company's shares through the share exchange	(343)
Difference: Net proceeds from the acquisition	¥ 443

FINANCIAL SECTION

18. SEGMENT INFORMATION

(Segment information)

(a) Overview of reportable segments

The Group defines its reportable segments as a component of the Group for which separate financial information is available and whose operating results are regularly evaluated by the Board of Directors to make decisions about how resources are to be allocated among the Group and assess their performance.

The Group consists of the following two reportable segments: "eBook distribution" and "Other." The major segment of the Group is the "eBook distribution" business for mobile devices such as smartphones and tablet devices. The "Other" segment engages in adverting and advertising agency consulting business and digital contents distribution business including music, video, and games.

(b) Basis of measurement about reported net sales, segment income or loss, segment assets, and other material items

Accounting policies of the reportable segments are substantially the same as the ones mentioned in Note 2 "Summary of Significant Accounting Policies." Segment income (loss) is based on operating profit (loss).

(c) Information on reportable segment income or loss, segment assets, segment liabilities and other material items

	Millions of yen				
	2020				
	Reportable segments			Adjustments	Consolidated
eBook distribution	Other	Total			
Net sales					
Outside customers	¥64,530	¥1,330	¥65,860	¥ 0	¥65,860
Intersegment	40	108	148	(148)	—
Total	¥64,570	¥1,438	¥66,008	¥(148)	¥65,860
Segment income (loss)	¥ 1,862	¥ (287)	¥ 1,575	¥ 279	¥ 1,854
Other items:					
Amortization of goodwill	¥ 341	¥ 121	¥ 462	¥ —	¥ 462
Depreciation	278	16	294	51	345

	Thousands of U.S. dollars				
	2020				
	Reportable segments			Adjustments	Consolidated
eBook distribution	Other	Total			
Net sales					
Outside customers	\$589,689	\$12,153	\$601,842	\$ 4	\$601,846
Intersegment	370	986	1,356	(1,356)	—
Total	\$590,059	\$13,139	\$603,198	\$(1,352)	\$601,846
Segment income (loss)	\$ 17,011	\$(2,621)	\$ 14,390	\$ 2,550	\$ 16,940
Other items:					
Amortization of goodwill	\$ 3,120	\$ 1,105	\$ 4,225	\$ —	\$ 4,225
Depreciation	2,544	145	2,689	464	3,153

Notes: 1. Assets and liabilities by each reportable segment are not disclosed since the Group does not allocate its assets and liabilities to each reportable segment for management reporting purposes.
2. Adjustment to segment income (loss) of ¥279 million (\$2,550 thousand) includes revenue from subsidiaries of ¥1,415 million (\$12,930 thousand) and corporate expenses of ¥(1,119) million (\$10,223 thousand). Corporate expenses are those relating to Head Office administrative divisions and not attributable to each reportable segment.
3. Segment income (loss) is reconciled to operating profit in the consolidated statements of income.

	Millions of yen				
	2019				
	Reportable segments			Adjustments	Consolidated
eBook distribution	Other	Total			
Net sales					
Outside customers	¥50,165	¥ 403	¥50,568	¥ —	¥50,568
Intersegment	6	117	123	(123)	—
Total	¥50,171	¥ 520	¥50,691	¥(123)	¥50,568
Segment income (loss)	¥ 1,618	¥(148)	¥ 1,470	¥ (2)	¥ 1,468
Other items:					
Amortization of goodwill	¥ 341	¥ 440	¥ 781	¥ —	¥ 781
Depreciation	333	23	356	45	401

Notes: 1. Assets and liabilities by each reportable segment are not disclosed since the Group does not allocate its assets and liabilities to each reportable segment for management reporting purposes.
2. Adjustment to segment income (loss) of ¥(2) million includes revenue from subsidiaries of ¥945 million and corporate expenses of ¥(862) million. Corporate expenses are those relating to Head Office administrative divisions and not attributable to each reportable segment.
3. Amortization of goodwill in the other segment includes amortization of goodwill of ¥260 million.
4. Segment income (loss) is reconciled to operating profit in the consolidated statements of income.

