



Kazuya Nishimoto, President

INTERTRADE Co., Ltd. (3747)



## Company Information

|            |                                                                        |
|------------|------------------------------------------------------------------------|
| Exchange   | TSE, Second Section                                                    |
| Industry   | Information, Communications                                            |
| President  | Kazuya Nishimoto                                                       |
| HQ Address | Kayabacho First Building third floor, 1-17-21 Shinkawa, Chuo-ku, Tokyo |
| Year End   | September                                                              |
| HOME PAGE  | <a href="https://www.itrade.co.jp/">https://www.itrade.co.jp/</a>      |

## Stock Information

| Share Price | Number of shares issued<br>(excluding treasury shares) |            | Total market cap | ROE<br>(Actual) | Trading Unit |
|-------------|--------------------------------------------------------|------------|------------------|-----------------|--------------|
| ¥546        | 7,185,600 shares                                       |            | ¥3,923 million   | 20.0%           | 100 shares   |
| DPS (Est.)  | Dividend Yield (Est.)                                  | EPS (Est.) | PER (Est.)       | BPS (Actual)    | PBR (Actual) |
| -           | -                                                      | ¥3.50      | 156.0x           | ¥154.34         | 3.5x         |

\*The share price is the closing price on December 9. The number of shares outstanding is calculated based on those at the end of the latest quarter excluding the number of treasury stock.

## Consolidated Earnings Trends

| Fiscal Year        | Sales | Operating Income | Ordinary Income | Net Income | EPS   | DPS  |
|--------------------|-------|------------------|-----------------|------------|-------|------|
| September 2017     | 2,017 | -458             | -459            | -334       | -     | 0.00 |
| September 2018     | 1,892 | -335             | -334            | -338       | -     | 0.00 |
| September 2019     | 1,791 | -413             | -411            | -408       | -     | 0.00 |
| September 2020     | 2,195 | 19               | -83             | 50         | 7.05  | 0.00 |
| September 2021     | 2,157 | 219              | 22              | 201        | 28.05 | 0.00 |
| September 2022 Est | 2,200 | 196              | 60              | 25         | 3.50  | 0.00 |

\* Estimates are those of the Company.

\* Unit: Million yen, yen.

This Bridge Report reports earnings results of INTERTRADE Co., Ltd. for the Fiscal Year ended September 2021 and the outlook for earnings estimates for the Fiscal Year ending September 2022.

## Table of Contents

### [Key Points](#)

#### [1. Company Overview](#)

#### [2. Fiscal Year September 2021 Earnings Results](#)

#### [3. Fiscal Year September 2022 Earnings Estimates](#)

#### [4. Conclusions](#)

[<Reference: Regarding Corporate Governance>](#)

## Key Points

- **In the FY September 2021, sales dropped 1.7% year on year, while operating profit increased significantly from 19 million yen in the previous year to 219 million yen. Although sales decreased in the business solutions and healthcare businesses, sales increased 9.3% in the financial solutions business, which is the mainstay. Profitability improved due to the reduction in expenses resulting from Digital Asset Markets, Inc. changing its status from a consolidated subsidiary to an equity-method affiliate and the liquidation of the unprofitable divisions of Intertrade Healthcare Co., Ltd. Although investment loss on equity method augmented, ordinary profit came back into the black, the gain on change in equity was posted as extraordinary profit, and income attributable to owners of parent grew 297.9%.**
- **For FY September 2022, sales are expected to increase 2.0%, while operating profit is projected to decrease 10.7%. Due to the spread of vaccinations and the impact of economic policies, an economic recovery is expected. However, it will likely take time before the COVID-19 pandemic ends, so it was assumed that the future of the economy would continue to remain uncertain. Calculations were based on cases in which Intertrade has already received an order or where they are highly likely to receive an order. Digital Asset Markets' investment loss on equity method is expected to continue. On the other hand, the gain on change in equity has not been considered, as it is uncertain at the present time.**
- **In FY September 2021, Intertrade secured a significant increase in profits, driven by their mainline financial solutions business. The business solutions business saw decreases in both sales and profit due to the absence of large projects. While sales decreased for the healthcare business, losses shrank. The estimates for FY September 2022 are modest, with sales expected to increase slightly while operating profit decline. However, if the effects of the COVID-19 pandemic are mild, their performance will likely exceed the estimates. The company is accelerating activities aimed at the expansion of a new green economic ecosystem. Digitalization progressed rapidly in 2021. We would like to keep an eye on their initiatives aimed at the digital capitalist economy, which is beginning to gain momentum. Spider Digital Transfer is expected to contribute to revenues. The company aims to build on its track record to capture new customers.**

## 1. Company Overview

INTERTRADE mainly operates the financial solutions business with a focus on development and maintenance services for securities dealing systems. It also operates the business solution business including development of group management packaged software and health care business including manufacturing and sales of supplements and cosmetic products using sparassis crispa.

Apart from INTERTRADE, the INTERTRADE Group consists of the following 2 consolidated subsidiaries: 1) BSJ Co., Ltd. (66.7% ownership) which develops and maintains the integrated business management platform called "GroupMAN@IT e2" (the business solutions business); 2) INTERTRADE HEALTHCARE Co., Ltd.(100% ownership), which manufactures and processes sparassi crispa, and sells sparassis crispa-related products via the Internet and catalog mail orders, and 2 equity method affiliates: 1) Digital Asset Markets, Inc., which deals with crypto asset-related business and 2) Iter Corporation (21.8% ownership), which is a joint company with JIA Co., Ltd. (7172) and develops and sells solutions, products, and services using the Fintech-related technology.

