

Financial Results
for the Fiscal Year Ended June 30, 2020
[Japanese GAAP]
(Non-consolidated)



August 7, 2020

Company name: WELLNET CORPORATION
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 2428
 URL: <https://www.well-net.jp/>
 Representative: Kazuhiro Miyazawa, President and Representative Director
 Contact: Masaaki Uchiyama, Director, General Manager of Administrative Division
 Phone: +81-3-3580-0199
 Scheduled date of annual general meeting of shareholders: September 24, 2020
 Scheduled date of commencing dividend payments: September 25, 2020
 Scheduled date of filing securities report: September 25, 2020
 Availability of supplementary briefing material on financial results: Available
 Schedule of financial results briefing session: Yes

(Amounts of less than one million yen are rounded down.)

1. Financial Results for the Fiscal Year Ended June 30, 2020 (July 1, 2019 to June 30, 2020)

(1) Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended								
June 30, 2020	9,379	(6.5)	817	62.4	826	55.8	494	31.9
June 30, 2019	10,032	2.5	503	(25.8)	530	(25.1)	374	(24.3)

	Basic earnings per share	Diluted earnings per share	Return on equity	Ordinary profit to total assets	Operating profit to net sales
	Yen	Yen	%	%	%
Fiscal year ended					
June 30, 2020	26.31	26.22	6.9	4.2	8.7
June 30, 2019	20.02	19.92	4.7	2.6	5.0

(Reference) Equity in earnings/loss of affiliates: Fiscal year ended June 30, 2020: ¥- million
 Fiscal year ended June 30, 2019: ¥- million

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2020	20,074	7,009	34.6	368.95
As of June 30, 2019	18,960	7,443	38.8	392.04

(Reference) Equity: As of June 30, 2020: ¥6,936 million
 As of June 30, 2019: ¥7,353 million

(3) Status of Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of year
	Million yen	Million yen	Million yen	Million yen
As of June 30, 2020	(1,846)	(1,181)	(196)	8,609
As of June 30, 2019	3,175	(475)	(848)	11,835

2. Dividends

	Annual dividends					Total dividends	Payout ratio	Dividend to net assets
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended June 30, 2019	-	0.00	-	50.00	50.00	937	249.8	12.3
Fiscal year ended June 30, 2020	-	0.00	-	13.15	13.15	247	50.0	3.5
Fiscal year ending June 30, 2021 (Forecast)	-	-	-	-	-		-	

Dividends for the fiscal year ended June 30, 2020 are scheduled to be determined by resolution of the Board of Directors on Monday, August 17, 2020.

Although the dividend payout ratio will be set at 50% or more for the fiscal year ended June 30, 2021, the dividend amounts are yet to be determined at this moment since it is impossible to make a reasonable forecast for the financial results. For this reason, “-” has been entered for the year-end and total dividends.

3. Financial Results Forecast for the Fiscal Year Ending June 30, 2021 (July 1, 2020 to June 30, 2021)

At this moment, it is difficult to make any reasonable forecasts of the impact of the spread of the novel coronavirus disease (COVID-19) on the financial results of the fiscal year ending June 30, 2021. It will be announced immediately when it becomes possible to reasonably calculate that impact.

* Notes:

(1) Changes in accounting policies, changes in accounting estimates and retrospective restatement

- 1) Changes in accounting policies due to the revision of accounting standards: No
- 2) Changes in accounting policies other than 1) above: No
- 3) Changes in accounting estimates: No
- 4) Retrospective restatement: No

(2) Total number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):

- As of June 30, 2020: 19,400,000 shares
- As of June 30, 2019: 19,400,000 shares

2) Total number of treasury shares at the end of the period:

- As of June 30, 2020: 598,024 shares
- As of June 30, 2019: 643,048 shares

3) Average number of shares during the period:

- Fiscal year ended June 30, 2020: 18,793,333 shares
- Fiscal year ended June 30, 2019: 18,730,900 shares

* These financial results are outside the scope of audit procedures by a certified public accountant or an audit corporation.

* Explanation of the proper use of financial results forecast and other notes

At this moment, it is difficult to make any reasonable forecasts of the impact of the spread of the novel coronavirus disease (COVID-19) on the financial results of the fiscal year ending June 30, 2021. It will be announced immediately when it becomes possible to reasonably calculate that impact.

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1. Overview of Business Results, etc.

(1) Overview of Business Results

Despite the Japanese economy in the fiscal year under review beginning on a mild path of recovery amid firm corporate earnings and improvements in the employment environment, the outlook for the Japanese economy continues to be uncertain. This is due to social disruptions on an unprecedented scale, including not only the economic slowdown in China due to the prolonged trade friction between the U.S. and China, natural disasters such as the striking of large typhoons causing enormous damage to various regions, and the domestic consumption tax hike, but also of particular concern, the sudden global economic standstill brought about by the spread of the novel coronavirus disease (COVID-19), during the latter half of the third quarter to the fourth quarter of the fiscal year ended June 30, 2020, and even after the state of emergency was lifted in major cities in Japan, uncertainty remains.

The aforementioned impact has been greatly affecting the Company's business. In particular, the effect on business related to transportation services, such as airlines, buses and railways, has become substantial since the fourth quarter of the fiscal year ended June 30, 2020 with large-scale cancellations. Meanwhile, in the remittance service operated by the Company, we have responded promptly with a feeling of professional commitment, working to facilitate refunds due to cancellations of airplane, bus and train tickets and of various events, and facilitate the remittances from Meiji Gakuin University and other universities, such as emergency aid payments from university authorities to alleviate the financial burden on students.

In May 2020, we added KDDI communication charges to the payments that customers can make at anytime and anywhere on *Shiharai-Hisho*, a smartphone payment service. Also, in the non-face-to-face payment market, the Company's business domain, we continue to expand amid the economic trends seeking new lifestyles in this age of the COVID-19 pandemic.