(Related information)

(a) Information on products and services

Information on products and services is omitted since applicable information is disclosed in the segment information section.

(b) Information on geographical areas

(1) Net sales

Net sales information by geographical area is omitted since sales in Japan accounted for more than 90% of consolidated net sales of the Company. Net sales are classified by company or region on the basis of the end users' location.

(2) Property, plant and equipment

Property, plant and equipment information by geographical area is omitted since there is no property, plant and equipment located outside Japan.

(c) Information on net sales by major customers

Company name	2020	Millions of yen	Thousands of U.S. dollars	Related segment
		2019	2020	
LINE Digital Frontier Corporation	¥13,786	¥7,778	\$125,976	eBook distribution
Amazon Services International Inc.	8,450	6,212	77,214	eBook distribution
BookLive Co., Ltd.	7,542	6,100	68,920	eBook distribution

(Information on impairment loss)

	Millions of yen				
	2020				
	Reportable segments			Adjustments	Consolidated
eBook distribution	Other	Total			
Impairment loss	¥56	¥—	¥56	¥—	¥56

FINANCIAL SECTION

Millions of yen					
2019					
	Reportable segments			Adjustments	Consolidated
	eBook distribution	Other	Total		
Impairment loss	¥484	¥—	¥484	¥—	¥484

Thousands of U.S. dollars					
2020					
	Reportable segments			Adjustments	Consolidated
	eBook distribution	Other	Total		
Impairment loss	\$508	\$—	\$508	\$—	\$508

(Information on amortization and unamortized balances of goodwill)

Millions of yen					
2020					
	Reportable segments			Adjustments	Consolidated
	eBook distribution	Other	Total		
Amortization	¥ 341	¥121	¥ 462	¥—	¥ 462
Unamortized balances	4,564	852	5,416	—	5,416

Millions of yen					
2019					
	Reportable segments			Adjustments	Consolidated
	eBook distribution	Other	Total		
Amortization	¥ 341	¥440	¥ 781	¥—	¥ 781
Unamortized balances	4,905	902	5,807	—	5,807

Thousands of U.S. dollars					
2020					
	Reportable segments			Adjustments	Consolidated
	eBook distribution	Other	Total		
Amortization	\$ 3,120	\$ 1,105	\$ 4,225	\$—	\$ 4,225
Unamortized balances	41,703	7,790	49,493	—	49,493

(Information on gain on bargain purchase)

For the year ended February 28, 2019, J-Comic Terrace Corporation became a consolidated subsidiary of the Company and was included in the "eBook distribution segment. As a result of this, a gain on bargain purchase of ¥28 million was recorded. Similarly, Tokushima Data Service Co., Ltd. became a consolidated subsidiary of the Company and was included in the "Other" segment. As a result of this, a gain on bargain purchase of ¥58 million was recorded. As of February 29, 2020, Tokushima Data Service Co., Ltd. is no longer a consolidated subsidiary since it was sold to an associate of the Company in the year ended February 29, 2020.

Gain on bargain purchase is not included in segment income since it is under extraordinary income.

19. RELATED-PARTY INFORMATION

FIBC Co., Ltd. ("FIBC") is an asset management company in which Yasushi Fujita, President and Chief Executive Officer of the Company, holds the majority of its voting rights. FIBC is located in Tokyo with share capital of ¥100 million (\$914 thousand). FIBC directly held the Company's voting rights of 13.2% and 25.2% as of February 29, 2020 and February 28, 2019, respectively.

For the years ended February 29, 2020 and February 28, 2019, FIBC exercised the treasury stock option of the Company and paid in the amounts of ¥470 million (\$4,294 thousand) and ¥1,000 million, respectively.

20. PER SHARE INFORMATION

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net assets per share	¥408.62	¥ 353.96	\$3.73
Profit (loss) per share	64.59	(106.02)	0.59
Diluted profit per share	60.85	—	0.56

Profit per share is not stated for the year ended February 28, 2019 since loss per share was reported while diluted shares existed.