**【Management Philosophy】**

- Behavior of the customer point of view
- Curiosity and courage
- Rapid judgment and sincerity
- "Human" and "ties with the people" cherishment

The company believes that “it is essential to challenge with courage and passion for the improvement in the value of products and services. In order to do so, the company must think from the customers’ perspective, take high quality actions, and ensure fast and sincere response.” By doing so, the company will be able to establish true trusting relationships and realize true services in both hardware and software markets. “Customers from all over the world are looking into the monitors we have created. By Using these monitors, the customers can deal with various products of all the countries, such as checking out international news and information in real time, and carry out analysis, simulation and asset management for investment.” The company dreams that, one day, they can talk with their customers across the globe about the history the company has been through.

**【Business Contents】**

The Company’s businesses are composed of the following: the financial solutions business which designs, develops, and sells packaged front systems for securities businesses with securities companies as clients; the business solutions business that designs, develops, and sells corporation-oriented packaged systems with general business firms as their client; as well as the healthcare business including developing and selling healthcare products such as supplements and cosmetics, as well as procuring and selling health-related products to consumers.

The sales composition ratio of each business segment for the FY September 2021 was as follows: 79% for the financial solutions business (73% in the previous term), 14% for the business solutions business (18% in the previous term); and 7% for the healthcare business (9% in the previous term).

**Financial Solutions Business**

In addition to the securities dealing system “Prospect,” the retail foreign exchange trading system “fortissimo,” and the off-exchange transaction system “ITMonster,” which have been introduced to the general trading participants of Tokyo Stock Exchange, the Company designs, develops, and sells “J1” that is a system for connection with systems used in various stock exchanges, including arrowhead, ToSTNeT, and J-GATE, “MEX&MSR III” which can perform purchase and selling simulations and tuning, such as algorithm programs, and “DPSS” which provides various kinds of information necessary for intelligence trading on trading systems in real-time, chart, and historical-analysis formats. The Company also engages in design, development, and sale of middleware and communications software.

Recently, by utilizing the know-how gained from the products mentioned above, the company has also been developing a solution called “Spider Digital Transfer,” which uses the blockchain technology. It is possible to establish a system suited for users’ tasks, by componentizing the functions of the multiple package systems for business operations of financial instruments, which the company has been offering for 20 years since its establishment, storing them in a library, and selecting or integrating the needed functions (components). “Spider Digital Transfer” has been installed “LINE Securities,” an investment service provided by LINE Securities Corporation (Shinagawa-ku, Tokyo. Representative Director and Co-CEO: Noritaka Ochiai and Yoshikazu Yonenaga) for smartphones that allows users to trade on social media application, “LINE”. In the future, the company will strive to contribute to the business expansion of financial institutions and business firms through the library-type solution “Spider Digital Transfer,” which can deal with all financial business-related operations.

**Business Solutions Business**

The Company aims to secure stable sales and profit based on the following 3 pillars: 1) the packaged services with a focus on internally developed integrated business management platforms “Gr-MAN@IT e<sup>2</sup>”; 2) the system engineering services (SES) which mainly provides maintenance and operation; and 3) the support center services that offer system design, development, and establishment, and to provide comprehensive multi-vendor, multi-product, and multi-business system support services. BSJ Co., Ltd, one of the Company’s consolidated subsidiaries, engages in development and maintenance of “e<sup>2</sup>.”

Companies often use multiple operational systems for accounting, human resources, payroll, facilities, and materials, and, in many

instances, each system is sold by different vendors for each task, or a parent company and its subsidiaries use different systems sold by different vendors for similar tasks, which is making it difficult to control management information, or in other words, business analysis of the entire corporate group through data sharing of each system, in an integrated manner within a company or a corporate group. This is why many companies invest a great amount in constructing a separate system for coordination (major system companies are extremely negative about connecting their own systems with other companies' systems). In contrast, as "GroupMAN@IT e<sup>2</sup>" is equipped with a highly flexible interface called "FLEX I/O," it is possible to connect various data of different vendors or systems.

### Healthcare Business

In the healthcare business, the Company engages in various activities, ranging from cultivation of *sparassis crispa* to sale of *sparassis crispa*-related products (i.e., supplements, health food products, and cosmetic products) under its own brand name, OEM supply, and sale of raw materials for use in cosmetic products that are manufactured using ingredients derived from *sparassis crispa*, both in and outside of Japan. With INTERTRADE taking charge of managing the overall healthcare business, including marketing, INTERTRADE HEALTHCARE Co., Ltd. manufactures and processes *sparassis crispa*, and sells *sparassis crispa*-related products via the Internet. Furthermore, the Company is currently endeavoring to obtain scientific evidence concerning immune-stimulating functions of the components derived from *sparassis crispa* through the research. The human clinical trials carried out in 2013 have confirmed not only that the *sparassis crispa* "LB-Scr" is effective against type-II diabetes, Type-I allergic diseases, and liver function indicators ( $\gamma$ -GTP, GOT, and GPT), and changes in skin type, but also that, through studies of adverse events, it is safe and causes no side effect.