The Company announced the "New Medium Term Five-Year Management Plan (July 2016 - June 2021)" together with the financial results for the three months ended September 30, 2015 to actively and boldly take on new business opportunities, and has been promoting the priority measures of "Response to the age of electronic money," "Promotion of Bus IT Promotion Solution Project" and "Service support for consumers from the business operator side."

For the fiscal year ended June 30, 2020, the fourth year of the new medium term management plan, net sales decreased to ¥9,379 million (down 6.5% year on year) as a result of a decrease in the amount received from existing business operators and other factors, including the environmental factors mentioned above, despite an increase due to the introduction of new business partners and an increase in the transaction amount from remittance services. With respect to profits, as a result of large-scale development settling down in addition to measures to reduce expenses such as accumulating know-how regarding development and operations in-house and promoting in-house manufacturing, the Company reported operating profit of ¥817 million (up 62.4% year on year) and ordinary profit of ¥826 million (up 55.8% year on year). Profit was ¥494 million (up 31.9% year on year) despite the recording of extraordinary losses of ¥112 million.

However, due to a combination of events that could not have been anticipated when the Company formulated the New Medium Term Five-Year Management Plan, as well as a rapid deterioration in economic and financial conditions, including a decline in business activities resulting from the COVID-19 pandemic mentioned above, the current business environment surrounding the Company was not expected when the plan was announced and the outlook is uncertain. Accordingly, as indicated in "Notice Concerning Revisions in the Financial Results Forecast and the Medium Term Management Plan" announced on May 29, 2020, the Company has withdrawn the profit targets in the New Medium Term Five-Year Management Plan (July 2016 - June 2021).

(2) Overview of Financial Position

1) Status of assets, liabilities, and net assets

(Assets)

Current assets as of June 30, 2020 stood at ¥14,504 million. This mainly comprises cash and deposits of ¥8,689 million, deposits paid of ¥4,394 million and accounts receivable - trade of ¥474 million. Cash and deposits include ¥6,339 million of receiving agency deposits in money collection business, which is the money kept temporarily by the Company up to the predetermined date of transfer to operators in the following month. Meanwhile, non-current assets amounted to ¥5,570 million. This mainly comprises land of ¥1,739 million, guarantee deposits of ¥1,285 million, software of ¥874 million and construction in progress of ¥869 million. As a result, total assets amounted to ¥20,074 million.

(Reference) Cash and deposits, net (net balance of cash and deposits after offsetting receiving agency deposits related to money collection business)

	(Thousand yen)	
	As of June 30, 2019	As of June 30, 2020
(A) Cash and deposits	12,915,351	8,689,868
(B) Receiving agency deposits	9,393,868	6,339,896
(A)-(B) Cash and deposits, net	3,521,483	2,349,972

(Liabilities)

Current liabilities as of June 30, 2020 stood at ¥12,867 million. This mainly comprises receiving agency deposits of ¥6,339 million and deposits received of ¥4,903 million. Meanwhile, non-current liabilities amounted to ¥197 million. This mainly comprises long-term accounts payable - other of ¥119 million. As a result, total liabilities amounted to ¥13,064 million. As an installment of the ¥2,000 million in borrowings required for the construction of the new Sapporo Office, scheduled for completion in May 2021, the Company took out bank loans of ¥740 million during the fiscal year.

(Net assets)

Net assets as of June 30, 2020 stood at ¥7,009 million. This mainly comprises shareholders' equity of ¥6,940 million.

2) Status of cash flows

Cash and cash equivalents (the "funds") as of June 30, 2020 stood at ¥8,609 million.

The status of cash flows as of June 30, 2020 and their contributing factors are as follows.

(Cash flows from operating activities)

Funds used in operating activities for the fiscal year ended June 30, 2020 amounted to ¥1,846 million. The main factor for the increase is profit before income taxes of ¥718 million, while the main factors for the decrease are a decrease in receiving agency deposits of ¥3,053 million and a decrease in income taxes paid of ¥144 million.

(Cash flows from investing activities)

Funds used in investing activities for the fiscal year ended June 30, 2020 amounted to ¥1,181 million. The main factor for the decrease is payments of guarantee deposits of ¥1,086 million.

(Cash flows from financing activities)

Funds used in financing activities for the fiscal year ended June 30, 2020 amounted to ¥196 million. The main factor for the decrease is cash dividends paid of ¥936 million.

(3) Basic Policy for Profit Sharing and Dividends for the Fiscal Year under Review

We plan for the dividend payout ratio for the fiscal year ended June 30, 2020 to be 50% or more.

2. Management Policy

Basic policy and strategy for the fiscal year ending June 30, 2021

The non-face-to-face payment market, the Company's business domain, is expected to continue achieving a certain level of growth in the future, and we expect the move toward a paperless, cashless society to become even more active. Even after the State of Emergency Declaration was lifted, there has been a strong call for a new type of lifestyle as a basic policy to prevent the spread of COVID-19, and we expect real changes in individual lifestyles. We will provide services to respond to these changes.

We are now experiencing extremely dramatic changes in the business environment. As we have no choice but to decide that now is not the appropriate time to put forth a new plan, we will decide as appropriate on the release of the plan while closely following future developments.

A. Current status of WELLNET's "Smartphone payment service," *Shiharai-Hisho*

On August 3, 2017, we began the commercial service of *Shiharai-Hisho*, a smartphone payment service compatible with the increasingly cashless society expected in the future, with our first client, The Kansai Electric Power Co., Inc. Subsequently, Kyushu Electric Power Co., Inc., Hokkaido Electric Power Co., Inc. (exclusive adoption of the Company's service), Tohoku Electric Power Co., Inc., Shikoku Electric Power Co., Inc. (exclusive adoption of the Company's service), Hokuriku Electric Power Company (exclusive adoption of the Company's service), Chubu Electric Power Co., Inc. (exclusive adoption of the Company's service), and The Chugoku Electric Power Co., Inc. also began offering this service, and, in April 2020 at Chubu Electric Power Co., Inc., the first ever implementation of SMS (short message service) based electronic invoicing of electricity bills was achieved, and the shift to paperless payments continues to accelerate. We have become affiliated with 36 banks, including Sumitomo Mitsui Banking Corporation and JAPAN POST BANK Co., Ltd. We expect to be affiliated with more banks going forward. We are expanding this service to businesses that have already introduced our Multi Payment Services, as well as lifestyle and infrastructure business operators such as power, bus, railway, and airline companies.