The following summarizes the basis of calculation of net assets per share.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Total net assets	¥5,838	¥4,462	\$53,350
Amounts deducted from the amount of total net assets	46	93	426
[Of which, share acquisition rights]	[48]	[72]	[443]
[Of which, non-controlling interests]	[(2)]	[21]	[(17)]
Net assets associated with common shares	5,792	4,369	52,924
Number of shares of common shares for the calculation of net assets per share (Share)	14,173,264	12,340,948	—

The following summarizes the basis of calculation of profit (loss) per share and diluted profit per share.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Profit (loss) per share:			
Profit (loss) attributable to shareholders of the parent company	¥ 885	¥ (1,243)	\$8,086
Amounts not attributable to common shareholders	—	—	—
Profit (loss) attributable to common shareholders of the parent company	885	(1,243)	8,086
Weighted-average number of common shares (Shares)	13,699,905	11,726,514	—
Diluted profit per share:			
Adjustments to profit attributable to shareholders of the parent company	¥ —	¥ —	\$ —
Increase in number of common shares (Shares)	841,875	—	—
[Of which, share acquisition rights (Shares)]	[841,875]	[—]	—
Details of diluted shares not included in the calculation of diluted profit per share due to no dilutive effect	—	—	—

FINANCIAL SECTION

21. BUSINESS COMBINATIONS

At a meeting of the Board of Directors held on January 15, 2019, the Company resolved to conduct an absorption-type merger between its wholly owned subsidiaries: The former Digital Publishing Initiatives Japan Co., Ltd. ("DPIJ"), which engaged in eBook agency, eLibrary, and print on demand business, as the surviving company and the former MEDIA DO Co., Ltd., which engaged in eBook agency, eLibrary, international, and new business, as the dissolving company. The merger was completed on March 1, 2019. On the same day, the former DPIJ, the surviving company, changed its business name to the former MEDIA DO Co., Ltd.

This merger aims to improve the efficiency and profitability of the Group's business by improving the operational efficiency of the content distribution platform, speeding up the application of advanced technologies such as blockchain, and promoting the development of infrastructure for the entire publishing industry, including eBook formats and publishing databases.

Based on "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and "Revised Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, January 16, 2019), the Company accounted for this business combination as a transaction under common control.

22. SIGNIFICANT SUBSEQUENT EVENTS

At a meeting of the Board of Directors held on April 23, 2020, the Company resolved to conduct an absorption-type merger with the former MEDIA DO Co., Ltd., a wholly owned subsidiary of the Company. On the same date, the Company and the former MEDIA DO Co., Ltd. entered into the merger agreement.

Based on the agreement, the Company, the surviving company, absorbed the former MEDIA DO Co., Ltd. on June 1, 2020. Further, the Company changed its business name to MEDIA DO Co., Ltd. on the same date.

The merger aims to speed up decision-making, reduce additional operating costs by eliminating duplication of management and human resources, improve management transparency by simplifying the Group's management structure, and strengthen corporate governance.

Based on "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and "Revised Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, January 16, 2019), the Company accounted for this business combination as a transaction under common control.

Independent Auditor's Report

To the Board of Directors of MEDIA DO Co., Ltd.:

We have audited the accompanying consolidated financial statements of MEDIA DO Co., Ltd. (formerly, MEDIA DO HOLDINGS Co., Ltd.) and its consolidated subsidiaries, which comprise the consolidated balance sheets as at February 29, 2020 and February 28, 2019, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of MEDIA DO Co., Ltd. (formerly, MEDIA DO HOLDINGS Co., Ltd.) and its consolidated subsidiaries as at February 29, 2020 and February 28, 2019, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended February 29, 2020 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

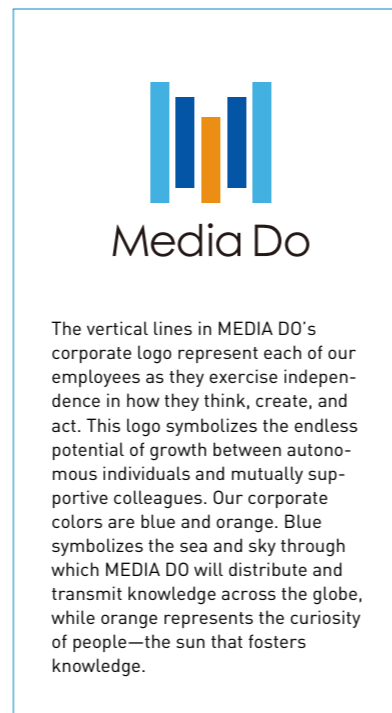
August 7, 2020
Tokyo, Japan

Corporate and Stock Information

(As of February 29, 2020)