Furthermore, in the healthcare business, the company aims to secure revenues in the other industries in order to diversify the risk, by making a clear distinction from the core systems field that is easily affected by the economic conditions. Also, the company guarantees safety by carrying out integrated production, processing, sales, and research in the Group.

## 2. Fiscal Year September 2021 Earnings Results

### 2-1 Consolidated Earnings

|                                         | FY9/20 | Share  | FY9/21 | Share  | YoY Change | Estimate | Divergence |
|-----------------------------------------|--------|--------|--------|--------|------------|----------|------------|
| Sales                                   | 2,195  | 100.0% | 2,157  | 100.0% | -1.7%      | 2,391    | -9.8%      |
| Gross Profit                            | 631    | 28.7%  | 731    | 33.9%  | +15.9%     | -        | -          |
| SG&A                                    | 611    | 27.9%  | 512    | 23.7%  | -16.3%     | -        | -          |
| Operating Profit                        | 19     | 0.9%   | 219    | 10.2%  | +1,034.4%  | 149      | +47.3%     |
| Ordinary Profit                         | -83    | -      | 22     | 1.0%   | -          | 58       | -61.4%     |
| Income Attributable to Owners of Parent | 50     | 2.3%   | 201    | 9.3%   | +297.9%    | 19       | +960.8%    |

\* Units: Million Yen

### Sales declined slightly, but all kinds of profits significantly improved.

Sales decreased 1.7% year on year to 2,157 million yen. Although sales increased 9.3% in the company's mainline financial solutions business, total sales slightly dropped due to the 32.0% decline in sales of the business solutions business and the 32.4% decline in sales of the healthcare business.

Operating profit totaled 219 million yen, roughly 11 times higher than that in the previous term. Profitability improved due to the reduction in expenses resulting from Digital Asset Markets, Inc. changing its status from a consolidated subsidiary to an equity-method affiliate and the liquidation of the unprofitable divisions of Intertrade Healthcare Co., Ltd. Investment loss on equity method increased, resulting in an ordinary profit of 22 million yen (a loss of 83 million yen in the same period of the previous term). The gain on change in equity was posted as extraordinary profit, and income attributable to owners of parent increased 297.9% year on year to 201 million yen.

## 2-2 Segment Sales, Profits Trends

|                               | FY9/20       | Composition ratio<br>/Profit Ratio | FY9/21       | Composition ratio<br>/Profit Ratio | YoY Change      |
|-------------------------------|--------------|------------------------------------|--------------|------------------------------------|-----------------|
| Financial Solutions           | 1,609        | 73.3%                              | 1,759        | 81.5%                              | +9.3%           |
| Business Solutions            | 393          | 17.9%                              | 267          | 12.4%                              | -32.0%          |
| Healthcare                    | 193          | 8.8%                               | 130          | 6.1%                               | -32.4%          |
| <b>Total Sales</b>            | <b>2,195</b> | <b>100.0%</b>                      | <b>2,157</b> | <b>100.0%</b>                      | <b>-1.7%</b>    |
| Financial Solutions           | 369          | 23.0%                              | 597          | 33.9%                              | +61.5%          |
| Business Solutions            | 52           | 13.3%                              | 12           | 4.6%                               | -76.6%          |
| Healthcare                    | -118         | -                                  | -84          | -                                  | -               |
| Adjustments                   | -283         | -                                  | -305         | -                                  | -               |
| <b>Total Operating Profit</b> | <b>19</b>    | <b>0.9%</b>                        | <b>219</b>   | <b>10.2%</b>                       | <b>+1034.4%</b> |

\* Units: Million Yen

### Financial Solutions Business

Sales were 1,759 million yen, up 9.3% year on year, while profit was 597 million yen, up 61.5% year on year. The equity method affiliate Digital Asset Markets, Inc. continued to undertake system development projects. In addition, they provided ideal solutions to meet the needs of existing clients. Regarding profits, as the upskilling of internal staff reduced lead times, resulting in an improvement in gross profit margin and a significant increase in profit.

### Business Solutions Business

Sales were 267 million yen, down 32.0% year on year, while profit was 12 million yen, down 76.6% year on year. Sales decreased because of the stagnation in economic activity, a competitive environment for orders, and the absence of large projects such as those in the previous term. Nevertheless, the business managed to stay in the black.

### Healthcare Business

Sales were 130 million yen, down 32.4% year on year, while loss was 84 million yen (in the previous term, loss was 118 million yen). The business fought an uphill battle against sluggish consumer consumption resulting from the COVID-19 pandemic, resulting in decreased sales. However, loss was reduced thanks to the efforts to cut down on fixed costs and the liquidation of unprofitable lines of business.