B. Driving forward our Bus IT Promotion Project

The number of routes that are compatible with the smartphone application *Bus Mori!* introduced in August 2016 has smoothly increased to 320, partly due to the effect of an increase in variation of services, such as expanding the types of tickets usable with smartphones, namely single-trip tickets, coupon tickets, commuter tickets, free passes and so forth, as well as car-mounted tablet PCs. The Maas trials of *DohNa!!*, which began in the third quarter of the current fiscal year with eleven transportation operators in Hokkaido's south-west region led by the Hokkaido Government and Hakodate City, was a success, and the service will continue after the trials.

The project will also introduce services to majorly streamline clearing operations among bus companies as we work to roll out total cloud services. Given COVID-19, we predict increasing needs for variable pricing for this service.

C. Current status of WELLNET's "key product," Multi Payment Services

According to the FY2018 Survey of Infrastructure Development Status for Data-driven Society in Japan (E-Commerce Market Survey) released by the Ministry of Economy, Trade and Industry on May 16, 2019, the scale of the e-commerce market (B to C) for Japanese consumers increased 9.0% year on year in 2018 to ¥18 trillion, and Multi Payment Services are expected to have the potential to grow in the area of non-face-to-face payments.

Furthermore, by promoting the digitalization of payments (shifting to the Company's "Smartphone payment service," *Shiharai-Hisho*, a win-win relationship is being built between the Company, clients, and receiving agencies.

Furthermore, we will specifically promote the transition to *Shiharai-Hisho* in the digitalization of payments.

D. R&D for the future

In an effort to capture the huge waves of “IoT” and “FinTech,” we are forming affiliations where necessary with universities, etc. with diverse knowledge and technologies and choosing the right course for R&D. Furthermore, we will also evaluate the need to invest in venture companies to create added value in addition to payments.

E. Activities contributing to local communities

As part of our social contribution, we are providing support to many students through our WELLNET Scholarship, established to help financially struggling students at colleges of technology in Hokkaido. Many letters of gratitude were received from these students, which motivated our employees. We will continue with these activities.

The new Sapporo Office scheduled for completion in May 2021 aims to earn the “WELL Certification” Platinum Rank by building an office focused on the health and work environment of our employees. The WELL Certification is an initiative that began in 2014 in the U.S. to evaluate and certify spaces including buildings and offices from the standpoint of human health. It is a cutting-edge initiative in Japan, with only a few certifications awarded. This initiative represents an investment in the Company’s most important asset, our employees, and we also believe that it will lead to increased corporate value in the form of increased productivity, workstyle reforms, and the achievement of SDGs.

F. Performance forecast and shareholder returns

Because the impact from changes in economic activity due to COVID-19 makes it difficult to make any forecasts at present, the Company will announce a performance forecast promptly as soon as it is reasonably possible to make estimates. Meanwhile, out of consideration for our shareholders, we plan for the dividend payout ratio to be 50% or more.

3. Basic Principle on the Selection of Accounting Standards

The Company’s policy, for the time being, is to prepare the financial statements in accordance with J-GAAP, in consideration of the comparability of financial statements over time as well as between companies.

With respect to the adoption of IFRS, the Company will make decision as appropriate, in view of the circumstances both in Japan and abroad.

4. Financial Statements and Significant Notes

(1) Balance Sheet

(Thousands of yen)

	As of June 30, 2019	As of June 30, 2020
Assets		
Current assets		
Cash and deposits	12,915,351	8,689,868
Accounts receivable - trade	560,714	474,856
Merchandise	2,133	2,577
Work in process	8,574	2,884
Supplies	1,438	6,572
Prepaid expenses	79,656	90,657
Deposits paid	1,051,660	4,394,838
Other	518,909	842,220
Total current assets	15,138,438	14,504,476
Non-current assets		
Property, plant and equipment		
Buildings	284,506	280,578
Accumulated depreciation	(145,632)	(152,207)
Buildings, net	138,873	128,371
Structures	12,459	12,799
Accumulated depreciation	(9,452)	(9,785)
Structures, net	3,007	3,014
Tools, furniture and fixtures	784,756	675,019
Accumulated depreciation	(638,112)	(563,348)
Tools, furniture and fixtures, net	146,643	111,671
Land	1,739,209	1,739,209
Construction in progress	-	869,007
Total property, plant and equipment	2,027,734	2,851,274
Intangible assets		
Trademark right	1,696	1,421
Software	1,078,368	874,769
Total intangible assets	1,080,065	876,190
Investments and other assets		
Investment securities	205,965	203,759
Long-term prepaid expenses	35,968	48,006
Investments in capital	100,362	75,990
Guarantee deposits	198,643	1,285,509
Prepaid pension costs	18,441	20,218
Deferred tax assets	150,902	207,165
Other	4,157	2,220
Total investments and other assets	714,441	1,842,871
Total non-current assets	3,822,241	5,570,337
Total assets	18,960,679	20,074,813

(Thousands of yen)

	As of June 30, 2019	As of June 30, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	476,794	454,549
Short-term borrowings	-	740,000
Accounts payable - other	169,766	155,437
Accrued expenses	22,600	18,232
Income taxes payable	71,416	210,987
Advances received	278	313
Deposits received	1,138,123	4,903,373
Receiving agency deposits	9,393,868	6,339,896
Provision for point card certificates	274	5
Other	52,296	44,500
Total current liabilities	11,325,418	12,867,295
Non-current liabilities		
Provision for share-based remuneration	48,240	54,073
Asset retirement obligations	7,154	-
Long-term accounts payable - other	119,007	119,007
Other	17,276	24,601
Total non-current liabilities	191,678	197,682
Total liabilities	11,517,096	13,064,977
Net assets		
Shareholders' equity		
Share capital	667,782	667,782
Capital surplus		
Legal capital surplus	3,509,216	3,509,216
Total capital surpluses	3,509,216	3,509,216
Retained earnings		
Legal retained earnings	22,010	22,010
Other retained earnings		
General reserve	3,160,000	3,160,000
Retained earnings brought forward	835,844	369,212
Total retained earnings	4,017,854	3,551,222
Treasury shares	(841,337)	(788,210)
Total shareholders' equity	7,353,515	6,940,011
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(98)	(3,067)
Total valuation and translation adjustments	(98)	(3,067)
Share acquisition rights	90,165	72,892
Total net assets	7,443,582	7,009,836
Total liabilities and net assets	18,960,679	20,074,813