Company Overview

Name	MEDIA DO Co., Ltd. (name changed on June 1, 2020)
Date of foundation	April 1, 1996
Date of establishment	April 1, 1999
Capital	¥1,900 million
Location	Head Office: 5F, PALACESIDE Bldg., 1-1-1 Hitotsubashi, Chiyoda-ku, Tokyo 100-0003, Japan
Number of employees	Consolidated: 350 Non-consolidated: 58
Number of consolidated subsidiaries	10
Number of associated accounted for by the equity method	2
Fiscal year	March 1–February 28/29
Annual General Meeting of Shareholders	May
Share unit number	100 shares
Shareholder registrar	Sumitomo Mitsui Trust Bank, Limited
Number of common shares issued	14,175,100
Number of shareholders	3,085
Securities code	3678
Stock listing	Tokyo Stock Exchange, First Section

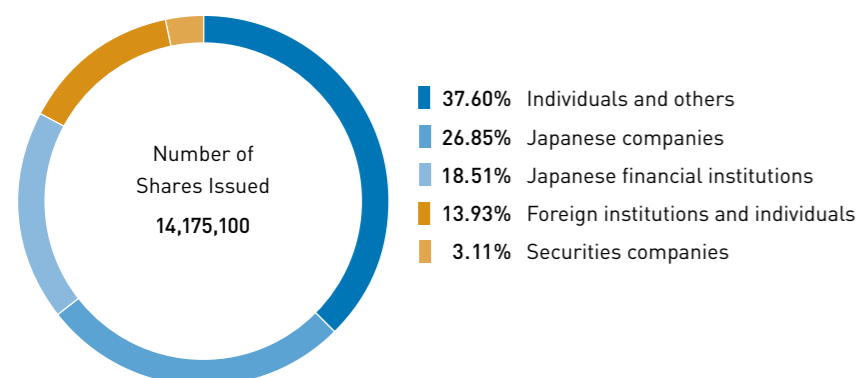


Major Shareholders

Name	Number of shares	Percentage of total shares issued (%)
Yasushi Fujita	2,718,700	19.18
FIBC Co., Ltd.	1,872,700	13.21
Japan Trustee Services Bank, Ltd. (Trust Account)	1,318,400	9.30
Shogakukan Inc.	564,800	3.98
KODANSHA LTD.	544,000	3.83
Kazuyoshi Ohwada	477,400	3.36
SHUEISHA Inc.	444,000	3.13
The Master Trust Bank of Japan, Ltd. (Trust Account)	424,000	2.99
MSIP CLIENT SECURITIES	228,500	1.61
The Awa Bank, Limited	196,176	1.38

Note: Treasury stock (1,836 shares) has been eliminated from the total number of shares issued in calculating the percentage of total shares issued.