## 2-3 Financial Conditions and Cash Flow(CF)

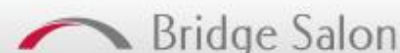
### Summarized Balance Sheet

|                       | 9/20         | 9/21         |                                         | 9/20         | 9/21         |
|-----------------------|--------------|--------------|-----------------------------------------|--------------|--------------|
| Cash, Equivalents     | 527          | 608          | Accounts payable                        | 133          | 85           |
| Accounts Receivable   | 393          | 318          | Short-term interest-bearing liabilities | 200          | 100          |
| <b>Current Assets</b> | <b>1,034</b> | <b>1,028</b> | <b>Current Liabilities</b>              | <b>486</b>   | <b>311</b>   |
| Tangible Assets       | 42           | 58           | Noncurrent Liabilities                  | 24           | 25           |
| Investments, Others   | 332          | 358          | Net Assets                              | 909          | 1,115        |
| Noncurrent Assets     | 385          | 423          | <b>Total Liabilities, Net Assets</b>    | <b>1,420</b> | <b>1,452</b> |

\*Units: Million Yen

Total assets as of the end of FY September 2021 were 1,452 million yen, up 32 million yen from the end of the previous term. While cash and equivalents increased, current assets decreased due to the reduction in accounts receivable. On the other hand, noncurrent assets increased due to increases in investments and other assets. Regarding liabilities and net assets, current liabilities decreased due to the reduction in accounts payable and short-term interest-bearing liabilities, while net assets increased. Capital-to-asset ratio was 76.4% (at the end of the previous term, it was 63.9%).

## BRIDGE REPORT

**Summarized Cash Flow Statement(CF)**

|                                  | FY9/20 | FY9/21 | Increase/Decrease | YoY Change |
|----------------------------------|--------|--------|-------------------|------------|
| Operating Cash Flow (A)          | -307   | 221    | +528              | -          |
| Investing Cash Flow (B)          | -20    | -28    | -8                | -          |
| Free Cash Flow (A+B)             | -328   | 192    | +520              | -          |
| Financing Cash Flow              | 262    | -110   | -373              | -          |
| Cash and Equivalents at Term End | 527    | 608    | +81               | +15.5%     |

\* Units: Million Yen

The balance of cash and equivalents at the end of FY September 2021 stood at 608 million yen, up 81 million yen from the end of the previous term. The operating CF was 221 million yen (a cash outflow of 307 million yen in the previous term). The main reasons for the increased inflow were a net income of 247 million yen before taxes and other adjustments, an investment loss on equity method of 199 million yen, and a 74-million-yen reduction in accounts receivable. The main reasons for a decreased inflow were a gain on change in equity of 227 million yen and a 48-million-yen reduction in accounts payable. The investing CF was 28 million yen outflow (a cash outflow of 20 million yen in the previous term). The main reason for the change was a 30-million-yen expenditure resulting from the acquisition of tangible assets. Free CF was greatly improved, from a net outflow of 328 million yen in the previous term to a net inflow of 192 million yen. The outflow from financing CF was 110 million yen (a cash inflow of 262 million yen in the previous term). The main internal breakdown consists of a 100-million-yen net reduction in short term debt and a 10-million-yen expenditure for the repayment of lease obligations.

**Reference: ROE Analysis**

|                                    | FY9/16 | FY9/17 | FY9/18 | FY9/19 | FY9/20 | FY9/21 |
|------------------------------------|--------|--------|--------|--------|--------|--------|
| ROE (%)                            | 0.40   | -21.21 | -27.45 | -45.53 | 6.19   | 20.00  |
| Net profit to sales ratio (%)      | 0.30   | -16.59 | -17.86 | -22.78 | 2.31   | 9.34   |
| Total asset turnover ratio (times) | 1.04   | 1.01   | 1.16   | 1.33   | 1.66   | 1.50   |
| Leverage (x)                       | 1.29   | 1.26   | 1.32   | 1.50   | 1.62   | 1.42   |

**3. Fiscal Year September 2022 Earnings Estimates****3-1 Consolidated Earnings**

|                                         | FY9/21 Act | Share  | FY9/22 Est. | Share  | YoY Change |
|-----------------------------------------|------------|--------|-------------|--------|------------|
| Sales                                   | 2,157      | 100.0% | 2,200       | 100.0% | +2.0%      |
| Operating Profit                        | 219        | 10.2%  | 196         | 8.9%   | -10.7%     |
| Ordinary Profit                         | 22         | 1.0%   | 60          | 2.7%   | +168.2%    |
| Income Attributable to Owners of Parent | 201        | 9.3%   | 25          | 1.1%   | -87.5%     |

\* Units: Million Yen

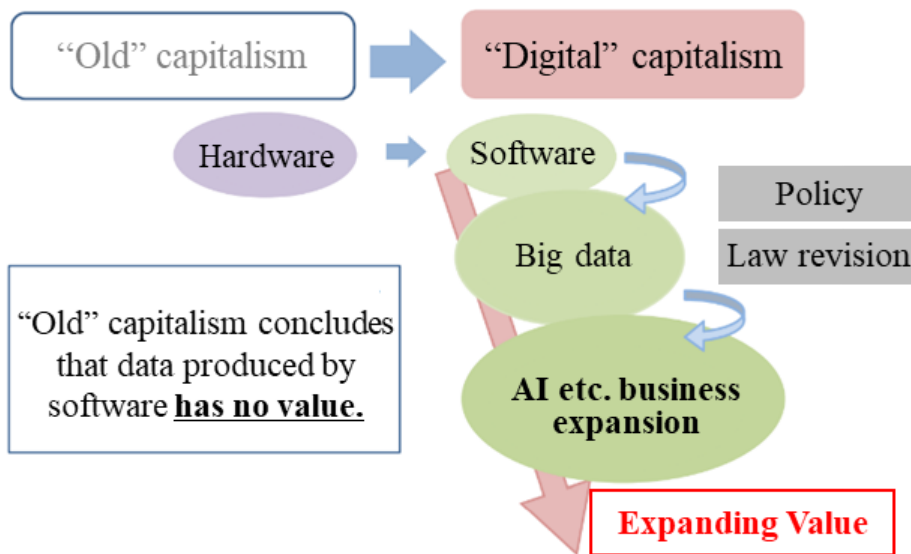
**Sales are expected to increase 2.0% while operating profit is projected to decline 10.7%.**