(2) Statement of Income

(Thousands of yen)

	Fiscal year ended June 30, 2019	Fiscal year ended June 30, 2020
Net sales	10,032,138	9,379,528
Cost of sales	8,422,626	7,758,259
Gross profit	1,609,512	1,621,268
Selling, general and administrative expenses	1,106,304	803,864
Operating profit	503,207	817,404
Non-operating income		
Interest income	1,476	471
Interest on securities	2,951	537
Dividend income	6,155	44
Gain on investments in investment partnerships	6,956	1,034
Insurance claim income	2,848	305
Gain on forfeiture of unclaimed dividends	932	1,237
Rental income	3,471	3,921
Other	2,548	1,867
Total non-operating income	27,340	9,418
Non-operating expenses		
Interest expenses	-	178
Total non-operating expenses	-	178
Ordinary profit	530,548	826,644
Extraordinary income		
Gain on reversal of share acquisition rights	7,034	4,821
Total extraordinary income	7,034	4,821
Extraordinary losses		
Impairment loss	-	112,659
Total extraordinary losses	-	112,659
Profit before income taxes	537,582	718,805
Income taxes - current	179,420	279,363
Income taxes - deferred	(16,740)	(54,966)
Total income taxes	162,680	224,397
Profit	374,902	494,408

(Schedule of cost of sales)

Schedule of cost of sales

Class	Note no.	Fiscal year ended June 30, 2019 (from July 1, 2018 to June 30, 2019)			Fiscal year ended June 30, 2020 (from July 1, 2019 to June 30, 2020)		
		Amount (Thousand yen)		Com- position (%)	Amount (Thousand yen)		Com- position (%)
I. Cost of merchandise sold							
1. Beginning merchandise		2,206			2,133		
2. Cost of purchased merchandise		27,173			24,431		
Total		29,379			26,564		
3. Ending merchandise		2,133	27,245	0.3	2,577	23,987	0.3
II. Labor cost			546,945	6.2		410,962	5.2
III. Expenses	*2		8,029,031	91.6		7,286,084	91.6
IV. Subcontract expenses			160,839	1.8		237,441	3.0
Total			8,764,062	100.0		7,958,476	100.0
Transfer to other account	*3		339,492			205,907	
Beginning work-in-process			6,630			8,574	
Ending work-in-process			8,574			2,884	
Cost of sales	*1		8,422,626			7,758,259	

(Notes) *1. Cost of sales is calculated based on the job-order cost system.

*2. Details of the expenses are as follows.

(Thousand yen)

Item	Fiscal year ended June 30, 2019	Fiscal year ended June 30, 2020
Receiving agency fees	6,915,221	6,376,213
Invoice postage fees	222,327	217,202
Depreciation	422,685	373,112
Other	468,796	319,557
Total	8,029,031	7,286,084

*3. Details of the transfer to other account are as follows.

(Thousand yen)

Item	Fiscal year ended June 30, 2019	Fiscal year ended June 30, 2020
Software	305,892	205,684
Research and development expenses	33,599	223
Total	339,492	205,907

(3) Statement of Changes in Equity

Fiscal year ended June 30, 2019 (from July 1, 2018 to June 30, 2019)

(Thousands of yen)

	Shareholders' equity							
	Share capital	Capital surplus		Retained earnings				
		Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings			Total retained earnings
					Reserve for special depreciation	General reserve	Retained earnings brought forward	
Balance at beginning of current period	667,782	3,509,216	3,509,216	22,010	1,565	3,160,000	1,506,650	4,690,225
Changes of items during period								
Reversal of reserve for special depreciation					(1,565)		1,565	-
Dividends of surplus							(928,717)	(928,717)
Profit							374,902	374,902
Purchase of treasury shares								
Disposal of treasury shares							(118,556)	(118,556)
Net changes of items other than shareholders' equity								
Total changes of items during period	-	-	-	-	(1,565)	-	(670,805)	(672,370)
Balance at end of current period	667,782	3,509,216	3,509,216	22,010	-	3,160,000	835,844	4,017,854

	Shareholders' equity		Valuation and translation adjustments		Share acquisition rights	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at beginning of current period	(1,054,932)	7,812,292	485	485	94,411	7,907,189
Changes of items during period						
Reversal of reserve for special depreciation						-
Dividends of surplus		(928,717)				(928,717)
Profit		374,902				374,902
Purchase of treasury shares	(198)	(198)				(198)
Disposal of treasury shares	213,792	95,236				95,236
Net changes of items other than shareholders' equity			(583)	(583)	(4,246)	(4,830)
Total changes of items during period	213,594	(458,776)	(583)	(583)	(4,246)	(463,606)
Balance at end of current period	(841,337)	7,353,515	(98)	(98)	90,165	7,443,582

Fiscal year ended June 30, 2020 (from July 1, 2019 to June 30, 2020)

(Thousands of yen)

	Shareholders' equity							
	Share capital	Capital surplus		Retained earnings				
		Legal capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings			Total retained earnings
					Reserve for special depreciation	General reserve	Retained earnings brought forward	
Balance at beginning of current period	667,782	3,509,216	3,509,216	22,010	-	3,160,000	835,844	4,017,854
Changes of items during period								
Reversal of reserve for special depreciation								
Dividends of surplus							(937,847)	(937,847)
Profit							494,408	494,408
Purchase of treasury shares								
Disposal of treasury shares							(23,192)	(23,192)
Net changes of items other than shareholders' equity								
Total changes of items during period	-	-	-	-	-	-	(466,632)	(466,632)
Balance at end of current period	667,782	3,509,216	3,509,216	22,010	-	3,160,000	369,212	3,551,222