Distribution of Shares Held by Shareholder Type



Cautionary Notice regarding Forward-Looking Statements

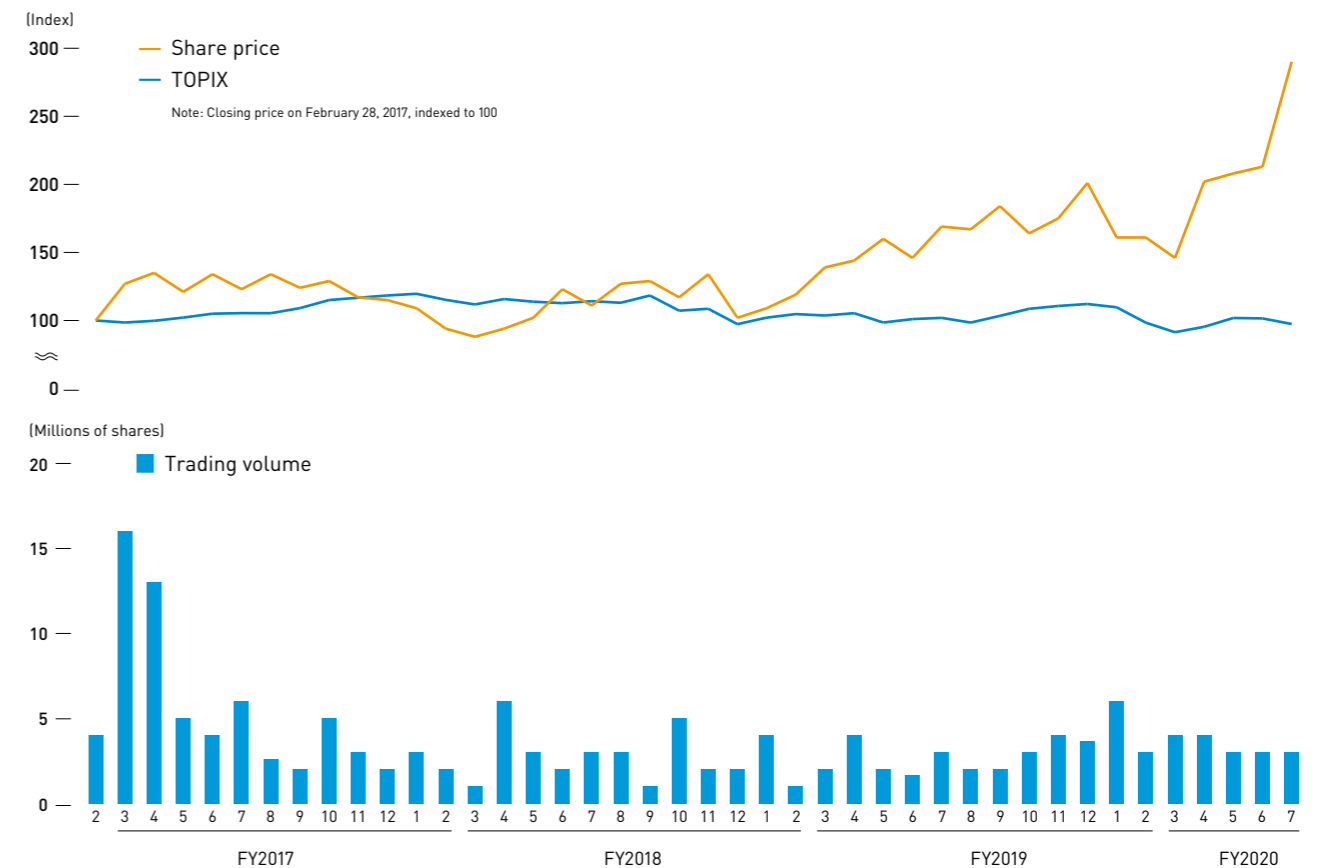
Information on plans, forecasts, and strategies contained in this report are forward-looking statements that represent the Company's best judgments based on information available at the time of this report's publication.

It is possible that actual performance could differ materially from these forecasts due to a variety of factors. Risks and uncertain factors with the potential to impact performance include economic conditions, competition, foreign exchange rates, and taxation and other systems pertaining to the Company's operating environment.

Total Shareholder Return

Investment period	One year	Two years	Three years	Four years	Five years
	Aggregate annual return rate	Aggregate annual return rate	Aggregate annual return rate	Aggregate annual return rate	Aggregate annual return rate
MEDIA DO Co., Ltd.	64.6%	104.4%	98.9%	125.5%	159.5%
TOPIX (including dividends)	86.8	105.0	82.8	114.8	110.6
TOPIX (Information and Communication)	117.8	132.4	145.3	146.4	153.5

Share Price and Trading Volume (Tokyo Stock Exchange)



Corporate Website

MEDIA DO's corporate website features corporate information, explanations of the Company's businesses, up-to-date financial information, press releases, and other resources (some information is available in Japanese only).



Corporate website
<https://mediado.jp/english/>



Investor relations website
<https://mediado.jp/english/ir/>