In FY September 2022, sales are expected to increase 2.0% year on year to 2.2 billion yen, and operating profit is forecast to drop 10.7% year on year to 196 million yen. Due to the spread of vaccinations and the impact of economic policies, an economic recovery is expected. However, it will likely take time before the COVID-19 pandemic ends, so the future of the economy will likely continue to remain uncertain. Calculations were based on cases in which Intertrade has already received an order, or where they are highly likely to receive an order. Digital Asset Markets' investment loss on equity method is expected to continue, and ordinary profit is projected to rise 168.2% year on year to 60 million yen. On the other hand, the gain on change in equity has not been considered, as it is uncertain at the present time. Therefore, the net income attributable to the shareholders of the parent company is expected to decrease 87.5% year on year to 25 million yen.

**Policy for each segment**

|                            |                                                                                                                                                                                                                                                                                                                                                                       |
|----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Financial Solutions</b> | <p><u>Faster, Safer Transactions, further into the future</u></p> <ul style="list-style-type: none"> <li>✓ Deploy a platform that supports the trading business as it transforms into a borderless model</li> <li>✓ Approach broadly to deal outside the financial realm</li> <li>✓ Strengthen organizational capability to enable greater leaps</li> </ul>           |
| <b>Business Solutions</b>  | <p><u>Responding to real-time management based on facts and figures</u></p> <ul style="list-style-type: none"> <li>✓ Realize ideal business management based on GroupMAN@IT e2</li> <li>✓ Respond to existing users' expansion projects</li> <li>✓ Open new projects</li> </ul>                                                                                       |
| <b>Healthcare</b>          | <p><u>Contribution to women's health</u></p> <ul style="list-style-type: none"> <li>✓ Aim to get <i>sparassis crispa</i> approved as a functional food</li> <li>✓ Approach the femcare sector with the excellent functionality known as silent estrogenic activity</li> <li>✓ Conduct aggressive sales activities aimed at major health food manufacturers</li> </ul> |

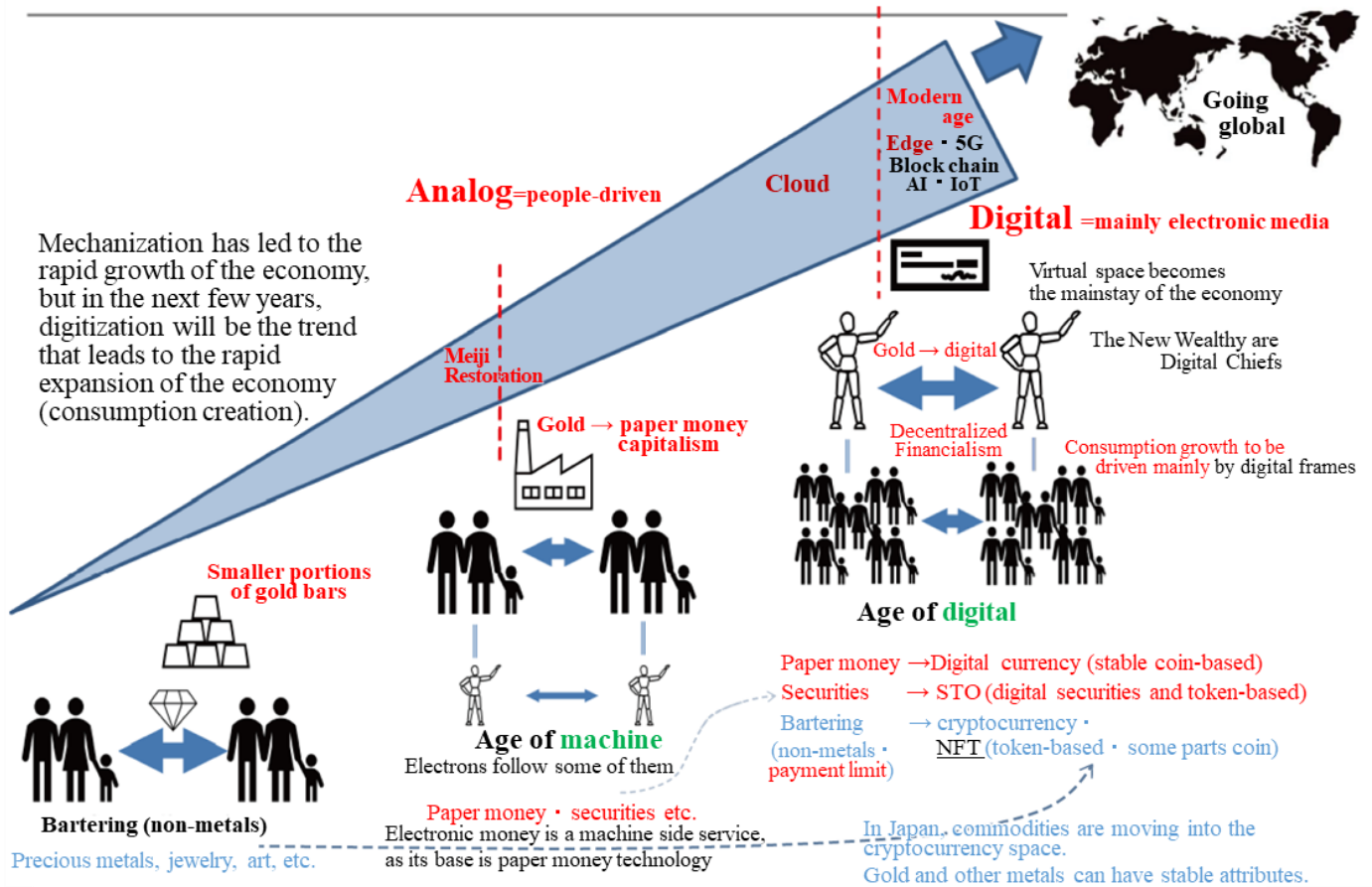
**3-2 Activities from now on**  
**Background for the business**