	Shareholders' equity		Valuation and translation adjustments		Share acquisition rights	Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments		
Balance at beginning of current period	(841,337)	7,353,515	(98)	(98)	90,165	7,443,582
Changes of items during period						
Reversal of reserve for special depreciation						
Dividends of surplus		(937,847)				(937,847)
Profit		494,408				494,408
Purchase of treasury shares						
Disposal of treasury shares	53,127	29,934				29,934
Net changes of items other than shareholders' equity			(2,969)	(2,969)	(17,272)	(20,241)
Total changes of items during period	53,127	(413,504)	(2,969)	(2,969)	(17,272)	(433,746)
Balance at end of current period	(788,210)	6,940,011	(3,067)	(3,067)	72,892	7,009,836

(4) Statement of Cash Flows

(Thousands of yen)

	Fiscal year ended June 30, 2019	Fiscal year ended June 30, 2020
Cash flows from operating activities		
Profit before income taxes	537,582	718,805
Depreciation	444,529	376,956
Impairment loss	-	112,659
Interest and dividend income	(10,583)	(1,052)
Interest expenses	-	178
Loss (gain) on investments in investment partnerships	(6,956)	(1,034)
Decrease (increase) in operating accounts receivable	36,072	-
Decrease (increase) in trade receivables	(21,683)	85,858
Decrease (increase) in inventories	(1,876)	112
Increase (decrease) in operating accounts payable	(73,555)	-
Increase (decrease) in trade payables	(35,639)	(22,245)
Increase (decrease) in receiving agency deposits	2,434,785	(3,053,971)
Other, net	81,180	79,088
Subtotal	3,383,854	(1,704,644)
Interest and dividends received	15,894	3,357
Interest paid	-	(1,484)
Income taxes paid	(224,558)	(144,008)
Net cash provided by (used in) operating activities	3,175,191	(1,846,779)
Cash flows from investing activities		
Purchase of securities	(2,999,619)	-
Proceeds from redemption of securities	4,000,000	-
Purchase of property, plant and equipment	(1,615,609)	(893,590)
Purchase of intangible assets	(360,091)	(224,316)
Payments into time deposits	(100,006)	(6)
Proceeds from withdrawal of time deposits	600,000	1,000,000
Proceeds from share of profits on investments in capital	-	23,000
Payments of leasehold and guarantee deposits	(81)	(1,086,866)
Net cash provided by (used in) investing activities	(475,408)	(1,181,780)
Cash flows from financing activities		
Purchase of treasury shares	(31)	-
Proceeds from disposal of treasury shares resulting from exercise of subscription rights to shares	79,148	1
Dividends paid	(927,550)	(936,930)
Proceeds from short-term borrowings	-	740,000
Net cash provided by (used in) financing activities	(848,434)	(196,928)
Net increase (decrease) in cash and cash equivalents	1,851,349	(3,225,489)
Cash and cash equivalents at beginning of period	9,983,995	11,835,344
Cash and cash equivalents at end of period	11,835,344	8,609,855

(5) Notes to Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Additional information)

(Employee Stock Ownership Plan)

In July 2010, we introduced the Employee Stock Ownership Plan (J-ESOP; hereafter, “the program”) with the aim of providing employees with benefits, raising their motivation to boost the share price with higher earnings, and sharing profits with shareholders and employees.

(1) Overview of the program

The program grants retiring employees shares in the Company based on the Share Granting Rules established in advance by the Company.

The Company gives employees points based on their contributions to earnings and their years of service and grants them shares in the Company equivalent to their cumulative points when they retire. These shares are acquired, including the future portion, based on an amount entrusted in advance, and managed separately as assets in trust.

With the introduction of this system, employees’ motivation to work and their interest in share prices rises, and it is also expected to help attract talented employees.

(2) We have applied the “Practical Solution on Transactions of Delivering the Company’s Own Stock to Employees, etc., through Trusts” (PTIF No. 30, March 26, 2015), but accounting treatment is based on the method previously adopted.

(3) Matters related to Company shares held by the trust

The book value in the trust was ¥89,166 thousand at the end of the previous fiscal year and ¥88,703 thousand at the end of the current fiscal year. The Company shares held by the trust are posted as treasury stock under shareholders’ equity.

The number of outstanding shares at the end of the previous fiscal year was 192,600 and was 191,600 at the end of the current fiscal year. The average number of shares during the fiscal year was 192,600 in the previous fiscal year and 191,835 in the current fiscal year. The number of shares at the end of the fiscal year and the average number of shares during the fiscal year are not included in the treasury stock excluded when calculating per share information.

(Accounting estimates related to the impact of COVID-19)

The effects of COVID-19 continued through the end of the current fiscal year and the Company’s business activities were affected. While it has had an effect on business related to transportation services, such as airlines, buses and railways, has become substantial with large-scale cancellations, we believe that the non-face-to-face payment market, the Company’s business domain, will continue to grow amid the economic trend searching for new lifestyles in the “with-Corona” age.

The Company has made estimates of the recoverability of deferred tax assets and impairment accounting for non-current assets on the assumption that the effects of COVID-19 will continue for at least a certain period of time into the following fiscal year based on the available information.

(Significant accounting policies)

1. Valuation standards and valuation methods for securities

(1) Held-to-maturity securities

Amortized cost method (interest method)

(2) Available-for-sale securities

Available-for-sale securities with market value

The market value method is applied, based on the market value as of the fiscal-end. The entire valuation difference from the purchase price is recorded directly as net assets, and the cost of securities sold is calculated using the moving-average method.

2. Valuation standards and valuation methods of inventories

(1) Merchandise

Stated at cost using the moving-average method (balance sheet amount is calculated by writing down the book value of assets which decreased in profitability).