(Source: INTERTRADE)

Intertrade believes the world is transitioning from "old" capitalism to a "digital" capitalism. The current age is shifting the emphasis from hardware to software. "Old" capitalism concluded that the data produced by software had no value. In Japan in particular, legal reforms and policy support are necessary to create value.

The expansion of a new green economic ecosystem

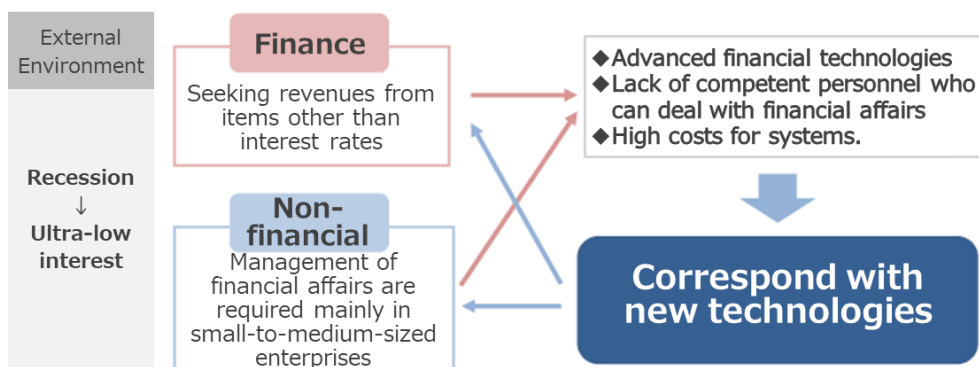


(Source: INTERTRADE)

Before paper money existed, humankind bartered and used gold, diamonds, and other precious materials as media of exchange. Following the Meiji Restoration, paper money became a medium of exchange, and the age of mechanization began. Today, humanity is transitioning into the age of digitalization, with electronic (i.e., digital) media at the core.

Financial Solution Business

With Spider Digital Transfer, the financial solutions business will cultivate new areas for growth in the Fintech sector. As the company heads into the financial services sector which uses the newest technologies in the world, it aims to offer new business opportunities through Spider Digital Transfer.



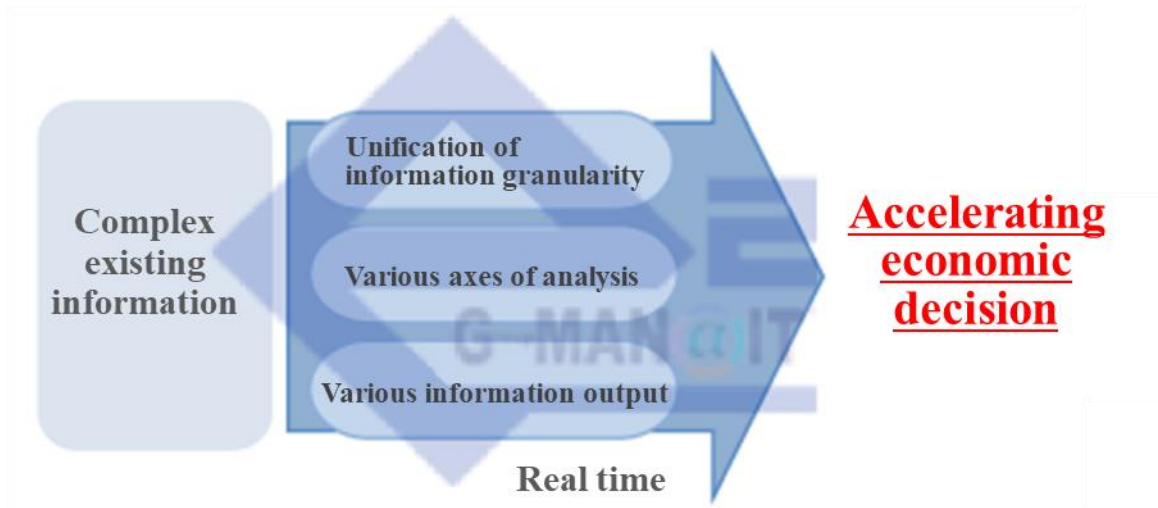
(Source: INTERTRADE)



It can offer services by using new digital technologies to cover work operations and lower costs.

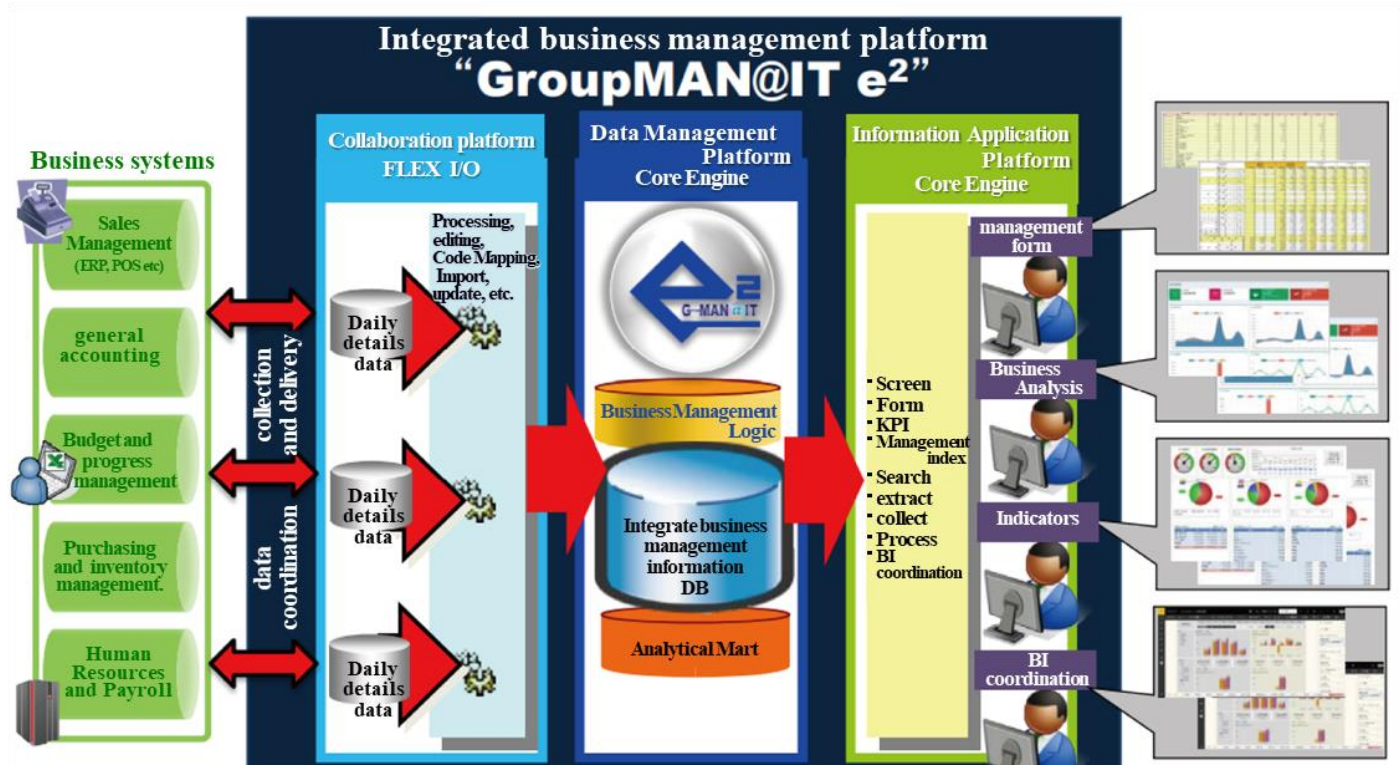
**Business Solutions Business**

The business solutions business aims to push support for real-time management based on facts and figures. Even during digitalization, there are situations where system complexities prevent the effective use of data. The company proposes a platform that brings high added value to the existing data in such systems and enables real-time decision-making and business management.



(Source: INTERTRADE)

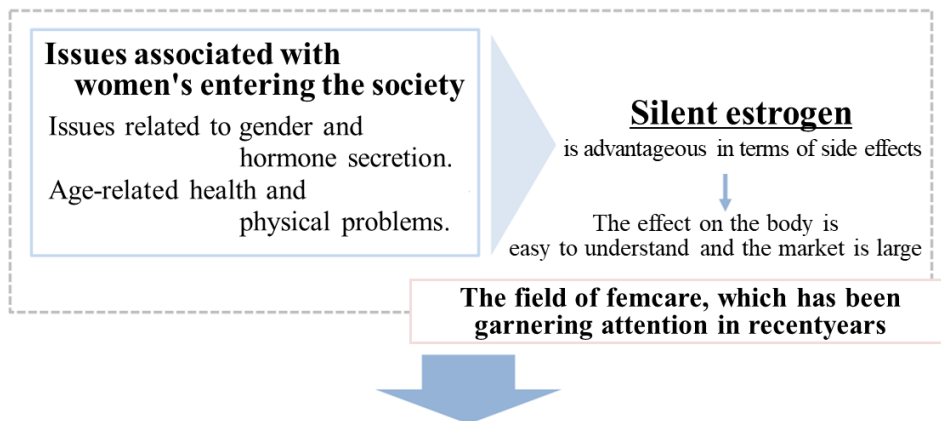
Business integration management platform GroupMAN@IT e<sup>2</sup>.  
Enabling real-time management based on facts and figures.