(2) Work in process

Stated at cost using the specific identification method (balance sheet amount is calculated by writing down the book value of assets which decreased in profitability).

(3) Supplies

Stated at cost using the last purchase price method (balance sheet amount is calculated by writing down the book value of assets which decreased in profitability).

3. Depreciation methods of non-current assets

(1) Property, plant and equipment

Declining balance method (however, straight-line method for all the buildings (excluding accessories) acquired on or after April 1, 1998, accessories to buildings and structures acquired on or after April 1, 2016, and server equipment providing services on an integrated basis with software, of tools, furniture and fixtures).

The useful lives of the major assets are as follows.

Buildings: 7-39 years

Tools, furniture and fixtures: 3-15 years

(2) Intangible assets

Straight-line depreciation

Software for internal use is amortized based on its internally estimated useful life (3 to 5 years).

4. Basis for recording allowances

(1) Allowance for doubtful accounts

To prepare for bad debt losses, the Company records estimated amount of uncollectable receivables, based on loan loss ratio for general receivables, and case-by-case review of collectability for specific receivables such as doubtful accounts receivable. Since actual loan loss until the end of the fiscal year under review was negligible, loan loss ratio for general receivables is assumed as zero.

(2) Provision for bonuses

To prepare for the payment of bonuses for employees, estimated amount of payment of bonuses is recorded.

(3) Provision for retirement benefits

To prepare for the payment of employees' retirement benefits, an amount based on retirement benefit obligations (amount required by simplified method at year-end to pay for voluntary termination) and pension assets as of the end of the fiscal year under review is recorded. In the event that pension assets exceed retirement benefit obligations, such excess shall be recorded as prepaid pension cost under "other" in investments and other assets.

(4) Provision for granting of shares

To prepare for the granting of shares to employees in accordance with the Share Granting Rules, estimated amount of share granting obligations as of the end of the fiscal year under review is recorded.

(5) Provision for point card certificates

We give points to people who have *Shiharai-Hisho* accounts, and record the amount expected to be used in the future as point reserves to prepare for future obligations in the event that these points are used.

5. The range of cash within the statement of cash flows

Cash within the statement of cash flows include cash at hand, demand deposits and short-term investments that are easily converted into cash, with little risk of fluctuation in value and reach maturity within three months from acquisition.

6. Other significant matters underlying the preparation of financial statements

Accounting of consumption taxes

All transactions are recorded net of consumption taxes and local consumption taxes.

Non-deductible consumption taxes are recorded as periodic expenses for the fiscal year in which they incur. However, non-deductible consumption taxes associated with non-current assets are recorded under "other" in investments and other assets, subject to equal amortization in accordance with the provisions of the Corporation Tax Act.

(Changes in presentation)

(Notes to Balance Sheet)

“Deposits paid,” which was included in “other” under current assets for the previous fiscal year, is separately presented as “deposits paid” under current assets from the fourth quarter of the current fiscal year due to an increase in its materiality. To reflect this change in presentation, the Company reclassified its financial statements for the fourth quarter of the previous fiscal year. As a result, ¥1,570,569 thousand that had been presented in “other” under current assets in the Balance Sheet for the fourth quarter of the previous fiscal year was reclassified into ¥1,051,660 thousand in “deposits paid” and ¥518,909 thousand in “other.”

(Notes to Statement of Income)

“Gain on forfeiture of unclaimed dividends” and “rental income,” which were included in “other” under non-operating income for the previous fiscal year, are separately presented as “gain on forfeiture of unclaimed dividends” and “rental income” under non-operating income from the six months ended December 31, 2019 due to increases in their materiality. To reflect this change in presentation, the Company reclassified its financial statements for the fiscal year ended June 30, 2019. As a result, ¥6,952 thousand that had been presented in “other” under non-operating income in the Statement of Income for the fiscal year ended June 30, 2019 was reclassified into ¥932 thousand in “gain on forfeiture of unclaimed dividends,” ¥3,471 thousand in “rental income” and ¥2,548 thousand in “other.”

(Notes to Balance Sheet)

Receiving agency deposits

Receiving agency deposits are deposits related to money collection business, and an equivalent amount is included in the deposits.

(Notes to Statement of Income)

*1 Approximate ratio of expenses included in selling expenses was 16% in the previous fiscal year, and 10% in the fiscal year under review. Approximate ratio of expenses included in general and administrative expenses was 84% in the previous fiscal year, and 90% in the fiscal year under review.

The major components and amounts of selling, general and administrative expenses are as follows.

	(Thousand yen)	
	Fiscal year ended June 30, 2019 (from July 1, 2018 to June 30, 2019)	Fiscal year ended June 30, 2020 (from July 1, 2019 to June 30, 2020)
Advertising expenses	145,778	54,723
Directors' compensations	74,563	61,937
Salaries, allowances and bonuses	299,427	274,839
Rent expenses	46,846	26,244
Depreciation	18,162	3,844
Commission fees	40,373	41,286

*2 Total research and development expenses included in selling, general and administrative expenses

	(Thousand yen)	
	Fiscal year ended June 30, 2019 (from July 1, 2018 to June 30, 2019)	Fiscal year ended June 30, 2020 (from July 1, 2019 to June 30, 2020)
	74,639	11,344

*3 Impairment loss

Fiscal year ended June 30, 2020 (from July 1, 2019 to June 30, 2020)

The Group recorded an impairment loss for the following asset group for the fiscal year under review.

Location	Use	Category
Sapporo-shi, Hokkaido (The Company)	Business assets	Software in progress

(1) Reason for recognition of impairment loss

Book values of idle assets with no recoverability of the investment outlay among business assets have been written down to the memorandum value and such reduction was recorded as impairment loss.

(2) Breakdown of impairment loss

Software in progress ¥112,659 thousand

(3) Method of grouping

Grouped based on management accounting classification.

(4) Calculation method of recoverable value

Although recoverable values are measured based on their value in use, they are evaluated using the memorandum values, as no future cash flows are expected.

(Notes to Statement of Changes in Equity)

Fiscal year ended June 30, 2019 (from July 1, 2018 to June 30, 2019)

1. Class and total number of issued shares and class and total number of treasury shares

(Shares)

	Number of shares at beginning of period	Increase during period	Decrease during period	Number of shares at end of period
Issued shares				
Common shares	19,400,000	-	-	19,400,000
Total	19,400,000			19,400,000
Treasury shares				
Common shares (Notes 1, 2, 3)	1,018,256	168	182,776	835,648
Total	1,018,256	168	182,776	835,648

- (Notes)
1. The increase in treasury shares of common shares by 168 shares of common shares consists of an increase of 29 shares due to the purchase of shares less than one unit and an increase of 139 shares due to reversal of stock compensation with restrictions on transfers in relation to retirement.
 2. The decrease in treasury shares of common shares by 182,776 shares of common shares is due to the decreases of 168,400 shares associated with the exercise of stock options and the decreases of 14,376 shares due to the granting of stock compensation with restrictions on transfers.
 3. Following the introduction of the Employee Stock Ownership Plan (J-ESOP), Trust & Custody Services Bank, Ltd. (Trust Account E) purchased 1,000 shares of the Company on June 25, 2010. The number of treasury shares stated herein includes 192,600 shares at beginning of period and 192,600 shares at end of period in the Company held by the Trust Account E as of June 30, 2019.

2. Matters related to stock acquisition rights

Type	Schedule of stock acquisition rights	Class of shares for the purpose of stock acquisition rights	Number of shares for the purpose of stock acquisition rights				Balance at the end of period (Thousand yen)
			Number of shares at beginning of period	Increase during period	Decrease during period	Number of shares at end of period	
Submitting company	1st series stock acquisition rights in the form of stock options as stock-based compensation	-	-	-	-	-	9,012
	2nd series stock acquisition rights in the form of stock options as stock-based compensation	-	-	-	-	-	7,800
	3rd series stock acquisition rights in the form of stock options as stock-based compensation	-	-	-	-	-	7,727
	4th series stock acquisition rights in the form of stock options as stock-based compensation	-	-	-	-	-	5,160
	5th series stock acquisition rights in the form of stock options as stock-based compensation	-	-	-	-	-	6,510
	2nd series stock acquisition rights in the form of performance-based stock options	-	-	-	-	-	17,044
	1st series stock acquisition rights in the form of qualified stock options	-	-	-	-	-	28,388
	6th series stock acquisition rights in the form of stock options as stock-based compensation	-	-	-	-	-	8,522
	Total		-	-	-	-	-

3. Dividends

(1) Cash dividends paid

(Resolution)	Class of shares	Total cash dividends (Thousand yen)	Dividend per share (Yen)	Record date	Effective date
August 17, 2018 Board of Directors meeting	Common shares	928,717	50.00	June 30, 2018	September 28, 2018

(Note) Total amount of dividend includes dividend paid to Trust & Custody Services Bank, Ltd. (Trust Account E) based on the Employee Stock Ownership Plan (J-ESOP) scheme.

(2) Dividends for which the record date falls in the fiscal year under review, but the effective date falls in the following fiscal year

(Resolution)	Class of shares	Total cash dividends (Thousand yen)	Source of dividend	Dividend per share (Yen)	Record date	Effective date
August 16, 2019 Board of Directors meeting	Common shares	937,847	Retained earnings	50.00	June 30, 2019	September 26, 2019

(Note) Total amount of dividend includes dividend paid to Trust & Custody Services Bank, Ltd. (Trust Account E) based on the Employee Stock Ownership Plan (J-ESOP) scheme.

Fiscal year ended June 30, 2020 (from July 1, 2019 to June 30, 2020)

1. Class and total number of issued shares and class and total number of treasury shares

	Number of shares at beginning of period	Increase during period	Decrease during period	Number of shares at end of period
Issued shares				
Common shares	19,400,000	-	-	19,400,000
Total	19,400,000			19,400,000
Treasury shares				
Common shares (Notes 1, 2)	835,648	-	46,024	789,624
Total	835,648		46,024	789,624

(Notes) 1. The decrease in treasury shares of common shares by 46,024 shares of common shares is due to the decreases of 22,100 shares associated with the exercise of stock options, the decreases of 22,924 shares due to the granting of stock compensation with restrictions on transfers, and payments of the Employee Stock Ownership Plan (J-ESOP) of 1,000 shares.

2. Following the introduction of the Employee Stock Ownership Plan (J-ESOP), Trust & Custody Services Bank, Ltd. (Trust Account E) purchased 1,000 shares of the Company on October 25, 2010. The number of treasury shares stated herein includes 192,600 shares at beginning of period and 191,600 shares at end of period in the Company held by the Trust Account E as of June 30, 2020.

2. Matters related to stock acquisition rights

Type	Schedule of stock acquisition rights	Class of shares for the purpose of stock acquisition rights	Number of shares for the purpose of stock acquisition rights				Balance at the end of period (Thousand yen)
			Number of shares at beginning of period	Increase during period	Decrease during period	Number of shares at end of period	
Submitting company	1st series stock acquisition rights in the form of stock options as stock-based compensation	-	-	-	-	-	6,946
	2nd series stock acquisition rights in the form of stock options as stock-based compensation	-	-	-	-	-	6,075
	3rd series stock acquisition rights in the form of stock options as stock-based compensation	-	-	-	-	-	5,795
	4th series stock acquisition rights in the form of stock options as stock-based compensation	-	-	-	-	-	3,666
	5th series stock acquisition rights in the form of stock options as stock-based compensation	-	-	-	-	-	4,410
	2nd series stock acquisition rights in the form of performance-based stock options	-	-	-	-	-	15,419
	1st series stock acquisition rights in the form of qualified stock options	-	-	-	-	-	25,192
	6th series stock acquisition rights in the form of stock options as stock-based compensation	-	-	-	-	-	5,386
Total		-	-	-	-	-	72,892

3. Dividends

(1) Cash dividends paid

(Resolution)	Class of shares	Total cash dividends (Thousand yen)	Dividend per share (Yen)	Record date	Effective date
August 16, 2019 Board of Directors meeting	Common shares	937,847	50.00	June 30, 2019	September 26, 2019

(Note) Total amount of dividend includes dividend paid to Trust & Custody Services Bank, Ltd. (Trust Account E) based on the Employee Stock Ownership Plan (J-ESOP) scheme.