(Source: INTERTRADE)

**Healthcare Business**

It aims to contribute to women’s health. Within the field of femcare, which has been garnering attention in recent years, the company intends to make a business out of “silent estrogen,” which is advantageous with respect to side effects.



**Obtain evidence and sell as functional food**

(Source: INTERTRADE)

**4. Conclusions**

In FY September 2021, Intertrade secured a significant increase in profits even while seeing a slight decrease in sales, due largely to their mainline financial solutions business. The business solutions business saw decreases in both sales and profit due to the absence of the large projects, which existed in the previous year. While sales decreased for the healthcare business, loss shrank, due to selling off unprofitable divisions. Considering the effects of the COVID-19 pandemic, the estimates for FY September 2022 is modest, with sales expected to increase slightly while operating profit decline. However, if the effects of the COVID-19 pandemic are mild, the company’s performance will likely exceed the estimates.

The company is accelerating measures aimed at the expansion of a new, green economic ecosystem. With the sudden increase in transaction amounts for NFTs and Facebook going as far as to change its name as it delves into the metaverse, the year 2022 looks to be a year of rapid progress for digitalization. We would like to keep an eye on their initiatives aimed at digitalization, which is beginning to gain momentum. With its client LINE Securities going on the offensive, Spider Digital Transfer can be expected to contribute to future profits, and by building a track record, the company aims to capture new customers.

**<Reference: Regarding Corporate Governance>**

**◎Organization type, and the composition of directors and auditors**

|                   |                                        |
|-------------------|----------------------------------------|
| Organization type | Company with board of company auditors |
| Directors         | 5 directors, including 1 outside one   |
| Auditors          | 3 auditors, including 2 outside ones   |

**◎Corporate Governance Report (Updated on Dec. 29, 2020)**

**Basic concept**

The basic goal of the Company’s corporate governance is to maximize the Company Group’s corporate value. The Company will achieve the basic goal from the perspectives of “Management transparency”, “Legal compliance”, and “Efficient management”.

The management team, led by the President, plays a role to maintain good relationships with the Company Group’s stakeholders (e.g. shareholders, customers, business partners, employees). To fulfil this role, it is important to establish and operate a system to understand management situation and disclose information in a timely and appropriate manner in compliance with laws, ordinances, and regulations.

**<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>****【Principle 3-1】** Enrichment of information disclosure

(3) The policies and procedure that are adopted by the board of directors for determining the remuneration paid to the senior management and directors

(4) The policies and procedure that are adopted by the board of directors for appointing and dismissing the senior management and nominating candidates for directors and auditors

(5) Explanation given, based on the above (4), by the board of directors about individual appointments and dismissals of the senior management and nominations of candidates for directors and auditors

With regard to (3), (4), and (5), although our Company has not released any specific contents at this moment, we have carried out the following internal proceedings or procedure:

(3) Regarding the policies and procedure adopted by the board of directors for determining the remuneration paid to the senior management and directors, while the company does not adopt productivity-linked remuneration for our directors and executive officers, their remuneration will be determined based on the comprehensive evaluation of individuals as well as the company's performance and so within the specified range.

(4) Candidates for directors are selected by the board of directors under the policy of selecting qualified persons capable for fulfilling the assigned duty based on their personality, insight, experience, achievements, etc. Although clear procedures have not been established for dismissal, the board of directors will review each situation, and decisions not to re-appoint will be made based on the company's performance, how well the targets for the fiscal year were achieved, and advice from outside directors and outside corporate auditors. The matter may also be discussed at the general shareholders' meeting. Candidates for auditors will be requested to take the position including personnel who possess knowledge about management tasks, shows a high level of expertise, and has a strong sense of ethics. After consent is given by the board of auditors, the board of directors will make a final decision.

(5) Regarding explanations given, based on the above (4), by the board of directors about individual appointments and dismissals of the senior management and nominations of candidates for directors and auditors, our Company describes appointments and nominations in the management meeting and the whole company meeting held, in principle, once every month.

**【Principle 4-8】** Effective use of independent outside directors

At present, the number of outside directors is only 1, but we consider that the outside director supervises strategy designing and business administration in a balanced manner. However, we are thinking of increasing outside directors, and if we foster trusting relationships with personnel who possess advanced experience and technical skills and agree with the management principles of our company, we will proactively consider requesting them to become our outside directors.

**【Principle 4-9】** Criteria for judging the independence of outside directors and their qualities

Original criteria for judging the independence of outside directors have not been formulated, but we appoint outside directors in accordance with the requirements set forth in the Companies Act and the standards specified by Tokyo Stock Exchange. We put importance on outside directors' contribution and will be mindful of securing personnel and the appropriate number of outside directors.

**<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>****【Principle 5-1】** Policy for constructive dialogue with shareholders

Our company conducts IR tasks in the management section, mainly led by the representative director and president. We hold a results-briefing section once a year and disclose its scenes in our website. We also hold individual meetings when necessary.

## BRIDGE REPORT



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