(2) Dividends for which the record date falls in the fiscal year under review, but the effective date falls in the following fiscal year

(Resolution)	Class of shares	Total cash dividends (Thousand yen)	Source of dividend	Dividend per share (Yen)	Record date	Effective date
August 17, 2020 Board of Directors meeting	Common shares	247,245	Retained earnings	13.15	June 30, 2020	September 25, 2020

(Note) 1. Total amount of dividend includes dividend paid to Trust & Custody Services Bank, Ltd. (Trust Account E) based on the Employee Stock Ownership Plan (J-ESOP) scheme.

2. Dividends for the fiscal year ended June 30, 2020 are scheduled to be determined by resolution of the Board of Directors on Monday, August 17, 2020.

(Notes to Statement of Cash Flows)

*Relationship between “Cash and cash equivalents at end of period” and account items listed in the Balance Sheet

(Thousand yen)

	Fiscal year ended June 30, 2019 (from July 1, 2018 to June 30, 2019)	Fiscal year ended June 30, 2020 (from July 1, 2019 to June 30, 2020)
Cash and deposits	12,915,351	8,689,868
Securities	-	-
Time deposits with deposit terms of more than three months	(1,080,006)	(80,013)
Cash and cash equivalents	11,835,344	8,609,855

Cash and cash equivalents include ¥6,339,896 thousand commensurate with receiving agency deposits.

(Segment information, etc.)
[Segment information]

Fiscal year ended June 30, 2019 (from July 1, 2018 to June 30, 2019)

Description is omitted because the Company operates in a single segment of payment and authentication business.

Fiscal year ended June 30, 2020 (from July 1, 2019 to June 30, 2020)

Description is omitted because the Company operates in a single segment of payment and authentication business.

[Related information]

Fiscal year ended June 30, 2019 (from July 1, 2018 to June 30, 2019)

1. Information by product and service

Description is omitted because the Company operates in a single segment of payment and authentication business.

2. Information by region

(1) Net sales

Description is omitted because sales to external customers in Japan account for more than 90% of total net sales stated in the Statement of Income.

(2) Property, plant and equipment

Description is omitted because the amount of property, plant and equipment located in Japan exceeds 90% of the property, plant and equipment on the balance sheets.

3. Information by major customer

(Thousand yen)

Customer name	Net sales	Related segment
Amazon Japan G.K.	3,388,460	Payment and authentication
Yahoo Japan Corporation	1,579,439	Payment and authentication

Fiscal year ended June 30, 2020 (from July 1, 2019 to June 30, 2020)

1. Information by product and service

Description is omitted because the Company operates in a single segment of payment and authentication business.

2. Information by region

(1) Net sales

Description is omitted because sales to external customers in Japan account for more than 90% of total net sales stated in the Statement of Income.

(2) Property, plant and equipment

Description is omitted because the amount of property, plant and equipment located in Japan exceeds 90% of the property, plant and equipment on the balance sheets.

3. Information by major customer

(Thousand yen)

Customer name	Net sales	Related segment
Amazon Japan G.K.	3,405,621	Payment and authentication
Yahoo Japan Corporation	1,115,962	Payment and authentication

[Information on impairment of non-current assets by reported segment]

Fiscal year ended June 30, 2019 (from July 1, 2018 to June 30, 2019)

There is no relevant information.

Fiscal year ended June 30, 2020 (from July 1, 2019 to June 30, 2020)

Description is omitted because the Company operates in a single segment of payment and authentication business.

[Information on amortization and unamortized balance of goodwill by reported segment]

Fiscal year ended June 30, 2019 (from July 1, 2018 to June 30, 2019)

There is no relevant information.

Fiscal year ended June 30, 2020 (from July 1, 2019 to June 30, 2020)

There is no relevant information.

[Information on gain on bargain purchase by reported segment]

Fiscal year ended June 30, 2019 (from July 1, 2018 to June 30, 2019)

There is no relevant information.

Fiscal year ended June 30, 2020 (from July 1, 2019 to June 30, 2020)

There is no relevant information.

(Per share information)

(Yen)

	Fiscal year ended June 30, 2019 (from July 1, 2018 to June 30, 2019)	Fiscal year ended June 30, 2020 (from July 1, 2019 to June 30, 2020)
Net assets per share	392.04	368.95
Basic earnings per share	20.02	26.31
Diluted earnings per share	19.92	26.22

(Notes) 1. With respect to the number of treasury shares of common shares for the purpose of calculating net assets per share, as well as the average number of treasury shares of common shares during the period for the purpose of calculating basic earnings per share, the number of treasury shares does not include the number of shares of the Company held by Trust & Custody Services Bank, Ltd. (Trust Account E).

2. The basis of calculation of basic earnings per share and diluted earnings per share is as follows:

	Fiscal year ended June 30, 2019 (from July 1, 2018 to June 30, 2019)	Fiscal year ended June 30, 2020 (from July 1, 2019 to June 30, 2020)
Basic earnings per share		
Profit (Thousand yen)	374,902	494,408
Amount not attributable to common shareholders (Thousand yen)	-	-
Profit available to common shares (Thousand yen)	374,902	494,408
Average number of shares of common shares during the period (Shares)	18,730,900	18,793,333
Diluted earnings per share		
Profit (Thousand yen)	-	-
Increase in number of shares of common shares	85,254	64,808
(Stock acquisition rights included in the above)	(85,254)	(64,808)
Overview of residual shares not included in calculation of diluted earnings per share due to lack of dilutive effect	-	-

(Significant subsequent events)

There is no relevant information.

5. Others

(1) Changes to Directors

There is no relevant information.

(2) Others

There is no relevant information.